



PerformtoWin

Functional empowerment in Generation

Concept summary as decided within
Steering Committee and ExCo

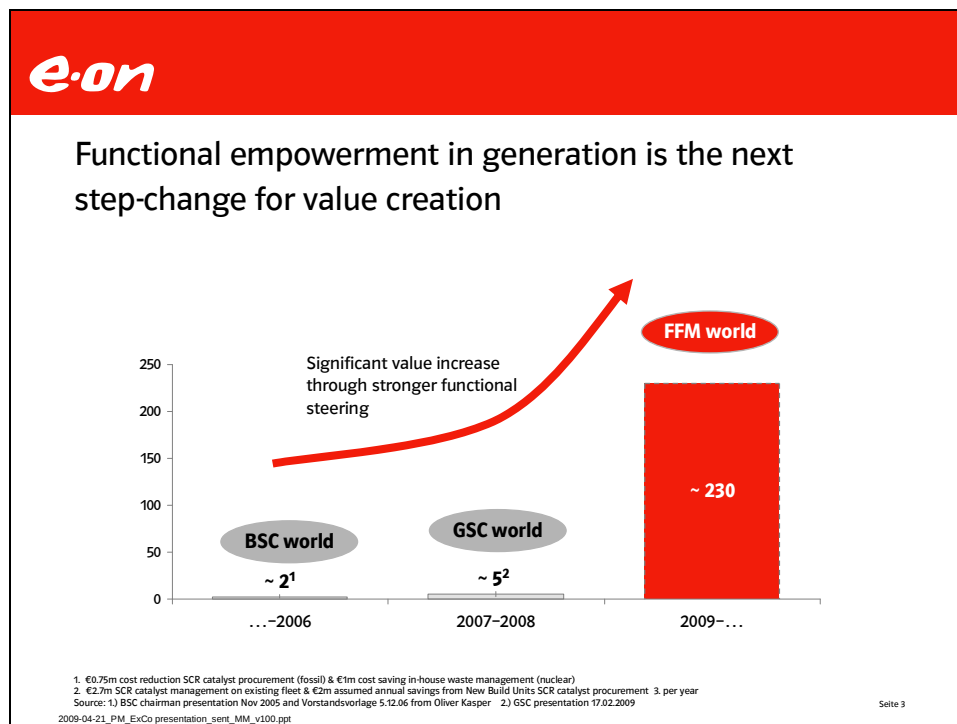
23 April 2009

1 Introducing a functional fleet management

1.1 Value of functional empowerment and the case for change

E.ON operates an international portfolio of power plant assets within Market Units across Europe. In recent years, we have made various attempts to leverage the group-wide synergies and scale effects of our power plant fleet. The latest approach of introducing Centers of Competence (CoC), led by a Generation Steering Committee (GSC) has addressed some of this group-wide potential, but remained somehow limited due to lacking implementation power.

We have identified significant value can be delivered by functional empowerment in the generation business, approximately €M 150 up to 230 EBIT-effect per year. This number has been estimated by the project team and confirmed by top executives within Generation. Functional empowerment is partly the pre-requisite for existing measures of the **PerformtoWin** diagnosis phase. On top of that, it will deliver additional value, for example through implementation of best practices, project value optimization, contingency pooling, procurement synergies and others.

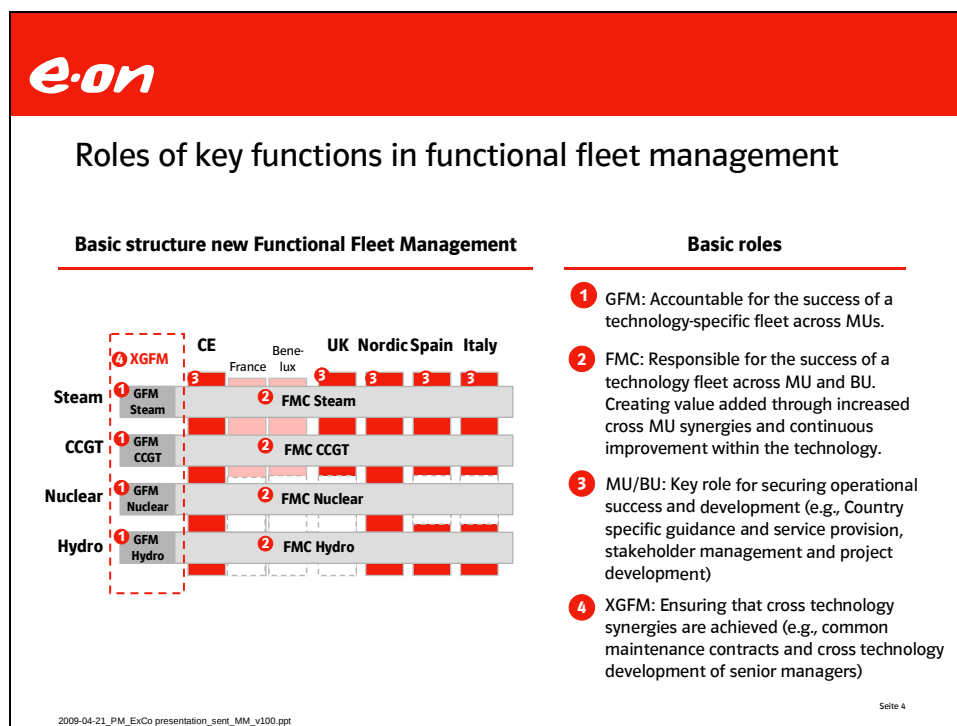


Going for a full-fledged functional MU is not considered an option. While it would not create significant additional value to the strong functional steering, it would bear additional risks, including a change that challenges the reporting-, accounting- and controlling-structure of the rest of E.ON-group.

1.2 Roles of key functions in functional fleet management

Functional fleet management will be set up as a cross layer to the existing MU/BU structures. One Global Fleet Manager (GFM) will be installed per technology-type (steam, CCGT, nuclear, hydro). The GFM will be personally accountable for the performance of the fleet. Each GFM will lead a Fleet Management Center (FMC), responsible for creating value, added through increased cross-MU synergies and continuous improvement within the technology. The Head of the FMC and a main part of his/her team will be located for steam and nuclear in Germany, for CCGT in UK, for hydro in Sweden and will have further local elements distributed across the other MU/BU with relevant operations within this technology.

Across all four technology-types, an XGFM will be responsible for ensuring cross-technology synergies, e.g., common maintenance contracts and cross-technology development of senior managers.

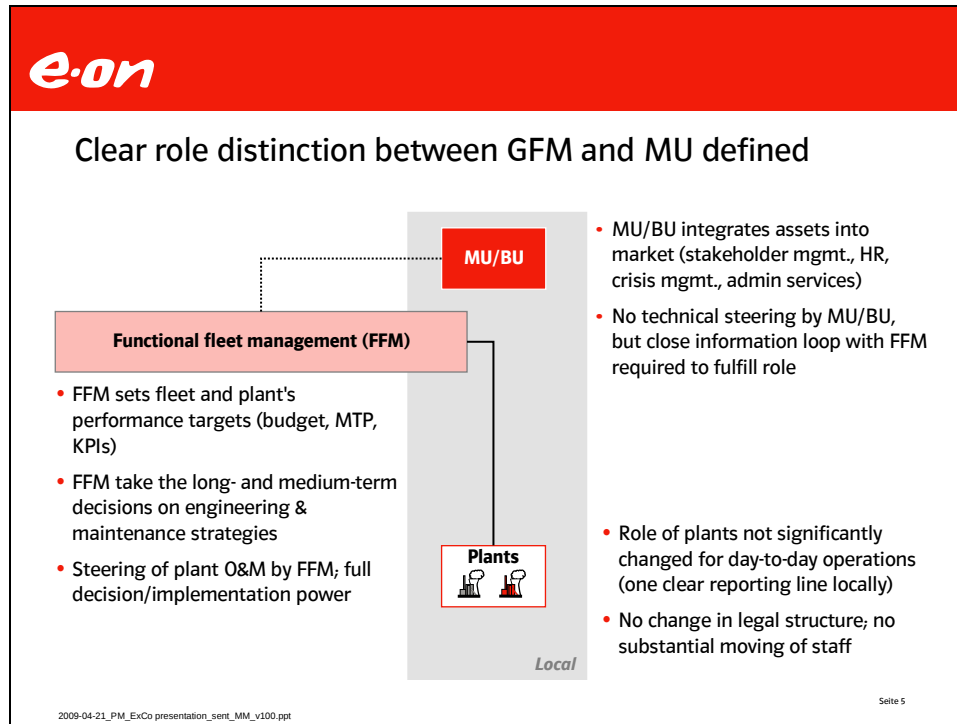


The responsibilities of the MU/BU will be reduced by the new responsibilities of Functional Fleet Management. Nevertheless, the MU/BU will be the sole face to the external market in generation (excluding trading) and will keep a key role for securing operational success and development. Through country-specific guidance and service provision it will integrate the assets into the local market. The MU/BU will directly be responsible for stakeholder management, demand management, human resources management, crisis management, and administrative services such as accounting. It is clear that the Functional Fleet Management and the MU/BU must have close information exchange to enable their individual tasks. The EBIT is planned and consolidated by the MU, with other involved units delivering on clear KPIs.

The Functional Fleet Management will drive continuous improvement and set performance targets (KPIs) for the fleet and individual plants. It will lead the budget-, investment- and mid-term planning.

The FMC will take long- and medium-term decisions on engineering & maintenance strategies. It will directly steer the plant's operation & maintenance and have the full decision and implementation power, including for all identified improvements, risk management and project prioritization.

The role of the plants or plant managers in day-to-day operations does not change significantly. Each plant manager will keep one clear reporting line locally. Furthermore, there will be no change in legal structure, nor will there be substantial moving of staff necessary.



In order to describe the new roles and responsibilities, a number of different options have been discussed and tested against our objectives. We are aware that the proposed model requires a radical cultural change (from regional to functional, from suggestions to implementations, etc.) and we believe that it is exactly this cultural change that is a prerequisite for a step-change to higher value creation and sustainable improvement.

1.3 Next steps for functional fleet management

Based on an approval of main directives from the ExCo, the team will continue with phase II of concept detailing. We will review each MU/BU against the functional blueprint to understand the speed and implementation path, identify potential risks and mitigation actions. At the same time we will define future interfaces between market units and GFM. In direct conversations, we will engage with generation business and the MUs around the suggested changes to get feedback on issues and potential solutions. The process to structure the interfaces will be led by the PerformtoWin project management (Thomas König). Running a broad change management process, we have scheduled a change management workshop with all TEG members in generation for 7th and 8th of May 2009. We will continue to build the momentum for change.

Approximately end of July, we will return to the ExCo with detailed results of implementation review for final detailing of functional empowerment structure, organization, value and implementation plans.

2 New setup for new-build and engineering

2.1 Identified opportunities through new setup and case for change

As a result of Europe.on, the New Build Unit (NBU) has been established for all fossil new build power plant projects. It was set up as an integral part of E.ON Kraftwerke (EKW), with E.ON Engineering (EEN) being the sole supplier of engineering services. The concept has led to a successful knowledge transfer, based on the operational experience of EKW and EEN.

In the meantime, E.ON has further internationalized its generation portfolio and further fossil new build projects outside of MU CE require service and support. In addition, new build activities in other technology-types, including nuclear new build options gain importance. Also against the experience gained with the concept of NBU, the project team sees some other opportunities for improvement.

A revised setup of NBU and EEN should leverage synergies and utilize scale effects between project organizations across all MUs and technology types. Secondly, it should foster even stronger cooperation with between NBU and EEN to profit from operational view and expertise.

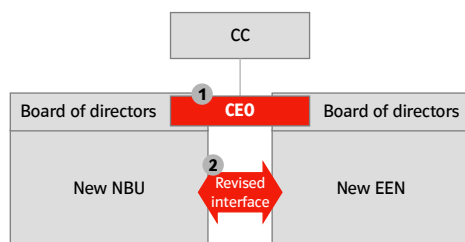
2.2 Key changes for NBU and EEN

The carve-out of the NBU out of EKW was a proposal validated by the project team supporting further internationalization and growth in project types of the new build projects. In the following, a wide range of different options for a new organizational setup of NBU and EEN have been discussed and evaluated. Finally, we suggest to keep NBU and EEN as two separate units, but with a closer coordination and cooperation. This can be achieved by a joint CEO, heading both the NBU board as well as the EEN board of directors. This CEO will directly report to the Corporate Center. The change only affects reporting lines, a change in legal structures is not necessary. The new CEO will take the direct responsibility for critical subjects at the interface of NBU and EEN, such as business strategy/ business development and quality management.

Furthermore, the interface between NBU and EEN needs to be revised. While the new NBU needs to focus its role as flexible provider of new build project management services, the new EEN will have a clear focus as engineering service provider. Overlapping responsibilities within current setup need to be sorted out. Changes will affect the detailed roles and tasks within technical processes of project management, for instance the integration of technical project managers from EEN into the project organization of the NBU.

Two major changes for NBU and EEN: Joint steering by CC and revised interface

Organizational setup



Description

- 1 Joint steering by CC by dedicated executive as CEO of both units (with operative responsibilities)
- 2 Revised interface between project management and engineering service
 - New NBU as flexible provider of new build project management services¹, with clear focus on owner's perspective, and potentially wider range of technologies
 - New EEN with clear focus as engineering service provider, ensuring synergies between engineering of new build, O&M support, and R&D

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The NBU is well positioned to extend its scope to other new build activities in nuclear and large hydro. Today, it already handles all fossil new builds successfully. The project team has assessed other areas on process similarity, effort of integration and strategic value for E.ON. We suggest integrating nuclear projects into the NBU and developing an implementation plan, this year, based upon the status of the nuclear new build program. Currently, there are few large hydro projects in sight, but they should be handled by the NBU when realized. We suggest not to integrate new build in waste, small hydro, or onshore wind. The analysis for CHP, offshore wind and concentrated solar power is still ongoing, other large-scale projects such as LNG should be analyzed at a later stage.

2.3 Next steps for new NBU/EEN setup

Based on an approval of main directives from the ExCo, the team will continue with phase II of concept detailing:

- Detail revision of interface NBU/EEN and discuss with managing directors of NBU/EEN
- Define measure for internationalization of new NBU
- Analyze integration time lines for other technologies (nuclear, offshore wind/CSP, large hydro)
- Present new NBU concept to important stakeholders in MUs

Approximately end of July, we will return to the ExCo with detailed results of structure, organization, value and implementation plans.