



## **First Half Results 2005**

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## Ongoing review of the balance sheet

### **Ordinary dividend of 2.35 Euros per share for 2004**

- Represents a 17.5% year-on-year increase, thus keeping our "on.top" commitment to double-digit dividend growth to 2006
- Position reinforced as a leading dividend payer amongst DAX companies

### **Intention to return the full value of our stake in Degussa to our shareholders**

- Precise timing and manner of disposal remain to be determined

### **Commitment to achieving a payout ratio of between 50% and 60% of net income excluding exceptional items by 2007**

- Confident of delivering further earnings growth in the future

### **Funding up to 5.4 bn Euros of pension provisions through a Contractual Trust Arrangement (CTA)**

- Gives greater transparency to the capital market
- Makes E.ON's balance sheet more easily comparable with peer group

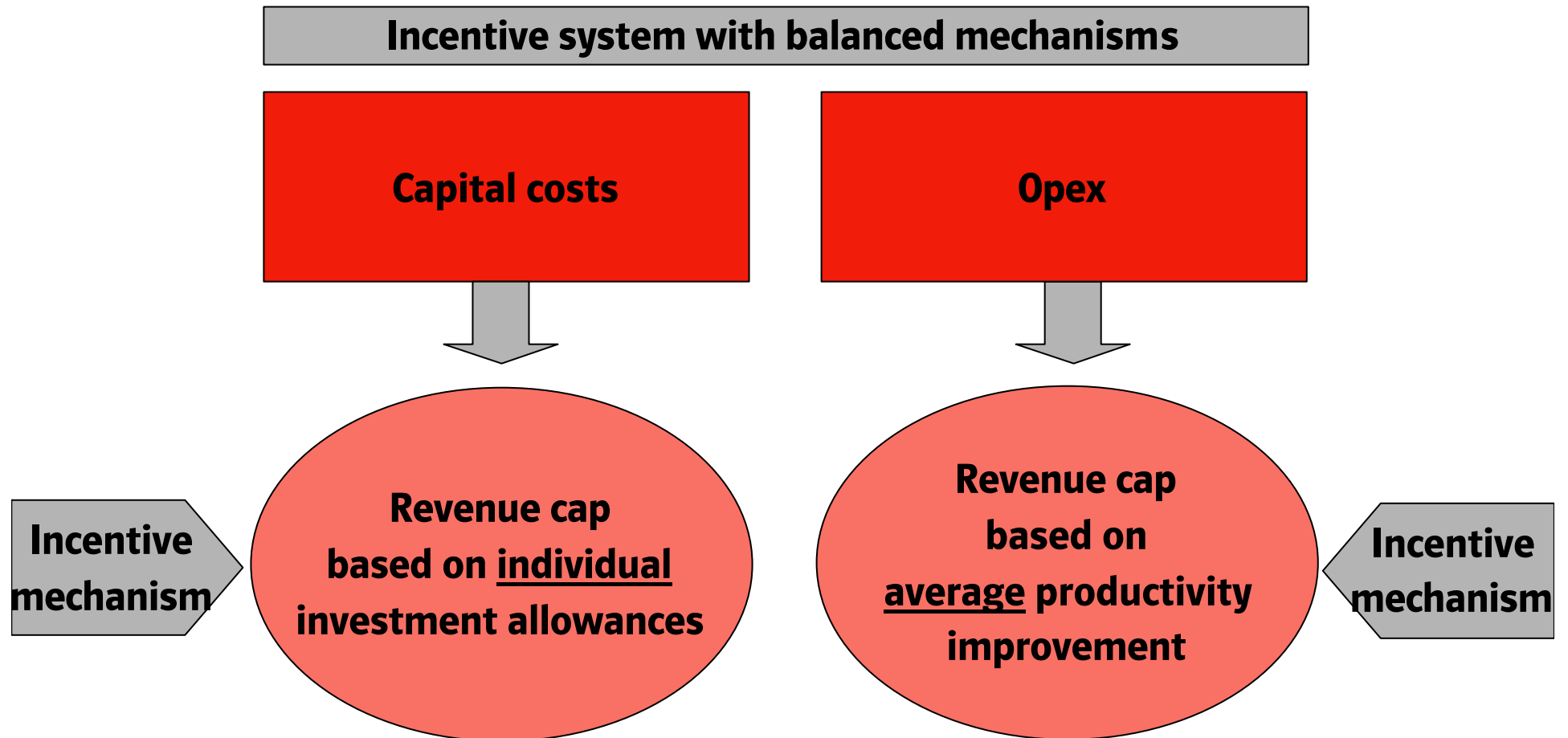
*e.ON*

E.ON's Productivity-Enhancement Model  
("Pro+" model)

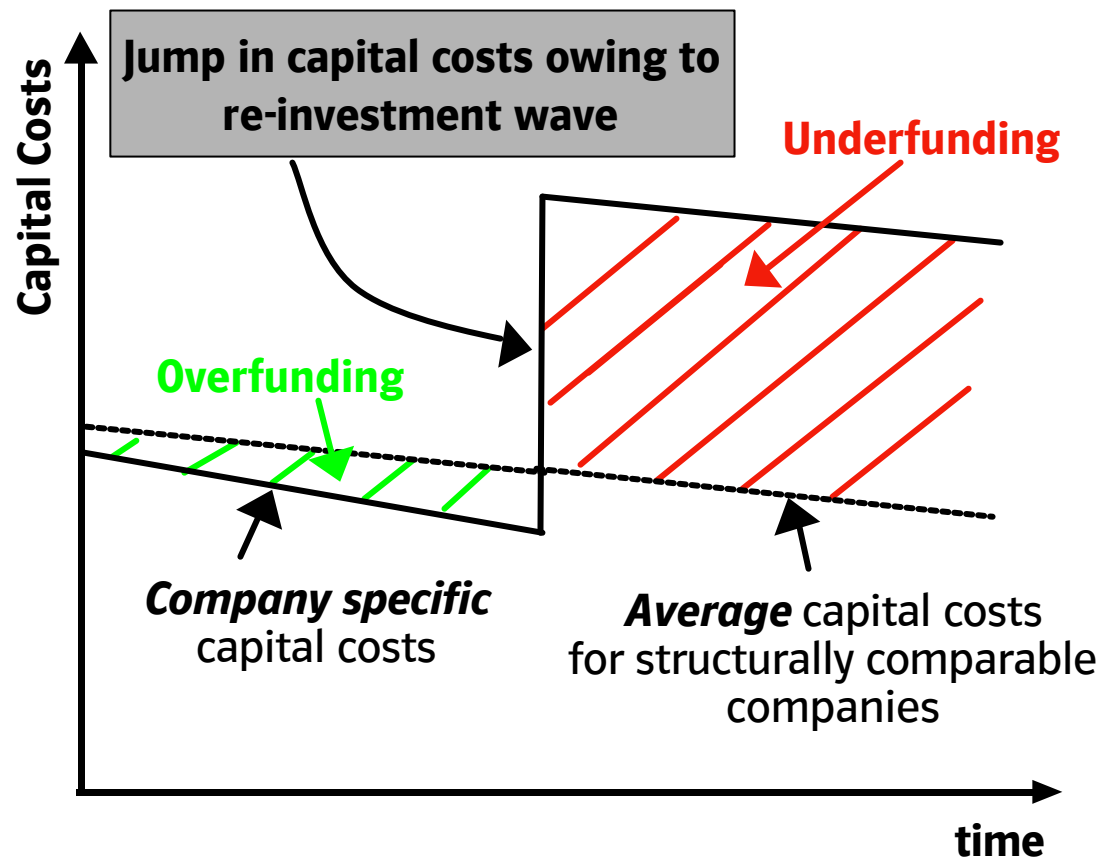
## **E.ON is actively preparing for incentive regulation**

- Incentive regulation attempts to give incentives for productivity increases
- German Regulator to develop concept for incentive regulation by mid 2006
- E.ON's proposed model for power networks and gas-distribution networks encourages operators to invest in their networks and reduce costs for customers

## The "Pro+" Model: schematic overview



## Examination of average capital costs inappropriate !



- In the energy industry investment levels fluctuate owing to long-term investment cycles
- Companies differ regarding the age of their assets
  - Individual investment cycles and individual development of capital costs
- An approach based on average capital costs would be inappropriate:
  - Companies with high early investment needs could be forced to under-invest

**Company-specific assessment  
of capital costs necessary**

## Individual assessment and incentives for capital costs

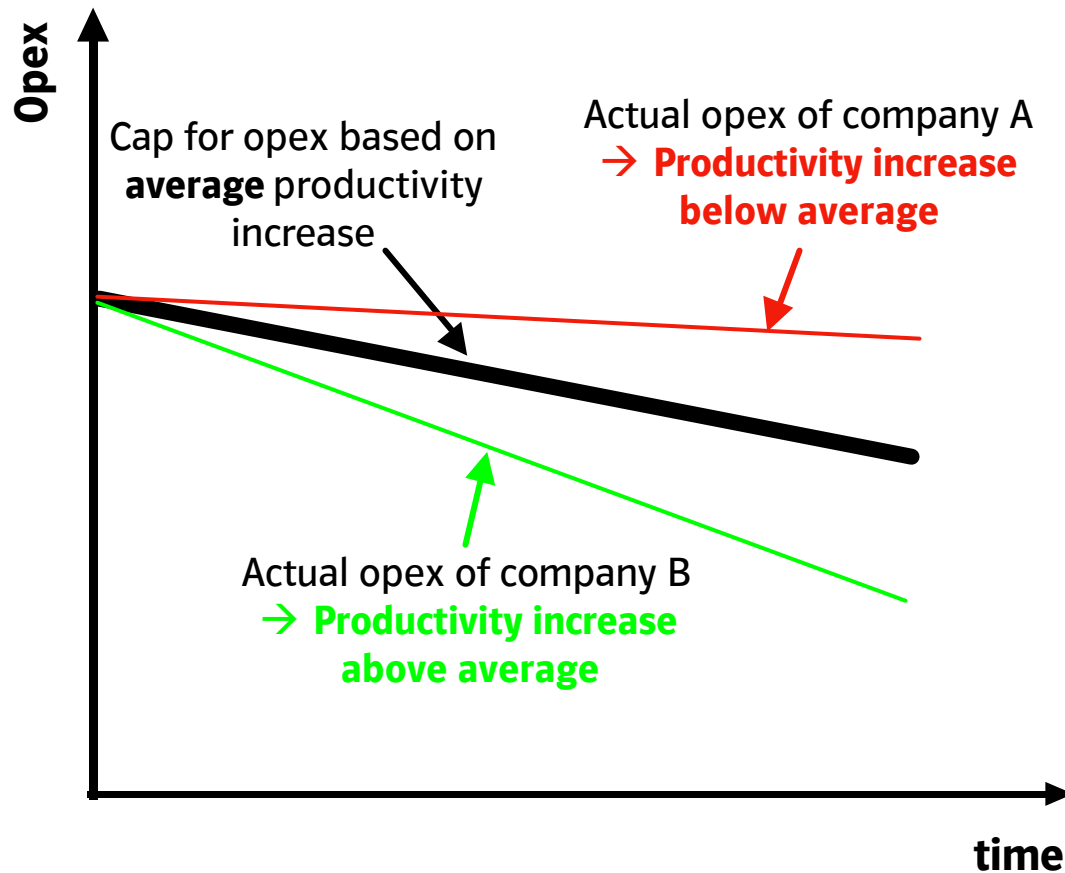
Capital costs resulting from new investment

- Audit of investment programs
- Focus on the overall investment targets and investment budget
- Investment included in asset base as long as there is no budget overspend
- Incentives for productivity increases through rewards for reaching the agreed investment targets without using the full investment budget



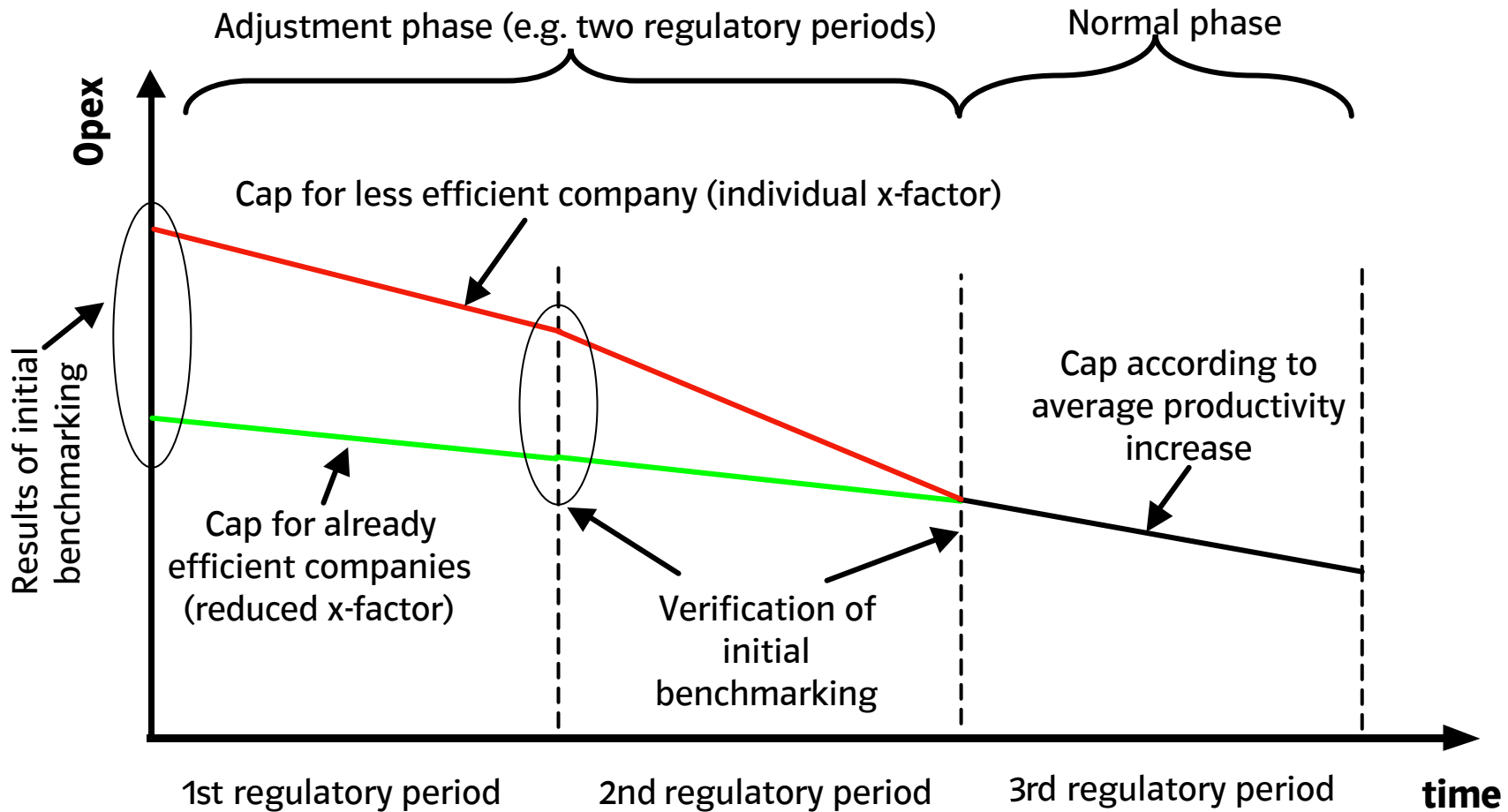
**Investment reliability plus**  
**Incentives for efficient delivery of investment programs**

## Incentive mechanism for Opex based on average productivity increase



- Strong incentives for productivity increases (Network operator is allowed to keep the benefits of out-performance)
- Competition among companies for individual productivity increases above average
- Complete transfer of average productivity increase to customers via correspondingly lower network charges

# Temporary adjustment phase for Opex





## E.ON's "Pro+" model

- Strong incentives to increase productivity
- Complete transfer of average productivity increase to customers via accordingly reduced prices
- Appropriate planning reliability and investment incentives to deliver adequate network quality and security
- "Pro+" model can be applied for electricity networks and gas distribution networks



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