



**E.ON AG Press Conference  
Düsseldorf, August 14, 2003**

**Presentation by  
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Chairman of the Board of Management  
and CEO of E.ON AG**

**Please check against delivery**

Good morning, ladies and gentlemen,

Welcome to the press conference on E.ON's half-year results. I'm very pleased that you've joined us in the middle of summer vacation, although there hasn't been much of a summer lull this year. The German Chancellor is in Hanover, there's talk about pension reform, healthcare reform, tax reform, and even about the deposit on beverage cans. And nearly every day, there are new headlines about record high temperatures and record low water levels in Europe's rivers. In the last few days, there have even been worries about the reliability of our electricity supply, a story many of you have reported on.

So there hasn't really been a slump in the stream of news this summer. And there's hasn't been one for E.ON, either. Just think of the sales we've announced recently of Bayerngas, Gelsenwasser and our HypoVereinsbank shares, or the asset swap that enabled us to reorganize our electricity interests in the Czech Republic.

Along with these M&A activities and our managing day-to-day operations, we've spent the last several months working closely together with our subsidiaries in a thorough review of the E.ON Group's strategy and organizational structure. I won't make you wait to hear the results: our on.top project confirmed that on the whole E.ON is already very well positioned. There's no reason, in other words, for radical changes to our strategy or structure.

In fact, on.top has identified the best paths, in the wake of our significant growth in recent years, to selectively consolidate and fine-tune in order to make optimum use of the E.ON Group's new position as a focused energy company. Our objective is to further enhance our earnings strength and profitability in order to create value for our shareowners. To this end, we want to continually improve our operations and further boost our performance. We intend to consolidate our strong strategic positions in the electricity and gas

business by selectively investing in clearly defined target markets in Europe. We will adjust our management structure to make it more closely geared to these markets.

The fact that E.ON has an excellent platform for the future has not only been confirmed by the on.top project: Our strong performance in the first half of this year is also evidence of our strong position.

At this point, I'd like to turn things over to Erhard Schipporeit.

[Presentation by Dr. Schipporeit]

Ladies and gentlemen,

Our results for the first half of 2003 and our outlook for the full year speak for themselves: E.ON generates more than 90 percent of its revenues and earnings with electricity and gas and has thus been successfully transformed into a focused energy company. After divesting nearly all of its non-core businesses and achieving significant growth in the energy business, E.ON has become the premier player in the European electricity and gas business, with strong competitive positions in many countries.

With our clear focus on electricity and gas and our international presence, we believe we're better positioned than our peers. Some of our competitors have opted for a more diverse portfolio of businesses. Others have chosen a similar focus on electricity and gas but they benefit from the economies of scope only in a limited regional market. And the serious problems encountered by companies that limited themselves exclusively to electricity trading or power generation have demonstrated the risks associated with being insufficiently integrated across the value chain. That's why we're convinced that our vertically integrated, geographically diversified electricity and gas business provides E.ON with a major competitive edge.

This is an excellent platform for further improving our profitability. We intend to create added value for our shareowners primarily by further enhancing the entire Group's performance and efficiency. In order to identify the full value potential in the E.ON Group, in the last three months we have closely examined the positions we occupy in our markets, we have impartially analyzed our strengths and weaknesses, and on this basis, we have defined our major goals in terms of strategy, structure and performance.

I'll start with our strategy: the on.top project confirmed that clearly focusing our product portfolio on electricity and gas is the right response to the challenges in our markets. After the acquisition of Ruhrgas, E.ON's position in the gas market is now as strong as it is in the electricity market in all major parts of the value chain: – i.e. in procurement and transportation, as well as in wholesaling and retailing.

This combination gives us unique opportunities to play an active role in shaping the convergence of the power and gas markets at the level of distribution. There is a growing need by end-users to receive both electricity and gas from a single source. In the U.K., for example, the number of customers who receive power and gas from the same supplier has more than doubled in the past three years.

Looking further ahead, we believe that gas will play an increasingly important role in electric generation. For our markets in Europe, we estimate that, relative to 2000, the amount of gas used to produce electricity will have doubled by 2010; by 2020, we even expect it to triple.

However, despite growing convergence, full integration of power and gas along the entire value chain would not be in keeping with today's market conditions.

Our electricity business is integrated along the entire production and delivery sequence. It's characterized by regional markets that are defined primarily by their interconnected power grids and their respective regulatory landscapes.

Our gas business is also vertically integrated. However, there is one important difference to the electricity business: The midstream business – procurement, transport, storage, and trading – has pan-European dimensions. The infrastructure forms a single system that

extends from Russia to the U.K. and from Norway to Italy. However, like in the electricity sector, gas retailing (the downstream business) is characterized by regional markets.

Based on this fundamental logic of the electricity and gas business, we have assigned our activities to five clearly defined and distinct target markets:

- In the pan-European gas market, E.ON is number three.
- In Central Europe – which includes Germany, the Benelux countries, Switzerland, Austria, Poland, the Czech Republic, Slovakia, and Hungary – we are number one in electricity and gas retailing.
- In our target market of Scandinavia, we are number three in retailing. We will significantly strengthen this position with the acquisition of Granninge. I will tell you more about this in a moment.
- In the U.K., we are number two in electricity and gas retailing and in power generation.
- E.ON is also well positioned in the Midwest of the United States. In the State of Kentucky, we are clearly the number one electric service provider.

In addition, we have identified Italy as another potential target market. Thüga is active in gas distribution in several regions of Italy. The Italian energy market offers attractive growth rates and is highly dependent on imports because its electric generating capacity available is very limited.

Our investments will be focused on the pan-European midstream gas business and the regional target markets, based on clearly defined

priorities. We will use the financing scope available to us primarily in order to consolidate our competitive positions in the European electricity and gas markets. However, we will pay close attention to meeting our strict return criteria and maintaining a strong single-A rating. In the United States, we currently do not see any need for action. However, we will keep our options open to consolidate our position in the US market in the long term.

We will mainly invest in complementing and consolidating our European electricity and gas business. For the period from 2003 to 2005, we have budgeted an investment volume of between €6 billion and €8 billion. That is about €3 to €10 billion more than we had budgeted in the medium-term plan published at the end of last year.

We will invest this capital, for instance, in order to expand our electricity generation capacity and our gas infrastructure. In addition, we plan to selectively make smaller- and medium-sized acquisitions in order to consolidate and complement existing market positions. In this context, there are interesting prospects in all target markets:

- In the Continental European gas market, EU-wide market liberalization will lead to much tougher competition. This will create both a challenge and an opportunity for our company. In fact, we see promising opportunities in the U.K., which will be more dependent on gas imports in the future. This will provide growth opportunities for us that we want to seize by expanding our infrastructure or increasing our stakes in selected gas fields in the North Sea. In Eastern Europe, the privatization of gas pipeline companies is on the agenda. This will also provide interesting investment opportunities for us.
- In Central Europe – our biggest electricity and gas market – our primary interest will be the integration and further consolidation of our already strong market positions. We will close any

remaining gaps in market segments by making selective investments. In the longer term, stronger integration of electricity generation and gas procurement is also on our agenda so that we will be able to seize the sales opportunities associated with the foreseeable demand for the construction of new power plants by using gas for electricity generation.

- Our primary task in the U.K. market is to complete TXU's integration into Powergen. In the retail business, this process will lead to a substantial reduction of costs. The British government's goal to make much greater use of renewable energy sources will also provide investment opportunities for us in electric generation. Because of the growing demand for gas imports in the U.K. market, we are also contemplating investments in the gas supply infrastructure.
  
- Our position in Scandinavia is not as strong as our positions in our other markets. For this reason, we want to strengthen our position in Scandinavia in order to become one of the top players in our industry in the Nordic countries, as well. With our acquisition of a majority stake in Granninge, Sweden's fourth largest utility company, we will come much closer to this objective. This acquisition will strengthen our position as the third largest electricity and gas company in Scandinavia. In terms of our customer base, we will even move up to the number-two position in the Scandinavian market. At the same time, the acquisition of the Granninge power stations, most of which are hydroelectric facilities, will help us to complement our generation portfolio, which is already highly cost-effective. Granninge's service territory, which is located in central Sweden, borders on Sydkraft's grid, which leads to interesting synergies. In addition, this acquisition meets our cost-effectiveness criteria. In the first full year following consolidation, we expect Granninge make a

positive contribution to Group internal operating profit. Within three years, in 2006, we expect our Scandinavian activities to earn their cost of capital.

In addition to acquiring stakes offering potential synergies with existing activities, we are also considering projects designed to expand our gas infrastructure (in Sweden, for instance).

In the development of our organizational structure, we were guided exclusively – as in the case of our strategy – by the logic of the markets. The current assignment of companies to organizational units was mainly the result of earlier acquisition processes: Sydkraft, for instance, is currently part of E.ON Energie because that is where Sydkraft ended up due to the acquisition of shares. Prior to its acquisition by E.ON, Powergen had bought LG&E and so still manages it today. In our new organizational structure, we have assigned our Group's companies to organizational units exactly in keeping with market requirements. In the future, each company will be assigned to the place in the structure where it can add the greatest value to the Group.

The new organizational structure of our Group will consist of three levels:

- business units will be in charge of our business operations,
- each of the lead companies of the market units will be responsible for one of our target markets,
- our Corporate Center will manage our overall business across the various markets.

The business units include, for instance, our power station and grid companies, as well as trading companies, regional distributors and national subsidiaries. Some companies will be assigned to new units, and duplicated assignments will be eliminated. This mainly applies to

shareholdings of Ruhrgas and E.ON Energie in distribution and marketing companies because we plan to integrate our electricity and gas business, especially in this area.

In the German market, the regional utilities such as Avacon, E.ON Bayern and E.ON Hanse – which are mainly active in the electricity business – will continue to be managed by E.ON Energie. At the same time, however, we will ensure that Ruhrgas will be closely integrated into the business of these companies. Thüga, which is largely active in the field of gas sales through municipal partners, will be transferred from E.ON Energie to Ruhrgas, which already works closely with municipal utilities. In addition, the Dutch gas trading company D-Gas will also be transferred from E.ON Energie to Ruhrgas.

This fundamental principle will also apply to the other Central European countries and markets. In all countries in which both E.ON Energie and Ruhrgas are currently present, there will only be one national subsidiary in the future. The electricity and gas activities in Hungary and the Czech Republic, for instance, will be managed by E.ON Energie, while Ruhrgas will manage these activities in the Baltic countries.

We will also reassign some companies to other units at the level of the five lead companies in the market units that have full profit responsibility in their respective areas.

Ruhrgas will manage the pan-European gas pipeline business. E.ON Energie will be responsible for the Central European market and Powergen will be in charge of the U.K. LG&E, which has so far been managed by Powergen, will in future be in charge of our US activities and report directly to E.ON AG. Sydkraft will be our lead company for the Scandinavian market and also report directly to the Corporate Center.

Decentralized management and market proximity, as well as clear-cut market orientation of our business and market units, will continue to be core elements of our Group's organizational structure. However, following our focus on electricity and gas, consistent management of the overall group as an integrated energy service provider will become much more important. Against this background, E.ON AG – as the Corporate Center – will assume additional functions or adjust existing functions. Core functions of the Corporate Center include the management of the overall business across markets, the ongoing optimization of the Group's portfolio, setting clearly defined performance targets and monitoring the achievement of these targets.

The changed role of the Corporate Center will be reflected in particular by new management processes that we will establish here in Düsseldorf.

- Strategic Market Management will coordinate and optimize the business among the market units across all regional markets. Its functions will include securing long-term gas supply as well as planning the construction of new power stations in the framework of long-term energy scenarios.
- The task of Regulatory Affairs will be to coordinate our Group's contacts with European and national regulatory agencies.
- The primary task of Operational Excellence will be to build up best-practice processes as a firmly established management function. This will include continuous benchmarking of all E.ON power stations as well as consistently optimizing marketing processes across all market boundaries.
- Finally, the Corporate Center will assume direct responsibility for the HR management of the approximately top 200 executives in the overall Group.

These new functions will also be reflected in the structure of our Board of Management. The Supervisory Board's Executive Committee yesterday proposed to E.ON's full Supervisory Board that, at its next meeting in December, it should appoint Johannes Teysen, the CEO of E.ON Energie, also as a member of the Board of Management of E.ON AG, effective January 1, 2004. Johannes Teysen will then be in charge of the Downstream unit, which will mainly be responsible for monitoring operational excellence at the level of distribution and marketing. In addition, Johannes Teysen will also be responsible for the medium-term strategic market management.

Mr. Bergmann will assume responsibility for the new Upstream unit. His functions will be to ensure operational excellence in the upstream parts of the value chain for electricity and gas, and in addition, he will also be in charge of managing the long-term generation and infrastructure investments and coordinating regulatory issues across the entire Group.

We are convinced that, with the new management processes and the adjustments in the structure of our Board of Management, we have prepared the ground for optimizing our Group across markets and businesses. Subdividing responsibilities into three clearly defined levels will help avoid duplication, reduce costs and achieve economies of scope.

The adjustments in our organizational structure and the clearly defined strategic priorities provide an excellent platform to consolidate and strengthen our competitiveness in our core markets and to achieve a sustainable improvement in our performance. These plans are linked to very ambitious financial targets.

We feel that the most important challenge for E.ON will be to achieve higher returns than our competitors. In terms of our key return

indicator – Return on Capital Employed (ROCE) – we only ranked in the middle of our industry last year. Our goal is to achieve a ROCE that will rank us among the leading European companies in our industry. By 2006, we want to achieve a ROCE of at least 10.5 percent. To this end, we want to increase our earnings before interest and taxes (EBIT) by €2 billion by the year 2006, relative to 2002 and on a capital base of €64 billion. In 2002, our EBIT amounted to €4.7 billion. In addition, we want to reduce our capital employed.

Another important target variable that we have defined is our Group's free cash flow. We believe that we will be able to generate an average free cash flow of €2.4 billion annually, net of capital expenditure.

Our third goal is to pursue an aggressive dividend policy. On average, we want to increase our dividends every year by double-digit percentage rates until the year 2006.

We do not generally rule out another share buyback program; however, against the background of our investment priorities in our core markets, we currently do not have any plans for a share buyback.

Although we reduced our costs by as much as €1.5 billion by the end of 2000 as a result of the cost-cutting program initiated after the Veba/Viag merger, we will have to continue to improve our performance if we want to achieve our return targets. To this end, we have identified three levers: First of all, Powergen and Ruhrgas, which we have acquired only recently, will make major contributions to these improvements. Secondly, we expect that developments in our core markets will help us improve our earnings through further organic growth, in particular with regard to sales volumes and prices. Thirdly, we have identified a cost-cutting potential of a total of €1 billion in three areas:

- operational excellence through best practice in all parts of the value chain,
- synergies resulting from integration processes, especially with regard to Powergen/TXU and Ruhrgas, and
- further improvements through optimized purchasing and renegotiating current contracts.

At this point, I would like to ask you to bear with me for not being able to provide any further details about our program aimed at improving our performance. Of course, our internal analysis is much more detailed than what I have reported here today. However, against the backdrop of new rules introduced by the US Securities and Exchange Commission, we are not in a position to publish any additional data. These figures are referred to as non-GAAP financial measures. For this reason, we have to translate them into U.S. GAAP measures. In concrete terms, this means that we would also have to show the effects that any additional figures would have on our Group's consolidated net income.

Nevertheless, we have given you a description of our medium-term earnings expectations that is more detailed than any of our previous presentations.

I would briefly like to make a few comments on the current discussion about the reliability of our power supply. The sustained hot spell in southern Europe has already led to some outages. France has turned from an exporter into an importer of electricity. There is also growing concern in Germany that there may be disruptions in our power supply. Some of our competitors have already appealed to consumers to reduce their electricity consumption.

It is true that the hot spell has also led to a shortage of generation capacity in Germany. The wind turbines have nearly come to a halt,

hydroelectric power stations suffer from the drought, and because of the high water temperatures in the rivers, coal-fired and nuclear power stations also have to reduce their power output in order to prevent the water temperatures in the rivers from rising too much. At the same time, electricity consumption is higher than during a normal summer – just think of the power consumed by refrigeration and air-conditioning systems.

The market has had quite a normal response to this situation: Higher demand and lower supply have pushed up wholesale prices. I can understand that consumer organizations and industry are not pleased about this development. What I fail to understand, however, is that they have used this opportunity to call for the establishment of a regulator.

If a regulator intervened in such cases, this would de facto eliminate competition and the fundamental market principle of supply and demand. I can only warn against this type of regulation. If the only objective is to continue to reduce electricity prices until they hit rock bottom, the reliability of energy supply would be seriously jeopardized sooner or later.

The very fact that the German energy industry has invested large sums of money in the past in an efficient supply system with a balanced energy mix and a state-of-the-art grid infrastructure is paying off now that the supply situation is tight.

However, even in the best of all systems, it is necessary from time to time to make further investments in order to replace parts and upgrade the system. Only if this is done will it be possible to maintain the high level of supply in the long term, which is the basis for prosperity and economic growth. However, energy companies will only invest if they can earn their cost of capital and an adequate return.

There is a price to be paid for reliable energy supply. This is a simple fact that any future regulation will also have to consider. We don't know yet in what shape or form this regulation will be implemented in Germany. We expect some preliminary indications to this effect from Germany Federal Minister Economics by the end of this month. However, we hope that the legislator will opt for a type of regulation that will allow grid operators to earn a reasonable return on their capital employed, while at the same time introducing practicable network access rules. The *Verbändevereinbarungen* – the agreements concluded among German industry associations – can serve as a sound basis for this purpose.

I would like to sum up as follows: As a result of the work we have done in our on.top project, we have defined clear-cut strategic priorities, an even more efficient organizational structure for our Group and highly ambitious performance and return targets. In the next few months, we will optimize and implement the measures presented today, so that we will be able to operate in the new organizational structure as of the beginning of 2004.

We're convinced that on.top puts us on the right path to further growth and sustained value enhancement. E.ON offers its shareowners and its employees clear and—we believe—very attractive prospects for the future