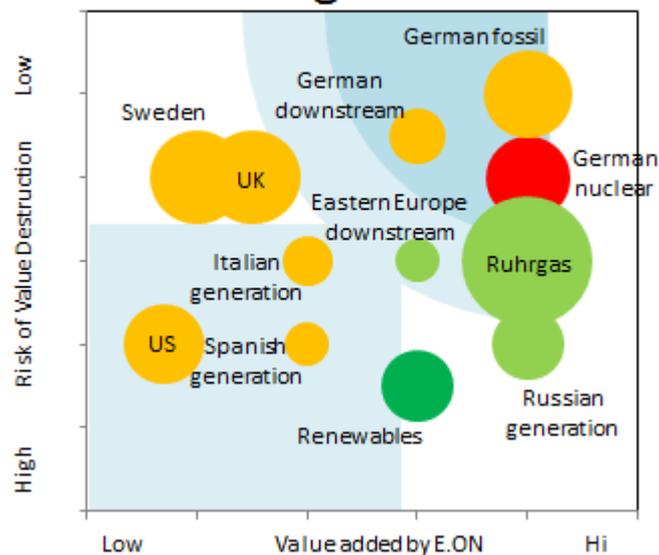


## E.ON in 2008 (B)

The Corporate Strategy group had also considered the degree to which E.ON was a good owner of its portfolio of businesses. It produced the Ashridge Matrix (see below):

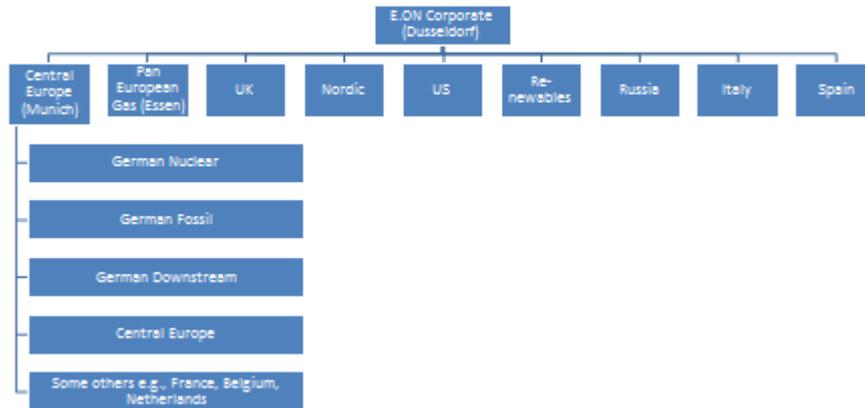
### E.ON Parenting Portfolio 2008



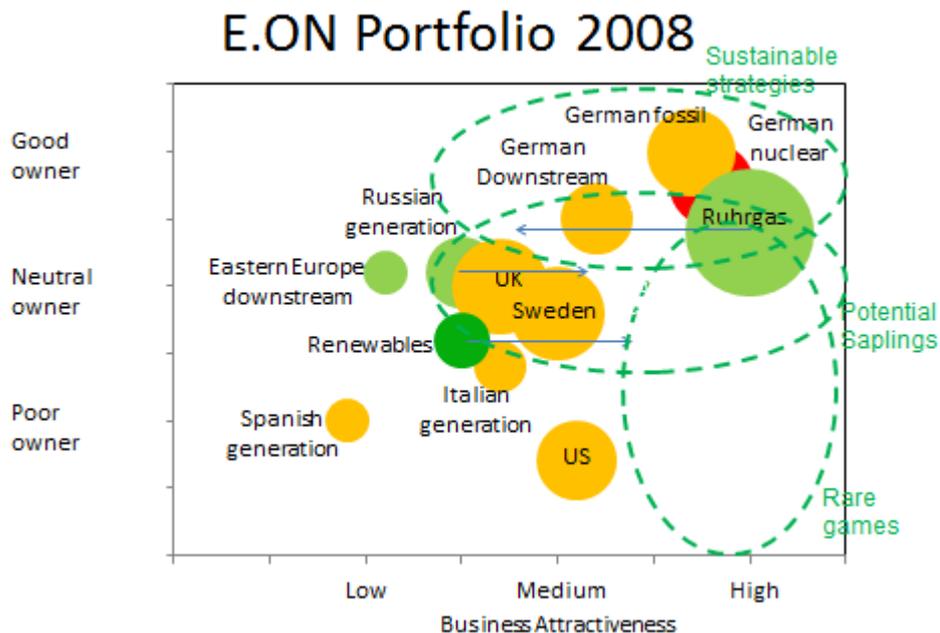
The Head of Strategy provided the following comments:

- Our roots are as a German power generator – and many of our board have grown up in that part of the business
- We are a natural owner of our fossil fleet and believe that the ability to leverage our group wide purchasing scale and operating experience makes us able to continue to add more value to the Germany generation fleet. Our involvement in other businesses in Germany provides us with significant influence on government policy – vital in this segment
- We are also natural owners of the nuclear business, although there is a risk that our size makes it easier for the government to impose penalties on the business which they might not if it were a standalone entity.
- We are less able to add value to our downstream business – but we understand them well enough not to destroy value in them
- We can help Ruhrgas (and they help us) through political connections and clout, and a coordinated gas and power strategy in generation, trading and retailing but there is more of a risk that our background in power generation makes us interfere with their decision making.
- We can bring a lot of value to the Russian generation business – but we run the risk of being targeted by the government as a foreign business
- Our UK and Swedish businesses are rather independent – although we know how to manage them. There is a bit more risk that we mess up our Italian business and the Spanish government has shown that they are happy to mess around with us if it helps their incumbent players.
- For our renewables business, we can add some value to this business through scale and geographic spread. We also have a lot of connections they can use. But, we may also interfere adversely with this entrepreneurial business.
- We have not shown trading on this chart as it is integral to many of our businesses. Currently it is embedded in our various national and regional business divisions (see chart below). We need to consider whether this organisational model – based largely on our Holding company philosophy - is appropriate.

# Organisational Structure



The two perspectives (business attractiveness and parenting advantage) can now be combined in the following chart:



The Strategy director commented further. Talks had been held with various investment banks to consider whether some businesses might be sold. There were a number of issues raised:

- The capital markets were in turmoil – the global economy had entered a financial and economic crisis – and it was difficult to predict what transactions were possible, and at what price

- It was proving difficult to find potential buyers for the Spanish business who would pay a good price, as there was excess generation capacity in Spain at present and this situation would not clear for several years.
- A similar situation existed in Italy, although the problems there were not so acute
- Transactions in Eastern Europe and Russia were very hard to predict at present. There were relatively few deals going ahead and so prices and buyers were hard to predict Nevertheless, there were still a number of large and often government owned utilities such as EdF and Enel (in Italy) who might be in the market for attractive assets
- There were potential buyers in the US – for example, other utilities and other types of buyers such as Warren Buffett – seeking stable long term returns.

Enquiries had also been made about potential acquisitions. A number of wind farm developers, who relied on project finance, were withdrawing from the market and many had projects in development that might be available for purchase.

Questions (you will have limited time to discuss this in your groups – so please prepare some answers):

1. Do you agree with the analysis from the Strategy department? Would you adjust the portfolio chart?
2. Use the E.ON portfolio chart (plus any adjustments) to design one or more business portfolios.
3. What value would you seek to add to this portfolio? What changes to the organisation structure, and corporate capabilities, would be required?
4. What other factors do you think should be considered in selecting a portfolio? How might this change your answers to question 3?

## Analysis of value added (I)

	Source of value at divisional level	Value added by E.ON corporate	Summary
Trading	<ul style="list-style-type: none"> <li>Centralisation of trading books, IT, expertise</li> </ul>	<ul style="list-style-type: none"> <li>Links to generation, retail</li> </ul>	<ul style="list-style-type: none"> <li>10%+ at divisional level and corporate</li> </ul>
German fossil Generation	<ul style="list-style-type: none"> <li>Purchasing power</li> <li>Operations expertise</li> <li>Access to sites</li> </ul>	<ul style="list-style-type: none"> <li>Access to political connections (e.g., Negotiating for new sites)</li> <li>Hedging via trading, retail</li> </ul>	<ul style="list-style-type: none"> <li>10% at divisional and corporate levels</li> </ul>
German nuclear	<ul style="list-style-type: none"> <li>Operations expertise</li> <li>Some purchasing power</li> <li>Access to new build opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Management of political risk in Germany</li> </ul>	<ul style="list-style-type: none"> <li>10% at divisional and corporate levels</li> </ul>
Traditional wind	<ul style="list-style-type: none"> <li>Purchasing power</li> <li>Financing</li> </ul>	<ul style="list-style-type: none"> <li>Access to political connections (e.g., ROCs) and sites</li> <li>Hedging via links to trading</li> </ul>	<ul style="list-style-type: none"> <li>Modest value added particularly versus other potential parents</li> </ul>
Off shore wind	<ul style="list-style-type: none"> <li>Purchasing power</li> <li>Operations expertise</li> <li>Financing</li> </ul>	<ul style="list-style-type: none"> <li>Access to political connection and sites</li> <li>Financing</li> <li>Hedging via links to trading and retail</li> </ul>	<ul style="list-style-type: none"> <li>10% at division level</li> <li>10% at corporate level – just about</li> </ul>
Ruhrgas	<ul style="list-style-type: none"> <li>Signing contracts with producers,</li> <li>Coordinating pipeline development,</li> <li>Managing supply/demand balance</li> </ul>	<ul style="list-style-type: none"> <li>Access to political connections in central Europe</li> <li>Coordination of gas supply and power generation</li> <li>Shaping EU regulatory policy</li> <li>Trading and retail linkages</li> </ul>	<ul style="list-style-type: none"> <li>10% at divisional and corporate levels</li> </ul>

## Analysis of value added (II)

	Source of value at divisional level	Value added by E.ON corporate	Summary
German Downstream	<ul style="list-style-type: none"> <li>Operations capability</li> <li>Financing</li> </ul>	<ul style="list-style-type: none"> <li>Access to political connections</li> <li>Links to trading</li> </ul>	<ul style="list-style-type: none"> <li>10% at divisional level and possibly 10% at corporate level</li> </ul>
Russian generation	<ul style="list-style-type: none"> <li>Some head office sharing - as part of a Russian generation business</li> </ul>	<ul style="list-style-type: none"> <li>Operations capability</li> <li>Links via Gazprom/ Ruhrgas and via German government</li> </ul>	<ul style="list-style-type: none"> <li>10% at divisional and corporate levels</li> </ul>
Sweden	<ul style="list-style-type: none"> <li>Value to an integrated national business</li> </ul>	<ul style="list-style-type: none"> <li>Very limited operational value (small amount of generation)</li> </ul>	<ul style="list-style-type: none"> <li>10% at divisional but well under 10% at corporate level</li> </ul>
UK	<ul style="list-style-type: none"> <li>Value to an integrated national business</li> </ul>	<ul style="list-style-type: none"> <li>Very limited operational value in generation – limited otherwise</li> </ul>	<ul style="list-style-type: none"> <li>10% at divisional but well under 10% at corporate level</li> </ul>
US	<ul style="list-style-type: none"> <li>Value to integrated regional US business</li> </ul>	<ul style="list-style-type: none"> <li>Very limited</li> </ul>	<ul style="list-style-type: none"> <li>10% at divisional level, nil at corporate level</li> </ul>
Italian generation	<ul style="list-style-type: none"> <li>Value to consolidating generation and trading – but no downstream position</li> </ul>	<ul style="list-style-type: none"> <li>Limited operational value</li> </ul>	<ul style="list-style-type: none"> <li><u>Possibly</u> 10% at divisional but under 10% at corporate level</li> </ul>
Spanish generation	<ul style="list-style-type: none"> <li>Value to consolidating generation and trading – but no downstream position</li> </ul>	<ul style="list-style-type: none"> <li>Limited operational value</li> </ul>	<ul style="list-style-type: none"> <li><u>Possibly</u> 10% at divisional but under 10% at corporate level</li> </ul>
Eastern European downstream	<ul style="list-style-type: none"> <li>Isolated downstream position with no upstream positions</li> </ul>	<ul style="list-style-type: none"> <li>Some operational value</li> </ul>	<ul style="list-style-type: none"> <li>Under 10% at divisional - <u>possibly</u> 10% at corporate level</li> </ul>