

E.ON AG Analyst Conference

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Presentation:

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Member of the Board of Management and
CFO

Please check against delivery

Ladies and gentlemen,

The 2000 Financial Statements you have before you contain the Group's first 12-month figures in full compliance with U.S. GAAP. I already discussed the significant effects of our conversion to U.S. GAAP when we released E.ON's nine-month results.

Our comments are based on pro-forma figures in order to improve comparability. Our U.S. GAAP Financial Statements meet the highest international standards of reporting transparency.

I'd like to begin with an overview of Group's year-end results.

Group sales for 2000 rose 34 percent year-on-year to €93 billion. The Oil and Chemicals Divisions were the main contributors to the increase.

Group internal operating profit for 2000 totaled €2.8 billion, a slight increase from 1999's all-time high. This means that Group internal operating profit performed significantly better than had been forecast on the basis of nine-month figures released in December 2000. The main drivers behind this positive development were reduced losses at Telecommunications in the wake of disposals, higher crude oil prices paired with a strong dollar, and the cost reductions we achieved at our Electricity Division.

Group net income (after taxes and minority interests) climbed 30 percent from €2.8 billion in 1999 to €3.7 billion in 2000—a new record. At €5.07, earnings per share for 2000 rose considerably from the previous year's €3.90. Investments in the 2000 financial year totaled roughly €15 billion, up a substantial 35 percent from 1999. The Corporation's equity ratio for 2000 (excluding minority interests) declined 1.4 percentage points to 26.4 percent. Including minority interests, the Company's equity ratio was 31.2 percent. Our share buyback program was the main reason for the decrease.

The E.ON Group's net financial position—in other words, the difference between liquid funds and liabilities—amounted to -€5.5 billion as of the balance sheet date compared with -€2.4 billion at year-end 1999. Following the payment of the purchase price for VIAG Interkom, the Company's net financial position has shifted to +€4.8 billion.

E.ON's return on capital employed (ROCE) declined 0.9 percentage points to 8.0 percent. The primary cause was the earnings decline at our Electricity Division. Nearly all other Divisions increased their returns, in some cases markedly so. The Group's ROCE of 8.0 percent is below its cost of capital of 11.2 percent. This underperformance results almost exclusively from our Telecommunications Division's negative return. In addition to startup losses, Telecommunications' high level of working capital—resulting in part from Germany's exorbitantly priced UMTS licenses—negatively impacts the Group's return.

Excluding Telecommunications, E.ON's ROCE for 2000 was 11.1 percent, roughly equaling the Group's cost of capital. The divestiture of VIAG Interkom will boost the Group's return in 2001.

Ladies and Gentlemen,

I'd now like to discuss the Group's performance by Division on the basis of internal operating profit, our key earnings indicator.

I'll start with our **Electricity Division**. The 2000 financial year was the first to feel the full impact of Germany's liberalized power market for an entire 12 months. Despite vigorous cost management—merger-related cost reductions alone totaled €200 million—and 15 percent higher sales volumes, Electricity's internal operating profit declined 30 percent year-on-year to €1,725 million due to substantial price reductions.

Compared with 1999's completely unsatisfactory results, **VEBA Oel's** internal operating profit surged dramatically to €310 million thanks to higher crude oil prices, higher refining margins and a strong dollar. Earnings were negatively impacted by the dramatic collapse of margins in the service station business, hedging transactions as well as interest expenses and goodwill amortization stemming from the acquisition of Aral shares in late 1999 and early 2000.

Chemicals' internal operating profit rose a sharp 58 percent to €672 million on the back of strong global demand in the chemicals industry and favorable currency effects. Synergy effects from the Degussa-Hüls and SKW-Goldschmidt mergers also had a positive effect.

Our **Real Estate Division's** internal operating profit advanced 12 percent to €212 million. The rise is largely attributable to the increased number of housing units sold at Residential Development.

Telecommunications curtailed its operating loss from -€789 million in 1999 to -€546 million in the year under review. The reduction stems mainly from the disposal of shareholdings—Otelio and E-Plus, for example—that were characterized by heavy startup losses.

Internal operating profit posted by our **Other Activities** rose a marked 55 percent to €620 million.

Ladies and Gentlemen,

The rapid progress made on slimming our portfolio led to net book gains of €4.8 billion in 2000. This resulted in particular from the disposal of the Company's shareholdings in E-Plus (€3.5 billion) and Cablecom, the Swiss cable-TV operator (€0.8 billion).

At €555 million, restructuring and cost-management expenditures markedly surpassed the previous year's figure (€367 million) and primarily impacted our Electricity, Chemicals, and Oil Divisions.

Other non-operating earnings amounted to -€712 million in 2000 compared with -€62 million in 1999. These mainly include write-downs of roughly €400 million stemming chiefly from the divestment of shareholdings in Veag and Laubag initiated to fulfill antitrust requirements and costs related to the VEBA-VIAG merger and the mergers in the Electricity and Chemicals Divisions.

Foreign E&P taxes for 2000 amounted to €552 million. This results in pretax income of €6.8 billion.

The Group's tax rate remained at just over 38 percent. Minority interests increased due to earnings improvements at Chemicals and MEMC and because Stinnes's minority interests were for the first time included for a

full 12 months following its IPO in June 1999. Group net income (after taxes and minority interests) totaled €3,678 million, up 30 percent from the previous year.

This brings me to the Group's investments in 2000, which rose distinctly from the previous year.

At €15.0 billion, total investments for 2000 exceeded prior-year capital spending (€11.0 billion) by 35 percent. The Group invested €4.4 billion in property, plant, and equipment in 2000. The Group's €10.6 billion of investments in financial assets went mainly toward shareholder loans to VIAG Interkom related to the UMTS license auction, toward acquiring EZH, the Dutch energy utility (which now does business as E.ON Benelux Generation), and toward increasing VEBA Oel's stake in Aral.

Ladies and Gentlemen,

I'd now like to turn to the E.ON Group's statement of cash flows.

The Group's cash flow from operations declined 20 percent year-on-year to €3.9 billion. Cash from sales increased. This was offset, however, by a disproportionate, growth-related increase in working capital.

Despite the Group's already mentioned investments of roughly €15 billion, negative cash flow used for investment activities totaled only €5,7 billion. This mainly reflects from the considerable proceeds from disposals. After investment and financing activities, cash on hand and at banks increased €446 million to €1.3 billion as of the balance sheet date.

Liquid funds (cash and other current financial investments) decreased by €1.0 billion to €8.5 billion. This is principally attributable to our share buyback program. Our successful divestments in Telecommunications have now increased the €8.5 billion to roughly €17 billion.

Ladies and Gentlemen,

Now I'd like to present a short overview of our expectations for the 2001 financial year.

E.ON's planned investments for 2001 amount to €6.8 billion. Over 65 percent of planned capital expenditures is earmarked for our energy and chemicals businesses. This figure does not include the medium-sized and major acquisitions—like the Laporte takeover—that are integral to the growth strategy of our core businesses.

We will continue our share buyback program. Up to now, we've repurchased 5.6 percent of the Company's shares.

As I said a moment ago, 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 are beginning to take hold, and additional cost-cutting measures are starting to show their effects.

We anticipate that Oil's 2001 internal operating profit will be on par with last year's record results owing to the normalization of underlying conditions and markedly higher service station margins.

For 2001 we expect Chemicals' current portfolio to again post a higher internal operating profit. The takeover of Laporte is expected to have an additional positive impact.

We expect that our Real Estate Division's internal operating profit for 2001 will again exceed the prior year's figure.

We expect Telecommunications to report significantly improved internal operating profit.

Overall, we anticipate further improvements at our Other Activities.

E.ON will also benefit from the fact that the VEBA-VIAG merger did not lead to the creation of goodwill. This will improve our future earnings by about €300 million.

However, we anticipate that pretax income for 2001 will be substantially below last year's record number. Owing to the tax relief on capital gains that will take effect in Germany in 2002, we do not expect to receive significant gains from disposals in 2001.

I'd like to conclude by saying that we expect to post a marked increase in internal operating profit for the current year—and thus set a new earnings record—and that our solid balance sheet and considerable financial strength make us superbly equipped to meet new strategic challenges.