

V. RECENT DEVELOPMENTS AND OUTLOOK

- E.ON's accounting and valuation policies had not yet been harmonized as of the date the merger between VEBA and VIAG was entered into the Commercial Register. The former VIAG's **accounting and valuation policies** have been based on International Accounting Standards (IAS), whereas those of the former VEBA have been based on US generally accepted accounting principles (US GAAP), insofar as permissible under German GAAP. The former VEBA generally applies the book value method to mergers.

E.ON will have harmonized its accounting and valuation principles by the time the Company publishes its Interim Report for January 1 to September 30, 2000.

The harmonization's impact on earnings cannot be quantified at present. It was therefore not taken into account in the subsequent earnings forecast. Harmonization may have a net positive or negative effect on E.ON Group earnings.

- Subject to the impact the harmonization of accounting and valuation policies will have on earnings, the Company expects 2000 Group internal operating profit generated by VEBA's operations to be higher than in the previous year. Management believes VIAG's activities stand a good chance of achieving operating earnings that come close to the level posted a year earlier. The company expects pretax income and Group net income to be up markedly year-on-year, principally due to profits from divestments.
- In the **Electricity Division**, the Company assumes the lows reached in electricity prices in the first quarter of 2000 will hardly be undercut when contracts are renegotiated with commercial customers. But ongoing cost-management measures and the positive trend in electricity sales volumes will not be able to offset the electricity price cuts initiated particularly in the second half of 1999. The Company thus expects the Electricity Division to post full-year 2000 earnings that are down markedly on the prior year's level.

PreussenElektra AG and Bayernwerk AG are scheduled to be merged to form E.ON Energie AG before the end of July 2000. After the tie-up, management plans to merge their respective subsidiary operations as soon as possible.

Once Bayernwerk AG is merged into PreussenElektra AG, third-party Bayernwerk AG shareholders will receive an interest of about 2.6 percent in E.ON Energie AG in exchange for their slightly more than 5 percent stake in Bayernwerk. Plans call for third-party shareholders to trade their E.ON Energie stake as a contribution in kind an approximately 1.6 percent shareholding in E.ON AG. E.ON AG's Authorized Capital II is to be used to increase capital through a contribution in kind nominally by approximately €31 million to this end.

Germany's federal government has decided to phase out nuclear energy. In its talks with the federal government, the Company aims to negotiate economically acceptable terms for the remaining usage of nuclear power plants and ensure that they may be run without external interference during this period. As in the past, the Company continues to believe that this goal is realistic.

Progress appears to have been made. A high-level task force has been meeting since early February 2000 to work out a compromise that is acceptable to both parties.

It will be possible to reach agreement on nuclear waste disposal, whereas consensus has not yet been reached on operating lifetimes for nuclear power plants. Limiting operating lifetimes to 30 years or to the equivalent power volume is not acceptable from the Company's point of view. The Company is willing to achieve consensus. If this proves impossible, however, the company intends to exhaust its legal options (see page 236 of the Prospectus).

- Management expects the **Oil Division** to benefit from higher oil prices and improved refinery margins. The Company anticipates Oil to post a distinctly higher internal operating profit for full-year 2000 than in the previous year despite the low service stations margins.

Forecasts for 2000 are based on an average crude oil price of \$23.3 per barrel, an average Rotterdam refining margin of \$19.2 per metric ton, and an average euro exchange rate of \$0.97.

This year VEBA Oel will reorganize its business into three divisions, each spearheaded by an independent management company (marketing via Aral, exploration and production via VEBA Oil & Gas, refining &

petrochemicals via VEBA Oel Refining & Petrochemicals). This will strengthen operational responsibility and facilitate the forging of individual alliances.

- Owing to favorable cyclical developments and to synergistic effects from the combination of the businesses of Degussa and Hüls on the one hand and of SKW Trostberg and Goldschmidt on the other, the Company expects the Chemicals Division's earnings to be higher than the level achieved by Degussa-Hüls in the prior year (augmented by the former Degussa's fourth-quarter 1998 financials) and by SKW Trostberg.

The two chemicals enterprises, Degussa-Hüls AG and SKW Trostberg AG, are to be merged to form a new company that is to operate as Degussa AG and have its headquarters in Düsseldorf. Degussa-Hüls and SKW Trostberg shareholders are scheduled to vote on the merger at Extraordinary Shareholders' Meetings this fall. The new company is expected to begin operations by the beginning of 2001 at the latest, with retroactive commercial effect as of the middle of the 2000 calendar year. Based on the current shareholder structure, E.ON will hold roughly 64 percent of Degussa AG.

Degussa AG is to step up the focus on specialty chemicals already initiated by Degussa-Hüls and SKW Trostberg and to concentrate on six market-oriented divisions: Food & Feed Additives, Construction Chemicals, Fine Chemicals & Intermediates, Care Chemicals, Coating & Rubber Ingredients and Specialty Polymers.

As part of its focus the new group intends to divest all its non-core activities within the next two years. At Degussa-Hüls planned disposals include Asta Medica, the precious metals business, phenol chemistry, the dental unit, and Degussa-Bank. At SKW Trostberg, planned disposals include SKW Piesteritz and the gelatin, salt, and metal chemistry operations.

Excluding precious metals trading, the company will shed a total of €5 billion in sales. The disposals will be designed to capture value via divestments, IPOs, and spin-outs into joint ventures.

Degussa-Hüls had initially planned to sell the entire Asta Medica operation to a single interested buyer. However, this solution proved sub-optimal in terms of realizing value. The business is therefore to be sold in parts. Certain units will be divested rapidly, while others are restructured before being sold.

The company also plans to grow rapidly via acquisi-

tions. Furthermore, management intends to make the Chemicals Division even more profitable by focusing on high-yield activities and implementing a far-reaching restructuring program. The aim is to achieve substantial earnings growth in two to three years. Given the current situation, management anticipates this will be accompanied by significant manpower reductions worldwide.

- **Telecommunications** operations are exceeding original expectations across the board. This is especially the case for the wireless subscriber base. Connect Austria, the Austrian shareholding, is recording vigorous growth and is expected to distinctly reduce losses compared with the previous year. Stepped up efforts to establish Swiss operations (Orange Communications) will lead to higher startup losses. Germany's more dynamic cellular market continues to impact VIAG Interkom's operations. The planned reduction in startup losses is being curtailed by the extremely strong growth of the German wireless market and associated up-front costs incurred to acquire new customers.

VIAG Interkom has submitted an application to participate in the bidding for a German UMTS license. The regulatory authority for posts and telecommunications accepted VIAG Interkom's application in addition to those of ten other applicants.

Introduced as the first global standard of wireless communications, the third generation of wireless communications—UMTS—opens the door to a promising future by merging two of the most rapidly growing markets (wireless communications and the Internet). This may result in relatively high prices for tendered licenses. As demonstrated by the auction conducted in the United Kingdom, a license can cost several billion euros. However, E.ON has enough financial clout to bid successfully in concert with its joint venture partners British Telecom and Telenor. As it does with all investments, E.ON will only pay a price that makes business sense.

Acquiring a UMTS license will cause the Company to incur substantial up-front costs over subsequent years. At present, it is impossible to assess the earnings impact VIAG Interkom's failure to acquire a UMTS license.

The Company intends to continue developing the telecommunications business with a view to creating value. Ongoing deliberations on possibly grouping German-language activities in Germany, Austria,

Switzerland, and Liechtenstein under a joint holding company with British Telecom, which has been our partner thus far, may make a contribution to reaching this goal.

- **VAW aluminium** is aiming to achieve earnings more or less on par with the very strong earnings it posted in 1999. To this end, the Company is trying to offset the rising pressure on margins in the processing sectors by increasing sales volumes and cutting costs further.

The wave of consolidation currently moving through the aluminum industry will continue now that the merger between Alcan, Pechiney, and Algroup has failed. As a result, the Company now has a new set of options for divesting VAW. Moreover, VAW will continue to actively participate in the consolidation phase, aiming to create added value before E.ON exits the business.

- The Company expects that all **other Divisions** will post higher—in some cases markedly higher—internal operating profit compared with the prior year.
- As part of its strategy of focusing on core businesses, management will continue the **process of divesting non-core activities**.

The stake in Gerresheimer Glas has already been sold (cf. page 127 of the Prospectus). A number of options are currently being examined to divest Schmalbach-Lubeca and Klöckner & Co.

The Company has made substantial inroads toward divesting VEBA Electronics. Given the current situation and especially in light of current tax reform proposals, it is likely that no additional Stinnes shares will be floated this year. We plan to continue running MEMC with a value-oriented approach and divest the company at an appropriate time. All strategic disposal options are being examined.

- In order to **implement antitrust requirements** VEBA AG and VIAG AG have in principle agreed with RWE and VEW on the following transactions: The VEW stake held indirectly by VIAG will be transferred to RWE. The stakes in GASAG Berliner Gaswerke AG, Bayerische Wasserkraftwerke AG, Schwäbische Erdgas-Beteiligungsgesellschaft mbH, and Bergemann GmbH held by RWE will be transferred to E.ON, as will VEW's shareholdings in Gelsenwasser AG and Bergemann GmbH. RWE's majority stake and VEBA's major indirect stake in rhenag Rheinische Energie AG will be

divided in kind.

The Company expects the divestments that will have to be made to comply with the other antitrust requirements will result in a substantial inflow of net liquid funds, which will be earmarked for investment in its core businesses.

- In **consensus talks**, Germany's federal government reached agreement on June 15, 2000, with the four largest operators of nuclear power plants—including VEBA and VIAG—on a plan to phase out nuclear energy. Under the agreement Germany's nuclear power plants would be able to produce a net total of 2,623.4 TWh of electricity; this corresponds to total operating lifetimes of 32 years at high utilization. The agreement included a prohibition of reprocessing beginning in mid-2005. In addition, the operators are required to erect interim storage facilities at or near their nuclear power stations as soon as possible.

This agreement requires the approval of supervisory bodies of the four companies and of the other nuclear power plant owners. The agreement is then to be implemented via an amendment to the Nuclear Energy Law.

Düsseldorf
June 2000

E.ON AG

On the basis of the preceding Prospectus the

€647,695,048

249,113,480 bearer shares

- with each share currently representing €2.60 of the capital stock -

Nos. 502.797.781 – 751.911.260

from the capital increase in 2000 as part of the merger of
VIAG Aktiengesellschaft with VEBA Aktiengesellschaft (now E.ON AG)

- being fully entitled to dividends as from January 1, 2000 -

- German Security Identification Number (WKN) 761 440 -
- ISIN code DE 000 761 440 6 -

issued by

E.ON AG

Düsseldorf

have been admitted to trading with official quotation on the Stock Exchanges at
Berlin, Bremen, Düsseldorf, Frankfurt am Main, Hamburg, Hanover, Munich and Stuttgart.

Frankfurt am Main, June 2000

Dresdner Bank
Aktiengesellschaft