

e.on

Russia – Unlocking the value
Q1 2012

E.ON – Cleaner & better energy



Agenda

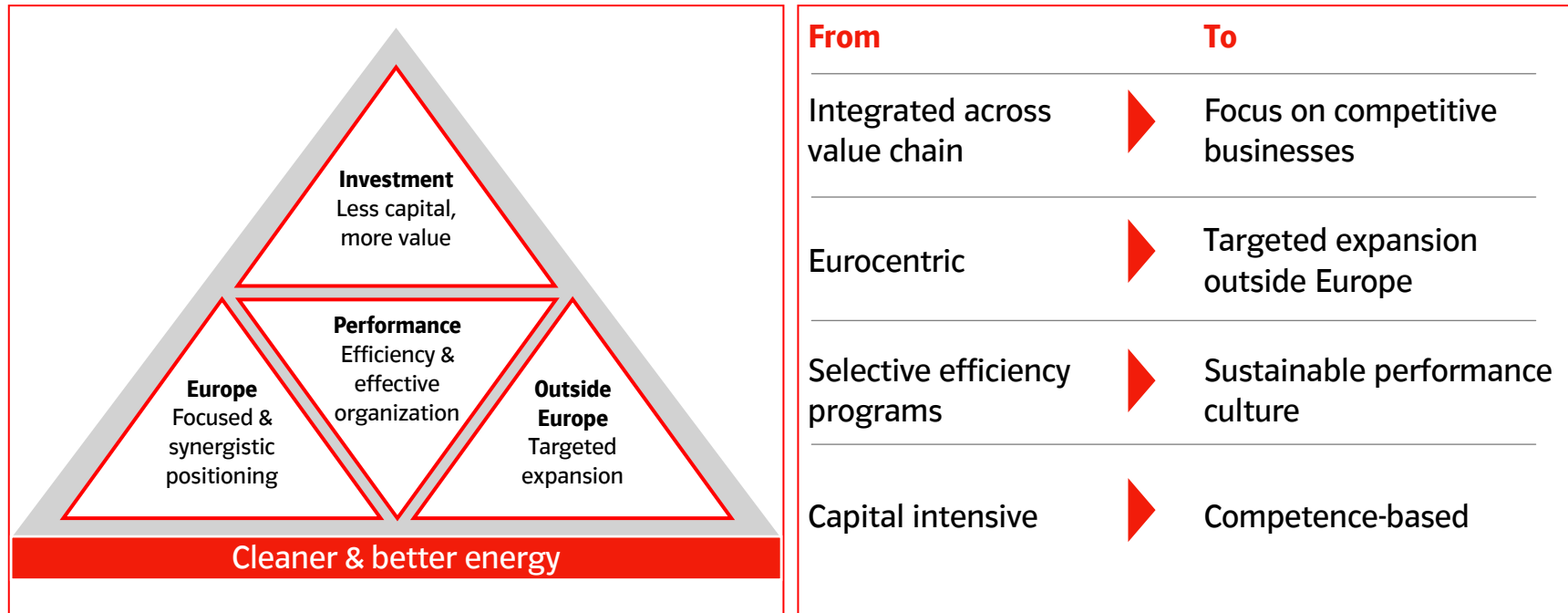
Russia in E.ON context

Russian power market

E.ON's power business in Russia

Key take-aways

E.ON strategy



Transform European utility into global, specialized energy solutions provider

E.ON Group strategic priorities

Challenging markets

Political interventions

Performance

- Intensify cost & quality management
- Simplify structures
- Execute portfolio measures
- Create balance sheet flexibility

Europe:

System transformation

Outside Europe:

Growth & new technologies

Growth

- Capture growth in renewables & decentralized energies
- Exploit opportunities in new markets

Markets require intensified self-help measures

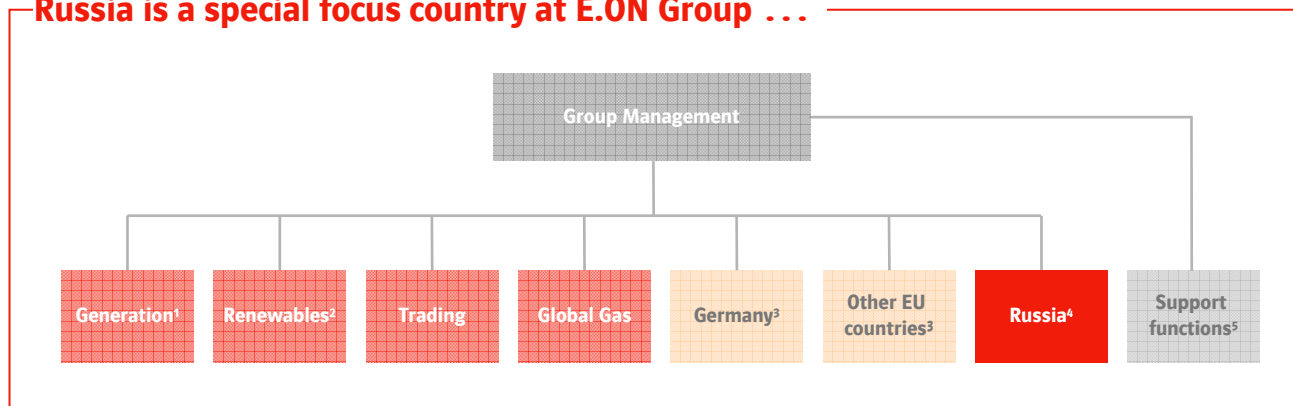
E.ON Group key financial targets

	New	Old	
Results	• 2011E¹ Adjusted EBITDA (€bn):	9.1 – 9.3	9.1 - 9.8
	• Adjusted EPS (€/share):	1.2 – 1.3	1.1 - 1.4
	• 2013E Adjusted EBITDA (€bn):	11.6 – 12.3 ²	>13 ⁴
	• Adjusted EPS (€/share):	1.7 – 2.0 ²	~2.4 ⁴
	• 2015E Adjusted EBITDA (€bn):	12.5 - 13.0 ³	
	• Adjusted EPS (€/share):	2.0 – 2.3 ³	
Dividends	• Dividend payout policy (% adj. net income):	50 - 60	50 - 60
	• 2011 (€/share):	1.0	≥1.3
	• 2012 (€/share):	1.1	≥1.3
	• 2013 (€/share):	≥1.1	
Other	• Medium-term debt factor	<3x	≤3x
	• Investments 2011-13 (€bn):	~19	19
	• Total disposals until 2013 (€bn):	~15	~15
	• Rating target	Solid single A	Solid single A

Transparent financial targets for coming years
Assumed 2015 debt factor allows ~€6bn of additional growth CAPEX

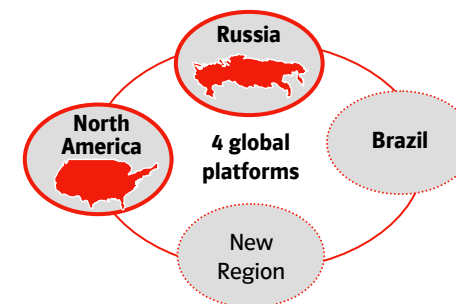
Russia within E.ON's structure

Russia is a special focus country at E.ON Group ...



... and one of four global platforms of Outside Europe⁶ activities

- Conventional generation and participation in Yuzhno Russkoe gas field in Russia
- Renewable generation North America
- Market entry into Brazil, continuous talks with potential partners in Turkey and India



Key contributor to E.ON's aspiration to increase non-EU adj. EBITDA from 5% to 25% in 2015+

1. Incl. EBITDA of all conventional generation (previously in Market Units) 2. Incl. hydro 3. Distribution and sales; gas sales included in Germany 4. Special focus country 5. IT, Procurement, Insurance, Consulting, Business Processes, these are not reported separately externally 6. "Outside Europe" to be reported separately after having reached the necessary size

Agenda

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Russian power market

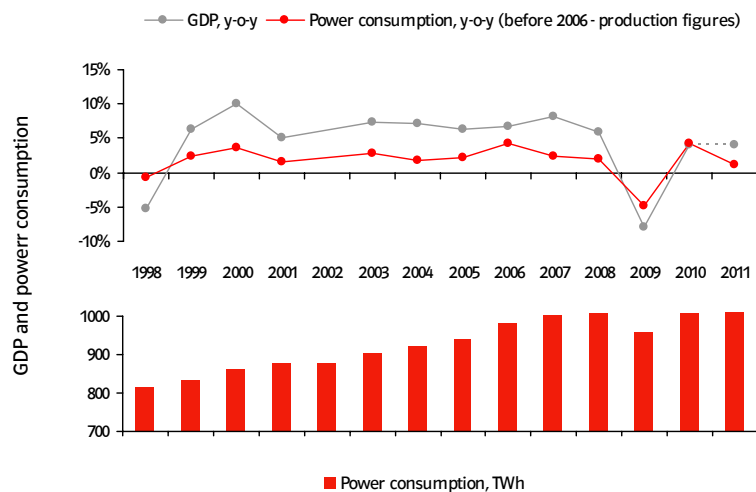
E.ON's power business in Russia

Key take-aways

Russian power market

Key features

Consumption driven by economic development



- Power demand highly correlated with economic development and industrial production
- Power consumption recovered after 2009 and exhibited sustainable growth in 2010 and 2011, surpassing pre-crisis levels (1,021 TWh in 2011)

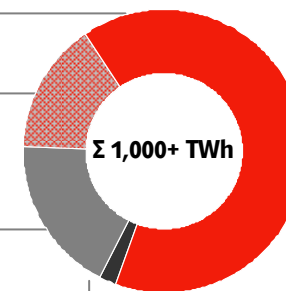
Liberalization

Wholesale, non-regulated (estimated between ~65% and ~80%)

Currently non-regulated share - potentially could be regulated (up to ~15%)

Residential, regulated (~18%)

Isolated systems, regulated (~2%)



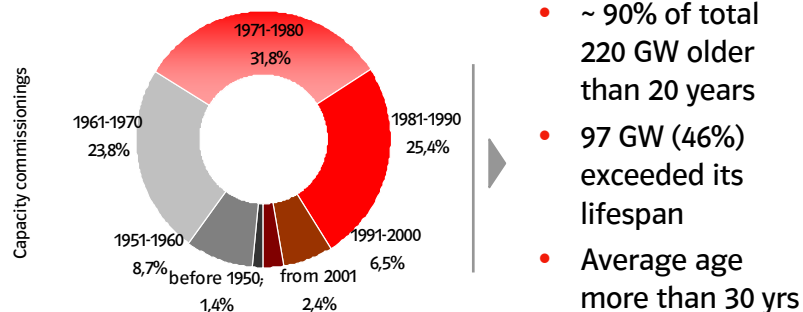
- Market liberalization completed on schedule
- However, share of household segment extended in 2011 and will remain regulated - further extension up to 35% possible
- Capacity market stays largely regulated

1,000 TWh+ electricity market with more than 70% of electricity sales at non-regulated prices

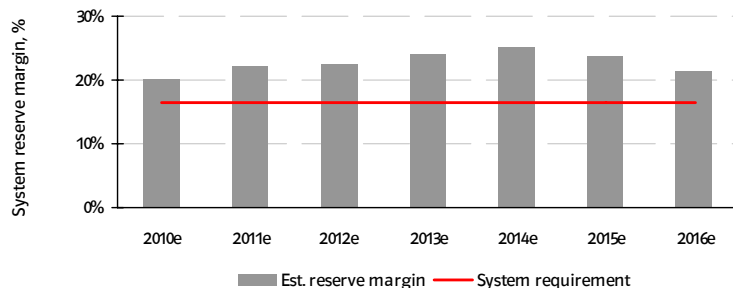
Russian power market

Overview

Installed capacity by age



Estimated reserve margins



Key observations

- Aging and largely inefficient capacity fleet aggravates acute need in large-scale replacements
- Reserve margins close to optimal on average, but significantly vary from region to region
 - In many cases lax reserve margins are a function of old inefficient plants in regional systems
 - Poor grid infrastructure leads to bottlenecks in cross-regional power flows
- New build in selected regions is necessary to cope with rising demand and replace aging generation

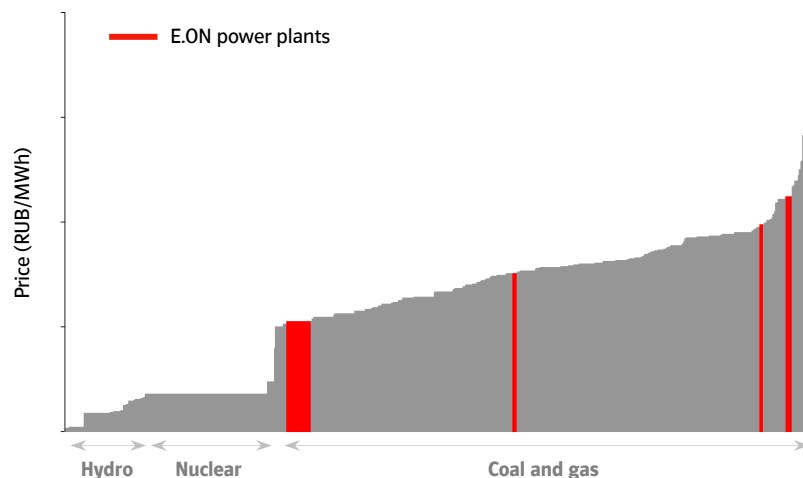
Fundamental need of large-scale capacity replacements is here to stay

Russian power market

Electricity market – merit order

First pricing zone (European Russia/Urals)

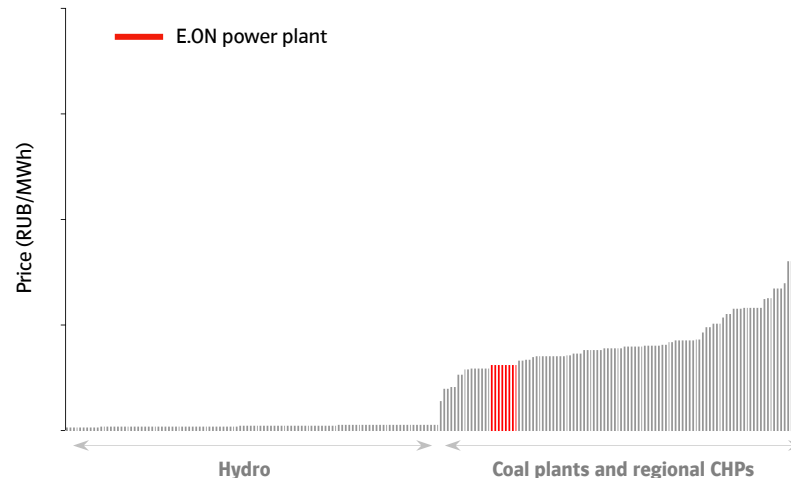
Assumptions: all installed capacity available; CHPs in co-generation mode; some minor power plants excluded; no grid constraints. Illustrative.



- Dominated by fossil-fired and nuclear plants, old inefficient gas units normally set the price

Second pricing zone (Siberia)

Assumptions: all installed capacity available; CHPs in co-generation mode; some minor power plants excluded; no grid constraints. Illustrative.



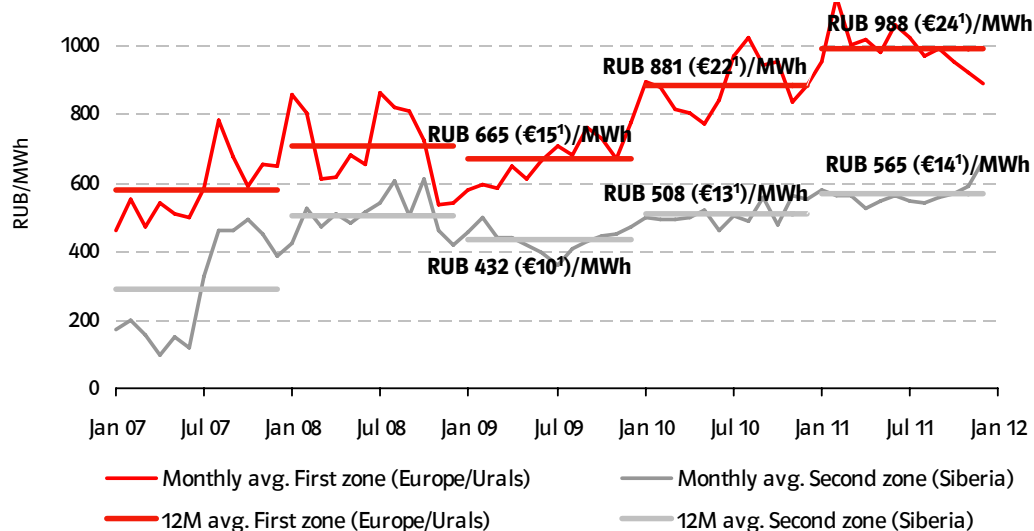
- ~50% based on the run-of-river plants, another ca.50% represented by coal and lignite blocks

E.ON flagship plants well positioned to benefit from liberalization of power and gas markets

Russian power market

Non-regulated prices

Day-ahead electricity price development



Recent developments

- Sustainable consumption growth and weather-related power demand pushed day-ahead prices up
- Additionally, spot power price in 1st zone picked up on the back of a gradual gas tariff increase

Mid- /long-term perspective

- Regulated gas price will remain to be the main driver of electricity prices
- However, new capacities and potentially slower demand growth are expected to partly mitigate price growth effects

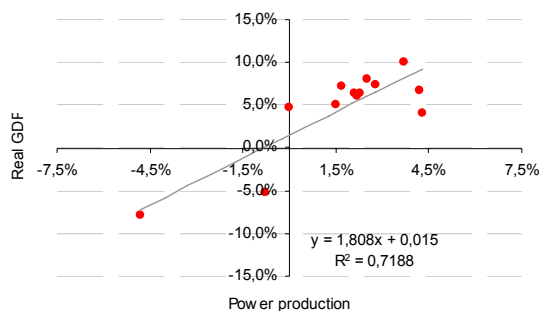
Demand, weather and input fuel costs drive power prices on the day-ahead market - however, some dampening effects are expected due to substantial new build commissionings

Russian power market

Why power prices set to rise?

Demand growth

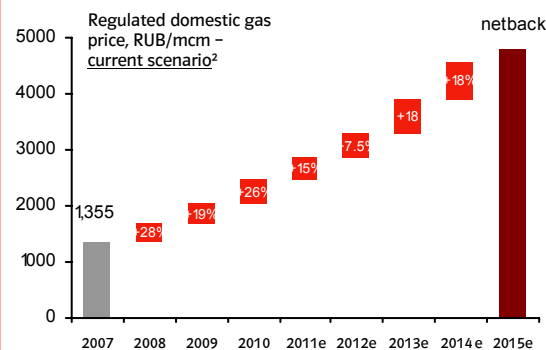
- Power demand highly correlated with economic development and industrial production



- Structural economic changes and capital investments provide support

Rising fuel costs

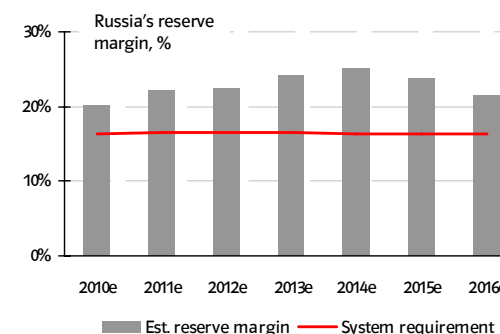
- Gas price set to rise to export netback parity, coal broadly on par with inflation or faster



- Gas price drives power prices in European Russia/Urals as gas is marginal fuel, coal – in Siberia

System constraints

- Reserve margins significantly vary across Russia, remain tight in some regions



- Reserve margins ~20-25% not lax, weak grid infrastructure prevents market coupling

Rising fuel costs and local grid constraints should provide upward support to power prices, although some mitigating effects from new builds and slower demand growth start to kick in

Russian power market

Capacity market

Key assumptions for the long-term capacity market

	"Old capacity" (built before 2007)	"New capacity" (built after 2007)
General principle	Capacity payment to cover opex	Capacity payment to cover opex and capex, imply return on investments
Pricing mechanism	<ul style="list-style-type: none"> Capacity auctions within the free flow capacity zones, marginal pricing Price caps and price floors in regions with limited competition Regulated tariffs for must-run and most expensive generation 	Based on 10-year capacity supply agreements and the following inputs: <ul style="list-style-type: none"> Benchmark capex Benchmark opex 13-14% allowed rate of return 15-year payback period Various adjustment coefficients Capacity payment to cover 71-95% of total new build project costs
Capacity prices 2011	<ul style="list-style-type: none"> Competitive capacity auction price at 123,000 RUB/MW/month in European Russia/Urals Price caps at 118,125 RUB/MW/month in European Russia/Urals, 126,368 RUB/MW/month in Siberia Regulated tariffs for must-run and most expensive generation significantly vary from plant to plant 	Vary significantly from project to project depending on specific projects characteristics

Long-term capacity market rules ensure fixed cost of old plants are covered and provide certainty for new build investments

Russian power market

Summary

Fundamentals	<ul style="list-style-type: none">• Growing power consumption and economy driven by industrials• Non-reg. power prices recovered strongly after crisis and will in future mainly follow fuel price developments
Energy system	<ul style="list-style-type: none">• Looming need for replacement of obsolete, inefficient generation• Fairly adequate reserve margins, tight in some regions
Regulatory framework	<ul style="list-style-type: none">• Liberalization completed as planned, 100% free wholesale from '11• Long-term capacity market rules enable above-WACC returns• Capacity market remains largely regulated
Fuel markets	<ul style="list-style-type: none">• Domestic gas price growth stipulated by the government• Longer-term goal to reach export netback parity
Main risks	<ul style="list-style-type: none">• State interventions to contain power price growth• Regulatory pressure on old, cost-intensive stations

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Key take-aways

E.ON's power business in Russia

OGK-4 overview (in 2011 OGK-4 renamed to E.ON Russia)

Existing asset portfolio

9M 2011 gross capacity 10,295 MW

Shaturskaya GRES Moscow region (machin., constr.) ¹	
Gross capacity 9M2011	1,493MW
Gross capacity 2010	1,493MW
Production 2010	4.1 TWh
Load factor 2010	41.2%
Sales 2010	4.9 TWh

Yajvinskaya GRES Perm region (metals, chemicals) ¹	
Gross capacity 9M2011	1,025 MW
Gross capacity	600 MW
Production 2010	3.8 TWh
Load factor 2010	73.1%
Sales 2010	4.2 TWh

Surgutskaya GRES-2 Tyumen region (oil & gas) ¹	
Gross capacity 9M2011	5,597 MW
Gross capacity	4,800 MW
Production 2010	36.6 TWh
Load factor 2010	87.1%
Sales 2010	39.1 TWh

Smolenskaya GRES Smolensk region (agrochem) ¹	
Gross capacity 9M2011	630 MW
Gross capacity	630 MW
Production 2010	1.9 TWh
Load factor 2010	34.9%
Sales 2010	2.0 TWh

Berezovskaya GRES Krasnoyarsk region (metal/min.) ¹	
Gross capacity 9M2011	1,550 MW
Gross capacity	1,550 MW
Production 2010	9.3 TWh
Load factor 2010	70.5%
Sales 2010	9.1 TWh

- ~4% of Russia's total capacity, sales amount to ~6% of consumption

Strategic merits

- Two flagship power plants in proximity to fuel sources
- Exposure to industrialized and fast-growing regions
- Operational focus on cost control and efficiency enhancements

Key figures

FY2010

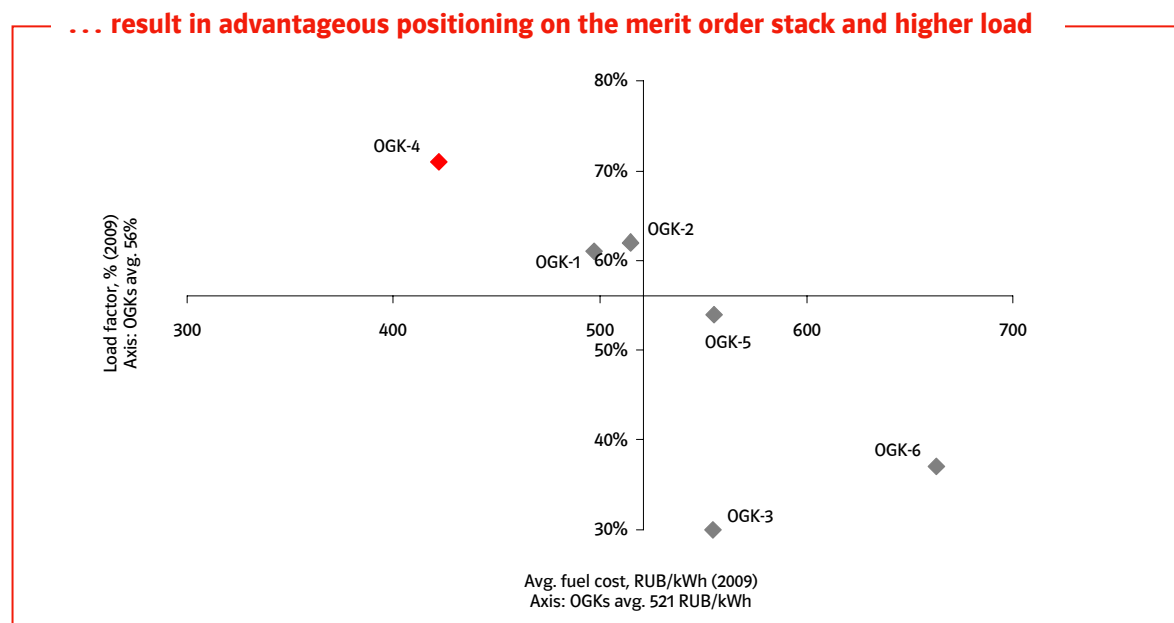
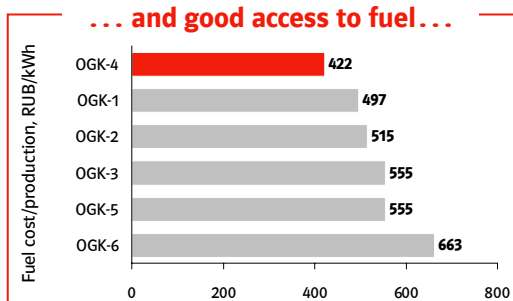
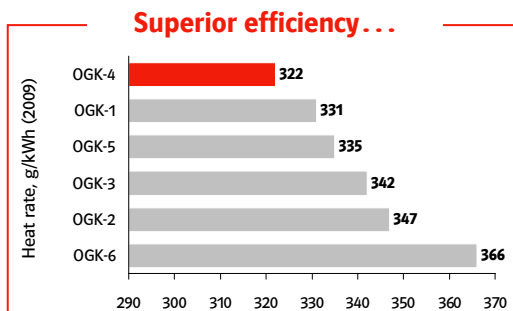
- Gross capacity, MW 9,073
- Power production, TWh 55.8
- Power sales, TWh 59.3
- Sales, € mln 1,252
- Adj. EBITDA, € mln 377
- Adj. EBIT², € mln 250

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

1. Dominant power consumer segment in the respective region. 2. EBIT is affected by purchase price allocation effects.

E.ON's power business in Russia

OGK-4 positioning



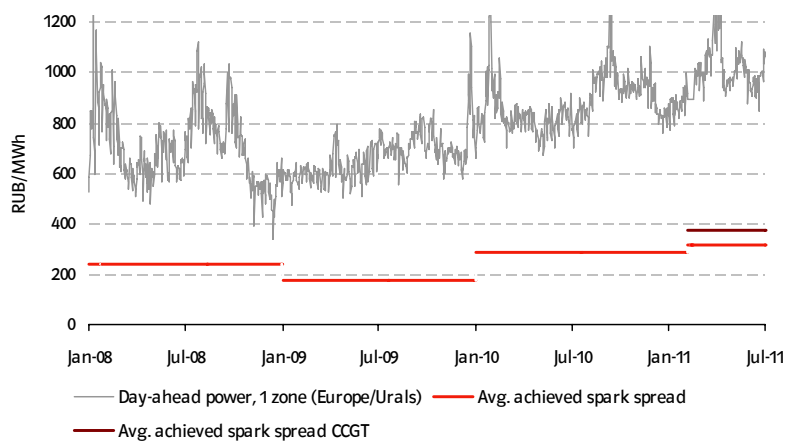
- Being highly efficient and having good access to primary fuel sources, Surgutskaya-2 and Berezovskaya power plants (73% of OGK-4's installed capacity) have low variable costs and run as a base-load generation¹
- This leads to substantially higher margins on the spot market as well as to higher sales volumes

OGK-4 is well geared to benefit from price increase due to higher margins on the spot market

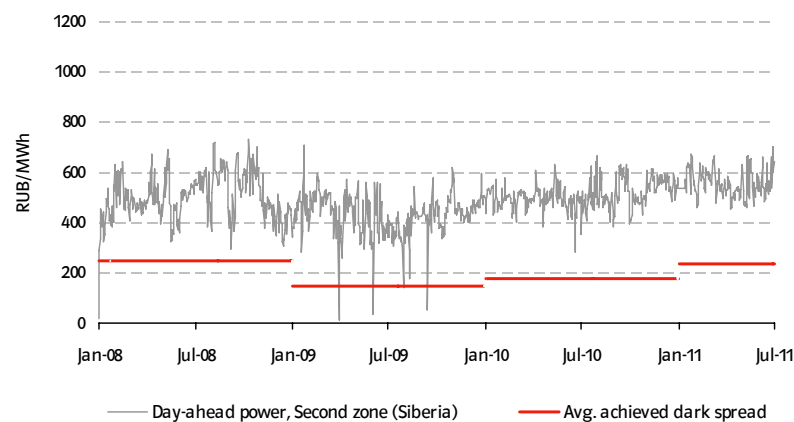
E.ON's power business in Russia

Spreads in the non-regulated market

Achieved non-reg. spark spreads, 1st pricing zone



Achieved non-reg. dark spreads, 2nd pricing zone



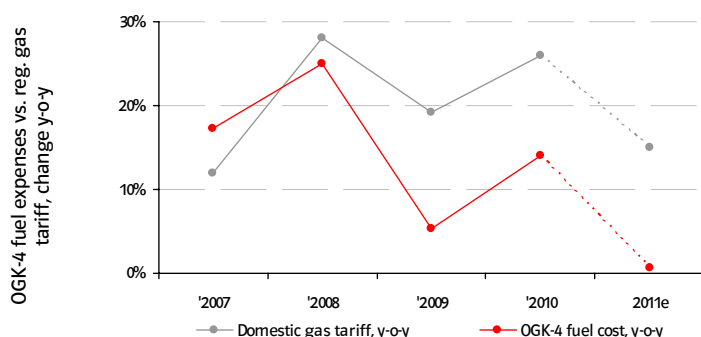
- Demand disruption in 2009 resulted in significant contraction of spark and dark spreads in the non-regulated segments of the wholesale market
- Consumption pick-up and rising fuel costs led to expansion of the achieved spark and dark spreads, in particular of the most efficient power plants (Surgutskaya-2 and Berezovskaya) in 2010

Achieved spark and dark spreads are expected to expand further on the back of increasing fuel cost of a marginal power plant and better positioning of E.ON's two largest power stations

E.ON's power business in Russia

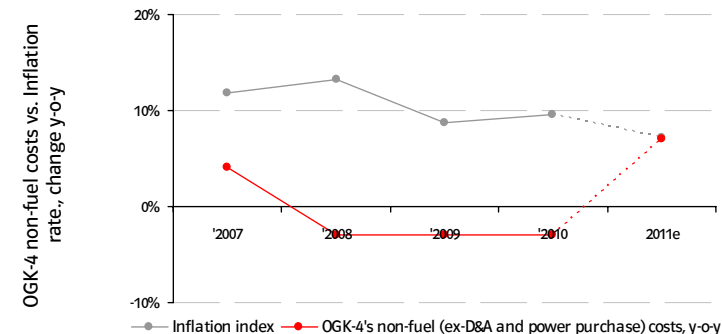
Cost management

Fuel expenses (ex-CCGTs)



- Fuel expenses constitute more than 50% of the company's total cost structure
- Fuel cost management is a pivotal element of the company's operations
- E.ON Russia managed to keep fuel cost inflation below average gas price increase

Controllable (non-fuel) cost (ex-CCGTs)



- Non-fuel costs taken under control after the acquisition in 2007
- Main cost control measures included optimization of overhead costs, maintenance program
- Cost control and operating improvements not a one-off exercise, but continuous culture

Cost control becomes increasingly important in the liberalized market environment

E.ON's power business in Russia

New build program

Overview

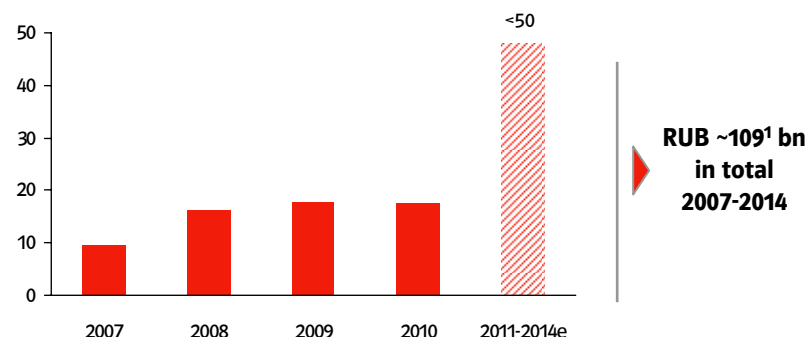
- ~2.4 GW additional capacity¹
- ~€2.8 bn capex, thereof €1.3 bn pre-financed
- FX risks for €/€ denominated contracts hedged
- More than 50% of capex spent

Name	Type	Capacity (MW)	Start-up date
1 Shaturskaya	CCGT	393.4	On-line
2 Surgutskaya	CCGT	797.1	On-line
3 Yaivinskaya	CCGT	424.6	On-line
4 Berezovskaya	Coal	800	2014

Rationale

- Capacity construction commitment stipulated by OGK-4 acquisition conditions in 2007
- Favorable location of new builds in fast-growing regions
- CCGTs far more efficient (55%+ efficiency) vis-a-vis existing conventional power plants (29-35%)

Capital expenditures (less VAT), RUB bn

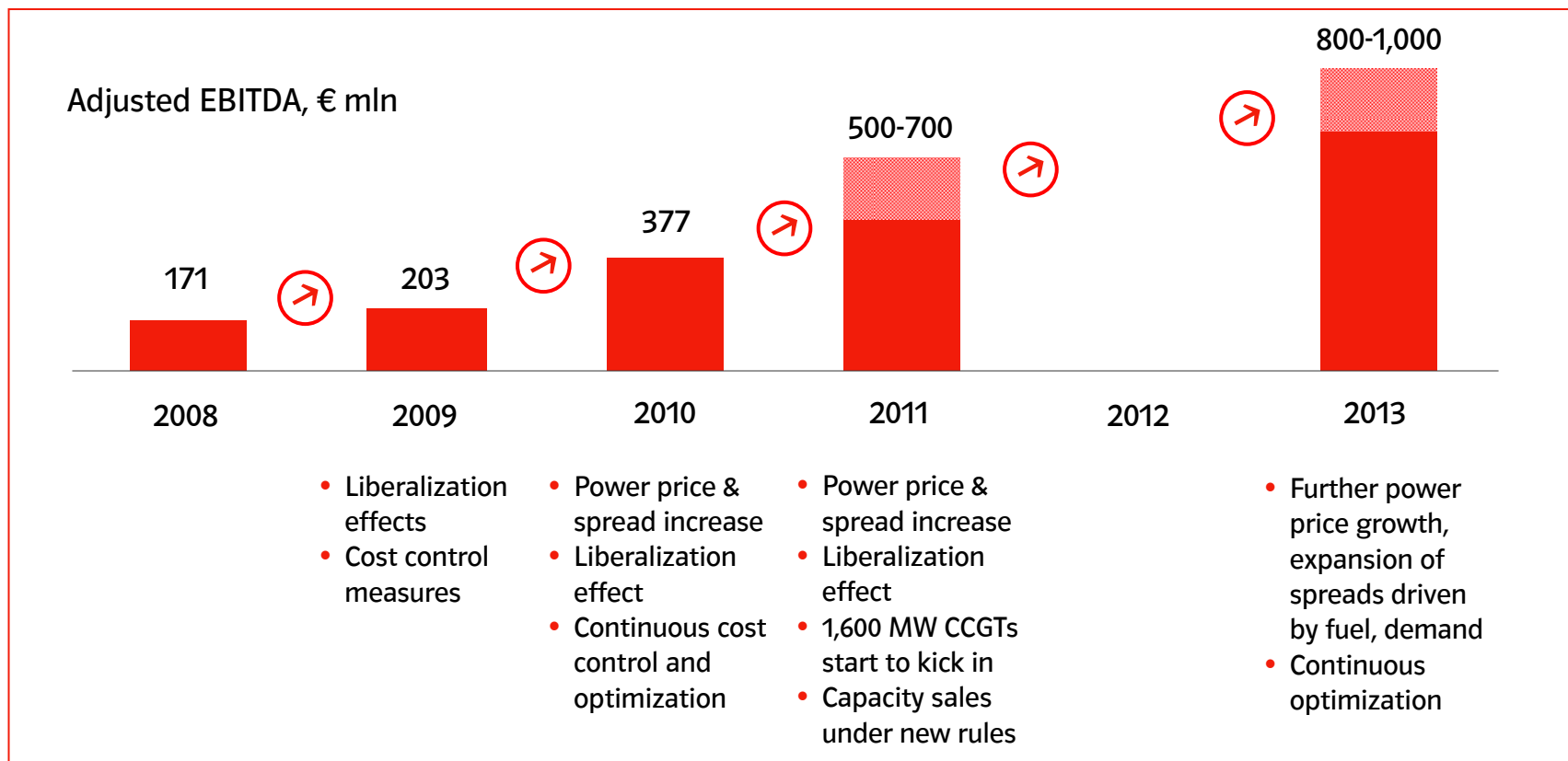


Investment program to lift installed capacity by ~30%

1. Excluding two-stage upgrade by 100 MW at Berezovskaya. 2. Equivalent of € 2.8 bn @ RUB/EUR rate of 39.

E.ON's power business in Russia

Performance improvement and mid-term targets



Improving market fundamentals and management action enhance operational performance

Agenda

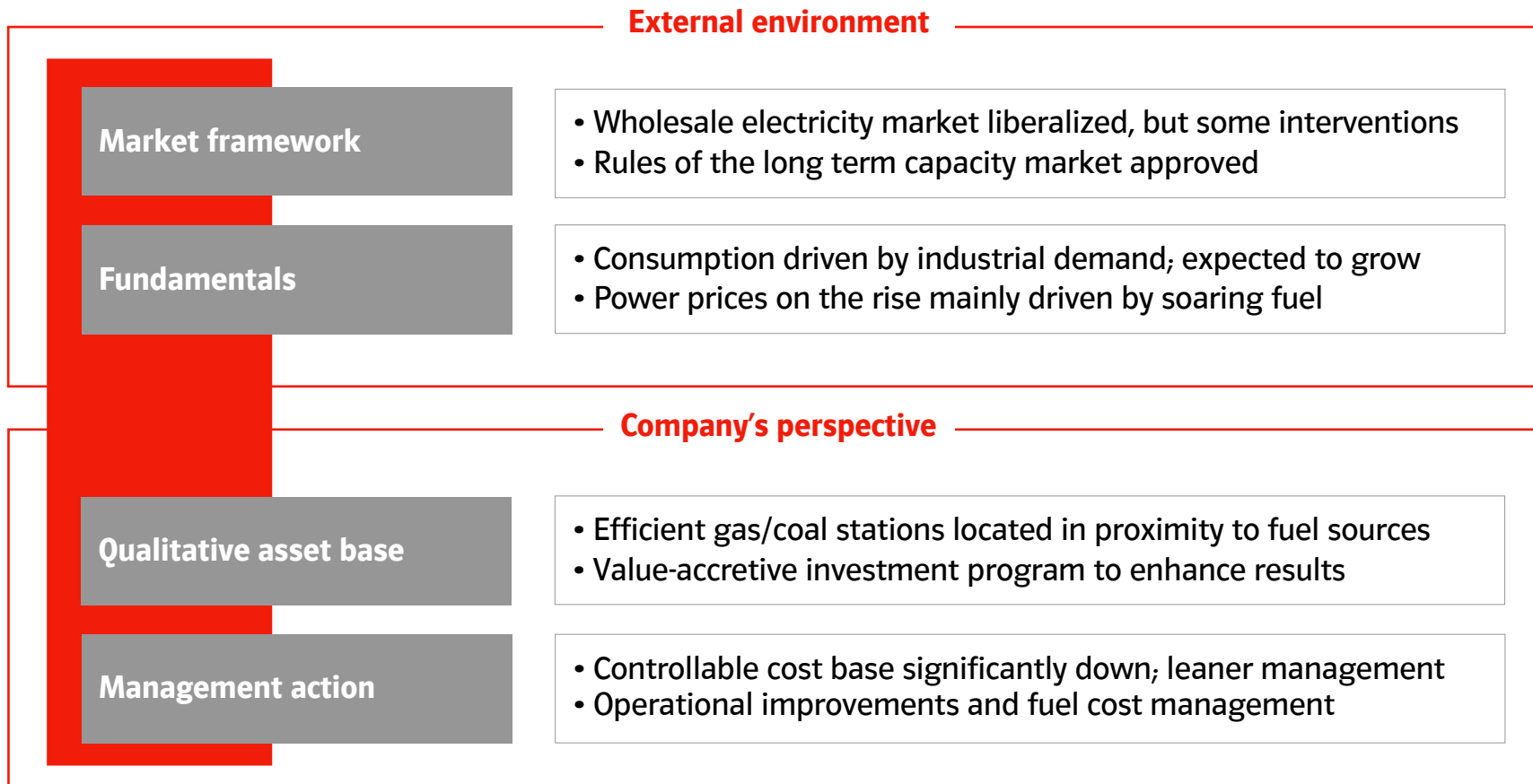
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Key take-aways

E.ON in the Russian power market

Key take-aways



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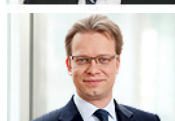
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