



Annual Shareholders Meeting of E.ON AG
Essen, May 28, 2002

Statement presented by
Ulrich Hartmann
Chairman of the Board of Management of E.ON AG

Check against delivery!

Ladies and gentlemen,

I would also like to welcome you to our Annual Shareholders Meeting.

I am pleased today to be able to present to you a report on a very successful year. Here in the Ruhr area – the heartland of soccer in Germany – I hasten to add that this applies not only to our economic ventures but also to our activities in the field of sports sponsoring. In the second year of our partnership with the Dortmund-based soccer club BVB, the BVB was able to win the national soccer championship for the Ruhr area again: Congratulations, Borussia Dortmund! I am pleased to say that the BVB's president, Mr. Niebaum, and the club's manager, Mr. Meier, are attending our Annual Shareholders Meeting. I am sure you will agree with me, if I say that it's simply more fun if you are one of the top players – which is equally true for E.ON.

Since we launched E.ON two years ago, intense competition has spurred on change in the European energy industry. The borders between national energy markets in Europe are falling. The major players are positioning themselves across Europe or even globally. We are in the midst of a radical transformation of structures: What is obsolete will disappear, and new structures will emerge that promise to provide better solutions for the future. Irrespective of where this change will take us, one thing can be safely said: E.ON will be one of the companies in Europe and worldwide that will set the pace and course for the future development of the energy business. In our third year of operation as E.ON, it is safe to say that only very few other companies have used the new opportunities as consistently, as quickly and as creatively as E.ON has.

- We have systematically consolidated our excellent position in Europe. After acquiring a majority interest in the Swedish company Sydkraft, E.ON Energie is now one of the leading players in the Scandinavian market. At the same time, E.ON Energie has systematically acquired positions in Eastern Europe's high-growth markets.
- Our acquisition of Powergen, which has operations both in the UK and in the United States, will open up a new transatlantic dimension for our energy business.
- And now we want to build up a European position in the gas market – the fastest growing energy market – by acquiring a majority interest in Ruhrgas.

In sync with our powerful growth steps, we have systematically implemented our divestment program. Since our announcement of the E.ON merger, we have earned approximately €29 billion in proceeds on the sale of companies. These proceeds will be used for the expansion of our core business. Wherever possible, we combined the divestment of activities with solutions that also brought us closer to reaching our strategic objectives in our core business.

With the sale of VEBA Oel to BP, for instance, we found an owner that provides excellent future prospects for VEBA Oel. When we exercise our put option, we will sell the remaining 49 percent of our VEBA Oel shares to BP effective July 1, 2002. We will then collect the agreed purchase price of € 2.8 billion plus a purchase price adjustment of approximately €500 million. In return, we will acquire BP's stake in Ruhrgas; this will bring us quite a bit closer to reaching our strategic objectives in the gas business. So, we succeeded in combining two important objectives into a single transaction. As you know, ladies and gentlemen, VEBA Oel contributed a chapter to our

Group's biography which has not only been exciting and even nerve-racking but also impressive and successful.

For this reason, it has not been easy for us to sell VEBA Oel, as many of you will appreciate. However, at a time when the supermajors increasingly call the tune in the global oil business, it is impossible for a regional player – as good as that player may be – to keep up on its own. We can be sure that, as a member of the BP Group, VEBA Oel can look forward to a prosperous future.

And we have also used the remedies required of us by the German Cartel Office as a condition for the approval of the VEBA-VIAG merger as an opportunity to trade in strategically interesting stakes: More specifically, we acquired a majority stake in the Hamburg-based company Heingas – one of Germany's largest regional gas suppliers in terms of its customer base – and at the same time, we substantially increased our stake in Sydkraft.

Furthermore, we have reached an agreement with RAG concerning our acquisition of RAG's stake in Ruhrgas, and in return the sale of Degussa shares to RAG. This solution offers a number of advantages all at once: Degussa will largely be preserved in its current structure, RAG will gain an industrial perspective beyond hard coal, and we will increase our stake in Ruhrgas to a majority interest of approximately 60 percent. We will thus provide a major impetus for the industrial reorganization of the energy and chemicals industries in the Rhine/Ruhr region, while at the same time increasing the attractiveness of North-Rhine Westphalia as a location for these industries.

As you can see, ladies and gentlemen, we have made major strides toward reaching our objective of transforming E.ON into a pure-play energy service provider. The consistency with which we have restructured our portfolio in order to focus on our core business has

become a trademark of E.ON. At the same time, we have substantially improved our operational performance, which cannot be taken for granted during such a period of deep-rooted change.

In fiscal 2001, the E.ON Group's consolidated internal operating profit increased by 45 percent to a record level of €3.6 billion. This enormous jump was primarily due to successful portfolio adjustments. However, above and beyond these one-off effects, E.ON Energie, Veba Oel, Viterra and Stinnes also reported earnings growth which in some cases were substantial.

What is most important is that E.ON Energie has achieved the turnaround! In the electricity business, prices and margins have come out of the deep trough. By means of consistent cost management and the utilization of substantial merger synergies, E.ON Energie has radically improved its profitability.

As expected, our Group's consolidated net income of €2 billion fell clearly short of the level reached in the year 2000, in which – as you know – we reported exceptionally high gains on the sale of our telecommunications stakes. In the past fiscal year, we did not have any comparable gains from divestments – also with a view to the tax exemption which became effective as of 2002 for gains on disposals.

Our dividend should also reflect the strong performance of the E.ON Group in keeping with our longstanding tradition: For this reason, we propose that the dividend for fiscal 2002 should be increased by 19 percent to €1.60. This is a new record, ladies and gentlemen – and one of the highest dividends in Germany!

At a time when shareholders – to put it diplomatically – are not really being pampered by the stock market, the performance of the E.ON stock is something to be proud of. In the year 2001, our stock outperformed both the DAX and the Euro Stoxx 50.

This is also evidence of the quality of your company. As you can see, our new strategy has already created value for you today.

Let me now give you a brief overview of our Group's performance by division.

In fiscal 2001, E.ON Energie increased its internal operating profit by over 14 percent to nearly €2 billion. E.ON Energie thus reported a double-digit growth rate for the first time after a period of declining profits in the wake of liberalization. This achievement was mainly due to extensive measures designed to increase efficiency, a slight recovery of electricity prices and the first-time full consolidation of Sydkraft and HeinGas.

There is still intense competitive pressure in the electricity market. Since August we have sensed an upward trend in electricity prices, which has been urgently necessary in view of the depth of the trough that we went through. After a good first quarter in 2002, we are confident that E.ON Energie will further improve its internal operating profit in the current year.

Degussa successfully stood its ground despite a difficult economic environment. However, at € 541 million, the company's internal operating profit for 2001 remained 19 percent below the high level achieved in the previous year. This was due to a wide variety of different developments that were also manifest during the first quarter of the current year: In its core business, Degussa's performance was quite good relative to the industry. Here, Degussa more or less matched the previous year's result. This was largely due to structural adjustments initiated within a short period of time. In the non-core business, divestments that were carried out as planned led to a reduction of operating profit contributions.

Degussa is consistently implementing an extensive restructuring program designed to achieve sustainable growth in profitability. The company has launched over 300 projects which are expected to improve earnings by €500 million annually by the year 2004.

Degussa does not expect any impetus to come from the economy before the second half of 2002 at the earliest; in its core business, Degussa expects that the internal operating profit for the year as a whole will be slightly higher than in the previous year.

Our real estate subsidiary Viterra increased its internal operating profit by 16 percent to €245 million, mainly due to the restructuring of its housing stock and more efficient management. After a promising start in the first quarter, we expect that Viterra will achieve another increase in its internal operating profit in the year 2002 as a whole. As you know, we have always taken the social interests of our tenants very seriously, and we do our best to support home ownership.

Stinnes closed the past fiscal year with the third record performance in succession. At €243 million, its internal operating profit was nearly 20 percent higher than in the previous year. This strong performance was due to not only operational improvements and a favorable interest-rate environment but also to the successful integration of the Dutch chemicals distributor HCI. Despite a difficult economic environment, Stinnes also reported a good result in the first quarter of 2002. For fiscal 2002 as a whole, we expect that Stinnes will at least match the very good result achieved in the previous year.

All in all, we are off to a good start in the year 2002, as well. Due to the substantial earnings growth in our core business – energy – our internal operating profit increased by 46 percent to €1.3 billion in the first quarter. At €3.2 billion, our consolidated net income grew even much more rapidly, mainly due to tax-free divestments.

After the first quarter, our net income is already higher than the level we reported for the previous year as a whole. In addition, we have successfully launched a bond offering of €7.3 billion in the past few days that will extend our long-term financial scope for action. For 2002 as a whole, we will not be able to maintain this jump in our internal operating profit that has been mainly due to first-time consolidation effects. In addition, there are uncertainties regarding the future economic development. Nevertheless, we expect that our internal operating profit for the current year will surpass the high level achieved in the previous year. And due to divestments, our Group's consolidated net income will markedly exceed the prior year figure.

Two years after the merger, nobody speaks about Veba or Viag any more. The integration has been successful. A team has been forged – and this team is highly motivated. The only thing that counts wherever you go in our Group is the success of E.ON.

As one of the leading energy companies worldwide, we will persistently continue to improve our positions. By not leaving this field to the Americans or the British, the French or the Italians, we will also strengthen Germany's position in terms of energy supply. We help provide reliable, competitive and environmentally sound energy supply for the German economy. I am not suggesting that whatever is good for E.ON is also good for Germany. Conversely, however, it should be quite obvious that whatever weakens a successful company like E.ON cannot strengthen Germany's national economy. And if – during the globalization debate, for instance – internationally expanding companies are sometimes even accused of being something like traitors to their own country, then I would like to respond to such allegations by stating something that is actually quite obvious: To a large extent, the wealth of our nation also depends on companies that prevail in international markets. E.ON is one of these companies. And let me add: We are proud of this!

It is first and foremost our employees who can be proud because their performance last year was once again outstanding. I am sure that I also speak on behalf of all of you, ladies and gentlemen, if I thank our employees very sincerely for all their efforts. We would also like to thank our employee representatives for their constructive cooperation in a spirit of trust. The success of E.ON is always our shared success. And conscious of this responsibility, we act jointly to the benefit of our company and its employees.

The last decade of the 20th century is often referred to as “the American decade”. There is a good chance that the first decade of the new century might prove to become a “European decade”.

Europe is making headway, step by step: the emergence of Europe’s large single internal market, the liberalization of the European markets, the imminent enlargement of the European Union through the accession of Central and Eastern European countries – all of this will considerably change the face of our continent. There are only very few other industries in which this is as manifest as in the energy industry. We are about to witness the completion of a single European market for energy. According to a decision taken by the European Council in Mid-March in Barcelona, all industrial and business customers in Europe will be free to choose their own electricity and gas suppliers by the year 2004. I expect that by the end of this year there will also be a binding decision about a date by which the market will be fully liberalized for residential customers, as well.

The European electricity and gas market amounts to a total volume of €350 billion – which is approximately €80 billion more than the entire European automotive market, for instance.

The European electricity and gas market thus reaches the dimension of the US market, where daily sales amount to US\$ 1 billion. And the race for the best positions in the European market is already in full

swing. Seven of the ten biggest mergers and acquisitions that were initiated last year in the energy industry worldwide happened in Europe. This includes our takeover bid for Powergen and our acquisition of a majority interest in Sydkraft. Is this a concentration process aimed at reducing competition? By no means! Instead, it is this structural change that will help release the forces of the market, promote innovations and reduce costs. Inefficient structures and companies of inadequate size, which may have been viable under monopoly conditions, will not be able to survive when exposed to competition.

At times of fundamental change, structures must change as well, especially in the interest of customers.

European politicians have taken 10 years to prepare and implement the liberalization of the energy markets. And only shortly thereafter, you can barely recognize the market. The structures that are now developing will leave their mark on the European energy landscape for decades to come. The course for this development is set today by companies like E.ON that have read the signs of the times early on. Our consistent value orientation will continue to be the linchpin of our strategy. For some years now, there has been a saying in our industry that “everybody is speaking with everybody else”. Of course, we have done this as well – but during the many talks we had with other companies, we never lost sight of the numbers. We always realistically assessed what benefits we would gain for our business and our strategy. We are not prepared to pay fantasy prices. We owe this to you, our shareholders. In retrospect, there were also some acquisition projects in the past few years that we did not pursue further because they would not have created value.

We carefully weighed our growth steps to decide whether they would allow us to make headway in our operations and in our strategy and whether they would help increase our enterprise value. This is

particularly true for our major strategic projects. I would now like to give you a report on the current status of these projects, ladies and gentlemen:

We are now on the home stretch in our takeover of the British company Powergen and its US subsidiary LG&E – the biggest acquisition in our Group's history. Powergen's shareholders have approved and we have received all the necessary approvals except for that of the US Securities and Exchange Commission. We have had constructive talks with the SEC in which we discussed all relevant issues. We hope that we will receive the SEC's final decision within one month.

The acquisition of Powergen will not only open up the British electricity market for us. We will also build a bridge between the world's two largest energy markets: the US market and the European market.

Powergen and LG&E will be swiftly integrated into the E.ON Group. At the same time, we will further optimize the processes in all the various energy companies of our Group, thereby continuing to optimize our cost position. The necessary preparations are already running at full speed. Furthermore, we have clearly defined the future management and control structures in our Group. Through an intensive exchange of best practice experience throughout the Group, we will identify and consistently exploit additional scope for cost reductions along the entire value chain by the end of this year.

As you know, the US market will have priority in our next international growth steps.

The conditions for an expansion in the United States have further improved since last year – in particular with regard to the general situation prevailing in the US energy sector.

At the beginning of 2001, misguided deregulation in California led to substantial increases in electricity prices; for a while, the lights literally even went out in California. After this radical experience, energy policy was back in the focus of US politics. A commission chaired by US Vice-President Cheney came to the conclusion that it was necessary to sustainably strengthen the efficiency of the US energy supply systems. For the electricity market, this primarily means increasing generation capacity as well as supra-regional transmission capacity. One of the primary objectives is to pool the currently fragmented grids in larger units. Supra-regional network structures will also promote the pooling of regional and local suppliers. This will provide a fresh strong impetus for the consolidation of the US energy industry. In this process, we will be able to make active use of the European know-how that we have gained over the years.

The energy crisis in California has also left deep marks in the US discussion on liberalization. In other words: the liberalization process in the United States will be more moderate than in Europe, with longer transition periods. First and foremost, the US legislators will try to avoid anything that might have a negative impact on capital spending. This will also continue to improve the environment for our commitment in the United States.

At the same time, Enron's dramatic collapse – aside from all the presumably criminal wheelings and dealings – revealed the substantial risks associated with a business model that was largely focused on wholesale energy trading. We have never been attracted by such a model; instead, we have stuck to our approach of vertical integration, including power stations, grids, wholesale trade as well as the final consumer. It is because of our experience as an integrated service provider that we are now a sought-after partner in the United States.

As you can see, ladies and gentlemen, we are entering the US energy market at the right time. The conditions for further growth steps continue to change for the better. In order to systematically promote the expansion of our Group in the United States, we already have conducted a number of promising talks. That's all we can say for the time being!

In addition to electricity, gas will be our second focus in our core business energy. Gas is the fastest growing market in the energy business. Here again, European liberalization will provide new entrepreneurial opportunities that we are determined to seize. A crucial step in this context is our planned acquisition of Ruhrgas. This will be the fastest way for us to attain a European position. Ruhrgas has very successfully developed the gas business in Germany in the past three decades and has concluded long-term supply agreements with major gas producers especially Norway and Russia.

Ruhrgas is a German success story; however, European competition has now opened a new chapter. And the story of Ruhrgas will only continue to be a brilliant success if Ruhrgas finds a partner like E.ON that shares the same strategy, financial clout as well as good positions in the retail business. We want to position ourselves as an integrated service provider with strong positions in both gas production and the retail business – in order to achieve something that neither Ruhrgas nor ourselves can achieve on our own. It is our firm strategic will to strengthen Ruhrgas.

Then – and only then in the long term – will Ruhrgas be able to substantially improve its position in Europe. So the strategic logic of our acquisition of a stake in Ruhrgas is quite obvious.

As you will know, the German antitrust agency unfortunately turned down this project. Its eyes were focused exclusively on the German market. However, we have to look beyond Germany and assess the

development of the gas and electricity markets from the perspective of European competition. In addition, new facts have emerged since the decision of the antitrust agency:

- Based on the Barcelona decisions, the gas market will also be fully liberalized and become a single European market in a few years' time.
- The new Gas Association Agreement (*Verbändevereinbarung Gas*) has produced major progress in terms of competition by simplifying gas transmission and reducing transmission charges, for instance.
- BP will sell its Gelsenberg stake in Ruhrgas at any rate. If we do not acquire it, it will sooner or later wind up abroad – just like the other stakes.
- In the recent past, new international competitors have focused their sights on the German market: in addition to BP, this is now also true for the Italian ENI Group; and Gaz de France has been active in Germany for quite some time now.

I can only agree with the German Chancellor who said just a few days ago: “We have succeeded in fully liberalizing the German markets for electricity and gas. In the interest of customer and consumers, we are thus pioneers in the liberalization of the energy market in Europe. To my mind, the model of voluntary association agreements has proven its worth in this context.”

There is also growing competition in the gas business. The oil majors with their enormous financial strength, the other European gas suppliers – some of which are backed by their governments – and finally the gas producers with their gigantic gas reserves – all of them have been players in the European arena for a long time, and they now also want to get a piece of the action in Germany. And to think that

there are people who want to preserve the current structures in this country!

Professor von Weizsäcker quite rightly feels that there is a risk that excessively strict merger control will cement structures that would not have developed in the first place if there had been free competition. This is something we could not and would not accept. For this reason, we have requested a ministerial approval to be granted for our merger with Ruhrgas. This procedure is not limited to assessing effects on competition. Instead, the key question will be whether the macroeconomic advantages associated with our project outweigh the competition-related reservations expressed by the German antitrust agency. We are firmly convinced that this is the case – a view that has also been corroborated by renowned academics.

Since then, as you will certainly know, the German Monopolies Commission has submitted an expert report to the German Government in which the majority of the members of the Commission recommend that the ministerial approval should be refused. It was hardly a surprise that the Commission – as in most of the earlier cases – was unable to free itself from the narrow perspective adopted by the German antitrust agency. What did surprise us, however, was the extent to which the Commission ignored the realities of European competition in the energy sector. What is important is that the view expressed by the Monopolies Commission is not binding for a ministerial approval and is just one opinion. In addition, the minority opinion expressed by Mr. Haastert, one of the members of the Monopolies Commission, shows that there are valid reasons for implementing our project. Mr. Haastert comes to the clear conclusion that the German Government should have an interest in private enterprises “that are able to cope with the specific risks and structures of the energy market even in the face of adversity because they help provide reliability of supply.”

Ladies and gentlemen, allow me to briefly explain our key arguments: First of all, we will strengthen the international competitiveness of a major German company. What this is basically all about is to ensure that a German voice is heard loud and clear in the concert of European gas suppliers. Other European countries do the same for their national flagships as if this was the most natural thing in the world.

Recently, the former French minister of economics, Mr. Strauss-Kahn, said with a view to the energy industry: “We must create players that are big enough to be among the top players in the European market and that have their decision-making centers in France. To this end, we must use all the options at our disposal: buy or sell, nationalize or privatize!”

What Strauss-Kahn openly addressed in his comments is without any doubt the consensus among French politicians.

And what about Germany? I think that German politicians should realize that, as one of the pioneers in the gas business with a first-class team and excellent gas know-how, Ruhrgas has every chance to successfully position itself in the European market. However, Ruhrgas can only be successful if – like its national and international competitors – it can build up positions in all parts of the value chain. This is exactly what we want to do.

Another key point is that we will improve the reliability of energy supply in Germany. Today, Germany already has to import 80 percent of its gas consumption; and this figure will tend to rise further. In future, over half of our gas demand will be covered by two countries: Norway and Russia. German gas consumption is growing dramatically. All forecasts suggest that it will grow by over 30 percent by the year 2020.

This development is of course also promoted by the energy policy pursued by the German Government with its ambitious goals in global warming management – especially since the Government also wants to phase out the use of nuclear energy. For this reason, gas consumption will increase substantially in our country.

So far, it has been possible to fully rely on Ruhrgas for this purpose. Ruhrgas ensured reliable gas supply and thus played a role that other European countries have assigned to state-owned enterprises.

However, in the long term, it will only be possible for enterprises to guarantee reliable gas supply if they themselves invest heavily in gas production and gas pipelines in the gas producing countries. For Gazprom in particular, there is no doubt that without foreign support they will not be able to finance the high investments required for gas exploration. The current owners of Ruhrgas – some of which have no energy interests, while others have their own energy interests and others yet again have quite different gas interests – refuse to go along with such plans. E.ON, on the other hand, is willing and able to give strong support to Ruhrgas in such endeavors.

And finally, our project also involves jobs, not only in the gas industry itself but also in many other “gas-related” sectors. The German Government has declared that safeguarding and creating jobs is an important goal in its energy policy. All right! But this goal should not be limited to municipal utilities and operators of wind farms and solar power systems.

In view of these clear advantages that are in the public interest, we think that a ministerial approval should be granted for our acquisition of Ruhrgas. This would make a major contribution toward providing competitive, reliable and environmentally sound energy supply in Germany.

You know that E.ON's strategic objective is ambitious: We want to be one the top players in the international energy business. And I think that we have already made considerable headway.

What E.ON offers you, our shareholders, is something that has become rather rare these days:

- a sound, long-term strategy,
- the financial strength and the entrepreneurial resolve to implement this strategy step by step, and at the same time a very strong business performance.

I am sure, ladies and gentlemen, that you have every reason to give us your continued support – it will prove worth your while.