



E.ON AG Conference Call -
Nine Months 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 EON's Nine Months Results 2004 conference call.

As in the past, I will only focus on the highlights as you have probably had enough time to review in detail the Interim Report as well as the complementary charts supplied to you earlier.

EON's Nine Months Results 2004 underline our very strong performance. The most striking developments were as follows:

- solid double-digit growth in Group adjusted EBIT,
- positive earnings development in all our Market Units,
- substantial increase in Net income compared to prior-year level, and
- improved outlook for the full-year.

EON's **Group sales** increased by 6 percent to 354 billion Euros, with sales in our Core Energy Business rising by 10 percent. The increase is mainly due to the first-time full consolidation of JME, JCE, Midlands Electricity and Grange as well as nine months consolidation of EON Ruhrgas compared to eight months in 2003.

Group adjusted EBIT showed a strong increase by 19 percent to 55 billion Euros, while the improvement of our Core Energy Business was an even higher 22 percent. Especially our international business showed a noticeable increase in earnings. The increase in the Core Energy Business came to a large extent from first time full-year consolidation effects. Without such effects, adjusted EBIT improvement would have been 12 percent. In addition, operational improvements from all Market Units as well as the reversal of provisions in our Central Europe Market Unit also contributed strongly to the adjusted EBIT increase. Finally, cost savings of 220 million Euros in the first nine months also had a positive effect on adjusted EBIT. Since the initiation of the on.top operational improvement program in 2003, in total we have achieved 490 million Euros. Thus, we are well on track to realize our declared goal of 1 billion Euros by 2006.

The adjusted EBIT of the **Central Europe** Market Unit rose by 20 percent to 27 billion Euros.

Let me remark, that this increase bears mainly results from two nonrecurring effects:

- Firstly, it includes 140 million Euros from the reversal of provisions as a result of favourable court decisions regarding CHP and Renewable Energy taxes as well as grid access fees as mentioned in the First Half Results 2004.
- Secondly, in the prior-year period, earnings were negatively affected by balance area settlement payments caused by the initial unbundling of E.ON Netz's control area and E.ON Sales & Trading's balance area (100 million Euros).

Without these effects, the adjusted EBIT of the Central Europe market unit would have increased by 9 percent.

Further positive contributions to earnings in this Market Unit mainly resulted from:

- higher electricity revenues (+180 million Euros) which were partly offset by higher fuel costs (-65 million Euros),
- first time consolidation of JME and JCE contributing 44 million Euros, and
- lower burdens from nuclear fuel management amounting to 145 million Euros as mentioned in the first half 2004.

The adjusted EBIT of the **Pan-European Gas** Market Unit increased by 3 percent to 12 billion Euros. The main reason for this improvement was the first time inclusion of the month of January. Taking into account approximately 180 million Euros result from January 2003, the nine months results adjusted EBIT would have been below last year's extraordinarily high level. In addition, 2004 was negatively impacted by lower temperature spikes and the resulting decline in capacity sold and by lower average sales prices. These effects were only partially offset by the overall positive development of sales volumes.

I would like to clarify, that the lower growth rate of adjusted EBIT of 3 percent in the first nine months 2004 compared to 20 percent in the first half 2004 was mainly due to timing differences for the adjustment of gas procurement and gas sales prices. Gas procurement prices were strongly affected by the high level of oil prices.

The **U.K.** Market Unit recorded a strong increase of 45 percent to an adjusted EBIT of 720 million Euros. The main drivers were:

- the acquisition of Midlands Electricity in January 2004, which was the main contributor of the improvement of 154 million Euros in the regulated business, and
- higher retail earnings and TXU integration cost savings which were partly offset by higher coal and gas purchase costs in the non-regulated business resulting in a net contribution of 72 million Euros.

The **Nordic** Market Unit recorded a considerable rise in adjusted EBIT of 39 percent to 489 million Euros. The major reasons for this increase were:

- the first time full consolidation of Graninge contributed an additional 58 million Euros,
- increased nuclear and hydroelectric output resulting in approx. 60 million Euros, and
- better margins in the electricity retail segment amounting to approx. 30 million Euros.

The **U.S. Midwest** Market Unit showed an adjusted EBIT increase of 12 percent to 275 million Euros compared to the Nine Months of 2003. In local currency, the increase amounted to 23 percent. This increase mainly derived from the regulated business due to warmer weather, increased retail electric and gas rates as well as higher off system sales margins.

In contrast, severe spring and summer storms caused significant damage to the distribution networks amounting to approx. 15 million Euros.

Group pre-tax profit improved by 51 percent to approx. 6 billion Euros. In addition to operational improvements in all Market Units as mentioned earlier, pre-tax profit was influenced by a strong increase in other nonoperating earnings.

Other nonoperating earnings improved by 565 million Euros to 780 million Euros compared to last year. The improvement is mainly driven by the increase in fair value of derivatives at E.ON UK. E.ON UK is hedging its electricity and gas position with forward contracts in order to protect its operational results against unforeseeable price fluctuations. After these contracts were concluded, the prices for gas and electricity have gone up substantially.

The required mark-to-market valuation at E.ON UK contributed 856 million Euros to non-operating profit. This is an increase of 736 million Euros when compared to the second quarter.

In order to give you a flavour of the market development for the increase in market prices, I would like to point out that the gas forward price for delivery in January 2005 went up from 43.2 Pence per therm at the end of the second quarter to 60.25 Pence per therm at the end of the third quarter 2004. This is an increase of about 40 % with a consequential impact on the market values of the derivatives. By applying hedge accounting for certain parts of contracts, we were able to avoid an even higher P&L effect. These results are dependent on the market conditions at the relevant reporting date. During October, the effect of declining gas prices on the mark-to-market valuation of derivatives at E.ON UK led already to a reduction of nonoperating earnings by 185 million Euros to 671 million Euros.

All derivative results shown in nonoperating earnings are related to instruments entered into solely for operating purposes and not for speculative purposes.

I would also like to emphasize that the mark-to-market results are noncash items.

Consequently, **Consolidated Net Income** rose by 17 percent to approximately 4 billion Euros.

As a result, **Earnings per Share** also increased by 17 percent to 6.04 Euros per share.

The strong operational improvements and the consolidation effects are also reflected in the significant increase of the **Group's operating cash flow** by 23 percent to 5 billion Euros. The increase was mainly attributable to our core energy business.

The increase in Group Operating Cash Flow and stable investments in fixed and intangible assets also led to a strong increase of E.ON's **Free Cash Flow** by 39 percent to 3.3 billion Euros.

As you can see, these figures demonstrate that we are well underway to surpass our "on.top" target of an annual average Free Cash Flow of at least 2.4 billion Euros.

Let me now add one remark to our **Net Financial Position**. Compared to year-end 2003, our net debt position improved from 7.9 billion to 6 billion Euros.

Now, let me proceed to our **2004 Outlook**.

The positive trend in adjusted EBIT in the first half of 2004 was also confirmed in the first nine months. Based on the solid earnings performance of all market units, we expect the E.ON Group to achieve a double digit percentage growth in adjusted EBIT for 2004.

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

For **Central Europe** we expect adjusted EBIT to markedly surpass last year's level due to the earlier mentioned operational improvements and extraordinary effects.

Regarding the **Pan-European Gas Market Unit** we expect to be nearly on par with the prior-year's extraordinarily high adjusted EBIT figure. It should be taken into account that E.ON Ruhrgas was only consolidated as of February last year.

For the **U.K.** Market Unit the 2004 adjusted EBIT is expected to be significantly above the prior-year level, due to the contribution of the Midlands Electricity distribution business and net margin improvements in the non-regulated business driven by savings from the TXU integration.

The **Nordic** Market Unit is expected to benefit from the first-time full-year consolidation of Graining, better margins in the retail business and increased generation output. As a result, we expect adjusted EBIT to be up markedly from the prior-year figure.

For the **U.S. Midwest** Market Unit we expect 2004 adjusted EBIT to be ahead of 2003 in both local and reporting currency. The increase should occur as a result of favorable year-to-date

performance as well as the new retail electric rates valid as of July 1st. This improvement is expected to be partially offset by an increase in storm costs.

As far as our **Other Activities** are concerned, for Viterra we expect that adjusted EBIT will nearly reach the 2003 level.

Finally, due to our strong operational performance, we expect that **Consolidated Net Income** for 2004 will reach last year's high level. This implies, besides continuing growth in operational earnings, the positive effects of the mark-to-market valuation of energy derivatives will last for the full year 2004. Book gains in the range of last year's level are not expected for 2004.

To **summarize**, the Nine Months Results demonstrate that we have taken another step forward in realizing our on-top financial targets. This again proves our commitment to operational excellence and delivering performance throughout the entire Group.

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

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