



**Telephone Conference on the Release of
E.ON AG's Interim Report for January 1 – June 30, 2005**

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Presentation by:

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Ladies and gentlemen, I also would like to welcome you to our telephone conference for our first-half 2005 results.

In the first half of 2005, we divested Viterra and Ruhrgas Industries (RGI), which represented important steps towards making E.ON a pure-play energy company. We also further improved our operating performance and financial position. This is reflected in our key figures: our sales, adjusted EBIT, cash provided by operating activities were all higher year-on-year, while we also further reduced our net debt.

Our indicators developed as follows:

- Our **sales** increased by 16 percent year-on-year to €28.4 billion. This improvement is mainly due to increases in sales volumes at nearly all our market units and to price developments in our power and gas business.
- **Adjusted EBIT** was up 7 percent to €4.3 billion. With the exception of Pan-European Gas, all market units contributed to the advance.
 - **Central Europe's** adjusted EBIT rose by 8 percent to €2.3 billion, mainly due to an improved gross margin. Higher wholesale electricity prices also constituted a key positive factor. Among the adverse factors were higher costs for conventional fuels.
 - **Pan-European Gas's** adjusted EBIT fell by 8 percent to €803 million. Rising heating oil prices had a negative impact on earnings. Changes in heating oil prices are reflected more rapidly on the procurement side than on the sales side, which led to a decline in adjusted EBIT.

- **U.K.** grew adjusted EBIT by 18 percent to €613 million. Contributing to the increase were one-off effects, resulting in part from the integration of services for former TXU customers previously outsourced to an external service provider. U.K. also benefited from higher wholesale prices and further operating improvements.
- **Nordic** increased its adjusted EBIT by 14 percent to €447 million. The improvement was primarily a result of increased hydroelectric production and successful hedging activities, which enabled Nordic to secure higher effective sales prices for its generation portfolio.
- **U.S. Midwest** grew adjusted EBIT by 7 percent to €180 million, primarily due to increased retail electric and gas rates. The weak dollar adversely affected U.S. Midwest's results in reporting currency; in local currency, adjusted EBIT was actually up 12 percent.
- **Net income** also reflected our positive operating performance, increasing 7 percent year-on-year to €3 billion. In addition to our improved operating results, net income benefited in particular from positive effects from the marking to market of derivatives. Negative factors included lower book gains and a higher tax expense.
- **Cash provided by operating activities** rose by 5 percent to €2.9 billion. Pan-European Gas, Central Europe, and the Corporate Center contributed to the advance. Cash provided by operating activities at U.K. was adversely affected by pension fund payments and at Nordic by the severe storm in January.

- With the stable level of investments in property, plant, and equipment of just under €1.1 billion, **free cash flow** increased by €20 million, or 7 percent, to €1.8 billion.
- The development of our cash flow indicators also had a positive impact our **net financial position**, which—despite the dividend payout—improved to -€3.4 billion. Viterra is now reported under discontinued operations, which is key factor in the reduction of our net debt. If we were to include the proceeds on the Viterra and RGI disposals, we would actually have a positive net financial position.

This marks the fourth consecutive quarter in which we have reduced our net debt, thereby strengthening our financial position.

With total liquid funds of more than €12 billion, our financial health is excellent. This comfortable situation enables us to **fund provisions for pensions** using a model that Wulf Bernotat mentioned a few moments ago and that I would now like to address briefly. We will fund a considerable portion—up to €5.4 billion—of the pension obligations of our German subsidiaries by means of a contractual trust arrangement (CTA). Under a CTA, company assets are converted to plan assets for the fulfillment of pension obligations.

CTAs are now commonly used in Germany for funding and securing pension obligations. About half of the DAX companies use them. So we are not entering unknown territory.

We are pursuing a number of **objectives** by implementing the CTA, which enables us to optimize our financial disclosure and balance sheet structure plus offers us HR advantages. We are enhancing the transparency of our financial statements and our comparability with international peers. We are reducing our strong liquidity position

without noticeably limiting our financial flexibility. And from an HR perspective, we are offering our employees greater pension-plan security without changing benefit levels.

The CTA will affect our numbers at the Group level. We will be able to offset provisions for pensions against the funds transferred to the pension trust, which will reduce our total assets and liabilities. Our net financial position will be reduced by up to €5.4 billion, while our equity ratio will increase due to the reduction in our total assets and liabilities. Initially, funding the CTA will have an adverse affect on our liquidity, though over the entire term of our obligations it is cash-flow neutral. It will have no material impact on net income and adjusted EBIT. Because our capital employed does not change, the CTA will likewise not affect ROCE, our key returns indicator.

We will begin **implementing** the CTA immediately and aim to complete funding up to €5.4 billion of pension obligations in 2006.

In summary, I can say that the funding of pension obligations represents an important step towards optimizing our financial structure, but one that does not limit us in terms of our future strategic options.

This concludes my remarks. We would now be happy to take questions.

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