

Strategy, goals and performance management

Strategy

Business environment

The energy sector is undergoing a period of profound change. This process of change is dependent on numerous factors and often does not progress linearly, thus making it difficult to predict. An important element of the Energiewende in Germany is the phasing out of nuclear electricity generation by 2022. The goal of decarbonising the economy is setting the political and regulatory agenda. The German government wants to end coal-fired power generation in Germany by 2038 at the latest. Renewable energies and smart grids will be the focus of future decentralised energy systems. Beyond the energy industry, the willingness in society to try and prevent the emission of greenhouse gases (Glossary, from p. 139) is growing in all aspects of life. To achieve this, cross-sector concepts (Glossary, from p. 139) are needed, such as the linking of energy and infrastructure themes, which are accelerated by digitalisation and new technologies. New value added chains and modified customer behaviour are creating room for innovative business models and new players on the market. The onus is thus on energy supply companies to quickly and flexibly develop a future-oriented business portfolio for their companies.

EnBW 2020 strategy largely implemented

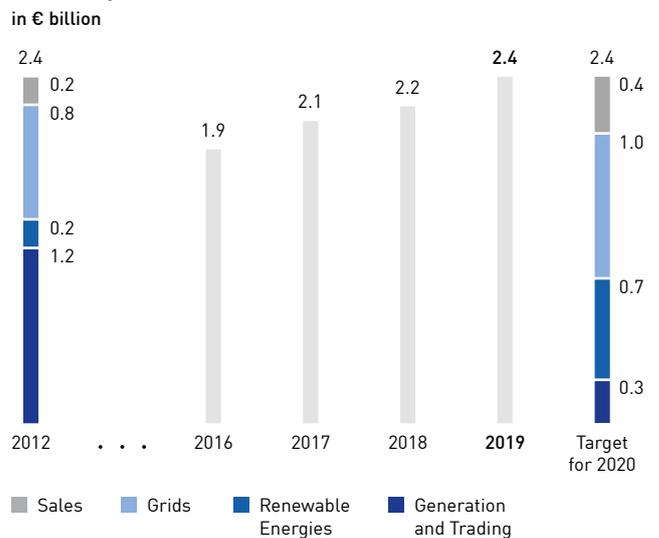
The EnBW 2020 strategy is guided by the principle “Energiewende. Safe. Hands on.” It describes our positioning and how we differentiate ourselves from our competitors. Sustainability is an integral component of our Group strategy so that we can guarantee the creation of economic, ecological and social value added for our stakeholders. We associate the concept of sustainable economic development with our aspiration to conduct our business activities in a responsible way (p. 52).

We aim to more than double the share of our generation capacity accounted for by renewable energies from 19% (based on the reference year of 2012) to over 40% in 2020. We have increased the capacities of our onshore wind farms significantly in Germany and selected foreign markets, while the same is true for the growth field of offshore wind energy. By investing extensively in grid expansion, we are making a substantial contribution to the infrastructure required by the energy system and thus to the security of supply. The overall share of adjusted EBITDA accounted for by the regulated grid business and renewable energies has increased from around 40% (reference year of 2012) to more than 70% in 2019 and has thus already reached the target value for 2020. This will improve the risk-return profile of our company. Innovative products and services will

become another important pillar of the company’s business. By generating an adjusted EBITDA of €2.4 billion in 2019, we were already able to achieve our earnings target for 2020 early.

To implement our strategy, we planned total investment of €14.1 billion (reference year of 2012) by 2020. 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 – through our EnBW 2020 strategy to around €5.1 billion (based on the reference year of 2012). We realised investments of €14.8 billion and divestitures of €5.1 billion in the period up to and including 2019. The over-fulfilment of our investment target was primarily due to the accelerated growth investment used for the acquisitions of Valeco and Plusnet.

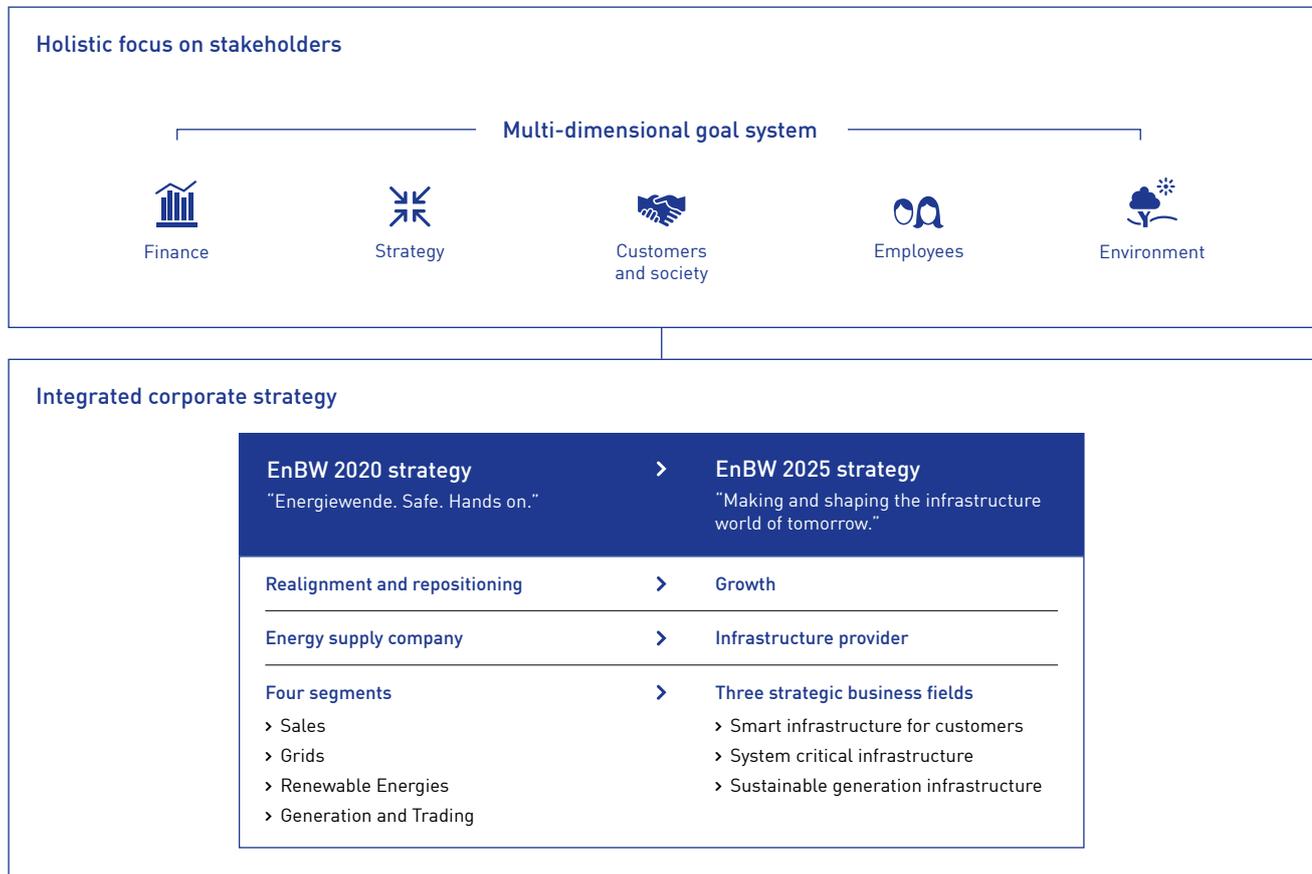
Transformation of the portfolio and development of adjusted EBITDA up to 2020



We developed our EnBW 2020 strategy back in 2013 in the wake of the profound changes impacting the energy industry as part of the Energiewende. We have rigorously and sustainably implemented this strategy since then. In view of the upcoming planning horizon, the following is now clear: The improvements in efficiency, the transformation of the business portfolio 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. We will now make the switch from “realignment and repositioning” to “growth” in the EnBW 2025 strategy.

The EnBW 2025 strategy: The path to becoming a sustainable and innovative infrastructure partner

Ongoing strategic development



After the first phase of the Energiewende was characterised above all by political and regulatory measures, the changes in the energy sector will now be increasingly driven by market developments and shaped by cost reductions and technical advances. Under the motto "Making and shaping the infrastructure world of tomorrow", the EnBW 2025 strategy will increasingly place the company's focus onto the infrastructure aspects of existing business fields – for example, networking small decentralised power plants to form virtual power plants (Glossary, from p. 139) or the networking of the energy sector (Glossary, from p. 139) with neighbouring sectors such as transport or communications infrastructure. Furthermore, we will use our core expertise to exploit new growth opportunities above and beyond the energy sector. Our core expertise – what we do well and do better than many others – lies in the safe and reliable construction, operation and management of critical infrastructure in the energy sector, such as efficient, low-carbon power plants or transmission and distribution grids that meet the requirements of an energy industry based on renewable energies. This distinctive expertise can be transferred to other infrastructure sectors. Our dedication and commitment have already enabled us to make significant progress in, for example, the broadband business (Glossary, from p. 139), the expansion of quick-charging infrastructure (Glossary, from p. 139) as the basis for electromobility and in the area of urban infrastructure.

Urban infrastructure, as we understand it, involves the smart networking of energy supply, heating, telecommunications, mobility, traffic management and parking space management, as well as security in the public sphere. We are developing our company into a modern and flexible organisation. Performance, creativity, freedom for independent action, quick decisions made as closely oriented to the business as possible and a consistent focus on the customer and their needs will define the requirements for independent action in the future.

We are transforming ourselves into a sustainable and innovative infrastructure partner for our customers and other stakeholders. Following the successful implementation of the EnBW 2020 strategy, we will combine our business portfolio from 2021 – in accordance with the rationale behind the EnBW 2025 strategy – within **three strategic business fields**:

- > In the strategic business field **Smart infrastructure for customers**, we will develop new and digital business models, launch them onto the market and scale them up – even beyond the traditional energy industry value chain. The main focus will be placed here on the expansion of the quick-charging infrastructure, activities in the areas of telecommunications and broadband and other fields such as urban infrastructure.

- > In the strategic business field **System critical infrastructure**, our grid subsidiaries for electricity and gas will further expand the transmission grids into an important cornerstone of our earnings alongside the distribution grids. In addition, we will upgrade the electricity distribution grids so that they are ready to meet the requirements of the future and ensure they are optimally prepared for the demands that will be placed on them by electromobility. We want to significantly develop and expand the business involving grid-related services – the operation of grids for third parties, payment and billing services and charging networks for electromobility – especially in partnership with local authorities and public utilities.
- > In the strategic business field **Sustainable generation infrastructure**, we will be dominant in renewable energies – with offshore and onshore wind power as our spearhead. We will also continue with our strategy of selective internationalisation and the expansion of the portfolio of major photovoltaic projects, enabling us to specifically target the expansion of low-carbon generation. In addition, we will build on our strong position in the gas business, especially in the area of green and synthetic gases. In contrast, we will gradually withdraw from coal-based conventional generation while preserving value at the same time. The last nuclear power plants operated by EnBW will be decommissioned in 2022.

market in Germany in 2019 with the acquisition of Plusnet. Both transactions will contribute to the EnBW 2025 growth strategy.

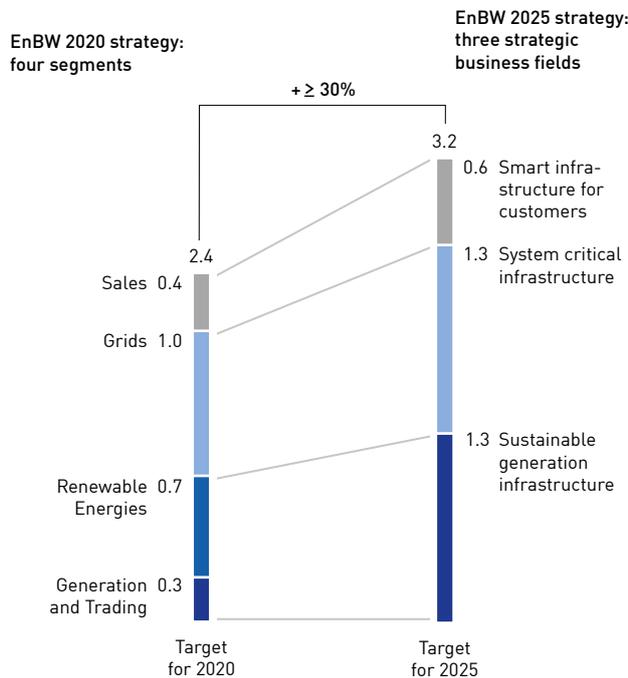
The central goal of the EnBW 2025 strategy is to increase adjusted EBITDA to €3.2 billion, whereby all three strategic business fields should make a significant contribution to this increase in earnings.

EnBW is planning to invest around €12 billion in total between 2021 and 2025. The main focus of the investment will be on the expansion of the grids, especially the central SuedLink and ULTRANET projects of our grid subsidiary TransnetBW for the future energy supply in Germany, the expansion of renewable energies, such as the realisation of the EnBW He Dreiht offshore wind farm, and the further development of smart infrastructure for customers, for example, in the areas of broadband, telecommunications and electromobility. In accordance with the EnBW 2025 growth strategy, 80% of our overall investment will be accounted for by growth projects.

This **growth strategy** will be financed by the retained cash flow and, where necessary, through the use of external funds. By using sustainable financing instruments, we are taking account of our transformed business portfolio and have gained access to new groups of investors who place importance on the sustainable use of their investments. We will continue to strive to maintain a balanced financing structure, solid financial profile and thus solid investment-grade ratings (Glossary, from p. 139).

Realignment and growth

Adjusted EBITDA in € billion



Goals and performance management system

Performance management system

The management of the company comprises financial, strategic and non-financial goals and, as well as the finance and strategy goal dimensions, includes the dimensions customers and society, employees and the environment. The centrepiece of this integrated corporate management is the performance management system (PMS). The most important financial and non-financial Group goals have been broken down into target agreements, insofar as they are considered a sensible performance indicator for the respective area. In the quarterly performance reviews conducted at a Board of Management level, the value drivers for the most important operating performance indicators that contribute to the achievement of targets for the key performance indicators (finance, strategy and environment goal dimensions) are reported. In terms of external communication, the PMS feeds into the integrated reporting of the financial and non-financial performance of the company based on the reporting framework of the International Integrated Reporting Council (IIRC). This Integrated Annual Report 2019 incorporates the financial and non-financial aspects of our business activities. The key performance indicators enable us to measure the degree to which goals are achieved and to manage our company.

Following the successful implementation of the EnBW 2020 strategy, there will be a smooth transition between the strategy periods: We already strengthened our business activities in the area of renewable energies in 2019 with the acquisition of the French project developer and operator of wind farms and solar parks Valeco. We also took a significant step in building a strong position for ourselves on the nationwide telecommunications

TOP Financial and non-financial key performance indicators and targets

| Goal dimension | Goal | Key performance indicator | 2019 | Target for 2020 | Target for 2025 |
|--|--|--|----------|---|---|
|  Finance | Secure profitability | Adjusted EBITDA in € billion | 2.4 | 2.3–2.5 | 3.2 |
| | High level of financial discipline | Internal financing capability in % | 82.6 | ≥ 100 | – ¹ |
| | | Debt repayment potential in % | – | – | > 14 ¹ |
| Increasing Group value | ROCE in % | 5.2 | 8.5–11 | 6.5–8 | |
| The EnBW Group, page 68 ff. Forecast, page 96 ff. Report on opportunities and risks, page 100 ff. | | | | | |
|  Strategy | Share of result accounted for by "Customer proximity"/ Sales | Share of overall adjusted EBITDA in € billion/in % | 0.3/12.1 | 0.4/15.0 | 0.6/20.0 (Smart infrastructure for customers ²) |
| | Share of result accounted for by Grids | Share of overall adjusted EBITDA in € billion/in % | 1.3/53.9 | 1.0/40.0 | 1.3/40.0 (System critical infrastructure ²) |
| | Share of result accounted for by Renewable Energies | Share of overall adjusted EBITDA in € billion/in % | 0.5/19.8 | 0.7/30.0 | 1.3/40.0 (Sustainable generation infrastructure ²) |
| | Share of result accounted for by Generation and Trading | Share of overall adjusted EBITDA in € billion/in % | 0.4/15.8 | 0.3/15.0 | |
| The EnBW Group, page 70 f. Forecast, page 97 Report on opportunities and risks, page 100 ff. | | | | | |
|  Customers and society | Reputation | Reputation Index | 53 | 55 | 58 to 62 |
| | Customer proximity | EnBW/Yello Customer Satisfaction Index | 116/157 | > 136/> 159 | 125 to 136/ 148 to 159 |
| | Supply reliability | SAIDI (electricity) in min./year | 15 | < 25 | < 20 |
| The EnBW Group, page 81 ff. Forecast, page 98 f. Report on opportunities and risks, page 103 | | | | | |
|  Employees | Employee commitment | Employee Commitment Index (ECI) ³ | 66 | 65 | ≥ 66 |
| | Occupational safety | LTIF for companies controlled by the Group ⁴ | 2.1 | ≤ previous year | 2.1 |
| | | LTIF overall ⁵ | 3.8 | – | 3.5 |
| The EnBW Group, page 83 ff. Forecast, page 99 Report on opportunities and risks, page 103 f. | | | | | |
|  Environment | Expand renewable energies (RE) | Installed output of RE in GW and the share of the generation capacity accounted for by RE in % | 4.4/31.8 | 5.0/>40 | 7.5 to 8.0/> 50 |
| | Climate protection | CO ₂ intensity in g/kWh | 419 | -15% to -20% (reference year 2015: 609 g/kWh) | -10% to -20% (reference year 2020) |
| The EnBW Group, page 87 ff. Forecast, page 99 Report on opportunities and risks, page 104 | | | | | |

1 Following the transition to the growth strategy, the key performance indicator internal financing capability will be replaced by the new key performance indicator debt repayment potential from 2021. Therefore, no target value has been defined for the internal financing capability for 2025. To ensure EnBW achieves its ratings target, the target value will be examined annually based on the requirements of the rating agencies.

2 The four segments of Sales, Grids, Renewable Energies and Generation and Trading will become the three strategic business fields of Smart infrastructure for customers, System critical infrastructure and Sustainable generation infrastructure from 2021.

3 Variations in the group of consolidated companies [all companies with more than 100 employees are generally considered [except ITOs]].

4 Variations in the group of consolidated companies [all companies with more than 100 employees are generally considered except for companies in the area of waste management as well as external agency workers and contractors].

5 Variations in the group of consolidated companies [all companies with more than 100 employees are generally considered except for external agency workers and contractors].

TOP Definition and target values for the key performance indicators

We safeguard the implementation of our 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 it. At the same time, it underpins our comprehensive and transparent focus on performance and stakeholders. Our goal system comprises the five dimensions of finance, strategy, customers and society, employees and environment. A number of specific targets have been defined in each goal dimension, whose achievement is continuously measured using key performance indicators. Linked with this goal system and the centrepiece of our corporate management is the performance management system (PMS). Quantitative target values are currently set for the key performance indicators for the 2020 strategy horizon and have now also been set for the first time for 2025. The key performance indicators are the same as those used in the previous year, although two key indicators will be reported for LTIF from 2019.

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, while 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. 70 and 97). The operating result in 2020 will return to the average level achieved before the Energiewende. The overall share of earnings accounted for by the regulated grid business and renewable energies is around 70%. In 2025, we aim to achieve an operating result of €3.2 billion.
 - › The **internal financing capability** is the key performance indicator for the Group's ability to finance its activities internally: It describes the adjusted retained cash flow in relation to the adjusted net (cash) investment (p. 78 and 97 f.). 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, from p. 139) (adjusted retained cash flow) and since 2019 we have also adjusted the net (cash) investment (Glossary, from p. 139) to take into account the accelerated growth investment used for the acquisitions of Valeco and Plusnet that already contribute to the EnBW 2025 growth strategy. As it will not be possible to exclusively finance this growth phase using funds from our internal financing capability, we will manage our creditworthiness from 2021 using the **debt repayment potential** (retained cash flow in relation to the net debt) (Glossary, from p. 139). The key performance indicator internal financing capability will be retained until 2020.
 - › **ROCE (return on capital employed)** is the ratio of adjusted EBIT including the adjusted investment result to the average capital employed. It should exceed the capital costs and is used for determining the value added, reflecting the development of the company's value from a financial point of view (p. 79 f. and 98). Due to the sharp fall in interest rates, the cost of capital (WACC) has reduced from 8.7% in 2012 to 5.2% in 2019. We do not expect any changes to the interest rate environment up to 2025.
- 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. Results are 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. 81 and 98). We aim to continuously improve our reputation.
 - › The key performance indicator **Customer Satisfaction Index** assesses the average satisfaction of private end consumers of electricity over the year, which is directly linked to customer loyalty. The information is compiled using customer surveys about the two brands EnBW and Yello conducted by an external service provider. The Customer Satisfaction Index allows us to draw conclusions about how well we are meeting the needs and wishes of the surveyed customers with customised solutions and products (p. 81 f. and 98). Climate protection measures will make energy more expensive for customers in the next few years. Despite the new skills, offers and services that EnBW has developed, this will in all likelihood negatively impact the perception of the energy sector. The target value for the Customer Satisfaction Index in 2025 is thus below the level in 2020.
 - › **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. 83 and 98). Maintaining the quality of supply to our customers is of central importance to us in the further development of the grids of our grid subsidiaries. The reliability of the supply in the grid areas operated by our grid subsidiaries builds on our comprehensive investment in grids and facilities as well as our system expertise.

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 the 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 generally compiled every two to three years for all companies with more than 100 employees (excluding the ITOs) (Glossary, from p. 139) as part of a full survey carried out by an external, independent service provider. Representative random sample surveys are completed in the periods between the full surveys – as was also the case in 2019 (p. 83 f. and 99). We want to further strengthen the commitment of our employees to EnBW and their trust in the future viability of the company.
- › **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. The calculation of the LTIF overall generally includes all companies with more than 100 employees. For the calculation of the LTIF for companies controlled by the Group, those companies engaged in the area of waste management are excluded because the number of accidents deviates significantly from that in the core business in the energy industry. External agency workers and contractors are not taken into account in either performance indicator (p. 86 f. and 99). The number of accidents at work and the resulting days of absence should remain consistently stable or fall.

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.

- › The **installed output of renewable energies (RE) and the share of the generation capacity accounted for by RE** 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. 87 and 99). We aim to double the share of the generation capacity accounted for by renewable energies by 2020 compared to 2012 (19%) and increase this figure further by 2025.
- › 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** (Glossary, from p. 139). 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. 88 and 99). We are actively contributing to climate protection by reducing the CO₂ intensity of our own generation of electricity (excluding nuclear power) by 15% to 20% by 2020 compared to the reference year 2015.

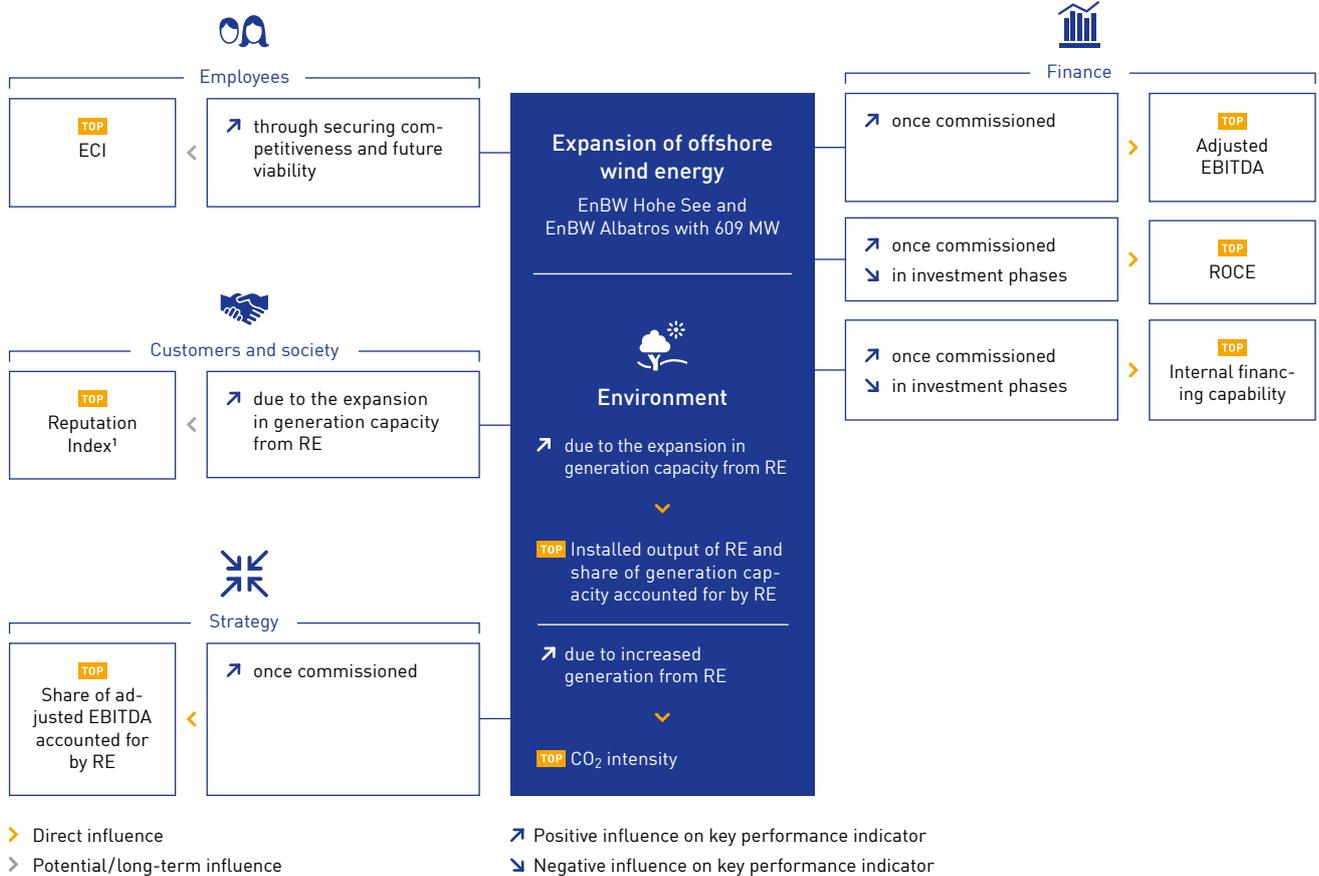
TOP Interdependencies between the goal dimensions, targets and key performance indicators

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 order to illustrate the interdependencies in 2019, we have selected two themes: the **expansion of offshore wind energy** using the EnBW Hohe See and EnBW Albatros wind farms as an example, and the **expansion of the telecommunications business** using the acquisition of Plusnet as an example. The commissioning of the offshore wind farms EnBW Hohe See in 2019 and EnBW Albatros in January 2020 have a direct positive effect on the key performance indicators in the environment goal dimension. The acquisition of Plusnet has a direct effect on the key performance indicator “share of adjusted EBITDA accounted for by Sales” in the strategy goal dimension. In addition, we anticipate that there will be a direct or potential influence on other key performance indicators for both examples.

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 2019 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 expansion of offshore wind energy as an example



1 We also anticipate a potential negative influence on the Reputation Index due to the risk of social opposition with respect to environmental aspects. However, this type of risk is more than compensated for by the overall potential positive influence of the expansion of renewable energies on the Reputation Index.

Interdependencies between key performance indicators using the expansion of the telecommunications business as an example

