



E.ON AG Analyst Conference

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Presentation:

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Thank you Mr. Bernotat, and **good afternoon ladies and gentlemen.**

I would also like to welcome you to today's Analyst Conference and present you the 2004 full year results.

As Mr. Bernotat has said, 2004 was another extremely successful year for E.ON, characterized in particular by a sharp increase in our profitability and further improvements in our financial structure.

Driven by the continuing implementation of operational improvements arising out of the "on.top" project, the first-time consolidation of acquisitions, and one-time effects in Central Europe, we increased group adjusted EBIT by 18 percent and the adjusted EBIT of our energy business by 21 percent.

Meanwhile, the strong cashflow generated from operations enabled us to reduce net debt by 2.4 billion Euros, despite our investing 2.7 billion Euros to maintain existing fixed assets and 2.6 billion Euros in financial assets to enhance and diversify our potential for long-term profitable growth.

The upshot of all these developments was that although total average capital employed rose by 2.3 billion Euros, our group ROCE still increased sharply, to 11.3 percent in 2004 compared with 9.9 percent in 2003. As measured against our WACC of 9 percent this means that we added total value of 1.5 billion Euros in 2004.

In short, our enhanced ROCE reflects value improvements in our core business and this shows that we are not buying growth, but rather that we are delivering performance through operational improvements and targeted strategic acquisitions that meet our strict financial criteria.

And we have achieved all this while retaining the financial flexibility both to reward our shareholders and invest in our business for profitable growth over the long term.

We believe that the capital market has recognized this value creation by giving an outstanding total shareholder return of 34 percent in 2004.

Against this very positive backdrop, I want to cover three main points in my presentation today:

- **First**, I want to give an overview of how the key financial indicators for the E.ON group developed in 2004.
- **Second**, I want to discuss the main drivers of performance improvement in our core business by market unit.
- **Third**, I want to discuss our strong cash flow and net financial position.

I will then conclude with some remarks on our view of the group's outlook for 2005.

Let me first of all talk about the development of our **key financial indicators** in 2004:

- **Group sales** increased by 6 percent to 49.1 billion Euros, while sales in our Core Energy Business rose by 8 percent helped by the consolidation of E.ON Ruhrgas over twelve months compared with eleven months in 2003. Also the first-time full-year inclusion of the Czech companies JME and JCE in Central Europe and Grange in our Nordic market unit contributed to the increase in sales. Midlands Electricity in U.K. started to contribute since mid January 2004.
- **Group adjusted EBIT** increased by 18 percent to 7.4 billion Euros, while the improvement in our Core Energy Business was even higher at 21 percent.

I want to emphasize two features on a group level that helped drive this very strong performance, namely our international expansion and our "on.top" operational improvement program.

As far as our strategy of international expansion is concerned, activities outside Germany contributed strongly with almost 70 percent to the adjusted EBIT improvement. This meant the activities outside of Germany now account for 40 percent of adjusted EBIT compared to 35 percent in 2003. We are now reaping the rewards of the targeted investments we have made – and continue to make – outside our home market in recent years.

Concerning our operational improvements, we realized cost savings of 320 million Euros in 2004. Since the initiation of the "on.top" program in 2003, we have now achieved 590 million Euros in total savings which shows that we are well on track as far as our target of 1 billion Euros by 2006 is concerned.

In a moment, I will explain in greater detail the development of adjusted EBIT by market unit.

- **Consolidated net income** decreased by 7 percent to 4.3 billion Euros. The main factor was the significantly lower amount of book gains in 2004, which was largely compensated by the operational improvements mentioned earlier.

The contribution from other non-operating earnings at year-end 2004 was much lower than in the nine months results owing to the fall in gas prices in the U.K. that occurred in the fourth quarter. This meant that the income effect of derivative contracts used for hedging had decreased to approximately 290 million Euros at year-end compared with approximately 890 million Euros as of September 30, 2004.

- As far as the **return on capital employed or ROCE** is concerned, we originally set ourselves a target for 2006 excluding Viterra and Degussa of at least 10.5 percent. We have exceeded this target two years ahead of schedule, as our core energy business achieved a ROCE of 11.5 percent. Including Viterra and Degusa, our ROCE was slightly lower at 11.3 percent.
- **Cash provided by operating activities** rose by 8 percent to 6 billion Euros and our **free cash flow** increased by 13 percent to 3.3 billion Euros. Again, this is ahead of our "on.top" target for free cash flow of at least 2.4 billion Euros on average annually between 2003 and 2006.

I would now like to discuss in greater detail the main drivers of adjusted EBIT in our **Core Energy Business by market unit**.

**Central Europe's** adjusted EBIT rose by 21 percent to 3.6 billion Euros. However, this includes two positive one-off effects. After stripping these out, Central Europe's adjusted EBIT rose by 12 percent.

This increase was mainly due to four factors:

- **First**, the contribution of 44 million Euros from the newly consolidated Czech distribution businesses JME and JCE;
- **Second**, a lower burden from nuclear-fuel management amounting to 270 million Euros, and,
- **Third**, higher electricity prices which were partly offset by higher fuel costs.
- **In addition** the market driven high trading result from 2003 could not be repeated and actually leading to a decrease of 130 million Euros in 2004.

The two positive non-recurring effects I mentioned were:

- **First**, 150 million Euros from the reversal of provisions following favourable court decisions regarding CHP and Renewable Energy taxes, and grid-access fees.
- **Second**, in the prior-year period, adjusted EBIT was negatively affected by balance-area settlement payments, as often explained in our Quarterly Results, amounting to 115 million Euros.

In the **Pan-European Gas** market unit, adjusted EBIT declined by 2 percent to 1.4 billion Euros. As you all know, the profitability of this market unit is very sensitive to average seasonal temperatures, and 2004 was influenced negatively by higher peak temperatures and a resulting decline in volume sold.

Furthermore, the business experienced lower average margins owing 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 in the second half of 2004. Owing to the delay mechanism of price adjustments, increases were not immediately passed on to customers.

This time lag together with the exclusion of January 2003 explain the decline of the growth rate in adjusted EBIT at year-end compared with the increase of 20 percent as of June 30, 2004, and 3 percent as of September 30, 2004.

These negative effects were partially offset by the overall positive development of sales volumes outside Germany.

The **U.K.** market unit showed a very strong increase in adjusted EBIT of 67 percent amounting to 1 billion Euros. The main drivers were as follows:

- **First**, the acquisition of Midlands Electricity in January 2004, which almost doubled the size of E.ON U.K.'s distribution business. This thereby largely explains the improvement of 221 million Euros in the regulated business, and
- **Second**, continued cost savings from the integration of TXU and higher retail earnings which were partly offset by higher coal and gas-purchase costs. These effects resulted in higher earnings of 214 million Euros in the non-regulated business.

The **Nordic** market unit recorded a considerable rise in adjusted EBIT of 28 percent to 701 million Euros. The major factors for this increase were:

- The full consolidation of Granninge contributing 110 million Euros in 2004 compared to 47 million Euros in 2003,
- Increased nuclear and hydroelectric output resulting in approximately 89 million Euros, and
- In Sweden the improved margins in the retail segment amounting to approximately 17 million Euros.

The **U.S. Midwest** market unit showed an adjusted EBIT increase of 10 percent to 349 million Euros. In local-currency terms, the increase was even greater at 21 percent.

This increase was mainly from the regulated business owing to warmer weather, increased retail-power and gas rates as well as higher off-system sales margins.

In contrast, severe spring and summer storms caused significant damage to the distribution network amounting to approximately 12 million Euros in costs.

Let me now turn to **cash provided by operating activities**, which recorded an increase from 5.5 billion Euros to 6 billion Euros in 2004. The increase is resulting from the core business energy.

The main contributors to this increase were the market units U.K. and Nordic, in both cases mainly owing to operating improvements and first-time consolidations.

Furthermore, the Central Europe market unit and the Corporate Center showed extraordinary opposite changes nearly offsetting each other. The main reason for these developments were intercompany tax credits from the Corporate Center to the Central Europe market unit in 2003, which did not occur again in 2004.

**Free cash flow** after fixed-asset investments increased by 382 million Euros to 3.3 billion Euros, despite investments in fixed assets almost remaining at last year's level.

We will use a significant portion of our strong free cash flow to fund higher **dividend** payments in the future. Our proposed dividend of 2.35 Euros per share for 2004, for example, will result in a cash payment to our shareholders of 1.5 billion Euros.

With this proposed 17.5 percent increase in the dividend, we are once again delivering our commitment to double digit growth to shareholders. Since 2000 we have increased our dividend by almost 15 percent per annum. In addition, our intention to return the full value of our stake in Degussa underlines this commitment.

Let me now focus on the development of our **net financial position**.

As you can see, E.ON's net debt fell by 2.4 billion Euros to 5.5 billion Euros as of December 31, 2004. The main drivers for this reduction in net debt were the strong increase in free cash flow, proceeds of 3.5 billion Euros from the divestment and deconsolidation of participations and fixed assets, and to a minor degree other influences such as currency effects and changes in the market values of securities.

Our excellent financial position is also reflected in our strong **ratings**.

In June 2004, Standard & Poor's confirmed the long-term rating for our bonds with AA-, but improved the outlook from "negative" to "stable".

In April 2004, Moody's upgraded the long-term rating from A1 to Aa3 with a "stable outlook".

As Mr. Bernotat explained earlier, the next phase of E.ON's development is all about profitable long-term growth. This could result in making use of our leverage potential and thereby increasing our financial debt, should this be justified by strategic investments that meet our strict financial criteria.

However, our commitment to defend at least a strong-single-A rating remains unchanged.

Before closing, I would like to present you our **2005 Outlook**.

As far as the overall **Group** is concerned, we expect **adjusted EBIT** to slightly surpass the record result of 2004.

However, for expected **net income** in 2005 our ability to reach last year's high level depends on the book gains from the sale of Viterra and Ruhrgas Industries as well as the fair value of derivatives at year-end.

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

- For **Central Europe** we expect adjusted EBIT to rise slightly above last year's level. The absence of certain positive one-off effects as well as regulatory risks to our German grid operations will be compensated by groupwide optimization programs, the realization of regional synergies and further operating improvements.
- Regarding **Pan-European Gas**, we expect adjusted EBIT to be higher than last year's result. The planned integration of Distrigaz and MOL will contribute to the expansion of our Eastern European business.
- Excluding the impact of the divested Asian Asset Management business in 2004, for our market unit **U.K.** we expect the adjusted EBIT to be similar to last year's level.
- The **Nordic** market unit is expected to have an adjusted EBIT slightly below last year's level, mainly owing to the planned divestment of hydropower assets to Statkraft. Since the additional costs of 164 million Euros from the severe storm in last January are extraordinary in nature, they will not affect Nordic's adjusted EBIT.
- For the market unit **U.S. Midwest** we expect adjusted EBIT figures to be on par with last year's level in local-currency terms. Positive effects from a full year of higher retail tariffs will be offset in the non-regulated business by higher coal-procurement costs and the loss of margin from disposed generation assets.

**To summarize**, in 2004 we again delivered an outstanding performance, and our strategic and financial position makes us very confident that we will continue to create value for our shareholders in the future.

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

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