

E.ON AG Analyst Conference

Düsseldorf, March 27, 2001

Presentation:

Ulrich Hartmann

Chairman of the Board of Management and CEO

Please check against delivery

Ladies and gentlemen,

Today we're going to present E.ON's year-end financial results. And we're not only going to announce the Group's record results, we're also going to report on a financial year in which we made considerable progress both strategically and structurally.

These are the highlights:

We rapidly and successfully completed Germany's largest-ever merger.

E.ON's clear corporate structure aligns it ideally for its markets. We've not only given our core businesses new dimensions, we've also put them on course for growth—right from the start.

We've moved swiftly and successfully to exit our non-core businesses. Since announcing the merger almost 18 months ago, we've had proceeds of roughly €21 billion from disposals.

We're happy to report that this strong start is reflected in our sales and earnings figures for 2000: Group sales rose 34 percent year-on-year to €93 billion. At €2.8 billion, Group internal operating was slightly ahead of the previous year's all-time high. In other words, despite the setbacks at our Electricity Division, we posted solid earnings. Consolidated net income for 2000 totaled €3.7 billion—up 30 percent from the previous year.

The E.ON Group's first year-end results demonstrate its impressive earnings power. We debut as one of Europe's financially strongest corporations. That's why we'll propose to our shareowners at the Annual Meeting in May that the dividend for the 2000 financial year be increased 10 cents to €1.35. This sets a new company record. Indeed, E.ON pays out some of the highest dividends in corporate Germany.

Ladies and Gentlemen,

The Group got off to a great start in its first full financial year. We will carry this momentum into the current year.

On the energy side, we're pursuing a clear strategy that has three main elements: to reinforce our leading position in Germany, to systematically extend our position in Europe, and to seize selected growth opportunities overseas.

Turning first to our domestic market, E.ON Energie already has a strong position in Germany. We will expand this position by making targeted acquisitions, enlarging our existing shareholdings, and leveraging our strong distribution and supply organization.

The centerpiece of our supply strategy is the further optimization of our customer-oriented regional supply network. For example, we're currently combining five regional distribution companies that were formerly part of Bayernwerk. "E.ON Bayern" will have roughly 2,800 employees, about €5.5 billion in sales, 2 million customers, and supply 35 billion kilowatt-hours of power, making it Germany's largest regional distribution company.

A high degree of customer-proximity by no means excludes a centralized approach to coordinating product development and marketing. This is demonstrated by "Mercateo," the internet marketplace used by E.ON Vertrieb and its regional partners to offer products and services to medium-sized companies.

I'd now like to turn to Europe. Here we've taken a giant step forward. By tendering a public offer to purchase the shares of minority stockholders at Sydkraft, our Swedish subsidiary, we're well on the way to obtaining a controlling majority. This will make us a top player on the attractive Scandinavian energy market. Following the takeover of EZH in the Netherlands, Sydkraft represents the second significant acquisition of a majority stake outside Germany. Consolidating Sydkraft will boost our annual sales volume by about 30 billion kilowatt-hours. We will advance us to become Europe's number three energy company behind state-owned EdF and Enel. That will make us the largest investor-owned energy service provider in Europe.

We intend to enlarge this position to give us a truly European presence that includes sizeable positions in all of Europe's important markets. We're not confining our ambitions to regions bordering Germany, where we already have numerous attractive shareholdings.

There are interesting growth opportunities in Europe's insular markets, such as Spain and Great Britain. These two countries have largely autonomous power sectors owing to their limited transfer capacity. These markets are currently in a process of dynamic change, and there could be interesting opportunities to enter them. But our ambitions extend beyond Europe. The American power market is still in the early stages of consolidation. Our experience in deregulated markets gives us a clear competitive advantage in the U.S.

Ladies and Gentlemen,

It's no secret that—within the strategic framework I just described—we're examining a variety of options and are in talks with numerous companies. You already know about some of them. But today we'll continue to adhere to our policy of not discussing projects until there's something definite to report.

Beyond that, we can tell you that many companies are very open to the idea of E.ON investing in them. There are several reasons for this. E.ON is Europe's leading investor-owned utility and has demonstrable experience in areas like privatization and liberalization. Our considerable financial strength naturally appeals to any company looking to grow.

Our aim is obviously not to invest the funds from our fabled war chest in just any company. We will only invest where it will help us achieve our strategic goals and where it also makes business sense. At E.ON, growth is always synonymous with profitable growth.

The same is true for our Chemicals Division. Degussa completed its merger in record time and has aligned itself as a clearly focused, market-oriented company. Now, the key task is to narrow the company's focus on the profitable specialty chemicals sector. Degussa has already begun to divest non-core assets with roughly €6 billion in sales. It intends to complete most of its divestment homework this year.

During the merger, Degussa took the first step toward expanding its specialty chemicals activities. More than 90 percent of the shareowners of Laporte, the UK-based fine chemicals company, have accepted Degussa's takeover offer. The transaction is expected to be completed in just over a month. Laporte's operations ideally complement Degussa's portfolio.

VEBA Oel's new corporate structure and the cost-cutting measures it has executed over the past few years have noticeably improved its competitiveness. But oil industry consolidation continues unabated. And we continue to hold talks with various parties to examine possibilities for partnerships and alliances.

Overall, we expect our Other Activities to continue last year's solid performance. Nearly all activities made progress toward further improving their business structures. Viterra enhanced its portfolio of commercial properties by acquiring eight logistics facilities from Germany's postal service. Stinnes is moving forward with the integration of HCI, the Dutch logistics specialist. Klöckner & Co divested its relatively high-risk and low-margin trading operations. We're thus working resolutely to expand the market positions and boost the competitiveness of these businesses, as well.

Ladies and Gentlemen,

Now I'd like to turn to public policy issues. Beginning yesterday, highly radioactive nuclear waste is being transported for the first time in almost three years. The federal government is thus fulfilling—albeit somewhat tardily—an important part of the consensus agreement on nuclear energy. If the government produces an acceptable draft amendment to the Nuclear Power Regulations Act, then nothing stands in the way of implementing the agreement.

The liberalization of Europe's energy markets has entered a critical phase. The common European market for energy is still in its infancy. In a number of countries, the privatization of the electricity and gas sectors has just begun. Elsewhere in Europe, German energy companies in particular are not allowed to operate with near the freedom of their foreign rivals in Germany.

Late last week in Stockholm, France regrettably blocked the European Commission's latest initiative to accelerate liberalization. Nevertheless, creating a uniform and fair competitive environment must remain on Europe's energy policy agenda.

On the other hand, the EU Commission wanted to require all member states to set up domestic regulatory authorities. Brussels was then supposed to regulate the regulators. The European Council did not adopt this plan. The German federal government in particular spoke out against it. It's not in Germany's interest to bureaucratize our pragmatic approach to energy policy.

The federal government has also struck a pro-competition note by withdrawing its quota scheme for co-generation plants. This clears the way for a market-based alternative. As you know, Germany's leading energy companies have unveiled a "Climate Protection Action Program." The Action Program contains measures to reduce CO₂ emissions which also provide support for CHP stations—in cases where CO₂ is actually reduced. This is by no means true for all co-generation plants. Together with Germany's major energy companies, we're currently holding talks with the federal government to work out an agreement to achieve the proposed CO₂ reductions.

It's clear that an agreement ought not to be endangered by excessive subsidies for existing CHP stations. It's my hope that we'll be able to reach a climate protection agreement that is both environmentally effective and economically sound.

Ladies and Gentlemen,

E.ON's market-oriented corporate structure, its considerable expertise in competitive markets, and its impressive financial strength all make E.ON ideally aligned for reaching the pinnacle of Europe's energy sector. We will maintain the strong momentum with which we launched the Company last year.

We expect to increase Group internal operating profit substantially. We anticipate that our Electricity Division will report a slight earnings improvement, since power prices have begun to stabilize, the merger synergies have begun to take hold, and additional cost-cutting measures have started to show their effects.

We intend to further enlarge our Electricity Division's leading position in Europe and beyond.

In Chemicals, we will further sharpen Degussa's profile as a pure specialty chemicals enterprise.

And we will systematically implement our divestment program.