# E.ON AG Conference Call -

# Nine Months Results 2005

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Presentation:

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Thank you Mr. Bernotat.

Good afternoon ladies and gentlemen. I also welcome you to our 2005 Nine Months Results conference call.

The Nine Months Results are showing further improvements of our Group's key financial indicators, such as sales, adjusted EBIT, net income, and the net financial position. This positive trend once again underlines our commitment to improve performance, while we continue to strengthen our positions in our core markets. The increasing contributions from the newly acquired companies abroad, the synergies from the continued integration of our power and gas businesses as well as the operational improvement measures throughout the Group led to this successful development.

Now I would like to concentrate on the following topics:

- **First**, an overview of the E.ON Group's key financial indicators including a summary of the main drivers of our market units results; and

- **Second,** our view of the Group's outlook for 2005.

Let us start with the overview of our **key financial indicators** in the Nine Months Results of 2005:

**Group sales** rose by 18 percent to 39.9 billion Euros compared to the prior year's level. Higher sales volumes from almost all market units as well as increased power and gas sales prices were the main reasons for this improvement.

**Group adjusted EBIT** increased by 7 percent to 5.5 billion Euros. Higher wholesale power prices mainly contributed to this improvement. In addition, a higher amount of hydropower generation at market unit Nordic also had a positive effect. The adjusted EBIT in our market units Pan-European Gas, U.K. and U.S. Midwest remained almost stable.

Since we have lately seen a lot of movement in the European CO2 market, I would like to mention that the total CO2 impact for the entire Group amounted to 154 million Euros in the first nine months of this year. This number includes our operational needs as well as one time effects from the implementation of the national allocation plans. In line with the developing practice, E.ON adjusted its CO2 accounting in the third quarter. The expenses for our expected shortfall will now be recognized in annual tranches instead of towards the end of the entire allocation period 2005 - 2007. From the current point of view the impact on the full year results is not expected to exceed the year-to-date amount.

The main drivers of **adjusted EBIT in our core energy business by market unit** were as follows:

**Central Europe's** adjusted EBIT increased by 9 percent to 2.9 billion Euros.

The main positive contribution came from the power business in Central Europe West. This was mainly related to higher margins as a result of passing through increased wholesale prices. Negatives effects were felt through higher fuel costs and higher burdens resulting from expenses for additional CO2 certificates.

In the **Pan-European Gas** market unit, adjusted EBIT remained almost stable at 1.1 billion Euros. Improved upstream results compensated partly the negative effects in the midstream business from higher gas-procurement costs resulting from higher heating oil prices. Owing to timing differences for the adjustment of gas procurement and gas-sales prices, increases were not immediately passed on to customers, resulting in lower average margins. The improved growth rate from minus 8 percent as shown in the First Half Results 2005 to plus 1 percent was related to positive developments in the upstream business and the positive impact from hedging activities. Margins for selective gas sales contracts are fixed by hedging the underlying energy products, such as gasoil. The positive effect, alone in the third quarter of this year, was around 40 million Euros.

The **U.K.** market unit's adjusted EBIT also remained almost stable at 715 million Euros compared to the prior year level. Positive contributions came mainly from the non-regulated business partly due to one-off benefits from the integration of previously outsourced customer services as well as from higher retail prices. These positive effects were mostly offset by increased commodity input costs, including 86 million Euros of CO2 costs mainly in the third quarter. This also explains the sharp decline of the adjusted EBIT growth rate from plus 18 percent in the First Half of 2005 to minus one percent in the Nine Months Results.

The **Nordic** market unit recorded an improvement in adjusted EBIT of 23 percent to 600 million Euros. This strong increase was primarily a result of a secured higher effective sales value through hedging and increased hydropower production, especially during the third quarter. This development also explains the significant increase of the adjusted EBIT's growth rate from 14 percent in the First Half 2005 to 23 percent in the Nine Months Results.

At 278 million Euros, the adjusted EBIT of the **U.S. Midwest** market unit remained almost stable. In local-currency terms, the increase amounted to 4 percent. The positive contribution came from increased retail power and gas rates as well as higher prices and volumes in the off-system wholesale power market. These effects were mainly offset by higher fuel prices as well as higher operating costs.

The Group's **net income** recorded a significant increase by 61 percent to 6.4 billion Euros. This was mainly due to the substantial increase in **income from discontinued operations**, including the approximately 3 billion Euro book gain from the divestment of Viterra and Ruhrgas Industries.

This substantial book gain more than compensated the decline in **other nonoperating earnings** from 772 million Euros in the previous year to 50 million Euros. This was mainly related to:

- E.ON's share in the impairment charge of Degussa's fine chemicals division of 356 million Euros,

- storm damages of approximately 140 million Euros in Sweden as well as

- lower positive income effects from derivatives in the U.K. of 561 million Euros compared to 856 million Euros in 2004. This was mainly a result of the declining power and gas prices in the U.K. Alone, during the third quarter 2005, the fair value of derivatives was reduced by more than 300 million Euros.

As far as our **cash provided by operating activities** is concerned, it declined slightly by 77 million Euros to 4.8 billion Euros in the period under review.

The improvements shown in the market units **Central Europe, Pan-European Gas** and **U.S. Midwest** were mainly a result of higher sales volumes and prices as well as lower extraordinary payments. These were payments, for example, for the reprocessing of nuclear elements and pension funds, which affected last year's cash flow.

The major reason for the decline of cash provided by operating activities in the **U.K.** was the payment of 629 million Euros into the pension fund in the second quarter of this year.

The decrease of cash in the **Nordic** market unit was mainly due to payments amounting to approximately 140 million Euros related to the storm damages in January of this year.

**Free cash flow** after fixed-asset investments decreased by 356 million Euros to 2.9 billion Euros as investments in fixed assets increased by 279 million Euros compared to last year's levels.

Regarding our **net financial position,** it recorded a significant change compared to the end of last year. It improved by 8.7 billion Euros, thus resulting in a net cash position of 3.2 billion Euros compared to a net debt position of 5.5 billion Euros as per December 31, 2004. This improvement was primarily related to the strong free cash flow and the proceeds from the successful divestitures of Viterra and Ruhrgas Industries. This improvement was partly offset by dividend payments amounting to 1.8 billion Euros.

I would now like to comment on our **2005 Outlook.** Based on the strong development in the first nine months of 2005, we expect **Group adjusted EBIT** to reach a new record level, by surpassing last year's result. For the Group's **net income** in 2005 we expect to substantially surpass last year's level due to the book gains from the successful divestments of Viterra and Ruhrgas Industries.

**By market unit**, the outlook is as follows:

- For **Central Europe** we expect adjusted EBIT to rise above last year's level as a result of passing on higher wholesale prices to end customers and group-wide optimization programs. Significant higher fuel costs and the expense for additional CO2 certificates will have a negative impact.

- Regarding **Pan-European Gas,** we expect adjusted EBIT to be on par with last year's result. The decline in adjusted EBIT at the midstream business resulting from sharply higher heating oil prices will be compensated by the positive developments in the upstream business.

- For our market unit **U.K.** we expect adjusted EBIT to be on par with last year's level. The development shown in the first nine months 2005 will continue, whereas higher commodity costs, including the expense for CO2 certificates will be compensated by higher retail prices.

- The **Nordic** market unit expects to reach an adjusted EBIT above last year's level. In the remainder of the year, positive developments will be partially offset by lower results due to the divested hydropower stations to Statkraft as well as by the planned rebranding costs.

- Finally, for the **U.S. Midwest** market unit we expect adjusted EBIT figures to be on par with last year's level in local-currency terms. Positive effects from higher retail rates will be partly offset by higher coal prices in the non-regulated business.

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

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