



**E.ON AG Annual Press Conference**

**March 5, 2003**

**Statement**

**Dr. Erhard Schipporeit**

**Member of the Board of Management**

**Please check against delivery**

Ladies and gentlemen, we are not only posting better results for 2002, we are also presenting them to you more than two weeks earlier than we did last year, even though E.ON's fundamental realignment has brought with it numerous changes in our accounts.

Consistent with our strategy of becoming a pure-play energy utility, we divested a number of non-core activities in 2002. These included Stinnes, VAW and VEBA Oel, and certain non-core businesses at Degussa. These "Discontinued Operations" are shown separately.

Having made these remarks, I would now like to provide you with an overview of E.ON's annual results:

- On a like-for-like basis, E.ON's group sales of €37.1 billion were roughly on par with the prior-year figure. This is mainly attributable to the divestment of non-core businesses at our Chemicals division and to the sale of Klöckner & Co in 2001. Powergen's figures are included for the second half of 2002 only.
- By contrast, we again grew operating earnings substantially. Group internal operating profit for 2002 climbed by 23 percent to €3.9 billion—a new company record. The increase is mainly attributable to sharply higher earnings at E.ON Energie. Viterra also posted markedly higher operating earnings.
- At €2.8 billion, net income rose 8 percent year-on-year, despite substantial non-recurring charges. Net income for the fourth quarter of 2002 therefore came in better than we had anticipated in the forecast issued with our nine-month results. The one-off charges totaling €4.8 billion, which include the impairment charge to the goodwill stemming from the Powergen acquisition and valuation allowances on our HypoVereinsbank stock and other company-held securities, were balanced by the proceeds totaling

approximately €3.8 billion on our successful divestments and the sharp increase in operating earnings.

- Cash flow from continued operations rose 39 percent year-on-year to €3.7 billion. Among the reasons for the considerable increase are operational improvements at E.ON Energie and the first-time inclusion of Powergen. The non-recurring charges I just mentioned only affect the book values of these items and do not affect cash flow.
- Despite the substantial improvement at E.ON Energie, E.ON Group ROCE declined slightly from 9.6 to 9.3 percent in 2002. This is mainly attributable to the unsatisfactory development of Powergen's market environment. In addition, the temporary injunction against the completion of the Ruhrgas takeover had a negative impact on ROCE, since there were no earnings to record against the Ruhrgas shares we had already purchased. Adjusted for this effect, ROCE was 9.6 percent, slightly above the E.ON Group's capital costs of 9.5 percent pre-tax.
- Earnings per share increased by 12 percent to €4.26.
- Reflecting the gratifying development of operating earnings, management will propose increasing the cash dividend by 9 percent from €1.60 to a company-record €1.75 per share. This would mark the fourth year in a row that we have paid out a higher dividend.
- E.ON's equity ratio for 2002 decreased by 1.4 percentage points to 22.7 percent. In absolute terms, however, stockholders' equity increased by €1.2 billion to €25.7 billion.
- Due to our extensive acquisitions in 2002, E.ON's capital expenditures of over €24 billion were markedly higher than the

prior-year number. A significant majority of these investments were targeted at our core energy business.

- As of December 31, 2002, the E.ON group's net financial position—the difference between the company's liquid funds and financial liabilities—was - €14.0 billion against - €0.6 billion at year end 2001. The increase in net financial liabilities results mainly from the acquisition of Powergen and shares in Ruhrgas as well as the purchase of TXU Europe's U.K. retail business, including these companies' respective net financial liabilities. With a net debt-to-equity ratio of 54 percent, E.ON continues to have an extremely solid balance sheet and financial structure.

I would now like to turn to the performance of our divisions. I will focus on their internal operating profit, E.ON's key performance metric:

- E.ON Energie posted a substantial 28 percent increase in internal operating profit to nearly €2.8 billion. There were a number of positive contributing factors:
  - o Operating improvements in the electricity business in Germany—including our cost-management measures—amounted to €450 million.
  - o In addition, the full consolidation of new group companies like Sydkraft and Hein Gas raised earnings of €240 million.
  - o Finally, E.ON Energie had a lower depreciation expense compared with the prior year, which had a positive earnings effect of €20 million.

On the other hand earnings were negatively impacted by the unplanned shutdown of Unterweser nuclear power station and increased provisions for nuclear waste management. These effects amount to €310 million

- As I mentioned a moment ago, Powergen's figures are included in our Consolidated Financial Statements beginning with the second half of 2002. During this period, Powergen's internal operating profit was €29 million. Of this total, Powergen recorded €155 million in the U.K. The activities acquired from TXU enhanced earnings in very first two months of their inclusion. LG&E Energy contributed €94 million in earnings, most of this from its regulated utility business in the U.S. Powergen made a positive contribution to E.ON Group earnings, even after financing costs.
- In our Other Activities, the elimination of earnings streams following the divestment of non-core assets reduced Degussa's internal operating profit by 11 percent to €655 million. In a difficult economic environment, Degussa's core divisions reported an internal operating profit of €692 million, which approximates to the prior-year figure. Viterra's internal operating profit advanced by 30 percent to €203 million.
- The internal operating profit reported under our Other/Consolidation segment was negatively impacted by the financing of our acquisition of Powergen and shares in Ruhrgas.

Net book gains in 2002 increased by 16 percent to €1.1 billion and result primarily from the sale of Schmalbach-Lubeca and book gains at E.ON Energie.

Restructuring and cost-management expenses increased slightly from €25 million in 2001 to €31 million in 2002. They were recorded mainly at Degussa, Powergen, and Viterra.

The substantially higher loss recorded under other non-operating earnings in the amount of approximately €5.3 billion mainly reflects the non-recurring charges I spoke of earlier. The impairment charge on the goodwill stemming from the Powergen acquisition was €2.4 billion. In addition, there were valuation adjustments in the amount of roughly €1.9 billion on our shares in HypoVereinsbank; €1.2 billion of this figure had been written down as of June 30, 2002. The weak stock market necessitated changes to the carrying amounts of other securities in the amount of approximately €500 million. These market valuations were based on the securities' closing prices on December 31, 2002.

Because of the already mentioned non-recurring effects, results from continuing operations before taxes and minority interests amounted to a loss of €0.7 billion, considerably below the prior-year figure.

The E.ON Group shows a tax benefit of €645 million for the 2002 financial year. This is because the current-year tax expense of €875 million is more than offset by the release of deferred taxes.

But this does not mean that E.ON did not pay any taxes. A glance at our cash flow statement shows that we transferred roughly €1.2 billion to revenue authorities, mostly in Germany.

Despite the substantial increase in internal operating profit, income from continuing operations declined appreciably. This stems entirely from the already mentioned non-recurring charges and applicable reporting principles. Under U.S. GAAP, all of the significant one-off charges are recognized under income from continuing operations, whereas the one-off gains are reported under income from discontinued operations. In terms of net income, these effects essentially offset each other.

The major portion (€2.8 billion) of income from discontinued operations totaling €3.3 billion reflects net book gains on the divestment of VEBA Oel, Stinnes, and VAW. The rest comprises the operating income of these activities prior to the date of their disposal.

As I stated earlier, group net income thus rose by 8 percent year-on-year to €2.8 billion, despite the significant non-recurring charges.

I would now like to turn to the E.ON group's cash flow statement. In the 2002 financial year, cash provided by operating activities was €3.7 billion, substantially higher than the prior-year figure of €2.7 billion. The increase is primarily attributable to the further enhancement of E.ON's earnings strength and improvements in working capital management in our core energy business.

The group's investing activities resulted in a net cash outflow of €10.5 billion. We used €24 billion for investing activities. Acquisitions—Powergen, Ruhrgas, and TXU—account for €21 billion of this figure. This was offset by proceeds, principally from fixed-asset disposals, in the amount of €13 billion. We were thus able to finance more than half of our investing activities with funds freed up by disposals.

Our successful bond issue financed the remaining roughly €7 billion of our funding requirements.

The liquid funds shown on the balance sheet, which consist of cash and cash equivalents maturing, declined by approximately €3.8 billion to €3.4 billion. At this level, we continue to have a very strong cash position.

In addition, at year end 2002 E.ON AG had at its disposal credit facilities totaling more than €15 billion. This gives E.ON a great degree of financial flexibility and instant access to considerable amounts of short and long-term financial resources. In 2002, we thus took advantage of favorable market conditions to increase our financial resources.

Our very good bond ratings reflect the E.ON group's considerable financial strength. As of December 31, 2002, Moody's and Standard & Poor's gave E.ON's long-term bonds ratings of Aa2 and AA-, respectively. In early 2003, Moody's lowered its rating for E.ON's long-term bonds from Aa2 to A1. We believe this two-grade reduction is excessive.

The capital market seems to agree with us and responded very calmly to the news of the downgrade with a very slight increase in the bond spread.

E.ON continues to have one of the best ratings among the world's investor-owned utilities, for which the success of our extensive bond issues provides ample evidence.

We think our strong rating gives us an important competitive advantage along with ensuring our financial flexibility and ability to seize opportunities. We plan to continue our somewhat conservative finance policy in the future. Even in the case of further acquisitions,

we have no intention of letting our rating be anything less than a strong single-A rating.

To summarize, despite one-off charges, we posted a higher net income. We also substantially increased our operating earnings and cash flow. We want our shareowners to benefit from this performance and are therefore proposing a higher dividend. We continue to have a solid financial foundation from which to build on going forward.