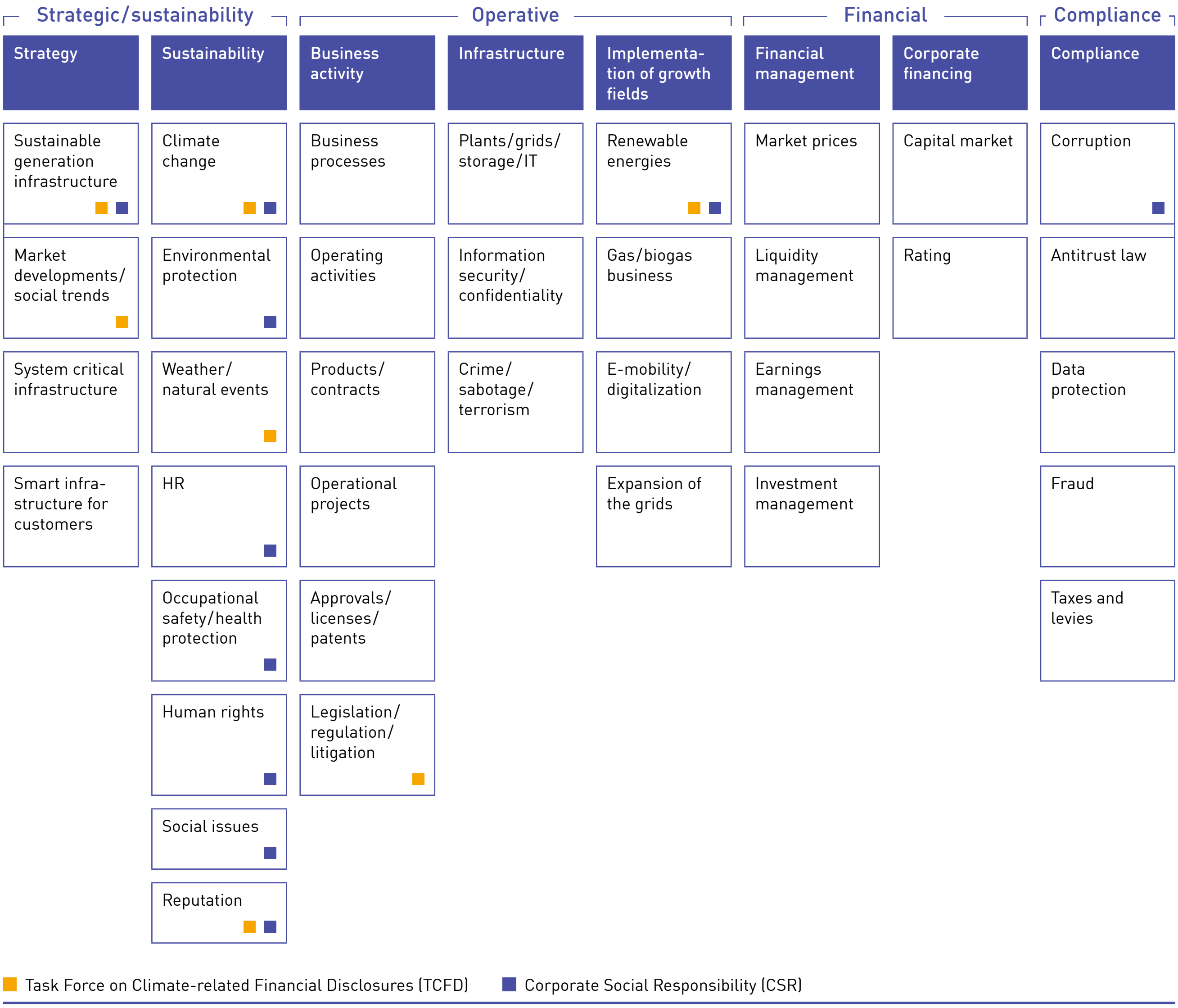
Report on opportunities and risks

Principles of the integrated opportunity and risk management system

Opportunity and risk map

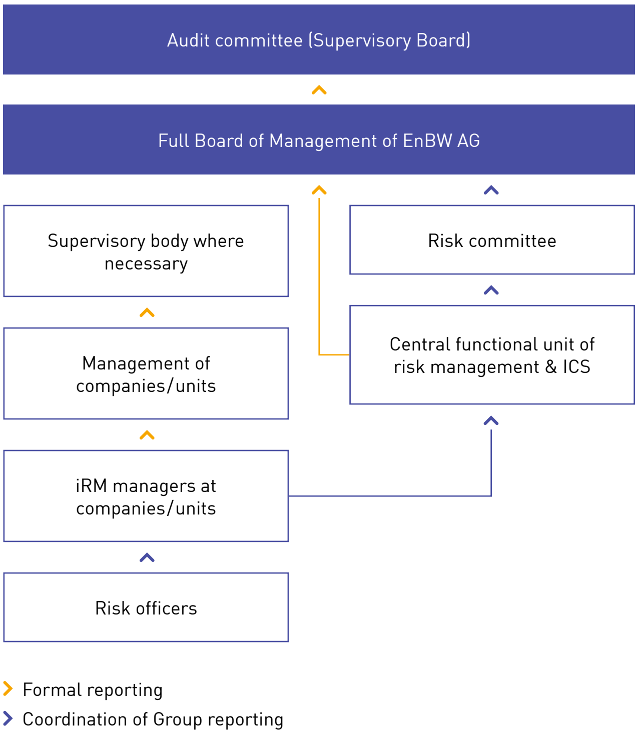


The integrated opportunity and risk management system (iRM) of EnBW is based on the internationally established COSO II framework as a standard for risk management systems that span entire companies. The iRM aims, through a holistic and integrated approach, to effectively and efficiently identify, evaluate and manage opportunities and risks (including monitoring) and report on the opportunity and 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 categorize opportunities and risks, the opportunity and risk map that is well-known throughout the Group is utilized. 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 fulfillment of the requirements for a non-financial declaration, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (Glossary, from p. 138) are also taken into account.

Our integrated opportunity and risk management system is constantly being updated. Alongside legal regulations and audit requirements, digitalization and the quality of the methods used are particularly important. A quantitative assessment of opportunities and risk is facilitated by question-based collection methods. A Group-wide tool to validate opportunities and risks also supports paperless processing.

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 the 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 initially 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."

Opportunities and risks are evaluated within the medium-term planning period. As long as a financial valuation of the opportunities and risks is possible, they are allocated to relevance classes 0 to 4 if they have a value in the range of 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 standardized 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 modeling. Any possible effects on the adjusted EBITDA, ROCE (via any impact on the adjusted EBIT and capital employed) and the debt repayment potential (via any impact on the retained cash flow and net debt) are considered. Further explanations of our financial terms can be found in the chapter "Strategy, goals and performance management system" on p. 39 and in the Glossary, from p. 138. Alongside these financial effects, opportunities and risks can also have impacts on the other key performance indicators (p. 38 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 the respective risk category 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, environment and employees 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 (Group reporting level)	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 (Group reporting level)	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

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 remedied. This accounting-related ICS methodology is based on the COSO II standard.

Once the control mechanisms have reached a standardized 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 jeopardize 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 organized at both a centralized and decentralized 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 standardized procedures and also consolidates collected data.

Process

Standardized procedures are used to 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 the companies/units, significant items in the financial statements and processes including their associated control measures that are relevant.

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 analyze the related opportunities and risks in the areas of compliance, social engagement, and procurement, as well as in the customers and society, environment and employees 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. 138). You can find further information on this subject on p. 122.

Risks associated with the non-financial declaration

The non-financial declaration describes, among 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. 43f. 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. 47f.).

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 utilizes 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, especially in this area, through the prequalification process (p. 53f.).

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 and environmental risks. In the procurement of raw materials, a multi-stage process is used to check whether human rights and environmental standards are being observed. All coal suppliers and also potential suppliers are regularly subjected to a screening process. The activities carried out for the procurement of coal are currently being implemented for gas procurement. Other measures that form part of the assessment are carried out in direct cooperation with the compliance department.

In coal mining and the production of natural gas, there are possible human rights risks related to the working and living conditions of people in the coal mining regions and natural gas producing regions. In addition, there are environmental risks for the immediate environment in each of these mining and gas producing regions. An increase in civil society activity in this context can in turn result in an increase in reputational risk. 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. 54ff.).

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. 76). 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. 138) and product options, as well as through processes more oriented to the customer. EnBW also continued to expand its range of electromobility, sustainable energy industry services and energy solutions in 2020 and targeted its sales activities in this direction (p. 76ff.).

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. 81 f.).

CO_2 intensity/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 (p. 83 f.).

We counter these risks using, among other things, an environmental management system certified according to DIN EN ISO 14001:2015, which has been established at key subsidiaries (p. 79). 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 organizational 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 utilize 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, the Reputation Index (p. 76).

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, particularly 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. 50ff.). 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 realization 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 the potential changes associated with them, as well as changes in the market, also flow into the risk evaluation process. However, there are also opportunities such as changing customer needs (p. 76ff.) and an increasing demand for climate-friendly products such as e-mobility. These opportunities and risks are regularly and systematically identified Group-wide. The recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) (Glossary, from p. 138) are continuously implemented and are communicated in the report on opportunities and risks. Building on the risk map, special focus is placed on sustainability aspects – especially climate protection targets – and they are anchored more deeply in the risk evaluation process. We closely examine the significance of sustainability and climate protection themes for the business model and implement measures and set targets to orientate our opportunity and risk management system even more towards climate-related opportunities and risks.

Employees goal dimension

Engagement of employees: Due to the persistent level of competition on the labor market, especially for qualified and highly qualified specialists, there is a fundamental risk when recruiting employees that the company will not be able to secure a sufficient number of employees with the necessary qualifications at the right time. The more intensive measures to strengthen the company's reputation as an employer, the growing interest in jobs in the energy sector and the possibility of tapping into the international job market lessen this risk to some extent. We believe that regular anonymous employee surveys, from which we derive the People Engagement Index (PEI) as a key performance indicator, are an important tool for seizing opportunities early in the areas of employee development and employee loyalty (p. 86).

Occupational safety: Risks generally exist in the areas of occupational safety and health protection in our business activities. We counter these risks using comprehensive organizational 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 employees goal dimension in the form of the key performance indicator LTIF for companies controlled by the Group and LTIF overall (p. 89f.).

Opportunity and risk position

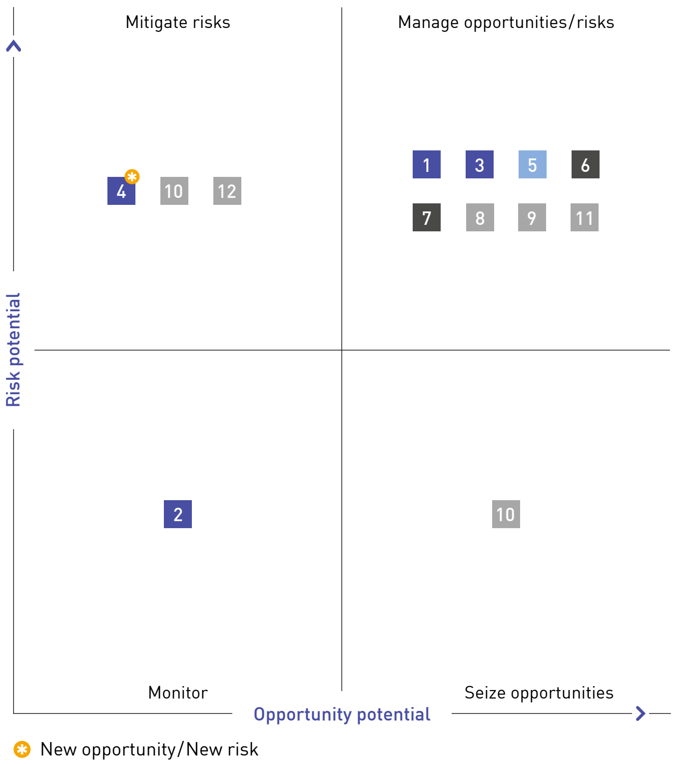
The following diagram illustrates how the opportunity and risk position is reported to the Board of Management and the audit committee of the Supervisory Board. The arrangement of the top opportunities/risks in the quadrants indicates how EnBW can employ control measures to exploit the opportunities 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, debt repayment potential and ROCE. The risks are depicted after the implementation of the risk limitation measures.

The following opportunities and risks were new in 2020:

- Effects of the pandemic on certain business areas

Top opportunities/risks as of 31/12/2020



Top opportunities/risks

Cross-segment	
1	Market prices of financial investments
2	Discount rate applied to pension provisions
3	Margins/liquidity requirements (previously: Liquidity)
4	Effects of the pandemic on certain business areas
Sales	
5	Competitive environment
Renewable Energies	
6	Political and economic environment in Turkey
7	Fluctuations in energy yield in the North Sea and Baltic Sea (previously: Wind energy yield)
Generation and Trading	
8	Availability of nuclear power plants
9	Dismantling of nuclear power plants (previously: Operation and dismantling of nuclear power plants)
10	Hedging
11	Power plant optimization
12	Obligation to pay EEG cost allocations for power plants (previously: Obligation to pay EEG cost allocations for the company's own and jointly owned power stations and obligation to pay EEG cost allocations for dismantling

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 limited 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 recognize 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. Therefore, there continues to be a risk in 2021 of losing the water grid without receipt of adequate compensation.

Financial opportunities and risks

1 Market prices of financial investments: The financial investments managed through the asset management system are subject to risks that arise from price losses and other losses in value as a result of the volatile financial market environment. There was a sharp fall on the stock market at the beginning of 2020 due to the coronavirus pandemic, which was followed by a significant recovery in the second half of the year and an all-time high at the beginning of 2021. The impact of the coronavirus pandemic on the market situation must still be closely monitored. To improve the opportunity/risk ratio of the portfolio, greater focus is currently being given to more sustainable investments. This could have both a positive or negative impact in the low three-digit million euro range in 2021 and in the mid three-digit million euro range in 2022 on net debt and thus an impact on the key performance indicator debt repayment potential. For the market prices of financial investments, we currently identify a slightly higher level of risk than opportunity due to the ongoing uncertainty on the stock 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 2020, the discount rate stood at 0.75% in comparison to the previous year (1.1%). The future development of interest rates could have a negative impact in the high three-digit million euro range or a positive impact in the low three-digit million euro range on net debt in 2021 and 2022 and thus an impact on the key performance indicator debt repayment potential. Against the background of the expected development of interest rates in future, we currently identify a lower level of opportunity and a higher level of risk.

3 Margins/liquidity requirements (previously: Liquidity): Due to unforeseeable liquidity developments, especially margin payments, the Group's liquidity planning is subject to uncertainty that could lead to deviations between actual payments and planned payments. Margin and liquidity outflows are actively monitored and controlled. The high volatility on the commodity markets resulted in high margin requirements in 2020. The further utilization of liquidity for other margin requirements cannot be excluded. Potential outflows, such as those resulting from the coronavirus pandemic, are estimated using stress scenarios for different time periods. As part of a liquidity management project, the processes and funds required at short notice have been further optimized. The risk can be covered by existing credit lines. In general, there is also a risk of additional liquidity requirements if the rating agencies downgrade the credit rating of EnBW. These effets could have a positive impact in the mid three-digit million euro range or a negative impact in the low three-digit million euro range in 2021 and a positive or negative impact in the mid three-digit million euro range in 2022 on net debt and thus an impact on the key performance indicator debt repayment potential, as well as an indirect impact on the key performance indicator ROCE via capital employed. We currently identify a balanced level of opportunity and risk in this area.

Depending on market developments and the framework conditions related to the Energiewende, we also identify a general risk of a negative impact on earnings due to impairment losses on power plants and impending losses on onerous contracts for electricity procurement agreements.

4 Effects of the pandemic on certain business areas: The coronavirus pandemic has had various effects on the opportunity and risk position in the individual business areas:

In B2B sales, there is an increased risk due to the sale of insufficient quantities of electricity at lower prices. Possible payment defaults are being closely monitored. These effects could have a negative impact in the low double-digit million euro range in 2021 and in the low single-digit to low double-digit million euro range in 2022 on the key performance indicator adjusted EBITDA and thus an indirect impact on the key performance indicator debt repayment potential via the 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.

In the grids sector, there may be lower revenue from the use of the grids depending on the future development of the pandemic, the economy as a whole and any reduced load on the grid as a result. This could have a 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 debt repayment potential via the 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 this area.

In the area of generation, the coronavirus pandemic has only had a minor impact on the operation of power plants up to now. Possible system-relevant bottlenecks both in the supply chain and also in the personnel and service sector have so far not occurred. In the area of power generation, the pandemic does not only harbor risks but also possible opportunities. These opportunities could arise in subsequent years due to optimized and even more efficient processes in the future, as well as to the push towards greater digitalization initiated by the pandemic. The risks could have a negative impact in the mid single-digit million euro range on the key performance indicator adjusted EBITDA in 2021 and thus an indirect impact on the key performance indicator debt repayment potential via the retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. We currently identify a low level of risk in this area.

In trading, there is mainly an increased level of risk with respect to the gas trading activities of our subsidiary VNG, which is due to, among other things, defaults and bad debt. This could have a negative effect in the mid double-digit million euro range in 2021 and a negative effect in the low single-digit million euro range in 2022 on the key performance indicator adjusted EBITDA and thus an indirect impact on the key performance indicator debt repayment potential via the 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.

Compensation for the phasing out of nuclear energy: There is the possibility that EnBW will receive financial compensation following the phasing out of nuclear energy in accordance with section 7e Atomic Energy Act (AtG) for investment, made based on the expectation of an extension to the service lives of the nuclear power plants, which was almost fully invalidated by the political decision to phase out nuclear power in 2011. The probability of receiving this compensation was considered low on the reporting date. After the reporting date, however, there was a change to this assessment in February 2021 following exploratory discussions with the German government. The key points that resulted from these discussions were accepted by EnBW. The results of the discussions still need to be implemented in a binding regulation. We currently identify a high level of opportunity in this area with a positive impact in the mid to high double-digit million euro range on retained cash flow.

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. 43 f.

In addition there are antitrust risks in the sales activities of some subsidiaries that could result in fines and damage to 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

5 **Competitive environment:** The competitive environment is characterized by a high willingness among customers to switch suppliers and a continuous pressure on prices. There is a risk that the competitive situation could have a negative impact on sustained viable growth for all EnBW brands in the electricity and gas business, as well as for solutions. There is still a high willingness amongst customers to switch suppliers and pressure on prices, while sustainability, especially in the area of e-mobility, has become an increasingly important issue for customers. There are opportunities for the targeted acquisition of customers using new, attractive and sustainable products (personalization, digitalization, ecosystem). This could have a negative impact in the low single-digit million euro range on the key performance indicator adjusted EBITDA in 2021 and 2022 and thus an indirect impact on the key performance indicator debt repayment potential via the retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. We currently identify a generally low level of risk in this area.

Compliance opportunities and risks

Compliance with data protection regulations: The violation of data protection regulations is currently being investigated at one of the companies in which we hold a share. This is due to an official request. The process is still currently ongoing and the statement for the authorities has been submitted. These proceedings could have a negative impact on the key performance indicator adjusted EBITDA in 2021 and thus an indirect impact on the key performance indicator debt repayment potential via the retained cash flow and on the key performance indicator ROCE via the adjusted EBIT.

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. 138) with other transmission system operators. In addition, a regulation stipulating the use of underground cabling 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 (Glossary, from p. 138). This risk will decline as the approvals are gradually received.

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 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 of 31 December 2020, there was a deficit of €629.3 million on the EEG bank account of our subsidiary TransnetBW. The EEG bank account held by TransnetBW was settled by the German government with a payment on 11 January 2021. The financing needs for the EEG bank account, which had been met by EnBW, were repaid to EnBW by TransnetBW on 11 January 2021. We expect the EEG account to develop positively throughout 2021 and have a positive bank balance at the end of the year in the high three-digit million euro range. This will have a positive impact on net debt. We currently identify an increased level of opportunity in this area.

Renewable Energies segment

Strategic opportunities and risks

6 **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. There has also been a considerable decline in tourism due to the coronavirus pandemic. This has placed an additional burden on economic growth, making it more difficult to develop new projects. Refinancing remains a challenge due to the tense situation on

the banking market. This risk could have a negative impact in the mid single-digit million euro range on the key performance indicator ROCE in 2021. We currently identify a low level of risk in this area.

Financial opportunities and risks

7 **Fluctuations in energy yield in the North Sea and Baltic Sea (previously: Wind energy yield):** There is a general opportunity or risk for wind power plants due to fluctuations in the energy yield because the amounts of electricity generated by them are subject to variations in the mean annual wind speed. The economic importance of these fluctuations increases as we expand our wind farm portfolio. In order to take these fluctuations into account in our planning, wind reports were created. Measurement campaigns were carried out up to the end of 2020 to evaluate wind speeds and are being continued in 2021. Nevertheless, these fluctuations could naturally have both a positive or negative impact in the mid double-digit million euro range on the key performance indicator adjusted EBITDA in 2021 and 2022 and thus an indirect impact on the key performance indicator debt repayment potential via the retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. As our wind farm portfolio continues to grow, the variation in the level of opportunity and risk will naturally increase.

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 authorization procedures.

At the end of 2020, 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.

Operative opportunities and risks

8 **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 try 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 positive or negative impact in the low single-digit million euro range in 2021 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 2022 on the key performance indicator adjusted EBITDA and thus an indirect impact on the key performance indicator debt repayment potential via the 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.

9 **Dismantling of nuclear power plants (previously: 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. Moreover, there is also an opportunity to make lasting cost savings due to synergies over the course of time and due to learning effects for subsequent dismantling activities. During the project planning stage, opportunities and risks were identified that could result in reduced or additional costs or adjustments to the term of the project. There could be opportunities that have an impact in the mid double-digit million euro range and risks that have an impact in the low three-digit million euro range on net debt and thus on the key performance indicator debt repayment potential in both 2021 and 2022. We currently identify an increased level of risk in this area.

It may be necessary to suspend dismantling activities to reduce the risk of infection to employees. This could result in delays, which will extend the term of the projects and thus significantly increase costs. The situation is being continuously monitored and measures to protect employees are being updated or adapted accordingly. This could have a negative or positive impact in the mid single-digit million euro range on net debt in both 2021 and 2022, as well as an indirect impact on the key performance indicator ROCE via capital employed. We currently identify an increased level of risk in this area.

Financial opportunities and risks

10 **Hedging:** When selling generated electricity volumes, EnBW is exposed to the risk of falling electricity prices and the risk of the unfavorable 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 utilized in 2020 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 the mid double-digit million euro range or a negative effect in the low double-digit million euro range on the key performance indicator adjusted EBITDA in 2022 and thus an indirect impact on the key performance indicator debt repayment potential via the 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. 138) 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/report2020-downloads.

11 **Power plant optimization:** 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 optimization on the forward market (Glossary, from p. 138), through the sale of system services (Glossary, from p. 138) and through placements on the spot and intraday trading platforms (Glossary, from p. 138). 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. 138) could have both a positive or negative impact in the mid double-digit million euro range on the key performance indicator adjusted EBITDA in 2021 and also 2022 and thus an indirect impact on the key performance indicator debt repayment potential via the retained cash flow and on the key

performance indicator ROCE via the adjusted EBIT. We currently identify a balanced level of risk and opportunity that is dependent on the development of market prices.

12 **Obligation to pay EEG cost allocations for power plants (previously: Obligation to pay EEG cost allocations for the company's own and jointly owned power stations and obligation to pay EEG cost allocations for dismantling):** For its own power plants, including nuclear power plants, EnBW AG not only utilizes the exemption from EEG cost allocations for storage but also the exemption for end usage for each power plant. There are a number of different arguments that suggest that the German Federal Network Agency (BNetzA) and the transmission system operators could define the role of the operator differently. Possible back payments for EEG cost allocations in previous years and increased costs for the dismantling of the nuclear power plants, depending on the results of a legally binding clarification process on this matter, could have a negative impact in the low three-digit million euro range on the key performance indicator adjusted EBITDA, and thus an indirect impact on the key performance indicator debt repayment potential via the retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. We currently identify – without sharing the viewpoint held by BNetzA, which differs from that of EnBW, and due solely to the practical development described above – an increased level of risk in this area.

The opportunity/risk relating to unrestricted access to capital markets that was added during the 2020 financial year has been eliminated from the report at the end of 2020 due to its lack of materiality.

In comparison to the report issued for the 2019 financial year, the following opportunities/risks have also been eliminated due to their lack of materiality:

- Obligation to pay EEG cost allocations for leasing models
- Obligation to pay EEG cost allocations for jointly owned power stations
- Phase-out of coal power: early decommissioning of power plants

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.

Linking the top opportunities/risks with the key performance indicators

Key performance indicators

Financial performance indicators
- A Adjusted EBITDA
- B Debt repayment potential
- C ROCE

Strategic performance indicators

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

Non-financial performance indicators
- H Reputation Index
- I EnBW/Yello Customer Satisfaction Index
- J SAIDI (electricity)
- K People Engagement Index (PEI)
- 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

● Direct effect
○ Potential/long-term effect

	Top opportunities/risks	A	B	C	D	E	F	G	H	I	J	K	L	M	N
	Cross-segment														
1	Market prices of financial investments		●												
2	Discount rate applied to pension provisions		●												
3	Margins/liquidity requirements (previously: Liquidity)		●	●											
4	Effects of the pandemic on certain business areas	●	●	●	●	●	●	●	○	○	○	○			
	Sales														
5	Competitive environment	●	●	●					○	○	○	○			
	Renewable Energies														
6	Political and economic environment in Turkey			●					○						
7	Fluctuations in energy yield in the North Sea and Baltic Sea (previously: Wind energy yield)	●	●	●			●							○	○
	Generation and Trading														
8	Availability of nuclear power plants	●	●	●				●	○						
9	Dismantling of nuclear power plants (previously: Operation and dismantling of nuclear power plants)		●	●											
10	Hedging	●	●	●				●							
11	Power plant optimization	●	●	●				●							○
12	Obligation to pay EEG cost allocations for power plants (previously: Obligation to pay EEG cost allocations for the company's own and jointly owned power stations and obligation to pay EEG cost allocations for dismantling	●	●	●				●							

Overall assessment by the management

The coronavirus pandemic resulted in potential risks in the areas of operational continuity, the development of new business and the performance of operational activities. However, we implemented a comprehensive range of preventative measures and countermeasures to counteract these risks at an early stage. In terms of the financial opportunities and risks, persistently low interest rates, in particular, have led to higher risk premiums for the discount rate applied to pension provisions. EnBW remains subject to regulatory requirements and laws that endanger planning certainty and thus the achievement of its economic targets, and that have high risk potential, for example, in the scope of sustainable energy generation. Competitive and market risks could influence the operating result, financial position and net assets of the EnBW Group.

At the same time, we also identify increasing potential for opportunities, such as in the expansion of grids and telecommunications and in the expansion of climate-neutral generation and supply. The Energiewende will continue to offer a multitude of opportunities to develop new business models in the future, something we will resolutely pursue in our 2025 strategy. For example, we believe there are opportunities in customer solutions, such as a combined product consisting of a photovoltaic plant and battery storage system, and also in the area of electromobility. We will continue to resolutely open up commercial opportunities for environmentally friendly and CO_2-efficient energy solutions.

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

Opportunity and risk position 2020