

E.ON Russia Capital Market Update

10 October 2013



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E.ON Russia

Management team



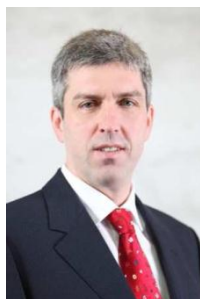
Maxim Shirokov
Chief Executive Officer



Ulf Backmeyer
Deputy Director General for
Finance and Economics



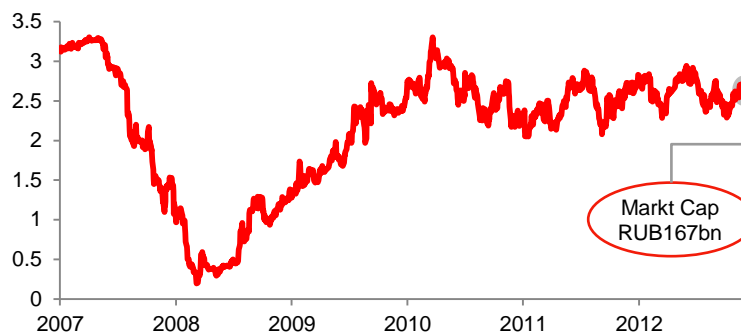
Igor Popov
Deputy Director General for
Production



Joerg Tumat
Deputy Director General for
Energy Management

E.ON history

E.ON Russia share price (RUB)



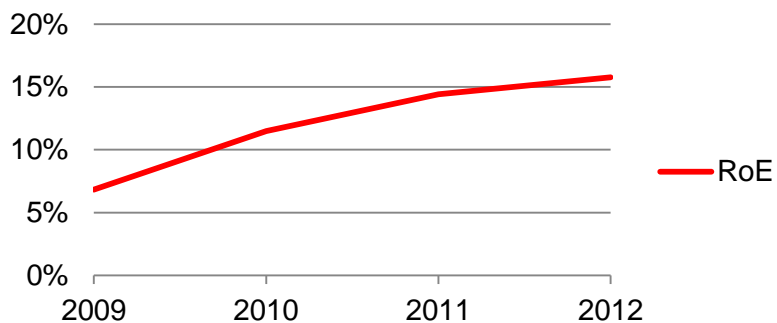
- Acquisition of 69.3% stake in OGK4 in 2007, rebranded to E.ON Russia in 2011
- Increase of share from 69.3% to 83.7% as of today
- Installed capacity up by +20% (1.7 GW) since acquisition to 10.3GW

Important footprint of E.ON in Russia



E.ON Russia priorities

Return on Equity – E.ON Russia view

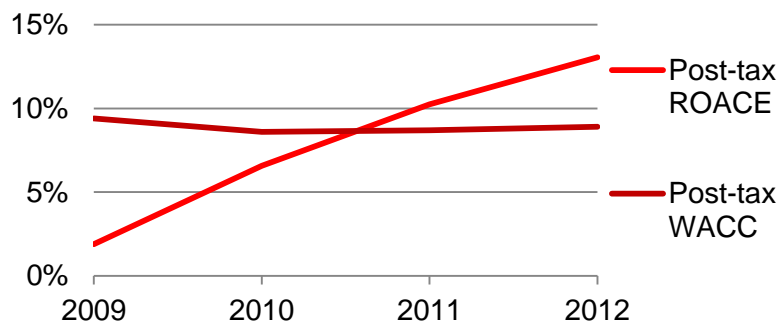


Based on E.ON Russia IFRS financial statements in RUB

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

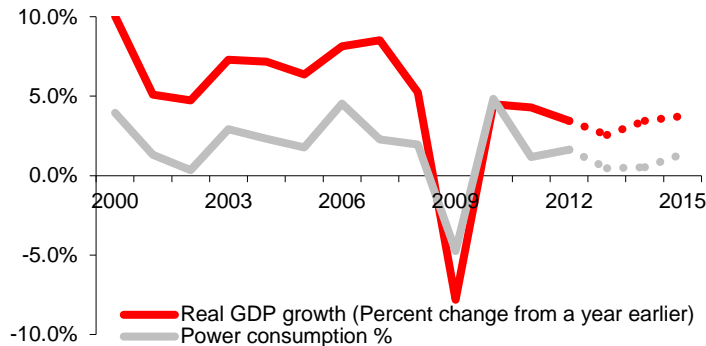
Dedicated to creating shareholder value

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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

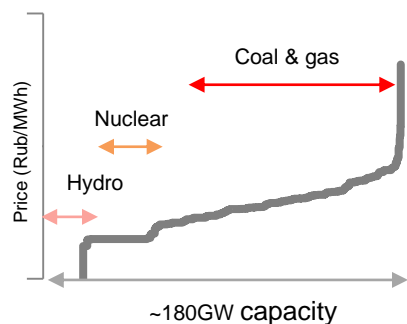
* Global Insight, E.ON Russia analysis; ** IMF 2012, IMF forecast

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

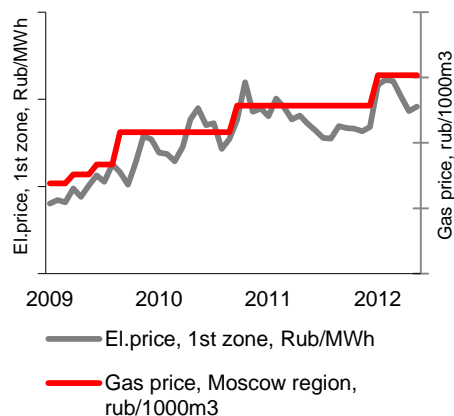
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Two pricing zones

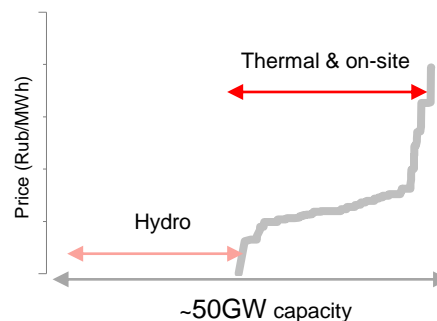
First pricing zone (European Russia, Urals)



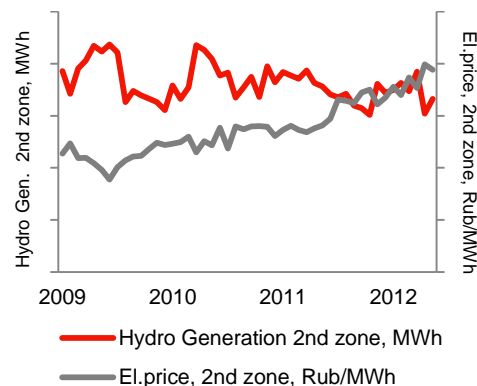
- System dominated by fossil and nuclear plants
- Old inefficient gas units normally set the price
- Relatively low reserve margins
- Electricity price is driven by gas price and supply/demand balance
- Growth in gas tariffs is the main trigger for spot prices



Second pricing zone (Siberia)



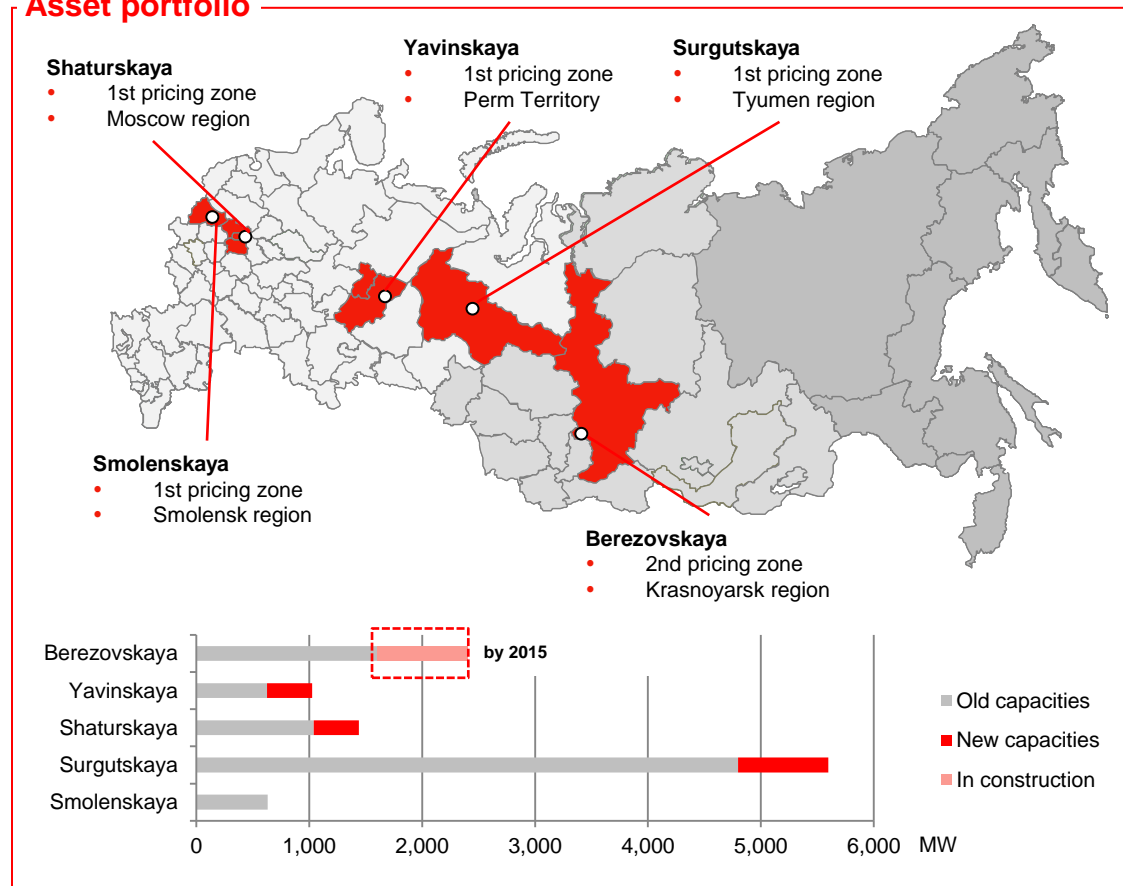
- System dominated by hydro and thermal (predominantly coal-fired) plants
- Hydro balance and coal price are main drivers of electricity price



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
- 2nd 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 commissioning of Berezovskaya in 2015

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Other assets

1st price zone



Shaturuskaya (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:
 - Shaturuskaya: 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)**

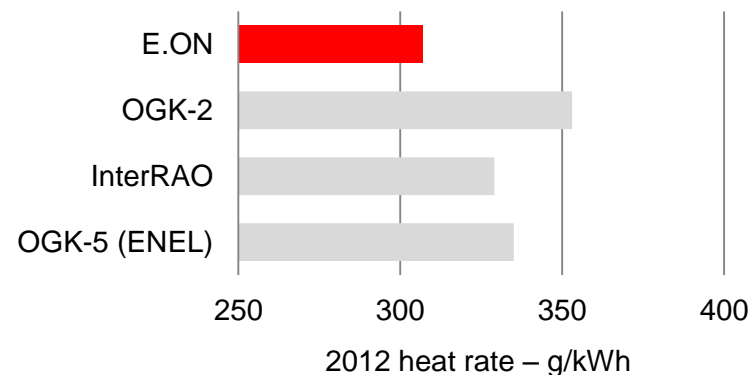
	Cap. market	El. market	Others
Shaturuskaya	675	635	596
Yavinskaya	1,866	1,390	0
Smolenskaya	278	-119	0

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

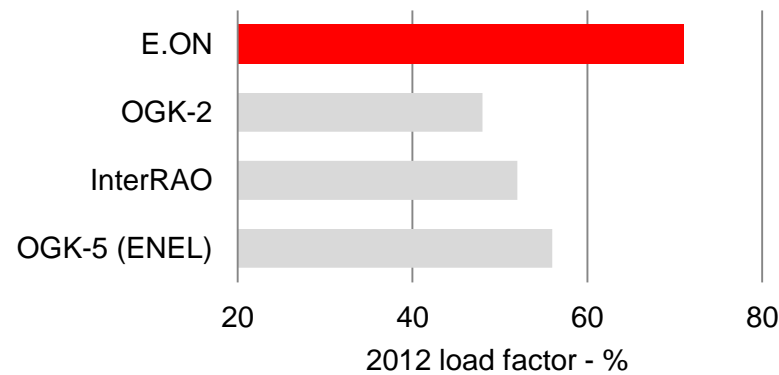
Assets with significant potential for modernization

Outstanding operational performance

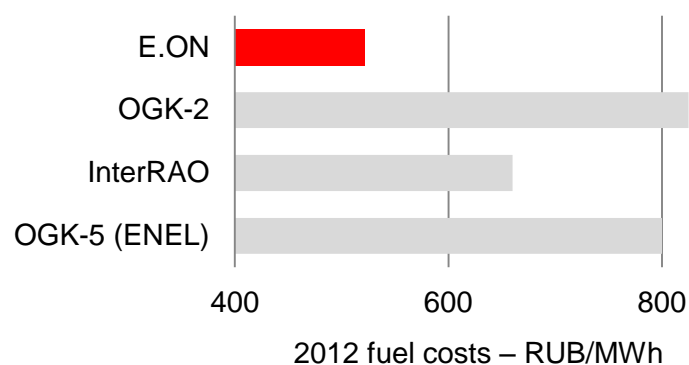
Superior efficiency*



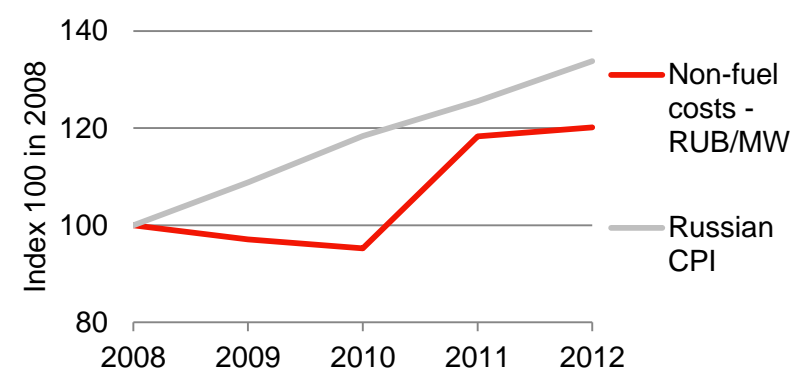
Best load factors*



Lowest fuel costs*



Disciplined management of non-fuel costs



* Public filings, E.ON analysis

Excellent gearing to benefit from operational performance



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

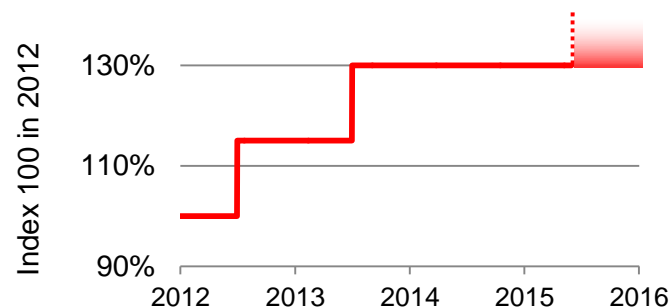
Opportunity to leverage E.ON Group capabilities

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

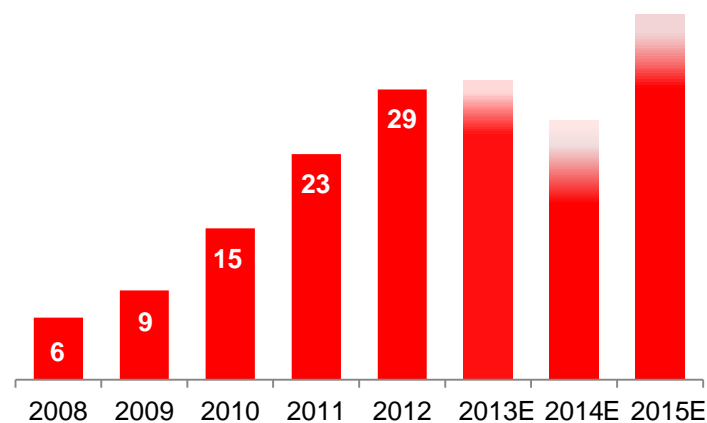


- Long- term**
- Tightening of supply
 - Modest increasing power demand and gas prices
 - OPEX increase below inflation



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

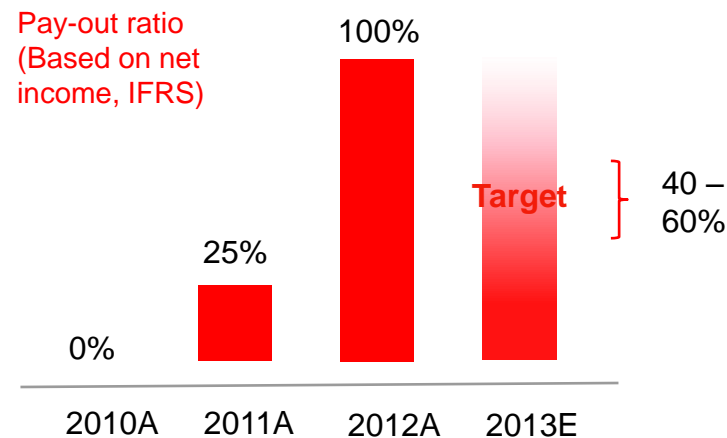
Further step-change in earnings due to Berezovskaya

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
E.ON Russia	55,791	62,467	64,202

One market design

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

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	3	E.ON Russia
unit 8	1	
Yaivinskaya unit 6	0	E.ON Russia
Nyaganskaya unit 1	~ 11	Fortum
unit 2	~ 14	
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	~ 3	IES-Holding
unit 5	~ 3	
unit 6	~ 3	

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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	http://www.eon.com/en/investors/26658.jsp
Segment Stories	http://www.eon.com/en/investors/42341.jsp
Annual Report	http://www.eon.com/en/corporate/19886.jsp
Interim Reports	http://www.eon.com/en/corporate/1022.jsp
Facts & Figures	http://www.eon.com/en/corporate/1029.jsp
Creditor Relations	http://www.eon.com/de/investoren/dialog/creditor-relations.htm

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