



E.ON AG Conference Call -  
First Half Results 2005

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Presentation:

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Please check against delivery

Thank you Mr. Bernotat.

Good afternoon ladies and gentlemen. I would also like to welcome you to our 2005 First Half Results conference call.

The 2005 First Half Results were characterized by further growth in E.ON Group's key financial indicators: sales, adjusted EBIT, net income and cash flow all showed increases.

On today's conference call I will highlight the following:

- **First**, we will concentrate on the development of E.ON's key financial indicators;
- **Second**, our view of the Group's outlook for 2005; and
- **Third**, I will go into some detail regarding today's announcement of our German pension fund scheme.

Starting with the **developments of our key financial indicators** in the First Half of 2005:

**Group sales** showed an increase of 16 percent to 28.4 billion Euros compared with the First Half of 2004. This improvement is mainly due to increases in sales volumes from almost all our market units as well as from the development of sales prices.

**Group adjusted EBIT** rose by 7 percent to 4.3 billion Euros. Positive contributions to this increase came from almost all our market units owing to power and gas-price developments. Only Pan-European Gas showed a decline in adjusted EBIT because increasing oil prices had a negative impact on margins.

The main drivers of **adjusted EBIT in our core energy business by market unit** were as follows:

**Central Europe's** adjusted EBIT increased by 8 percent to 2.3 billion Euros. The improvement mainly came from the power business in Central Europe West. The higher margins were a result of passing through increased wholesale prices, driven by higher fuel and carbon costs.

In the **Pan-European Gas** market unit, adjusted EBIT decreased by 8 percent to 803 million Euros. The decline was mainly related to higher gas-procurement costs resulting from higher oil prices. Owing to timing differences for the adjustment of gas procurement and gas-sales prices, increases were not immediately passed on to customers, resulting in lower average margins.

The **U.K.** market unit's adjusted EBIT increased by 18 percent to 613 million Euros. The positive contribution came mainly from the non-regulated business partly due to one-off benefits from the insourcing of the previously outsourced customer services as well as from higher wholesale prices.

The **Nordic** market unit showed an increase in adjusted EBIT of 14 percent to 447 million Euros. The improvement was primarily a result of increased hydropower production.

The **U.S. Midwest** market unit recorded a rise in adjusted EBIT of 7 percent to 180 million Euros. In local-currency terms, the increase was even greater at 12 percent, mainly due to increased retail power and gas rates as well as higher prices and volumes in the off-system wholesale power market.

As far as the Group's **net income** is concerned, it rose by 7 percent compared to last year's level. Lower book gains, higher interest and tax charges were more than compensated by the strong operational development and significant increase in other non-operating

earnings. This rise was mainly a consequence of the significant positive income effects from derivatives in the U.K. of 908 million Euros in the First Half of 2005 compared to 120 million Euros in the First Half of 2004. As a result of the steep rise in power and gas prices in the U.K., the corresponding positive fair value changes of derivatives recognized in net income amounted to 680 million Euros since March 2005.

At this point I would like to remind you that in line with our current hedging policy, E.ON U.K. is hedging its electricity and gas position with forward contracts in order to protect its operational results against unforeseeable price fluctuations.

Let us turn our attention to **cash provided by operating activities**, which rose slightly from 2.7 billion Euros to 2.9 billion Euros in the period under review.

The main operational 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 as well as lower extraordinary payments. These were payments, for example, for the reprocessing of nuclear elements and pension funds, which affected last year's cash flow.

The major reason for the decline of cash provided by operating activities in the U.K. was the payment of 629 million Euros into the pension fund in the 2<sup>nd</sup> quarter of this year.

The decrease of cash in the Nordic market unit was mainly due to payments amounting to approximately 140 million Euros related to the storm damages caused in January of this year.

**Free cash flow** after fixed-asset investments increased slightly by 121 million Euros to 1.8 billion Euros as investments in fixed assets remained close to last year's levels.

As far as our **net financial position** is concerned, E.ON's net debt position further reduced by 2.1 billion Euros to 3.4 billion Euros as of June 30, 2005 compared to 5.5 billion Euros as per December 31, 2004.

The main drivers for this sharp improvement were the strong free cash flow and the reclassification of Viterra under discontinued operations amounting to 2.2 billion Euros. This improvement was partly offset by dividend payments amounting to 1.8 billion Euros.

I would now like to comment on our **2005 Outlook**.

Based on the strong development in the First Half 2005, we expect **Group adjusted EBIT** to reach a new record level, by slightly surpassing last year's result.

For the Group's **net income** in 2005 we expect to substantially surpass last year's level due to the book gains from the divestments of Viterra and Ruhrgas Industries.

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

- For **Central Europe** we expect adjusted EBIT to rise above last year's level as a result of passing on higher wholesale prices to end customers, group-wide optimization programs and realization of regional synergies.
- Regarding **Pan-European Gas**, we expect adjusted EBIT to be slightly below last year's result. The strong rise in oil prices have a negative impact. Furthermore we expect the acquisition of Mol will be delayed.
- For our market unit **U.K.** we expect adjusted EBIT to be slightly above last year's level. At this point, the growth rate seen in the First Half 2005 will decrease, mainly owing to integration costs in the non-regulated business.
- The **Nordic** market unit expects to reach an adjusted EBIT on par with the figure posted in 2004. In the remainder of the year the positive development will be largely

offset by lower retail earnings as a result of the January storm as well as planned rebranding costs.

- Finally, for the **U.S. Midwest** market unit we expect adjusted EBIT figures to be slightly ahead of last year's level in local-currency terms. Positive effects from higher retail rates will be partly offset by higher coal prices in the non-regulated business.

Now I would like to explain in detail today's announcement to fund a major part of the existing pension obligations for our German companies through a **Contractual Trust Arrangement** or in short called CTA.

We are implementing this in order to:

- be more transparent towards the capital market,
- be more comparable with international peers,
- further optimize our balance sheet structure, and last but not least,
- further secure the pensions of our employees.

For your convenience and to make it more understandable, we have provided a chart on reconciliation of pension provisions under the CTA.

As shown in this chart, as of December 31, 2004 we had total pension liabilities amounting to 15.9 billion Euros, of which 8.6 billion Euros were carried on our balance sheet as pension provisions. This amount at the end of June 2005 now shows 7.8 billion Euros. The change in the amount of the pension provisions was mainly due to:

- the payment of 629 million Euros to fund the pensions in the U.K.,
- the reclassification of Viterra and RGI as discontinued operations amounting to approximately 350 million Euros, and
- net additions of 200 million Euros.

After deducting the remaining unfunded U.K., U.S. and Nordic pension provisions and the pension trust at E.ON Energie, the remaining amount of our pension provisions up to 5.4 billion Euros are to be funded under the CTA structure into a legally independent trust.

There is no obligation to continue to fund the CTA whatsoever. This means we keep our full financial flexibility as far as future funding of pension obligations is concerned.

Now I would like to talk about the impact of the CTA structure on our financial figures:

- Regarding our **balance sheet**, the **net debt position** will increase by the same amount as funds are transferred to the pension trust up to a maximum of 5.4 billion Euros. However, since the credit-rating agencies include pension provisions when measuring debt liabilities, the impact on our financial flexibility - and hence on our ability to make profitable investments - should be neutral, or only slightly reduced.
- Our **operating cash flow** would be affected only to the extent that cash and cash equivalents were used to fund the CTA. However, we intend to fund the CTA in such a way through other liquid funds that the operating cash flow should not be affected.
- As far as the **Group's adjusted EBIT, ROCE and net income** are concerned, there is no material impact expected from the implementation of the CTA scheme.

The process of the implementation of the CTA will begin immediately and is expected to be finalized in 2006. Our goal is to have funded a large portion of our pension obligations by the beginning of 2006.

**To emphasize again**, we will continue to review our balance sheet structure and take steps accordingly as we have announced today.

We are now ready to answer your questions.

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