

Strategy, goals and performance management system

Strategy

Market conditions and structures

The energy sector in Germany has been experiencing profound change since 2012 due to the Energiewende. The share of electricity generation accounted for by renewable energies is increasing, driven by regulatory funding mechanisms, the trend towards decentralisation and technological advances. Nuclear electricity generation will cease by 2022. The use of fossil fuels, above all brown coal and hard coal, continues to be the subject of intense political debate. Another driver of change in the energy sector are new patterns of demand amongst customers (local authorities, households, trade and industry) due to an increasing desire for autonomy and sustainability, as well as falling energy consumption due to improved energy efficiency (p. 72 ff.). The business models followed by energy supply companies are changing as a result.

Strategy process

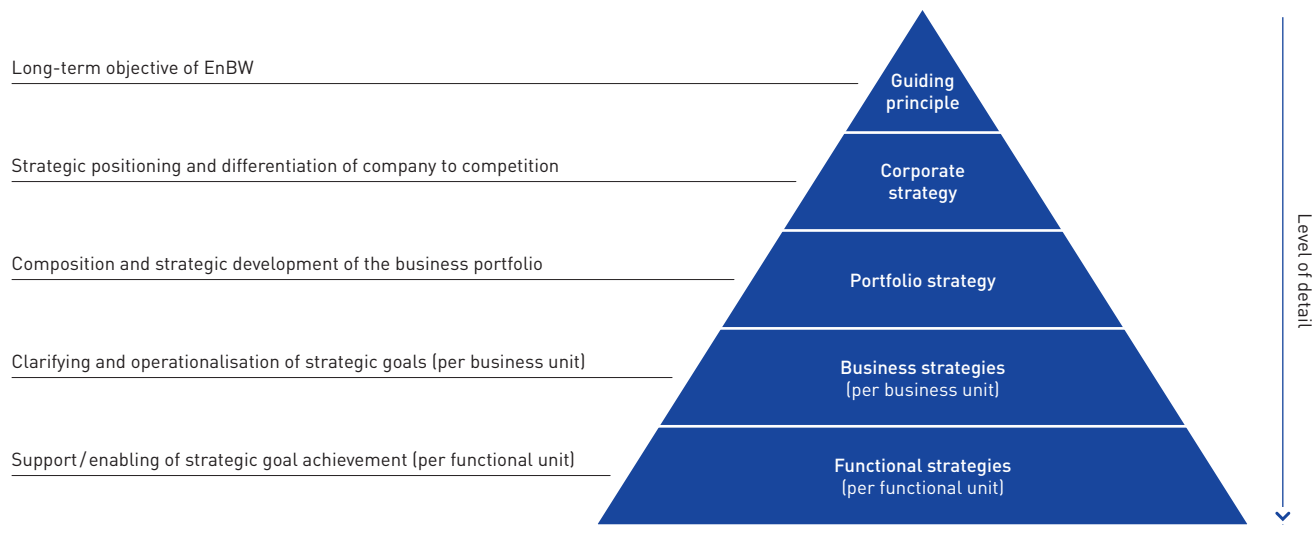
The development of strategy at EnBW is governed by a uniform and structured process. This begins with our vision which is guided by the principle "Energiewende. Safe. Hands on." The Group strategy describes our positioning and how we differ-

entiate ourselves from our competitors. Sustainability is an integral component of our Group strategy so that we can guarantee the creation of economic, ecological and social value for our stakeholders. We associate the concept of sustainable economic development with our aspiration to conduct our business activities in a responsible way.

The sustainability concept is aligned with the strategic guiding principles of EnBW and defines areas of action, targets and measures. Areas of action include, amongst others, the expansion of renewable energies, increasing employee commitment and guaranteeing a reliable supply (p. 52 f.). The concept takes into account external demands for sustainable corporate activities, derived from leading sustainability standards and ratings, as well as the integration of ecological and social aspects into the operating business (p. 60).

We shape the composition and strategic development of our business portfolio through our portfolio strategy. Our strategic goals are then defined and operationalised in a final step through the design of our business, investment and functional strategies.

Process for strategic goal achievement



Guiding principle and Group strategy

The EnBW Group strategy developed in accordance with our guiding principle encompasses two operating models that complement each other:

Customer proximity: The EnBW 2020 strategy places the focus on customers to an even greater degree. Targeted innovation management and short development times for new products and services will become key components. Cooperation with municipal utilities and local authorities will be expanded, primarily on the basis of partnership cooperation models. EnBW aims to gain an advantage over its competitors through the development of system and complete solutions for specific customer segments and a strong brand portfolio. An Innovation Campus supports the rapid development of forward-looking products. It is characterised by its focus on market proximity, bringing together the necessary expertise from the areas of research and development right through to sales and also by its entrepreneurial thinking. In the area of energy-related services, in particular, selective company acquisitions will complement existing expertise and round off the range of products and services offered (p. 64 ff.).

Engine room of the Energiewende: Safety, simplicity and flexibility are crucial when it comes to operating system-relevant infrastructure. EnBW relies on operational excellence and a strict focus on efficiency and cost-orientation to achieve defined standards and levels of quality. Partnerships formed in the area of technological development serve to minimise costs and risks. In addition, EnBW offers comprehensive active cooperation opportunities at all value added stages. In the “Engine room of the Energiewende”, EnBW uses its expertise to guarantee a reliable supply of energy – which also needs to be ensured during the transformation of the energy landscape.

Portfolio strategy

Repositioning the business portfolio

EnBW aims to more than double the share of its generation capacity accounted for by renewable energies from 19% (based on the reference year of 2012) to more than 40% in 2020. The capacities of our onshore wind farms will be increased significantly in Germany and selected foreign markets. Offshore wind power represents a further opportunity for growth. By investing extensively in grid expansion, we will be making a substantial contribution to the infrastructure required by the energy system and thus to the security of supply.

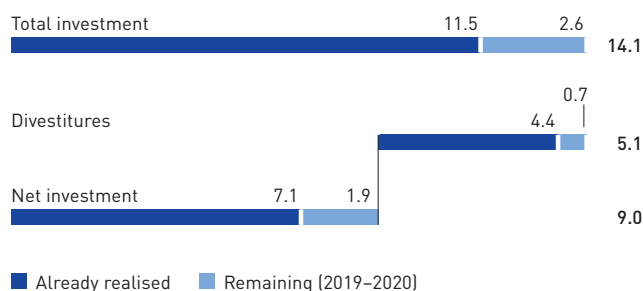
Innovative products and services will form another important pillar of the company’s business. By 2020, a significant share of our earnings – the target value for adjusted EBITDA is between €2.3 and €2.5 billion – is to be generated through strategic initiatives. At the same time, the overall share of adjusted EBITDA accounted for by the regulated grid business and renewable energies will increase from around 40% (based on the reference year of 2012) to at least 70% in 2020. This will improve the risk-return profile of EnBW.

Extensive investments and divestitures

EnBW intends to invest €14.1 billion in total by 2020 (based on the reference year of 2012). In this context, the focus will be placed on expanding renewable energies on an industrial scale. Moreover, we will also concentrate on the expansion and upgrading of our transmission and distribution grids right through to so-called smart grids (Glossary, p. 154). In order to obtain the financial headroom required for such extensive investments, we have significantly extended our divestiture programme – involving divestitures, cash inflow from participation models, the disposal of assets and subsidies – with our EnBW 2020 strategy to around €5.1 billion (based on the reference year of 2012). Investment of €11.5 billion (around 80% of the target) had already been made and divestitures of €4.4 billion (around 85% of the target) were already completed by the end of 2018. On the basis of our current plans, we expect to exceed the targets for both strategic investment and divestitures by 2020. You can find further information on this subject in the “Forecast” on p. 110.

Investments and divestitures as part of the transformation of the portfolio

in € billion



EnBW 2020 strategy is on the home straight

As an integrated energy supply company, EnBW is rigorously and confidently implementing its 2020 strategy. It is clear as the end of the strategy period approaches that the improvements in efficiency and the growth initiatives designed to place the company on new foundations ready for the future have largely been implemented or are on the home straight. As a result of the full consolidation of VNG in 2017, EnBW has become the number 2 in the gas transport sector and the third largest German gas supplier. Another good example of the success of the repositioning of the portfolio is the area of wind energy. In the offshore wind sector, two further major projects EnBW Hohe See and EnBW Albatros in the North Sea are following on from EnBW Baltic 1 and EnBW Baltic 2. Another offshore wind farm – EnBW He Dreiht – is at the planning stage. EnBW He Dreiht is the first offshore wind farm project that does not require EEG subsidies. In the onshore sector, EnBW has now become one of the top project developers and operators of wind farms in Germany. EnBW gave another indication of its aim to tap into selected international growth markets in the area of renewable energies in 2018 with its entry onto the Swedish market and initial activities in France, Taiwan and the USA. If there is no new and unexpected massive deterioration in the general conditions, EnBW will achieve its earnings targets for 2020 at both a Group and also segment level and thus reach one of the most important milestones in the history of the company.

Strategic development post 2020

Next phase of the Energiewende

The first phase of the Energiewende in Germany was mainly driven by energy policy and regulation. A second phase of the Energiewende is now rapidly starting to take shape, the full impact of which will be seen in the period after 2020 as the market, customers and technology lead the way. There are six key trends that are most relevant to the further development of the EnBW strategy:

- > The goal of decarbonising the economy, which is shared by almost all countries in the world, is setting the political and regulatory agenda.
- > New competitors and technological advances are fundamentally changing the value added chain – every business is increasingly dependent on its own success factors.
- > Renewable energies and smart grids continue to be the focus of future decentralised energy systems.
- > The cross-sector networking of electricity generation and digitalisation are shaping industrial development. As a result, energy and infrastructure themes are converging across sector boundaries.
- > The demand for smart and reliable infrastructure is increasing due to factors such as demographic trends and urbanisation. The infrastructure market in Germany will grow from a volume of €100 billion in 2015 to an anticipated €150 billion in 2025 (source: PwC/Oxford Economics, own calculations).
- > Individualisation, digitalisation and networking are massively changing customer behaviour and making it more difficult to predict.

Sustainable and innovative infrastructure partner

The further development of the EnBW strategy post 2020 will focus on the key trends defining the second phase of the Energiewende. We want to increasingly place the strategic focus of our company on the aspect of infrastructure within our existing business fields and also use the core expertise of EnBW to exploit new growth opportunities above and beyond the energy sector. The core expertise of EnBW – what we do well and do better than many others – lies in the safe and reliable operation and management of critical infrastructures in the energy sector. This distinctive expertise can be transferred to other infrastructure sectors – the first themes have already been identified and work is in progress – for example in the broadband business (Glossary, p. 152), district development in cities (Glossary, p. 153) or the expansion of charging infrastructure (Glossary, p. 153) as the basis for electromobility. The aim is to develop a balanced business portfolio that has diverse potential for growth, a high proportion of stable regulated business and an attractive risk-return profile.

EnBW is transforming itself into a sustainable and innovative infrastructure partner with an emphasis on three central themes:

- > Sustainable generation infrastructure will be achieved through the further expansion of low-carbon electricity generation, the phasing out of nuclear energy and the

intended phasing out of coal-based conventional generation (decarbonisation).

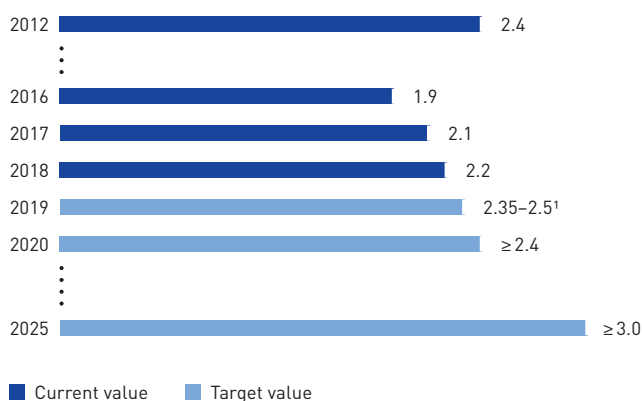
- > System critical infrastructure comprises the expansion and operation of the transmission grids and the upgrading of distribution grids, as well as grid-related services provided by our grid subsidiaries.
- > Smart infrastructure for customers involves us developing new, digital business models and launching them onto the market where we will then scale them up.

EnBW is focussing on growth and innovation for the markets of the future. An integral part and driver of this corporate economic development is the digital transformation of EnBW. Digitalisation permeates into all business areas, opening up new growth opportunities and earnings potential.

From repositioning to growth

Development of adjusted EBITDA

in € billion



¹ Based on the 2019 forecast.

EnBW will generate – if our forecasts are fulfilled – an adjusted EBITDA of around €2.4 billion in 2020 and once again achieve the same level of earnings as in 2012, although based on a drastically changed business portfolio. From 2020, EnBW will switch from a phase of “repositioning” to a phase of “growth” with the aims of asserting its competitive position, offering our employees an attractive place to work with good prospects and achieving dividends for our shareholders that are in line with the market. The further development of the EnBW strategy post 2020 will provide the necessary foundations.

An important driver of growth is the expansion of generation from renewable energies. As well as doubling installed output from onshore and offshore wind power to over 3.5 GW, a third pillar will be formed by the development of a portfolio of large photovoltaic projects. Photovoltaics is the fastest growing generation technology worldwide due to its cost benefits. EnBW is aiming to become the pioneer in Germany for open-field photovoltaic power plants without state funding. In order to further safeguard its growth ambitions, EnBW is following a strategy of selective internationalisation in the area of renewable energies. The aim is a dual diversification of risk – in terms

of generation types and regional markets – and to exploit scaling effects. At the same time, EnBW is focussing on a sharp expansion of transmission grids, profitable growth of the distribution grids and the further development of sales into a customer infrastructure business, for example in the area of electromobility.

The expansion of the sustainable generation and utilisation of energy will be supported by innovative financing instruments. In October 2018, EnBW successfully issued its first green bond [Glossary, p. 153] with a volume of €500 million. The proceeds will be exclusively used to fund climate-friendly projects (p. 85 f.).

EnBW has set itself the target of increasing the adjusted EBITDA for the Group to at least €3 billion by 2025. Even in the growth phase post 2020, EnBW will maintain its financial discipline and intends to control its credit standing using the debt repayment potential (ratio of the retained cash flow to net debt). A target value of at least 16% should safeguard the good credit standing of EnBW and enable the implementation of the investment programme to achieve the goals in 2025 at the same time.

Goals and performance management system

We will safeguard the implementation of our 2020 strategy by means of a holistic goal and performance management system. This system reflects the overall performance of the company and strengthens integrated thinking within EnBW. At the same time, it underpins the comprehensive and transparent focus on performance and stakeholders within our company.

Performance management system

Since 2013, corporate management has been continually expanded through the addition of non-financial and strategic goals, so that it encompasses the dimensions of strategy, customers and society, employees and environment. The centrepiece of this integrated corporate management is the performance management system (PMS). As of 2015, the PMS incorporates all tools used in strategic and operational management. The financial and non-financial Group goals have been broken down into target agreements at all management levels since 2015, insofar as they are considered a sensible performance indicator for the relevant area. The quarterly performance reviews conducted at a Board of Management level introduced in 2013 were revised in 2015 and have since included operating performance indicators that will promote the achievement of targets for the financial and non-financial key performance indicators. In 2016, this concept was fully implemented. In terms of external communication, the PMS feeds into the integrated reporting of the financial and non-financial performance of EnBW based on the reporting framework of the International Integrated Reporting Council (IIRC). This Integrated Annual Report 2018 of EnBW incorporates the financial and non-financial aspects of our business activities.

TOP Definition and target values for the key performance indicators

The key performance indicators enable us to measure the degree to which goals are achieved and to manage our company. The key performance indicators are the same as in the previous year.


The financial and strategic key performance indicators within the PMS are the adjusted EBITDA, the shares of the adjusted EBITDA accounted for by the segments, the internal financing capability and ROCE.

The **adjusted EBITDA** is the earnings before the investment and financial results, income taxes and amortisation and adjusted for non-operating effects. Adjusted EBITDA is a key performance indicator for the finance goal dimension, and the key performance indicators for the strategy goal dimension, which describe the shares of adjusted EBITDA accounted for by the segments, are derived directly from it (p. 82 and 111). The key performance indicator **internal financing capability** describes the adjusted retained cash flow in relation to the cash-relevant net investment and is the most significant performance indicator for the Group's ability to finance its activities internally (p. 89 and 112). After covering ongoing costs and dividend payments, the adjusted retained cash flow is available to the company for net investment without the need to raise additional debt. Since the 2017 financial year, we have adjusted the retained cash flow to take account of the extraordinary effect of the reimbursement of the nuclear fuel rod tax [Glossary, p. 154] (adjusted retained cash flow). The retained cash flow was reduced by the amount reimbursed to EnBW of €1,520.8 million in 2017. In the 2018 financial year, the reimbursement was used for a debt repayment of around €835.8 million and also for strategic investments of €200.0 million. We plan to distribute the remaining amount on a straight line basis in the period 2019 to 2020, also for the purpose of strategic investment. Accordingly, this will lead to an increase in the adjusted retained cash flow over the period 2018 to 2020. **ROCE** (return on capital employed) is the ratio of adjusted EBIT including the adjusted investment result to the average capital employed and forms the basis for determining the value added, reflecting the development of the company's value from a financial point of view (p. 92 f. and 112).


In addition to the financial key performance indicators, the PMS also includes non-financial key performance indicators.

The customers and society goal dimension comprises the Reputation Index, the Customer Satisfaction Index and the SAIDI (System Average Interruption Duration Index). In order to calculate the **Reputation Index**, a total of around 5,000 people – from the stakeholder groups relevant for the EnBW brand of customers, the wider public, industrial companies, opinion leaders and investors – are asked about their impressions of the EnBW brand by an external market research institute.

TOP Financial and non-financial key performance indicators and targets

| Goal dimension | Goal | Key performance indicator | 2018 | Target in 2020 | |
|--|------------------------------------|------------------------------------|------|----------------|---|
|  Finance | Secure profitability | Adjusted EBITDA in € billion | 2.2 | 2.3–2.5 | The operating result is to return to the average level achieved before the Energiewende. The total regulated business (Grids and Renewable Energies segments) together contributes around 70% to this result. |
| | High level of financial discipline | Internal financing capability in % | 93.2 | ≥ 100 | The level of net financial debt is controlled by limiting net investment to the level of adjusted retained cash flow. The Group can thus finance its own repositioning internally. |
| | Increasing Group value | ROCE in % | 6.5 | 8.5–11 | Return on capital employed (ROCE) is higher than the cost of capital. EnBW is creating value for its stakeholders. |

Finance and strategy goal dimension, page 80 ff. | Expected trends, page 110 ff. | Report on opportunities and risks, page 114 ff.


| | | | | | |
|--|---|--|----------|----------|--|
|  Strategy ¹ | Share of result accounted for by "Customer proximity" / Sales | Share of overall adjusted EBITDA in € billion/in % | 0.3/12.5 | 0.4/15.0 | The operating result for the Sales segment doubles from €0.2 billion (reference year: 2012) to €0.4 billion in 2020 and represents around 15% of the Group operating result. Innovations make this possible. |
| | Share of result accounted for by Grids | Share of overall adjusted EBITDA in € billion/in % | 1.2/54.5 | 1.0/40.0 | The operating result for the Grids segment increases by 25% from €0.8 billion (reference year: 2012) to €1.0 billion in 2020 and represents around 40% of the Group operating result. The share accounted for by stable regulated business is expanding. |
| | Share of result accounted for by Renewable Energies | Share of overall adjusted EBITDA in € billion/in % | 0.3/13.8 | 0.7/30.0 | The operating result for the Renewable Energies segment increases by 250% from €0.2 billion (reference year: 2012) to €0.7 billion in 2020 and represents around 30% of the Group operating result. EnBW becomes more sustainable. |
| | Share of result accounted for by Generation and Trading | Share of overall adjusted EBITDA in € billion/in % | 0.4/19.9 | 0.3/15.0 | The operating result for the Generation and Trading segment falls by 80% from €1.2 billion (reference year: 2012) to €0.3 billion in 2020 due to changed framework conditions and only represents around 15% of the Group operating result. |

Finance and strategy goal dimension, page 82 f. | Expected trends, page 111 | Report on opportunities and risks, page 114 ff.

Results were collected for each stakeholder group about the distinctiveness of the brand and the assessment of the competence of and emotional attitude towards the EnBW brand. These are merged together to form a Reputation Index. The individual reputation indices for each stakeholder group are weighted equally to form a consolidated and reported Reputation Index (p. 94 and 112). The key performance indicator **Customer Satisfaction Index** comprises an integrated analysis of the average satisfaction of private end consumers of electricity over the year, which is directly linked to customer loyalty. It is compiled from customer surveys carried out by an external provider (p. 94 f. and 112). This key indicator is compiled for the two brands of EnBW and Yello. **SAIDI** serves as the key performance indicator of supply reliability. It expresses the average length of supply interruption in the electricity distribution grid experienced annually by each connected customer. SAIDI includes all unscheduled interruptions to

supply that last more than three minutes for the end consumer. The definition and calculation of this performance indicator is based on the guidelines issued by the Network Technology/Network Operation Forum (FNN) of the VDE (German Association for Electrical, Electronic & Information Technologies) (p. 96 and 112).

The Employee Commitment Index (ECI) and LTIF (Lost Time Injury Frequency) are utilised as performance indicators in the employees goal dimension. The **ECI** expresses the degree to which employees identify with EnBW. It is compiled using employee surveys and is based on standardised questions that address the degree to which employees identify with their company, including satisfaction with their employer-employee relationship, attractiveness of the employer, identification with the company, motivational climate, competitiveness and future viability. The ECI is compiled every two to three years for those

| Goal dimension | Goal | Key performance indicator | 2018 | Target in 2020 | |
|---|--------------------------------|--|-------------|-----------------|---|
|  Customers and society | Reputation | Reputation Index | 51.3 | 55.4 | In parallel with repositioning its business model, EnBW aims to continuously improve its reputation. |
| | Customer proximity | EnBW/Yello Customer Satisfaction Index | 120/ 152 | > 136/ > 159 | EnBW and Yello customers are satisfied customers with a high level of customer loyalty. EnBW and Yello are organisations strongly oriented towards customers and meet the needs and wishes of their customers through tailored solutions and products. |
| | Supply reliability | SAIDI (electricity) in min./year | 17 | < 25 | Maintaining the quality of supply to its customers is of central importance to EnBW in the further development of the grids of its grid subsidiaries. The high degree of supply reliability in the grid area operated by EnBW is based on comprehensive investment in grids and plants and our abundant system expertise. |
| Customers and society goal dimension, page 94 ff. Expected trends, page 112 Report on opportunities and risks, page 114 ff. | | | | | |
|  Employees | Employee commitment | Employee Commitment Index (ECI) ² | 62 | 65 | The commitment of our employees to EnBW is very strong and there is faith in the future viability of the company. |
| | Occupational safety | LTIF ³ | 2.3 | ≤ previous year | The number of accidents at work and the resulting days of absence remains stable or is falling. |
| Employees goal dimension, page 96 ff. Expected trends, page 113 Report on opportunities and risks, page 114 ff. | | | | | |
|  Environment | Expand renewable energies (RE) | Installed output of RE in GW and the share of the generation capacity accounted for by RE in % | 3.7/27.9 | 5.0/> 40 | The share of the generation capacity accounted for by renewable energies has doubled compared with 2012. Onshore and offshore wind power and hydropower are at the forefront of this development. |
| | Climate protection | CO ₂ intensity in g/kWh | 553 | -15% to -20% | EnBW actively contributes to climate protection by successively reducing the CO ₂ intensity of its own generation of electricity (excluding nuclear power) by 15% to 20% by 2020 compared to 606 g/kWh in the reference year 2015. |
| Environment goal dimension, page 101 ff. Expected trends, page 113 Report on opportunities and risks, page 114 ff. | | | | | |

1 Other/Consolidation accounts for €-0.02 billion/-0.7% of the overall adjusted EBITDA.
 2 Variations in the group of consolidated companies (consideration of companies controlled by the Group [without ITOs]).
 3 Variations in the group of consolidated companies (consideration of all employees at those companies controlled by the Group, except external agency workers and contractors).

companies controlled by the Group (except ITOs) (Glossary, p. 154) as part of a full employee survey. Representative random sample surveys are completed in the periods between the full surveys – as was also the case in 2018 (p. 96 and 113). **LTIF** is calculated on the basis of LTI (Lost Time Injuries) which denotes the number of accidents during working hours which have occurred exclusively because of a work assignment from the company and result in at least one day of absence. LTIF indicates how many LTI occurred per one million working hours performed. This key indicator takes all employees at those companies controlled by the Group into account, except external agency workers and contractors (p. 100 f. and 113).

The key performance indicators in the environment goal dimension are the **installed output of renewable energies (RE) and the share of the generation capacity accounted for by RE and CO₂ intensity** (Glossary, p. 152). The first are measures of the expansion of renewable energies and refer to the installed output of the power plants and not to their weather-dependent contribution to electricity generation (p. 102 and 113). The

emissions of CO₂ from own generation of electricity for the Group, as well as the volume of electricity generated by the Group without the contribution made by the nuclear power plants, form the basis for the calculation of the key performance indicator CO₂ intensity. This performance indicator is calculated as the ratio between the emissions and the generated volume of electricity and thus specifically describes the amount of CO₂ released per kilowatt hour. By discounting the electricity generated by nuclear power plants, the performance indicator will not be influenced by the phasing out of nuclear energy in the coming years (p. 103 and 113).

TOP Interdependencies between the key performance indicators

We are convinced that in order to give a comprehensive portrayal of the company, it is not only necessary to describe the economic, ecological and social context but also to illustrate and provide an analysis of interdependencies in this report. Linking together the various goal dimensions is an important

element of integrated reporting. At the same time, this type of reporting encourages a holistic corporate management approach within EnBW. In order to illustrate these interdependencies, the key performance indicators for the goal and performance management system are used. The basic assumption for illustrating interdependencies is that a change in one key performance indicator can also lead, in many cases, to changes in one or more other key performance indicators. Reciprocal relationships thus exist between the key performance indicators – in the most extreme case, all of the key performance indicators can even influence each other. In this context, the investment guidelines have been adapted in the 2018 financial year: Non-financial aspects such as environmental and climate protection goals will be taken into account to a greater extent for investment projects (p. 88).

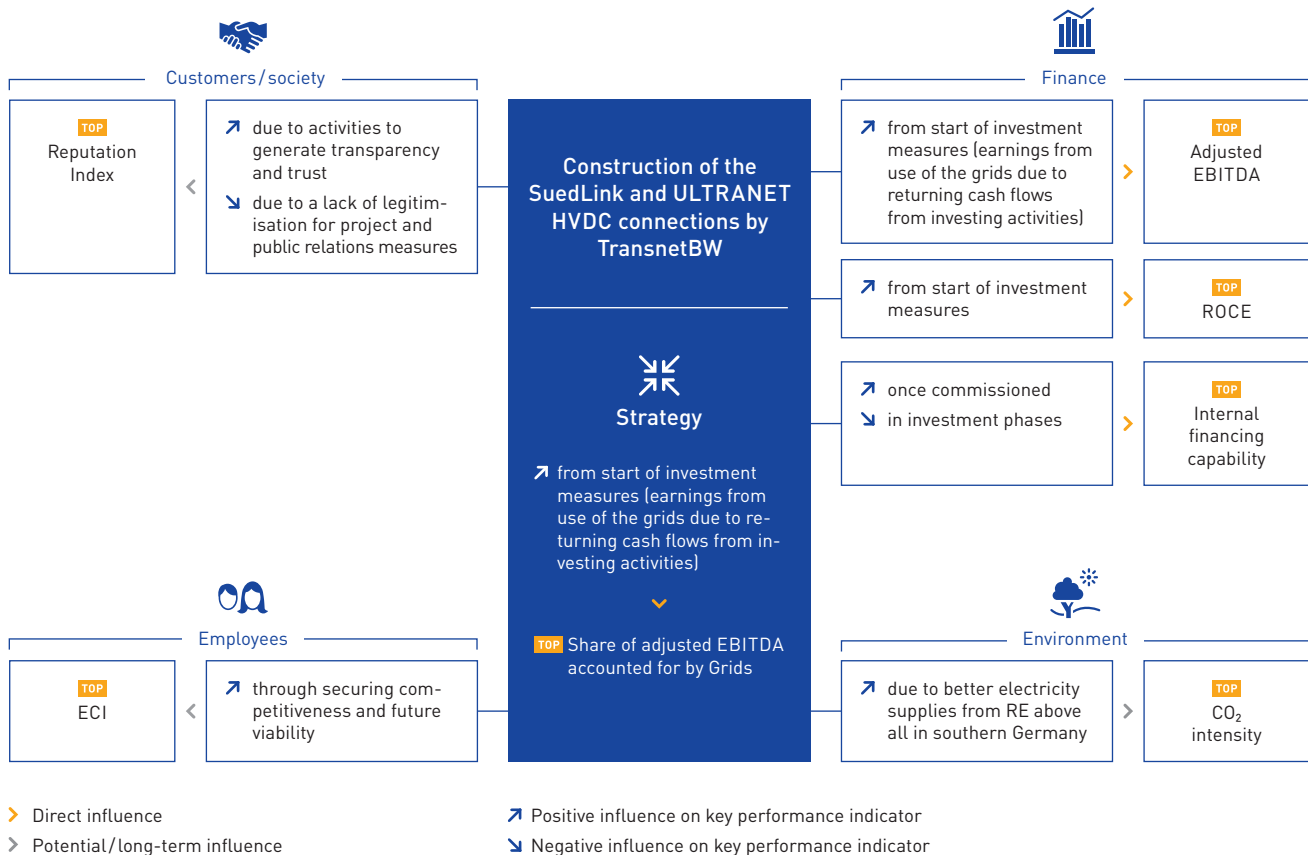
We have illustrated these interdependencies since 2015 using concrete examples that were important for the company in the past financial year or will be in the future and can thus also be found in other sections of the report. As part of an internal coordination process, various examples were examined by several specialist areas and selected based on the respective feedback.

In order to illustrate the interdependencies in 2018, we have selected two areas in which EnBW was already engaged in the past financial year but which will become even more important in the future. The **expansion of the HVDC connections as part of**

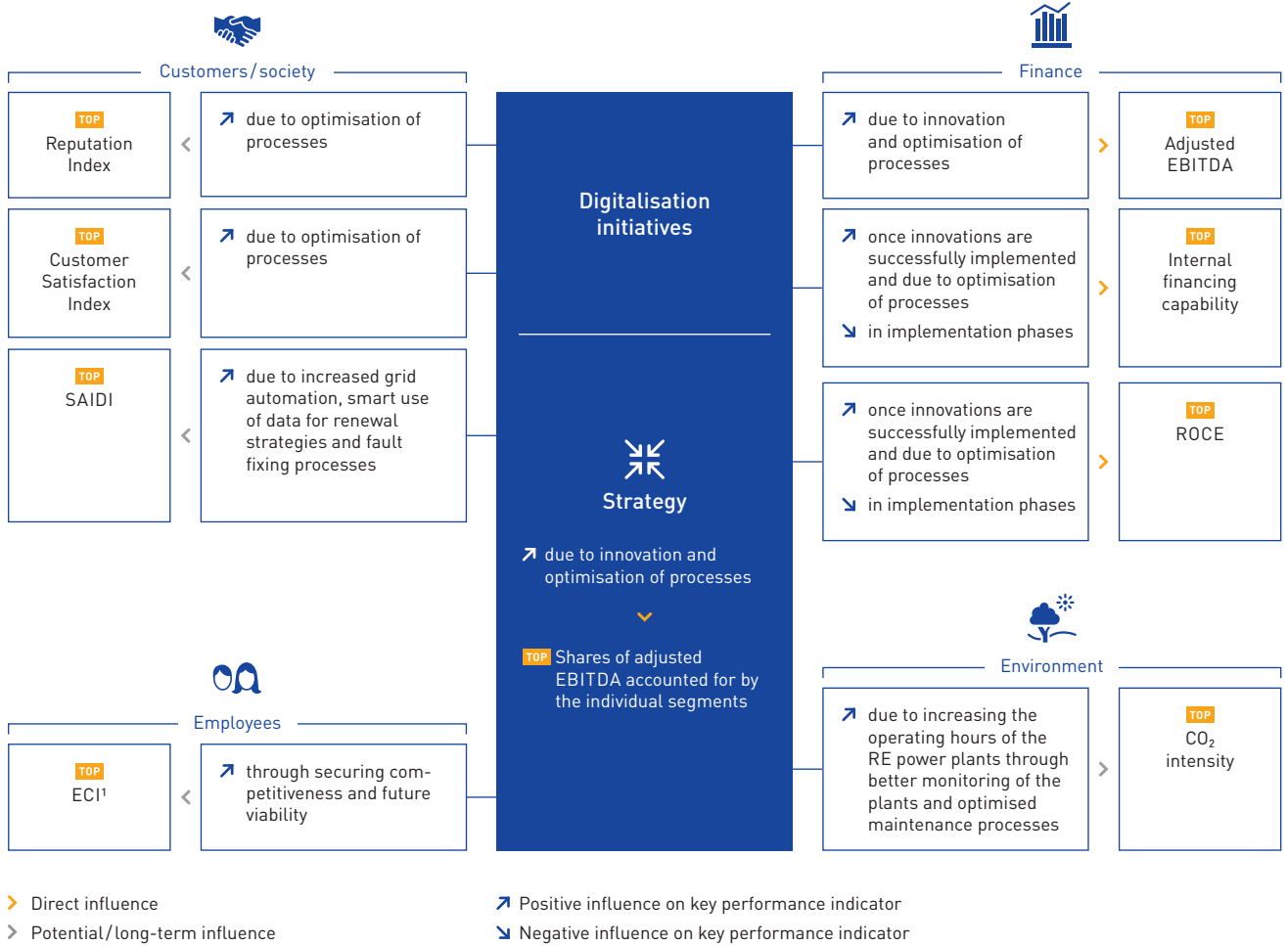
the SuedLink and ULTRANET projects will accompany us over the next few years. New, powerful transmission grids will form the backbone of the Energiewende, especially for transporting energy that has been sustainably generated in northern Germany to the main consumption areas in southern Germany (p. 62). We anticipate that there will be a direct or potential influence on many key performance indicators. **Digitalisation initiatives** are another example. EnBW is focussing on three main areas in its digital transformation: products and processes, technologies, and people and organisations (p. 39). Due to the diverse range of impending changes, we anticipate that there will be a direct or potential influence on many key performance indicators.

The key performance indicators that are directly influenced are positioned in the centre of the diagram and should essentially be directly measurable. The interdependencies between the financial and strategy key performance indicators are also essentially directly measurable and are represented in the example diagrams by orange arrows. The interdependencies with the other non-financial key performance indicators are difficult to measure and generally tend to be potential or long term in nature. They are represented by grey arrows. In the 2018 financial year, these interdependencies were not measured individually. They are presented based on internal discussions with the relevant specialist areas and those responsible for the performance indicators. The upward pointing arrows show a positive influence on the key performance indicator, while the downward pointing arrows show a negative influence.

Interdependencies between key performance indicators using the construction of HVDC connections as an example



Interdependencies between key performance indicators using digitalisation initiatives as an example



¹ We also anticipate a potential negative influence on the Employee Commitment Index due to the digital transformation in the Group. However, this type of risk will be compensated for by integrating employees into the change process.