E.ON AG Conference Call -

First Quarter Results 2004

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Presentation:

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Please check against delivery

Good afternoon ladies and gentlemen,

I would also like to welcome you to E.ON's First Quarter Results 2004.

As the results have already been made available to you I will only focus on the highlights of our First Quarter Results 2004. We will certainly have time to answer your questions in detail afterwards.

However, before we start with the numbers, I would like to remind you of two significant changes in EON's reporting:

- Firstly, as outlined during our Capital Market Day in March, starting with the First Quarter Results 2004, numbers will be reported according to our new market unit structure.
- Secondly, as of 2004's reporting, adjusted EBIT will be the new performance indicator instead of Internal Operating Profit. Let us emphasize however, that the EBIT reported in previous years and adjusted EBIT are identical.

  A detailed explanation of adjusted EBIT has already been provided on March 10, 2004. Nevertheless, for your convenience, a com-prehensive chart showing how adjusted EBIT is derived is included in the backup section of today's charts.

Now, let's start with a look at the financial highlights of our Group.

Chart 1: In the First Quarter 2004, E.ON showed again a very strong financial performance :

- **Group Sales** increased by 7 percent to 14.6 billion Euros, thereof the core business energy rose by 15 percent to 14.4 billion Euros. This was mainly due to the full 3-month consolidation of Ruhrgas and Graninge.
- The two important profit indicators **adjusted EBITDA** and **adjusted EBIT,** increased significantly by 14 percent and 21 percent to 3 billion Euros and 2.3 billion Euros respectively.

- **Group Net Income** rose by 48 percent to 1.5 billion Euros. This was mainly due to
  - operational improvements,
  - the absence of the one-time charges of 448 million Euros resulting from the first-time application of SFAS 143 in the First Quarter 2003 and
  - consolidation effects – for example Ruhrgas, Midlands and Graninge.
- **E.ON's Cash Flow Provided by Operating Activities** remained on a high level of 1.1 billion Euros despite high payments for the reprocessing of nuclear elements amounting to 310 million Euros in the First Quarter 2004. This was due to a change in payment method from a quarterly to a yearly basis.
- E.ON's **Free Cash Flow** increased to 627 million Euros from 595 million Euros due to stable investments in fixed and intangible assets.

I would now like to describe the main drivers behind the 21 percent increase in adjusted EBIT.

Chart 2 shows **adjusted Group EBIT** reaching 2.3 billion Euros of which 95 percent derived from our energy business. As far as our core business is concerned, this constitutes a 29 percent increase year-on-year.

I would like to emphasize that all our market units as well as the corporate center contributed strongly to this EBIT improvement.

By Market Unit, the major developments were as follows:

Central Europe's adjusted EBIT rose by 9 percent to 1.2 billion Euros.

As far as the **Central Europe West electricity business** is concerned, adjusted EBIT rose by 9 percent to 924 million Euros.

This was mainly due to

- an ongoing increase of the electricity margin by 50 million Euros. The major reason for this positive effect was the passing through of higher wholesale prices to end customers.
- Furthermore lower burdens from the nuclear fuel management improved the result of the German electricity business by 40 million Euros.

In the **Central Europe West gas business**, the adjusted EBIT remained with 203 million Euro slightly below last year's level. The main reasons for this development were lower weather-related gas sales. However, this effect was largely compensated by means of favourable procurement costs.

In the Reporting Unit **Central Europe East**, the first-time consolidated distribution companies JME and JCE contributed 30 million Euros to adjusted EBIT in the First Quarter 2004.

The Market Unit **Pan-European Gas** contributed an adjusted EBIT of 416 million Euros. This 25 percent rise was mainly due to the first-time 3-month consolidation of Ruhrgas in 2004 compared to the two-month consolidation period of February to March in 2003. In addition, the first-time consolidation of Thüga Italia as well as a higher earnings contribution from SPP also led to the rise in adjusted EBIT.

The Market Unit **UK** recorded an adjusted EBIT of 270 million Euros representing a rise of 38 percent.

The main drivers were:

- the acquisition of the Midlands Electricity business in January 2004 which effectively doubled the size of Powergen's distribution business contributing 54 million Euros to the regulated business and
- higher retail income which was partly offset by higher fuel and gas purchase costs in the non-regulated business. The net effect amounted to 27 million Euros.

The Market Unit **Nordic** recorded a rise in adjusted EBIT of 82 percent totalling 279 million Euros. Graninge contributed 20 million Euros to the increase.

Furthermore, better margins in the electricity and heat retail segment amounted to 30 million Euros. Additional drivers were higher hydro power generation, lower fuel cost in heat production and higher revenues from electricity distribution.

The Market Unit **US Midwest** contribution to adjusted EBIT was 93 million Euros increasing by 48 percent compared to the First Quarter 2003.

In the **regulated business** the significant improvement was due to the absence of the negative effect of the severe Kentucky ice storm in February 2003.

In the **non-regulated business,** the improvement of 15 million Euros is tied to the Wilson Unit six-week outage in 2003 which did not occur again in 2004. As a result, this lead to an increase in sales and lower operating costs.

The segment **Corporate Center** reported a loss of 8 million Euros compared to a loss of 97 million Euros in adjusted EBIT in the First Quarter of 2003. The improvement was mainly attributable to foreign exchange gains which were mostly in connection with the buy back of Midlands bonds.

As far as the segment **Other Activities** is concerned - this includes Degussa and Viterra - adjusted EBIT decreased by 43 percent to 116 million Euros. This decrease was mainly due to the change in consolidation of **Degussa** to at-equity accounting as of February 2003. Degussa now contributes 39 million Euros with our 46.5 percent stake to the Group's earnings after taxes and minority interests.

As far as **Viterra** is concerned, adjusted EBIT decreased by 19 percent to 77 million Euros which mainly resulted from a decrease in the number of housing units sold.

Let us now focus on the development of our Net Financial Position.

Our **Net Debt Position** has slightly improved and now totals only 7.7 billion Euros as of March 31, 2004 compared to 7.9 billion Euros at the end of 2003.

As shown on Chart 3, the main drivers behind this improvement were:

- divestment proceeds from the sale of participations, mainly in VNG and EWE and,
- an improved cash flow from operations.
- In contrast, high cash outflows for the acquisition and consolidation of Midlands Electricity and Graninge as well as investments in fixed assets affected our net debt.

The bond buy back had no influence on our net financial position but has improved the structure of the financial liabilities within the E.ON Group.

Our excellent financial position is also honoured by our **strong ratings**.

In 2003, Moody's rated E.ON A1 with "stable outlook". Following the release of our medium-term plan in December 2003 and subsequent discussions, Moody's has upgraded its rating to Aa3 with "stable outlook" on April 30, 2004.

As far as Standard and Poor's is concerned, the current rating is AA- with negative outlook and we are still awaiting a decision from this year's rating review.

Now, let us talk about our **2004 Outlook**.

As far as the overall **Group** is concerned, based on our strong First Quarter Results, we are confident that **adjusted EBIT** will again surpass the record result of 2003. However, as the First Quarter was primarily characterized by consolidation effects, for the full year we expect a slower rate of increase in adjusted EBIT. Nonetheless, for our core business energy we have revised our outlook upwards and now expect a double-digit growth rate in earnings.

By Market Units, the **Outlook** is as follows:

For the Market Unit **Central Europe** we expect adjusted EBIT to rise above last year's level. This we aim to achieve by the improvement of the electricity margin, the first-time full consolidations in Central Eastern Europe, efficiency improvements as well as lower burdens for the nuclear fuel management.

As far as our Market Unit **Pan-European Gas** is concerned, we do not expect to repeat the prior-year's extraordinarily high adjusted EBIT performance due to warmer weather this year and the current development of energy prices.

For the Market Unit **UK** we expect a clear improvement in adjusted EBIT. This we intend to achieve by means of the successful integration of Midlands Electricity and earnings improvement due to increased prices for both electricity and gas.

The Market Unit **Nordic** is expected to profit from the first-time full-year consolidation of Graninge, increasing margins and higher hydro power production. As a result, we expect a clear increase in adjusted EBIT compared to last year given normal hydrological conditions.

For the Market Unit **US-Midwest** we expect to achieve an improvement in adjusted EBIT in local currency. In the regulated business, the requested rate increase will have a positive effect on earnings. In the unregulated business, the development in earnings will depend on coal and wholesale prices as well as the situation in Argentina. Overall, in the consolidated report, the result will depend on the Euro/US Dollar currency development.

As far as our **Other Activities** are concerned, for Viterra we anticipate adjusted EBIT to be below the 2003 level due to an expected decrease in the sale of housing units.

Finally, **Group Net Income** is expected to be below last year's level due to a decrease in book gains compared to 2003.

In summary, E.ON continues to show excellent operational improvement and a strong financial position.

Delivering performance is the top priority of the E.ON Group and our First Quarter Results demonstrate this commitment.

This concludes my remarks and we are now ready to answer your questions.

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