

# **E.ON Russia**

## **Capital Market Update**

10 October 2013



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# E.ON Russia

## Management team



**Maxim Shirokov**  
Chief Executive Officer



**Ulf Backmeyer**  
Deputy Director General for  
Finance and Economics



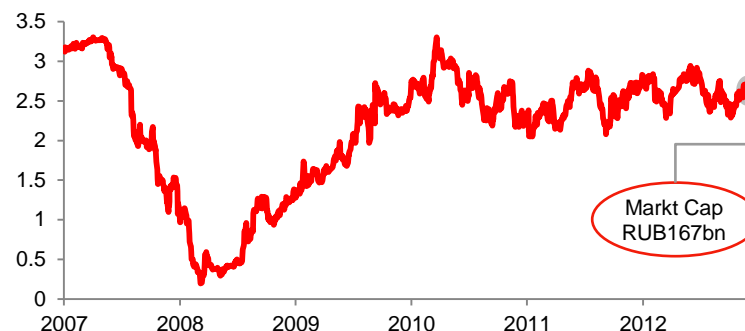
**Igor Popov**  
Deputy Director General for  
Production



**Joerg Tumat**  
Deputy Director General for  
Energy Management

## E.ON history

### E.ON Russia share price (RUB)



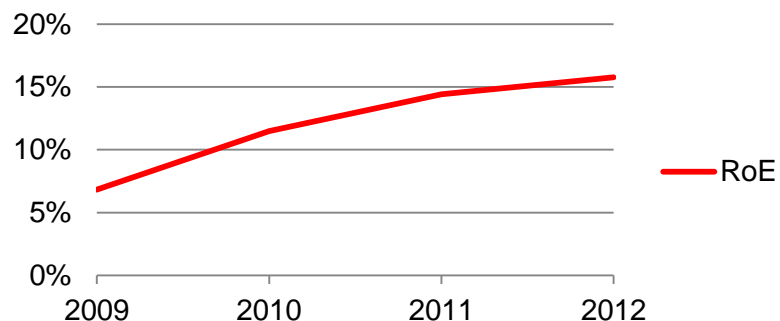
- Acquisition of 69.3% stake in OGK4 in 2007, rebranded to E.ON Russia in 2011
- Increase of share from 69.3% to 83.7% as of today
- Installed capacity up by +20% (1.7 GW) since acquisition to 10.3GW

**Important footprint of E.ON in Russia**



# E.ON Russia priorities

## Return on Equity – E.ON Russia view

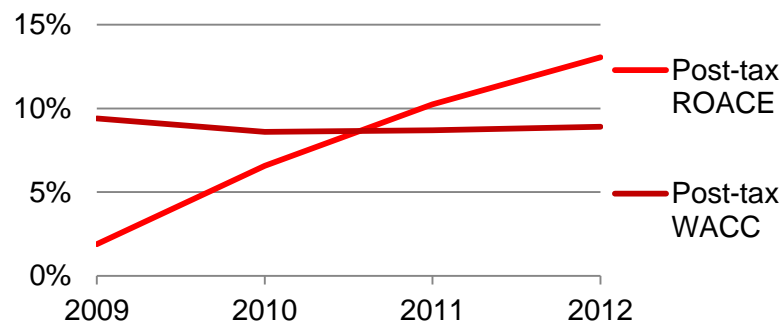


Based on E.ON Russia IFRS financial statements in RUB

## Key priorities

- Finalize ambitious new build program
- Stay at forefront of operational excellence
- Highly disciplined capital allocation
- Leverage quality of earnings mix to maintain high dividend payout

## ROACE\* - E.ON Group view



Based on E.ON SE consolidated financial statements in €

\* ROACE = Return on Average Capital Employed, see page 51 of E.ON SE 2012 annual report for definition; WACC in Euro

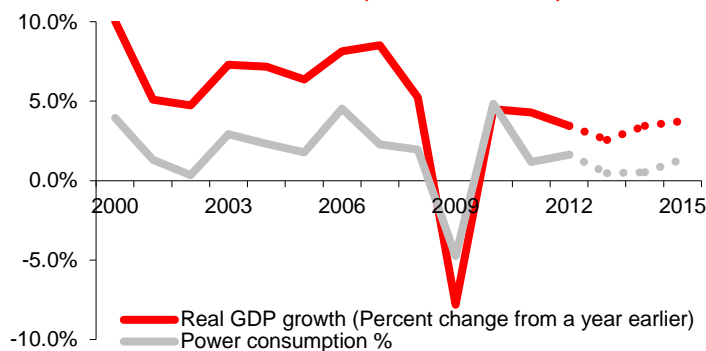
**Dedicated to creating shareholder value**

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# Market fundamentals and design

## Market fundamentals

Growth of Russian GDP & power consumption\*



- Peak load reached >157 GW in December 2012 (highest since 1991)
- Power demand highly correlated with economic development and industrial production
- Potential for modest growth of power demand

## Market design

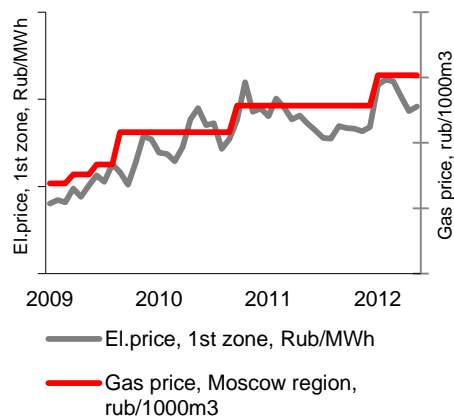
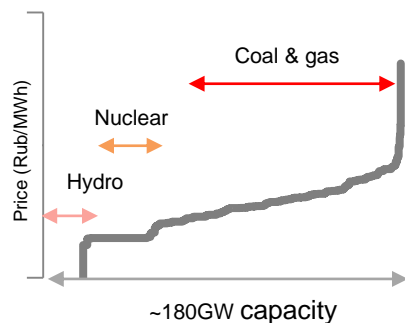
- Transparent market design for old and new capacities
- Capacities built after 2007 benefiting from capacity payments covering fixed operating and capital cost (10-year agreements)
- Capacities built before 2007 compete in zonal capacity auctions on a yearly basis
- Fully transparent day-ahead market with marginal pricing driven by cost of fuel in respective price zone
- Regulated tariffs for approx. 18% of physical volumes
- Additional opportunities from e.g. balancing markets or system services

\* Global Insight, E.ON Russia analysis; \*\* IMF 2012, IMF forecast

**Russia as 4th largest power market in the world  
with modestly rising power demand driven by economic development**

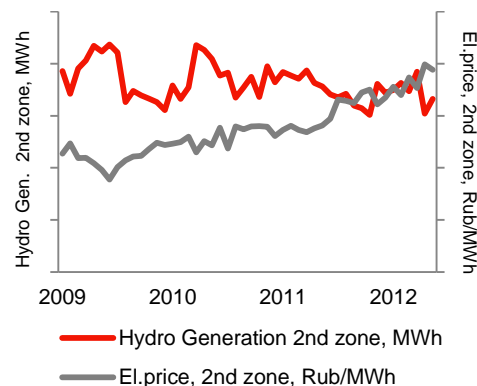
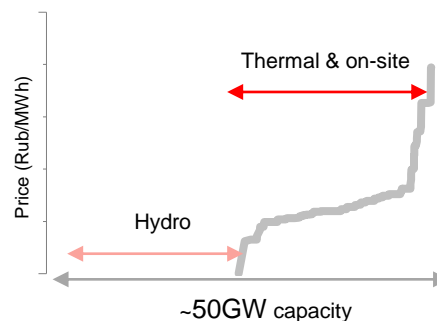
# Two pricing zones

## First pricing zone (European Russia, Urals)



- System dominated by fossil and nuclear plants
- Old inefficient gas units normally set the price
- Relatively low reserve margins
- Electricity price is driven by gas price and supply/demand balance
- Growth in gas tariffs is the main trigger for spot prices

## Second pricing zone (Siberia)

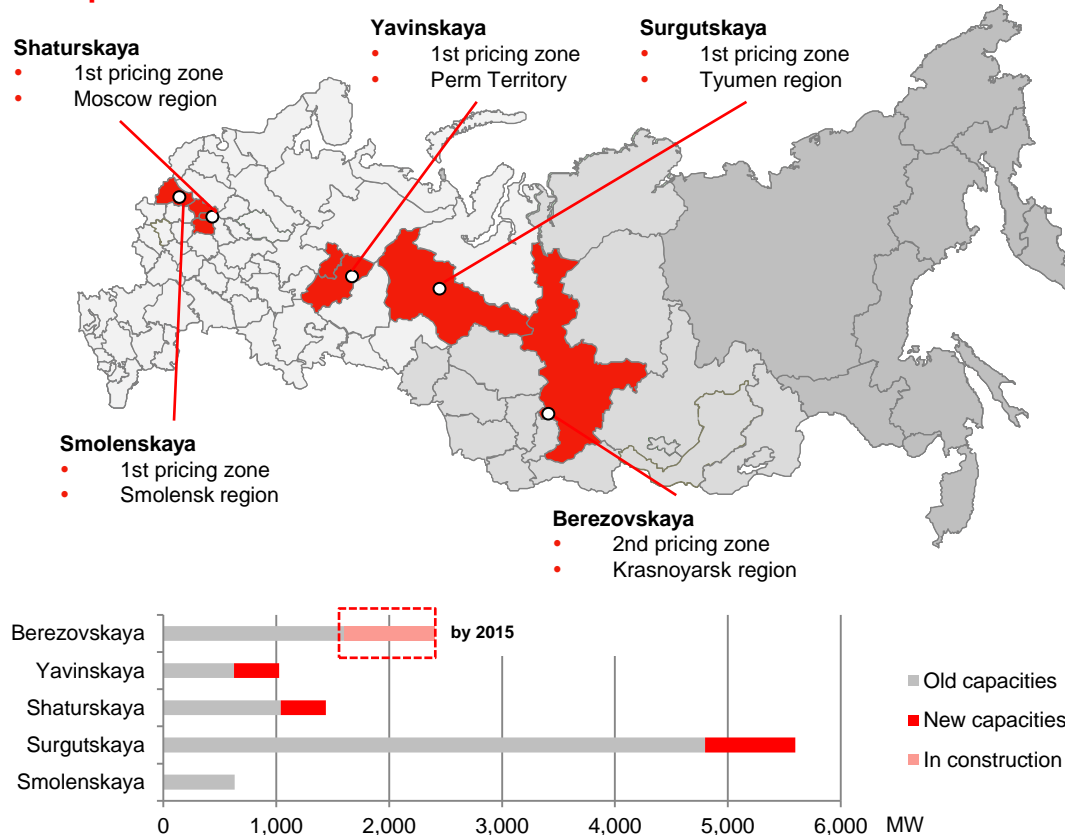


- System dominated by hydro and thermal (predominantly coal-fired) plants
- Hydro balance and coal price are main drivers of electricity price

Two pricing zones with distinct drivers of power prices

# Overview asset portfolio

## Asset portfolio



## Strategic merits

- Assets well positioned in the merit order due to high efficiency & low cost structure
- E.ON Russia has the largest share of new builds in its asset portfolio vs. OGKs by 2015
- Stable return of capacity payments for new builds
- Two flagship power plants, Surgutskaya and Berezovskaya, in proximity to fuel sources
- Exposure to industrialized growth regions

**Robust and attractive portfolio dominated by low cost and efficient generation assets**

# Surgutskaya

## Surgutskaya (5,597MW)



### Key figures

	Old capacity	New build
COD	1985 – 1988	2011
Capacity (MW)	4,797	800
Load factor (%)*	81.3	
Fuel efficiency (%)	41	54

\* 2012; \*\* Pro forma, based on internal cost allocation

## Asset specifics

- Dominant power consumer segments: oil & gas
- 2<sup>nd</sup> power plant in the world in terms of installed capacity
- Uses associated gas produced at oil fields located in close proximity to the power plant

### EBITDA composition 2012 (RUBm)\*\*

Capacity market	Electricity market	Others
6,551	12,625	159

**Attractive earnings mix based on highly efficient old and new capacity**

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# Berezovskaya

## Berezovskaya (1,600MW)



### Key figures

	Old capacity	New build
COD	1987 – 1991	2015
Capacity (MW)	1,600	800
Load factor (%)*	76.4	
Fuel efficiency (%)	38	

\* 2012; \*\* Pro forma, based on internal cost allocation

## Asset specifics

- Dominant power consumer segments: metal & mining
- Major share of lignite is delivered to the plant via two 14-km long open conveyor belts directly from Berezovskoye coal deposit
- Region has above average power demand growth
- Total capex in Berezovskaya new build by 2015: RUB43bn

### EBITDA composition 2012 (RUBm)\*\*

Capacity market	Electricity market	Others
476	3,692	159

**Achieve next level with comissioning of Berezovskaya in 2015**

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# Other assets

## 1st price zone



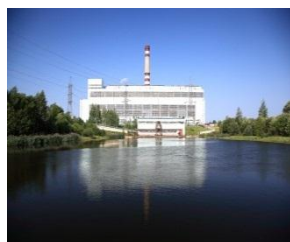
### Shaturskaya (1,439MW)

	Old	New
COD	'71 - '86	2010
Capacity (MW)	1,039	400
Load factor (%)*		39.5
Efficiency (%)	36	52



### Yavinskaya (1,025MW)

	Old	New
COD	'63 - '65	2011
Capacity (MW)	625	400
Load factor (%)*		70.5
Efficiency (%)	33	54



### Smolenskaya (630MW)

	Old
COD	'78 - '85
Capacity (MW)	630
Load factor (%)*	35.5
Efficiency (%)	34

## Asset specifics

- Dominant power consumer segments:
  - Shaturskaya: machine & construction
  - Yavinskaya: metal & mining
  - Smolenskaya: agrochemical
- Old capacities are kept in the merit order through continuous fuel and controllable cost optimization

### EBITDA composition 2012 (RUBm)\*\*

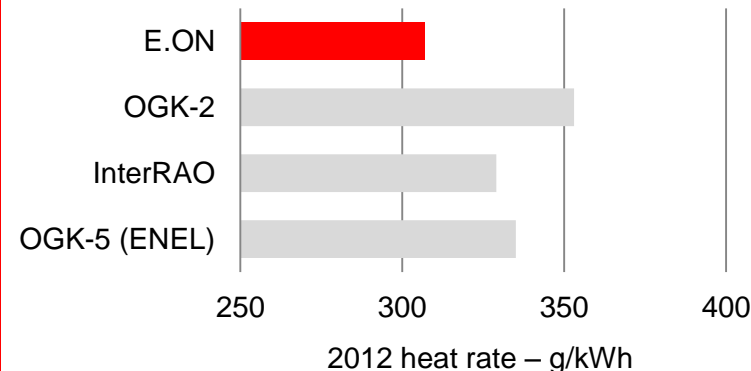
	Cap. market	El. market	Others
Shaturskaya	675	635	596
Yavinskaya	1,866	1,390	0
Smolenskaya	278	-119	0

\* 2012; \*\* Pro forma, based on internal cost allocation

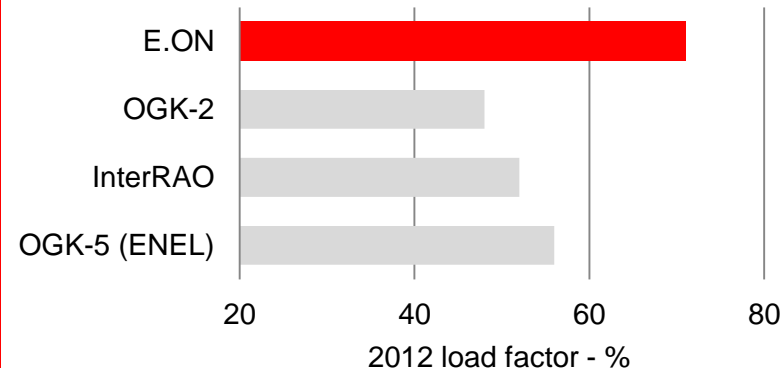
**Assets with significant potential for modernization**

# Outstanding operational performance

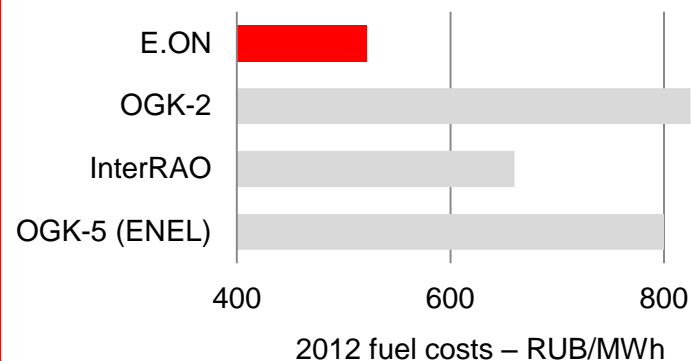
## Superior efficiency\*



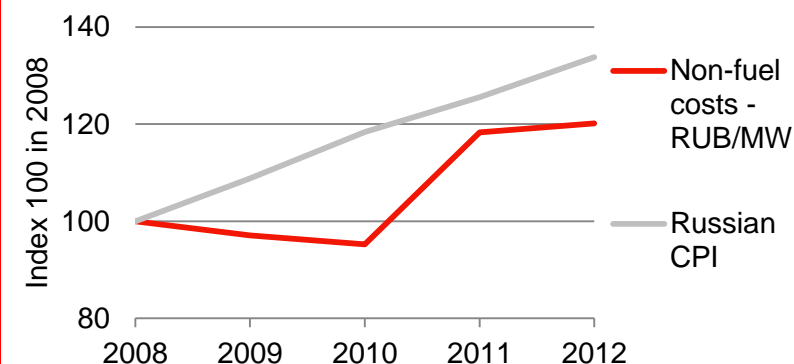
## Best load factors\*



## Lowest fuel costs\*



## Disciplined management of non-fuel costs



\* Public filings, E.ON analysis

Excellent gearing to benefit from operational performance

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# Strategic growth option - Modernization

## Context

- Old Russian generation fleet with 98 GW commissioned more than 30 years ago
- Currently, market model does not provide incentives for modernization
- Government recognizes the necessity for modernization of Russian energy system and could be ready to introduce incentives

## E.ON's assets & capabilities

- Upgrade of traditional steam generation units at Shaturskaya and Yaivinskaya to CCGT
- Fuel efficiency to be improved from 32-34% to 56-59%
- Strong track record in new builds
- Full access to E.ON New Build capabilities and technology
- Superior operational outperformance

## Opportunity

- Improve earnings mix due to additional capacity payments
- Improved position in merit order results in higher margins after termination of capacity payments

**Investments to be performed only in case of meeting internal profitability threshold**

**Upgrade of existing capacities potentially attractive**

# Strategic growth option – Distributed energy

## Context

- Large base of potential customers in Russia, with both offtake of heat and electricity
- Russian grid tariffs are up to 70% higher than world average with a tendency to grow, inducing an increase in future electricity costs

## E.ON's assets & capabilities

- Full access to E.ON Group companies such as EON Energy Projects – an E.ON company which has successfully constructed 1.6 GW of installed distributed energy generation capacity in Europe
- Potential for distributed energy generation project development with a potential capacity of 300-500 MW over the period 2013-2018

## Opportunity

- First contact with potential clients revealed high indicative interest for distributed energy generation
- Business model includes erection (20-40 months) and operation (10-20 years) of distributed energy generation plant with the option to have O&M services included

**Investments to be performed only in case of meeting internal profitability threshold**

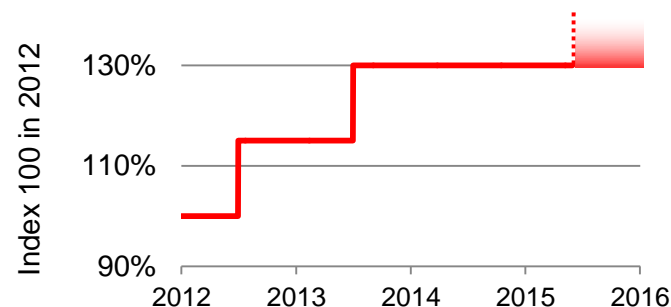
**Opportunity to leverage E.ON Group capabilities**

# Regulatory environment

## Regulatory update

- Since 2007, Russia has provided a stable and attractive regulatory environment
- Introduction of capacity payments has substantially improved risk profile of investments
- Recent regulatory developments:
  - Temporary freeze and slow down of gas price increases
  - Temporary abolishment of inflation adjustment for old capacity auctions

## Impact of gas tariff freeze



- Tariff freeze effective as of mid year 2014
- Earnings impact dampened by existing capacity payments and highly efficient gas fleet
- Potential for mitigation measures on the cost side

**Well positioned to cope with changes in the regulatory environment**

# Financial outlook

## Earnings impact

### Short- term

- Gas tariff freeze
- Decline in capacity price in second price zone



### Mid- term

- Commissioning of Berezovskaya



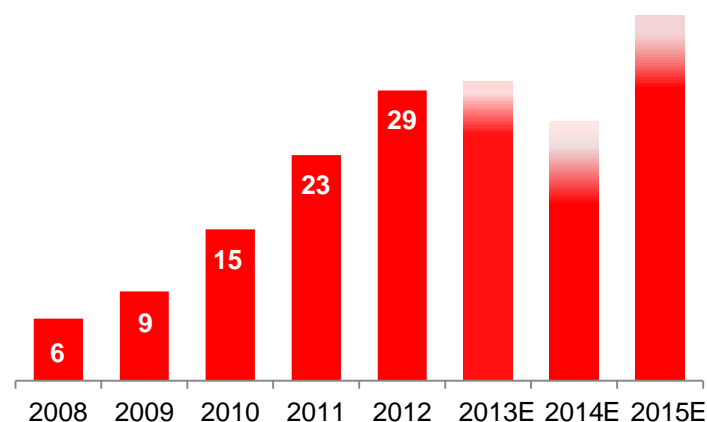
### Long- term

- Tightening of supply
- Modest increasing power demand and gas prices
- OPEX increase below inflation



## Earnings outlook

RUBbn (EBITDA)



- Berezovskaya new build, to be commissioned early in 2015 will increase the total EBITDA of the company by ~ RUB14bn per year
- Increasing capacity payments reduce exposure to commodity price volatility

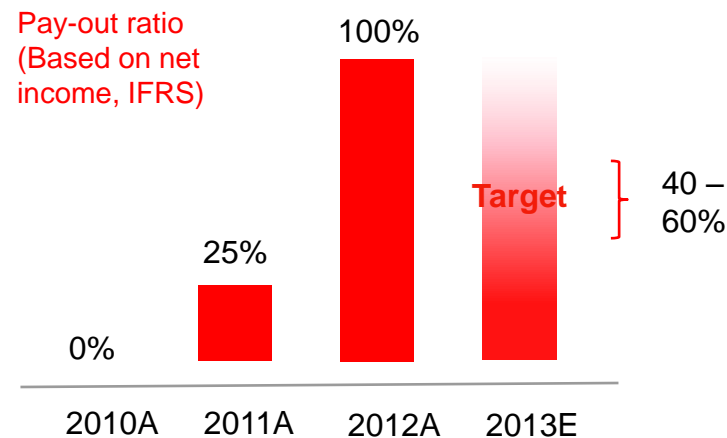
Further step-change in earnings due to Berezovskaya

# Summary

## Key take-aways

- Highly efficient asset portfolio
- Commissioning of Berezovskaya in 2015 to further improve level and mix of earnings
- Operational outperformance on the back of fuel cost optimization and tight fixed cost management
- Future growth options in modernization and on-site generation to be pursued selectively if internal profitability thresholds are met

## Potential for attractive dividends



	2010A	2011A	2012A
Dividends paid (RUBm)	0	3,649	18,255
Dividend yield (%)*	0	2.5	12

**Mid-term payout target: 40 – 60%**

\* Based on share price of RUB2.32 in 2011 and RUB2.42 in 2012

**Sustainable earnings to allow constantly high dividend payout**

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**Backup**



# Financials

## P&L (IFRS)

RUR,m	2010A	2011A	2012A
EBITDA	15,180	22,620	29,118
DD&A	-5,118	-6,364	-7,334
EBIT	10,062	16,255	21,784
Underlying net income	8,201	14,310	19,524
Capex	-17,407	-13,164	-11,539
FCF	-3,216	10,426	10,421

## Production volumes in million kWh

	2010A	2011A	2012A
Surgutskaya	36,623	38,829	39,967
Berezovskaya	9,288	11,082	10,738
Shaturskaya	4,112	5,893	5,185
Smolenskaya	1,928	1,809	1,966
Yaivinskaya	3,840	4,854	6,345
<b>E.ON Russia</b>	<b>55,791</b>	<b>62,467</b>	<b>64,202</b>

# One market design

<b><u>CAPACITY MARKET</u></b>		<b><u>ELECTRICITY MARKET</u></b>		
<b>Old capacity</b> (built before 2007)	<b>New capacity</b> (built after 2007)	<b>Old capacity &amp; New capacity</b> (built before 2007) (built after 2007)		
<ul style="list-style-type: none"> <li>• Capacity payments supposed to cover opex</li> <li>• Zonal capacity auctions, marginal pricing</li> <li>• Price caps and price floors in regions with limited competition</li> <li>• Regulated tariffs for must-run and expensive plants</li> <li>• Ca. 25% sold under regulated tariffs</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity payments supposed to cover fixed costs and ensure capital remuneration</li> <li>• 10-year capacity supply agreements</li> <li>• Benchmark capex, opex</li> <li>• 13-14% allowed rate of return, 15-year payback</li> <li>• Various adjustment coefficients</li> <li>• Cover 71-95% of total new build project costs</li> </ul>	<b>Day-ahead market (~75% of physical volumes)</b> <ul style="list-style-type: none"> <li>• Marginal pricing</li> <li>• Price driven by cost of fuel</li> </ul>	<b>Regulated agreements</b> <ul style="list-style-type: none"> <li>• Ca. 18% of physical volumes</li> <li>• Tariffs set by regulator on cost-plus basis</li> </ul>	<b>Other</b> <ul style="list-style-type: none"> <li>• Balancing market</li> <li>• Bilateral contracts</li> <li>• System services</li> <li>• Power arbitrage</li> <li>• Heat sales</li> </ul>

# Outstanding performance in new builds

## Project execution

Name	Type	Capacity (MW)	Start-up date
1 Shaturskaya	CCGT	393	On-line
2 Surgutskaya	CCGT	797	On-line
3 Yaivinskaya	CCGT	425	On-line
4 Berezovskaya	Upgrade	100	On-line
5 Berezovskaya	Coal	800	2015



## Delay of commissioning

Name	Months of delay	Owner
Shaturskaya unit 7	2	E.ON Russia
Surgutskaya unit 7 unit 8	3 1	E.ON Russia
Yaivinskaya unit 6	0	E.ON Russia
Nyaganskaya unit 1 unit 2	~ 11 ~ 14	Fortum
Gusinozerskaya unit 4	~ 10	INTER RAO – Electric Power Plants
Vologodskaya unit 2	~ 10	Siberian Generating Company
Novomoskovskaya unit 6	~ 6	Quadra - Power Generation
Livenskaya unit 5	~ 2	Quadra - Power Generation
Novokuybyshevskaya unit 4 unit 5 unit 6	~ 3 ~ 3 ~ 3	IES-Holding

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# E.ON IR - Reporting calendar & important links

## Reporting calendar

Date	Event
November 13, 2013	Interim Report III: January – September 2013
March 12, 2014	Annual Report 2013
April 30, 2014	2014 Annual Shareholders Meeting
May 2, 2014	Dividend Payout
May 13, 2014	Interim Report I: January – March 2014
August 13, 2014	Interim Report II: January – June 2014

## Important links

Content	Link
Equity Story	<a href="http://www.eon.com/en/investors/26658.jsp">http://www.eon.com/en/investors/26658.jsp</a>
Segment Stories	<a href="http://www.eon.com/en/investors/42341.jsp">http://www.eon.com/en/investors/42341.jsp</a>
Annual Report	<a href="http://www.eon.com/en/corporate/19886.jsp">http://www.eon.com/en/corporate/19886.jsp</a>
Interim Reports	<a href="http://www.eon.com/en/corporate/1022.jsp">http://www.eon.com/en/corporate/1022.jsp</a>
Facts & Figures	<a href="http://www.eon.com/en/corporate/1029.jsp">http://www.eon.com/en/corporate/1029.jsp</a>
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