



E.ON AG Annual Results Press Conference

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Presentation by:

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Please check against delivery

Ladies and gentlemen, I'm pleased to acquaint you with our very solid results for the 2005 financial year.

I'd like to begin by providing you with an overview:

We grew sales by 21 percent to €6.4 billion, due mainly to higher sales volumes, higher average prices in our power and gas business, and consolidation effects.

Adjusted EBIT, our most important measure of operating performance, increased by 8 percent to €7.3 billion. The key drivers were higher wholesale electricity prices along with increased hydroelectric generation at our Nordic market unit.

Our markets units developed as follows:

- Central Europe's adjusted EBIT rose by 9 percent to €3.9 billion. The increase is chiefly attributable to additional operating improvements and the passthrough of higher wholesale electricity prices to end customers. Adjusted EBIT was adversely affected by significantly higher costs for conventional fuel, higher power procurement costs, and higher burdens resulting from expenses for additional CO₂ certificates.
- Pan-European Gas's adjusted EBIT rose by 14 percent to €1.5 billion. Oil price movements constituted a key factor in 2005. Heating oil prices, to which natural gas prices are indexed, rose continually during 2005, resulting in substantially higher procurement costs. The delay in the adjustment of sales prices to reflect procurement prices had a substantial adverse effect on adjusted EBIT. This negative effect was more than offset by significantly higher adjusted EBIT in the upstream business and higher equity earnings from associated companies.

- U.K.'s adjusted EBIT declined by 5 percent to €63 million. The substantial increases in procurement costs for coal, natural gas, and CO₂ certificates were offset by higher retail prices and benefits from the integration of customer service activities of the former TXU business. However, a number of nonrecurring negative effects, including lower earnings from international assets, resulted in a slightly lower adjusted EBIT performance.

On the whole, our U.K. market unit has performed very well in recent years. In the E.ON AG Financial Statements, which are prepared in accordance with German GAAP, we had to reverse the entire €2.4 billion impairment charge taken in 2002 on Powergen. We did not make a similar reversal in the E.ON Group's Consolidated Financial Statements because it is not permitted under U.S. GAAP.

- Nordic increased adjusted EBIT by a very solid 15 percent to €806 million thanks primarily to increased hydroelectric production and higher effective sales prices.
- Our U.S. operations also recorded higher earnings. U.S. Midwest grew adjusted EBIT by 3 percent to €365 million. The main drivers were positive effects from rate increases and higher retail electric sales volumes partially counteracted by certain negative factors that included higher operating costs.

Our tax expense increased to €2.3 billion due to our improved operating performance and a lower share of tax-free income. I might add that our tax payments in Germany (including sales, withholding, and consumption taxes) totaled some €6.1 billion.

Overall, our 2005 results reflect our successful divestments. We sold Viterra in August and Ruhrgas Industries in September, recording book gains totaling approximately €3 billion. These disposals had a considerable impact on our net income of €7.4 billion, which again significantly surpassed the prior-year figure and set a new all-time high.

Return on capital employed (ROCE), our key returns metric, also reflects our positive operating performance. Our ROCE was again higher year-on-year, increasing by 0.6 percentage points to 12.1 percent, well above our cost of capital of 9 percent. Although our capital employed was slightly higher at approximately €60 billion, this was more than offset by the 8 percent increase in adjusted EBIT. As a result, we added nearly €1.9 billion in value in 2005.

Our cash flow figures also developed positively in 2005. Cash provided by operating activities rose by 13 percent to €6.6 billion. Pan-European Gas, Central Europe, and Nordic accounted for 90 percent of our cash provided by operating activities.

Despite higher investments in intangible assets and property, plant, and equipment totaling €3 billion, our free cash flow reached a new all-time high. Free cash flow increased by 12 percent to €3.6 billion, which is significantly higher than our on-top target of €2.4 billion. As a result, we were able to finance 100 percent of cash outflows of €3.1 billion for dividends and acquisitions using our free cash flow.

Our net financial position changed substantially in 2005. At the start of 2005, our net financial position was -€5.5 billion, whereas it finished the year at +€3.9 billion. The Viterra and Ruhrgas Industries disposals account for an aggregate €7.5 billion of this more than €9 billion improvement in our net financial position.

This gives us a considerable degree of financial flexibility which we can use for the planned acquisition of Endesa. We intend to finance this transaction using debt and liquid funds.

This would change our capital structure significantly. It would increase our debt-to-equity ratio and consequently lower our cost of capital, since debt is cheaper than equity. Even after the transaction, we would continue to have a solid balance sheet.

We want to maintain a single-A rating and are confident that we can achieve this objective. Compared with other European utilities, this rating would put us in select company.

In summary:

- We improved our operating results in nearly all our market in 2005 and again increased our adjusted EBIT.
- Through our successful Degussa and Ruhrgas Industries disposals we've very nearly completed our focus on our core energy business. Thanks to the book gains on these disposals, we set a new net income record.
- As of year end 2005, we had no net financial liabilities and consequently have considerable financial flexibility, the kind of flexibility necessary to undertake larger acquisitions.
- We intend to let our shareholders benefit from this positive performance by proposing an ordinary dividend of €2.75 per share and a special dividend of €4.25 per share resulting from our Degussa disposal.

We're also optimistic regarding our outlook for 2005. Although we won't repeat the extraordinarily high net income figure posted in 2005, which resulted from the substantial gains on disposals, we expect our adjusted EBIT to slightly surpass the prior-year figure. This will make us superbly equipped to meet the challenges ahead.

Thank you for your attention. We'd now be happy to take your questions.