



**E.ON AG Annual Shareholders' Meeting**  
**May 18, 2001**

**Presentation by**  
**Ulrich Hartmann**  
**Chairman of E.ON AG's Board of Management**

**Please check against delivery**

Ladies and gentlemen, I too would like to welcome you to E.ON's first Annual Shareholders' Meeting.

Your new company had a very successful first year, both financially and strategically.

We again posted record earnings. But what's just as important, we also lifted E.ON into a new dimension and created a superb platform for additional growth and sustained value enhancement. E.ON is now well on its way to becoming a world-class integrated energy service provider.

A few days ago we acquired a majority stake in Sydkraft. This alone makes us Europe's premier investor-owned energy supplier. We intend to systematically expand this excellent position: in Germany, Europe, and overseas. Powergen represents the biggest acquisition in the Company's history. This single move vaults us into attractive positions on two of the world's most important energy markets. So it's hardly an exaggeration to say that—in the wake of last year's successful merger of VEBA and VIAG—we're now poised for a quantum leap in the Group's development.

We've systematically pursued growth. We've also swiftly—and very successfully—divested non-core businesses. In less than 15 months we've earned proceeds of roughly €21 billion on asset sales. As you can see, we're diligently and systematically implementing our Focus and Growth strategy.

We're also continually boosting the competitiveness and profitability of our businesses. This was reflected in the gratifying earnings the merged Company reported in its very first year. At €2.8 billion, Group internal operating profit even slightly exceeded the previous year's all-time high. The key drivers were reduced losses at Telecommunications following the disposal of shareholdings, high

crude oil prices paired with a strong dollar, and ongoing cost-cutting measures at our Energy Division.

As you're aware, electricity prices began their dramatic slide in the second half of 1999. 2000 was the first financial year in which we had to bear the full impact of deregulation. In view of this, we have reason to be quite satisfied with our earnings situation. The E.ON Group has demonstrated that it has the strength to handle what is doubtless a rough patch for the electricity sector.

We also established a new record for pretax income, which our substantial net book gains sent more than a third higher to almost €6.8 billion. At €3.7 billion, Group net income was up 30 percent year-on-year.

In light of this overall positive performance, we propose that the cash dividend for the 2000 financial year be raised €10 to €1.35 per share. Including the tax credit, entitled shareowners in Germany will receive €1.93—a new Company record that ranks us among Germany's top corporations.

E.ON shares also performed impressively in the 2000 financial year. Including reinvested cash dividends, the value of E.ON stock rose 36.7 percent. That's a very fine showing. The Dax was down 7.5 percent over the same period, and the EuroStoxx50 index lost 1.7 percent of its value. E.ON also markedly outperformed its peer index, the Stoxx Utilities, which closed 9.3 percent higher on the year. As you know, it's by no means automatic that the capital markets respond positively to a merged company.

Our solid earnings are of course the result of a team effort. The new Company's first year posed a dual challenge to all our employees. In addition to implementing the merger, they worked hard to bring the

E.ON Group forward both operationally and strategically in an especially dynamic and lively phase of its development.

At times like this it's important for all parties to work together in an atmosphere of fairness and trust. The far-reaching decisions of the past months have continued to demonstrate that E.ON's culture of social partnership works. At E.ON, all of us really do pull on the same rope. I'm sure I speak for all of you when I say that we have every reason to express our sincere thanks to our employees and employee representatives for their achievements in what was an extraordinary year.

The 2000 financial year featured lots of high points, but was also marked by a few low points. It was necessary to tackle very different market and business developments. All in all, our efforts were successful. Our 2000 Annual Report contains comprehensive and detailed information on these matters. This morning we also published our Interim Report for the first three months of 2001. So I'll keep my remarks regarding the Group's performance by division relatively brief. I'll then address the major strategic issues in greater detail.

As anticipated, E.ON Energie's internal operating profit reflected the collapse of power prices; it fell 30 percent year-on-year to €1.7 billion. In the mean time electricity prices have bottomed out, and there are increasing signs of a recovery.

This represents, by the way, a first success of our systematic response to our new competitive environment. We no longer try to retain every customer at any price. We only book new contracts if we earn something on the deal. And because overbuilt markets put downward pressure on prices, we're shutting down selected generation assets.

Despite higher sales volumes and slightly higher prices, Energy's earnings for first-quarter 2001 were down year-on-year. An important

factor in the decline are the increased amounts we're required to pay to subsidize renewable energy and cogeneration plants, costs we can't fully pass on to customers.

For the rest of 2001, we're anticipating positive effects from the first-time consolidation of Sydkraft, the Swedish energy utility. Overall, we expect our Energy Division's internal operating profit to come in slightly above the prior year's figure.

Our Chemicals Division continued its successful performance. At €72 million, Chemicals' internal operating profit surpassed the prior-year figure by 58 percent. Aided by favorable underlying factors, this substantial increase also reflects the synergies from the Degussa-Hüls and SKW-Goldschmidt mergers.

Nevertheless, the start of 2001 saw the business climate for our Chemicals Division take a turn for the worse, particularly in the U.S. This resulted in distinctly lower first-quarter earnings. Degussa will further intensify the systematic cost-management measures it initiated in immediate response to its earnings development. Moreover, we're forecasting improved underlying conditions for the second half of the year. Overall, we expect Chemicals to report a full-year internal operating profit on the level of the previous year's total.

Following a tough year for the oil industry in 1999, VEBA Oel's earnings for 2000 surged to €10 million on the back of higher crude oil prices, better refining and petrochemicals margins, and the strong dollar. VEBA Oel also continued to improve its performance in the first three months of 2001. We expect Oil's full-year 2001 results to be on par with 2000's solid showing.

Viterra, our real-estate subsidiary, continued its positive development and boosted its internal operating profit 12 percent to €12 million. Viterra has also had a good start in the current financial year, with its

Energy Services putting in the best performance. For full-year 2001 we're forecasting that Viterra will again post higher earnings.

In the wake of a considerable loss in 1999, the disposal of shareholdings with high startup losses was the main factor behind our Telecommunications Division curtailing its operating loss 31 percent to -€546 million. VIAG Interkom and Orange Communications—which we've now sold—were largely responsible for the losses recorded in the prior year. The sale of our VIAG Interkom interest to British Telecommunications earlier this year yielded proceeds of €1.4 billion. By disposing of these interests when we did, we were once again able to realize the considerable value we created in our telecoms activities—before telecoms stocks began their nosedive. Following positive first-quarter development, we expect Telecommunications to show further improvements for full year 2001.

Our Other Activities grew 2000 earnings by 55 percent to €620 million:

By selling its Building Materials unit and acquiring HCI, the Dutch chemicals distributor, Stinnes further sharpened its profile as an integrated logistics group and again boosted its earnings markedly. In view of the substantial increase in the first quarter of 2001, we're looking for Stinnes's full-year earnings to surpass the prior year's figure.

In 2000 Klöckner continued to steadily optimize its business structure and grew its internal operating profit appreciably. In the first three months of 2001, however, the company felt the impact of the downturn in the steel industry. For the current year we therefore expect Klöckner to report lower earnings.

At VAW the 2000 financial year was characterized by hefty price increases for raw materials and production inputs. In first quarter

2001, VAW showed a distinctly improved performance. We expect VAW's positive development to continue.

In 2000 MEMC was again able to curtail its operating loss. In the first three months of 2001, however, the market environment for the semiconductor and wafer industry deteriorated dramatically. We thus anticipate that MEMC will post a substantial operating loss for full-year 2001.

I think you'll agree with me when I sum up the 2000 financial year by saying that E.ON put in a successful performance under tough conditions. On the whole, the Group has got off to an energetic start in 2001. In the first quarter we grew Group internal operating profit by 37 percent. We of course won't be able to maintain this rate of increase for the entire year. But we continue to anticipate that we'll substantially exceed the previous year's record results.

For the last few years our markets have been changing with increasing rapidity. Globalization, liberalization, and new technologies are among the key drivers. Markets are converging and are increasingly characterized by an ever-smaller number of ever-larger companies. This creates considerable challenges, but above all it creates new opportunities.

VEBA and VIAG anticipated these developments with a clear strategy. For a number of years now, both groups have made Focus and Growth the guiding principles for developing their businesses. In the initial phase, both companies systematically reduced the number of their business areas and strengthened their core competencies. The VEBA-VIAG merger was an important milestone in this process. It simultaneously marked the entry into a new phase of concentrating on a small number of business areas. In energy and chemicals we've achieved completely new dimensions.

We forged Degussa, one of the world's largest specialty chemicals enterprises. When it completes its fundamental restructuring program and as it continues its targeted expansion initiatives, Degussa's exclusive focus on specialty chemicals and its superior competitiveness will make it the premier global player in its industry.

We formed E.ON Energie, a company that's already Europe's leading investor-owned energy supplier. Global liberalization and privatization are generating opportunities that would have been unimaginable a few years ago. Across the globe, electricity and natural gas have a market volume of over €700 billion, ranking them among the world's largest industries. Few companies are as well positioned to seize the growth opportunities that are opening up on the world's energy markets. We have an ambitious goal: over the next few years we want to make E.ON the world's number one energy service provider.

We're well on the way toward capturing premier global positions in two important industries. There certainly aren't many companies that can compete at the top of two major leagues. This is a remarkable development considering VEBA's and VIAG's origins and histories as state-owned conglomerates. And at the end of this process there's no longer going to be any reason to combine energy and chemicals under one roof. As businesses, they have nothing to do with one another. Quite the contrary: global players of this size require autonomy and flexibility. And that's why we're prepared, over the medium term, to clear the way for our chemical operations to have that autonomy.

As you can see, in a rapidly changing world there can only be continuity in the form of ongoing development. We have a clearly articulated strategy, and we've implemented it successfully. We intend to continue along this path—diligently and resolutely.

On the energy side—which comprises electricity, natural gas, and water—we see considerable potential to create value by decisively leveraging our competitive and scale advantages internationally.

In Europe our majority and minority shareholdings already give us 25 million electricity and gas customers. Our formidable positions in both sectors enable us to capitalize on the increasing convergence of these two markets. This opens the door to very promising opportunities for offering our customers one-stop energy shopping, which can be supplemented with water services.

We're convinced that fully integrated utilities offer lasting competitive advantages in liberalized markets, as well. From generation and transmission to distribution and supply, we're power industry experts. We have top-tier European cost positions along the entire value chain.

In a brief span we've established ourselves as one of Europe's major player in the burgeoning power trading sector. In the near future we'll also begin trading natural gas.

We've earned our liberalization spurs in Germany, one of the world's most hotly contested energy markets. But we also know our way around regulated markets. In other words, we know how to manage energy businesses successfully—no matter what the market environment is. And we'll be able to transfer these skills, particularly to regions that have yet to transition to open markets.

Finally, as an investor-owned company—which among major utilities remains a rarity—we're clearly committed to enhancing shareholder value.

In short, we've got everything it takes to seize the exciting opportunities presented by the global energy business. Our growth strategy has three key components: to cement our leading position in

Germany, to systematically expand our position in Europe, and to pursue selected growth opportunities overseas.

We've by no means exhausted our growth opportunities in Germany. The E.ON brand, which we've taken from a standing start to mass recognition in record time, already exerts a powerful attraction. We aim to capitalize on our brand strength to establish an attractive market presence and to make it a key element of an effective supply strategy. We're particularly keen to cultivate and intensify our relations with our customers. Our partnerships with regional and municipal utilities are also an essential component of our supply strategy. Where it's possible—and where it makes business sense—we intend to increase our current minority shareholdings into majority stakes. This amounts to several million potential electricity and gas customers, at whom we could then better target our offerings.

The regions surrounding Germany represent another key growth area, not the least because they offer substantial synergies. We're already active in 11 European countries via subsidiaries and shareholdings: from the Netherlands, Italy, and Switzerland to a number of Eastern European countries. Our acquisition of a majority stockholding in Sydkraft, whose one million customers make it Sweden's second-biggest utility, ranks us as a major player in the Scandinavian market. Europe's ongoing liberalization will open the door to more opportunities to expand our premier European market position.

But totally new growth opportunities are on the horizon across the Channel in the UK and across the Atlantic in the U.S., the world's largest energy market.

With an annual volume of roughly 300 billion kilowatt-hours, the UK is Europe's third-largest power market and the global leader in liberalization. The UK power industry has by no means finished

consolidating. And the increasing convergence of electricity and gas adds to this market's liveliness.

At 4,000 billion kilowatt-hours, the U.S. electricity sector is not just substantially larger than the entire European market. It's profitability and growth potential are also significantly greater than Europe's. And in contrast to our own home market, there are no overcapacities exerting downward pressure on prices. Quite the opposite: the Bush administration recently announced that in the next 20 years roughly 1,300 new power stations will need to be built to meet the country's growing energy needs. There is, in other words, a lot happening in the U.S. energy market. Moreover, the U.S. power sector is still highly fragmented, is in the early stages of consolidation—and offers us exciting opportunities.

The takeover of Powergen represents two decisive achievements, vaulting us forward in both the UK and the U.S.

- E.ON will become the first truly European energy service provider with strong positions in Europe's key markets.
- At the same time we'll establish a superb growth platform in the U.S.

Powergen's operations are about equally divided between the UK and the U.S. Powergen is one of the UK's leading energy utilities. Its roughly 6,000 employees generated about €6 billion in sales and €900 million in operating earnings. Like E.ON, Powergen is fully integrated and holds substantial market shares along the entire value chain.

Powergen has been expanding rapidly. It's the fastest-growing company in the UK's highly profitable commercial customer segment. And last year alone it added about one million new residential customers for a total of three million. That's not all. Powergen is continuing on this course: its goal is to expand its customer base to

over five million. Powergen has for years been England's best-known electricity brand and has proven expertise in power supply, and is thus well equipped to achieve its growth target. UK electricity prices have indeed been under pressure, but margins haven't narrowed to the extent they have in Germany. We therefore anticipate that Powergen will be able to sustain its attractive profitability.

LG&E, Powergen's wholly owned U.S. subsidiary, is of particular strategic significance for us. The company operates primarily in Kentucky, employs around 5,000 people, and posted roughly €2.9 billion in sales and about €500 million in operating earnings.

In the Midwest—which consumes around 30 percent of the country's electricity—LG&E boasts the lowest costs as well as the highest marks for customer satisfaction. The company is fully integrated and is consequently subject to regulation. Its business is thus characterized by solid returns and a low level of risk. Moreover, in contrast to, say, California, Kentucky has a sensible and pragmatic regulatory regime.

Acquiring LG&E in the highly attractive midwest region of the U.S. puts us in the pole position for further growth initiatives in the American market. Even a few medium-sized acquisitions would make us a top player in the fragmented U.S. energy sector. We have the necessary financial strength. And, together with Powergen, we have the operational skills and the expertise in liberalized markets to seize opportunities in the U.S. market.

Before we can submit our final takeover offer to Powergen's stockholders, we need to obtain a number of regulatory approvals in the U.S., the UK, and from the EU. We hope to meet these requirements by the end of this year and to complete the transaction in spring 2002.

The total purchase price of €8.2 billion for 100 percent of Powergen's capital stock represents a fair offer to the company's stockholders. Powergen's leadership team has unanimously recommended that its shareowners accept our bid.

As is customary in such transactions, the purchase price includes a strategic premium. But even with this premium, the price is still commensurate with the market values of other UK and European utilities. And it's markedly below the amounts paid in the most recent acquisitions in England and Spain. That's why we've received broad approval from the general public and the capital markets, not only for our strategic plan, but also for holding the line on price.

In its very first year, the takeover will substantially boost E.ON's earnings before goodwill amortization. We'll have no difficulty financing the Powergen acquisition from our existing cash flow and credit facilities. And after the transaction we'll still have the necessary financial flexibility to further expand our energy operations.

In short, acquiring Powergen will, right from the start, lastingly strengthen E.ON both strategically and financially.

As some newspapers have put it, E.ON is on the move. We've given our Energy Division new dimensions both geographically and strategically. We have formidable market positions, the requisite expertise, and the necessary financial strength. And we have a clearly articulated strategy for achieving the ambitious goals we've set for our energy operations.

We've demonstrated in the past few months that we know how to capitalize on opportunities:

- We've forged E.ON Energie as a dynamic and formidable company.

- We've made a virtue of necessity in the process of fulfilling our antitrust commitments. In return for our stakes in HEW, BEWAG, and VEAG we've secured Sydkraft's HEW interest plus a number of smaller, attractive assets in Scandinavia and Eastern Europe. And by acquiring a majority stake in Hein Gas, the Hamburg-based gas company, we've significantly extended our position in Germany's retail gas market.
- We've established ourselves as a top player in both Scandinavia and Eastern Europe.
- And, finally, the planned takeover of Powergen opens the door to new growth opportunities in the UK and the U.S. and makes us the world's second-largest energy service provider.

In the future we also won't pay any price to expand our energy operations. We will proceed systematically, objectively, and resolutely—and we won't let anyone put us under the gun.

In other words, E.ON will continue to move forward energetically and diligently on its way to becoming a world-class energy supplier.

In addition to accelerating the expansion of our energy business, we've continued to implement our extensive divestment program as part of our refocusing strategy. As has been planned for some time, we intend to dispose of Stinnes, VAW, Klöckner, and MEMC swiftly but not hastily. VEBA Oel needs a strong partner to compete against the global super majors. As you know, we're examining closely all options for forging an alliance capable of competing internationally.

For some time now, Viterra has also been preparing itself to become autonomous. The company aims—and has what it takes—to be a top player in Europe's real-estate sector.

Degussa is hard at work to implement its far-reaching restructuring program in the next three years. In recent weeks it made two major moves by selling Phenolchemie and dmc<sup>2</sup>, its precious-metals business. Degussa is simultaneously moving forward with the expansion of its core businesses. The takeover of UK-based Laporte was an ideal match for Degussa's portfolio of businesses.

As I've already stated, by the end of this process, Degussa will have the capabilities and the opportunities to further develop its businesses independently of E.ON. We can rest assured that it will stand on its own as a leading global specialty chemicals enterprise.

We will continue to do our utmost to further develop Degussa and our other non-utility activities both operationally and strategically until their divestment. And it's equally clear that we will only pursue disposal options that safeguard the considerable value that's been created at these companies and that offer them and their employees a solid future.

I'd now like to make a few remarks about energy policy.

As you know, last June we reached an agreement in principle with Germany's federal government on the operating lifetimes of our nuclear power stations, on their uninterrupted operation, and on the government's responsibility for ensuring the disposal of nuclear waste. The understanding took the form of a draft agreement. We made it clear that two conditions had to be met before we would sign the agreement. Our first condition was that the transport of nuclear waste begin again. As you're aware, this condition has been met. Our second condition was that the German Nuclear Power Regulation Act be amended in a way that reflects the letter and the spirit of the agreement. There now exists draft legislation that we're currently examining very closely before we're able, pending the approval of our Supervisory Board, to sign the agreement.

I would again like to emphasize that we think it's a mistake to phase out nuclear energy. For macro-economic reasons, from an energy-sector standpoint, and not the least for climate protection, nuclear energy is and will remain a necessity. Nevertheless, the agreement safeguards our investments in nuclear energy and establishes a reasonable, stable framework for us to operate our power stations.

An agreement on nuclear energy is definitely an important step. But it's not—and the federal government must realize this—the comprehensive energy policy consensus that Germany so desperately needs. There are numerous impediments. The vexing issue of the “eco-tax” makes this abundantly clear.

This tax is a classic case of false advertising. The eco-tax doesn't help protect the environment, but instead serves to plug holes in Germany's social security fund. The coalition agreement between the Social Democrats and the Green Party stipulated that the eco-tax would be adjusted according to energy price trends. There's no talk of that anymore, although gasoline prices have now more than exceeded consumers' pain threshold. People have long known that the lion's share of what they pay at the pump ends up in government coffers. What most people don't know is that the government now pockets 40 to 50 percent of their electricity bill.

Think about it: electricity price cuts have furnished consumers and businesses with €7-10 billion in additional purchasing power. That's a lot of money. And it could give the economy a real boost if the government didn't skim off a substantial share of it—at a time when the economy could use some pump priming. I hope and expect that the federal government will at least postpone the next round of eco-tax increases.

Don't get me wrong. We have nothing against reasonable environmental and climate-protection policies. That's why E.ON has

been active in the energy industry's voluntary climate protection program. But one thing is abundantly clear: it's finally time for energy taxes to be harmonized on a pan-European basis. Europe has a single currency, a single market, and now we're creating a single, open market for electricity and natural gas. That's why we need a level playing field to ensure that competition is fair. Germany's energy and environmental policy must reflect this fact.

Energy markets across the world are opening to competition. Traditional market structures are beginning to crumble. There's new room to maneuver. Only a company that knows where it's going and what steps are necessary to get it there will be able to take advantage of the enormously expanded flexibility that characterizes these markets. Back in the early days of European market liberalization, many companies viewed deregulation as a threat and asked themselves how they could defend their established positions. By contrast, we have always asked ourselves how we set out on new paths—and then acted decisively.

At its very first Annual Shareholders' Meeting, E.ON is in solid financial shape and has a clearly articulated strategy.

By approving the merger last year, you made possible the creation of a new European powerhouse. E.ON has got off to an excellent start and has already made significant progress. Crossing the Channel and the Atlantic will open the door to international growth opportunities that will lift E.ON into a new dimension.

We hope you continue to accompany us as we move forward. I'm certain you'll be glad you did.