



E.ON AG Conference Call -
First Quarter Results 2005

May 12, 2005

Presentation:

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Please check against delivery

Good afternoon ladies and gentlemen

and thank you for joining us this afternoon for our 2005 First Quarter Results conference call.

The 2005 First Quarter Results were mainly characterized by a further increase of our adjusted EBIT as well as a strong rise in our cash flow resulting in a significant improvement of our net financial position.

These positive developments of our 2005 First Quarter Results prove again our commitment to further deliver profitable growth and performance.

Our selective acquisition policy to further strengthen our market positions, the successful integration of our businesses as well as the implementation of operational improvement measures from our "on.top" program are bearing their fruits by contributing positively to our financial performance.

On today's conference call I would like to highlight developments of our 2005 First Quarter Results by presenting:

- **First**, an overview of the development of key financial indicators for the E.ON Group;
- **Second**, a summary of the main drivers of performance improvements in our core business by market unit;
- **Third**, a brief overview of our strong cash flow and net financial position; and
- **Fourth**, our view of the Group's outlook for 2005.

Let me start with the development of our key financial indicators in the First Quarter of 2005:

- **Group sales** increased by 12 percent to 16.4 billion Euros, while sales in our Core Energy Business rose by 13 percent compared to the First Quarter 2004. Increases in sales volumes from almost all our market units as well as slightly higher sales prices contributed to this improvement.
- **Group adjusted EBIT** rose by 7 percent to 2.5 billion Euros with positive contributions to this increase from almost all our market units.
- **Consolidated net income** remained flat against last year's high level. Lower book gains and higher tax charges were compensated by higher operating earnings, lower interest charges resulting from the significant reduction in net debt and a strong increase in other non-operating earnings.

The **other non-operating earnings** were affected by two major items:

- On the one hand a positive effect from the increase of derivatives in the U.K. to 227 million Euros in the First Quarter 2005 compared to minus 106 million Euros in the First Quarter of 2004. This resulted primarily from the steep rise in gas prices in the U.K. I would like to remind you, that these are only accounting effects as explained in detail during our Nine Months Results 2004 conference call.
 - On the other hand other non-operating earnings included a negative impact from the storm costs in Sweden which caused damages estimated at 140 million Euros.
- **Cash provided by operating activities** rose by 58 percent to 1.7 billion Euros and our free cash flow more than doubled to 1.3 billion Euros.

As a result our **net debt position** showed a further strong improvement by 31 percent to 3.8 billion Euros compared to 5.5 billion Euros at year-end 2004. Thus over the last twelve months we more than halved our net debt.

I would now like to summarize the main drivers of **adjusted EBIT** in our **core energy business by market unit**.

Central Europe's adjusted EBIT rose by 9 percent to 1.3 billion Euros.

This increase was mainly due to the following two factors:

- **First**, we experienced an increase of 85 million Euros in Central Europe West in the power business mainly due to higher margins in Germany and the Netherlands. This is a consequence of passing through increased wholesale prices driven by higher fuel costs to our end customers;
- **Second**, there was an increase of 12 million Euros in Central Europe East as a result of the divestiture of a minority shareholding in the Czech Republic as well as the first time consolidation as of March 1, 2005 of our two recently acquired regional distributors Varna and Gorna in Bulgaria.

In the **Pan-European Gas** market unit, adjusted EBIT increased by 17 percent to 486 million Euros. The profitability of this market unit was mainly driven by higher peak demand charges and higher volumes due to lower temperatures in the First Quarter 2005 compared to last year's volumes. These positive effects were partially offset by lower average margins owing to timing differences for the adjustment of gas-procurement and gas-sales prices. Gas-procurement prices were again strongly affected by the high level of oil prices in the First Quarter 2005. Due to the delay mechanism of price adjustments, increases were not immediately passed on to customers.

The **U.K.** market unit's adjusted EBIT remained almost on par with last year's level amounting to 268 million Euros. In local currency adjusted EBIT was slightly above the prior year level. Positive contributions came mainly in the regulated business from the full quarter's contribution of Midlands Electricity acquired on January 16, 2004 as well as in the non-regulated business from higher retail prices partially offset by higher gas and coal costs.

The **Nordic** market unit recorded a rise in adjusted EBIT of 8 percent to 301 million Euros. The improvement was primarily a result of increased hydropower production.

The **U.S. Midwest** market unit showed a rise in adjusted EBIT of 9 percent to 101 million Euros. In local-currency terms, the increase was even greater at 13 percent mainly due to higher sales. This rise was mainly from the regulated business primarily as a result of increased retail-power and gas rates as well as higher prices in the off-system wholesale power market.

Let me now turn to **cash provided by operating activities**, which rose from 1.1 billion Euros to 1.7 billion Euros over the period. This increase came solely from the core energy business. The main contributors to this increase were the market units Pan-European Gas, Central Europe and U.S. Midwest mainly as a result of higher volumes and prices and other extraordinary payments. These are payments for example for the reprocessing of nuclear elements, pension funds and others which affected last year's cash flow negatively.

Free cash flow after fixed-asset investments increased by 652 million Euros to 1.3 billion Euros as investments in fixed assets remained at close to last year's levels.

Let me now focus on our **net financial position**.

As you can see, E.ON's net debt further declined by 1.7 billion Euros to 3.8 billion Euros as of March 31, 2005 compared to 5.5 billion Euros as per December 31, 2004. The main drivers for this sharp reduction were the strong cash flows provided by operating activities, proceeds of 0.4 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.

Before closing, I would like to comment on our **2005 Outlook**.

As far as the overall **Group** is concerned the outlook remained unchanged. We still expect **adjusted EBIT** to slightly surpass the record result of 2004.

For expected **net income** in 2005 our ability to reach last year's level depends on the book gains from the planned 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 above last year's level. The absence of certain positive one-off effects as well as regulatory risks will be compensated by further operating improvements caused by higher wholesale prices, groupwide optimization programs and, the realization of regional synergies.
- Regarding **Pan-European Gas**, we expect adjusted EBIT to be slightly higher than last year's result. Owing to the delay mechanism of price adjustment and continuing high oil prices, we expect the rate of increase in adjusted EBIT for the full year to be markedly lower than in the First Quarter. Furthermore, the later than originally planned integration of Distrigaz North and Mol are now expected in the second quarter and in the second half of this year respectively.
- For our market unit **U.K.** we expect the adjusted EBIT to be similar to last year's level in local currency terms.
- The **Nordic** market unit is expected to have an adjusted EBIT slightly below the record figure posted in 2004, mainly owing to the planned divestment of participations in hydropower assets to Statkraft.
- 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 mainly by higher coal-procurement costs in the non-regulated business.

To summarize, in the First Quarter 2005 we continued to deliver performance and we are well on track to further enhance value for our shareholders.

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

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