Report on opportunities and risks

Principles of the integrated opportunity and risk management system

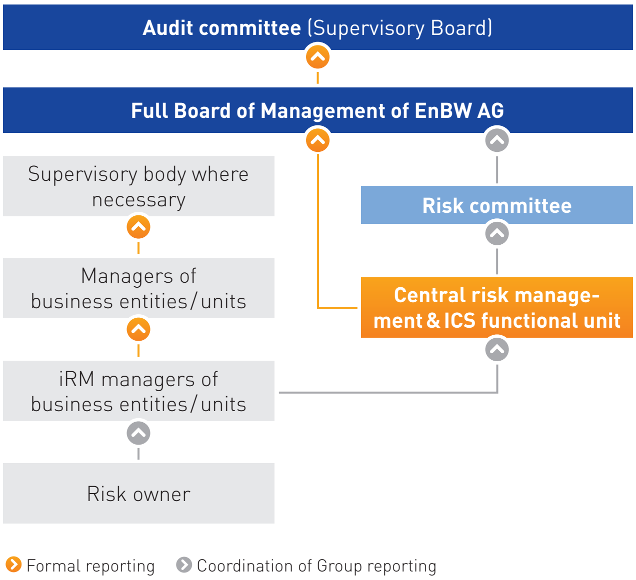
The integrated opportunity and risk management system (iRM) is based on the internationally established COSO II framework standard for risk management systems that span entire companies. The iRM system aims, through a holistic and integrated approach, to effectively and efficiently identify, evaluate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

Opportunity and risk map

Strategic	Operational			Financial				Compliance
	Business activity	Infrastructure	Mankind and environment	Market	Lending	Liquidity	Financial reporting	
Governance	Models	Plants/ grids/ storage	Personnel/ labour market	Market price in general	Counter-parties	Cash flow	Financial accounting	Active corruption
Market development/ society trends	Business processes	Locations/ buildings	Occupational health and safety/ health protection	Interest	Countries	Convertibility into cash	Tax	Passive corruption
Technology	Operations	IT management	Environmental protection	Margin	Issuers	Refinancing for own account	Debtors	Antitrust law
Politics	Products/ contracts	Information security	Contaminated sites	Forecast (volume/ structure)	Collateral		Creditors	Data protection
Competition	Projects		Weather/ natural phenomena				Asset accounting	Confidentiality
Clusters/ concentration	Approvals/ licences/ patents		Criminality/ sabotage/ terrorism				Consolidation	General fraud
M&A/ investments	Legislation/ regulation/ litigation						Service billing	Financial fraud
								Procurement fraud

Structure and processes of the integrated opportunity and risk management system

Structure and processes of the iRM system



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

iRM relevance filter

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

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

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

iRM levels for the probability of occurrence

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

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

Those opportunities or risks relevant to the Group report on opportunities and risks are generally evaluated in relation to the current planning period using quantitative methods (e.g. scenario techniques and distribution functions) for the purpose of stochastic modelling. Any possible effects on the adjusted EBITDA (with any associated impact on the dynamic leverage ratio and the ROCE) and the adjusted net debt (with any associated impact on the dynamic leverage ratio) are considered. Alongside these financial effects, opportunities and risks can also have an impact on the other key performance indicators (p. 25 ff.).

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

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

The project to further interlink risk management – from an organisational, methodological and process standpoint – with the internal control system (ICS) that is anchored within the company's business processes was successfully realised in the reporting year and completed with the implementation of a new IT solution designed to support the iRM.

Structure and processes of the accounting-related internal control system

Principles

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

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

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

Structure

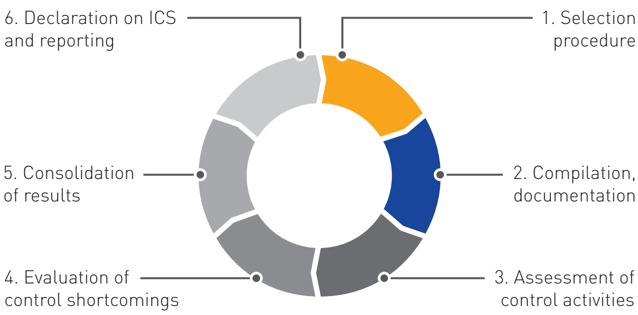
The accounting-related ICS at EnBW is organised at both a centralised and decentralised level. All important business entities, business units and functional units have an ICS officer. These officers monitor the effectiveness of the ICS and evaluate any control weaknesses that may arise. A report on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

Processes

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

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

Phases of accounting-related ICS



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

Opportunity and risk position

The following diagram illustrates how the opportunity and risk position is reported to the Board of Management and the audit committee of the Supervisory Board. On the basis of the individual evaluation of the top opportunities/risks and a subsequent quantitative aggregation of data, the diagram illustrates how these themes correlate with each other and what effects they could have – based on the relative level of opportunity/risk at a high probability of occurrence – on the adjusted EBITDA and/or the adjusted net debt relative to the current planning period. The risks are depicted after the risk limitation measures have been implemented.

Top opportunities / risks as of 31/12/2015

The following important opportunities and risks emerged in 2015:

- **Power plant optimisation (top opportunity/risk):** Following the conclusion of the hedging of generation activities, the Trading business unit will continue to manage the further use of this asset, which could result in positive and also negative effects on the activities of EnBW.
- **Commission to examine the financing of the phasing out of nuclear power:** Due to a recommendation by a commission appointed by the German government, there could be an amendment to the financing system for the phasing out of nuclear power, which could result in opportunities and risks for EnBW.

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

Cross-segment opportunities and risks

Strategic opportunities and risks

1 **Divestitures:** Based on past experience, our divestiture portfolio is subject to uncertainties with respect to the realisation of reduced or surplus revenue, as well as to time delays for the completion of these transactions. If the proceeds from these divestitures do not meet our medium-term planning goals, this could have an effect in the mid double-digit million euro range on the adjusted net debt in 2016 and 2017, as well as having an associated impact on the key performance indicator dynamic leverage ratio. We currently identify a relatively low level of opportunity and risk in this area.

Operative opportunities and risks

2 **Improvements in efficiency:** At the start of the ongoing efficiency programme for efficient structures and processes, the aim was to achieve improvements in earnings of €400 million up to 2020. Against a background of continuously falling electricity prices and the associated drop in earnings, this goal will now already be achieved by 2018. A total of €237 million was already realised by 2015. This presents an opportunity for 2016 and 2017 in the low double-digit million euro range with a positive effect on the key performance indicator adjusted EBITDA and thus also on the key performance indicator dynamic leverage ratio. As a result of the faster implementation of the programme – especially the measures in the area of generation – we identify a higher level of opportunity than risk for these years. There is currently still a risk for the 2018 financial year that the associated organisational and restructuring projects – especially in the area of sales – will not be able to fully realise the planned efficiencies for adjusted EBITDA. This risk will be reduced to an appropriate extent once the conditions for implementing the improvement in earnings have been established.

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

Legal risks: With respect to our contractual relationships with customers, business partners and employees, EnBW is currently engaged in some legal proceedings and other legal disputes. To a lesser extent, we are also conducting legal proceedings relating to topics in the area of corporate law. Adequate accounting provisions have been made for these risks in coordination with the specialist departments concerned and the legal department. As a consequence, there is also an opportunity of positive effects on earnings if the provisions made for these legal risks can be released once again. A risk to the amount of €884.4 million, which is reported under contingent liabilities and other financial obligations, exists for claims legally made against EnBW where it is predicted that the counterparty has little chance of winning the case. In addition, various court cases, official investigations or proceedings and other claims are pending against EnBW. The chances of these actions being successful is, however, considered very remote and thus they are not reported under contingent liabilities and other financial obligations. Major disputes currently include:

- **EWE/VNG claims for damages:** In May 2013, EWE submitted an arbitration request to the German Institution of Arbitration against EnBW. On 16 October 2015, EnBW concluded an agreement with EWE for a fundamental restructuring of shareholdings. Once the transaction has been concluded, the currently dormant arbitration proceedings between EWE and EnBW will be terminated by mutual agreement.

- **Company pension scheme:** Legal proceedings are still pending before the relevant labour courts in relation to the reorganisation of the company pension scheme at EnBW. Following the successful appeal proceedings at the Federal Labour Court (BAG), all of the judgements issued by the Higher Labour Courts (LAG) in Stuttgart and Mannheim that were disadvantageous to EnBW were annulled and referred back to the responsible courts. On 4 December 2015, the LAG Stuttgart turned down 88 cases of legal action against EnBW and denied any right of appeal. There is a general risk in the mid three-digit million euro range that the legal proceedings could go against EnBW and this could have a negative impact on earnings. Due to the latest LAG judgement, the chances of success for EnBW are high in the estimation of EnBW and those lawyers advising the company. This has correspondingly been taken into account in the medium-term planning. Overall, there is now only a very low probability in 2016 and 2017 that this high level of risk will have negative effects on the adjusted net debt with any associated impact on the key performance indicator dynamic leverage ratio.

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

Health, Safety, Security, Environment – HSSE:

- **Health and occupational safety:** In order to appropriately mitigate risks in the areas of occupational safety and health protection and to protect employees as well as possible against any adverse consequences, the EnBW Group utilises a comprehensive set of organisational and procedural measures such as workplace-specific risk analyses. EnBW also views these measures as an opportunity to preserve the capacity of its employees to do their work and to maintain the position of EnBW as an attractive employer. Occupational safety is measured in the form of the key performance indicator LTIF within the employees goal dimension (p. 64 f.).
- **Safety:** Those risks caused by external and internal factors are counteracted by EnBW using an emergency and crisis management system that has been implemented throughout the Group and includes a comprehensive level of organisational and procedural measures. Despite this functioning management system, it is not possible to completely prevent crisis and emergency situations occurring (with their associated damage). EnBW ensures that the risks posed by crisis and emergency situations are mitigated quickly, effectively and with a coordinated approach through the use of regular crisis management exercises and other measures. All of these measures have a positive effect on the key performance indicator supply reliability (SAIDI) in the customers goal dimension (p. 64).
- **Environmental protection:** Risks in the area of environmental protection are countered by EnBW using an environmental management system certified according to ISO 14001 (p. 66 ff.). Through its numerous activities for the protection of the environment, nature and species, EnBW also aims to take advantage of the opportunities offered by climate protection and resource efficiency. These measures should also have a positive effect on the key performance indicator Brand Attractiveness Index in the customers goal dimension (p. 64).

3 Financial opportunities and risks

Market prices of financial investments: The financial investments managed by the asset management system are exposed to price changes and other loss risks as a result of the volatile financial market environment (p. 55 f.). If these risks lead to a significant or prolonged decline in the fair value of these assets, this needs to be recognised in the form of impairments on those securities affected. In the 2015 financial year, impairment losses stood at €35.2 million (previous year: €1.2 million). In terms of the market prices for financial investments, we currently identify a high level of opportunity and a high level of risk due to the increased volatility on the financial markets. The value at risk determined per security as of the reporting date was €114.1 million (95%/10 days). This value stood at €70.5 million in 2014 (95%/10 days). This could have both a positive and negative impact on the key performance indicator dynamic leverage ratio in 2016 and 2017 through corresponding effects on adjusted net debt in the medium to high three-digit million euro range.

4 **Discount rate applied to pension provisions:** At the end of the 2015 financial year, the discount rate was 2.3%, which was up 0.1 percentage points on the interest rate at the end of the previous year (2.2%). This resulted in the present value of the defined pension benefit obligations falling by €113.1 million. The uncertain future development of interest rates with its impact on pension provisions may have either a positive or negative effect on the adjusted net debt. In this context, we currently identify a high level of opportunity and a high level of risk. This could have a negative or also positive impact on the key performance indicator dynamic leverage ratio in 2016 and 2017 through effects on the adjusted net debt in the mid to very high three-digit million euro range.

Impairment risks: For equity investments that are to be stated at market value using share prices, a risk of impairment exists if there is a negative trend in share prices. In contrast, there is a possible opportunity that the value of these investments will increase due to positive developments in share prices. Therefore, this could have a negative or also positive impact on the key performance indicator dynamic leverage ratio in 2016 where such equity investments are held within the reserve funds.

Rating: We identify a general risk that the rating agencies may downgrade the credit rating of EnBW if the economic and political conditions deteriorate further or EnBW cannot fulfil the expectations of the agencies (p. 57). The credit standing of EnBW is measured using the key performance indicator dynamic leverage ratio.

Sales segment

Financial opportunities and risks

5 **Competitive environment:** Customers are very willing to switch suppliers. Price and margin risks exist in the low double-digit million euro range if energy costs (such as EEG cost allocations) cannot be passed on to customers. In this context, we currently identify a low level of opportunity and a relatively high level of risk. As a result, this could have a negative effect on the key performance indicator adjusted EBITDA in 2016 and 2017. As part of its EnBW 2020 strategy, EnBW identifies good long-term opportunities in the development of customer segment-specific system solutions and complete solutions. Alongside the traditional supply of electricity and gas to customers, EnBW also sees future opportunities in offering additional innovative solutions such as energy technology in the home, corporate energy efficiency and e-mobility, with corresponding earnings contributions for EnBW. This could also have a potentially positive impact on the key performance indicator adjusted EBITDA.

Grids segment

Strategic opportunities and risks

High-voltage DC transmission technology projects (HVDC): Our transmission system operator (TSO), TransnetBW GmbH, plans to set up new high-voltage DC transmission technology (HVDC) with other TSOs. In the projects ULTRANET and SuedLink, there is currently a generally high risk of potential delays and additional costs, as well as the risk that the necessity for these transmission lines might no longer be confirmed in a new Network Development Plan (NDP).

Operative opportunities and risks

Water concession in Stuttgart: In the court proceedings dealing with the takeover of the water concession, the City of Stuttgart and EnBW are still striving to reach an amicable settlement. The responsible chamber of the Regional Court had presented a proposal to both sides in January 2015 to be used as the basis for the settlement negotiations. The court proceedings have been suspended for the duration of these negotiations. Therefore, there continues to be a general risk in 2016 of losing the concession without receipt of adequate compensation.

Financial opportunities and risks

Year-end balance on the EEG bank account: As of the reporting date on 31 December 2015, a net surplus in the mid three-digit million euro range existed on the EEG bank account. This EEG bank account is a separately managed bank account in accordance with section 5 of the German Compensation Mechanism Ordinance (AusglMechV) and is thus kept separate from other areas of activity. In accordance with AusglMechV, a surplus or deficit on the account balance can have a temporary positive or negative effect on the calculation of the adjusted net debt of EnBW, respectively. Due to the EEG cost allocations defined for 2016, we anticipate a positive value for the liquidity reserves for 2016 and thus a positive effect on the key performance indicator dynamic leverage ratio.

Generation and Trading segment

Strategic opportunities and risks

6 **Final storage:** The costs for identifying storage sites must be borne by the companies generating nuclear power such as EnBW. The legal obligation of operators to bear the costs of finding an alternative site to Gorleben is in dispute. Therefore, the possibility cannot be excluded that the costs for finding final storage sites and constructing the final storage itself could have negative effects after 2018 on the adjusted net debt and an associated impact on the key performance indicator dynamic leverage ratio. In this context, we currently identify a low level of opportunity and risk for the key performance indicators in the planning period.

7 **Intermediate storage:** As a result of the planned transfer of nuclear fuel rods from Obrigheim to Neckarwestheim, there is a risk, on the one hand, of delays to the implementation of the project and, on the other hand, of the possible failure of the project. In addition, there is a risk of a delay in the return of waste to the intermediate storage facilities with possible additional costs as a result of the waste being stored for a longer period of time in Great Britain and France, as well as the risk of further costs for approval and authorisation procedures. We currently identify a low level of opportunity and risk in this area. However, this could also have negative effects in 2016 and 2017 on the adjusted net debt in a mid double-digit million euro range with an associated impact on the key performance indicator dynamic leverage ratio.

Operative opportunities and risks

8 **Availability of power plants:** Exogenous and endogenous factors have an influence on the availability of power plants. We strive to counter these risks using preventive measures. Depending on their duration, interruptions to the operation of the power plants can significantly impact the operating result. We currently identify a relatively low to medium level of opportunity and risk in this area. This could result in both a positive or also negative effect in 2016 and 2017 on the key performance indicator adjusted EBITDA in the low double-digit million euro range.

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

E **Nuclear fuel rod tax:** After the nuclear fuel rod tax for the years 2011 to 2014 was announced, EnBW submitted lawsuits for each year to the Freiburg Finance Court on the basis that the tax breached German constitutional and European law. The European Court of Justice (ECJ) decided in its ruling of 4 June 2015 that the nuclear fuel rod tax does not contravene European law. The ruling by the German Federal Constitutional Court is independent of the ruling by the ECJ because it is examining whether the tax is compatible with German constitutional law. This ruling is expected during the course of 2016. If the German Federal Constitutional Court decides in favour of EnBW and judges the nuclear fuel rod tax to be unconstitutional, it would need to be repaid to EnBW. EnBW had paid €1.31 billion in nuclear fuel rod tax as of 31 December 2015.

Moratorium lawsuit: EnBW AG filed a lawsuit at the Regional Court in Bonn against the Federal State of Baden-Württemberg and the Federal Republic of Germany on 23 December 2014 for the payment of damages by liable public authorities. The background to the lawsuit is the order issued by the Ministry for the Environment of Baden-Württemberg on the request of and in agreement with the German Federal Ministry for the Environment for the temporary three-month suspension of operations at GKN I and KKP 1 in the aftermath of the events at Fukushima. In legal proceedings held in the State of Hesse, it was legally established that an identical order issued in that state was unlawful. The Regional Court in Bonn expressed doubts in the oral proceedings on 3 February 2016 about the substance of the EnBW lawsuit. The Regional Court has announced it will reach a decision at the beginning of April 2016. In the event of a negative judgement, there is still the legal option of appealing to the Higher Regional Court (OLG) in Cologne. If the claim for damages is then granted (the OLG Cologne will probably permit an appeal to the BGH), it could have a positive effect on the adjusted EBITDA.

Financial opportunities and risks

9 **Changes to interest rates on nuclear provisions:** The discount rate is a key factor influencing the present value of nuclear provisions. A reduction in the discount rate will have a negative effect on the level of adjusted net debt, while an increase in the discount rate could have a correspondingly positive effect on adjusted net debt. The discount rate stood at 4.7% on the reporting date (previous year: 4.8%) and thus the real interest rate level at 1.2% (previous year: 1.3%). This led to an increase in the nuclear provisions of €136.2 million. We currently identify a low to medium level of risk in this area. For this reason, there could be negative effects in 2016 and 2017 on net debt in the low three-digit million euro range with an associated impact on the key performance indicator dynamic leverage ratio.

Commission to examine the financing of the phasing out of nuclear power: A commission (KFK) appointed by the German government in the middle of October 2015 will issue recommendations for the amendment of the financing system for the phasing out of nuclear power by April 2016. It can be assumed that the current system of maintaining provisions will be (partially) replaced by a fund or foundation solution whose details still require clarification. Depending on the design of the new system, this will result in opportunities or risks for EnBW. The risks relate to the fact that the payments to be made into a fund or foundation solution could be higher than the current provisions due to the charging of a risk premium.

10 **Hedging:** Despite its hedging strategy, when selling generated electricity volumes, EnBW is exposed to the long-term risk of falling electricity prices and the risk of the unfavourable development of fuel prices in relation to electricity prices. The concept underlying the hedging strategy also involves the exploitation of opportunities. The hedging instruments utilised in 2015 were forwards, futures, swaps and options. The EnBW Group has exposure to foreign exchange risks from procurement and hedging of prices for its fuel requirements, as well as from gas and oil trading business. Where the hedge is concerned, we currently identify a relatively low level of opportunity and high level of risk due to the fact that electricity prices have fallen and remain low and due to lower fuel prices on the wholesale market. Therefore, this could result in a negative effect in 2017 on the key performance indicator adjusted EBITDA in the low three-digit million euro range. Further information can be found in the section "Accounting for financial instruments" in the notes to the consolidated financial statements (www.enbw.com/report2015-downloads).

11 **Margin payments:** As a result of unfavourable developments on the market, margin requirements for stock market transactions and bilateral margin agreements can lead to short-term cash outflows. These are settled again at the latest when the underlying futures transactions are fulfilled. This liquidity risk is constantly monitored using stress tests. We currently identify a low to medium level of opportunity and risk in this area. As a result, this could have corresponding effects in 2016 and 2017 on adjusted net debt in the low three-digit million euro range that may impact on the key performance indicator dynamic leverage ratio.

Electricity procurement agreements and power plants: As a result of the still unfavourable market prices at the present time and the considerably worsening expectations regarding long-term electricity prices, EnBW increased its provisions for onerous contracts for electricity procurement agreements which no longer cover costs during the course of 2015. In addition, impairments have been carried out on our power plants. As well as these negative impacts on earnings, there is also the risk of other impairment losses stemming from the inspection of the profitability of conventional power plants that may result in the early decommissioning of individual plants.

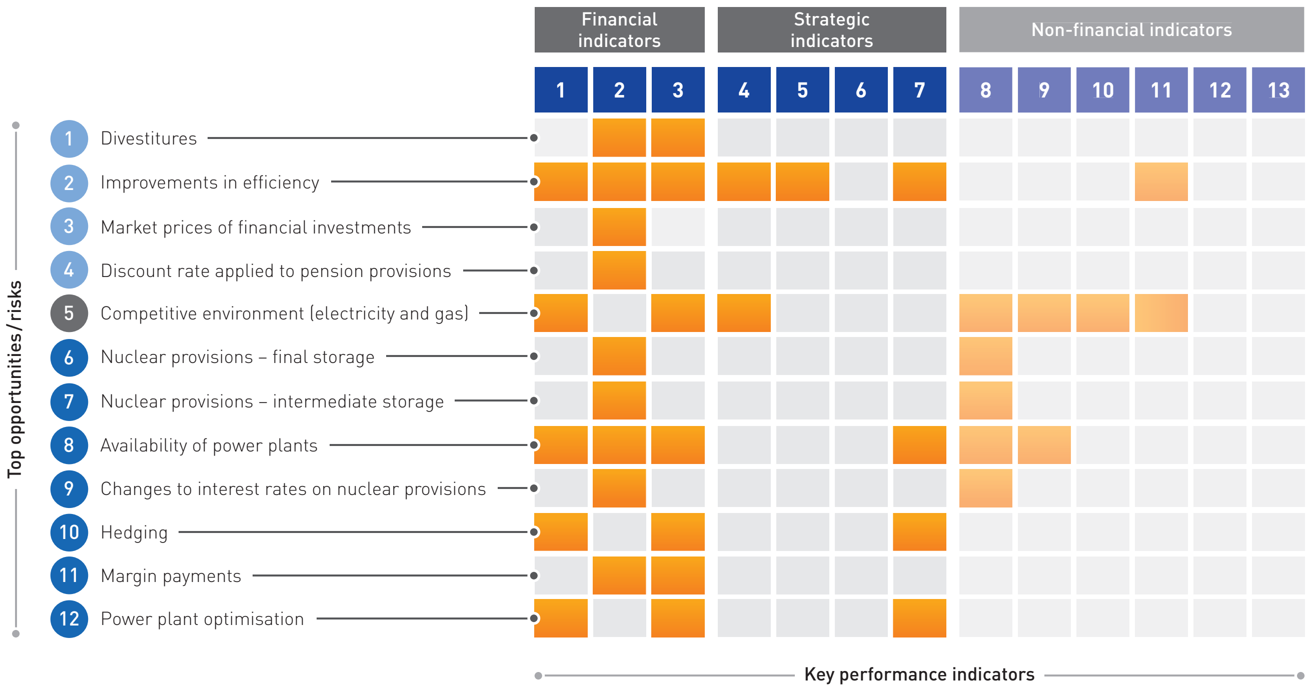
12 **Power plant optimisation:** Following the conclusion of the hedging of generation activities, the Trading business unit will continue to manage the further use of the asset. This is being carried out as part of power plant optimisation on the forward market, through the sale of system solutions and through placements on the spot and Intraday trading platforms. The result of these activities is dependent on price levels and volatility and could result in both a positive or also negative effect in 2016 and 2017 on the key performance indicator adjusted EBITDA in the mid double-digit million euro range. In addition, regulatory interventions continue to have a strong influence. We currently identify a medium level of opportunity and risk in this area.

Link to the key performance indicators

Alongside the top opportunities/risks, there are a wide variety of different opportunities and risks facing the Group that are allocated to relevant risk categories on the opportunity and risk map (p. 74) and evaluated with the aid of the iRM relevance filter. These items could also have an effect on the key performance indicators in the financial, strategy, customers, employees and environment goal dimensions. As a result of their relatively minor level of relevance in comparison to the top opportunities/risks, they are not, however, listed in the external reports for reasons of clarity.

Linking the top opportunities/risks with the key performance indicators illustrates any possible effects they may have on our key performance indicators.

Linking the top opportunities / risks with the key performance indicators



- Sales
- Generation and Trading
- Other / Consolidation

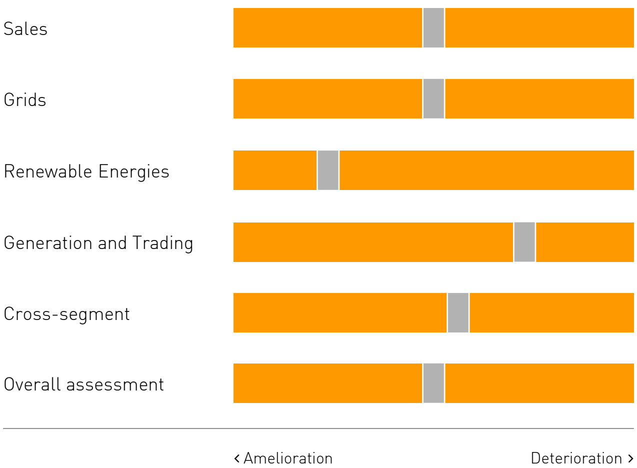
1 Adjusted EBITDA
2 Dynamic leverage ratio
3 ROCE
4 Share of overall adjusted EBITDA accounted for by "Customer proximity" / Sales
5 Share of overall adjusted EBITDA accounted for by Grids
6 Share of overall adjusted EBITDA accounted for by Renewable Energies
7 Share of overall adjusted EBITDA accounted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

Compared with the previous year, the following opportunities and risks were either eliminated or were removed from the Group reports due to their low level of relevance:

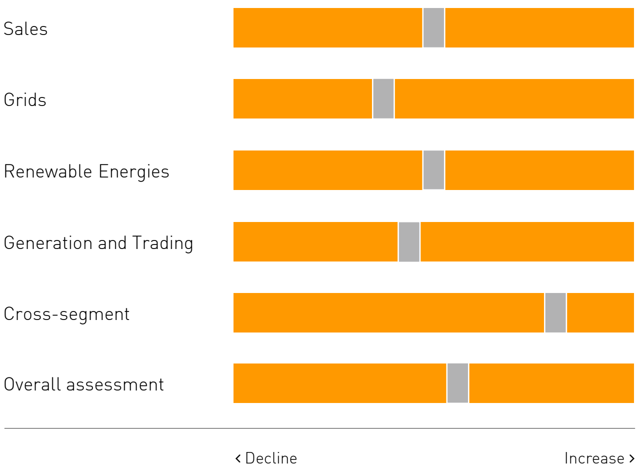
- **Price adjustment regulations in the Basic Supply Ordinances for Electricity and Gas (GVV):** The European Court of Justice (ECJ) decided in 2014 that the previous price adjustment regulations in the Basic Supply Ordinances for Electricity and Gas (GVV) did not conform to European law because they violate the requirement for transparency in the European directives for the internal electricity and gas markets. The German Federal Court of Justice (BGH) clarified the consequences for German law and the impact at a customer level on 28 October 2015. According to this judgement, price adjustments, in which increases or decreases in costs due to external factors are passed on to customers, are actually legally binding adjustments to tariffs. The associated sales risks in the retail customer sector thus no longer exist.
- **Price controls under cartel law:** In September 2014, EnBW received a price reduction order for the water prices in Stuttgart from the energy cartel office with retroactive effect back to August 2007. The Baden-Württemberg antitrust authority and Netze BW GmbH agreed a settlement in July 2015 that removes the risk of any further negative effects. This risk thus no longer exists.
- **New construction project EnBW Baltic 2:** The risk of increased costs and delays to the commissioning of the wind farm no longer existed at the end of 2015. The wind farm has been completed and placed into operation.
- **Nuclear energy in France:** There was a general risk that EnBW must bear some of the costs for the dismantling of the French nuclear power plant in Fessenheim. In the opinion of EnBW, the power plant operator was not legally entitled, however, to claim for these costs. This risk no longer exists.
- **Long-term gas agreements:** As part of its gas strategy, EnBW aims to establish a long-term gas procurement portfolio. The associated opportunities and risks fall short of the materiality threshold due to falling E summer-winter spreads and lower volatilities.

Overall assessment by the Group management

Development of the risk situation in 2015



Development of the opportunity situation in 2015



The risk situation for the entire energy industry remained tense in 2015. Framework conditions are changing profoundly as a consequence of the Energiewende in Germany. As a result, in particular, of the persistently unfavourable market prices and the considerably worsening expectations regarding long-term electricity prices, the overall risk situation facing EnBW will remain considerably tense with regards to 2016. Numerous factors could jeopardise the achievement of our economic goals. At the same time, the Energiewende also offers a diverse range of opportunities to develop new models for future business segments, which we are pursuing through our EnBW 2020 strategy that was adopted in 2013. The implementation of this strategy aims to secure the future viability of the company and tap into this potential for growth. The political decision for Germany to phase out nuclear power has reduced planning certainty and harbours a large degree of risk in the future. This has resulted in far-reaching consequences for the operating business of the EnBW Group and has had a negative effect on earnings. The euro debt crisis caused a period of sustained volatility on the international financial markets. For this reason, it may be necessary to recognise further impairment losses on financial and other assets. The persisting competitive and market risks could influence the operating result, financial position, net assets and liquidity situation of the EnBW Group.

Although some risks were reduced or eliminated during the course of 2015, additional risks for EnBW have either emerged or were exacerbated. No risks currently exist that might jeopardise the EnBW Group as a going concern.