E.ON AG Conference Call

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Presentation:

Dr. Erhard Schipporeit

Member of the Board of Management and CFO

Please check against delivery

Good afternoon ladies and gentlemen**,**

Since we will be discussing further details in tomorrow's analyst conference, I will take this time just to brief you on some highlights of our 2002 full year results and the outlook for the current year.

Chart 1 shows you the E.ON group sales and internal operating profit by division:

Group sales for 2002 came in at a slight decline of 1 percent year-on-year to 37.1 billion Euros compared to 37.3 billion Euros. This was mainly due to divestments in context with the Company's focus on its core Energy business. However, in our core business, E.ON Energie posted a strong increase in sales of 20 percent year-on-year.

Our **internal operating profit** for 2002 rose substantially by 23 percent above the prior year's all-time high. The Group internal operating profit for 2002 totaled 3.9 billion Euros compared with 3.2 billion Euros in 2001. The main driver behind this increase resulted primarily from the continuing strong results at E.ON Energie. Also Viterra's rise in earnings added to this increase.

E.ON Energie markedly increased its internal operating profit 28 percent to 2.9 billion Euros compared with 2.2 billion Euros in 2001. This solid performance in profits at E.ON Energie were principally due to the following:

- the operational improvements in the German electricity market, including our cost-cutting program, totaling 450 million Euros
- the first time full year consolidation of Sydkraft and Hein Gas, as well as further acquisitions in utility companies in Germany and abroad. These companies contributed earnings totaling 240 million Euros. And finally
- lower depreciation charges in the amount of 320 million Euros due to the alignment of international accounting policies in this area.

Noteworthy to mention here is that this remarkable performance occurred despite higher burdens associated with the unplanned shutdown of our nuclear power plant Unterweser as well as higher nuclear provisions in general in the fourth quarter 2002. These burdens amounted to 310 million Euros.

In addition, as of the second half 2002 the **Powergen Group** posted earnings of 329 million Euros. Of this total, the UK business recorded 155 million Euros. The activities acquired from TXU were accretive to earnings in the very first two months and will play an integral role in our UK retail business. Our US business LG&E Energy contributed 194 million Euros in earnings.

Even after taking into account the financing costs for the acquisition of Powergen - which are shown under our **Other/Consolidation** segment, Powergen's contribution to E.ON's group earnings was positive.

Our **Chemical Division's** internal operating profit declined 11 percent to 655 million Euros from the previous year's showing of 733 million Euros. This decline was due to the divestment of non-core activities. However, despite the difficult economic environment, the internal operating profit in Degussa's core businesses was on par with last year's results and amounted to 692 million Euros.

In our **Real Estate Division** – which excludes earnings contributions from Viterra Energy Services - internal operating profit advanced 30 percent to 203 million Euros compared to 156 million Euros last year. The Residential Investment unit was the main earnings contributor with a 45 percent increase in units sold (9,900 units).

Our **Other/Consolidation** segment, as expected, reported an internal operating loss of 152 million Euros compared to an internal operating profit of 37 million Euros in 2001. This was mainly due to the financing costs associated with the acquisition of Powergen and shares in Ruhrgas.

Now to **chart 2**:

Despite the strong improvement in internal operating profit , the **Results from ordinary business activities** as well as **from continuing operations** posted losses compared to last year. This was mainly due to the write-downs included under **Other non-operating earnings** which posted a loss of 5.3 billion Euros in 2002 compared to a loss of 560 million Euros in 2001.

The main reasons for these one-off effects were as follows:

- the 2.4 billion Euro write-down of the Powergen goodwill taken in the third quarter,
- as well as the two effects mentioned in our nine-month results:
- firstly, the realization of an additional 624 million Euro value adjustment in the fourth quarter 2002 of our 6.7 percent stake in HypoVereinsbank - totaling around 1.9 billion Euros for the full year, and secondly
- the write-down of other securities of approximately 500 million Euros, due to the continued difficult environment in the capital markets.

The positive **tax amount** of 645 million Euros this year resulted principally from the valuation adjustments of securities as well as from a step-up at E.ON Benelux.

Results from discontinued operations - after taxes and minority interests – totaled 3.3 billion Euros. The main contribution came from our rapid and successful divestment program which resulted in significant book gains from Veba Oel, VAW aluminium and Stinnes amounting to 2.8 billion Euros.

As a result **Group net income** - after taxes and minority interests - climbed 8 percent to 2.8 billion Euros compared to 2.6 billion Euros the previous year. This development is more favorable than we had anticipated in our nine-month results outlook for the full year 2002.

Chart 3 shows key financial figures.

Earnings per share for the Group increased by 12 percent to 4.26 Euros per share compared to 3.81 Euros per share last year.

At the 2003 Annual Shareholders Meeting on April 30th, management will propose a cash **dividend** increase of 9 percent to 1.75 Euros per share compared to 1.60 Euros per share in 2001. This increase is supported by the positive development of our earnings.

Compared with the 1998 dividend of 1.07 Euros per share, dividends have risen 63 percent or on average 16 percent per year over the last four years. This once again shows our continuing strong commitment to our shareholders.

Group return on capital employed (**ROCE**) decreased from 9.6 percent to 9.3 percent mainly since we were unable to record earnings for the Ruhrgas shares due to the temporary injunction against the completion of the Ruhrgas takeover. In other words, no income was generated on this amount of capital employed. Adjusted for this effect, ROCE was 9.6 percent, slightly above the E.ON Group's **cost of capital**.

As shown on **chart 4 -** as of year end 2002, the E.ON Group's net debt position was 14 billion Euros against net debt of 613 million Euros at year end 2001.

The increase in the net financial liabilities resulted mainly from the acquisition of Powergen and shares in Ruhrgas as well as the purchase of TXU Europe's UK retail business including these companies' respective net financial liabilities.

The reduction in the value of our investments in securities as a result of the previously mentioned write-downs also had a negative impact on our liquid funds.

On **chart 5** you will see the development of our net financial position in 2002. Our investments in fixed and financial assets as well as the consolidation of acquisitions were partially financed by our cash flow from continuing operations, the proceeds from the disposal of E.ON's interests in VEBA Oel, VAW aluminium, and Stinnes, as well as the removal of their net financial liabilities from E.ON's balance sheet.

Chart 6 – In 2002, E.ON's EBITDA covered its net interest expenses 14 times and represented 55 percent of its net financial position.

With the strong cash flow generated by E.ON in 2002, it would take 4 years to repay the net financial position.

These figures continue to show a strong financial position especially when you compare us to our peer group.

Chart 7 - Now I would like to talk about E.ON's **Outlook for 2003:**

Energy: In our core business Energy, we intend to surpass the record results we posted in 2002.

As far as **E.ON Energie** is concerned, on the back of further operational improvements, we anticipate that E.ON Energie's 2003 internal operating profit will at least be on the level of the 2002 figure, although a new accounting standard applicable from 2003 onwards will result in higher additions to our nuclear waste provisions compared to the old rule.

At **Powergen –** the further earnings decline from generation in the U.K. is expected to be more than compensated by the improved earnings in the retail business. In particular, the successful integration of the recently acquired TXU retail business will contribute to this.

In the regulated business of LG&E Energy, we anticipate a stable development in earnings. The unregulated business is still exposed to the weak economic environment in Argentina.

From today's point of view, we expect a positive earnings contribution after acquisition interest for the whole Powergen Group.

For results on **Ruhrgas -** at this time we are unable to issue a reliable earnings forecast as its entire accounting and reporting system must be converted into US GAAP. In particular, the Purchase Price Allocation (PPA) which has not yet been concluded. However, for the full year 2003 we expect Ruhrgas to have a substantial positive contribution.

Viterra: We anticipate that our Real Estate Division will increase internal operating profit in 2003, mainly due to the initiated restructuring measures. However, Viterra's earnings performance will depend to a great degree on the federal government's tax plans, in particular on the planned reduction to the subsidy for home buyers.

Degussa: At Degussa we expect to report earnings growth in 2003, mainly due to the comprehensive performance improvement program best@chem. The positive development that we anticipate will not, however, be reflected in our Consolidated Financial Statements. In 2002, Degussa was a fully consolidated E.ON division. In 2003, Degussa's earnings will be accounted for at equity and after tax in line with E.ON's 46.5 percent shareholding in the company. Since we will continue to hold a minority shareholding until its full divestment – according to US GAAP – we are required to show Degussa under equity accounting and <u>not</u> under Discontinued Operations. This consolidation effect will substantially reduce the earnings stream from our chemicals activities in 2003. This means that despite operating profit improvements in all segments, **E.ON Group internal operating profit** for 2003 will likely not quite reach the level of our 2002 results.

Group net income is expected to be higher in 2003. We expect substantial proceeds from disposals, in particular from divestments already initiated and the fulfillment of the requirements imposed in conjunction with our takeover of Ruhrgas.

From today's perspective, we do not anticipate extraordinary charges of a magnitude similar to those reported in 2002, provided that the tax landscape does not change.

Despite the overall difficult business environment, we are confident that we will further augment the Group's earnings power in 2003.

To summarize:

The 2002 financial year was of decisive importance for the E.ON Group's future structure.

Our strategy of Focus & Growth is continuing to bear its fruits. The Group's 2002 results clearly underline E.ON's commitment as we once again produced record operating earnings and forge to continue improving returns in our core business Energy.

This concludes my remarks.