As filed with the Securities and Exchange Commission on March 27, 2001.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2000

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number: 1-14688

E.ON AG

(Exact name of Registrant as specified in its charter)

E.ON CORP.

(Translation of Registrant's name into English)

Federal Republic of Germany	**Bennigsenplatz 1, D-40474 Düsseldorf, GERMANY**
(Jurisdiction of Incorporation or Organization)	(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares representing Ordinary Shares with no par value	New York Stock Exchange
Ordinary Shares with no par value	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2000, 748,032,896 outstanding Ordinary Shares with no par value.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 ☐ Item 18 ☑

* Not for trading, but only in connection with the registration of American Depositary Shares.

As used in this annual report,

- "E.ON," the "Company," the "E.ON Group" or the "Group" refers to E.ON AG and its consolidated subsidiaries.
- "VEBA" or the "VEBA Group" refers to VEBA AG and its consolidated subsidiaries prior to its merger with VIAG AG and the name change from VEBA AG to E.ON AG. "VIAG" or the "VIAG Group" refers to VIAG AG and its consolidated subsidiaries prior to its merger with VEBA.
- "PreussenElektra" refers to PreussenElektra AG and its consolidated subsidiaries and "Bayernwerk" refers to Bayernwerk AG and its consolidated subsidiaries, which merged to form E.ON's electricity division consisting of E.ON Energie AG and its consolidated subsidiaries ("E.ON Energie").
- "VEBA Oel" refers to VEBA Oel AG and its consolidated subsidiaries, which collectively comprise E.ON's oil division.
- "Degussa-Hüls" refers to Degussa-Hüls AG and its consolidated subsidiaries and "SKW Trostberg" refers to SKW Trostberg AG and its consolidated subsidiaries, which merged to form E.ON's chemicals division consisting of Degussa AG and its consolidated subsidiaries ("Degussa").
- "Real Estate" refers to Viterra AG and its consolidated subsidiaries ("Viterra"), which collectively comprise E.ON's real estate division.
- "E.ON Telecom" refers to E.ON Telecom GmbH and its consolidated subsidiaries and "VIAG Telecom" refers to VIAG Telecom Beteiligungs GmbH and its consolidated subsidiaries, which collectively comprise E.ON's telecommunications division.
- "Distribution/Logistics" or "D/L" refers to Stinnes AG ("Stinnes") and Klöckner & Co AG ("Klöckner") and their respective consolidated subsidiaries, which collectively comprise E.ON's distribution/logistics division.
- "Aluminum" refers to VAW aluminium AG and its consolidated subsidiaries ("VAW"), which collectively comprise E.ON's aluminum division.
- "MEMC" refers to MEMC Electronic Materials, Inc. and its consolidated subsidiaries, which collectively comprise E.ON's silicon wafers division.

Unless otherwise indicated, all amounts in this annual report are expressed in German marks ("marks" or "DM"), European Union euros ("euros" or "EUR" or "€") or United States dollars ("U.S. dollars" or "dollars" or "$"). Beginning in 1999, the reporting currency is the euro. Amounts formerly stated in marks have been translated into euro using the fixed rate of DM 1.95583 per €1.00. For additional details regarding the euro, see "Item 5. Operating and Financial Review and Prospects — European Monetary Union (EMU)." E.ON's 1998 restated euro financial information depicts the same trends as would have been presented if E.ON had continued to present its financial information in German marks. E.ON's consolidated financial information will, however, not be comparable to the euro financial information of other companies that previously reported their financial information in a currency other than German marks. Amounts stated in dollars, unless otherwise indicated, have been translated from euros at an assumed rate solely for convenience and should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. Unless otherwise stated, such dollar amounts have been translated from euros at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on December 29, 2000, which was $0.9388 per €1.00. Such rate may differ from the actual rates used in the preparation of the consolidated financial statements of E.ON as of December 31, 2000 and 1999, and for each of the years in the three-year period ended December 31, 2000, included in Item 18 of this annual report (the "Consolidated Financial Statements"), which are expressed in euros, and, accordingly, dollar amounts appearing in this annual report may differ from the actual dollar amounts that were translated into euros in the preparation of such financial statements. For information regarding recent rates of exchange between marks and dollars, see "Item 3. Key Information — Exchange Rates."

Beginning in 2000, E.ON prepared its financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Formerly, the Company prepared its financial statements to this annual report in accordance with generally accepted accounting principles in Germany ("German GAAP") as prescribed by the German Commercial Code (*Handelsgesetzbuch,* the "Commercial Code") and the German Stock Corporation Act (*Aktiengesetz,* the "Stock Corporation Act"). In connection with the change to U.S. GAAP, E.ON's financial statements for the fiscal years 1999 and 1998 have been restated according to U.S. GAAP. See Note 1 of the Notes to Consolidated Financial Statements. Sales and internal operating profit presented in this annual report for each of E.ON's divisions are based on the consolidated accounts of the E.ON Group as shown in Note 32 (Segment Information) of the Notes to Consolidated Financial Statements under the captions "External sales" and "Internal operating profit." "Internal operating profit" is the measure pursuant to which the Group evaluates the performance of its segments and allocates resources to them. Internal operating profit, which includes income from equity interests, is equivalent to income before income tax, adjusted to (1) exclude material, non-operating income and expenses that are non-recurring or infrequent in nature and (2) deduct foreign exploration and production income taxes. These adjustments primarily include net book gains resulting from large divestitures as well as restructuring expenses.

This annual report contains certain forward-looking statements and information relating to the E.ON Group that are based on beliefs of its management as well as assumptions made by and information currently available to E.ON. When used in this document, the words "anticipate," "believe," "estimate," "expect," "intend," "plan" and "project" and similar expressions, as they relate to the E.ON Group or its management, are intended to identify forward-looking statements. Such statements reflect the current views of E.ON with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the E.ON Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by the Group's targeted customers, changes in business strategy and various other factors, both referenced and not referenced in this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this annual report as anticipated, believed, estimated, expected, intended, planned or projected. E.ON does not intend, and does not assume any obligation, to update these forward-looking statements.

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TABLE OF CONTENTS

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

SELECTED FINANCIAL DATA

The selected financial data presented below in accordance with U.S. GAAP as of and for each of the years in the five-year period ended December 31, 2000, have been excerpted from or are derived from the Consolidated Financial Statements of E.ON as of and for the period ended December 31, 2000 and of VEBA as of and for the periods ended December 31, 1999, 1998, 1997 and 1996.

On June 16, 2000, E.ON completed the acquisition of VIAG. For convenience reasons, June 30, 2000 has been chosen as the acquisition date. The results of operations of VIAG are included in E.ON's financial data from July 1 to December 31, 2000.

The selected financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements.

	Year Ended December 31,					
	2000(1)	2000	1999	1998(2)	1997(2)	1996(2)
	(in millions, except share amounts)					
Statement of Income Data:						
Sales	$77,904	€82,983	€50,515	€42,787	€42,293	€38,112
Sales excluding electricity and petroleum taxes(3)	69,516	74,048	46,572	39,045	38,892	34,816
Earnings from companies accounted for under the equity method	45	48	311	96	500	311
Income before income taxes	6,150	6,551	4,400	2,385	2,625	2,231
Income before minority interests(4)	3,792	4,039	3,123	1,161	1,558	1,361
Net income	3,352	3,570	2,991	1,174	1,471	1,259
Basic earnings per share	5.40	5.75	5.95	2.34	2.98	2.58
Diluted earnings per share	5.40	5.75	5.95	2.33	2.95	2.54
Balance Sheet Data:						
Total assets	99,715	106,215	56,219	45,552	43,389	38,274
Long-term financial liabilities	6,694	7,130	3,630	2,339	1,997	1,600
Stockholders' equity(5)	26,317	28,033	15,813	13,855	13,473	11,255
Number of shares		763,298,875	502,797,780	502,797,780	497,203,190	493,801,270

(1) Amounts in this column are unaudited and have been translated solely for the convenience of the reader at an exchange rate of $0.9388 = €1.00, the Noon Buying Rate on December 29, 2000.

(2) The consolidated financial statements as of December 31, 1998, 1997 and 1996 and for the years then ended, have been prepared in marks and were translated into euros at the official fixed exchange rate.

(3) German law requires the seller of petroleum products and, as of April 1, 1999, electricity to collect petroleum taxes and electricity taxes, respectively, and remit such amounts to tax authorities.

(4) Before minority interest of positive €469 million for 2000 as compared with positive €132 million, negative €13 million and positive €87 million and €102 million for 1999, 1998, 1997 and 1996, respectively.

(5) After minority interest.

DIVIDENDS

The following table sets forth the annual dividends paid per ordinary unit bearer share of E.ON AG (each, an "Ordinary Share") in euros, and the dollar equivalent, for each of the years indicated. Historically, both VEBA AG and VIAG AG declared and paid dividends in marks. For convenience, historical data regarding VEBA AG is translated from marks into euros at the fixed rate of 1.95583. The table does not reflect the related tax credits available to German taxpayers who receive dividend payments. Owners of Ordinary Shares who are United States residents should be aware that they will be subject to German withholding tax on dividends received. See "Item 10. Additional Information — Taxation."

Year Ended December 31,	Dividends Paid per Ordinary Share of DM 5 Each (1) €	$(2)
1996	0.97	1.12
1997	1.07	1.18
1998	1.07	1.12
1999	1.25	1.16
2000(3)	1.35	1.27

(1) In 1999 and 2000: dividends paid per Ordinary Share with no par value.

(2) Translated into dollars at the Noon Buying Rate on the dividend payment date, which typically occurred during the second quarter of the following year, except for the 2000 amount, which has been translated at the Noon Buying Rate on December 29, 2000.

(3) The dividend amount for the year ended December 31, 2000 is the amount proposed by E.ON's Supervisory Board and Board of Management and has not yet been approved by its stockholders. Prior to the payment of the dividends, a resolution approving such amount must be passed by E.ON's stockholders at the annual general meeting to be held on May 18, 2001.

See also "Item 8. Financial Information — Dividend Policy."

EXCHANGE RATES

Until December 31, 1998, the mark took part in the European Monetary System ("EMS") exchange rate mechanism. Within the EMS, exchange rates could fluctuate within permitted margins, fixed by central bank intervention. Against currencies outside the EMS, the mark had, in theory, free floating exchange rates, although central banks sometimes tried to confine short-term exchange rate fluctuations by intervening in foreign exchange markets. As of December 31, 1998, the mark has a fixed value relative to the euro of 1.95583, and therefore no longer trades on currency markets as an independent currency. For more information, see "Item 5. Operating and Financial Review and Prospects — European Monetary Union (EMU)."

Fluctuations in the exchange rate between the euro and the dollar will affect the dollar equivalent of the euro price of the Ordinary Shares traded on the German stock exchanges and, as a result, will affect the price of the Company's American Depositary Receipts ("ADRs") traded in the United States. Such fluctuations will also affect the dollar amounts received by holders of ADRs on the conversion into dollars of cash dividends paid in euros on the Ordinary Shares represented by the ADRs.

The following table sets forth, for the periods and dates indicated, the average, high, low and/or period-end Noon Buying Rates for euros expressed in $ per €1.00. For convenience, historical data is translated from marks into euro at the fixed rate of DM 1.95583 per euro.

(Year or Month)	Average(1)	High	Low	Period-End
1996	1.2978			1.2711
1997	1.1244			1.0871
1998	1.1121			1.1733
1999	1.0588			1.0070
2000	0.9207			0.9388
2000				
August		0.9228	0.8878	
September		0.8993	0.8462	
October		0.8806	0.8270	
November		0.8694	0.8382	
December		0.9388	0.8755	
2001				
January		0.9535	0.9181	
February		0.9395	0.9057	

(1) The average of the Noon Buying Rates for the relevant period, calculated using the average of the Noon Buying Rates on the last business day of each month during the period.

On March 12, 2001, the Noon Buying Rate was \$0.9300 per €1.00.

RISK FACTORS

On May 1, 1998, the German Control and Transparency in Business Act (*Gesetz zur Kontrolle und Transparenz im Unternehmensbereich,* or *KonTraG*), came into effect. The provisions of *KonTraG* include the requirement that the board of management of a German stock corporation establish a risk management system to identify material risks to the corporation at an early stage. As part of their audit, the auditors of a stock corporation whose shares are listed on an official market assess whether the system meets the requirements of *KonTraG*. The audit requirement has been applicable to all fiscal years beginning after December 31, 1998, although the former VEBA underwent this audit voluntarily already in fiscal year 1998.

Even prior to the requirements introduced by *KonTraG,* the Company believes it had an effective risk management system which integrates risk management in its Group-wide business procedures. The system includes controlling processes, Group-wide guidelines, data processing systems and regular reports to the Board of Management and Supervisory Board. In 1998, a Group-wide project was launched to analyze, aggregate and document existing risks and control systems at the Group level. The reliability of the risk management system is checked regularly by the internal audit and controlling departments of the Company's business divisions and of the parent company as well as by the Company's independent auditors. The documentation and evaluation of the Company's risk management system is annually updated across the Group in the following steps:

- Standardized documentation of risks and control systems;
- Evaluation of risks according to the degree of severity and the probability of occurrence, and assessment of the effectiveness of existing control systems; and
- Analysis of the results and structured disclosure in a risk report.

The following discussion groups risks according to the categories of external, operational and financial risks, as used by the Company in its risk management system.

External

The liberalization of the electricity industry in the EU has resulted in fierce price competition in Germany that has depressed the Company's profit margins and may negatively affect the Company's results of operations.

In the wake of liberalization of the electricity market in the EU, including the implementation of new energy laws in Germany in 1998, competition in the electricity market in Europe has intensified, causing electricity prices to drop accordingly, and in some market segments significantly. For more information about the effects of lower electricity prices on the Company's results of operations, see "Item 5. Operating and Financial Review and Prospects — Results of Operations." Several factors have contributed to the drop in electricity prices in Germany, including: significant power plant overcapacity in Germany and Europe; relatively high and increasing price transparency; the emergence of new competitors and suppliers due to the introduction of competition across all electricity customer segments without a transition period; and the creation of European electricity exchanges. In addition, some groups of electricity users (for example, municipalities) have entered into cooperative arrangements in Germany for the purpose of purchasing electricity at more favorable prices, thereby increasing price competition.

Although the Company is continuing with its cost-saving measures in its electricity operations, deregulation is expected to sustain the depression of electricity prices in Germany, and the Company does not believe it will be able to regain its former very high profit margins in this sector. Outside Germany, the geographic markets in which the Company operates are also engaged in deregulation to some extent and similar effects could be felt in those electricity markets with comparable adverse affects on the Company's profit margins.

The Company faces strong competition in the electricity markets in Germany and abroad.

Prior to the liberalization of the electricity market in Germany, German utilities by contract operated in separate geographic areas. These contracts consisted of demarcation agreements, by which the utilities agreed to mark off their supply areas from one another. In addition, the utilities would acquire concession agreements with communities for the use of the communities' public roads for laying supply lines while excluding other companies. Both the demarcation and concession agreements were protected by special cartel law protections, with the result that local and regional monopolies were permitted to exist for the transmission, distribution and supply of electricity. Due to the abolition of the special cartel law protections, utilities such as the Company have lost the privilege of their traditional geographic monopolies. In addition, under Germany's new energy laws, the operators of electricity grids are obligated to provide non-discriminatory access to third parties. The result of these changes has been the creation of a new and fiercely competitive industry environment in Germany, with a growing number of utilities marketing electricity to regional and local distribution companies as well as to industrial and residential customers outside their traditional supply areas.

In addition, the private power industry in Germany was formerly characterized by numerous strong competitors. Due to liberalization, significant consolidation is occurring in the German electricity market as its approximately 1,000 electricity companies seek to cut costs, increase efficiency and adjust to new and changing market structures. As a result, the private power industry has been characterized by increased competition for asset purchases and development opportunities. The liberalization of the electricity market in Germany has also led to new market structures with new market participants. For example, electricity traders without assets are becoming increasingly active in the market as competitors, and the market for electricity has become more liquid. The introduction of competition across all electricity customer segments has made it easier for new competitors and suppliers to establish themselves because new market positions for the individual customer segments are being defined. Consequently, both German and foreign companies have established aggressive electricity sales and trading operations in Germany. Although the Company intends to compete vigorously against these new competitors and other electricity companies, increased competition could negatively affect the Company's sales and profit margins in the energy sector, which could materially and adversely affect the Company's financial condition and results of operations.

Changes in laws and regulations which affect the Company's operations could materially and adversely affect the Company's financial condition and results of operations.

In each of its operations, the Company must comply with a number of laws and government regulations. For more information on laws and regulations in each of the Company's core business operations, see the description of the businesses contained in "Item 4. Information on the Company — Business Overview." From time to time, changes in these laws and regulations may be introduced which may negatively affect the Company's business, financial condition and results of operations.

For example, the Company's nuclear power plants are among its cheapest source of power, and, along with hydroelectric and lignite-based power plants, are used primarily to cover the Company's base load power requirements. In June 2000, E.ON, together with the other German operators of nuclear power stations, reached agreement with the German federal government to phase out the generation of nuclear power in Germany, which E.ON expects to take effect upon amendment of Germany's nuclear energy laws. For more information about the planned phase-out of nuclear power stations, see "Item 4. Information on the Company — Business Overview — Electricity." Further, the parties also agreed that the reprocessing of spent fuel elements will be allowed until at least July 2005, during which time the plant operators will build storage facilities on the premises of the nuclear plants. The construction costs of these storage facilities are expected to be significant. The description of the Company's operations in "Item 4. Information on the Company — Business Overview" also contains information regarding other recent or proposed changes in law or regulations which could negatively affect the Company's operations. The Company is unable to predict the effect of future developments in laws and regulations on its operations and future earnings.

Cyclicality and other effects on sales in the chemicals industry have in the past and may in the future result in reduced revenues or operating margins.

The chemicals industry is generally subject to sales cyclicality. This includes periods of low prices during periods of excess capacity which may negatively impact operating margins and may result in operating losses in the chemicals division. Moreover, the chemicals industry is susceptible to cycles in the world economy and to specific country events which may result in lower sales volumes or prices for the Company's chemicals business during specific periods. Although the Company is reducing its exposure to cyclicality in the chemicals business by focusing on the less cyclical field of specialty chemicals, and takes measures to anticipate and plan for cyclicality and other effects on sales of chemicals, it can provide no assurances that it will not experience future production overcapacities, downward pressure on prices or other factors which could have adverse effects on the operating results of its chemicals business.

Substantial portions of the Company's oil reserves are in politically and economically unstable countries, exposing the Company's reserves and oil operations to significant risks.

As with most international oil companies, substantial portions of the Company's oil reserves are located in countries outside the EU and North America, some of which can be considered politically and economically less stable than EU countries. These reserves and the related operations may be subject to political risks, including increases in taxes and royalties, the establishment of production and export limits, the renegotiation of contracts, the nationalization of assets, changes in local government regimes and policies, as well as changes in business customs and practices, payment delays, currency exchange restrictions and losses and impairment of operations by actions of insurgent groups. Although it is impossible to predict the likelihood of such occurrences or their effect on the Company's operations, the occurrence of any one of these events could have a material adverse effect on the Company's oil operations.

Operational

The Company's core energy and chemicals businesses operate technologically complex production facilities. Operational failures or extended production downtimes could negatively impact the Company's financial condition and results of operations. The Company's businesses are also subject to risks in the ordinary course of business such as the loss of personnel or customers, and losses due to bad debts. The Company believes it has appropriate risk control measures in effect to counteract and address these types of risks. The following are additional operational risks the Company faces:

The Company must take financial and other risks in its oil and gas exploration and production activities, which could materially and adversely affect its financial condition and results of operations.

Oil and gas exploration and production require high levels of investment and entail particular economic risks and opportunities. These activities are highly regulated and are subject to intervention by governments throughout the world in matters such as the award of exploration and production licenses, the imposition of specific drilling and other obligations, environmental protection measures, control over the development and abandonment of fields and installations, and restrictions on production. In many countries the government uses a production sharing regime where a state company owns the licenses and private companies agree to perform the exploration and production work in exchange for a share of the profits. Since the Company needs to invest heavily to undertake these activities and does not earn profits if the project is not successful, all but the largest oil companies generally use joint venture structures to share the financial risks involved. In addition, the Company uses a number of other planning and tracking measures to control its costs in the area of exploration and production. Although the Company believes its internal measures to control the risks involved with its oil and gas exploration and production are adequate, many aspects of oil and gas exploration and production are beyond the Company's control.

If the Company is unable to complete successfully its plans to acquire and dispose of operations, the Company's future earnings and share price could be materially and adversely affected.

The Company's business strategy involves acquiring operations in its core business areas of energy and chemicals and disposing of other, non-core assets as opportunities arise. This strategy depends in part of the Company's ability to identify and acquire companies that enhance its business on acceptable terms. There can be no assurances that the Company will be able to achieve the benefits it expects from a particular acquisition or investment. For example, the Company may fail to retain key employees, may be unable to successfully integrate new businesses with its existing businesses, or may spend more on the acquisition and integration of new operations than anticipated.

The Company must complete certain dispositions in connection with the VEBA-VIAG merger, as described in "Item 4. Information on the Company — History and Development of the Company — VEBA-VIAG Merger." E.ON has not yet completed all of these dispositions, and therefore has had to transfer one of its shareholdings to an EU Commission-appointed trustee. E.ON expects to successfully complete the divestiture of all shareholdings required by the EU Commission for approval of the VEBA-VIAG merger, but cannot be certain when these disposals will be completed. E.ON therefore cannot be certain that the EU will not take further action against it because the Company has not yet complied with all of the EU's conditions to merger approval. In addition, the Company's strategy is to dispose of certain non-core assets as strategic opportunities arise. The Company cannot be certain that it will be able to dispose of assets at the most favorable time and price. The Company's future earnings, financial condition and share price may suffer if it is unable to complete its planned dispositions as well as favorable acquisitions successfully.

The Company could be subject to environmental liability associated with its operations that could materially and adversely affect its business.

In case of environmental damages caused by an electric power generation facility, the owner of the facility is subject under German law to liability provisions that guarantee comprehensive compensation to all injured parties. In addition, there has been some relaxation in the evidence required under the German Environmental Liability Law (*Umwelthaftungsgesetz*) to establish and quantify environmental claims. If claims were to be asserted against the Company in relation to environmental damages and plaintiffs were successful in proving their claims, such claims could result in material losses to the Company.

In case of a nuclear accident, the owner of the reactor, the factory or the nuclear materials storage facility is subject to liability provisions that guarantee comprehensive compensation to all injured parties. Under German nuclear power regulations, the owner is strictly liable, and the geographical scope of its liability is not limited to Germany. The Company takes extensive safety and risk management measures in the operation of its nuclear power operations, and has mandatory insurance with respect to its nuclear operations as described in "Item 4. Information on the Company — Business Overview — Electricity." However, any claims against the Company arising in the case of a nuclear power accident could exceed the coverage of such insurance, and cause material losses to the Company.

Although environmental laws and regulations have an increasing impact on the Company's activities in almost all the countries in which it operates, it is impossible to predict accurately the effect of future developments in such laws and regulations on the Company's future earnings and operations. Some risk of environmental costs and liabilities is inherent in particular operations and products of the Company, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred.

Financial

During the normal course of its business the Company is exposed to interest rate, commodity price and currency risks. These risks are hedged on a Group-wide basis. For more information about these risks and the Company's hedging policies and instruments, see "Item 5. Operating and Financial Review and Prospects — Exchange Rate Exposure and Currency Risk Management" and "Item 11. Quantitative and Qualitative Disclosures about Market Risks." The Company believes that due to strict guidelines, the counterparty risk of financial transactions is insignificant.

Item 4. Information on the Company.

HISTORY AND DEVELOPMENT OF THE COMPANY

E.ON AG is a stock corporation organized under the laws of the Federal Republic of Germany. It is entered in the Commercial Register of the local court of Düsseldorf, Germany, under HRB 22315. E.ON's registered office is located at Bennigsenplatz 1, D-40474 Düsseldorf, Germany, telephone +49-211-45 79-0. For U.S. federal securities law purposes, E.ON's agent in the United States is Morgan Guaranty Trust Company of New York, 60 Wall Street (36th floor), New York, NY 10260.

The State of Prussia established E.ON in 1929 when it consolidated state-owned coal mining and energy interests (hence the original name VEBA, "Vereinigte Elektrizitäts- und Bergwerks-Aktiengesellschaft"). Ownership of E.ON was transferred from the dissolved Prussian state to the Federal Republic of Germany. E.ON was partially privatized in 1965, leaving the German government with a 40.2 percent share. After several subsequent offerings, privatization was completed in 1987 when the German government offered its remaining 25.5 percent share to the public. During and since the privatization process, E.ON AG evolved into a management holding company, providing strategic leadership and resource allocation for the entire Group. On June 16, 2000, VIAG AG was merged into VEBA AG, and VEBA AG was subsequently renamed E.ON AG.

From companies initially assembled for historic reasons while under government control, E.ON's management has focused on optimizing its businesses by divesting non-profitable or non-core lines of business, acquiring companies to strengthen market positions, and entering complementary fields with significant growth opportunities. During the years 1997 through 2000, the Company achieved the following milestones:

- Successful integration of the old Degussa AG and Hüls AG.
- VEBA-VIAG merger.
- Merger of PreussenElektra and Bayernwerk.
- Restructuring of the Group's activities in electricity, chemicals, distribution/logistics and real estate.

VEBA-VIAG MERGER

On June 16, 2000, VEBA AG merged with VIAG AG, one of the largest industrial groups in Germany. The merger of VEBA and VIAG created the third largest industrial group in Germany, based on market capitalization at year-end 2000, with sales of €83.0 billion in fiscal 2000. Through the merger, E.ON intends to create a clearly-focused company with leading market positions in its core businesses of energy and specialty chemicals.

E.ON anticipates realizing annual cost synergies following the merger of approximately €800 million. These annual cost savings are expected to take effect in stages as E.ON combines and consolidates the operations of VEBA and VIAG, but are expected to be realized in full by 2002. About two-thirds of the costs savings are expected to come from lower materials costs, while one-third is expected from lower personnel costs. Most of the cost savings are expected to be realized in the energy operations, with approximately €100 million generated by the chemicals operations and at the management level. E.ON anticipates transaction costs associated with the merger to be approximately €475 million. E.ON cannot be certain that all of the cost savings it anticipates realizing as a result of the merger can be achieved. A number of factors could prevent the realization of some of these synergies, or add to the expenses relating to the merger. These include, among other things, costs related to any delay in complying with EU conditions, the combined Company's inability to integrate its businesses effectively and as planned, higher costs related to achieving the anticipated synergies and requirements for restructuring and reorganization measures materially in excess of those already planned.

In order to effectuate the merger, VEBA and VIAG submitted an application to the Merger Task Force of the European Commission on December 14, 1999. These merger control proceedings by the EU Commission included the control proceedings in accordance with the provisions of the Treaty for the Establishment of the European Coal and Steel Community relating to parts of the steel trade. The EU Commission examined the planned merger and, with its notification of June 13, 2000, declared it to be compatible with the common market. Approval, however, is conditioned on compliance with the following undertakings made by VEBA and VIAG to the EU Commission:

- ***Electricity***
  - *VEAG/LAUBAG.* VEBA and VIAG agreed to sell their shareholdings in VEAG Vereinigte Energiewerke Aktiengesellschaft ("Veag"), a utility primarily active in the eastern part of Germany, and in LAUBAG Lausitzer Braunkohle Aktiengesellschaft ("Laubag"), a large lignite producer in eastern Germany and the main supplier to Veag, to a competitor who is not affiliated with E.ON or RWE AG ("RWE") and has sufficient financial resources and experience to compete actively with E.ON. The purchaser must be deemed acceptable by the EU Commission, and the transfer of the Company's shareholding in Veag is also subject to approval by the successor to the German privatization agency (*Bundesanstalt für vereinigungsbedingte Sonderaufgaben*). VEBA and VIAG further agreed to sell their lignite mining rights to the purchaser of the Veag and Laubag holdings. The EU Commission granted the Company a specified time period to find a buyer for its Veag and Laubag shareholdings.

    It is also a condition of the approval of the VEBA-VIAG merger that RWE, E.ON's largest competitor in Germany, also divest of its holdings in Veag and Laubag and its lignite mining rights. RWE and the utility VEW Aktiengesellschaft ("VEW"), in connection with their own merger in 2000, agreed to this and other divestments in a similar undertaking to the German Federal Cartel Office (*Bundeskartellamt*).

    To assist Veag's transition from an affiliate of E.ON to an independent competitor, VEBA and VIAG agreed to purchase from Veag a certain minimum amount of electricity at market rates during the period ending on December 31, 2007. The minimum purchase amount will decline over time and will be subject to certain upward and downward adjustments. It is also a condition of the approval of the VEBA-VIAG merger that RWE complies with the minimum purchase requirement as well.

- *Bewag, VEW and HEW.* VEBA and VIAG agreed to sell their shareholdings in the utilities Bewag Berliner Kraft und Licht Aktiengesellschaft ("Bewag"), VEW and Hamburgische Electricitäts-Werke AG ("HEW") to a competitor or competitors who are not affiliated with E.ON or (in the case of Bewag and HEW) RWE and have sufficient financial resources and experience to compete actively in the German electricity market. The purchaser or purchasers must be approved by the EU Commission. The EU Commission granted the Company a specified time period to find a buyer or buyers for these shareholdings.

- *Rhenag.* VEBA held an indirect participation in Rhenag Rheinische Energie Aktiengesellschaft ("Rhenag"), a subsidiary of RWE. The Company has agreed to terminate its cooperation with RWE in the Rhenag venture during a specified period.

- *Waiver of Network Transfer Fees.* Germany has been divided into two zones with respect to trading of electricity, and transfer of electricity between those two zones is generally subject to a transfer charge, subject to netting. Because E.ON and RWE are the largest participants in the German electricity market, the EU Commission expressed the view that the two companies would unduly benefit from the netting of deliveries across the zones, to the detriment of their competitors. The Company has therefore agreed to waive transfer charges for cross-zone deliveries of electricity.

- *Additional Interconnector Capacity Germany/Denmark.* The Company has agreed to provide additional interconnector capacity on the border between Germany and Denmark. This interconnector has often reached its maximum capacity, primarily because of relatively high demand for import of electricity from Scandinavian countries, where electricity prices are generally lower than in Germany.

- ***Chemicals***

  - In the chemicals division, E.ON agreed to divest two of its prussic acid lines, cyanuric chloride and sodium dicyanamide (NDC). The EU Commission granted the Company a specified time period to find a buyer or buyers for these shareholdings.

E.ON has not yet fully complied with all of its undertakings to the EU Commission to divest certain shareholdings. Although E.ON reached an agreement to sell its Bewag holdings to HEW in August 2000, as of mid-March 2001 E.ON had not yet completed the sale because of an objection by another Bewag shareholder. As a consequence, in mid-March 2001 E.ON transferred its 49 percent stake in Bewag to an EU Commission-appointed trustee pending resolution of the matter. For more information, see "— Business Overview — Electricity." For further details about the status of required divestments and other commitments made with respect to the Company's electricity operations, see "— Business Overview — Electricity." For details about the Company's chemicals divestments, see "— Business Overview — Chemicals." E.ON expects to fully comply with all undertakings given to the EU Commission in connection with the VEBA-VIAG merger.

Pursuant to the requirements of the U.S. Hart Scott Rodino Antitrust Improvements Act, the companies reported the merger to the U.S. Federal Trade Commission and the U.S. Department of Justice on November 30, 1999.

The merger of VEBA and VIAG was legally implemented by merging VIAG AG into VEBA AG, with VEBA AG continuing as the surviving entity. The newly-merged company then received the new name E.ON AG. In addition to the regulatory approvals and undertakings described above, the following steps were taken in connection with the VEBA-VIAG merger:

- In September 1999, the Boards of Management of each company agreed on the principles of a merger.

- In October 1999, VEBA AG purchased a 10 percent shareholding in VIAG AG from the German state of Bavaria. VEBA paid €1.592 billion, or €23 per share, for this shareholding. The share block acquired by VEBA was cancelled prior to the merger share exchange.

- Following approval of the merger by the Supervisory Boards of each company, VEBA and VIAG entered into a merger agreement in December 1999.

- In February 2000, each company held an extraordinary shareholders' meeting in which the shareholders of each company approved of the merger and the steps necessary to implement the merger.

- On June 16, 2000, the merger was entered into the Commercial Register in Düsseldorf.

In order to effectuate the merger, VEBA and VIAG disposed of certain lawsuits that were brought against the merger in German courts. Such lawsuits (*Anfechtungsklage*) are common in mergers of publicly-traded German corporations. Upon registration with the Commercial Register in Düsseldorf, the merger was completed, effective for purposes of U.S. GAAP as of July 1, 2000. VIAG AG was dissolved and its assets and liabilities were transferred to VEBA AG. Simultaneously, each VIAG shareholder, with the exception of VEBA AG, received two shares of the new company in exchange for each five VIAG shares held. Pursuant to this exchange ratio, the former VIAG shareholders (with the exception of VEBA AG) therefore held 33.1 percent of the company immediately after the merger, while the former VEBA shareholders held 66.9 percent. For information about certain claims brought by former VIAG shareholders regarding the share exchange ratio used in the VEBA-VIAG merger, see "Item 8. Financial Information — Legal Proceedings."

OTHER SIGNIFICANT EVENTS

On July 14, 2000, the merger of PreussenElektra and Bayernwerk formed the new E.ON Energie, with headquarters located in Munich. For more information about this merger, see "— Business Overview — Electricity — Overview."

As of January 1, 2000, VEBA Oel acquired certain subsidiaries of Mobil Oil AG which owned 28 percent of Aral's shares. On December 31, 2000, VEBA Oel purchased the remaining outstanding 1.1 percent of Aral's shares and now holds a 100 percent interest in Aral. For more information about these purchases, see "— Business Overview — Oil — Overview."

On February 9, 2001, the merger of Degussa-Hüls and SKW Trostberg formed the new Degussa, with headquarters located in Düsseldorf. For more information about this merger, see "— Business Overview — Chemicals — The Degussa Merger."

In December 2000, Stinnes acquired 99.41 percent of the shares of Holland Chemicals International N.V. ("HCI") in a public tender offer. Degussa is currently engaged in a public tender offer for the shares of the British chemicals company Laporte plc and E.ON Energie is currently engaged in a public tender offer for the shares of the Swedish utility Sydkraft AB. For details, see the respective division descriptions in "— Business Overview."

CAPITAL EXPENDITURES

E.ON's aggregate capital expenditures for property, plant and equipment were €3.8 billion in 2000 (1999: €2.4 billion, 1998: €2.6 billion). Germany accounted for 80.9 percent and the countries outside Germany accounted for 19.1 percent of E.ON's total investments in 2000 (1999: 74.1 percent and 25.9 percent, 1998: 64.7 percent and 35.3 percent). For a detailed description of these capital expenditures as well as capital expenditures for 2001, see "Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources."

BUSINESS OVERVIEW

INTRODUCTION

E.ON is the third-largest industrial group in Germany, measured on the basis of market capitalization at year-end 2000. The Group is organized into eight separate business divisions: electricity, oil, chemicals, real estate, telecommunications, distribution/logistics, aluminum and silicon wafers.

Electricity: On July 14, 2000, the merger of PreussenElektra and Bayernwerk formed the new E.ON Energie. E.ON Energie is one of the largest European power companies in terms of electricity sales, with revenues of €11.0 billion (which included €349 million of electricity tax that was remitted to the tax authorities) and internal operating profit of €1.1 billion in 2000. E.ON Energie's core business consists of the ownership and operation of power generation facilities, the transmission and distribution of electric power, gas and heat and the supply of water and water-related services. The electricity division owns interests in and operates power stations with a total installed capacity of 37,000 megawatts, of which E.ON Energie's attributable share is 29,000 megawatts (not including mothballed, shut down and inactive power plants). Through distribution companies, in most of which E.ON Energie owns a majority interest, the electricity division also distributes electricity, heat and gas to regional and municipal utilities, large industrial customers and standard-rate customers comprising about one-third of the electricity consumption in Germany. E.ON Energie's minority interests in other utilities are generally accounted for under the equity method. As a result, significant electricity-related earnings are recorded as income from equity interests and are not reflected in E.ON's consolidated revenues. Management views these associated companies as an integral part of the operations of E.ON Energie. In 2000, the electricity division contributed 13.3 percent of E.ON's revenues and internal operating profit of €1,099 million.

Oil: VEBA Oel manages the Group's interests in the oil, gas and petrochemicals business. This includes the exploration for and production of hydrocarbons, refining of crude oil, production of petrochemicals and the marketing of petroleum products and petrochemicals. VEBA Oel is Germany's largest integrated oil company in terms of the volume of products sold (including petrochemical products supplied to Degussa). In the upstream sector, VEBA Oel explores for and develops oil and gas around the world. In 1998, certain exploration and production ("E&P") activities of the former Deminex GmbH ("Deminex") were allocated to VEBA Oel and were contributed to the newly formed VEBA Oil & Gas GmbH ("VOG"). VEBA Oel's own E&P activities were contributed to VOG in 1999. Ruhr Oel, a joint venture with Petróleos de Venezuela, S.A. ("PdVSA"), the Venezuelan state oil company, is Germany's largest petroleum refiner based on volume. VEBA Oel markets its gasoline and automotive diesel oil products through its wholly owned subsidiary Aral AG & Co. KG ("Aral"), the largest service station network in Germany (based on annual sales). A portion of E.ON's oil business is accounted for under the equity method rather than by consolidation and, as a result, some oil-related earnings are recorded as income from equity interests and are not reflected in E.ON's consolidated revenues. In 2000, VEBA Oel had revenues of €28.8 billion (which included €8.6 billion of petroleum tax that was remitted to tax authorities) and internal operating profit of €310 million, and contributed 34.7 percent of E.ON's revenues.

Chemicals: On February 9, 2001, Degussa-Hüls and SKW Trostberg, two of the major specialty chemical companies in the world, merged to form the new Degussa. E.ON owns 64.55 percent of the equity of Degussa; the remaining shares are widely held.

The new company focuses on specialty chemicals. Prior to the merger, Degussa-Hüls focused on high value-added and service intensive products, but also produced basic chemicals for captive use and for markets in which it had a dominant market share and a favorable cost position. Degussa-Hüls was a leading producer in Europe and the United States of superabsorbents, a significant participant in the acrylic glass processed products markets and in the coating raw materials market, and the world's largest manufacturer of phenol. SKW Trostberg was one of the world's leading suppliers of natural substance-based specialties for the international food, photo and pharmaceutical industries. It also supplied products based upon interfacial chemistry, including, for example, personal care products, paints and coatings. SKW Trostberg was also a leader in construction chemicals worldwide, with a broad portfolio of products and technologies. In 2000, the chemicals division had revenues of €18.2 billion and internal operating profit of €576 million, and contributed 21.9 percent of E.ON's revenues.

Real Estate: In 1998, E.ON merged the real estate-related activities of Raab Karcher AG with VEBA Immobilien AG to form the company now known as Viterra, E.ON's real estate services group. Viterra is engaged in four strategic business units: residential investment, residential development, residential services and commercial real estate. Viterra is Germany's largest private owner of residential property, with a property portfolio of approximately 120,000 housing units, and also holds approximately 125 commercial units. Viterra indirectly owns another 50,000 housing units via its 50 percent shareholdings in Gemeinnützige Deutsche Wohnungsbaugesellschaft mbH ("Deutschbau") and Wohnbau Rhein-Main-Holding GmbH ("Wohnbau Rhein-Main"). In 2000, E.ON's real estate division had revenues of €1.3 billion and internal operating profit of €212 million, and contributed 1.6 percent of E.ON's revenues.

Telecommunications: E.ON holds its telecommunications activities through two intermediate holding companies: E.ON Telecom (formerly VEBA Telecom) and VIAG Telecom. E.ON Telecom holds the telecommunication assets of the former VEBA Group and VIAG Telecom holds the telecommunications assets of the former VIAG Group. E.ON Telecom operates in Germany through VR Telecommunications GmbH & Co. ("VRT"), a partnership with RWE AG ("RWE"). Outside of Germany, E.ON Telecom holds a minority shareholding in the French mobile telecommunications network operator, Bouygues Telecom S.A. ("Bouygues Telecom"). In the beginning of 2000, VRT sold its 60.25 percent share in E-Plus Mobilfunk GmbH ("E-Plus"), the German mobile telecommunications network operator, and E.ON Telecom sold its shareholding in the Swiss cable television company, Cablecom Holding AG ("Cablecom").

At year-end 2000, VIAG Telecom held E.ON's shareholdings in VIAG Interkom GmbH & Co. ("VIAG Interkom"), the German mobile telecommunications network operator, and Connect Austria Gesellschaft für Telekommunikation GmbH ("Connect Austria"), the Austrian mobile telecommunications provider. In November 2000, VIAG Telecom sold its 42.5 percent share in the Swiss mobile telecommunications network operator Orange Communications S.A. ("Orange Communications") to France Telecom. In August 2000, E.ON entered into an option agreement with British Telecommunications plc ("BT") with regard to its 45 percent stake in VIAG Interkom, allowing E.ON to sell its VIAG Interkom shares to BT as of January 2001. Under this option agreement, BT had the right to buy VIAG Telecom's stake between May 1 and July 31, 2001. On January 15, 2001, the Company exercised this option, and sold its interest to BT in February 2001.

E.ON's entire telecommunications group recorded a €156 million internal operating loss in 2000, primarily due to start-up losses at its operating mobile units VIAG Interkom, Connect Austria, Orange Communications and Bouygues Telecom. Revenues of the telecommunications division increased to €229 million from €111 million in 1999.

Distribution/Logistics: E.ON's activities in distribution and logistics are organized in two holding companies, Stinnes and Klöckner. E.ON holds 65.5 percent of Stinnes following the sale of 34.5 percent of Stinnes in a public offering in Germany in June 1999. Klöckner is a wholly owned subsidiary of E.ON which was held by the former VIAG Group. With more than 1,200 locations worldwide, Stinnes believes it is one of the world's leading logistics enterprises. Stinnes is active in logistics services in the following areas: transportation, chemicals, materials and full-line wholesaling. Transportation logistics include land, air and sea freight, as well as logistics system services. Klöckner is a leading European metal distributor (on the basis of sales and volumes) with locations throughout Europe and North America. It also operated a global trading organization to participate in international back-to-back steel trading, but sold these operations to Balli Steel plc in December 2000. In addition, VEBA owned an additional D/L company, VEBA Electronics LLC ("VEBA Electronics"), but sold this company in August 2000 to a consortium of European and American buyers. In 2000, E.ON's distribution/logistics division had revenues of €20.9 billion and internal operating profit of €384 million, and contributed 25.2 percent of E.ON's revenues.

Aluminum: VAW is a wholly owned subsidiary of E.ON which was part of the former VIAG Group. VAW is one of Europe's major aluminum companies and the market leader in Germany, each on the basis of sales. VAW is active in the production and processing of aluminum into innovative, high quality aluminum products. It focuses its activities on the fabrication of semi-finished and finished products for packaging and for specially selected technical applications in the automotive, printing and construction industries. VAW's business portfolio is divided into the following business segments: primary materials, rolled products, flexible packaging and automotive products. The business segments are formed by business units with autonomous, strategic tasks and goals. In the period from July 1 through December 31, 2000, the aluminum division had revenues of €1.8 billion, representing 2.1 percent of E.ON's total revenues, and internal operating profit of €96 million.

Silicon Wafers: MEMC, a 71.8 percent owned subsidiary of E.ON, is a leading worldwide manufacturer of silicon wafers used in the manufacture of semiconductors that are employed in all types of microelectronic applications, including computer systems, telecommunications equipment, automobiles, consumer electronics products, industrial automation and control systems, and analytical and defense systems. MEMC operates manufacturing facilities in the United States, Italy, Japan, Korea and Malaysia, has a joint venture in Taiwan, and sells its products to most of the world's largest manufacturers of semiconductors. In 2000, MEMC had revenues of €944 million and internal operating losses of €68 million, and contributed 1.1 percent of E.ON's revenues.

The following table sets forth the revenues of E.ON by division for 2000, 1999 and 1998:

	2000(1)		1999		1998	
	(€ in millions)	%	(€ in millions)	%	(€ in millions)	%
Electricity(2)	11,027	13.3	7,768	15.4	8,206	19.2
Oil(3)	28,780	34.7	12,229	24.2	10,689	25.0
Chemicals	18,198	21.9	12,320	24.4	4,741	11.1
Real Estate	1,324	1.6	1,167	2.3	1,496	3.5
Telecommunications	229	0.3	111	0.2	208	0.5
D/L	20,885	25.2	16,920	33.5	17,436	40.7
Aluminum(4)	1,777	2.1	0	0	0	0
Silicon Wafers	944	1.1	651	1.3	684	1.6
Holding/others(5)	(181)	(0.2)	(651)	(1.3)	(673)	(1.6)
Total Revenues	82,983	100.0	50,515	100.0	42,787	100.0

(1) Includes revenues of the former VIAG Group in the electricity, chemicals, telecommunications, distribution and logistics and aluminum divisions, as well as in "others", beginning as of July 1, 2000.

(2) Includes electricity tax of €349 million in 2000 and €141 million in 1999. The electricity tax was introduced by the German government as of April 1, 1999.

(3) Includes petroleum tax of €8,586 million, €3,802 million and €3,742 million in 2000, 1999 and 1998, respectively.

(4) The aluminum division was part of the former VIAG Group, and therefore revenues are only included for the period from July 1 through December 31, 2000.

(5) Includes the parent company and effects from consolidation, as well as three months' consolidated revenues of Schmalbach-Lubeca AG, a packaging company 59.8 percent owned by the former VIAG Group. In July/August 2000, E.ON transferred this shareholding to the intermediate holding company AV Packaging GmbH ("AV Packaging"), in which E.ON now holds 49 percent. As of October 1, 2000, this shareholding was accounted for as an equity investment.

Most of E.ON's operations are in Germany. German operations produced 58.0 percent of E.ON's revenues (measured by location of operation) in 2000 (1999: 61.3 percent; 1998: 66.3 percent). E.ON also has a significant presence in the rest of the Eurozone, the rest of Europe and North America, respectively representing 10.8 percent, 10.3 percent and 13.4 percent of revenues by operation for 2000 (1999: 9.5 percent, 4.9 percent and 15.4 percent; 1998: 11.7 percent, 6.3 percent and 11.2 percent). In the United States, E.ON's activities are held by E.ON North America, New York. E.ON North America was renamed (from VEBA Corporation) and merged with VIAG North America in December 2000 and represents the interests of E.ON in the United States. In 2000, approximately 50.7 percent (1999: 50.7 percent; 1998: 61.5 percent) of E.ON's revenues were derived from customers in Germany, 13.8 percent (1999: 12.4 percent; 1998: 16.9 percent) from customers in the rest of the Eurozone, 10.1 percent (1999: 11.2 percent; 1998: 3.9 percent) from customers in other European countries, 15.1 percent (1999: 16.4 percent; 1998: 11.9 percent) from customers in the United States and 10.3 percent (1999: 9.3 percent; 1998: 5.8 percent) from customers elsewhere in the world. See Note 32 of the Notes to Consolidated Financial Statements. At December 31, 2000, E.ON had 186,788 employees, approximately 55 percent of whom were employed in Germany.

E.ON believes that as of December 31, 2000, it had close to 480,000 shareholders worldwide. E.ON's shares, all of which are Ordinary Shares, are listed on all eight German stock exchanges, as well as on the Swiss electronic stock exchange. They are also actively traded over the counter in London. E.ON's American Depositary Shares ("ADSs") are listed on the New York Stock Exchange ("NYSE").

GROUP STRATEGY

E.ON's primary goal is to create shareholder value. Its financial objectives include consistently achieving results in each division that on a risk-adjusted basis justify the capital employed, continuing to link dividends to earnings development and maintaining a strong equity to assets ratio.

The merger of VEBA and VIAG represented a continuation of this strategy. E.ON intends to focus on its leading positions in its two core business areas of energy and specialty chemicals. In the energy area, E.ON believes that it can leverage the increased scale and scope of the combined E.ON Energie to compete in the liberalizing energy markets in Germany and elsewhere as a "multi-utility," offering electricity, gas and, increasingly, water in a customer-oriented manner. In the oil area, VEBA Oel intends to increase oil and gas production in its core fields, to improve the cost structure and the value-added component of the refining and petrochemicals business, to extend Aral's leadership in its service station network and expand Aral's successful convenience store business as well as to improve Aral's market position in eastern Europe. In chemicals, E.ON's strategy is to develop its position as a leader in the specialty chemicals business and to manage its portfolio of businesses actively to concentrate on those businesses that are relatively unaffected by business cyclicality and are capable of strong profitability.

After having successfully divested some of its non-core assets like Gerresheimer Glas AG, Orange Communications and VEBA Electronics, as well as VIAG Interkom in early 2001, E.ON now intends to develop its real estate and remaining telecommunications businesses to maximize their value, and will consider appropriate strategic steps — such as a stock exchange listing for the real estate business or the disposal of further telecommunications assets — at appropriate times. The Company intends to manage actively its other non-core businesses, including distribution and logistics, silicon wafers and aluminum, as well as the non-core elements of its primary business areas, with a view to maximizing their values and disposing of them at strategically correct times. The proceeds of these dispositions would then be used to fuel further growth in E.ON's core businesses.

In each of its core businesses, as well as in its other areas of activity, E.ON intends to continue and to further intensify its efforts to reduce costs throughout the Group and to realize the synergies it anticipated in connection with the VEBA-VIAG merger.

ELECTRICITY

Overview

Following the VEBA-VIAG merger, the merger of PreussenElektra and Bayernwerk formed the new E.ON Energie on July 14, 2000. E.ON Energie, which is wholly owned by E.ON, is one of the largest European power companies in terms of electricity sales, with revenues of €11.0 billion (which included €349 million electricity taxes that were remitted to the tax authorities) and internal operating profit of

€1.1 billion in 2000. It is one of the six interregional electric utilities in Germany that are interconnected in the western European power grid.

In 2000 and early 2001, E.ON took the following steps to comply with the conditions imposed on E.ON's electricity operations by the EU Commission when it approved the VEBA-VIAG merger:

- On June 13, 2000, E.ON and RWE entered into a framework agreement to eliminate existing cross-shareholdings that the companies have. Pursuant to this framework agreement, E.ON Energie has completed the sale of its 18.5 percent shareholding in VEW to RWE. In return, Thüga AG ("Thüga"), in which E.ON holds a 57.3 percent shareholding, acquired RWE's 11.95 percent shareholding in GASAG Berliner Gaswerke AG ("Gasag") and E.ON Energie purchased a 28.1 percent shareholding in Gelsenwasser AG ("Gelsenwasser") from RWE, thereby increasing the Group's shareholdings in Gasag to 24.9 percent and in Gelsenwasser to 80.5 percent. E.ON and RWE plan to conclude further agreements for the sale of RWE's 49.99 percent interest in Bayerische Wasserkraftwerke AG ("BAWAG") and its 26 percent interest in Schwäbische Erdgas Beteiligungs GmbH to E.ON in 2001, and for the sale of RWE's 10.1 percent interest in Bergemann GmbH to E.ON at a later date.

- In June 2000, E.ON and RWE, as the major shareholders of Rhenag with combined equity interests of 95.4 percent, agreed to dissolve Rhenag during 2001 and to divide its operations between them. E.ON holds a shareholding of 41.3 percent in Rhenag through Thüga and RWE holds 54.1 percent. According to the agreement, Thüga will receive Rhenag's businesses in the German states of Hesse, Rhineland-Pfalz and Saxony, while RWE will receive the Rhenag business located in North Rhine-Westphalia.

- In August 2000, E.ON Energie agreed to sell its 49 percent stake in Bewag to HEW in exchange for a 61.85 percent shareholding in Hamburger Gaswerke GmbH ("Hein Gas") and a cash payment. However, the sale is still pending due to a legal objection by another Bewag shareholder, Mirant Corp. (formerly Southern Energy Inc.), under a provision of the 1997 Bewag shareholders' agreement. Mirant claims to have a right of first refusal to buy E.ON's shares. E.ON Energie disagrees with Mirant's interpretation of the Bewag shareholders' agreement. The parties have agreed to settle the matter by arbitration, which commenced on March 9, 2001 in Frankfurt. In addition, regardless of the outcome of the arbitration, the city of Berlin must approve the buyer of E.ON Energie's Bewag shares. By mid-March 2001, the dispute between E.ON Energie and Mirant had not yet been resolved. As a result, E.ON Energie has transferred its 49 percent stake in Bewag to a trustee appointed by the EU Commission to act as trustee until the matter is resolved.

- On December 13, 2000, E.ON Energie and RWE agreed to sell their shareholdings in Veag and Laubag to HEW. In return, E.ON Energie will receive from HEW shares of Sydkraft AB ("Sydkraft"), a Swedish utility, representing a 15.8 percent equity interest and a 2.7 percent voting interest, as well as a cash payment. E.ON's sale to HEW has not yet been completed because the German Federal Cartel Office (*Bundeskartellamt*) and the German privatizing agency (*Bundesanstalt für vereinigungsbedingte Sonderaufgaben*) have not yet approved the terms of the proposed sale.

- On December 14, 2000, E.ON Energie agreed to sell its 15.4 percent shareholding in HEW to the Swedish utility Vattenfall AB ("Vattenfall") in exchange for Vattenfall's 33.3 percent interest in Baltic Cable AB ("Baltic Cable"), its 41.7 percent shareholding in the Czech regional electricity distribution company Vychodoceska Energetika a.s. ("VCE"), its 10.6 percent shareholding in the Lithuanian Power Company ("LPC") and a cash payment. E.ON Energie's agreement with Vattenfall was conditioned on the sale by Sydkraft of its shares in HEW to Vattenfall. On March 12, 2001, this agreement was signed by Sydkraft and Vattenfall. The EU Commission has not yet approved the sale.

- In accordance with the undertakings of VEBA and VIAG, E.ON charges no additional network transfer fees for electricity transfers between the German grid zones and provided 400 megawatts ("MW") of additional interconnector capacity between Germany and Denmark in 2000.

E.ON is currently in discussions with the EU Commission regarding the sale of its shareholdings in Veag, Laubag and Bewag. For details, see "— History and Development of the Company — VEBA-VIAG Merger."

Following the merger of PreussenElektra and Bayernwerk, E.ON anticipates realizing annual cost savings in its electricity division of approximately €700 million. The Company expects that these annual cost savings will be fully realized by year-end 2002 and will result from:

- Combining the two companies' procurement of raw materials and third party services, which E.ON expects will result in more favorable price terms, and combining the two companies' overhead costs (€225 million).
- Combining trading, marketing and supply activities (€175 million).
- Combining the management and operation of the two companies' power plants and transmission and distribution assets. In particular, E.ON expects that it will be able to optimize the operation sequence for the plants and lower reserve capacities, as well as reduce overhead costs (€250 million).
- Cooperation between Synergis GmbH, an IT services company in which E.ON Energie holds a 49 percent stake and Gedos mbH, a wholly owned subsidiary of E.ON Energie active in the IT services business, and between the majority owned regional gas distributors Thüga and Contigas Deutsche Energie AG ("Contigas") (€50 million).

By the end of 2000, E.ON had realized a portion of the expected synergy benefits, resulting in €200 million of annual cost savings in 2000. The Company cannot be certain that the remaining cost savings it anticipates realizing as a result of the merger can be achieved. A number of factors could prevent the realization of some of these synergies, or add to the expenses relating to the merger. These include, among other things, costs related to any delay in completing required divestments, the combined company's inability to integrate its businesses effectively and as planned, higher costs related to achieving the anticipated synergies and requirements for restructuring and reorganization measures materially in excess of those already planned. E.ON anticipates transaction costs associated with the merger of PreussenElektra and Bayernwerk to be approximately €300 million and to date has incurred €143 million of such costs.

As a result of the merger, the former Bayernwerk has added important national and international business activities and assets to the new E.ON Energie and significantly strengthened E.ON Energie's market position. With annual sales volumes of 73.4 terrawatt hours ("TWh") in 1999, the former Bayernwerk was the third largest integrated utility in Germany. The former Bayernwerk was active in the entire range of power businesses, from generation to sales, and also had businesses in the fields of gas, waste disposal and environmental technology. Bayernwerk operated nuclear, conventional and hydroelectric power plants with a total installed capacity of approximately 11,000 MW as well as most parts of the transmission grid in Bavaria, which has a total length of about 15,000 kilometers. In addition, Bayernwerk had established a nationwide supply business as well as an energy trading floor in Munich.

The core region of the former Bayernwerk complements that of the former PreussenElektra and comprised almost all of the German states of Bavaria and Thuringia. Bayernwerk's interests included major shareholdings in the regional distribution companies EVO Energieversorgung Oberfranken AG (84.4 percent), Isar-Amperwerke AG (87.8 percent), OBAG Aktiengesellschaft (97.2 percent), Überlandwerke Unterfranken AG (54.3 percent) and TEAG Thüringer Energie AG (74.9 percent). Bayernwerk's principal shareholdings in the gas business included a 98.6 percent equity interest in Contigas, a 22.0 percent equity interest in Bayerngas GmbH as well as a 16.9 percent equity interest in Ferngas Nordbayern GmbH. On the international level, the former Bayernwerk focused geographically on southeastern Europe, while the former PreussenElektra concentrated on northwestern Europe and the Baltic region. The most important international shareholdings of the former Bayernwerk included holdings in four Hungarian companies, several Czech electricity and gas distribution companies and a 24.5 percent equity interest in the Swiss utility Watt AG. Its Hungarian investments include an 90.6 percent equity interest in Dél-dunántúli Áramszolgáltató Részvénytársaság ("DÉDÁSZ"), an 80.2 percent equity interest in Tiszántúll Áramszolgáltató RL ("TÍTÁSZ"), a 27.7 percent equity interest in Észak-dunántúli Áramszolgáltató Részvénytársaság ("ÉDÁSZ") and a 29.7 percent equity interest in the gas distribution and supply company Középdunántúli Gázszolgáltató Részvénytársaság ("KÖGÁZ").

In addition to its activities in the electricity, gas, waste management and environmental technology areas, the former Bayernwerk also held shareholdings outside of the energy area. For example, Klöckner was part of the former Bayernwerk. Through VBB VIAG-Bayernwerk-Shareholding Corporation (*VBB VIAG-Bayernwerk-Beteiligungsgesellschaft mbH*), the former Bayernwerk also held a shareholding in Gerresheimer Glas AG. Gerresheimer Glas AG was sold in July 2000; for details, see "Item 5. Operating and Financial Review and Prospects — Overview — Acquisitions and Dispositions."

Operations

In Germany, electricity generated at power stations is delivered to consumers through an integrated transmission and distribution system. The principal segments of the electricity industry are:

Generation:	the production of electricity at power stations;
Transmission:	the bulk transfer of electricity across an interregional power grid, which consists mainly of overhead transmission lines, substations and some underground cables (at this level there is a market for bulk trading of electricity, through which sales and purchases of electricity are made between generators, regional distributors, and other suppliers of electricity);
Distribution:	the transfer of electricity from the interregional power grid and its delivery, across local distribution systems, to consumers;
Trading:	the buying and selling of electricity and related products for purposes of portfolio optimization, arbitrage and risk management; and
Supply:	the sale of electricity to consumers.

E.ON Energie and its associated companies are actively involved in all segments of the electricity industry in Germany. Its core business consists of the ownership and operation of power generation facilities and the transmission and distribution of electricity and, to a lesser extent, gas and heat to regional and municipal utilities, to industrial customers and to standard-rate customers (households and small businesses). In addition, E.ON Energie is increasingly active in the natural gas and water utility businesses.

Following the abolition of separate geographic operating areas for utilities under the New Energy Law (as defined in "— Markets, Competition and Regulatory Environment") in 1998, E.ON Energie has begun to supply power nationwide. In addition, its activities in the neighboring countries have been broadened. E.ON Energie is thus significantly expanding beyond its traditional home markets, which include parts or all of the German states of Schleswig-Holstein, Lower Saxony, Hesse, North Rhine-Westphalia, Mecklenburg-Western Pomerania, Brandenburg, Saxony-Anhalt, Thuringia and Bavaria. E.ON Energie supplied about one-third of the electricity consumed in Germany in 2000. Electricity accounted for 74 percent of E.ON Energie's 2000 sales (1999: 79 percent), gas revenues represented 14 percent (1999: 12 percent), water revenues 2 percent (1999: 3 percent), district heating 1 percent (1999: 1 percent) and other activities 9 percent (1999: 6 percent). Historically, the electricity business has been E.ON's largest source of earnings. Despite fierce price competition in Germany's liberalized electricity market, E.ON Energie continues to focus on this market.

Following the merger of PreussenElektra and Bayernwerk, E.ON Energie took a number of steps during 2000 to reorganize its businesses. As a first step, E.ON Energie moved the assets of PreussenElektra and Bayernwerk into separate operating companies according to function. It then merged these separate operating companies, creating separate and legally independent companies for conventional, nuclear and hydroelectric power plants, transmission, trading and distribution and supply. All of these newly-created companies are subsidiaries of E.ON Energie and most are 100 percent controlled by E.ON Energie. E.ON Energie plans to reorganize its information technology and facility management businesses in 2001. The new company structure reflects the different characteristics of the electricity, gas and water utilities, and in addition, reflects the individual segments of the electricity business: generation, transmission, distribution, trading and supply. The following chart shows the major subsidiaries and fields of operation within the E.ON Energie group.

E.ON ENERGIE GROUP

Holding Company

E.ON Energie AG

- Leading entity for the management and coordination of the group activities.
- Centralized strategic, controlling and service functions.

Conventional Power Plants

E.ON Kraftwerke GmbH (100%)

- Power generation by conventional power plants.
- District heating.
- Waste incineration.

E.ON Benelux Generation N.V. (100%)

- Power generation by conventional power plants.
- District heating.

Nuclear Power Plants

E.ON Kernkraft GmbH (100%)

- Power generation by nuclear power plants.

Hydroelectric Power Plants

E.ON Wasserkraft GmbH (100%)

- Power generation by hydroelectric power plants.

Transmission

E.ON Netz GmbH (100%)

- Power transmission across high voltage grids (110 kilovolt-380 kilovolt).
- Load distribution.

Consulting/Engineering Services

E.ON Engineering GmbH (100%)

- Group internal and external consulting and planning services in the energy sector.
- Marketing of expertise in the area of conventional power generation.

Integrated Water Utility

E.ON Aqua GmbH (100%)

- Strategic management holding for the water business.

Gelsenwasser AG (80.5%)

- Regional water procurement and supply.
- Joint ventures in the field of wastewater treatment.
- Regional gas supply.

Distribution and Supply

E.ON Vertrieb GmbH (100%)

- Supply of utilities and energy services to private and industrial customers as well as to regional and municipal distributors.
- Centralized marketing functions.
- Customer service center and nine sales offices nationwide.

Twelve regional distributors across Germany (shareholding percentages from 25 to 98 percent; nine of the twelve are consolidated).

- Distribution and supply of electricity, gas, heat and water.
- Energy consulting.

Ruhr Energie GmbH (100%)

- Customer service and electricity and heat supply to industrial customers in the Ruhr region.

Trading

E.ON Trading GmbH (100%)

- Optimization of energy procurement costs.
- Optimization of the value of the power plants' assets in the market place.
- Physical energy trading and trading of energy-based financial instruments and related risk management.

Municipal and Regional Shareholdings
Thüga AG (57.3%)
Contigas Deutsche Energie AG (98.7%)
• Shareholdings in municipal and regional distributors (mainly distributors and suppliers of electricity, gas and water). • Own distribution and supply activities (electricity and gas).
E.ON Energy Projects GmbH (100%)
• Development of energy projects.

Real Estate/Services
E.ON Energie Immobilien GmbH (100%)
E.ON Facility Management GmbH (100%)
E.ON Fernwärme GmbH (100%)
Prüfungsgesellschaft für Energieversorgungsunternehmen mbh (92.9%)
GEDOS mbH (100%)
Synergis GmbH (49.0%)

The German utilities historically established defined supply areas which were coextensive with their supply networks. However, the supply of electricity in Germany is in a state of significant change. See "— Markets, Competition and Regulatory Environment." The following map shows E.ON Energie's current supply area in Germany:

Strategy

E.ON's strategy for its electricity business is to be a leading multi-utility, providing electricity, gas and water to customers in Germany and elsewhere in Europe. Expansion outside Europe will be evaluated as opportunities arise. E.ON believes that the position E.ON Energie has in the German electricity market following the merger of PreussenElektra and Bayernwerk gives it a strong platform to take advantage of the combined supply of electricity, gas and water as well as other energy-related services. It intends to mold itself into a multi-utility primarily through acquisitions, both within Germany and in the promising markets of the adjacent European countries as their markets liberalize. Crucial to this strategy will be the reduction of costs, both as a result of the merger synergies and through continued cost cutting throughout E.ON's utility operations. Equally important will be the development of, and adherence to, a customer-oriented focus for E.ON's utility activities. E.ON intends to support its energy activities through the development of a leadership role in the adjacent European electricity trading market.

- *Expand to Become a Leading European Multi-Utility.* E.ON intends to position itself as one of Europe's leading suppliers of electricity, gas and water. E.ON believes that size will play an increasingly important role in the European utility markets as they liberalize. To that end, E.ON intends to continue making strategically sound acquisitions and entering into cooperative ventures in electricity generation, distribution and supply, both within and outside Germany, particularly in Germany's neighboring countries. Because of the synergies it has identified in the cross-selling of gas, electricity and water, E.ON also intends to make acquisitions of gas and water providers. To the extent it locates attractive acquisition candidates outside Europe, E.ON intends to become engaged in other markets as well. Its policy is to acquire only those businesses that are capable of generating returns on capital that meet E.ON's internal standards.

- *Customer Orientation.* E.ON believes that a strong customer orientation will assist it in its European-wide goals. It intends to develop a clear marketing strategy focusing on the convergence of the electricity and gas markets. Through aggressive cross-selling and bundling of these utilities, as well as water to an increasing extent, E.ON intends both to build its branding and realize synergies in its marketing and supply activities.

- *Support Expansion Through Cost Reductions.* Cost management is vital to E.ON's growth strategy in newly liberalized, competitive markets. E.ON's ability to realize the merger-related synergies and achieve additional ongoing cost reductions throughout its operations are important elements in its plans to remain a formidable competitor. E.ON believes that further cost savings can be realized through the bundling of electricity and gas sales and marketing.

- *Trading as an Integral Competitive Tool.* E.ON believes that a leadership role in the expanding European trading markets for electricity products will improve its cost position and ability to deliver electricity when and where needed at competitive prices. On a virtually real-time basis, E.ON determines whether it should purchase electricity to meet demand or generate it itself, and, if generation is optimal, to choose the generating facility. In addition to using trading to assist it in optimizing its generation and procurement strategy, E.ON intends to take advantage of the opportunities that can be provided by well-managed and sound trading of financial products based on electricity. To enhance its trading business, E.ON plans to expand current gas trading activities as well.

Power Generation

General. E.ON Energie owns interests in and operates electric power generation facilities with a total installed capacity of more than 37,000 MW, its attributable share of which is approximately 29,000 MW (not including mothballed, shut down or inactive power plants). The power generation business division is subdivided into three units according to fuels used: E.ON Kraftwerke owns and operates the power stations using fossil energy sources, E.ON Kernkraft owns and operates the nuclear power stations and E.ON Wasserkraft owns and operates the hydroelectric power plants.

Based on the consolidation principles under U.S. GAAP, E.ON Energie reports 100 percent of revenues and expenses from majority-owned power plants in its consolidated accounts without any deduction for minority interests. Conversely, 50 percent and minority-owned power plants are accounted for by the equity method. Power generation capacity in jointly owned plants is not reported on a consolidated basis, but rather on a pro rata or attributable basis.

The following table sets forth E.ON Energie's electric power generation facilities, their total capacity, the attributable capacity to E.ON Energie for each facility as of December 31, 2000, and their start-up dates.

E.ON ENERGIE ELECTRIC POWER STATIONS

Power Plants	Total Capacity Net MW	E.ON Energie's Share %	E.ON Energie's Share Attributable Capacity MW	Start-up Date
Nuclear				
Brokdorf	1,370	80.0	1,096	1986
Brunsbüttel	771	33.3	257	1976
Emsland	1,329	12.5	166	1988
Grafenrheinfeld(1)	1,275	100.0	1,275	1981
Grohnde	1,360	50.0	680	1984
Gundremmingen B(1)	1,284	25.0	321	1984
Gundremmingen C(1)	1,288	25.0	322	1984
Isar 1(1)	878	100.0	878	1977
Isar 2(1)	1,400	75.0	1,050	1988
Krümmel	1,260	50.0	630	1983
Stade(2)	630	66.7	417	1972
Unterweser(3)	1,285	100.0	1,285	1978
Total	14,130		8,377	
Lignite				
Arzberg 5(1)	104	100.0	104	1966
Arzberg 7(1)	121	100.0	121	1979
Buschhaus	330	100.0	330	1985
Kassel(2)	33	50.0	17	1988
Lippendorf S(1)	865	50.0	433	1999
Offleben C	280	100.0	280	1973
Schkopau	900	55.6	500	1995
Schwandorf D(1)	292	100.0	292	1972
Total	2,925		2,077	
Hard Coal				
Bexbach 1(1)	714	33.3	238	1983
Buer	70	100.0	70	1985
Datteln 1	95	100.0	95	1964
Datteln 2	95	100.0	95	1964
Datteln 3	113	100.0	113	1969
EV 3 I/S, Apenrade (DK)	626	50.0	313	1979
Farge	325	100.0	325	1969
Franken II/1(1)	206	100.0	206	1966
Franken II/2(1)	206	100.0	206	1967
Glückstadt	14	100.0	14	1983
Heyden	865	100.0	865	1987
Kiel	323	50.0	162	1970
Knepper C	345	100.0	345	1971
Maasvlakte 1 (NL)	520	100.0	520	1988

Power Plants	Total Capacity Net MW	E.ON Energie's Share %	E.ON Energie's Share Attributable Capacity MW	Start-up Date
Maasvlakte 2 (NL)	520	100.0	520	1987
Mehrum C	654	50.0	327	1979
Rauxel 2	164	100.0	164	1967
Rostock	508	50.4	256	1994
Scholven B	345	100.0	345	1968
Scholven C	345	100.0	345	1969
Scholven D	345	100.0	345	1970
Scholven E	345	100.0	345	1971
Scholven F	676	100.0	676	1979
Shamrock	132	100.0	132	1957
Staudinger 1	249	100.0	249	1965
Staudinger 2	249	100.0	249	1965
Staudinger 3	293	100.0	293	1970
Staudinger 5	510	100.0	510	1992
Westerholt 1	138	100.0	138	1959
Westerholt 2	138	100.0	138	1961
Wilhelmshaven	747	100.0	747	1976
Zolling 5(1)	449	100.0	449	1986
Total	11,324		9,794	
Natural Gas				
Arzberg 6(1)	252	100.0	252	1974
Debrecen (H)(1)	95	98.3	93	2000
Delft 1 (NL)	24	100.0	24	1974
Delft 2 (NL)	23	100.0	23	1975
Delft 3 (NL)	23	100.0	23	1974
Delft 4 (NL)	23	100.0	23	1974
Emden 4	430	100.0	430	1972
Franken I/1(1)	382	100.0	382	1973
Franken I/2 (Kombi)(1)	440	100.0	440	1976
Galileistraat (NL)	209	100.0	209	1988
Huntorf	290	100.0	290	1977
Irsching 3(1)	415	100.0	415	1974
Kirchmöser	178	100.0	178	1994
Leiden (NL)	81	100.0	81	1986
Pleinting 2(1)	402	100.0	402	1976
Robert Frank 4	487	100.0	487	1973
RoCa 1 (NL)	24	100.0	24	1982
RoCa 2 (NL)	25	100.0	25	1982
RoCa 3 (NL)	220	100.0	220	1996
Staudinger 4	622	100.0	622	1977
The Hague (NL)	78	100.0	78	1982
Total	4,723		4,721	

Power Plants	Total Capacity Net MW	E.ON Energie's Share %	E.ON Energie's Share Attributable Capacity MW	Start-up Date
Fuel Oil				
Audorf	87	100.0	87	1973
Hausham GT 1(1)	25	100.0	25	1982
Hausham GT 2(1)	25	100.0	25	1982
Hausham GT 3(1)	25	100.0	25	1982
Hausham GT 4(1)	25	100.0	25	1982
Ingolstadt 3(1)	386	100.0	386	1973
Ingolstadt 4(1)	386	100.0	386	1974
Itzehoe	87	100.0	87	1972
Wilhelmshaven	56	100.0	56	1973
Zolling GT 1(1)	25	100.0	25	1976
Zolling GT 2(1)	25	100.0	25	1976
Total	1,152		1,152	
Hydroelectric				
Aufkirchen(1)	27	100.0	27	1924
Braunau-Simbach(1)	100	50.0	50	1953
Egglfing(1)	81	100.0	81	1944
Eitting(1)	26	100.0	26	1925
Ering(1)	73	100.0	73	1942
Erzhausen	220	100.0	220	1964
Feldkirchen(1)	38	100.0	38	1970
Gars(1)	25	100.0	25	1938
Happurg(1)	160	100.0	160	1958
Hemfurth	20	100.0	20	1915
Jochenstein(1)	132	38.9	51	1955
Kachlet(1)	54	77.5	42	1927
Langenprozelten(1)	164	77.6	127	1975
Neuötting(1)	26	100.0	26	1951
Nußdorf(1)	48	76.5	37	1982
Oberaudorf-Ebbs(1)	60	50.0	30	1992
Passau-Ingling(1)	86	50.0	43	1965
Pfrombach(1)	22	100.0	22	1929
Reisach(1)	105	100.0	105	1955
Rosenheim(1)	35	100.0	35	1960
Roßhaupten(1)	46	50.0	23	1954
Schärding-Neuhaus(1)	96	50.0	48	1961
Stammham(1)	23	100.0	23	1955
Tanzmühle(1)	28	100.0	28	1959
Teufelsbruck(1)	25	100.0	25	1938

Power Plants	Total Capacity Net MW	E.ON Energie's Share %	E.ON Energie's Share Attributable Capacity MW	Start-up Date
Töging(1)	85	100.0	85	1924
Walchensee(1)	124	100.0	124	1924
Waldeck 1	140	100.0	140	1931
Waldeck 2	440	100.0	440	1975
Wasserburg(1)	24	100.0	24	1938
Other run-of-river, pump storage and storage	893	73.5	656	n/a
Total	3,426		2,854	
Others	46	100.0	46	n/a
E.ON Energie Total	37,726		29,021	
Mothballed/Shutdown/ Inactive				
Aschaffenburg 21(1)	150	100.0	150	1963
Aschaffenburg 31(1)	143	100.0	143	1971
Irsching 1(1)	151	100.0	151	1969
Irsching 2(1)	312	100.0	312	1972
Pleinting 1(1)	292	100.0	292	1968
Scholven G	672	50.0	336	1974
Scholven H	672	50.0	336	1975
Schwandorf B(1)	99	100.0	99	1959
Schwandorf C(1)	99	100.0	99	1961
Total	2,590		1,918	

(1) Contributed by the former Bayernwerk.

(2) For these power plants, the amount of attributable capacity as compared to E.ON Energie's share is varied by contract.

(3) Capacity increased from 1,285 MW to 1,345 MW in 2001.

(DK) Located in Denmark.

(NL) Located in the Netherlands.

In May 1995, PreussenElektra decided to shut down its nuclear power plant at Würgassen for economic reasons and, in October 1995, it applied for and received permission from the German authorities to decommission and dismantle the Würgassen plant in accordance with German nuclear energy legislation. E.ON Energie expects the decommissioning of Würgassen, which began in October 1995, to take approximately 12 years. E.ON Energie has provided €1.0 billion for the decommissioning of Würgassen, including the reprocessing and disposal of fuel elements and the dismantling of the plant. At present, E.ON Energie has no plans to construct any new nuclear power plants.

In response to intense competition over wholesale prices, E.ON Energie has been forced to assess all of its production facilities very carefully with respect to actual and, in the medium term, expected profitability. In October 2000, as a result of this analysis, E.ON Energie decided to shut down or permanently suspend operations at certain power plants with a total installed capacity of 4,800 MW by 2003. This decision primarily effects older and smaller units. E.ON Energie is in close contact and discussion with the affected communities and employees about this matter, in order to achieve generally acceptable solutions.

The following table sets forth the sources of E.ON Energie's electric power in kilowatt hours ("kWh") in 2000 and 1999:

Sources of Power	2000 million kWh	1999 million kWh	% Change
Own production	101,719	65,397	55.6
Purchased power	74,493	49,592	50.2
from power stations in which E.ON Energie has an interest of 50 percent or less	*16,917*	*17,718*	*(4.5)*
from other suppliers	*57,576*	*31,874*	*80.6*
Total power supplied	176,212	114,989	53.2
Power used for operating purposes, network losses and pump storage	(6,279)	(4,680)	34.2
Total	169,933	110,309	54.1

In 2000, E.ON Energie procured a total of 176.2 billion kWh of electricity, including 6.3 billion kWh used for operating purposes, network losses and pumped storage. E.ON Energie purchased a total of 16.9 billion kWh of power from power stations in which it has an interest of 50 percent or less. In addition, E.ON Energie purchased 57.6 billion kWh of electricity from other utilities, 3.2 billion kWh of which were from Scandinavian utilities and 21.3 billion kWh of which were from Veag, the eastern German interregional utility, for redistribution by eastern German regional distributors.

E.ON Energie's plants generate electricity with nuclear power, bituminous coal (commonly referred to as "hard coal"), lignite, gas, fuel oil and water. The existing nuclear and hydroelectric power plants are E.ON Energie's cheapest source of power and, together with lignite-based power plants, are used mainly to cover the base load. Hard coal is utilized mainly for middle load, while the other energy sources are used primarily for peak load.

Nuclear Power. E.ON Kernkraft purchases fuel elements for nuclear power plants from domestic and international independent suppliers. E.ON Energie considers the supply of uranium and fuel elements on the world market to be adequate.

E.ON Energie's nuclear power plants are required to meet applicable German safety standards, which are among the most stringent standards in the world (see "— Environmental Matters"). For the reprocessing of their nuclear waste, E.ON Energie's nuclear power plants have contracts with Cogema in France and BNFL in the United Kingdom. In principle, these arrangements are in place until the year 2005. Under German law, the Federal Republic of Germany is responsible for the final storage of all domestic nuclear waste at the expense of the generator.

Operators of nuclear power plants are required under German law to establish sufficient financial provisions for future obligations that arise from the use of nuclear power. The three required provisions are for: (1) fuel element reprocessing, which also includes the final storage of non-usable residual substances, (2) disposal of contaminated operating waste and (3) the eventual decommissioning of nuclear plants. At year-end 2000, E.ON Energie had a total of approximately €11.2 billion provided for these purposes in respect of nuclear power plants included in the consolidated accounts, consisting of €4.7 billion for reprocessing of fuel elements, €0.5 billion for disposal of operational waste and €6.0 billion for decommissioning costs. These provisions are stated net of advance payments of €1.2 billion. At year-end 2000, on a pro rata basis, E.ON Energie had provisions for these purposes totaling €12.7 billion. In determining its pro rata share, provisions attributed to minority interests included in E.ON Energie's consolidated accounts have been deducted and provisions for nuclear plants in which E.ON Energie has a minority interest have been added.

After the German Social Democratic Party and the German Green Party (*Bündnis 90/Die Grünen*) (together, the "Coalition") were elected to lead the German federal government in 1998, the Coalition agreed to phase out the generation of nuclear energy in Germany. The Coalition also agreed to hold "consensus-forming" discussions with operators of nuclear power plants in order to find a solution to various issues in the area of nuclear energy agreeable to all parties. The discussions began in January 1999 and resulted in an agreement in principle among the parties on nuclear power on June 14, 2000.

Among other things, agreement was reached on the following issues:

- **Termination of Fuel Reprocessing:** The reprocessing of spent fuel elements will be allowed at least until July 2005. As of this time, the operators have agreed to store fuel elements in interim facilities on the premises of the nuclear plants. Such storage requires the approval and construction of interim storage facilities, which generally take four to five years to complete. E.ON believes this transition period from reprocessing to on-site storage will allow it to satisfy its obligations under its reprocessing contracts with Cogema and BNFL without incurring penalties under those contracts.

- **Nuclear Phase-out:** The operators of the nuclear plants have agreed to a specified number of operating kilowatt hours for each nuclear plant. This number has been calculated on the basis of 32 years of plant operation using a high load factor. The operators may trade allotted kilowatt hours among each other. This means that if one nuclear plant closes before it has produced the allotted amount of kilowatt hours, the remaining kilowatt hours may be transferred to another nuclear power plant.

The agreement has not been signed by the parties pending amendment of the German Nuclear Power Regulations Act (*Atomgesetz,* or "AtG"), which could occur by the middle of 2001. As part of the agreement, the German federal government has agreed not to institute any future changes in German tax law which discriminate against nuclear power operations in comparison with other forms of power generation.

Under the agreed-upon allowance of kilowatt hours for each nuclear plant, the Company does not expect that it will need to close any of its nuclear plants before the end of their commercially useful lives. The Company considers its provisions with respect to nuclear power operations to be adequate with respect to the costs of implementing the agreement.

In March 1999, the German parliament passed the Tax Relief Act 1999/2000/2002. The Tax Relief Act contains new rules for the tax treatment of nuclear provisions. Furthermore, the German tax authorities have adopted a more stringent interpretation of the previous law with respect to the years before 1999. The changes to the tax status of the provisions include the following:

- The accrual period for decommissioning costs has been extended from 19 to 25 years. This requires E.ON Energie to release a portion of the provisions it had previously established for tax purposes based on the shorter accrual period.

- Certain parts of the provisions concerning MOX fuel elements, which are fuel elements containing plutonium produced in the reprocessing process, have to be reversed. The costs must be capitalized as incurred instead.

- Those portions of the provisions that have been established in past years relating to the financing and operational costs for final storage of nuclear waste have been disallowed. The costs of these items now will be tax-deductible when they are actually expensed.

- In accordance with the new general rule for long-term provisions, all types of provisions for nuclear power must now be discounted. The Tax Relief Act sets the discount rate at 5.5 percent. This also applies to provisions that have previously been established, which must be released to the extent they do not reflect this discounting.

The Tax Relief Act provides that the tax payments resulting from the reversal of provisions necessitated by the extension of the accrual period, the disallowance of portions of the provisions related to costs of final storage of waste and the discounting of the provisions are spread over a period of ten years beginning in 1999. The additional tax burden for E.ON amounts to approximately €250 million for 2000 and decreases each year over the coming years. The total additional tax liability in respect of tax years prior to 1999 that are still subject to review amounts to €2.2 billion (which includes interest through 2000). This amount is provided for in the consolidated financial statements.

E.ON Energie and other operators of nuclear power plants intend to challenge these tax law and interpretative changes in the tax courts. If E.ON Energie and the other operators ultimately prevail in court, the effect on these payments would be as follows:

- E.ON Energie will be entitled to a tax refund in respect of some or all of the amounts it paid for 1999, 2000 and any other tax years before the year in which the case is resolved.
- The additional tax liability for earlier periods would be lower. This would result in a reversal of part or all of the €2.2 billion tax provision.

None of the changes to the provisions described above cause any changes to the financial statements E.ON prepares for other purposes. Due to the recognition of a related deferred tax asset generated by temporary differences between the balance sheet prepared for financial reporting purposes and the balance sheet for tax purposes, the changes in the tax status of the provisions for nuclear waste disposal had no material adverse effect on E.ON's consolidated net income in 1999. However, the Tax Reduction Act, which was enacted in October 2000, included a lowering of the corporate income tax from 40 percent to 25 percent, which has resulted in a reduction of the deferred tax asset relating to the provisions. For a general description of the Tax Relief Act and the Tax Reduction Act, see "— Operating Environment — German Economic Background."

Hard Coal. In 2000, approximately 55 percent of the hard coal used by E.ON Energie was mined in Germany. Traditionally, hard coal is mined in Germany under much more difficult conditions than in other countries. Therefore, German coal production costs are substantially above world market levels, and E.ON Energie believes they will continue to remain high. Although electricity producers were in the past required to purchase German coal, they are now free to purchase coal from any source. To encourage the purchase of German coal, the German federal government has been paying direct subsidies to German producers enabling them to offer domestic coal at world market prices, although it is now in the process of reducing such subsidies. Due to high production costs and the reduction in subsidies, German coal production has shown a relatively steady decline in the past and is expected to continue to decline further. However, E.ON Energie expects that adequate supplies of imported coal for its operations will be available on the world coal market at acceptable prices. The price and availability of hard coal is not generally volatile, although the price E.ON pays fluctuates based on the euro-dollar exchange rate.

Lignite. German lignite, also known as brown coal, has approximately one-third of the heating value of hard coal. E.ON Energie participates in lignite-based energy generation in western Germany through Braunschweigische Kohlen-Bergwerke AG and in eastern Germany through Kraftwerk Schkopau GbR. The price and availability of lignite is not generally volatile, although the price E.ON pays fluctuates based on the euro-dollar exchange rate.

Gas and Oil. In Germany, the price of gas is linked to the price of oil. This mechanism has been enforced in order to reduce the influence of, and dependence on, gas-producing countries. Only about 20 percent of the national gas demand in Germany is satisfied by German deposits, while about 80 percent is satisfied through imports from foreign producers, primarily in Russia, Norway and the Netherlands.

Water. This domestic source of energy is primarily available in southern Germany due to the presence of mountains and rivers. The variable costs of production are extremely low in the case of run-of-river plants and consequently, these plants are used to cover base and middle load requirements. Conversely, pump storage facilities impose quite high variable costs and are, therefore, used to meet peak demand.

Demand for power tends to be seasonal, rising in the winter months and typically resulting in additional electricity sales by E.ON Energie in the first and fourth quarters. E.ON Energie believes it has adequate sources of power to meet foreseeable increases in demand, whether seasonal or otherwise. In order to benefit from economies of scale associated with large stations, E.ON Energie has built large capacity power station units in conjunction with other utilities where it does not require all of the electricity produced by such plants. In these cases, the purchase price of electricity is determined by the production cost plus a negotiated fee.

Transmission

The power transmission grid of E.ON Energie is located in the German states of Schleswig-Holstein, Lower Saxony, Northrhine-Westphalia, Hesse, Bavaria and Mecklenburg-Westpomerania, and reaches from Scandinavia to the Alps. The grid is interconnected with the western European power grid with links to the Netherlands, Austria, Switzerland and eastern Europe. With a system length of over 37,000 km and a coverage area of nearly 170,000 km^2, the grid covers more than one-third of the surface area of Germany. The high-voltage network allows long-distance power transport at low transmission losses. The system is operated from two main circuit control headquarters, one in Lehrte near Hanover and one in Karlsfeld near Munich. In addition, there are more than ten smaller control units at decentralized locations within the grid area. The system is mainly, but not completely (depending on regional locations), operated by E.ON Netz GmbH.

Access to E.ON Energie's power grid is open to all potential users. The Company believes its usage fees and conditions comply with existing German regulations governing grid access. For further information, see "— Markets, Competition and Regulatory Environment."

The Baltic Cable, currently one-third owned by each of E.ON Energie, Sydkraft and Vattenfall, links E.ON Energie to Scandinavia. Following the sale of E.ON Energie's 15.4 percent shareholding in HEW to Vattenfall, E.ON Energie will receive Vattenfall's 33.3 percent of the Baltic Cable and will then own two-thirds of the Baltic Cable. It is the longest (250 km) direct current submarine cable in the world, is designed to transmit a maximum capacity of 600 MW and currently transmits between approximately 375 to 450 MW of capacity. For more information on E.ON Energie's acquisition of Vattenfall's stake in the Baltic Cable, see "— Overview." In addition, a 500 km long submarine cable between Norway and Germany, the Viking Cable, will be built by a joint venture between E.ON Energie and Statnet of Norway. The Viking Cable project is planned to start operating in 2004 with a transmission capacity of 600 MW.

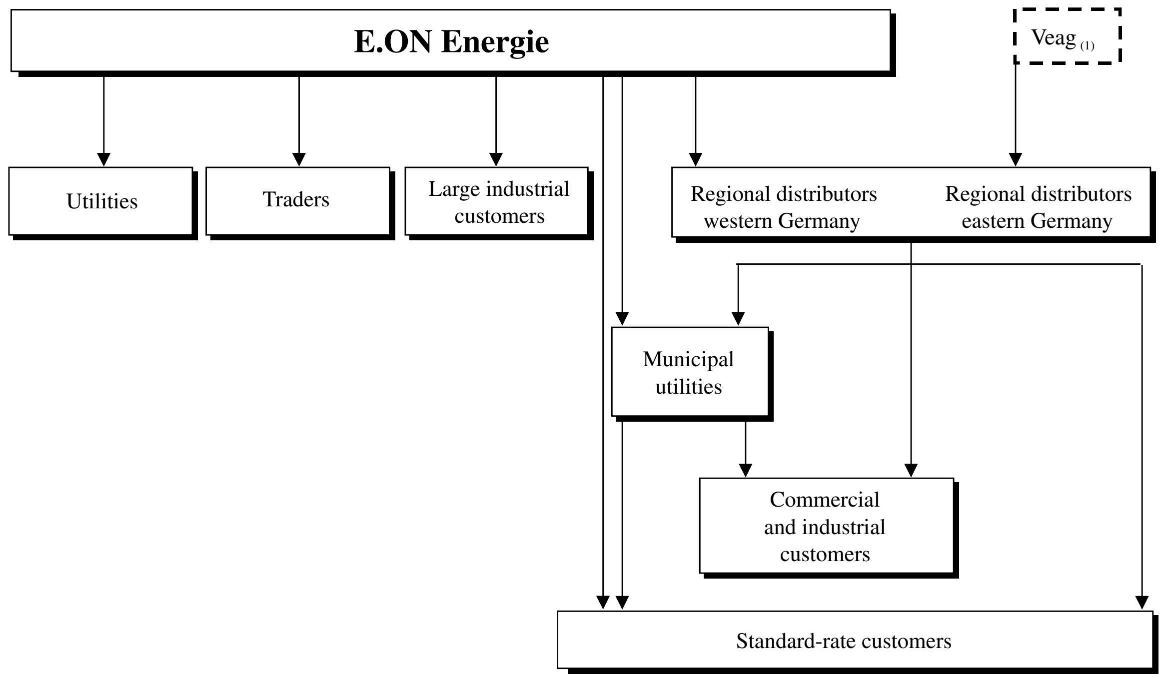
Distribution and Sales

Electricity. The following table sets forth the distribution of E.ON Energie's electric power in 2000 and 1999:

Distribution of Power to	2000 million kWh	1999 million kWh	% Change
Non-consolidated interregional, regional and municipal utilities and traders	106,876	68,596	55.8
of which traders	*9,723*	*3,933*	*147.2*
Industrial and special-rate customers	41,571	28,458	46.1
Standard-rate customers	21,486	13,255	62.1
Total	169,933	110,309	54.1

For an explanation of changes in electricity distributed, see "Item 5. Operating and Financial Review and Prospects — Results of Operations."

E.ON Energie supplied about one-third of the electricity consumed in Germany in 2000. Its customers are interregional, regional and municipal utilities and traders, large industrial and special-rate customers and, mainly through regional distributors, standard-rate customers predominantly in those parts of Germany highlighted on the map on page 19 and, to a growing extent, nationwide. The regional distributors e.dis Energie Nord AG and Thüringische Energie Aktiengesellschaft in eastern Germany purchase power primarily from Veag. The distributor Avacon AG likewise purchases its power primarily from Veag for those of its customers situated in the eastern German state of Saxony-Anhalt. In 2000, E.ON Energie sold 125.9 billion kWh of electricity in western Germany and 24.1 billion kWh in eastern Germany and exported 19.9 billion kWh. The following chart sets forth the principal supply structure of E.ON Energie's electricity sales:



(1) In compliance with one of the EU Commission's conditions upon approving the VEBA-VIAG merger, E.ON is in the process of divesting its interest in Veag. For more information, see "— Overview."

E.ON Vertrieb GmbH is the E.ON Energie group company which distributes electricity and other E.ON Energie products. The supply contracts under which regional distributors (most of which are majority-owned by E.ON Energie) regularly order their required load for upcoming years historically have had relatively long terms. Typical supply contracts now last for two to five years and, in the case of large industrial customers, may be shorter. Potential alternative sources of electricity include the purchase of electricity from other utilities and auto-generation by municipalities, regional distributors or industrial customers. The regional distributors' contracts with municipal utilities contain varying terms and conditions. Long-term concession contracts (see "— Markets, Competition and Regulatory Environment") permit municipal utilities and regional distributors to supply electricity to customers within a municipality. For a discussion of the effects of regulatory changes on the supply structure, see "— Markets, Competition and Regulatory Environment."

E.ON Energie offers various products generated for the nationwide retail market. The premium brand is E.ON AQUAPOWER, using electricity generated in E.ON Energie's hydroelectric power plants. This product has been designed especially for environmentally sensitive customers looking for power from zero-emission sources. The standard product is E.ON POWER. Both the eco-friendly and the standard product are offered to private households with a special rate for single person households and another one designed for families with a higher electricity consumption. In addition, the product E.ON SUN has been introduced to serve the niche market for electricity products generated through photovoltaics.

In addition to direct sales and sales to regional and municipal distribution companies, E.ON Vertrieb GmbH uses additional sales channels such as a major German electronics chain and several property management companies. In contrast to distribution companies, which sell electricity products under their own brand name, these sales channels distribute E.ON's products under the E.ON brand name and receive a fixed percentage of sales as compensation.

Gas. Distribution subsidiaries of E.ON Energie supply gas to households, small consumers and industrial customers in many parts of Germany. E.ON Energie's gas sales volume rose 34.3 percent in 2000 to

65.6 billion kWh due to the first-time inclusion of the former Bayernwerk activities. In addition to its wholly owned subsidiaries, E.ON Energie owns a 57.3 percent interest in Thüga and a 98.7 percent interest in Contigas. Thüga and Contigas currently have shareholdings in more than 100 regional and municipal electricity and gas utilities all over Germany. In addition, Thüga and Contigas both penetrated the Italian gas market by expanding their business model as an active minority shareholder across the Alps. As active minority shareholders, they offer operational competence as well as other services and advice to the companies in which they own minority equity interests. E.ON Energie also has a 24.9 percent equity interest in Gasag and a 5.26 percent equity interest in Verbundnetz Gas AG, the long-distance gas distribution network company in eastern Germany.

Heat. E.ON Energie is one of the leading suppliers of district heating in Germany. It operates its own district heating networks for six cities in the Ruhr area and supplies five additional networks owned by other companies. E.ON Energie's regional distributors are also involved in heat delivery. E.ON Energie's district heat deliveries increased 11.5 percent in 2000 to 6.7 billion kWh.

Water and Waste Water Treatment. E.ON Energie's principal water-related activities are centered in the German stock exchange-listed company Gelsenwasser. After purchasing RWE's 28.1 percent equity interest in Gelsenwasser in January 2001, E.ON Energie holds an 80.5 percent equity interest through its wholly owned subsidiary E.ON Aqua GmbH. Though water deliveries decreased 3.5 percent to 238.5 million cubic meters in 2000, Gelsenwasser is still the largest privately held water utility in Germany (based on volume of water deliveries). On a smaller scale, E.ON's water business is also based within the regional suppliers of E.ON Energie, particularly Schleswag AG ("Schleswag"), in which E.ON Energie has a shareholding of 65.3 percent, and Avacon. In addition, the E.ON Energie group owns a 20.8 percent interest in the interregional water utility Harzwasserwerke GmbH as well as other shareholdings in companies with water activities belonging to the Thüga group. Furthermore, a joint venture in the field of waste water treatment exists with the municipality of Bremen (HanseWasser Ver- und Entsorgungs-GmbH and Abwasser Bremen GmbH). In 2000, water deliveries by the E.ON Energie group decreased 2.8 percent to 259 million cubic meters.

Consulting and Support Services. E.ON Engineering GmbH provides consulting and planning services in connection with plant construction and operation of power stations. Consulting services are offered within business fields such as analytics, construction technology, electrical engineering, instrumentation and control technology, machine technology and grid technology. Based on shareholdings in municipal and regional utilities, E.ON Energie, Thüga and the regional distributors establish partnerships and cooperative relationships with local authorities. E.ON Energie, Thüga and the regional distributors operate their own electricity and gas supply systems and provide the local authorities with consulting, technical and managerial support to promote the efficient use of energy, water and gas.

E-Commerce. In October 2000, the regional distribution companies of the E.ON Group purchased a 75 percent stake in Mercateo.com AG ("Mercateo"), a German internet-based marketplace. This platform currently provides business-to-business procurement functions for small and medium-sized companies. E.ON also plans to purchase certain supplies such as office material through the platform. Mercateo expects to extend its focus to include private customers during 2001.

Customers. Through its subsidiaries and companies in which it has significant shareholdings, E.ON Energie supplies about one-third of the German population with electricity and serves approximately 12 million electricity customers in Europe. E.ON also supplies approximately 10 million people with water and more than five million customers with gas.

Trading

Historically, the former VEBA supplemented its generating capacity as necessary to satisfy demand requirements and meet required reserve capacity only by purchasing power on a long- and short-term basis from jointly-owned power plants and from other utilities. In December 1998, PreussenElektra began operating a trading floor in Hanover, for the trading of contracts on electricity products on a national and international basis, thus extending its electricity trading activities to third parties. In addition, PreussenElektra was the first energy supply company to promote the introduction of an electricity price index in Germany. Since March 1999, Dow Jones has been publishing the Central European Power Index based on information it obtains from E.ON Energie and other market participants.

In October 2000, E.ON Energie merged the two formerly separate trading floors of PreussenElektra and Bayernwerk to form E.ON Trading GmbH ("E.ON Trading") in Munich, combining the know-how and the resources of both companies at one location. An international team of traders buys and sells electricity on the spot and futures markets. E.ON Trading offers products that are either custom-made and used for bilateral trading over-the-counter or standardized and exchange-traded. In addition to physical electricity trading, the trading of energy-based financial products (*i.e.*, swaps, caps, floors, collars and weather derivatives) is an increasingly important aspect of E.ON Trading's business. E.ON Energie's trading focuses on Germany but also includes the rest of continental Europe and Scandinavia.

E.ON Energie believes that its trading floor is providing it with valuable market insight and has strengthened its competitive position in the European electricity market. It intends to expand both the third party trading on the trading floor and its own trading of financial contracts on electricity products. For more detailed information on E.ON Energie's management of the risks related to its trading activities, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk — Commodity-Price Risk Management."

During 2000, E.ON Energie was one of the first participants in the newly-established Leipzig Power Exchange as well as the European Energy Exchange in Frankfurt. In 1999, E.ON Energie became a participant in the Scandinavian electricity exchange NordPool as well as on the Amsterdam Power Exchange in the Netherlands. E.ON Energie's overall electricity trading volume amounted to 46.1 billion kWh in 2000. In the summer of 2000, E.ON Energie formed a 75 - 25 percent joint venture with the management of D-Gas B.V., an experienced British team of gas traders, in order to improve its gas trading capabilities and expand its gas trading business.

International Shareholdings

Through the merger of PreussenElektra and Bayernwerk, E.ON Energie has significantly improved its position in the European energy markets with shareholdings and cooperations in more than a dozen countries, particularly in Scandinavia, Russia, the Baltic region, Poland, the Czech Republic, Hungary, Italy, Switzerland and the Netherlands.

In those regions in which E.ON Energie has already built up a portfolio of activities, national holding companies such as E.ON Scandinavia, E.ON Bohemia, E.ON Hungaria and E.ON Benelux coordinate E.ON Energie's activities.

E.ON Energie is the largest shareholder in Sydkraft, the second-largest Swedish utility (on the basis of electricity sales and production capacity), with a 29.4 percent equity interest and 42.8 percent voting interest following the acquisition of a 5.3 percent equity interest and 8.5 percent voting rights from four Swedish municipalities as of February 1, 2001. Swedish law requires foreign buyers of Swedish companies to make full takeover bids if their shareholdings exceed 40 percent. Accordingly, E.ON Energie is in the process of making a public tender offer for the outstanding Sydkraft shares. E.ON Energie is offering 240 Swedish kronor per voting share and 200 Swedish kronor per non-voting share. It is E.ON Energie's objective to obtain a controlling majority in Sydkraft. The offer is conditional upon approval from competition authorities. E.ON Energie also has a 13.3 percent equity interest in Graninge AB, a Swedish utility in which Sydkraft has a 22.9 percent interest.

In the Baltic region, E.ON Energie owns an equity interest of 9.3 percent in AO Lenenergo, the utility which provides St. Petersburg, Russia with electricity and heating, and a 17.1 percent equity interest in Latvijas Gaze, the only gas supplier in Latvia. Once it receives approval from the EU Commission, E.ON Energy will also own a 10.6 percent equity interest in the Lithuanian utility Lietuvos Energija.

Through the former Bayernwerk, E.ON Energie has significant shareholdings in Hungary. These include equity interests of 90.6 percent in DÉDÁSZ, 27.7 percent in ÉDÁSZ, 82.9 percent in TÍTÁSZ and 31.2 percent in KÖGÁZ. E.ON Energie complemented these holdings with several investments in Czech electricity and gas distribution companies in Bohemia and Moravia in 2000. Moreover, E.ON Energie has signed an agreement of cooperation with the Austrian utility Energie AG Oberösterreich concerning the Czech electricity market. The intent of the arrangement is to pool interests and achieve joint control over regional distribution companies in the Czech Republic. This agreement is subject to European merger control proceedings as well as Czech merger control proceedings. The EU Commission has already approved the agreement, and the application for the Czech merger control permission has been submitted to the relevant authorities.

E.ON Energie owns a 24.5 percent equity interest in the Swiss utility Watt AG and a 20 percent equity interest in BKW FMB Energie AG, a hydro-dominated Swiss utility with which E.ON Energie also has a joint venture for electricity supply in Italy.

E.ON's acquisition of the Dutch power producer E.ON Benelux Generation, formerly known as Electriciteitsbedrijf Zuid-Holland N.V. ("EZH"), in January 2000 was also a significant step into the important electricity market in the Netherlands.

Markets, Competition and Regulatory Environment

General. Nearly 1,000 electric utilities operate in Germany at the state, regional and local level, many of which are partly or wholly owned by state or municipal governments. These utilities may be involved in various combinations of the generation, transmission, distribution, trading and supply functions. In 2000, the six major interregional utilities supplied approximately 77 percent of the total electricity production. They own the high-voltage transmission lines in their traditional supply areas and are active in all phases of the electricity business. Another 13 percent of total electricity production in Germany in 2000 was supplied by other utilities and the remaining 10 percent was produced by the manufacturing sector and Deutsche Bahn for their own use.

In 1948, the major utilities in Germany at that time formed a consortium (*Deutsche Verbundgesellschaft*) that interconnects the high-voltage lines of the consortium members into a national network. The consortium members are required by contract to maintain a specified level of reserve capacity to meet emergency needs of other members, and some members also have agreements to exchange power. Further, all German utilities and certain large industrial customers have established a framework for third-party access to high, medium and low-voltage transmission systems (*Verbändevereinbarung,* as amended, *Verbändevereinbarung II*). Under *Verbändevereinbarung II*, tariffs for access are currently comprised of a cost-based "point-of-connection" tariff as well as a fee for cross-border deliveries (0.125 Pfennig/kWh). This could change, however, should the EU's draft directive on full liberalization of the electricity markets (see below) come into effect. In addition, the antitrust laws, principally the Law on Restraint of Competition (*Gesetz gegen Wettbewerbsbeschränkungen,* or "GWB"), provide that utilities may not unduly hinder electricity transfers through their power lines. The national network is connected to the Interconnected Western European grid and to the CENTREL grid (which includes Poland, the Czech Republic, Slovakia and Hungary).

In order to promote competition in the energy production, transmission and distribution sectors, the EU adopted a directive (EU Directive on the Single Electricity Market, or the "Electricity Directive") in December 1996 that was intended to open access to the internal markets of EU member states to power producers from other EU member states. Germany implemented the Electricity Directive by enacting a new Energy Law (*Energiewirtschaftsgesetz,* or the "New Energy Law") that came into effect on April 29, 1998. The New Energy Law modified the old Energy Law (the "Old Energy Law"), the German legal framework governing utilities that sets forth the general obligations required of electricity and gas suppliers and defines which segments of the industry are subject to regulation. The following paragraphs discuss the Electricity Directive, the New Energy Law, the Energy Feed-In Law and the Co-Generation Protection Law (as defined below).

The Electricity Directive. The Electricity Directive allows monopoly and competitive systems to co-exist. Member states can choose to have either a single-buyer system or a system permitting negotiated third-party access ("NTPA"). In a single-buyer system, only one utility has access to the electricity grid and it serves as the sole purchaser of electricity from the grid. In the NTPA system, independent utilities compete with one another and all have grid access. In both systems, electricity consumers that exceed a certain consumption volume are able to negotiate supply contracts directly with the most competitive producers both inside and outside their electricity system. All EU member states were required to implement the Electricity Directive by February 19, 1999.

Under the Electricity Directive, the EU electricity market is expected to be opened gradually. With regard to the degree of market opening, the directive set minimum targets which, in the case of electricity, correspond to 26 percent of domestic consumption in 1999, 30 percent in 2000 and 35 percent in 2003. Member states will designate which consumers will be able to benefit from this opening of the markets and contract for electricity directly ("eligible consumers"). Very large consumers will automatically qualify as eligible consumers. Member states are permitted to open their markets beyond these minimum requirements. A negative reciprocity clause protects those that do; that is, one member state is only required to open its electricity market to a supplier from a second member state to the extent that the second state's market is liberalized.

The Electricity Directive also required integrated utilities to unbundle the transmission of electricity from its production, to organize production and transmission functions into separate divisions and to unbundle costs. Lastly, even member states that elected the NTPA system are required to publish frameworks for network charges.

The EU Commission has adopted a draft directive on the full liberalization of the EU electricity market. It envisions an EU electricity and gas market fully open to competition by 2005 and the elimination of negotiated third party access. The draft directive also provides that EU member states set up regulatory authorities to set and approve transmission and distribution tariffs. The EU Energy Council must adopt the draft directive in order for it to come into effect.

The New Energy Law. Prior to the enactment of the New Energy Law, German utilities by contract and regulation operated in separate geographic areas. Local and regional monopolies existed with respect to transmission, distribution and supply, although not for generation. The New Energy Law abolished exclusive supply contracts, thereby introducing competition in the supply of electricity to all consumers, and provided for non-discriminatory NTPA for all utilities. The German market was opened for all customers in one step, going far beyond the requirements of the Electricity Directive and also beyond the steps taken by Germany's neighboring countries. The New Energy Law also included protective clauses which a transmission company may use as a basis for denying certain energy transmissions, provided that such denial does not constitute an abuse of market power. Specifically, in assessing a request for energy transmission, the New Energy Law requires a transmission company to take into account the extent to which such transmission displaces electricity generated from combined heat and power plants, renewable energy and, in eastern Germany, lignite-based power plants and the extent to which it impedes the commercial operation of such power plants. In addition, until December 31, 2006, utilities can deny a request for energy transmission grid access for electricity originating from outside Germany if the German recipient is not a licensed competitor in the electricity exporting country (negative reciprocity clause). A company whose transmission request has been denied on one of these grounds may file an antitrust claim if it believes the denial was unjustified. The New Energy Law also gave municipal utilities the option to act as single buyers (according to the Electricity Directive) on a regional level, with the obligation to pass on all power purchased from third parties to end-users within the municipality at a public tariff. Only a small number of smaller municipalities have opted for a single buyer system. Lastly, certain governmental agencies were empowered to implement the rules governing grid access.

Rate Regulation. Prices at which local and regional distributors sell to standard-rate customers are currently regulated by the economics ministries of each of the German states (as provided in the Federal Electricity Tariff Regulation (*Bundestarifordnung Elektrizität,* or "BTO Elt")) and are reset at least every two years. The rates are set at a level to assure an adequate return on investment on the basis of the costs and earnings of the distribution company. However, these governmentally set ceiling rates do not represent the actual market situation, with numerous rates designed to meet different customers' special needs. The average prices per kWh for sales to standard-rate customers charged by E.ON Energie's consolidated distribution companies were €0.1566 (30.63 Pf) and €0.1804 (35.29 Pf) in western and eastern Germany, respectively, at January 1, 2001. The average price charged by utilities for an average standard-rate customer in Germany with an annual consumption of 3,500 kWh was, according to the German Association of Electric Utilities *(Vereinigung deutscher Elektrizitätswerke e.V.)*, €0.1455 per kWh (28.46 Pf/kWh) as of January 1, 2001 (all taxes included). The average price per kWh charged by E.ON Energie for industrial customers was €0.0708 (13.84 Pf), whereas the German Association for Energy Consumption (VEA) quoted an average price per kWh of €0.0700 (13.70 Pf) for Germany as of January 1, 2001 (net of tax). E.ON Energie's consolidated distribution companies in eastern Germany operate in the northern region, where the population is less dense and the distribution costs are higher compared to other parts of eastern Germany. As standard-rate customers may choose between different suppliers, rate regulation is generally viewed as no longer necessary, and E.ON Energie believes it may be abandoned soon. Prices for sales of electricity by E.ON Energie to regional distribution companies, municipal utilities and large industrial customers are not regulated by the BTO Elt; however, they are governed by the GWB, which requires that no patently unreasonable rates are set. There is no comparable regulation of gas and heat rates in Germany, although the GWB does apply.

Co-Generation Protection Law. In order to protect existing combined heat and power plants, the so-called Co-Generation Protection Law (*Kraft-Wärme-Kopplung-Vorschaltgesetz*) came into effect on May 18, 2000. This law, which expires at the end of 2004 at the latest, requires local network operators under certain conditions to buy the electricity of a combined heat and power plant at a rate of nine Pfennig per kWh in 2000 (decreasing by 0.5 Pfennig per kWh each year). The local network operator gets a refund of three Pfennig per kWh (decreasing by 0.5 Pfennig per kWh each year) from the interconnected network operators, who are allowed to increase their tariffs for these costs. As a consequence, national network tariffs rose on average by 0.53 Pfennig per kWh in 2000.

The government has plans to amend this law, which is especially protective of municipal combined heat and power plants, by 2002. The government is currently considering a combined heat and power quota system, which would require electricity suppliers to buy a rising share of their demand from combined heat and power plants. The aim of such a law is to reduce CO_2 emissions from power production through phased-in reductions, reaching a reduction of 23 million tons a year by 2010.

In opposing these plans, E.ON has argued that such interference with the recently liberalized electricity market would be economically harmful, would lead to a devaluation of capital and would endanger employment at existing power stations. For this reason, E.ON, in alliance with other energy utilities, has proposed the Action Program for Climate Protection (*Aktionsprogramm Klimaschutz*). Under this plan, the energy utilities would offer CO_2 reductions of up to 45 million tons a year phased in by 2010 on a voluntary basis if the government abandons the combined heat and power quota system. The German Minister of Economy has accepted the Action Program for Climate Protection as a viable alternative and has announced his desire to develop a binding agreement between the government and the energy utilities shortly.

The Electricity Feed-in Law. Under the German *Stromeinspeisungsgesetz* (law governing renewable electricity fed into the power grid, or "Electricity Feed-In Law"), which came into effect simultaneously with the New Energy Law in April 1998, all regional utilities with standard-rate customers were required to pay for renewable energy, including wind-generated electricity, fed into the grid. The price paid by the regional utility to the generator of renewable energy, determined by the average electricity price to the end user nationwide, typically exceeded the regional utilities' production costs, thereby forcing regional utilities to pay part of the costs of regenerative sources of energy. Regional utilities in whose supply area the feeding plants are located must bear these costs.

If the volume of renewable energy fed into the grid exceeded five percent of the total electricity supplied by a regional distributor, that distributor's obligation to purchase the amount of such electricity in excess of five percent shifted to the transmission company operating the highest voltage grid to which the distributor was physically connected. This meant that PreussenElektra Netz GmbH, as operator of the highest voltage grid in its areas of operation, had to buy the excess renewable electricity not purchased by regional distributors. If the amount the transmission company must assume exceeded five percent in any one year, then the obligation to pay for new wind turbines would expire at the end of the year. These obligations resulted in additional costs to PreussenElektra of €205 million in 1998 and €230 million in 1999. The two regional suppliers EWE and Schleswag, as well as PreussenElektra itself, reached the five percent threshold in 1999. New wind turbines that were connected to the network of EWE, Schleswag or E.ON Energie in 2000 would therefore no longer have profited from this Electricity Feed-in Law. As this could have restricted the development of renewable energies, the German *Bundestag* has passed another change in the Electricity Feed-in Law, which came into effect April 1, 2000. Important aspects of the changed law, which is called the Renewable Energy Law, include:

- ***Fixed tariffs for renewable energies:*** Tariffs for renewable energies are fixed in the future. For wind turbines, the tariff is fixed at 17.8 Pfennig/kWh. This tariff is, however, restricted in time (to an average of about 16 years). After the time limit has been reached, the tariff is reduced to 12.1 Pfennig/kWh.

- ***National burden sharing:*** The Renewable Energy Law assumes that the subsidy obligation would, in the future, be passed on in full to the supplying companies. At the transmission company level, there is an equalization process covering the whole country. Each transmission company first determines how much electricity it takes up under the Renewable Energy Law and how much electricity in total flows through its grid to end users. An equalization will then be effected among all transmission companies so that all transmission companies take on and subsidize proportionally equivalent amounts of renewable electricity under the statute. The transmission company will then pass these quantities of electricity and the corresponding costs on to the suppliers delivering electricity to end users in its region in proportion to their respective sales.

The Renewable Energy Law has abolished regional differences in electricity costs for consumers and the competitive disadvantages for E.ON Energie. However, E.ON Energie believes that the tariffs for renewable energies are still much too high. E.ON Energie has not decided whether it will seek repeal or amendment of the Renewable Energy Law.

In 1999, as a result of the new regulatory environment, new methods of competition manifested themselves in the German electricity market, with a growing number of utilities marketing electricity to regional and local distribution companies as well as to industrial customers outside their traditional supply areas. This development was also supported by the increasing demand of many multi-site customers for all of their sites throughout Germany to be supplied by a single electricity company. Moreover, private households started to benefit from considerable price reductions and competition among suppliers in the second half of 1999. Both German and foreign companies established aggressive electricity sales and trading operations in Germany. These new forms of competition drove down prices significantly in 1999 and the first half of 2000, with price declines beginning to slow later in the year. See "Item 5. Operating and Financial Review and Prospects." E.ON Energie expects that downward pressure on prices (net of tax) will continue in 2001, although prices are expected to stabilize in the medium term. E.ON Energie further expects that prices will develop quite differently in each of the customer segments. E.ON Energie believes that in the private households segment, further significant price reductions may occur. However, in the large industrial customers and regional distributors segments E.ON Energie does not expect further material price reductions to occur.

Despite rapid price decreases and other changes, E.ON Energie believes that the following measures will enable it to maintain a favorable competitive position: (1) cost management measures, (2) the introduction of new sales and marketing concepts, (3) aggressive marketing outside its traditional area of supply, (4) the establishment of its new electricity trading floor in Munich, (5) the electricity exchange with Scandinavia and (6) the positive effects of the merger of PreussenElektra and Bayernwerk in order to reach a critical mass and achieve cost synergies. In addition, E.ON Energie believes that the liberalization of the gas and electricity markets may open new business opportunities. E.ON Energie also believes that the new transmission agreement (*Verbändevereinbarung II*) and the establishment of German electricity exchanges in Frankfurt and Leipzig will further increase price transparency and offer new business opportunities. However, E.ON Energie may be unable to compete as effectively as other electricity companies. This could be due to higher electricity production or procurement costs, failure to manage other costs, failure to integrate PreussenElektra and Bayernwerk effectively or achieve the anticipated merger synergies, failure to adopt an effective marketing program, unprofitable, inefficient or loss-making results from trading operations or other factors. Any of these factors could materially and adversely affect E.ON's financial condition and results of operations. See also "Item 3. Key Information — Risk Factors."

Due to the substantial price reductions, which were initiated especially in the second half of 1999, German electricity prices for industrial customers are no longer among the highest in Europe (calculated on the basis of year-end 2000 exchange rates). However, high environmental and nuclear safety standards as well as high investments in new lignite power plants, taxes on electricity, the requirements of the Co-Generation Protection Law and the Electricity Feed-In Law's requirement that regional utilities purchase renewable electricity impose a considerable burden on German electricity prices. E.ON Energie still believes that it will be able to compete effectively in the EU. Further, certain European countries have limited transmission capacity for electricity exchange and others have not fully opened their markets to competition and are therefore subject to the negative reciprocity clause.

Environmental Matters

Air Pollution. All of E.ON Energie's plants are subject to both EU and German regulations, and are equipped with pollution removal devices. The most important pollution law applicable to E.ON Energie is the German Federal Pollution Control Act (*Bundesimmissionsschutzgesetz,* or "BImSchG") and its implementing ordinances. One of such ordinances, the Ordinance on Large Combustion Plants (*Großfeuerungsanlagen-Verordnung*), sets stringent emission limits for power stations for all known air pollutants, such as sulfur dioxide, nitrogen oxides and dust. The emissions of E.ON Energie's power plants are continuously measured and reported. Because of the extensive installation of scrubbers, catalysts and other pollution control devices, E.ON Energie's power plants comply with both EU and German requirements.

Nuclear Energy. German safety standards for nuclear power stations are among the most stringent in the world. German nuclear power regulations are found in the AtG and a number of national regulations, guidelines and technical rules. The German regulatory framework regarding nuclear power regulations is also governed by international agreements, including the Euratom Agreement, dated March 23, 1957 (*Euratomvertrag*), the Paris Liability Agreement, dated July 29, 1960 (*Pariser Haftungsübereinkommen*), and the Non-Proliferation Treaty, dated July 1, 1968 (*Nichtverbreitungsvertrag*).

Under the AtG, the import, export, transportation or storage of nuclear materials (*Kernbrennstoff*) requires the approval and supervision of regulatory authorities. The building, operating, owning or materially altering by any entity of any plants or installations that produce, fission or otherwise process or reprocess nuclear materials ("Nuclear Plants") also requires approvals of, and is supervised by, regulatory authorities. Approvals can be subject to limitations or conditions, including subsequent conditions, and may also be subsequently revoked if they are not complied with or one of their preconditions has ceased to exist. The regulatory authorities may also give orders to obtain information from, enter and inspect any Nuclear Plants.

According to the AtG, radioactive wastes and dismantled radioactive parts must either be recycled or permanently disposed of by any entity handling or otherwise using nuclear power. The AtG follows the so-called "polluter pays" principle, which requires such entity to pay for the recycling or permanent disposal of nuclear waste.

In 1998, there was public debate about contamination in connection with radioactive waste transport facilities. In May 1998, the German Ministry for Environment, Nature Conservation and Nuclear Safety ordered all nuclear transports to cease until the reasons for such contamination were clarified and countermeasures were taken. Transport container loading procedures have been identified as the cause of contamination and improvements in such procedures have been implemented. The Federal Ministry of the Environment, Nature Conservation and Nuclear Safety in the meantime has issued a new permit for the transport of spent nuclear fuel elements. The French government, however, will not give permission for transports to the reprocessing plant in La Hague, France before Germany has taken back radioactive waste from La Hague. Transports from La Hague to the interim storage plant in Gorleben, Germany will be possible from the end of

March 2001. E.ON Energie expects to resume transports from its nuclear power plants once transports from La Hague to Gorleben have taken place.

Environmental Liability. In case of environmental damages, the owner of the facility is subject to liability provisions that guarantee comprehensive compensation to all injured parties. Because of achievements in pollution control, the issue of environmental damage due to air pollutants from electric utilities has not recently been a subject of public debate in Germany. In general, subjects such as acid rain as well as high concentrations of ground level ozone have been linked to accumulated deposits from many emission sources or, in the case of the ozone, predominantly from traffic emissions. There has been some relaxation in the evidence required under the German Environmental Liability Law (*Umwelthaftungsgesetz*) to establish and quantify environmental claims. If claims were to arise in relation to environmental damages and plaintiffs were successful in overcoming problems of proof and other issues, such claims could result in costs to E.ON Energie that might be material. So far as E.ON Energie is aware, no material environmental claims have been made against it and, under current circumstances, E.ON Energie does not believe that there is a significant risk of material liability in respect of any potential claims.

In case of a nuclear accident, the owner of the reactor, the factory or the nuclear materials storage facility (the "Proprietor") is subject to liability provisions that guarantee comprehensive compensation to all injured parties. Under German nuclear power regulations, the Proprietor is strictly liable, and the geographical scope of its liability is not limited to Germany or the contractual territory of the Paris Liability Agreement. Because the Proprietor is subject to unlimited liability, the AtG and the Regulation regarding the Provision for Coverage pursuant to the AtG (*Atomrechtliche Deckungsvorsorge-Verordnung,* or "AtDeckV") require every Proprietor to provide liability coverage for up to €256 million by either self-insurance, third-party warranty obligations or third-party indemnifications against liability. The amount of coverage required is reevaluated every five years. E.ON Energie has third-party liability insurance covering the first €256 million of damages. The Proprietor is responsible for all damages that exceed €256 million. An amendment of the AtG is currently under discussion. The proposed amendment provides for an increase in required coverage from €256 million to €2.6 billion. The amendment, if enacted, would result in additional costs for liability coverage.

OIL

Overview

VEBA Oel manages the Group's interests in the oil and gas exploration and production, oil processing and marketing and petrochemicals businesses. This includes the exploration for and production of hydrocarbons, refining of crude oil, production of petrochemicals and the marketing of petroleum products and petrochemicals. VEBA Oel is Germany's largest integrated oil company in terms of the volume of products sold in the German market (including petrochemical products supplied to Degussa). VEBA Oel's wholly owned subsidiary, VOG, explores for and develops oil and gas resources around the world.

Refining is conducted by Veba Oel Refining & Petrochemicals ("VORP"), which operates

- Ruhr Oel, Germany's largest petroleum refiner (in terms of capacity), in which VEBA Oel owns a 50 percent interest, and
- Erdölraffinerie Emsland ("ERE") in Lingen, Germany, which is wholly owned by VEBA Oel.

In late 1999 and early 2000, VEBA Oel purchased from Wintershall AG ("Wintershall") and Mobil Oil AG their shareholdings in Aral, the leading (based on annual sales) gasoline and automotive diesel service station network in Germany. These purchases increased VEBA Oel's shareholding in Aral from 56 percent to 98.9 percent. VEBA Oel completed this and a further, smaller purchase at the end of 2000 and now holds a 100 percent interest in Aral. For more information, see "Item 5. Operating and Financial Review and Prospects — Overview." In 2000, VEBA Oel had revenues of €28.8 billion, which included €8.6 billion of petroleum tax to be passed on to governmental authorities, and internal operating profit of €310 million.

The €8.6 billion of petroleum tax reflected in the 2000 sales of VEBA Oel was payable mainly in Germany. In Germany, petroleum taxes are assessed on sales of petroleum products at varying rates depending on the product. In general, tax rates are much higher on gasoline and automotive (including truck) diesel fuel than on other petroleum products. These higher taxes provide tax revenue for the federal government and also are intended to encourage environmental protection. In the case of regular grade gasoline, the petroleum tax was almost 65 percent of the retail price and, in the case of automotive diesel fuel, the tax was almost 55 percent of the retail price, each as of December 31, 2000. As of January 1, 2000, the German government increased the petroleum tax on gasoline by six Pfennig per liter, the so-called ecology tax (*Ökosteuer*). As of January 1, 2001, the German government increased the petroleum tax on gasoline by an additional six Pfennig per liter. Similar increases are scheduled for the years 2002 and 2003. For more information, see "— Operating Environment." About half of VEBA Oel's sales of gasoline and automotive diesel fuel to Aral included petroleum tax in the purchase price, and VEBA Oel remitted such tax to the German tax authorities. The other half of VEBA Oel's sales to Aral did not include petroleum tax in the purchase price, and Aral remitted the tax to German tax authorities. In all cases, Aral included the cost of the petroleum tax in the price to its customers.

VEBA Oel's interest in Ruhr Oel is accounted for by the equity method. Ruhr Oel, which VEBA Oel manages but does not control, is a 50 percent joint venture with PdVSA, the Venezuelan state-owned oil company.

VEBA Oel's principal businesses and ownership interests are summarized in the following chart.

VEBA Oel

Exploration & Production of crude oil and natural gas		Refining, Trading and Petrochemicals		Marketing of oil products	
Veba Oil & Gas GmbH	100%	Veba Oel Refining & Petrochemicals GmbH	100%	Aral AG & Co. KG	100%
Veba Oil & Gas U.K. Ltd.	100%	Ruhr Oel GmbH (1)	50%	Aral Wärmeservice GmbH	100%
Veba Oil & Gas Libya GmbH	100%	Veba Oel Verarbeitungs GmbH	100%		
Veba Oil Nederland B.V.	100%	Aviation Fuel Company GmbH (2)	50%		
Veba Oil & Gas Syria	100%	Erdölraffinerie Emsland	100%		
Veba Oel Venezuela Exploration GmbH	100%	Veba Oel Supply & Trading GmbH	100%		
Veba Oel Venezuela Orinoco GmbH	100%				

(1) Accounted for on an equity basis. Other shareholders: PdVSA 50 percent. Ruhr Oel owns the productive assets. Personnel are employed by VEBA Oel Verarbeitungs GmbH, a 100 percent subsidiary of VEBA Oel. Feedstocks and inventory are owned by VEBA Oel and PdVSA, respectively.

(2) Accounted for on an equity basis.

Strategy

VEBA Oel's strategy is to take advantage of full ownership of Aral to position itself in the competitive oil area. The recent mega-mergers in the petroleum industry have demonstrated that size is of importance in the oil business. Accordingly, E.ON's primary goal with respect to its oil entities is to be able to take advantage of opportunities to create strategic alliances, joint ventures or outright business combinations if and when such opportunities arise. In order to achieve this goal, E.ON is concentrating its oil industry activities on the "downstream," or supply, refining and marketing, part of the market, branding itself increasingly through Aral as a purveyor of mobility (through its service stations) and heating oil. E.ON also intends to further expand Aral's operations in eastern Europe, particularly in the attractive Polish market.

The "upstream," or E&P, business will focus on increasing investment in the geographic areas of the Middle East/Caspian Sea, the North Sea, Northern Africa and Latin America, both by investing in new projects in these areas and by expanding projects where VEBA Oel serves as the operator. The objective is to maintain profitability even at low price levels. Cost reduction also remains a central component of VEBA Oel's strategy, in the upstream business as well as in the downstream business.

Exploration and Production (Upstream Business)

VEBA Oel engages in the exploration for, and the production of, petroleum and natural gas. VEBA Oel is active in many major oil regions throughout the world, but focuses primarily on four key geographic areas: the Middle East/Caspian Sea, the North Sea, Northern Africa and Latin America. In the North Sea, VEBA Oel is active in the United Kingdom, the Netherlands, Denmark and Faroe Islands as well as in Norway through a joint venture with RWE-DEA AG ("RWE-DEA"). In Northern Africa and the Middle East/Caspian Sea, VEBA Oel is active in Libya, Egypt (together with RWE-DEA), Syria and Iran. In these key areas, VEBA Oel participates in both exploration and production activities. Further activities include exploration in Kazakhstan. VEBA Oel sold its Indonesian assets as of January 1, 2000.

The exploration and production business is divided into three stages: exploration, development and production. In many countries, the government uses a production sharing regime where a state company owns the licenses and private companies agree to perform the exploration and production work in exchange for a share of the profits. Since the company needs to invest heavily to undertake these activities and does not earn profits if the project is not successful, VEBA Oel and all but the largest oil companies generally use joint venture structures to share the financial risks involved, with one company serving as the operator of the project. The operator takes responsibility for project leadership and decisions, including decisions on costs. VEBA Oel operates a number of projects in the exploration stage and, since 1999, has been operating two development projects in the North Sea. Prior to 1999, VEBA Oel did not operate any of its development projects. VEBA Oel does not currently operate any production projects, but may do so in the future. In projects where VEBA Oel holds an interest but is not the operator, it assumes a range of roles varying from the supply of funds to involvement in operational decisions pursuant to agreements with operators.

In 1969, upon the initiative of the German government, a consortium of eight German oil companies founded the joint venture Deminex Deutsche Erdölversorgungsgesellschaft mbH ("Deminex") to secure the supply of oil to the German refineries. In 1998, VEBA Oel and its then-remaining partners in Deminex, Wintershall and RWE-DEA, agreed to discontinue the Deminex joint venture and divide the constituent parts among the shareholders. For VEBA Oel, this resulted in the successful integration of its own E&P activities in Libya, Venezuela, the Netherlands, Kazakhstan and Denmark with those allocated to it from Deminex in the United Kingdom, Syria, Canada, Colombia and Trinidad, as well as a 21.3 percent interest in the Deminex operations in Norway and a 49 percent interest in the Deminex operations in Egypt. RWE-DEA has also transferred its interests in assets in the Netherlands (comprising participations in five offshore blocks, one of which is currently under development) to VEBA Oel.

Exploration. VEBA Oel's exploration activities are located in the Netherlands, Denmark, the United Kingdom, Norway, Kazakhstan, Venezuela, Libya, Egypt, Syria, Iran and Faroe Islands. VEBA Oel is the operator under some of the exploration licenses (in the United Kingdom and the Netherlands). In 2000, VEBA Oel incurred worldwide net capital expenditures for exploration and production of €367 million. VEBA Oel participated in 12 exploration wells in 2000 and 26 in 1999; four of the 2000 wells produced hydrocarbons in commercial quantities. As of December 31, 2000, the net acreage under exploration and development for VEBA Oel was 8.6 million acres, compared with 9.5 million acres in the prior year.

Reserves. At year-end 2000, VEBA Oel's proved reserve position was 537 million barrels of crude oil and 387 billion cubic feet of natural gas. The replenishment rate (ratio of new reserves to production) for VEBA Oel was 76 percent in 2000, compared with 348 percent in 1999. At 2000 production levels, proved reserves would last for approximately 12 years, compared with eleven years for 1999.

See Note 36 of the Notes to Consolidated Financial Statements, which sets forth, among other things, estimated net quantities as of December 31, 2000, 1999 and 1998 of VEBA Oel's proved oil and gas reserves and proved developed oil and gas reserves, as well as changes in estimated proved reserves as a result of production and other factors. VEBA Oel's reserves for 1999 include the parts of Deminex that have been transferred to VEBA Oel. The reserve estimates are based on reserve reports of VEBA Oel prepared in accordance with guidelines of the Society of Petroleum Engineers.

Proved oil and gas reserves are the estimated volumes of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic, technical and operating conditions (prices and costs are as per the date of the estimate). Prices include consideration of changes in existing prices provided only by contractual arrangements, but not of escalations based upon future conditions. Proved reserves exclude royalties and interests owned by others.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment, technology and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing natural forces and mechanisms of primary recovery are included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

Production. VEBA Oel's producing assets are located in the United Kingdom, Libya, the Netherlands, Norway, Egypt, Venezuela and Syria. Presently, VEBA Oel acts as an operator in two of its development projects in the North Sea. Prior to 1999, VEBA Oel did not operate any development projects. VEBA Oel does not currently operate any production projects, but may do so in the future. In 2000, VEBA Oel produced a total of 51.9 million barrels of oil and 36.7 billion cubic feet of gas, compared with 52.4 million and 45.3 billion, respectively, in 1999.

Additional information concerning oil and gas producing activities is also included in Note 36 of the Notes to Consolidated Financial Statements.

Refining, Trading and Petrochemicals (Downstream Business)

Refining. Ruhr Oel, a 50 percent owned joint venture with PdVSA, was established in 1983 to process crude oil and feedstocks for its shareholders. Ruhr Oel is operated according to a shareholders' agreement with an initial term ending in 2002, after which the joint venture will continue indefinitely subject to termination upon two years' notice. Ruhr Oel charges its two shareholders prices that consist of its costs. Ruhr Oel, with a crude oil distillation capacity of 459 thousand barrels per day ("tb/d") at year-end 2000, owns one refinery complex (Gelsenkirchen, operated by VORP) and holds interests in three other refineries (PCK Schwedt, Bayernoil Vohburg and MIRO Karlsruhe) in Germany. Ruhr Oel is Germany's largest refiner of crude oil and feedstocks (with approximately 20 percent of the total domestic refining capacity in 2000). As part of the purchase of additional Aral shares in December 1999, VEBA Oel also acquired 100 percent of ERE, which has a capacity of approximately 85 tb/d. VEBA Oel operates this refinery through VORP, which also holds the shareholding in Ruhr Oel. In 2000, Ruhr Oel and ERE processed 520 tb/d of crude oil and operated crude oil distillation and conversion facilities (mainly fluid catalytic and hydro cracking units) at a capacity of 96 percent and 93 percent, respectively. The main reasons for unplanned capacity reductions as compared with 1999 were electricity supply failures and crude oil quality problems. The capacity utilization rate for ERE was 93 percent and 88 percent, respectively. ERE processed 79 tb/d of crude oil in 2000.

VEBA Oel and PdVSA each supply 50 percent of the crude oil and feedstocks processed by Ruhr Oel. VEBA Oel uses crude oil from its own production to supply part of VEBA Oel's share to Ruhr Oel. VEBA Oel typically purchases the remainder on the open market. VEBA Oel believes that the supply of oil and feedstocks on world markets is adequate, although prices are subject to volatility. See "— Business Environment." VEBA Oel markets the refined products and petrochemicals (including PdVSA's share) through its marketing network. PdVSA receives 50 percent of VEBA Oel's revenues from the sale of refined products and petrochemicals after operating and marketing costs.

The following table gives an overview of Ruhr Oel's share of the distillation and major conversion capacities in each of the refineries in which Ruhr Oel held an interest as of December 31, 2000. In addition, the table shows the refining capacity of ERE.

Attributable Refining Capacity

	Gelsenkirchen Refinery (100%) (1)	PCK Schwedt (37.5%) (1)	Bayernoil Vohburg (25%) (1)	MIRO Karlsruhe (24%) (1)	Total Ruhr Oel (1)	ERE (2)	Total Germany	Share of Ruhr Oel and ERE/Total Germany (%)
	(tb/d unless otherwise stated)							
Crude Oil Distillation	248	79	60	72	459	85	2,259	13.9
Vacuum Distillation	95	38	21	31	185	37	833	15.5
Catalytic Cracking	27	19	15	20	81	—	345	11.7
Catalytic Reforming	27	6	4	13	50	29	392	13.8
Hydrocracking	34	—	—	—	34	23	137	29.2
Visbreaker	18	11	3	6	38	—	171	11.1

(1) VEBA Oel share: 50 percent.

(2) VEBA Oel share: 100 percent.

All Ruhr Oel sites and ERE employ modern technology, and Ruhr Oel believes them to be in compliance with the applicable German environmental requirements.

The following table shows Ruhr Oel's product yields for the three years in the period ended December 31, 2000 and ERE's product yields for the year 2000.

	Ruhr Oel Product Yield			ERE Product Yield
	Year Ended December 31,			
	2000	1999	1998	2000
	(tb/d, except as otherwise indicated)			
Gasoline	122	121	118	35
Diesel Oil	119	106	101	21
Home Heating Oil	69	82	106	8
Jet Fuel	22	22	16	8
Heavy Fuel Oil/Residuals	13	14	13	0
Asphalt/Coke (1,000 tons per year ("t/yr"))	1,078	1,128	1,139	265
Petrochemicals (1,000 t/yr)	4,074	3,932	3,599	291
Other products (1,000 t/yr)	370	276	314	72

The refining industry in western Europe showed excellent profits in 2000. This was due to strong demand, refinery capacity reductions in the U.S. market and low stocks at the beginning of the year. Nevertheless, refining capacities exceed local demand in Europe. Experts estimate that several refineries in Europe must be decommissioned in order for the industry to maintain satisfactory margins. However, high exit barriers, principally large shut-down costs related to site remediation, mean that refinery closures are uncertain. In light of this situation, VEBA Oel has implemented internal cost control measures, including workforce reductions, to significantly reduce processing costs in its refineries. In addition, VEBA Oel is shifting its product mix from heating oil towards higher margin products such as gasoline, jet fuel and naphtha for the petrochemical unit. These measures contributed to the division's strong results in 2000.

Trading. VEBA Oil Supply and Trading conducts international trade in crude oil, including the crude production of VEBA Oel, and engages in the wholesale distribution of petroleum products. As part of its business activities, it supplies crude oil and other required feedstocks to the processing facilities of Ruhr Oel. VEBA Oel Supply and Trading traded approximately 10 million metric tons of crude oil and approximately 12 million metric tons of petroleum products during 2000. Most of the trading is third party business;

approximately 23 percent is conducted with VEBA Oel. For more detailed information on VEBA Oel's management of the risks related to its trading activities, see "Item 11. Qualitative and Quantitative Disclosures about Market Risk — Commodity Price Risk Management."

Petrochemicals. VEBA Oel's petrochemical business is comprised of the production and distribution of petrochemicals such as olefins and aromatics, which are the raw materials mainly used in the production of plastics. In 2000, VEBA Oel sold 4.8 million tons of petrochemicals (including PdVSA's share of Ruhr Oel's production), which were mainly produced in its petrochemical complexes in Gelsenkirchen and Münchsmünster. The large Gelsenkirchen petrochemical complex is integrated with the crude oil refineries at the same location. It has a production capacity of approximately 965,000 t/yr of ethylene, the main petrochemical product of Ruhr Oel. In addition, the Münchsmünster plant has a capacity of 300,000 t/yr, bringing Ruhr Oel's total annual ethylene production capacity to approximately 1.26 million t/yr. The capacity utilization rate was 93.2 percent in 2000 due to a short-term plant power failure.

VEBA Oel supplies many of its petrochemical products directly to Degussa, as well as to other major German chemical companies. VEBA Oel also supplies petrochemicals to companies located in the Netherlands and Belgium through pipeline connections to Rotterdam and Antwerp. VEBA Oel generally has long-term supply contracts for petrochemicals, with price adjustments according to the prices of raw materials. Petrochemical products consist principally of

- olefins, such as ethylene and propylene,
- aromatics, such as benzene and xylenes, and
- other petrochemicals, such as methanol, ammonia and calnitro.

The following table sets forth the sales volumes of core petrochemical products for VEBA Oel (including PdVSA's share) for the periods indicated.

Petrochemical Sales Volumes

	2000	1999	1998
	(1,000 metric tons)		
Olefins/Polyolefins			
Ethylene	1,330	1,272	1,164
Propylene	865	834	763
Others/Polyolefins	406	398	335
Subtotal Olefins/Polyolefins	2,601	2,504	2,262
Aromatics			
Benzene	321	296	250
Xylenes	198	201	173
Others	414	159	170
Subtotal Aromatics	933	656	593
Other Petrochemicals			
Methanol	467	412	390
Ammonia	244	223	227
Calnitro (fertilizer)	307	346	316
Others	263	186	200
Subtotal Other Petrochemicals	1,281	1,167	1,133
Total Petrochemical Sales	4,815	4,327	3,988

Pipelines. Ruhr Oel and VORP have equity participations in crude oil terminal and pipeline companies in Europe, which provide storage and transportation facilities for the crude oil supplies of the Ruhr Oel refineries. These pipelines connect (1) the Gelsenkirchen complex to the shipping port of Rotterdam in the Netherlands as well as Gelsenkirchen and Lingen to the port of Wilhelmshaven, Germany, (2) the Bayernoil Vohburg and MIRO Karlsruhe refineries to Lavera and Trieste, Italy on the Mediterranean Sea, and (3) the PCK Schwedt refinery to the Drushba Pipeline (from Russia) and to the shipping port of Rostock, Germany.

Marketing

VEBA Oel sells petroleum products primarily through the Aral chain of service stations, Aral Mineralölvertrieb and Aral Wärmeservice.

Aral, formed by 13 coal mining companies in 1898, is the leading (based on annual sales) gasoline and automotive diesel fuel retail network in Germany. In 2000, Aral had a market share in Germany of approximately 20 percent in the gasoline and diesel retail business, with sales in Germany of €10,137 million (net of €8,453 million of petroleum tax collections). At year-end 2000, Aral operated 2,562 service stations in Germany and 448 in six adjacent European countries, with total sales of €1,426 million (net of €381 million of petroleum tax collections). An increasing percentage of Aral's earnings is attributable to the operation of convenience stores by the operators of the gas stations. Aral's main competitors in Germany are Royal Dutch/ Shell, Esso/Exxon and RWE-DEA.

VEBA Oel's ownership of Aral provides it with an extensive marketing and distribution network for the sale of its gasoline and automotive diesel oil. Beginning in January 2000, Aral sales have been fully consolidated in the VEBA Oel accounts. Deliveries of petroleum products by VEBA Oel to Aral have historically been priced on a "net-back basis," that is, the amount received by VEBA Oel from Aral reflected the amount of sales to customers of Aral net of costs incurred by Aral in connection with such sales. Due to a decision of the German tax authorities during 2000, VEBA Oel has switched to the use of market pricing for Aral as of the beginning of 2001.

Aral Wärmeservice is VEBA Oel's heating oil marketing subsidiary. Aral Mineralölvertrieb sells a comprehensive range of petroleum products throughout Germany. Aviation Fuel Company, a joint venture with Lufthansa, refuels airplanes at all major German airports.

Business Environment

In 2000, crude oil prices continued the increases begun in 1999 and hit an annual high of $37.8/bbl in September. The average crude oil price in 2000 was $28.4/bbl compared with $17.9/bbl in 1999. The higher crude price in 2000 was primarily due to reduced OPEC production which critically lowered worldwide crude oil inventory levels. Veba Oel's budget was based on a conservative price of $16/bbl for the year 2000. Refining margins in Europe rose drastically to a 10-year high as product supplies did not match increasing demand. This increase in demand was primarily due to the economic upswing in Europe as well as an increase in U.S. demand. Demand for oil tends to be seasonal, rising in the winter months and typically resulting in additional oil sales by VEBA Oel in the first and fourth quarters.

In 2000, ethylene and propylene prices were above 1999 prices; prices were $564/ton and $490/ton, respectively, in 2000, compared with $409/ton and $313/ton, respectively, in 1999. Petrochemical margins were above the 1999 level even though naphtha prices rose.

In March 2000, one of Aral's competitors initiated a price war for petroleum products purchased at service stations throughout Germany. This price war had a negative effect on Aral's margins during 2000, although prices recovered somewhat in the second half of 2000. Aral's margins in 2000 were also negatively affected by reduced demand due to high prices and increased petroleum and environmental taxes on the cost of fuel, as well as the weakness of the euro against the dollar. For more information, see "— Operating Environment."

Oil and gas exploration and production require high levels of investment and entail particular economic risks and opportunities. These activities are highly regulated and are subject to intervention by governments throughout the world in matters such as the award of exploration and production licenses, the imposition of specific drilling and other work obligations, environmental protection measures, control over the development and abandonment of fields and installations, and restrictions on production. Crude oil prices are subject to international supply and demand and other factors that are beyond each oil company's control, and are subject to volatility. Political developments can affect world supply, demand and prices of oil as well. Such factors can also affect the price of natural gas sold under long-term contracts because the natural gas price in Germany is typically tied to prices of refined products. Crude oil prices are generally set in U.S. dollars, while costs may be incurred in a variety of currencies. Fluctuations in exchange rates therefore can give rise to foreign exchange exposures.

As with most international oil companies, substantial portions of the oil reserves of VOG are located in countries outside the EU and North America, some of which can be considered politically and economically less stable than EU or North American countries. These reserves and the related operations may be subject to political risks, including increases in taxes and royalties, the establishment of production and export limits, the renegotiation of contracts, the nationalization of assets, changes in local government regimes and policies, as well as changes in business customs and practices, payment delays, currency exchange restrictions and losses and impairment of operations by actions of insurgent groups.

Numerous uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgement. Results of drilling, testing and production after the date of the estimate may require substantial upward or downward revisions. In addition, changes in oil and natural gas prices could have an effect on the economically recoverable reserves. Accordingly, the reserve estimates herein could be materially different from the quantities of oil and natural gas that ultimately will be recovered.

Although the total capital committed by VEBA Oel in Libya is only 12.4 percent of its total book value of upstream assets, VEBA Oel's joint venture in Libya accounts for approximately 28 percent of its current upstream oil and gas production. VEBA Oel also participates in an exploration study in Iranian territorial waters in the Caspian Sea together with the oil companies Shell and Lasmo. In August 1996, the United States adopted the Iran and Libya Sanctions Act (the "Sanctions Act"). The Sanctions Act requires the President of the United States to impose two or more of certain enumerated sanctions under certain circumstances on companies which engage in trade or investment activities in Libya or Iran, although to date sanctions under this Act have not been imposed. The Sanctions Act will automatically end in August 2001. The Company cannot predict whether similar legislation will be implemented following such termination.

Although demand for petrochemical products is growing on a worldwide basis, even in mature markets such as the United States and the EU, the petrochemical industry is cyclical in nature with a consequent effect on prices and profitability. In addition, the petrochemical industry, like the refining business, is highly competitive.

Environmental Matters

VEBA Oel, with other participants in the oil industry, is subject to a variety of laws and regulations governing the protection of the environment, including those that:

- require permits for drilling of hydrocarbons,
- restrict the types, quantities and concentration of various substances that can be released into the environment in connection with exploration, drilling and production activities,
- limit or prohibit drilling activities on certain lands lying within environmentally protected areas, and
- impose criminal or civil liabilities for pollution resulting from oil, natural gas, refining and petrochemicals operations.

These laws and regulations may also restrict air emissions and discharges to surface and subsurface water resulting from the operation of refineries, petrochemical plants, pipeline systems and other facilities. In addition, VEBA Oel's operations are subject to laws and regulations relating to the generation, handling, storage, transportation, disposal and treatment of waste materials. VEBA Oel believes that its operations are currently in material compliance with the laws and regulations with respect to environmental matters applicable in the jurisdictions of their respective locations.

In Germany, the primary environmental laws affecting VEBA Oel's operations are described here. The Water Resources Management Act (*Wasserhaushaltsgesetz*) provides principles for managing inland water resources and, in particular, securing the quality of drinking water. It requires that best available technology be used for purification of waste water. VEBA Oel believes that it meets all the specified standards such as concentration limits set by this Act for residual water. The Federal Pollution Control Act (*Bundesimmissionsschutzgesetz*) and its implementing ordinances regulate emissions for pollutants from processing units and industrial plants. The Ordinance on Large Combustion Plants (*Großfeuerungsanlagen-Verordnung*) sets emission limits for each type of plant for all major air pollutants, such as sulfur dioxide, nitrogen oxides and dust. The Major Incident Regulation (*Störfall-Verordnung*) classifies the accident potential of installations and sets corresponding standards for safety management. VEBA Oel believes that all of its plants comply with these regulations. The Recycling Act (*Kreislaufwirtschaftsgesetz*) regulates waste management. It aims at waste avoidance and reuse of waste. The Chemicals Act (*Chemikaliengesetz*) sets provisions for the protection of humans and the environment from the harmful effects of dangerous chemical substances. Various ordinances classify dangerous substances and handling procedures. VEBA Oel believes that it has set up environmentally sound production cycles in compliance with these regulations. VEBA Oel has implemented an integrated management system in order to continuously improve its performance in the areas of environmental protection, health, safety and quality.

Although environmental laws and regulations have an increasing impact on the oil industry and therefore also on VEBA Oel's activities in almost all the countries in which it operates, it is impossible to predict accurately the effect of future developments in such laws and regulations on VEBA Oel's future earnings and operations. Some risk of environmental costs and liabilities is inherent in particular operations and products of VEBA Oel, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred. In 1998, a new EU directive concerning future car emissions and fuel quality standards in Europe was enacted. The directive is the outcome of the Auto Oil Programme, a joint project among the European Commission, the European auto industry and the European petroleum industry. The directive limits the sulphur content of gasoline to 150 parts per million ("ppm") and of diesel to 350 ppm with effect from January 1, 2000. From January 1, 2005, a maximum of 50 ppm for all fuel types is prescribed. VEBA Oel was able to comply with the January 2000 limits without substantial investment. In addition, VEBA Oel will need to make limited investments in refining technology in order to comply with the 2005 limits. Due to German tax legislation, VEBA Oel plans to supply 50 ppm fuel by November 2001 and only 10 ppm gasoline and diesel by the beginning of 2003. See "— Operating Environment." VEBA Oel has already begun to produce the 10 ppm gasoline in early 2001.

In 2000, VEBA Oel (including amounts attributable to its share in Ruhr Oel) had domestic investments of €36 million, or approximately 2.0 percent of its total investments, in facilities and processes relating to environmental control, and had domestic environmental expenditures of €150 million.

VEBA Oel has established and continues to establish accruals for environmental liabilities where it is probable that a liability will be incurred and the amount of the liability can be reasonably estimated. VEBA Oel adjusts accruals as new remediation commitments are made and as information becomes available which changes estimates previously made. Based on information currently available to it, VEBA Oel believes that, taking into account its environmental accruals, its environmental liabilities will not have a material adverse effect on its financial position or results of operations.

CHEMICALS

The Degussa Merger

Following the merger of VEBA and VIAG, E.ON held a 64.74 percent share of Degussa-Hüls and a 63.97 percent share of SKW Trostberg, the chemicals company of the former VIAG. E.ON decided to merge each of Degussa-Hüls and SKW Trostberg into a new, more focused company called Degussa. This merger was approved by the shareholders of each of Degussa-Hüls and SKW Trostberg in extraordinary shareholders' meetings held on October 20, 2000 and October 24, 2000, respectively. Following the approval of the merger by the European antitrust authorities, Degussa AG was entered in the Commercial Register maintained by the local court in Düsseldorf, Germany on February 9, 2001, under the entry number HRB 39635. On the basis of the business valuation, Degussa AG issued one Degussa AG share for one Degussa-Hüls AG share and five Degussa AG shares for 22 SKW Trostberg AG shares. This corresponds to a ratio of 4.4 SKW Trostberg shares for each Degussa-Hüls share. Pursuant to this exchange ratio, the former Degussa-Hüls shareholders therefore held 75.94 percent of the new company immediately after the merger, while the former SKW Trostberg shareholders held 24.06 percent. E.ON holds 64.55 percent of the share capital of Degussa AG. The remaining 35.45 percent of the shares are widely held. The shares of Degussa AG are listed on the Frankfurt Stock Exchange and are part of the DAX 30, the performance index of 30 German blue chip companies.

The merger of Degussa-Hüls and SKW Trostberg into the new Degussa creates the world's leading specialty chemicals group (on the basis of sales), with combined sales of €18.2 billion in 2000. The larger size of the combined business activities offers Degussa the ability to further concentrate on its core specialty chemicals activities and to divest, in a value-enhancing manner, those businesses that do not meet the criteria of the specialty chemicals business. These non-core businesses comprise about 40 percent of the combined 2000 sales of Degussa-Hüls and SKW Trostberg (excluding precious metals trading).

The specialty chemicals core businesses of the new Degussa, which comprise approximately 60 percent of the combined 2000 sales of Degussa-Hüls and SKW Trostberg (excluding precious metals trading), are characterized by higher profit margins and growth rates than the non-core activities, a large number of leading market positions and reduced cyclical exposure. The new Degussa has divided its specialty chemicals businesses into six business divisions:

Health and Nutrition. This division concentrates on the development and marketing of high quality health food components and additives for both human and animal nutrition.

Construction Chemicals. This division offers innovative products and technologies for the construction of new buildings and the repair and modernization of existing buildings. Its core competencies include concrete admixtures, tunnel and underground construction, cement-bound products, waterproofing and coating systems, and paints and lacquers.

Fine and Industrial Chemicals. This division supplies high quality chemicals for use as starting materials and intermediates in the pharmaceutical and agricultural chemicals industries and other fast-growing areas, such as water treatment. The division offers a wide range of high quality chemical materials and ingredients for pharmaceuticals and agrochemicals, fragrances, pulp and paper, water treatment, mining, plastics, fuels, paints and lacquers.

Performance Chemicals. This division concentrates on applied chemistry and superabsorbing polymers. The principal applications are additives for polyurethane foaming agents, paints and inks, as well as special raw materials for body care, laundry softeners and diapers.

Coatings and Advanced Fillers. This division offers fine-particled, surface-active materials and systems used in various applications, such as tires and anti-caking agents, as well as resins, cross-linking agents and colorants for the paints/coatings and rubber industries. These materials are generally used to increase the value of the products in which they are used, which include tires, silicone rubber and low emission and age-resistant coatings systems.

Specialty Polymers. This division manufactures high quality plastics materials with a methyl-methacrylate base and C_{12}-polyamides. Its products are characterized by particular temperature, weathering and chemical resistances, and have good transparency and form stability properties. The most important markets for these products are the medical sector, the electrical and electronics industries, and the aircraft, automobile and construction industries.

As part of the desired concentration on specialty chemicals activities, Degussa plans to sell all activities outside these six core divisions. The combined 2000 sales volume of the businesses earmarked for divestment amounts to over €6 billion (excluding precious metals trading). In addition to the proposed divestments of ASTA Medica and dmc[2] (which were both announced prior to and independently of the merger), the businesses of Degussa-Hüls which Degussa plans to divest are Degussa Dental, the Phenolchemie business and the Degussa Bank. In addition to the previously announced intention to sell SKW Piesteritz, the businesses of SKW Trostberg that Degussa plans to divest are the Metallurgical Chemicals, Gelatins and Salt Products businesses. Degussa plans to complete the divestment of these activities during the next two years, depending on market conditions and other factors. Prior to disposal, Degussa will actively manage its non-core activities for profitability.

E.ON estimates that synergy effects deriving from the merger will amount to approximately €50 million each year. Approximately €22 million of this amount is expected to be derived from the restructuring of production, facilities and headcount in areas where the two companies have overlapping businesses, particularly in the business units Fine Chemicals and Care Specialties (see chart below). The remaining approximately €28 million is expected to come from cost savings, primarily from the consolidation of the two companies' headquarters in Düsseldorf, the reduction of overhead expenses and the combination of certain regional headquarters. The yearly savings are expected to be realized in full by the end of 2002. The non-recurring costs associated with the realization of these synergies are expected to amount to approximately €30 million.

In addition to the realization of synergy effects, the new Degussa expects to realize a further sustainable profitability improvement of approximately €250 million per year through a restructuring and improvement of business processes in all of its core activities as well as a restructuring of the necessary services to be provided to its business units. In July 2000, Degussa-Hüls and SKW Trostberg began the best@chem project, a comprehensive and ongoing program to qualitatively and quantitatively analyze the businesses' restructuring potential. Degussa expects the resulting restructuring measures to be instituted over the next three years.

Degussa's restructuring plans are expected to eventually result in a headcount reduction of approximately 3,000 people. The non-recurring costs associated with the restructuring cannot be currently reliably determined, although preliminary estimates suggest non-recurring costs of approximately €300 million which will be incurred over the next several years. E.ON cannot be certain that the cost savings it anticipates realizing as a result of the merger or due to its restructuring program can be achieved. A number of factors could prevent the realization of some or all of these savings, or add to the expenses relating to the merger or the restructuring program. These include, among other things, the combined company's inability to integrate and restructure its businesses effectively and as planned, higher costs related to achieving the anticipated synergies and requirements for restructuring and reorganization measures materially in excess of those already planned.

In order to receive EU approval of the VEBA-VIAG merger, the companies agreed to divest VIAG's cyanuric chloride and sodium dicyanamide (NDC) business. To date, this business has not yet been divested. If E.ON cannot find a buyer during the stipulated period, it will transfer these shareholdings to a trustee with a mandate to execute the divestiture in a commercially reasonable manner. For more information, see "— History and Development of the Company — VEBA-VIAG Merger."

Structure and Management

The strategic management responsibilities of the new Degussa are entrusted to the company's board of management, supported by staff at the new Düsseldorf headquarters. This group management team defines and coordinates group strategy and provides strategic guidance for the group businesses. It also manages the group portfolio, allocates financial resources and handles group communications and investor relations.

Responsibility for management at the operational level rests with Degussa's 21 decentralized and customer-oriented business units, each of which is grouped into one of Degussa's six core divisions according to products produced. The business units and divisions, as well as group management and non-core activities, are supported by service units that provide services such as personnel management, wage and salary administration, accounting, procurement and logistics, maintenance, environmental services and information technology. Degussa plans to have these internal service units compete with third party service providers in order to ensure that group services are provided on competitive market terms. Conversely, these service units may also provide services to third parties. The following chart sets forth the 21 business units that comprise Degussa's six core divisions:

DEGUSSA

Health and Nutrition	Construction Chemicals	Fine and Industrial Chemicals	Performance Chemicals	Coatings and Advanced Fillers	Specialty Polymers
Flavors and Fruit Systems**	Germany**	Fine Chemicals***	Superabsorbents*	Coatings and Colorants*	High Performance Polymers*
BioActives**	Europe**	Bleachings and Water Chemicals*	Care Specialties***	Silica, Silanes and Catalysts*	Specialty Acrylics*
Feed Additives*	Americas**	C_4 Chemistry*	Oligomers & Silicones**	Advanced Fillers and Pigments*	Methacrylates*
Texturant Systems**	Asia/Pacific**				Plexiglas*

* contributed by the former Degussa-Hüls

** contributed by the former SKW Trostberg

*** parts of these business units contributed by each of the former Degussa-Hüls and the former SKW Trostberg

All other activities are grouped as non-core businesses or services units and are not shown in the table above.

Degussa-Hüls contributed all of the business operations of the Coatings and Advanced Fillers and Specialty Polymers divisions. Degussa-Hüls also contributed all of the business operations in the business units Bleachings and Water Chemicals, C_4 Chemistry, Feed Additives and Superabsorbents. SKW Trostberg contributed the Health and Nutrition division, with the exception of the Feed Additives business unit, the Construction Chemicals division and all of the business operations in the Oligomers & Silicones business unit. Activities from both companies have been combined in the business units Fine Chemicals and Care Specialties.

Degussa has already established the new group structure and its new headquarters in Düsseldorf. In addition, Degussa has already started the integration process and has established a number of task forces to ensure the successful integration of the Degussa-Hüls and SKW Trostberg operations.

Strategy

E.ON's strategic goal in the chemicals area, following the merger of Degussa-Hüls and SKW Trostberg, is to create the world's leading specialty chemicals company. It intends to be a world market leader in specialty chemicals and to play a leading role in the reorientation of the worldwide specialty chemicals market. Its strategy includes the active management of its portfolio of chemicals businesses to focus on those fine and specialty chemicals businesses that can deliver strong profitability and growth combined with reduced cyclicality. Degussa intends to dispose of its non-core businesses, as described above, over the next two years. In addition, Degussa intends to restructure and improve the profitability of its operations, thereby realizing cost savings on an ongoing basis.

Portfolio Management Through Focusing and Expansion. Degussa intends to focus on selected fine and specialty chemicals activities and to expand them by seeking attractive businesses to acquire. In chosen areas, which include, among others, Fine Chemicals, Flavors and Fruit Systems and High Performance Polymers, it intends to search actively for complementary businesses. Other parts of the current activities of Degussa will be actively managed for profitability.

Business Restructuring and Cost-Cutting. As a complementary strategy, Degussa intends to continue its program of identifying and analyzing the restructuring potential of its businesses, with the goal of improving business processes in all of its core activities as well as restructuring the necessary services that are provided to its business units and divisions. Integration of the overlapping Degussa-Hüls and SKW Trostberg businesses, further fundamental cost cutting and realization of merger synergies will each play an important role in this effort.

Other Developments

On January 12, 2001, Degussa-Hüls and SKW Trostberg made a public offer for the remaining shares of the U.K. fine chemicals manufacturer Laporte plc, in which Degussa-Hüls and SKW Trostberg had acquired a stake of 19.6 percent in December 2000. Degussa-Hüls and SKW Trostberg offered £6.97 per Laporte share. This amounts to a total purchase price (excluding Laporte's liquid funds) of approximately €1.76 billion. As of February 26, 2001, the shareholders had tendered about 92.5 percent of Laporte's remaining capital stock to the new Degussa. On March 12, 2001, the European antitrust authorities approved the transaction, which is expected to be completed shortly.

Degussa-Hüls Before the Merger

Degussa-Hüls came into legal existence on February 1, 1999, through the merger of Degussa AG (the "old Degussa") into Hüls AG ("Hüls"). For more information on this merger, see "Item 5. Operating and Financial Review and Prospects — Overview" and Note 4 of the Notes to Consolidated Financial Statements. Following the VEBA-VIAG merger, E.ON held a 62.4 percent interest in Degussa-Hüls, which was subsequently increased to 64.74 percent. The remaining shares were widely held. Degussa-Hüls revenues in 2000 were €12,729 million (excluding precious metals trading).

Degussa-Hüls combined the former businesses of the old Degussa and Hüls into four reporting segments comprised of 13 independently managed strategic business units. In addition, three companies provided services to the strategic business units as well as to third parties. The following chart sets forth the 13 strategic business units that comprised Degussa-Hüls' four segments, as well as the three service companies:

DEGUSSA-HÜLS

Health and Nutrition	Specialty Products	Polymers and Intermediates	Performance Materials	Service Companies
ASTA Medica	Creanova	Röhm	Sivento	Creavis Gesellschaft für Technologie and Innovation mbH ("Creavis")
Degussa Dental	Industrial Chemicals	Oxeno	Advanced Fillers and Pigments	Infracor GmbH ("Infracor")
Feed Additives	Fine Chemicals	Phenolchemie	dmc^2	Degussa Bank GmbH ("Degussa Bank")
Stockhausen				

The major business units of Degussa-Hüls are described in detail below. 2000 sales amounts for each business unit are Degussa-Hüls sales for the year ended December 31, 2000, and are compared to 1999 sales amounts of Degussa-Hüls. Due to the full consolidation of Degussa-Hüls as of February 1, 1999, however, these amounts are not fully comparable.

Health and Nutrition

Degussa-Hüls' health and nutrition segment included the pharmaceutical business ASTA Medica as well as its Dental and Feed Additives businesses and its subsidiary Stockhausen, which specializes in superabsorbents.

ASTA Medica. ASTA Medica is a pharmaceutical company which focuses on the research and development, production and distribution of medication for the treatment of cancer, diseases of the respiratory tract and central nervous system, and allergies. ASTA Medica also develops, produces and distributes medication for the treatment of cardiovascular system disorders and pain. Its extensive product range is completed by antiseptics and over-the-counter medications. In 2000, ASTA Medica had sales of €760 million, a 2.1 percent decrease from 1999. Degussa intends to divest ASTA Medica as this business does not form part of Degussa's core business area.

Because ASTA Medica's products are relatively numerous, production capacity is not meaningful for this business area and production capacity data are therefore not presented.

Degussa Dental. Degussa Dental believes it is one of the world's leading producers of products such as dental alloys based on precious metals, ceramics and plastic materials, equipment for dental laboratories and practices and dental implants and prosthetics. An important new product that Degussa Dental has developed is the amalgam replacement Definite™, which is a dental filling material consisting of organically modified ceramics. Global competitors are Dentsply, Heraeus and 3M. Sales of the dental business unit increased by 17.5 percent in 2000 to €491 million. Degussa intends to divest Degussa Dental as this business does not form part of Degussa's core business area.

Production capacity is not meaningful for this business area and production capacity data are therefore not presented.

Feed Additives. The Company's Feed Additives business is the world's only producer of all three amino acids used as additives in livestock feed: methionine, lysine (Biolys 60) and threonine. It also manufactures vitamin B3, calcium formiate for pork and veal farmers and Mepron M85, a methionine derivative. The Company believes it is the global market leader, based on annual sales, for its main product methionine, an essential amino acid which is particularly used in raising poultry. Degussa-Hüls commenced operations at a large lysine production facility in Blair, Nebraska in the first half of 2000. This plant, which has an annual capacity of 75,000 tons, is a joint venture between Degussa and Cargill Inc. In the area of feed additives, the main competitors are Novus and Aventis. In 2000, sales increased by 37 percent to €492 million.

The following chart sets forth the major feed additives produced by the Feed Additives business unit in 2000, its production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year(2000)	Major Applications
Methionine	140,000	Feed additive (raising poultry)
Lysine	8,000	Feed additive
Threonine	4,500	Feed additive

The Feed Additives business unit has been included in the new Degussa's Health and Nutrition division.

Stockhausen. Stockhausen's products include superabsorbents, flocculants, skincare products for industrial workers, textile auxiliaries, and leather and fur industry products (through a joint venture with Ciba Specialty Chemicals). In 2000, Stockhausen's sales increased by 23.8 percent to €739 million.

The following chart sets forth the major products made by Stockhausen, the production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year(2000)	Major Applications
Absorbent polymers	295,000	Diapers, hygiene products, waterproof cables, packaging industry, landscaping and forestry
Acrylic acid	165,000	Raw material for superabsorbent polymers, cobuilders and acrylates

Stockhausen is a leading producer in both Europe and the United States in the growing market for superabsorbents, which are cross-linked polymers that store and do not release liquid, even under pressure.

Stockhausen's sales of superabsorbents reached €433 million in 2000. The raw material for superabsorbent polymers is acrylic acid, which was produced by Stockhausen exclusively at its plant in Marl, Germany, prior to the beginning of operations of the joint venture described below. Superabsorbent polymers are used by the hygiene industry in products such as diapers. In addition, applications have been developed in the production of waterproof cables, and in the packaging, landscaping and forestry industries. Stockhausen's two largest customers, Procter & Gamble and Kimberly Clark, account for more than one-half of its sales of superabsorbents. Stockhausen's biggest competitors in superabsorbents are BASF, Nippon Shokubai and Dow Chemical. Stockhausen's second biggest product group is flocculants, which are used in the treatment of waste water, the manufacture of paper, the oil industry and the extraction of valuable minerals.

In order to secure the raw material supplies for its superabsorbent plants in the United States, Stockhausen formed a 50-50 joint venture on January 1, 2000 with Rohm & Haas Co., the leading North American producer of acrylic acid. After the capacity expansions being constructed in Marl, Germany and the combination of the two companies' acrylic acid production were completed at the end of 2000, the joint venture will produce an aggregate 330,000 tons of acrylic acid per year at the Marl plant and in Deer Park, Texas. The joint venture's operations started as of January 1, 2001.

Stockhausen's activities belong to the core business area of Degussa. Certain parts of Stockhausen were moved to the water chemicals part of the Bleachings and Water Chemicals business unit, which is included in the new Degussa's Fine and Industrial Chemicals division, while the remaining parts form the Superabsorbents business unit and part of the Care Specialties business unit, which are included in the new Degussa's Performance Chemicals division.

Specialty Products

The specialty products segment consisted of the business units Creanova, Industrial Chemicals and Fine Chemicals.

Creanova. Creanova produces specialty coating raw materials, colorants, engineering plastics and dispersions (through a joint venture with Bayer). Products are principally sold to manufacturers for use in consumer and industrial products such as coatings, adhesives and plastic moldings. Raw materials are petrochemical-based and are primarily sourced from within Degussa or from VEBA Oel unless transportation distances or other factors make outside sourcing more economical. In 2000, Creanova had sales of €976 million, a 9.3 percent increase from 1999.

Because Creanova's products are relatively numerous, production capacity is not as meaningful for this product area and production capacity data are therefore not presented.

Creanova's coating raw materials business focuses on cross-linking agents for lacquers and coatings and binding agents for coatings. The cross-linking agents are isophorone derivatives that are used as hardeners of epoxy resins, powder coatings and industrial coatings. Due to its comprehensive range of products, its vertical manufacturing integration which includes the supply of the main raw material, acetone, by another Degussa business unit, and its strong use of technology, the Company believes it is among the world market leaders in this rapidly growing market. The main competitors for coating raw materials are Bayer, BASF and Rhodia. The Company believes it also has a worldwide leading market position (based on sales) in binding agents for coatings and paint for ships, and in coating additives.

In engineering plastics, Creanova focuses on growth sectors, such as the automotive, electrical and telecommunications industries. Its principal competitors in this area are AtoFina, Ube and EMS. The colorants business supplies paint pastes and coating mixing systems to leading manufacturers of paints and coatings for construction and industrial purposes. Its main competitor is Tikkurila.

Creanova belongs to the core business area of Degussa. The coating raw materials and colorants business forms the new business unit Coatings and Colorants, which is included in the new Degussa's Coatings and Advanced Fillers division. The engineering plastics business forms the new business unit High Performance Polymers, which is included in the Specialty Polymers division.

Industrial Chemicals. The main products of the Industrial Chemicals business unit are bleaching chemicals, raw materials for detergents and basic intermediates. The unit's most important product is the environmentally-friendly bleaching agent hydrogen peroxide, which is mainly used for the bleaching of pulp and textiles. In this business, the Company believes it is the second largest producer (in terms of sales) in the world. At year-end 2000, the hydrogen peroxide production capacity of the unit was 430,000 tons/year. Industrial Chemicals sales decreased by 1.1 percent in 2000 to €545 million.

Industrial Chemicals belongs to the core business area of Degussa. The bleaching chemicals and basic intermediates business forms a part of the new business unit Fine Chemicals, which is included in the new Degussa's Fine and Industrial Chemicals division. The detergent and raw materials business is included in the Care Specialties business unit, which is a part of the Performance Chemicals division.

Fine Chemicals. The main products of the Fine Chemicals business unit are organic and inorganic intermediates, used mainly for the synthesis of pharmaceutical substances, as well as in pesticides, cosmetics and plastics additives. The most important application areas for these products are in the agricultural and pharmaceutical markets, as well as in the coating and paint industries. The Company believes it is one of the world's leading suppliers of these products, based on sales. Principal competitors are DSM/Catalytica, Clariant/BTP, Lonza, Rhodia/Chirex and Cambrex. In the area of Fine Chemicals, sales increased by 15.1 percent in 2000 to €749 million. On January 12, 2001, Degussa-Hüls and SKW Trostberg made a public offer to purchase the publicly held shares of the U.K. fine chemicals manufacturer Laporte. For details, see "— Other Developments."

Because the Fine Chemicals business unit includes relatively numerous products, production capacity is not meaningful for this product area and production capacity data are therefore not presented.

Fine Chemicals belongs to the core business area of Degussa. It forms a part of the new business unit Fine Chemicals, which is included in the new Degussa's Fine and Industrial Chemicals division.

Polymers and Intermediates

The polymers and intermediates segment consisted of the strategic business units Röhm, Oxeno and Phenolchemie.

Röhm. Degussa-Hüls, through its subsidiary Röhm and a 50 percent interest in the Cyro Industries joint venture with Cytec, was one of the leading producers in 2000, based on sales, of methyl methacrylate ("MMA") and polymethyl methacrylate ("PMMA") in Europe and the United States.

The Phenolchemie business unit provides acetone, a major raw material used by Röhm to produce MMA. MMA is used in turn to manufacture PMMA molding compounds (acrylic glass). The company's best-known brand is Plexiglas®, which is used for products such as bathtubs, roofing materials and automobile headlights. Methacrylates are also used by the pharmaceutical industry to control the release of active ingredients in pills or capsules to allow medication to be taken only once a day. Competitors in both methacrylate and semifinished products include Ineos-Acrylics and AtoFina. Röhm is also a leading producer, based on sales, of lubricant additives that are used for industrial applications. In 2000, Röhm's sales increased 5.6 percent to €1,058 million.

The following chart sets forth Röhm's major products, the production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year (2000)	Major Applications
Methacrylates:		
MMA	400,000	Coating raw materials
Acrylic glass molding powders	180,000	Automotive industry, illuminated signs, opto-electronics, household goods and plumbing fixtures
Semifinished Products:		
Acrylic glass semifinished products (cast, extruded)	160,000	Construction industry, lighting panels for luminous advertising, healthcare/hygiene, protection/safety

Röhm's activities belong to the core business area of Degussa. The activities have been divided into the Methacrylates business unit, the Specialty Acrylates business unit and the Plexiglas business unit, which belong to the new Degussa's Specialty Polymers division.

Oxeno. Oxeno produces oxo alcohols and derivatives as well as C_4-olefins and derivatives for both internal and external use. Oxeno's products are used in the production of a wide variety of products such as hair spray, floor coverings, anti-knocking agents for gasoline, adhesives and various types of plastics. Oxeno is one of Europe's leading producers (based on capacity and sales) of oxo alcohols, which include alcohols for plasticizers used primarily in PVC production, and is the European market leader (on the basis of capacity and sales) of n-Butene-1. In the isononanol sector, Oxeno has developed its own process which has cost advantages over the standard market product, 2-ethylhexanol. In 2000, Oxeno's sales increased by 52.2 percent to €627 million.

The following chart sets forth the major chemicals produced by Oxeno, its production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year (2000)	Major Applications
n-Butene-1	110,000	Comonomer in polyethylene production
MTBE (Methyl-tert.-butyl ether)	220,000	Fuel additive
2-ethylhexanol	240,000	Raw material for plasticizers
Isononanol	140,000	Raw material for plasticizers
Plasticizers	180,000	PVC plasticizers
n+iso-butanol	220,000	Solvent for coatings and paints
Butadiene	160,000	Raw material for dispersions, rubber and nylon 12

Degussa intends to divest certain parts of Oxeno that do not form part of Degussa's core business area. The C_4- plasticizer business forms the new C_4 Chemistry business unit which is included in the Fine and Industrial Chemicals division.

Phenolchemie. Phenolchemie is the world's largest manufacturer of phenol and its co-product acetone (on the basis of sales), with large production facilities in Germany and Belgium and, since the beginning of the year 2000, in Mobile, Alabama. Phenol and acetone are important raw materials for the manufacture of products such as pain relieving drugs, compact discs, nylon and acrylic glass. The following chart sets forth the major chemicals produced by Phenolchemie, the production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year (2000)	Major Applications
Phenol	1,040,000	Raw material for polycarbonates, phenolic resins, epoxy resins and alkyl phenols
Acetone	650,000	Raw material for methyl methacrylate and isophorone; solvent

Competitors of Phenolchemie include Mitsui, Mitsubishi, Sun, Loco, Aristec and Enichem. Phenolchemie's sales increased by 87.3 percent to €1,169 million in 2000.

Degussa plans to divest the Phenolchemie business as it does not form part of Degussa's core business area.

Performance Materials

The performance materials segment consisted of the business units Sivento, Advanced Fillers and Pigments and dmc^2.

Sivento. Sivento makes products such as chloro- and organosilanes, fumed silica (''Aerosil''), chemical catalysts and zeolites. Chlorosilanes are used in the semiconductor and telecommunications industries. Chlorosilanes are also used by Sivento in its production of Aerosil and organosilanes. Aerosil is a strengthening filler used in, among other things, silicon-rubber, plastics or as a thickening agent in paint and coatings; it also improves the free flow properties of fire extinguisher powders and salt. Organosilanes have a wide range of applications, including, for example, in the façade protection industry. In organosilanes the Company believes it holds a leading market position in Europe (based on capacity and sales). The Company also believes it is the world market leader in Aerosil (based on capacity and sales). Sivento's main competitors are Crompton, Shin Etsu, Dow Chemicals, Corning, Cabot and Wacker. In 2000, Sivento's sales increased by 25.3 percent to €683 million.

The following chart sets forth the major chemicals produced by Sivento, the production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year (2000)	Major Applications
Fumed silica (Aerosil)	55,000	Specialty filler, thickening agent
Chloro- and organosilanes	110,000	Chlorosilanes: raw material used in the semiconductor and telecommunications industries, for organosilanes and fumed silica; organosilanes: *e.g.*, façade protection
Zeolites	140,000	Additive in detergents

Degussa plans to shut down and/or divest Sivento's zeolites activities. The other Sivento businesses belong to the core business area of Degussa. The Sivento businesses which will be retained form the Silica, Silanes and Catalysts business unit, which is included in the new Degussa's Coatings and Advanced Fillers division.

Advanced Fillers and Pigments. The business unit Advanced Fillers and Pigments manufactures industrial carbon black, precipitated silica and rubber-silanes. These products are mainly used to reinforce rubber in tires but also are used in many other rubber products. An important application is the so-called ''green'' tire, which with its lower rolling resistance reduces fuel consumption and environmental pollution. Industrial carbon black as well as precipitated silica are also used in plastics, coatings and paint dyes. The Company believes it is a global market leader in the area of rubber reinforcement (based on sales). Its main competitors are Cabot, Columbian, Rhodia, PPG and Crompton. Sales of this business unit increased by 16.3 percent in 2000 to €1,186 million.

The following chart sets forth the major chemicals produced by the business unit, the production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year (2000)	Major Applications
Industrial carbon black	1,160,000	Rubber reinforcement; additive in plastics, coatings and paint dyes
Precipitated silica	245,000	Rubber reinforcement; additive in plastics, coatings and paint dyes

The Advanced Fillers and Pigments business unit belongs to the core business area of Degussa. It forms the new business unit Advanced Fillers and Pigments, which is included in the Coatings and Advanced Fillers division.

dmc². dmc² is a newly-created business unit which includes the old Degussa businesses precious metals, automotive catalysts and Cerdec AG. These related businesses were combined in one business unit as of January 1, 2000. In 2000, dmc² had sales (excluding precious metals trading) of €2,552 million, an increase of 42.6 percent from 1999 sales by the combined businesses.

Because this business unit includes relatively numerous products, production capacity is not meaningful for this product area and production capacity data are therefore not presented.

In the area of precious metals, dmc² believes it is one of the leading international suppliers of technologically advanced products and services, particularly for the electronics, electrical and chemical industries. The product range includes powders and pastes, high-purity materials and galvano-technical baths for electronics, components and materials for electrical contacts, platinum nets and preparations for catalytic chemical processes, platinum components for the glass industry and soldering products for industrial applications.

dmc² also believes it is one of the world's leading manufacturers of catalytic converters for the treatment of gasoline and diesel engine exhaust. Customers are international automobile manufacturers which are supplied from a number of global production sites. Principal competitors in both the precious metals and the catalytic converters businesses are Johnson Matthey and Engelhard.

dmc² believes it is a leading international supplier of colors for the ceramic, glass and plastics industries. Its most important products are decorative colors, enamels and color particles for use in construction, tableware and art ceramics, as well as glass colors for use in automotive coatings, construction and hollow glass. dmc² also manufactures special products such as silver preparations for the production of heated rear windows for cars. The main competitors in this area are CM, Ferro, Engelhard, Colorobbia and Heraeus.

The new Degussa plans to divest dmc² as it does not form part of Degussa's core business area.

Other Degussa-Hüls Activities. There are three service companies which provided Degussa-Hüls with intra-group services: Infracor, Creavis and Degussa Bank. Infracor offered technical and analytical services for Degussa-Hüls' operations as well as for third parties. Infracor is a service unit of the new Degussa. Creavis is a venture capital company which arranged funding for research and development projects and to start new businesses. Degussa Bank performed certain treasury services for Degussa-Hüls and retail banking services mainly for Degussa-Hüls employees. The new Degussa plans to divest Degussa Bank.

SKW Trostberg Before the Merger

SKW Trostberg was incorporated as Bayerische Stickstoffwerke Aktiengesellschaft ("BSW") in 1908. In 1923, the former VIAG acquired all the shares of Bayerische Kraftwerke AG, and merged this company with BSW. In 1978, the combined company was renamed SKW Trostberg. Following the VEBA-VIAG merger, E.ON held a 63.97 percent interest in SKW Trostberg, with the remaining shares widely held. SKW

Trostberg's revenues have been included in E.ON's results for the six month period from July 1 to December 31, 2000, and totalled €2,120 million for this period.

The companies of the SKW Trostberg group were subdivided into four divisions: Nature Products, Performance Chemicals, Chemicals and Construction Chemicals. The divisions were comprised of 17 independent business units which had responsibility for their own sales and results. The following chart sets forth the 17 strategic business units that comprised SKW Trostberg's four divisions:

SKW TROSTBERG

Nature Products	Performance Chemicals	Chemicals	Construction Chemicals
BioActives	Oligomers/Silicones	Special and Fine Chemicals	Construction and Oil Field Polymers
Flavors & Fruit Systems	Surfactants	Agro and Process Chemicals	Germany
Gelatin & Specialties	Industrial Chemicals	Metallurgical Chemicals	Europe
Salt Products			Americas
Texturant Systems			Japan
			Asia/Pacific

Nature Products

SKW Trostberg's Nature Products division included the business units BioActives, Flavors and Fruit Systems, Gelatin and Specialties, Salt Products and Texturant Systems. The Company believes the Nature

Products division is one of the leading suppliers, based on sales, of natural substances such as flavors and gelatin for the food processing industry, as well as for technical and pharmaceutical applications. In the period from July 1 through December 31, 2000, this division contributed approximately 23 percent, or €480 million, to the sales of the SKW Trostberg group.

BioActives. At the beginning of 2000, SKW Trostberg formed the BioActives business unit, comprising various activities of the former business units cultures and enzymes and texturant systems. This business unit produces products with nutritional and/or physiological effects. The major products are creatine, phospholipids, probiotics, enzyme systems and extracts. The unit is experiencing strong growth because of the trend in the food processing industry to increasingly supplement staple food products with products that contain health-promoting components. Ch. Hansen, Indena, Hauser, Bauer and Orafti are its global competitors. Sales of the BioActives business unit in the period from July 1 through December 31, 2000 amounted to €43 million.

Production capacity is not meaningful for this business area and production capacity data are therefore not presented.

BioActives belongs to the core business area of Degussa, and has been included in the Health and Nutrition division of the new Degussa.

Flavors and Fruit Systems. The Flavors and Fruit Systems business unit produces flavors for soft drinks, ready-cooked meals, confectionery, milk products and snacks. The Company's proprietary technology of high pressure CO_2 extraction is used primarily for the decaffeination of teas. The business unit also produces ready for use fruit preparations, primarily for the manufacture of confectionery, baked goods and preserves. In the area of flavors and fruit systems, the Company's principal global competitors are Givaudan, IFF, Quest/ICI and Haarmann & Reimer/Bayer. In the period from July 1 through December 31, 2000, sales were €110 million. The main sales regions are North America and Europe.

Production capacity is not meaningful for this business area and production capacity data are therefore not presented.

Flavors and Fruit Systems belongs to the core business area of Degussa, and has been included in the Health and Nutrition division of the new Degussa.

Gelatin and Specialties. The Gelatin and Specialties business unit is one of the world leaders in gelatin production, with a share of approximately 20 percent of the total world market for gelatin. The business unit supplies gelatin to the international food processing industry, and also to the photography and pharmaceutical industries. Food gelatins are mainly used as gelling and thickening agents as well as to provide form to food products. The main application for pharmaceutical gelatins is for the production of hard and soft capsules for medicines. Photographic gelatins are used as support for silver halogenides on films and photographic papers. The principal markets are in Europe and North America. DGF/Leiner and Nitta are the unit's principal global competitors. In the period from July 1 through December 31, 2000, the Gelatin and Specialties business unit had sales of €119 million.

Production capacity is not meaningful for this business area and production capacity data are therefore not presented.

Degussa plans to divest this business unit, as gelatins no longer belong to the strategic focus of the new Degussa.

Salt Products. This business unit consists of a 64 percent shareholding in Südsalz GmbH ("Südsalz"). Südsalz is Germany's leading salt supplier (on the basis of sales). It offers a broad range of salt products, including branded salt ("Bad Reichenhaller"), which is used as food seasoning, industrial salt, which is used for the electrolysis of sodium and chlorine, and de-icing salt mainly used on roads. Südsalz produced approximately 240,000 million tons of salt in 2000. Südsalz's main market is Europe, and its principal competitors are Kali + Salz, Akzo and ÖSAG. In the period from July 1 through December 31, 2000, sales amounted to €74 million.

In 2000, the total capacity of the Salt Products business unit amounted to 400,000 tons per year.

Degussa plans to divest this business unit, as salt products no longer belong to the strategic focus of the new Degussa.

Texturant Systems. Texturizing agents and tailor-made, ready-for-use blends developed from them give food products form and stability. The principal products produced by this business unit are lecithin, carrageenan, pectin, xanthane and alginates, which are used for milk-based products, confectionery and bakery products, ready-made dishes, sauces, meat products, dressings, drinks and animal feed. The total capacity of Texturant Systems amounts to 60,000 tons per year. The Company believes it is one of the leading producers of lecithin in the world based on sales. Lecithins are used as emulsifiers for food products. Global competitors are FMC, Kelco, Rhodia and Danisco. In the period from July 1 through December 31, 2000, sales of the Texturant Systems business unit amounted to €134 million. Europe and North America accounted for 95 percent of the business activities.

Texturant Systems belongs to the core business area of Degussa, and has been included in the new Degussa's Health and Nutrition division.

Performance Chemicals

The Performance Chemicals division consisted of the strategic business units Oligomers & Silicones, Surfactants and Industrial Chemicals. The products produced by this division are used as surface-active additives in a broad spectrum of industrial applications. In the period from July 1 through December 31, 2000, it contributed 18 percent, or €392 million, to the total sales of the SKW Trostberg group.

Oligomers & Silicones. The Oligomers & Silicones business unit produces and sells additives, processing aids and intermediates based on (organically) modified silicones and organic oligomers on a worldwide basis. The products of this business include:

- *polyurethane additives:* used to produce flexible and rigid foams, which are utilized in a variety of industries including furniture, automotive and refrigerator manufacturing.

- *industrial specialties:* used as separating agents and coatings, defoamers and emulsifiers. Silicone emulsifiers are used to improve the texture and applicability of cosmetics and hair conditioners. Separating coatings are used for self-adhesive products such as labels, adhesive tapes and insulating materials.

- *paint and coating additives:* used as surface and dispersing additives in water-based, eco-friendly paints and varnishes to create smooth and scratch-resistant surfaces. The unit also produces additives for UV-hardening printing inks.

At year-end 2000, the production capacity of organically modified silicones amounted to 60,000 tons per year. The business unit's global competitors are Osi, General Electric and Rhodia. The Oligomers & Silicones business unit had sales of €164 million in the period from July 1 through December 31, 2000.

Oligomers & Silicones belongs to the core business area of Degussa. It forms the new business unit Oligomers & Silicones, which is included in the Performance Chemicals division of the new Degussa.

Surfactants. Surfactants, or surface-active agents, control processes on surfaces such as those between oil and water or liquid and air; they permit a wide range of product applications. The Surfactants unit develops, produces and sells mild, skin-sensitive raw materials and active ingredients for use in an extensive range of health care products, cosmetics and household cleaning and care products, including detergents, cleaning and polishing agents and fabric care products.

The business unit believes it is the world leader in the production (measured by sales) of fat chemistry and quaternary derivatives, which are used in the production of products such as laundry softeners. The unit's principal competitors in Europe are ICI, Croda, Cognis and Clariant. In the period from July 1 through December 31, 2000, sales amounted to €187 million.

The following chart sets forth the major surfactants produced by the business unit, its production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year (2000)	Major Applications
Fat chemistry, quaternary derivatives, amphoteric surfactants	130,000	Laundry softeners mild shampoos, shower gels

Surfactants belongs to the core business area of Degussa. It forms a part of the new business unit Care Specialties, which is included in the Performance Chemicals division.

Industrial Chemicals. The Industrial Chemicals business unit develops, produces and sells tin, zinc and copper compounds, sulphuric and hydrochloric acid, sulphides and thiosulphates. These products are used for surface coating of metals, catalyst technology, timber treatment, water purification, leather production and photography. Tessenderlo and Blythe are the business unit's main competitors. The Industrial Chemicals business unit had sales of €40 million in the period from July 1 through December 31, 2000.

Production capacity is not meaningful for this business area and production capacity data are therefore not presented.

Degussa plans to divest this business unit, as it does not form part of Degussa's core business area.

Chemicals

SKW Trostberg's Chemicals division consisted of the three business units Special and Fine Chemicals, Agro and Process Chemicals and Metallurgical Chemicals. In the period from July 1 through December 31, 2000, this division accounted for 18 percent, or €375 million, of the total sales of the SKW Trostberg group.

Special and Fine Chemicals. This business unit supplies high quality chemicals to global life sciences companies for use as starting materials and intermediates. In addition, Special and Fine Chemicals is a world leader in the niche market for cyanamide and nitrile derivatives (based on sales). The unit's major products are: Creapure®, a creatine monohydrate dietary supplement, DORMEX®, a plant growth regulator used primarily in grape and kiwi cultivation, cyanuric chloride derivatives, guanidine salts and dicyandiamide condensates. The business unit is primarily active in the German and American markets. Its main competitors are Bayer, Lonza, Nippon Carbide and Odda. Sales in the period from July 1 through December 31, 2000 amounted to €89 million.

Production capacity is not meaningful for this business area and production capacity data are therefore not presented.

Special and Fine Chemicals belongs to the core business area of Degussa. It forms a part of the new business unit Fine Chemicals, which is included in the Fine and Industrial Chemicals division.

Agro and Process Chemicals. The Agro and Process Chemicals business unit supplies a broad range of fertilizers for agriculture and gardening. Its fertilizer products include solid and liquid urea-based fertilizers and ammonium nitrate-urea solutions as well as sulphur-containing and nitrification-inhibiting special fertilizers. It also provides such processing chemicals as ammonia, technical urea, nitric acid and denitrification agents, which are used to purify the boiler plant exhaust gases of power stations. The business unit's main competitors in Europe are Norsk Hydro, DSM, BASF and various eastern European producers. In the period from July 1 through December 31, 2000, sales amounted to €137 million.

The following chart sets forth the major products of this business unit, its production capacity at year-end 2000 and the major applications for each product:

Product	Production Capacity Tons/Year (2000)	Major Applications
Ammonia	1,089,000	Intermediary products for fertilizers and plastics
Urea fertilizers	995,000	Fertilizer and intermediary products for resins

Degussa plans to divest this business unit, as it does not form part of Degussa's core business area.

Metallurgical Chemicals. The Metallurgical Chemicals business unit serves the international steel and iron foundry industry. The business unit has well-established operations for the desulphurization of raw iron and for the production of cored wires. The business unit also offers a broad product spectrum of continuous casting powders for the steel industry. The business unit's main competitors in Europe are Metallurgica, Rossborough, Almamet and Elkem. Metallurgical Chemicals had sales of €149 million in the period from July 1 through December 31, 2000.

Production capacity is not meaningful for this business area and production capacity data are therefore not presented.

Degussa plans to divest the Metallurgical Chemicals business unit as it does not form part of Degussa's core business area.

Construction Chemicals

SKW Trostberg's Construction Chemicals division was founded in the 1960s and strengthened through the purchase of Master Builders Technologies from the Swiss company Sandoz AG in 1996. In international markets the division is known as SKW-MBT Construction Chemicals ("SKW-MBT"). The Construction Chemicals division contributed €873 million, or 41 percent, of the total sales of the SKW Trostberg group in the period from July 1 through December 31, 2000.

SKW-MBT is the world leader in chemical products for use in construction (on the basis of sales). It offers a broad product range of concrete admixtures, tile adhesives, heat insulation and products for industrial and sport floors. Its core competencies include concrete technology, tunnel and underground construction, cement-based products for interior finishing, repair and modernization of buildings, the production of sealants and waterproofing systems, and paints and coatings.

Since construction is a local activity that is strongly influenced by local market requirements and situations, the business division — with the sole exception of the business unit Construction and Oil Field Polymers — is subdivided into units on a geographical basis. The geographical business units focus on Germany, Europe, the Americas, Japan and Asia/Pacific. SKW-MBT supplies its products from more than 100 plants in more than 50 countries. Due to a system of customer-specific products and project-related application counselling, the business division can offer a complete range of services for the construction industry. SKW-MBT's main competitors are Sika, Fosroc, W.R. Grace and RPM.

Production capacity is not meaningful for this business area and production capacity data are therefore not presented.

Construction Chemicals belongs to the core business area of Degussa, and has been included as the new business division Construction Chemicals. The former business unit Construction and Oil Field Polymers has been added to the Germany business unit and the former Japan business unit has been added to Asia/Pacific.

Environmental Matters

Degussa is subject to a variety of laws and regulations governing the protection of the environment in each country in which it operates, including those related to the construction and operation of production sites, the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous materials used in its manufacturing processes, and the monitoring of emissions and waste. These laws and regulations pertain both to Degussa's present operations and to past waste disposal practices and discharges of hazardous materials.

The primary countries in which Degussa operates are Germany and the United States. In Germany, the most significant environmental laws affecting Degussa's operations are described here. The Water Resources Management Act (*Wasserhaushaltsgesetz*) provides principles for managing inland water resources and, in particular, securing the quality of drinking water. It requires that the best available technology be used for purification of waste water. Degussa believes that it meets all the specified standards such as concentration limits set by this Act for residual water contaminants. For its waste water emissions, Degussa is charged fees in accordance with the Waste Water Charges Act (*Abwasserabgabengesetz*). Such charges are based on the content of harmful substances and other parameters like nitrogen content. The Federal Pollution Control Act (*Bundesimmissionsschutzgesetz*) and its implementing ordinances regulate emissions of pollutants from processing units and industrial plants. The Ordinance on Large Combustion Plants (*Großfeuerungsanlagen-Verordnung*) sets emission limits for each type of plant for all major air pollutants, such as sulfur dioxide, nitrogen oxides and dust. The Major Incident Regulation (*Störfall-Verordnung*) classifies the accident potential of installations and sets standards for safety management. Degussa believes that all of its plants comply with these regulations. The Recycling Act (*Kreislaufwirtschaftsgesetz*) regulates waste management. It aims at waste avoidance and reuse of waste. Degussa believes that it has set up environmentally sound production cycles in compliance with these regulations. The Chemicals Act (*Chemikaliengesetz*) includes provisions for the protection of humans and the environment from the harmful effects of dangerous chemical substances. Various ordinances classify dangerous substances and handling procedures. The Act on Transportation of Dangerous Goods (*Gesetz zur Beförderung gefährlicher Güter*) sets standards for the safety of transportation and avoidance of accidents due to a release of dangerous substances. These acts led Hüls to implement a continuously updated information and alarm system on dangerous substances prior to its merger with the old Degussa, thereby enabling continued compliance with these standards. The old Degussa implemented a similar system. These systems have now been combined to form a company-wide information and alarm system on dangerous substances and accidents. The former SKW Trostberg will also participate in this system.

Any failure to comply with present or future environmental laws or regulations could result in fines being imposed on Degussa, suspension of production or alteration of manufacturing processes. Such laws or regulations could also require Degussa to perform expensive remediation or to incur other expenses to comply with environmental regulation. Degussa believes that its domestic and international manufacturing facilities are currently in material compliance with the laws and regulations with respect to environmental matters applicable in the jurisdictions of its locations.

The individual business units of Degussa conduct their environmental activities independently, while the management of the Degussa group sets general guidelines. Degussa is actively participating in the worldwide initiative "Responsible Care," a chemical industry commitment to continuously improve performance in health, safety and the environment. In addition, all domestic subsidiaries of Hüls as well as the Hanau-Wolfgang site of the old Degussa participate in the European Eco-Management and Audit Scheme ("EMAS"). The domestic subsidiaries of SKW Trostberg also participate in EMAS. The EMAS program includes the development of a management system clearly assigning environmental protection responsibilities, the completion of both internal and external environmental audits, the formation of specific environmental objectives and programs for plants and subsidiaries, the publication of environmental reviews, the evaluation of environmental procedures by an independent expert and, upon successful completion of the program, the registration of the site. By year-end 2000, a total of 16 sites (both Degussa-Hüls and SKW Trostberg) had been inspected and certified under this three-year program. Furthermore, an increasing number of both Degussa-Hüls and SKW Trostberg sites operate environmental management systems which are certified under ISO (International Standards Organization) 14001 or are in the process of certification. By year-end 2002, Degussa expects 90 percent of all sites to be certified.

In 2000, Degussa-Hüls and SKW Trostberg invested €33 million in facilities and processes relating to environmental control, and, in addition, had environmental expenditures of €249 million.

Degussa has established and continues to establish provisions for environmental liabilities where it believes that it is probable that a liability will be incurred and the amount of the liability can be reasonably estimated. Degussa adjusts accruals as new remediation commitments are made and as information becomes available which changes estimates previously made. Based on information currently available to it, Degussa believes that, taking into account its environmental accruals, its environmental liabilities will not have a material adverse effect on its financial position or results of operations.

Research and Development/Other

In calendar year 2000, Degussa-Hüls and SKW Trostberg spent €480 million on research and development ("R&D"). As a percentage of sales, excluding precious metals trading, R&D expenditures for the chemicals division were 3.2 percent in 2000, compared with 4.0 percent in 1999. R&D at Degussa-Hüls and SKW Trostberg was decentralized and primarily conducted by each of the strategic business units, which pursued projects according to competitive goals and needs. A localized approach to R&D was intended to ensure that new products were developed to respond as closely as possible to markets, customers and their needs. Degussa-Hüls also had centralized R&D management which initiated and oversaw strategically important projects and coordinated the exchange of information among business units. Creavis played a role by reviewing ideas and projects and evaluating the corresponding business opportunities. Creavis also supported several start-up companies in the framework of the local initiative called "Alliance for Innovations." Degussa-Hüls and SKW Trostberg supported their R&D efforts with more than 700 cooperations with universities and research institutions. Degussa-Hüls and SKW Trostberg employed 4,400 people in their R&D activities in 2000.

Degussa has retained the decentralized approach to R&D used by Degussa-Hüls and SKW Trostberg, with centralized R&D management to coordinate activities among business units and ensure that R&D projects fit with Degussa's strategic objectives. Degussa is particularly focusing on developing new product and market segments with high growth and earnings potential, an area in which Creavis continues to play an important role.

Due to the wide range of products and businesses in the Degussa group, a discussion of the sources and availability of raw materials for the chemicals division is not meaningful, and individual product source and availability information is therefore not presented. The prices of some of the raw materials used by the Degussa group are subject to volatility, although raw material price changes have not had a material effect on the Company's chemical activities in the past. Degussa believes that the worldwide supply of raw materials for its products is satisfactory, and does not anticipate material disruptions to its businesses due to prolonged unavailability of raw materials or high prices. Group-wide, Degussa's activities are not significantly affected by seasonal factors, although individual products and businesses may be subject to seasonal variations.

Due to the wide range of products and businesses in the Degussa group, a discussion of the marketing channels used by Degussa is not meaningful. Each of Degussa's business units is responsible for its own marketing and sales activities, which vary according to geographical location and industry standards and practices.

REAL ESTATE

Overview

Viterra is one of the largest real estate services groups in Germany in terms of its residential portfolio and services provided, with revenues of €1.3 billion and internal operating profit of €212 million in 2000. Viterra is engaged in the businesses of residential investment, development and services and commercial real estate investment and development.

Strategy

E.ON intends to continue to build value in its real estate division through optimizing its housing portfolio, rolling out its residential development business nationwide, expanding its real estate services business and significantly increasing its activities in commercial real estate investment and development.

Residential Investment

The residential investment business is one of Viterra's main activities. This business is comprised of the rental, acquisition, sale and modernization of residential real estate. Viterra is Germany's largest private owner of residential property on the basis of housing units, with a property portfolio of approximately 120,000 housing units. Viterra also holds a 50 percent interest in Deutschbau and in Wohnbau Rhein-Main, which together own about 50,000 housing units.

E.ON's real estate activities originated in the 1930s in order to provide subsidized housing primarily in the Ruhr area for workers in the coal and steel industries. As a result of its historical origins, approximately 100,000 of Viterra's housing units were more than 30 years old at year-end 2000. The majority of the housing units are located in North Rhine-Westphalia. On average during 2000, Viterra's residential units had a 97.5 percent occupancy rate based on total rentable space. Viterra believes that its housing units are in reasonably good condition and intends to further improve the quality and profitability of its rental housing through selective purchases and modernization and sales. In 2000, Viterra incurred capital expenditures of €112 million in its residential investment business, mainly relating to purchases and modernization. Additionally, Viterra has an ongoing maintenance and improvement program. It has spent approximately €140 million per year, on average, over the past seven years on maintenance and modernization of its housing stock and does not expect such expenses to increase significantly.

In the past, the majority of Viterra's housing was built with low interest rate public financing and with low interest rate financing from third parties in exchange for perpetual tenancy rights (*Belegungsrechte*). As a result, Viterra's housing units are subject to a wide variety of rent controls, some governmental and some contractually imposed by third parties with perpetual tenancy rights. Although some of these rent controls expire over time, their existence and the geographical concentration of the housing units impose practical restrictions on the ability of Viterra to dispose of substantial quantities of the housing units on reasonable terms.

Because of the original purpose to provide subsidized housing for workers in the coal and steel industries, companies like E.ON were initially granted nonprofit status for their real estate activities. In 1990, however, these activities became taxable as a result of a change in German income tax law. In connection with the change in taxable status, under German income tax law former nonprofit real estate companies have become entitled to certain depreciation deductions, subject to conditions and restrictions. These deductions depend, among other conditions, upon profits from certain rental properties and capital expenditures on rental properties. These depreciation deductions are accounted for when they are realized on the tax return.

Changing their former opinion, the German tax authorities in the meantime came to the conclusion that the additional depreciation has to be taxed as a dividend while a profit and loss sharing agreement is in effect. E.ON, however, believes that this conclusion is not compatible with the concept of group taxation and the basics of the German corporate tax law and has therefore challenged the tax authorities. E.ON has established a provision that is sufficient to cover the liability should E.ON not prevail. However, the amount in dispute is material and should E.ON have to pay this amount to the tax authorities within a short period, this could have an adverse effect on E.ON's cash flow.

Viterra's financing of residential investments is done by mortgage financing and through intra-Group borrowings.

Residential Development

Viterra conducts all aspects of residential development, including land acquisition, planning, design, financing, management and sale of the completed units. Viterra believes that keeping every aspect of residential development under its control and employing standardized processes will enable it to lower costs significantly and to offer quality, attractive housing at competitive prices. It contracts out the actual construction to selected third-party general contractors. Viterra's business concentrates primarily on the construction and sale of moderately priced residential buildings under the brand name *"Wohnwert-Konzept"*. In 2000, Viterra completed approximately 1,500 housing units.

Residential Services

The residential services business unit provides real estate-related services for building administrators and occupants, as well as for private and institutional owners of housing units and smaller commercial buildings (offices). Viterra's real estate-related services include individual metering services for water and heat, private security systems and related services, property management and heating system contracting. Viterra's main operating companies in this area are Viterra Energy Services AG ("Viterra Energy Services"), Viterra Sicherheit + Service GmbH ("Viterra Sicherheit + Service"), Viterra Wohnpartner AG ("Viterra Wohnpartner") and Viterra Contracting GmbH ("Viterra Contracting").

Viterra Energy Services mainly provides comprehensive heat and water metering services to the owners of over 8.4 million housing and commercial property units in 30 countries. It develops and installs sub-metering equipment in homes, monitors and maintains the meters, collects and allocates the consumption data and prepares, sends and in some cases collects the corresponding bills. Individual metering is required in Germany and, increasingly, in other European countries. Viterra has leading market shares (based on number of data collections) in countries that require these services, including Germany, the Netherlands, Denmark and Poland, and is expanding its business strongly in the United States and other parts of Europe. Viterra's competitors in Germany include Techem, Brunata Group and Kalorimeta. Viterra Energy Services is currently expanding into metering services for utility companies.

Viterra Sicherheit + Service provides private security and alarm systems, central alarm monitoring stations and surveillance installations. In addition to the further expansion of these services for commercial customers, Viterra is also increasing its business with private households. Viterra has recently decided that Viterra Sicherheit + Service is no longer a core business and plans to dispose of this business activity.

Viterra Wohnpartner provides administrative, technical and infrastructural management of residential real estate for Viterra's own units and third-party housing units.

Viterra Contracting designs, finances, builds and operates heating systems for residential housing stock.

Commercial Real Estate

Viterra's commercial real estate business unit, Viterra Gewerbeimmobilien GmbH, focuses on investment and development activities relating to office buildings and similar projects. Viterra intends to expand its commercial real estate business significantly, focusing on office buildings and logistics properties (warehouses). The aim is to achieve a balanced portfolio of properties held for rent, development and sale. In December 2000, Viterra Gewerbeimmobilien GmbH purchased eight logistics sites from Deutsche Post AG.

Viterra holds approximately 125 commercial units. 50 units accounted for 95 percent of the portfolio in terms of market values at the end of 2000.

TELECOMMUNICATIONS

Overview

E.ON holds its telecommunications activities through two intermediate holding companies: E.ON Telecom and VIAG Telecom. E.ON Telecom (formerly VEBA Telecom) holds the remaining telecommunications assets of the former VEBA Group, while VIAG Telecom holds the remaining telecommunications assets of the former VIAG Group.

E.ON Telecom disposed of most of its business activities during 1999 and 2000. E.ON Telecom's remaining telecommunications holdings consist of a 51.25 percent shareholding in the German telecommunications company VRT (formerly o.tel.o communications GmbH & Co. or "Otelo") and a 17.5 percent shareholding in the French mobile telecommunications network operator, Bouygues Telecom.

VIAG Telecom also disposed of most of its business activities during 2000 and early 2001. Following the completion of the sale of its shareholding in VIAG Interkom, VIAG Telecom's only remaining shareholding is a 50.1 percent interest in the Austrian mobile telecommunications network operator, Connect Austria.

Strategy

E.ON will concentrate its telecommunications strategy on maximizing value, and will consider appropriate strategic steps, such as the further disposal of assets, at appropriate times.

Businesses

VRT. VRT is a German telecommunications partnership between E.ON and RWE. Until July 1, 1999, E.ON and RWE held 40 percent and 37.5 percent of VRT, respectively. As of July 1, 1999, pursuant to a contractual agreement between E.ON and RWE, E.ON and RWE each received one-half of the remaining 22.5 percent interest in VRT, which was formerly held in trust. As a result, E.ON now holds 51.25 percent and RWE 48.75 percent of VRT. Under U.S. GAAP, VRT is accounted for as an equity investment. VRT disposed of most of its operating businesses and shareholdings during 1999 and the beginning of 2000. VRT's primary remaining shareholding is an 8.4 percent investment in Iridium LLC ("Iridium"). Iridium is a global low-orbit satellite communications network which began operations at year-end 1998. For a number of reasons, including the relatively late start of the service and technical problems, Iridium filed for bankruptcy protection under the U.S. bankruptcy laws in August 1999. In June 1999, VRT wrote off its investment in Iridium and recognized anticipated expenses, resulting in a loss to E.ON at year-end 1999 of €123 million. E.ON now expects Iridium to be liquidated in the near future and does not anticipate any material additional economic burden from Iridium.

Bouygues Telecom. E.ON Telecom owns a 17.5 percent interest in Bouygues Telecom, the third-largest mobile telecommunications network operator in France on the basis of customers. Bouygues Telecom commenced operations in May 1996 and provided services to 5.2 million customers at year-end 2000. At year-end 2000, market penetration of cellular phones in France was approximately 50 percent of the population and, as a result, the French cellular market is considered to still have significant additional growth potential. By year-end 2000, Bouygues Telecom attained coverage for more than 98 percent of the population of France, in compliance with the terms of its 15-year license. Bouygues Telecom has decided not to apply for one of the up to four Universal Mobile Telecommunications System ("UMTS") licenses that will be granted to mobile telecommunications network operators in 2001 by the French state.

VIAG Interkom. VIAG Interkom, in which VIAG owned a 45 percent interest, has been offering telecommunications services to German businesses since 1995. VIAG Interkom offers fixed line, mobile telephony and Internet services. At the time of the VEBA-VIAG merger, VIAG Interkom was a joint venture between VIAG Telecom, BT and the Norwegian company Telenor A/S ("Telenor"). In August 2000, VIAG Interkom acquired a UMTS license for the German mobile telecommunications market for €8,445 million. Also in August 2000, VIAG Telecom entered into an option agreement with BT, allowing VIAG Telecom to sell its stake in VIAG Interkom to BT beginning in January 2001 and allowing BT to purchase VIAG Telecom's stake between May 1 and July 31, 2001. In December 2000, Telenor exercised a previously existing put option to sell its 10 percent share in VIAG Interkom to BT. On January 15, 2001, E.ON decided to exercise its put option. This transaction was completed on February 20, 2001.

Connect Austria. VIAG Telecom holds a 50.1 percent interest in Connect Austria, a joint venture among VIAG Telecom, Telenor, the British company Orange plc and the Danish company TeleDanmark International A.S. Orange plc was excluded from the company as a shareholder in 2000 due to alleged violations of the shareholders' agreement. Orange plc has challenged this exclusion; the matter is currently being reviewed by an arbitration court. Connect Austria has offered mobile phone services across Austria under the brand name "ONE" since October 1998. At year-end 2000, on the basis of customers, Connect Austria was the number three mobile phone operator in Austria, with 1.2 million subscribers. By year-end 2000, Connect Austria attained coverage for 97 percent of the Austrian population. In November 2000, Connect Austria was one of six mobile phone operators to acquire a UMTS license for Austria, at a cost of €120 million.

Orange Communications. The Swiss company Orange Communications was jointly incorporated in 1998 by the British mobile phone operator Orange plc and VIAG Telecom. In May 1998, the company was awarded a mobile network license for a Swiss nationwide digital mobile phone network. The company has operated a digital mobile phone network in Switzerland since June 1999 and is the third-largest mobile phone operator in Switzerland as of year-end 2000 on the basis of customers. Until November 2000, VIAG Telecom and the Orange group each held 42.5 percent of the company's shares. In November 2000, VIAG Telecom sold its 42.5 percent share in Orange Communications to France Telecom in a combined cash and share deal.

Other Dispositions

In October 1999, due to expected regulatory problems resulting from the merger with VIAG, the former VEBA Telecom agreed to sell VRT's 60.25 percent share in E-Plus, the third-largest German mobile phone network operator (based on number of customers), to France Telecom. However, Bell South, another E-Plus shareholder, then used its contractual rights of first refusal to purchase the shareholding. The E-Plus sale to Bell South was completed in February 2000.

In December 1999, the former VEBA Telecom agreed to sell its 32 percent share in Cablecom Holding AG, a leading Swiss cable television company, to NTL Inc. This transaction was completed in March 2000.

In December 2000, E.ON sold its 100 percent share in the Liechtenstein mobile phone network operator VIAG EuroPlattform AG to VIAG Interkom.

For the year ended December 31, 2000, the telecommunications group of E.ON reported €228 million in sales, which primarily represents the revenues of the fully consolidated Connect Austria operations. Due to the dispositions of E-Plus, Cablecom and Orange Communications and the resulting book gains, the telecommunications group of E.ON reported a profit of €5.656 million before income taxes for the year ended December 31, 2000. For more information on E.ON's telecommunications dispositions, see "Item 5. Operating and Financial Review and Prospects — Overview."

DISTRIBUTION/LOGISTICS

Overview

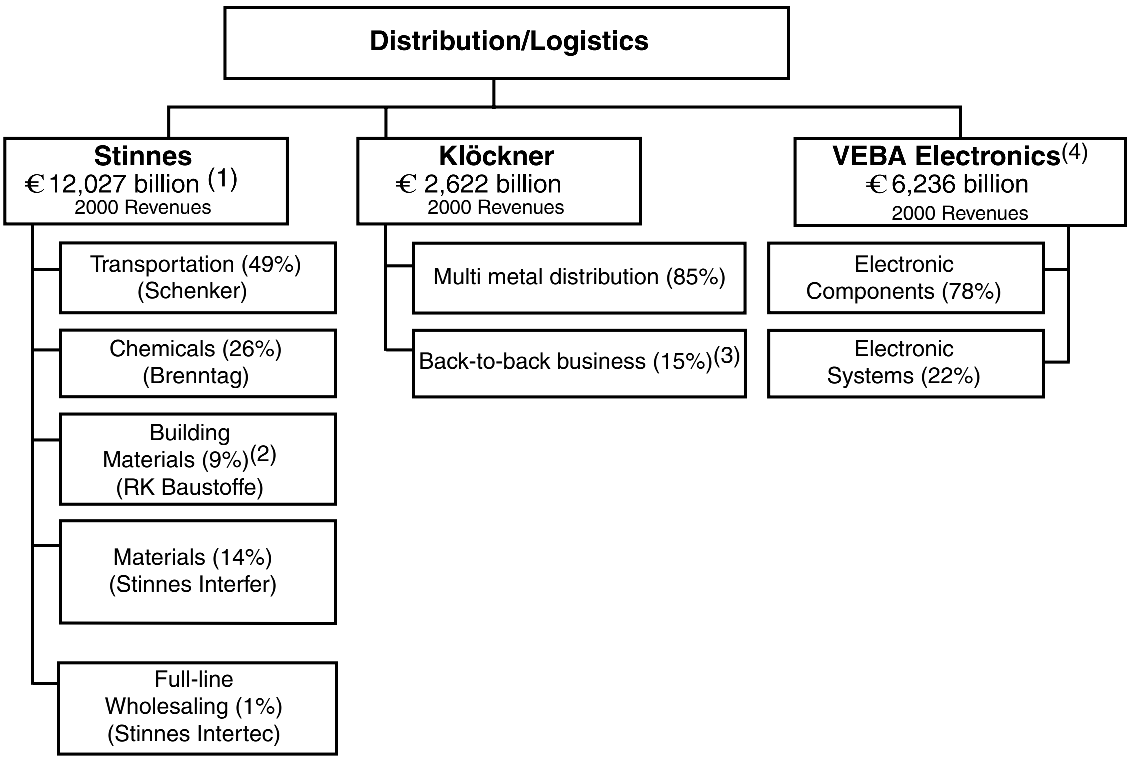
E.ON's activities in distribution and logistics are organized in two holding companies, Stinnes and Klöckner. Prior to the VEBA-VIAG merger, VEBA held 65.5 percent of Stinnes following its initial public offering in Germany of 34.5 percent of Stinnes in June 1999. In accordance with its strategy of disposal of non-core activities, E.ON intends to sell its remaining stake in Stinnes at a strategically appropriate time. Prior to the VEBA-VIAG merger, Klöckner was wholly owned by VIAG through its subsidiary Bayernwerk. Klöckner continues to be wholly owned by E.ON through the holding company Aviga AG. Klöckner sold its trading activities in December 2000. E.ON intends to sell the remainder of Klöckner at a strategically appropriate time. In addition, prior to the merger VEBA owned an additional D/L company, VEBA Electronics, specializing in the distribution of electronic components and systems. E.ON sold VEBA Electronics in October 2000 to a consortium of European and American buyers consisting of Schroder Ventures, Arrow Electronics, Melville, Phoenix and Avnet. In 2000, the D/L division had revenues of €20.9 billion, representing 25.2 percent of E.ON's total revenues, and an internal operating profit of €384 million.

With more than 1,200 locations worldwide, Stinnes believes it is one of the world's leading logistics enterprises (based on sales). Stinnes is active in logistics services in the following areas: transportation, chemicals, materials and full-line wholesaling. Transportation logistics include land, air and sea freight as well as logistics system services.

Klöckner is a leading European metal distributor with over 330 locations throughout Europe and North America. Klöckner also engaged in international back-to-back steel trading, but sold this business in December 2000 to Balli Steel plc. The distribution business operates on a country-by-country basis, with a warehousing business for steel and metal products in each country of operation and additional operations such as metal processing and the provision of special steel-related products and services offered according to demand in the respective market. Klöckner's global trading unit arranged for the supply of steel products worldwide directly from suppliers to customers, without need for warehouse storage.

Stinnes expects to increase revenues in its respective businesses as large companies increasingly outsource distribution services. Klöckner intends to grow by increasing its market share. The degree of internationalization in the D/L business is also increasing steadily, with international sales accounting for approximately 72 percent of total distribution/logistics revenues.

The D/L division's principal businesses, 2000 revenues and the percentage of 2000 revenues derived from each area of operation are summarized in the following chart.



(1) Includes €81 million revenues (one percent of Stinnes' total 2000 revenues) from other operations.
(2) The building materials unit was sold in April 2000.
(3) The back-to-back business unit was sold in December 2000.
(4) VEBA Electronics was sold in October 2000.

Strategy

Stinnes believes its focus on logistics will enable it to capitalize on significant opportunities that have resulted from a general trend in industry towards globalization and outsourcing. Stinnes plans to further optimize its distribution and transportation network and continue its expansion primarily in the transportation, chemicals distribution and materials sectors.

Klöckner intends to grow its warehousing distribution business, both organically and through acquisitions, in each of the markets in which it operates. As part of its strategy to achieve growth as well as an increase in profitability, Klöckner intends to increase the provision of value-added services and other customer services as a share of its business.

Stinnes

In transportation logistics, Stinnes operates primarily through Schenker AG ("Schenker"), one of Europe's leading transportation companies (based on sales). Schenker provides a variety of transportation services, including air freight, sea freight, rail and road transportation, comprehensive exhibition logistics and transportation services and logistical services for industry, trade and the public sector. Schenker's competitors include Kühne & Nagel, Deutsche Post/Danzas/Air Express International and Exel/MSAS. As of January 1, 1998, Stinnes, in an exchange with BTL AB's ("BTL") majority shareholder, Finnlines Oy, traded its Poseidon Schiffahrt subsidiary for a 35 percent shareholding (49.9 percent of the voting rights) in the Swedish transportation and logistics company BTL. In 1998 and 1999, Schenker and BTL combined their European land freight activities in order to establish a more integrated European logistics network. In April 1999, Stinnes increased its share in BTL through a tender offer to 97.7 percent and now holds 100 percent.

Stinnes' subsidiary, Brenntag AG ("Brenntag"), is one of the largest distributor of chemicals worldwide based on sales. Brenntag focuses on industrial and specialty chemicals, and operates more than 160 distribution centers worldwide. Brenntag's logistics services include the procurement, transport and storage of chemicals, mixing and repackaging into smaller containers and the re-acceptance of empty containers. Brenntag supplements the sale of chemicals with application-specific advice, particularly with respect to specialty chemicals. Its competitors include Biesterfeld and MG Technologies in Germany, VOPAK, Biesterfeld, MG Technologies and Ellis & Everard in Europe, and Ashland Chemical and Van Water Rogers in the United States. In December 2000, Stinnes acquired 99.41 percent of the shares of HCI, which had been listed on the Amsterdam Stock Exchange, in a cash public tender offer. This acquisition makes Brenntag one of the world market leaders in chemicals distribution (based on sales). Brenntag expects to receive the remaining 0.35 percent of the shares through compulsory buy-out proceedings.

Stinnes Interfer AG ("Stinnes Interfer") is one of Germany's two largest independent steel distribution companies, and a leading worldwide distributor of ores and minerals (based on sales). Stinnes Interfer procures, processes and distributes a wide variety of steel products as well as industrial minerals (special ores and fillers) and metals and metallurgical products (alloys, alloy briquettes, carborizing agents and pig iron). In an increasingly concentrated German steel distribution market, Stinnes Interfer competes with Thyssen Schulte, Klöckner, Salzgitter and Spaeter.

Stinnes Intertec GmbH ("Stinnes Intertec") is a system wholesaler that procures technical durables and consumable goods, combines them into assortments and supplies them, along with supplemental services, to dealers in selected European countries. Stinnes Intertec supplies more than 4,500 do-it-yourself outlets, construction specialty stores and self-service stores with a full range of products in the areas of automotive accessories and maintenance, bicycle accessories, electrical installation material and tools/small iron products. Stinnes Intertec is focusing on a new strategy as a service provider and plans to offer different logistical and marketing services tailored to the individual requirements of manufacturers. During 2001, Stinnes plans to integrate these activities into its transportation business.

Stinnes sold its building materials business (Raab Karcher Baustoffe Holding GmbH & Co. oHG) to the French company Compagnie de Saint-Gobain in April 2000.

Klöckner

Klöckner is a leading European metal distributor with over 330 locations throughout Europe and North America. Until December 2000, it also operated a steel trading company which focused on international back-to-back steel trading. In December 2000, Klöckner sold its trading activities to Balli Steel plc. Klöckner's main competitors in Europe are Arbed, Usinor, Avesta Sheffield Distribution, Salzgitter, Stinnes Interfer, ThyssenKrupp Materials and Corus Distribution.

In its distribution business, Klöckner distributes a full range of steel, aluminum, copper and non-ferrous metals. The largest country operations are Germany, France, Switzerland and North America. Klöckner significantly strengthened its operations in the United Kingdom in January 2000 through the acquisition of the U.K. metal distributor Richardsons Westgarth. At certain locations, particularly in North America, the United Kingdom and Switzerland, Klöckner also processes the material metals prior to distribution. Processing capabilities in Europe include decoiling, cut-to-length, blanking and slitting. In North America, processing includes cut-to-length, slot blasting, drilling, precision blanking and precision slitting. Klöckner's product portfolio varies by country, mainly for historical reasons and due to former affiliation of respective operations to certain steel mills. The two key product areas in Germany, for example, are flat and long products. In addition, Klöckner is also very active in the product categories of tubes, stainless/high grade steel and aluminum throughout its markets. Certain Klöckner subsidiaries offer special steel-related products and services according to demand in the respective market, such as, for example, sun protection systems operations in the Netherlands. Klöckner sources most of its metals from European suppliers.

ALUMINUM

Overview

VAW is a wholly owned subsidiary of E.ON. Prior to the VEBA-VIAG merger, VAW was wholly owned by VIAG. VAW is one of Europe's major aluminum companies and the market leader in Germany (each on the basis of sales). VAW is active in the production and processing of aluminum into innovative high-quality aluminum products. It focuses its activities on the fabrication of semi-finished and finished products for packaging and for specially selected technical applications in the automotive, printing and construction industries. With the four principle business segments primary materials, rolled products, flexible packaging and automotive products, VAW is one of the few fully integrated aluminum companies worldwide. The business segments are formed by business units with autonomous, strategic tasks and goals. VAW's main competitors are Alcoa Inc., Alcan Aluminium Limited, Pechiney S.A. and Norsk Hydro ASA. In the period from July 1 through December 31, 2000, the aluminum division had revenues of €1.8 billion, representing 2.1 percent of E.ON's total revenues, and internal operating profit of €96 million.

Strategy

E.ON intends to continue the aluminum business, aiming to maximize the value of this activity, and to dispose of it at an appropriate time.

Primary Materials

The primary materials business segment consists of the following business units: smelters, high-purity aluminum, metal services, recycling and aluminum technology. In October 2000, VAW acquired the Kurri Kurri smelter of Capral Ltd. in Australia with a primary aluminum capacity of 150,000 tons per year. Including the Kurri Kurri capacity, VAW holds stakes in aluminum smelters in Germany, Australia and Canada with an aggregated dedicated primary aluminum capacity of approximately 575,000 tons in 2000. VAW uses its smelters primarily for its own processing needs. In addition, VAW supplies aluminum processors in Germany and abroad. VAW is the market leader in high-purity aluminum on the basis of sales. The metal services unit procures aluminum both for VAW use and supplies small amounts to the market. The metal services unit also engages in hedging activities for the VAW group.

The aluminum smelter in Neuss, Germany, which has a capacity of 210,000 tons per year, produces rolling ingots. The ingots are subsequently processed into strip and sheet aluminum in the neighboring rolling mill, in which VAW holds a 50 percent share. In a 50 percent joint venture with IMCO, Inc., the largest aluminum recycler in the United States, VAW is also active in the business of casting alloys and recycled products.

Rolled Products

VAW is one of the leading aluminum rolling companies in Europe based on sales and capacity. Products offered include aluminum foils and strips for applications in the packaging, automotive and transport industries, for producing beverage cans, offset printing plates and heat exchangers and for use in the construction industry. VAW has a European network of four rolling mills located in Germany, Italy and Spain. In addition, the company holds a 50 percent stake in Aluminium Norf GmbH in Neuss, Germany, the world's largest hot and cold rolling mill facility based on production capacity. VAW had a total fabricated production capacity of approximately 650,000 tons in 2000.

Flexible Packaging

The flexible packaging business segment consists of three companies with a total of six production sites in Europe as well as interests in four companies with seven plants in Southeast Asia and China. It is organized in four units: food, dairy products, healthcare and Asia (focusing on the Asian markets). It produces flexible compound packaging consisting of aluminum and plastics as well as aluminum and paper. The products are used for dairy products, other food products, pharmaceuticals, hygienic items and technical applications.

Automotive Products

The business segment automotive products consists of two business units: castings and VAW of America. The castings unit is the world's largest independent supplier (based on production capacity) of aluminum engine blocks and cylinder heads for the automotive industry. VAW manufactures engine blocks using pressure die casting, sand casting and gravity die casting procedures. The production sites are located in Germany, the United Kingdom, Austria, Hungary and Mexico. VAW also develops individual customer solutions with respect to engine technology, product design and production volume.

VAW of America manufactures extrusion products such as airbag housings and seating components for the automotive industry. It operates five production plants in the United States and Mexico.

Other Activities

VAW was also active in the manufacturing of products such as aluminum ladders, scaffoldings and trunks through its 75 percent shareholding in ZARGES Leichtbau GmbH. At the end of 2000, VAW sold this shareholding to NIB Capital NV.

SILICON WAFERS

MEMC, a 71.8 percent owned subsidiary, is a leading worldwide manufacturer of silicon wafers for the semiconductor device industry. MEMC was formed in 1989 when Hüls acquired the silicon activities of Monsanto Company and merged them with the previously acquired Dynamit Nobel Silicon Holdings, Inc. In June 1995, MEMC sold 19.6 million shares to the public and listed its common shares on the New York Stock Exchange. In March and April 1999, E.ON purchased a total of 28,469,028 shares from MEMC in a private placement and in connection with a rights offering. As a result, E.ON's ownership in MEMC increased from 53.1 percent to 71.8 percent. MEMC used the $197 million net proceeds from these purchases to repay debt and for general corporate purposes. In 2000, MEMC had revenues of €944 million, representing 1.1 percent of E.ON's total revenues, and an internal operating loss of €68 million.

Silicon wafers are used in the manufacture of semiconductors that are employed in all types of microelectronic applications, including computer systems, telecommunications equipment, automobiles, consumer electronics products, industrial automation and control systems, and analytical and defense systems. MEMC's principal customers are the leading American, European and Asian semiconductor manufacturers. To be closer to its customers and better serve many markets, MEMC has manufacturing facilities in the United States, Italy, Japan, Korea and Malaysia, as well as a joint venture in Taiwan. MEMC markets substantially all of its products through a direct sales force which maintains close relationships with its customers. MEMC's competitors include Shin-Etsu Handotai, Wacker Siltronic, Sumitomo-Sitix, Mitsubishi Materials and Komatsu Electronic Metals.

Silicon wafers vary in diameter, surface features (polished and epitaxial), composition, electrical properties and methods of manufacture. MEMC manufactures silicon wafers according to the specifications required by its customers and produces them with a variety of features, satisfying more than 1,000 unique product specifications. MEMC has increasingly focused on large diameter wafers (200mm and 300mm) and other high value-added products including epitaxial wafers. Epitaxial wafers are sophisticated, layered wafers used in the manufacturing of advanced semiconductors such as microprocessors and memory elements. MEMC has maintained its research and development efforts at the same level as in 1999. MEMC is already supplying its customers with state-of-the-art 300mm wafers from its pilot lines in St. Peters, Missouri and Utsunomiya, Japan.

MEMC has entered into a number of strategic alliances as part of its strategy to leverage its capital, enter expanding markets, forge closer working relationships with customers and broaden the geographic diversification of its operations. In June 1995, MEMC and Texas Instruments formed a joint venture, MEMC

Southwest (80 percent MEMC interest), to own and operate Texas Instruments' existing wafer operations and to construct a new 200mm silicon wafer manufacturing facility. In 1990, POSCO Hüls Co. Ltd. ("POSCO Hüls"), a joint venture in South Korea (40 percent MEMC interest) with Pohang Iron and Steel and Samsung Electronic Co., was formed to produce 200mm wafers. On September 29, 2000, MEMC acquired a further 40 percent stake in POSCO Hüls and now holds 80 percent. As of the beginning of October 2000, the company was fully consolidated and has been renamed MEMC Korea Company ("MKC"). In 1994, Taisil Electronic Materials Corporation ("Taisil") was founded as a joint venture with China Steel Corporation, Chao Tung Bank and China Development Corporation in Taiwan (45 percent MEMC interest). Taisil was the first wafer manufacturer in Taiwan to produce 200mm wafers.

Due to continuing price pressure, excess capacity in both the semiconductor and the wafer industries and weakness in the Asian and Japanese economies, MEMC began to implement comprehensive cost-cutting, productivity-enhancing programs and extensive restructuring measures in 1998. In 1999, these programs were intensified, resulting in significant cost savings as compared with the prior year. In addition, the wafer market turned around in 1999 and in the beginning of 2000, after a low point in the fourth quarter of 1998. In 2000, the demand for wafers grew steadily. Cost reduction and productivity enhancing initiatives were continued in 2000 as well, with the acquisition of a controlling stake in MKC giving MEMC full access to MKC's low-cost production facilities for the first time as well as the opportunity to integrate these facilities in the company's production planning. E.ON believes MEMC is now well-positioned to benefit from the future long-term growth of the semiconductor and wafer industry predicted by independent market research analysts.

OPERATING ENVIRONMENT

As Germany's third-largest industrial group on the basis of market capitalization, all social, political and economic developments and conditions in Germany affect E.ON. Labor costs, corporate taxes and employee benefit expenses in Germany are high and weekly working hours are shorter compared with other EU member states, the United States and Japan. Nonetheless, many factors, including monetary and political stability, high environmental protection and standards and a well-educated, highly qualified workforce continue to positively affect Germany's competitive position in world trade.

By virtue of its operations outside the European Monetary Union ("EMU"), the Group is also subject to the risks normally associated with cross-border business transactions and business activities, particularly those relating to exchange rate fluctuations. For additional details regarding the exchange rates of the currencies of the EMU member states, see "Item 5. Operating and Financial Review and Prospects — European Monetary Union (EMU)." For particular risks associated with the international operations of VEBA Oel, see "— Business Overview — Oil — Business Environment." In addition, because most of the Group's operations are based in Europe, both the development of the European market and the entry of certain eastern European countries into the EU will continue to create new opportunities and challenges for E.ON.

GERMAN ECONOMIC BACKGROUND

In 2000, the German economy performed below the Eurozone average. Although the real gross domestic product rose 3.1 percent compared with 1.6 percent in 1999, the German economy lost momentum during the second part of 2000. The growth of the German economy in 2000 can be attributed to an upswing in exports due to better performance of the world economy combined with the weak euro. Business capital spending expanded less than in 1999 at the rate of 2.4 percent. Investment in machinery and equipment, however, increased at the much higher rate of 9 percent. Other investment — especially in computer software — has also been strong. The domestic demand was less dynamic than in 1999. Due to the upswing caused by the domestic demand, a growth rate of 2.8 percent is expected for 2001.

Long-term interest rates increased almost one percentage point in 2000. The European Central Bank ("ECB") increased the interest rates in six steps. Altogether, it increased the deposit facility rate by 1.75 percentage points and the marginal lending rate by 1.75 percentage points in order to fight inflationary pressure from the hike in oil prices. In the last increase of the year, in October 2000, the ECB raised the marginal lending rate to 5.75 percent and the deposit facility rate to 3.75 percent to counter risks to price stability.

Germany's competitive position in world trade continues to benefit from many factors, including monetary stability, a reputation for quality and the recent productivity gains. In 2000, Germany is expected to have achieved an export surplus in real terms of €35 billion, compared with €16 billion in 1999. Despite the economic growth, unemployment remained high in Germany (3.9 million in 2000; 4.1 million in 1999). In the last quarter of 2000, however, there was a slight recovery in the labor market. The reasons for unemployment are predominantly of a structural nature and include, among other factors, extensive regulation of the labor market and high labor costs (compared with the rest of the EU and the United States).

Both chambers of the German legislature (*Bundestag* and *Bundesrat*) approved the Tax Reduction Act in July 2000. The Act provides tax relief for families, private households and businesses. The top marginal income tax rate will be lowered from 53 percent in 1999 to 42 percent by 2005, while the corporate income tax rate will be reduced to 25 percent in 2001. The Tax Reduction Act follows earlier tax legislation by the Coalition, the Tax Relief Act, which lowered the corporate income tax rate on retained profits from 45 to 40 percent. Notwithstanding the reduction in corporate income tax rates, the 1999 tax legislation resulted in a broadening of the tax base. As a result, from 2001 onwards the total tax load for companies (including local taxes) should be approximately 39 percent (which includes a solidarity surcharge of 5.5 percent on corporate income taxes). Furthermore, starting in 2002, the capital gains from shares in resident and nonresident corporations realized by a corporation will be exempted from German tax, although certain restrictions will apply.

In 1999, both chambers of the German legislature (*Bundestag* and *Bundesrat*) approved two bills introducing an environmental tax reform. The introductory step, which took effect as of April 1, 1999, introduced a new tax on electricity consumption of two Pfennig per kWh and an increase in tax rates of six Pfennig per liter for gasoline, four Pfennig per liter for heating oil and 0.32 Pfennig per kWh for natural gas. These energy tax revenues are used to reduce the contribution rate for the government social security pension system. In November 1999, a second step was approved by the two chambers of parliament, which introduced a yearly increase of six Pfennig per liter of gasoline and 0.5 Pfennig per kWh of electricity for the years 2000 to 2003. Accordingly, as of each of January 1, 2000 and January 1, 2001, the tax on gasoline rose by six Pfennig per liter and the tax on electricity by 0.5 Pfennig per kilowatt hour.

In addition, the environmental tax legislation includes an indirect tax preference for low sulfur gasoline beginning in November 2001. VEBA Oel will be able to supply low sulfur gasoline in time to benefit from the tax preference. A special tax on heavy fuel oil used for power generation was abolished and all uses are now taxed at €17.90 per ton. The environmental tax reform provides for certain exemptions, reduced tax rates (20 percent of the normal rate) and reimbursements for companies in manufacturing industries.

The agreement between the power industry and the German government to phase out nuclear energy (see "— Business Overview — Electricity") is still being debated by the German legislature. Talks between employer associations and trade unions regarding an "alliance for jobs, education and competitiveness," initiated by the Coalition to address Germany's high unemployment rate, continued throughout 2000 and have produced at least one recommendation: that the increase of wages should focus on gains in productivity.

EUROPEAN UNION

In 1992, the twelve original members of the former European Economic Community signed the Treaty on European Union (the "Treaty"), a significant step toward creating a single integrated market. The Treaty provided a working program for European integration, including the coordination of economic policies of the EU countries and preparations for the introduction of a single currency. On January 1, 1999, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland (the "participating countries") adopted the euro as their single currency, with fixed exchange rates for the participating currencies against the euro. In the beginning of 2001, Greece joined the European Monetary Union ("EMU") as well. Not all EU member states participate in the EMU. The United Kingdom, Sweden and Denmark chose not to be initial participants in the euro. For additional details regarding the euro and the exchange rates of the currencies of the participating countries (the "legacy currencies"), see "Item 5. Operating and Financial Review and Prospects — Overview — European Monetary Union (EMU)."

Since the ratification of the Treaty, the EU has been enlarged from 12 to 15 member states, with the entry of Austria, Finland and Sweden in January 1995. It is now facing another enlargement to include several additional European countries, primarily East European countries. In 1997, the EU signed accession agreements with six applicant countries: Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia. The agreements provide for the entry into the EU of the relevant applicant, provided that the candidate-stipulated accession criteria are met. In December 1999, the EU decided to start the accession process with another six countries — Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia — in early 2000. Turkey also reached the status of an accessing country. Before these countries are able to join the EU, an institutional reform within the EU (15 member states) will be necessary to enable the EU to integrate another 13 members. An EU intergovernmental conference is expected to finalize a draft treaty on institutional reforms in the first half of 2001.

RISK MANAGEMENT

While E.ON's divisions have varying degrees of international activities and varying exposures to fluctuations in exchange rates, on an overall basis E.ON has certain exposures to fluctuations between the euro and the other major world currencies that it seeks to manage through hedging activities. Foreign exchange rate risk management, along with liquidity management and interest rate risk management, for the entire E.ON Group is generally centralized on a Group-wide basis and is the responsibility of the Group treasury. With E.ON AG's approval, the currency and interest rate risks of Group companies are also hedged with external banks or with Group treasury in conformity with E.ON's financial guidelines. E.ON only uses derivatives to hedge its risk positions deriving from the underlying business and not for speculation, and E.ON continually assesses its exposure to currency risks resulting from the underlying exposures and the results of hedging transactions. For a more detailed discussion of the current exchange rate and interest rate risk exposure and risk management of the Group, see "Item 5. Operating and Financial Review and Prospects," "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and Note 31 of the Notes to Consolidated Financial Statements.

ENVIRONMENTAL MATTERS

E.ON is subject to numerous national and local environmental laws and regulations concerning its operations, products and other activities in the various jurisdictions in which it operates. Although E.ON believes that its domestic and international production facilities and operations are currently in material compliance with the laws and regulations with respect to environmental matters, such laws and regulations could require E.ON to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances or waste. Such laws and regulations could apply to various sites, including power plants, refineries, chemicals plants, oil fields, service stations, waste disposal sites and chemicals warehouses. Such laws and regulations could also require E.ON to install additional controls for certain of its emission sources or undertake changes in its operations in future years. For greater detail on the application of environmental laws and regulations to E.ON's operations, see "Environmental Matters" under "— Electricity," "— Chemicals" and "— Oil" above. E.ON has established and continues to establish accruals for environmental liabilities where it is probable that a liability will be incurred and the amount of liability can be reasonably estimated. The provisions made are considered to be sufficient for known requirements. E.ON adjusts accruals as new remediation commitments are made and as information becomes available which changes estimates previously made.

The extent and cost of future environmental restoration and remediation programs are inherently difficult to estimate. They depend on the magnitude of any possible contamination, the timing and extent of corrective actions required and E.ON's share of liability relative to that of other responsible parties.

Any failure to comply with present or future environmental laws or regulations could result in the imposition of fines, suspension of operations or production or alteration of production processes. Such laws or regulations could also require acquisition of expensive remediation equipment or other expenditures to comply with environmental regulation.

E.ON incurred capital expenditures for facilities and processes relating to environmental control of approximately €141 million in 2000, compared with €81 million and €165 million, respectively, in 1999 and 1998. In addition, the Group spent approximately €1.0 billion on environmental compliance in 2000, compared with €0.6 billion in 1999 and €0.6 billion in 1998.

ORGANIZATIONAL STRUCTURE

E.ON AG is the Group's Düsseldorf-based management holding company. E.ON AG provides strategic management for Group members and coordinates Group activities. E.ON AG also provides centralized controlling, treasury, risk management (including hedging) and service functions to Group members, as well as communications, capital markets and investor relations functions. The Group's operating activities are organized into eight business divisions, each of which is responsible for managing its own day-to-day business. The following table sets forth certain information about each of the subsidiaries which serves as a parent or co-parent company of an E.ON business division:

Name of Subsidiary	Country of Incorporation	Percentage Ownership Interest held by E.ON	Percentage Voting Interest held by E.ON
E.ON Energie AG (electricity)	Germany	100.0%	100.0%
VEBA Oel AG (oil)	Germany	100.0%	100.0%
Degussa AG (chemicals)	Germany	64.55%	64.55%
Viterra AG (real estate)	Germany	100.0%	100.0%
E.ON Telecom GmbH (telecommunications)	Germany	100.0%	100.0%
VIAG Telecom Beteiligungs GmbH (telecommunications)	Germany	100.0%	100.0%
Stinnes AG (D/L)	Germany	65.5%	65.5%
Klöckner & Co AG (D/L)	Germany	100.0%	100.0%
VAW aluminium AG (aluminum)	Germany	100.0%	100.0%
MEMC Electronic Materials, Inc. (silicon wafers)	USA	71.8%	71.8%

PROPERTY, PLANTS AND EQUIPMENT

GENERAL

The Company owns most of its production facilities and other properties. Some of E.ON's facilities are subject to mortgages and other security interests granted to secure indebtedness to certain financial institutions. As of December 31, 2000, the total amount of indebtedness secured by these facilities was approximately €1.4 billion, €0.8 billion of which was secured by property owned by Viterra. E.ON believes that the Group's principal production facilities and other significant properties are in good condition and that they are adequate to meet the needs of the E.ON Group.

PRODUCTION FACILITIES

Electricity

E.ON Energie produces electricity at jointly and wholly owned power plants. Its power generation facilities have a total installed capacity of more than 37,000 MW, E.ON Energie's attributable share of which is about 29,000 MW (not including mothballed, shut down and inactive power plants). Electricity is transmitted to purchasers by means of high-voltage transmission lines and underground cables owned by E.ON Energie. For further details, see "Item 4. Information on the Company — Business Overview — Electricity." E.ON Energie believes that its power plants are in good operating condition and that its machinery and equipment have been well maintained. E.ON Energie's power plants operated at approximately 56 percent of theoretical capacity in 2000.

Oil

VEBA Oel owns interests in four refineries and three petrochemical plants through its interest in Ruhr Oel and a refinery in Lingen. See "Item 4. Information on the Company — Business Overview — Oil — Refining, Trading and Petrochemicals" for a description of VEBA Oel's facilities and capacity utilization in 2000. VEBA Oel has exploration and production activities in numerous countries. See "Item 4. Information on the Company — Business Overview — Oil — Exploration and Production" and Note 36 of the Notes to Consolidated Financial Statements for a description of VEBA Oel's reserves and sources of crude oil and natural gas. Aral's network comprises approximately 3,000 service stations, primarily in Germany.

Chemicals

Degussa owns more than 300 plant sites in more than 50 countries. On a global basis, Degussa operates 35 major production plants, the locations of which are as follows:

	Degussa-Hüls	SKW Trostberg
Germany	Marl, Krefeld, Darmstadt, Gladbeck, Rheinfelden, Hanau-Wolfgang and Wesseling	Trostberg, Essen, Piesteritz
Europe	Antwerp, Belgium, Communion-Lantaron, Spain, Rotterdam, the Netherlands, Ambès, France, Sines, Portugal, Ravenna, Italy, Malmö, Sweden and Ham, France	
Brazil	Guarulhos, Americana, Barra do Riacho	
United States	Mobile, Alabama, Greensboro, North Carolina, Belpre, Ohio, Aransas Pass, Texas, Ivanhoe, Texas and Chester, Pennsylvania	Hopewell, Virginia, Cleveland, Ohio and Amherst, New York
South Africa	Port Elizabeth	
Asia	Yokkaichi, Japan, Bupyung, Korea and Taipei, Taiwan	Tokyo, Japan and Guandong, China

Including the major production facilities, Degussa has plants in the following geographic areas:

	Degussa-Hüls	SKW Trostberg
Germany	28 production sites	15 production sites
EU (excluding Germany)	36 production sites in 11 countries	68 production sites in 12 countries
Europe (non-EU)	two production sites in two countries	16 production sites in eight countries
North America	29 production sites in two countries	42 production sites in two countries
Asia	19 production sites in eight countries	38 production sites in 13 countries
Others	9 production sites in five countries	34 production sites in 16 countries

Degussa believes that its production facilities are in good operating condition and that its machinery and equipment have been well maintained. Degussa-Hüls' and SKW Trostberg's plants operated at approximately 90 percent of capacity in 2000. See "Item 4. Information on the Company — Business Overview — Chemicals" for the 2000 production capacity of each of Degussa-Hüls' and SKW Trostberg's major products.

Real Estate

Viterra owns approximately 120,000 housing units and approximately 125 commercial properties, principally located in the state of North Rhine-Westphalia, Germany. Furthermore, Viterra holds 50 percent of Deutschbau and Wohnbau Rhein-Main, which together own about 50,000 housing units. See "Item 4. Information on the Company — Business Overview — Real Estate" for further information. No single property is material to the E.ON Group.

Telecommunications

The telecommunications division has no material production facilities.

Distribution/Logistics

Stinnes and Klöckner own or lease distribution and services facilities throughout the world. No single facility is material to the E.ON Group.

Aluminum

VAW owns production facilities throughout the world. No single facility is material to the E.ON Group.

Silicon Wafers

The locations of MEMC's production plants are as follows:

United States	St. Peters, Missouri, Pasadena, Texas and Sherman, Texas
EU	Novara and Merano, Italy
Asia	Utsunomiya, Japan, Chonan, Korea and Kuala Lumpur, Malaysia

No single facility is material to the E.ON Group.

OTHER FACILITIES

E.ON also has other properties, including its current headquarters in Düsseldorf, Germany and its new headquarters in Düsseldorf, which is currently under construction. In May 2001, E.ON plans to move to its new headquarters.

Item 5. Operating and Financial Review and Prospects.

OVERVIEW

On June 16, 2000, the Company completed the merger between VEBA and VIAG. VIAG was a corporate group operating in five core businesses, classified in two main categories: energy and telecommunications (services) and chemicals, packaging and aluminum (innovative industries). VIAG was one of Germany's largest industrial groups. VIAG's divisions were Bayernwerk for the energy business, SKW Trostberg for the chemicals business, VIAG Telecom for the telecommunications business, VAW for the aluminum business and Schmalbach-Lubeca AG and Gerresheimer Glas AG for the packaging business.

The VEBA-VIAG merger was accounted for under the purchase method of accounting. The merger was completed on a step by step basis. The first step was the acquisition from the Free State of Bavaria on October 7, 1999 of a total of 10 percent of VIAG's shares at €23.00 per share, for an aggregate purchase price of €1,592 million. The second step was the acquisition of the remaining 90 percent of VIAG's shares using the share exchange ratio of one VEBA share for 2.5 VIAG shares, resulting in the issuance of 249,113,480 new Ordinary Shares for an aggregate purchase price of €9,271 million. The total purchase price amounted to €10,920 million, including acquisition costs of €57 million. The difference of €340 million between the purchase price of the acquired net assets and their fair values as of June 30, 2000, was capitalized as goodwill and will be amortized over 20 years using the straight-line method. For convenience reasons, June 30, 2000 has been chosen as the merger date. The operations of VIAG are therefore included in E.ON's financial data from July 1 to December 31, 2000. For more information on the VEBA-VIAG merger, see "Item 4. Information on the Company — History and Development of the Company — VEBA-VIAG Merger" and Note 4 of the Notes to Consolidated Financial Statements. Following the VEBA-VIAG merger, E.ON subsidiaries PreussenElektra and Bayernwerk merged to form the new E.ON Energie on July 14, 2000, and E.ON subsidiaries Degussa-Hüls and SKW Trostberg merged to form the new Degussa on February 9, 2001. More information about these mergers can be found in "Item 4. Information on the Company — Business Overview — Electricity — Overview" and "— Chemicals — The Degussa Merger." E.ON acquired the remaining 2.46 percent of E.ON Energie AG held by former shareholders of Bayernwerk AG in September 2000 through the issuance of 11,387,615 Ordinary Shares, resulting in a purchase price of €686 million. This acquisition was also accounted for under the purchase method. The amount of €566 million was recorded as goodwill, which is being amortized over 20 years on a straight-line basis.

The Company previously prepared the Consolidated Financial Statements in accordance with German GAAP, and applied U.S. GAAP as far as permissible under German GAAP. Additionally, the Company provided a reconciliation of net income and stockholders' equity to U.S. GAAP. As of and for the year ended December 31, 2000, the Company has prepared the Consolidated Financial Statements in accordance with U.S. GAAP. Prior year amounts have been restated to be in accordance with U.S. GAAP.

E.ON's 1998 restated euro financial information depicts the same trends as would have been presented if E.ON had continued to present its financial information in marks. The Group's consolidated financial information will, however, not be comparable to the euro financial information of other companies that previously reported their financial information in a currency other than marks.

E.ON participates in a number of different businesses. E.ON operates in the electricity business through E.ON Energie, in the oil business through VEBA Oel, in chemicals through Degussa, in the real estate business through Viterra, in the telecommunications business through E.ON Telecom and VIAG Telecom, in the distribution/logistics business through Stinnes and Klöckner, in the aluminum business through VAW and in the silicon wafers business through MEMC. The E.ON Group also has minority participations in numerous companies, particularly in the electricity division, which are classified as associated companies. Income from these participations is reflected in the income statement as income from equity interests and is generally included in internal operating profit. Management views these associated companies as an integral part of the operations of E.ON.

STOCK INCENTIVE PLANS

In 1999, the former VEBA AG and Stinnes decided to implement stock appreciation rights ("SAR") plans for key executives of the Group and Stinnes, respectively. The purpose of these plans is to focus key executives on long-term corporate growth. The SAR plans are based on the performance of E.ON AG's and Stinnes' ordinary shares, respectively. Unlike a stock option plan, employees who participate in the SAR plans are not granted shares or options. Instead, such employees are deemed to receive the economic value of such options and are paid cash as if they had exercised such deemed options on the exercise date and sold the shares immediately. Participants in the 1999 plan will be entitled to receive the economic value of such SARs on pre-determined exercise dates during a two-year period beginning three years after the date the SARs were granted, if E.ON AG's and Stinnes' ordinary shares, respectively, outperform the Dow Jones Euro STOXX 50 Performance Index and the M-DAX Performance Index, respectively. The Dow Jones Euro STOXX 50 Performance Index includes up to 50 companies in the 11 Eurozone countries. The M-DAX Performance Index includes 70 companies. E.ON SARs not exercised by the final exercise date on November 3, 2003 (Stinnes: May 3, 2004) will automatically be considered as exercised. E.ON AG granted approximately one million SARs in the first tranche, retroactive to the beginning of 1999, to 114 top-level executives worldwide, including all members of E.ON AG's Board of Management, as part of their compensation. Executives of Stinnes and Degussa-Hüls, companies with a stock exchange listing of their shares, were not included. In July 1999, Stinnes granted approximately 3.4 million SARs in the first tranche to 260 top-level executives as part of their compensation. E.ON AG's SARs were granted based on the market price on January 4, 1999. Stinnes' SARs were granted based on the average market price between June 28 and July 9, 1999. There was no compensation cost recognized regarding E.ON AG's SAR program in 1999 as the difference between the E.ON stock price and the indexed stock price was negative. Total compensation cost recognized in 1999 with regard to Stinnes' SAR program amounted to €14 million.

In 2000, E.ON AG granted approximately 1.5 million SARs in the second tranche, retroactive to the beginning of 2000, to 155 top-level executives worldwide, including all members of E.ON AG's Board of Management, as part of their compensation. Executives of Stinnes and Degussa-Hüls, companies with a stock exchange listing of their shares, were not included. In July 2000, Stinnes granted approximately 1.36 million SARs in the second tranche to 250 top-level executives worldwide as part of their compensation. E.ON AG's SARs were granted based on the market price on January 3, 2000. The second tranche of Stinnes' SARs were granted based on the market price on June 30, 2000. The E.ON SARs granted in 2000 have a term of seven years. Before any exercise of the 2000 SARs the following two conditions have to be met: (1) between grant and exercise the E.ON share price has outperformed the Stoxx Utilities Price Index on at least ten consecutive business days and (2) the E.ON share price at the date of exercise is at least 20 percent higher than the share price at the date the SAR was granted. The Stoxx Utilities Price Index includes up to 30 European utilities. Participants can exercise all or a portion of the SARs granted to them within pre-determined exercise periods in the years 2002 until 2006. SARs not exercised by the final exercise date (four weeks after publication of the interim report for the third quarter 2006) will automatically be considered as exercised. The grant of SARs depends on the possession of a certain number of E.ON shares which have to be held until maturity of the SARs issued in 2000. The Stinnes 2000 SARs have a term of five years. For the second tranche of Stinnes SARs, the compensation will be calculated as the difference between the Stinnes calculated stock price and its indexed stock price. The calculated stock price equals the average quotation of the Stinnes stock price during the last six months before exercise. To calculate the indexed stock price, the stock price at the date of grant will be multiplied by the ratio of the average MDAX performance during the last six months prior to exercise divided by the performance of this index at the date of grant. Participants can exercise all or a portion of the SARs granted to them on pre-determined exercise dates within the years 2002 until 2005. SARs not exercised by the final exercise date (May 2, 2005), will automatically be considered as exercised. There was a compensation cost of approximately €11.9 million recognized regarding the second tranche of E.ON AG's SAR program in 2000. There was no compensation cost recognized regarding the first tranche of E.ON AG's SAR program in 2000 as the difference between the E.ON stock price at year-end and the indexed stock price was negative. Total compensation cost recognized in 2000 with regard to Stinnes' SAR program amounted to approximately €14.9 million, which includes €1.4 million recognized with respect to Stinnes' 2000 SARs and €13.5 million recognized with respect to Stinnes' 1999 SARs.

In addition, MEMC has an Equity Incentive Plan ("the Plan") that provides for the award of incentive and non-qualified stock options, restricted stock and performance shares. Total shares authorized for grant under the Plan are 7,197,045. Non-qualified stock options to employees are typically granted on January 1 and vest at a rate of 25 percent annually over four years. Non-qualified stock options to non-employee directors are also typically granted on January 1 but vest at a rate of $33^1/_3$ percent annually over three years. The exercise price of each option equals the market price of MEMC's common stock at the date of the grant, and each option's maximum term is 10 years. For more information about the SAR plans and the Plan, see Note 11 of the Notes to Consolidated Financial Statements.

REPURCHASE OF SHARES

Pursuant to a shareholder resolution approved at the annual general meeting of shareholders held on May 25, 2000, the Board of Management has been authorized to buy back up to 10 percent of E.ON AG's outstanding share capital through October 31, 2001. As of December 31, 2000, the Company had bought back 15,265,979 Ordinary Shares at an average price of €60.56 per share, representing two percent of E.ON's total share capital. As of February 15, 2001, E.ON had repurchased approximately 38 million Ordinary Shares, representing five percent of its total share capital. If E.ON repurchases the full 10 percent of share capital authorized by its shareholders, it would buy back approximately 76 million Ordinary Shares. This would amount to €4.5 billion based on an average price of €60 per share. Once the shares are repurchased, the Company intends to cancel a substantial portion of them, thereby reducing E.ON AG's share capital. See also "Item 10. Additional Information — Memorandum and Articles of Association — Changes in Capital."

ACQUISITIONS AND DISPOSITIONS

On January 10, 2000, E.ON Energie acquired 87.4 percent of the shares of EZH, the Dutch energy utility. E.ON Energie purchased the remaining 12.6 percent shareholding in EZH on January 27, 2000. The total purchase price for these purchases was €1,082 million. Goodwill resulting from the acquisition amounted to €590 million, which will be amortized over 15 years using the straight-line method. EZH's results for the entire 2000 financial year have been included in the Consolidated Financial Statements. During the year, EZH was renamed E.ON Benelux Generation.

As of October 31, 2000, E.ON Energie sold its 18.5 percent shareholding in VEW to RWE. In return, E.ON Energie's majority-owned subsidiary Thüga acquired RWE's 11.95 percent shareholding in Gasag and E.ON Energie acquired a 28.1 percent shareholding in Gelsenwasser, thereby increasing the Group's holdings in Gasag to 24.9 percent and in Gelsenwasser to 80.5 percent.

As of December 31, 1999, VEBA Oel increased its shareholding in Aral to 70.9 percent by acquiring 15.0 percent of Aral's shares from Wintershall. Despite holding a majority of Aral's share capital, the acquisition gave VEBA Oel a total of only approximately 48 percent of the Aral's voting rights. As of the 1999 balance sheet date, Aral was thus accounted for by the equity method. As of January 1, 2000, VEBA Oel acquired certain Mobil Oil subsidiaries that held an additional 28 percent of Aral's shares. The acquisition gave VEBA Oel 98.9 percent of Aral's capital stock and roughly 93 percent of Aral's voting rights. Aral is fully consolidated as of January 1, 2000. As of January 1, 2001, VEBA Oel purchased the remaining 1.1 percent and now holds 100 percent of Aral. The total purchase price for these three acquisitions amounted to approximately €1,899 million. The acquisition resulted in goodwill of €881 million, which will be amortized on a straight-line basis over 20 years.

On February 1, 1999, the old Degussa, in which Hüls had held a 36.4 percent shareholding, was merged into Hüls. After the merger E.ON held 62.4 percent of the merged Degussa-Hüls. The merger took effect February 1, 1999, the date on which the merger was entered into the commercial register. Accordingly, E.ON's 36.4 percent stake in the old Degussa is accounted for using the equity method until February 1, 1999 and Degussa-Hüls is consolidated in full thereafter. The merger is accounted for using the purchase method of accounting. The purchase price for the increase in the old Degussa shareholding from 36.4 to 100 percent is based on the roughly €2.4 billion market value of 63.6 percent of the old Degussa's shares. After allocation to the fair values of assets and liabilities assumed, the remaining difference between the purchase price and the acquired share in the old Degussa's net equity is capitalized as goodwill in the amount of €963 million and amortized over 15 years. In 1999 E.ON recorded charges totalling €160 million in respect of in-process research and development purchased in connection with the merger. See "— Research and Development." In addition, the increase in stockholders' equity resulting from the difference between E.ON's share in stockholders' equity in Degussa-Hüls after the merger and E.ON's share in stockholders' equity in Hüls before the merger has been recognized in income in the amount of €559 million (a "SAB 51 Gain"). During 1999, E.ON purchased an additional 2.3 percent and, prior to the merger of SKW Trostberg and Degussa-Hüls, held a shareholding of 64.7 percent in Degussa-Hüls. For further information relating to the merger of the old Degussa and Hüls, see Note 4 to the Consolidated Financial Statements.

E.ON's telecommunications subsidiaries disposed of most of their businesses during 1999, 2000 and the beginning of 2001. As of April 1, 1999, VRT, in which E.ON owns 51.25 percent, transferred its fixed-line business to Mannesmann AG in an asset deal. E.ON's gain on this transaction amounted to €392 million. As of July 1, 1999, the shares in Tele Columbus were divested for a gain of €232 million. VRT also sold its 60.25 percent stake in E-Plus to BellSouth on February 10, 2000. The sale price was €7.4 billion plus the extinguishment of shareholder loans in the amount of €1 billion. E.ON's share of both of these amounts is 51.25 percent. On March 28, 2000, the former VEBA Telecom sold its 32 percent share in Cablecom Holding AG to NTL Inc. for a purchase price of €851 million.

On November 10, 2000, VIAG Telecom sold its 42.5 percent share in Orange Communications to France Telecom in a combined cash and share deal. The total purchase price amounted to approximately €1.8 billion, including approximately €0.46 billion for shareholder loans given to Orange Communications. The transfer of the shareholder loans and one fourth of the value of the shareholding in Orange Communications was payable in cash. The remaining three fourths were paid for via the issuance of 102,675,638 shares in Orange S.A., the mobile business unit of France Telecom. The first official trading day of Orange S.A. stock was February 13, 2001. The sale of the shareholding did not result in a significant gain because it was accounted for at its fair value as part of the VEBA-VIAG merger.

In August 2000, VIAG Telecom entered into an option agreement with BT, allowing VIAG Telecom to sell its stake in VIAG Interkom to BT in January 2001 and allowing BT to purchase VIAG Telecom's stake between May 1 and July 31, 2001. On January 15, 2001, E.ON decided to exercise its put option, and sold its 45 percent share in VIAG Interkom to BT on February 20, 2001. BT paid a cash purchase price of €7.25 billion. In addition, BT extinguished shareholder loans in the amount of €4.2 billion.

In June 1999, E.ON sold 34.5 percent of Stinnes in an initial public offering in Germany for proceeds for €380 million. Stinnes' shares are listed on the Frankfurt and Düsseldorf Stock Exchanges. In 1999, Stinnes' stake in BTL increased to 98.7 percent as a result of its tender offer to BTL's stockholders. Stinnes now owns 100 percent of BTL. In 1998, BTL was fully consolidated for the first time. Stinnes' Sanitary Equipment/Heating/Tiles and Tire Service units, no longer considered core businesses, were divested effective as of January 1, 1999. Stinnes also sold its building materials business as of January 1, 2000.

In December 2000, Stinnes acquired 99.41 percent of the shares of the publicly traded Dutch chemicals distributor HCI through a cash tender offer to HCI's shareholders. The purchase price per share was €16.20 and the total purchase price amounted to €293.1 million. The acquisition has been accounted for under the purchase method and resulted in goodwill of €185.2 million which will be amortized on a straight-line basis over 20 years. HCI was consolidated as of December 1, 2000.

As of October 1, 2000, E.ON sold the operating entities of VEBA Electronics to a consortium of buyers consisting of Arrow Electronics, Melville, Avnet, Phoenix and Schroder Ventures. The purchase price, including the transfer of shareholder loans, amounted to €2.6 billion. A gain of €44 million was recorded upon sale. VEBA Electronics is included in the Company's consolidated results until September 30, 2000.

E.ON's stake in MEMC increased from 53.1 percent to 71.8 percent as a result of MEMC's capital increases in March and April 1999 for a total amount of $200 million.

In July/August 2000, AV Packaging, at that time a 100 percent subsidiary of E.ON, made a tender offer to Schmalbach-Lubeca's minority shareholders which resulted in AV Packaging holding a 37.4 percent stake in Schmalbach-Lubeca. Schmalbach-Lubeca is a packaging business that was formerly 59.8 percent owned by the VIAG Group. On August 30, 2000, AV Packaging increased its capital via the transfer of E.ON's 59.8 percent share in Schmalbach-Lubeca and on September 30, 2000, AV Packaging further increased its capital via a cash contribution by Allianz Capital Partners GmbH. As a result, AV Packaging is now a 49-51 joint venture of E.ON and Allianz Capital Partners and holds a 97.2 percent stake in Schmalbach-Lubeca. Schmalbach-Lubeca's revenues are included in the Company's consolidated results of operations from July 1 to September 30, 2000, after which Schmalbach-Lubeca has been accounted for under the equity method.

On July 3, 2000, E.ON sold its 71.9 percent stake in Gerresheimer Glas AG, a glass business that was formerly part of the VIAG Group, to the British Investcorp and Chase Capital Partners. Due to the accounting treatment of Gerresheimer Glas AG as a business held for sale post-merger, no gain or loss was recognized on the sale. For details, see Note 4 to the Consolidated Financial Statements.

RESEARCH AND DEVELOPMENT

In 2000, E.ON spent approximately €572 million on R&D, compared with €583 million in 1999 and €194 million in 1998. In 2000 and 1999, E.ON's R&D expenditures as a percentage of sales were 0.7 percent and 1.1 percent, respectively. E.ON does not anticipate any significant changes in its R&D expenditures in the near term. Approximately 83.9 percent, or €480 million, of the 2000 expenditures were by Degussa-Hüls and SKW Trostberg, where about 4,400 of E.ON's 5,047 R&D employees are employed. See "Item 4. Information on the Company — Business Overview — Chemicals — Research and Development."

Purchased In-Process Research and Development

In connection with the merger of the former Degussa into Hüls in 1999, E.ON recorded charges totaling €160 million in respect of purchased in-process research and development. Purchased in-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced, but not yet completed, at the date of acquisition and which, if unsuccessful, have no alternative future use in research and development activities or otherwise. The amounts assigned to purchased in-process research and development meeting the above criteria must be charged to expense at the date of consummation of the purchase business combination.

The following is a more detailed discussion of the purchased in-process research and development associated with the former Degussa acquisition. The Company believes that the assumptions and forecasts used in valuing purchased in-process research and development were reasonable at the time of the respective business combination. No assurance can be given, however, that future events will transpire as estimated. As such, actual results may vary from the projected results.

The Company expects to continue supporting these research and development efforts. However, as noted below, there are substantial risks associated with the successful completion of these research and development projects. There can be no assurance that any of these projects will meet with either technological or commercial success. If none of these projects is successfully completed, the sales and profitability of the Company may be adversely affected in future periods. The Company believes, however, that failure of any single project would not materially impact its financial condition, results of operations or liquidity.

Charges in Respect of Pharmaceuticals Research. In 1999, E.ON charged €136 million to expenses in respect of purchased in-process research and development relating to 24 pharmaceuticals projects. These projects are all being carried out by the ASTA Medica pharmaceuticals business. The pharmaceuticals industry categorizes research and development activities into phases, which represent stages of completion in the research and development process. The following table summarizes the status of the research and development efforts in process at the date of acquisition, the allocation of portions of the old Degussa purchase price to each group, the approximate percentage of completion of the projects, the discount factor applied to the projects (as described below) and the risk-adjusted cash flows assigned to the projects (also as described below):

Status	Number of Projects	Risk-Adjusted Cash Flows	Approximate Percentage of Completion	Discount Factor
		(€ in millions)		
Phase 1	1	1	10%	30%
Phase 2a	7	54	30-50%	25-30%
Phase 2b	3	16	51%	25%
Phase 3	5	25	70%	20%
Regulatory review	8	40	90%	15%
	24	136		

Phase 1 involves the first clinical trials in humans to test a potential new drug for pharmacological activity, tolerance and safety. This stage of development typically takes about one year to complete. The Phase 1 project in process at the acquisition date involves Glufosfamide, a cytotoxic compound using a new drug targeting concept via glucose transport cells. If successful, the project is expected to be completed in 2003.

Phase 2 involves clinical trials designed to determine efficacy and dosing. Efforts to optimize manufacturing of active pharmaceutical ingredients, formulation, and packaging are also underway during this phase. This stage of development normally takes 18 months to complete. Phase 2a mainly comprises the determination of the dose-response relationship, efficacy, pharmacokinetics and pharmacodynamics. The aim of Phase 2b is to establish the dose-response relationship and toxicity data in order to select a safe and effective dose for Phase 3 trials. The seven Phase 2a projects in process at the acquisition date were:

- Cetrorelix: a luteinizing hormone release hormone ("LHRH") antagonist with possible therapeutic advantages against the agonists with respect to safety, onset of clinical activity and efficacy for the indication myoma of the uterus.
- Formoterol MDPI WW: powder formulation of the long acting beta-2 sympathomimetic formoterol using ASTA Medica's innovative multidose dry powder inhaler ("MDPI") technology.
- Glycopyrrolate MDPI: a long acting anticholinergic for the indication of asthma and chronic obstructive bronchitis.
- Dexlipotam: a product against type II diabetes with an unique mode of action.
- Goserelin SR: the first six-months formulation of the agonist Goserelin.
- Cetrorelix BPH: A LHRH antagonist for the intermittent treatment of benign prostatic hyperplasia.
- Teverelix: a new LHRH antagonist with favorable physico-chemical properties suitable for the development of long lasting depot formulations.

The three Phase 2b projects in process at the acquisition date were:

- Mafosfamide: the first direct acting cytostatic for the indication of leptosomal meningitis in patients with solid tumors and leukemia for intrathecal application.
- Budesonide MDPI USA: development of a budesonide inhalation product using ASTA Medica's innovative MDPI device.
- Retigabine: an anti-epileptic with a new mode of action and broad anti-convulsant activities.

If successful, these projects are expected to be completed in the period 2002 to 2006.

Phase 3 typically involves large multi-center clinical trials intended to gather evidence of the effectiveness of the new drug for specific therapeutic use and to better understand safety and drug-related adverse effects. This stage of development normally takes two to four years plus an additional six to 12 months for regulatory review. The regulatory review period can take less time if the new drug qualifies for accelerated review. The five Phase 3 projects in process at the date of acquisition were:

- Allergospasmin MDPI-D: development of a powder inhalation application form using ASTA Medica's innovative multidose powder inhaler technology.
- Budesonide MDPI EU: development of a budesonide inhalation product using ASTA Medica's innovative MDPI device.
- Tramadol SR USA: a sustained release formulation of the analgesic Tramadol.
- Miltefosine: the first oral treatment against leishmaniasis.
- Leuprolide SR: the first six-months depot formulation of the agonist Leuprolide.

In 2000, the project Budesonide MDPI EU was moved to the regulatory review Phase.

If successful, the remaining projects are expected to be completed in the period 2001 to 2002.

The regulatory review Phase involves the complex review process of the European Medicine Evaluation Agency (EMEA), the U.S. Food and Drug Administration (FDA) or other regulatory authorities. This Phase generally takes about six to 14 months to complete in the United States and Europe. The regulatory review period can take less time if the new drug qualifies for accelerated review. At the acquisition date, the eight projects in the regulatory review Phase were as follows:

- Cetrorelix: the LHRH antagonist with therapeutic advantages against the agonists with respect to safety, onset of clinical activity and efficacy for the indication COS/ART (in vitro fertilization).
- Allergospasmin HFA-MDI: as a replacement for ASTA Medica's top selling anti-asthmatic chloroflourocarbon product Allergospasmin®.
- Azelastine derma tablets: development of the potent antihistamine azelastine in the indication dermatology.
- Azelastine eye drops USA: line extension of azelastine for the indication of allergic conjunctivitis.
- Azelastine eye drops ROW: line extension of azelastine for the indication of allergic conjunctivitis.
- Azelastine nasal spray: preservative free formulation of the already marketed azelastine nasal spray formulation.
- Salbutamol MDPI: a product for powder inhalation of salbutamol using ASTA Medica's innovative MDPI.
- Tramadol IR USA: generic development of very successful analgesic Tramadol instant release.

At year-end 2000, only the projects Azelastine derma tablets and Budesonide MDPI EU were in the regulatory review Phase.

The Company estimates that it will spend more than €150 million over the next five years in its efforts to complete the above projects. This estimate recognizes the fact that not all projects will be completed successfully. Estimates of the cost to complete a specific project are dependent on its stage of development, the disease to be treated, the size and structure of clinical trials required to prove improved efficacy and/or safety versus current treatment options, and the project's percentage of completion (described below).

Risks and uncertainties associated with successfully completing a project include, but are not limited to, failure to demonstrate efficacy, the generation of inconclusive study results, the emergence in clinical trials of significant drug-related adverse events, the emergence of acute or long-term toxicity, disputes involving intellectual property rights, instability of the active pharmaceutical ingredient, and the failure to develop an effective manufacturing process. There is also the potential for emergence of new drugs or therapies that are more effective, offer a better dosage regimen, or are better tolerated by patients. The emergence of any of these issues can result in project delay or termination.

The appraisal of in-process research and development followed long-standing pharmaceutical industry practices used to value and manage in-process research and development. A simplified model of that appraisal methodology is as follows:

Cash flows from successful completion after taxes

Less:	Research and development cash flows to complete
Less:	Charge for assets employed
Less:	Charge for core technology
Equals:	Adjusted Cash Flows
Times:	Percentage of Completion
Equals:	Risk Adjusted Cash Flows

Cash flows from successful completion represent the estimated future revenues forecast to be earned over the life of the product, less the costs and expenses required to generate those revenues. Research and development cash flows to complete represent the estimated future research and development costs required to complete the project. The charge for assets employed and the charge for core technology represent returns on the contributory assets that are used to generate the expected cash flow, including labor and property, plant and equipment.

The percentage of completion includes management's assessment of all risks associated with successfully completing the project. The starting point for this assessment is the pharmaceutical industry-standard success rate for compounds in the same phase of completion, *i.e.*, the risk associated with pharmaceutical research and development in general. Management may adjust this rate, in most cases downward, based on the specifics of each individual project and scientific judgment as to the progress achieved to date and the complexity of the work still to be completed. These adjustments reflect project-specific risks, *i.e.*, the probability that a given project will be more or less likely to succeed than the industry norm.

The risk adjusted cash flows were discounted to present value based on the average cost of capital for the old Degussa and others in its industry (estimated at 13 percent), with increments added to that rate ranging from two percent for projects in the registration phase up to 17 percent for projects in Phase 1 to reflect the greater risk that projects that are in earlier stages of completion will not be approved.

Charges in Respect of Chemical Projects. In 2000 and 1999, E.ON charged €7 million and €24 million, respectively, to expenses in respect of purchased in-process research and development relating to four projects in the chemicals area. These projects are being carried out by the various divisions and are of two general types.

The following table and paragraphs summarize the status of the research and development efforts in process at the date of acquisition, the allocation of purchase price to each group, the approximate percentage of completion of the projects, the discount factor applied to the projects (as described below) and the risk-adjusted cash flows assigned to the projects (also as described below).

Project Status	Number of Projects	Fair Value
		(€ in millions)
New product development	3	21
Process modification	1	3
	4	24

New product development projects have as their goal the discovery and development of new formulations and/or significant modifications of existing product formulations. These projects are expected to be completed in the period 2001 to 2002. Management estimates the percentage of completion for these projects ranges from 30 percent to 80 percent. The Company estimates that it will spend €14.3 million over the period from 2001 to 2002 in its efforts to complete these projects. This estimate recognizes the fact that not all projects will be completed successfully.

The fair values of these projects are based on estimates prepared by management utilizing procedures that are essentially the same as those described above for the pharmaceuticals business. Industry success rates are not generally available for this type of research and development. As such, the probability of technical success was estimated by management based on scientific judgment regarding the results achieved to date, the complexity of successfully completing the project and the business' historical experience with similar types of research and development projects. Successful completion of a project is deemed to occur when the new or improved product or process is defined and technological feasibility has been objectively demonstrated.

Risk Adjusted Cash Flows were discounted to present value using discount rates ranging from 15 percent for projects nearing completion to 30 percent for projects at an earlier phase. This rate is higher than the estimated weighted average cost of capital for this business and reflects management's assessment of the risks of projections, volatility and market uncertainty.

EXCHANGE RATE EXPOSURE AND CURRENCY RISK MANAGEMENT

Certain business activities within the E.ON Group are internationally oriented and, accordingly, result in certain foreign exchange rate exposures. Of the Group's consolidated revenues in 2000, 1999 and 1998, 36 percent, 37 percent and 28 percent, respectively, were attributable to customers located outside of member states participating in the European Monetary Union.

To manage the Group's exposure to exchange rate fluctuations, E.ON continually monitors its exposures to currency risks and pursues a systematic and Group-wide foreign exchange risk management policy. At the end of 2000, the Group's consolidated foreign exchange rate exposure was approximately €2.9 billion, compared with approximately €1.4 billion at year-end 1999. The increase of the consolidated foreign exchange rate exposure is due to the acquisitions of SKW Trostberg and VAW and increased exposure in the oil division. The Group's foreign exchange rate exposure is principally attributable to the chemicals division (which has long positions in various currencies, especially U.S. dollars, Japanese yen and British pounds), the electricity division (which has a short position in U.S. dollars), the oil division (which has a long position in U.S. dollars and a short position in British pounds) and the aluminum division (which has a long position in U.S. dollars). The other divisions contribute currency risks only to a smaller degree.

The principal derivative financial instruments used by E.ON to cover foreign currency exposures are forward foreign exchange contracts, cross currency swaps and currency options. As of December 31, 2000, the E.ON Group had entered into forward foreign exchange contracts with a nominal value of €6.2 billion, cross currency swaps with a nominal value of €0.7 million and currency options with a value of €0.9 billion. The currencies in which the Group's derivative financial instruments are denominated reflect the currencies in which it is subject to transaction risk. For further information, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and Note 31 of the Notes to Consolidated Financial Statements.

EUROPEAN MONETARY UNION (EMU)

On January 1, 1999, the third stage of EMU commenced with the adoption of a single currency, the euro, which is legal tender in the participating countries in substitution for the legacy currencies. For the countries participating in the euro, see "Item 4. Information on the Company — Operating Environment." With effect from January 1, 1999, the Council of the European Union irrevocably fixed exchange rates of the legacy currencies against the euro. From such date through December 31, 2001 (the "transition period"), legacy currencies remain legal tender in the participating countries as a subdivision of the euro and the euro will exist in electronic form only. During the transition period, non-cash transactions will generally be conducted in either the euro or the legacy currencies but all financial records and accounts will be stated in the euro. Euro notes and coins will be circulated for the first time on January 1, 2002. Beginning as of July 1, 2002, only euro notes and coins will be legal tender in the participating member states and all national currencies, including the mark, will be withdrawn.

As of December 31, 1998, the mark has had a fixed value relative to the euro of 1.95583 (the "locking rate"), which will remain unchanged.

The Company implemented a program to ensure that the Group's European companies, including those in Germany, were prepared for the introduction of a single currency within Europe in 1999. Preparations included the upgrading of information technology systems, where necessary, and the training of staff to handle euro-denominated and dual currency transactions during the transition period.

Conversion to the euro has reduced the amount of E.ON's exposure to changes in foreign exchange rates. Due to the effect of having assets and liabilities that previously were denominated in various legacy currencies and now are denominated in a single currency, E.ON's foreign exchange hedging costs have been reduced.

Certain of E.ON's business functions introduced euro capability as of January 1, 1999, including, for example, systems for making and receiving certain payments, pricing and invoicing. All other business functions of E.ON will have been converted to the euro by the end of the transition period, but may be converted earlier where operationally efficient or cost-effective, or to meet customer needs. E.ON does not expect any substantial costs since most euro-conversion costs have already been incurred within the scope of E.ON's projects to ensure compliance with the millennium date change. E.ON expects that the euro conversion will not have a material adverse impact on its financial condition or results of operations.

INFLATION

The rates of inflation in Germany during 2000, 1999 and 1998 were 1.9 percent, 0.6 percent and 1.0 percent, respectively (basis 1995 equals 100). The effects of inflation on E.ON's operations have not been significant in recent years.

RESULTS OF OPERATIONS

On June 16, 2000, E.ON completed the merger of VEBA and VIAG. For convenience reasons, June 30, 2000 has been chosen as the acquisition date. Operations of VIAG are included in E.ON's results of operations from July 1 to December 31, 2000.

In 2000, the positive effects of E.ON's continuing restructuring activities enabled E.ON to continue its earnings growth of 1999 and prior years after an interruption in 1998 that had been a result of high start-up losses in the telecommunications division and significant losses in the silicon wafers division. In line with its corporate focus and growth strategy, E.ON intends to expand its core business activities (in the energy and chemicals areas). E.ON will also continue to evaluate the remainder of its business portfolio to reduce costs, increase productivity and realize economies of scale.

While E.ON's business activity has historically been focused on Germany, its objective is to internationalize the percentage of E.ON's sales to customers outside of Germany. In 2000, 50.7 percent of the Group's total sales were to customers in Germany and 49.3 percent were to customers in other parts of the world, unchanged from 1999. Among the various business segments, the silicon wafers division has the highest proportion of sales outside of Germany.

Due to its broad range of businesses, E.ON's sales and earnings are influenced by a number of differing economic and other external factors. The chemicals and oil businesses are subject to cyclical fluctuations in the prices for basic chemicals and crude oil, as well as changes in the U.S. dollar exchange rate. The electricity business is quite steady, but also to some extent affected by seasonality in demand related to weather patterns. For a discussion of trends and factors affecting E.ON's core businesses, see the division descriptions in "Item 4. Information on the Company — Business Overview" and "Item 4. Information on the Company — Operating Environment", as well as "Item 3. Key Information — Risk Factors."

BUSINESS SEGMENT INFORMATION

E.ON conducts its business through the activities of its subsidiaries in each of the eight divisions that are the business segments of the Group. "Internal operating profit" is the measure pursuant to which the Group evaluates the performance of its segments and allocates resources to them. Internal operating profit, which includes income from equity interests, is equivalent to income before income tax, adjusted to (1) exclude material, non-operating income and expenses that are non-recurring or infrequent in nature and (2) deduct foreign exploration and production income taxes. These adjustments primarily include net book gains resulting from large divestitures as well as restructuring expenses. See Note 32 of the Notes to Consolidated Financial Statements. The following table sets forth sales and internal operating profit (loss) for each of the eight business segments of E.ON for 2000, 1999 and 1998:

E.ON Business Segment Sales and Internal Operating Profit (Loss)
(€ in millions)

	2000(1)		1999		1998	
	Sales	Internal Operating Profit (Loss)	Sales	Internal Operating Profit (Loss)	Sales	Internal Operating Profit (Loss)
Electricity(2)	11,027	1,099	7,768	1,370	8,206	1,743
Oil(3)	28,780	310	12,229	34	10,689	266
Chemicals	18,198	576	12,320	275	4,741	258
Real Estate	1,324	212	1,167	189	1,495	141
Telecommunications	229	(156)	111	(150)	208	(351)
D/L	20,885	384	16,920	276	17,436	143
Aluminum(4)	1,777	96	0	0	0	0
Silicon Wafers	944	(68)	651	(219)	685	(240)
Holding/Others(5)	(181)	(57)	(651)	297	(673)	(21)
Total(6)	82,983	2,396	50,515	2,072	42,787	1,939

(1) Includes results of the former VIAG Group in the electricity, chemicals, telecommunications, distribution and logistics and aluminum divisions, as well as in 'others', beginning as of July 1, 2000.

(2) Sales include electricity taxes of €349 million in 2000 and €141 million in 1999. The electricity tax was introduced by the German government as of April 1, 1999.

(3) Sales include petroleum taxes of €8,586 million, €3,802 million and €3,742 million in 2000, 1999 and 1998, respectively.

(4) The aluminum division was part of the former VIAG Group, and therefore results are only included for the period from July 1 to December 31, 2000.

(5) Includes the parent company and effects from consolidation, as well as three months' consolidated results of Schmalbach-Lubeca, a packaging company 59.8 percent owned by the former VIAG Group. In July/August 2000, E.ON transferred this shareholding to the intermediate holding company AV Packaging, in which E.ON now holds 49 percent. As of October 1, 2000, this shareholding was accounted for as an equity investment.

(6) Excludes intercompany sales.

YEAR ENDED DECEMBER 31, 2000 COMPARED WITH YEAR ENDED DECEMBER 31, 1999

E.ON Group

E.ON's sales in 2000 increased 59.0 percent to €74,048 million from €46,572 million in 1999 (in each case net of energy taxes). Sales of the electricity division increased 42.0 percent in 2000 to €11,027 million (including €349 million of electricity tax) from €7,768 million in 1999, partly reflecting a 53.2 percent increase in the volume of electricity delivered. This increase resulted primarily from the first-time inclusion of the former Bayernwerk activities beginning as of July 1, 2000 and an increased amount of total power supplied, partly offset by lower prices, particularly for regional and municipal distributors and special rate customers, as a result of continuing strong competition in 2000. Sales of the oil division in 2000 increased 139.6 percent to €20,194 million in 2000 from sales of €8,427 million in 1999 (in each case net of petroleum taxes) primarily due to the first-time full consolidation of Aral and substantially higher crude oil prices in 2000. Sales of the chemicals division (including precious metals trading) increased 47.7 percent to €18,198 million in 2000 from €12,320 million in 1999, primarily due to the first-time inclusion of SKW Trostberg beginning as of July 1, 2000 and due to higher sales volumes and prices as a result of overall favorable economic conditions. Sales of the real estate division rose 13.5 percent to €1,324 million in 2000 from €1,167 million in 1999 primarily as a result of the sale of a large office property in Berlin by the commercial real estate division and increased sales volume due to the expansion of activities of the residential development division. Sales of the telecommunications division increased 106.3 percent to €229 million in 2000 from €111 million in 1999 primarily as a result of the inclusion of the Austrian telecommunications network company Connect Austria. Sales of the D/L division increased 23.4 percent to €20,885 million in 2000 from €16,920 million in 1999 primarily as a result of the first-time inclusion of Klöckner beginning as of July 1, 2000 and increased sales of VEBA Electronics until September 30, 2000. Sales of the aluminum division amounted to €1,777 million reflecting the inclusion of VAW. Sales of the silicon wafers division rose 45.0 percent to €944 million in 2000 from €651 million in 1999 due to higher sales volumes as a result of a stronger wafer demand, the full consolidation of sales from MKC in the fourth quarter of 2000 and slightly increased selling prices.

Cost of goods sold and services provided in 2000 increased 60.3 percent to €62,869 million compared with €39,231 million in 1999, mainly as a result of the first-time inclusion of the former VIAG activities beginning as of July 1, 2000. Excluding this effect, cost of goods sold and services provided increased, primarily due to the first-time full consolidation of Aral. Cost of goods sold and services as a percentage of revenues remained basically unchanged at 85 percent in 2000 compared with 84 percent in 1999. Gross profit increased 52.3 percent to €11,179 million in 2000 from €7,341 million in 1999.

Selling expenses increased 58.8 percent to €6,096 million in 2000 compared with €3,838 million in 1999 primarily due to the first-time inclusion of the former VIAG activities beginning as of July 1, 2000. Excluding this effect, selling expenses increased in proportion to sales, mainly attributable to the first-time full consolidation of Aral in 2000 as well as intensified sales activities in the electricity division.

General and administrative expenses increased 64.0 percent to €2,777 million in 2000 from €1,693 million in 1999. This increase was primarily due to the first-time inclusion of the former VIAG activities beginning as of July 1, 2000. Excluding this effect, general and administrative expenses increased mainly due to the first-time full consolidation of Aral in 2000.

Other operating income/expenses increased 79.0 percent to €4,304 million in 2000 from €2,404 million in 1999 primarily as a result of gains from the disposal of fixed assets, mainly from the disposition of E-Plus (€3,527 million) and of Cablecom (€788 million). This effect was partly offset by an increase in amortization of goodwill due to the inclusion of Bayernwerk's assets as well as acquisitions made at the end of 1999 and in 2000.

Internal operating profit in 2000, as compared with 1999, was as shown above in the table "E.ON Business Segment Sales and Internal Operating Profit (Loss)." The increase in internal operating profit of E.ON in 2000 was predominantly due to increases in the chemicals division, mainly due to the worldwide favorable economic environment and synergy effects resulting from the merger of the old Degussa and Hüls, and to increases in the oil division mainly due to high crude oil prices and refining margins as well as the strong dollar, which were partly offset by the depressed margins of Aral's service stations. The overall increase in E.ON's operating profit excluding electricity outweighed the decrease in operating profit in the electricity division, caused by significant decreases in electricity prices due to the liberalization of the German electricity market. This effect was partly offset by increased cost cutting measures, merger synergies and higher sales volumes in the electricity division. Holding/others includes effects from amortization of goodwill resulting from the VEBA-VIAG merger.

The Group's net income in 2000 was €3,570 million, a 19.4 percent increase from €2,991 million in 1999.

Electricity

Sales of the electricity division increased 42.0 percent in 2000 to €11,027 million (including €349 million of electricity tax) primarily as a result of the first-time inclusion of the former Bayernwerk as of July 1, 2000. Excluding this effect, sales of E.ON Energie rose only slightly due to an increased amount of total power supplied nearly offset by significantly lower electricity prices, particularly for regional and municipal distributors and special rate customers, in an environment of increased competition. Electricity deliveries were 54.1 percent higher in 2000 (169.9 billion kWh compared with 110.3 billion kWh in 1999) as a result of the first-time inclusion of the former Bayernwerk, the first-time consolidation of E.ON Benelux Generation and a higher amount of power supplied to national and international utilities and electricity traders. In the standard-rate customer segment, very few customers switched suppliers during 2000 despite aggressive sales activities. Due to increased competition, electricity prices have developed quite differently in the various customer segments. The average selling price of E.ON Energie's electricity sales in 2000 decreased significantly (15.8 percent) compared with 1999 as a result of the competitive pressures unleashed through deregulation.

Total power supplied or procured by the electricity division rose 53.2 percent to 176.2 billion kWh in 2000, compared with 115.0 billion kWh in 1999. E.ON Energie's own production of power rose to 101.7 billion kWh in 2000 compared with 65.4 billion kWh in 1999, mainly due to the first-time inclusion of the former Bayernwerk activities. E.ON Energie produced 57.7 percent of its power requirements in 2000 compared with 56.9 percent in 1999. Compared with 1999, electricity purchased from jointly operated power stations decreased from 17.7 billion kWh to 16.9 billion kWh. Purchases of electricity from third parties increased 80.6 percent from 31.9 billion kWh in 1999 to 57.6 billion kWh in 2000, mainly due to the first-time inclusion of the former Bayernwerk operations, which purchased a higher proportion of electricity from third parties.

Sales of gas increased 67.7 percent to €1,494 million in 2000 from €891 million in 1999 primarily due to the full-year inclusion of the operations of Ferngas Salzgitter GmbH in Avacon in 2000. Water sales in 2000 were relatively stable, while deliveries declined slightly to 259 million cubic meters from 268 million cubic meters in 1999 due to decreased deliveries to industrial customers. An increase in sales of other deliveries in the electricity division mainly resulted from higher demand for compressed air for industrial customers and district heating.

In 2000, the electricity division contributed internal operating profit of €1,099 million compared with €1,370 million in 1999. This 19.8 percent decrease was mainly due to significantly lower electricity prices. In addition, the electricity division had lower income from equity interests due to significantly increased losses of Veag compared with 1999. These effects could only partly be offset by higher sales volumes, cost cutting measures and merger synergies resulting from the merger of PreussenElektra and Bayernwerk.

Oil

Sales of the oil division in 2000 were €20,194 million, a 139.6 percent increase from €8,427 million in 1999 (in each case net of petroleum taxes) primarily attributable to higher crude oil and product prices and the weaker euro compared to the dollar. In addition, sales rose as a result of the increase in sales volumes due to the first-time inclusion of Aral and of Erdölraffinerie Emsland in 2000. The following table sets forth the sales of the oil division for the last two years:

Sales of Oil Division
(€ in millions)

	2000	1999	Percent Change
Crude Oil and Natural Gas	2,967	1,733	+ 71.2
Petroleum Products	23,149	8,913	+159.7
Petrochemicals	1,480	808	+ 83.2
Others	466	324	+ 43.8
Intercompany Sales	718	451	+ 59.2
Total	28,780	12,229	+135.3
Thereof: Petroleum Taxes	8,586	3,802	+125.8

Sales of crude oil and natural gas expressed in € significantly increased in 2000 due to an increase in crude oil prices and the higher dollar. The volume of oil production decreased slightly, mainly attributable to the sale of production fields in Great Britain and in Indonesia as well as natural exhaustion of older oil fields and production losses in Great Britain due to repairs. In the main these could be offset by higher production volumes of heavy oil in Venezuela and of two fields in Great Britain. Deliveries of petroleum products by VEBA Oel to Aral were priced on a "net-back basis" in 2000, that is, the amount received by VEBA Oel from Aral reflects the sales to customers of Aral net of costs incurred by Aral in connection with such sales. The increase in sales of petroleum products is attributable mainly to the first-time full consolidation of Aral as well as to high oil prices, refining margins and the strong dollar against the euro. Petrochemical sales increased significantly in 2000, primarily because of higher sales volumes due to higher demand combined with the integration of the capacity of Erdölraffinerie Emsland and because VEBA Oel could pass on higher crude oil prices to customers through increased prices for petrochemical products. Volumes increased 11 percent to 4.8 million tons mainly as a result of higher sales volumes of aromatics due to the inclusion of Aral and Erdölraffinerie Emsland. Ethylene and propylene sales increased slightly mainly due to an increase in sales volumes attributable to higher demand and higher olefins production capacity.

The oil division had internal operating profit of €310 million in 2000 compared with €34 million in 1999. This 811.8 percent increase resulted from increases in internal operating profit in the E&P, refining and petrochemicals businesses primarily attributable to the higher crude oil prices and increased refining margins. These effects were partly offset by a sharp decline in internal operating profit in the mobility business. Restrained demand attributable to the higher fuel prices as a result of high oil prices and increased taxes on the cost of fuel as well as the price war for petroleum products purchased at service stations throughout Germany led to a sharp decrease in service station margins. Since Ruhr Oel is not consolidated, its results are accounted for as income from equity interests, which are included in internal operating profit. See "Item 4. Information on the Company — Business Overview — Oil."

Chemicals

Sales of the chemicals division increased 47.7 percent in 2000 to €18,198 million, including intercompany sales of €126 million, primarily due to the first-time inclusion of SKW Trostberg beginning as of July 1, 2000. Excluding this effect, sales of the chemicals division (excluding precious metals trading) increased by 22.2 percent in 2000 to €12,726 million, primarily due to higher sales volumes and prices as a result of the overall favorable economic conditions. SKW Trostberg also benefited from growing sales volumes and high prices due to favorable economic conditions in the second half of the year. The following table sets forth the sales of the chemicals division for the last two years for each product area:

Sales of Chemicals Division
(€ in millions)

	2000	1999	Percent Change
Degussa-Hüls(1)	**12,726**	**10,416**	**+22.2**
ASTA Medica	760	776	− 2.1
Dental	491	418	+17.5
Feed Additives	492	359	+37.0
Stockhausen	739	597	+23.8
Creanova	976	893	+ 9.3
Industrial Chemicals	545	551	− 1.1
Fine Chemicals	749	651	+15.1
Röhm	1,058	1,002	+ 5.6
Vestolit(2)	0	198	—
Oxeno	627	412	+52.2
Phenolchemie	1,169	624	+87.3
Sivento	683	545	+25.3
Advanced Fillers and Pigments	1,183	1,020	+16.0
dmc^2(1)	2,552	1,789	+42.6
Service Companies	702	581	+20.8
SKW(3)	**2,120**	**0**	**—**
Nature Products	480	0	—
Chemicals	375	0	—
Construction Chemicals	873	0	—
Performance Chemicals	392	0	—
Total Chemicals Division(1)	14,846	10,416	+42.5

(1) Excludes revenues from precious metals trading.

(2) Sold on November 30, 1999.

(3) Included as of July 1, 2000. Sales of SKW Trostberg shown according to division.

Degussa-Hüls' sales increased by 22.2 percent in 2000 to €12,726 million (excluding precious metals trading and intercompany sales). Sales of Feed Additives, which were almost completely generated outside of Germany, increased 37.0 percent in 2000 due to an increase in sales volumes as a result of higher demand in the methionine business and the economic upswing in Southeast Asia as well as increased sales prices attributable to the strong dollar. Sales of Stockhausen increased 23.8 percent, largely attributable to increased sales of superabsorbents as a result of increased volume from a new production plant in the United States. Sales of Creanova increased 9.3 percent in 2000 due to higher sales volumes primarily of cross-linking agents and resins as a result of higher demand in the NAFTA region and using the additional capacity of a new production plant in the United States. Sales of the Industrial Chemicals business unit were relatively stable. Sales of Fine Chemicals increased 15.1 percent in 2000, primarily as a result of an increase in sales volumes due to higher demand. Sales of Röhm increased 5.6 percent in 2000, mainly attributable to higher sales volumes as well as higher prices and an improved product mix in the specialty acrylates business. Sales of Oxeno increased 52.2 percent mainly due to higher sales prices because higher raw material prices could be passed on to the customers. Sales of Phenolchemie increased 87.3 percent in 2000, primarily as a result of an increase in sales volume in the phenol business due to higher demand and use of a new production facility in the United States as well as increased sales prices attributable to higher raw material costs which could be partly passed on to the customers. Sales of Sivento increased 25.3 percent mainly due to an increase in sales volumes as a result of higher demand primarily in the aerosil business. Sales in the Advanced Fillers and Pigments business unit increased 16.0 percent in 2000 largely attributable to higher sales volumes due to higher demand in the automotive industry (green tire). Sales of dmc^2 (excluding precious metals trading) increased 42.6 percent in 2000 due to a high increase in sales volumes due to higher demand particularly in the automotive catalyst business as well as in the ceramics, glass and electronic materials business. Sales of dmc^2 including precious metal trading increased significantly due to the increase in sales volumes.

In 2000, the chemicals division contributed internal operating profit of €576 million, a 109.5 percent increase from €275 million in 1999. This increase was primarily attributable to the first-time inclusion of SKW Trostberg beginning as of July 1, 2000 and the effects of the economic upswing in the chemicals industry worldwide, resulting in higher demand. Higher internal operating profit is also due to realized merger synergies (cost savings) from the Degussa-Hüls merger of €159 million. In addition, foreign currency gains due to the appreciation of the U.S. dollar, the British pound and the Japanese Yen added to the increase. Significant gains in internal operating profit occurred in the business units Feed Additives, Creanova, Röhm, Phenolchemie, Sivento and dmc^2, attributable to higher demand combined with price increases following higher raw material costs. These effects were partially offset by lower internal operating profits at Stockhausen and the Advanced Fillers and Pigments business unit due to increased raw material costs which could not be passed on to the customers.

Real Estate

Sales of the real estate division increased 13.5 percent in 2000 to €1,324 million, including intercompany sales of €24 million, primarily as a result of the sale of a large office property in Berlin by the commercial real estate division and increased sales volume due to the expansion of activities of the residential development division. The real estate division contributed internal operating profit of €212 million compared with €189 million in 1999. This increase was primarily attributable to the residential investment division, due to higher sales volumes of housing units and the residential services division, due to national and international expansion in the Viterra Energy Services business. This was partly offset by higher personnel and financial costs due to the business expansion in the residential development division.

Telecommunications

Sales of the telecommunications division increased 106.3 percent to €229 million, including intercompany sales of €1 million, in 2000 from €111 million in 1999 primarily as a result of the first-time inclusion of Connect Austria activities as of July 1, 2000. This effect was partly offset by the loss of sales from E-Plus.

The telecommunications division had an internal operating loss of €156 million in 2000, relatively unchanged from a €150 million internal operating loss in 1999. Internal operating loss in 2000 was primarily attributable to the inclusion of the results of Connect Austria, VIAG Interkom and Orange Communications, all of which continued to incur high start-up costs, partly offset by the divesture of other business activities that were still incurring high start-up costs, primarily E-Plus.

D/L

Sales of the D/L division increased 23.4 percent to €20,885 million in 2000 from €16,920 million in 1999 mainly due to the first-time inclusion of Klöckner beginning as of July 1, 2000. Excluding this effect, sales of the D/L division rose primarily as a result of the increase in sales of VEBA Electronics prior to its sale due to higher demand in the electronic components business. In addition, sales increased due to higher demand in Stinnes' chemicals business and a higher freight volume in the air and seafreight activities of Stinnes' transportation business, partly offset by the divestiture of Stinnes' building materials business. The following table sets forth the sales of the D/L division for the last two years:

Sales of D/L Division
(€ in millions)

	2000	1999	Percent Change
Stinnes	**12,027**	**11,761**	**+ 2.3**
Transportation	5,929	5,176	+14.5
Chemicals	3,072	2,301	+33.5
Building Materials(1)	1,031	2,322	−55.6
Materials	1,702	1,561	+ 9.0
Full-line Wholesaling	166	190	−12.6
Others	81	163	−50.3
Intercompany Sales	46	48	− 4.2
Klöckner(2)	**2,622**	**0**	**—**
Multi metal distribution	2,234	0	—
Back-to-back business(3)	387	0	—
Intercompany Sales	1	0	—
VEBA Electronics(4)	**6,236**	**5,159**	**+20.9**
Electronic components	4,868	3,586	+35.8
Electronic systems	1,368	1,573	−13.0
Total D/L	20,885	16,920	+23.4

(1) The building materials division was sold as of January 1, 2000.

(2) Included as of July 1, 2000.

(3) The back-to-back steel trading business was sold in December 2000.

(4) VEBA Electronics was sold as of September 30, 2000. Sales are included in E.ON's results until September 30, 2000.

Sales of Stinnes increased by 2.3 percent in 2000 to €12,027 million, including intercompany sales of €46 million, principally due to higher demand in Stinnes' chemicals business and a higher freight volume in the air and seafreight activities of the transportation business, especially to the United States. This was partly offset by the divestiture of Stinnes' building materials business. Excluding such divestiture, sales of Stinnes rose by 16.6 percent.

Following the VEBA-VIAG merger, the results of Klöckner were included in the D/L division results as of July 1, 2000. Sales and internal operating profit of Klöckner for the period from July 1 to December 31, 2000 amounted to €2,622 million and €23 million, respectively. During this six-month period, sales and internal operating profit of Klöckner benefited from higher sales prices.

The sales of VEBA Electronics are only included until September 30, 2000. Sales of VEBA Electronics for this period increased to €6,236 million due to increased sales volume in the electronic components business, primarily due to increased demand in the semiconductor market.

The D/L division contributed internal operating profit of €384 million in 2000, a 39.1 percent increase from €276 million in 1999. This increase was primarily attributable to substantially higher profits from VEBA Electronics, which was included in internal operating profit during the period from January 1 until June 30, 2000, as well as the first-time inclusion of Klöckner beginning as of July 1, 2000.

Aluminum

Sales of the aluminum division amounted to €1,777 million, including intercompany sales of €17 million, in 2000, reflecting the results of VAW beginning July 1, 2000. The aluminum division contributed internal operating profit of €96 million for this period. During this six-month period, sales of VAW benefited from high aluminum prices and an increase in sales volume, particularly at VAW of America. Internal operating profit decreased due to higher raw material prices which could not be passed on to the customers.

Silicon Wafers

Sales of MEMC increased by 45.0 percent to €944 million in 2000 from €651 million in 1999 due to increased sales volume because of higher market demand and the full consolidation of MKC in the fourth quarter of 2000, as well as modestly higher selling prices. In 2000, the silicon wafers division had an internal operating loss of €68 million, compared with an internal operating loss of €219 million in 1999. The decrease in losses was largely attributable to the increase in sales volume combined with continued improvements in MEMC's cost structure.

YEAR ENDED DECEMBER 31, 1999 COMPARED WITH YEAR ENDED DECEMBER 31, 1998

E.ON Group

E.ON's sales in 1999 increased 19.3 percent to €46,572 million from €39,045 million in 1998 (in each case net of energy taxes). Sales of the electricity division decreased 5.3 percent in 1999 to €7,768 million (including €141 of electricity tax) from €8,206 million in 1998, notwithstanding a 3.9 percent increase in the volume of electricity delivered. This resulted primarily from lower prices, particularly for regional and municipal distributors and special rate customers, as a result of increased competition in 1999 following substantial deregulation of the electricity industry in Germany. Sales of the oil division in 1999 increased 21.3 percent to €8,427 million in 1999 from sales of €6,947 million in 1998 (in each case net of petroleum taxes) primarily due to substantially higher crude oil prices in 1999. Sales of the chemicals division increased 159.9 percent to €12,320 million in 1999 from €4.741 million in 1998 primarily due to the first-time full consolidation of Degussa-Hüls and the inclusion of results from the old Degussa from February 1, 1999. Sales of the real estate division decreased 21.9 percent to €1,167 million in 1999 from €1,495 million in 1998 primarily as a result of the divestiture of its personal security services and the gasoline station engineering businesses. Excluding these divestitures, sales increased by 3 percent. Sales of the telecommunications division decreased 46.6 percent to €111 million in 1999 from €208 million in 1998 primarily as a result of the divestiture of most of its business activities during the course of 1999. Sales of the D/L division decreased 3.0 percent to €16,920 million in 1999 from €17,436 million in 1998 mainly as a result of divestiture of Stinnes' building supply stores and sanitary equipment/heating/tiles activities in 1998 and the tire services and the air and seafreight activities of BTL in 1999. This was offset in part by a 34.5 percent increase in sales of VEBA Electronics. Sales of the silicon wafers division declined 5.0 percent to €651 million in 1999 from €685 million in 1998 due to continued price pressure for silicon wafers, which could not be offset by the 9 percent product volume increase in 1999.

Cost of goods sold and services provided in 1999 increased 18.3 percent to €39,231 million, compared to €33,170 million in 1998 as revenues increased 18.1 percent in 1999. Costs of goods sold and services as a percentage of revenues decreased slightly to 84 percent in 1999 compared to 85 percent in 1998. As a result, gross profit increased 25.0 percent to €7,341 million in 1999 from €5,875 million in 1998.

Selling expenses increased 15.4 percent to €3,838 million in 1999 compared to €3,325 million in 1998 due to the first-time full consolidation of Degussa-Hüls. The increase was additionally attributable to the increased selling activities in the electricity division and the expansion of the business volume of VEBA Electronics.

General and administrative expenses increased 10.5 percent to €1,693 million in 1999 from €1,532 million in 1998. This increase was primarily in the chemicals division, due to the first-time consolidation of Degussa-Hüls. Additionally, general and administrative expenses increased due to the expansion at VEBA Electronics.

Other operating income/expenses increased 107.2 percent to €2,404 million in 1999 from €1,160 million in 1998, largely as a result of income attributable to businesses and equity interests (such as the fixed network services, Cable & Wireless plc and Tele Columbus in the telecommunications division as well as Vestolit and Ultraform in the chemicals division) that were sold during 1999 and the gains from these sales. This effect was partly offset by an increase in expenses attributable to the first-time consolidation of Degussa-Hüls and increased R&D expenses, almost exclusively attributable to the chemicals division.

Internal operating profit in 1999, as compared with 1998, was as shown above in the table "E.ON Business Segment Sales and Internal Operating Profit (Loss)." The increase in internal operating profit of E.ON in 1999 was predominantly due to increased internal operating profits in the chemicals division and in holding/others as well as lower internal operating losses in the telecommunications and silicon wafers division. The SAB 51 gain does not affect the internal operating profit because it is reflected in the neutral results.

The Group's net income in 1999 was €2,991 million, a 154.8 percent increase from €1,174 million in 1998.

Electricity

Sales of the electricity division decreased 5.3 percent in 1999 to €7,768 million (including €141 of electricity tax), including intercompany sales of €49 million, primarily as a result of lower electricity prices, particularly for regional and municipal distributors and special rate customers, in an environment of competition. Electricity deliveries were 3.9 percent higher in 1999 (110.3 billion kWh compared to 106.2 billion kWh in 1998) as a result of increased deliveries to electricity traders and, to a minor degree, to regional and municipal distributors, offset in part by lower deliveries to industrial and special rate customers as well as to standard rate customers. Due to increased competition, electricity prices have developed quite differently in the various customer segments. The average price of E.ON Energie's electricity sales in 1999 decreased significantly by 11.5 percent as a result of the competitive pressures unleashed through deregulation.

Total power supplied by the electricity division rose 23.6 percent to 115.0 billion kWh in 1999, compared to 111.0 billion kWh in 1998. E.ON's own production of power remained at a relatively high level of 65.4 billion kWh in 1999 compared with 65.9 billion kWh in 1998. E.ON produced 56.9 percent of its power requirements in 1999 compared to 59.3 percent in 1998. Compared to 1998, electricity purchased from jointly operated power stations increased from 15.1 billion kWh, to 17.7 billion kWh, primarily as there were no material unplanned shutdowns in any plant compared to unplanned shutdowns of the Unterweser and Krümmel plants in 1998. Purchases of electricity from third parties increased 6.0 percent from 30.1 billion kWh in 1998 to 31.9 billion kWh in 1999, mainly due to increased deliveries from other German interregional utilities and electricity traders.

Sales of gas increased 16.0 percent to €891 million in 1999 from €768 million in 1998 primarily due to an increase in volumes attributable to the first-time inclusion of the operating business of FSG resulting from the Avacon-merger. Water sales and deliveries in 1999 remained almost unchanged.

In 1999, the electricity division contributed internal operating profit of €1,370 million compared to €1,743 million in 1998. This 21.4 percent decrease was mainly due to significantly decreasing electricity prices during 1999. This effect could only be partly offset by cost management measures, increased deliveries and a higher income from equity interest due to a one-time effect of lower tax rates on retained earnings. E.ON included its 26.25 percent share in Veag's estimated losses for the year 1999 at the amount of €63 million, which was fully offset by the release of negative goodwill and therefore did not impact internal operating profit. Previously, E.ON accounted for its equity interest in the result of Veag based on Veag's net income for the preceding financial year pursuant to German GAAP.

Oil

Sales of the oil division in 1999 were €8,427 million, a 21.3 percent increase from €6,947 million in 1998 (in each case net of petroleum taxes) primarily attributable to a 40 percent increase in average crude oil prices in 1999 compared to 1998. In addition, this effect was supported by a slight increase in the volume of oil production and in petroleum products as well as petrochemicals sold. The following table sets forth the sales of the oil division for the last two years:

Sales of Oil Division
(€ in millions)

	1999	1998	Percent Change
Crude Oil and Natural Gas	1,733	1,289	+34.4
Petroleum Products	8,913	7,934	+12.3
Petrochemicals	808	684	+18.1
Others	324	375	−13.6
Intercompany Sales	451	407	+10.8
Total	12,229	10,689	+14.4
Thereof: Petroleum Taxes	3,802	3,742	+ 1.6

Sales of crude oil and natural gas expressed in € increased in 1999 due to the increase in crude oil prices. The volume of oil production increased slightly, mainly attributable to the inclusion of E&P activities in Norway and Egypt. Deliveries of petroleum products by VEBA Oel to Aral are priced on a "net-back basis," *i.e.*, the amount received by VEBA Oel from Aral reflects the sales to customers of Aral net of costs incurred by Aral in connection with such sales. Petrochemical sales increased slightly in 1999, primarily because VEBA Oel could pass on higher crude oil prices to the customers through increased prices for petrochemical products. Volumes increased 8.5 percent to 4.3 million tons. Ethylene and propylene sales increased mainly due to an increase in sales volume attributable to higher olefins capacity and deliveries to new customers in Belgium.

The oil division had internal operating profit of €34 million in 1999 compared to €266 million in 1998. This 87.2 percent decrease was primarily attributable to the sharp decline of the refining margins due to rising crude oil costs, relatively stable output prices and significant overcapacity in refining. Additionally, impairments and accruals relating to certain assets in the E&P business negatively influenced the internal operating profit. Since Aral and Ruhr Oel were not consolidated in 1999, their results are accounted for as income from equity interests, which are included in internal operating profit. See "Item 4. Information on the Company — Business Overview — Oil." As a result of net back pricing used by shareholders of Aral in supplying their petroleum products to Aral, Aral did not contribute significant income from equity interests. Ruhr Oel is a processing joint venture for its shareholders operated on a cost-recovery basis.

Chemicals

Sales of the chemicals division increased 159.9 percent in 1999 to €12,320 million, including intercompany sales of €78 million, primarily due to the first-time consolidation of Degussa-Hüls from February 1, 1999. Excluding this effect, sales of the four strategic business units were relatively stable. The following table sets forth the sales of the chemicals division for the last two years for each product area:

Sales of Chemicals Division
(€ in millions)

	1999	1998(1)	Percent Change
ASTA Medica	776	789	− 1.6
Dental	418	397	+ 5.3
Feed Additives	359	391	− 8.2
Stockhausen	597	564	+ 5.9
Creanova	893	845	+ 5.7
Industrial Chemicals	551	619	−11.0
Fine Chemicals	651	675	− 3.6
Röhm	1,002	964	+ 3.9
Vestolit(2)	198	282	−29.8
Oxeno	412	367	+12.3
Phenolchemie	624	593	+ 5.2
Sivento	545	493	+10.5
Advanced Fillers and Pigments	1,020	878	+16.2
dmc^2	1,789	2,039	−12.3
Service Companies	581	442	+31.4
Total(3)	10,416	10,338	+ 0.8

(1) Pro forma calculated on the basis of full consolidation of the old Degussa.

(2) Sold on November 30, 1999.

(3) Excludes revenues from precious metals trading.

Sales of Feed Additives decreased 8.2 percent in 1999, primarily attributable to a sharp price decline in the methionine business due to increased competition. Sales of Stockhausen increased 5.9 percent due to increased sales of superabsorbents attributable to an increase in sales volume using the increased capacity of the new German facility. Sales of Creanova increased 5.7 percent in 1999, largely as a result of higher demand and higher prices, which more than offset the effects of the Asian economic and financial crisis that was occurring during the first half of 1999. Sales of Industrial Chemicals decreased 11.0 percent due to lower prices attributable to overcapacity, even as demand remained high. Sales at the Fine Chemicals business unit decreased 3.6 percent mainly due to increased competition resulting in lower prices and lower sales volumes as a result of the Asian economic and financial crisis. Sales of Röhm increased 3.9 percent attributable to higher prices and an improved product mix. Sales of Oxeno increased 12.3 percent primarily as a result of the capacity expansion of the isononanol facilities in January 1999. Sales of Phenolchemie increased 5.2 percent primarily attributable to the increased sales volumes due to higher demand, which was only partly offset by price pressures resulting from substantially increasing competition in the phenol business. Sales of Sivento increased 10.5 percent as a result of an increase in sales volume attributable to the pick up in economic activity, especially in the European market for organosilanes. Sales of the business unit Advanced Fillers and Pigments increased 16.2 percent, primarily due to the first-time inclusion of the carbon black production facility in Seoul, Korea. Sales of the newly created business unit dmc^2 decreased 12.3 percent mainly due to the decrease in sales volumes in the precious metal business as a result of the shutdown of the gold refinery in

Singapore and the concentration on anorganic and organic precious metal chemicals. This effect could not be offset by the substantial increase in sales in the automotive catalysts business.

In 1999, the chemicals division contributed internal operating profit of €275 million, a 6.6 percent increase from €258 million in 1998. This increase was primarily attributable to the above-mentioned consolidation effect of Degussa-Hüls, which was partly offset by the effects of the continuing economic and financial crises in Asia, Latin America and Russia in the first half of 1999 and the resulting sharp price decline due to increasing competition and overcapacity combined with high raw material costs. Significant losses occurred in the Feed Additives and Phenolchemie businesses, attributable to overcapacity and the resulting lower prices. These effects could only partially be offset by realized merger synergies from cost savings of €55 million, other cost reductions of €30 million and foreign currency gains due to the appreciation of the U.S. dollar against the euro.

Real Estate

Sales of the real estate division decreased 21.9 percent in 1999 to €1,167 million, including intercompany sales of €22 million, primarily as a result of the divestiture of its personal security services and the gasoline station engineering businesses. Excluding such divestitures, real estate sales rose by 3 percent due to increased sales volumes as a result of higher demand in the business of Viterra Energy Services. The real estate division contributed internal operating profit of €189 million compared to €141 million in 1998. This increase was primarily attributable to an expansion of the consumption-dependent billing of heat and water business at Viterra Energy Services, especially in Germany, as well as increased residential development activities.

Telecommunications

Sales of the telecommunications division decreased 46.6 percent to €111 million, including intercompany sales of €3 million, in 1999 from €208 million in 1998 primarily as a result of the disposal of most of its business activities in 1999.

The telecommunications division had an internal operating loss of €150 million in 1999, a substantial decrease from a €351 million internal operating loss in 1998. This decrease in loss was primarily attributable to the divestiture of business activities that were still incurring high start-up costs, primarily related to VRT's public switches telephony services and E-Plus, both of which were sold in 1999 and the beginning of 2000, respectively. The internal operating profit in 1999 is still affected by the high start-up costs of Bouygues Telecom. The complete write off in Iridium, totalling €123 million, does not affect the internal operating profit because it is reflected in the neutral results.

D/L

Sales of the D/L division decreased 3.0 percent to €16,920 million, including intercompany sales of €48 million, in 1999 from €17,436 million in 1998 mainly due to the divestiture of Stinnes' building supply stores and sanitary equipment/heating/tiles activities in 1998 and the tire services and the air and seafreight activities of BTL in 1999. This could be only partly offset by the 34.5 percent increase in sales of VEBA Electronics due to higher demand in the market for semiconductors. The following table sets forth the sales of the D/L division for the last two years:

Sales of D/L Division
(€ in millions)

	1999	1998	Percent Change
Stinnes	**11,761**	**13,599**	**−13.5**
Transportation	5,176	5,319	− 2.7
Chemicals	2,301	2,084	+10.4
Building Materials	2,322	2,358	− 1.5
Materials	1,561	1,813	−13.9
Full-line Wholesaling	190	172	+10.5
Others	163	1,794(1)	−90.9
Intercompany Sales	48	59	−18.6
VEBA Electronics	**5,159**	**3,837**	**+34.4**
Electronic components	3,586	2,538	+41.3
Electronic systems	1,573	1,298	+21.2
Intercompany Sales	0	1	—
Total D/L	16,920	17,436	− 2.9

(1) Includes revenues from Building Supply Stores of €994 million and from Sanitary Equipment/Heating/Tiles of €685 million in 1998. These activities were sold in 1998 and in February 1999 with retroactive effect as of January 1, 1999, respectively.

Sales of Stinnes decreased by 13.5 percent in 1999 to €11,761 million principally due to the divestiture of Stinnes' building supply stores and sanitary equipment/heating/tiles activities in 1998 as well as the tire services and the air and seafreight activities of BTL in 1999.

Sales of VEBA Electronics increased 34.5 percent in 1999 to €5,159 million due to increased sales volume in both the electronic components and the electronic systems businesses because of increasing demand in the semiconductor market.

The D/L division contributed internal operating profit of €276 million in 1999, a 93.0 percent increase from €143 million in 1998. This increase was primarily attributable to increased income from equity interests due to acquisitions in the building materials business as well as higher profits from VEBA Electronics. Especially in the electronic components division, high margin pressure was more than offset by an increase in sales volume, due to higher demand.

Silicon Wafers

Net sales of MEMC decreased by 5.0 percent to €651 million in 1999 from €685 million in 1998 due to significant declines in the prices for silicon wafers, partially offset by a nine percent increase in product volumes. Industry average selling prices continued to decline dramatically, from $1.76 per square inch equivalent in 1997 to $1.51 in 1998, and $1.31 in 1999, due to significant excess capacity in the silicon wafer industry and continuing pricing pressure from customers. The increase in product volume in 1999 was principally due to the ongoing recovery in the semiconductor market. Industry average selling prices appear to have stabilized in the second half of 1999. For some products, there is evidence of price increases, especially in the smaller diameters where supply and demand appear to have reached an equilibrium.

In 1999, the silicon wafers division had an internal operating loss of €219 million, compared to an internal operating loss of €240 million in 1998. The decrease in losses was largely due to cost reduction and productivity-enhancing activities as well as the increase in product volumes. In addition, income from equity interests in the silicon wafers division improved significantly.

LIQUIDITY AND CAPITAL RESOURCES

Sources of liquidity for E.ON in 2000 were cash from operations as well as debt. Cash from operations amounted to €3,473 million in 2000, €3,255 million in 1999 and €3,088 million in 1998. The 6.7 percent increase in cash from operations in 2000 was principally a result of higher Group net income and an increase in working capital mainly due to the increase in receivables in the electricity division as well as the increase in inventories at Degussa. The effects of profits from divestments, which were included in net income, are adjusted separately within the cash flow from operating activities and are stated as gains from dispositions. Proceeds from dispositions are shown in cash used for investing activities. As of December 31, 2000, the Group had significantly higher liquid assets (consisting of cash and cash equivalents and short-term securities) of €8,501 million, an increase of €6,657 million compared with liquid assets of €1,844 million at year-end 1999 (€507 million at year-end 1998). This was mainly attributable to the first-time inclusion of the former VIAG's short-term securities.

E.ON's principal liquidity requirement in recent years has been for purchases of financial assets (including equity investments) and other fixed assets. Capital expenditures in 2000, 1999 and 1998 amounted to €13,475 million, €7,017 million and €4,225 million, respectively. E.ON's investment levels increased in 1999 compared with 1998, and increased further in 2000, primarily due to the partial financing of the purchase of VIAG Interkom's UMTS license as well as the acquisition of the remaining 28.0 percent interest in Aral and the 100.0 percent interest in E.ON Benelux Generation. The following table shows the cash provided by operating activities and used in capital expenditures for each of the Group's eight divisions in 2000, 1999 and 1998.

E.ON Business Segment Cash Flow and Capital Expenditures(1)
(€ in millions)

	2000		1999		1998	
	Cash from Operations	Capital Expenditures	Cash from Operations	Capital Expenditures	Cash from Operations	Capital Expenditures
Electricity	913	3,356	1,728	1,349	2,235	1,442
Oil	918	1,723	601	1,308	300	460
Chemicals	519	1,675	603	1,298	574	761
Real Estate	5	484	43	333	244	205
Telecommunications	(994)	4,591	(215)	171	92	360
D/L	398	662	156	741	334	583
Aluminum	188	433	0	0	0	0
Silicon Wafers	56	66	(99)	60	100	218
Holding/Other	1,470	485	438	1,757	(791)	196
Total	3,473	13,475	3,255	7,017	3,088	4,225

(1) For a detailed description of capital expenditures by purchases of financial assets and purchases of other fixed assets, see Note 32 of the Notes to Consolidated Financial Statements.

The electricity division's capital expenditures have remained relatively high over the most recent three-year period as a result of acquisitions of financial assets and additions to property, plant and equipment. In 2000, the electricity division's investments significantly increased to €3,356 million, primarily as a result of the acquisition of E.ON Benelux Generation and the inclusion of the former Bayernwerk's activities in 2000. Investments included an increase in long-term securities held and investments in the improvement of the electricity distribution network. The electricity investments in 1999 totaled €1,349 million and were for the improvement and extension of the electricity and gas distribution network as well as for the increase of E.ON Energie's stakes in Sydkraft, BKW FMB Energie AG and the acquisition of other financial assets. In 1998, the electricity division invested €1.4 billion, principally in its high-voltage grid and distribution system.

The oil investments in 2000 totaled €1,723 million and were mainly for the acquisition of the 28.0 percent interest in Aral from Mobil and for Aral's investments in 2000 (the improvement of the German gas station network including the convenience store business and the expansion of activities in eastern Europe). Furthermore, €322 million was invested in the E&P activities, primarily for the expansion of activities in VEBA Oel's key geographic areas. Investments by the oil division in 1999 increased from €460 million to €1,308 million, largely attributable to the acquisition of the 15.0 percent interest in Aral from Wintershall. In addition, €400 million was invested in E&P activities. The oil division's investments also increased in 1998 to €460 million, primarily as a result of the first-time consolidation of all of VEBA Oel's E&P activities. In 1998, the oil division's principal investments were the purchase of a new field in the United Kingdom as well as investment in a heavy crude oil field in Venezuela.

Investments by the chemicals division in 2000 increased to €1,675 million, largely attributable to the first-time inclusion of SKW Trostberg. Principal investments were the acquisition of a 19.6 percent stake in Laporte, the construction of new production facilities in business units including Fine Chemicals, Sivento and Advanced Fillers and Pigments as well as the expansion of production capacity in certain business units of Degussa-Hüls and SKW Trostberg. The chemicals division's capital expenditures significantly increased to €1,298 million in 1999, largely due to the first-time full consolidation of the combined Degussa-Hüls. The principal investments were in fixed assets, mainly the expansion of the production capacity of facilities in business units including Feed Additives, Stockhausen, Creanova and Sivento, as well as the construction of new production facilities in business units including Fine Chemicals, Phenolchemie and Oxeno. In addition, Degussa Bank's investment in financial assets increased due to higher asset exposure. Investments by the chemicals division in 1998 were principally in fixed assets, largely for capacity expansions and the construction of a new plant in Mobile, Alabama, as well as for the purchase of the remaining 50.0 percent interest in RohMax from Rohm & Haas.

Investments by the real estate division in 2000 increased to €484 million, mainly due to the purchase of eight logistics sites from Deutsche Post AG. The real estate division's investments in 1999 amounted to €333 million and were largely related to the acquisition of interests in participations in Berlin and real estate in Munich as well as the acquisition of a significant interest in Wohnbau Rhein-Main via a 50/50 joint venture with HypoVereinsbank AG. Viterra's investments for 1998 were €205 million. In 1998, Viterra's largest investment was the acquisition of real estate in the Munich area for €65 million.

The telecommunications division's capital expenditures amounted to €4,591 million in 2000 attributable to the partial financing of the purchase of the UMTS license of VIAG Interkom in August 2000, which cost VIAG Interkom €8,445 million. The telecommunications division's investments, which had been growing since it was first organized as a separate business division in 1994, decreased significantly in 1999 to €171 million due to the divestiture of most of its activities. The investments in 1999 were primarily for loans to E-Plus and Bouygues Telecom. In 1998, the telecommunications division invested €360 million principally in its PSTN fixed network and a long-term loan to Bouygues Telecom.

The D/L division's investments in 2000 decreased to €662 million and were primarily attributable to Stinnes' acquisition of HCI. Investments by the D/L division in 1999 amounted to €741 million and were largely due to Stinnes' acquisition of the remaining 65.0 percent interest in BTL it did not already own and its investment in fixed assets in the logistics transportation business. The D/L division's investments in 1998 totaled €583 million and were largely incurred by Stinnes in its transportation logistics and chemicals distribution activities.

Investments by the aluminum division in 2000 amounted to €433 million, mainly due to the acquisition of the Capral smelter in Australia (for €299 million). In addition, VAW invested approximately €100 million in the expansion of rolling mills in Germany and Italy and the expansion and modernization of casting facilities in Germany, Hungary and Mexico.

Investments of the silicon wafers division slightly increased to €66 million in 2000 after a decrease from €218 million in 1998 to €60 million in 1999. In 2000, the investments were primarily for production capability enhancements. In 1999, investing activities primarily related to the implementation of SAP worldwide. 1998 investments were primarily for the construction of new plants in St. Peters, Missouri, Utsunomiya, Japan and Pasadena, Texas, which were completed in 1998.

The Group's liquid funds increased from €1,844 million in 1999 to €8,501 million in 2000. This was mainly attributable to the first-time inclusion of the former VIAG's short-term securities. The significant increase in 1999 from €507 million in 1998 was primarily due to high proceeds from the disposals of participations, including the sale of the 10.2 percent shareholding in Cable & Wireless plc, which, together with cash from operations, exceeded the amounts used for investments.

The Group does not normally rely to a great extent on debt financing for working capital or capital expenditures. The financial liabilities of E.ON (bonds, bank loans and promissory notes) increased to €14,246 million at year-end 2000 from €5,227 million at year-end 1999, primarily attributable to bank loans/liabilities to banks. Bank loans increased from €3,749 million in 1999 to €10,871 million in 2000 due to increased amounts of loans throughout almost all divisions, especially at E.ON Energie and Degussa. €3,285 million (30 percent) of the amounts payable under bank loans at year-end 2000 are due after 2004, with €3,991 million (36 percent) due in 2001 and €1,934 million (18 percent) due in 2002. €800 million of these loans are mortgage loans incurred by Viterra. For more detailed information on bank loan interest rates and maturities, see Note 27 to the Notes to Consolidated Financial Statements. Despite this year's increase, E.ON's centralized liquidity management system, which was installed in 1994 and through which most of the financing transactions of E.ON's divisions have been centralized and netted to reduce the Group's debt and interest expense, has generally led to a decline in financial debt.

At year-end 2000, E.ON had committed short-term credit lines of approximately €2,295 million, with maturities of up to one year and variable interest rates of up to 0.25 percentage points above EURIBOR or LIBOR; these credit lines were utilized in the amount of €668 million at year-end 2000. In addition, E.ON obtained a seven-year, DM 2.0 billion syndicated credit facility with interest rates of up to 0.125 percentage points above EURIBOR in March 1996 in order to take advantage of favorable market conditions. E.ON converted the facility to €1.022 billion in September 1999. The Company utilized this facility in the amount of €400 million at year-end 2000. E.ON established a DM 1 billion commercial paper ("CP") program in 1994 and a DM 1 billion euro medium-term note ("EMTN") program in 1995. In January 1999, E.ON converted both programs to euro and increased the CP program to €1 billion and the EMTN program to €2 billion. In September 2000, E.ON further increased the CP program to €2 billion. Under the CP program an amount of €1,896 million and under the EMTN program an amount of €106 million were outstanding at year-end 2000. Standard & Poor's Ratings Group ("S&P") rated the commercial paper program "A-1+" and Moody's Investors Service ("Moody's") rated the CP program "Prime-1." Moody's and S&P rated the EMTN program "Aa2" and "AA", respectively.

In an effort to further optimize the planning process, E.ON has reduced the length of its investment planning period from five years to three. The basis for this decision was E.ON's belief that the product life cycles are continuously shortening and that conditions in markets and competitive relationships are changing more quickly.

At year-end 2000, E.ON had budgeted €15.5 billion for capital investments for the three-year period between 2001 and 2003. The Group plans to spend approximately 73 percent of the budgeted funds on its core businesses of energy and specialty chemicals. E.ON has designated a total of €7.3 billion for E.ON Energie (electricity, gas and water) activities, of which about €4.1 billion is budgeted to fund small and medium-sized acquisitions. Investments in fixed assets are expected to total about €1.8 billion. The focus will primarily be on expanding power transmission and distribution networks. E.ON has earmarked 80 percent of the electricity division's investments for the domestic power market and the remaining 20 percent for the European market. E.ON Energie's investment and finance plan does not include funds for major acquisitions.

Total investments at the chemicals division are expected to amount to about €4.1 billion. E.ON plans to spend approximately 85 percent of this amount at the division's core specialty chemicals businesses. E.ON has earmarked approximately 56 percent of the investments in the chemicals division for Germany, 17 percent for other European countries, 20 percent for North America, and six percent for Asia. The total investment figure does not include possible investment expenditures related to the takeover offer for Laporte.

E.ON has allocated a total of approximately €1.2 billion to Viterra over the next three years. The company plans to spend about 80 percent of this amount on its residential investment unit. The second largest share is budgeted for further international expansion at the Viterra Energy Services unit.

E.ON assumes that its remaining divisions will be deconsolidated during the three-year period beginning in 2001. It plans about €2.9 billion in capital spending on these remaining businesses through 2003.

The Group plans to spend approximately 62 percent of its capital expenditures budget in Germany. It will target the remaining funds to other European countries, America and Asia. Capital investment figures do not include R&D expenditures, which are not capitalized.

Additional matters that may affect cash flow in 2001 include the following. In January 2001, E.ON exercised the option to sell its stake in VIAG Interkom. Cash inflows from this disposition are €11.4 billion, which were received in February 2001.

E.ON expects that cash flow from operations and cash received from disposals of non-core assets will be the primary source of funds for its capital expenditures and working capital requirements. E.ON believes that its cash flow and available liquid assets and credit lines will be sufficient to meet its anticipated cash needs. In addition, various means of raising share capital are available to E.ON as discussed in "Item 10. Additional Information — Memorandum and Articles of Association — Changes in Capital" and Note 19 of the Notes to Consolidated Financial Statements.

Item 6. Directors, Senior Management and Employees.

DIRECTORS AND SENIOR MANAGEMENT

GENERAL

In accordance with the Stock Corporation Act, E.ON has a Supervisory Board and a Board of Management. The two Boards are separate and no individual may simultaneously be a member of both Boards.

The Board of Management is responsible for managing the day-to-day business of E.ON in accordance with the Stock Corporation Act and E.ON's Articles of Association. The Board of Management is authorized to represent E.ON and to enter into binding agreements with third parties on behalf of it.

The principal function of the Supervisory Board is to supervise the Board of Management. It is also responsible for appointing and removing the members of the Board of Management. The Supervisory Board may not make management decisions, but may determine that certain types of transactions require its prior consent.

In carrying out their duties, the individual Board members must exercise the standard of care of a diligent and prudent businessperson. In complying with such standard of care, the Boards must take into account a broad range of considerations including the interests of E.ON and its shareholders, employees and creditors. In addition, the members of the Board of Management are personally liable for certain violations of the Stock Corporation Act by the Company.

SUPERVISORY BOARD (AUFSICHTSRAT)

The present Supervisory Board of E.ON consists of twenty members, ten of whom were elected by the shareholders by a simple majority of the votes cast at a shareholder meeting in accordance with the provisions of the Stock Corporation Act, and ten of whom were elected by the employees in accordance with the German Co-determination Act (*Mitbestimmungsgesetz*).

A member of the Supervisory Board elected by the shareholders may be removed by the shareholders by a majority of the votes cast at a meeting of shareholders. A member of the Supervisory Board elected by the employees may be removed by three-quarters of the votes cast by the relevant class of employees. The Supervisory Board appoints a Chairman and a Deputy Chairman of the Supervisory Board from amongst its members. At least half the total required number of members of the Supervisory Board must be present or participate in the decision making to constitute a quorum. Unless otherwise provided for by law, resolutions are passed by a simple majority of the votes cast. In the event of a tie, another vote is held and the Chairman (who is, in practice, a representative of the shareholders because the representatives of the shareholders have the right to elect the Chairman if two-thirds of the total required number of members of the Supervisory Board fail to agree on a candidate) then casts the tie-breaking vote.

The members of the Supervisory Board are each elected for the same fixed term of approximately five years. The term expires at the end of the annual general shareholders' meeting after the fourth fiscal year following the year in which the Supervisory Board was elected. Reelection is possible. The remuneration of the members of the Supervisory Board is determined by E.ON's Articles of Association.

Because all members of the Supervisory Board are elected at the same time, their terms expire simultaneously. The term of a substitute member of the Supervisory Board elected or appointed by a court to fill a vacancy ends at the time when the term of the original member would have ended. The incumbent members of E.ON's Supervisory Board, their respective ages as of December 31, 2000, their principal occupation and experience and the year in which they were first elected to the Supervisory Board are as follows:

Name and Position Held	Age	Principal Occupation	Year First Elected
Dr. Klaus Liesen Chairman of the Supervisory Board	69	Chairman of the Supervisory Board of Ruhrgas AG Supervisory Board Memberships/Directorships: Allianz AG (Chairman), Deutsche Bank AG, Preussag AG, Ruhrgas AG (Chairman), Volkswagen AG (Chairman), Beck GmbH & Co. KG(1)	1991
Hubertus Schmoldt(2) Deputy Chairman of the Supervisory Board	55	Chairman of the Board of Management of Industriegewerkschaft Bergbau, Chemie, Energie Supervisory Board Memberships/Directorships: Bayer AG, Buna Sow Leuna Olefinverbund GmbH, RAG Coal International AG	1996
Dr. Karl-Hermann Baumann Member of the Supervisory Board	65	Chairman of the Supervisory Board of Siemens AG; formerly member of the Board of Management of Siemens AG Supervisory Board Memberships/Directorships: Allianz AG, Deutsche Bank AG, Linde AG, mg technologies AG, Schering AG, Siemens AG (Chairman), ThyssenKrupp AG, Wilhelm von Finck AG	2000
Ralf Blauth(2) Member of the Supervisory Board	49	Industrial clerk, Degussa AG Supervisory Board Memberships/Directorships: Degussa AG	1996
Dr. Rolf-E. Breuer Member of the Supervisory Board	63	Spokesman of the Board of Management of Deutsche Bank AG Supervisory Board Memberships/Directorships: DB Industrial Holdings AG (Chairman), Bertelsmann AG, Deutsche Börse AG (Chairman), Deutsche Lufthansa AG, Münchener Rückversicherungs-Gesellschaft AG, Siemens AG, Compagnie de Saint-Gobain S.A. (1), Landwirtschaftliche Rentenbank (1)	1997

Name and Position Held	Age	Principal Occupation	Year First Elected
Dr. Gerhard Cromme Member of the Supervisory Board	57	Chairman of the Board of Management of Thyssen Krupp AG Supervisory Board Memberships/Directorships: Allianz Versicherungs-AG, Ruhrgas AG, Volkswagen AG, ThyssenKrupp Industries AG (Chairman), Suez Lyonnaise des Eaux S.A. (1), Thales/Thomson-CSF S.A. (1), The Budd Company (1)	1993
Wolf-Rüdiger Hinrichsen(2) Member of the Supervisory Board	45	Head of the Economic Affairs Department of E.ON AG	1998
Ulrich Hocker Member of the Supervisory Board	50	General Manager of the German Investor Protection Association Supervisory Board Memberships/Directorships: Brau und Brunnen AG, Concordia Bau und Boden AG (Chairman), Gerresheimer Glas AG, Karstadt Quelle AG, Systracom Bank AG, Thyssen Krupp Steel AG, Gartmore Capital Strategy Fonds (1), Phoenix Mecano AG (1)	1998
Dr. Jochen Holzer, Honorary Senator(3) Member of the Supervisory Board	66	Former Chairman of the Supervisory Board of VIAG AG 1993-1998	2000
Dr. h.c. André Leysen Member of the Supervisory Board	73	Chairman of the Administrative Board of Gevaert N.V. Supervisory Board Memberships/Directorships: Agfa-Gevaert AG (Chairman), Bayer AG, Deutsche Telekom AG, Schenker AG, Agfa-Gevaert N.V. (1) (Chairman), Gevaert N.V. (1) (Chairman), GIB Group N.V. (1), Tessenderlo Chemie N.V. (1), Vlaamse Uitgeversmaatschappij N.V.	1993
Herbert Mai(2) Member of the Supervisory Board	53	Former Chairman, Gewerkschaft Öffentliche Dienste, Transport und Verkehr Supervisory Board Memberships/Directorships: Deutsche Lufthansa AG	1995 1995
Dagobert Millinghaus(2) Member of the Supervisory Board	57	Accounting and Administration Manager, Brenntag AG Supervisory Board Memberships/Directorships: Stinnes AG	1989
Margret Mönig-Raane(2) Member of the Supervisory Board	52	Chairwoman, Gewerkschaft Handel, Banken und Versicherungen Supervisory Board Memberships/Directorships: Deutsche Bank AG	1998
Ulrich Otte(2) Member of the Supervisory Board	51	Systems engineer, E.ON Energie AG Supervisory Board Memberships/Directorships: E.ON Energie AG, E.ON Kraftwerke GmbH	2001
Armin Schreiber(2) Member of the Supervisory Board	47	Electrical Engineer, E.ON Kernkraft GmbH, formerly member of the Supervisory Board of VIAG AG 1997-2000	2000

Name and Position Held	Age	Principal Occupation	Year First Elected
Dr. Henning Schulte-Noelle . . . . Member of the Supervisory Board	58	Chairman of the Board of Management, Allianz AG Supervisory Board Memberships/Directorships: Allianz Lebensversicherungs-AG (Chairman), Allianz Versicherungs-AG (Chairman), BASF AG, Dresdner Bank AG, Linde AG, MAN AG, Mannesmann AG, Münchener Rückversicherungs-Gesellschaft AG, Siemens AG, ThyssenKrupp AG, AGF S.A. (1), Elvia Versicherungen AG (1), Fireman's Fund Inc. (1), RAS S.p.A. (1), Vodafone Group plc. (1)	1993
Kurt F. Viermetz . . . . Member of the Supervisory Board	61	Chairman of the Supervisory Board, Bayerische Hypo- und Vereinsbank AG; Retired Vice Chairman and Director of the Board of J.P. Morgan & Co. Incorporated Supervisory Board Memberships/Directorships: Bayerische Hypo- und Vereinsbank AG (Chairman), Grosvenor Estate Holdings (1)	1996
Dr. Bernd W. Voss . . . . Member of the Supervisory Board	61	Member of the Board of Management, Dresdner Bank AG Supervisory Board Memberships/Directorships: Deutsche Hypothekenbank Frankfurt-Hamburg AG, Dresdner Bauspar AG, Oldenburgische Landesbank AG (Chairman), Continental AG, Deutsche Schiffsbank AG (Chairman), Karstadt Quelle AG, Preussag AG, Quelle AG, Varta AG, Volkswagen AG, Wacker Chemie GmbH, Bankhaus Reuschel & Co (1) (Chairman)	1993
Dr. Peter Weber(2) . . . . Member of the Supervisory Board	59	Director of the Legal Department, Degussa AG Supervisory Board Memberships/Directorships: Degussa AG, Wohnungsgesellschaft Hüls mbH (1)	1993
Kurt Weslowski(2) . . . . Member of the Supervisory Board	55	Chemical Worker, VEBA Oel AG Supervisory Board Memberships/Directorships: VEBA Oel AG, VEBA Oil Refining & Petrochemicals GmbH	1993

(1) Membership in comparable domestic or foreign supervisory body of a commercial enterprise.

(2) Elected by the employees.

(3) Pursuant to the merger agreement between VEBA AG und VIAG AG, as long as the State of Bavaria holds more than a four percent interest in E.ON AG, it has the right to propose for election one member of the Supervisory Board. Accordingly, the State of Bavaria proposed Mr. Holzer for Supervisory Board membership. This right of proposal, however, is not binding on the Supervisory Board, which submits a proposal for election of Supervisory Board members to the applicable shareholders' meeting according to its due discretion.

The current members of the Supervisory Board are subject to reelection in 2003.

BOARD OF MANAGEMENT (VORSTAND)

The Board of Management of E.ON consists of five members (the total number is determined by the Supervisory Board) who are appointed by the Supervisory Board in accordance with the Stock Corporation Act.

Pursuant to E.ON's Articles of Association, any two members of the Board of Management, or one member of the Board of Management and the holder of a special power of attorney (*Prokura*), may bind E.ON. According to E.ON's Articles of Association, Prokura is granted by the Board of Management.

The Board of Management must report regularly to the Supervisory Board, in particular on proposed business policy and strategy, profitability, on the current business of E.ON and on business transactions that may affect the profitability or liquidity of E.ON, as well as on any exceptional matters which may arise from time to time. The Supervisory Board is also entitled to request special reports at any time.

The members of the Board of Management are appointed by the Supervisory Board for a maximum term of five years. They may be re-appointed or have their term extended for additional five-year terms, subject to certain limitations depending upon the age of the member. Under certain circumstances, such as a serious breach of duty or a bona fide vote of no confidence by the shareholders at a shareholders' meeting, a member of the Board of Management may be removed by the Supervisory Board prior to the expiration of such term.

The current members of the Board of Management, their respective ages as of December 31, 2000, their positions and experience, the year in which they were first appointed to the Board and the years in which their terms expire, respectively, are as follows:

Name and Title	Age	Business Activities and Experience	Year First Appointed	Year Current Term Expires
Ulrich Hartmann Chairman of the Board of Management	62	Co-Chief Executive Officer; Corporate Communications, Corporate and Public Affairs, Investor Relations, Supervisory Board Relations; formerly Chairman of the Board of Management of VEBA AG Supervisory Board Memberships/Directorships: E.ON Energie AG(2) (Chairman), VEBA Oel AG(2) (Chairman), Deutsche Lufthansa AG, Hochtief AG, IKB Deutsche Industriebank AG (Chairman), Münchener Rückversicherungs-Gesellschaft AG (Chairman), RAG Aktiengesellschaft (Chairman), Henkel KGaA(3)	1989(1)	2002
Prof. Dr. Wilhelm Simson Chairman of the Board of Management	62	Co-Chief Executive Officer; Group Strategy, Post-Merger Integration, Executive Development, Audit; formerly Chairman of the Board of Management and Chief Executive Officer of VIAG AG Supervisory Board Memberships/Directorships: Degussa AG(2) (Chairman), Goldschmidt AG(2) (Chairman), VIAG Telecom AG(2) (Chairman), MEMC Electronic Materials, Inc.(3)(5) (Chairman)	2000(4)	2002

Name and Title	Age	Business Activities and Experience	Year First Appointed	Year Current Term Expires
Dr. Hans Michael Gaul .... Member of the Board of Management	58	Controlling/Corporate Planning, M&A, Legal Affairs; formerly Member of the Board of Management of VEBA AG <u>Supervisory Board Memberships/Directorships:</u> Degussa AG(2), E.ON Energie AG(2), Stinnes AG(2) (Chairman), VEBA Oel AG(2), Viterra AG(2) (Chairman), Allianz Versicherungs-AG, DKV AG, RAG Aktiengesellschaft, STEAG AG, Volkswagen AG, E.ON North America, Inc.(3)(5), MEMC Electronic Materials, Inc.(3)(5), VEBA Electronics, LLC.(3) (Chairman)	1990	2004
Dr. Manfred Krüper .... Member of the Board of Management	59	Labor Relations, Personnel, Infrastructure and Services, Procurement, Organization; formerly Member of the Board of Management of VEBA AG <u>Supervisory Board Memberships/Directorships:</u> Klöckner & Co AG(2), Stinnes AG(2), VAW aluminium AG(2), Viterra AG(2), VEBA Oel AG(2), RAG Aktiengesellschaft, RAG Immobilien AG, Victoria Versicherung AG, Victoria Lebensversicherung AG, E.ON North America Inc.(3)(5) (Chairman)	1996	2003
Dr. Erhard Schipporeit .... Member of the Board of Management	51	Chief Financial Officer; Finance, Accounting, Taxes, IT; formerly Member of the Board of Management of VIAG AG (appointed in 1997) <u>Supervisory Board Memberships/Directorships:</u> Degussa AG(2), E.ON Energie AG(2), Goldschmidt AG(2), Klöckner & Co AG(2) (Chairman), VAW aluminium AG(2) (Chairman), AXA Colonia Lebensversicherung AG, Commerzbank AG, Schmalbach-Lubeca AG (Chairman), VIAG Telecom AG(5), Connect Austria GmbH(3)(5), E.ON Risk Consulting GmbH(3)(5) (Chairman)	2000	2005

(1) Appointed Chairman of the Board of Management of VEBA AG in 1993.

(2) Group mandate.

(3) Membership in comparable domestic or foreign supervisory body of a commercial enterprise.

(4) Appointed Chairman of the Board of Management of VIAG AG in 1993, and became Co-Chairman of E.ON's Board of Management following the VEBA-VIAG merger.

(5) Other Group mandate.

The members of the Supervisory Board and Board of Management hold, in aggregate, less than one percent of E.ON's outstanding Ordinary Shares.

COMPENSATION

Assuming that the annual general shareholders' meeting passes the resolution for the payment of dividends, the aggregate amount of 2000 compensation to be paid by E.ON to members of the Supervisory Board is €2.1 million, and the aggregate amount of 2000 compensation to be paid to members of the Board of Management, including compensation for performing their duties at subsidiaries, is €13.0 million. The aggregate compensation of retired members of the Board of Management and their beneficiaries totalled €8.1 million in 2000. For the year ended December 31, 2000, E.ON recorded provisions of €66.1 million for pension obligations to retired members of the Board of Management and their beneficiaries.

Pursuant to E.ON AG's Articles of Association, members of the Supervisory Board receive an annual fixed fee of €10,000 and are reimbursed each fiscal year for their expenses. Members of the Supervisory Board also receive an attendance fee of €1,000 per meeting. The members of the Supervisory Board also receive an annual variable fee of €1,250 for each percentage point by which the dividend paid to shareholders exceeds four percent of the capital stock. They are not entitled to a pension for their service on the Supervisory Board. The Chairman of the Supervisory Board receives three times the above-mentioned fees, the Deputy Chairman receives double the above-mentioned fees and each member of a committee receives one-and-one-half times the above-mentioned fees.

Compensation of members of the Board of Management is made up of the following three basic elements:

- *Fixed compensation:* the Supervisory Board determines fixed compensation on an individual basis.

- *Variable compensation:* variable compensation is generally derived on the basis of dividend performance.

- *Stock appreciation rights:* In 2000 E.ON resolved to extend the SAR plan first introduced in 1999. The Supervisory Board granted the members of the Board of Management a total of 157,500 SARs in 2000, subject to a commitment by each member to purchase 1,000 Ordinary Shares. For information on the SAR plan and the terms of the SARs granted in 2000, see "Item 5. Operating and Financial Review and Prospects."

E.ON has service agreements with the members of its Board of Management. The service agreements of the members of the Board of Management do not contain provisions for payments should a member's employment be terminated prior to expiration of the agreement or not be extended by the Supervisory Board. In the case where an agreement has not been extended, members of the Board of Management shall receive retirement payments after their service agreements have ended which are based on the length of their membership on the Board of Management. Should a member's service agreement be terminated prior to expiration or not be extended at the request of such member or for important reason no retirement payments shall be due. In the special case of a change in control of E.ON AG, members of the Board of Management shall receive a payment equal to a maximum of five years' annual compensation.

EMPLOYEES

As of December 31, 2000, E.ON employed a workforce of 186,788 people, which represented an increase of approximately 41.9 percent from year-end 1999. This increase is mainly due to the first-time inclusion of the former VIAG Group employees in 2000. Of the total number of employees, 55.4 percent were based in

Germany. Of the 186,788 employees at year-end 2000, 7,534 were apprentices. The following table sets forth information about the number of employees of E.ON as of December 31, 2000, 1999 and 1998:

	Employees at December 31, 2000			Employees at December 31, 1999			Employees at December 31, 1998		
	Total	Germany	Foreign	Total	Germany	Foreign	Total	Germany	Foreign
Electricity Division	34,406	30,396	4,010	20,556	20,549	7	21,936	21,932	4
Oil Division	8,593	7,921	672	5,863	5,671	192	6,433	6,253	180
Chemicals Division	62,110	35,795	26,315	44,334	29,000	15,334	18,737	16,097	2,640
Real Estate Division	5,567	4,271	1,296	4,901	3,944	957	5,842	4,385	1,457
Telecommunications Division	1,409	25	1,384	72	72	0	1,965	1,965	0
D/L Division	53,439	17,963	35,476	49,818	22,333	27,485	55,185	26,451	28,734
Aluminum Division	13,990	6,647	7,343	0	0	0	0	0	0
Silicon Wafers Division	6,615	0	6,615	5,600	0	5,600	6,190	0	6,190
Holding/Other	659	32	227	458	443	15	486	471	15
Total	186,788	103,450	83,338	131,602	82,012	49,590	116,774	77,554	39,220

Expenditures for salaries and wages totaled €9.1 billion in 2000, up 56.9 percent from 1999 primarily due to the first-time inclusion of the former VIAG employees as of July 1, 2000.

Many of the Group's employees are members of labor unions. Almost all of the union members belong to the chemicals/mining/energy and the public services/transportation/traffic unions. None of E.ON's facilities in Germany is operated on a "closed shop" basis. In Germany, employment agreements for blue collar workers and for white collar employees below management level are generally collectively negotiated between the regional association of the companies within a particular industry and the respective unions. In addition, under German law, work councils comprised of both blue collar and white collar employees participate in determining company policy with regard to certain compensation matters, work hours and hiring policy. Pursuant to EU requirements, E.ON also established a European work council in 1996 that is responsible for cross-border issues. The Company believes that it has satisfactory relations with its works councils and unions and therefore anticipates reaching new agreements with its labor unions on satisfactory terms as the existing agreements expire. There can be no assurance, however, that new agreements will be reached without a work stoppage or strike or on terms satisfactory to the Company. A prolonged work stoppage or strike at any of its major manufacturing facilities could have a material adverse effect on the Company's results of operations. The Group has not experienced any material strikes during the last ten years.

Since 1984, E.ON has had an employee share purchase program under which employees may purchase shares at a discount to the extent provided under German tax laws (according to §19a of the German Income Tax Law, in 2000 employees were eligible for a discount of up to €153 per employee). As of year-end 2000, employees have purchased 19.1 million shares under such program.

Stock Incentive Plans. In 1999, E.ON AG and Stinnes independently decided to introduce stock appreciation rights plans for key executives of the Group and Stinnes, respectively. The purpose of these plans is to focus key executives on long-term corporate growth. The SAR plans are based on the performance of E.ON AG's and Stinnes' ordinary shares (*i.e.*, share price and dividends paid), respectively. E.ON AG granted approximately 1.5 million SARs to 155 top-level executives worldwide in 2000, including members of the Board of Management, as part of their compensation. In July 2000, Stinnes granted 1.36 million SARs to 250 top-level executives as part of their compensation. In addition, MEMC has an Equity Incentive Plan that provides for the award of incentive and non-qualified stock options, restricted stock and performance shares. For more information about these plans, see "Item 5. Operating and Financial Review and Prospects — Overview" and Note 11 of the Notes to Consolidated Financial Statements.

Item 7. Major Shareholders and Related Party Transactions.

MAJOR SHAREHOLDERS

As of December 31, 2000, E.ON had an aggregate number of 748,032,896 Ordinary Shares with no par value outstanding, based on a pro rata amount of the registered capital of E.ON AG attributable to each share of €2.60. Under the Articles of Association, each Ordinary Share represents one vote. Major shareholders do not have different voting rights.

As of December 31, 2000, Allianz AG directly and indirectly held 83,386,334 Ordinary Shares, or 10.9 percent of the voting rights of E.ON. 6.7 percent was held by Lambda Vermögensverwaltungsgesellschaft mbH, a majority owned investment vehicle of Allianz AG. As of June 23, 2000, according to the notification requirements under German law, Allianz AG advised E.ON that its total direct and indirect holdings represented 10.2 percent of the voting rights of E.ON, while Lambda Vermögensverwaltungsgesellschaft mbH informed E.ON that it held 6.7 percent of the voting rights of E.ON. In addition, as of June 26, 2000, according to the notification requirements under German law, the Free State of Bavaria informed E.ON that as a result of the VEBA-VIAG merger it held 5.6 percent of the voting rights of E.ON. As a result of the merger of VEBA with VIAG, the percentage ownership of Lambda Vermögensverwaltungsgesellschaft mbH decreased from 10.2 percent to 6.7 percent. Due to its shareholdings in VIAG AG, Allianz AG's percentage ownership of E.ON AG remained above 10 percent following the VEBA-VIAG merger. As of April 25, 2000, Deutsche Bank AG beneficially owned 36,322,589 Ordinary Shares, or 7.2 percent of the voting rights of the Company. As a result of the VEBA-VIAG merger, Deutsche Bank AG's percentage ownership decreased and, as of December 31, 2000, it owned 26,846,741 Ordinary Shares, or 3.5 percent of the voting rights of E.ON. Although E.ON is unable to determine the exact number of its Ordinary Shares held in the United States, it believes that as of December 31, 2000, approximately 11 percent of its outstanding share capital was held in the United States. For more information, see "Item 9. The Offer and Listing — General."

Holders of voting securities of listed German corporations (including E.ON) whose shareholding reaches, passes or falls below certain thresholds are subject to certain notification requirements under German law. These thresholds are 5, 10, 25, 50 and 75 percent of a company's outstanding voting rights. For more information, see "Item 10. Additional Information — Memorandum and Articles of Association."

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, E.ON enters into transactions with numerous businesses, including firms in which the Group holds ownership interests and those with which some of E.ON's Supervisory Board members hold positions of significant responsibility.

Allianz AG is a major shareholder of E.ON. Dr. Henning Schulte-Noelle is a member of the Supervisory Board of E.ON and is Chairman of the Board of Management of Allianz AG, which provides the Group with insurance coverage in the ordinary course of business. E.ON has ongoing banking relations with Deutsche Bank AG, previously a major shareholder, in the ordinary course of business. Dr. Rolf-E. Breuer, a member of the Supervisory Board of E.ON, is also the Spokesman of the Board of Management of Deutsche Bank AG.

From time to time E.ON may make loans to companies in which the Group holds ownership interests. At year-end 2000, E.ON had aggregate outstanding loans to companies in which the Group holds ownership interests amounting to €7,645 million. Of this amount, €4,121 million was a loan made to VIAG Interkom primarily for the financing of the UMTS license. This loan was repaid in full in February 2001.

Item 8. Financial Information.

CONSOLIDATED FINANCIAL STATEMENTS

See "Item 18. Financial Statements" and pages F-i and F-1 to F-66.

LEGAL PROCEEDINGS

Various legal actions, including lawsuits for product liability or for alleged price fixing agreements, governmental investigations, proceedings and claims are pending or may be instituted or asserted in the future against the Company. Since litigations or claims are subject to numerous uncertainties, their outcome cannot be ascertained; however, in the opinion of management, the outcome of these matters will not have a material adverse effect upon the financial condition, results of operations or cash flows of the Company.

In the wake of the various corporate restructurings of the past several years, shareholders have filed a number of claims *(Spruchstellenverfahren)*. The claims contest the adequacy of share exchange ratios or cash settlements. The claims impact the Company's Electricity, Chemicals and Distribution/Logistics divisions as well as the VEBA-VIAG merger. In connection with the VEBA-VIAG merger, certain shareholders of the former VIAG have filed claims with the district court in Munich, contesting the adequacy of the share exchange ratio used in the merger. The claims challenge in particular the valuation used for VIAG's telecommunications shareholdings, which were valued at the earnings value of the businesses. The plaintiffs claim that a divestiture of these shareholdings was anticipated, and therefore the holdings should have been valued at fair market value as if sold as of the merger date. Because the share exchange ratios and settlements were determined by outside experts and reviewed by independent auditors, E.ON believes that the exchange ratios and settlements are correct.

In July 2000, the Federal Republic of Germany enacted a law establishing Remembrance, Responsibility and the Future, a foundation formed as an instrument of and funded by contributions from the Federal Republic of Germany and German companies. The establishment of this foundation followed negotiations between the governments of the United States and Germany in connection with class action lawsuits brought in the United States for compensation of former forced laborers exploited under Germany's Nazi regime. The foundation will provide a total of DM 10 billion (€5.1 billion) in payments to former forced laborers and other victims of the Nazi regime following dismissal of all lawsuits (both individual and class action). The United States and other countries have agreed to assist in attempting to achieve a final dismissal of all existing and future claims relating to such injustices. E.ON is a founding member of the German Industry Foundation Initiative, the organization through which German corporations will provide DM 5 billion to the Remembrance, Responsibility and the Future foundation. The amount of E.ON's contribution has not yet been finalized, but will exceed the amount of a contribution calculated according to the foundation's initial charter documents.

As a result of VIAG's former shareholdings in the Austrian bank Creditanstalt from 1938 to 1942, VIAG was named as a defendant in a class action lawsuit for compensation of property confiscated under the Nazi regime, which has not yet been dismissed. While the Company is hopeful that the establishment of the Remembrance, Responsibility and the Future foundation will lead to dismissal of all lawsuits relating to activities during the Nazi regime, it is possible that the current lawsuit may not be dismissed or may be dismissed pursuant to certain conditions, or that the Company could be named in further lawsuits. For example, a further class action lawsuit was brought in U.S. Federal District Court for the Southern District of New York in January 2000 relating to the ownership of Creditanstalt during the Nazi period.

E.ON maintains general liability insurance covering claims on a worldwide basis with coverage limits and retention amounts which management believes to be adequate and appropriate in light of E.ON's businesses and the risks to which they are subject. For a discussion of E.ON Energie's nuclear accident protection, see "Item 4. Information on the Company — Business Overview — Electricity."

DIVIDEND POLICY

The Supervisory Board and the Board of Management jointly propose the dividends based on the E.ON AG's unconsolidated financial statements. The dividends are officially declared at the annual general meeting of shareholders which is usually convened during the second quarter of each year. The shareholders approve the dividends. Holders of E.ON's Ordinary Shares on the date of the annual general meeting of shareholders are entitled to receive the dividend, less any amounts required to be withheld on account of taxes or other governmental charges. See also "Item 10. Additional Information — Taxation." Cash dividends payable to holders of Ordinary Shares will be distributed by Dresdner Bank AG as paying agent. In Germany, the payment will be made to the holder's custodian bank or other institution holding the shares for the shareholder which will credit the payment to the shareholder's account. For purposes of distribution in the United States, the dividend will be paid to Morgan Guaranty Trust Company of New York as U.S. transfer agent. For shareholders in the United States, the payment will be converted from euros to U.S. dollars unless the shareholder instructs otherwise. The U.S. dollar amounts of dividends received by holders of Ordinary Shares may be affected by fluctuations in exchange rates. See "Item 3. Key Information — Exchange Rates."

E.ON AG expects to continue to pay dividends, although there can be no assurance as to the particular amounts that may be paid from year to year. The payment of future dividends will depend upon E.ON's earnings, financial condition (including its cash needs), future earnings prospects and other factors.

See also "Item 3. Key Information — Dividends."

SIGNIFICANT CHANGES

The merger of Degussa-Hüls and SKW Trostberg, both E.ON subsidiaries, was entered into the Düsseldorf District Court's Commercial Register (HRB 39635) on February 9, 2001. The merged company, called Degussa, has its registered office in Düsseldorf.

On January 12, 2001, Degussa-Hüls and SKW Trostberg made a public offer to purchase the shares of Laporte, a British specialty chemicals company, for £6.97 per share. The total amount expected to be paid for this acquisition is about €1.76 billion.

On January 15, 2001, E.ON exercised the put option to sell its 45 percent shareholding in VIAG Interkom to BT. This transaction closed on February 20, 2001.

In January 2001, E.ON Energie raised its stake in Sydkraft, the Swedish energy utility. E.ON Energie increased its share of Sydkraft's capital stock by 5.3 percent for a total of 29.4 percent. It increased its share of the Swedish company's voting rights by 8.5 percent for a total of 42.8 percent. The purchase price was €272 million. On February 21, 2001, E.ON Energie extended a public tender offer for the remaining Sydkraft shares.

For more information, see the division descriptions in "Item 4. Information on the Company — Business Overview."

Item 9. The Offer and Listing.

GENERAL

The principal trading market for the Ordinary Shares is the Frankfurt Stock Exchange. The Ordinary Shares are also traded on the other German stock exchanges in Berlin, Bremen, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart, as well as on XETRA (see below), and on the Swiss Exchange. Due to the relatively low trading volumes, the former VEBA decided to have its shares delisted from the stock exchanges of Amsterdam on October 18, 1999 and of Vienna on October 29, 1999. Covered Warrants on Ordinary Shares issued by various banks are traded on the German stock exchanges in Frankfurt, Stuttgart, Berlin and Düsseldorf. Options on Ordinary Shares are traded on the German derivatives exchange (*Eurex Deutschland*). E.ON believes that as of December 2000, it had close to 480,000 stockholders. Although E.ON is unable to determine the exact number of its Ordinary Shares held in the United States, it believes that as of December 31, 2000, approximately 11 percent of its outstanding share capital was held in the United States.

ADSs, each representing one Ordinary Share with a pro rata amount of the registered capital of E.ON AG attributable to each share of €2.60, are listed on the NYSE and trade under the symbol "EON." The depositary for the ADSs is Morgan Guaranty Trust Company of New York.

TRADING ON THE NEW YORK STOCK EXCHANGE

The table below sets forth, for the periods indicated, the high and low closing sales prices for the ADSs on the NYSE, as reported on the NYSE Composite Tape.

	Price per ADS ($)	
	High	Low
1997(1)	69	53¼
1998	72⅝	48
1999	66¼	42⅛
First Quarter	64¼	49 11/16
Second Quarter	62	51 9/16
Third Quarter	66¼	54¾
Fourth Quarter	57 9/16	42⅛
2000	60⅜	40⅝
First Quarter	54	40⅝
Second Quarter	54 13/16	47½
Third Quarter	57⅛	45¾
Fourth Quarter	60⅜	48¼
August	55⅝	48 5/16
September	52	45¾
October	52 11/16	48¼
November	57½	52⅛
December	60⅜	53⅝
2001		
January	60½	53 13/16
February(2)	56.10	50.30

(1) From October 7, 1997, the date on which the former VEBA's ADSs were first listed on the NYSE.

(2) On January 29, 2001, the NYSE started trading all listed issues in decimals instead of fractions.

On March 12, 2001, the closing sale price per ADS on the NYSE as reported on the NYSE Composite Tape was $49.54.

TRADING ON THE FRANKFURT STOCK EXCHANGE

The Frankfurt Stock Exchange is the world's third largest organized exchange-trading market in terms of turnover and dealings in securities and by far the most significant of the eight German stock exchanges. By the end of December 2000, it accounted for more than 85 percent of the total securities turnover in Germany. The aggregate annual turnover of the Frankfurt Stock Exchange in 2000 was €5.2 trillion for both equity and debt instruments. As of the end of 2000, the equity securities of 5,694 corporations, including 4,789 foreign corporations, were traded on the Frankfurt Stock Exchange.

Prices are continuously quoted on the Frankfurt Stock Exchange floor each business day between 9:00 a.m. and 8:00 p.m. Central European Time ("CET") for E.ON shares as well as for other actively traded shares. Markets in listed securities are generally of the auction type, but listed securities also change hands in interbank dealer markets off the Frankfurt Stock Exchange. Price formation is determined by open outcry by state-appointed specialists (*Amtliche Kursmakler*) who are themselves exchange members, but who do not, as a rule, deal with the public. Prices for active stocks, including those of larger companies, are quoted continuously during stock exchange hours. For all other stocks, a fixed price is determined by auction around mid-session of each trading day. The transactions settle on the second business day following the day of their trade.

The Frankfurt Stock Exchange publishes a daily official list which includes the volume of recorded transactions in the shares comprising the DAX 100 Index (a performance index comprising the shares of the 100 largest companies, including those 30 companies, of which E.ON is one, comprising the Deutsche Aktienindex or DAX 30 Index, the key benchmark of trading on the Frankfurt Stock Exchange), together with the prices of the highest and lowest recorded trades of the day. The list reflects price and volume information for trades completed by members on the floor during the day as well as for interdealer trades completed off the floor.

On November 28, 1997, trading started on Xetra (*Exchange Electronic Trading System*), a computerized securities trading system administered by the Deutsche Börse AG, which replaced the former IBIS system (*Integriertes Börsenhandels- und Informations-System*). The DAX 30 blue chips, the MDAX 70 shares, other selected stocks, equity warrants, and a number of government bonds are traded on Xetra. Official trading hours for bank and investment company brokers are from 9:00 a.m. to 8:00 p.m. CET. Xetra is technologically more advanced than IBIS, providing additional features such as opening and closing auctions. It is integrated into the Frankfurt Stock Exchange and is subject to its rules and regulations.

The market supervisory committee is responsible for the transparency and regulated dealings concerning price determination and pricing in general within stock market trading. The market supervisory committee is made up of the German Federal securities affairs supervisory body (*Bundesaufsichtsamt für den Wertpapierhandel,* or "BAWe"), the local State stock market supervisory authority and the stock market internal trading supervision and monitoring body. This Frankfurt Stock Exchange internal body is independently responsible for the correct trading and processing at the stock market. This enhances the protection provided to the investor and improves the overall integrity of the market.

The market supervision committee is completed by representation of the Hessian State Ministry for Economic Affairs, Transport and State Development and the BAWe. The local State supervisory authority oversees the observation of stock exchange regulations and directives, the stock exchange operations and the correct processing of stock exchange business. The BAWe is responsible for detection and pursuit of insider infringements, the guarantee of continued transparency and cooperates at the international level with other stock market supervisory authorities.

The table below sets forth, for the periods indicated, the high and low closing sales prices (*Schlusskurse*) for the Ordinary Shares on the Xetra, as reported by the Frankfurt Stock Exchange, together with the highs and lows of the DAX 30 Index.

See the discussion under "Item 3. Key Information — Exchange Rates" with respect to rates of exchange between the dollar and the euro applicable during the periods set forth below.

	Price Per Ordinary Share		DAX 30 Index(1)	
	High	Low	High	Low
	(€)		(€ in thousands)	
1996	46.19	31.63	2,909.91	2,284.86
First Quarter	36.79	31.63	2,525.42	2,284.86
Second Quarter	43.28	37.32	2,573.69	2,457.49
Third Quarter	41.54	38.39	2,666.55	2,447.80
Fourth Quarter	46.19	40.62	2,909.91	2,655.73
1997	63.91	44.72	4,438.93	2,848.77
First Quarter	52.20	44.72	3,460.59	2,848.77
Second Quarter	51.16	45.15	3,805.29	3,215.24
Third Quarter	57.62	47.88	4,438.93	3,819.85
Fourth Quarter	63.91	46.63	4,347.24	3,567.22
1998	66.90	41.11	6,171.43	3,896.08
First Quarter	66.90	60.84	5,102.35	4,087.28
Second Quarter	66.72	58.90	5,915.13	5,018.67
Third Quarter	61.02	43.97	6,171.43	4,433.87
Fourth Quarter	51.12	41.11	5,121.48	3,896.08
1999	62.60	41.60	6,958.14	4,678.72
First Quarter	55.00	45.50	5,443.62	4,678.72
Second Quarter	58.20	48.73	5,468.67	4,914.59
Third Quarter	62.60	51.25	5,652.02	4,978.45
Fourth Quarter	53.90	41.60	6,958.14	5,124.55
2000	66.55	41.01	8,064.97	6,200.71
First Quarter	53.25	41.01	8,064.97	6,474.92
Second Quarter	58.00	50.42	7,555.92	6,834.88
Third Quarter	60.30	51.84	7,480.14	6,682.92
Forth Quarter	66.55	57.16	7,136.30	6,200.71
August	60.03	53.96	7,339.22	7,016.59
September	58.65	52.75	7,445.56	6,682.92
October	60.95	57.16	7,077.44	6,465.26
November	65.40	60.95	7,136.30	6,372.33
December	66.55	60.65	6,782.52	6,200.71
2001				
January	63.50	58.15	6,795.14	6,289.82
February	59.46	55.39	6,704.68	6,075.34

(1) The DAX 30 Index is a continuously updated, capital-weighted performance index of 30 German blue chip companies. E.ON represented approximately 4.93 percent of the DAX Index as of March 12, 2001. In principle, the shares included in the DAX Index were selected on the basis of their stock exchange turnover and their market capitalization. Adjustments of the DAX Index are made for capital changes and dividends.

On March 12, 2001, the closing sale price per Ordinary Share on the Frankfurt Stock Exchange was €53.99, equivalent to $50.21 per Ordinary Share, translated at the Euro Foreign Exchange Rate as published on Reuters page EUROFX/1 on such date.

Item 10. Additional Information.

MEMORANDUM AND ARTICLES OF ASSOCIATION

Organization, Register and Entry Number

E.ON AG is a stock corporation organized under the laws of the Federal Republic of Germany under the Stock Corporation Law (*Aktiengesetz*). It is entered in the Commercial Register (*Handelsregister*) maintained by the local court of Düsseldorf, Germany, under the entry number HRB 22315.

Objects and Purposes

The purposes of the Company, described in Section 2 of E.ON AG's Articles of Association, are as follows:

- E.ON AG controls a group of companies active in the following business sectors in particular:
  - energy, with principal operations in electricity, gas and oil as well as water and waste disposal;
  - chemicals, principally consisting of specialty chemicals, construction chemicals and petrochemicals;

as well as activities in

  - telecommunications; and
  - real estate.

E.ON is also authorized to manage businesses in the fields of distribution and logistics, aluminum, silicon wafers and packaging.

Activities in these business sectors include generation, processing and working as well as distribution and transmission, supply and trading. Facilities of all kinds can be erected, acquired and operated, and services and business cooperations of all kinds can be undertaken.

Further, its Articles of Association authorize E.ON AG to conduct business itself in these sectors; in particular, it can conclude individual transactions. E.ON AG is entitled to take all actions and measures related to its purpose or suited to serve its purpose, directly or indirectly.

E.ON may also establish and purchase other companies, and may acquire shareholdings in other companies, particularly companies active, in whole or in part, in the business sectors set forth above. The Articles of Association further authorize E.ON to acquire interests in companies with the primary objective of investing financial resources, regardless of whether the company operates within one of E.ON's stated business sectors.

Corporate Governance

German stock corporations are governed by three separate bodies: the annual general meeting of shareholders, the supervisory board and the board of management. Their roles are defined by German law and by the corporation's Articles of Association (*Satzung*), and may be described generally as follows:

- *The Annual General Meeting of Shareholders* ratifies the actions of the corporation's supervisory board and board of management. It decides on the amount of the annual dividend, the appointment of an independent auditor and certain significant corporate transactions. In corporations with more than 2,000 employees, shareholders and employees elect or appoint an equal number of representatives to the supervisory board. The annual general meeting must be held within the first eight months of each fiscal year.
- *The Supervisory Board* appoints and removes the members of the board of management and oversees the management of the corporation. Although prior approval of the supervisory board may be required in connection with certain significant matters, the law prohibits the supervisory board from making management decisions.

- *The Board of Management* manages the corporation's business and represents it in dealings with third parties. The board of management submits regular reports to the supervisory board about the corporation's operations and business strategies, and prepares special reports upon request. A person may not serve on the board of management and the supervisory board of a corporation at the same time.

Certain Provisions with Respect to Board Members

Under German law, members of E.ON's Supervisory Board and Board of Management may not receive loans from the Company unless the loan is approved by the Supervisory Board. As a member of the Supervisory Board or Board of Management, a person is not permitted to vote on resolutions relating to transactions between himself and the Company. Further, contracts between members of the Supervisory Board and the Company require consent of the entire Supervisory Board, unless the contract establishes an employment relationship or relates to the member's services on the Board. Members of both Boards are prohibited from voting on resolutions relating to the initiation or settlement of litigation between themselves and the Company. There are no age limit requirements for the retirement of Board members. Compensation of Board of Management members is determined by the Supervisory Board while compensation for the Supervisory Board is stipulated in E.ON AG's Articles of Association. For more information about E.ON's Board of Management and Supervisory Board, see "Item 6. Directors, Senior Management and Employees."

Ordinary Shares

The share capital of E.ON AG consists of Ordinary Shares with no par value outstanding. Certain provisions with respect to the Ordinary Shares under German law and E.ON AG's Articles of Association may be summarized as follows:

Dividends. Dividends in respect of Ordinary Shares are declared once a year at the annual general meeting of shareholders. For each fiscal year, the Board of Management approves E.ON AG's unconsolidated financial statements and submits them together with a proposal regarding the distribution of profits to the Supervisory Board for its approval. After examining the financial statements and proposal for profit distribution, the Supervisory Board presents a report in writing at the annual general shareholders' meeting. On the basis on the Supervisory Board's report, the shareholders vote on the Management Board's proposal regarding the disposition of all unappropriated profits, including the amount of net profits to be distributed as a dividend. E.ON's shareholders participate in the distribution of dividends of the Company in proportion to their ownership of the outstanding share capital. Prior to dissolution of E.ON AG, the only amounts that may be distributed to shareholders under the Stock Corporation Act are the distributable profits (*Bilanzgewinn*).

Notice of the dividends to be paid will be published in the German Federal Official Gazette (*Bundesanzeiger*). For further information regarding E.ON dividends, see "Item 3. Key Information — Dividends" and "Item 8. Financial Information — Dividend Policy."

Voting Rights. Each Ordinary Share entitles its holder to one vote. The members of the Supervisory Board are each elected for the same fixed term of approximately five years; they are not elected at staggered intervals. Cumulative voting is not permitted under German law. E.ON AG's Articles of Association require that resolutions of shareholders' meetings be adopted by a simple majority of votes and, in certain circumstances, by a simple majority of the share capital of the Company, unless a higher vote is required by German law. Under German law, certain corporate actions require approval by 75 percent of the shares represented at the shareholders' meeting at which the matter is proposed. Such actions include, among others:

- amending the articles of association to alter the objects and purposes of the company;
- increasing or reducing the share capital;
- excluding preemptive rights of shareholders to subscribe for new shares;
- dissolving the corporation;
- merging the corporation into, or consolidating the corporation with, another stock corporation;

- transferring all or virtually all of the corporation's assets; and
- changing corporate form.

Shareholder Rights in Liquidation. In accordance with German law, in the event of liquidation, the assets of E.ON remaining after discharge of its liabilities would be distributed to its shareholders in proportion to their shareholdings.

Redemption. Under German law, the share capital of E.ON AG may be reduced by a shareholder resolution amending the Articles of Association, passed by at least 75 percent of the share capital represented at the shareholders' meeting. See "— Changes in Capital" below.

Preemptive Rights. Pursuant to E.ON AG's Articles of Association, the preemptive right of shareholders to subscribe (*Bezugsrecht*) for any issue of additional shares in proportion to their shareholdings in the existing capital may be excluded under certain circumstances.

Due to the restrictions on the offer and sale of securities in the United States under U.S. securities laws and regulations, there can be no assurance that any offer of new shares to existing shareholders on the basis of their preemptive rights will be open to U.S. holders of ADSs or Ordinary Shares.

Changes in Rights of Shareholders

Under German law, the rights of holders of E.ON stock may only be changed by a shareholder resolution amending the Articles of Association. The resolution must be passed by at least 75 percent of the share capital represented at the shareholders' meeting at which the issue was voted upon.

Shareholders' Meetings

The annual general meeting of shareholders is convened by E.ON's Board of Management or, when required by law, by its Supervisory Board, and must be held during the first eight months of the fiscal year. In addition, an extraordinary meeting of the shareholders may be called by the Board of Management, the Supervisory Board or shareholders owning in the aggregate at least five percent of the Company's issued share capital. There is no minimum quorum requirement for shareholder meetings. Each shareholder may be represented by a proxy by means of a written power of attorney. In Germany, non-institutional shareholders typically deposit their shares with a German bank *(Depotbank)*. Such a bank may exercise the voting rights in relation to the deposited shares only if authorized to do so by a proxy of the shareholder. Such proxies are revocable at any time. If a shareholder giving a proxy does not give the bank instructions on how to exercise the voting rights, the bank will exercise the voting rights in accordance with its own proposals as previously communicated to the shareholder. Holders of ADRs may vote their shares by proxy by signing and returning the proxy card mailed to them by Morgan Guaranty Trust Company of New York (the "Depositary") in advance of the meeting. The Depositary will, to the extent permitted by law, the Articles of Association and the provisions of the ADSs, vote or cause to be voted all ADSs for which it receives signed proxies by the applicable record date.

At the annual general meeting, shareholders are called upon to approve the distribution of Company profits, to ratify the actions of the Board of Management and the Supervisory Board taken during the prior year, and to appoint the Company's auditors. When necessary, other matters shall be resolved at shareholders' meetings in accordance with the relevant provisions of German law, including:

- election of members of the Supervisory Board (other than those elected by the employees);
- amendment of the Articles of Association;
- measures to increase or reduce share capital;
- mergers and similar transactions; and
- resolutions regarding the dissolution of the Company.

Notice of any shareholders' meeting, including an agenda describing items to be voted upon, shall be published in the German Federal Official Gazette (*Bundesanzeiger*) and in one other major daily German newspaper no later than one month before the deadline for depositing shares as described below. Holders of ADRs will be notified of any shareholders' meeting by the Depositary.

E.ON AG's Articles of Association set forth certain requirements that shareholders must comply with in order to be eligible to participate in, and vote at, any E.ON shareholders' meeting. Specifically, shareholders are required to:

- deposit their shares or certificates of deposit for their shares with a notary, collective security-deposit bank, or other agency specified in the notice of the shareholders' meeting;
- make the deposit no later than the end of the day on the seventh day prior to the scheduled meeting date; and
- leave the shares or certificates of deposit with the depositary until the completion of the shareholders' meeting.

If an E.ON shareholder deposits his shares with a notary, that shareholder must submit to the Company confirmation of the deposit no later than the day after the deadline for depositing shares. With the consent of one of the depositaries mentioned above, an E.ON shareholder may also be permitted to deposit his shares with another financial institution in the depositary's name and have the shares frozen until the end of the shareholders' meeting. Pursuant to a shareholder resolution approved at the former VEBA extraordinary shareholders' meeting held on February 10, 2000, the Company excluded share certification in order to save the Company and its shareholders the high costs of printing and distributing share certificates. The shareholder's right to share certificates and profit-sharing coupons is thus excluded except as provided by the rules governing stock exchanges on which the shares are listed. E.ON has not issued and does not intend to issue share certificates.

Foreign Share Ownership

There are no limitations on the right to own Ordinary Shares, including the right of non-resident or foreign owners to hold or vote the Ordinary Shares imposed by German law or the Articles of Association of E.ON AG.

Change of Control Provisions

There are no provisions in E.ON AG's Articles of Association that would have an effect of delaying, deferring or preventing a change in control of E.ON and that would only operate with respect to a merger, acquisition or corporate restructuring involving it or any of its subsidiaries. German law does not specifically regulate business combinations with interested shareholders. However, general principles of German law may restrict business combinations under certain circumstances.

Disclosure of Shareholdings

E.ON AG's Articles of Association do not require shareholders to disclose their shareholdings. The German Securities Trading Act (*Wertpapierhandelgesetz*or "Securities Trading Act") which became effective on January 1, 1995 requires each investor whose investment in a German corporation (including E.ON AG) listed on the official market (*Amtlicher Handel*) of a German, European Union or European Economic Area stock exchange reaches, passes or falls below 5 percent, 10 percent, 25 percent, 50 percent or 75 percent of the voting rights of such corporation to notify such corporation and the German Federal Supervisory Authority for Securities Trading (*Bundesaufsichtsamt für den Wertpapierhandel,* "Securities Authority") promptly in writing, but in any event within seven calendar days. Failure of a shareholder to notify the company will, for so long as such failure continues, disqualify such shareholder from exercising the voting rights attached to his shares. In connection with this requirement, the Securities Trading Act contains various rules designed to ensure the attribution of shares to the person who has effective control over the shares.

Changes in Capital

Under German law, share capital may be increased in consideration of contributions in cash or in kind, or by establishing authorized capital (*genehmigtes Kapital*) or conditional capital (*bedingtes Kapital*). Authorized capital provides a company's board of management with the flexibility to issue new shares for a period of up to five years. Conditional capital allows the board of management to issue new shares for specified purposes, including employee stock option plans, mergers and the issuance of shares upon conversion of option bonds and convertible bonds. Capital increases require an amendment of the articles of association approved by 75 percent of the issued shares present at the shareholders' meeting at which the increase is proposed. The board of management must also obtain the approval of the supervisory board before issuing new shares. Likewise, the share capital may be reduced by an amendment to the articles of association, passed by at least 75 percent of the share capital represented at the shareholders' meeting. E.ON AG's Articles of Association do not contain conditions regarding changes in the share capital that are more stringent than German law requires.

In connection with the merger of VEBA and VIAG, the capital stock was increased from €1,307,274,228 by €647,695,048 to €1,954,969,276 through the issuance of 249,113,480 Ordinary Shares. In October 2000, E.ON further increased the share capital by €29,607,799 by issuing 11,387,615 Ordinary Shares in exchange for 32,589,260 shares held by minority shareholders of E.ON Energie AG. These shares participate in the Company's earnings beginning from January 1, 2000.

Authorized and Conditional Capital. Following the procedure prescribed by German law for increasing share capital, E.ON's shareholders amended the Company's Articles of Association to establish authorized capital and conditional capital as follows. Subject to the approval of the Supervisory Board, the Board of Management is authorized:

- To increase the Company's capital stock by a maximum of €180,000,000 through the one-time or repeated issuance of new Ordinary Shares in return for cash contributions until May 25, 2005. E.ON shareholders have pre-emptive rights with respect to the issuance of these authorized shares though their rights may be excluded by the Board of Management under certain circumstances.

- To increase the Company's capital stock by a maximum of €150,392,201 through the one-time or repeated issuance of new Ordinary Shares in return for contributions in kind until May 25, 2005. E.ON shareholders have no pre-emptive rights with respect to these authorized shares.

- To increase the Company's capital stock by a maximum of €180,000,000 through the one-time or repeated issuance of new Ordinary Shares in return for cash contributions until May 25, 2005. E.ON shareholders have pre-emptive rights with respect to the issuance of these authorized shares though their rights may be excluded by the Board of Management under certain circumstances.

Also pursuant to its Articles of Association, E.ON's capital stock has been conditionally increased by up to €75,000,000. This conditional increase may be implemented only to the extent that holders of conversion rights or option certificates, issued under a program authorized by the E.ON shareholders on May 25, 2000, exercise their conversion or option rights.

For more information regarding the Company's capital stock, see Note 19 of the Notes to Consolidated Financial Statements.

Share Buyback. Pursuant to a shareholder resolution approved at the annual general meeting of shareholders held on May 25, 2000, the Board of Management has been authorized to buy back up to 10 percent of E.ON AG's outstanding share capital through October 31, 2001. This repurchase can be executed through market purchases of the stock or via a public tender offer. On September 22, 2000, the Board of Management resolved to make use of this authorization over the following nine months, and to buy back up to 10 percent of E.ON's share capital through market purchases. As of December 31, 2000, the Company had bought back 15,265,979 Ordinary Shares at an average price of €60.56 per share, representing two percent of E.ON's total share capital. If E.ON repurchases the full 10 percent of share capital authorized by its shareholders, it would buy back approximately 76 million Ordinary Shares. This would amount to €4.5

billion based on an average price of €60 per share. Once the shares are repurchased, the Company intends to cancel a substantial portion of them, thereby reducing E.ON AG's share capital.

MATERIAL CONTRACTS

On September 27, 1999, the former VEBA AG and VIAG AG entered into an agreement in principle regarding the merger of VEBA and VIAG and on December 21, 1999, VEBA AG and VIAG AG entered into the merger agreement with respect to the VEBA-VIAG merger. The details of the merger, including the share exchange ratio used in the merger, are described in more detail in "Item 4. Information on the Company — History and Development of the Company — VEBA-VIAG Merger." A copy of the merger agreement, which includes the agreement in principle, has been filed as an exhibit to this annual report.

EXCHANGE CONTROLS

At the present time, Germany does not restrict the export or import of capital, except for investments in areas like Iraq and Myanmar or transactions with regard to certain groups of persons or institutions in Myanmar, Serbia, Afghanistan and Angola, in accordance with applicable resolutions adopted by the United Nations and the EU. However, for statistical purposes only, every individual or corporation residing in Germany (a "Resident") must report to the German Central Bank (*Deutsche Bundesbank*), subject only to certain immaterial exceptions, any payment received from or made to or on account of an individual or a corporation resident outside of Germany (a "Non-resident") if such payment exceeds €12,500 (or the equivalent in a foreign currency). In addition, Residents must report any claims against or any liabilities payable to Non-residents if such claims or liabilities, in the aggregate, exceed €1.5 million (or the equivalent in a foreign currency) at the end of any month.

TAXATION

The following is a summary of material U.S. federal income tax and German tax considerations relating to the ownership of ADSs or Ordinary Shares. The discussion is based on tax laws of the United States and Germany as in effect on the date of this Annual Report, including the Convention between the United States of America and the Federal Republic of Germany for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income and Capital and to Certain Other Taxes (the "Income Tax Treaty"), and the Convention Between the United States of America and the Federal Republic of Germany for the Avoidance of Double Taxation with Respect to Taxes on Estates, Inheritances, and Gifts (the "Estate Tax Treaty"). Such laws are subject to change. The discussion is also based in part upon the representations of the Depositary and assumes that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms. In particular, the discussion is limited to a general description of certain U.S. federal income and German tax consequences with respect to ownership of ADSs or Ordinary Shares by a U.S. Holder. In general, a "U.S. Holder" is any beneficial owner of ADSs or Ordinary Shares (1) who is a resident of the United States for the purposes of the Income Tax Treaty, (2) who is not also a resident of the Federal Republic of Germany for the purposes of the Income Tax Treaty, (3) who owns the ADSs or Ordinary Shares as capital assets, (4) who does not hold ADSs or Ordinary Shares as part of the business property of a permanent establishment located in Germany or as part of a fixed base of an individual located in Germany and used for the performance of independent personal services, and (5) who is entitled to benefits under the Income Tax Treaty with respect to income and gain derived in connection with the ADSs or Ordinary Shares. The discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to the ownership of ADSs or Ordinary Shares, and, in particular, it does not address U.S. federal taxes other than income tax and German taxes other than income tax, gift and inheritance taxes. Moreover, the discussion does not consider any specific facts or circumstances that may apply to a particular U.S. Holder, some of which (for example, tax-exempt entities, persons that own, directly or indirectly, 10 percent or more of any class of the Company's stock, holders subject to the alternative minimum tax, securities broker-dealers and certain other financial institutions, holders who hold the ADSs or

Ordinary Shares in a hedging transaction or as part of a straddle or conversion transaction or holders whose functional currency is not the U.S. dollar) may be subject to special rules.

Owners of ADSs or Ordinary Shares are strongly urged to consult their tax advisers regarding the U.S. federal, state, local, German and other tax consequences of owning and disposing of ADSs or Ordinary Shares. In particular, owners of ADSs or Ordinary Shares are urged to consult their tax advisers to confirm their status as U.S. Holders and the consequence to them if they do not so qualify.

In general, for U.S. federal income tax purposes and for purposes of the Income Tax Treaty, holders of ADSs will be treated as the owners of the Ordinary Shares represented by those ADSs.

TAXATION OF GERMAN CORPORATIONS

The German Tax Reduction Act (*Steuersenkungsgesetz*) that was passed in 2000 will affect both the rate of German withholding tax and the amount of benefits available under the Treaty for dividends the Company pays on or after January 1, 2002. The Tax Reduction Act took effect on January 1, 2001, and replaces the corporate imputation tax system with a classic corporate income tax system. From 2001, the corporate income tax rate on distributed and non-distributed profits is reduced to 25 percent. The change in the system is facilitated by a number of transitional rules.

Prior to the Tax Reduction Act, German corporate income tax law applied the split-rate imputation system (*Anrechnungsverfahren*) with regard to the taxation of a corporation and its shareholders. In general, German corporations were subject to corporate income tax at a rate of 40 percent on non-distributed profits and 30 percent on distributed profits. The corporate income tax liability is subject to a solidarity surcharge of 5.5 percent. While taxpayers resident in Germany (including foreign investors that hold shares or ADSs as part of a permanent establishment or a fixed base in Germany) are entitled to a refundable tax credit in the case of dividends distributed from fully taxed German source income in the amount of three-sevenths of the gross amount (before withholding tax) of profits distributed, that credit or refund is not available to Non-resident holders. A resident company is also subject to municipal trade tax. This tax is levied at rates set by each town or local authority. The municipal trade tax is an allowable deduction for corporate income tax purposes. As regards the taxation of dividends paid by German corporations in 2001 for 2000 or prior fiscal years, the imputation system will be applicable in 2001 for the last time.

At the level of the individual shareholder, the imputation system has been replaced by the so-called half-income system (*Halbeinkünfteverfahren*). For dividends paid on or after January 1, 2002, only half of the distributed profits of a German corporation will be included in the taxable income of individual taxpayers resident in Germany (including foreign investors that hold shares or ADSs as part of a permanent establishment or fixed place of business in Germany). Accordingly, it will no longer be possible to credit the corporate income tax paid by the company against the shareholder's income tax. The refundable tax credit for German holders has been repealed. Dividends derived by a German holder in the legal form of a corporation will be tax exempt in Germany. If such tax exempt dividends are in turn distributed to a German holder of such corporation who is a natural person, the distribution will be taxable at the individual level under the half-income system.

TAXATION OF DIVIDENDS

Under current German tax law, German corporations are generally required to withhold tax on dividends in an amount equal to 25 percent of the gross amount paid to resident and Non-resident stockholders. Dividends paid on or after January 1, 2002 will be subject to a 20 percent withholding tax. A partial refund of the withholding tax can be obtained by U.S. Holders under the Income Tax Treaty.

There is a 5.5 percent solidarity surcharge on the German withholding tax on dividend distributions paid by a German resident company. For dividends distributed in 2001, the surcharge amounts to 1.375 percent (5.5 percent $\times$ 25 percent) of the gross dividend amount. Since the Income Tax Treaty reduces the German withholding tax, U.S. Holders are entitled to a full refund of this surcharge.

In the case of any U.S. Holder, other than a U.S. corporation owning ADSs or Ordinary Shares representing at least 10 percent of the voting stock of the Company, the German withholding tax is partially refunded under the Income Tax Treaty to reduce the withholding tax to 15 percent of the gross amount of the dividend. In addition, so long as the German imputation system provides German resident individual stockholders with a tax credit for corporate taxes with respect to dividends paid by German corporations, the Income Tax Treaty provides that U.S. Holders are entitled to a further refund equal to 5 percent of the gross amount of the dividend. For United States federal income tax purposes, the benefit resulting from this refund is treated as a dividend received by the U.S. Holder equal to 5.88 percent of the gross amount of the dividend, subject to a withholding tax of 0.88 percent (15 percent of 5.88 percent).

Thus, for each $100 of dividends paid by the Company to a U.S. Holder in 2001, a U.S. Holder will initially receive $73.625 (100 minus the 25 percent withholding tax and the 1.375 percent surcharge). The U.S. Holder can then claim a refund from the German authorities of $16.375 and thereby will receive a total cash payment of $90. For U.S. federal income tax purposes, the U.S. Holder is treated as receiving a total dividend of $105.88 (to the extent paid out of the current and accumulated earnings and profits of the Company as determined for United States federal income tax purposes), consisting of the $100 gross dividend and the deemed refund of German tax of $5.88. The notional $105.88 dividend is deemed to have been subject to German withholding tax of $15.88. Thus, for each $100 of gross dividend, the U.S. Holder will include $105.88 in gross income and may be entitled to a foreign tax credit of $15.88, subject to the general limitations of U.S. federal income tax law.

Under the Tax Reduction Act, dividends paid from 2002 onwards by German corporations will be subject to German withholding tax at an aggregate rate of 21.1 percent (a 20 percent withholding tax and a 1.1 percent surcharge). The changes in the German tax treatment of dividend income received by German domestic investors would also affect the benefits available to U.S. Holders under the Income Tax Treaty, which are determined by reference to the treatment of German domestic investors. A U.S. Holder would be entitled to receive a refund from the German tax authorities of $6.10 in respect of a declared dividend of $100, and would not be deemed to receive the additional dividend of $5.88 described in the preceding paragraph. Accordingly, for a declared dividend of $100, a U.S. Holder would initially receive $78.90, could claim a refund from the German tax authorities of $6.10 and therefore would receive a total cash payment of $85. For U.S. tax purposes, a U.S. Holder would be deemed to have received total dividends of $100.

Under the new German tax rules that will apply to dividends paid on or after January 1, 2002, only half of the dividend paid to an individual resident in Germany will be subject to tax and a dividend paid to a German corporation will be exempt from tax in Germany. Furthermore, these rules appear to apply to nonresidents of Germany only if the shares form part of the assets of a permanent establishment that the nonresident maintains in Germany. In any event, German withholding tax will be levied on the full amount of the dividend paid as described above. It is unclear whether a U.S. Holder could claim a refund of the German withholding tax in excess of the amount set forth by the Treaty under these provisions and, if so, which procedure the holder would need to follow to obtain the refund.

The gross amount of dividends received by a U.S. Holder (including the additional dividend associated with the treaty refund and amounts withheld in respect of German withholding tax) generally will be subject to U.S. federal income taxation as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. German withholding tax at the 15 percent rate provided under the Income Tax Treaty will be treated as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, is eligible for credit against a U.S. Holder's U.S. federal income tax liability or, at the holder's election, may be deducted in computing taxable income. Thus, for a declared dividend of $100 that is paid before January 1, 2002, a U.S. Holder would be deemed to have paid German taxes of $15.88, but for a dividend paid on or after January 1, 2002, a U.S. Holder would be deemed to have paid German taxes of $15. In the event that a U.S. Holder is entitled to receive a refund of German withholding tax in excess of the Treaty rate, as discussed in the previous paragraph, the amount of the foreign tax credit available would equal the amount of the German withholding tax imposed on the dividend net of any refund that is available. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. Holder's expected economic profit, after non-U.S. taxes, is insubstantial. U.S. Holders should consult their own advisers concerning the implications of these rules in light of their particular circumstances.

Dividends paid in euros to a U.S. Holder of ADSs or Ordinary Shares will be included in income in a dollar amount calculated by reference to the exchange rate in effect on the date the dividends (including the deemed refund of German corporate tax) are received by such holder (or, in the case of the ADSs, by the Depositary). If dividends paid in euros are converted into dollars on the date received, U.S. Holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

A U.S. Holder may be required to recognize domestic-source foreign currency gain or loss on the receipt of a refund in respect of German withholding tax (but not with respect to the portion of the Treaty refund that is treated as an additional dividend) to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

REFUND PROCEDURES

Pursuant to administrative procedures recently introduced on a trial basis, claims for refunds payable under the Income Tax Treaty to certain U.S. Holders must be submitted to the German tax authorities by the Depositary (or a custodian as its designated agent) collectively on behalf of all such U.S. Holders. This procedure may not be available for U.S. Holders entitled to refunds in excess of €153 for the calendar year; in such event, those holders must file separate claims. Claims must be filed within four years of the end of the calendar year in which the dividend was received. Details of the collective refund procedure will be available from the Depositary.

Individual claims for refund are made on a special German form which must be filed with the German tax authorities: *Bundesamt für Finanzen*, Friedhofstraße 1, 53221 Bonn, Germany. Copies of the required form may be obtained from the German tax authorities at the same address, or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road N.W., Washington D.C. 20007-1998, or from the Office of the Assistant Commissioner (International), Internal Revenue Service, 950 L'Enfant Plaza South S.W., Washington D.C. 20024, Attention: Taxpayer Service Division.

As part of the individual refund claim, a U.S. Holder must submit to the German tax authorities the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, and an official certification on IRS Form 6166 of its last filed United States federal income tax return. IRS Form 6166 may be obtained by filing a request with the Internal Revenue Service Center in Philadelphia, Pennsylvania, Foreign Certificate Request, P.O. Box 16347, Philadelphia, PA 19114-0447. Requests for certification must include the holder's name, social security number or employer identification number, tax return form number, and tax period for which the certification is requested. Requests for certification can include a request to the Internal Revenue Service to send the certification directly to the German tax authorities. If no such request is made, the Internal Revenue Service will send a certificate on IRS Form 6166 to the U.S. Holder, which then must submit the certification with its claim for refund.

In lieu of the procedure described above, a simplified refund procedure applies if Ordinary Shares or ADSs of a U.S. Holder are registered with brokers participating in the Depository Trust Company ("DTC"). The DTC will prepare the German claim for refund forms for such U.S. Holders of Ordinary Shares and ADSs and file the combined claims with the German *Bundesamt für Finanzen.* It is not necessary to submit any IRS Form 6166 or bank voucher at this stage of the procedure.

The *Bundesamt für Finanzen* will issue refunds to the DTC, which will issue corresponding refund checks to the participating brokers. The *Bundesamt für Finanzen* is entitled to sample reviews generally within a period of four years. In the event of a sample review the DTC will receive a list of brokers who must establish the entitlement of their clients to tax refunds by submitting to the *Bundesamt für Finanzen* a list containing names and addresses of the relevant holders of Ordinary Shares and ADSs, and the official certifications on IRS Form 6166 of the last filed U.S. federal income tax return of such holders.

Refunds under the Treaty are not available in respect of Ordinary Shares or ADSs held in connection with a permanent establishment or fixed base in Germany.

TAXATION OF CAPITAL GAINS

Under the Income Tax Treaty, a U.S. Holder will not be liable for German tax on capital gains realized or accrued on the sale or other disposition of ADSs or Ordinary Shares.

Upon a sale or other disposition of ADSs or Ordinary Shares, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized and the U.S. Holder's tax basis in the ADSs or Ordinary Shares. Such gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder's holding period for the ADSs or Ordinary Shares exceeds one year. In the case of an individual U.S. Holder of ADSs or Ordinary Shares, any such long-term capital gain will be subject to a maximum U.S. federal income tax rate of 20 percent. Deposits and withdrawals of Ordinary Shares in exchange for ADSs will not result in realization of gain or loss for U.S. federal income tax purposes.

GIFT AND INHERITANCE TAXES

The Estate Tax Treaty provides that an individual whose domicile is determined to be in the United States for purposes of such Treaty will not be subject to German inheritance and gift tax (the equivalent of the United States federal estate and gift tax) on the individual's death or making of a gift unless the ADSs or Ordinary Shares (1) are part of the business property of a permanent establishment located in Germany or (2) are part of the assets of a fixed base of an individual located in Germany and used for the performance of independent personal services. An individual's domicile in the United States, however, does not prevent imposition of German inheritance and gift tax with respect to an heir, donee, or other beneficiary who is domiciled in Germany at the time the individual died or the gift was made.

The Estate Tax Treaty also provides a credit against U.S. federal estate and gift tax liability for the amount of inheritance and gift tax paid to Germany, subject to certain limitations, in a case where the ADSs or Ordinary Shares are subject to German inheritance or gift tax and U.S. federal estate or gift tax.

OTHER GERMAN TAXES

There are no German transfer, stamp or other similar taxes that would apply to U.S. Holders who purchase or sell ADSs or Ordinary Shares.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends on Ordinary Shares or ADSs, and payments of the proceeds of a sale of Ordinary Shares or ADSs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding at a 31 percent rate unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

DOCUMENTS ON DISPLAY

E.ON AG is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, E.ON files reports and other information with the Securities and Exchange Commission. These materials, including this Annual Report and its exhibits, may be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street N.W., Washington D.C. 20549 and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and 7 World Trade Center, New York, New York 10048. Copies of materials may be obtained from the Public Reference Room of the SEC at 450 Fifth Street N.W., Washington D.C. 20549 at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, material filed by E.ON with the SEC may be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

The Company maintains risk management control systems to monitor the market risk exposures arising from foreign exchange, interest rate and commodity risks and the Company's offsetting hedge positions. The Company uses instruments such as interest rate, interest rate/cross currency swaps and interest rate options, forward foreign exchange contracts, cross currency swaps and foreign exchange options, and commodities forwards, future contracts and options to reduce risk by essentially creating offsetting market exposures. The instruments held by the Company are not leveraged and are held for purposes other than trading.

A discussion of the Company's accounting policies for financial instruments is included in the Summary of Significant Accounting Policies and further disclosure relating to financial instruments is included in Derivative and Financial Instruments, both of which are included in the Notes to Consolidated Financial Statements. For details, see Note 31 of the Notes to Consolidated Financial Statements.

The following discussion about the Company's risk-management activities and the estimated amounts generated from the value-at-risk and sensitivity analyses are "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected due to actual developments in the global financial markets. The methods used by the Company to analyze risks discussed below should not be considered projections of future events or losses. The Company also faces risks that are either nonfinancial or nonquantifiable. Such risks principally include country risk, credit risk, and legal risk, and are not represented in the following analyses.

Foreign Exchange Risk Management

Certain business activities within the E.ON Group are internationally oriented and, accordingly, result in certain foreign exchange rate exposures. Of the Group's consolidated revenue in 2000, 1999 and 1998, 36 percent, 37 percent and 28 percent, respectively, were attributable to customers located outside of member states participating in the European Monetary Union.

To manage the Group's exposure to foreign exchange rate fluctuations, E.ON continually monitors its exposures to currency risks and pursues a systematic and Group-wide foreign exchange risk management policy. E.ON's exposure results principally from transactions made in U.S. dollars, Japanese yen and British pounds.

The principal derivative financial instruments used by E.ON to cover foreign currency exposures are forward foreign exchange contracts, cross currency swaps and currency options. At December 31, 2000, the E.ON Group had entered into forward foreign exchange contracts with a nominal value of €6.2 billion, cross currency swaps with a nominal value of €0.7 billion and currency options with a nominal value of €0.9 billion.

The value-at-risk calculations are undertaken using the RiskMetrics data and risk management software of RiskMetrics Group. The maximum potential loss from derivative positions that are not hedge accounted is calculated based on empirical standard deviations, using a confidence level of 99 percent, and assumes a one-day holding period. Correlations between individual instruments within a single currency are accounted for; the risk of the portfolio is generally lower than the sum of the individual risks. Correlations between currencies are recognized. The hypothetical loss in fair value as of the dates set forth below were estimated to be as follows:

Market risk of financial derivatives not covered by booked and pending transactions during financial year 2000 and as of Dec. 31, 1999

	December 31, 2000			September 30, 2000			June 30, 2000		
	Nominal Value	Market Value(1)	Value-at-Risk	Nominal Value	Market Value(1)	Value-at-Risk	Nominal Value	Market Value(1)	Value-at-Risk
(€ in millions)									
(Remaining maturities)									
FX Forward Transactions									
Buy:	280.3	1.3	14.7	1,007.8	57.8	21.2	533.6	9.8	5.7
Sell:	812.2	5.5	2.6	774.8	(46.8)	3.9	563.7	4.9	4.7
FX Currency Options									
Buy:	594.5	2.6	1.9	325.1	2.2	0.7	9.4	0.0	0.7
Sell:	352.8	8.5	0.7	214.9	2.6	0.6	300.0	(4.1)	0.0
Total/Portfolio	2,039.8	17.9	18.7	2,322.6	15.8	25.0	1,406.7	10.6	10.8

	March 31, 2000			December 31, 1999		
	Nominal Value	Market Value(1)	Value-at-Risk	Nominal Value	Market Value(1)	Value-at-Risk
(€ in millions)						
(Remaining maturities)						
FX Forward Transactions						
Buy:	765.8	35.8	2.9	185.2	8.3	1.9
Sell:	582.2	(16.9)	6.8	327.2	(0.1)	4.6
FX Currency Options						
Buy:	14.5	0.0	0.1	23.1	(0.4)	0.0
Sell:	327.7	0.2	1.0	48.7	(0.9)	0.1
Total/Portfolio	1,690.2	19.1	8.9	584.2	6.9	6.2

(1) Market value deviation from nominal value.

The increase of the nominal value in financial derivatives is partly due to the acquisition of VIAG as of July 1, 2000.

The market risk shows the outstanding nominal values and market values of financial derivatives after economic hedging correlations are assigned between hedging contracts and booked and pending transactions as of the balance sheet data. They represent those financial derivatives that are not assigned to a balance sheet item or pending purchase or sales contract. These items occur if the Company concludes hedging transactions in order to hedge currency risks deriving from anticipated transactions.

The relevant parameters used to calculate the potential change in market value are the contract amount and the contractual forward-exchange strike rate.

As a means of monitoring market risks, including cases of extreme market price fluctuations, a stress test is performed on derivative positions at regular intervals. In this regard, the market risk, based on the value-at-risk concept, is multiplied by a factor of three, in line with the recommendation for the capital adequacy of banks issued by the Bank for International Settlements (BIS).

The amounts presented here from the value-at-risk model disregard the possibility that foreign exchange rates can move in the Company's favor. The assumption within the value-at-risk model is that the changes in foreign exchange rates are adverse. It is highly unlikely that the Company would experience continuous daily losses such as these over an extended period of time.

Interest Rate Risk Management

Several line items on the Group's balance sheet and associated financial derivatives bear interest rates and therefore their fair values are subject to changes in interest rates.

This analysis presents the hypothetical change in fair value of those financial instruments and derivative instruments held by the Company at December 31, 2000 which are sensitive to changes in interest rates. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on investments and to reduce borrowing costs on its debt.

The aggregate hypothetical loss in fair value on all financial instruments and derivative instruments that would have resulted from a hypothetical increase of 100 basis-point parallel shift in the interest-rate structure curves of all relevant currencies is estimated to be €126 million (1999: €76 million). The market risk according to the value-at-risk model accounts to €97 million (1999: €44 million).

The market risk shows the outstanding nominal values and market values of financial derivatives after economic hedging correlations are assigned between hedging contracts, booked and pending transactions. They represent those financial derivatives that are not assigned to a balance sheet item.

Market risk of financial derivatives not covered by booked and pending transactions during financial year 2000 and as of Dec. 31, 1999

	December 31, 2000			September 30, 2000			June 30, 2000		
	Nominal Value	Market Value(1)	Value-at-Risk	Nominal Value	Market Value(1)	Value-at-Risk	Nominal Value	Market Value(1)	Value-at-Risk
(€ in millions)									
(Remaining maturities)									
Interest Rate Swaps									
Fixed-rate payer up to 1 year	—	—	—	—	—	—	—	—	—
1 year to 5 years	62.6	(2.6)	1.2	57.8	(2.6)	1.7	5.1	(0.2)	0.0
more than 5 years	26.0	(0.6)	0.2	26.7	0.2	0.5	36.2	1.0	0.4
Total/Portfolio	88.6	(3.2)	1.3	84.5	(2.4)	2.1	41.3	0.8	0.4

	March 31, 2000			December 31, 1999		
	Nominal Value	Market Value(1)	Value-at-Risk	Nominal Value	Market Value(1)	Value-at-Risk
(€ in millions)						
(Remaining maturities)						
Interest Rate Swaps						
Fixed-rate payer up to 1 year	2.5	0.0	0.0	35.7	0.0	0.0
1 year to 5 years	5.1	(0.3)	0.4	72.9	1.1	0.3
more than 5 years	36.2	0.9	0.0	19.9	1.1	0.1
Total/Portfolio	43.8	0.6	0.4	128.5	2.2	0.4

(1) Market value deviation from nominal value.

The increase of the nominal value in financial derivatives is partly due to the acquisition of VIAG as of July 1, 2000.

Marketable Equity Securities

Marketable equity securities at December 31, 2000, which are recorded at fair value of €5.6 billion and include net unrealized gains of €273 million, have exposure to price changes. The risk associated with this is estimated as the potential change in fair value resulting from a hypothetical 10 percent change in prices of investments quoted by stock exchanges and funds which have readily determinable market prices; the risk amounts to €563 million.

Commodity-Price Risk Management

Certain divisions with the E.ON Group are exposed to risks resulting from fluctuations in the prices of raw materials and commodities.

The Company selectively uses commodity forward, future, swap and option contracts to reduce its exposure to certain risks inherent within its oil, electricity, chemicals and aluminum divisions and precious metals trading. Hedging transactions involving oil-related derivatives cover the risk of fluctuating prices for petroleum and petroleum products arising from production, refining and marketing. Congruent derivatives can be used to hedge open positions in oil or oil-product trading. For aluminum, gold, silver, and other precious metals, derivatives are used to hedge price risks resulting from the product and processing businesses. Electricity and gas price hedges were also used to a limited extent in order to hedge electricity price fluctuations and enable the Company to better coordinate power generating capacities and delivery agreements.

For commodity hedging transactions for which E.ON has not established hedging conditions, the market value amounts to €(20.3) million (1999: €(11.5) million). A hypothetical 10 percent change in underlying raw material and commodity prices would cause the market value of commodity hedging transactions to change by €11 million (1999: €11 million). These are commodity hedging transactions for which E.ON has not established accounting hedges involving booked or contractually agreed upon transactions.

Item 12. Description of Securities other than Equity Securities.

Not applicable.

PART II

Item 13. Defaults, Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15. [Reserved]

Item 16. [Reserved]

PART III

Item 17. Financial Statements.

Not applicable.

Item 18. Financial Statements.

See pages F-1 to F-66, incorporated by reference.

The following consolidated financial statements, together with the report of PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft thereon, are filed as part of this annual report:

Item 19. Exhibits.

Documents filed as exhibits to this annual report:

1.1 English translation of the Articles of Association (*Satzung*) of E.ON AG as amended to date.

4.1 VEBA-VIAG Merger Agreement as of December 21, 1999.

8.1 Subsidiaries as of the end of the year covered by this annual report: see "Item 4. Information on the Company — Organizational Structure."

E.ON AG AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Accountants

To the Board of Directors and Stockholders
E.ON AG

We have audited the accompanying consolidated balance sheets of E.ON AG and its subsidiaries ("E.ON" or the "Company") as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of E.ON's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of E.ON at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, during the year ended December 31, 1999, E.ON changed its method of accounting for one equity investee.

Düsseldorf
March 13, 2001

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

/s/ Brebeck
Brebeck
Wirtschaftsprüfer

/s/ Wiegand
Wiegand
Wirtschaftsprüfer

E.ON AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(in millions except per share amounts)

	Note	2000*	2000	1999	1998
		Year ended December 31,			
Sales	(5)	$ 77,904	€ 82,983	€ 50,515	€ 42,787
Petroleum and electricity tax		(8,388)	(8,935)	(3,943)	(3,742)
Sales, net of petroleum and electricity tax		69,516	74,048	46,572	39,045
Cost of goods sold and services provided	(6)	(59,021)	(62,869)	(39,231)	(33,170)
Gross profit from sales		10,495	11,179	7,341	5,875
Selling expenses		(5,723)	(6,096)	(3,838)	(3,325)
General and administrative expenses		(2,607)	(2,777)	(1,693)	(1,532)
Other operating income (expenses), net	(7)	4,040	4,304	2,404	1,160
Financial earnings, net	(8)	(55)	(59)	186	207
Income before income taxes		6,150	6,551	4,400	2,385
Income taxes	(9)	(2,358)	(2,512)	(1,277)	(1,224)
Income after income taxes		3,792	4,039	3,123	1,161
Minority interests	(10)	(440)	(469)	(132)	13
Net income		3,352	3,570	2,991	1,174
Earnings per share					
Basic earnings per share		5.40	5.75	5.95	2.34
Diluted earnings per share		5.40	5.75	5.95	2.33

* Note 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

All 1998 balances have been restated from deutsche marks into euros using the Official Fixed Exchange Rate (Note 1).

E.ON AG AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in millions)

	Note	At December 31, 2000*	2000	1999
ASSETS				
Intangible assets	(12)	$ 9,120	€ 9,714	€ 4,740
Property, plant and equipment	(13)	27,079	28,844	18,790
Financial assets	(14)	23,265	24,782	14,925
Fixed assets		59,464	63,340	38,455
Inventories	(15)	6,727	7,166	4,487
Accounts receivable	(16)	10,606	11,297	6,332
Other receivables and assets	(16)	12,620	13,443	4,072
Businesses held for sale	(4)	928	989	—
Liquid funds	(17)	7,981	8,501	1,844
Non-fixed assets		38,862	41,396	16,735
Deferred taxes	(9)	1,008	1,074	927
Prepaid expenses	(18)	381	405	102
Total assets (thereof short-term 2000: 40,623, 1999: 18,893)		99,715	106,215	56,219
LIABILITIES AND STOCKHOLDERS' EQUITY				
Capital stock	(19)	1,863	1,985	1,307
Additional paid-in capital	(20)	10,704	11,402	2,197
Retained earnings	(21)	13,805	14,705	11,763
Accumulated other comprehensive income	(22)	813	866	546
Treasury stock	(23)	(868)	(925)	—
Stockholders' equity		26,317	28,033	15,813
Minority interests	(24)	4,809	5,123	3,895
Provisions for pensions	(25)	8,202	8,736	5,678
Other	(26)	23,281	24,799	14,002
Accrued liabilities		31,483	33,535	19,680
Financial liabilities	(27)	13,187	14,047	5,227
Other liabilities	(27)	20,535	21,873	9,446
Liabilities		33,722	35,920	14,673
Deferred taxes	(9)	2,554	2,720	1,756
Deferred income		830	884	402
Total liabilities (thereof short-term 2000: 32,238, 1999: 14,231)		*73,397*	*78,182*	*40,406*
Total liabilities and stockholders' equity		99,715	106,215	56,219

* Note 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

E.ON AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	2000*	2000	1999	1998
Net income	$ 3,352	€ 3,570	€ 2,991	€ 1,174
Income applicable to minority interests	440	469	132	(13)
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Depreciation and amortization	4,605	4,905	3,165	2,829
Other non-cash items	1,350	1,438	(445)	(170)
Gains from disposition of				
Equity interests	(4,283)	(4,562)	(2,289)	(377)
Other financial assets	(60)	(64)	(7)	(22)
Intangible and fixed assets	(338)	(360)	(307)	(201)
Changes in deferred taxes	275	293	(1,494)	(9)
Changes in provisions	192	205	1,797	298
Changes in operating assets and liabilities:				
Inventories	(1,133)	(1,207)	(257)	144
Trade receivables	(1,697)	(1,808)	(1,970)	(51)
Other assets	(679)	(723)	886	(214)
Accounts payable, trade	535	570	976	(162)
Other liabilities	701	747	77	(138)
Cash provided by (used for) operating activities	**3,260**	**3,473**	**3,255**	**3,088**
Proceeds from disposition of				
Equity interests	5,523	5,883	5,142	898
Other financial assets	1,602	1,707	486	394
Intangible and fixed assets	1,060	1,129	679	616
Purchase of				
Equity investments	(4,263)	(4,541)	(3,517)	(849)
Other financial assets	(4,858)	(5,175)	(976)	(536)
Intangible and fixed assets	(3,529)	(3,759)	(2,524)	(2,840)
Changes in securities (other than trading) (> 3 months)	(856)	(912)	(250)	44
Changes in other liquid funds (> 3 months)	1,239	1,320	(752)	—
Cash provided for (used for) investing activities	**(4,082)**	**(4,348)**	**(1,712)**	**(2,273)**
Proceeds from the issuance of shares including capital increases from minority stockholders	—	—	—	109
Payments for treasury stock	(868)	(925)	—	—
Payment of cash dividends to				
Shareholders of E.ON AG	(589)	(628)	(540)	(534)
Minority stockholders	(70)	(74)	(106)	(88)
Proceeds from financial liabilities	9,633	10,261	1,141	944
Repayments of financial liabilities	(6,282)	(6,691)	(1,878)	(1,292)
Cash provided by (used for) financing activities	**1,824**	**1,943**	**(1,383)**	**(861)**
Net increase (decrease) in cash and cash equivalents maturing (< 3 months)	1,002	1,068	160	(46)
Effect of foreign exchange rates on cash and cash equivalents (< 3 months)	17	18	15	(55)
Cash and cash equivalents at the beginning of period (< 3 months)	499	531	356	457
Liquid funds at end of period (< 3 months)	**1,518**	**1,617**	**531**	**356**
Securities at the end of period (other than trading; > 3 months)	6,418	6,836	265	—
Other liquid funds at the end of period (> 3 months)	45	48	1,048	151
Liquid funds as shown on the balance sheet	**7,981**	**8,501**	**1,844**	**507**

* Note 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

All 1998 balances have been restated from deutsche marks into euros using the Official Fixed Exchange Rate (Note 1).

E.ON AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in millions of €)

	Capital stock	Additional paid-in capital	Retained earnings	Accumulated Other Comprehensive Income: Cumulative Translation Adjustment	Accumulated Other Comprehensive Income: Available for Sale Securities	Accumulated Other Comprehensive Income: Minimum Pension Liability	Treasury Stock	Total
January 1, 1998	1,271	2,125	8,815	94	1,194	(27)		13,472
Shares issued	14	94						108
Dividends paid			(534)					(534)
Net income			1,174					1,174
Other comprehensive income				(256)	223	(20)		(53)
Total comprehensive income								1,121
Other changes			(312)					(312)
December 31, 1998	1,285	2,219	9,143	(162)	1,417	(47)	—	13,855
Capital increase due to converting capital stock from DM to €	22	(22)						
Dividends paid			(540)					(540)
Net income			2,991					2,991
Other comprehensive income				358	(1,020)			(662)
Total comprehensive income								2,329
Other changes			169					169
December 31, 1999	1,307	2,197	11,763	196	397	(47)	—	15,813
Shares issued	678	9,205						9,883
Shares reacquired							(925)	(925)
Dividends paid			(628)					(628)
Net income			3,570					3,570
Other comprehensive income				255	93	(28)		320
Total comprehensive income								3,890
December 31, 2000	1,985	11,402	14,705	451	490	(75)	(925)	28,033

The accompanying Notes are an integral part of these Consolidated Financial Statements.

All 1998 balances have been restated from deutsche marks into euros using the Official Fixed Exchange Rate (Note 1)

E.ON AG AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Basis of Presentation

The Consolidated Financial Statements of E.ON AG ("E.ON," the "Corporation," or the "Company") have been prepared for the first time in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). E.ON, which until June 16, 2000, reported under the name of VEBA Aktiengesellschaft ("VEBA"), previously prepared its Consolidated Financial Statements in accordance with accounting principles generally accepted in Germany ("German GAAP") as prescribed by the German Commercial Code ("Handelsgesetzbuch" or "HGB") and the German Stock Corporation Act ("Aktiengesetz") and applied U.S. GAAP as far as permissible under German GAAP. VEBA also provided a reconciliation of differences between German GAAP and U.S. GAAP. To conform to the current year presentation, all amounts previously reported in accordance with German GAAP have been restated to be in accordance with U.S. GAAP. E.ON is using the relief outlined in § 292a of the German Commercial Code, which exempts companies from preparing consolidated financial statements in accordance with German GAAP if the consolidated financial statements are prepared in accordance with internationally accepted accounting principles and comply with the Fourth and Seventh Directive of the European Community. For the interpretation of these directives the Company relied on German Accounting Standard No. 1 (DRS 1), "Exempting Consolidated Financial Statements in accordance with § 292a of the Commercial Code".

On June 16, 2000, VEBA and VIAG Aktiengesellschaft ("VIAG") merged into E.ON. The merger is discussed further in Note 4.

Prior to December 31, 1998, E.ON prepared and reported its consolidated financial statements in Deutsche Marks ("DM"). With the introduction of the euro ("€") on January 1, 1999, E.ON presented its consolidated financial statements as of and for the year ended December 31, 1999 in euro. Accordingly, figures for 1998 are shown in € using the Official Fixed Exchange Rate of €1 = DM 1.95583. E.ON's 1998 euro financial statements depict the same trends as would have been presented if it had continued to present its Consolidated Financial Statements in Deutsche Marks. The Company's Consolidated Financial Statements will, however, not be comparable to the euro financial statements of other companies that previously reported their financial information in a currency other than Deutsche Marks.

All monetary amounts herein are shown in millions of euros, except per share amounts and as otherwise indicated. Solely for the convenience of the reader, the December 31, 2000 financial statements have also been translated into United States dollars ("$") at the rate of €1 = $0.9388, the Noon Buying Rate of the Federal Reserve Bank of New York on December 29, 2000. Such translation is unaudited.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of E.ON AG and all material majority-owned subsidiaries (affiliated companies) in which E.ON AG directly or indirectly exercises control through a majority of the stockholders' voting rights. Majority-owned companies in which E.ON does not exercise control are accounted for under the equity method. Companies are also accounted for under the equity method if E.ON holds between 20 and 50 percent of shares and the ability to exercise significant influence in the investees' operations and corporate governance is granted (associated companies). Other share investments represent those in which E.ON holds less than 20 percent ownership, which are accounted for at cost. A list of all E.ON stockholdings and other interests has been filed with the Commercial Register of the Local Court in Düsseldorf (HRB 22 315).

Intercompany results, expenses and income as well as receivables and liabilities between the consolidated companies are eliminated.

Business Combinations

For business combinations accounted for under the purchase method of accounting, all assets acquired and liabilities assumed are recorded at fair value. Any excess of the purchase price over the fair value of net assets acquired is capitalized as goodwill. Situations in which the fair value of net assets acquired is greater than the purchase price paid generate negative goodwill only to the extent that it remains after being allocated to reduce proportionately the values otherwise assigned to noncurrent assets (with the exception of long-term investments in marketable securities and net deferred tax assets) to zero. Goodwill and negative goodwill are amortized over the expected useful life on a straight-line basis. Goodwill and negative goodwill of different subsidiaries are not offset against each other. Amortization of goodwill and negative goodwill is reported as other operating expenses or income, respectively. Goodwill and negative goodwill arising from companies for which the equity method is applied are calculated on the same principles that are applicable to fully consolidated companies.

Businesses held for sale mainly consist of companies identified as held for sale in conjunction with the merger between VEBA and VIAG based on their estimated net realized value as determined by expected future cash flows. These businesses are expected to be divested within one year after the merger. In accordance with U.S. GAAP, results of operations for these entities are excluded from consolidated results of E.ON. Business held for sale are discussed in detail in Note 4.

Foreign Currencies

The assets and liabilities of the Company's foreign subsidiaries where the functional currency is other than the euro are generally translated using year-end exchange rates, while the statements of income are translated using average exchange rates during the year. Differences arising from the translation of assets and liabilities in comparison with the translation of prior years are included as a separate component of stockholders' equity and accordingly have no effect on net income. Foreign currency transaction gains and losses are included in other operating income and other operating expenses, respectively.

The following major currencies of countries outside the European Currency Union(1) have experienced the exchange-rate fluctuations shown below:

		Rate in € as of the balance-sheet date		Annual average rate in €		
Currency	**ISO-Code**	**Dec. 31, 2000**	**Dec. 31, 1999**	**2000**	**1999**	**1998**
Swiss francs	CHF	1.52	1.61	1.56	1.60	1.61
British pound	GBP	0.62	0.62	0.61	0.66	0.67
Japanese yen	JPY	106.92	102.73	99.47	121.32	145.05
Swedish krona	SEK	8.83	8.56	8.45	8.81	8.84
US dollar	USD	0.93	1.00	0.92	1.07	1.11

(1) The countries within the European Currency Union are Belgium, Germany, Finland, France, Ireland, Italy, Luxembourg, The Netherlands, Austria, Portugal and Spain.

Revenue Recognition

The Company generally recognizes revenue net of sales tax upon delivery to customers or by fulfillment of service contracts. Delivery has occurred when the risks and rewards associated with ownership have transferred to the buyer. Provisions for discounts and rebates to customers as well as returns and other adjustments are provided for in the same period the related sales are recorded. Fulfillment of service contracts occurs when substantially all performance obligations have been met.

Telecommunications-related activation fees are deferred and amortized over the longer of the contract period or the length of the average customer relationship period. The related subscriber acquisition costs are deferred to the extent of the related activation fees. All other subscriber acquisition costs are expensed as incurred.

Petroleum Revenue Tax

The charge for petroleum revenue tax is based upon a fixed rate for the quantity sold.

Electricity Revenue Tax

The electricity tax took effect on April 1, 1999. The tax is levied primarily on electricity delivered to end customers by domestic utilities and consists of a fixed tax rate per MWh. This rate varies among different classes of customers.

Advertising Costs

Advertising costs are expensed as incurred and totaled €205 (1999: €112, 1998: €97).

Research and Development

Research and development costs are expensed as incurred.

Earnings Per Share

Earnings per share ("EPS") are computed in accordance with Statement of Financial Accounting Standards ("FAS") No. 128, "Earnings per Share." Basic EPS is computed by dividing consolidated net earnings by the weighted average number of common shares outstanding. Diluted EPS is computed by dividing consolidated net earnings by the sum of the weighted average number of common shares outstanding and the weighted average number of potential commons shares outstanding.

Intangible Assets and Property, Plant and Equipment

Acquired intangible assets including licenses, patents, trademarks, customer lists and other advance payments are valued at acquisition costs and amortized by the straight-line method over their expected useful lives for a period generally up to 20 years. The concession for the utilization of water power concerning the Rhine-Main-Danube riverway is amortized over 40 years. Goodwill results from the acquisition of an entity where the purchase price exceeds the fair market value of the identifiable assets of the entity less its liabilities at the date of acquisition. Goodwill is amortized using the straight-line method over its expected useful life for a period generally between 8 and 20 years. Property, plant and equipment are valued at acquisition or production costs and depreciated over their expected useful lives.

Useful lives of Property, Plant and Equipment	
Buildings	10 to 50 years
Drillings	15 years
Chemical plants and refineries	5 to 25 years
Power plants	
Conventional plants	10 to 15 years
Nuclear plants	19 years
Hydro power and other facilities used to generate renewable energy	10 to 50 years
Equipment, fixtures, furniture and office equipment	3 to 25 years

Immovable assets are depreciated according to the straight-line method, while movable assets, depending on the use, are depreciated using either the declining-balance method or straight-line method. When using the declining-balance method a change from the declining-balance method to the straight-line method is made in the year in which the amount of straight-line depreciation exceeds the sum determined by the declining-balance method.

Intangible and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the sum of the future undiscounted cash flows expected to be generated from the use of the asset is insufficient to recover its related carrying value. The carrying value of such asset is written down to fair value, which is generally determined from estimated discounted future net cash flows.

The Company's oil and natural gas exploration and production activities are accounted for under the successful efforts-method. Under this method, costs of productive wells and development of dry holes are initially capitalized as an intangible fixed asset. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets. Both tangible and intangible assets as well as productive acreage are capitalized and amortized on the unit of production basis. All exploration expenditure determined as unsuccessful is charged against income. Costs of that portion of undeveloped acreage likely to be unproductive, based largely on historical experience, are amortized over the period of exploration. Exploration license acquisition costs are amortized over the estimated period of exploration. Other exploratory expenditures, including geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred.

Assets held under leases, which result in receiving substantially all risks and rewards of ownership, are capitalized as tangible fixed assets at the present value of underlying minimum lease payments. The corresponding capital lease obligation is included with the borrowings. Rentals under operating leases are charged against income as incurred.

Repair and maintenance costs are expensed as incurred. Renewals and production costs that extend the useful life of an asset are capitalized.

Interest has been capitalized on debt apportionable to the construction period of qualifying assets as a part of their cost of acquisition. The additional acquisition cost is depreciated over the expected useful life of the related asset. Production costs are depreciated over the expected useful lives of the items concerned commencing on the completion or commissioning date. Interest incurred during 2000 was €1,003 (1999: €599, 1998: €392). Of this amount, interest capitalized was €15 (1999: €56, 1998: €58). Interest expensed was €988 (1999: €543, 1998: €334).

Financial Assets

Shares in associated companies are valued according to the equity method. E.ON's accounting policies are also generally applied to associated companies. Other investments are accounted for in accordance with FAS 115, "Accounting for Certain Investments in Debt and Equity Securities". FAS 115 requires that a security be accounted for according to its classification as either trading, available-for-sale or held to maturity. Debt securities for which the Company does not have the positive intent and ability to hold to maturity and all marketable securities are classified as securities available-for-sale. The Company does not hold any securities classified as trading. Securities classified as available-for-sale are carried at fair value with unrealized gains and losses reported in stockholders' equity as a separate component until realized. Realized gains and losses are recorded based on the specific-identification method. Unrealized losses on all marketable securities and investments that are other than temporary are recognized in financial earnings. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion are included in interest income. Realized gains and losses are included in other operating income (expenses).

Assets Held for Sale

If assets are identified as held for sale, depreciation will be discontinued, and the Company determines the fair value of such assets. If the fair value of such assets, less selling costs, is less than the net book value of the assets, a loss reserve is established. Fair value is determined based upon discounted cash flows of the assets at rates which management deems reasonable for the type of property and prevailing market conditions, appraisals and, if appropriate, current estimated net sales proceeds from pending offers.

Liquid Funds

Liquid funds include securities, checks, cash on hand and bank balances. Depending on their maturities, liquid funds are considered either cash and cash equivalents or other short term investments.

E.ON considers liquid funds with an original maturity of three months or less to be cash equivalents.

Other short term investments represent liquid funds with an original maturity of more than three months.

Inventories

The Company values inventories at the lower of acquisition or production costs or market values. Raw materials, products and goods purchased for resale are valued at LIFO or average cost. In addition to production materials and wages, production costs include proportionate material and production overhead based on standard capacity. The costs of general administration, voluntary social benefits, pensions and interest on borrowings are not capitalized. Inventory risks resulting from excess and obsolescence are taken into account by adequate valuation allowances.

Receivables and Other Assets

These assets are stated at face values. Valuation allowances are provided for identifiable individual risks for these items as well as long-term loans. Adequate lump-sum valuation allowances are provided to cover the general risk and are generally based on empirical values from the past.

Accrued and Other Liabilities

The valuation of pension liabilities is based upon actuarial computations using the projected unit credit method in accordance with FAS 87, "Employers' Accounting for Pensions" and FAS 106 "Employers' Accounting for Postretirement Benefits other than Pensions."

Other provisions and liabilities are recorded when an obligation to a third party has been incurred, the payment is probable and the amount can be reasonably estimated.

Deferred Taxes

Deferred taxes are provided for all temporary differences between the tax and commercial balance sheet. According to FAS 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. FAS 109 also requires the recognition of future tax benefits of net operating loss carryforwards. A valuation allowance is provided for deferred tax assets if it is more likely than not that the tax benefit will not be realized.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income for the period that includes the enactment date. In October 2000, the President of the Federal Republic of Germany signed into law the Tax Reduction Act. As a result, deferred taxes for domestic companies are calculated based on a tax rate of 39 percent (1999: 52 percent, 1998: 57 percent) on the basis of a federal statutory rate of 25 percent for corporate income tax, a solidarity surcharge of 5.5 percent on corporate tax, and the average trade income tax rate applicable for E.ON. Deferred taxes related to foreign companies are calculated at local enacted tax rates. The major temporary differences and their net effect are shown in Note 9.

Derivative Financial Instruments

Derivative financial instruments are used for hedging purposes. The Company uses interest rate and cross currency swaps and interest rate options as well as currency forwards and options. These instruments are utilized to hedge interest rate and foreign exchange risks. Hedging transactions are utilized to hedge price risks resulting from fluctuations in raw materials and commodity prices. Crude oil swaps and options, petroleum product and crack swaps are used to cover risks potentially ensuing from fluctuations in crude oil and product prices. Precious metals futures serve to hedge underlying transactions in metals trading and to cover price risks of the product and processing businesses. To hedge price risks resulting from fluctuations in prices and margins in the aluminum market, the Company uses forward contracts. Gas and electricity swaps and options are entered into in order to enable the Company to better coordinate power generating capacities and delivery agreements. The Company uses these derivative financial instruments to hedge recognized transactions, firm commitments and anticipated transactions.

Fair value is calculated for each derivative financial instrument. The fair value is the price at which one party would assume the rights and/or duties of another party. Fair values of financial derivatives have been calculated with commonly used market valuation methods and with reference to available market information at the balance sheet date. Considering the fluctuation of value-influencing market data, the fair values shown may not be indicative of the amounts the Company could realize under current market conditions.

The following is a summary of the methods and assumptions for the valuation and income effects of utilized derivative financial instruments in the Consolidated Financial Statements:

- Currency, crude oil, aluminum and precious metals forwards, crude oil, gas, electricity as well as crack and product swaps are valued separately at future rates or market prices as of the balance sheet date. The fair values of forward contracts are based on spot prices that consider forward premiums or discounts.
- Market prices for currency, crude oil, precious metals, gas and electricity options are determined by means of valuation methods commonly used in the market.
- The fair values of existing instruments to hedge interest rate risk were determined by discounting future cash flows using market interest rates over the remaining term of the instrument. Discounted cash values are determined for interest rate and cross currency swaps for each individual transaction as of the balance sheet date. Interest exchange amounts are considered with an effect on current results at the date of payment or accrual. Market values for interest rate options are determined on the basis of quoted market prices or on calculations based on option pricing models.
- Exchange-traded oil and metal future contracts are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses. Paid initial margins are disclosed under other assets. Variation margins received or paid during the term are stated under other liabilities or other assets, respectively. They are accounted for with an impact on earnings at settlement or realization, respectively.

Gains and losses on foreign exchange contracts are recognized in other operating income or expenses, respectively. Income or expenses resulting from interest rate contracts are reported in "Interest and similar income or expenses." Amounts relating to commodity contracts are accounted for as an adjustment of sales or costs of sales, respectively.

Derivative financial instruments utilized to hedge the Company's exposure to currency, interest rate or price risks are accounted for together with the underlying business transactions ("hedge accounting") if there is a direct connection between a derivative financial instrument and an underlying transaction. Once allocated, gains and losses from these valuation units, which are used to manage currency, interest rate and commodity price risks of identifiable assets, liabilities, or firm commitments, do not affect income until the underlying transaction is realized.

All financial derivatives purchased to offset the Company's net exposure to currency, interest rate or commodity price risks and which are not designated as hedges of specific assets, liabilities, firm commitments and anticipated transactions, are marked to market, and any resulting unrealized gains or losses are recognized currently in income. The carrying amounts of derivative instruments are included under other assets and accrued liabilities.

Generally, all financial derivatives used by the Company for hedging currency risks are marked to market, and any resulting unrealized gains and losses are recognized currently in income. For all foreign currency denominated balance sheet items fair values are also calculated by using the adequate spot rate. The resulting unrealized gains and losses of the individually valued foreign currency positions are recognized currently in income.

Those financial derivatives entered into by the Company to offset its exposure to anticipated cash flows which do not meet the requirements for applying hedge accounting are, accordingly, marked to market at each reporting period with unrealized gains and losses recognized in income. At such time that the Company meets the requirements for hedge accounting and designates the derivative financial instrument as a hedge of a committed transaction, subsequent unrealized gains and losses would be deferred and recognized along with the effects of the underlying transaction. In the oil and aluminum businesses, the Company also uses hedge accounting for anticipated transactions.

If a derivative instrument ceases to meet the criteria for hedge accounting, any subsequent gains and losses are currently recognized in income. If an anticipated transaction does not occur or if the financial derivative is sold or terminated prior to maturity, any gains or losses are recognized in the above-mentioned income sections.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows is classified by operating, investing and financing activities pursuant to FAS 95, "Statement of Cash Flows." The separate line item, other non cash items, is mainly comprised of undistributed earnings from companies valued at equity. Effects of changes in the scope of consolidation are shown in investing activities and have been eliminated from the items in the three classification areas. This also applies to valuation changes due to exchange-rate fluctuations whose impact on cash and cash equivalents is separately disclosed.

Segment Information

Segment reporting is in accordance with FAS 131, "Disclosures about Segments of an Enterprise and Related Information." The management approach required by FAS 131 designates the internal reporting organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. The measure of segment internal operating profit or loss is the measure reviewed by the chief operating decision-maker. FAS 131 also requires disclosures about products and services, geographic areas and major customers.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 1998, FAS 133, "Accounting for Derivative Instruments and Hedging Activities" was issued. FAS 133 addresses the accounting for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. In June 1999, FAS 137 was issued, deferring the effective date of FAS 133 to January 1, 2001. In June 2000, FAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an Amendment of FASB Statement No. 133" (FAS 138), was issued.

The Company plans to adopt FAS 133, as amended by FAS 138 , as of January 1, 2001. Therefore, the Company analyzed the hedging strategies used and the documentation prepared. In areas where the Company will make use of hedge accounting under the requirements of FAS 133, the formal documentation was analyzed and a project was established to identify derivatives embedded in other contracts. The Company expects a transition adjustment affecting the results of operations amounting up to €60 and no material impact on its financial position.

In September 2000, FAS 140, "Accounting for Transfers and Servicing of Financial Assets of Liabilities" was issued. This new standard determines accounting principles and financial statement disclosures for securitizations and other transfers of financial assets and collateral. The accounting principles are effective for transactions occurring after March 31, 2001. The new disclosure requirements are effective for fiscal years ending after December 15, 2000. Adoption of this standard is not anticipated to have a material effect on E.ON's consolidated financial statements.

(3) Scope of Consolidation

Changes to the scope of consolidation in 2000 are listed below:

	Domestic	Foreign	Total
Consolidated companies as of December 31, 1999	295	541	836
Acquisitions	199	509	708
Disposals	43	159	202
Consolidated companies as of December 31, 2000	451	891	1,342

See Note 4 for additional information on significant acquisitions and disposals.

In 2000, a total of 184 domestic and 75 foreign associated and non-consolidated companies were valued at equity (1999: 183 and 48, respectively).

(4) Acquisitions and Dispositions

Merger of VEBA and VIAG

On June 16, 2000, the merger between VEBA and VIAG was completed. The merger was entered into the Commercial Register on June 16, 2000. For convenience reasons, June 30, 2000 has been chosen as the merger date.

VIAG was a corporate group operating in five core business, classified in two main categories: energy and telecommunications (services) as well as chemicals, packaging and aluminum (innovative industries). VIAG was one of Germany's largest industrial groups. VIAG's divisions were Bayernwerk AG for the energy business, SKW Trostberg AG for the chemicals business, VIAG Telecom Beteiligungs-GmbH for the telecommunications business, VAW aluminium AG for the aluminum business and Schmalbach-Lubeca AG and Gerresheimer Glas AG for the packaging business.

The merger between VEBA and VIAG was accounted for under the purchase method of accounting. The merger was completed on a step by step basis. The first step was the acquisition from the Free State of Bavaria on October 7, 1999, of a total of 10 percent of VIAG's shares at €23.00 per share, which resulted in a purchase price of €1,592. The second step was the acquisition of the remaining 90 percent of VIAG's shares exchanging 1 VEBA share for 2.5 VIAG shares, resulting in the issuance of 249,113,480 new shares representing a purchase price of €9,271. The total purchase price amounted to €10,920 and includes acquisition costs of €57.

The difference of €340 between the purchase price of the acquired net identifiable assets and their fair values as of June 30, 2000, was capitalized as goodwill and will be amortized over 20 years using the straight-line method.

As a result of the transfer of the Company's shares in Schmalbach-Lubeca AG to AV Packaging GmbH (AVP), which is valued at equity, goodwill attributable to Schmalbach-Lubeca in the amount of €361 is included in the book value of the AVP equity as of December 31, 2000.

The remaining negative goodwill of €21 is reported as a liability and will be amortized on a straight line basis over 20 years.

Operations of VIAG are included in the Consolidated Statements of Income from July 1 to December 31, 2000.

Subsequent to the merger of VEBA and VIAG, the electricity divisions of both companies, PreussenElektra and Bayernwerk, were merged into E.ON Energie AG. In September 2000, E.ON acquired the remaining 2.46 percent of E.ON Energie AG through the issuance of 11,387,615 E.ON AG shares resulting in a purchase price of €686. This acquisition was accounted for under the purchase method. An amount of €566 million was recorded as goodwill, which is being amortized over 20 years on a straight-line basis.

Of the amount allocated to the net realizable value of VIAG's business, €1,948 has been identified as pertaining to the businesses, which the Company has identified as held for sale. The allocation of the purchase price to the businesses held for sale was determined based on the estimated sales prices for all businesses held for sale less estimated cash out flows through disposal date. The final sales price and cash flows pertaining to these businesses may differ from the amounts allocated.

Of the businesses held for sale, Gerresheimer Glas and VEW AG were sold during the second half of the current year. The proceeds including the related tax benefits for Gerresheimer Glas amounted to €228. The proceeds for VEW AG amounted to €731. Due to the accounting treatment for businesses held for sale, no gain or loss was recognized.

As a result of antitrust requirements, the Company must divest the shares formerly held by VIAG in LAUBAG Lausitzer Braunkohle AG (LAUBAG), VEAG Vereinte Energiewerke AG (VEAG), and Berliner Kraft- und Licht-AG (BEWAG). The fair value was determined on the basis of agreements or contractual negotiations. No material cash flows from and to these investments have occurred through December 31, 2000.

Approximately €234 has been recorded as accrued restructuring charges in connection with the merger. These accruals consist primarily of personnel costs related to the proposed closures of several power plants. Actual amounts paid through December 31, 2000 are insignificant.

The purchase price allocation for these acquisitions is preliminary. Further refinements are likely to be made based on the completion of final valuation studies. The operating results of these acquired businesses are included in the Consolidated Statements of Income from the dates of acquisition.

The following unaudited pro forma combined results of operations of the Company are presented as if the merger had taken place at the beginning of the periods presented.

(in millions except per share amounts)	2000 unaudited	1999 unaudited
Net sales	84,305	65,680
Net income	3,678	2,839
Earnings per share	5.07	3.90

This unaudited pro forma information is not necessarily indicative of what the actual combined results of operations might have been if the merger had occurred at the beginning of fiscal 2000 and 1999. For purposes of calculating pro forma results of operations, only significant items that were directly attributable to the merger of VEBA and VIAG were considered. Such items include elimination of VEBA's 10 percent investment in VIAG (from September 1999 through the date of the merger VEBA had a 10 percent investment in VIAG) and purchase accounting adjustments including the effects thereon recorded as a result of the merger.

Other Acquisitions

After the acquisition of a subsidiary of Wintershall which own 15 percent of Aral's shares as of December 31, 1999, VEBA Oel further increased its shareholding in Aral by acquiring certain subsidiaries of Mobil Oil which owned 28 percent of Aral's shares as of January 1, 2000. On December 31, 2000, VEBA Oel acquired the remaining outstanding 1.1 percent of Aral's shares. The aggregate purchase price of Aral as it relates to the above transactions approximated €1,899. The acquisition has been accounted for under the purchase method of accounting and resulted in goodwill of €881, which will be amortized on a straight-line basis over 20 years. Aral is fully consolidated in the current period for the first time.

On January 10, 2000, PreussenElektra (now E.ON Energie) acquired 87.4 percent of Electriciteitsbedrijf Zuid-Holland N.V. (EZH), the Dutch energy utility headquartered in Voorburg, The Netherlands (recently renamed in E.ON Benelux Generation). PreussenElektra acquired the remaining shares in EZH on January 27, 2000. The total purchase price was €1,082. Goodwill resulting from first-time consolidation under the purchase method amounted to €590. EZH's results for the entire 2000 financial year are included in the Company's Consolidated Financial Statements. The goodwill will be amortized over 15 years using the straight-line method.

At the beginning of December 2000, Stinnes acquired 17,675,816 shares of the publicly traded chemical distributor Holland Chemical International N.V., Amsterdam, The Netherlands ("HCI"). This equals 99.41 percent of HCI's outstanding shares. The purchase price per share was €16.2. The total purchase price for HCI was €293.1. The acquisition has been accounted for under the purchase method and resulted in a goodwill of €185.2 which will be amortized on a straight-line basis over 20 years. The consolidation took place for the first time as of December 1, 2000.

On February 1, 1999, Degussa, in which Hüls then held a 36.4 percent shareholding, was merged into Hüls, in which E.ON held until that time a 99.8 percent stake. After the merger E.ON held 62.4 percent in the merged Degussa-Hüls. This merger was accounted for under the purchase method of accounting. The purchase price for the increase in the Degussa shareholding from 36.4 to 100 percent is based on the roughly €2.4 billion market value of 63.6 percent of Degussa's shares. After allocation to the fair values of assets and liabilities assumed — mainly licenses, patents and trade marks (€265) and purchased in-process research and development activities (€160) — the remaining difference between the purchase price and the acquired share in Degussa's net equity is capitalized as goodwill (€963) and amortized over 15 years. Purchased in-process research and development represents the value assigned in a purchase business combination to research and development projects of the acquired business that were commenced, but not yet completed, at the date of acquisition and which, if unsuccessful, have no alternative future use in research and development activities or otherwise. Amounts assigned to purchased in-process research and development meeting the above criteria were charged to expenses at the date of consummation of the business combination.

E.ON's 36.4 percent stake in the former Degussa was accounted for under the equity method until February 1, 1999, the date of the merger's entry into the Commercial Register and only fully consolidated as of this date. Because of the full consolidation of Degussa-Hüls, the 1999 financial statements are not fully comparable to 1998. In addition, the increase in stockholders' equity resulting from the difference between E.ON's share in stockholders' equity in Degussa-Hüls after the merger and E.ON's share in stockholders' equity in Hüls before the merger has been recognized in income in the amount of €559 ("SAB 51 Gain").

In 1999, Stinnes' stake in BTL increased to 98.7 percent as a result of its tender offer to BTL's stockholders. In 1998 BTL was fully consolidated for the first time. Stinnes' Sanitary Equipment/Heating/Tiles and Tire Service units, no longer considered core businesses, were divested effective as of January 1, 1999.

E.ON's stake in MEMC increased from 53.1 percent to 71.8 percent as a result of MEMC's capital increases in March and April 1999 for a total amount of US$200 million undertaken to facilitate financial restructuring.

Other Disposals

VIAG Telecom sold its 42.5 percent interest in Orange Communications S.A., the Swiss cellular phone company, to France Telecom on November 10, 2000. The sales price for the interest including the transfer of shareholder loans amounted to €1.8 billion. The transfer of the shareholder loans and one fourth of the value of the shareholding in Orange Communications was payable in cash. The remaining three fourths were paid for via the issuance of 102,675,638 shares in Orange S.A. The first official trading day of Orange stock was February 13, 2001. The sale of the shareholding did not result in a significant gain because it was accounted for at its fair value as part of the merger.

The operating entities of the Company's VEBA Electronics subsidiary were sold in October 2000 to a consortium of buyers consisting of Arrow Electronics, Melville (NY/USA), Avnet, Phoenix (AZ/USA), and Schroder Ventures, London (UK). The purchase price including the transfer of shareholder loans amounted to US$2.35 billion (€2.6 billion). A gain of €44 was recorded upon sale. VEBA Electronics is included in the Company's Consolidated Statements of Income until September 30, 2000.

As of March 28, 2000 Cablecom was sold. The sale price amounted to €851 million and resulted in a gain of €788 million.

VR Telecommunications GmbH & Co. (VRT) and BellSouth concluded the sale and transfer contract for the shares in E-Plus, which was registered by a notary public on January 26, 2000. Closing took place on February 10, 2000. The sale price was €7.4 billion in addition to the extinguishment of stockholder loans in the amount of €1 billion. E.ON's share in both amounts was 51.25 percent.

Stinnes's initial public offering (IPO) took place on June 14, 1999. In this IPO, E.ON placed 34.5 percent of Stinnes's capital stock amounting to €380 on the stock market.

Otelo's fixed-line business was sold on April 1, 1999, for €1.15 billion. Pursuant to a 1997 contractual agreement, the 22.5 percent interest in Otelo that corresponded to the stockholding previously reacquired from Cable & Wireless plc in 1997 was transferred to RWE for €617. E.ON now holds a 51.25 percent stake in VR Telecommunications ("VRT"), the new name for the joint venture. RWE's interest in VRT is 48.75 percent. Effective July 1, 1999, the 100 percent stockholding in the German cable television operator Tele Columbus held by VRT was sold. The proceeds from the disposal totaled €747.

(5) Sales

A detailed analysis of sales by segment and geographical region is provided in the segment information under Note 32.

Sales also include rental income, primarily from the Real Estate Division, in the amount of €605 (1999: €605, 1998: €608).

Future revenues arising from rental, tenancy and leasing agreements for the next five years are due as follows:

2001	681
2002	687
2003	697
2004	694
2005	701
After 2005	62
	3,522

(6) Cost of Goods Sold and Services Provided

The following tables provides a detailed analysis of the cost of goods sold and services provided by segment:

	2000	1999	1998
Electricity	9,396	6,358	6,942
Oil	18,049	7,805	6,469
Chemicals	14,590	9,759	3,791
Real Estate	859	691	995
Telecommunications	197	125	318
Distribution/Logistics	17,829	14,488	14,644
Aluminum	1,490	—	—
Silicon Wafers	804	662	710
Others/Consolidation	(345)	(657)	(699)
Total	62,869	39,231	33,170

(7) Other Operating Income/Expenses, net

The following is a detail of other operating income/expenses, net:

	2000	1999	1998
Gains (losses) from the disposal of businesses and/or fixed assets	4,884	2,531	883
SAB 51 gain	—	559	—
Amortization of negative goodwill	—	178	257
Income from the reorganization of Deminex and the exchange of shares BTL/Poseidon	—	—	212
Research and development costs	(572)	(583)	(194)
Amortization of goodwill	(502)	(386)	(171)
Bad debt expense	(219)	(188)	(160)
Other	713	293	333
	4,304	2,404	1,160

In 2000, gains from the disposal of fixed assets primarily comprise gains resulting from the disposal of the shareholdings in E-Plus (€3,527) and Cablecom (€788).

In 1999, gains from the disposal of fixed assets primarily comprise gains resulting from the deconsolidation and/or the disposal of the shareholdings in Cable & Wireless plc €1,347, Tele Columbus, and VRT's fixed-line business. A SAB 51 gain in 1999 resulted from the merger of Degussa and Hüls.

(8) Financial Earnings

	2000	1999	1998
Income from companies in which share investments are held; thereof from affiliated companies €20 (1999: €14, 1998: €21)	174	71	115
Income from profit and loss-pooling agreements thereof from affiliated companies €5 (1999: €3, 1998: €3)	25	9	10
Income from companies accounted for under the equity method; thereof from affiliated companies €265 (1999: €5, 1998: €3)	891	596	455
Losses from companies accounted for under the equity method; thereof from affiliated companies €(4) (1999: €(103), 1998: €(171))	(950)	(325)	(333)
Losses from profit and loss-pooling agreements; thereof from affiliated companies €(1) (1999: €(2), 1998: €(1))	(39)	(11)	(4)
Write downs of investments	(91)	(14)	(19)
Income from equity interests	10	326	224
Income from long-term securities and long-term loans	332	203	156
Other interest and similar income; thereof from affiliated companies €25 (1999: €3, 1998: €1)	605	224	172
Interest and similar expenses; thereof from affiliated companies €(107) (1999: €(3), 1998: €(1))	(988)	(543)	(334)
Interest expense (net)	(51)	(116)	(6)
Write-downs of financial assets and long-term loans	(18)	(24)	(11)
	(59)	186	207

Goodwill amortization of companies valued at equity totaling €275 (1999: €133, 1998: €180) as well as income resulting from the amortization of negative goodwill relating to companies accounted for under the equity method in the amount of €25 (1999: €74, 1998: €68) are included in income from equity interests. The accumulated amortization of goodwill of companies accounted for under the equity method is €552.

Based on a change in circumstances in 1999, E.ON changed its basis for estimating earnings for one equity investee. This resulted in an additional loss of €63 recorded in 1999 and is included in financial earnings.

Net interest income includes an addition to a provision for interest expense arising from tax requirements in the amount of €75 (1999: €164, 1998: €83). Interest expense is reduced by capitalized interest on debt totaling €15 (1999: €56, 1998: €56).

Write-downs of €356 were taken on the stakes held by the former VEBA in companies due to be divested in line with the antitrust requirements associated with the VEBA-VIAG merger.

(9) Income Taxes

Income taxes including deferred taxes are as follows:

	2000	1999	1998
Current taxes			
Domestic corporate income tax	2,005	1,473	756
Domestic trade tax on income	87	518	314
Foreign income tax	840	393	274
Other	35	—	—
	2,967	2,384	1,344
Deferred taxes			
Domestic	(329)	(949)	135
Foreign	(126)	(158)	(255)
	(455)	(1,107)	(120)
	2,512	1,277	1,224

Prior to the Tax Reduction Act, German corporate tax law applied the split-rate imputation system ("Anrechnungsverfahren") with regard to the taxation of a corporation and its shareholders. In general, German corporations were subject to corporate income tax at a rate of 40 percent on non-distributed profits in 2000 and 1999 (1998: 45 percent) and 30 percent on distributed profits. The corporate income tax liability is subject to a solidarity surcharge of 5.5 percent. Taxpayers residing in Germany are entitled to a refundable tax credit in the case of dividends distributed from fully taxed German source. A German corporation is also subject to trade tax.

The German Tax Reduction Act ("Steuersenkungsgesetz") took effect on January 1, 2001 and replaces the corporate imputation system with a classic corporate tax system. From 2001 the corporate income tax rate on distributed and non-distributed profits is reduced to 25 percent. The change in the system is facilitated by a number of transitional provisions.

One of E.ON Energie's subsidiaries has been granted a tax holiday for a period of 4 years (1998-2001); as such this entity's earnings have been tax-free. At this time, E.ON Energie is unable to estimate the potential tax effects to which this entity will be subjected if this tax holiday is not extended and as a result no deferred taxes have been provided.

The differences between the statutory tax rate of 40 percent (1999: 40 percent, 1998: 45 percent) in Germany and the effective tax rate of 38.3 percent in 2000, 29.0 percent in 1999 and 51.3 percent in 1998 are summarized as follows:

	2000		1999		1998	
	Amount	Percent	Amount	Percent	Amount	Percent
Corporate income tax (2000: 40%, 1999: 40%, 1998: 45%)	2,620	40.0	1,760	40.0	1,073	45.0
Credit for dividend distributions	(193)	(2.9)	(135)	(3.0)	(116)	(4.9)
Municipal trade taxes net of federal tax benefit	66	1.0	394	9.0	183	7.7
Foreign tax-rate differential	204	3.1	103	2.3	51	2.1
Tax rate and tax law changes	(852)	(13.0)	(122)	(2.8)	(23)	(1.0)
Tax-free income	(163)	(2.5)	(777)	(17.7)	(229)	(9.6)
Change in valuation allowance	15	0.2	—	—	—	—
Equity Accounting	(98)	(1.5)	(64)	(1.5)	(94)	(3.9)
Non-deductible goodwill/badwill-amortization	240	3.7	128	2.9	10	0.4
Other permanent differences	673	10.2	(10)	(0.2)	369	15.5
Income taxes/effective tax rate	2,512	38.3	1,277	29.0	1,224	51.3

Income before income taxes is attributable to the following geographic locations:

	2000	1999	1998
Domestic	5,120	3,980	2,338
Foreign	1,431	420	47
Total	6,551	4,400	2,385

Deferred tax assets and liabilities which are mainly of a long-term nature are summarized as follows as of December 31:

	2000	1999
Deferred tax assets		
Intangible assets	295	33
Fixed assets	1,063	300
Investments and long-term financial assets	2,335	298
Inventories	105	259
Receivables	120	115
Net operating loss carryforwards	994	876
Accruals	2,499	2,756
Liabilities	377	85
Other	911	31
	8,699	4,753
Valuation allowance	(271)	(351)
	8,428	4,402
Deferred tax liabilities		
Intangible assets	(809)	(263)
Fixed assets	(1,957)	(1,524)
Investments and long-term financial assets	(2,956)	(871)
Inventories	(110)	(99)
Receivables	(905)	(83)
Accruals	(341)	(244)
Liabilities	(2,779)	(2,128)
Other	(217)	(19)
	(10,074)	(5,231)
Net deferred tax liabilities	(1,646)	(829)

Net deferred income tax assets and liabilities in the consolidated balance sheets are as follows:

	December 31, 2000		December 31, 1999	
	Total	Thereof non-current	Total	Thereof non-current
Deferred tax assets	1,345	808	1,278	1,209
Valuation allowance	(271)	(207)	(351)	(290)
Net deferred tax assets	1,074	601	927	919
Deferred tax liabilities	(2,720)	(2,536)	(1,756)	(1,633)
Net deferred tax liabilities	(1,646)	(1,935)	(829)	(714)

Based on the past performance history of subsidiaries and expectations of similar performance in the future as well as the extended realization period for the temporary differences which give rise to the deferred tax assets, the taxable income of these subsidiaries will more likely than not be sufficient to recognize fully the net deferred tax asset related to these subsidiaries. A valuation allowance has been provided for that portion of the deferred tax asset where this criteria has not been met.

The tax loss carryforwards at year-end are as follows:

	2000	1999
Domestic loss carryforwards	2,074	2,153
Foreign loss carryforwards	1,937	903

For domestic tax losses there is no expiration date; foreign loss carryforwards expire as follows: €35 in 2001, €345 between 2002 and 2010, €799 between 2010 and 2020 and €758 do not have an expiration date.

Undistributed earnings of foreign subsidiaries considered to be reinvested indefinitely amounted to €1,462 as of December 31, 2000 (1999: €315). Deferred tax liabilities related to these profits were not calculated as it was not practicable.

(10) Minority Interests in Net Income

Minority stockholders participate in the profits of the consolidated companies in the amount of €524 (1999: €355, 1998: €219) and losses amounting to €55 (1999: €223, 1998: €232).

(11) Other Information

Personnel Costs

	2000	1999	1998
Wages and salaries	7,112	5,773	4,807
Social security contributions	1,246	1,006	871
Pension costs and other employee benefits; thereof pension Costs €773 (1999: €684, 1998: €559)	784	694	561
	9,142	7,473	6,239

In 2000, E.ON purchased 245,210 (1999: 360,360) of its shares (0.03 (1999: 0.08) percent of E.ON's outstanding shares) on the stock market at an average price of €58.46 (1999: €54.39) per share for employees within the Company. These shares were sold to the employees at preferential prices between €39.26 and €50.77(1999: between €27.02 and €50.94). The difference between purchase price and resale price was charged to personnel expenses.

Stock-based Compensation

As of the balance sheet date, the E.ON Group had various stock-based compensation plans including stock appreciation rights ("SARs") within E.ON AG and Stinnes and a stock option program within MEMC. All plans are accounted for in accordance with FAS 123, "Accounting for Stock-Based Compensation."

Stock Appreciation Rights

The following information applies to both stock appreciation programs within E.ON AG and Stinnes. Differences regarding Stinnes's program are provided in parentheses or are otherwise indicated.

In 2000, E.ON AG and Stinnes AG independently decided to proceed with their SAR programs (the second tranche) which were set up for the first time in 1999 (the first tranche). In March 2000, E.ON AG granted approximately 1.5 million SARs, retroactive to the beginning of 2000, to 155 executives worldwide, respectively 114 for the first tranche, including all members of E.ON AG's Board of Management, as part of their compensation. In the SAR program, executives of Stinnes and Degussa-Hüls as companies with a stock exchange listing of their shares were not included. In July 2000, Stinnes granted approximately 1.36 million

SARs to 250 executives worldwide, respectively 260 for the first tranche, including all members of Stinnes AG's Board of Management, as part of their compensation.

The SARs of the second tranche for E.ON AG are based on the market price of E.ON shares on January 3, 2000, and on January 4, 1999 for the first tranche. The market price of Stinnes shares on June 30, 2000 for the second tranche, and on the average market price between June 28 and July 9, 1999 for the first tranche.

For both tranches of E.ON AG and Stinnes, the compensation to be received from the exercise of SARs is paid in cash. The calculation always considers possible dilution effects from capital changes and dividend payments that have occurred between grant and exercise. The SARs granted are non-transferable. Under certain conditions they can be exercised before the exercise date or according to the conditions of the SARs in the case of termination of employment, they are canceled. The following SARs were canceled in the current reporting period as a result of termination of employment:

	E.ON		Stinnes	
	1. Tranche	2. Tranche	1. Tranche	2. Tranche
Canceled (termination of employment)	77,700	18,000	200,000	31,700

The second tranche for E.ON is calculated as the difference between the E.ON share price at the day of SAR exercise and the market price at the time of grant which was €48.35 as of January 3, 2000 multiplied by the number of SARs to be exercised. The SARs have a term of seven years. Before any exercise of E.ON SARs the following two conditions have to be met: between grant and exercise the E.ON share price has outperformed the Stoxx Utilities Price Index on at least ten consecutive business days and the E.ON share price at the date of exercise is at least 20 percent above the share price at SAR grant. Qualified executives can exercise all or a portion of the SARs granted to them within pre-determined exercise periods in the years 2002 until 2006. SARs not exercised by the final exercise date (the last business day four weeks after publication of the interim report for the third quarter 2006) will automatically be considered as exercised. The grant of SARs depends on the possession of a certain number of E.ON shares which have to be held until maturity of the SARs issued in 2000.

For the second tranche of Stinnes the compensation is calculated as the difference between the Stinnes calculated stock price and its indexed stock price multiplied by the number of SARs to be exercised. The above mentioned Stinnes calculated stock price equals the average quotation of the last six months before exercise. To calculate the indexed stock price, the stock price as of the date of grant at June 30, 2000, which amounted to €21.00, is multiplied by the ratio of the average M-DAX performance during the last six months prior to exercise divided by the performance of this index at the date of grant, which was 4,457.92. The Stinnes SARs have a term of five years. Qualified executives can exercise all or a portion of the SARs granted to them on pre-determined exercise dates within the years 2002 until 2005. SARs not exercised by the final exercise date (May 2, 2005) will automatically be considered as exercised.

The compensation for the first tranche to be received from the exercise of SARs for E.ON and Stinnes is calculated as the difference between the E.ON (Stinnes) calculated stock price and the respective company's indexed stock price multiplied by the number of SARs to be exercised. The above mentioned E.ON (Stinnes) calculated stock price equals the average quotation of the last six months before exercise. To calculate the respective company's indexed stock price, the respective company's stock price at the date of grant €54.67 (€15.28) is multiplied by the ratio of the average Euro Stoxx 50 (M-DAX) performance during the last six months prior to exercise divided by the performance of the applicable index at the date of grant 4,376.82 (3,921.05). The SARs granted under the first tranche in 1999 have a term of five years. Qualified executives can exercise all or a portion of the SARs granted to them on pre-determined exercise dates in 2002 and 2003 (between July 2002 and July 2004). SARs not exercised by the final exercise date on November 3, 2003 (May 3, 2004), will automatically be considered as exercised.

Below is a summary of the quantity of SARs concerning the E.ON and Stinnes stock plan activity for 2000 and 1999, respectively:

E.ON	2000 1. Tranche	2000 2. Tranche	1999 1. Tranche
Outstanding at beginning of year	1,037,000	—	—
Granted	—	1,461,800	1,037,000
Exercised	—	—	—
Cancelled	77,700	18,000	—
Outstanding at end of year	959,300	1,443,800	1,037,000
SARs exercisable at year-end	—	—	—

Stinnes	2000 1. Tranche	2000 2. Tranche	1999 1. Tranche
Outstanding at beginning of year	3,417,800	—	—
Granted	3,400	1,297,700	3,447,800
Exercised	411,100	12,800	—
Cancelled	170,000	31,700	30,000
Outstanding at end of year	2,840,100	1,253,200	3,417,800
SARs exercisable at year-end	—	—	—

Concerning the second tranche there was a compensation cost accrued in the amount of approximately €11.9 regarding E.ON AG's SAR program in 2000 as the difference between the E.ON calculated stock price, as defined above, at December 31, 2000, and the stock price at grant was €16.45. There was a compensation cost recognized in the amount of approximately €1.4 regarding Stinnes AG's SAR program in 2000 as the difference in the Stinnes' calculated stock price, as defined above, at December 31, 2000, and the indexed stock price was €4.36.

There was no compensation cost recognized regarding the first tranche of E.ON AG's SAR program in 2000 and 1999 as the difference between the E.ON calculated stock price, as defined above, at December 31, 2000, and the indexed stock price was €(17.48). There was a compensation cost of approximately €13.5 (1999: €14) recognized regarding the first tranche of Stinnes AG's program in 2000 as the difference in the Stinnes' calculated stock price, as defined above, at December 31, 2000 and the indexed stock price was €9.52.

Stock option plan

MEMC has an Equity Incentive Plan (the "Plan") that provides for the award of incentive and non-qualified stock options, restricted stock and performance shares. Total shares authorized for grant under the Plan are 7,197,045. Non-qualified stock options to employees are typically granted on January 1 and vest at a rate of 25 percent annually over four years. Non-qualified stock options to non-employee directors are also typically granted on January 1 but vest at a rate of 33⅓ percent annually over three years. The exercise price of each option equals the market price of the MEMC's common stock at the date of the grant, and each option's maximum term is 10 years.

Total compensation cost in 2000 and 1999 recognized under the Plan based on the fair value at the grant dates consistent with the alternative method set forth under FAS 123 was €1.6 (1999: €1.9).

The fair value of options granted is estimated on the date of grant using Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999 respectively: risk-free interest rate of 6.7 percent and 4.8 percent; expected life of six years for all periods; expected volatility of 77.1 percent and 57.6 percent; expected dividends of zero percent for all periods.

A summary of MEMC's Plan activity with respect to stock options is presented below:

	Number of shares	Weighted-Average Option price in €	Weighted-average fair value of options granted in €
Year ended December 31, 2000			
Outstanding at beginning of year	2,325,744	18.05	
Granted	668,000	13.55	9.44
Exercised	(78,600)	13.23	
Cancelled	(217,360)	24.24	
Outstanding at end of year	2,697,784	16.58	
Options exercisable at year-end	1,596,343	19.09	
Year ended December 31, 1999			
Outstanding at beginning of year	1,773,174	18.87	
Granted	687,700	8.14	4.79
Exercised	(21,200)	14.19	
Cancelled	(113,930)	22.08	
Outstanding at end of year	2,325,744	15.58	
Options exercisable at year-end	1,396,428	18.53	

A summary of information about non-qualified stock options at December 31, 2000 is presented below:

		Options outstanding	
Range of exercise prices (in €)	Number outstanding at December 31, 2000	Weighted-average remaining contractual life	Weighted-average exercise price
€26.09	342,484	4.5 years	€26.09
€35.47 - 53.80	115,100	5.1 years	35.96
€24.46 - 31.52	151,050	5.9 years	24.54
€ 3.40 - 16.58	797,600	7.0 years	16.37
€ 6.52 - 20.72	637,350	8.0 years	9.46
€ 8.09 - 21.87	654,200	9.1 years	13.55
€ 3.40 - 53.80	2,697,784	7.3 years	€16.58

	Exercisable options Outstanding	
Range of exercise prices (in €)	Number exercisable at December 31, 2000	Weighted-Average exercise price
€26.09	342,484	€26.09
€35.47 - 53.80	115,100	35.96
€24.46 - 31.52	141,800	24.53
€ 3.40 - 16.58	601,934	16.42
€ 6.52 - 20.72	317,625	9.43
€ 8.09 - 21.87	77,400	13,33
€ 3.40 - 53.80	1,596,343	€19.09

In January 2001, MEMC granted options to purchase 539,900 shares of common stock at €10.42 to €11.72 per share. These options will expire in January 2011.

Employees

In the current reporting period, the Company employed an average of 183,025 people, including 5,030 trainees and interns. The breakdown by division is as follows:

	2000	1999	1998
Electricity	27,371	20,888	22,126
Oil	8,648	6,042	6,560
Chemicals	53,534	44,853	18,856
Real Estate	5,229	4,683	13,461
Telecommunications	1,234	594	1,967
Distribution/Logistics	57,432	49,703	62,095
Aluminum	13,978	—	—
Silicon Wafers	6,080	5,704	6,794
Other	9,519	463	478
Total (thereof trainees/interns 5,030 (1999: 5,962, 1998: 6,188)) thereof part-time and less than part-time employees 16,487 (1999: 10,987, 1998: 10,383)	183,025	132,930	132,337

Taxes Other Than Income Taxes

Taxes other than income taxes total €168 (1999: €59, 1998: €63), resulting principally from property tax and real estate transfer tax in the current period.

(12) Intangible Assets

	Licenses and others	Goodwill	Advance payments	Total
Acquisition costs balance at January 1, 2000	1,424	4,967	68	6,459
Exchange rate differences	22	73	—	95
Change in scope of consolidation	2,927	1,956	74	4,957
Additions	337	113	45	495
Disposals	384	246	10	640
Transfers	547	(194)	(35)	318
Balance at December 31, 2000	4,873	6,669	142	11,684
Accumulated depreciation balance at January 1, 2000	470	1,221	28	1,719
Exchange rate differences	11	13	(1)	23
Change in scope of consolidation	—	(406)	11	(395)
Additions	344	502	20	866
Disposals	271	229	—	500
Transfers	363	(79)	(27)	257
Balance at December 31, 2000	917	1,022	31	1,970
2000 Net Book Value	3,956	5,647	111	9,714

	Licenses and others	Goodwill	Advance payments	Total
Acquisition costs balance at January 1, 1999	1,014	2,330	50	3,394
Exchange rate differences	49	96	1	146
Change in scope of consolidation	546	1,210	(1)	1,755
Additions	111	522	33	666
Disposals	309	90	10	409
Transfers	13	899	(5)	907
Balance at December 31, 1999	1,424	4,967	68	6,459
Accumulated depreciation balance at January 1, 1999	353	818	26	1,197
Exchange rate differences	15	16	2	33
Change in scope of consolidation	99	(18)	(1)	80
Additions	196	386	3	585
Disposals	199	57	2	258
Transfers	6	76	—	82
Balance at December 31, 1999	470	1,221	28	1,719
1999 Net Book Value	954	3,746	40	4,740

Impairment charges on intangible assets were €14 million (1999: €0, 1998: €0).

(13) Property, plant and equipment

	Real estate, leasehold rights and buildings	Mine development, costs, mines, drillings	Technical equipment, plant and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Acquisition costs balance at January 1, 2000	11,756	822	34,166	3,161	1,784	51,689
Exchange rate differences	55	—	207	9	44	315
Change in scope of consolidation	5,193	(3)	6,137	(135)	359	11,551
Additions	825	3	1,204	402	1,215	3,649
Disposals	470	—	1,182	426	168	2,246
Transfers	(8)	(789)	2,072	87	(1,645)	(283)
Balance at December 31, 2000	17,351	33	42,604	3,098	1,589	64,675
Accumulated depreciation balance at January 1, 2000	4,802	544	25,102	2,397	54	32,899
Exchange rate differences	13	—	107	4	—	124
Change in scope of consolidation	505	—	1,052	(317)	(8)	1,232
Additions	562	11	2,517	367	13	3,470
Disposals	237	—	1,015	317	49	1,618
Transfers	27	(541)	223	12	3	(276)
Balance at December 31, 2000	5,672	14	27,986	2,146	13	35,831
2000 Net Book Value	11,679	19	14,618	952	1,576	28,844

	Real estate, leasehold rights and buildings	Mine development, costs, mines, drillings	Technical equipment, plant and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Acquisition costs balance at January 1, 1999	9,876	829	29,774	2,576	1,284	44,339
Exchange rate differences	196	18	497	48	83	842
Change in scope of consolidation	1,615	(17)	3,035	607	211	5,451
Additions	299	5	798	366	1,089	2,557
Disposals	357	5	605	474	45	1,486
Transfers	127	(8)	667	38	(838)	(14)
Balance at December 31, 1999	11,756	822	34,166	3,161	1,784	51,689
Accumulated depreciation balance at January 1, 1999	3,983	518	21,525	1,925	34	27,985
Exchange rate differences	43	35	285	27	2	392
Change in scope of consolidation	623	(19)	2,015	466	—	3,085
Additions	356	57	1,687	350	21	2,471
Disposals	142	34	455	394	3	1,028
Transfers	(61)	(13)	45	23	—	(6)
Balance at December 31, 1999	4,802	544	25,102	2,397	54	32,899
1999 Net Book Value	6,954	278	9,064	764	1,730	18,790

Property, plant and equipment includes the capitalized interest on debt apportionable to the construction period of qualifying assets as part of their cost of acquisition in the amount of €15 (1999: €56). Impairment charges on property, plant and equipment were €257 (1999: €156, 1998: €169).

The following table provides an analysis of additions to property, plant and equipment and intangible assets by division:

	2000	1999
Electricity	823	844
Oil	713	402
Chemicals	1,044	998
Real Estate	399	248
Telecommunications	310	27
Distribution/logistics	348	515
Aluminum	379	—
Silicon Wafers	63	49
Others	65	140
	4,144	3,223

With tangible fixed assets, restrictions on disposals exist in the amount of €348 mainly with technical equipment and land. Additional information on secured tangible fixed assets is listed under liabilities see Note 27.

(14) Financial Assets

	Shares in non-consolidated affiliated companies	Long-term loans to affiliated companies	Shares in associated companies	Other share investments	Loans to associated and other companies	Long-term securities	Loans related to banking operations	Other long-term loans	Total
Acquisition costs balance at January 1, 2000	609	548	8,379	1,785	785	2,330	720	604	15,760
Exchange rate differences	—	—	7	(16)	(4)	2	—	(2)	(13)
Change in scope of consolidation	4,358	50	6,638	869	316	2,073	—	263	14,567
Additions	355	42	1,431	1,033	584	709	23	94	4,271
Disposals	776	533	3,590	228	260	1,155	—	238	6,780
Transfers	38	—	192	(228)	(3)	(2,122)	—	(4)	(2,127)
Balance at December 31, 2000	4,584	107	13,057	3,215	1,418	1,837	743	717	25,678
Accumulated depreciation balance at January 1, 2000	202	1	359	114	105	21	—	33	835
Exchange rate differences	1	—	—	—	—	—	—	—	1
Change in scope of consolidation	30	—	(29)	(75)	2	(18)	—	1	(89)
Additions	19	1	468	77	13	2	—	1	581
Disposals	180	—	128	9	102	—	—	14	433
Transfers	—	—	—	4	(3)	—	—	—	1
Balance at December 31, 2000	72	2	670	111	15	5	—	21	896
2000 net book value	4,512	105	12,387	3,104	1,403	1,832	743	696	24,782
Acquisition costs balance at January 1, 1999	543	457	6,653	3,964	835	2,679	—	596	15,727
Exchange rate differences	—	1	104	13	33	—	—	3	154
Change in scope of consolidation	78	—	198	46	3	13	576	6	920
Additions	54	92	2,492	674	48	363	430	82	4,235
Disposals	69	2	370	2,766	78	725	286	87	4,383
Transfers	3	—	(698)	(146)	(56)	—	—	4	(893)
Balance at December 31, 1999	609	548	8,379	1,785	785	2,330	720	604	15,760
Accumulated depreciation balance at January 1, 1999	109	1	413	43	99	1	—	35	701
Exchange rate differences	1	—	—	—	—	—	—	—	1
Change in scope of consolidation	40	—	(1)	8	—	1	—	3	51
Additions	62	—	84	70	7	19	—	13	255
Disposals	11	—	65	2	1	—	—	18	97
Transfers	1	—	(72)	(5)	—	—	—	—	(76)
Balance at December 31, 1999	202	1	359	114	105	21	—	33	835
1999 net book value	407	547	8,020	1,671	680	2,309	720	571	14,925

The increase of shares in non-consolidated affiliated companies due to a change in scope of consolidation relates primarily to the Company's 51.25 percent shareholding in VRT. E.ON does not maintain control over VRT due to contractual arrangements with the other shareholder. In prior years, E.ON proportionally consolidated VRT and changed to the equity method of accounting in 2000. Prior years have not been restated because the impact on the financial position and earnings would be immaterial. Equity and net income of prior years would not have been affected.

The stockholdings held by the former VEBA in BEWAG, VEAG, and LAUBAG are included in shares in associated companies. The stockholding held by the former VEBA in HEW is included in other share investments. These four stockholdings are to be divested as a result of the antitrust requirements associated with the VEBA-VIAG merger.

Shares in affiliated and associated companies accounted for under the equity method

The summarized financial information below represents an aggregation of the Company's affiliated and associated companies which are accounted for under the equity method:

	Equity Method Investees		
Earnings data	**2000**	**1999 (1)**	**1998**
Sales	38,912	57,695	38,883
Net income	(193)	867	341
E.ON's portion of net income	(30)	244	141
Other(2)	(29)	27	(19)
Income from companies which are accounted for under the equity method	(59)	271	122

	Equity Method Investees	
Balance sheet data	**2000**	**1999(1)**
Fixed assets	60,967	72,232
Current assets and prepaid expenses	33,875	35,553
Accruals	23,693	40,372
Liabilities and deferred income	42,367	41,561
Net assets	28,782	25,852
E.ON's equity in net assets	11,007	5,602
Other(2)	5,530	2,678
Investment in companies which are accounted for under the equity method	16,537	8,280

(1) 1999 figures include the 10 percent stockholding in VIAG.

(2) Other primarily includes adjustments to conform with E.ON accounting policies as well as goodwill/negative goodwill (related to balance sheet data) and related amortization (related to earnings data).

E.ON's share of undistributed earnings of affiliated and associated companies included in consolidated retained earnings is €1,119 (1999: €596) as of December 31, 2000. Dividends from affiliated and associated companies are €427 (1999: €324, 1998: €331). Additions to investments in associated and affiliated companies, which are accounted for under the equity method, resulted in goodwill of €6,458 (1999: €47) of which €4,572 is apportionable to VIAG Interkom and €1,621 to Orange Communications S.A., both of which were fair valued due to the VEBA-VIAG merger. From the additions of investments, which are accounted for under the equity method, no negative goodwill resulted (1999: €624).

The summarized financial information for the reporting period ended December 31, 1999, reflects the first-time equity valuation of RAG. In addition, as a result of the full consolidation of Degussa-Hüls, the summarized financial information for the reporting period ended December 31, 1999, no longer contains the earnings and balance-sheet data from the shareholding in Degussa accounted for using the equity method in 1998.

Other Financial Assets

As discussed in Note 4, the former VEBA acquired the remaining 90 percent of VIAG during the period under report. The 10 percent stockholding in VIAG, acquired from the Free State of Bavaria ("Freistaat Bayern") on October 7, 1999 for €1,592, was included in other share investments. This investment was previously accounted for under the cost method of accounting and classified as available for sale resulting in an unrealized loss of €309, which includes €161 in deferred taxes. In accordance with ARB 51, the Company restated the 1999 Consolidated Financial Statements to eliminate the effect of classifying this investment as available for sale.

The aggregate costs, fair values, and gross unrealized holding gains and losses for each class of securities are summarized as follows:

	2000				1999			
Securities available for sale	Cost	Fair values	Gross unrealized loss	Gross unrealized gain	Cost	Fair values	Gross unrealized loss	Gross unrealized gain
Fixed-term securities	570	620	0	50	332	333	6	7
Non-fixed-term securities	3,619	4,316	3	700	2,749	3,647	—	898
	4,189	4,936	3	750	3,081	3,980	6	905

Disposal of available-for-sale securities generated proceeds in the amount of €417 (1999: €3,024, 1998: €236) and capital gains in the amount of €28 (1999: €1,429, 1998: €65). The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses.

Maturities of fixed-term securities as of December 31, 2000 are as follows:

	2000		1999	
Securities available-for sale:	Cost	Fair Value	Cost	Fair Value
Less than 1 year	96	96	72	71
Between 1 and 5 years	352	397	222	223
More than 5 years	122	127	38	39
	570	620	332	333

Long-term loans are as follows:

	2000			1999		
	millions of €	Interest rate up to	Maturity through	millions of €	Interest rate up to	Maturity through
Loans to affiliated companies	105	6.0%	2015	547	7.2%	2035
Loans to associated companies	1,403	5.3%	2010	680	6.1%	2007
Loans related to banking operations	743	7.0%	2009	720	6.0%	2009
Other loans	696	7.0%	2010	571	8.75%	2010
	2,947			2,518		

As of December 31, 2000, €24,686 financial assets mature after more than one year (1999: €14,854).

Impairment charges on financial assets amounted to €395 (1999: €106, 1998: €9).

(15) Inventories

	2000	1999
Raw materials and supplies by segment		
Electricity	818	472
Oil	181	162
Chemicals	878	552
Aluminum	202	—
Silicon wafers	57	53
Others	101	39
	2,237	1,278
Work in progress	622	445
Finished products by segment		
Oil	118	147
Chemicals	1,781	807
Aluminum	561	—
Silicon wafers	85	49
Others	63	29
	2,608	1,032
Goods purchased for resale	1,699	1,732
	7,166	4,487

Work in progress is shown together with finished products because they are combined for the purpose of valuation by the LIFO method. Raw materials and supplies contain utilities' fuel inventories in the amount of €183 (1999: €96) and crude oil supplies of €127 (1999: €96).

Inventories in the amount of €1,660 (1999: €875) are valued according to the LIFO method and the remaining inventories are valued at average cost or other methods. The difference between valuation according to LIFO and higher replacement costs is €941 (1999: €458).

(16) Receivables and Other Assets

The following amounts are presented net of valuation allowances for doubtful accounts:

	2000		1999	
	With a remaining term up to one year	With a remaining term of more than one year	With a remaining term up to one year	With a remaining term of more than one year
Accounts receivable trade	10,799	498	6,329	3
Affiliated companies	631	8	120	2
Associated companies and other share investments	5,472	25	1,346	9
Reinsurance claim due from Versorgungskasse Energie Mutual Insurance Fund	138	432	25	517
Receivables from banking operations	150	37	141	61
Other assets	3,576	2,974	1,665	186
	20,766	3,974	9,626	778

Accounts receivable and other assets in the amount of €7,099 (1999: €758) are interest-bearing.

The increase in receivables from associated companies is mainly due to short-term loans given to VIAG Interkom in connection with the acquisition of a UMTS-license in Germany.

The reinsurance claim due from the Versorgungskasse Energie Mutual Insurance Fund results from pension obligations due to PreussenElektra employees. The claims of these employees at the point of retirement are covered to a certain extent by insurance contracts made with the above mutual insurance fund.

Other assets mainly include accounts receivables relating to E.ON Benelux's cross-border lease transactions for power stations amounting to €1,395; these are carried as other liabilities in the same amount. Other assets also consist of tax-refund claims of €1,208 (1999: €562) and short-term loans of €443 (1999: €409) as well as other receivables of €1,240 (1999: €290) related in 2000 primarily to the sale of Orange Communications S.A. which has been paid subsequent to December 31, 2000 with shares issued in connection with the initial public offering of Orange S.A. In addition, other assets include assets held for sale in the amount of €42 (1999: €0).

Valuation Allowances for Doubtful Accounts

	At beginning of year 2000	Additions affecting income	Disposals affecting income	Additions not affecting income	Disposals not affecting income	At end of year 2000
Accounts receivable trade	335	354	(192)	220	(297)	420
Receivables from other affiliated Companies	13	20	(96)	108	(2)	43
Other receivables and assets	51	71	(15)	19	(10)	116
Total 2000	399	445	(303)	347	(309)	579

	At beginning of year 1999	Additions affecting income	Disposals affecting income	Additions not affecting income	Disposals not affecting income	At end of year 1999
Accounts receivable trade	266	147	(51)	71	(98)	335
Receivables from other affiliated Companies	3	2	(1)	10	(1)	13
Other receivables and assets	65	19	(43)	20	(10)	51
Total 1999	334	168	(95)	101	(109)	399

	At beginning of year 1998	Additions affecting income	Disposals affecting income	Additions not affecting income	Disposals not affecting income	At end of year 1998
Accounts receivable trade	306	110	(50)	53	(153)	266
Receivables from other affiliated Companies	11	1	(2)	3	(10)	3
Other receivables and assets	92	13	(3)	12	(49)	65
Total 1998	409	124	(55)	68	(212)	334

The additions and disposals not affecting income relate primarily to changes in the scope of consolidation.

(17) Liquid Funds

	2000	1999
Cash and cash equivalents with an original maturity of 3 month or less	1,153	518
Cash and cash equivalents with an original maturity greater than 3 month	48	1,048
Securities with an original maturity of 3 month or less	464	13
Securities with an original maturity greater than 3 month	6,836	265
	8,501	1,844

Cash and cash equivalents include checks, cash on hand and balances on Bundesbank accounts and at other banking institutions.

The securities' aggregate costs, fair values and gross unrealized holding gains are as follows:

Securities available for sale	2000				1999			
	Cost	Fair values	Unrealized loss	Unrealized gain	Cost	Fair values	Unrealized loss	Unrealized gain
Fixed-term securities	416	418	—	2	248	250	—	2
Non-fixed-term securities	6,688	6,882	—	194	23	28	—	5
	7,104	7,300	—	196	271	278	—	7

The disposal of securities available-for-sale generated proceeds in the amount of €2,016 (1999: €33, 1998: €275). Capital losses from disposal with an amount €10 (1999: €0, 1998: €11) were recorded in the reporting period. E.ON uses the specific identification method as a basis for determining cost and calculating realized gains and losses.

Maturities of fixed-term securities as of December 31, are as follows:

	2000		1999	
	Cost	Fair value	Cost	Fair value
Less than 1 year	206	207	128	128
Between 1 and 5 years	165	166	116	118
More than 5 years	45	45	4	4
	416	418	248	250

(18) Prepaid Expenses

As in prior year, the prepaid expenses mature within one year.

(19) Capital Stock

Development in 2000:

In connection with the merger of VEBA and VIAG the capital stock was increased from €1,307,274,228 by €647,695,048 to €1,954,969,276 through the issuance of 249,113,480 bearer shares without nominal value. Each share has an imputed share amount in capital stock of €2.60. These shares participate in the Company's earnings beginning from January 1, 2000. These amendments were entered into the Commercial Register of the Düsseldorf District Court (HRB 22 315) on June 9, 2000.

Under the resolution adopted by E.ON AG's Board on Management on August 29, 2000, the Company made partial use of Authorized Capital II to increase its capital stock from €1,954,969,276 by €29,607,799 to €1,984,577,075 by issuing 11,387,615 bearer shares. Each share has an imputed share amount in capital stock of €2.60 and participates in the Company's earnings beginning from January 1, 2000. The increase in capital stock resulted from a contribution in kind of shares of E.ON Energie AG. These amendments were entered into the Commercial Register of the Düsseldorf District Court (HRB 22 315) on November 3, 2000.

The Company's capital stock now consists of 763,298,875 bearer shares issued without nominal value (1999: 502,797,780).

The total amount of outstanding shares as of December 31, 2000 is 712,781,940 (1999: 502,797,780).

At the Annual Shareholders' Meeting on May 25, 2000, the authorization granted at the 1998 Annual Shareholders' Meeting to increase the Company's capital stock by a maximum of €125 in return for cash contributions (with the inclusion of shareholders' subscriptions rights) and the authorization to increase the Company's capital stock by a maximum of €125 in return for contributions in kind (with the exclusion of shareholders' subscription rights) as well as the authorization granted at the 1996 Annual Shareholders' Meeting to increase the Company's capital stock by a maximum of €50 in return for cash contributions (with the authorization to exclude the shareholders' subscription rights) were cancelled.

Instead, the Board of Management was authorized to increase the Company's capital stock by a maximum of €180 (Authorized Capital I) through the issuance of new shares in return for cash contributions (with the opportunity to exclude shareholders' subscription rights) as well as to increase the Company's capital stock by a maximum of €180 (Authorized Capital II) through the issuance new shares in return for contributions in kind (with the exclusion of shareholders' subscription rights). Following the above-mentioned capital increase, Authorized Capital II now amounts to €150.4.

In addition, the Board of Management was authorized to increase the Company's capital stock by a maximum of €180 (Authorized Capital III) through the issuance of new shares in return for cash contributions. Subject to the approval of the Supervisory Board, the Board of Management is authorized to exclude shareholders' subscription rights.

All three capital increases are authorized until May 25, 2005.

Development in 1999:

The resolution adopted at the May 1999 Annual Shareholders' Meeting to increase the Company's capital stock conditionally by €50 has been cancelled. In its place, the Company's capital stock was conditionally increased by €75 until May 25, 2005, to issue conversion rights or option certificates for the shares of E.ON AG or of companies in which the Company holds a direct or indirect majority stake. The Board of Management is authorized to exclude shareholders' subscription rights in this regard.

At the Annual Shareholders' Meeting on May 25, 2000, VEBA AG was authorized until October 31, 2001, to repurchase its own shares up to a maximum of 10 percent of the Company's capital at the time of the repurchase. As of December 31, 2000, a total of 15,265,979 E.ON shares (2 percent of the Company's capital stock) had been purchased for an average purchase price of €60.60 per share. These shares are recognized in stockholders' equity. See Note 23.

The resolution passed at the 1999 Annual Shareholders' Meeting authorizing management to purchase the Company's own shares until October 31, 2000, was cancelled.

At the 1999 Annual Stockholder's Meeting of VEBA AG it was resolved to convert the capital stock from DM to €. The euro-denominated capital stock was increased by €21,892,114.01 to €1,307,274,228.00 using corporate funds by converting a portion of additional paid-in capital. The capital stock was reclassified such that a DM 5 nominal share was replaced by a share without nominal value. New shares were not issued. As a result capital stock then consisted of 502,797,780 bearer shares without nominal value. These amendments were entered into the Commercial Register of the Düsseldorf District Court (HRB 22 315) on August 20, 1999, and into that of the Berlin-Charlottenburg District Court (93 HRB 1647) on September 3, 1999.

It was also resolved to establish conditional capital of up to €50 to issue partial convertible bonds or bonds with option rights on shares of E.ON AG until May 26, 2004. This conditional capital may exclude stockholders' subscription rights.

The 1998 Annual Stockholders' Meeting approved authorized capital of DM 250 for the issuance of new shares in exchange for cash with stockholders' subscription rights and authorized capital of DM 250 for the issuance of new shares in exchange for capital contributions excluding stockholders' subscription rights. The authorization for both of these capital amounts expire on May 13, 2003. At the 1999 Annual Stockholders's Meeting it was resolved to convert these amounts to €125 each.

In 1996, additional authorized capital totaling DM 100 was approved for the issuance of new shares in exchange for cash. This capital authorization expires on May 22, 2001. The Board of Management is empowered to decide on the exclusion of stockholders' subscription rights. At the 1999 Annual Stockholders's Meeting it was resolved to convert this amount to €50.

Disclosure requirements in conjunction with Germany's Securities Trading Act (WpHG).

In compliance with Article 21, Paragraph 1 of Germany's Securities Trading Act (WpHG), Allianz of Munich informed the Company that its direct and indirect share of E.ON AG's voting rights totals 10.2 percent. This figure includes the voting rights held by Lambda-Vermögensverwaltungsgesellschaft mbH (Lambda). In compliance with Article 21, Paragraph 1 of Germany's Securities Trading Act, Lambda informed the Company that its share of the voting rights of E.ON AG of Düsseldorf fell below 10 percent owing to VEBA AG's merger with Munich-based VIAG AG on June 16, 2000. Lambda currently holds 6.7 percent of E.ON AG's voting rights. Also in compliance with Article 21, Paragraph 1 of Germany's Securities Trading Act, the Free State of Bavaria informed the Company that its share of the voting rights of E.ON AG of Düsseldorf increased to above the 5-percent mark owing to VEBA AG's merger with Munich-based VIAG AG on June 16, 2000. The Free State of Bavaria currently holds 5.56 percent of E.ON AG's voting rights.

(20) Additional Paid-in Capital

Additional paid-in capital results exclusively from share issuance premiums.

Additional paid-in capital rose €9,205 to €11,402 compared with year-end 1999. The increase results from the share exchange that accompanied the VEBA-VIAG merger and from the acquisition of the remaining 2.46 percent stockholding in E.ON Energie AG by issuing shares in E.ON AG. The additional paid-in capital created by this transaction corresponds to the difference between the nominal value of the shares issued and their market value.

It decreased in 1999 €22 to €2,197 compared to December 31, 1998 due to the capital increase using corporate funds when the capital stock was converted from DM to €.

(21) Retained Earnings

	2000	1999	1998
Legal reserves	45	45	45
Other retained earnings	14,660	11,718	9,098
	14,705	11,763	9,143

(22) Other Comprehensive Income

The changes in the components of other comprehensive income and the related tax effects are as follows:

	2000			1999			1998		
	Before-Tax Amount	Tax (Expense)/ Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense)/ Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense)/ Benefit	Net-of-Tax Amount
Foreign currency translation adjustments	255	—	255	358	—	358	(256)	—	(256)
Unrealized holding gains arising during period	207	(106)	101	170	196	366	577	(321)	256
Less: reclassification adjustment for gains included in income	(18)	10	(8)	(1,429)	43	(1,386)	(76)	43	(33)
Minimum pension liability adjustment	(93)	65	(28)	7	(7)	—	(47)	27	(20)
Total other comprehensive Income	351	(31)	320	(894)	232	(662)	198	(251)	(53)

Net equity as of December 31, 1998 and other comprehensive income for the year then ended have been restated. This restatement has no material effect on net equity or other comprehensive income and no effect on net income.

(23) Treasury Stock Repurchase Program

The Shareholders Meeting on May 25, 2000, authorized the Board of Management to repurchase shares through October 31, 2001. The repurchase can either be executed as an on-market buy-back or via a Public Tender Offer. If the authorization is fully utilized, E.ON will buy back about 76 million of its shares. This would amount to €4.5 billion based on an average price of €60 per share.

On September 22, 2000, E.ON's Board of Management decided to conduct an on-market share buy-back of up to 10 percent of the Company's capital stock over the next nine months.

As of December 31, 2000, E.ON had repurchased 15,265,979 of its shares at an average price of €60.60 per share. This amounts to 2 percent of its capital stock.

Plans call for a substantial part of repurchased shares to be cancelled which is subject to Supervisory Board approval.

(24) Minority Interests

Minority interests are attributable to the following divisions:

€ in millions	2000	1999	1998
Electricity	2,145	1,528	1,395
Oil	8	—	—
Chemicals	2,176	1,736	7
Real Estate	11	32	17
Telecommunications	22	(5)	6
Distribution/Logistics	540	441	214
Aluminum	19	—	—
Silicon Wafers	197	160	166
Others	5	3	—
	5,123	3,895	1,805

(25) Provisions for Pensions

As a general rule, the Company's pension plans are based on pay and length of service. Employees who entered the Company prior to 1999 participate in a final pay arrangement where the amount of benefits depends on final salary, averaged over the last years of employment, and on the period of Company service. For employees who joined the Company after the date mentioned above, a cash balance plan applies under which notional contributions, based on current earnings, are actuarially converted into pension units. In addition, the Company sponsors a performance linked program. Under this arrangement, additional notional contributions are set aside. As under the cash balance plan described above these contributions are actuarially converted into pension units.

The liabilities arising from the pension plans and their respective costs are determined using the projected unit credit method in accordance with FAS No. 87, "Employers' Accounting for Pensions". The valuation is based on current pensions and earnings and on economic assumptions, which have been chosen in such a way so as to reflect the realistic long-term expectations.

The change in the projected benefit obligation is as follows:

	2000	1999
Projected benefit obligation at January 1,	6,246	5,263
Service cost	150	121
Interest cost	503	360
Business combinations	2,982	784
Prior service costs	40	37
Actuarial (gains)/losses	710	(14)
Exchange rate differences	40	60
Others	(60)	—
Pensions paid	(527)	(365)
Projected benefit obligation at December 31,	10,084	6,246

The change in plan assets is as follows:

	2000	1999
Plan assets at January 1,	324	188
Actual return on plan assets	2	29
Company contributions	29	13
Employees contribution	3	—
Business combinations	599	74
Exchange rate differences	32	37
Pensions paid	(42)	(17)
Others	30	—
Plan assets at December 31,	977	324

The funded status of all defined benefit pension plans based on the projected benefit obligation ("PBO") is as follows:

	2000	1999
Funded status	9,107	5,922
Unrecognized actuarial loss	(476)	(284)
Unrecognized prior service cost	(98)	(59)
Unfunded accrued benefit cost	8,533	5,579
Additional minimum liability	203	99
Provisions for pensions	8,736	5,678

The additional minimum liability is accounted for as an intangible asset €40 (1999: €28) not to exceed the unrecognized prior service cost. Any remaining additional minimum liability is charged, net of tax, directly against stockholders' equity €163 (1999: €71, 1998: €111). The accumulated benefit obligation and fair value of the plan assets for pension plans under which an additional minimum liability arises are €2,852 (1999: €1,654) and €119 (1999: €251), respectively.

Provision for pensions shown on the balance sheet also include obligations of U.S. companies arising from post-retirement health-care benefits in the amount of €93 (1999: €40).

Based upon actuarial computations, the total net periodic pension cost is comprised of the following:

	2000	1999	1998
Service cost	150	121	101
Interest cost	503	360	319
Expected return on plan assets	(53)	(23)	(15)
Prior service costs	21	7	5
Net amortization of (gains)/losses	2	13	38
Net periodic pension cost	623	478	448

For the period between December 31, 1997 and December 31, 1999 the valuation of pension schemes of all local affiliates was based on the chemical industry's mortality tables ("PK-Chemie 1996 R"). These statistics have lower death and disability incidence rates than the previously used tables by Klaus Heubeck from 1983. Since December 31, 2000 the Klaus Heubeck Tables from 1998 ("Richttafeln 1998") are being used, which are based on disability incidence rates that are reduced by 20 percent. Death rates are slightly lower and disability incidence rates slightly higher than under the previously applied "PK-Chemie 1996 R." The resulting actuarial loss is amortized over the employee's average remaining service.

Actuarial value of the domestic subsidiaries were computed with official tables based on the following assumptions:

	2000	1999
Discount rate	6.25%	6.25%
Projected salary increases-nonvested	2.75%	2.75%
Expected return on plan assets	6.25%	6.25%
Projected pension payment increases	1.25%	1.25%

An additional amount of €53 (1999: €30, 1998: €132) was incurred for defined contribution pension plans, in which the Company pays fixed contributions to an external insurer and to a pension fund.

(26) Other Provisions

	2000	1999
Provisions for nuclear waste management(1)	11,170	5,889
Provisions for taxes(2)	4,623	2,572
Provisions for personnel costs(3)	2,218	1,656
Provisions for outstanding trade invoices(4)	1,806	821
Provisions for environmental remediation(5)	741	494
Provisions for reclamation(6)	175	175
Miscellaneous(7)	4,066	2,395
	24,799	14,002

As of December 31, 2000, €16,668 of the above provisions mature after more than one year (1999: €9,453).

(1) Provisions for nuclear waste management include costs for nuclear fuel reprocessing, the disposal of waste resulting from reprocessing, nuclear power plant decommissioning, and the disposal of low-level nuclear waste.

The provisions for nuclear waste management stated above are net of advance payments of €1,239 million (1999: €681 million). The advance payments are prepayments to nuclear fuel reprocessors, to other waste-management companies as well as to governmental authorities relating to reprocessing facilities for spent fuel rods and the construction of permanent storage facilities. The requirement for spent nuclear fuel reprocessing and disposal/storage is based on the German Nuclear Power Regulations Act (*Atomgesetz*). Operators may either recycle or permanently dispose of nuclear waste.

E.ON Energie has entered into contracts with two large European fuel reprocessing firms, BNFL in the UK and Cogema in France, for the reprocessing of all spent nuclear fuel. The contract terms are through 2005. The radioactive waste which results from reprocessing will be returned to Germany to be stored in an authorized storage facility.

The accrual for the costs of spent nuclear fuel reprocessing includes the costs for all components of the reprocessing requirements including the costs of transporting spent fuel to the reprocessing firms, of fuel reprocessing, and of outbound transportation of nuclear waste. The stated cost estimates are based primarily on existing contracts.

Accruals for the costs of permanent disposal of spent fuel rods include contractual costs for procuring intermediate containers and estimates for the costs of intermediate on-site storage at power stations, the costs of transporting spent fuel rods to conditioning facilities, conditioning costs, and costs for procuring permanent storage containers.

Cost estimates for reprocessing and for permanent disposal are updated continually. The accrual for the disposal of spent fuel rods is provided over the period in which the fuel is consumed to generate electricity.

The liability for the nuclear portion of nuclear plant decommissioning is based on the *Atomgesetz*, while the liability for the non-nuclear portion depends upon legally binding civil and public regulations as well as voluntary agreements.

After cessation of energy production, the nuclear inventory will be removed from the power plant. The entire plant then will either be immediately dismantled and removed completely or sealed for a certain period of time (approximately 30 years) before final removal.

The accrual for the costs of nuclear plant decommissioning includes the expected costs for run-out operation, closure and maintenance of the facility, dismantling and removal of both the nuclear and non-nuclear portions of the plant, conditioning, and temporary and final storage of contaminated waste. The expected decommissioning and storage costs are based upon studies performed by independent third parties and are updated continuously. The accrual is provided over 19 years.

The accrual for the costs of the disposal of low level nuclear waste covers all cost of conditioning and final storage of low level waste which is generated in the operations of the facilities.

For all facilities in Germany, accruals for the costs of nuclear fuel reprocessing, of nuclear plant decommissioning, and of the disposal of low level nuclear waste are calculated using similar methods and also include the costs for the permanent disposal of radioactive waste.

Permanent disposal costs include investment, operating and financing costs for the permanent storage facilities in Gorleben and Konrad and stem from advance payment regulations for permanent storage facilities and are based on data from German Federal Office for Nuclear Safety (*Bundesamt für Strahlenschutz*). Each year the Company makes advance payments to the *Bundesamt für Strahlenschutz* commensurate with its growing information base.

Furthermore, in calculating the provisions for nuclear waste management, the Company took into account the effects of the nuclear energy consensus agreement reached by the German government and the country's major energy utilities on June 14, 2000.

(2) Provisions for taxes mainly consist of corporate income taxes, including the solidarity surcharge, trade tax on income and foreign income taxes.

(3) Provisions for personnel expenses primarily cover provisions for vacation pay, early retirement benefits, severance, anniversary obligations and other deferred personnel costs.

(4) Provisions for outstanding trade invoices represent the recognition of a liability for cost of products or services received or rendered for which a related invoice has not been received.

(5) Provisions for environmental remediation refer primarily to land reclamation, rehabilitating contaminated sites, redevelopment and water protection measures, borehole sealing, clearing mining fields and recultivating landfills.

(6) Of the provisions for reclamation, €90 (1999: €90) is for potential damages arising from former hardcoal mining activities and €85 (1999: €85) from lignite mining.

(7) Miscellaneous provisions cover other risks and include provisions for tax related interest expense, warranty and contract costs, demolition and dismantling and estimated future losses on open contracts.

(27) Liabilities

	2000				1999			
		With a remaining term of				With a remaining term of		
	Total	up to 1 year	1 to 5 years	over 5 years	Total	up to 1 year	1 to 5 years	over 5 years
Option bonds	—	—	—	—	266	266	—	—
Bank loans/Liabilities to banks	10,871	4,184	4,332	2,355	3,749	794	1,458	1,497
Liabilities related to banking operations	1,048	573	195	280	991	505	202	284
Bills payable	115	115	—	—	10	10	—	—
Other financial liabilities	2,212	2,047	150	15	211	29	159	23
Financial liabilities	**14,246**	**6,919**	**4,677**	**2,650**	**5,227**	**1,604**	**1,819**	**1,804**
Accounts payable	5,926	5,895	31	—	3,336	3,318	18	—
Affiliated companies	4,863	4,717	93	53	187	187	—	—
Liabilities to companies in which participating interests are held	2,775	2,658	33	84	2,181	2,132	3	46
Capital expenditure grants	337	25	95	217	343	24	93	226
Construction grants from energy customers	2,765	210	778	1,777	1,338	98	370	870
Advance payments	381	333	48	—	215	172	43	—
Other	4,853	2,508	268	2,077	1,846	1,734	76	36
thereof taxes	[769]	[769]	—	—	[242]	[242]	—	—
thereof social security contributions	[201]	[201]	—	—	[110]	[110]	—	—
Other liabilities	**21,900**	**16,346**	**1,346**	**4,208**	**9,446**	**7,665**	**603**	**1,178**
Liabilities	**36,146**	**23,265**	**6,023**	**6,858**	**14,673**	**9,269**	**2,422**	**2,982**

In the Consolidated Balance Sheets as of December 31, 2000, liabilities are reported net of the interest portion of noninterest-bearing and low-interest liabilities in the amount of €35,920. This interest portion which amounts to €226 is shown under prepaid expenses in the Company's Consolidated Balance Sheets.

Financial Liabilities

The option bond nominal value of US$300 of coupon bonds issued in 1993 by VEBA International Finance B.V. (now: E.ON International Finance B.V.), a wholly-owned subsidiary of E.ON, each in an amount of US$5,000.00, with 28 warrants attached, was redeemed at par on April 6, 2000. Interest at a rate of 6 percent was payable annually. E.ON has given its unconditional and irrevocable guarantee for the due payments of principal and interest. The option period expired on April 6, 1998.

As of December 31, 2000, other financial liabilities mainly include Medium Term Notes and Commercial Paper of E.ON AG as well as bearer bonds of the Degussa Bank. These bonds have various maturity dates and carry interest rates that range from 4.9 to 9.5 percent.

Secured liabilities to banks totaled €1,703 at December 31, 2000 (1999: €1,467). The collateral includes mortgages of €1,310 (1999: 1,312). Of the remaining liabilities to non-banks disclosed, only insignificant amounts are secured.

€927 in financial liabilities (1999: €480) are non-interest bearing and low-interest liabilities granted to companies in the real estate management division and the oil division. They are attributable to low-interest loans for the construction of subsidized housing with an interest rate below 2 percent and to non-interest bearing German government loans for petroleum and natural gas exploration.

€14,311 in operating liabilities are non-interest bearing (1999: €7,537).

Bank loans are summarized as follows:

	2000			1999		
	€	Interest rate	Maturity	€	Interest rate	Maturity
Bank loans secured by mortgages on real estate	339	0.5%-7.5%	through 2040	449	0.5%-7.5%	through 2040
Bank loans secured by mortgages on real estate	1,032	7.6%-19.5%	through 2040	825	7.6%-19.5%	through 2040
Other secured bank loans	332	0.5%-19.5%	through 2040	193	0.5%-19.5%	through 2040
Unsecured bank loans, drawings on credit lines, Short-term loans	9,168	0.5%-19.5%	through 2040	2,282	0.5%-19.5%	through 2040
	10,871			3,749		

Bank loans that bear interest below market rates have been granted mainly to the real estate management division for financing residential rental real estate. Under this form of financing, the real estate management division can only charge rents that are below the prevailing market rates. Due to these conditions, such loans appear at present value on the balance sheet. The difference resulting from discontinuation is reported under prepaid expenses and released in subsequent years as rent. The interest on the liabilities results in increased interest expenses.

Interest payments to banks amount to €293 (1999: €99, 1998: €131).

As of December 31, 2000, bank loans have the following maturities:

2001	3,991
2002	1,934
2003	639
2004	1,022
2005	3,285
	10,871

In addition to the drawings on credit lines shown above, at year-end 2000 E.ON AG had committed and available credit lines of €2,295 at domestic and foreign banks for financing purposes. These lines of credit at domestic and foreign banks have maturities of up to one year and variable interest rates up to 0.25 percent above the Euro Interbank Offered Rate (EURIBOR) or the London Interbank Offered Rate (LIBOR). In addition, a two-year, €1,022 syndicated credit line facility with an interest rate of up to 0.125 percentage point above EURIBOR. The Company had utilized €400 of the syndicated credit line facility as of year-end 2000.

€2 billion in Commercial Paper and €2 billion in Medium Term Notes are also available to the Company for financing purposes. As of the balance-sheet date, €1,896 of the Commercial Paper and €106 of Medium Term Note programs had been utilized.

Other Liabilities

The figure shown under liabilities to affiliated companies includes VR Telecommunications GmbH & Co.'s loans of roughly €4.5 billion, approximately €4.2 billion of which was transferred to VIAG Telecom to finance VIAG Interkom's acquisition of a German UMTS license.

Capital expenditure grants of €337 are paid primarily by customers in the electricity division for capital expenditures made on their behalf, while E.ON retains the assets. The grants are non-refundable and are recognized in other operating income based upon the depreciable lives of the related asset.

Construction grants of €2,765 are paid by customers of the electricity division for costs of connections according to the generally binding linkup terms. The grants are non-refundable and are recognized as sales according to the useful life.

(28) Contingencies and Commitments

Contingent liabilities as listed below have not been accrued as the risk of losses is not considered probable.

	2000	1999
Contingent liabilities on bills of exchange	41	6
Contingent liabilities from guarantees	619	389
Contingent liabilities from warranties	770	99
Contingent liabilities from granting collateral on behalf of third parties	710	129
Other contingent liabilities	150	22
	2,290	645

Contingent liabilities also exist according to Sec. 24 of the Private Limited Liability Companies Act ("GmbHG") for outstanding contributions of co-stockholders to the capital of various companies. These relate to future capital contributions required to be made by other co-stockholders parties for which E.ON could be held liable should the required co-stockholders fail to meet its obligations.

Long-term Contractual Obligations

As of December 31, 2000, long-term contractual obligations related to jointly operated power plants exist to purchase fixed quantities of electricity from both affiliated companies and other utilities. The purchase price of electricity from jointly operated power plants is determined by the supplier's production cost plus a profit margin that is generally calculated on the basis of an agreed return on capital. Other utilities are primarily operators of wind-driven power plants to whom a regulated remuneration at fixed minimum prices must be paid in accordance with the Electricity Feed-In Law.

Long-term contractual obligations have also been entered into by the electricity division in connection with the reprocessing and storage of spent fuel elements. Respective prices are based on prevailing market conditions.

Purchase commitments for the remaining term of the aforementioned long-term contractual obligations total €5,219 and are as follows:

2001	571
2002	504
2003	460
2004	443
2005	426
thereafter	2,815
	5,219

There also exist additional customary long-term fuel procurement contracts.

Other Financial Obligations

Obligations arising from rental, tenancy and leasing agreements are due as follows:

2001	398
2002	311
2003	273
2004	246
2005	242
thereafter	1,157
	2,627

Expenses arising from such contracts are reflected in the Consolidated Statements of Income and amount to €497 (1999: €367, 1998: €580).

Other financial obligations in the amount of €2,980 (1999: €2,559) include the €2,045 cash offer for Laporte plc. Commitments for capital expenditures on expansion and environmental protection measures, commitments to grant credits as well as other contracted but not yet effective investments in financial assets are also included. Included in the commitments to grant credits is a conditional obligation to grant subordinated loans in the amount of €213 (1999: €256). Moreover, the Electricity Division has financial commitments relating to a cash offer to minority shareholders of OBAG, EVO, Contigas, and Isar-Amperwerke.

(29) Litigation and Claims

Various legal actions, including lawsuits for product liability or for alleged price fixing agreements, governmental investigations, proceedings and claims are pending or may be instituted or asserted in the future against the Company. Since litigation or claims are subject to numerous uncertainties, their outcome cannot be ascertained; however, in the opinion of management, the outcome of these matters will not have a material adverse effect upon the financial condition, results of operations or cash flows of the Company.

In the wake of the various corporate restructurings of the past several years, shareholders have filed a number of claims (Spruchstellenverfahren). The claims contest the adequacy of share exchange ratios or cash settlements. The claims impact the Company's Electricity, Chemicals and Distribution/Logistics Divisions as well as the VEBA-VIAG merger. Because the share exchange ratios and settlements were determined by outside experts and reviewed by independent auditors, E.ON believes that the exchange ratios and settlements are correct.

E.ON is a member of "Remembrance, Responsibility, and the Future (Erinnerung, Verantwortung, und Zukunft), the foundation established by German companies to benefit Nazi-era forced laborers. On July 17, 2000, an agreement was signed by the Federal Republic of Germany and the United States of America (U.S.). The agreement was designed to achieve the final dismissal of all existing and future lawsuits in the U.S. Despite the agreement, it is possible that individual or class-action lawsuits will be filed in the U.S. As the successor entity to VIAG, E.ON AG is currently named as a defendant in a class-action lawsuit directed at various banks. The Company assumes that the establishment of the Remembrance, Responsibility, and the Future foundation will lead to the dismissal of all existing lawsuits in the U.S. against German companies.

(30) Supplemental Disclosure of Cash Flow Information

	Year Ended December 31,		
	2000	1999	1998
Cash paid during the year for			
Interest, net of amounts capitalized	257	342	242
Income taxes, net of refunds	2,789	1,356	1,316
Non-cash investing and financing activities			
Merger of Degussa and Hüls	—	2,400	—
Merger of VEBA and VIAG	9,271	—	—
Contribution of Schmalbach-Lubeca for shares of AV Packaging	290	—	—
Disposal of shares of Orange Communications S.A.	1,077	—	—
Acquisition of Minority Interest in E.ON Energie	612	—	—

See Note 4 for details regarding the merger of Degussa and Hüls, the acquisition of VIAG and the acquisition of E.ON Energie's minority interest.

The financing requirements for investments net of disposals of €4,348 (1999: €1,712, 1998 €2,273), were covered by cash from operations totaling €3,473 (1999: €3,255, 1998: €3,088). The assumption of additional debt was required to finance all activities. Cash used for financing activities amounted to €1,943 (1999: €1,383, 1998: €861). Liquid funds increased by €1,068 (1999: €160, 1998: €(46)) in the year under review.

Payments for acquisitions of subsidiaries during the current year amount to €2,710 (1999: €1,600, 1998: €544). Liquid funds acquired herewith amount to €238 (1999: €3, 1998: €55). These purchases rendered assets amounting to €5,264 (1999: €1,969, 1998: €1,561) as well as provisions and liabilities totaling €2,749 (1999: €577, 1998: €973).

The deconsolidation of shareholdings and business units resulting from divestments led to reductions of €7,239 (1999: €972) related to assets and €4,474 (1999: €467) related to provisions and liabilities. Liquid funds divested herewith amounted to €212 (1999: €8).

Because the Degussa shareholding was already acquired in 1997, only Degussa's liquid funds of €391 as of the date of the first-time full consolidation was considered in the Consolidated Statement of Cash Flows besides the cash inflows and outflows recorded in 1999.

Liquid funds at MEMC Korea Company in the amount of €74 are subject to Korean government currency quotas.

(31) Financial Instruments

a) Derivative Financial Instruments

During the normal course of operational business and resulting financing activities, E.ON is exposed to currency, interest rate and commodity price risks. The Company makes use of derivative financial instruments to eliminate or limit these risks. Derivative instruments held by the Company are used for hedging and not for trading purposes. For hedging purposes, exclusive use is made of established and commonly used instruments with sufficient market liquidity.

Currency and Interest Rate Derivatives

On the balance-sheet date, hedging transactions cover risks in interest and exchange rates arising from transactions that include recognized transactions, firm commitments and anticipated deliveries, service and other business transactions (underlying transactions).

In line with E.ON's hedging policy, in general macro-hedging transactions can be completed for periods of up to twelve months at a time to cover currency risks. Macro-hedging transactions represent a number of individual underlying transactions that have been grouped together and hedged as an individual unit. As of

December 31, 2000, currency hedges were conducted especially for the U.S. dollar, British pound and Japanese Yen.

Financial derivatives are also concluded in order to realize time congruent hedging of interest rate risks. Macro-hedging transactions can be concluded for periods of up to five years to cover interest rate risks. For micro-hedging purposes, any adequate term is allowed for individual hedges of foreign exchange and interest rates. However, these transactions must perfectly match the amounts and terms of the respective underlying transactions in order to form hedge accounting. Once allocated, gains and losses from these valuation units do not effect income until the underlying transaction is realized.

The Company's Corporate Treasury, which is responsible for entering into derivative foreign exchange and interest rate contracts, acts as a service center for the Company and not as a profit center. With E.ON AG's approval, the currency and interest rate risks of E.ON companies are also hedged with external parties. The Company is informed at regular intervals about the scope of underlying and hedging transactions via the EDP-based reporting and controlling system implemented throughout the Company.

The range of action, responsibilities and financial reporting procedures are outlined in detail in the Company's internal guidelines. The individual subgroup headquarters have enacted for their responsible financial risk management own guidelines. To ensure efficient risk management at E.ON AG, the Treasury, Back Office, and Finance Controlling Departments are organized as strictly separate units. Standard software is employed in processing business transactions. The Finance Controlling Department, ensures continuous and independent risk management. It prepares operational financial plans, calculates market-price and counterparty risks and evaluates financial transactions. The Finance Controlling Department reports at regular intervals on the Company's market-price and counterparty risks. Those Company's subsidiaries which make use of external hedging transactions have similar organizational arrangements.

A computerized reporting and controlling system for treasury activities has been developed and implemented throughout the Company. This allows for the systematic and consistent detection and analysis of all the Company's overall financial and market risks in the area of currencies and interest rates. The system is also used to determine, analyze and monitor the Company's short- and long-term financing and investment requirements. In addition, the deployed systems guarantee continuous and up-to-date analysis of market and counterparty risks ensuing from concluded short- and long-term deposits and hedging transactions.

Currency and Interest Rate Market Risks

With respect to derivatives, market risks contain the positive and negative changes in net asset value that result from price fluctuations on various financial markets. The market values of derivative financial instruments are calculated by comparing all relevant price components of a transaction at the time of the deal with those prevailing on the valuation date.

Financial derivatives by transaction and maturity as of December 31, 2000, are listed in the following table.

Financial Derivatives for Hedging Foreign Currency and Interest Rate Risks as of December 31, 2000

	Total Volume of Derivative Financial Instruments			Market Risk of Financial Derivatives Not Covered by Booked and Pending Transactions			
	Dec. 31, 2000			Dec. 31, 2000			
(Remaining maturities)	Nominal value	Market value(1)	Value-at-Risk	Nominal value	Market value(1)	Value-at-Risk	Risk acc. to stress-test
FX forward transactions							
Buy	2,814.5	(87.9)	20.7	280.3	1.3	14.7	44.1
Sell	3,413.3	101.9	38.8	812.2	5.5	2.6	7.8
FX currency options							
Buy	594.5	2.6	1.9	594.5	2.6	1.9	5.7
Sell	352.8	8.5	0.7	352.8	8.5	0.7	2.1
Subtotal	**7,175.1**	**25.1**	**25.0**	**2,039.8**	**17.9**	**18.7**	**56.1**
Cross currency swaps							
up to 1 year	71.3	(11.4)	2.7	—	—	—	—
1 year to 5 years	348.9	17.1	4.1	—	—	—	—
more than 5 years	51.1	(3.3)	1.2	—	—	—	—
Interest rate/cross currency swaps							
up to 1 year	11.1	(1.9)	0.5	—	—	—	—
1 year to 5 years	180.7	15.4	9.2	—	—	—	—
more than 5 years	—	—	—	—	—	—	—
Subtotal	**663.1**	**15.9**	**4.3**	**—**	**—**	**—**	**—**
Interest rate swaps							
fixed-rate payer							
up to 1 year	107.4	0.7	1.0	—	—	—	—
1 year to 5 years	1,314.3	(16.6)	3.1	62.6	(2.6)	1.2	3.6
more than 5 years	303.2	(4.3)	1.7	26.0	(0.6)	0.2	0.6
fixed-rate receiver							
up to 1 year	32.3	0.2	0.5	—	—	—	—
1 year to 5 years	20.5	(0.1)	8.9	—	—	—	—
more than 5 years	38.3	0.8	0.4	—	—	—	—
Subtotal	**1,816.0**	**(19.3)**	**9.9**	**88.6**	**(3.2)**	**1.3**	**3.9**
Interest rate options							
Buy							
up to 1 year	—	—	—	—	—	—	—
1 year to 5 years	183.1	0.8	0.1	—	—	—	—
more than 5 years	138.6	1.2	0.2	—	—	—	—
Sell							
up to 1 year	—	—	—	—	—	—	—
1 year to 5 years	7.6	0.0	0.0	—	—	—	—
more than 5 years	58.1	0.0	0.0	—	—	—	—
Subtotal	**387.4**	**2.0**	**0.3**	**—**	**—**	**—**	**—**
Total	**10,041.6**	**23.7**	**32.8**	**2,128.4**	**14.7**	**19.1**	**57.3**

(1) Market value deviation from nominal value.

The market risk shows the outstanding nominal value and market values of financial derivatives after economic hedging correlations are assigned between hedging contracts and booked and pending transactions as of the balance-sheet date. They represent those financial derivatives that are not assigned to a balance sheet item or a pending purchase or sales contract. These items occur if the Company concludes hedging transactions in order to hedge currency and interest rate risks deriving from anticipated transactions. Nevertheless to a large extent interest rate derivatives are hedge-accounted with underlying balance-sheet transactions.

Commodity Derivatives

Furthermore, the businesses of certain subsidiaries are exposed to risks resulting from fluctuations in the prices of raw materials and commodities. Hedging transactions of notable scope are only concluded in the Oil and Aluminum Division as well as precious metals trading. Electricity and gas price hedges were also used to a limited extent in 2000. The counterparties to these transactions are financial institutions, broker and trading companies that satisfy E.ON's credit rating criteria.

Hedging transactions involving oil-related derivatives cover the risk of fluctuating prices for crude oil and petroleum products arising from production, refining and distribution. Pursuant to the guidelines of the divisions affected, macro-hedging transactions can be concluded to cover volumes representing an equivalent of up to a full year of production. In certain cases, it is permissible to conclude appropriate forward transactions to hedge longer-term underlying transactions. Congruent derivatives can be used to hedge open positions in oil or oil-product trading on a case by case basis. These items have individual volumes with short terms and are directly related to the underlying transaction. In order to meet the criteria for hedge accounting under FAS 133 in the future crack swaps where split into crude oil and product swaps. These transactions lead to a considerable increase in nominal values, without changing the net position.

In order to hedge fluctuating prices and margins in the aluminum market arising from production and marketing, the Aluminum Division concluded hedging transactions.

For gold, silver, and other precious metals, derivatives are used to hedge price risks resulting from the product and processing businesses. Over-the-counter hedging transactions are utilized in addition to metals transactions at commodity exchanges. An insignificant volume of the hedge instruments in metals is contracted, in order to use expected price fluctuations.

The hedging transactions in the Electricity division are used to hedge electricity and gas price fluctuations and enable the Company a better coordination of power generating capacities and delivery agreements.

Total volume of oil-, metal-, electricity- and gas-related financial derivatives During the Financial Year 2000 and as of Dec. 31, 1999

	Total volume of oil, metal, gas and electricity related financial derivatives During the Financial Year 2000 and as of Dec. 31, 1999									
(€ in millions)	Dec. 31, 2000		Sept. 30, 2000		June 30, 2000		Mar. 31, 2000		Dec. 31, 1999	
(Remaining maturities)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)
Crude oil swaps										
Buy										
up to 1 year	293.5	(31.7)	90.2	(4.6)	55.4	7.5	76.2	(1.0)	33.2	3.4
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	159.8	12.6	176.4	(40.6)	193.9	(63.4)	234.0	(43.9)	188.2	(20.8)
more than 1 year	25.6	(4.7)	40.0	(9.9)	36.7	(4.2)	—	—	—	—
Subtotal	**478.9**	**(23.8)**	**306.6**	**(55.1)**	**286.0**	**(60.1)**	**310.2**	**(44.9)**	**221.4**	**(17.4)**
Refinery margin and petroleum product swaps										
up to 1 year	424.3	20.5	161.6	(30.9)	129.3	(24.1)	154.3	(12.9)	220.3	(5.2)
more than 1 year	151.3	18.0	9.4	(2.2)	0.7	0.6	—	—	11.0	1.5
Subtotal	**575.6**	**38.5**	**171.0**	**(33.1)**	**130.0**	**(23.5)**	**154.3**	**(12.9)**	**231.3**	**(3.7)**

(€ in millions) (Remaining maturities)	Total volume of oil, metal, gas and electricity related financial derivatives During the Financial Year 2000 and as of Dec. 31, 1999									
	Dec. 31, 2000		Sept. 30, 2000		June 30, 2000		Mar. 31, 2000		Dec. 31, 1999	
	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)
Crude oil options										
Buy										
up to 1 year	41.9	(0.1)	37.1	4.5	56.6	6.8	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	136.9	4.3	141.8	(3.5)	96.7	(5.0)	—	—	—	—
more than 1 year	136.7	(2.5)	172.8	(5.7)	171.3	(6.7)	—	—	—	—
Subtotal	**315.5**	**1.7**	**351.7**	**(4.7)**	**324.6**	**(4.9)**	**—**	**—**	**—**	**—**
Exchange traded oil future contracts										
Buy										
up to 1 year	4.3	(0.2)	43.9	0.8	37.2	6.8	87.7	(1.5)	15.2	0.1
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	20.2	0.6	18.7	(0.5)	29.7	(2.3)	103.5	(0.9)	52.9	(0.5)
more than 1 year	5.6	(0.2)	—	—	—	—	—	—	—	—
Subtotal	**30.1**	**0.2**	**62.6**	**0.3**	**66.9**	**4.5**	**191.2**	**(2.4)**	**68.1**	**(0.4)**
Total oil related financial derivatives	**1,400.1**	**16.6**	**891.9**	**(92.6)**	**807.5**	**(84.0)**	**655.7**	**(60.2)**	**520.8**	**(21.5)**
OTC precious metal future contracts										
Buy										
up to 1 year	282.7	17.6	265.5	(0.2)	207.7	8.5	146.4	3.0	128.0	5.2
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	213.8	(22.0)	183.6	(8.4)	153.9	(17.5)	159.2	(18.1)	56.7	(10.3)
more than 1 year	5.7	0.4	5.1	0.3	5.3	(0.4)	—	—	2.5	0.2
Subtotal	**502.2**	**(4.0)**	**454.2**	**(8.3)**	**366.9**	**(9.4)**	**305.6**	**(15.1)**	**187.2**	**(4.9)**

Total volume of oil, metal, gas and electricity related financial derivatives During the Financial Year 2000 and as of Dec. 31, 1999

(€ in millions)	Dec. 31, 2000		Sept. 30, 2000		June 30, 2000		Mar. 31, 2000		Dec. 31, 1999	
(Remaining maturities)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)
Aluminum future contracts										
Buy										
up to 1 year	524.6	(13.5)	382.6	26.5	—	—	—	—	—	—
more than 1 year	59.8	(0.3)	66.8	1.3	—	—	—	—	—	—
Sell										
up to 1 year	589.5	(28.4)	542.3	77.3	—	—	—	—	—	—
more than 1 year	274.5	(12.4)	329.7	39.3	—	—	—	—	—	—
Subtotal	1,448.4	(54.6)	1,321.4	144.4	—	—	—	—	—	—
Precious metal options										
Buy										
up to 1 year	—	—	—	—	—	—	—	—	0.5	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	—	—	—	—	—	—	—	—	3.0	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3.5**	**—**
Exchange traded metal future contracts										
Buy										
up to 1 year	19.4	1.8	32.9	1.8	32.0	2.0	37.2	(0.4)	11.2	0.4
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	46.0	(3.1)	43.4	0.5	49.7	0.1	72.2	0.4	85.1	(4.6)
more than 1 year	—	—	—	—	0.4	—	0.4	—	—	—
Subtotal	**65.4**	**(1.3)**	**76.3**	**2.3**	**82.1**	**2.1**	**109.8**	**—**	**96.3**	**(4.2)**
Total Metal related financial derivatives	**2,016.0**	**(59.9)**	**1,851.9**	**138.4**	**449.0**	**(7.3)**	**415.4**	**(15.1)**	**287.0**	**(9.1)**
Electricity swaps										
Buy										
up to 1 year	—	—	0.5	0.2	—	—	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	—	—	1.1	(0.9)	—	—	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Subtotal	**—**	**—**	**1.6**	**(0.7)**	**—**	**—**	**—**	**—**	**—**	**—**
Electricity options										
Buy										
up to 1 year	0.7	0.0	24.4	1.8	—	—	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	7.2	(0.5)	27.8	(6.8)	—	—	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Subtotal	**7.9**	**(0.5)**	**52.2**	**(5.0)**	**—**	**—**	**—**	**—**	**—**	**—**

(€ in millions)	Dec. 31, 2000		Sept. 30, 2000		June 30, 2000		Mar. 31, 2000		Dec. 31, 1999	
	Total volume of oil, metal, gas and electricity related financial derivatives During the Financial Year 2000 and as of Dec. 31, 1999									
(Remaining maturities)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)	Nominal value	Market value(1)
Gas swaps										
Buy										
up to 1 year	25.1	0.4	25.1	2.1	—	—	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	—	—	—	—	—	—	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Subtotal	**25.1**	**0.4**	**25.1**	**2.1**	**—**	**—**	**—**	**—**	**—**	**—**
Gas options										
Buy										
up to 1 year	29.8	0.2	29.8	1.9	—	—	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Sell										
up to 1 year	—	—	—	—	—	—	—	—	—	—
more than 1 year	—	—	—	—	—	—	—	—	—	—
Subtotal	**29.8**	**0.2**	**29.8**	**1.9**	**—**	**—**	**—**	**—**	**—**	**—**
Total Electricity and Gas related financial derivatives	**62.8**	**0.1**	**108.7**	**(1.7)**	**—**	**—**	**—**	**—**	**—**	**—**
Total Oil-, Metal-, Electricity and Gas- related financial derivatives	**3,478.9**	**(43.2)**	**2,852.5**	**44.1**	**1,256.5**	**(91.3)**	**1,071.1**	**(75.3)**	**807.8**	**(30.6)**

(1) Market value deviation from nominal value.

The increase of the nominal value in financial derivatives essentially arises from the merger between VEBA and VIAG as per June 30, 2000.

Counterparty Risk From the Use of Derivative Financial Instruments

Counterparty risk addresses potential losses that may arise from the non-fulfillment of contractual obligations by individual counterparties. With respect to derivative transactions, during lifetime counterparty risk is restricted to the replacement cost incurred by covering the open position should a counterparty default. Only transactions with a positive market value for E.ON are exposed to this risk. Exchange traded oil and metal future contracts with a nominal value of €95.5 as of December 31, 2000 (1999: €164.4) bear no counterparty risk. Derivative transactions are generally executed on the basis of standard agreements that allow all outstanding transactions with contracting partners to be offset. The netting of transactions with positive and negative outstanding market values is not considered in the table below. Qualified counterparties only include financial institutions, broker and metal trading companies that satisfy E.ON's credit criteria. The Divisions involved in oil-, metal-, electricity- and gas related derivatives also perform thorough credit checks and monitor creditworthiness on an ongoing bases. In general collaterals for derivative transactions are neither provided nor received.

In summary, derivatives have had the following lifetime and credit structure as of December 31, 2000:

(€ in millions) Rating of Counterparties Standard & Poor's and/or Moody's	Total		up to 1 year		1 to 5 years		more than 5 years	
	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk
AAA and Aaa	1,360.9	21.3	711.2	14.3	492.8	5.9	156.9	1.1
AA+ and Aaa or AAA and Aa1 through AA− and Aa3	5,884.3	127.7	4,295.8	86.4	1,356.4	38.9	232.1	2.4
AA− and A1 or A+ and Aa3 through A or A2	3,478.3	129.8	2,335.6	86.9	996.8	42.5	145.9	0.4
Other	2,701.5	56.1	1,933.6	40.7	713.5	15.0	54.4	0.4
Total	**13,425.0**	**334.9**	**9,276.2**	**228.3**	**3,559.5**	**102.3**	**589.3**	**4.3**

b) Non Derivative Financial Instruments

The estimated fair-value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company would realize under current market conditions.

The estimated fair value of financial instruments at December 31, 2000 and 1999, is summarized as follows:

(€ in millions) Financial instruments (other than derivative instruments)	As of December 31, 2000		As of December 31, 1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Loans	2,948	3,014	2,518	2,545
Securities	8,189	9,132	2,222	2,580
Cash and cash equivalents	1,201	1,201	1,566	1,566
Other	630	630	611	611
Liabilities:				
Financial liabilities	14,047	13,998	5,227	5,119

The increase of the nominal value in non derivative financial instruments essentially arises from the merger between VEBA and VIAG as per July 1, 2000.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

For cash and cash equivalents the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of loans and other financial instruments are valued by discounting the future cash flows by the current rate for comparable instruments. The fair value of funds and non-marketable securities is based on quoted market prices of the investments or other appropriate valuation techniques.

Fair values for financial liabilities were estimated by discounting expected cash flows using market interest rates currently available for debt of similar terms and remaining maturities. The carrying value of commercial paper, medium term notes and borrowings under revolving credit facilities were assumed to approximate fair value due to their short maturities.

The Company believes the overall credit risk related to non derivative financial instruments is insignificant.

(32) Segment Information

The Company's reportable segments are presented in line with the Company's internal organizational and reporting structure based on products and services. The segments are managed separately because each business develops, manufactures and sells distinct products and services. The reportable segments are Electricity, Oil, Chemicals, Real Estate, Telecommunications, Distribution/Logistics, Aluminum and Silicon Wafers. The column "Other/Consolidation" includes the holding company, AV Packaging GmbH (Schmalbach-Lubeca), which is accounted for under the equity method, and effects from consolidation.

Below is information on the Company's business segments.

Electricity consists of E.ON Energie AG, which was formed on July 13, 2000, by the PreussenElektra-Bayernwerk merger. E.ON Energie supplies electricity, district heating, natural gas, water, and water-related services.

VEBA Oel manages the Company's oil, gas and petrochemicals operations. VEBA Oel's core business consists of the exploration for and production of hydrocarbons, refining of crude oil, production of petrochemicals and the marketing of petroleum products and petrochemicals.

The Chemicals Division comprises Degussa-Hüls AG and SKW Trostberg AG. Both are specialty chemicals companies. On February 9, 2001 the two companies merged to form Degussa AG.

Real Estate consists of Viterra, a real-estate services group. Viterra has four strategic business units: Residential Investment, Residential Development, Residential Services and Commercial.

The Company's telecommunications activities are overseen by two holding companies: E.ON Telecom GmbH (formerly VEBA Telecom) and VIAG Telecom Beteiligungs GmbH. In August 2000, E.ON concluded an option agreement with British Telecommunications plc (BT). The agreement grants, VIAG Telecom Beteiligungs GmbH a put option, and BT a call option, on the interest in VIAG Interkom in 2001.

The Company's distribution and logistics operations are organized in three holding companies: Stinnes, Klöckner AG & Co, and (until September 30, 2000) VEBA Electronics. Stinnes provides logistics services in the following areas: Transportation, Chemicals, Raw Materials, Steel and Full-line Wholesaling. Klöckner is a leading multi-metal distributor. VEBA Electronics is a distributor of electronic components.

The Company's Aluminum Division consists of VAW aluminium AG, a leading aluminium manufacture and processor for the packaging, automotive, and construction industries. VAW has four divisions: Primary Materials, Rolled Products, Automotive Products and Flexible Packaging.

MEMC manages the Company's silicon wafer operations. MEMC is one of the world's premier manufacturers of silicon wafers used in the manufacture of semiconductors.

Other/Consolidation includes E.ON AG, investments not assigned to a segment and consolidation effects.

Internal operating profit is the most important internal key figure at E.ON in terms of earnings and serves as an indicator of a business's long-term earnings power. Internal operating profit is adjusted income before taxes (after foreign taxes related to exploration and production). Pretax income is adjusted primarily to exclude material non-operating income and expenses which are unusual (as defined by E.ON) or infrequent. These adjustments primarily include book gains and losses from large divestments and restructuring expenses.

Depreciation of fixed assets, income from companies accounted for under the equity method, and interest income have been adjusted to exclude non-operating expenses and income and may therefore deviate from earnings reported in the Consolidated Statement of Income.

To serve internal management and control purposes, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions resulting from personnel expenses is allocated to interest income. The interest portions of the allocations of other long-term provisions are treated analogously to the degree that they are reported on different lines of the Consolidated Income Statement.

The individual reporting segments apply the accounting standards listed under Note 2.

Reconciliation of internal operating profit to income before income taxes is as follows:

	2000	1999	1998
Internal operating profit	2,396	2,072	1,939
Net book gains(a)	4,636	2,337	616
Restructuring expenses/cost management programs(b)	(510)	(402)	(463)
Other non-operating earnings(c)	(523)	92	83
Foreign exploration and production income taxes(d)	552	301	210
Income before income taxes	6,551	4,400	2,385

(a) Net book gains in the reporting period primarily comprise gains of the disposal of the shareholdings in E-Plus (approximately €3.5 billion) and in Cablecom, the Swiss cable-TV company approximately (€0.8 billion).

(b) Restructuring and cost-management expenses were incurred by the Chemicals Division in the amount of approximately €180 million, by the Electricity Division in the amount of approximately €160, and by the Oil Division in the amount of approximately €120 stemming from its realignment.

(c) Other non-operating earnings in 2000 include expenses related to the disposal of shareholdings required by antitrust authorities (approximately €350) as well as the costs of the VEBA-VIAG merger and the mergers in the Chemicals and Electricity Divisions (approximately €200).

(d) Due to the high tax burden, pre-tax income in VEBA Oel's upstream sector is not meaningful when compared to other segments. Internal operating profit for the oil division is therefore stated net of foreign exploration and production income taxes; this procedure deviates from the method applied to determine internal operating profit in other segments. These taxes must be added back when reconciling from internal operating profit to pretax income.

Segment Information By Division		Electricity	Oil	Chemicals	Real Estate	Tele-communi-cations	Distri-bution/ Logistics	Aluminum	Silicon wafers	Others/ Consolidation	Total
External sales(1)	2000	10,977	28,062	18,072	1,300	228	20,838	1,760	944	802	82,983
	1999	7,719	11,778	12,242	1,145	108	16,872	—	651	—	50,515
	1998	8,141	10,282	4,653	1,451	201	17,376	—	683	—	42,787
Intersegment sales(2)	2000	50	718	126	24	1	47	17	—	(983)	—
	1999	49	451	78	22	3	48	—	—	(651)	—
	1998	65	407	88	44	7	60	—	2	(673)	—
Total sales	2000	11,027	28,780	18,198	1,324	229	20,885	1,777	944	(181)	82,983
	1999	7,768	12,229	12,320	1,167	111	16,920	—	651	(651)	50,515
	1998	8,206	10,689	4,741	1,495	208	17,436	—	685	(673)	42,787
Depreciation, amortization and write-downs	2000	1,615	632	1,061	134	259	316	58	187	185	4,447
	1999	1,134	260	843	134	158	319	—	147	—	2,995
	1998	1,242	163	391	141	274	338	—	150	73	2,772
Earnings from companies accounted for under the equity method	2000	109	38	21	2	(86)	9	11	16	(72)	48
	1999	418	(3)	20	10	(196)	10	—	(11)	63	311
	1998	350	(12)	50	13	(268)	9	—	(34)	(12)	96
Interest income	2000	497	15	133	15	130	34	7	5	(19)	817
	1999	314	18	87	5	47	24	—	2	(70)	427
	1998	205	39	43	22	7	28	—	3	(175)	172
Interest expense	2000	460	183	401	88	107	213	22	99	40	1,613
	1999	390	33	258	78	15	188	—	74	102	1,138
	1998	432	49	123	90	16	195	—	53	(140)	818

Segment Information By Division		Electricity	Oil	Chemicals	Real Estate	Tele-communi-cations	Distri-bution/ Logistics	Aluminum	Silicon wafers	Others/ Consolidation	Total
Internal operating											
Profit	2000	1,099	310	576	212	(156)	384	96	(68)	(57)	2,396
	1999	1,370	34	275	189	(150)	276	—	(219)	297	2,072
	1998	1,743	266	258	141	(351)	143	—	(240)	(21)	1,939
Capital expenditures											
Companies accounted for											
under the equity method	2000	458	—	48	2	386	8	1	16	19	938
	1999	273	—	12	52	43	1	—	—	—	381
	1998	124	—	1	13	1	20	—	24	—	183
Other financial											
Assets	2000	2,057	1,111	583	83	3,895	356	313	(12)	392	8,778
	1999	483	907	337	112	101	445	—	11	1,714	4,110
	1998	407	36	170	37	196	192	—	—	164	1,202
Other fixed assets	2000	841	612	1,044	399	310	298	119	62	74	3,759
	1999	593	401	949	169	27	295	—	49	43	2,526
	1998	911	424	590	155	163	371	—	194	32	2,840
Total capital											
Expenditures	2000	3,356	1,723	1,675	484	4,591	662	433	66	485	13,475
	1999	1,349	1,308	1,298	333	171	741	—	60	1,757	7,017
	1998	1,442	460	761	205	360	583	—	218	196	4,225
Total assets	2000	57,244	9,178	19,158	4,074	12,711	8,727	2,915	2,050	(9,842)	106,215
	1999	24,834	5,489	12,674	3,399	1,024	8,033	—	1,816	(1,050)	56,219
	1998	23,782	3,452	4,155	3,755	2,240	7,650	—	1,473	(955)	45,552

(1) External sales include petroleum and electricity taxes of €8,935 (1999: €3,942).

(2) Internal sales are valued at market prices.

Geographic Segmentation

The following table details external sales (by destination and by operation) and internal operating profit and long-lived assets information by geographic area for the years ended December 31.

Geographic Segment Information		Germany	Europe (Eurozone excluding Germany)	Europe (Other)	USA	Others	Total
External sales							
By destination	2000	42,050	11,458	8,402	12,544	8,529	82,983
	1999	25,594	6,253	5,677	8,296	4,695	50,515
	1998	26,320	4,594	4,292	5,092	2,489	42,787
By operation	2000	48,093	8,958	8,562	11,132	6,238	82,983
	1999	30,988	4,819	2,476	7,755	4,477	50,515
	1998	28,347	4,992	2,689	4,791	1,968	42,787
Internal operating profit	2000	1,551	290	209	(14)	360	2,396
	1999	1,675	49	142	71	135	2,072
	1998	2,029	(76)	102	(163)	47	1,939
Long-lived assets	2000	19,450	3,383	1,415	2,779	1,817	28,844
	1999	13,833	700	1,234	1,963	1,060	18,790
	1998	13,076	567	998	1,337	558	16,536

Information on Major Customers

Excluding Germany, E.ON's customer structure did not result in any major concentration in any given geographical region or business area. Due to the high volume of customers and the variety of business activities, there are no customers whose business volume is material compared to the Company's total business volume.

(33) Supervisory Board and Board of Management

Provided that the Annual Stockholders' Meeting of E.ON on May 18, 2001 approves the proposed dividend, total remuneration of the members of the Supervisory Board will amount to €2.8 (1999: €1.8) and those of the members of the Board of Management, including compensation for the performance of duties at subsidiaries, will amount to €13.0 (1999: €9.6, 1998: €9.4).

Total payments to retired members of the Board of Management and their beneficiaries amounted to €8.1 (1999: €7.4).

Provisions of €66.1 (1999: €39.5) have been provided for the pension obligations of E.ON to retired members of the E.ON Board of Management and their beneficiaries.

As of December 31, 2000 and 1999, no loans to members of the Board of Management exist.

The members of the Supervisory Board and the Board of Management are listed in "Item 6: Directors, Senior Management and Employees."

(34) Earnings per Share

The computation of basic and diluted earnings per share for net income is as follows (in millions of euro or millions of shares, except earnings per share)

	Year ended December, 31		
	2000	1999	1998
Numerator:			
Net income	3,570	2,991	1,174
Denominator:			
Weighted average number of shares outstanding, basic	621	503	502
Dilutive effect of convertible bonds and notes	—	—	
Shares issued on exercise of dilutive options	—	—	1
Shares purchased with proceeds of options	—	—	
Weighted average number of shares outstanding- diluted	621	503	503
Earnings per share			
Basic	5.75	5.95	2.34
Diluted	5.75	5.95	2.33

(35) Subsequent Events

The merger of Degussa-Hüls and SKW Trostberg, both E.ON subsidiaries, was entered into the Düsseldorf District Court's Commercial Register (HRB 39 635) on February 9, 2001. The merged company, called Degussa AG, has its registered office in Düsseldorf.

On January, 12, 2001, Degussa-Hüls and SKW made a public offer to purchase the shares of Laporte, a speciality chemicals company, in the amount of £6.97 per share. The total purchase price for this acquisition will approximate €1.76 billion. On March 12, 2001, the European antitrust authorities approved the transaction, which is expected to be completed in the first half of 2001.

On January 16, 2001, E.ON AG exercised the put option to sell its 45 percent interest in VIAG Interkom. E.ON had agreed on the put option with London-based British Telecommunications in August 2000. This resulted in a cash inflow at VTB (VIAG Telecom Beteiligungs GmbH) in February 2001 in the total amount of €11.35 billion including repayment of shareholder loans in the amount of €4.1 billion.

In January 2001 E.ON Energie AG raised its stake in Malmö-based Sydkraft AG, the Swedish energy utility. E.ON Energie increased its share of Sydkraft's capital stock by 5.3 percent for a total of 29.4 percent. It increased its share of the Swedish company's voting rights by 8.5 percent for a total of 42.8 percent. The purchase price was €272. On February 21, 2001 E.ON Energie extended a public tender offer for the remaining Sydkraft shares.

(36) Supplementary Information Concerning Oil and Gas Producing Activities (unaudited)

The following information for E.ON is presented in accordance with FAS 69, "Disclosures about Oil & Gas Producing Activities".

Capitalized costs

Capitalized costs represent total expenditures for proved and unproved oil and gas properties together with related accumulated depreciation, depletion and amortization.

Capitalized Costs (in millions of €) — unaudited

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
At December 31, 2000							
Capitalized costs							
Proved properties	514.6	324.9	1,096.4	879.1	281.3	11.3	3,107.6
Unproved properties	22.2	22.8	0.6	166.3	55.8	32.2	299.9
Total	536.8	347.7	1,097.0	1,045.4	337.1	43.5	3,407.5
Accumulated depreciation, depletion and amortization	382.5	162.6	1,021.5	589.3	51.1	27.2	2,234.2
Net capitalized costs	**154.3**	**185.1**	**75.5**	**456.1**	**286.0**	**16.3**	**1,173.3**
At December 31, 1999							
Capitalized costs							
Proved properties	493.2	227.1	1,052.8	1,631.0	236.7	186.9	3,827.7
Unproved properties	22.2	12.1	0.5	162.6	35.7	44.0	277.1
Total	515,4	239.2	1,053.3	1,793.6	272.4	230.9	4,104.8
Accumulated depreciation, depletion and amortization	354.9	151.0	972.0	1,201.1	19.1	185.6	2,883.7
Net capitalized costs	**160.5**	**88.2**	**81.3**	**592.5**	**253.3**	**45.3**	**1,221.1**
At December 31, 1998							
Capitalized costs							
Proved properties	483.0	199.7	1,005.0	1,431.8	100.0	212.4	3,431.9
Unproved properties	22.2	2.4	—	144.6	33.3	36.4	238.9
Total	505.2	202.1	1,005.0	1,576.4	133.3	248.8	3,670.8
Accumulated depreciation, depletion and amortization	326.8	141.7	917.5	1,061.9	0.9	189.2	2,638.0
Net capitalized costs	**178.4**	**60.4**	**87.5**	**514.5**	**132.4**	**59.6**	**1,032.8**

Costs incurred

Costs incurred represent amounts capitalized or charged against income as incurred in connection with oil and gas property acquisition, exploration and development activities. Exploration and development costs include applicable depreciation of support equipment and facilities used in such activities.

Costs incurred (in millions of €) — unaudited

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Year ended December 31, 2000							
Acquisitions of proved properties	—	—	—	—	—	—	—
Acquisitions of unproved properties	—	—	—	—	—	—	—
Exploration	7.9	6.8	2.6	13.7	12.2	10.3	53.5
Development	22.2	102.5	43.6	59.3	67.7	18.4	313.7
Total costs incurred	30.1	109.3	46.2	73.0	79.9	28.7	367.2
Year ended December 31, 1999							
Acquisitions of proved properties	—	—	—	—	—	—	—
Acquisitions of unproved properties	—	—	—	—	—	—	—
Exploration	2.0	9.3	2.7	6.7	2.5	19.6	42.8
Development	13.7	27.7	48.9	130.6	139.7	16.9	377.5
Total costs incurred	15.7	37.0	51.6	137.3	142.2	36.5	420.3
Year ended December 31, 1998							
Acquisitions of proved properties	—	—	—	126.9	—	—	126.9
Acquisitions of unproved properties	—	—	—	—	—	—	—
Exploration	8.1	13.4	4.2	7.2	26.8	9.5	69.2
Development	10.9	3.2	57.7	80.6	74.6	25.1	252.1
Total costs incurred	19.0	16.6	61.9	214.7	101.4	34.6	448.2

Results of operations from oil and gas producing activities

Results of operations from oil and gas producing activities represent only those revenues and expenses directly associated with the Company's oil and gas production. These amounts do not include any allocation of interest expenses or corporate overhead and, therefore, are not necessarily indicative of the contributions to consolidated net earnings of the Company. Estimated income taxes were computed by applying the statutory income tax rates to the pretax income from producing activities.

Results of oil and gas producing activities (in millions of €) — unaudited

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Year ended December 31, 2000							
Sales to consolidated companies	159.3	—	—	47.3	13.8	33.8	254.2
Sales to third-parties	354.5	56.8	683.4	286.2	85.0	—	1,465.9
Total sales	**513.8**	**56.8**	**683.4**	**333.5**	**98.8**	**33.8**	**1,720.1**
Production costs	73.6	10.7	301.9	74.2	61.1	10.4	531.9
Exploration expensed	7.9	6.7	2.6	15.2	12.2	9.7	54.3

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Depreciation, depletion and amortization	28.2	9.1	41.3	87.5	34.1	14.0	214.2
Royalties	86.4	0.5	—	0.3	13.3	—	100.5
Total costs	**196.1**	**27.0**	**345.8**	**177.2**	**120.7**	**34.1**	**900.9**
Results before taxes	**317.7**	**29.8**	**337.6**	**156.3**	**(21.9)**	**(0.3)**	**819.2**
Income taxes	297.0	14.9	189.0	46.9	(9.4)	(0.4)	538.0
Results after taxes	**20.7**	**14.9**	**148.6**	**109.4**	**(12.5)**	**0.1**	**281.2**
Year ended December 31, 1999							
Sales to consolidated companies	285.9	—	—	235.7	3.0	—	524.6
Sales to third-parties	—	37.1	393.7	—	—	42.1	472.9
Total sales	**285.9**	**37.1**	**393.7**	**235.7**	**3.0**	**42.1**	**997.5**
Production costs	51.6	10.0	155.9	72.1	4.9	17.0	311.5
Exploration expensed	1.9	10.0	2.7	6.7	—	18.6	39.9
Depreciation, depletion and amortization	30.0	9.6	53.1	98.9	18.3	12.7	222.6
Royalties	69.8	0.2	—	0.6	—	—	70.6
Total costs	**153.3**	**29.8**	**211.7**	**178.3**	**23.2**	**48.3**	**644.6**
Results before taxes	**132.6**	**7.3**	**182.0**	**57.4**	**(20.2)**	**(6.2)**	**352.9**
Income taxes	123.9	2.1	93.2	4.3	0.4	(4.8)	219.1
Results after taxes	**8.7**	**5.2**	**88.8**	**53.1**	**(20.6)**	**(1.4)**	**133.8**
Year ended December 31, 1998							
Sales to consolidated companies	188.0	—	—	196.1	—	—	384.1
Sales to third-parties	—	49.0	242.7	—	—	36.3	328.0
Total sales	**188.0**	**49.0**	**242.7**	**196.1**	**—**	**36.3**	**712.1**
Production costs	52.4	12.2	91.7	93.0	—	17.8	267.1
Exploration expensed	8.1	13.1	3.9	7.2	—	—	32.3
Depreciation, depletion and amortization	31.2	18.5	51.6	99.4	—	11.8	212.5
Royalties	71.0	1.3	—	0.3	—	—	72.6
Total costs	**162.7**	**45.1**	**147.2**	**199.9**	**—**	**29.6**	**584.5**
Results before taxes	**25.3**	**3.9**	**95.5**	**(3.8)**	**—**	**6.7**	**127.6**
Income taxes	19.7	1.9	36.0	2.7	—	2.9	63.2
Results after taxes	**5.6**	**2.0**	**59.5**	**(6.5)**	**—**	**3.8**	**64.4**

Oil and natural gas reserves

Proved oil and gas reserves are the estimated volumes of crude oil, natural gas and natural liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions, i.e., price and costs as of the date the estimates are made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not for escalation based upon future conditions. Proved reserves exclude royalties and interests owned by others.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing natural forces and mechanisms of primary recovery are included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

The estimates of the reserves have been prepared in accordance with FAS 69.

Numerous uncertainties are inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgement. Results of drilling, testing and production after the date of the estimate may require substantial upward and downward revision. In addition, changes in oil and natural gas prices could have an effect on the quantities of proved reserves because the estimates of reserves are based on prices and costs at the date when such estimates are made.

The tables below show the estimated net quantities as of December 31, 2000, 1999 and 1998 of VEBA Oel's proved oil and gas reserves and proved developed oil and gas reserves, as well as changes in estimated proved reserves as a result of production and other factors. VEBA Oel's reserves for 1999 and 1998 include the parts of Deminex that have been transferred to VEBA Oel.

Net proved reserves of crude oil
(in millions of barrels) — unaudited

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
At January 1, 2000	**194.1**	**14.9**	**40.9**	**68.4**	**246.1**	**10.9**	**575.3**
Revisions of previous estimates	—	—	11.5	0.5	—	—	12.0
Extensions, discoveries and other	—	—	—	—	—	—	—
Acquisitions of reserves in place	—	—	—	—	—	—	—
Sales of reserves in place	—	(1.5)	—	(14.8)	—	(9.8)	(26.1)
Production for the year	(16.6)	(0.1)	(16.1)	(10.5)	(3.7)	(1.1)	(48.1)
At December 31, 2000	**177.5**	**13.3**	**36.3**	**43.6**	**242.4**	**0.0**	**513.1**
At January 1, 1999	**198.8**	**17.7**	**63.6**	**77.9**	**38.3**	**13.1**	**409.4**
Revisions of previous estimates	11.8	(2.7)	(5.6)	2.1	—	—	5.6
Extensions, discoveries and other	—	—	—	—	208.1	—	208.1
Acquisitions of reserves in place	—	—	—	—	—	—	—
Sales of reserves in place	—	—	—	—	—	—	—
Production for the year	(16.5)	(0.1)	(17.1)	(11.6)	(0.3)	(2.2)	(47.8)
At December 31, 1999	**194.1**	**14.9**	**40.9**	**68.4**	**246.1**	**10.9**	**575.3**
At January 1, 1998	**185.4**	**7.7**	**81.3**	**79.3**	**10.0**	**14.7**	**378.4**
Revisions of previous estimates	30.8	(2.9)	(0.1)	1.7	—	0.9	30.4
Extensions, discoveries and other	—	13.1	—	—	28.3	—	41.4
Acquisitions of reserves in place	—	—	—	19.5	—	—	19.5
Sales of reserves in place	—	—	—	(9.4)	—	—	(9.4)
Production for the year	(17.4)	(0.2)	(17.6)	(13.2)	—	(2.5)	(50.9)
At December 31, 1998	**198.8**	**17.7**	**63.6**	**77.9**	**38.3**	**13.1**	**409.4**
Proved developed reserves							
At December 31, 2000	170.0	0.2	27.4	38.0	60.5	—	296.1
At December 31, 1999	186.5	0.3	31.5	41.3	176.7	10.6	446.9
At December 31, 1998	189.5	0.2	50.2	44.8	38.3	13.1	336.1

VEBA Oil's proportional interest in reserves of equity method investees

	UK	Syria	Norway	Egypt	Rest of World	Total
At December 31, 2000	—	—	15.7	8.1	—	23.8
At December 31, 1999	—	—	17.6	7.3	—	24.9
At December 31, 1998	—	—	—	—	—	—

Net proved reserves of natural gas
(in billions of cubic feet)
unaudited

	Netherlands	Syria	UK	Rest of World	Total
Proved reserves					
At January 1, 2000	**125.9**	**24.5**	**142.7**	**15.0**	**308.1**
Revisions of previous estimates	(12.2)	5.7	(1.2)	—	(7.7)
Extensions, discoveries and other	—	—	—	189.5	189.5
Acquisitions of reserves in place	—	—	—	—	—
Sales of reserves in place	(1.1)	—	(57.5)	(12.7)	(71.3)
Production for the year	(14.3)	(9.4)	(10.6)	(2.3)	(36.6)
At December 31, 2000	**98.3**	**20.8**	**73.4**	**189.5**	**382.0**
At January 1, 1999	**134.6**	**56.4**	**164.1**	**12.8**	**367.9**
Revisions of previous estimates	6.6	(23.2)	10.2	5.7	(0.7)
Extensions, discoveries and other	—	—	—	—	—
Acquisitions of reserves in place	—	—	—	—	—
Sales of reserves in place	—	—	(14.6)	—	(14.6)
Production for the year	(15.3)	(8.7)	(17.0)	(3.5)	(44.5)
At December 31, 1999	**125.9**	**24.5**	**142.7**	**15.0**	**308.1**
At January 1, 1998	**137.1**	**65.3**	**111.8**	**32.3**	**346.5**
Revisions of previous estimates	6.8	2.1	4.2	(16.2)	(3.1)
Extensions, discoveries and other	7.6	—	—	—	7.6
Acquisitions of reserves in place	—	—	67.6	—	67.6
Sales of reserves in place	—	—	(1.0)	—	(1.0)
Production for the year	(16.9)	(11.0)	(18.5)	(3.3)	(49.7)
At December 31, 1998	**134.6**	**56.4**	**164.1**	**12.8**	**367.9**
Proved developed reserves					
At December 31, 2000	91.4	20.8	61.2	—	173.4
At December 31, 1999	67.8	24.4	70.8	11.4	174.4
At December 31, 1998	82.2	56.4	65.3	12.8	216.7

VEBA Oil's proportional interest in reserves of equity method investees — unaudited

	UK	Indonesia	Syria	Rest of World	Total
At December 31, 2000	—	—	—	5.4	5.4
At December 31, 1999	—	—	—	5.5	5.5
At December 31, 1998	—	—	—	—	—

	Indonesia	Libya	Netherlands	Syria	UK	Venezuela
Average sales prices						
per bbl of crude oil						
2000	28.11	30.26	30.69	29.38	29.36	20.84
1999	16.87	16.69	14.88	16.61	16.91	17.88
1998	11.18	11.15	11.05	10.87	11.36	—
Per mcf of natural gas						
2000	3.21	—	3.10	3.42	2.60	—
1999	2.42	—	1.82	1.98	2.19	—
1998	2.05	—	2.38	1.28	2.25	—
Average production cost per barrel of oil equivalent						
2000	7.08	4.44	4.27	4.19	6.02	6.26
1999	6.51	3.11	3.69	4.18	4.94	14.30
1998	5.42	3.10	3.97	4.07	5.68	—

Net oil and gas wells completed or abandoned — unaudited

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Year ended December 31, 2000							
Exploratory							
— productive	0.5	—	—	0.6	—	0.4	1.5
— dry	0.5	—	—	0.5	—	0.7	1.7
Development							
— productive	5.4	—	7.5	4.3	7.7	1.3	26.2
— dry	—	—	—	—	—	—	—
Year ended December 31, 1999							
Exploratory							
— productive	—	0.3	0.7	0.3	—	0.9	2.2
— dry	—	0.3	—	0.3	—	1.5	2.1
Development							
— productive	3.4	—	7.9	6.6	14.3	6.3	38.5
— dry	—	—	—	1.2	—	0.4	1.6
Year ended December 31, 1998							
Exploratory							
— productive	0.5	0.4	—	—	0.6	—	1.5
— dry	1.0	0.7	0.3	0.3	0.5	0.2	3.0
Development							
— productive	0.5	—	4.1	1.0	2.0	3.8	11.4
— dry	—	—	—	—	—	0.2	0.2

Number of productive oil and gas wells — unaudited

	Egypt	Indonesia	Libya	Netherlands	Norway	Syria	UK	Venezuela	Rest of World	Total
At December 31, 2000										
Oil wells										
— gross	72.0	—	337.0	12.0	77.0	293.0	31.0	125.0	—	947.0
— net	17.6	—	158.7	2.8	0.6	103.2	7.4	20.8	—	311.1
Gas wells										
— gross	1.0	—	1.0	68.0	—	—	1.0	—	—	71.0
— net	0.2	—	0.5	9.6	—	—	0.6	—	—	10.9
At December 31, 1999										
Oil wells										
— gross	56.0	810.0	269.0	12.0	68.0	248.0	66.0	102.0	—	1,631.0
— net	7.1	40.5	124.6	2.8	1.9	87.5	13.6	17.0	—	295.0
Gas wells										
— gross	4.0	36.0	1.0	67.0	—	—	80.0	—	—	188.0
— net	1.0	1.8	0.5	9.2	—	—	3.9	—	—	16.4

Productive oil and gas wells (in thousand of acres) — unaudited

	Egypt	Indonesia	Kazakhstan	Libya	Netherlands	Norway	Syria	UK	Venezuela	Rest of World	Total
At December 31, 2000											
Developed											
— gross	25.4	—	—	285.7	34.9	85.3	477.6	77.9	10.4	—	997.2
— net	6.2	—	—	108.2	5.0	2.1	168.1	34.3	1.7	—	325.6
Undeveloped											
— gross	9,080.6	—	4,769.5	5,938.9	1,931.7	484.9	1,214.8	545.8	506.9	650.1	25,123.2
— net	2,224.8	—	1,907.8	2,908.5	399.5	7.4	404.9	186.1	143.8	132.0	8,314.8
At December 31, 1999											
Developed											
— gross	25.4	208.9	—	285.7	34.9	85.3	477.7	164.4	8.0	—	1,290.3
— net	6.2	10.4	—	108.2	5.0	2.1	168.1	120.0	1.3	—	421.3
Undeveloped											
— gross	9,080.6	6,232.5	4,769.1	5,938.9	1,938.4	445.6	1,925.8	765.8	999.5	708.3	32,804.5
— net	2,224.7	311.6	1,907.7	2,908.5	530.2	11.8	641.9	202.7	217.8	144.5	9,101.4

Drilling and production activities in progress (number of oil and gas wells) — unaudited

	Egypt	Indonesia	Libya	Netherlands	Norway	Syria	UK	Venezuela	Rest of World	Total
At December 31, 2000										
Exploratory										
— gross	—	—	—	2.0	1.0	—	2.0	—	—	5.0
— net	—	—	—	0.4	—	—	0.7	—	—	1.1
Development										
— gross	—	—	1.0	—	1.0	4.0	—	1.0	—	7.0
— net	—	—	0.5	—	—	1.4	—	0.2	—	2.1
At December 31, 1999										
Exploratory										
— gross	—	—	1.0	1.0	—	—	1.0	—	—	3.0
— net	—	—	0.5	0.3	—	—	0.3	—	—	1.1
Development										
— gross	—	16.0	1.0	3.0	8.0	5.0	—	3.0	—	36.0
— net	—	0.8	0.5	0.8	0.2	1.7	—	0.7	—	4.7

Standardized measure of discounted future net cash flow

The future net cash flow information has been determined on a basis which presumes the year-end economic and operating conditions will continue over the period during which proved reserves would be produced. Neither the effects of future pricing nor expected future changes in technology and operating practices have been considered. Part of the net profits of oil and gas producing activities is attributable by contract to a third party.

The standardized measure is calculated as the excess of future cash inflows from proved reserves less future costs of producing and developing the reserves, future income taxes and a 10 percent discount factor. Future cash inflows represent the revenues that would be received from production of year-end proved reserve quantities assuming the future production would be sold at year-end prices.

Future production costs include the estimated expenditures related to production of the proved reserves without consideration of future inflation. Future development costs include the estimated costs of drilling development wells and installation of production facilities, plus the net costs associated with dismantlement and abandonment of wells and facilities, assuming year-end costs continue without consideration of future inflation. Future income taxes were calculated in accordance with the tax laws of the countries in which VEBA OIL operates. The present value was determined by applying a discount rate of 10 percent per year to the annual future net cash flows.

The standardized measure does not purport to be an estimate of fair market value of VEBA OIL's proved reserves. An estimate of fair value would also take into account, among other things, the expected recovery of reserves in excess of proved reserves, anticipated changes in future prices and costs and a discount factor representative of the risks inherent in producing oil and gas.

Discounted future net cash flows
(in millions of €)
unaudited

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Year ended December 31, 2000							
Future cash flows	3,274.0	560.0	1,224.2	1,208.0	3,037.5	397.8	9,701.5
Future production and development costs	(1,089.3)	(229.6)	(426.3)	(743.7)	(1,060.1)	(145.2)	(3,694.2)
Future income tax expense	(1,911.8)	(165.2)	(338.6)	(139.3)	(672.3)	(65.5)	(3,292.7)
Future net cash flows	**272.9**	**165.2**	**459.3**	**325.0**	**1,305.1**	**187.1**	**2,714.6**
Discount	(109.8)	(69.9)	(90.4)	(74.2)	(937.2)	(105.3)	(1,386.8)
Standardized measure of discounted future net cash flows	**163.1**	**95.3**	**368.9**	**250.8**	**367.9**	**81.8**	**1,327.8**
Year ended December 31, 1999							
Future cash flows	3,838.7	590.1	1,261.7	1,995.9	3,865.4	290.6	11,842.4
Future production and development costs	(962.3)	(266.9)	(338.3)	(1,094.6)	(835.7)	(142.5)	(3,640.3)
Future income tax expense	(2,573.4)	(161.6)	(223.7)	(270.3)	(1,030.1)	(59.2)	(4,318.3)
Future net cash flows	**303.0**	**161.6**	**699.7**	**631.0**	**1,999.6**	**88.9**	**3,883.8**
Discount	(129.7)	(75.3)	(103.6)	(180.8)	(1,444.4)	(22.1)	(1,955.9)
Standardized measure of discounted future net cash flows	**173.3**	**86.3**	**596.1**	**450.2**	**555.2**	**66.8**	**1,927.9**
Year ended December 31, 1998							
Future cash flows	959.5	408.1	605.2	999.3	167.4	140.1	3,279.6
Future production and development costs	(953.6)	(408.7)	(439.1)	(1,259.9)	(250.2)	(148.0)	(3,459.5)
Future income tax expense	109.0	0.3	(105.6)	78.2	0.0	4.0	85.9
Future net cash flows	**114.9**	**(0.3)**	**60.5**	**(182.4)**	**(82.8)**	**(3.9)**	**(94.0)**
Discount	(48.1)	0.2	(12.1)	52.8	25.2	1.0	19.0
Standardized measure of discounted future net cash flows	**66.8**	**(0.1)**	**48.4**	**(129.6)**	**(57.6)**	**(2.9)**	**(75.0)**

Changes in standardized measure of discounted future net cash flows (in millions of €) — unaudited

The following table reflects the changes in standardized measure of discounted future net cash flows for the years ended December 31, 2000, 1999 and 1998.

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Net change in sales and transfer prices and in production costs related to future production	(2.4)	16.7	(28.1)	(11.8)	(139.6)	—	(165.2)
Changes in estimated future development costs	—	10.0	(74.9)	175.2	(41.1)	—	69.2
Sales and transfers of oil and gas produced during the period	(14.7)	(13.2)	(210.3)	(139.9)	(12.1)	—	(390.2)
Net change due to extensions, discoveries and improved recovery	—	—	—	—	—	—	—
Net change due to purchases and sales of minerals in place	—	(4.8)	—	(246.5)	—	(66.8)	(318.1)
Net change due to revisions in quantity estimates	—	(6.7)	108.5	4.7	—	81.8	188.3
Previously estimated development costs incurred during the period	—	—	—	—	—	—	—
Accretion of discount	6.9	7.0	(22.4)	18.9	5.5	—	15.9
Other	—	—	—	—	—	—	—
Net change in income taxes	—	—	—	—	—	—	—
Discounted future net cash flows at December 31, 2000	**163.1**	**95.3**	**368.9**	**250.8**	**367.9**	**81.8**	**1,327.8**
Net change in sales and transfer prices and in production costs related to future production	173.1	67.6	606.6	633.0	1,022.5	61.5	2,564.3
Changes in estimated future development costs	(0.7)	31.2	55.1	6.7	(10.7)	1.7	83.3
Sales and transfers of oil and gas produced during the period	(12.0)	(8.5)	(103.0)	(67.4)	(0.7)	(9.7)	(201.3)
Net change due to extensions, discoveries and improved recovery	—	—	—	—	437.2	—	437.2
Net change due to purchases and sales of minerals in place	—	—	—	(13.0)	—	—	(13.0)
Net change due to revisions in quantity estimates	8.6	(2.9)	(47.6)	18.5	—	4.0	(19.4)
Previously estimated development costs incurred during the period	—	—	—	—	—	—	—
Accretion of discount	(2.9)	(1.0)	36.6	2.0	(835.5)	(0.5)	(801.3)
Other	—	—	—	—	—	—	—
Net change in income taxes	(59.6)	—	—	—	—	12.7	(46.9)

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Discounted future net cashflows at December 31, 1999	**173.3**	**86.3**	**596.1**	**450.2**	**555.2**	**66.8**	**1,927.9**
Net change in sales and transfer prices and in production costs related to future production	(66.1)	(105.2)	—	—	(62.1)	—	(233.4)
Changes in estimated future development costs	(1.5)	(24.1)	—	—	(66.4)	—	(92.0)
Sales and transfers of oil and gas produced during the period	(13.3)	(9.3)	—	—	—	—	(22.6)
Net change due to extensions, discoveries and improved recovery	—	82.3	—	—	81.5	—	163.8
Net change due to purchases and sales of minerals in place	—	—	—	—	—	—	—
Net change due to revisions in quantity estimates	24.9	(10.8)	—	—	—	—	14.1
Previously estimated development costs incurred during the period	—	—	—	—	—	—	—
Accretion of discount	(2.7)	(6.0)	—	—	9.5	—	0.8
Other	—	—	48.4	(129.6)	—	(2.9)	(84.1)
Net change in income taxes	25.0	—	—	—	(33.5)	—	(8.5)
Discounted future net cash flows at December 31, 1998	**66.8**	**(0.1)**	**48.4**	**(129.6)**	**(57.6)**	**(2.9)**	**(75.0)**

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 27, 2001

E.ON AG

By: /s/ DR. ERHARD SCHIPPOREIT

Dr. Erhard Schipporeit
Member of the Board of Management
Chief Financial Officer