Interaction of TOP key performance indicators

We are convinced that, in addition to illustrating the economic, ecological and social context, an appraisal and analysis of interaction in these areas is necessary to convey a comprehensive picture of the company. Integrated reporting also necessitates this linking of information to the varied dimensions of business activities, encouraging an approach involving holistic corporate management and control within EnBW and positioning us as a responsible and sustainable company with a viable future when viewed externally.

In order to illustrate this interaction, EnBW exploits the key performance indicators of its goal and performance management system, encompassing financial and non-financial factors in the finance, strategy, employees and environment dimensions. In an initial step, we conducted an internal survey in 2014 in the relevant specialist areas on the interaction between individual key performance indicators. Both the frequency and intensity of interaction between the key indicators was examined in this context. Four key indicators demonstrated the greatest frequency and intensity with regard to interaction:

- TOP Adjusted EBITDA
- TOP Share of renewable energies in adjusted EBITDA
- TOP Customer satisfaction
- TOP Employee commitment

The adjusted EBITDA illustrates the operating results of EnBW without considering one-off or extraordinary effects. For example, it directly contributes to the dynamic leverage ratio which, in turn, significantly influences the credit rating of EnBW. The operating results for their part are very strongly determined by our capacity to bind existing customers to us (key performance indicator of customer satisfaction) and acquire new customers (key performance indicator of brand attractiveness).

As a key performance indicator, the share of renewable energies in adjusted EBITDA measures the share of the Renewable Energies segment in the Group operating results. The greater we expand this share – including in terms of the Energiewende – the better we can compensate for the decline of the share of the Generation and Trading segment in the results and achieve the 2020 target for adjusted EBITDA. Naturally enough, the key performance indicator of the share of renewable energies in adjusted EBITDA for its part profits from improvements in the environment dimension – namely the absolute installed output from renewable energies and the share of renewable energies in the generation capacity.

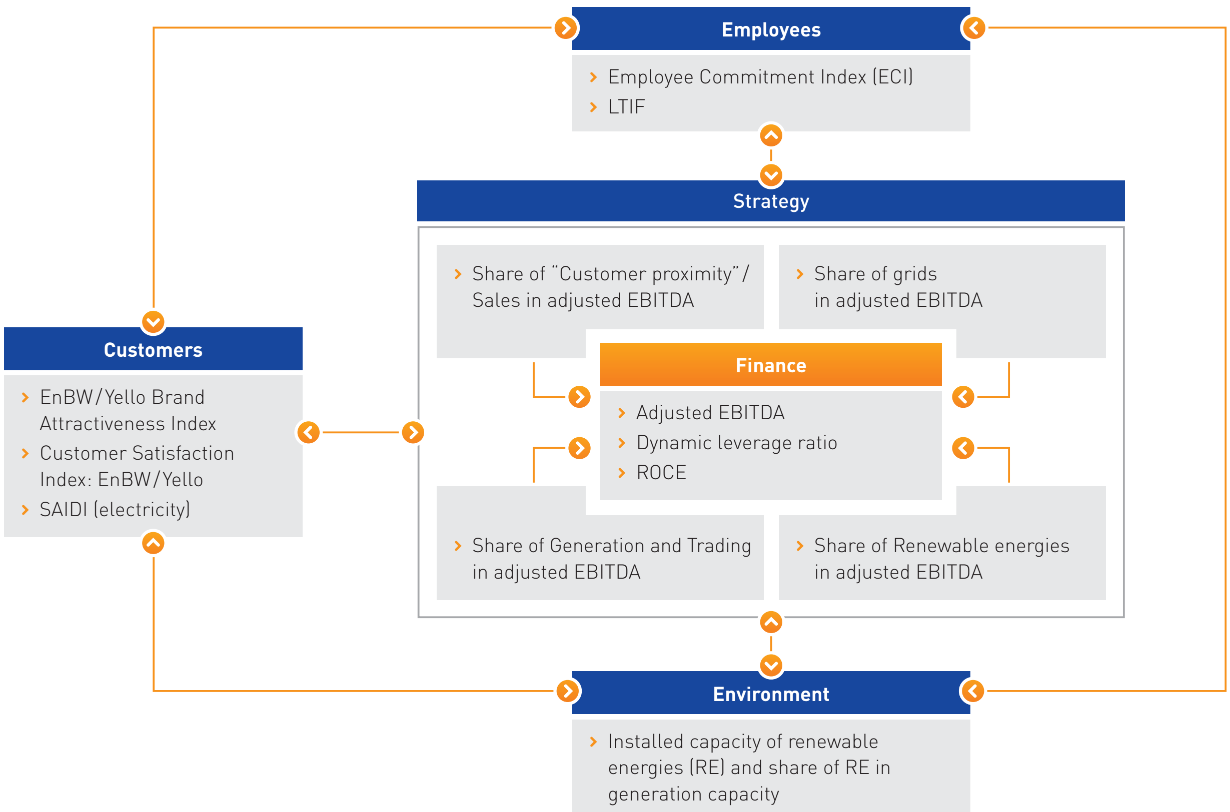
A high frequency and intensity with regard to interaction is also indicated by the key performance indicator of customer satisfaction. It is governed by an index determined by an external service provider through customer surveys relating to the Group's two core brands, EnBW and Yello. In our estimation, an improvement of this key indicator also leads to an increase in the key performance indicator of the share of sales in adjusted EBITDA through sustained customer loyalty. For example, the goal of supply reliability which EnBW guarantees its customers to a high degree has a significant influence on customer satisfaction.

The key performance indicator of employee commitment is of further central importance relative to the frequency and intensity of interaction. The Employee Commitment Index (ECI), compiled in the context of regular employee surveys, expresses the degree to which employees identify with EnBW. Through their commitment and dedication, employees make a significant contribution to the generation of the operating results (adjusted EBITDA) of EnBW. Inversely, employee commitment is encouraged if the competitiveness and future viability of the company is positively influenced through an increase in the company's value (return on capital employed, ROCE).

The selection on the basis of our initial survey in 2014 of these four key performance indicators with a particularly high frequency and intensity regarding their interaction does not reduce the importance of other key performance indicators. The recording and analysis of the interaction between these performance indicators will be expanded and refined on a continual basis by EnBW in the coming years. The goal is to achieve a comprehensive depiction of all significant interactions between financial and non-financial key performance indicators.

Moreover, the complete report contains numerous other indications of interactions between different dimensions and aspects of the business activities of EnBW.

Interaction of key performance indicators



Management and control system

Performance management system

The management and control system was primarily aligned with the company's financial goals up until the end of 2012. Since 2013, the corporate management and control has been continually expanded through the addition of financial and non-financial goals and now also encompasses the strategy, customers, employees and environment dimensions. The centrepiece of this integrated corporate management and control is the performance management system (PMS). As of 2015, the PMS will encompass all instruments used in strategic and operational management and control. Group targets will be broken down in 2015 through consistent target agreements at all management levels and the achievement of goals evaluated at the end of the year in a comparison with competitors. Over the course of 2013, quarterly performance reviews conducted at Board of Management level were already gradually being implemented and were revised in 2014 to provide an analysis of the current status and measures taken to achieve financial and non-financial goals. This instrument will be rolled out successively in 2015 to encompass further management levels. As regards external communication, the PMS feeds into integrated reporting on the financial and non-financial performance of EnBW based on the reporting framework of the International Integrated Reporting Council (IIRC). The integrated EnBW report available for 2014 incorporates the financial and non-financial aspects of our business activities.

Definition of TOP key performance indicators

The financial and strategic key performance indicators within the PMS are the E adjusted EBITDA, the total shares of segments in adjusted EBITDA, the E dynamic leverage ratio and the E ROCE.

The **adjusted EBITDA** is the adjusted earnings excluding extraordinary items before interest, tax and amortisation (p. 49 and 85 f.). The key performance indicators of the strategy goal dimension, which describes the share of individual segments in adjusted EBITDA, are derived directly from this key performance indicator of the finance goal dimension. The **dynamic leverage ratio** is the ratio of the adjusted net debt to adjusted EBITDA and is the most significant performance indicator for ratings and of financing capacity (p. 58 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 forms the basis for determining the value added reflecting the development of the company's value from a financial point of view (p. 59 f. and 86).

In addition to financial key performance indicators, the PMS was also expanded through the inclusion of non-financial key performance indicators.

The customers goal dimension encompasses the Brand Attractiveness Index, the Customer Satisfaction Index and the SAIDI (System Average Interruption Duration Index) (p. 61 and 86). As a key performance indicator, the **Brand Attractiveness Index**, which is compiled by an external provider, measures the consumer's perception of the attractiveness of our brands. It incorporates ten different facets. This key indicator reflects consumer appreciation in terms of their emotional attraction and understanding of and their behavioural patterns with regard to the brands, thereby encompassing all aspects relevant to attitude-oriented brand strength. This key indicator is compiled for the Group's two core brands, EnBW and Yello. The **Customer Satisfaction Index** key performance indicator reflects an integrated analysis of retail end-customer satisfaction which is directly linked to customer loyalty. It is compiled and derived from customer surveys carried out by an external provider. We compile this key indicator for the Group's two core brands, EnBW and Yello. **SAIDI** serves as the key performance indicator of supply reliability. It expresses the average length of supply interruption in the electricity grid experienced annually by each connected customer. SAIDI includes all unscheduled downtimes with supply interruptions lasting more than three minutes experienced by the consumer. The calculation methodology is based on regulations issued by the VDE (German Association for Electrical, Electronic & Information Technologies) for reporting on supply interruptions in electricity grids.

The Employee Commitment Index (ECI) and LTIF (Lost Time Injury Frequency) are drawn upon as control indicators in the employees goal dimension (p. 61f. and 87). The **Employee Commitment Index (ECI)** expresses the degree to which employees identify with EnBW. The ECI is compiled through employee surveys and based on standardised questions which 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 regularly compiled for selected companies in Germany: every two to three years in the context of an overall survey and in the intermediate periods through representative random 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 relative to one million working hours performed. This key indicator takes into account all employees, except temporary agency workers, at those companies controlled by the Group.

The **installed output of RE in GW and the share of the generation capacity in % accounted for by RE** is a key performance indicator determined in the environment goal dimension (p. 63f. and 87). This is a measure of the expansion of renewable energies. It represents the installed output of plants using renewable energies rather than the volume of electricity produced by these facilities.

TOP Adjusted EBITDA and the TOP share of the adjusted EBITDA accounted for by the segments

Adjusted EBITDA of the EnBW Group by segment

in € million[1]	2014	2013	Change in %	Forecast 2014
Sales	230.6	227.1	1.5	+10% to +20%
Grids	886.3	961.8	-7.8	-5% to -15%
Renewable Energies	191.4	220.2	-13.1	-5% to -15%
Generation and Trading	899.5	839.0	7.2	0% to -5%
Other/Consolidation	-40.4	-23.4	-72.6	–
Total	**2,167.4**	**2,224.7**	**-2.6**	**0% to -5%**

[1] The figures for the previous year have been restated.

Share of the adjusted EBITDA accounted for by the segments in the EnBW Group

in %	2014	2013
Sales	10.6	10.2
Grids	40.9	43.2
Renewable Energies	8.8	9.9
Generation and Trading	41.5	37.7
Other/Consolidation	-1.8	-1.0
Total	**100.0**	**100.0**

The adjusted EBITDA for the EnBW Group fell slightly in the 2014 financial year in line with our expectations.

Sales: The adjusted EBITDA for the Sales segment stood slightly above the level in the previous year but was lower than forecast. The positive development in the area of electricity sales resulted from optimisation measures in the customer portfolio as part of the implementation of the EnBW 2020 strategy, as well as from cost-efficiency measures. In contrast, the result for gas sales was below the level for the previous year due to the exceptionally mild winter. In addition, our expected earnings from the increased marketing of decentralised solutions did not materialise, particularly in the last quarter of 2014. These effects were also the reason why we were not able to achieve our forecast. The segment's share of the adjusted EBITDA for the Group increased slightly in comparison to the previous year.

Grids: In the Grids segment, the adjusted EBITDA fell compared to the previous year as expected. This was due, on the one hand, to the start of the second regulatory period, which resulted in the discontinuation of extraordinary items from the first regulatory period in the distribution grid that had a positive effect in the previous year. In addition, lower distribution volumes in the gas business due to weather conditions, and the associated declining income from the use of the grid, had a negative effect on the result. However, this was offset by positive earnings effects due to lower prices for E operating reserves and transmission losses. Accordingly, the share of the adjusted EBITDA for the Group accounted for by this segment fell.

Renewable Energies: Contrary to our original forecast (+5% to +15%), the adjusted EBITDA for the Renewable Energies segment in 2014 was below the level in the previous year, although still in line with our revised forecast made during the year. The revised forecast was mainly due to the delay in ramping up our offshore wind farm EnBW Baltic 2, which will only start operating in 2015. In comparison to the previous year, lower electricity generation and lower electricity prices had a predominantly negative effect on the earnings of our run-of-river power plants. These effects had an impact on the share of the adjusted EBITDA for the Group accounted for by this segment, which fell in comparison to the previous year.

Generation and Trading: In the Generation and Trading segment, the adjusted EBITDA improved compared to the previous year against our expectations. It was possible to compensate for the lower E base prices in electricity production from nuclear power and brown coal power plants due to the following positive effects:

- The commissioning of RDK 8 with a significant rise in efficiency made it possible – despite the falling E Clean Dark Spread on the market – to improve the margins in comparison to the previous year
- The reimbursement of costs in the second half of 2014 as part of the reserve power plant legislation
- The absence of the extraordinary upgrading measures for French nuclear power plants from the previous year
- The significantly higher earnings effects from efficiency measures in comparison to those forecast

As a result, the share of the adjusted EBITDA for the Group accounted for by this segment increased.

In order to finance this volume of investment totalling around €4 billion, divestitures amounting to €1.9 billion are planned in the years 2015 to 2017, which corresponds to around 50% of the investment programme. In summer 2015, the participation model for EnBW Baltic 2 will be realised – for which the contracts were signed at the beginning of 2015. Divestitures in the onshore sector are also planned in the future, which will be based on an already successfully implemented participation model from 2014. A quarter of the divestitures will result from the sale of property and the receipt of construction cost subsidies. Around €0.6 billion will be attributable to the sale of investments.

TOP Adjusted EBITDA and TOP the share of the adjusted EBITDA accounted for by the segments

Development in 2015 (adjusted EBITDA and the share of the adjusted EBITDA accounted for by the segments)[1] compared to the previous year

	Earnings performance (adjusted EBITDA) compared to the previous year		Development of the share of the adjusted EBITDA accounted for by the segments in the EnBW Group	
	2015	2014	2015	2014
Sales	+10% to +20%	€230.6 million	10% to 15%	10.6%
Grids	0% to -10%	€886.3 million	35% to 40%	40.9%
Renewable Energies	more than 20%	€191.4 million	15% to 20%	8.8%
Generation and Trading	-15% to -25%	€899.5 million	30% to 35%	41.5%
Other/Consolidation	–	€-40.4 million	–	-1.8%
Adjusted EBITDA, Group	**0% to -5%**	**€2,167.4 million**		**100.0%**

[1] Segments adjusted for changes in the consolidated companies.

We expect that the **Sales** segment will deliver a growth in earnings in 2015. Our planning is based – in contrast to the above-average temperatures in the previous year – on there being average temperatures in 2015. As a result, we anticipate higher earnings in both the electricity and gas sales sectors. After the growth area dealing with the supply of decentralised solutions in the energy sector developed unsatisfactorily in 2014, we will successively refine our goals and are thus confident of being able to achieve positive growth effects as part of our growth strategy for 2015. The first contracts for our invoicing services were successfully concluded in 2014 and these will continue to have a positive effect on earnings over the years. We expect a slight increase in the share of the E adjusted EBITDA for the Group accounted for by this segment.

The adjusted EBITDA for the **Grids** segment is expected to fall slightly in 2015. As the weather conditions caused the revenue cap for the gas distribution grid to be exceeded in 2013, the revenue cap for 2015 will be lower than in 2014. Furthermore, the new contract arrangement with the City of Stuttgart will have a negative effect on earnings. We expect a slight decrease in the share of the adjusted EBITDA for the Group accounted for by this segment.

The adjusted EBITDA for the **Renewable Energies** segment will increase significantly in 2015. The drop in the wholesale market price for electricity and the accompanying negative effects on earnings from our run-of-river power plants will be more than compensated for by the expected full commissioning of our offshore wind farm EnBW Baltic 2 in the summer of 2015. It will remain fully consolidated even after the sale of 49.89% of the shares. In addition, the expansion of the onshore wind energy sector will also result in an increase in earnings. We will more than double the installed output in the area of wind energy. As a result of this positive development, the share of the adjusted EBITDA for the Group accounted for by this segment will increase significantly.

The adjusted EBITDA for the **Generation and Trading** segment will fall significantly in 2015. This continues to be due primarily to the noticeably falling prices and E spreads on wholesale electricity markets during preceding periods in which we agreed on fixed sales prices for quantities of electricity to be supplied in 2015. Our efficiency improvement measures can only partly cushion these negative influences in this segment in 2015. As a result, the share of the adjusted EBITDA for the Group accounted for by this segment will fall significantly.

As things currently stand, changes to the companies that are included in the consolidated financial statements will not have any effect on earnings in 2015.

The adjusted EBITDA at a Group level in 2015 will thus be between 0% and -5% below the 2014 level. This is mainly due to falling wholesale prices and spreads. The commissioning of our offshore wind farm EnBW Baltic 2, as well as our other growth and efficiency projects, will not be able to fully compensate for these negative effects.

Group earnings trends in the years 2016 and 2017 will decisively depend on the results of the E hedging process and the realisation of the network development plan. The realisation of the network development plan would already have a positive effect on the contributions to EBITDA made by the area of