



E.ON AG Annual Press Conference
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Presentation by:

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Please check against delivery

Good morning ladies and gentlemen. On behalf of my Board of Management colleagues, I would like to welcome you to this year's annual press conference.

Today we're taking stock in two respects: we're presenting the results of a very successful financial year and we're also assessing where we stand overall. Along with integrating our old and new businesses, a central objective of our on•top project was to further improve our operating performance, for which we set ambitious targets for the year 2006. Today I'm pleased to announce that in 2004 E.ON already achieved—and in some cases surpassed—these targets.

In 2004 we increased the E.ON Group's adjusted EBIT to €7.4 billion, that of our core energy business to €6.8 billion, which is already slightly ahead of the target of €6.7 billion for 2006 set under our on•top project. To get there, we accomplished a lot. We've cut costs by €590 million since 2003, mainly by transferring best practices groupwide and by systematically leveraging synergies. This means that we've already delivered more than half of the €1 billion in cost reductions we pledged to achieve by 2006. We're on course to achieve the remaining cost reductions which will further improve our cost structure.

In the same short time we've also increased our profitability beyond our target for 2006. At 11.3 percent, our ROCE performance in 2004 was not only well above our pretax cost of capital of 9 percent, it also surpassed—ahead of schedule—our ROCE target of at least 10.5 percent by 2006.

These few key figures are enough to show that 2004 was another successful year for E.ON. Across the group we again improved on an already solid prior-year performance and are truly a pacesetter in our industry. An essential driver of these successful results was our international business which delivered marked earnings growth.

The keys to our financial success are clear. We rapidly and systematically integrated our businesses groupwide, strengthened our leading market positions, further enhanced our performance and efficiency, and reduced costs significantly. In fact, we made faster progress than we had anticipated 18 months ago.

Successful integration

First, integration: the main theme of 2004 was how E.ON companies grew closer together. Beginning in July 2004 the lead companies of all our European market units bear the E.ON brand name. Rebrandings render visible the many changes that have taken place inside the group. E.ON is increasingly becoming *one* company. We cultivate a thorough and open exchange of expertise and experience across all parts of our company. This makes it possible for us to identify and implement the group's best practices, from the best technology in power production and transmission to the best business processes in IT and procurement. Our relentless focus on improvement makes it possible for us to work together across the group. This benefits E.ON as a whole and makes it more than just the sum of its parts.

Groupwide integration has also created new opportunities to bundle power and gas, which enables us to enhance our operations across the board and to improve our market positions. Examples of this are the long-term gas supply contracts E.ON Ruhrgas concluded with E.ON UK and E.ON Nordic. In addition, E.ON Ruhrgas and E.ON Nordic successfully entered the Danish gas market in 2004.

Targeted growth initiatives

But we didn't confine ourselves to enhancing our existing operations. We also successfully consolidated and strengthened our market positions by means of small and medium-sized acquisitions.

In January 2004 E.ON UK acquired Midlands Electricity, an electric distribution company. This move nearly doubled the size of its

customer base, giving it a total of 4.8 million distribution customers. In early April 2004 Midlands Electricity was merged with our existing U.K. distribution business, East Midlands, to forge Central Networks.

In late 2003 we obtained a majority ownership interest in Granninge, a Swedish energy company. Last year we became the sole owner of Granninge and began integrating its operations into Sydkraft's. The integration process has delivered considerably more synergies than initially anticipated. We will soon present a unified brand image to our customers in Sweden, which will strengthen our sales operations there. This successful integration will receive outward expression this fall when Sydkraft is rebranded to E.ON Sverige.

The eastward expansion of the EU and energy market liberalization have created opportunities in Central and Eastern Europe, opportunities that we're seizing resolutely. In October 2004 we succeeded in entering the Bulgarian market through agreements to acquire two regional electric utilities. Our entry into the Romanian market is close at hand. E.ON Energie will soon acquire a majority ownership interest in Electrica Moldova, a regional electric utility. We also made significant progress in the Central and Eastern European gas market. In October we concluded an agreement to acquire a majority ownership interest in Distrigaz Nord, a Rumanian gas distributor. This was followed in November by an agreement to acquire a majority stake in the gas business of Budapest-based Mol, Hungary's largest oil and gas company. The Mol transaction awaits antitrust approval. With this shareholding, we rapidly and significantly strengthened our market position in this important region. We now have a roughly 30 percent market share in these countries. Central and Eastern Europe is thus another region in which we occupy an attractive market position.

Here, too, our objective is not just to acquire new shareholdings but also to optimally integrate them. For instance, we improved our business processes across national borders at our shareholdings in

Hungary, Slovakia, and the Czech Republic. Among other improvements, we now coordinate the planning and implementation of our capital investments to maintain our wires network in the region. This not only cuts costs, it also makes the supply of electricity more secure and more reliable.

Strategic course going forward

Our acquisitions of the past 18 months have been fully consistent with our plan to limit ourselves to small and medium-sized acquisitions during the implementation of on•top. Our focus has been on integration and consolidation. We've now successfully completed this phase. Our organizational structure is in place, and our performance is solid. We're now a good deal closer to realizing our vision of becoming the world's leading energy company. To get there, we must explore additional avenues for enhancing value. Our objective remains to deliver optimal performance, and we will continue our relentless pursuit of operational excellence.

In the future we intend to increase the degree to which we supplement organic growth with targeted asset purchases, which may include major acquisitions as long as they meet our strict strategic and financial criteria. We're not interested in growth for growth's sake but in growing profitably in order to enhance our company's long-term value. We want to use our earnings strength to lay the foundation for our future success. By working to broaden the platform on which to enhance E.ON's profitability and value, we're acting in our shareholders' interest.

The fundamentals of our strategy remain sound and unchanged. The centerpiece of our strategy is an integrated business model which enables us to minimize and balance risk along the entire value chain in power and gas. We will continue to focus on complementing our positions in all phases of the power and gas business, strengthening our market positions, and, above all, combining power and gas

activities wherever possible. After all, our ability to offer dual-fuel solutions gives us a clear competitive advantage.

Europe remains our first priority for growth, though the U.S. market also offers us opportunities. We initially left open the question of whether we would have a U.S. presence over the long term. Now we have made our decision: E.ON will remain in the U.S. market. LG&E Energy's operating performance is good, and the company's development is positive. Our decision keeps open the option to pursue growth opportunities in the world's largest power and gas market.

In addition, we're committed to strengthening our gas-supply position. One option would be to acquire an ownership interest in Yushno Russkoye gas field, which we are discussing with Gazprom on the basis of the Memorandum of Understanding (MoU) we signed last summer. Work on the projects outlined in the MoU is moving forward constructively and according to plan. We continue to work towards further concretizing our projects with Gazprom by the end of this year.

Along with shareholdings in gas fields, liquid natural gas (LNG) may represent a gas procurement option for the future. LNG is increasingly competitive with pipeline gas, since the costs of liquefaction and transport have fallen. With global demand for natural gas increasing, LNG would enable us to achieve growth in markets we've previously been unable to supply via pipelines. We will weigh carefully whether to enter the LNG business.

The plan to strengthen our gas-supply position is also designed to make an important contribution to the security of supply in our home German market. Customers and policymakers rightly expect us to concern ourselves with security of supply. That's why we're investing in the maintenance and modernization of our electricity and gas networks and in environmentally friendly generating assets. In Germany alone we plan to invest approximately €5.2 billion in our energy infrastructure through the end of 2007. Our plans include initial investments in the construction of a coal-fired power plant and

a gas-fired power plant. These will be followed by other projects. Furthermore, at one of our facilities we will replace an old generating unit with a new one. Overall, we're building 2,000 megawatts of new generating capacity. We will choose the sites for these projects sometime this year.

Our strict criteria for investments remain unchanged. All investments must make strategic sense and meet our strict profitability criteria.

Investor-oriented dividend policy

We know that our shareholders expect a high return on their investment. That's why we remain committed to our objective of further increasing our dividend and payout ratio. At the Annual Shareholders Meeting we will propose that the dividend be raised by 17.5 percent to €2.35 per share. This proposal reinforces our commitment to double-digit annual increases in our per-share dividend through 2006. Our proposed dividend payout totals €1.55 billion for a payout ratio of 36 percent.

Our target has been to increase our payout ratio to 50 percent by 2006. We now want to take this a step further. We're now committed to achieving a payout ratio of between 50 percent and 60 percent of net income prior to nonrecurring effects by 2007. With this decision we are clearly signaling that shareholder return remains a top priority for E.ON.

The disposal of Degussa will mark the completion of our focus on power and gas. We therefore intend to distribute to our shareholders the full amount of the gain on disposal of our roughly 43 percent stake in Degussa. The precise timing and manner remain to be determined.

Responsibility

However justified, the expectations of the capital market can't be the only guide for the way we run our business. We also have responsibilities to society as a whole. Investments in modern, high-

capacity energy supply assets not only make us more competitive, they also make a significant contribution to security of supply and to retaining quality jobs. Our commitment to social responsibility also encompasses a broad range of activities related to climate protection, the environment, and optimal energy efficiency. You'll find more information about our efforts in this area in our new report, *Energy, Efficiency, Engagement—Corporate Responsibility*, a copy of which is in the materials we handed out to you. We're currently working to integrate and further expand our corporate citizenship efforts.

We're well aware that we can only be successful over the long term if we earn the public's trust. This trust is what I call our license to operate. By ensuring that we operate our business in a responsible manner, it is my personal goal to enhance the public's trust in E.ON. The indispensable prerequisite for our corporate responsibility is and will remain our commercial success, which brings me to our outlook for the current year.

Outlook

For 2005 we expect the E.ON Group's adjusted EBIT to be slightly above the solid number we posted in 2004. We expect Central Europe's adjusted EBIT to be slightly above the prior-year number. We expect Pan European Gas's adjusted EBIT to increase and Nordic's to decline slightly, mainly because of the planned sale of hydroelectric plants. Excluding the impact of the divested Asian Asset Management, U.K.'s adjusted EBIT is expected to be similar to the 2004 level, as is that of U.S. Midwest in local currency.

Our ability to achieve the same high level of net income will depend on the book gains on the disposals of Viterra and Ruhrgas Industries and on the effects of the marking to market of derivatives at year end.

I'd like to conclude my presentation on a personal note. The last two years of restructuring, consolidation, and performance enhancement have been challenging for all of us. But I want to say how much I have enjoyed leading E.ON's strategic transformation. All the more so because we have an outstanding team of employees who overwhelmingly identify with their company and its objectives. This was confirmed by the results of the groupwide employee opinion survey we conducted last year. We sometimes forget that it's our employees who make this company a success. That's why it's very important to me that we continue to cultivate a corporate culture of open and efficient communication and cooperation, a culture in which all employees are even better able to contribute their knowledge, experience, and opinions. In an initiative called OneE.ON we're working together groupwide to develop a shared corporate identity. Each one of our employees is involved in the effort. This project continues the work begun under on•top. We're supplementing our solid structure, superb performance, and clear strategy with a shared E.ON spirit.

All in all, E.ON is superbly positioned. Our performance is right, and we have a clear vision of how we're going to enhance the value of the company. We have the right structure and strategy to seize opportunities in our markets rapidly and resolutely. Our management and our employees have a common vision and a common set of values. And now we're moving forward into the next phase in the development of this exciting company, a phase that will be marked by more profitable growth. You can expect us to achieve a lot more.