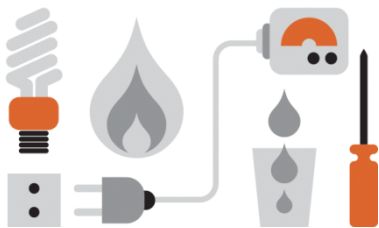




**BERENBERG**

PARTNERSHIP SINCE 1590



## Utilities

12 November 2015

## Verbund AG

**SELL**

Downside even with  
optimistic view; Sell

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### THE TEAM



**Lawson Steele** has now covered the utilities sector as an equity analyst for 28 years, achieving number one rankings going back to 1992. Lawson, together with his colleague Andrew Fisher, has pioneered a different approach to covering utilities which sets them apart from the traditional coverage model and puts the investor at the hub of what they do. Lawson's previous roles covered Europe, Latin America and Global utility strategy, located in both London and New York. He also spent a year covering global telecoms. Most of his time was spent at UBS with a shorter stint at Execution Noble where he headed up the team. Prior to that, he trained and qualified as a chartered accountant with Price Waterhouse (now Pricewaterhouse Coopers).



**Andrew Fisher** has 18 years' capital markets experience, the last 16 of which have been as a utilities analyst (covering both the global and pan-European sector). He has both buy-side and sell-side experience, having previously worked at Barclays Wealth (where he was head of equity research), Pioneer Investments and Espirito Santo. Andrew joined Berenberg in 2012 and, together with his colleague Lawson Steele, has pioneered a different approach to covering utilities which sets them apart from the traditional coverage model and puts the investor at the hub of what the team does. Andrew has an MBA from Warwick Business School.



**Mehul Mahatma** joined the Utilities research team at Berenberg in December 2013. Previously, he worked for PricewaterhouseCoopers where he trained and qualified as a chartered accountant (ACA). He holds a first-class degree in BEng (Hons) Electromechanical Engineering from Aston University, where he was awarded two degree prizes; he has also passed the level 1 CFA exam.



**Robin Abrams** joined the Utilities team at Berenberg in 2015. Robin began his career at Citi where he spent two years as a quantitative analyst, primarily focusing on the equities and hybrids group. Prior to this, he completed an MEng in Chemical and Energy Engineering at the University of Birmingham.

For our disclosures in respect of section 34b of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and our disclaimer please see the end of this document.

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## Downside even with optimistic view; Sell

- Downgrade to Sell:** Verbund's hyper-sensitivity to power prices means a 30% reduction in our 2017 and 2018 EPS forecasts. That reduces our price target by 32% from €17.0 per share to €11.5 per share. But that is being kind: we have a bullish view on carbon that puts our power price forecasts above the forward curve. If we mark to market, the valuation would be significantly lower. This is reflected in our blue/black sky valuation, which offers 15% upside and 47% downside respectively. With that valuation and risk parameter, we now downgrade Verbund to a Sell recommendation.
- Guidance up for 2015:** Plant versatility has allowed Verbund to benefit from power price volatility, earning €120m. That is beyond most investors', and the company's, expectations. This is inherently a volatile number and at a record level: we assume €100m (in itself perhaps on the generous side) from 2016. In 2015, however, it looks like the stars aligned themselves sufficiently for management to deliver adjusted net income guidance of €270m (€240m after impairments) from €180m at Q115. We have raised our EPS estimates for 2015, taking into account all of those factors.
- 30% reduction in 2017/18 EPS forecasts:** We make minimal (5%) changes to our 2016 numbers but our 2017 and 2018 forecasts come down by c30%, reflecting the declines in commodities. That still leaves us ahead of consensus by 14% and 63% respectively. On a mark-to-market basis, however, we would be 26% lower in 2017 and 13% in 2018.
- Dividend policy is probably achievable:** By sticking to a 50% payout ratio, Verbund should manage to reduce gearing from the heady 5.0x of 2014 to 2.5x by 2020. If our base case power price assumptions fail to materialise, ie current market prices prevail, gearing would only fall to 4.4x by 2020.
- Valuation:** We value Verbund on a blend of SOTP (DCF/EVA), DDM, P/E and dividend yield. SOTP and DDM are pointing to a value in line with the current share price. However, the shares fall short on the other two metrics: Verbund trades at a 30% 2016/2017 P/E premium to the sector and has a dividend yield of just half that of the sector. Our blue sky/black sky valuation is €15.7/share and €7.3 respectively, implying 15% upside and 47% downside.
- Catalysts to drive the shares include:** power and commodity prices, hydro levels and FY15 results.

Y/E 31/12., EURm	2013	2014	2015E	2016E	2017E
EBITDA	1,301	809	906	787	838
EBIT	933	468	492	438	491
EPS	1.67	0.36	0.72	0.65	0.77
DPS	1.00	0.29	0.40	0.33	0.38
FCF per share	0.2	2.0	1.3	1.0	1.0
Y/E net debt (net cash)	3,706	4,060	3,741	3,559	3,336
EBITDA Growth	5.3%	-37.9%	12.1%	-13.2%	6.6%
EPS Growth	49.1%	-78.4%	101.2%	-9.7%	17.3%
DPS Growth	66.7%	-71.0%	36.5%	-17.4%	17.3%
ROCE	9.6%	5.1%	5.4%	4.8%	5.4%
EV/EBITDA	7.4x	11.6x	10.0x	11.3x	10.4x
P/E	8.1x	37.8x	18.8x	20.8x	17.7x
Dividend Yield	7.4%	2.1%	2.9%	2.4%	2.8%
FCF Yield	1.5%	14.7%	9.4%	7.3%	7.6%

Source: Company data, Berenberg

12 November 2015

**SELL**

**Current price**      **Price target**  
**EUR13.60**          **EUR11.50**

11/11/2015 Vienna Close

Market cap (EURm)                      4,723  
 Reuters                      VERB.VI  
 Bloomberg                      VER AV

### Changes made in this note

Rating:      Sell (Hold)  
 Price target: EUR11.50 (17.00)

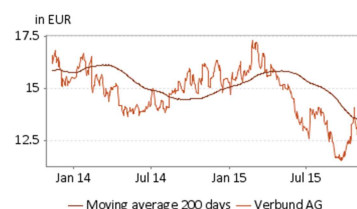
### Estimates changes

	2015E		2016E		2017E	
	old	Δ %	old	Δ %	old	Δ %
EBITDA	783	15.8	870	-9.6	1,077	-22.2
EBIT	397	24.0	482	-9.0	684	-28.2
EPS	0.51	41.1	0.68	-4.5	1.10	-30.5

Source: Berenberg estimates

### Share data

Shares outstanding (m)                      347  
 Enterprise value (EURm)                      9,091  
 Daily trading volume                      221,937



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**SELL**

12 November 2015

**Current price      Price target**

**EUR13.60      EUR11.50**

11/11/2015 Vienna Close

Market cap (EURm) 4,723  
EV (EURm) 9,091  
Trading volume 221,937  
Free float 19.0%

### Non-institutional shareholders

Republic of Austria (51%)  
EVN AG & Wiener Stadtwerke (25.0%)  
TIWAG (5.0%)

### Share performance

High 52 weeks EUR17.27  
Low 52 weeks EUR11.59

### Business description

Verbund is an Austrian electricity company active in electricity generation, trading, transmission and sales. It has a power generation capacity of over 8GW, the majority of which is hydropower.

### Performance relative to

	SXXP	SX6P
1mth	0.9%	7.0%
3mth	2.1%	6.0%
12mth	-27.9%	-13.0%

## Investment thesis

- End power markets remain tricky, with power prices continuing to fall. We are more bullish than the forward curve, believing that a carbon rally in 2017 will lift power prices above current levels.
- Rainfall is also a key profit driver. We expect a return to more-normal (ie wetter) conditions in 2016.
- We expect congestion management services to fall from their bumper €120m in 2015 to €100m in 2016.
- Our valuation is based on a blend of DCF-based sum-of-the-parts, price earnings ratio, dividend yield and a dividend discount model.

### Profit and loss summary

EURm	2013	2014	2015E	2016E	2017E
Revenues	3,267	2,835	2,707	2,695	2,691
EBITDA	1,301	809	906	787	838
EBITA	933	468	492	438	491
EBIT	933	468	492	438	491
Associates contribution	-216	33	33	33	33
Net interest	116	178	137	103	96
Tax	79	98	86	92	107
Minorities	66	54	52	49	55
Net income adj.	384	216	252	227	267
EPS reported	1.67	0.36	0.72	0.65	0.77
EPS adjusted	1.67	0.36	0.72	0.65	0.77
Year end shares	347	347	347	347	347
Average shares	347	347	347	347	347
DPS	1.00	0.29	0.40	0.33	0.38

### Cash flow summary

EURm	2013	2014	2015E	2016E	2017E
Net income	645	181	303	277	321
Depreciation	360	393	350	348	347
Working capital changes	56	212	23	2	1
Other non-cash items	-220	-68	50	0	0
Operating cash flow	841	718	726	627	669
Capex	-772	-23	-280	-281	-308
FCFE	70	695	446	346	361
Acquisitions, disposals	348	41	0	0	0
Other investment CF	0	0	0	0	0
Dividends paid	-306	-418	-128	-163	-138
Buybacks, issuance	0	0	0	0	0
Change in net debt	-38	-42	318	129	0
Net debt	3,706	4,060	3,741	3,559	3,336
FCF per share	0.20	2.00	1.28	1.00	1.04

### Growth and margins

	2013	2014	2015E	2016E	2017E
Revenue growth	2.9%	-13.2%	-4.5%	-0.5%	-0.1%
EBITDA growth	5.3%	-37.9%	12.1%	-13.2%	6.6%
EBIT growth	-2.4%	-49.8%	5.3%	-11.0%	12.1%
EPS adj growth	49.1%	-78.4%	101.2%	-9.7%	17.3%
FCF growth	49.3%	897.7%	-35.8%	-22.4%	4.3%
EBITDA margin	39.8%	28.5%	33.5%	29.2%	31.2%
EBIT margin	28.6%	16.5%	18.2%	16.3%	18.3%
Net income margin	11.8%	7.6%	9.3%	8.4%	9.9%
FCF margin	2.1%	24.5%	16.5%	12.8%	13.4%

### Key ratios

	2013	2014	2015E	2016E	2017E
Net debt / equity	66.7%	76.9%	68.1%	63.4%	57.6%
Net debt / EBITDA	2.8x	5.0x	4.1x	4.5x	4.0x
Avg cost of debt	3.3%	4.6%	3.5%	2.8%	2.8%
Tax rate	15.1%	66.6%	22.0%	25.0%	25.0%
Interest cover	8.1x	2.6x	3.6x	4.3x	5.1x
Payout ratio	59.9%	80.6%	54.6%	50.0%	50.0%
ROCE	9.6%	5.1%	5.4%	4.8%	5.4%
Capex / sales	23.6%	0.8%	10.3%	10.4%	11.4%
Capex / depreciation	214.5%	5.8%	80.0%	80.7%	88.7%

### Valuation metrics

	2013	2014	2015E	2016E	2017E
P / adjusted EPS	8.1x	37.8x	18.8x	20.8x	17.7x
P / book value	0.9x	0.9x	0.9x	0.8x	0.8x
FCF yield	1.5%	14.7%	9.4%	7.3%	7.6%
Dividend yield	7.4%	2.1%	2.9%	2.4%	2.8%
EV / sales	2.9x	3.3x	3.4x	3.3x	3.2x
EV / EBITDA	7.4x	11.6x	10.0x	11.3x	10.4x
EV / EBIT	10.3x	20.1x	18.5x	20.3x	17.7x
EV / FCF	138.0x	13.5x	20.4x	25.7x	24.1x
EV / cap. employed	0.8x	0.9x	0.8x	0.8x	0.8x

### Key risks to our investment thesis

- Power prices and commodities fail to pick up or fall further from current levels.
- Earnings from ancillary services/congestion management disappoint as the market becomes less volatile and in less need of instant balancing power.
- Hydro output falls on the back of lower rainfall.

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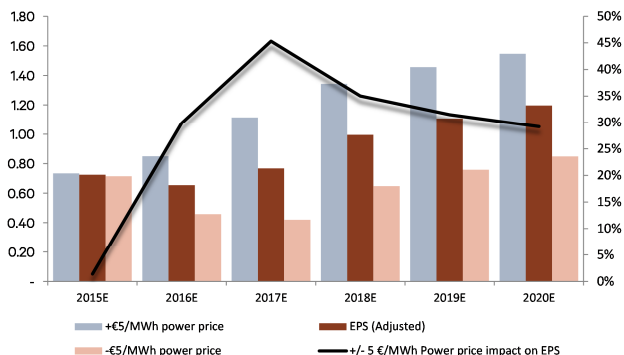
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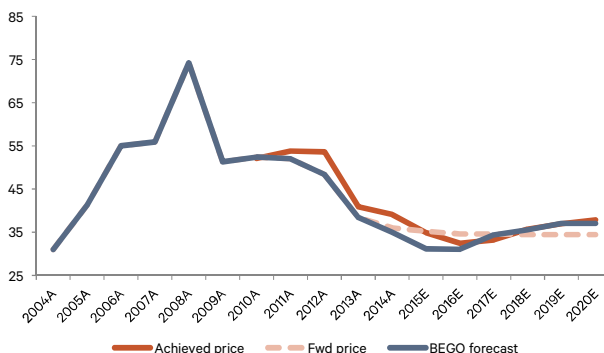
### Verbund AG – investment thesis in pictures

#### EPS is highly sensitive to power price assumptions



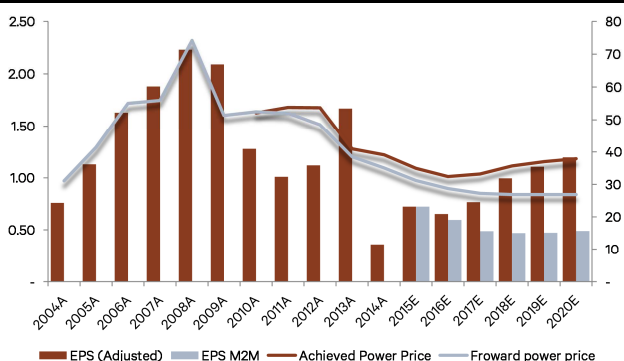
Source: Berenberg estimates

#### Our base case power price assumption is above market



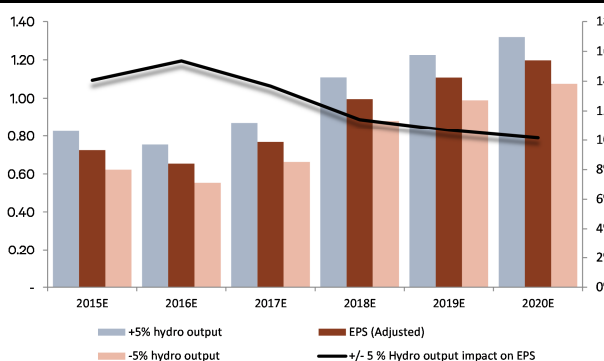
Source: Berenberg estimates

#### Mark-to-market EPS would be 10% to 60% lower (€ & €/MWh)



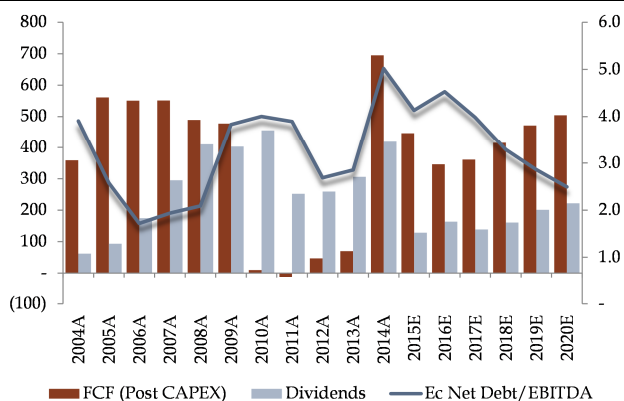
Source: Berenberg estimates

#### Hydro output is also key to EPS, but it is a guess



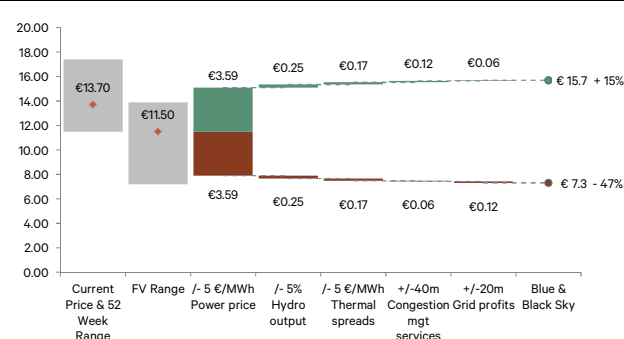
Source: Berenberg estimates

#### Dividend and cash flow allow balance sheet repair (€ m)



Source: Berenberg estimates

#### Blue sky/black sky has a wide spread



Source: Berenberg estimates

## Verbund AG – investment thesis

**What's new:** We have updated our forecasts to reflect the boost from congestion management services, downward moves in commodity prices, hydro output and impairments.

### Key investment points summary

#### Key investment point one: power price upside is not enough

- Key stat: Verbund's net income changes by +/- 25% to 35% for a €5/MWh move in the power price.
- We believe the current forward curve for German (and Austrian) power prices is somewhat bearish. We expect electricity prices to rise by 26% to €34/MWh by 2017, driven by carbon increasing to €15/tonne. Higher coal prices in 2019 could drive this to €37/MWh.
- Mark-to-market EPS estimates would be 10% to 30% lower in 2016-20.

#### Key investment point two: hydro output is vital, but a stab in the dark

- Key stat: a 10% shift in hydro output has an impact of up to c15% on EPS.
- We assume a hydro coefficient of 0.95 (ie 95% of norm) for 2015. At 9m 2015, the coefficient stood at 0.94 so we are assuming a slightly wetter Q415.
- For future years, we assume a coefficient of 100%.

#### **Other key investment points**

- Dividend policy is achievable
- Balance sheet should see a steady improvement
- Mellach disposal on the cards; all down to price
- Cost cutting at an end

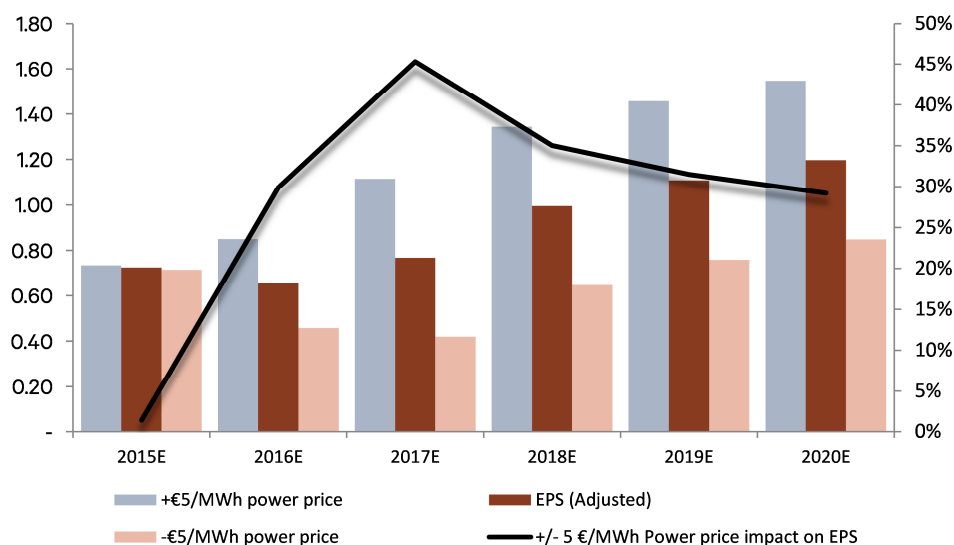
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- Mark-to-market EPS estimates would be 10% to 30% lower in 2016-20.

### EPS is highly sensitive to power prices

A €5/MWh move in the power price would affect EPS by 30% to 45% in 2016-20. There is virtually no impact for 2015 as the company is 97% hedged.

EPS sensitivity to different power prices



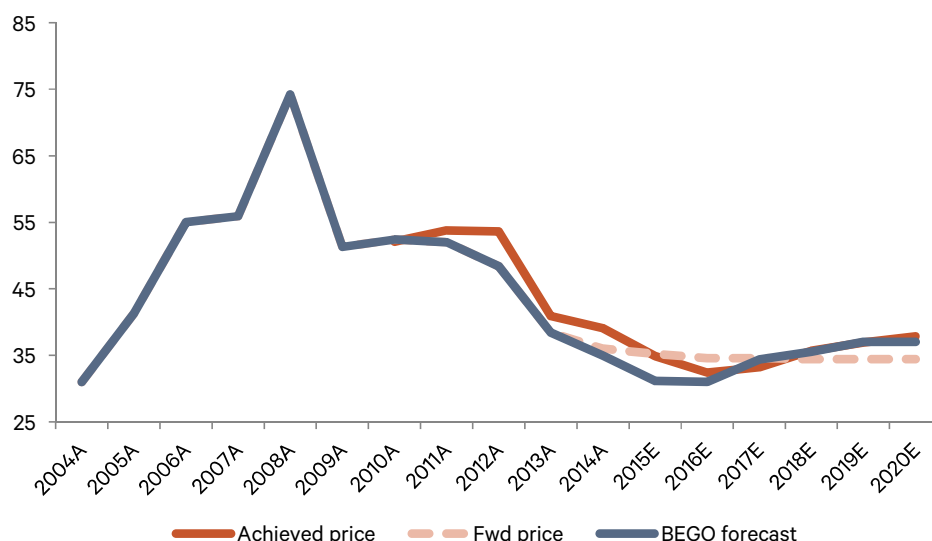
Source: Berenberg estimates



### Base-case power price view is more bullish than the forward curve

The German power market is over-supplied, but we have a bullish outlook on power prices, driven by a recovery in carbon prices. To a lesser extent, we expect coal prices to recover, but that is more of a 2019 event.

#### Our power price forecasts versus forward curve (€/MWh)



Source: Berenberg estimates, Bloomberg

We expect carbon to rally to €10/t (from €8.3/t currently) in 2016 and €15/t in 2017. The key drivers of higher carbon prices are:

- a reduction of surplus permits;
- adoption of the Market Stability Reserve (MSR);
- removal of back-loaded permits; and
- more-aggressive 2030 targets.

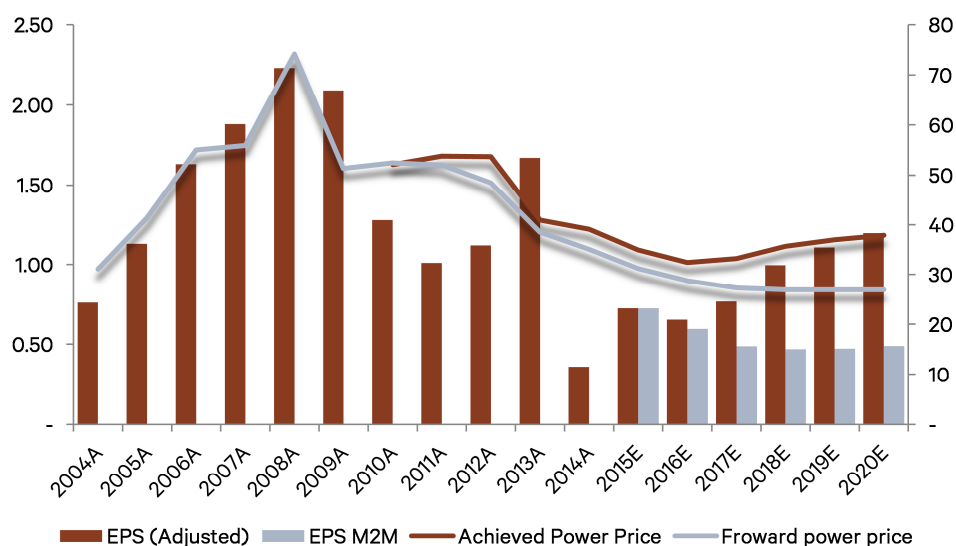
We expect coal prices to reach \$55/t in 2019 from \$46/t currently. The key drivers for higher coal prices are:

- capacity closures (many mines are operating at a loss);
- demand (India replacing falling Chinese imports); and
- regulation reducing illegal mining (Indonesia).

### Mark-to-market EPS estimates 10-60% lower in 2016-20

Below we show the impact of marking our estimates to market. There would be a pronounced impact starting from 2016 as Verbund's hedges begin to roll off.

EPS base case/mark to market (€, LHS); power price achieved/forward curve (€/MWh RHS)



Source: Company reports, Berenberg estimates

Below, we provide our Berenberg Utility Dispatch (BUD) models for Germany and our snapshot on the carbon market.

### BUD: German electricity market snapshot

#### Stats

<b>Total capacity:</b>	204.3GW
<b>Demand range:</b>	42.8-77.9GW
<b>Plants/projects analysed:</b>	4,280
<b>Marginal fuel:</b>	Coal

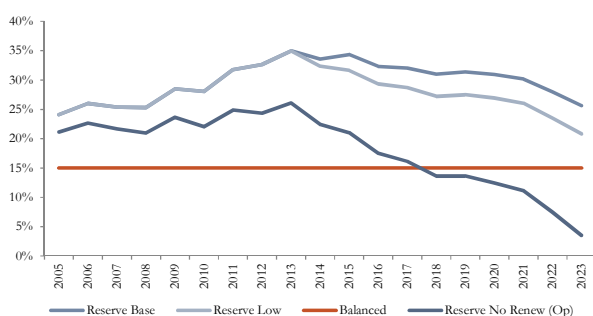
Source: Berenberg estimates, Platts, Bloomberg

#### Key points

- Market over-supplied for the foreseeable future.
- But without renewables the market becomes tight from 2017 onwards.
- Therefore, the need for immediate capacity payments is low.
- Gas set to remain out of the money.

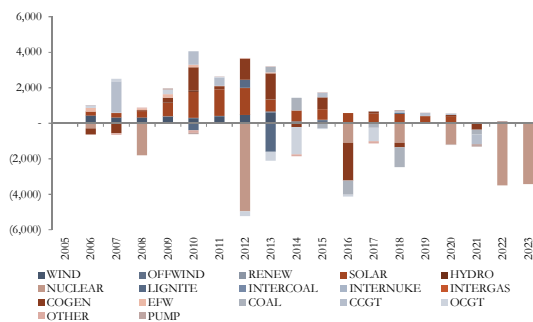
Source: Berenberg estimates, Platts, Bloomberg

#### Reserve margin excess for many years



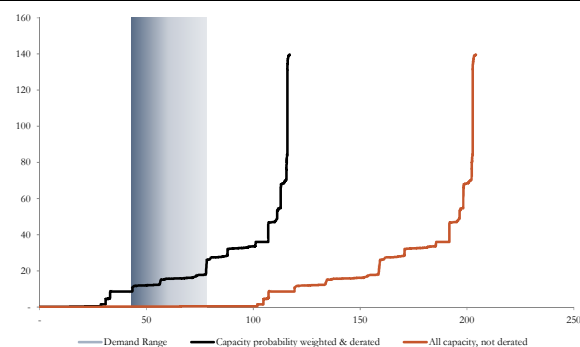
Source: Berenberg estimates, Platts, Bloomberg

#### Capacity additions/retirements (probability weighted)



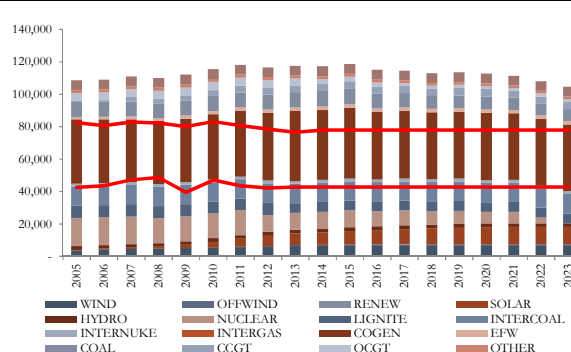
Source: Berenberg estimates, Platts, Bloomberg

#### Supply curve with and without renewables



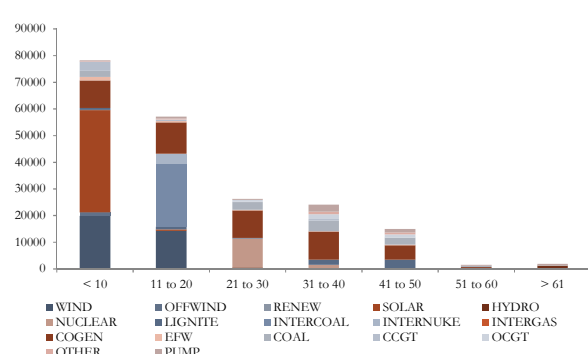
Source: Berenberg estimates, Platts, Bloomberg. Note: y-axis €/MWh, x-axis MW

#### Rolling merit order (MW)



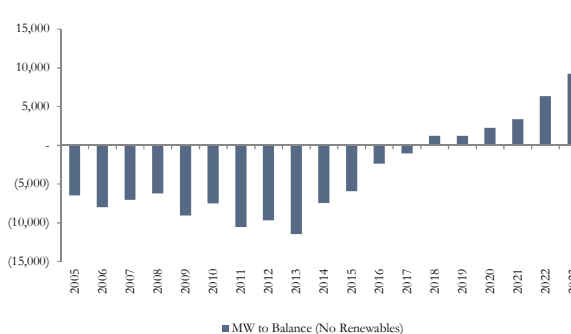
Source: Berenberg estimates, Platts, Bloomberg

#### Age distribution of plant



Source: Berenberg estimates, Platts, Bloomberg

#### Capacity needed to back up renewables (MW)

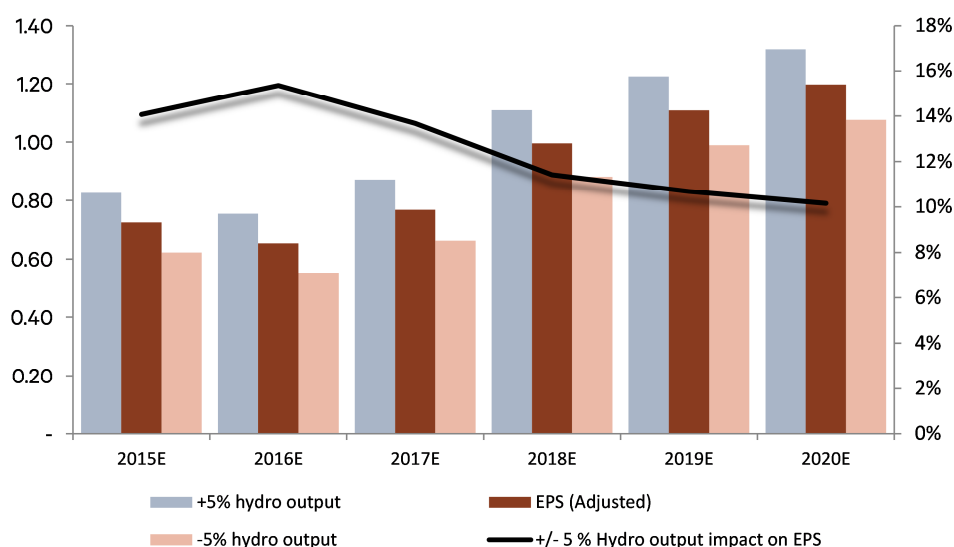


Source: Berenberg estimates, Platts, Bloomberg

### Key investment point two: Hydro output is vital, but a stab in the dark

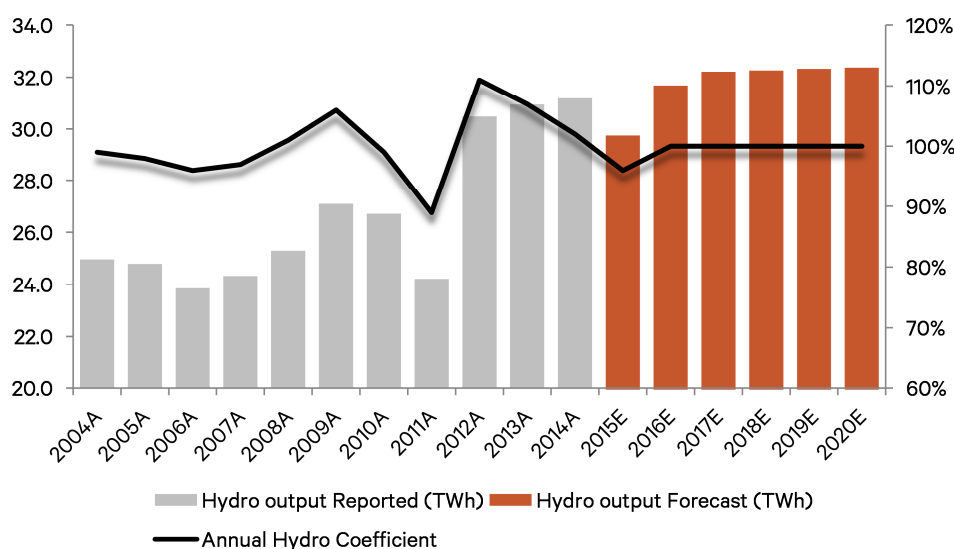
- Key stat: a 10% shift in hydro output has an impact of up to c15% on EPS.
- We assume a hydro coefficient of 0.95 (ie 95% of norm) for 2015. At 9m 2015, the coefficient stood at 0.94 so we are assuming a slightly wetter Q415.
- For future years, we assume a coefficient of 100%.

Impact of hydro output on EPS



Source: Berenberg estimates

Hydro output (TWh) and coefficient (as % of a normal year)



Source: Company reports, Berenberg estimates

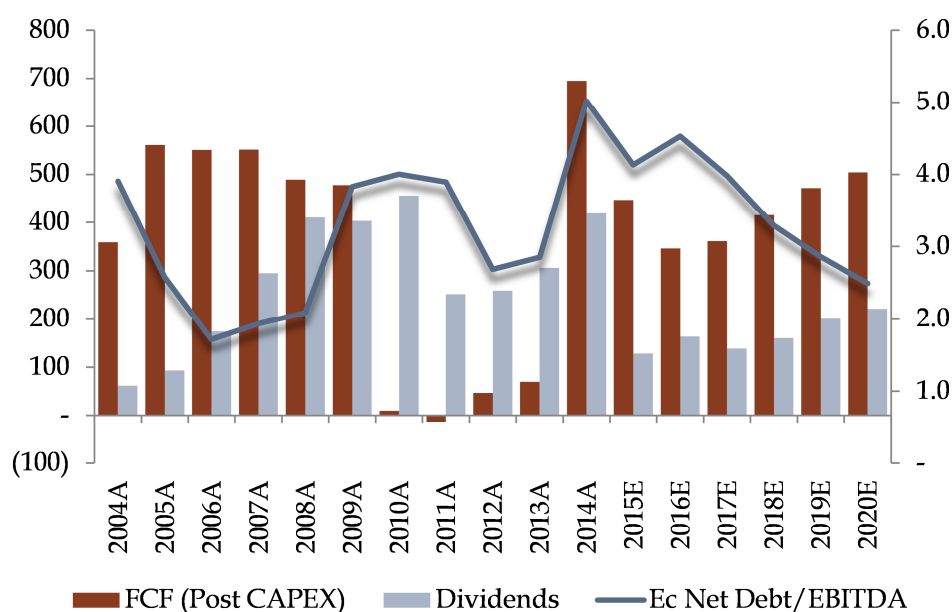
### Other key investment points

- Dividend policy is sensible
- Balance sheet should see a steady improvement
- Mellach disposal on the cards; all down to price
- Cost cutting at an end

### Dividend policy is achievable

The 50% payout ratio of adjusted net income will allow Verbund to cover the dividend with cash flow and reduce net debt. Consequently, to us, the dividend payout looks sensible.

Dividend policy allows cash flow to cover the dividend and repair balance sheet (€ m)

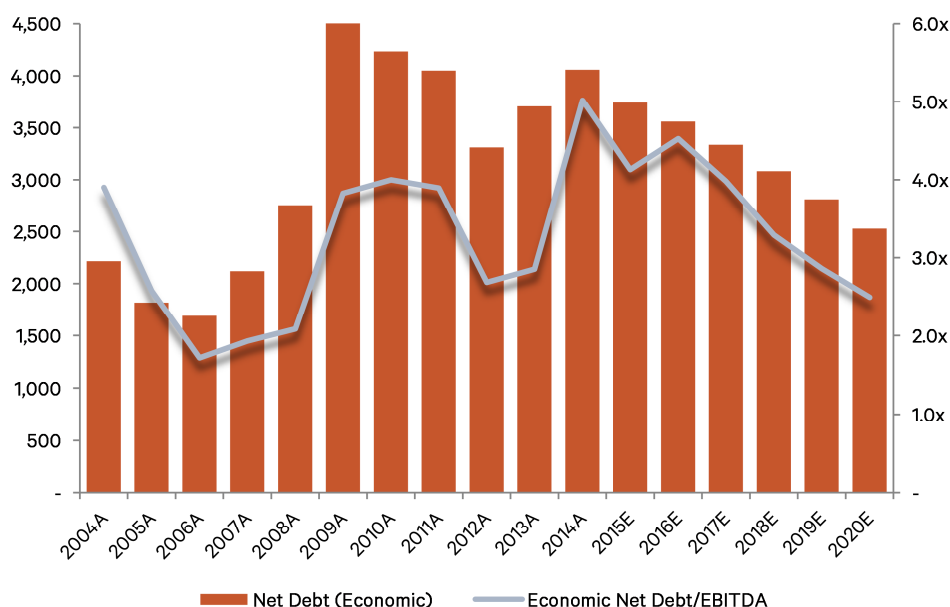


Source: Company reports, Berenberg estimates

### Balance sheet should see a steady improvement

Despite net debt/EBITDA hitting 5.0x in 2014, we expect a steady improvement in the coming years, down to 1.9x by 2020. Even with no power price recovery, ie current prices prevail, we would expect gearing to fall to 3.6x by 2020.

Gearing and net debt fall on our base case assumption (€ m)



Source: Company reports, Berenberg estimates

### Mellach disposal on the cards; all down to price

Management said on the conference call that it has parties interested in acquiring the Mellach combined cycle gas turbine (CCGT) plant. Mellach is a brand new, state-of-the-art CCGT, but it has been rendered uneconomic by the current power price. Verbund has, therefore, had to make write downs, the latest of which is €58m. Will this be a good deal? It all depends on the disposal price.

### Cost cutting at an end

We assume no significant further cost cutting beyond this year's €65m. A €20m after-tax cost saving is worth less than 5% of EPS.

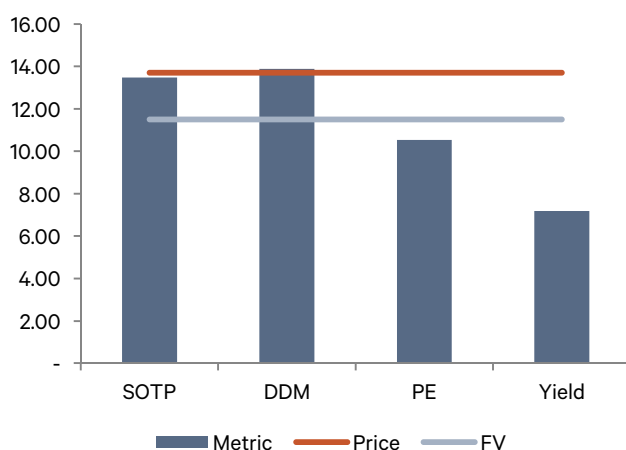
### Valuation

- Our price target is €11.5/share, representing 16% downside to the current share price.
- We use a blended valuation approach for Verbund, utilising SOTP, DDM, P/E and yield valuations.

### Summary

The charts below illustrate our valuation under each metric and the upside/downside to the current share price.

#### Valuation under different metrics



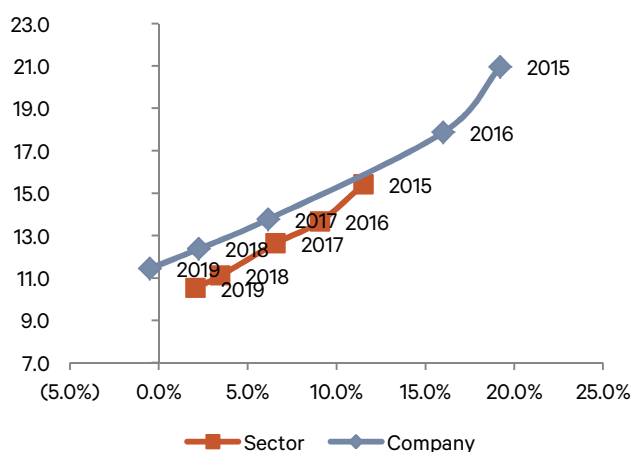
Source: Berenberg estimates

#### SOTP valuation

	Value	€/Share	2016 EV/ EBITDA	Method
Electricity	8,050	23.17	11.7	DCF
Grid	979	2.82	6.6	DCF
Equity Interests & Services	(289)	(0.83)	14.3	DCF
Other	93	0.27	(3.0)	DCF
<b>Enterprise Value</b>	<b>8,833</b>	<b>25.42</b>	<b>11.2</b>	
Debt	(3,162)	(9.10)	(4.0)	2016E
Provisions	(432)	(1.24)	(0.5)	2016E
Other	35	0.10	0.0	2016E
Minorities	(591)	(1.70)	(0.8)	2016E
<b>Liabilities</b>	<b>(4,150)</b>	<b>(11.95)</b>	<b>(5.3)</b>	
<b>Equity</b>	<b>4,683</b>	<b>13.48</b>		
NOSH	347			2016E
<b>Equity per Share</b>	<b>13.48</b>			
DPS	-			
<b>Sum of the Parts</b>	<b>13.48</b>			

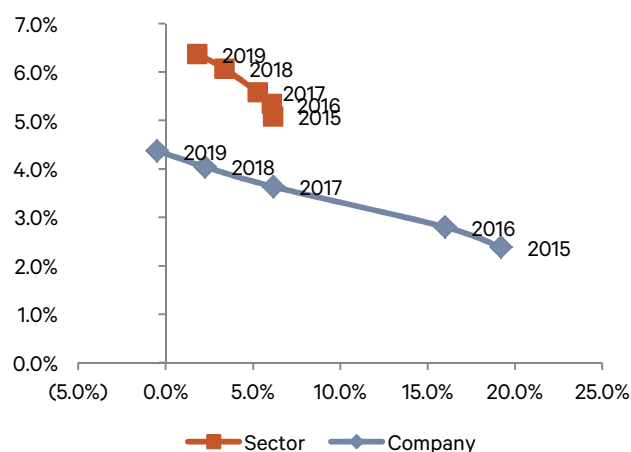
Source: Berenberg estimates

#### P/E versus EPS growth



Source: Berenberg estimates using three-year forward EPS CAGR

#### Dividend yield versus DPS growth

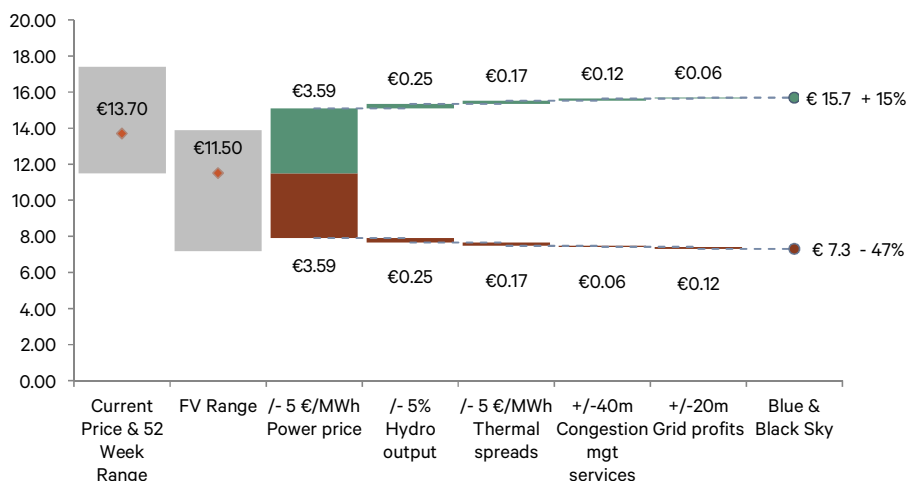


Source: Berenberg estimates using three-year forward DPS CAGR

### Blue-sky/black-sky valuation

Our blue-sky/black-sky price target range is €15.7/€7.3 per share. Our blue-sky price target gives 15% upside, whereas our black-sky price target gives 47% downside. Below, we highlight the drivers of our blue-sky/black-sky scenarios.

#### Blue-sky/black-sky valuation (€/share)



Source: Berenberg

#### Blue-sky/black-sky valuation (€/share)

Driver	Bull €/share	Bear €/share	Assumptions
Base Case Valuation	11.5	11.5	
+/- 5 €/MWh Power price	3.6	(3.6)	
+/- 5% Hydro output	0.3	(0.3)	
+/- 5 €/MWh Thermal spreads	0.2	(0.2)	
+/-40m Congestion mgt services	0.1	(0.1)	IFRS introduces volatility vs reg a/cs
+/-20m Grid profits	0.1	(0.1)	Impact from system volatility
<b>Blue &amp; Black Sky Valuation</b>	<b>15.7</b>	<b>7.3</b>	
Upside/(Downside) from share price	15%	(47%)	

Source: Berenberg



## Sensitivity analysis

### Sensitivity analysis

Sensitivities	2013A	2014A	2015E	2016E	2017E	2018E
<b>EBITDA Sensitivity* to</b>						
+/- 5 % Hydro output	5%	7%	5%	6%	6%	6%
+/- 5 €/MWh Power price	0%	0%	1%	12%	19%	17%
+/- 5 €/MWh Thermal spreads	0%	0%	0%	1%	1%	1%
<b>Net Income Sensitivity* to</b>						
+/- 5 % Hydro output	11%	20%	14%	15%	14%	11%
+/- 5 €/MWh Power price	0%	0%	1%	30%	45%	35%
+/- 5 €/MWh Thermal spreads	0%	0%	0%	2%	2%	2%

\* N.B: Sensitivities take account of current hedged positions.

Source: Berenberg

## Changes to numbers: Berenberg versus consensus

We have made the following changes to our forecasts:

### Estimate changes

Estimate Changes	2013A	2014A	2015E	2016E	2017E	2018E
<b>EBITDA (New - as reported; € m)</b>	<b>1,301</b>	<b>809</b>	<b>906</b>	<b>787</b>	<b>838</b>	<b>938</b>
EBITDA (Old - as reported; € m)	1,155	844	783	870	1,077	1,244
Change	+13%	-4%	+16%	-10%	-22%	-25%
<b>EBIT (New - as reported; € m)</b>	<b>933</b>	<b>468</b>	<b>492</b>	<b>438</b>	<b>491</b>	<b>592</b>
EBIT (Old - as reported; € m)	965	458	397	482	684	847
Change	-3%	+2%	+24%	-9%	-28%	-30%
<b>EPS (New - as reported; €)</b>	<b>1.67</b>	<b>0.36</b>	<b>0.72</b>	<b>0.65</b>	<b>0.77</b>	<b>1.00</b>
EPS (Old - as reported; €)	1.67	0.63	0.51	0.68	1.10	1.46
Change	+0%	-42%	+41%	-5%	-30%	-32%
<b>DPS (New - as reported; €)</b>	<b>1.00</b>	<b>0.29</b>	<b>0.40</b>	<b>0.33</b>	<b>0.38</b>	<b>0.50</b>
DPS (Old - as reported; €)	1.00	0.31	0.26	0.34	0.55	0.73
Change	+0%	-7%	+54%	-5%	-30%	-32%

Source: Berenberg

The main changes to our assumptions include:

- rebasing of commodity and power price assumptions; and
- updating for Q315.

### Berenberg versus consensus

Berenberg Forecasts vs Consensus	2013A	2014A	2015E	2016E	2017E	2018E
<b>EBITDA* (€ m)</b>	<b>1,301</b>	<b>809</b>	<b>906</b>	<b>787</b>	<b>838</b>	<b>938</b>
Consensus (Average)	1,224	800	855	800	806	773
Berenberg +/- vs Cons	+6%	+1%	+6%	-2%	+4%	+21%
<b>EBIT* (€ m)</b>	<b>933</b>	<b>468</b>	<b>492</b>	<b>438</b>	<b>491</b>	<b>592</b>
Consensus (Average)	820	306	481	433	429	417
Berenberg +/- vs Cons	+14%	+53%	+2%	+1%	+14%	+42%
<b>Net Income* (€ m)</b>	<b>384</b>	<b>216</b>	<b>252</b>	<b>227</b>	<b>267</b>	<b>346</b>
Consensus (Average)	373	204	249	222	228	231
Berenberg +/- vs Cons	+3%	+6%	+1%	+2%	+17%	+50%
<b>EPS* (€)</b>	<b>1.67</b>	<b>0.36</b>	<b>0.72</b>	<b>0.65</b>	<b>0.77</b>	<b>1.00</b>
Consensus (Average)	1.13	0.58	0.71	0.63	0.67	0.61
Berenberg +/- vs Cons	+48%	-38%	+3%	+4%	+14%	+63%
<b>DPS (€)</b>	<b>1.00</b>	<b>0.29</b>	<b>0.40</b>	<b>0.33</b>	<b>0.38</b>	<b>0.50</b>
Consensus (Average)	1.00	0.30	0.36	0.32	0.33	0.27
Berenberg +/- vs Cons	+0%	-2%	+11%	+4%	+16%	+84%

\* Based on company's definition of metric

Source: Berenberg estimates, Bloomberg

## Key assumptions

### Key assumptions

Power Price Forecasts		2014A	2015E	2016E	2017E	2018E	2019E	2020E
Country	Unit							
UK (Local)	£/MWh	47.0	46.8	46.1	46.8	47.3	48.4	47.7
UK (EUR)	EUR/MWh	58.5	63.1	64.9	65.6	66.2	67.7	66.8
Germany	EUR/MWh	35.0	31.1	31.1	34.4	35.5	37.0	37.0
Nordic	EUR/MWh	33.1	29.2	22.6	27.0	27.9	29.4	29.4
Italy	EUR/MWh	52.9	53.8	46.0	46.8	50.9	50.9	50.9
Benelux	EUR/MWh	47.0	41.1	39.4	44.6	46.0	47.5	47.5
France	EUR/MWh	47.0	41.1	39.4	44.6	46.0	47.5	47.5
Spain/Portugal	EUR/MWh	47.0	44.9	49.8	54.6	56.0	57.5	57.5

Fuel Price Forecasts		2014A	2015E	2016E	2017E	2018E	2019E	2020E
Fuel	Unit							
Oil (Brent)	\$/bbl	101.9	45.8	52.0	56.7	56.7	56.7	56.7
Coal	\$/t	78.3	57.0	46.1	45.1	50.1	55.1	55.1
Gas (Europe LTC)	EUR/MWh	26.4	26.4	26.4	26.4	26.4	26.4	26.4
Gas (Italy)	EUR/MWh	23.2	23.3	23.3	23.3	23.3	23.3	23.3
Gas (UK) £	£/MWh	14.1	12.9	10.8	10.6	10.2	10.2	10.2
Carbon UK floor	£/t	14.3	20.0	22.0	24.0	26.0	28.0	28.7
US Gas Henry Hub	\$/MWh	14.7	50.1	9.3	10.1	10.2	10.5	10.9
Uranium	EUR/MWh	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Carbon	EUR/t	6.0	7.5	10.0	15.0	15.0	15.0	15.0

Year end currency rates		2014A	2015E	2016E	2017E	2018E	2019E	2020E
EURGBP		0.78	0.71	0.71	0.71	0.71	0.71	0.71
EURTRY		2.83	3.12	3.48	3.48	3.48	3.48	3.48
EURSEK		9.44	9.30	9.30	9.30	9.30	9.30	9.30
EURUSD		1.21	1.07	1.09	1.09	1.09	1.09	1.09
EURRUB		73.50	71.32	78.97	78.97	78.97	78.97	78.97
EURMXN		17.84	17.99	18.76	18.76	18.76	18.76	18.76
USDBRL		2.66	3.81	4.26	4.26	4.26	4.26	4.26

Inflation		2014A	2015E	2016E	2017E	2018E	2019E	2020E
Central Europe		0.8%	0.2%	1.1%	1.6%	1.6%	1.6%	1.6%
Eastern Europe		5.7%	8.9%	5.8%	5.1%	5.1%	5.1%	5.1%
UK		1.5%	0.1%	1.5%	1.9%	1.9%	1.9%	1.9%
Nordic		0.4%	0.1%	1.3%	1.7%	1.7%	1.7%	1.7%
Spain/Portugal		-0.2%	-0.1%	0.8%	1.5%	1.5%	1.5%	1.5%
US		1.6%	0.2%	2.0%	2.3%	2.3%	2.3%	2.3%

Industrial production		2014A	2015E	2016E	2017E	2018E	2019E	2020E
Eurozone		0.8%	1.4%	1.7%	2.1%	2.1%	2.1%	2.1%
China		8.3%	5.8%	5.0%	4.4%	4.4%	4.4%	4.4%
France		-1.1%	1.0%	1.3%	1.7%	1.7%	1.7%	1.7%
Germany		1.3%	1.2%	0.8%	2.2%	2.2%	2.2%	2.2%
Italy		-0.5%	1.1%	1.7%	1.6%	1.6%	1.6%	1.6%
Portugal		1.8%	2.5%	2.6%	2.4%	2.4%	2.4%	2.4%
Spain		1.3%	2.8%	2.2%	2.4%	2.4%	2.4%	2.4%
UK		1.4%	1.1%	1.9%	1.5%	1.5%	1.5%	1.5%

Source: Berenberg

## Financials

### Income statement

Income Statement (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Revenue	3,267	2,835	2,707	2,695	2,691	2,832	2,883	2,920
<b>Reported EBITDA</b>	<b>1,301</b>	<b>809</b>	<b>906</b>	<b>787</b>	<b>838</b>	<b>938</b>	<b>984</b>	<b>1,016</b>
Change	+5%	-38%	+12%	-13%	+7%	+12%	+5%	+3%
Margin	+40%	+29%	+33%	+29%	+31%	+33%	+34%	+35%
Depreciation	(360)	(393)	(350)	(348)	(347)	(346)	(345)	(344)
Other OPEX	(9)	52	(64)	-	-	-	-	-
<b>Reported EBIT</b>	<b>933</b>	<b>468</b>	<b>492</b>	<b>438</b>	<b>491</b>	<b>592</b>	<b>639</b>	<b>672</b>
Change	-2%	-50%	+5%	-11%	+12%	+20%	+8%	+5%
Margin	+29%	+17%	+18%	+16%	+18%	+21%	+22%	+23%
Net Financial Expenses	(116)	(178)	(137)	(103)	(96)	(89)	(81)	(72)
Tax	(79)	(98)	(86)	(92)	(107)	(134)	(148)	(158)
Other	(288)	79	33	33	33	33	33	33
Minorities	(66)	(54)	(52)	(49)	(55)	(56)	(59)	(59)
<b>Reported Net Income</b>	<b>384</b>	<b>216</b>	<b>252</b>	<b>227</b>	<b>267</b>	<b>346</b>	<b>385</b>	<b>416</b>
Change	-39%	-44%	+17%	-10%	+17%	+30%	+11%	+8%
Margin	+12%	+8%	+9%	+8%	+10%	+12%	+13%	+14%
Number of Shares	347	347	347	347	347	347	347	347
<b>Per Share:</b>								
Basic EPS	1.67	0.36	0.72	0.65	0.77	1.00	1.11	1.20
Change	+49%	-78%	+101%	-10%	+17%	+30%	+11%	+8%
<b>Reported EPS</b>	<b>1.67</b>	<b>0.36</b>	<b>0.72</b>	<b>0.65</b>	<b>0.77</b>	<b>1.00</b>	<b>1.11</b>	<b>1.20</b>
Change	+49%	-78%	+101%	-10%	+17%	+30%	+11%	+8%
<b>DPS</b>	<b>1.00</b>	<b>0.29</b>	<b>0.40</b>	<b>0.33</b>	<b>0.38</b>	<b>0.50</b>	<b>0.55</b>	<b>0.60</b>
Change	+67%	-71%	+36%	-17%	+17%	+30%	+11%	+8%
Payout	60%	81%	55%	50%	50%	50%	50%	50%
<b>Adjusted to Berenberg Definition:</b>								
<b>EBITDA</b>	<b>1,301</b>	<b>809</b>	<b>906</b>	<b>787</b>	<b>838</b>	<b>938</b>	<b>984</b>	<b>1,016</b>
Change	+5%	-38%	+12%	-13%	+7%	+12%	+5%	+3%
<b>EBIT</b>	<b>933</b>	<b>468</b>	<b>492</b>	<b>438</b>	<b>491</b>	<b>592</b>	<b>639</b>	<b>672</b>
Change	-2%	-50%	+5%	-11%	+12%	+20%	+8%	+5%
<b>EPS</b>	<b>1.67</b>	<b>0.36</b>	<b>0.72</b>	<b>0.65</b>	<b>0.77</b>	<b>1.00</b>	<b>1.11</b>	<b>1.20</b>
Change	+49%	-78%	+101%	-10%	+17%	+30%	+11%	+8%

Source: Berenberg

**Divisional EBITDA**

Electricity (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenue</b>	<b>2,728</b>	<b>2,375</b>	<b>2,170</b>	<b>2,151</b>	<b>2,195</b>	<b>2,283</b>	<b>2,329</b>	<b>2,360</b>
Change	+2%	-13%	-9%	-1%	+2%	+4%	+2%	+1%
% Group	+83%	+84%	+80%	+80%	+82%	+81%	+81%	+81%
<b>EBITDA</b>	<b>1,167</b>	<b>747</b>	<b>732</b>	<b>690</b>	<b>730</b>	<b>812</b>	<b>856</b>	<b>886</b>
Change	+1%	-36%	-2%	-6%	+6%	+11%	+5%	+4%
Margin	+4.3%	+31%	+34%	+32%	+33%	+36%	+37%	+38%
% Group	+90%	+92%	+81%	+88%	+87%	+87%	+87%	+87%
<b>EBIT</b>	<b>147</b>	<b>401</b>	<b>402</b>	<b>428</b>	<b>471</b>	<b>556</b>	<b>603</b>	<b>636</b>
Change	-84%	+173%	+0%	+6%	+10%	+18%	+8%	+5%
Margin	+5%	+17%	+19%	+20%	+21%	+24%	+26%	+27%
% Group	+16%	+86%	+82%	+98%	+96%	+94%	+94%	+95%

Grid (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenue</b>	<b>523</b>	<b>449</b>	<b>527</b>	<b>533</b>	<b>486</b>	<b>538</b>	<b>544</b>	<b>549</b>
Change	+9%	-14%	+17%	+1%	-9%	+11%	+1%	+1%
% Group	+16%	+16%	+19%	+20%	+18%	+19%	+19%	+19%
<b>EBITDA</b>	<b>200</b>	<b>128</b>	<b>226</b>	<b>148</b>	<b>160</b>	<b>177</b>	<b>179</b>	<b>181</b>
Change	+197%	-36%	+77%	-34%	+8%	+11%	+1%	+1%
Margin	+38%	+28%	+4.3%	+28%	+33%	+33%	+33%	+33%
% Group	+15%	+16%	+25%	+19%	+19%	+19%	+18%	+18%
<b>EBIT</b>	<b>84</b>	<b>58</b>	<b>151</b>	<b>71</b>	<b>80</b>	<b>96</b>	<b>96</b>	<b>95</b>
Change	+3146%	-31%	+160%	-53%	+14%	+19%	-0%	-0%
Margin	+16%	+13%	+29%	+13%	+17%	+18%	+18%	+17%
% Group	+9%	+12%	+31%	+16%	+16%	+16%	+15%	+14%

Equity Interests & Services (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenue</b>	<b>16</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>
Change	-7%	-33%	+0%	+0%	+0%	+0%	+0%	+0%
% Group	+0%	+0%	+0%	+0%	+0%	+0%	+0%	+0%
<b>EBITDA</b>	<b>(28)</b>	<b>(25)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>
Change	-27%	-9%	-20%	+0%	+0%	+0%	+0%	+0%
Margin	-177%	-239%	-192%	-192%	-192%	-192%	-192%	-192%
% Group	-2%	-3%	-2%	-3%	-2%	-2%	-2%	-2%
<b>EBIT</b>	<b>(47)</b>	<b>(35)</b>	<b>(29)</b>	<b>(29)</b>	<b>(29)</b>	<b>(29)</b>	<b>(29)</b>	<b>(28)</b>
Change	-3%	-24%	-17%	-1%	-1%	-1%	-1%	-1%
Margin	-295%	-334%	-276%	-275%	-273%	-271%	-269%	-268%
% Group	-5%	-8%	-6%	-7%	-6%	-5%	-4%	-4%

Other* (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
<b>EBITDA</b>	<b>(38)</b>	<b>(41)</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>
o/w Unallocated Cost Savings	-	-	-	-	-	-	-	-
o/w Unallocated Aqn / Disp	-	-	-	-	-	-	-	-
% Group	-3%	-5%	-3%	-4%	-4%	-3%	-3%	-3%
<b>EBIT</b>	<b>748</b>	<b>44</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>	<b>(31)</b>
o/w Unallocated Cost Savings	-	-	-	-	-	-	-	-
o/w Unallocated Aqn / Disp	-	-	-	-	-	-	-	-
% Group	+80%	+9%	-6%	-7%	-6%	-5%	-5%	-5%

\* Includes, if applicable, other group income/costs and unallocated cost savings, CAPEX returns and acquisitions and disposals

Source: Berenberg

### Cash flow statement

Cash Flow (€ m)	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E
Net Income	645	181	303	277	321	402	443	475
Depreciation	360	393	350	348	347	346	345	344
Working Capital	56	212	23	2	1	(25)	(9)	(7)
Other Operating Cash Flow	(220)	(68)	50	-	-	-	-	-
<b>Operating Cash Flow</b>	<b>841</b>	<b>718</b>	<b>726</b>	<b>627</b>	<b>669</b>	<b>723</b>	<b>779</b>	<b>812</b>
CAPEX	(772)	(23)	(280)	(281)	(308)	(308)	(308)	(308)
<b>FCF (Post CAPEX)</b>	<b>70</b>	<b>695</b>	<b>446</b>	<b>346</b>	<b>361</b>	<b>415</b>	<b>471</b>	<b>504</b>
Acquisitions and Disposals	348	41	-	-	-	-	-	-
<b>FCF (p. CAPEX, Aq&amp;D)</b>	<b>417</b>	<b>736</b>	<b>446</b>	<b>346</b>	<b>361</b>	<b>415</b>	<b>471</b>	<b>504</b>
Other Investment Cash Flow	-	-	-	-	-	-	-	-
Dividends	(306)	(418)	(128)	(163)	(138)	(161)	(201)	(222)
<b>FCF (p. CAPEX, Aq&amp;D, Divs)</b>	<b>112</b>	<b>317</b>	<b>318</b>	<b>183</b>	<b>223</b>	<b>254</b>	<b>270</b>	<b>283</b>
Buybacks and Equity Issuance	-	-	-	-	-	-	-	-
Borrowings	229	590	-	(54)	(223)	(254)	(270)	(283)
Other Financing, Disc and FX	(379)	(949)	-	-	(0)	0	(0)	(0)
<b>Net Change in Group Cash</b>	<b>(38)</b>	<b>(42)</b>	<b>318</b>	<b>129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Berenberg

**Balance sheet statement**

<b>Balance Sheet (€ m)</b>	<b>2013A</b>	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Intangible Fixed Assets	799	796	796	796	796	796	796	796
PP&E	9,465	9,437	9,367	9,299	9,260	9,222	9,184	9,148
Other Non-Current Assets	828	934	934	934	934	934	934	934
<b>Total Non-Current Assets</b>	<b>11,092</b>	<b>11,167</b>	<b>11,097</b>	<b>11,029</b>	<b>10,990</b>	<b>10,952</b>	<b>10,914</b>	<b>10,878</b>
Inventories and Receivables	1,521	1,029	983	978	977	1,028	1,047	1,060
Cash	83	42	360	489	489	489	489	489
Other Liquid Assets	-	-	-	-	-	-	-	-
Other Current Assets	-	-	-	-	-	-	-	-
Assets Held for Sale	137	10	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>1,741</b>	<b>1,081</b>	<b>1,343</b>	<b>1,467</b>	<b>1,466</b>	<b>1,517</b>	<b>1,536</b>	<b>1,549</b>
<b>Total Assets</b>	<b>12,833</b>	<b>12,247</b>	<b>12,439</b>	<b>12,497</b>	<b>12,456</b>	<b>12,469</b>	<b>12,450</b>	<b>12,427</b>
Short-Term Debt	(654)	(806)	(806)	(806)	(806)	(806)	(806)	(806)
Payables	(665)	(517)	(494)	(492)	(491)	(517)	(526)	(533)
Provisions	(159)	(193)	(193)	(193)	(193)	(193)	(193)	(193)
o/w Nuclear Liabilities	-	-	-	-	-	-	-	-
o/w Pensions	-	-	-	-	-	-	-	-
o/w Other Provisions	(159)	(193)	(193)	(193)	(193)	(193)	(193)	(193)
Other Current Liabilities	(36)	(56)	(56)	(56)	(56)	(56)	(56)	(56)
Liabilities of Businesses Held for Sale	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>(1,515)</b>	<b>(1,573)</b>	<b>(1,549)</b>	<b>(1,547)</b>	<b>(1,546)</b>	<b>(1,572)</b>	<b>(1,581)</b>	<b>(1,588)</b>
Long-Term Debt	(3,357)	(2,898)	(2,898)	(2,845)	(2,622)	(2,367)	(2,097)	(1,815)
Provisions	(717)	(845)	(845)	(845)	(845)	(845)	(845)	(845)
o/w Nuclear Liabilities	-	-	-	-	-	-	-	-
o/w Pensions	(352)	(432)	(432)	(432)	(432)	(432)	(432)	(432)
o/w Other Provisions	(365)	(413)	(413)	(413)	(413)	(413)	(413)	(413)
Other Non-Current Liabilities	(1,691)	(1,651)	(1,651)	(1,651)	(1,651)	(1,651)	(1,651)	(1,651)
<b>Total Non-Current Liabilities</b>	<b>(5,766)</b>	<b>(5,394)</b>	<b>(5,394)</b>	<b>(5,340)</b>	<b>(5,118)</b>	<b>(4,863)</b>	<b>(4,593)</b>	<b>(4,310)</b>
Shareholders' Equity	(4,947)	(4,689)	(4,904)	(5,018)	(5,200)	(5,442)	(5,684)	(5,937)
Minorities	(606)	(591)	(591)	(591)	(591)	(591)	(591)	(591)
<b>Total Equity</b>	<b>(5,553)</b>	<b>(5,280)</b>	<b>(5,496)</b>	<b>(5,609)</b>	<b>(5,792)</b>	<b>(6,033)</b>	<b>(6,276)</b>	<b>(6,528)</b>
<b>Total Liabilities and Equity</b>	<b>(12,833)</b>	<b>(12,247)</b>	<b>(12,439)</b>	<b>(12,497)</b>	<b>(12,456)</b>	<b>(12,469)</b>	<b>(12,450)</b>	<b>(12,427)</b>
Net Debt (As Reported)	3,706	4,060	3,741	3,559	3,336	3,081	2,811	2,529
Economic Net Debt	3,706	4,060	3,741	3,559	3,336	3,081	2,811	2,529
Net Debt / EBITDA (As Reported)	2.8	5.0	4.1	4.5	4.0	3.3	2.9	2.5
Economic Net Debt / EBITDA	2.8	5.0	4.1	4.5	4.0	3.3	2.9	2.5

Source: Berenberg

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<u>28 January 15</u>	<u>17.00</u>	<u>Hold</u>	<u>13 April 11</u>
<u>12 November 15</u>	<u>11.50</u>	<u>Sell</u>	

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