

Strategy, goals and performance management system

Strategy

Market conditions and structures

Market conditions in the energy sector are currently undergoing profound change. The desire to achieve autonomy and generate energy in a decentralised manner, as well as falling energy consumption due to improved energy efficiency, are leading to a change in demand and consumption patterns amongst customers. An increase in price and cost awareness and a continued strong focus on sustainability support this development. Cities and communities are also playing a role in this change.

Alongside regulatory funding mechanisms, the trend towards decentralisation is benefiting from technological advances as they have led to a sharp decline in the costs associated with decentralised energy generation, particularly with regard to photovoltaic power plants, but also in the area of wind power plants and combined heat and power plants. The role of centralised electricity generation will be fundamentally transformed as a result, leading to considerably fewer operating hours in power plants. Nuclear power generation will be phased out by 2022, with plants being successively and safely decommissioned and dismantled.

As a consequence, energy supply companies require new business models and the revitalisation of their corporate cultures (p. 14f.). In the provision of services, dialogue-oriented communication, digitalisation and increased cooperation with partners are, for example, becoming key areas of focus for energy supply companies.

According to our long-term assessment of the individual market sectors, the total comprehensive income of the energy industry in Germany will increase slightly in nominal terms up to 2020. However, the aforementioned trends will result in significant shifts in earnings between the individual stages of the value chain. The contribution to earnings of all thermal generation in Germany will fall considerably up to 2020. The growth in earnings from renewable energies (especially onshore/offshore wind and photovoltaic) and grids – particularly as a result of the major expansion of the transmission grids – will offset this development. The sales business for standard products is under pressure, which is particularly due to the continued increase in own energy generation and energy efficiency. However, the overall sales market is anticipated to grow slightly up to 2020 due to a clear rise in demand in the decentralised solution business.

Strategy process

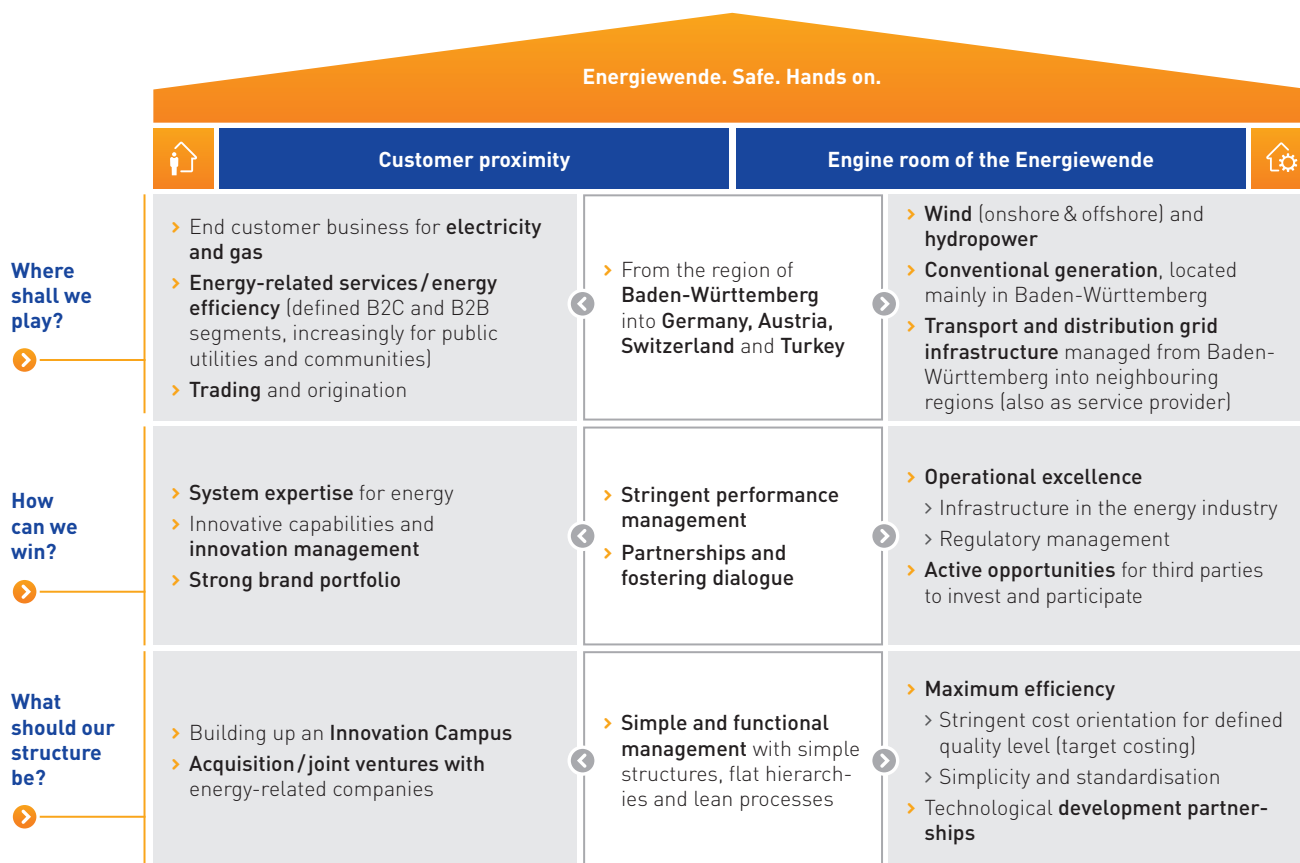
The development of strategy at EnBW is governed by a uniform and structured process. This begins with our vision which is guided by the principle “Energiewende. Safe. Hands on.” to describe our long-term objective. The Group strategy describes our strategic positioning and how we differentiate ourselves from our competitors. Sustainability is also an integral component of our Group strategy so that we can guarantee the creation of economic, ecological and social value for our stakeholders. 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.

Strategy process



Guiding principle and Group strategy

EnBW 2020 strategy



The EnBW Group strategy developed in accordance with our guiding principle encompasses two operative and complementary models encapsulated in the EnBW Strategy House:

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 should 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. 37 f.).

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 actively offers the opportunity to invest in grids and power plants, especially to local authorities. 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 environment.

Portfolio strategy

Restructuring 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 the target markets of Germany and Turkey. 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

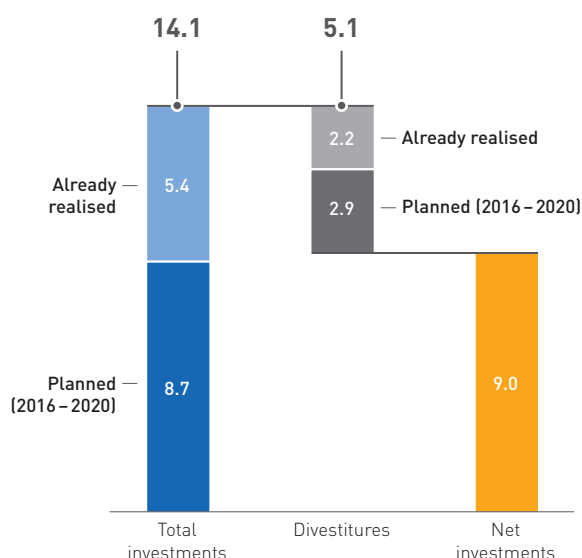
adjusted EBITDA accounted for by the regulated grid business and renewable energies will increase from around 40% (based on the reference year of 2012) to around 70% in 2020. This will improve the risk-return profile of EnBW.

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. Beyond our core market of Baden-Württemberg, we will be focusing our investment activities on Germany, Switzerland, the Czech Republic and Turkey. In order to obtain the financial headroom required for such extensive investments, we have significantly extended our divestiture programme – involving conventional 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).

Investments and divestitures as part of the expansion of the portfolio

in € billion



You can find further information on this subject in the "Forecast" on  p. 84.

Corporate strategy outlook

As an integrated energy supply company, EnBW is rigorously and confidently implementing its 2020 strategy. That which we have already achieved confirms the robustness and correctness of our strategic orientation. The derivation of strategies for business and functional units from our Group strategy enables us to create the foundations for achieving our clearly formulated and ambitious goals for 2020. We will strive to check the progress of the implementation of our clearly defined initiatives and measures at regular intervals over the coming years in order to identify any need for action due to the changing framework conditions. This goes hand in hand

with the necessary further development of our processes, organisation and performance orientation – which represent key topics for the next few years. This transformation is not confined to structural changes, but also encompasses a new, agile corporate culture and new management logic. We will significantly reduce our decision-making paths, thereby ensuring we can respond as quickly as required within a constantly changing market environment.

As part of the restructuring of shareholdings with EWE Aktiengesellschaft, Oldenburg, EnBW will divest itself of its 26% EWE shareholding over a period of time from 2016 and will, in return, acquire 74.2% of VNG-Verbundnetz Gas Aktiengesellschaft, Leipzig. This deal will double our gas business and make EnBW the third-largest gas supplier on the German market. The acquisition of VNG represents an important step in the restructuring and further development of EnBW, both strategically and also economically.


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 to now also encompass the strategy, customers, employees and environment dimensions. 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 were broken down into consistent target agreements at all management levels in 2015. The quarterly performance reviews conducted at a Board of Management level introduced in 2013 were revised in 2015 and will in future include operative performance indicators that will promote the achievement of targets for the financial and non-financial key performance indicators. In July 2016, this concept will be 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 EnBW Report 2015 incorporates the financial and non-financial aspects of our business activities.


Definition of key performance indicators

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  dynamic leverage ratio and the  ROCE.


The **adjusted EBITDA** is the earnings before interest, tax, depreciation and amortisation and adjusted for extraordinary items ( p. 53f. and 85). 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. The **dynamic leverage ratio** is the ratio of adjusted net debt to adjusted EBITDA and is the most significant performance indicator for the company's ratings and external financing capabilities ( p. 62 and 86). The **ROCE** (Return On Capital Employed) is the ratio of achieved operational results (considerably influenced by the adjusted EBITDA) to the capital employed and is the basis for determining value added, which reflects the development of the company's value from a financial point of view ( p. 62f. and 86).

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


The customers goal dimension comprises the Brand Attractiveness Index, the Customer Satisfaction Index and the SAIDI (System Average Interruption Duration Index) ( p. 64 and 86). The key performance indicator **Brand Attractiveness Index**, which is compiled by an external provider, measures the annual average figure for the attractiveness of our brands as perceived by consumers. It incorporates ten different facets. This key indicator reflects consumer appreciation in terms of their emotional attraction to and understanding of the brands, as well as their behavioural patterns with regards to the brands, and thereby incorporates all aspects relevant to attitude-oriented brand strength. This key indicator is compiled for the Group's two core brands of EnBW and Yello. The key performance indicator **Customer Satisfaction Index** comprises an integrated analysis of the average satisfaction of private end customers for electricity over the year, which is directly linked to customer loyalty. It is compiled and derived from customer surveys carried out by an external provider. This key indicator is compiled for the Group's two core 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 downtimes with interruptions to supply lasting more than three minutes for end consumers. The calculation methodology is based on regulations issued by

the VDE (German Association for Electrical, Electronic & Information Technologies) for reporting supply interruptions in electricity grids.

The Employee Commitment Index (ECI) and LTIF (Lost Time Injury Frequency) are utilised as performance indicators in the employees goal dimension ( p. 64f. and 86). The **ECI** expresses the degree to which employees identify with EnBW. The ECI 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 employment contract, 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 companies controlled by the Group as part of a full employee survey. Representative random sample surveys are completed in the periods between the full surveys. The **LTIF** is calculated on the basis of LTI (Lost Time Injuries) which denotes the number of accidents during working hours which have occurred exclusively as a result of a work assignment from the company and result in at least one day of absence. LTIF indicates how many LTIs have 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.

The key performance indicator **installed output of renewable energies (RE) in GW and the share of the generation capacity accounted for by RE in %** is determined in the environment goal dimension ( p. 66 and 87). This is a measure of the expansion of renewable energies. It describes the installed output of plants using renewable energy sources rather than the how much electricity is produced by these plants.




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. Through the realignment of EnBW ( p. 14f.) towards increased renewable energies, the grid business and business focussing on "Customer proximity" – with clearly defined and quantitative targets for 2020 (based on the reference year of 2012) – we will become the first point of contact for energy issues and ensure the continued competitiveness of EnBW through convincing products, an improved risk-return profile and even stronger regional anchoring.

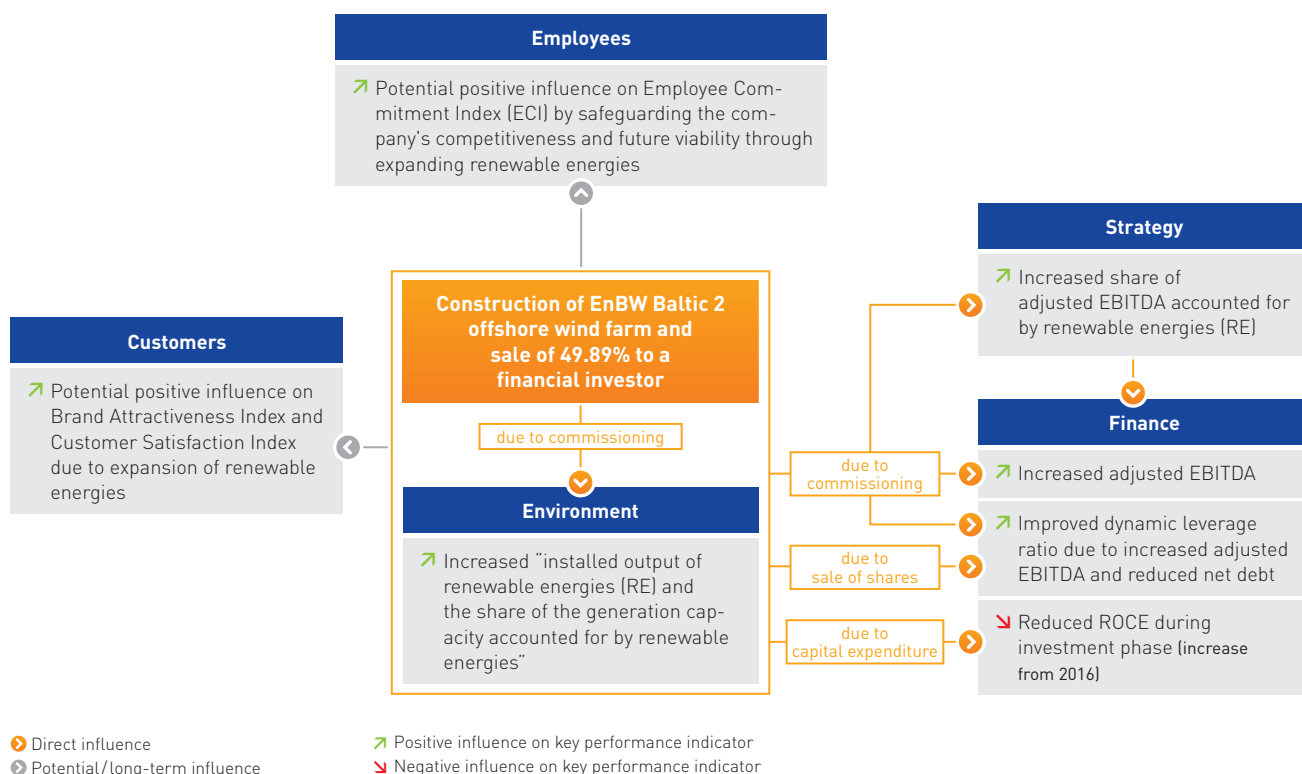
TOP Financial and non-financial key performance indicators and targets

Goal	Key performance indicator	2015 ¹	Target in 2020	
Finance goal dimension				
Secure profitability	Adjusted EBITDA in € billion	2.1	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.
Safeguard the good credit rating	Dynamic leverage ratio in years	3.19	<3.3	In proportion to the operating result, leverage remains within narrow boundaries. The unchanged goal is to ensure good creditworthiness controlled via the dynamic leverage ratio, which at <3.3 currently corresponds to an A rating.
Raise the value of the Group	ROCE in %	9.5	8.5–11	Return on capital employed (ROCE) is higher than the cost of capital. EnBW is creating value for its stakeholders.
<div><div> Financial key performance indicators ➤ pages 53 and 62 f.</div><div>Report on opportunities and risks ➤ page 74 ff.</div><div>Expected trends in financial key performance indicators ➤ page 85 f.</div></div>				
Strategy goal dimension				
Share of result from “customer proximity”/Sales	Share of overall adjusted EBITDA in € billion/in %	0.3/12	0.4/15	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 from Grids	Share of overall adjusted EBITDA in € billion/in %	0.7/35	1.0/40	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 the stable and regulated business is expanding.
Share of result from Renewable Energies	Share of overall adjusted EBITDA in € billion/in %	0.3/14	0.7/30	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 is more sustainable.
Share of result from Generation and Trading	Share of overall adjusted EBITDA in € billion/in %	0.8/37	0.3/15	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.
<div><div> Strategic key performance indicators ➤ page 53</div><div>Report on opportunities and risks ➤ page 74 ff.</div><div>Expected trends in strategic key performance indicators ➤ page 85 f.</div></div>				

¹ Other/Consolidation accounts for +2% of the overall adjusted EBITDA.

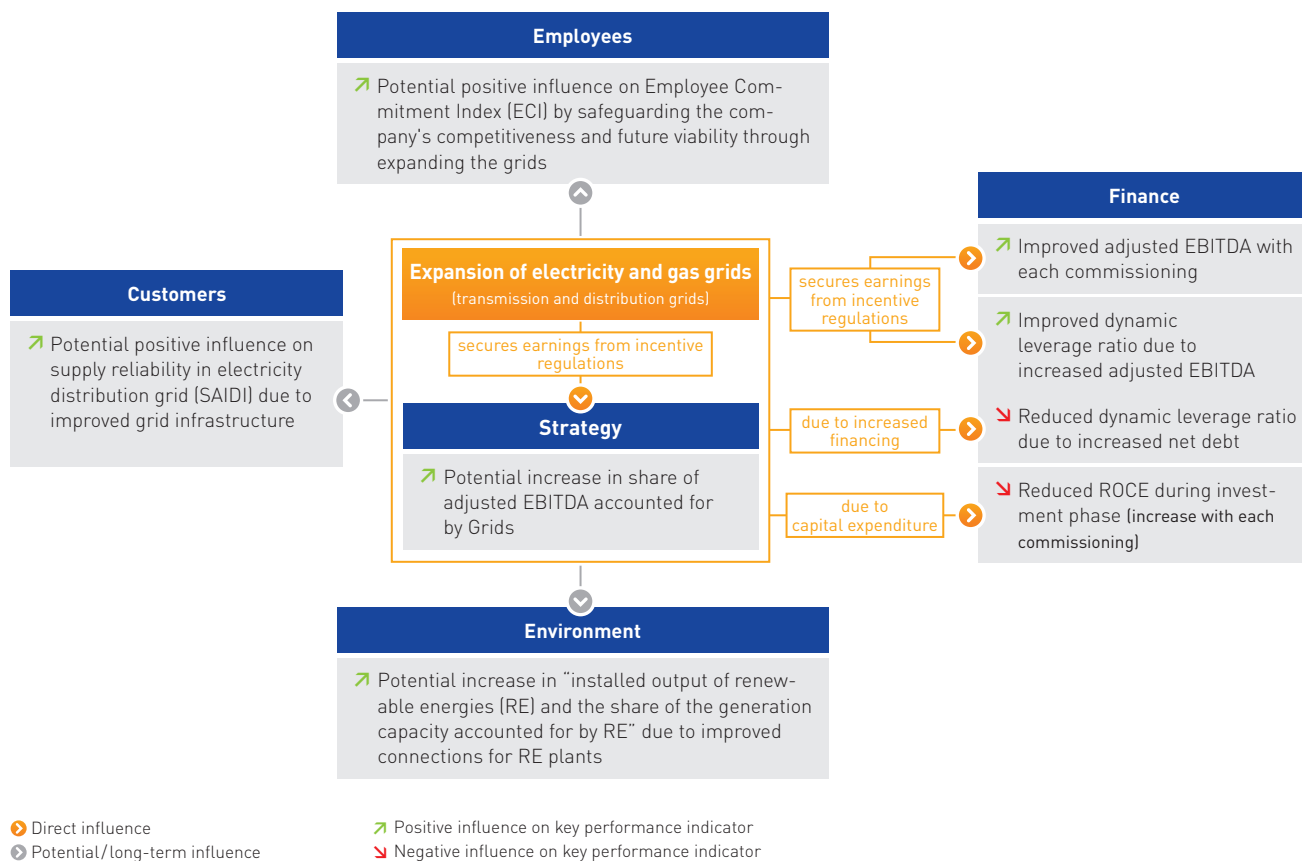
Goal	Key performance indicator	2015	Target in 2020	
Customers goal dimension				
Increase brand attractiveness	EnBW/Yello Brand Attractiveness Index	43/35	44/40	EnBW and Yello are regarded as attractive brands by consumers, supporting sales and customer acquisition.
Customer proximity	EnBW/Yello Customer Satisfaction Index	136/152	> 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	15	< 25	EnBW regards the maintenance of supply quality to its customers as its chief priority. 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.
 Non-financial key performance indicators ➤ page 64		Report on opportunities and risks ➤ page 82		Expected trends in the customers goal dimension ➤ page 86
Employees goal dimension				
Employee commitment	Employee Commitment Index (ECI) ¹	60	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 ¹	3.8	≤ previous year	The number of accidents at work and the resulting days of absence remains stable or is falling.
 Non-financial key performance indicators ➤ page 64 f.		Report on opportunities and risks ➤ pages 78 and 82		Expected trends in the employee goal dimension ➤ page 86
Environment goal dimension				
Expand Renewable Energies (RE)	Installed output of RE in GW and the share of the generation capacity accounted for by RE in %	3.1/23.6	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.
 Non-financial key performance indicators ➤ page 66		Report on opportunities and risks ➤ page 82		Expected trends in the environment goal dimension ➤ page 87

¹ Variations in the group of consolidated companies; see the definition of the key performance indicators on page 25.

Interdependencies between key performance indicators using the offshore wind farm EnBW Baltic 2 as an example¹

¹ Representation of the interdependencies in the 2015 financial year.

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



Interdependencies between key performance indicators using efficiency measures as an example

