As filed with the Securities and Exchange Commission on March 21, 2002.

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, 2001

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	**E.ON-Platz 1, D-40479 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, 2001, 687,330,920 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 ☑

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* 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 energy division consisting of E.ON Energie AG and its consolidated subsidiaries ("E.ON Energie").
- "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").
- "VEBA Oel" refers to VEBA Oel AG and its consolidated subsidiaries, which collectively comprise E.ON's oil division.
- "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 and its consolidated subsidiaries ("Stinnes"), which collectively comprise E.ON's distribution/logistics division.
- "Aluminum" refers to VAW aluminium AG and its consolidated subsidiaries ("VAW"), which collectively comprised E.ON's aluminum division.
- "Silicon Wafers" refers to MEMC Electronic Materials, Inc. and its consolidated subsidiaries ("MEMC"), which collectively comprised 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 "€"), United States dollars ("U.S. dollars" or "dollars" or "$") or British pounds ("GBP"). 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 and 1997 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 for such periods 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 31, 2001, which was $0.8901 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, 2001, 2000 and 1999, and for each of the years in the three-year period ended December 31, 2001, 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, see "Item 3. Key Information — Exchange Rates."

Beginning in 2000, E.ON has 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 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 prior fiscal years 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 33 (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 from continuing operations before income taxes, 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.

E.ON has calculated operating data for Group companies appearing in this annual report using actual amounts derived from Group books and records. The Company has obtained market-related data such as the market position of Group companies from publicly available sources such as industry publications. The Company has relied on the accuracy of information from publicly available sources without independent verification, and does not accept any responsibility for the accuracy or completeness of such information.

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, lack of successful completion of planned acquisitions and dispositions and/or the realization of expected benefits 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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PART I

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, 2001, have been excerpted from or are derived from the Consolidated Financial Statements of E.ON as of and for the period ended December 31, 2001 and 2000, respectively, and of VEBA as of and for the periods ended December 31, 1999, 1998 and 1997.

On June 16, 2000, E.ON completed the acquisition of VIAG. For convenience reasons, June 30, 2000 has been chosen as the acquisition date. In 2000, 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,					
	2001(1)	2001	2000	1999	1998(2)	1997(2)
	(in millions, except share amounts)					
Statement of Income Data:						
Sales	$70,909	€79,664	€80,279	€49,864	€42,103	€41,418
Sales excluding electricity and petroleum taxes(3)	62,164	69,839	71,344	45,921	38,361	38,017
Earnings from companies accounted for under the equity method	717	806	375	322	130	497
Income from continuing operations before income taxes	3,470	3,898	6,423	4,558	2,714	2,619
Income from continuing operations after income taxes(4)	2,792	3,137	3,930	3,219	1,434	1,562
Income from continuing operations	2,323	2,610	3,450	3,048	1,358	1,469
(Loss) income from discontinued operations(5)	(477)	(536)	120	(57)	(184)	2
Net income	1,823	2,048	3,570	2,991	1,174	1,471
Basic earnings per share from continuing operations	3.44	3.87	5.56	6.06	2.71	2.98
Basic earnings per share from discontinued operations(5)	(0.71)	(0.80)	0.19	(0.11)	(0.37)	—
Diluted earnings per share from net income	2.70	3.03	5.75	5.95	2.33	2.95
Balance Sheet Data:						
Total assets	88,161	99,046	106,215	56,219	45,552	43,389
Long-term financial liabilities	8,285	9,308	7,611	3,630	2,339	1,997
Stockholders' equity(6)	21,774	24,462	28,033	15,813	13,855	13,473
Number of shares		692,000,000	763,298,875	502,797,780	502,797,780	497,203,190

(1) Amounts in this column are unaudited and have been translated solely for the convenience of the reader at an exchange rate of $0.8901 = €1.00, the Noon Buying Rate on December 31, 2001.

(2) The consolidated financial statements as of December 31, 1998 and 1997 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 €527 million for 2001 as compared with positive €480 million, €171 million, €76 million and €93 million for 2000, 1999, 1998 and 1997, respectively.

(5) Includes results of the aluminum division beginning as of July 1, 2000, and of the silicon wafers division for all periods presented.

(6) 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 with no par value(1) €	$(2)
1997	1.07	1.18
1998	1.07	1.12
1999	1.25	1.16
2000	1.35	1.18
2001(3)	1.60	1.42

(1) In 1997 and 1998: dividends paid per Ordinary Share of DM 5 each.

(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 2001 amount, which has been translated at the Noon Buying Rate on December 31, 2001.

(3) The dividend amount for the year ended December 31, 2001 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 28, 2002.

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 had a fixed value relative to the euro of 1.95583, and therefore no longer traded on currency markets as an independent currency. As of January 1, 2002, the euro replaced the mark as legal tender in Germany. 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.

Period	Average(1)	High	Low	Period-End
1997	1.1244			1.0871
1998	1.1121			1.1733
1999	1.0588			1.0070
2000	0.9207			0.9388
2001	0.8909			0.8901
2001				
August		0.9194	0.8775	
September		0.9310	0.8868	
October		0.9181	0.8893	
November		0.9044	0.8770	
December		0.9044	0.8773	
2002				
January		0.9031	0.8594	
February		0.8778	0.8613	

(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 11, 2002, the Noon Buying Rate was $0.8768 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 reviewed 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, based on requirements set forth in the German Stock Corporation Act. 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 Company faces the general risks of economic downturns experienced by all businesses, although certain of its operations, such as chemicals, are more exposed to economic cycles than its core energy business. The Company does not believe its operations were materially affected by the terrorist attacks in the United States on September 11, 2001, although worldwide its operations are subject to the general economic slowdown that occurred in 2001 and may continue during 2002. The following are specific external risks the Company faces:

The liberalization of the electricity industry in the EU has required and will require the Company to adapt to changing competition, including price competition in Germany that has lowered the Company's profit margins in this sector. The Company also faces strong competition in its other electricity markets.

Liberalization of the electricity market in the EU has greatly altered competition in the German electricity market. 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 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 have become increasingly active in the market as competitors, and the market for electricity has become more liquid. Consequently, both German and foreign companies have established aggressive electricity sales and trading operations in Germany. Although the Company intends to compete vigorously in the changed electricity market, it cannot be certain that it will be able to develop its business as successfully as its competitors. Liberalization of the electricity market in Germany has caused electricity prices to decrease, 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.'' In addition to the emergence of new competitors and suppliers and the creation of European electricity exchanges, other factors contributing to the drop in electricity prices in Germany include significant power plant overcapacity in Germany and Europe and relatively high and increasing price transparency. Some groups of electricity users (for example, municipalities) have also 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 cost-saving measures in its electricity operations and electricity prices enjoyed a modest recovery in 2001, deregulation is generally expected to sustain lower electricity prices in Germany, and the Company does not believe it will be able to fully regain its former very high profit margins in this sector.

Outside Germany, the electricity markets in which the Company operates are also subject to strong competition. The Company cannot guarantee it will be able to compete successfully in electricity markets where it already is present or in new electricity markets the Company may enter.

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 some of the industries in which the Company operates, 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 Germany. 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, and an amendment of Germany's nuclear energy laws which reflects this agreement is expected to take effect shortly. For more information about the planned phase-out of nuclear power stations in Germany, see "Item 4. Information on the Company — Business Overview — Energy." Further, the parties also agreed that the reprocessing of spent fuel elements will be allowed until 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, and the Company may incur greater than anticipated costs in ending its nuclear energy operations. 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 resulted this year 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 attempting to reduce 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, the results of its chemicals operations were adversely affected in 2001 by the global economic slowdown, weak demand (particularly in North America) and increasing pressure on sales prices. The Company can provide no assurances that it will not experience negative future effects from economic cycles, downward pressure on prices or other factors which could have adverse effects on the operating results of its chemicals business.

Operational

The Company's energy and chemicals divisions, as well as some of its other 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:

If the Company's plans to acquire operations and expand its core energy business are unsuccessful, 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 area of energy and expanding into new markets, particularly the United Kingdom and the United States. This strategy depends in part on the Company's ability to successfully identify and acquire companies that enhance its business on acceptable terms. In order to obtain the necessary approvals for acquisitions, the Company may be required to divest other parts of its business, or to make concessions or undertakings which materially affect its operations. For example, the Company has made a pre-conditional tender offer for the British energy company Powergen plc ("Powergen"). In order to complete the acquisition, the Company must receive certain U.S. regulatory approvals due to Powergen's ownership of U.S. operations, as described in "Item 4. Information on the Company — History and Development of the Company — Powergen Acquisition." Although the Company believes it will be able to obtain all necessary approvals and complete the acquisition successfully, it is possible that the Company may not receive the necessary regulatory approvals in a timely fashion or on acceptable terms, or that it may not successfully complete the acquisition of Powergen for other reasons. The Company is also seeking to obtain control of Ruhrgas AG ("Ruhrgas"), the German natural gas company, through a series of purchases from the current holders of Ruhrgas interests. The German Federal Cartel Office has rejected the Company's applications to purchase these shareholdings. Although the Company has submitted a special request to the German Economics Ministry to receive a waiver of the German Federal Cartel Office decisions, the Company cannot predict whether it will receive a waiver, or what the conditions of any such waiver might be. The Company cannot be certain that it will be able to acquire a majority interest in Ruhrgas on acceptable terms, or at all.

In addition, there can be no assurances that the Company will be able to achieve the benefits it expects from any acquisitions and investments. For example, the Company may fail to retain key employees, may be unable to successfully integrate new businesses with its existing businesses, may incorrectly judge expected cost savings, operating profits or future market trends such as the expected consolidation of the U.S. energy market, or may spend more on the acquisition, integration and operations of new businesses than anticipated. Acquisitions of businesses in new areas require the Company to become familiar with new markets and competitors and expose the Company to commercial and other risks, as well as additional regulatory regimes relating to the acquired businesses that may be stricter than the ones the Company is currently subject to. Because of the risks and uncertainty associated with acquisitions, any acquired businesses or investments may not achieve the profitability expected by the Company.

If the Company acquires Powergen it must register under the U.S. Public Utility Holding Company Act, which would impose significant restrictions on its business.

In order to acquire Powergen, the Company must register as a ''holding company'' under the U.S. Public Utility Holding Company Act of 1935, or ''PUHCA''. Although the Company's non-U.S. businesses are generally (but not entirely) free from regulation under this statute, the Company and its U.S. businesses will be subject to extensive regulation under PUHCA. These regulations require prior U.S. Securities and Exchange Commission approval for a wide range of capital raising, merger and acquisitions, intercompany transactions and non-utility activities and could interfere with the Company's timely implementation of business plans and its financial flexibility.

The Company cannot be certain it will be able to divest its non-core businesses on acceptable terms or within required time periods, which could interfere with its acquisition of Powergen and its declared business strategy.

The Company has agreed to sell all of its non-energy-related businesses except its telecommunications interests in connection with its planned acquisition of Powergen. Although these divestments fit with the Company's declared strategy of focusing on its energy business, the Company cannot be sure that it will be able to divest the necessary businesses at the most favorable terms, or within the required divestment periods. The Company may be subject to sanctions if it is unable to divest within the required periods businesses it has undertaken to sell in order to obtain regulatory approval of the Powergen acquisition. The Company's business strategy, financial condition and share price may suffer if it is unable to complete its planned dispositions 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. Even following a sale of certain of its companies, such as VEBA Oel and VAW, the Company may still be subject to future environmental claims with respect to alleged historical environmental damage. The Company may also be subject to environmental claims with respect to its chemicals operations. 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 in Germany, 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 — Energy.'' 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, currency and counterparty 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 also holds certain stock investments which may expose it to the risk of stock market declines.

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 E.ON-Platz 1, D-40479 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 VEBA in 1929 when it consolidated state-owned coal mining and energy interests (hence the original name VEBA, "Vereinigte Elektrizitäts- und Bergwerks-Aktiengesellschaft"). Ownership of VEBA was transferred from the dissolved Prussian state to the Federal Republic of Germany. VEBA 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, VEBA AG evolved into a management holding company, providing strategic leadership and resource allocation for the entire Group.

VEBA-VIAG MERGER

On June 16, 2000, VEBA AG merged with VIAG AG, one of the largest industrial groups in Germany. VEBA AG was subsequently renamed E.ON AG. The merger of VEBA and VIAG to form E.ON has created the fifth largest industrial group in Germany, based on market capitalization at year-end 2001, with sales of €79.7 billion in fiscal 2001.

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 beginning in 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 smaller amounts generated by the chemicals operations and realized at the management level. Transaction costs associated with the merger were 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, 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. The EU Commission examined the planned merger and, with its notification of June 13, 2000, declared it to be compatible with the common market. The EU Commission's approval required VEBA and VIAG to commit to make certain divestments in their combined electricity and chemical operations, and to give undertakings to 1) waive transfer charges for cross-zone deliveries of electricity within Germany, 2) purchase a certain minimum amount of electricity from VEAG Vereinigte Energiewerke Aktiengesellschaft (''VEAG''), a utility primarily active in the eastern part of Germany, at market rates during the period ending on December 31, 2007, and 3) provide additional interconnector capacity on the border between Germany and Denmark. For details about the divestments and other commitments made with respect to the Company's energy operations, see ''— Business Overview — Energy.'' For details about the Company's chemicals divestments, see ''— Business Overview — Chemicals.''

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. On June 16, 2000, the merger was entered into the Commercial Register in Düsseldorf. Upon registration with the Commercial Register in Düsseldorf, the merger was completed and became 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.''

GROUP STRATEGY

E.ON intends to become one of the world's leading integrated energy service providers. To achieve this goal, E.ON is concentrating on electricity, gas and related businesses. E.ON believes that focusing on its core competencies will enable it to generate superior shareholder value.

As it focuses on energy, E.ON will seek to maximize the value of its non-core businesses by divesting them at an appropriate time. E.ON expects to use the proceeds from these disposals to play an active role in the ongoing consolidation of Europe's energy sector and to finance acquisitions in the U.S. energy market.

The transformation of the company into a focused energy service provider with a global presence is currently underway, with significant divestment and acquisition activities ongoing. For more detailed information on the principal activities in implementing the transformation, see ''— Powergen Acquisition,'' ''— Significant Events — Ruhrgas'' and ''— Business Overview — Energy''.

POWERGEN ACQUISITION

On April 9, 2001, E.ON made a pre-conditional offer of 765 pence (€12.19) per share to the shareholders of the London-based British utility Powergen. The pre-conditions of the offer include the making of certain government and regulatory filings and the approval of regulatory authorities in a number of jurisdictions, including approvals from the European Commission and the Office of Gas and Electricity Markets in the United Kingdom. Due to Powergen's U.S. businesses, it is also a pre-condition of the offer that E.ON obtain a number of U.S. regulatory approvals, including approvals from the state utility regulators in Kentucky, Tennessee and Virginia, the U.S. Federal Energy Regulatory Commission and the U.S. Securities and Exchange Commission (the ''SEC''), which administers the U.S. Public Utility Holding Company Act of 1935 (PUHCA). All of these pre-conditions have now been satisfied except for the approval of the SEC, which is still reviewing E.ON's application. In connection with its SEC application, E.ON has agreed, among other things, to divest VEBA Oel, Degussa, Viterra, Stinnes and VAW over a period of three to five years, and to register with the SEC as a holding company under PUHCA following the consummation of the transaction.

As agreed between E.ON and Powergen, upon satisfaction of all conditions E.ON expects to implement the transaction under an alternative U.K. legal procedure known as a ''scheme of arrangement'' in place of a tender offer. The scheme of arrangement will provide for the acquisition of all outstanding Powergen shares by virtue of an order of the English courts following approval of the transaction at a meeting of Powergen shareholders convened by order of the court. The scheme of arrangement must be approved by a majority in number, representing 75 percent or more in value of the Powergen shares held by Powergen shareholders present and voting (either in person or by proxy).

E.ON expects SEC approval to be granted and the acquisition to be completed in the spring of 2002. However, E.ON can give no assurances as to the timing of SEC approval or the satisfaction of conditions relating to PUHCA or other conditions of the acquisition. E.ON also cannot be sure that the Powergen shareholders will approve the acquisition at the shareholders' meeting, although Powergen's board of directors has recommended E.ON's offer. The offer values all of Powergen's share capital at approximately GBP5.1 billion (€8.2 billion), assuming the exercise in full of all outstanding options under Powergen's share option schemes. In addition, E.ON will assume Powergen's outstanding debt, which totalled GBP5.2 billion (€8.5 billion) as of December 31, 2001.

E.ON's proposed acquisition of Powergen is the Company's most important step to date in implementing its international expansion strategy. Powergen's strong position in the U.K. electricity market significantly expands E.ON's geographic reach in Europe, while the acquisition of LG&E Energy Corp. ("LG&E Energy"), Powergen's Kentucky-based subsidiary, provides E.ON with entry into the United States, the world's largest energy market and one in which E.ON expects to devote significant resources for expansion through acquisitions in coming years.

Having reported unaudited 2001 group sales of GBP5.7 billion (€9.1 billion), Powergen is an international integrated energy company with its principal operations in the United Kingdom and the United States. Powergen's ordinary shares are currently listed on the London Stock Exchange and Powergen's ADSs are currently listed on the New York Stock Exchange.

Certain unaudited selected financial data of Powergen as of and for the year ended December 31, 2001 (prepared in accordance with U.K. GAAP, with certain items reconciled to U.S. GAAP) are set forth in the table below. The Powergen financial data set forth below, as well as the other information on Powergen included in this annual report, have been obtained from publicly available sources of information, including Powergen's filings with the SEC. E.ON has not independently verified such information and does not exercise management control over Powergen as of the date of this annual report. E.ON therefore does not accept responsibility for the accuracy or completeness of such information.

	Year Ended December 31, 2001	
	(GBP in millions)	(€ in millions)(1) (unaudited)
Income Statement Data:		
U.K. GAAP		
Powergen Group sales	5,659	9,100
Powergen U.K. Operations sales	3,849	6,189
Powergen U.S. Operations sales	1,644	2,644
International sales	166	267
Operating profit before goodwill amortization and exceptional items	886	1,425
Net interest payable including associates and joint ventures	422	679
Profit before taxation, goodwill amortization and exceptional items	464	746
Net income	50	80
U.S. GAAP		
Net income under U.S. GAAP	101	162
Balance Sheet Data:		
U.K. GAAP		
Fixed assets	8,668	14,245
Current assets (including prepaid expenses)	1,302	2,140
Total assets	9,970	16,385
Gross debt	5,278	8,674
Provisions	568	933
Other liabilities	2,100	3,451
Stockholders' equity	2,024	3,326
Total liabilities and stockholders' equity	9,970	16,385
U.S. GAAP		
Equity shareholders' funds	2,262	3,717

(1) For the convenience of the reader, income statement data have been translated at the average exchange rate for 2001 of GBP0.6219 = €1.00 and balance sheet data have been translated at the exchange rate of December 31, 2001 of GBP0.6085 = €1.00, both obtained from the officially released European Central Bank foreign exchange reference rates.

Powergen has two principal subsidiaries:

- Powergen Group Holdings Limited, which is the holding company for Powergen's U.K. and international businesses and is the indirect parent of Powergen UK plc (''Powergen UK''), and
- Powergen U.S. Holdings Limited, which is the holding company for Powergen's U.S. business and is the indirect parent of the U.S. energy company LG&E Energy.

U.K. Business

Powergen UK is one of the U.K.'s leading integrated electricity and gas companies. It was organized as one of the four successor companies of the former Central Electricity Generating Board as part of the reorganization of the U.K. electricity supply industry in 1989. In 1998, Powergen UK acquired East Midlands Electricity plc, a large regional electricity company.

Powergen's U.K. operations include electricity production, distribution and retail, energy trading and combined heat and power businesses. As of December 31, 2001, Powergen UK owned or through joint ventures had an interest in approximately 8,200 megawatts (''MW'') of core generation capacity and 140 MW of operational wind and hydroelectric generation capacity. The company served approximately 3.5 million customer accounts. For the year ended December 31, 2001, Powergen UK operations had sales of GBP3.8 billion (€6.2 billion), or 68 percent of Powergen's total group sales.

International Business

Through its wholly owned subsidiary Powergen International Ltd, Powergen holds joint venture equity and operating interests in power projects in India and the Asia Pacific region. As of December 31, 2001, Powergen's interests included 1,424 MW of generation capacity in plants in operation or under development in these areas. In 2001, Powergen continued to implement its strategy to sell these interests, refocusing its activities on the U.K. and U.S. markets.

For the year ended December 31, 2001, Powergen International had sales of GBP166 million (€267 million), or three percent of Powergen's total group sales.

U.S. Business

Powergen operates its U.S. business through LG&E Energy. LG&E Energy is a diversified energy services company with businesses in power generation and project development, retail gas and electric utility services and asset-based energy marketing. Asset-based energy marketing primarily involves the marketing of power generated by physical assets owned or controlled by LG&E Energy and its affiliates. LG&E Energy operates in domestic and international markets from Powergen's North American headquarters in Louisville, Kentucky. In 2001, LG&E Energy served more than one million customers and owned or operated more than 9,500 MW of generation capacity.

LG&E Energy divides its operations into regulated and unregulated businesses. In the regulated business, LG&E Energy operates two utility subsidiaries: 1) Louisville Gas and Electric Company, an electricity and natural gas utility based in Louisville, Kentucky, which serves customers in Louisville and 16 surrounding counties, and 2) Kentucky Utilities Company, an electricity utility based in Lexington, Kentucky, which serves 77 Kentucky counties and five counties in Virginia.

In the unregulated business, LG&E Energy owns stakes in a number of power plants in the United States, three Argentine gas distribution companies and operates four coal-fired electricity generation plants in Western Kentucky.

For the year ended December 31, 2001, LG&E Energy had sales of GBP1.6 billion (€2.6 billion), or 29 percent of Powergen's total group sales.

OTHER SIGNIFICANT EVENTS

Ruhrgas. A major element in E.ON's implementation of its strategy of expanding its gas operations and building an integrated power and gas company is its proposed acquisition of control over Ruhrgas, Germany's leading distributor of natural gas. Management believes that Ruhrgas' upstream and midstream gas operations complement E.ON's own primarily downstream gas holdings, thus providing potential protection against the supply risks and earnings volatility that can characterize retail gas operations, while E.ON's financial resources can help Ruhrgas increase the level of investment in the enhancement and expansion of its activities. At the same time, the regional overlap of the two groups' holdings in Scandinavia, the Baltic countries and Eastern Europe are seen as presenting opportunities for operating synergies and a base for future expansion. In addition, management believes E.ON and Ruhrgas together can assist the German government in achieving its climate policy goals by increasing the country's use of natural gas.

Ruhrgas is not publicly traded, and is currently owned by a number of holding companies, with indirect stakes dispersed among a number of major industrial and energy companies both within and outside Germany. Any attempt by E.ON to increase its current stake of less than one percent of Ruhrgas therefore entails the negotiated acquisition of interests from a number of different and unrelated counterparties in separate transactions. In January 2002, the German Federal Cartel Office blocked the consummation of a transaction in which E.ON would have acquired an additional 25.5 percent interest in Ruhrgas from BP p.l.c. ("BP") on the grounds that the proposed purchase would have had a negative effect on competition in the German gas market. The Cartel Office also blocked the completion of agreements that E.ON has reached with certain other Ruhrgas shareholders. E.ON has appealed the decision in the BP matter to the German Economics Ministry, which has the power to overrule the Cartel Office if it determines the transaction would result in an overriding general benefit to the German economy, and similarly appealed the negative decision on the other transactions. In ruling on the matter, the German Economics Ministry may either confirm the decision of the Cartel Office blocking the transactions, reverse the Cartel Office and allow the transactions to go forward subject to certain conditions (which may or may not be acceptable to the Company), or allow the transactions to go forward without any conditions. The Economics Ministry is currently expected to rule on the matter by the end of June 2002. Accordingly, there can be no assurance that E.ON will be able to purchase the BP interest in Ruhrgas or to otherwise increase its stake on acceptable terms, or at all.

Other. In January 2002, E.ON Energie acquired a 34.0 percent stake in the Finnish energy utility Espoon Sähkö Oy (''Espoon Sähkö'') from the city of Espoo.

In January 2002, E.ON agreed to sell VAW to the Norwegian company Norsk Hydro ASA. The Company expects the closing of the transaction to take place in March 2002. Under U.S. GAAP, VAW is accounted for as a discontinued operation.

In October 2001, E.ON sold the remaining business of its wholly owned subsidiary Klöckner & Co AG (''Klöckner'') to the British company Balli Steel plc.

In September 2001, E.ON agreed to sell its 71.8 percent interest in MEMC to the Texas Pacific Group, a U.S. private equity investor. The transaction was completed in November 2001. Under U.S. GAAP, MEMC is accounted for as a discontinued operation.

In July 2001, E.ON and BP entered into a participation agreement pursuant to which BP agreed to acquire a 51.0 percent interest in VEBA Oel by subscribing to a capital increase. Starting in April 2002, E.ON has the right to exercise a put option to sell its remaining 49.0 percent stake in VEBA Oel to BP. The capital increase took place in February 2002. In January 2002, in connection with the VEBA Oel transaction, VEBA Oil & Gas GmbH (''VOG''), a subsidiary of VEBA Oel, agreed to sell all of its exploration and production assets to the Canadian company Petro-Canada. The closing of this transaction is subject to regulatory approvals.

By June 2001, Degussa acquired 100 percent of the shares of the British chemicals company Laporte plc (''Laporte'') following a public tender offer.

In April 2001, E.ON Energie increased its shareholding in the Swedish utility Sydkraft AB (''Sydkraft'') through the purchase of shares in a public tender offer to a 60.8 percent equity interest and a 65.8 percent voting interest in Sydkraft. In March 2002, E.ON Energie reduced its holdings to a 55.0 percent equity and voting interest.

On February 9, 2001, the merger of Degussa-Hüls and SKW Trostberg formed the new Degussa, with headquarters located in Düsseldorf.

For details of these transactions, see the respective division descriptions in ''— Business Overview'' and ''Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions.''

CAPITAL EXPENDITURES

E.ON's aggregate capital expenditures for property, plant and equipment were €3.8 billion in 2001 (2000: €3.6 billion, 1999: €2.5 billion). Germany accounted for 47.0 percent and the countries outside Germany accounted for 53.0 percent of E.ON's total investments in 2001 (2000: 80.9 percent and 19.1 percent, 1999: 74.1 percent and 25.9 percent). For a detailed description of these capital expenditures, as well as E.ON's expected capital expenditures for the period beginning in 2002, see ''Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources.''

BUSINESS OVERVIEW

INTRODUCTION

E.ON is the fifth-largest industrial group in Germany, measured on the basis of market capitalization at year-end 2001. In 2001, the Group was organized into six separate business divisions: energy, chemicals, oil, real estate, telecommunications and distribution/logistics.

Energy: E.ON Energie is the largest privately owned European power company in terms of electricity sales, with revenues of €18.4 billion (which included €694 million of electricity tax that was remitted to the tax authorities) in 2001. 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 energy division owns interests in and operates power stations with a total installed capacity of approximately 50,000 megawatts, of which E.ON Energie's attributable share is approximately 34,000 megawatts (not including mothballed, shut down and reduced power plants). Through its own operations as well as distribution companies, in most of which E.ON Energie owns a majority interest, the energy division also distributes electricity, heat and gas to regional and municipal utilities, commercial and industrial customers and standard-rate customers, which together comprise about one-third of the electricity consumption in Germany. E.ON Energie's minority interests in utilities are generally accounted for under the equity method. As a result, a portion of 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 2001, the energy division contributed 23.1 percent of E.ON's revenues and recorded internal operating profit of €2.0 billion.

Chemicals: Degussa is one of the major specialty chemical companies in the world. E.ON owns 64.56 percent of the equity of Degussa; the remaining shares are widely held. Degussa focuses on fine and specialty chemicals, which are grouped by business unit in six core divisions: Health & Nutrition, Construction Chemicals, Fine & Industrial Chemicals, Performance Chemicals, Coatings & Advanced Fillers, and Specialty Polymers. In 2001, Degussa disposed of most of the businesses which were not included in its core divisions, and intends to dispose of its remaining non-core businesses within the next year. In 2001, the chemicals division had revenues of €17.4 billion and internal operating profit of €541 million, and contributed 21.8 percent of E.ON's revenues.

Oil: VEBA Oel, which comprised the Group's oil division in 2001, is active in the oil, gas and petrochemicals businesses. In 2001, VEBA Oel had revenues of €26.9 billion (which included €9.1 billion of petroleum tax that was remitted to tax authorities) and internal operating profit of €432 million, and contributed 33.8 percent of E.ON's revenues. 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 February 2002, BP acquired a 51.0 percent shareholding in VEBA Oel. E.ON has the right to exercise a put option to sell the remaining 49.0 percent of VEBA Oel to BP beginning in April 2002.

Real Estate: Viterra, E.ON's real estate services group, 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 at year-end 2001 of approximately 164,500 housing units, including approximately 36,000 housing units via its 50 percent shareholding in DEUTSCHBAU Wohnungsbaugesellschaft mbH ("Deutschbau"), and also held approximately 100 commercial units at year-end. In 2001, E.ON's real estate division had revenues of €1.3 billion and internal operating profit of €245 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 a minority shareholding in the French mobile telecommunications network operator, Bouygues Telecom S.A. ("Bouygues Telecom"). VIAG Telecom holds E.ON's shareholding in Connect Austria Gesellschaft für Telekommunikation GmbH ("Connect Austria"), the Austrian mobile telecommunications provider. E.ON's telecommunications division recorded a €148 million internal operating loss in 2001. Revenues of the telecommunications division amounted to €556 million in 2001, or 0.7 percent of E.ON's revenues.

Distribution/Logistics: E.ON's activities in distribution and logistics are conducted by Stinnes. E.ON holds 65.4 percent of Stinnes; the remaining shares are widely held. 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 and materials. In addition, this division previously included Klöckner. E.ON sold Klöckner's global trading activities in December 2000 and its metal distribution business in October 2001 to Balli Steel plc. In 2001, E.ON's distribution/logistics division had revenues of €15.6 billion and internal operating profit of €299 million, and contributed 19.6 percent of E.ON's revenues.

The following table sets forth the revenues of E.ON by division for 2001, 2000 and 1999:

	2001		2000(1)		1999	
	(€ in millions)	%	(€ in millions)	%	(€ in millions)	%
Energy(2)	18,449	23.1	11,027	13.7	7,768	15.6
Chemicals	17,398	21.8	18,198	22.7	12,320	24.7
Oil(3)	26,899	33.8	28,780	35.9	12,229	24.5
Real Estate	1,291	1.6	1,324	1.6	1,167	2.3
Telecommunications	556	0.7	229	0.3	111	0.2
D/L	15,583	19.6	20,885	26.0	16,920	34.0
Holding/others(4)	(512)	(0.6)	(164)	(0.2)	(651)	(1.3)
Total Revenues(5)	79,664	100.0	80,279	100.0	49,864	100.0

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

(2) Includes electricity tax of €694 million in 2001, €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 €9,131 million, €8,586 million and €3,802 million in 2001, 2000 and 1999, respectively.

(4) 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 2000. 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 a 49 percent interest. As of October 1, 2000, this shareholding was accounted for as an equity investment.

(5) Data presented do not include the sales of the former aluminum or the former silicon wafers divisions, because these divisions are accounted for as discontinued operations. For more details, see "Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions" and Note 4 of the Notes to Consolidated Financial Statements.

Most of E.ON's operations are in Germany. German operations produced 68.2 percent of E.ON's revenues (measured by location of operation) in 2001 (2000: 58.4 percent; 1999: 62.1 percent). E.ON also has a significant presence in the rest of the Eurozone, the rest of Europe, North America and elsewhere in the world, respectively representing 9.6 percent, 7.5 percent, 10.5 percent and 4.3 percent of revenues by location of operation for 2001 (2000: 10.6 percent, 10.7 percent, 13.2 percent and 7.2 percent; 1999: 9.5 percent, 4.9 percent, 14.9 percent and 8.6 percent). In the United States, E.ON's activities are held by E.ON North America. In 2001, approximately 56.6 percent (2000: 51.8 percent; 1999: 51.3 percent) of E.ON's revenues were derived from customers in Germany, 13.4 percent (2000: 13.5 percent; 1999: 12.4 percent) from customers in the rest of the Eurozone, 10.1 percent (2000: 9.9 percent; 1999: 11.3 percent) from customers in other European countries, 9.4 percent (2000: 14.8 percent; 1999: 16.0 percent) from customers in the United States and 10.5 percent (2000: 9.9 percent; 1999: 9.1 percent) from customers elsewhere in the world. See Note 33 of the Notes to Consolidated Financial

Statements. At December 31, 2001, E.ON had 151,953 employees, approximately 57.7 percent of whom were employed in Germany.

E.ON believes that as of December 31, 2001, 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"), each of which represents one Ordinary Share, are listed on the New York Stock Exchange ("NYSE").

ENERGY

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 €18.4 billion (which included €694 million of electricity taxes that were remitted to the tax authorities) and internal operating profit of €2.0 billion in 2001. It is one of the four interregional electric utilities in Germany that are interconnected in the western European power grid.

In 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:

- In January 2001, E.ON purchased the 28.1 percent equity interest in Gelsenwasser AG ("Gelsenwasser") held by RWE AG ("RWE"). Furthermore, RWE and E.ON also reached an agreement providing for the sale of RWE's 10.1 percent interest in Bergemann GmbH, which is a holding company for Ruhrgas, to E.ON at a later date. Completion of the Bergemann transaction has been blocked by the German Federal Cartel Office and is the subject of E.ON's request for a waiver from the German Economics Ministry.

- In February 2001, Rhenag Rheinische Energie Aktiengesellschaft ("Rhenag") was dissolved and its operations were divided between E.ON and RWE, the major shareholders of Rhenag. E.ON, through its subsidiary Thüga AG ("Thüga"), received Rhenag's businesses in the German states of Hesse, Rhineland-Palatinate and Saxony, while RWE received the Rhenag business located in North Rhine-Westphalia.

- In May 2001, E.ON Energie and RWE sold their shareholdings in VEAG and LAUBAG Lausitzer Braunkohle Aktiengesellschaft ("LAUBAG") to Hamburgische Electricitäts-Werke AG ("HEW"). In return, E.ON Energie received from HEW shares of Sydkraft, a Swedish utility, representing a 15.7 percent equity interest and a 2.6 percent voting interest, as well as a cash payment.

- In May 2001, E.ON Energie sold 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 and a cash payment.

- In May 2001, E.ON Energie sold its 49 percent stake in BEWAG Berliner Kraft und Licht Aktiengesellschaft ("BEWAG") to HEW in exchange for a 61.85 percent shareholding in Hamburger Gaswerke GmbH ("Hein Gas") and a cash payment.

- In accordance with the undertakings of VEBA and VIAG, E.ON charged no additional network transfer fees for electricity transfers between the German grid zones and has provided 400 MW of additional interconnector capacity between Germany and Denmark since 2000.

Following the merger of PreussenElektra and Bayernwerk, E.ON anticipates realizing annual cost savings in its energy division of approximately €700 million. The Company expects that these annual cost savings will be fully realized beginning in 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' administrative operations, thus reducing 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 related overhead costs (€250 million).
- Cooperation between Synergis GmbH (''Synergis''), an IT services company in which E.ON Energie held a 49 percent stake and Gedos mbH (''GEDOS''), 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 2001, E.ON had realized a portion of the expected synergy benefits, resulting in approximately €460 million of annual cost savings during the year. 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, 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 has incurred €186 million of such costs as of December 31, 2001.

In order to achieve post-merger cost savings and further focus the energy business, E.ON Energie implemented the following changes in 2001 and early 2002:

- In May 2001, E.ON Energie acquired a majority interest in Sydkraft as a result of a public tender offer to all outstanding shareholders. Following the completion of the tender offer, E.ON Energie held a 60.8 percent equity interest in Sydkraft and a 65.8 percent voting interest. At the same time, Sydkraft sold its 22.0 percent shareholding in HEW to Vattenfall in return for shareholdings in Swedish and Norwegian utilities and power plants plus a cash payment. In October 2001, the Company concluded a put option agreement which allows the remaining minority shareholder of Sydkraft to sell any or all of its shares to E.ON at any time through 2005. In March 2002, through the transfer of interests to Statkraft SF (''Statkraft''), E.ON Energie reduced its shareholding in Sydkraft and now holds a 55.0 percent equity and voting interest in Sydkraft.
- Following the restructuring of the Bavarian regional utilities of the former Bayernwerk at the end of 1999, in November 2001, E.ON Energie merged its 97.6 percent stake in OBAG AG, its 90.7 percent stake in EVO Energieversorgung Oberfranken AG, its 92.5 percent stake in Überlandwerke Unterfranken AG and its 98.4 percent stake in Großkraftwerk Franken AG into its 98.4 percent shareholding in Isar-Amperwerke AG and renamed the company E.ON Bayern AG (''E.ON Bayern''). E.ON Bayern is the largest regional distribution company in Germany (based on volume of electricity sold) and is responsible for all of E.ON Energie's sales and low and medium voltage grid services in the German state of Bavaria. E.ON Energie now holds approximately 97.2 percent of E.ON Bayern.
- In December 2001, E.ON Energie combined its 49.0 percent shareholding in Synergis and the wholly owned GEDOS to form the new IT services company is:energy GmbH (''is:energy''). E.ON Energie holds a 74.8 percent share in is:energy.
- In late 2001, E.ON Energie restructured Thüga and Contigas, which were active in similar businesses, in a two step process. In the first step, E.ON Energie transferred the relevant assets of Contigas to Thüga. In the second step, a cash capital increase subscribed to by the other two shareholders of Thüga allowed

these shareholders to preserve their respective interests in Thüga. E.ON Energie now holds 62.0 percent of the new Thüga. The other major Thüga shareholders are Bayerische Landesbank, which now holds a stake of 25.1 percent, and Ruhrgas Energie-Beteiligungs AG, which now holds a stake of 10.0 percent.

- In 2001 and the beginning of 2002, E.ON Energie purchased minority shareholdings in various utilities and regional distribution companies in Germany. Although most of these investments have been rather small in terms of the amounts paid, management believes that they have a significant strategic value in enhancing E.ON Energie's competitive position in the applicable markets.

- As of January 1, 2002, E.ON Vertrieb GmbH and E.ON Trading GmbH were merged into E.ON Sales & Trading GmbH (''EST''). EST is responsible for the sale of E.ON Energie's products to large customers, while E.ON Energie's regional distribution companies will focus on the retail business. Through this merger, E.ON Energie expects to achieve significant cost savings and implement a more focused sales strategy by redirecting the retail business to its regional distributors.

- In January 2002, E.ON and E.ON Energie sold their indirect shareholdings of 6.5 percent each in STEAG AG, a German independent power producer, to RAG Aktiengesellschaft.

Strategy

E.ON aspires to become one of the world's leading energy service providers while aiming to become best in class in the production, distribution and sale of electricity and gas. To achieve this goal, E.ON plans to grow its business through acquisitions and to continue to cut costs and implement restructuring programs throughout the energy division. E.ON believes that the integrated utility business model is best suited for its target markets and its core competencies and consequently aims to extend this model to new markets. As an integrated energy company active in both production and retailing, E.ON believes it benefits from certain ''natural hedges'' against changes in energy prices, while being well placed to capitalize on possible synergy and arbitrage opportunities resulting from the ongoing consolidation in the industry, including convergence among suppliers of electricity and gas. In addition, E.ON believes its innovative brand character and attractive retail products, combined with its position as an energy service provider, distinguish it from its competitors.

In implementing its strategy, E.ON focuses on three geographical areas:

Strengthen core business in Germany. In Germany, E.ON seeks to achieve brand leadership in power and gas retailing. E.ON believes the launch of the E.ON brand has been a great success, with customer awareness of the company and its products reaching significant levels since launch in 1999. E.ON also intends to grow by playing an active role in the ongoing privatization of Germany's municipal utilities and by taking majority positions in enterprises in which it already owns a minority stake. In addition, E.ON plans to expand its gas operations by integrating its gas distribution and retailing activities with gas import, storage, and transmission. The intended acquisition of Ruhrgas is expected to be a first step in implementing this strategy. (See ''— History and Development of the Company — Other Significant Events — Ruhrgas.'')

Broad expansion in Europe. E.ON is actively seeking to enlarge its European footprint, primarily in neighboring Scandinavia, Eastern Europe, the Benelux countries, Switzerland and Austria. E.ON believes this approach creates synergies with E.ON's current operations and capitalizes on the proximity of these countries to E.ON's primary supply business in Germany. E.ON plans to combine this expansion with entry into selected non-contiguous European markets (as exemplified by the pending acquisition of U.K.-based Powergen), so as to make E.ON a broadly-based European energy merchant.

Growth beyond Europe. E.ON is also committed to enlarging its presence in the United States — the world's largest energy market based on sales. The pending acquisition of LG&E, Powergen's Kentucky-based subsidiary, is expected to be the first of a series of transactions as management targets integrated U.S. utilities. The ongoing consolidation of the U.S. energy industry is expected to yield excellent growth opportunities and E.ON believes it will be able to create value by applying its best-practice operational procedures, by transferring its expertise in liberalized markets and by providing resources for profitable growth. The increasing convergence of the power and gas markets in the United States should offer additional growth potential for E.ON.

E.ON Energie, E.ON's energy subsidiary, has primary responsibility for implementing the Group's strategy in the German and continental European energy market. Management believes that the strong position in the German electricity market resulting from the merger of PreussenElektra and Bayernwerk provides E.ON Energie with a solid base to expand into the combined supply of electricity, gas and water, as well as other energy-related services.

Operations

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 and Supply:	the transfer and sale of electricity from the interregional power grid and its delivery, across local distribution systems, to consumers; and
Trading:	the buying and selling of electricity and related products for purposes of portfolio optimization, arbitrage and risk management.

E.ON Energie and its associated companies are actively involved in all segments of the electricity industry. The 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 interregional, regional and municipal utilities, traders, industrial and special-rate customers and standard-rate customers (households and small businesses). In addition, E.ON Energie is increasingly active in the natural gas and water businesses.

The following table sets forth the sources of E.ON Energie's electric power in kilowatt hours ("kWh") in 2001 and 2000:

Sources of Power	2001 million kWh	2000 million kWh	% Change
Own production	141,796	101,719	39.4
Purchased power	185,805	74,493	149.4
from power stations in which E.ON Energie has an interest of 50 percent or less	*17,488*	*16,917*	3.4
from other suppliers	*168,317*	*57,576*	192.3
Total power supplied	327,601	176,212	85.9
Power used for operating purposes, network losses and pump storage	(9,443)	(6,279)	50.4
Total	318,158	169,933	87.2

In 2001, E.ON Energie procured a total of 327.6 billion kWh of electricity, including 9.4 billion kWh used for operating purposes, network losses and pumped storage. E.ON Energie purchased a total of 17.5 billion kWh of power from power stations in which it has an interest of 50 percent or less. In addition, E.ON Energie purchased 168.3 billion kWh of electricity from other utilities, 5.2 billion kWh of which were from Scandinavian utilities and 22.8 billion kWh of which were from VEAG, the eastern German interregional utility, for redistribution by eastern German regional distributors.

Following the abolition of separate geographic operating areas for utilities under the New Energy Law (as defined in "— Regulatory Environment") in 1998, E.ON Energie began to supply power nationwide and to broaden its activities in neighboring countries. 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 2001. Electricity accounted for 77 percent of E.ON Energie's 2001 sales (2000: 74 percent), gas revenues represented 15 percent (2000: 14 percent), water revenues 1 percent (2000: 2 percent), district heating 1 percent (2000: 1 percent) and other activities 6 percent (2000: 9 percent).

The following table sets forth the total distribution of E.ON Energie's electric power in 2001 and 2000:

Distribution of Power to	Total 2001 million kWh	Total 2000 million kWh(1)	% Change in Total
Non-consolidated interregional, regional and municipal utilities	104,672	97,153	7.7
Trading	92,467	9,723	851.0
Industrial and special-rate customers	86,671	41,571	108.5
Standard-rate customers	34,348	21,486	59.9
Total	318,158	169,933	87.2

(1) 2000 volumes include the distribution volumes of the former Bayernwerk from July 1, 2000.

For information on the distribution of power in Germany, see "— German Operations — Distribution and Supply." For an explanation of changes in electricity distributed, see "Item 5. Operating and Financial Review and Prospects — Results of Operations." E.ON Energie's total gas sales volume amounted to 95.8 billion kWh in 2001, a 46.0 percent increase from 65.6 billion kWh in 2000.

E.ON Energie's company structure reflects the different characteristics of electricity, gas and water utilities, and in addition, reflects the individual segments of the electricity business: generation, transmission, distribution and supply and trading. The following chart shows the major subsidiaries of the E.ON Energie group, their respective fields of operation and the percentage of each held by E.ON Energie.

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.

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, Supply and Trading

E.ON Sales & Trading GmbH (100%)

- Supply of electricity and energy services to large customers as well as to regional and municipal distributors.
- Centralized marketing functions.
- Optimization of energy procurement costs.
- Physical energy trading and trading of energy-based financial instruments and related risk management.
- Optimization of the value of the power plants' assets in the market place.

Nine regional distributors across Germany (shareholding percentages from 25 to 97 percent; six of the nine are consolidated).

- Distribution and supply of electricity, gas, heat and water to customers in the retail business.
- Energy consulting.

Ruhr Energie GmbH (100%)

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

Municipal and Regional Shareholdings

Thüga AG (62%)

- Minority shareholdings in municipal and regional distributors (mainly distributors and suppliers of electricity, gas and water).
- Own distribution and supply activities (electricity and gas).

Major International Shareholdings

Sydkraft AB (55.0%)

- Generation, distribution, marketing, trading and sale of electricity, gas and heat in Sweden.

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

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

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%)

is:energy GmbH (74.8%)

German Operations

Power Generation

General. E.ON Energie owns interests in and operates electric power generation facilities in Germany with a total installed capacity of more than 33,000 MW, its attributable share of which is approximately 25,000 MW (not including mothballed, shut down or reduced 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 generally 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 reported based on E.ON's ownership percentage.

The following table sets forth E.ON Energie's electric power generation facilities in Germany, their total capacity, the stake held by E.ON Energie and the attributable capacity to E.ON Energie for each facility as of December 31, 2001, and their start-up dates.

E.ON ENERGIE GERMAN 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	1,275	100.0	1,275	1981
Grohnde	1,360	50.0	680	1984
Gundremmingen B	1,284	25.0	321	1984
Gundremmingen C	1,288	25.0	322	1984
Isar 1	878	100.0	878	1977
Isar 2	1,400	75.0	1,050	1988
Krümmel	1,260	50.0	630	1983
Stade (1)	640	66.7	417	1972
Unterweser	1,345	100.0	1,345	1978
Total	14,200		8,437	
Lignite				
Arzberg 5	104	100.0	104	1966
Arzberg 7	121	100.0	121	1979
Buschhaus	330	100.0	330	1985
Kassel (1)	33	50.0	16	1988
Lippendorf S	865	50.0	433	1999
Offleben	280	100.0	280	1988
Schkopau	900	55.6	500	1995
Schwandorf D	292	100.0	292	1972
Total	2,925		2,076	
Hard Coal				
Bexbach 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
Farge	325	100.0	325	1969
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
Mehrum C	654	50.0	327	1979
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

Power Plants	Total Capacity Net MW	E.ON Energie's Share %	E.ON Energie's Share Attributable Capacity MW	Start-up Date
Hard Coal (continued)				
Scholven F	676	100.0	676	1979
Shamrock	132	100.0	132	1957
Staudinger 3	293	100.0	293	1970
Staudinger 5	510	100.0	510	1992
Westerholt 1	138	100.0	138	1959
Wilhelmshaven	747	100.0	747	1976
Zolling 5	449	100.0	449	1986
Total	8,446		7,230	
Natural Gas				
Arzberg 6	252	100.0	252	1974
Franken I/1	382	100.0	382	1973
Franken I/2	440	100.0	440	1976
Huntorf	290	100.0	290	1977
Irsching 3	415	100.0	415	1974
Kirchmöser	178	100.0	178	1994
Robert Frank 4	487	100.0	487	1973
Staudinger 4	622	100.0	622	1977
Total	3,066		3,066	
Fuel Oil				
Audorf	87	100.0	87	1973
Hausham GT 1	25	100.0	25	1982
Hausham GT 2	25	100.0	25	1982
Hausham GT 3	25	100.0	25	1982
Hausham GT 4	25	100.0	25	1982
Ingolstadt 3	386	100.0	386	1973
Ingolstadt 4	386	100.0	386	1974
Itzehoe	87	100.0	87	1972
Wilhelmshaven	56	100.0	56	1973
Zolling GT 1	25	100.0	25	1976
Zolling GT 2	25	100.0	25	1976
Total	1,152		1,152	
Hydroelectric				
Aufkirchen	27	100.0	27	1924
Braunau-Simbach	100	50.0	50	1953
Egglfing	81	100.0	81	1944
Eitting	26	100.0	26	1925
Ering	73	100.0	73	1942
Erzhausen	220	100.0	220	1964
Feldkirchen	38	100.0	38	1970
Gars	25	100.0	25	1938
Happurg	160	100.0	160	1958
Hemfurth	20	100.0	20	1915
Jochenstein	132	38.9	51	1955
Kachlet	54	77.5	42	1927
Langenprozelten	164	77.6	127	1975

Power Plants	Total Capacity Net MW	E.ON Energie's Share %	E.ON Energie's Share Attributable Capacity MW	Start-up Date
Hydroelectric (continued)				
Neuötting	26	100.0	26	1951
Nußdorf	48	76.5	37	1982
Oberaudorf-Ebbs	60	50.0	30	1992
Passau-Ingling	86	50.0	43	1965
Pfrombach	22	100.0	22	1929
Reisach	105	100.0	105	1955
Rosenheim	35	100.0	35	1960
Roßhaupten	46	50.0	23	1954
Schärding-Neuhaus	96	50.0	48	1961
Stammham	23	100.0	23	1955
Tanzmühle	28	100.0	28	1959
Teufelsbruck	25	100.0	25	1938
Töging	85	100.0	85	1924
Walchensee	124	100.0	124	1924
Waldeck 1	140	100.0	140	1931
Waldeck 2	440	100.0	440	1975
Wasserburg	24	100.0	24	1938
Other run-of-river, pump storage and storage	893		656	n/a
Total	3,426		2,854	
Others	66	100.0	66	
E.ON Energie Total Germany	33,281		24,881	
Mothballed/Shutdown/Reduced				
Aschaffenburg 21	150	100.0	150	1963
Aschaffenburg 31	143	100.0	143	1971
Irsching 1	151	100.0	151	1969
Irsching 2	312	100.0	312	1972
Emden	430	100.0	430	1972
Pleinting 1	292	100.0	292	1968
Scholven G	672	50.0	336	1974
Scholven H	672	50.0	336	1975
Schwandorf B	99	100.0	99	1959
Schwandorf C	99	100.0	99	1961
Staudinger 1	249	100.0	249	1965
Staudinger 2	249	100.0	249	1965
Franken II/1 (1)	206	100.0	206	1966
Franken II/2 (1)	206	100.0	206	1967
Rauxel 2	164	100.0	164	1967
Westerholt 2	138	100.0	138	1961
Pleinting 2 (1)	402	100.0	402	1976
Total	4,634		3,962	

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

In addition, E.ON Energie's international businesses have a total installed capacity of approximately 17,000 MW, of which approximately 8,700 MW is E.ON Energie's attributable share. For detailed information about E.ON Energie's international power generation facilities, see "— International Shareholdings."

In response to intense competition in Germany 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 4,900 MW by 2003. This decision primarily affects older and smaller units. E.ON Energie is in close contact and discussions with the affected communities and employees about this matter, in order to achieve generally acceptable solutions. As of December 2001, E.ON Energie has already shut down or permanently mothballed power plants with a total installed capacity of 3,962 MW.

E.ON Energie's German 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 Energie operates its German nuclear power plants through the holding company E.ON Kernkraft. These 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 2001, E.ON Energie had a total of approximately €10.7 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, €0.4 billion for disposal of operational waste and €5.6 billion for decommissioning costs. These provisions are stated net of advance payments of €0.7 billion. In determining its pro rata share of these provisions, 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 are added. At year-end 2001, on such a pro rata basis, E.ON Energie's provisions for these purposes totalled €12.2 billion. For additional details on these and other provisions, see Note 26 of the Notes to Consolidated Financial Statements.

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 €0.9 billion for the decommissioning of Würgassen, including the reprocessing and disposal of fuel elements and the dismantling of the plant.

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 on nuclear power in June 2001 and in an amendment of the German Nuclear Power Regulations Act (*Atomgesetz,* or "AtG"), which was passed by the German parliament in December 2001 and is expected to take effect in March 2002.

Among other things, the amendment provides as follows:

- **Termination of Fuel Reprocessing:** The reprocessing of spent fuel elements will be allowed until June 30, 2005 at the latest. Following this deadline, the operators must 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 themselves. 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.

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 German 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. E.ON Energie has no plans to construct any new nuclear power plants. Independent from this agreement on nuclear power, in 2000 E.ON Kernkraft decided to decommission the nuclear power plant in Stade for economic reasons beginning in 2003.

In March 1999, the German parliament passed the Tax Relief Act 1999/2000/2002 (the ''Tax Relief Act''). 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 Company has established a provision that is sufficient to cover the resultant liability should the tax authorities prevail with their controversial interpretation of the law. However, the amount in question is significant and should the Company have to pay this amount to the tax authorities, this could have a material adverse effect on its cash flow in the relevant period.

None of the changes to the tax treatment of nuclear provisions described above cause any changes to the financial statements the Company 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 the Company'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 Reduction Act, see "— Operating Environment — German Economic Background."

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

Hard Coal. In 2001, approximately 45 percent of the hard coal used by E.ON Energie's German operations 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, the volume of 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 natural gas is linked to the price of crude oil. This mechanism has been enforced in order to reduce the influence of, and dependence on, gas-producing countries. Only about 20 percent of 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. Fuel oil power plants are only used for peak load operations. E.ON Energie purchases its fuel oil from traders or directly from a number of oil companies. As with natural gas, the price of fuel oil depends on the price of crude oil.

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 German power transmission grid of E.ON Energie is located in the German states of Schleswig-Holstein, Lower Saxony, Mecklenburg-Western Pomerania, Brandenburg, North Rhine-Westphalia, Saxony-Anhalt, Hesse, Thuringia and Bavaria, and reaches from the Scandinavian border to the Alps. The grid is interconnected with the western European power grid with links to the Netherlands, Austria, Denmark 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 twenty smaller regional control and service 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.

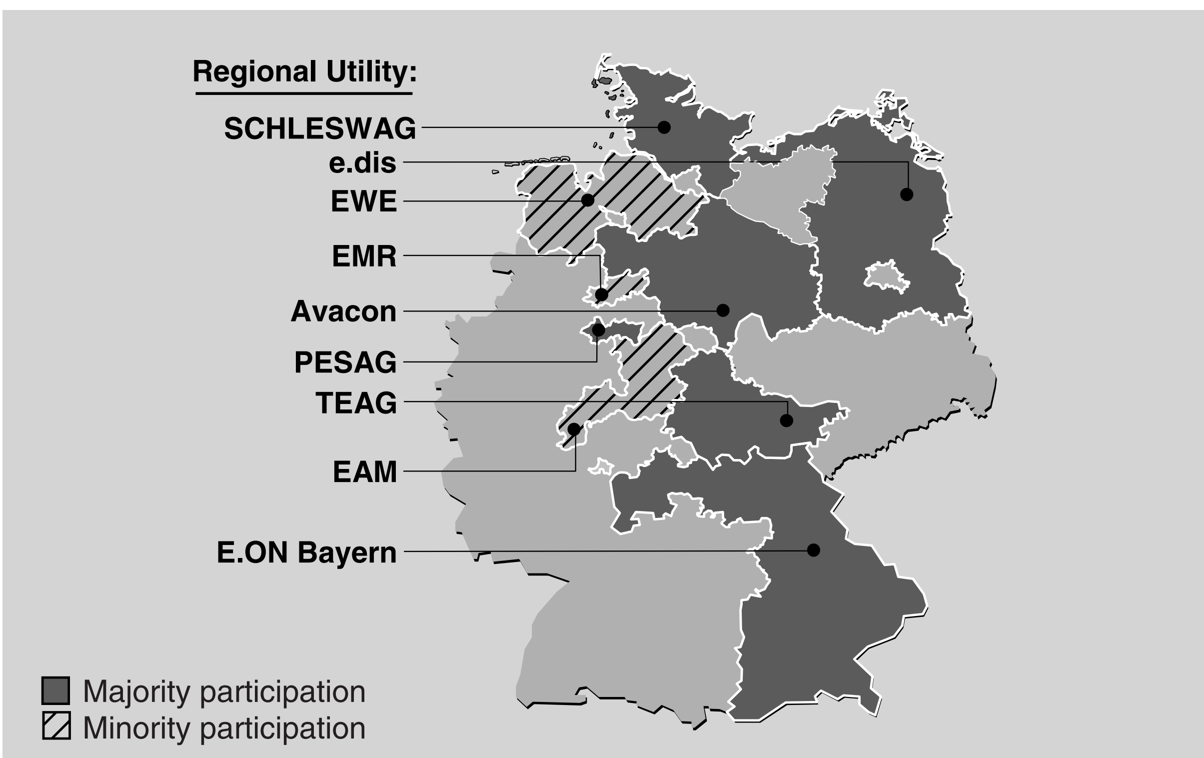
Access to E.ON Energie's power transmission grid is open to all potential users. The Company believes its usage fees and conditions comply with existing German regulations governing grid access. For further information, see "— Regulatory Environment — Electricity Grid Access."

The Baltic Cable, currently two-thirds owned by E.ON Energie (including one-third through Sydkraft) and one-third owned by Statkraft, links E.ON Energie to Scandinavia. 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.

In addition, a 500 km long submarine cable between Norway and Germany, the Viking Cable, was planned to be built by a joint venture between E.ON Energie and the Norwegian companies Statnett SE ("Statnett") and Statkraft. The parties terminated the power exchange agreement related to the Viking Cable in 2001 since changing market conditions meant the project would not be economically sensible for E.ON Energie anymore. The owners of Viking Cable AS, E.ON Energie and Statnett, also decided to terminate the construction of the cable. In connection with the termination of the Viking Cable project, E.ON Energie transferred a one-third interest in the Baltic Cable to Statkraft, making Statkraft the third partner and shareholder in the Baltic Cable.

Distribution and Supply

Electricity. 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 "— Regulatory Environment" and "— Competitive Environment." The following map shows E.ON Energie's current supply area in Germany through its majority and minority shareholdings in regional electricity utilities:

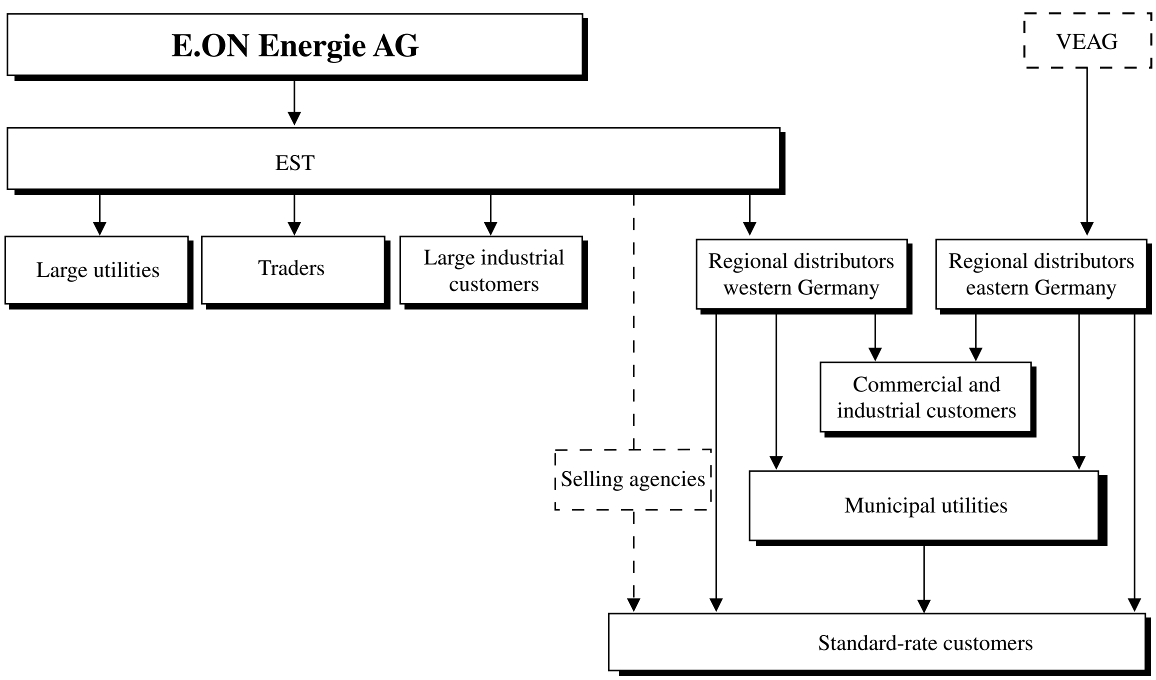


E.ON Energie supplied about one-third of the electricity consumed in Germany in 2001. Its customers are interregional, regional and municipal utilities, traders, industrial and special-rate (commercial) customers and, through regional distributors, standard-rate customers predominantly in those parts of Germany highlighted on the above map and, to a growing extent, nationwide. In compliance with the EU Commission's conditions upon approving the VEBA-VIAG merger, E.ON Energie's majority owned regional distributors e.dis Energie Nord AG ("e.dis") and Thüringische Energie Aktiengesellschaft ("TEAG") in eastern Germany purchase power from E.ON Energie's competitor VEAG. E.ON Energie's majority owned distributor Avacon AG ("Avacon") likewise purchases its power primarily from VEAG for those of its customers situated in the eastern German state of Saxony-Anhalt. In 2001, E.ON Energie sold 203.3 billion kWh of electricity in western Germany and 26.8 billion kWh in eastern Germany.

The following table sets forth the total distribution of E.ON Energie's electric power in Germany in 2001:

Distribution of Power to	Germany million kWh
Non-consolidated interregional, regional and municipal utilities	83,731
Trading	56,556
Industrial and special-rate customers	64,083
Standard-rate customers	25,815
Total	230,185

To offer improved services to its large customers, implement a more focused sales strategy and equalize supply and demand at all times with respect to costs of procurement, E.ON Energie merged E.ON Trading GmbH and E.ON Vertrieb GmbH into EST as of January 1, 2002. In the distribution and supply segment, EST focuses on the distribution of electricity and other E.ON Energie products to regional distribution companies, large municipal utilities, traders and major industrial customers. Additionally, selling agencies which sell electricity to households in "white areas", which are areas not covered by E.ON Energie's regional distributors, are allocated to EST as well. The regional distribution companies manage the main part of E.ON Energie's retail business, which is the supply of small municipal utilities, smaller and medium sized industrial and commercial customers, as well as private households. The following chart sets forth the principal supply structure of E.ON Energie's electricity sales.



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 permit municipal utilities and regional distributors to supply electricity to customers within a municipality.

Primarily through the regional distribution companies, E.ON Energie offers a variety of products targeted at the nationwide retail market, including products that allow the customer to choose electricity generated from different sources (hydropower, sun, nuclear power, biogas, coal and wind). In the retail business, E.ON Energie 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. In addition to its wholly owned subsidiaries, E.ON Energie owns a 62.0 percent interest in Thüga. Thüga currently has majority and minority shareholdings in more than 100 regional and municipal electricity and gas utilities all over Germany. As an active minority shareholder, it offers operational competence as well as other services and advice to the companies in which it owns minority equity interests. Together with Thüga, E.ON Energie holds a 89.9 percent interest in Hein Gas, a German gas and heat distributor which also operates gas storage facilities. E.ON Energie additionally has a 24.9 percent equity interest in the German gas distributor GASAG Berliner Gaswerke AG ("Gasag") and a 5.26 percent equity interest in Verbundnetz Gas AG, the long-distance gas distribution network company in eastern Germany. In Germany, E.ON Energie's gas sales volume in 2001 amounted to 88.2 billion kWh.

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 four additional networks owned by other companies. E.ON Energie's regional distributors are also involved in district heat and steam delivery. E.ON Energie's total district heat deliveries increased 39.1 percent in 2001 to 13.7 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 11.6 percent to 210.8 million cubic meters in 2001, Gelsenwasser is still the largest privately held (non-state-owned) 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") and Avacon, in which E.ON Energie has shareholdings of 65.3 percent and 53.4 percent, respectively. 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 2001, water deliveries by the E.ON Energie group as a whole (including Gelsenwasser) decreased 9.1 percent to 235.5 million cubic meters in Germany.

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. Building on their shareholdings in municipal and regional utilities, E.ON Energie, Thüga and the regional distributors also 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. The regional distribution companies of the E.ON Energie group own a 75 percent stake in Mercateo.com AG, a German internet-based marketplace. This platform currently provides business-to-business energy procurement functions for companies.

Customers. Through its subsidiaries and companies in which it has significant shareholdings, E.ON Energie serves eleven million electricity customers (households) in Germany. E.ON Energie's German operations also supply approximately nine million individuals with water and more than six million customers (households) 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 into a single facility 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 Energie's trading operations offer products that are either custom-made and used for bilateral trading over-the-counter or standardized and exchange-traded. E.ON Energie's trading focuses on Germany but also includes the rest of continental Europe and Scandinavia. E.ON Energie's overall physical electricity trading volume amounted to 188 billion kWh in 2001.

E.ON Energie believes that its trading activities provide it with valuable market insight and have 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.

E.ON Energie's trading business has incorporated a complete risk management system in compliance with the requirements of the German Federal Supervisory Office for Banking for trading businesses. An important aspect of the system is that the risk controlling function is not handled by E.ON Energie's trading business itself, but by the separate risk controlling department of E.ON Energie. 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."

E.ON Energie participates in the Leipzig Power Exchange as well as the European Energy Exchange in Frankfurt, the Scandinavian electricity exchange NordPool and the Amsterdam Power Exchange in the Netherlands. E.ON Energie also has 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.

E.ON Energie believes that its trading activities and the German energy market in general were only slightly affected by Enron's bankruptcy. E.ON Energie had an overall exposure to Enron of less than €10 million, all of which arose from trading contracts with Enron.

International Shareholdings

E.ON Energie participates in a number of European energy markets with shareholdings and cooperation agreements in more than a dozen countries, particularly in Scandinavia, Russia, the Baltic region, Poland, the Czech Republic, Hungary, Italy, Switzerland and the Netherlands. Part of this participation is through Thüga, which holds a number of minority shareholdings in various European energy markets. For example, Thüga has entered the Italian gas market by expanding its business model as an active minority shareholder across the Alps.

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.

Scandinavia. 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 55.0 percent equity and voting interest. Sydkraft is active in the generation, transmission and distribution of electricity. In 2001, it had a total installed generation capacity of 6,555 MW, and generated 30,595 million kWh of electricity. Sydkraft generates about 43 percent of its electric power at hydroelectric plants and about 55 percent at nuclear power plants. The remaining two percent is generated using gas turbines, hard coal and oil. For detailed information on Sydkraft's power plants, see the table below.

In Sweden, nuclear waste is transported to final storage under the responsibility of Svensk Kärnbränslehantering AB, a company owned by the domestic producers of nuclear power and controlled by various state institutions. In 1980, the Swedish government decided to phase out nuclear power production. A law concerning the phase out of nuclear power has been passed pursuant to which the government can decide to revoke a license to conduct nuclear operations, but must compensate the owner of the nuclear plants that are phased out. Sydkraft has one nuclear reactor, Barsebäck 1, which has been closed under this law and for which Sydkraft received compensation. The Swedish government has also decided that the other reactor at Barsebäck, Barsebäck 2, in which Sydkraft has a 24.8 percent stake, should be phased out, but the initial closure date in 2002 was cancelled by the Swedish parliament due to certain conditions that could not be fulfilled, principally that the power production of Barsebäck 2 be replaced by other means of production that do not increase emissions. Current discussions indicate the end of 2003 as a possible date for the Barsebäck 2 closure. Apart from these two reactors, Sydkraft has no other nuclear power plants that have been targeted for early phase out by the Swedish government. Management believes that public opinion in Sweden has become more favorable towards nuclear power in the interim, and that it is unclear if and to what extent Sydkraft will need to shut down other nuclear power plants.

Sydkraft also supplies heat and gas and conducts trading activities. In 2001, Sydkraft had sales of €2.1 billion. Electricity contributed approximately 76 percent, heat 14 percent and gas 10 percent of 2001 sales. Sydkraft's total trading volume was 158 billion kWh in 2001. Sydkraft also has a 22.9 percent interest in the Swedish utility Graninge AB ("Graninge"), giving E.ON Energie an indirect 36.2 percent interest in Graninge.

In 2001, E.ON Energie entered the Finnish energy market by acquiring a 34.0 percent interest in the Finnish energy supplier Espoon Sähkö from the city of Espoo. E.ON Energie has also made a mandatory tender offer to acquire the 32.0 percent of shares that are widely held. The city of Espoo holds the remaining 34.0 percent interest in Espoon Sähkö and has an option until the end of 2004 to sell this stake to E.ON Energie.

E.ON Energie's position in the Scandinavian market is supplemented by its shareholdings in Norway, which include a 26.5 stake in the utility Hafslund ASA, a 49.0 percent stake in the utility Fredrikstad Energiverk AS and a 35.0 percent stake in the grid operator Fredrikstad EnergiNett AS. In addition, it holds a 49.0 percent stake both in the grid operator Østfold Energinett AS and in the sales company Østfold Kraftsalg AS.

Baltic Region and Russia. 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 18.0 percent equity interest in Latvijas Gaze, the only gas supplier in Latvia. E.ON Energie also owns a 10.6 percent equity interest in the Lithuanian utility Lietuvos Energija.

Eastern Europe. Through the former Bayernwerk, E.ON Energie has significant shareholdings in Hungary. Utility shareholdings include equity interests of 92.1 percent in Dél-dunántúli Áramszolgáltató Részvénytársaság ("DÉDÁSZ"), 27.7 percent in Észak-dunántúli Áramszolgáltató Részvenytársaság ("EDÁSZ"), 92.4 percent in Tiszántull Áramszolgáltato RL ("TITÁSZ") and 31.2 percent in the gas distribution and supply company Közepdunántuli Gázszolgáltato Reszvenytársaság ("KÖGÁZ"). E.ON Energie complemented these holdings with several investments in Czech electricity and gas distribution companies in Bohemia and Moravia in 2000. Major electricity participations include a 44.8 percent stake in Jihomoravská Energetiká a.s., a 41.7 percent stake in Východoceská Energetiká a.s., a 34.7 percent stake in Západpceská Energetika a.s, a 29.7 percent stake in

Severomoravská Energetika a.s. and a 13.6 percent stake in Jihoceská Energetika a.s. E.ON Energie also owns shareholdings in the gas distribution companies Jihomoravská Plynárenská a.s. (39.2 percent), Západoceská Plynárenská a.s. (16.5 percent) and Jihoceská Ülynárenská a.s. (13.1 percent). 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 certain regional distribution companies in the Czech Republic.

The Netherlands. E.ON's acquisition of the Dutch power producer E.ON Benelux Generation N.V. ("E.ON Benelux Generation"), formerly known as Electriciteitsbedrijf Zuid-Holland N.V. ("EZH"), in January 2000 was a significant step into the important electricity market in the Netherlands. E.ON Benelux Generation operates hard coal and natural gas power plants for the supply of electricity and heat to bulk customers and utilities in the Netherlands. In 2001, it had a total installed generation capacity of 1,770 MW, and generated approximately 9.8 billion kWh of electricity. 2001 sales were €573 million.

Other. E.ON Energie owns a 24.5 percent equity interest in the Swiss utility Watt AG and a 20.0 percent equity interest in BKW FMB Energie AG, a predominantly hydropower Swiss utility with which E.ON Energie also has a joint venture for electricity supply in Italy.

In July 2001, E.ON Energie announced a strategic alliance with Östereichische Elektrizitätswirtschafts-AG ("Verbund") to launch European Hydropower GmbH ("EHP"), a joint venture company combining hydropower generation in Austria and Germany. The joint venture needs to be approved by the Verbund shareholders in order to be established.

The following table sets forth E.ON Energie's international electric power generation facilities, their total capacity, the stake held by E.ON Energie and the attributable capacity to E.ON Energie for each facility as of December 31, 2001, and their start-up dates.

E.ON ENERGIE INTERNATIONAL 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				
Barsebäck 2 (S)	600	25.8	155	1977
Forsmark 1 (S)	968	9.3	90	1980
Forsmark 2 (S)	964	9.3	90	1981
Forsmark 3 (S)	1,155	10.8	124	1985
Oskarshamn I (S)(2)	445	54.5	254	1972
Oskarshamn II (S)(2)	605	54.5	345	1974
Oskarshamn III (S)(2)	1,160	54.5	661	1985
Ringhals 1 (S)	835	25.8	215	1976
Ringhals 2 (S)	872	25.8	225	1975
Ringhals 3 (S)	920	25.8	237	1981
Ringhals 4 (S)	915	25.8	236	1983
Total	9,439		2,632	
Hard Coal				
EV 3 I/S, Apenrade (DK)	626	50.0	313	1979
Maasvlakte 1 (NL)	520	100.0	520	1988
Maasvlakte 2 (NL)	520	100.0	520	1987
Total	1,666		1,353	
Natural Gas				
Barsebäck GT (S)	84	100.0	84	1974
Debrecen, DKCE (H)(1)	95	99.2	94	2000

Power Plants	Total Capacity Net MW	E.ON Energie's Share %	E.ON Energie's Share Attributable Capacity MW	Start-up Date
Natural Gas (continued)				
Galileistraat (NL)	209	100.0	209	1988
Halmstad G11 (S)	78	100.0	78	1973
Halmstad G12 (S)	172	100.0	172	1993
Heleneholm G11, G12 (S)(CHP)	130	100.0	130	1966 + 1970
Leiden (NL)	81	100.0	81	1986
Öresundsverket GT (S)	126	100.0	126	1971 + 1972
Oskarshamn GT (S)(2)	80	54.5	46	1973
RoCa 3 (NL)	220	100.0	220	1996
The Hague (NL)	78	100.0	78	1982
Other (<50 MW installed capacity)	247		206	n/a
Total	1,600		1,524	
Fuel Oil				
Åbyverket G1, G2, G3 (S)(CHP)	151	100.0	151	1962-1974
Händelö (Norrköping)(S)(CHP)	89	100.0	89	1983
Karlshamn G2 (S)	332	70.0	232	1971
Karlshamn G3 (S)	326	70.0	228	1973
Karskär G4 (S)	120	50.0	60	1968
Other (<50 MW installed capacity)	27		27	n/a
Total	1,045		787	
Hydroelectric Power Plants				
Bålforsen (S)	88	100.0	88	1958
Bergeforsen (S)	160	44.0	70	1955
Bjurfors nedre (S)	78	100.0	78	1959
Blåsjön (S)	60	50.0	30	1957
Edensforsen (Åseleälven)(S)	67	4.7	3	1956
Edsele (S)	60	100.0	60	1965
Gulsele (Åseleälven)(S)	64	15.0	10	1955
Hällby (Åseleälven)(S)	84	15.0	13	1970
Hammarforsen (S)	79	100.0	79	1928
Harrsele (S)	216	50.6	109	1957
Hjälta (S)	178	100.0	178	1949
Järnvägsforsen (S)	100	94.9	95	1975
Korselbränna (Fjällsjöälven)(S)	130	100.0	130	1961
Moforsen (S)	139	100.0	139	1968
Olden (Långan)(S)	112	100.0	112	1974
Pengfors (S)	52	65.0	34	1954
Ramsele (S)	157	100.0	157	1958
Rätan (S)	60	100.0	60	1968
Stensjön (Hårkan)(S)	94	50.0	47	1968
Storfinnforsen (S)	112	100.0	112	1953
Trångfors (S)	73	100.0	73	1975
Other (<50 MW installed capacity)	826		749	n/a
Total	2,989		2,426	
Wind Power				
Total	12		11	n/a

Power Plants	Total Capacity Net MW	E.ON Energie's Share %	E.ON Energie's Share Attributable Capacity MW	Start-up Date
Other Power Plants				
Karskär G3 (S)	48	50.0	24	1968
Shutdown				
Barsebäck 1 (Nuclear)	—	25.8	—	1975
E.ON Energie Total International	**16,799**		**8,757**	

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

(2) E.ON Energie is additionally leasing 2.5 percent of the power plant's capacity.

(DK) Located in Denmark.

(H) Located in Hungary.

(NL) Located in the Netherlands.

(S) Located in Sweden.

(CHP) Combined Heat and Power Generation.

Regulatory Environment

General. 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 and the New Energy Law, as well as other applicable German laws regulating the electricity industry, the German framework for electricity grid access and rate regulation, and German gas regulation. E.ON Energie's operations outside of Germany are subject to national and local regulations in the relevant countries.

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. The draft directive also provides that EU member states set up regulatory authorities to set or 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.

The New Energy Law is expected to be modified shortly in order to implement the legal provisions of the EU gas directive (*Energiewirtschaftsgesetz*) of 1998. Amendments to the New Energy Law are currently being discussed in the German parliament. Apart from provisions to facilitate the opening of the gas market, the proposed amendments include commercial access to storage facilities and a reciprocity clause. Furthermore, the amendment proposal includes modifications in cartel law provisions, such as direct applicability of abuse control filings issued by the cartel office and a reversal of the burden of proof, so that grid operators subject to allegations of grid access abuse would then have to prove that their actions do not amount to abuse. In addition, the proposed amendments contemplate legalizing the association agreement (*Verbändevereinbarung Gas*, see "— Gas Regulation" below), which is the basis for the third party gas grid access system in Germany.

The Electricity Feed-in Law and the Renewable Energy 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 energy produced from renewable resources, 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 renewable 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, for example, 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 was required to assume exceeded five percent in any one year, then the obligation to pay for energy from new wind turbines would expire at the end of the year. 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* 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. For wind turbines, the tariff is fixed at 17.8 Pfennig/kWh (9.1 €cent/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 (6.2 €cent/kWh). In addition, for new wind turbines the fixed tariff of 17.8 Pfennig/kWh (9.1 €cent/kWh) is reduced by 1.5 percent every year for twenty years, beginning in 2002.

- ***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.

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 8.5 Pfennig (4.3 €cent) per kWh in 2001 (decreasing by 0.5 Pfennig (0.26 €cent) per kWh each year). The local network operator gets a refund of 2.5 Pfennig (1.3 €cent) per kWh (decreasing by 0.5 Pfennig (0.26 €cent) 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 around 0.4 Pfennig (0.2 €cent) per kWh in 2001.

The government decided to amend this law, which is especially protective of municipal combined heat and power plants, during 2002. The government was originally 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 would have been 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 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, proposed the Action Program for Climate Protection (*Aktionsprogramm Klimaschutz*). Under this plan, the energy utilities offered to implement CO_2 reductions of up to 45 million tons a year phased in by 2010 on a voluntary basis if the government abandoned the combined heat and power quota system. Part of this proposal is a bonus system for combined heat and power plants, focusing on support to modernize existing combined heat and power plants. The German government accepted the Action Program for Climate Protection as a viable alternative and, together with the energy associations and the association of the German industry (*Verband der Elektrizitätswirtschaft* (VDEW) for electric utilities, *Bundesverband der deutschen Gas-und Wasserwirtschaft e.V.* (BGW) for gas utilities, *Verband Kommunaler Unternehmen* (VKU) for municipalities, *Bundesverband der deutschen Industrie* (BDI) for German industry, *Verband der Industriellen Energie- und Kraftwerkswirtschaft* (VIK) for industrial electricity producers), proposed a binding agreement between the government and the energy utilities with respect to the voluntary CO_2 reductions proposed by the utilities. As a precondition to the agreement, which is expected to be signed during 2002, the German government passed a new Co-Generation Protection Law on March 1, 2002, which will come into effect on April 1, 2002.

The new law, which expires at the end of 2010, requires local network operators to pay combined heat and power plants the following bonus payments for electricity that is produced in combination with heat and fed into the grid:

- Combined heat and power plants that were commissioned before 1990 receive 1.53 €cent/kWh in 2002 and 2003, 1.38 €cent/kWh in 2004 and 2005, and 0.97 €cent/kWh in 2006;
- Combined heat and power plants that were commissioned after 1990 receive 1.53 €cent/kWh in 2002 and 2003, 1.38 €cent/kWh in 2004 and 2005, 1.23 €cent/kWh in 2006 and 2007, 0.82 €cent/kWh in 2008, and 0.56 €cent/kWh in 2009;
- Combined heat and power plants that are modernized receive 1.74 €cent/kWh in 2002, 2003 and 2004, 1.69 €cent/kWh in 2005 and 2006, 1.64 €cent/kWh in 2007 and 2008, and 1.59 €cent/kWh in 2009 and 2010; and
- Small combined heat and power plants with under two MW installed capacity receive 2.56 €cent/kWh in 2002 and 2003, 2.4 €cent/kWh in 2004 and 2005, 2.25 €cent/kWh in 2006 and 2007, 2.1 €cent/kWh in 2008 and 2009, and 1.94 €cent/kWh in 2010.

The local network operators in turn are allowed to pass on the costs of the bonus payments to the grid operators, which may pass on the costs of the bonus system to their customers. A nationwide equalization process among the utilities is expected to be implemented shortly in order to ensure the equal distribution of the costs of the bonus system across utilities.

Electricity Grid Access. In 1948, the major utilities in Germany at that time formed a consortium (*Verband der Verbundnetzbetreiber*) 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.

The Electricity Directive was implemented in Germany with a framework for negotiated third-party access agreed by all German utilities and certain large industrial customers for access to high, medium and low-voltage transmission systems (*Verbändevereinbarung,* amended as *Verbändevereinbarung II* and *Verbändevereinbarung II+*). Under *Verbändevereinbarung II,* tariffs for access are comprised of a cost-based ''point-of-connection'' tariff as well as a fee for cross-border deliveries (0.125 Pfennig/kWh or 0.064 €cent/kWh). As of January 1, 2002, *Verbändevereinbarung II+* provides for increased transparency with respect to grid prices in order to make grid access more customer friendly. In addition, traders are offered more flexibility and the option of booking intra-day capacities. This agreement will be valid for two years.

At the EU level, a provisional tarification system for cross-border electricity trading was introduced in January 2002 and came into effect in March 2002. It is based on the proposals by the European Transmission System Operators Association and is valid until the end of 2002. The system provides that grid operators be compensated for the costs of cross-border trades from a €200 million pool. Money for the pool is raised from two sources: a €1 per MWh charge on exports and a second levy which is charged to all electricity customers (termed ''socialization'' of costs).

Electricity Rate Regulation. Prices at which local and regional distributors sell electricity 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 which are below the regulated tariffs 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 16.46 €cent and 17.58 €cent in western and eastern Germany, respectively, as of January 1, 2002. 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 (*Verband der Elektrizitätswirtschaft* (VDEW)), 15.11 €cent per kWh as of January 1, 2002 (all taxes included). The average price per kWh charged by E.ON Energie for industrial customers was 5.51 €cent, whereas the German Association for Energy Consumption (VEA) quoted an average price per kWh of 5.42 €cent for Germany as of January 1, 2002 (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 Law Against Unfair Competition (*Gesetz gegen Wettbewerbsbeschränkungen*, or "GWB"), which requires that no patently unreasonable rates are set.

Gas Regulation. Market access for gas in Germany is based on negotiated third party access. Similar to electricity, the association agreement for gas (*Verbändevereinbarung Gas*) signed in July 2000 provides the framework for gas grid access and implements de facto the provisions of the EU gas directive. It has been amended twice. The first amendment in March 2001 included, among other provisions, commercial access to storage facilities. The second amendment includes access for small customers and provides a dispute settlement mechanism. The current *Verbändevereinbarung Gas* is expected to be modified by May 2002, with the objective of simplifying access conditions and achieving higher cost transparency. Gas and heat rates are not regulated in Germany, although the GWB does apply.

Competitive Environment

Liberalization of the electricity markets in the EU has greatly altered competition in the German electricity market. As a result of the new regulatory environment, new methods of competition have 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. 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 companies seek to cut costs, increase efficiency and adjust to new and changing market structures. There have been two mergers of major interregional utilities in recent years: VEBA and VIAG, and RWE and VEW. In 2001, E.ON, RWE and the other two major interregional utilities, Energie Badenwürttemberg AG ("EnBW") and HEW/BEWAG/VEAG, supplied approximately 65 percent of the total electricity production in Germany. These entities own the high-voltage transmission lines in their traditional supply areas and are active in all phases of the electricity business. In addition to the interregional utilities, there are about 900 electric utilities in Germany at the state, regional and municipal 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 and supply and trading functions. Consolidation has also affected these entities, as larger competitors seek asset purchases and development opportunities. Approximately 25 percent of total electricity production in Germany in 2001 was supplied by other utilities and the remaining 10 percent was produced by the manufacturing sector and Deutsche Bahn for their own use. 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 have become increasingly active in the market as competitors, and the market for electricity has become more liquid. Consequently, both German and foreign companies have established aggressive electricity sales and trading operations in Germany.

Liberalization of the electricity market in Germany has caused electricity prices to decrease since 1999, with significant declines in some market segments. The rate of price declines began to slow in the second half of 2000, and prices increased slightly in 2001, but developed quite differently in each of the customer segments. In the retail business, prices have decreased by up to 20 percent since 1999, while in the large industrial customers and regional distributors segment, prices have decreased by up to 50 percent since 1999. In addition to the emergence of new competitors and suppliers and the creation of European electricity exchanges, other factors contributing to the drop in electricity prices in Germany include significant power plant overcapacity in Germany and Europe and relatively high and increasing price transparency. Some groups of electricity users (for example, municipalities) have also entered into cooperative arrangements in Germany for the purpose of purchasing electricity at more favorable prices, thereby increasing price competition. See also ''Item 5. Operating and Financial Review and Prospects — Results of Operations.'' For the remainder of 2002, E.ON Energie expects electricity prices in Germany to continue their recovery.

Due to the price declines in 1999 and 2000, German electricity prices for industrial customers are no longer among the highest in Europe (calculated on the basis of year-end 2001 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 European Union. In addition, E.ON Energie believes that the liberalization of the gas and electricity markets may open 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, lack of 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.''

Outside Germany, the energy markets in which the Company operates are also subject to strong competition. The Company cannot guarantee it will be able to compete successfully in electricity markets where it already is present or in new electricity markets the Company may enter.

Environmental Matters

Air Pollution. All of E.ON Energie's plants are subject to EU and/or national regulations, and are equipped with pollution removal devices. The most important pollution law applicable to E.ON Energie's German plants 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 all relevant 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 transport 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 ministry therefore has issued a new permit for the transport of spent nuclear fuel elements and transport resumed in 2001.

In Sweden, the regulatory framework regarding nuclear power regulations is also governed by the above-mentioned international agreements. In addition, Swedish nuclear power regulations are governed by Swedish law, mainly the Law Concerning Nuclear Activity, the Law Concerning Nuclear Liability and the Law Concerning Financing of Treatment of Nuclear Waste. Under Swedish law, the owner of a nuclear power station is obliged to conduct operations in such a manner that the required safety standards are maintained and is responsible for nuclear waste storage. The owner must also carry out the phase out of nuclear operations, including plant decommissioning. A license is required in order to own a nuclear facility, which is granted by the Swedish government on recommendation by the Swedish Nuclear Authority, which supervises all nuclear facilities in Sweden.

According to the Law Concerning Financing of Treatment of Nuclear Waste, the owner of a nuclear facility in Sweden is under the obligation to pay an amount, to be determined by the Swedish government, for each kWh produced in the facility to the Swedish Nuclear Waste Fund. The amounts thus paid shall, together with any capital gains on the amounts, cover the costs for phase out and closure of the facility based on a 40-year operating life for each reactor. In accordance with Swedish law, Sydkraft has also given guarantees to governmental authorities to cover possible additional costs related to the disposal of high-level radioactive waste and nuclear power plant decommissioning. See also Note 28 of the Notes to Consolidated Financial Statements.

Liability. In case of environmental damages, the owner of a German 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 in Germany, 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 by either self-insurance, third-party warranty obligations or third-party indemnifications against liability. The Proprietor is responsible for all damages that exceed its insurance coverage, and the amount of coverage required is reevaluated every five years. In February 2002, the AtG was amended and the required liability coverage was increased from €256 million to €2.6 billion. E.ON Energie has insurance covering the first €256 million of damages. To provide liability coverage for the additional amounts required by the AtG amendment, the German nuclear power plant operators entered into a solidarity agreement to cover the increase, which provides that the costs of liability exceeding the operator's own resources and those of its parent company in the event of a nuclear accident will be covered by a pool, with the nuclear facility operators having a mutual responsibility to cover each other's damages. For details, see Note 28 of the Notes to Consolidated Financial Statements. For this reason, the AtG amendment has resulted in only a slight cost increase for liability coverage. There were no further renegotiations of liability provisions as a consequence of the terrorist attacks in the United States on September 11, 2001.

In Sweden, the owner of a nuclear facility is liable for damages caused by accidents in the nuclear facility and accidents caused by nuclear substances to and from the facility. The liability is limited to an amount equal to €425 million, which amount must be insured according to the Law Concerning Nuclear Liability. Sydkraft has the necessary insurance for its nuclear power plants.

CHEMICALS

Overview

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 merged each of Degussa-Hüls and SKW Trostberg into a new, more focused company called Degussa AG, with effect from February 9, 2001. For more information on the merger, see "Item 5. Operating and Financial Review and Prospects." E.ON holds 64.56 percent of the share capital of Degussa AG. The remaining 35.44 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. Degussa had revenues of €17.4 billion and internal operating profit of €0.5 billion in 2001.

Strategy

Following the merger of Degussa-Hüls and SKW Trostberg, Degussa's strategic goal is to become the world's leading specialty chemicals company and to play a leading role in the restructuring of the worldwide specialty chemicals market. Its strategy includes the active management of its portfolio to focus on those fine and specialty chemicals businesses that management believes can deliver strong profitability and growth while at the same time reducing exposure to cyclical business trends. In order to focus on the core specialty chemicals business, Degussa intends to dispose of its remaining non-core businesses in a value-enhancing manner within the next year, with the precise timing of these sales to depend on market conditions and other factors. Prior to disposal, Degussa intends to actively manage these non-core activities with the goal of enhancing profitability. Degussa also intends to actively manage the core activities to achieve higher profitability and to restructure their 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 & 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 with the goal of increasing 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. Integration of the overlapping Degussa-Hüls and SKW Trostberg businesses, further fundamental cost cutting and realization of merger synergies are each expected to play an important role in this effort.

Merger Synergies and Restructuring

Following the merger of Degussa-Hüls and SKW Trostberg, Degussa began the process of realizing merger synergies through the restructuring of production, facilities and headcount in areas where the two companies had overlapping businesses, particularly in the Fine Chemicals and Care Specialties business units. Degussa also consolidated the two companies' headquarters in Düsseldorf, combined certain regional headquarters and began the reduction of overhead expenses. In July 2000, Degussa began the *best@chem* project, a program to qualitatively and quantitatively analyze the businesses' restructuring potential. Responding to deterioration in business conditions during 2001, Degussa introduced further cost-cutting initiatives in the second half of 2001 and expanded its *best@chem* project into an extensive program to enhance its performance. The *best@chem* program now comprises the following three elements: business combination synergies, restructuring and process optimization.

Through the *best@chem* focus on business combination synergies, Degussa plans to continue to realize cost savings from the merger to form the new Degussa, and also expects to realize synergies from the integration of Laporte into Degussa and from a broadening of its technological base. 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, Degussa hopes to achieve additional cost savings. Degussa's restructuring plans are expected to result in a headcount reduction of approximately 4,000 people by 2004. The third element of the program, process optimization, is based on the sharing of know-how and expertise throughout the group. The aim of process optimization is to set up networks of experts across organizational boundaries to identify and realize potential savings in various processes.

Degussa's goal is to achieve sustainable improvements in operating profit of €500 million per year via the *best@chem* program by 2004. Degussa expects the *best@chem* initiative to entail non-recurring costs of approximately €500 million during this period, of which €180 million was recorded in 2001. The steps implemented to date generated cost savings of approximately €50 million in 2001. The Company cannot be certain that the remaining cost savings and improvement in operating profit Degussa anticipates realizing as a result of the *best@chem* 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, Degussa's inability to restructure its businesses effectively and as planned, higher costs related to achieving the anticipated business combination synergies and requirements for restructuring and reorganization measures materially in excess of those already planned.

Acquisitions and Dispositions

In 2001, Degussa disposed of most of its non-core businesses. The principal dispositions in 2001 and the beginning of 2002 were:

- In April 2001, Degussa sold its 100 percent stake in Phenolchemie GmbH & Co. KG (''Phenolchemie'') to the British Ineos group. The purchase price amounted to €388 million.

- In April 2001, Degussa agreed to sell the activities of dmc^2 Degussa Metals Catalysts Cerdec AG (''dmc^2'') to the U.S. OM Group, Inc. for €1.2 billion. The transaction was completed in August 2001.

- In July 2001, Degussa sold SKW Trostberg's cyanuric chloride (CC) and sodium dicyanamide (NDC) businesses to the Italian company OXON Italia S.p.A. The divestiture of the CC and NDC businesses was a condition of the EU approval of the VEBA-VIAG merger.

- In October 2001, Degussa sold ASTA Medica's oncology business to Baxter Healthcare S.A., a Swiss subsidiary of the U.S. company Baxter International, Inc., for €525 million.

- In September 2001, Degussa agreed to sell the Degussa Dental Group to the U.S. company Dentsply International Inc. for €576 million. The price included the assumption of Degussa Dental's net financial liabilities of €27 million. The transaction was completed in October 2001.

- In January 2002, Degussa sold its gelatin business to the Dutch company Sobel N.V. for €265 million. The transaction is expected to close by mid-March 2002.

Laporte Acquisition. In December 2000, Degussa-Hüls and SKW Trostberg acquired a stake of 19.6 percent in the U.K. fine chemicals manufacturer Laporte. During the first quarter of 2001, Degussa acquired an additional 76.5 percent of Laporte's shares through a public tender offer. Degussa acquired the remaining 3.9 percent of the shares in the second quarter of 2001. The total consideration amounted to approximately €1.8 billion. On March 12, 2001, the European antitrust authorities approved the transaction under the condition that Degussa sell

Laporte's production sites in Zaltbommel, the Netherlands; Hythe, United Kingdom; and Rheinfelden, Germany (persulphate only). Degussa disposed of the Zaltbommel and Rheinfelden operations and is actively searching for a solution for the operations in Hythe. Degussa fully consolidated Laporte for accounting purposes and integrated Laporte's businesses into its corporate organization beginning as of March 31, 2001.

Operations

Degussa's strategic management responsibilities lie with its board of management, supported by staff at the Düsseldorf headquarters. Responsibility for management at the operational level rests with Degussa's 23 decentralized and customer-oriented business units, each of which is grouped into one of Degussa's six core divisions. The following chart sets forth Degussa's six divisions divided into business units, together with their respective 2001 sales in millions of euro:

DEGUSSA

Health and Nutrition (€1,186)	**Construction Chemicals (€1,742*)**	**Fine and Industrial Chemicals (€2,124)**	**Performance Chemicals (€1,407)**	**Coatings & Advanced Fillers (€2,277)**	**Specialty Polymers (€1,264**)**
Flavors & Fruit Systems €236	Admixture Systems North America	Fine Chemicals €897	Superabsorbents €504	Coatings & Colorants €678	High Performance Polymers €254
BioActives €83	Admixture Systems Europe	Bleaching & Water Chemicals €556	Care Specialties €562	Aerosil & Silanes €483	Specialty Acrylics €454
Feed Additives €570	Admixture Systems Asia/Pacific	C_4 Chemistry €421	Oligomers & Silicones €341	Advanced Fillers & Pigments €1,116	Methacrylates €284
Texturant Systems €297	Construction Systems Americas	Catalysts & Initiators €250			Plexiglas €270
	Construction Systems Europe				

* Effective as of January 1, 2002, the construction chemicals division has been restructured into the business units listed in the table above. 2001 sales data is not available for these new business units.

** Includes sales of €2 million of the polymer latex business, which has been reclassified as a non-core business as of January 1, 2002.

All other activities are grouped as non-core businesses or services units and are not shown in the table above. The core businesses of Degussa contributed approximately 71 percent of the total 2001 sales of Degussa (excluding precious metals trading).

Health & Nutrition

Degussa's health & nutrition segment concentrates on the development and marketing of high quality health food components and additives for both human and animal nutrition. It consists of the business units Flavors & Fruit Systems, BioActives, Feed Additives and Texturant Systems.

Flavors & Fruit Systems. The Flavors & Fruit Systems business unit produces flavors for soft drinks, ready-cooked meals, confectionery, milk products and snacks. The unit's proprietary technology for 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. The business unit's principal global competitors are IFF, Givaudan, Quest and Haarmann & Reimer. In 2001, sales were €236 million.

BioActives. This business unit produces products with nutritional and/or physiological effects, including enzyme systems, probiotics, phospholipids, extracts and creatine. The unit is expecting 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 2001 amounted to €83 million.

Feed Additives. The Feed Additives business is the world's only producer of all three amino acids used as additives in livestock feed: methionine, lysine and threonine. It also manufactures vitamin B3, calcium formiate for pork and veal farmers and Mepron M85, a methionine derivative. The unit believes it is the global market leader, based on annual volumes, for its main product methionine, an essential amino acid which is primarily used in raising poultry. The business unit's main competitors are Novus and Aventis. In 2001, the Feed Additives business unit had sales of €570 million.

Texturant Systems. Texturizing agents give processed 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 business unit believes it is one of the world's leading producers of lecithin (based on sales). Lecithins are used as emulsifiers for food products. Global competitors are Danisco, FMC, CP Kelco and Rhodia. In 2001, sales of the Texturant Systems business unit amounted to €297 million.

Construction Chemicals

Degussa's Construction Chemicals 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. In addition, it offers a broad product range of tile adhesives, heat insulation and products for industrial and sport floors. With its system of customer-specific products and project-related application counseling, the business division can offer a complete range of services for the construction industry. The Construction Chemicals business is among the world's leaders in chemical products for use in construction (on the basis of sales).

The business unit subdivides its range of products offered is subdivided in two application-oriented segments: admixture systems and construction systems. Since construction is a local activity that is strongly influenced by local market requirements and situations, the business division is further subdivided into geographical units in each of the two business segments. The geographical business units in the admixture systems segment focus on North America, Europe and the Asia/Pacific region, while those in the construction systems segment focus on the Americas and Europe. The Construction Chemicals division supplies its products from 120 plants in more than 50 countries. The division's main competitors are Sika, Fosroc, W.R. Grace and RPM. In 2001, the Construction Chemicals division contributed sales of €1,741 million.

Fine & Industrial Chemicals

The Fine & Industrial Chemicals division supplies high quality chemicals for use as starting materials and intermediates in the pharmaceutical and agricultural chemicals industries and other areas, such as water treatment. It offers a wide range of high quality chemical materials and ingredients for pharmaceuticals and agrochemicals, pulp and paper, water treatment, mining, plastics, fuels, paints and lacquers. It includes the Fine Chemicals, Bleaching & Water Chemicals, C_4 Chemistry and Catalysts & Initiators business units.

Fine Chemicals. The Fine Chemicals business unit produces and markets high quality intermediate products. The main products are organic and inorganic intermediates, used mainly for the synthesis of pharmaceutical substances, as well as in crop protection, cosmetics and high performance polymers. The most important application areas for these products are in the pharmaceutical and agricultural industries for use as intermediates and starting materials. Degussa believes it is one of the leading suppliers of fine chemicals in Europe and North America (both based on sales). Through the acquisition of Laporte in March 2001, Degussa strengthened its fine chemicals business, especially in the area of exclusive synthesis. The main competitors of this business unit are Lonza, DSM, Clariant, Cambrex, Rhodia and Bayer. In 2001, Fine Chemicals sales amounted to €897 million.

Bleaching & Water Chemicals. The main products of the Bleaching & Water Chemicals business unit are the ecologically safe bleaching and oxidizing agent hydrogen peroxide, auxiliaries for the paper industry, flocculants, and cyanide for the gold mining industry. With an annual capacity of 440,000 metric tons, Degussa has the second largest hydrogen peroxide production capacity worldwide. Hydrogen peroxide is primarily used as a bleaching agent in the pulp and paper and textile industries, as well as for the production of bleaching active detergent raw materials. Flocculants are used in the treatment of waste water, the manufacture of paper, the oil industry and the extraction of valuable minerals. With cyanides, Degussa is among the market leaders in the area of mining chemicals (based on sales). The main competitors of this business unit are Solvay, Ciba and SN Floerger. In 2001, the Bleaching & Water Chemicals unit's sales amounted to €556 million.

C_4 Chemistry. The C_4 Chemistry business unit operates through Oxeno Olefinchemie GmbH ("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 management believes provides certain cost advantages over the standard market product, 2-ethylhexanol. Main competitors are Shell, Lyondell and BASF. In 2001, the business unit had sales of €421 million.

Catalysts & Initiators. By combining Laporte's catalysts and initiators business and Degussa's catalysts business, Degussa formed the business unit Catalysts & Initiators in July 2001. The main products in the catalyst business are precious and activated metal catalysts used for speeding up reactions in the pharmaceutical, chemical and petrochemical industries. In the initiators business, the unit offers organic peroxides and persulphates for polymer manufacture and a wide range of products for polymer processing as well as initiator-based specialties. The main competitors are Akzo Nobel, AtoFina, Engelhard and Südchemie. In 2001, the Catalysts & Initiators business unit contributed sales of €250 million.

Performance Chemicals

This division concentrates on applied chemistry and superabsorbent 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.

Superabsorbents. The Superabsorbents business unit is a leading producer in both Europe and the United States of superabsorbent polymers, which are cross-linked polymers that store and do not release liquid, even under pressure. 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. With a total capacity of approximately 250,000 tons per year, the business unit is the world's second largest producer of superabsorbents.

The raw material for superabsorbent polymers is acrylic acid. The business unit produces acrylic acid at its plant in Marl, Germany and, in Deer Park, Texas, through a 50-50 joint venture with Rohm & Haas Co. These plants had an aggregate capacity of 330,000 tons per year in 2001. The unit's biggest competitors are BASF, Nippon Shokubai and Dow Chemical. In 2001, the Superabsorbents business unit's sales amounted to €504 million.

Care Specialties. The Care Specialties business unit primarily produces 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 business 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 main competitors are ICI, Croda and Cognis. In 2001, sales of the Care Specialties business unit were €562 million.

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, industrial specialties and paint and coating additives. Polyurethane additives are used to produce flexible and rigid foams for a variety of industries including furniture, automotive and refrigerator manufacturing. Industrial specialties are used as separating agents and coatings, such as coatings for self-adhesive products such as labels, adhesive tapes and insulating materials, as well as defoamers and emulsifiers, such as silicone emulsifiers for the improvement of texture and applicability of cosmetics and hair conditioners. Paint and coating additives are 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. The business unit's main competitors are Crompton, General Electric, Rhodia and Wacker. The Oligomers & Silicones business unit had sales of €341 million in 2001.

Coatings & 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 and coatings 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.

Coatings & Colorants. The Coatings & Colorants business unit offers a wide range of cross-linking agents, resins, and colorants. Cross-linking agents and its derivatives are isophoron-based and serve as specialty solvents for industrial uses. Resins are varnish and glue polyesters. Products are principally sold to manufacturers for use in consumer and industrial products such as coatings, adhesives and plastic moldings. The colorants business supplies paint pastes and coating mixing systems to leading manufacturers of paints and coatings for construction and industrial purposes. The business unit believes it is among the world leaders in the market for coating raw materials (based on sales). The main competitors for the business unit are Bayer, BASF, UCC and Ciba and, in the field of colorants, Tikkurila. In 2001, the business unit had sales of €678 million.

Aerosil & Silanes. The Aerosil & Silanes business unit makes products such as chloro- and organosilanes and fumed silica (''Aerosil''). Chlorosilanes are used in the semiconductor and telecommunications industries. Chlorosilanes are also used by the unit 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 unit believes it holds a leading market position in Europe (based on capacity and sales). The unit also believes it is the world leader in Aerosil (based on capacity and sales). The unit's main competitors are Crompton, Shin Etsu, Dow Chemicals, Corning, Cabot and Wacker. In 2001, the business unit's sales amounted to €483 million.

Advanced Fillers & Pigments. The business unit Advanced Fillers & Pigments manufactures industrial carbon black, precipitated silica and rubber-silanes. These products are mainly used to reinforce rubber in tires but also in many other rubber products. An important application is the so-called ''green'' tire, which with its lower rolling resistance reduces fuel consumption and thus environmental pollution. Industrial carbon black as well as precipitated silica are also used in plastics, coatings and paint dyes. The unit believes it is a global market leader in the area of rubber reinforcement (based on volumes). Its main competitors are Cabot, Columbian, Rhodia, PPG and Crompton. The business unit had sales of €1,116 million in 2001.

Specialty Polymers

This division manufactures high quality plastics 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.

High Performance Polymers. The High Performance Polymers business unit develops customized components and innovative systems and produces the necessary specialty polyamides and polyesters. C_{12}-polyamides are primarily used for components with a high resistance demand, such as durable, abrasion- and weather-resistant wire coatings. The business unit focuses on the automotive, electrical and telecommunications industries. Its main competitors are AtoFina, Ube and EMS. In 2001, the unit contributed sales of €254 million.

Specialty Acrylics. The main products of this business unit are pharma polymers, bonding agents and functional polymers, such as oil additives used in the pharmaceutical, varnish, plastics and oil processing industries. Functional polymers are designed to ensure that lubricants and oils have the correct flowing properties and are effectively used in heat sealing varnishes for packaging foil, road markings and on high traffic industrial flooring. Pharma polymers are designed to ensure that active ingredients are released at exactly the right time and in the right location in the human body. The unit's main competitors are Infineum, Lubrizol and Rohm & Haas. In 2001, sales of the unit amounted to €454 million.

Methacrylates. The Methacrylates business unit supplies bulk and performance monomers as well as molding compounds. Bulk and performance monomers are used for the production of synthetic resins in weather resistant paints and varnishes. The unit uses methyl methacrylate (''MMA'') to manufacture polymethyl methacrylate (''PMMA'') molding compounds (acrylic glass). The business unit markets its PMMA molding compounds primarily under the well-known brand name Plexiglas®. Applications for PMMA include 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. The Methacrylates business unit was one of the leading producers in 2001 (based on volumes) of MMA and PMMA in Europe and the United States. Competitors include Ineos and AtoFina. In 2001, the business unit contributed sales of €284 million.

Plexiglas. The Plexiglas business unit supplies plastic products based on acrylic glass (Plexiglas) for glazing, special features such as transparent noise barriers, and sanitary applications. In addition, it provides specialty products for technical applications, such as rigid foams used for sports equipment and the interior trim of passenger aircrafts. The main competitors are Ineos and AtoFina. In 2001, the Plexiglas business unit had sales of €270 million.

Non-core Activities

In 2001, Degussa disposed of approximately 70 percent (in terms of sales) of its non-core businesses. Degussa's remaining non-core activities are primarily parts of ASTA Medica such as Viatris GmbH & Co. KG, a pharmaceutical company focusing on respiratory diseases, disorders of the nervous system and diabetes; SKW Piesteritz GmbH, which produces urea-based fertilizers; the Metallurgical Chemicals business, which offers additives for the steel and casting industry; and Degussa Bank, which performs certain treasury services for Degussa and retail banking services mainly for Degussa employees. Degussa plans to complete the divestment of these activities by the end of 2002, with the precise timing depending on market conditions and other factors. Prior to disposal, Degussa intends to actively manage its non-core activities with the goal of enhancing their profitability.

Other Degussa Activities

There are two service companies which currently provide Degussa with intra-group services: Infracor and Creavis. Infracor offers technical and analytical services for Degussa's operations as well as for third parties. Creavis is a venture capital company which arranges funding for research and development projects and to start new businesses. In August 2001, Degussa acquired the remaining 49 percent interest in Proligo LLC not owned by it from its joint venture partner Gilead Sciences, Inc. Proligo is a unit of Creavis which is active in the biotechnology industry. In February 2002, Degussa acquired the oligonucleotide division of the French company Genset S.A. and combined it with Proligo. The acquisition will make Proligo a fully-integrated supplier of nucleic acid specialties.

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 Genetic Engineering Act (*Gentechnikgesetz*) represents the legal framework within which genetic engineering can take place. 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. The Federal Soil Protection Act (*Bundesbodenschutzgesetz)* deals with the prevention of soil and groundwater contaminations and the remediation of contaminated soil.

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 relevant jurisdictions. In order to ensure compliance, the Degussa board has introduced a set of ESHQ *(environmental protection, safety, health, quality)* requirements which are binding on all operating units. The proper implementation of this system is checked by means of regular internal audits.

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, many of Degussa's domestic subsidiaries participate in the European Eco-Management and Audit Scheme (''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 2001, a total of 16 domestic sites had been inspected and certified under this three-year program. Furthermore, an increasing number of Degussa sites operate environmental management systems which are certified under ISO (International Standards Organization) 14001 or are in the process of certification. All Degussa production sites are expected to have certified management systems by year-end 2004.

In 2001, Degussa invested €65 million in facilities and processes relating to environmental control, and, in addition, had other environmental-related expenditures of €269 million.

Degussa has established and continues to establish provisions for environmental liabilities where management 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 current level of environmental provisions, projected environmental liabilities will not have a material adverse effect on its financial position or results of operations.

Research and Development

In 2001, Degussa spent €510 million on research and development (“R&D”). As a percentage of sales, R&D expenditures for the chemicals division were 2.9 percent in 2001, compared with 3.2 percent in 2000. R&D at Degussa is decentralized and primarily conducted by each of the business units, which pursue projects according to competitive goals and needs. A localized approach to R&D is intended to ensure that new products are developed to respond as closely as possible to markets, customers and their needs. Degussa also has centralized R&D management which initiates and oversees strategically important projects and coordinates the exchange of information among business units. Creavis plays a role by reviewing ideas and projects and evaluating the corresponding business opportunities. Creavis also supports several start-up companies in the framework of a local initiative called “Alliance for Innovations.” Degussa is particularly focused on developing new product and market segments with high growth and earnings potential, an area in which Creavis continues to play an important role. Degussa employed 3,300 people in its R&D activities in 2001. For information on purchased in-process R&D in connection with the merger of the former Degussa into Hüls in 1999, see “Item 5. Operating and Financial Review and Prospects — Research and Development — Purchased In-Process Research and Development.”

Other

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.

Because Degussa’s business units produce a wide variety of products, production capacity is not meaningful to most of these product areas and production capacity data are therefore not presented.

OIL

Overview

VEBA Oel is active 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. In 2001, VEBA

Oel was Germany's largest integrated oil company in terms of the volume of products sold in the German market (including petrochemical products supplied to Degussa).

In July 2001, E.ON and BP entered into an agreement pursuant to which BP agreed to acquire a 51.0 percent stake in VEBA Oel by way of a capital increase. The agreement also provides E.ON with a put option that allows it to sell the remaining 49.0 percent interest in VEBA Oel to BP at any time from April 1, 2002. In December 2001, the German Federal Cartel Office (*Bundeskartellamt*) cleared the transaction, subject to certain conditions on BP which BP agreed to. The capital increase took place in February 2002, giving BP majority control of VEBA Oel as of February 1, 2002. The aggregate consideration paid by BP for the capital increase was approximately €2.9 billion. In addition, €1.9 billion in shareholder loans from the E.ON Group to VEBA Oel were repaid by VEBA Oel. The aggregate consideration to be paid to E.ON upon exercise of the put option is approximately €2.8 billion, subject to certain purchase price adjustments.

On January 29, 2002, VOG, a subsidiary of VEBA Oel, agreed to sell all of its exploration and production assets to the Canadian oil company Petro-Canada for approximately €2.4 billion. This divestiture, which was contemplated in the agreement between E.ON and BP, is subject to approval by the European antitrust authorities, and is expected to be completed during 2002.

VEBA Oel's principal businesses and ownership interests as of December 31, 2001, 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 (1)	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 the equity basis.

VOG, which is wholly owned by VEBA Oel, explores for, develops and produces oil and gas resources around the world. As described above, VOG intends to sell all of its exploration and production assets during 2002, subject to regulatory approval.

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.

VEBA Oel's interest in Ruhr Oel is accounted for under 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. Ruhr Oel owns the productive assets of the business. 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.

VEBA Oel also owns Aral, the leading (based on annual sales) gasoline and automotive diesel service station network in Germany.

In 2001, VEBA Oel had revenues of €26.9 billion, which included €9.1 billion of petroleum tax to be passed on to governmental authorities, and internal operating profit of €432 million.

The €9.1 billion of petroleum tax reflected in the 2001 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, 2001. As of January 1, 2000, the German government increased the petroleum tax on gasoline by six Pfennig (3.1 €cent) per liter, the so-called ecology tax (*Ökosteuer*). As of January 1, 2001 and 2002, respectively, the German government increased the petroleum tax on gasoline by an additional six Pfennig (3.1 €cent) per liter. A similar increase is scheduled for 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.

Exploration and Production (Upstream Business)

VOG engages in the exploration for, and the development and production of, oil and natural gas. VOG is active in many oil regions throughout the world but focuses its activities on four key geographic areas: the Caspian Sea/Middle East, Northwest Europe, North Africa/Near East and Northern Latin America. In Northwest Europe, VOG is active in the United Kingdom, the Netherlands, Denmark and the Faroe Islands as well as in Norway through a joint venture with RWE-DEA AG ("RWE-DEA"). In North Africa/Near East and the Caspian Sea/Middle East, VOG is active in Libya, Egypt (together with RWE-DEA), Syria, Kazakhstan and Iran. In Northern Latin America, VOG is active in Venezuela and Trinidad.

The exploration and production, or "E&P", business comprises essentially three stages: exploration, development and production. In countries in Northwest Europe and some other countries, the government uses concession agreements to govern the production and exploration business; in addition to the payment for concessions, such businesses are subject to regular corporate income taxes. Some countries may also impose additional petroleum taxes to regulate the extraction business. In many other countries, the government uses a production sharing regime where a state company owns the facilities and reserves and private companies agree to perform the exploration and production work in exchange for cost recovery and a share in the profits. Since the company needs to invest heavily to undertake these activities and is exposed to geological, technical, market and country risks, VOG 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 investments. VOG operates a number of projects in the exploration stage and, since 2000 and 2001, has been operating two producing fields in Northwest Europe. In projects where VOG holds an interest but is not the operator, it assumes a range of active roles including technical joint team evaluations, involvement in operational decisions pursuant to agreements with operator and financing its share in the project.

Exploration. VOG's exploration activities are located in the Netherlands, Denmark, the United Kingdom, Norway, the Faroe Islands, Venezuela, Trinidad, Libya, Egypt, Syria, and Iran. VOG is the operator under some of the exploration licenses (in the United Kingdom and the Netherlands). In 2001, VOG incurred worldwide net capital expenditures for exploration and production of €369 million. VOG participated in 12 exploration wells in 2001 and 12 in 2000; 7 of the 2001 wells produced hydrocarbons in commercial quantities. As of December 31, 2001, the net acreage under exploration and development for VOG was 7.7 million acres, compared with 8.6 million acres in the prior year.

Reserves. At year-end 2001, VOG's proved reserve position was 521.4 million barrels of crude oil and 370.4 billion cubic feet of natural gas. The replenishment rate (ratio of new reserves to production) for VOG was

64 percent in 2001, compared with 76 percent in 2000. At 2001 production levels, proved reserves would last for approximately 11.5 years, compared with 11.8 years for 2000. See Note 36 of the Notes to Consolidated Financial Statements, which sets forth, among other things, estimated net quantities as of December 31, 2001, 2000 and 1999 of VOG'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. The reserve estimates are based on reserve reports of VOG 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.

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 judgment. 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.

Production. VOG's producing assets are located in the United Kingdom, the Netherlands, Norway, Venezuela, Syria and Egypt. Presently, VOG acts as an operator in two of its production projects in Northwest Europe. In 2001, VOG produced a total of 49.0 million barrels of oil and 41.3 billion cubic feet of gas, compared with 51.9 million and 36.7 billion, respectively, in 2000.

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 by either party 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 2001, 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 2001). In addition, VEBA Oel holds 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 2001, Ruhr Oel and ERE processed 500 tb/d of crude oil and operated crude oil distillation and conversion facilities (mainly fluid catalytic and hydro cracking units) at a capacity of 94 percent and 89 percent, respectively.

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 deduction of 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, 2001. In addition, the table shows the refining capacity of ERE as of the same date.

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	VEBA Oel Share of Ruhr Oel and ERE/Total Germany(%)
	(tb/d unless otherwise stated)							
Crude Oil Distillation	248	79	60	72	459	85	2,283	13.8
Vacuum Distillation	95	38	21	31	185	37	826	15.7
Catalytic Cracking	27	19	15	20	81	—	340	11.9
Catalytic Reforming	27	6	4	13	50	29	391	13.8
Hydrocracking	34	—	—	—	34	23	152	26.3
Visbreaker	18	11	3	6	38	—	171	11.1

(1) Percentages indicate the ownership of Ruhr Oel, of which VEBA Oel's share is 50 percent.

(2) VEBA Oel share: 100 percent.

All Ruhr Oel sites and ERE employ modern technology, and VEBA 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 year period ended December 31, 2001 and ERE's product yields for the years 2000 and 2001.

	Ruhr Oel Product Yield			ERE Product Yield	
	2001	2000	1999	2001	2000
	(tb/d, except as otherwise indicated)				
Gasoline	117	122	121	35	35
Diesel Oil	109	119	106	22	21
Home Heating Oil	74	69	82	7	8
Jet Fuel	21	22	22	8	8
Heavy Fuel Oil/Residuals	12	13	14	1	—
Asphalt/Coke (1,000 tons per year ("t/yr"))	1,077	1,078	1,128	276	265
Petrochemicals (1,000 t/yr)	3,785	4,074	3,932	270	291
Other products (1,000 t/yr)	367	370	276	43	72

The profits of the refining industry in western Europe declined somewhat in 2001 compared with the excellent profit level in 2000. However, refining profits were still satisfying compared with historical results. The decline was due to reduced price differentials between gasoline and oil, especially gasoline versus Brent Blend crude oil, as a result of weaker market conditions. In the face of continued pressure from competition and the market, VEBA Oel continued internal cost control measures to significantly reduce processing costs in its refineries in 2001. In addition, VEBA Oel is shifting its product mix from heating oil towards products that management believes benefit from more stable market conditions, such as diesel and jet fuel. These measures contributed to the division's strong results in 2001.

Trading. VEBA Oil Supply and Trading conducts international trade in crude oil, including the 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 15.0 million metric tons of crude oil and approximately 9.9 million metric tons of petroleum products during 2001. Most of the trading is third party business; approximately 29.8 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 raw materials mainly used in the production of plastics. In 2001, VEBA Oel sold 4.5 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 2,730 t/d of ethylene, the main petrochemical product of Ruhr Oel. In addition, the Münchsmünster plant has a capacity of 876 t/d, bringing Ruhr Oel's total annual ethylene production capacity to more than 3,600 t/d. The capacity utilization rate for olefine plants was 95.4 percent in 2001 compared with 100.3 percent in 2000 due to a short-term plant power failure and lower demand.

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

	2001	2000	1999
	(thousands of metric tons)		
Olefins/Polyolefins			
Ethylene	1,297	1,330	1,272
Propylene	854	865	834
Others/Polyolefins	416	406	398
Subtotal Olefins/Polyolefins	2,567	2,601	2,504
Aromatics			
Benzene	275	321	296
Xylenes	167	198	201
Others	322	414	159
Subtotal Aromatics	764	933	656
Other Petrochemicals			
Methanol	451	467	412
Ammonia	188	244	223
Calnitro (fertilizer)	152	307	346
Others	341	263	186
Subtotal Other Petrochemicals	1,132	1,281	1,167
Total Petrochemical Sales	4,463	4,815	4,327

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 2001, Aral had a market share in Germany of approximately 20 percent in the gasoline and diesel retail business, with sales in Germany of €8,877 million (net of €8,741 million of petroleum tax collections). At year-end 2001, Aral operated 2,554 service stations in Germany and 456 in six adjacent European countries; Aral's non-German stations recorded total sales of €1,213 million (net of €396 million of petroleum tax collections) in 2001. An increasing percentage of Aral's earnings is attributable to the operation of convenience stores attached to 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 2001, crude oil prices were still at a very high level, but considerably lower than in the previous year. The average crude oil price for Brent Blend quality in 2001 was $24.5/bbl, compared with $28.4/bbl in 2000. The lower crude oil price in 2001 was primarily due to lower demand resulting from a weaker economic situation. VEBA Oel's budget was based on a conservative price of $21.5/bbl for the year 2001. Compared to 2000, refining margins in Europe declined in 2001, but still remained satisfactory from a historical perspective. 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 2001, ethylene and propylene prices were well below 2000 prices; prices were $552/ton and $417/ton, respectively, in 2001, compared with $564/ton and $490/ton, respectively, in 2000. Petrochemical margins were below the 2000 level even though naphtha prices decreased.

In 2001, the competitive situation in the German service station market improved in comparison with the price war that took place in 2000. Nevertheless, there is still intense competition in the market and aggressive pricing by competitors and the price sensitivity of consumers led to unsatisfactory margins, although profits improved compared with 2000. Retail demand for gasoline decreased in 2001, while there was an increase in the retail demand for diesel.

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 most parts of the world in matters such as the award of exploration and production licenses and concessions, 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 significant 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 and gas companies, substantial portions of the reserves of Veba Oel 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 changes in government taxes and other payments, 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 the total capital committed by VEBA Oel in Libya is only 11.9 percent of its total book value of upstream assets, VEBA Oel's joint venture in Libya accounted for approximately 29 percent of its 2001 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 ENI. 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. In 2001, the Sanctions Act was extended for five years.

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, along 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 (*Bundesimmissionss-chutzgesetz*) 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. However, VEBA Oel will need to make limited investments in refining technology in order to comply with the 2005 limits. VEBA Oel supplied 50 ppm fuel by November 2001 and plans to supply 10 ppm gasoline and diesel by the beginning of 2003. See ''— Operating Environment.'' VEBA Oel already began to produce the 10 ppm gasoline in early 2001.

In 2001, VEBA Oel (including amounts attributable to its share in Ruhr Oel) had domestic investments of €55 million, or approximately 7.5 percent of its total investments, in facilities and processes relating to environmental control, and had domestic environmental expenditures of €164 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.

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 €245 million in 2001. 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, reorganizing its residential development business, expanding its real estate-related services business and 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 comprises the rental, acquisition, sale and modernization of residential real estate. As of December 31, 2001, Viterra was Germany's largest private owner of residential property on the basis of housing units, with a property portfolio of approximately 164,500 housing units, including approximately 36,000 housing units of Deutschbau, in which Viterra owns a 50 percent shareholding. Viterra increased the number of housing units sold from approximately 4,500 units in 2000 to approximately 6,700 units in 2001 (in each case, including Deutschbau sales).

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 (including those held by Deutschbau) were more than 40 years old at year-end 2001. The majority of the housing units are located in North Rhine-Westphalia. On average during 2001, Viterra's residential units had a 97.8 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 2001, Viterra incurred capital expenditures of €84 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. As of October 1, 2001, Viterra acquired another 44.99 percent of Wohnbau Rhein-Main AG (''Wohnbau Rhein-Main''), which owns approximately 13,500 housing units. Viterra now owns 94.99 percent of Wohnbau Rhein-Main. As of January 1, 2002, Viterra purchased a 86.3 percent shareholding in Frankfurter Siedlungsgesellschaft GmbH, which has approximately 10,000 housing units. The remaining shares are held by the city of Frankfurt. The activities of both companies are concentrated around the Rhine-Main and Bonn regions, thus diversifying further Viterra's portfolio.

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, approximately 45 percent of 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, former nonprofit real estate companies have become entitled to certain depreciation deductions under German income tax law, subject to conditions and restrictions. These deductions depend, among other conditions, upon the level of 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 basic principles of German corporate tax law and has therefore challenged the tax authorities. E.ON had established a provision sufficient to cover the liability should E.ON not prevail. Following two favorable precedent-setting cases in lower tax courts, in 2001 E.ON released the provision it had previously established to cover the related liability, which totalled €527 million. No assurance can be given, however, that E.ON will ultimately prevail in this matter, and its failure to do so would subject it to significant tax liabilities.

Viterra's financing of residential investments is done through third-party mortgage financing and 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 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. In 2001, the residential development business suffered from significant market weakness. The company responded by reorganizing its business, including reducing headcount and closing four of its eleven branch offices. Viterra completed 839 housing units in 2001.

Residential Services

The business unit residential services provides real estate-related services primarily for building administrators and private and institutional owners of housing units and, to a lesser extent, commercial buildings. Viterra's operating companies in this area are Viterra Energy Services AG (''Viterra Energy Services'') and Viterra Contracting GmbH (''Viterra Contracting'').

Viterra Energy Services provides comprehensive heat and water metering services to the owners and administrators of over 10.8 million housing and commercial property units in 28 countries. It develops and installs sub-metering equipment, monitors and maintains the meters, collects and allocates the consumption data and prepares, sends and in some cases collects payment for 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. In October 2001, Viterra Energy Services agreed to acquire the Germany-based businesses of the Minol-Brunata-Group (Minol Messtechnik W. Lehmann GmbH & Co. KG, Brunata Wärmemesser Werner Lehmann GmbH & Co. KG and Brunata Wärmemesser GmbH), which also provide metering services. The acquisition is subject to approval by the German Cartel Office. Viterra Energy Services is also expanding into metering services for utility companies.

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

In April 2001, Viterra disposed of Viterra Sicherheit + Service GmbH (''Sicherheit + Service''), a provider of private security and alarm systems. In July 2001, Viterra merged Viterra Wohnpartner AG, a company which provides administrative, technical and infrastructural management services for residential real estate, into Viterra Wohnen AG, which is part of the residential investment business focusing on the Rhine-Ruhr region.

Commercial Real Estate

Viterra's commercial real estate business unit, Viterra Gewerbeimmobilien GmbH, focuses on investment and development activities relating mainly to office buildings and logistics properties (warehouses). Viterra intends to expand its commercial real estate business in the future, concentrating its development activities on midsize projects. The aim is to achieve a portfolio of properties held for rent, development and sale, with a focus on using development and refurbishment opportunities to improve the quality of the portfolio.

Viterra's commercial real estate business unit holds approximately 100 commercial units. 50 units accounted for 98 percent of the portfolio in terms of market values at the end of 2001. Due to poor market conditions, Viterra and its joint venture partner, a subsidiary of Deutsche Bank AG, decided not to continue their joint venture development project, Viktoria Quartier, in Berlin in 2001. Viterra therefore incurred a provision amounting to about €40 million.

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 from 1999 to 2001. E.ON Telecom's remaining telecommunications holding consists of 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.

For the year ended December 31, 2001, the telecommunications group reported €556 million in sales, which represents the revenues of the fully consolidated Connect Austria operations, and a €148 million internal operating loss. Due to the disposition of VIAG Interkom and the resulting book gains, the telecommunications group reported a profit before income taxes of €4.1 billion for the year ended December 31, 2001. For more information on E.ON's telecommunications dispositions, see ''Item 5. Operating and Financial Review and Prospects — Overview.''

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

Businesses

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 by year-end 2001 provided network coverage for more than 98 percent of the population of France, in compliance with the terms of its 15-year license. At year-end 2001, market penetration of cellular phones in France was approximately 62 percent of the population. Bouygues Telecom has not yet decided whether it will apply for one of the additional two Universal Mobile Telecommunications System (''UMTS'') licenses that will be granted to mobile telecommunications network operators in 2002 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. At the time of the VEBA-VIAG merger, VIAG Interkom was a joint venture between VIAG Telecom, British Telecommunications plc (''BT'') and the Norwegian company Telenor A/S (''Telenor''). 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 January 2001, E.ON decided to exercise its put option. This transaction was completed on February 20, 2001. For details, see ''Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions.''

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, but has been reinstated as a shareholder since August 2001. Connect Austria has offered mobile phone services across Austria under the brand name ''ONE'' since October 1998. At year-end 2001, on the basis of customers, Connect Austria was the number three mobile phone operator in Austria. By year-end 2001, Connect Austria attained network coverage for 97 percent of the Austrian population.

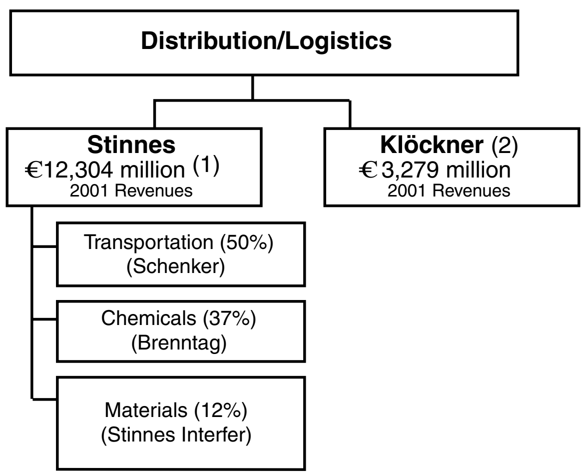
DISTRIBUTION/LOGISTICS

Overview

E.ON's activities in distribution and logistics are conducted by Stinnes. 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, VIAG also owned a distribution and logistics business, Klöckner. E.ON sold the back-to-back steel trading activities of Klöckner in December 2000 and the metal distribution activities of Klöckner in October 2001, both to Balli Steel plc. In addition, prior to the merger VEBA owned an additional D/L company, VEBA Electronics. E.ON sold VEBA Electronics in October 2000 to a consortium of European and American buyers. In 2001, the D/L division had revenues of €15.6 billion, representing 19.6 percent of E.ON's total revenues, and internal operating profit of €299 million.

With more than 1,300 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 and materials. Transportation logistics include land, air and sea freight. Stinnes expects to increase revenues in its respective businesses as large companies increasingly outsource distribution services. The degree of internationalization in the D/L business is also increasing steadily, with international sales accounting for approximately 70 percent of total distribution/logistics revenues in 2001.

The D/L division's principal businesses, 2001 revenues and the percentage of 2001 revenues derived from each area of operation are summarized in the following chart.



(1) Includes €72 million in revenues (one percent of Stinnes' total 2001 revenues) from other operations.

(2) Klöckner's remaining activities were sold in October 2001.

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 improve its distribution and transportation network and continue its expansion, primarily in the transportation, chemicals distribution and materials sectors.

Operations

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. Stinnes owns BTL AB (''BTL''), a Swedish transportation and logistics company. Schenker and BTL combined their European land freight activities in order to establish a more integrated European logistics network in 1998 and 1999.

Stinnes' subsidiary, Brenntag AG (''Brenntag''), is one of the largest distributors of chemicals worldwide based on sales. Brenntag focuses on industrial and specialty chemicals, and operates approximately 300 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 and MG Technologies in Europe, and Ashland Chemical and Van Water Rogers in the United States. In December 2000, Stinnes acquired 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). During 2001, HCI was successfully integrated into Brenntag.

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.

In early 2001, Stinnes integrated its full-line wholesaling business, Stinnes Intertec GmbH, into the European land transportation business of Schenker.

ALUMINUM

VAW, which became a wholly owned subsidiary of E.ON following the VEBA-VIAG merger, is one of Europe's major aluminum companies. 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 has four principle business segments: primary materials, rolled products, flexible packaging and automotive products.

On January 7, 2002, E.ON agreed to sell VAW to the Norwegian company Norsk Hydro ASA for the aggregate price of €3.1 billion, which includes financial liabilities and pension provisions totaling €1.2 billion. The Company expects the transaction to close in March 2002. Under U.S. GAAP, VAW is accounted for as a discontinued operation, and VAW's results must be shown separately, net of taxes and minority interests, under ''(Loss) income from discontinued operations'' in E.ON's Consolidated Statements of Income. The portion of VAW's 2001 results included in ''(Loss) income from discontinued operations'' in E.ON's 2001 Consolidated Statement of Income amounted to €274 million of income. In 2001, VAW had revenues of €3.8 billion and net income of €182 million. For details, see Note 4 of the Notes to Consolidated Financial Statements.

SILICON WAFERS

MEMC is a leading worldwide manufacturer of silicon wafers for the semiconductor device industry. On September 30, 2001, in accordance with its strategy of disposing of non-core assets, E.ON agreed to sell its 71.8 percent interest in MEMC, which includes the assumption of shareholder loans made by E.ON, to Texas Pacific Group, a San Francisco-based financial investor, for a symbolic price. The purchase price may be increased to a maximum of $150 million if MEMC substantially improves its earnings performance in 2002.

The transaction was completed on November 13, 2001. Under U.S. GAAP, MEMC is accounted for as a discontinued operation, and MEMC's results must be shown separately, net of taxes and minority interests, under ''(Loss) income from discontinued operations'' in E.ON's Consolidated Statements of Income. The portion of

MEMC's 2001 results included in "(Loss) income from discontinued operations" in E.ON's 2001 Consolidated Statement of Income amounted to €810 million of losses. In 2001, MEMC had revenues of €555 million and a net loss of €492 million. For details, see Note 4 of the Notes to Consolidated Financial Statements.

OPERATING ENVIRONMENT

As Germany's fifth-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)." 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

During 2001, the general economic situation deteriorated worldwide. Following the terrorist attacks in the United States on September 11, 2001, the uncertainty over future developments affected both investors and consumers. As a consequence of the worldwide economic downturn, weaker export performance hurt the German economy despite the weak euro. In addition, domestic demand was poor compared to 2000. As a result, the German economy had the poorest performance in the Eurozone in 2001. The real gross domestic product rose only by 0.6 percent, compared with 3.0 percent in 2000, and the German economy lost momentum beginning in the second part of 2000. Business capital spending decreased by 6.7 percent, mainly due to the recession in the construction industry. Investment in machinery and equipment fell by 3.4 percent. Other investment — especially in computer software — grew by 6.0 percent. A growth rate of 0.7 percent is expected for 2002.

Long-term interest rates in the Eurozone decreased almost one percentage point in 2001. The European Central Bank ("ECB") lowered the interest rates in four steps. Altogether, it lowered the deposit facility rate by 1.50 percentage points and the marginal lending rate by 1.50 percentage points in an attempt to stimulate economic growth. In the last decrease of the year, in November 2001, the ECB lowered the marginal lending rate to 4.25 percent and the deposit facility rate to 2.25 percent.

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 2001, Germany achieved an export surplus in real terms of €57 billion, compared with €35 billion in 2000. Due to weak economic growth and lack of structural reforms, unemployment remained high in Germany in 2001. 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 was 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 disposal of shares in resident and nonresident corporations realized by a corporation are exempted from German tax, although certain restrictions apply.

In 1999, the German legislature introduced 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 (1.02 €cent) per kWh and an increase in tax rates of six Pfennig (3.07 €cent) per liter for gasoline, four Pfennig (2.05 €cent) per liter for heating oil and 0.32 Pfennig (0.16 €cent) 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 introduced a yearly increase of six Pfennig (3.07 €cent) per liter of gasoline and 0.5 Pfennig (0.26 €cent) per kWh of electricity for the years 2000 to 2003. Accordingly, as of each of January 1, 2000, January 1, 2001, and January 1, 2002, the tax on gasoline rose by six Pfennig (3.07 €cent) per liter and the tax on electricity by 0.5 Pfennig (0.26 €cent) per kilowatt hour. In addition, the environmental tax reform includes an indirect tax preference for low sulfur gasoline from November 2001. 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 power industry and the German government have now reached an agreement to phase out nuclear energy which has been passed into law and is expected to take effect shortly (see ''— Business Overview — Energy'').

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 (the ''legacy currencies'') against the euro. In the beginning of 2001, Greece joined the European Monetary Union (''EMU'') as well. On January 1, 2002, the euro became the official legal tender for cash transactions in all participating countries. By February 28, 2002, the euro became the sole legal tender for the participating countries. The legacy currencies have been withdrawn from circulation. 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 historic exchange rates of the currencies of the participating countries, 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 possible 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 early 2000, the EU started the accession process with another six countries — Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia. 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. To date, the EU intergovernmental conference has not finalized a draft treaty on the necessary institutional reforms.

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 interest rate and currency derivatives to hedge its risk positions deriving from underlying business transactions, and E.ON continually assesses its exposure to these risks resulting from the underlying exposures and the results of hedging transactions. Moreover, E.ON is exposed to risks from fluctuations in the prices of commodities and raw materials. The energy division also engages in the trading of energy-related commodity derivatives, subject to guidelines for risk management. For a more detailed discussion of the current exchange rate, interest rate and commodity price risk exposures and risk management policies of the Group, see "Item 5. Operating and Financial Review and Prospects — Results of Operations — Exchange Rate Exposure and Currency Risk Management," "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and Notes 31 and 32 of the Notes to Consolidated Financial Statements.

INTERNAL CONTROLS

E.ON's own financial controls indicate that E.ON is organized, and will continue to be operated, in a financially sound manner. E.ON's internal controls and procedures are integrated with its firm-wide risk management system. E.ON's integrated risk management and internal controls system has the following key elements: the planning and controlling process, the reporting structure, E.ON Group-wide guidelines, internal control and monitoring by E.ON's Management Board and Supervisory Board, the internal auditing process and the risk reporting system.

E.ON's control systems and procedures are used to monitor the Company's investments, obligations, commitments and operations. The internal control system is not restricted to identifying and monitoring balance sheet items, but also identifies and monitors off-balance sheet transactions. The formation of corporate or other business entities to hold, control or own any investment, asset or liability would also be controlled by the process to manage the risks associated therewith.

E.ON believes that appropriate internal controls are in place to provide material information to E.ON's management with regard to E.ON's operations, financial practices and corporate structure. In addition, E.ON believes that its internal controls work effectively to assure that material information is recorded, accounted for and disclosed appropriately and in accordance with applicable law.

OTHER

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. E.ON is a founding member of the German Industry Foundation Initiative, the organization through which German corporations provided DM 5 billion (€2.56 billion) to the Remembrance, Responsibility and the Future foundation after the German parliament *(Bundestag)*, on May 30, 2001, confirmed the existence of a sufficient measure of legal security for German companies in accordance with the law creating the Remembrance, Responsibility and the Future foundation. E.ON has made its contribution to the German Industry Foundation Initiative.

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 substances or waste. Such laws and regulations could apply to various sites, including power plants, chemicals plants, 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 ''— Energy,'' ''— 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.

ORGANIZATIONAL STRUCTURE

E.ON AG is the Group's Düsseldorf-based management holding company. E.ON AG provides strategic management for Group companies 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 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 served as a parent or co-parent company of an E.ON business division as of December 31, 2001:

Name of Subsidiary	Country of Incorporation	Percentage Ownership Interest held by E.ON	Percentage Voting Interest held by E.ON
E.ON Energie AG (energy)	Germany	100.0%	100.0%
Degussa AG (chemicals)	Germany	64.56%	64.56%
VEBA Oel AG (oil)	Germany	100.0%	100.0%
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	65.4%	65.4%

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, 2001, the total amount of indebtedness secured by these facilities was approximately €1.5 billion, €0.9 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. In 2001, E.ON moved to its new headquarters located at E.ON-Platz 1, D-40479 Düsseldorf, Germany. E.ON owns its headquarters.

PRODUCTION FACILITIES

Energy

E.ON Energie produces electricity at jointly and wholly owned power plants. Its power generation facilities have a total installed capacity of approximately 50,000 MW, E.ON Energie's attributable share of which is approximately 34,000 MW (not including mothballed, shut down and reduced 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 "— Business Overview — Energy." 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 57.2 percent of theoretical capacity in 2001. This average utilization is calculated for all international and German power stations and does not reflect differences between base load and peak load power stations.

Chemicals

Degussa owns more than 200 plant sites in about 50 countries. On a global basis, Degussa operates 33 major production plants, the locations of which are as follows:

Germany	Marl, Krefeld, Darmstadt, Trostberg, Essen, Piesteritz, Gladbeck, Rheinfelden, Hanau-Wolfgang and Wesseling
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; Hopewell, Virginia; Greensboro, North Carolina; Cleveland, Ohio; Belpre, Ohio; Amherst, New York; Aransas Pass, Texas; Ivanhoe, Texas and Chester, Pennsylvania
South Africa	Port Elizabeth
Asia	Yokkaichi, Japan; Tokyo, Japan; Guandong, China; Bupyung, Korea and Taipei, Taiwan

Degussa believes that its production facilities are in good operating condition and that its machinery and equipment have been well maintained. Degussa's plants operated at approximately 90 percent of capacity in 2001.

Oil

VEBA Oel owns interests in four refineries and three petrochemical plants through its interest in Ruhr Oel and a refinery in Lingen. See "— Business Overview — Oil — Refining, Trading and Petrochemicals" for a description of VEBA Oel's facilities and capacity utilization in 2001. VEBA Oel has exploration and production activities in numerous countries. See "— 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.

Real Estate

Viterra owns approximately 164,500 housing units, including approximately 36,000 housing units of Deutschbau, in which Viterra holds a 50 percent shareholding, and approximately 100 commercial properties. See "— Business Overview — Real Estate" for further information. No single property is material to the E.ON Group.

Telecommunications

The telecommunications division has no facilities that are material to the E.ON Group.

Distribution/Logistics

Stinnes owns or leases distribution and services facilities throughout the world. No single facility is material to the E.ON Group.

Item 5. Operating and Financial Review and Prospects.

OVERVIEW

On June 16, 2000, the Company completed the merger between VEBA and VIAG. VIAG was one of Germany's largest corporate groups, operating in five core businesses, classified in two main categories: energy and telecommunications (services) and chemicals, packaging and aluminum (innovative industries). 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. 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. E.ON acquired the remaining 2.46 percent of E.ON Energie held by former shareholders of Bayernwerk AG in September 2000 through the issuance of 11,387,615 Ordinary Shares, for a purchase price of €686 million. This acquisition was also accounted for under the purchase method. The amount of €548 million was recorded as goodwill. On February 9, 2001, E.ON subsidiaries Degussa-Hüls and SKW Trostberg merged to form the new Degussa. More information about these mergers can be found in ''Item 4. Information on the Company — Business Overview — Energy — Overview'' and ''— Chemicals.''

The Company previously prepared the Consolidated Financial Statements in accordance with 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 participates in a number of different businesses. E.ON operates in the energy 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 and in the distribution/logistics business through Stinnes. The E.ON Group also has minority participations in numerous companies, particularly in the energy 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. E.ON has discontinued the operations of its silicon wafer and aluminum business segments.

ACQUISITIONS AND DISPOSITIONS

The following discussion summarizes each of the principal acquisitions and dispositions made by E.ON since January 1, 1999, and is organized by business segment. The presentation of the acquisitions does not reflect the effect which new accounting pronouncements, such as Statement of Financial Accounting Standards (''SFAS'') No. 142, Goodwill and Other Intangible Assets, which are effective beginning as of January 1, 2002, will have on historical purchase accounting, the treatment of goodwill and other matters. For information on the accounting treatment of these transactions see Note 4 of the Notes to Consolidated Financial Statements.

Energy. 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 of 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. EZH's results for the entire 2000 financial year and all subsequent periods have been included in the Consolidated Financial Statements. Following completion of the acquisition, 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.

During the first part of 2001, E.ON Energie acquired a controlling interest in Sydkraft, a Swedish energy group, in a series of transactions. As a result of these acquisitions, for which E.ON paid an aggregate of €1.7 billion, E.ON owned 60.8 percent of Sydkraft, and fully consolidated Sydkraft in the Consolidated Financial Statements effective as of May 1, 2001. The acquisition was accounted for using the purchase method of accounting. As the fair value of the acquired net assets exceeded the purchase price, no goodwill was recorded. In October 2001, the Company concluded a put option agreement which allows the remaining minority shareholder of Sydkraft to sell any or all of its shares to E.ON at any time through the end of 2005. The maximum consideration payable by E.ON upon the exercise of this option in full is approximately €2 billion. In March 2002, E.ON Energie reduced its shareholdings in Sydkraft by transferring shares to Statkraft and now holds a 55.0 percent equity and voting interest in Sydkraft.

In June 2001, E.ON Energie acquired an additional 61.85 percent interest in Hein Gas for €514 million. The acquisition was accounted for using the purchase method of accounting and resulted in goodwill of €74 million. E.ON's total interest in Hein Gas, subsequent to the 2001 acquisition, now totals 89.9 percent. E.ON therefore fully consolidated Hein Gas in the Consolidated Financial Statements effective June 1, 2001.

During 2001, E.ON, in compliance with conditions imposed in connection with the antitrust approval for the VEBA-VIAG merger, sold investments in LAUBAG, VEAG, BEWAG and HEW which were owned by VEBA and/or VIAG prior to the merger. LAUBAG and VEAG were sold on May 16, 2001 for an aggregate of €837 million, resulting in a €1 million loss. BEWAG was sold on May 16, 2001 for €1,394 million, resulting in a gain of €63 million. HEW was sold on May 17, 2001 for €419 million, resulting in a gain of €63 million.

Chemicals. 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 was accounted for using the equity method until February 1, 1999 and Degussa-Hüls was consolidated in full thereafter. The merger was accounted for using the purchase method of accounting. A purchase price of approximately €2.4 billion, based on the market value of the 63.6 percent of the old Degussa's shares not previously owned by Hüls, resulted in goodwill in the amount of €963 million. In 1999, E.ON recorded charges totaling €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 the stockholders' equity of Degussa-Hüls after the merger and E.ON's share 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 of Degussa-Hüls, increasing its share to 64.7 percent.

In the second half of 2000, E.ON proposed to merge its 64.74 percent share of Degussa-Hüls and the 63.97 percent share of SKW Trostberg it had acquired in the VEBA-VIAG merger into a new entity called "Degussa AG." The merger, in which Degussa-Hüls acted as the acquirer for accounting purposes, was approved by the shareholders of Degussa-Hüls and SKW Trostberg in October 2000, cleared by the EU antitrust authorities in early 2001 and became effective upon its entry into the commercial registry on February 9, 2001. The transaction was effected through an exchange of shares using the following exchange ratios: one new Degussa AG share for one Degussa-Hüls AG share and five new Degussa AG shares for 22 SKW Trostberg AG shares, This share exchange resulted in E.ON holding a 64.55 percent ownership in Degussa AG. E.ON accounted for the merger as a transaction between entities under common control, and therefore no fair value adjustments to E.ON's interest in SKW Trostberg were made; however the interest of the public shareholders of SKW Trostberg was recorded at its fair value. As a result of this merger, E.ON recognized a SAB 51 gain of €184 million which represents the difference between E.ON's net investment basis in the newly formed Degussa AG and its old basis in Degussa-Hüls and SKW Trostberg prior to the merger.

In December 2000, Degussa purchased 19.6 percent of Laporte, a specialty chemicals company, for €434 million. During the first half of 2001, Degussa acquired the remaining 80.4 percent of Laporte through a public tender offer for aggregate consideration of €1.76 billion. Laporte has been fully consolidated in the Consolidated Financial Statements as of March 31, 2001. The Laporte acquisition was accounted for using the purchase method, and resulted in goodwill of €1.2 billion.

Degussa disposed of a number of non-core businesses during the course of 2001. In April 2001, Degussa sold Phenolchemie to the British Ineos group for €322 million and the assumption of €66 million in debt. In August 2001, Degussa sold the activities of dmc^2 to the U.S. OM Group, Inc. for €1.2 billion. In October 2001, Degussa sold ASTA Medica's oncology business to Baxter Healthcare S.A., a Swiss subsidiary of the U.S.-based company Baxter International for €525 million. In October 2001, Degussa sold the Degussa Dental Group to the US company Dentsply International Inc. for €576 million, including the assumption of €27 million in debt. These transactions resulted in a net gain of €530 million.

Oil. 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 Aral's voting rights. As of the 1999 balance sheet date, Aral was thus accounted for under 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 was therefore fully consolidated as of January 1, 2000. VEBA Oel purchased the remaining 1.1 percent as of January 1, 2001, and now holds 100 percent of Aral. The total purchase price for these three acquisitions amounted to approximately €1,899 million, and resulted in goodwill of €881 million.

In July 2001, E.ON and BP entered into a participation agreement pursuant to which BP agreed to acquire a 51.0 percent interest in VEBA Oel by subscribing to a capital increase. The transaction was cleared by the German Federal Cartel Office in December 2001 and the capital increase was implemented in February 2002, with the aggregate consideration paid by BP equalling approximately €2.9 billion. In addition, €1.9 billion in shareholder loans from the E.ON Group to VEBA Oel were repaid by VEBA Oel. The participation agreement also provides that E.ON may put its remaining 49.0 percent interest in VEBA Oel to BP at any time after April 1, 2002 for approximately €2.8 billion (subject to certain adjustments). Accordingly, as of February 1, 2002, VEBA Oel is accounted for under the equity method.

Telecommunications. E.ON's telecommunications subsidiaries disposed of most of their businesses between 1999 and 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, VRT's shares in Tele Columbus were divested for a gain to E.ON of €232 million. VRT also sold its 60.25 percent stake in E-Plus to BellSouth on February 10, 2000. The total sale price was €7.4 billion plus the repayment of shareholder loans in the amount of €1 billion. E.ON's share of both of these amounts was 51.25 percent. On March 28, 2000, the former VEBA Telecom sold its 32 percent share in Cablecom Holding AG to NTL Inc. for €851 million.

On November 10, 2000, VIAG Telecom sold its 42.5 percent share in Orange Communications to France Telecom for an aggregate consideration of approximately €1.8 billion, including the repayment of approximately €0.46 billion in shareholder loans previously extended by E.ON to Orange Communications. The total amount of the shareholder loans and one fourth of the remaining consideration 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 January 2002, E.ON reached an agreement with France Telecom regarding the sale of the shares in

Orange S.A. E.ON had acquired in November 2000. The agreement allows E.ON to begin selling the shares after February 26, 2002. The put and call clauses linked to these shares were also renegotiated. The Company now has a put option that allows it to sell the shares to France Telecom for a price of €9.25 per share and France Telecom an option to buy the shares at a price of €11.25 per share. Both options expire in June 2002.

In January 2001, E.ON sold its 45 percent share in VIAG Interkom to BT in accordance with the terms of an existing option agreement between the two parties. The cash consideration paid by BT totalled €7.25 billion, with BT also repaying €4.2 billion in shareholder loans. The gain of €110 million was recognized on the sale.

D/L. In June 1999, E.ON sold 34.5 percent of Stinnes in an initial public offering in Germany for proceeds for €380 million. Stinnes also sold its building materials business as of July 1, 2000, for €195 million.

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 Consolidated Financial Statements for all periods through September 30, 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 with the total purchase price amounting to €293.1 million. The acquisition has been accounted for under the purchase method and resulted in goodwill of €185.2 million. HCI has been consolidated since December 1, 2000.

In October 2001, Klöckner's multi-metal distribution business was sold to Balli Group plc for €1.1 billion. The purchase price included the assumption of debt and pension provisions of approximately €800 million, with the remainder being paid in cash. A gain of approximately €140 million was recognized on the sale.

Others. Schmalbach-Lubeca is a packaging business that was formerly 59.8 percent owned by the VIAG Group. 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 the tender of an aggregate 37.4 percent stake in Schmalbach-Lubeca. 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, following which the tender was completed. As a result, AV Packaging is now a 49-51 joint venture of E.ON and Allianz Capital Partners and holds a 97.6 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. No gain or loss was recognized on the sale. Gerresheimer Glas AG has been accounted for as a business held for sale.

Discontinued Operations. E.ON entered into an agreement for the sale of its silicon wafer operations to TPG Partners III ("TPG") pursuant to a purchase agreement dated September 30, 2001 for a symbolic price of $6.00 for both E.ON's 71.8 percent interest and shareholder loans. The transaction closed on November 13, 2001. The total purchase price is subject to upward adjustments of up to $150 million should the previously owned silicon wafer operations meet certain pre-defined operating objectives during 2002.

On January 6, 2002, E.ON entered into a share purchase agreement with Hohenstaufen Zweihundertste Vermögensverwaltungs GmbH, a wholly owned subsidiary of Norsk Hydro ASA ("Norsk Hydro"), to sell E.ON's 100 percent stake in VAW to Norsk Hydro. Approval of the transaction was contingent on the approval of the E.ON Supervisory Board and the Norsk Hydro corporate assembly. E.ON's Supervisory Board approved the transaction on December 12, 2001 and the Norsk Hydro corporate assembly approved the transaction on January 28, 2002. The aggregate sales price, including the repayment of shareholder loans, amounted to €3.1 billion.

As a result of these transactions, the Company's former silicon wafer and aluminum business segments are accounted for as discontinued operations in accordance with Accounting Principles Bulletin No. 30, Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, (''APB 30''). Amounts in the financial statements and related notes for all periods shown have been reclassified to reflect the discontinued operations. Operating results up through the disposal date for discontinued operations are reported, net of tax, under ''(Loss) income from discontinued operations'' on the accompanying Consolidated Statements of Income. In addition, the loss for the disposal of the discontinued silicon wafer operations has been recorded in a separate line item, net of tax, under ''Loss on disposal of silicon wafer segment, less applicable income taxes'' on the accompanying Consolidated Statements of Income. For financial reporting purposes, the assets and liabilities of the discontinued aluminum operations are combined and classified in the accompanying Consolidated Balance Sheets as of December 31, 2001, under ''Operating receivables and other operating assets.'' The impact of cash flows from discontinued operations has been eliminated from the Consolidated Statements of Cash Flows for all periods presented. For more information, including summary statements of income of each of the discontinued segments, see Note 4 of the Notes to Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of E.ON's financial condition and results of operations are based on its Consolidated Financial Statements, which are prepared in accordance with U.S. GAAP and included in Item 18. The reported financial condition and results of operations of E.ON are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Company's critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered in reviewing E.ON's Consolidated Financial Statements and the discussions below in ''Operating Results.''

Fair Value of Derivatives

As quoted market prices for certain financial derivatives used by E.ON are not readily available, the fair values of these derivatives have been calculated using common market valuation methods and value-influencing market data at the relevant balance sheet date as follows:

- Short term currency, electricity and crude oil forwards as well as crude oil, gas, coal, electricity and oil product commodity swaps are valued at future rates or market prices as of the relevant balance sheet date. The fair values of forward contracts are based on spot prices that are calculated taking into account forward premiums or discounts quoted in the relevant markets.
- Long-term commodity forward contracts are fair valued using weighted-average probability models reflecting the underlying conditions and variables associated with the relevant contractual agreements.
- Currency, crude oil, gas and electricity options and share options are fair valued using standard options pricing models. The fair value for caps, floors and collars embedded in these contracts is calculated separately, similar to stand-alone options.
- Interest rate, interest rate cross currency and cross currency swaps are fair valued by using the expected cash flows over the remaining term of the individual contracts at the relevant balance sheet date, discounted at market interest rates. Certain interest rate options are fair valued using option pricing models.

The use of valuation models requires E.ON to make assumptions and estimates regarding the volatility of derivative contracts at the balance sheet date, and actual results could differ significantly due to fluctuations in value-influencing market data. The valuation models for the interest rate and currency derivatives are based on calculations and valuations using a group-wide financial reporting system, which provides consistent market data and valuation algorithms throughout the Company. The algorithms used to obtain valuations are those which are commonly used in the financial markets. In certain cases the calculated fair value of derivatives is compared with results which are produced by other market participants, including banks, as well as those available through other internally available systems. The valuations of commodity instruments are delivered by multiple use EDP-based systems, which also utilize common valuation techniques and models as described above.

The objective of the E.ON's financial risk management is to minimize the risk of significant volatility in earnings and cash flows from derivative instruments. Through internal guidelines (i.e. group-wide financial guidelines), the Company ensures that derivatives used for risk management purposes, rather than proprietary trading, are only utilized to hedge booked, contracted or planned underlying transactions. E.ON's proprietary trading is limited to commodity derivatives and takes place in specified markets within defined limits designed to limit any significant impact of trading activities on earnings. The Company, in line with international banking standards, calculates and assesses market risks in accordance with the policies outlined in "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Electricity Contracts

Certain electricity contracts that E.ON has entered into in the ordinary course of business meet all of the required criteria for a derivative as defined under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and are marked to market; however, due to the normal purchase normal sales exemption for electricity companies as interpreted by Derivatives Implementation Group Issue C-15, an insignificant part of these contracts are not accounted for as a derivative under SFAS 133 and therefore, are not being marked to market. As a result, any price volatility inherent in these contracts is not reflected in the operating results of E.ON. If this exemption is disallowed through future interpretations or actions of the Financial Accounting Standards Board ("FASB"), the impact on future operating results would not be significant.

Gas Contracts

The energy division enters into gas purchase and sale contracts in connection with its distribution activities as well as long-term gas purchase contracts for the operation of its German multi-fuel and German and Swedish gas-fired generation plants. Contracts providing for physical delivery in Germany are currently accounted for as contracts with no derivative components, as no sufficient natural gas market mechanism or spot market exists in Germany so as to allow the Company to classify gas as readily convertible to cash. As the price of natural gas is considered to be clearly and closely related to the price of fuel oil in Germany due to (1) the indexation of natural gas prices to fuel oil and (2) many end users being able to use either gas or fuel oil, there are no embedded derivatives in these German gas contracts that must be accounted for under SFAS 133. Contracts providing for physical delivery in Sweden are currently accounted for as normal purchase and normal sales contracts as the natural gas market in Sweden is also illiquid, but embedded components are accounted for as derivatives under SFAS 133. In the future, it is possible that a sufficient market mechanism or spot market for natural gas could emerge resulting in a need to reassess the German and Swedish contracts for derivatives under SFAS 133. If any such reassessment resulted in contracts being accounted for as derivatives under SFAS 133, the impact on future operating results could be significant.

Deferred Taxes

E.ON has significant deferred tax assets and liabilities which are expected to be realized through the statement of income over extended periods of time in the future. In calculating the deferred tax items, E.ON is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the Consolidated Financial Statements and their tax bases. Significant assumptions made include the expectation that: (1) future operating performance for subsidiaries will be consistent with historical operating results; (2) recoverability periods for tax credits and net operating loss carryforwards will not change; (3) undistributed earnings of foreign investments have been permanently reinvested; (4) net operating losses for which E.ON has not provided a valuation allowance will more likely than not be recovered through future taxable income; and (5) existing tax laws and rates to which E.ON is subject to in various tax jurisdictions will remain unchanged into the foreseeable future. In addition, since its formation, E.ON Benelux Generation has been entitled to a tax holiday, which expired after the 2001 tax year. E.ON is still in negotiations with the relevant tax authorities to determine the starting taxable basis for the assets and liabilities of this subsidiary. As a result, E.ON is unable to estimate the potential deferred tax effect that the change to taxable status will have at this time. Accordingly, no deferred taxes have been provided for this entity. E.ON believes that it has used prudent assumptions and feasible tax planning strategies in developing its deferred tax balances; however, any changes to the facts and circumstances underlying its assumptions could cause significant changes in the deferred tax balances and resulting volatility in its operating results.

Nuclear Waste Management

E.ON's nuclear power plants are located in Germany and Sweden. German law requires nuclear power plant operators to establish sufficient financial provisions for financial obligations that arise from the use of nuclear power. The amounts provided by E.ON for its German nuclear power plants have been determined based on an industry-wide valuation prepared by German governmental authorities and qualified parties. In Sweden, nuclear power plant operators are obliged to contribute cash to a fund managed by the governmental authorities. The amount of the contributions, as determined annually by governmental authorities, is based on the volume of electricity produced using nuclear power. Despite these contributions to the fund, nuclear power plant operators in Sweden will still be obligated to make additional contributions if actual costs for nuclear waste management and decommissioning exceed the government's estimates.

E.ON believes that the valuations used for both the German and Swedish nuclear waste management programs provide the best estimate available in respect to its nuclear waste management and decommissioning liabilities. The costs associated with nuclear waste management and the decommissioning of nuclear power plants are substantial and are based on current legal requirements and the projection of costs over extended future periods. Any changes to the current legal requirements for nuclear waste management/decommissioning or the timing of payments to be made in relation to these requirements could have a significant impact on E.ON's future operating results.

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board issued the following accounting pronouncements in 2001:

- SFAS No. 141, Business Combinations;
- SFAS No. 142, Goodwill and Other Intangible Assets;
- SFAS No. 143, Accounting for Asset Retirement Obligations; and
- SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets.

For details of these pronouncements and their expected impact on the Company's future financial results, see Note 2 of the Notes to Consolidated Financial Statements.

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 2001, E.ON's earnings growth reflected the success of the Company's restructuring efforts and its strategic focus on one core business area. In 2000, the positive effects of E.ON's continuing restructuring activities had enabled E.ON to continue its earnings growth of prior years. In line with its corporate focus and growth strategy, E.ON intends to expand its energy business activities. E.ON will also continue to evaluate the remainder of its business portfolio to reduce costs, increase productivity and realize economies of scale.

E.ON's objective is to internationalize the percentage of E.ON's sales to customers outside of Germany, especially in the energy division. However, in 2001, 56.6 percent of the Group's total sales were to customers in Germany and 43.4 percent were to customers in other parts of the world, compared with 51.8 percent and 48.2 percent in 2000, respectively. The increase in the percentage of sales represented by German customers reflected the divestitures of VEBA Electronics, Klöckner and a number of activities at Degussa.

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 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 from continuing operations before income taxes, 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 33 of the Notes to Consolidated Financial Statements. The following table sets forth sales and internal operating profit (loss) for each of the business segments of E.ON for 2001, 2000 and 1999:

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

	2001		2000(1)		1999	
	Sales	Internal Operating Profit (Loss)	Sales	Internal Operating Profit (Loss)	Sales	Internal Operating Profit (Loss)
Energy(2)	18,449	1,971	11,027	1,099	7,768	1,370
Chemicals	17,398	541	18,198	576	12,320	275
Oil(3)	26,899	432	28,780	310	12,229	34
Real Estate	1,291	245	1,324	212	1,167	189
Telecommunications	556	(148)(4)	229	(360)(4)	111	(150)
D/L	15,583	299	20,885	384	16,920	276
Holding/Others(5)	(512)	213	(164)	35	(651)	242
Total(6)(7)	79,664	3,553	80,279	2,256	49,864	2,236

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

(2) Sales include electricity taxes of €694 million in 2001, €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 €9,131 million, €8,586 million and €3,802 million in 2001, 2000 and 1999, respectively.

(4) To more clearly reflect the operating results of the telecommunications division, interest income attributable to the proceeds resulting from the disposal of the Group's shareholdings in E-Plus, Cablecom, Orange Communications and VIAG Interkom, amounting to €212 million and €204 million in 2001 and 2000, respectively, and previously reported under telecommunications, is now reported under holding/others.

(5) Includes the parent company and effects from consolidation, as well as three months' consolidated results of Schmalbach-Lubeca in 2000, as explained under "— Acquisitions and Dispositions" above.

(6) Excludes intercompany sales.

(7) Data presented do not include the sales or internal operating profit of the former aluminum division or the former silicon wafers division, because these divisions are accounted for as discontinued operations. For more details, see Note 4 of the Notes to Consolidated Financial Statements.

YEAR ENDED DECEMBER 31, 2001 COMPARED WITH YEAR ENDED DECEMBER 31, 2000

E.ON Group

E.ON's sales in 2001 decreased 2.1 percent to €69,839 million from €71,344 million in 2000 (in each case net of electricity and petroleum taxes). Sales of the energy division increased 67.3 percent in 2001 to €18,449 million (including €694 million of electricity tax) from €11,027 million (including €349 million of electricity tax) in 2000, primarily as a result of increased electricity sales, reflecting the first-time inclusion of full year results for Bayernwerk and Sydkraft, increased electricity trading activities and the recovery of electricity prices. Sales of the chemicals division (including precious metals trading) decreased 4.4 percent to €17,398 million in 2001 from €18,198 million in 2000, primarily due to the divestiture of certain non-core businesses, particularly the activities of dmc^2 and Phenolchemie. Sales of the oil division in 2001 decreased 12.0 percent to €17,768 million in 2001 from €20,194 million in 2000 (in each case net of petroleum taxes) primarily due to lower prices of petroleum and petrochemical products and a decline in sales volumes. Sales of the real estate division decreased 2.5 percent to €1,291 million in 2001 from €1,324 million in 2000 primarily as a result of declines in the residential development and commercial real estate business, as well as the disposal of the Sicherheit + Services business of the residential services unit. Sales of the telecommunications division increased 142.8 percent to €556 million in 2001 from €229 million in 2000, primarily as a result of the first-time inclusion of a full year of results for Connect Austria, as well as an increase in its number of subscribers. Sales of the D/L division decreased 25.4 percent to €15,583 million in 2001 from €20,885 million in 2000 primarily as a result of the disposal of VEBA Electronics in September 2000.

Cost of goods sold and services provided in 2001 decreased 4.2 percent to €58,072 million compared with €60,630 million in 2000, mainly as a result of the divestiture of businesses in the chemicals and D/L divisions, as well as decreased sales volumes in the oil division. Cost of goods sold and services as a percentage of revenues declined to 83 percent in 2001 compared with 85 percent in 2000. Gross profit increased 9.8 percent to €11,767 million in 2001 from €10,714 million in 2000.

Selling expenses increased 10.8 percent to €6,632 million in 2001, compared with €5,983 million in 2000 primarily due to the first-time inclusion of Sydkraft and Hein Gas at E.ON Energie and HCI at Stinnes.

General and administrative expenses remained basically unchanged, amounting to €2,639 million in 2001 compared with €2,645 million in 2000.

Other operating income/expenses decreased significantly to €712 million in 2001 from €4,412 million in 2000. This 83.9 percent decrease was primarily attributable to the unusually high level of gains recorded from the disposal of fixed assets in 2000, mainly in the telecommunications division.

Internal operating profit in 2001, as compared with 2000, was as shown above in the table "E.ON Business Segment Sales and Internal Operating Profit (Loss)." The increase in internal operating profit of 57.5 percent in 2001 was predominantly due to improved results in the energy, oil and telecommunications divisions, which were partially offset by a decrease in the D/L division, as discussed in more detail below.

The Group's net income in 2001 was €2,048 million, a 42.6 percent decrease from €3,570 million in 2000.

Energy

Sales of the energy division increased by 67.3 percent to €18,449 million (including €694 million of electricity tax and €49 million in intercompany sales) in 2001, compared with €11,027 million (including €349 million of electricity tax and €50 million in intercompany sales) in 2000. This increase was primarily a result of significantly increased electricity sales, primarily reflecting the first-time full year inclusion of Bayernwerk and Sydkraft, higher electricity trading, as well as the recovery of electricity prices.

Total power supplied or procured by the electricity division rose 85.9 percent to 327.6 billion kWh in 2001, compared with 176.2 billion kWh in 2000, primarily reflecting the first time full year consolidation of Bayernwerk and increased electricity trading activities, which are partly the result of the first-time inclusion of Sydkraft's trading activities. E.ON Energie's own production of power rose to 141.8 billion kWh in 2001 compared with 101.7 billion kWh in 2000, largely as a result of the first-time inclusion of Sydkraft. E.ON

Energie produced 43.3 percent of its power requirements in 2001 compared with 57.7 percent in 2000. This decrease reflects the increased trading volumes. Compared with 2000, electricity purchased from jointly operated power stations increased from 16.9 billion kWh to 17.5 billion kWh, reflecting the inclusion of new companies. Purchases of electricity from third parties almost tripled, from 57.6 billion kWh in 2000 to 168.3 billion kWh in 2001, mainly due to the increased trading volumes.

Sales of gas increased 79.9 percent to €2,687 million in 2001 compared with €1,494 million in 2000, primarily reflecting an increase in sales volumes of 46.0 percent from 65.6 billion kWh to 95.8 billion kWh that was mainly attributable to the first-time inclusion of Hein Gas and Sydgas. Water sales in 2001 increased 8.3 percent to €235 million from €217 million in 2000, notwithstanding a 11.6 percent decrease in sales volumes at Gelsenwasser.

In 2001, the energy division contributed internal operating profit of €1,971 million, a 79.3 percent increase from €1,099 million in 2000. This increase was largely attributable to the first-time inclusion of full year results of the former Bayernwerk, which was only consolidated for six months in 2000. Excluding this effect, internal operating profit rose 14.3 percent, primarily due to lower expenses resulting from cost cutting measures and the realization of merger synergies from the merger of PreussenElektra and Bayernwerk. Additional positive factors were the first-time inclusion of Sydkraft and the recovery of electricity prices. These positive factors were partly offset by higher fuel costs and costs related to Germany's Renewable Energy and Co-Generation Protection Laws.

Chemicals

Total sales of the chemicals division decreased 4.4 percent in 2001 to €17,398 million, including intercompany sales of €68 million, compared with €18,198 million in 2000, with the decrease primarily reflecting the disposal of a number of non-core businesses, especially the activities of dmc^2 and Phenolchemie. Excluding precious metals trading, the division's sales increased by 2.8 percent to €15,261 million, primarily due to the first-time inclusion of a full year of SKW Trostberg's results (which had been consolidated for only six months in 2000), the first-time inclusion of Laporte and slightly higher prices. These effects were partly offset by the disposal of the non-core activities. The following table sets forth the sales of the chemicals division for the last two years for each segment:

Sales of Chemicals Division
(€ in millions)

	2001	2000(2)	Percent Change
Core Business	**10,843**	**8,878**	**+22.1**
Health & Nutrition	1,186	781	+51.9
Construction Chemicals	1,742	873	+99.5
Fine & Industrial Chemicals	2,124	1,796	+18.3
Performance Chemicals	1,407	1,015	+38.6
Coatings & Advanced Fillers	2,277	2,393	–4.8
Specialty Polymers	1,264	1,297	–2.5
Others	843	723	+16.6
Non-Core Business	**4,418**	**5,968**	**–26.0**
Total Chemicals Division(1)	15,261	14,846	+2.8

(1) Excludes revenues from precious metals trading.

(2) Includes sales of the former SKW Trostberg businesses as of July 1, 2000.

Sales in the core business area increased 22.1 percent, primarily as a result of the first-time inclusion of SKW Trostberg's results for a full year. Excluding this effect, sales increased only slightly. In order to more clearly illustrate underlying trends, the following analysis of sales and internal operating profit in each segment includes the impact of inclusion of SKW Trostberg's results for a full year in 2000. In the Fine & Industrial Chemicals segment sales increased primarily as a result of the first-time inclusion of Laporte and an increase in volume in the C_4 Chemistry business unit that reflected higher demand in the n-Butene-1 and isononanol businesses, which was only partly offset by lower demand in the Bleaching & Water Chemicals business unit. Sales of the Health & Nutrition segment increased, mainly as a result of an increase in sales volumes in the Feed Additives business unit that reflected higher demand in the methionine and threonine businesses. Sales of the Construction Chemicals segment increased slightly, as increased demand, primarily in Europe and the Asia/Pacific region, was partly offset by the negative impact of the weakened construction economy, especially in Germany. In the Performance Chemicals segment, sales increased, reflecting greater demand for the personal and fabric care products of the Care Specialties business unit and the significantly higher demand, primarily in Asia and Europe, in the Oligomers & Silicones business unit. Sales in the Coatings & Advanced Fillers segment decreased, primarily as negative economic conditions were reflected in lower demand in the Advanced Fillers & Pigments and in the Aerosil & Silanes business unit. In the Specialty Polymers segment, sales remained relatively unchanged. The decrease in sales in the non-core business area reflected the divestiture of several significant businesses during the course of the year.

The chemicals division contributed internal operating profit of €541 million in 2001 compared with €576 million in 2000. This 6.1 percent decrease was primarily attributable to the disposal of non-core business activities and higher goodwill depreciation and interest expenses resulting from the acquisition of Laporte, which was partly offset by the first-time inclusion of SKW Trostberg's results for a full year. Excluding the effect of the first-time inclusion of SKW Trostberg's results, internal operating profit in the core business area remained relatively stable. An increase in internal operating profit in the Performance Chemicals segment was largely attributable to cost savings in the superabsorbent unit, which more than offset higher raw material costs that could not be fully passed on to the customers. In the Construction Chemicals segment, internal operating profit rose slightly as a result of higher sales volumes, which were partly offset by higher energy and transportation costs which could not fully be passed on to the customers, as well as increasing price pressure reflecting the weaker economy. The overall effect of these increases was partly offset by a decrease in internal operating profit in the Coatings & Advanced Fillers segment that was primarily attributable to lower sales and significantly higher raw material costs, especially in the Coatings & Colorants business unit. Internal operating profit in the non-core business area decreased significantly.

Oil

Sales of the oil division in 2001 were €17,768 million, a 12.0 percent decrease from €20,194 million in 2000 (in each case net of petroleum taxes) that was primarily attributable to lower prices for petroleum and petrochemical products and a decline in sales volumes. The following table sets forth the sales of the oil division for the last two years:

Sales of Oil Division
(€ in millions)

	2001	2000	Percent Change
Crude Oil and Natural Gas	2,864	2,967	–3.5
Petroleum Products	21,865	23,149	–5.5
Petrochemicals	1,402	1,480	–5.3
Others	291	466	–37.6
Intercompany Sales	477	718	–33.6
Total	26,899	28,780	–6.5
Thereof: Petroleum Taxes	9,131	8,586	+6.3

Sales of crude oil and natural gas decreased in 2001 due to a sharp decline in crude oil prices from their 2000 highs and a slight decrease in the volume of oil production. The decrease in sales of petroleum products was primarily attributable to lower trading volumes abroad and lower prices. Overall sales volumes in Germany increased slightly as demand for diesel increased in contrast to a stagnant market, while demand for gasoline declined slightly in accordance with the market situation. Petrochemical sales also decreased in 2001, as lower demand was reflected in declining sales volumes and lower prices for petrochemical products. Ethylene and propylene sales decreased slightly mainly due to falling sales prices attributable to the economic slowdown.

The oil division reported internal operating profit of €432 million in 2001 compared with €310 million in 2000. This 39.4 percent increase was primarily attributable to the petroleum product business, and reflected the improvement in service station margins following the end of the price war that had depressed profits in 2000. This effect was only partly offset by a slight decline in internal operating profit in the refining and petrochemicals business that was primarily attributable to lower refining margins and scheduled plant stoppages for maintenance. Internal operating profit in the E&P business remained relatively stable. Since Ruhr Oel is not consolidated, its results are accounted for as income from equity interests, which is included in internal operating profit. See "Item 4. Information on the Company — Business Overview — Oil."

Real Estate

Sales of the real estate division decreased 2.5 percent in 2001 to €1,291 million, including intercompany sales of €23 million, from €1,324 million in 2000 primarily reflecting a decrease in sales in the residential development business due to reduced demand for single-family housing units, and lower sales of the commercial real estate business, whereas the prior year's results included the sale of a large office property in Berlin, as well as the disposal of the Sicherheit + Services business of the residential services unit. These factors more than offset increased sales in the residential services business unit that were attributable mainly to the international expansion of Viterra Energy Services.

The real estate division contributed internal operating profit of €245 million in 2001, compared with €212 million in 2000. This 15.6 percent increase was primarily attributable to both higher sales volumes of housing units and an improved cost position in the residential investment division's rental business, increased sales resulting from the international expansion of the Viterra Energy Services business and the disposal of the loss-making Sicherheit + Services business. These positive factors more than offset a decrease in operating profit in the residential development business due to lower demand.

Telecommunications

Sales of the telecommunications division more than doubled to €556 million in 2001 from €229 million in 2000, primarily due to an increase in sales reflecting the first-time full year inclusion of the results of Connect Austria in 2001 and the improvement in its operations resulting from an increase in its number of subscribers.

The telecommunications division's internal operating loss decreased 58.9 percent to €148 million in 2001, compared with an internal operating loss of €360 million in 2000, reflecting the divestures of VIAG Interkom and Orange Communications.

D/L

Sales of the D/L division decreased 25.4 percent to €15,583 million in 2001 from €20,885 million in 2000 reflecting the disposal of VEBA Electronics in September 2000. Excluding this effect, sales of the D/L division increased by 6.4 percent, primarily due to the inclusion of Klöckner for nine months compared with its inclusion for six months in 2000. The sales increase also reflected the first-time inclusion of HCI in Stinnes' chemicals 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)

	2001	2000	Percent Change
Stinnes	**12,304**	**12,027**	**+2.3**
Transportation(1)	6,103	6,095	+0.1
Chemicals	4,632	3,072	+50.8
Materials	1,462	1,702	–14.1
Others(2)	72	1,112	–93.5
Intercompany Sales	35	46	–21.7
Klöckner(3)	**3,279**	**2,622**	**+25.1**
Multi metal distribution	3,279	2,234	+46.8
Back-to-back business(4)	—	387	—
Intercompany Sales	—	1	—
VEBA Electronics(5)	—	**6,236**	—
Electronic components	—	4,868	—
Electronic systems	—	1,368	—
Total D/L	15,583	20,885	–25.4

(1) Includes sales of the full-line wholesaling division, which was integrated into the transportation division in early 2001.

(2) Includes sales of the building materials division, which was sold in July 2000.

(3) Included as of July 1, 2000. Klöckner was sold on October 16, 2001 and deconsolidated as of October 15, 2001.

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

(5) VEBA Electronics was sold as of September 30, 2000. Its sales are included in E.ON's results through that date.

Sales of Stinnes increased by 2.3 percent in 2001 to €12,304 million, including intercompany sales of €35 million, primarily as a result of the first-time inclusion of HCI in the chemicals business. This positive factor more than offset the divesture of the building materials division and lower sales in the materials business, where the weak steel economy caused both prices and volumes to fall.

The D/L division contributed internal operating profit of €299 million in 2001, a 22.1 percent decrease from €384 million in 2000, primarily reflecting the disposal of VEBA Electronics. This was only partly offset by Stinnes recording higher internal operating profit, largely as a result of the first-time inclusion of HCI and the improvement in the European land transportation business for both domestic and cross-border transportation services, as well as lower interest expenses.

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

E.ON Group

E.ON's sales in 2000 increased 55.4 percent to €71,344 million from €45,921 million in 1999 (in each case net of electricity and petroleum taxes). Sales of the energy division increased 42.0 percent in 2000 to €11,027 million (including €349 million of electricity tax) from €7,768 million (including €141 million of electricity tax) 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 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 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 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.

Cost of goods sold and services provided in 2000 increased 57.2 percent to €60,630 million compared with €38,569 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 45.7 percent to €10,714 million in 2000 from €7,352 million in 1999.

Selling expenses increased 56.5 percent to €5,983 million in 2000 compared with €3,824 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 energy division.

General and administrative expenses increased 60.3 percent to €2,645 million in 2000 from €1,650 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 78.0 percent to €4,412 million in 2000 from €2,478 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 energy 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 energy 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.

Energy

Sales of the energy 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 energy 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 energy division mainly resulted from higher demand for compressed air for industrial customers and district heating.

In 2000, the energy 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 energy 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.

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)	—	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**	**—**	**—**
Nature Products	480	—	—
Chemicals	375	—	—
Construction Chemicals	873	—	—
Performance Chemicals	392	—	—
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 dmc² 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 dmc², 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.

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."

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 €360 million in 2000 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**	**—**	**—**
Multi metal distribution	2,234	—	—
Back-to-back business(3)	387	—	—
Intercompany Sales	1	—	—
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 in July 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.

INFLATION

The rates of inflation in Germany during 2001, 2000 and 1999 were 2.5 percent, 1.9 percent and 0.6 percent, respectively (basis 1995 equals 100). The effects of inflation on E.ON's operations have not been significant in recent years.

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 2001, 2000 and 1999, 30 percent, 35 percent and 36 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 2001, the Group's consolidated foreign exchange rate exposure, which is calculated as its netted risk position excluding any foreign exchange exposure deriving from the expected Powergen acquisition, was approximately €1.7 billion, compared with approximately €2.9 billion at year-end 2000. The decrease of the consolidated foreign exchange rate exposure is due to the expected deconsolidation of VEBA Oel and VAW in 2002. 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 energy division (which has a short position in U.S. dollars), to a limited extent the oil division (which has a long position in U.S. dollars and a short position in British pounds) and the former aluminum division (which had a long position in U.S. dollars and a short position in Australian dollars). The other divisions contribute currency risks only to a smaller degree. Due to the expected acquisition of Powergen, the E.ON Group has also an essential risk position in British pounds which is continually monitored and partly hedged with foreign exchange instruments in accordance with the financial guidelines of the E.ON Group.

The principal derivative financial instruments used by E.ON to cover foreign currency exposures are foreign exchange forward contracts, cross currency swaps, interest rate cross currency swaps and currency options. As of December 31, 2001, the E.ON Group had entered into foreign exchange forward contracts with a nominal value of €5.0 billion, cross currency swaps with a nominal value of €2.2 billion, interest rate cross currency swaps with a nominal value of €0.9 billion 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 remained legal tender in the participating countries as a subdivision of the euro and the euro existed in electronic form only. During the transition period, non-cash transactions were conducted in either the euro or the legacy currencies but all financial records and accounts were stated in the euro. Euro notes and coins were circulated for the first time on January 1, 2002. Beginning as of March 1, 2002, only euro notes and coins are legal tender in all participating member states and all national currencies, including the mark, were 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.

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 have been converted to the euro by the end of the transition period. E.ON did not incur any substantial additional costs in this regard, since most euro-conversion costs had already been incurred within the scope of E.ON's projects to ensure compliance with the millennium date change. The euro conversion had no material adverse impact on the Company's financial condition or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Sources of liquidity for E.ON in 2001 were cash from operations as well as cash from divestments. Cash from operations amounted to €3,907 million in 2001, €3,243 million in 2000 and €3,297 million in 1999. The 20.5 percent increase in cash from operations in 2001 was principally a result of improvements in working capital that were mainly due to the decrease in receivables in the energy division as well as the decrease in inventories at Stinnes. The effects of profits from divestments, which are included in net income, are recorded 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, 2001, the Group had significantly higher liquid funds (consisting of cash and cash equivalents and short-term securities) of €12,144 million, an increase of €3,643 million compared with liquid funds of €8,501 million at year-end 2000 (€1,844 million at year-end 1999). This was mainly attributable to a significant increase in cash from investing activities, primarily due to the sale of equity interests, such as that in VIAG Interkom.

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 2001, 2000 and 1999 amounted to €7,931 million, €12,974 million and €6,957 million, respectively. E.ON's investment levels decreased in 2001 after an increase in 2000 compared with 1999, primarily reflecting lower investments in equity interests and in other financial assets. The unusually high level of capital expenditures in 2000 included the expenses for the financing of VIAG Interkom's UMTS license and the acquisition of the remaining Aral interest. The following table shows the cash provided by operating activities and used for capital expenditures for each of the Group's divisions in 2001, 2000 and 1999.

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

	2001		2000		1999	
	Cash from Operations	Capital Expenditures	Cash from Operations	Capital Expenditures	Cash from Operations	Capital Expenditures
Energy	2,792(2)	4,027	1,423(2)	3,356	1,728	1,349
Chemicals	881	2,093	519	1,675	603	1,298
Oil	686	659	918	1,723	601	1,308
Real Estate	57	171	5	484	43	333
Telecommunications	(1,356)(2)(3)	243	(1,504)(2)(3)	4,591	(215)	171
D/L	580	315	398	662	156	741
Holding/Other	267(3)	423	1,484(3)	483	381	1,757
Total	3,907	7,931	3,243	12,974	3,297	6,957

(1) For a detailed description of capital expenditures by purchases of financial assets and purchases of other fixed assets, see Note 33 of the Notes to Consolidated Financial Statements.

(2) E.ON Energie — or the former PreussenElektra and Bayernwerk — had shareholdings in E-Plus, Cablecom, Orange Communications and VIAG Interkom. The resulting tax burden from the disposal of these telecommunication activities was charged to E.ON Energie and reduced its cash flow from operations. The Company reclassified the cash flow impact of these tax effects from the energy segment to the telecommunications segment in order to show cash flow from operations of each of these segments more clearly. Prior year figures have been adjusted accordingly.

(3) To more clearly reflect segment operating results, interest income resulting from the disposal of interests in E-Plus, Cablecom, Orange Communications and VIAG Interkom is reported under Holding/Other.

The energy division continued to account for the largest portion of the Group's capital expenditures over the most recent three-year period, primarily as a result of acquisitions of financial assets and additions to property, plant and equipment. E.ON Energie's investments in 2001 increased to €4,027 million. This 20.0 percent increase largely resulted from the acquisition of the additional shares in Sydkraft for an aggregate of €1.4 billion net of liquid funds acquired. Investments in property, plant and equipment focused primarily on the improvement of the electricity and heat distribution network. In 2000, the energy 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. Energy investments in 1999 totaled €1,349 million and were for the improvement and extension of the electricity and gas distribution network as well as the increase of E.ON Energie's stakes in Sydkraft, BKW FMB Energie AG and the acquisition of other financial assets.

The chemicals division's capital expenditures in 2001 increased by 25.0 percent to €2,093 million. Investments in fixed assets remained relatively unchanged compared with 2000 and were focused primarily on the improvement and construction of new production facilities in segments including Coatings & Advanced Fillers and Fine & Industrial Chemicals. Investments in financial assets primarily included the acquisition of the remaining shareholding in Laporte. 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 amounted 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.

The oil division's capital expenditures in 2001 decreased by 61.8 percent to €659 million. A total of €340 million was invested for the expansion of E&P activities in VEBA Oel's key geographic areas, while investments in the Aral business focused on the construction and modernization of new service stations and amounted to €279 million. 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 amounted 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 real estate division's capital expenditures in 2001 decreased by 64.7 percent to €171 million. The largest investments related to building improvements and the purchase of the remaining 44.99 percent of Wohnbau Rhein-Main. Investments by the real estate division in 2000 had 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.

Investments in the telecommunications division totalled €243 million in 2001 and were primarily used for the expansion of the GSM and UMTS network of Connect Austria. The extraordinary volume of investments in this division in 2000 (when they totalled €4,591 million) was largely attributable to the partial financing of VIAG Interkom's purchase of its UMTS license in August 2000, which cost VIAG Interkom a total of €8,445 million. The telecommunications division's investments, which had been growing since it was first organized as a separate business division in 1994, amounted to €171 million in 1999 and were primarily for loans to E-Plus and Bouygues Telecom.

Investments in the D/L division significantly decreased to €315 million in 2001 and were largely focused on the building and expansion of locations in Stinnes' chemicals and transportation businesses. The D/L division's investments in 2000 totalled €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 Group's liquid funds increased from €8,501 million at December 31, 2000 to €12,144 million at the end of 2001. This 42.9 percent increase was primarily attributable to a significant increase in cash from investment activities resulting from the disposals of equity interests such as that in VIAG Interkom and a number of non-core activities of Degussa. These positive effects were partly offset by approximately €3.5 billion for the repurchase of shares and the reduction of financial liabilities. The significant increase in 2000 from €1,844 million in 1999 was primarily due to the first-time inclusion of the former VIAG's short-term securities.

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 decreased to €16,319 million at year-end 2001 from €19,354 million at year-end 2000. This 15.7 percent decrease was primarily attributable to the repayment of loans/liabilities to banks, and decreases in liabilities to affiliated companies and in other financial liabilities. These effects were partly offset by increases in outstanding bonds and liabilities to companies in which participating interests are held. Bank loans decreased from €10,871 million at year-end 2000 to €9,167 million at year-end 2001 reflecting decreased amounts of loans at almost all divisions, especially at Degussa and holding/other and the divestiture of Klöckner. These effects were partly offset by increased amounts of loans at E.ON Energie and Viterra. €3,451 million (38 percent) of the amounts payable under bank loans at year-end 2001 are due after 2005, with €2,553 million (28 percent) due in 2002 and €1,506 million (16 percent) due in 2003. €1,125 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. 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 2001, E.ON AG had committed short-term credit lines of approximately €3,140 million (€2,295 million at December 31, 2000), 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 €175 million at year-end 2001 (€668 million at December 31, 2000). E.ON also can draw on a seven-year, €1.022 billion (originally DM 2.0 billion) syndicated credit facility with interest rates of up to 0.125 percentage points above EURIBOR that it obtained in March 1996. At year-end 2001, this facility was unutilized. E.ON AG 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 authorized amount of CP program to €1 billion and that of the EMTN program to €2 billion. In September 2000 and February 2002, E.ON further increased the CP program to €5 billion and in November 2001, the EMTN program to €7.5 billion. At year-end 2001, a total of €100 million was outstanding under the CP program; the EMTN program was unutilized. Standard & Poor's Ratings Group ("S&P") and Moody's Investors Service ("Moody's") rated the commercial paper program "A-1+" and "Prime-1." respectively, and the EMTN program "Aa2" and "AA", respectively. After the announcement of the Powergen acquisition, S&P put its rating on credit watch negative. E.ON understands that Moody's and S&P are each in the process of reviewing their ratings. E.ON cannot provide any assurances as to outcome of these, or any subsequent, reviews.

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 2001, E.ON had budgeted €28.7 billion for capital investments for the three-year period between 2002 and 2004. The Group plans to spend more than 80 percent or €23.8 billion of the budgeted funds on its core energy business. About half of these capital expenditures are budgeted for the acquisition of shares in Powergen and Ruhrgas. See also "Item 4. Information on the Company — History and Development of the Company — Powergen Acquisition" and "— Other Significant Events." This budgeted figure does not include amounts that may need to implement additional growth initiatives, particularly in the U.S.

Total investments at the chemicals division are expected to amount to about €3.5 billion or 12 percent of the Group's total investments. E.ON assumes that its other remaining divisions will be deconsolidated during the three-year period beginning in 2001. It plans about €1.4 billion in capital spending on these remaining businesses through 2004, €0.7 million of which are dedicated to the real estate division.

The Group plans to spend approximately 45 percent of its capital expenditures budget in Germany. It will target the remaining funds on other European countries and North America. Capital investment figures do not include R&D expenditures, which are not capitalized.

Material transactions that are expected to have a significant impact on E.ON's cash flows in 2002 include the following. In January 2002, E.ON sold VAW to Norsk Hydro. Cash inflows from this disposition are expected to total €1.9 billion. Cash outflow is expected to be influenced by the completion of the pending acquisition of Powergen, for which E.ON is expected to pay an aggregate of up to approximately €15.2 billion, including the assumption or repayment of Powergen's existing debt.

E.ON expects that cash flow from operations and cash received from disposals of non-core assets will continue to be the primary source of funds for its capital expenditures and working capital requirements in 2002. E.ON believes that its cash flow and available liquid funds 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.

E.ON does not engage in the use of special purpose entities for off-balance sheet financing or any other purpose which results in assets or liabilities not being reflected in E.ON's financial statements.

For a discussion of related party transactions, see "Item 7. Major Shareholders and Related Party Transactions — Related Party Transactions".

The following represent the contractual obligations and commercial commitments of E.ON as of December 31, 2001:

Contractual Obligations	**Total**
	(€ in millions)
Long-Term Debt	16,319
Purchase and Other Contractual Obligations — Energy Division	2,532
Operating Leases	1,491
Sydkraft Put Option	2,000
Other Long-Term Obligations	1,574
Total Contractual Cash Obligations	23,916

Other Commercial Commitments	**Total Amounts Committed**
	(€ in millions)
Lines of Credit	7,347
Medium Term Notes	7,500
Commercial Paper	2,000
Guarantees	625
Total Commercial Commitments	17,472

For more information regarding the above contractual obligations and other commercial commitments, see Notes 27 and 28 of the Notes to Consolidated Financial Statements.

E.ON has established risk management policies that allow the use of foreign currency, interest rate and commodity derivative instruments and other instruments and agreements to manage its exposure to market, currency, interest rate, commodity price and counterparty risk. E.ON uses derivatives for both trading and non-trading purposes. Proprietary trading is conducted with the goal of improving operating results within defined limits in specified markets. E.ON Energie's risk management policy permits the use of trading derivatives by the energy division only if (1) the reporting unit has the capability and resources to physically deliver the asset, or (2) the derivative is matched to forecasted production or generation.

E.ON applies mark-to-market accounting for all of its energy trading activities, under the guidance of EITF Issue No. 98-10, ''Accounting for Contracts Involving Energy Trading and Risk Management Activities'' (''EITF 98-10''). EITF 98-10 requires that energy trading contracts are reflected at fair value, inclusive of future servicing costs and valuation adjustments, with resulting unrealized gains and losses recorded as assets and liabilities on the Consolidated Balance Sheet. Current period changes in the assets and liabilities from risk management activities are recognized as net gains or losses on the Consolidated Statement of Income. Changes in assets and liabilities from energy trading activities primarily result from changes in valuation of the portfolio of contracts, maturity and settlement of contracts and newly originated contracts.

The activities affecting the estimated fair value of trading activities for the year ended December 31, 2001 are presented below (in millions of euro):

Fair Value Reconciliation Table
(€ in millions)

Fair value of contracts outstanding at the beginning of the period	0.1
Contracts realized or otherwise settled during the period	9.2
Fair value of new contracts when entered into during the period	14.1
Changes in fair values attributable to changes in valuation techniques and assumptions	—
Other changes in fair values	—
Fair value of contracts outstanding at the end of the period	(6.0)

E.ON estimated the gross mark-to-market value of its trading contracts as of December 31, 2001 using quoted market values where available and other valuation techniques when market data is not available (for example because of illiquid markets or products). In such instances, E.ON uses alternative pricing methodologies, including, but not limited to, weighted average probability models, spot prices adjusted for forward premiums/discounts and option pricing models. Fair value contemplates the effects of credit risk, liquidity risk, and time value of money on gross mark-to-market positions.

The following table shows the sources of prices used to calculate the fair value of trading contracts at December 31, 2001. In many cases these prices are fed into option models that calculate a gross mark-to-market value from which fair value is derived after considering reserves for liquidity, credit, time value and model confidence.

Source of Fair Value Table
(€ in millions)

	Fair Value of Contracts at Period-End				
Source of Fair Value	Maturity less than 1 year	Maturity 1-3 years	Maturity 4-5 years	Maturity in excess of 5 years	Total Fair Value
Prices actively quoted	(8.9)	(7.0)	0.1	—	(15.8)
Prices provided by other external sources	—	—	—	—	—
Prices based on models and other valuation methods	8.2	1.6	—	—	9.8

The amounts disclosed above are not indicative of likely future cash flows, as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and E.ON's risk management portfolio needs and strategies.

Those derivatives which do not qualify as hedging activities are based on underlying transactions which can be closed from E.ON's own power generating activities. The trading positions are evaluated daily.

RESEARCH AND DEVELOPMENT

In 2001, E.ON spent approximately €510 million on R&D, compared with €485 million in 2000 and €583 million in 1999. In 2001 and 2000, E.ON's R&D expenditures as a percentage of sales were 0.6 percent, 0.6 percent and 1.2 percent, respectively. E.ON does not anticipate any significant changes in its R&D expenditures in the near term. The 2001 expenditures were almost completely attributable to Degussa, where about 3,300 of E.ON's 3,438 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 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, 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 former 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.

These projects primarily focus on the development of new medications for the treatment of cancer, diseases of the respiratory tract and central nervous system, diabetes, cardiovascular system disorders and pain. The in-process R&D projects were valued using a cash flows from successful completion after taxes model with risk adjusted discount rates based on the average cost of capital of old Degussa (13 percent), and also taking into account the stage of development of each in-process R&D category. The projects were at various stages of completion at the date of acquisition. Since the acquisition, a number of the relevant projects have progressed to more advanced stages and some have qualified for the market. During 2001 certain projects were sold as part of the divestiture of ASTA Medica's oncology division. Although there are risks associated with the ultimate completion and commercialization of these research projects, the failure of any individual project would not have a material impact on the overall value of the research programs.

The Company estimates that it will spend more than €200 million over the next five years in its efforts to complete these 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.

Charges in Respect of Chemical Projects. In 2001, 2000 and 1999, E.ON charged €9 million, €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 relate to new product development or process modification, and the valuation process used was substantially similar to that used for the pharmaceutical projects described above.

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 2002. Management estimates the percentage of completion for these projects ranges from 30 percent to 80 percent. The Company estimates that it will spend €13 million until 2002 in its efforts to complete these projects. This estimate recognizes the fact that not all projects will be completed successfully.

TREND INFORMATION

For information on the principal trends and uncertainties affecting the Company's results of operations and financial condition, see "Item 3. Key Information — Risk Factors", "Item 4. Information on the Company — Business Overview — Energy — Regulatory Environment" and "— Operating Environment" and "Item 5. Operating and Financial Review and Prospects — Results of Operations" and "— Liquidity and Capital Resources".

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, 2001, 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	70	Chairman of the Supervisory Board of Ruhrgas AG Supervisory Board Memberships/Directorships: Allianz AG (Chairman), Preussag AG, Volkswagen AG (Chairman), Beck GmbH & Co. KG(1)	1991
Hubertus Schmoldt(2) Deputy Chairman of the Supervisory Board	56	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	66	Chairman of the Supervisory Board of Siemens AG; formerly member of the Board of Management of Siemens AG Supervisory Board Memberships/Directorships: Deutsche Bank AG, Linde AG, mg technologies AG, Schering AG, ThyssenKrupp AG, Wilhelm von Finck AG	2000
Ralf Blauth(2) Member of the Supervisory Board	50	Industrial clerk, Degussa AG Supervisory Board Memberships/Directorships: Degussa AG	1996
Dr. Rolf-E. Breuer Member of the Supervisory Board	64	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
Dr. Gerhard Cromme Member of the Supervisory Board	58	Chairman of the Supervisory Board of ThyssenKrupp AG Supervisory Board Memberships/Directorships: Allianz AG, Ruhrgas AG, Volkswagen AG, ABB AG(1), Suez S.A.(1), Thales S.A.(1)	1993
Wolf-Rüdiger Hinrichsen(2) Member of the Supervisory Board	46	Head of the Economic Affairs Department of E.ON AG	1998

Name and Position Held	Age	Principal Occupation	Year First Elected
Ulrich Hocker Member of the Supervisory Board	51	General Manager of the German Investor Protection Association Supervisory Board Memberships/Directorships: Brau und Brunnen AG, CBB Holding AG (Chairman), Gerresheimer Glas AG, Karstadt Quelle AG, ThyssenKrupp Steel AG, Gartmore Capital Strategy Fonds(1), Phoenix Mecano AG(1)	1998
Dr. Jochen Holzer, Honorary Senator(3) Member of the Supervisory Board	67	Former Chairman of the Supervisory Board of VIAG AG 1993-1998 Supervisory Board Memberships/Directorships: Bayerische Dienstleistungsgesellschaft für betriebliche Altersversorgung Holding AG(1)	2000
Jan Kahmann(2) Member of the Supervisory Board	54	Member of the Board of the Unified Service Sector Union (ver.di) Supervisory Board Memberships/Directorships: Eurogate Beteiligungs GmbH, Lufthansa Technik AG, Preussag AG	2001
Dr. h.c. Andre Leysen Member of the Supervisory Board	74	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)	1993
Dagobert Millinghaus(2) Member of the Supervisory Board	58	Accounting and Administration Manager, Brenntag AG Supervisory Board Memberships/Directorships: Stinnes AG	1989
Margret Mönig-Raane(2) Member of the Supervisory Board	53	Vice-Chairwoman of the Board of the Unified Service Sector Union (ver.di) Supervisory Board Memberships/Directorships: Deutsche Bank AG	1998
Ulrich Otte(2) Member of the Supervisory Board	52	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	48	Electrical Engineer, E.ON Kernkraft GmbH, formerly member of the Supervisory Board of VIAG AG 1997-2000	2000
Dr. Henning Schulte-Noelle Member of the Supervisory Board	59	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 (Chairman), Linde AG, Münchener Rückversicherungs- Gesellschaft AG, Siemens AG, ThyssenKrupp AG, AGF S.A.(1), RAS S.p.A.(1)	1993
Kurt F. Viermetz Member of the Supervisory Board	62	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: Grosvenor Estate Holdings(1)	1996

Name and Position Held	Age	Principal Occupation	Year First Elected
Dr. Bernd W. Voss Member of the Supervisory Board	62	Member of the Board of Management, Dresdner Bank 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, Volkswagen AG, Wacker Chemie GmbH, Bankhaus Reuschel & Co(1) (Chairman)	1993
Dr. Peter Weber(2) Member of the Supervisory Board	60	Director of the Legal Department, Degussa AG Supervisory Board Memberships/Directorships: Wohnungsgesellschaft Hüls mbH(1)	1993
Kurt Weslowski(2) Member of the Supervisory Board	56	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, 2001, 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	63	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)	2003
Prof. Dr. Wilhelm Simson Chairman of the Board of Management	63	Co-Chief Executive Officer; Group Strategy, 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), VIAG Telecom AG(2) (Chairman)	2000(4)	2003
Dr. Hans Michael Gaul Member of the Board of Management	59	Controlling/Corporate Planning, M&A, Legal Affairs; formerly Member of the Board of Management of VEBA AG Supervisory Board Memberships/Directorships: 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),	1990	2004
Dr. Manfred Krüper Member of the Board of Management	60	Labor Relations, Personnel, Infrastructure and Services, Procurement, Organization; formerly Member of the Board of Management of VEBA AG Supervisory Board Memberships/Directorships: 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	52	Chief Financial Officer; Finance, Accounting, Taxes, IT; formerly Member of the Board of Management of VIAG AG (appointed in 1997) Supervisory Board Memberships/Directorships: Degussa AG(2), E.ON Energie AG(2), VAW aluminium AG(2) (Chairman), VIAG Telecom AG(2), AXA Colonia Lebensversicherung AG, Commerzbank AG, Schmalbach-Lubeca AG (Chairman), 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 (membership in comparable domestic or foreign supervisory body of a commercial enterprise).

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 compensation to be paid by E.ON to members of the Supervisory Board in respect of 2001 will be €2.4 million, and the aggregate amount of 2001 compensation to be paid to members of the Board of Management, including compensation for performing their duties at subsidiaries, will be €8.8 million. The aggregate compensation of retired members of the Board of Management and their beneficiaries totalled €5.6 million in 2001. For the year ended December 31, 2001, E.ON recorded provisions of €67.7 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 meeting related 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 2001, 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 162,500 SARs in 2001, subject to a commitment by each member to maintain 1,000 Ordinary Shares. For information on the SAR plan and the terms of the SARs granted in 2001, see Note 10 of the Notes to Consolidated Financial Statements.

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, except for statutory claims, such as mandatory pension benefits. 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, 2001, E.ON employed a workforce of 151,953 people, which represented a decrease of approximately 8.6 percent from year-end 2000. This decrease is mainly due to disposal of Klöckner in the D/L division and non-core businesses of the chemicals division. Of the total number of employees, 57.7 percent were based in Germany. Of the 151,953 employees at year-end 2001, 6,418 were apprentices. The following table sets forth information about the number of employees of E.ON as of December 31, 2001, 2000 and 1999:

	Employees at December 31, 2001			Employees at December 31, 2000			Employees at December 31, 1999		
	Total	Germany	Foreign	Total	Germany	Foreign	Total	Germany	Foreign
Energy Division	39,560	30,829	8,731	34,406	30,396	4,010	20,556	20,549	7
Chemicals Division	54,140	31,137	23,003	62,110	35,795	26,315	44,334	29,000	15,334
Oil Division	7,586	6,836	750	8,593	7,921	672	5,863	5,671	192
Real Estate Division	5,735	3,860	1,875	5,567	4,271	1,296	4,901	3,944	957
Telecommunications Division	1,612	—	1,612	1,409	25	1,384	72	72	—
D/L Division	42,714	14,627	28,087	53,439	17,963	35,476	49,818	22,333	27,485
Holding/Other	606	379	227	659	432	227	458	443	15
Total	151,953	87,668	64,285	166,183	96,803	69,380	126,002	82,012	43,990

Expenditures for salaries and wages totaled €9.1 billion in 2001, up 6.8 percent from 2000 primarily due to the first-time full-year inclusion of the former VIAG employees. For 2000, the former VIAG employees were included as of July 1, 2000.

Many of the Group's employees are members of labor unions. Almost all of the union members in Germany belong to the national 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, works 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 works 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 Section 19a of the German Income Tax Law, in 2001 employees were eligible for a discount of up to €153 per employee). As of year-end 2001, employees have purchased 19.8 million shares under such program.

STOCK INCENTIVE PLANS

In 1999, E.ON AG and Stinnes independently decided to introduce 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 (*i.e.*, share price and dividends paid), respectively. E.ON AG granted approximately 1.8 million SARs to 231 top-level executives worldwide in 2001, including members of the Board of Management, as part of their compensation. In July 2001, Stinnes granted approximately 0.9 million SARs to 250 top-level executives as part of their compensation.

In 2001, Degussa also introduced a SAR plan for executives. This plan is based on the performance of Degussa's ordinary shares. In February 2001, Degussa granted approximately 0.9 million SARs to 153 executives worldwide, including the members of Degussa's Board of Management, as part of their compensation.

For more information about these plans, see Note 10 of the Notes to Consolidated Financial Statements.

Item 7. Major Shareholders and Related Party Transactions.

MAJOR SHAREHOLDERS

As of December 31, 2001, E.ON had an aggregate number of 687,330,920 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 special voting rights.

According to its SEC filings, as of December 31, 2001, Allianz AG directly and indirectly held 61,807,102 Ordinary Shares, or 8.9 percent of the voting rights of E.ON, compared with 83,386,334 Ordinary Shares, or 10.9 percent of the voting rights of E.ON, held as of December 31, 2000. According to its SEC filings, as of December 31, 2001, Deutsche Bank AG directly and indirectly held 32,701,578 Ordinary Shares, or 4.3 percent of the voting rights of E.ON, compared with 50,091,308 Ordinary Shares, or 6.6 percent of the voting rights of E.ON held as of April 9, 2001. Deutsche Bank AG held 26,846,741 Ordinary Shares as of December 31, 2000, or 3.5 percent of the voting rights of E.ON, and, prior to the VEBA-VIAG merger, held 36,322,589 Ordinary Shares, or 7.2 percent of the voting rights of E.ON. Before the merger of Lambda Vermögensverwaltungsgesellschaft mbH, a majority owned investment company of Allianz AG, and E.ON, which was effective as of July 27, 2001, Lambda Vermögensverwaltungsgesellschaft mbH held 6.7 percent of the voting rights of E.ON. As a result of this merger, according to the notification requirements under German Law, Allianz AG informed E.ON that its total direct and indirect shareholding decreased from 10.2 percent to 7.6 percent of the voting rights of E.ON. In addition, as of July 16, 2001, according to the notification requirements under German law, the Free State of Bavaria informed E.ON that it reduced its stake in E.ON and that it held less than 5.0 percent of the voting rights of E.ON, compared with 5.6 percent of the voting rights of E.ON that it reported holding as of June 26, 2000. 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, 2001, approximately 12 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. Allianz AG provides the Group with insurance coverage in the ordinary course of business for which it was paid reasonable and customary fees. 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.

Significant amounts of hard coal used in the energy division are purchased from RAG Aktiengesellschaft, in which E.ON directly and indirectly owns a 39.2 percent interest. The prices paid by E.ON for hard coal purchases are determined by the parties on an arms'-length basis.

From time to time E.ON may make loans to companies in which the Group holds ownership interests. At year-end 2001, E.ON had aggregate outstanding loans to companies in which the Group holds ownership interests amounting to €2,806 million.

Item 8. Financial Information.

CONSOLIDATED FINANCIAL STATEMENTS

See "Item 18. Financial Statements" and pages F-1 to F-70.

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 Energy, 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.

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 — Energy."

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 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

For information about significant changes following December 31, 2001, see "Item 4. Information on the Company — History and Development of the Company."

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 Stock Exchange. Options on Ordinary Shares are traded on the German derivatives exchange (*Eurex Deutschland*). E.ON believes that as of December 2001, it had close to 480,000 stockholders.

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	53 1/4
1998	72 5/8	48
1999	66 1/4	42 1/8
2000	60 3/8	40 5/8
First Quarter	54	40 5/8
Second Quarter	54 13/16	47 1/2
Third Quarter	57 1/8	45 3/4
Fourth Quarter	60 3/8	48 1/4
2001(2)	60.50	42.03
First Quarter(2)	60.50	42.03
Second Quarter	52.40	46.00
Third Quarter	56.75	47.30
Fourth Quarter	56.90	46.67
September	54.27	47.30
October	56.90	50.06
November	53.00	48.75
December	51.62	46.67
2002		
January	52.25	49.90
February	51.40	47.75

(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 11, 2002, the closing sale price per ADS on the NYSE as reported on the NYSE Composite Tape was $50.12.

TRADING ON THE FRANKFURT STOCK EXCHANGE

The Frankfurt Stock Exchange is by far the most significant of the eight German stock exchanges. By the end of December 2001, it accounted for more than 87 percent of the total securities turnover in Germany. As of the end of 2001, the equity securities of 5,777 corporations, including 4,865 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 on and 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)	
1997	63.91	44.72	4,438.93	2,848.77
1998	66.90	41.11	6,171.43	3,896.08
1999	62.60	41.60	6,958.14	4,678.72
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
Fourth Quarter	66.55	57.16	7,136.30	6,200.71
2001	64.50	46.91	6,795.14	3,787.23
First Quarter	63.50	46.91	6,795.14	5,388.02
Second Quarter	61.94	51.75	6,278.90	5,553.46
Third Quarter	64.50	51.75	6,109.50	3,787.23
Fourth Quarter	61.40	53.10	5,271.29	4,239.97
September	60.70	51.75	5,208.10	3,787.23
October	61.40	56.40	4,820.26	4,239.97
November	59.61	55.71	5,185.10	4,583.31
December	58.18	53.10	5,271.29	4,909.42
2002				
January	59.45	56.00	5,318.73	4,984.20
February	59.61	55.60	5,097.06	4,745.58

(1) The DAX 30 Index is a continuously updated, capital-weighted performance index of 30 German blue chip companies. E.ON represented approximately 5.83 percent of the DAX 30 Index as of March 11, 2002. In principle, the shares included in the DAX 30 Index were selected on the basis of their stock exchange turnover and their market capitalization. Adjustments of the DAX 30 Index are made for capital changes, subscription rights and dividends.

On March 11, 2002, the closing sale price per Ordinary Share on the Frankfurt Stock Exchange was €57.50, equivalent to $50.26 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.

Authorized and Conditional Capital. 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 shareholder resolutions approved at the annual general meetings of shareholders held on May 25, 2000, and on May 18, 2001, the Board of Management was authorized to buy back up to 10 percent of E.ON AG's outstanding share capital through October 31, 2002. This repurchase could 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 October 31, 2001, the Company had bought back 76,329,887 Ordinary Shares at an average price of €58.69 per share, representing approximately 10 percent of E.ON's total share capital. On November 13, 2001, the Board of Management decided to cancel 71,298,875 Ordinary Shares. This decision was approved by the Supervisory Board on December 12, 2001. Therefore, E.ON AG's share capital now consists of 692,000,000 Ordinary Shares. The remaining shares were partly used for the 2001 employee share purchase program. In addition, remaining outstanding shares will be used to hedge E.ON's stock appreciation rights and/or will be used for the employee share purchase program in the future.

MATERIAL CONTRACTS

In connection with the pre-conditional offer E.ON has made with respect to Powergen, E.ON and Powergen entered into a letter agreement dated April 8, 2001, which, among other things, provides that Powergen will not solicit competing proposals and describes the steps that must be taken to satisfy the pre-conditions of the offer. Under the letter agreement, certain fees may be payable by either Powergen or E.ON to the other in certain circumstances. The letter agreement will terminate (and the obligations of the parties, including E.ON's obligation to make the offer, will lapse) if the pre-conditions are not satisfied by July 9, 2002. The details of the acquisition are described in more detail in "Item 4. Information on the Company — History and Development of the Company — Powergen Acquisition." A copy of the letter agreement has been incorporated by reference as an exhibit to this annual report.

On July 15, 2001, E.ON and BP entered into a participation agreement which, among other things, provides for the acquisition by BP of a 51.0 percent stake in VEBA Oel by way of a capital increase and for a shareholders' agreement between the two parties following the capital increase. The agreement also gives E.ON a put option to sell the remaining 49.0 percent interest in VEBA Oel to BP at any time from April 1, 2002. The details of the transaction are described in more detail in "Item 4. Information on the Company — Business

Overview — Oil'' and ''Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions.'' A copy of the participation agreement 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 and disposition 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

Pursuant to the German Tax Reduction Act (*Steuersenkungsgesetz*) of October 23, 2000, profits earned by a German resident corporation in business years beginning on or after January 1, 2001 are subject to a uniform corporate income tax rate of 25 percent. In addition, there is a solidarity surcharge of 5.5 percent of the corporate income tax liability. The aggregate corporation income tax and solidarity surcharge amount to 26.375 percent. In addition to these taxes, profits of a German resident corporation are subject to a municipal income trade tax. This tax is levied at rates set by each municipality. The municipal trade income tax is an allowable deduction for corporate income tax purposes.

TAXATION OF DIVIDENDS

The Company is generally required to withhold tax on dividends paid on or after January 1, 2002 in an amount equal to 20 percent of the gross amount paid to resident and non-resident stockholders. 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 the Company. For dividends distributed in 2002, the surcharge amounts to 1.1 percent (5.5 percent × 20 percent) of the gross dividend amount. This results in an aggregate withholding rate of 21.1 percent. 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.

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 on or after January 1, 2002, a U.S. Holder would be deemed to have paid German taxes of $15. 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 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 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

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, 53225 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.

Claims must be filed within four years of the end of the calendar year in which the dividend was received.

In the course of the year 2002, the German tax administration may introduce a simplified procedure based on electronic data exchange in order to facilitate and accelerate the refund procedure.

A simplified refund procedure applies already if ADSs of a U.S. Holder are registered with brokers participating in the Depository Trust Company (''DTC''). Pursuant to administrative procedures recently agreed between the German Federal Ministry of Finance and the DTC, claims for refunds payable under the Income Tax Treaty to such U.S. Holders may be submitted to the German tax authorities by the DTC (or a custodian as its designated agent) collectively on behalf of all such U.S. Holders.

The DTC will prepare the German claim for refund forms for such U.S. Holders of 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 ADSs, and the official certifications on IRS Form 6166 of the last filed U.S. federal income tax return of such holders. Details of the collective refund procedure will be available from the DTC.

A collective refund procedure will also be available to U.S. Holders whose ADSs are not registered with brokers participating in the DTC. Under this refund procedure, the U.S. transfer agent will prepare the German claim for refund forms on behalf of U.S. Holders and file them electronically with the German tax authorities. In order for the U.S. transfer agent to file the claim for refund forms, the U.S. transfer agent will prepare and mail to these U.S. Holders, and the U.S. Holders will be requested to sign and return to the U.S. transfer agent, (1) a statement authorizing the U.S. transfer agent to perform these procedures and agreeing that the German tax authorities may inform the IRS of any refunds of German taxes and (2) a written authorization to remit the refund of withholding to an account other than that of the U.S. Holder. The U.S. transfer agent will attach the signed statement and the documentation issued by the paying agency documenting the dividend paid and the tax withheld to the claim for refund form and file them with the German tax authorities. U.S. Holders should also request certification (IRS Form 6166) of their last filed United States federal income tax return from the IRS and have it ready for presentation to the U.S. transfer agent upon request. This certification (IRS Form 6166) may be requested from the U.S. Holder if the U.S. Holder is selected as part of a verifying sample; if in this case, the certification (IRS Form 6166) cannot be presented by the U.S. Holder within a reasonable time, the refund of the German withholding taxes will be denied.

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 be protected against German tax on capital gains realized or accrued on the sale or other disposition of ADSs or Ordinary Shares provided the assets of the Company do not consist and have not consisted predominantly of immovable property situated in Germany.

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 either is or is deemed to be resident 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 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 233 Broadway, New York, New York 10279. Copies of materials may be obtained from the Public Reference Room 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 following discussion should be read in conjunction with ''Summary of Significant Accounting Policies'' in the Notes to the Consolidated Financial Statements and in conjunction with Notes 31 and 32 of the Notes to Consolidated Financial Statements, which provides a summarized comparison of nominal amounts and market values of financial instruments used by the Company for risk management purposes and other information relating to those instruments.

Risk Identification and Analysis

In the normal course of business, the Company is exposed to foreign currency risk, interest rate risk, commodity price risk, and counterparty (or repayment) risk. These risks create volatility in equity, earnings and cash flows from period to period. The Company makes use of derivative instruments in order to manage these risks. Foreign exchange and interest rate derivatives held by the Company are used only for non-speculative purposes. The energy division also engages in the trading of energy-related commodity derivatives, subject to established guidelines for risk management. See ''— Commodity Price Risk Management'' below and ''Item 4. Information on the Company — Business Overview — Energy — Trading''. In its hedging and trading activities, the Company generally utilizes established and widely-used derivative instruments for which significant liquidity exists. The Company's comprehensive framework for risk management includes general risk management guidelines for the use of derivative instruments which are in place on all group levels of the Company.

As part of its risk management system, the Company utilizes instruments such as interest rate swaps, interest rate/cross currency swaps, interest rate options, forward foreign exchange contracts, cross currency swaps, foreign exchange options, commodity forwards, commodity swaps and commodity futures and options contracts, seeking to reduce its risk exposure by entering into offsetting market positions.

The following discussion of the Company's risk management activities and the estimated amounts generated from 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, as discussed below, should not be considered projections of future events or losses. The Company also faces risks that are either non-financial or non-quantifiable. Such risks principally include country risk, credit risk, and legal risk, which are not represented in the following analyses.

Foreign Exchange and Interest Rate Risk Management Principles

The Company's Corporate Treasury, which is primarily responsible for entering into derivative foreign exchange and interest rate contracts for the Group and its companies, acts as a service center for the Company and not as a profit center. With E.ON AG's approval, individual Group companies may also hedge their currency and interest rate risks directly with third parties.

A computerized reporting and controlling system for treasury activities has been developed and implemented throughout the Company. It is designed to provide for the systematic and consistent identification and analysis of the Company's overall financial and market risks in the field 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 and market and counterparty risks arising from short- and long-term deposits and hedging transactions.

The range of action, responsibilities, and financial reporting procedures to be followed by each Group company are outlined in detail in the Company's internal guidelines. The individual subgroup headquarters have enacted their own guidelines for financial risk management within the limits established by the Group financial guidelines. To ensure efficient risk management at E.ON AG, the Treasury, Back Office, and Financial Controlling departments are organized as strictly separate units. Standard software is employed in processing relevant business transactions. The Financial Controlling department is charged with providing continuous and independent risk management. It prepares operational financial plans, calculates market price and counterparty risks, and evaluates financial transactions. The Financial Controlling Department reports at regular intervals on the Group's market price and counterparty risks. Those subsidiaries which make use of external hedging transactions have similar organizational and reporting arrangements.

Foreign Exchange Rate Risk Management

Due to the international nature of certain of its business activities, the Company is exposed to foreign exchange risk related to sales, assets, receivables and liabilities denominated in currencies other than the Euro, net investments in foreign operations, and anticipated foreign exchange payments. Of the Company's consolidated revenue in 2001, 2000, and 1999, approximately 30 percent, 35 percent and 36 percent, respectively, arose due to transactions with customers which were not located in member states of the European Monetary Union, and therefore exposed the Company to foreign exchange rate risk. The Company's exposure results principally from transactions in United States dollars, British pounds, Swedish krona and Japanese yen and from net investments in foreign operations whose functional currencies are US dollars, British pounds or Swedish krona. As of December 31, 2001, the Company had in place hedging transactions with respect to each of these currencies.

In accordance with E.ON's hedging policy, macro-hedging transactions relating to currency risks are generally completed for periods of up to twelve months. Macro-hedging transactions comprise a number of individual underlying transactions that have been grouped together and hedged as an individual unit.

The principal derivative financial instruments used by E.ON to cover foreign currency exposures are foreign exchange forward contracts, cross currency swaps, interest rate cross currency swaps and currency options. As of December 31, 2001, the E.ON Group had entered into foreign exchange forward contracts with a nominal value of €5.0 billion, cross currency swaps with a nominal value of €2.2 billion, interest rate cross currency swaps with a nominal volume of €0.9 billion and currency options with a nominal value of €0.9 billion.

Market risks for foreign exchange derivatives consist of the positive and negative changes in net asset value that result from fluctuations of the relevant currencies on relevant 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. The relevant parameters used to calculate the potential change in market value are the contract amount and the contractual forward-exchange rate. In line with international banking standards, market risk has been calculated using the value-at-risk method on the basis of the RiskMetrics data and using risk management software of RiskMetrics Group. The "value-at-risk" is equal to the maximum potential loss from derivative positions that could be realized within the following business day, based on empirical standard deviations using a confidence interval of 99 percent. Correlations between individual instruments are considered within the calculations, the risk of a portfolio is generally lower than the sum of its individual risks.

The market risk analysis of the Company's foreign exchange derivatives by transaction and maturity as of December 31, 2001 and December 31, 2000 is summarized in the following table.

Total Volume of Foreign Currency Derivatives as of December 31, 2001 and December 31, 2000

	December 31, 2001				December 31, 2000			
	Nominal Value	Market Value(1)	Value-at-Risk	Stress Test	Nominal Value	Market Value(1)	Value-at-Risk	Stress Test
(€ in millions)								
(Remaining maturities)								
FX forward transactions								
Buy	2,095.4	35.3	18.2	54.6	2,319.1	(66.3)	31.8	95.4
Sell	2,935.9	(48.5)	20.7	62.1	2,739.6	89.5	37.0	111.0
FX currency options								
Buy	896.4	7.2	1.9	5.7	338.3	0.2	0.5	1.5
Sell	28.6	1.7	1.3	3.9	82.9	1.9	1.3	3.9
Subtotal	**5,956.3**	**(4.3)**	**8.8**	**26.4**	**5,479.9**	**25.3**	**10.2**	**30.6**
Cross currency swaps								
up to 1 year	67.0	(11.9)	1.7	5.1	72.7	(11.4)	2.7	8.1
1 year to 5 years	1,892.0	73.9	17.4	52.2	348.9	17.1	2.4	7.2
more than 5 years	211.8	(3.4)	4.5	13.5	51.1	(3.3)	1.2	3.6
Interest rate/cross currency swaps								
up to 1 year	253.4	37.8	4.8	14.4	—	—	—	—
1 year to 5 years	629.7	20.0	11.6	34.8	180.7	15.4	6.3	18.9
more than 5 years	—	—	—	—	—	—	—	—
Subtotal	**3,053.9**	**116.4**	**30.3**	**90.9**	**653.4**	**17.8**	**5.3**	**15.9**
Total	**9,010.2**	**112.1**	**39.1**	**117.3**	**6,133.3**	**43.1**	**15.5**	**46.5**

(1) Market value deviation from nominal value.

The market risk table shows the outstanding nominal values and market values of foreign exchange derivatives as of the balance sheet date before any economic hedging correlations are assigned between hedging contracts on the one hand, and booked and pending transactions or net foreign investments on the other hand. In fact, all of the Group's foreign currency derivatives are assigned to a balance sheet item, a pending purchase or sales contract or an anticipated transaction. The above table excludes exposures related to discontinued operations, namely those amounts related to VAW. The nominal value of foreign currency derivatives held by VAW was €1.4 billion as of December 31, 2001 (2000: €1.4 billion) and the market value was €(35.5) million as of December 31, 2001 (2000: €(2.7) million).

As an additional means of monitoring market risks, including those arising from cases of extreme market price fluctuations, a stress test is performed on derivative positions at regular intervals. In doing so, the market risk, as calculated using 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 results of this stress test are included in the above table.

The increase in nominal value and market risk compared with year-end 2000 is primarily due to the consolidation of Sydkraft and hedging activities with respect to the expected acquisition of Powergen.

The value-at-risk amounts presented here disregard the possibility that foreign exchange rates can move in the Company's favor. The assumption within the value-at-risk model is that all 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 fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. The Company also faces a similar risk with regard to balance sheet items and associated financial derivatives bearing floating rates, as changes in interest rates will affect the Company's cash flows. The Company seeks to maintain a desired mix of floating-rate and fixed rate debt in its overall debt portfolio. The Company uses interest rate swaps, cross currency interest rate swaps and interest rate options to allow it to diversify its sources of funding and to reduce the impact of interest rate volatility on its financial condition.

Financial derivatives are also used to realize time congruent hedging of interest rate risks. E.ON's policy provides that 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 match the amounts and terms of the respective underlying transactions in order to qualify for hedge accounting under SFAS 133.

The principal derivative financial instruments used by E.ON to cover interest rate risk exposures are interest rate cross currency swaps, interest rate swaps and interest rate options. As of December 31, 2001, the E.ON Group had entered into interest rate swaps with a nominal value of €3.1 billion and interest rate options with a nominal value of €0.3 billion.

Market risks for interest rate derivatives are calculated in the same manner as those for foreign exchange instruments, as discussed in detail under "— Foreign Exchange Rate Risk Management" above.

The market risk analysis of the Company's interest rate derivatives by transaction and maturity as of December 31, 2001 and December 31, 2000, is summarized in the following table.

Total Volume of Interest Rate Derivatives as of December 31, 2001 and December 31, 2000

	December 31, 2001				December 31, 2000			
	Nominal Value	Market Value (1)	Value-at-Risk	Stress Test	Nominal Value	Market Value (1)	Value-at-Risk	Stress Test
(€ in millions)								
(Remaining maturities)								
Interest rate swaps								
fixed-rate payer								
up to 1 year	118.7	(1.1)	0.2	0.6	107.9	0.9	0.1	0.3
1 year to 5 years	2,129.8	(25.3)	17.6	52.8	1,306.2	(11.7)	7.8	23.4
more than 5 years	319.7	(13.2)	4.4	13.2	498.0	(9.3)	4.2	12.6
fixed-rate receiver								
up to 1 year	56.8	0.2	0.6	1.8	24.5	0.3	0.1	0.3
1 year to 5 years	391.1	15.2	5.2	15.6	—	—	—	—
more than 5 years	128.4	3.3	2.3	6.9	38.4	0.8	0.2	0.6
Subtotal	**3,144.5**	**(20.9)**	**16.9**	**50.7**	**1,975.0**	**(19.0)**	**9.5**	**28.5**
Interest rate options								
Buy up to 1 year	—	—	—	—	—	—	—	—
1 year to 5 years	253.2	(0.5)	0.4	1.2	1.8	—	—	—
more than 5 years	—	—	—	—	36.3	0.4	0.5	1.5
Sell up to 1 year	—	—	—	—	—	—	—	—
1 year to 5 years	36.3	(0.1)	0.1	0.3	—	—	—	—
more than 5 years	—	—	—	—	36.3	(—)	—	—
Subtotal	**289.5**	**(0.6)**	**0.5**	**1.5**	**74.4**	**0.4**	**0.5**	**1.5**
Total	**3,434.0**	**(21.5)**	**17.4**	**52.2**	**2,049.4**	**(18.6)**	**10.0**	**30.0**

(1) Market value deviation from nominal value.

The market risk table shows the outstanding nominal values and market values of interest rate derivatives before any economic hedging correlations are assigned between hedging contracts and booked and pending transactions. In fact, all of the Group's interest rate derivatives are assigned to a balance sheet item. The above table excludes exposures related to discontinued operations, namely those amounts related to VAW. The nominal volume of interest rate derivatives held by VAW was €0.2 billion as of December 31, 2001 (2000: €0.2 billion) and the market value was €(4.3) million as of December 31, 2001 (2000: €(4.1) million).

A sensitivity analysis was performed on the Group's short- and long-term capital investments and borrowings, including interest rate derivatives. The aggregate hypothetical loss in fair value on all financial instruments and derivative instruments that would have resulted from a 100 basis-point shift in the interest rate structure curve would change the interest rate portfolio's market value by €135 million (2000: €122 million) as of the balance sheet date. The market risk according to the value-at-risk model amounted to €17 million as of December 31, 2001 (2000: €18 million). Both analyses exclude transactions related to VAW, which has been discontinued.

Commodity Price Risk Management

E.ON is also exposed to risks resulting from fluctuations in the prices of commodities and raw materials. Hedging transactions with respect to commodity-related risks of notable scope are now only conducted by the Energy and Oil divisions. VAW, which held a significant volume of commodity derivatives relating to its aluminum activities, is now reported as discontinued operations.

The principal derivative financial instruments used by E.ON to cover commodity price risk exposures are electricity, gas, coal, crude oil, crack and oil product swaps and forwards, electricity options and exchange-traded oil and electricity future contracts.

Derivative financial instruments are used by the energy division to hedge the impact of electricity, gas and coal price fluctuations and to enable E.ON Energie to better make use of its own power generating capacities and distributed power. Proprietary trading is conducted with the goal of improving operating results within defined limits in specified markets. E.ON Energie's risk management policy permits the use of trading derivatives by the energy division only if (1) the reporting unit has the capability and resources to physically deliver the asset, or (2) the derivative is matched to forecasted production or generation.

The oil division's use of oil-related derivatives is designed to hedge the risk of fluctuating prices for crude oil and petroleum products on the division's production, refining, and distribution activities. Following the decrease of E.ON's shareholding in VEBA Oel in 2002, the oil-related hedging volume has decreased in order to reflect the change in the Company's commodity price exposure. In accordance with 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. 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.

As of December 31, 2001, the E.ON Group had entered into electricity, gas and coal derivative instruments with a nominal value of €11.4 billion, and oil related derivative instruments with a nominal value of €0.8 billion. The increase in the volume of energy-related derivatives reflects the energy division's expanding business activities and the consolidation of Sydkraft in 2001. Aluminum-related derivatives held by VAW, which is now reported as discontinued operations, had a nominal value of $1.4 billion as of the same date.

The market value of commodity related hedging transactions for which E.ON has not established economic hedging conditions involving booked or contractually agreed upon or planned underlying transactions amounted to €(8.1) million as of December 31, 2001 (2000: €(20.3) million). A hypothetical 10 percent change in underlying raw material and commodity prices would cause the market value of these commodity hedging transactions to change by €19 million (2000: €11 million).

Counterparty Risk From the Use of Derivative Financial Instruments

Counterparty risk consists of potential losses that may arise from the non-fulfillment of contractual obligations by individual counterparties. With respect to derivative transactions, counterparty risk is equivalent to the replacement cost incurred by covering the open position in the event of counterparty default. The Company's counterparties for derivatives include financial institutions, brokers, trading companies and other entities that satisfy E.ON's credit criteria. The divisions involved in electricity-, oil-, gas- and coal-related derivatives also perform thorough credit checks on counterparties and monitor their creditworthiness on an ongoing basis. Only transactions with a positive market value for E.ON are exposed to this risk. Exchange-traded electricity and oil future contracts with a nominal value of €229.9 million as of December 31, 2001 (2000: €30.1 million) are liquid instruments and do not bear individual counterparty risk. Derivative transactions are generally executed on the basis of standard agreements that allow all outstanding transactions with an individual counterparty to be offset. The Company's counterparty risk with respect to derivatives amounts to €852.8 million as of December 31, 2001 (2000: €334.9 million). The credit risk exposure of derivatives belonging to the aluminum division amounted to €59.7 million as of December 31, 2001, and is not included in the aforementioned credit risk exposure because of its status as discontinued operations. The increased credit risk reflects the fact that the volume of derivatives used by the energy division has risen due to expanded business. Because of the fact that not all counterparties are rated by Standard & Poor's and/or Moody's, for these unrated counterparties thorough credit limit checks and credit risk evaluation systems are installed. E.ON's contractual ability to net transactions with positive and negative market values with any defaulting counterparty is not reflected in these figures, regardless of whether the counterparty is rated or unrated, causing the credit risk to appear greater than in actuality. In general, collateral is neither provided nor received for derivative 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-70, incorporated by reference.

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 Letter Agreement between E.ON AG and Powergen plc, dated April 8, 2001.*

4.2 VEBA Oel Participation Agreement between E.ON AG and BP p.l.c., dated July 15, 2001.**

8.1 Subsidiaries as of the end of the year covered by this annual report: see ‘‘Item 4. Information on the Company — Organizational Structure.’’

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* Incorporated by reference to Form U-1/A filed by E.ON AG with the Securities and Exchange Commission on October 23, 2001, file number 070-09961.

** Confidential material appearing in this document has been omitted and filed separately with the Securities and Exchange Commission in accordance with the Securities Exchange Act of 1934, as amended, and Rule 24b-2 promulgated thereunder. Omitted information has been marked through.

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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, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 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 8, 2002

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

/s/ BREBECK	/s/ WIEGAND
Brebeck	Wiegand
Wirtschaftsprüfer	Wirtschaftsprüfer

E.ON AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(in millions, except for per share amounts)

	Note	Year Ended December 31			
		2001*	2001	2000	1999
Sales	(33)	**$70,909**	**€79,664**	**€80,279**	**€49,864**
Petroleum and electricity tax		(8,745)	(9,825)	(8,935)	(3,943)
Sales, net of petroleum and electricity tax		62,164	69,839	71,344	45,921
Cost of goods sold and services provided	(5)	(51,690)	(58,072)	(60,630)	(38,569)
Gross profit from sales		**10,474**	**11,767**	**10,714**	**7,352**
Selling expenses		(5,903)	(6,632)	(5,983)	(3,824)
General and administrative expenses		(2,349)	(2,639)	(2,645)	(1,650)
Other operating income (expenses), net	(6)	634	712	4,412	2,478
Financial earnings, net	(7)	614	690	(75)	202
Income from continuing operations before income taxes		3,470	3,898	6,423	4,558
Income taxes	(8)	(678)	(761)	(2,493)	(1,339)
Income from continuing operations after income taxes		2,792	3,137	3,930	3,219
Minority interests	(9)	(469)	(527)	(480)	(171)
Income from continuing operations		2,323	2,610	3,450	3,048
(Loss) income from discontinued operations:	(4)				
(Loss) income from operations (less applicable income taxes of €(351), (19) and (62), respectively)		(46)	(52)	120	(57)
Loss on disposal of silicon wafer segment, less applicable income taxes of €306		(431)	(484)	—	—
Income (loss) before cumulative effect of change in accounting principle		1,846	2,074	3,570	2,991
Cumulative effect of change in accounting principle, less applicable income taxes of €16		(23)	(26)	—	—
Net income		**1,823**	**2,048**	**3,570**	**2,991**
Basic earnings per share:	(11)				
Income from continuing operations		3.44	3.87	5.56	6.06
Income (loss) from discontinued operations, net		(0.71)	(0.80)	0.19	(0.11)
Cumulative effect of change in accounting principle, net		(0.03)	(0.04)	—	—
Net income		2.70	3.03	5.75	5.95
Dilutive earnings per share:	(11)				
Income from continuing operations		3.44	3.87	5.56	6.06
Income (loss) from discontinued operations, net		(0.71)	(0.80)	0.19	(0.11)
Cumulative effect of change in accounting principle, net		(0.03)	(0.04)	—	—
Net income		2.70	3.03	5.75	5.95

* Note 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

E.ON AG AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions)

	Note	At December 31 2001*	2001	2000
ASSETS				
Intangible assets	(12)	$9,308	€10,458	€ 9,714
Property, plant and equipment	(13)	30,518	34,286	28,844
Financial assets	(14)	13,616	15,297	24,782
Fixed assets		**53,442**	**60,041**	**63,340**
Inventories	(15)	4,448	4,997	7,166
Financial receivables and other financial assets	(16)	1,286	1,444	607
Operating receivables and other operating assets	(16)	15,845	17,803	24,133
Businesses held for sale	(4)	—	—	989
Liquid funds	(17)	10,810	12,144	8,501
Non-fixed assets		**32,389**	**36,388**	**41,396**
Deferred taxes	(8)	1,998	2,244	1,074
Prepaid expenses	(18)	332	373	405
Total assets (thereof short-term 2001: €34,383; 2000: €40,623)		88,161	99,046	106,215

	Note	2001*	2001	2000
LIABILITIES AND STOCKHOLDERS' EQUITY				
Capital stock	(19)	1,601	1,799	1,985
Additional paid-in capital	(20)	10,149	11,402	11,402
Retained earnings	(21)	10,499	11,795	14,705
Accumulated other comprehensive income	(22)	(231)	(260)	866
Treasury stock	(23)	(244)	(274)	(925)
Stockholders' equity		**21,774**	**24,462**	**28,033**
Minority interests	(24)	5,663	6,362	5,123
Provisions for pensions	(25)	7,787	8,748	8,736
Other	(26)	21,409	24,053	24,799
Accrued liabilities		**29,196**	**32,801**	**33,535**
Financial liabilities	(27)	14,320	16,089	19,128
Operating liabilities	(27)	12,483	14,024	16,792
Liabilities		**26,803**	**30,113**	**35,920**
Deferred taxes	(8)	3,998	4,492	2,720
Deferred income	(18)	727	816	884
Total liabilities (thereof short-term 2001: €23,594; 2000: €32,238)		*66,387*	*74,584*	*78,182*
Total liabilities and stockholders' equity		**88,161**	**99,046**	**106,215**

* 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)

	For the Year Ended December 31			
	2001*	2001	2000	1999
Net income	$ 1,823	€ 2,048	€ 3,570	€ 2,991
Income applicable to minority interests	469	527	480	171
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Loss (income) from discontinued operations	477	536	(120)	57
Depreciation and amortization	3,969	4,459	4,632	3,013
Other non-cash items	(594)	(667)	1,463	(451)
Gains from disposition of				
Equity interests	(1,098)	(1,234)	(4,561)	(2,289)
Other financial assets	6	7	(64)	(7)
Intangible and fixed assets	(328)	(368)	(357)	(308)
Changes in deferred taxes	(271)	(305)	354	(1,498)
Changes in provisions	196	220	180	1,791
Changes in operating assets and liabilities:				
Inventories	244	274	(1,147)	(268)
Trade receivables	305	343	(1,882)	(1,962)
Other assets	(358)	(402)	(577)	945
Accounts payable, trade	(507)	(570)	460	1,009
Other liabilities	(855)	(961)	812	103
Cash provided by (used for) operating activities	**3,478**	**3,907**	**3,243**	**3,297**
Proceeds from disposition of				
Equity interests	12,578	14,131	5,881	5,142
Other financial assets	4,363	4,902	1,705	486
Intangible and fixed assets	981	1,102	1,058	674
Purchase of				
Equity investments	(2,990)	(3,359)	(4,252)	(3,504)
Other financial assets	(716)	(804)	(5,174)	(976)
Intangible and fixed assets	(3,354)	(3,768)	(3,566)	(2,477)
Changes in securities (other than trading) (> 3 months)	(533)	(599)	(912)	(252)
Changes in other liquid funds (> 3 months)	(677)	(761)	1,320	(758)
Cash provided by (used for) investing activities	**9,652**	**10,844**	**(3,940)**	**(1,665)**
Cash inflow from capital increases including payments into capital by minority shareholders	230	250	—	(188)
Payments for treasury stock	(3,150)	(3,539)	(925)	
Payment of cash dividends to				
Shareholders of E.ON AG	(849)	(954)	(628)	(540)
Minority stockholders	(246)	(276)	(74)	(106)
Proceeds from financial liabilities	7,216	8,107	9,825	881
Repayments of financial liabilities	(13,849)	(15,559)	(6,486)	(1,530)
Cash provided by (used for) financing activities	**(10,648)**	**(11,963)**	**1,712**	**(1,483)**
Net increase in cash and cash equivalents maturing (< 3 months)	2,482	2,788	1,015	149
Effect of foreign exchange rates on cash and cash equivalents (< 3 months)	59	66	30	13
Cash and cash equivalents from continuing operations at the beginning of period	1,336	1,501	531	356
Cash and cash equivalents from discontinued operations at the beginning of period (<3 months)	(103)	(116)	(75)	(15)
Liquid funds at end of period (< 3 months)	**3,774**	**4,239**	**1,501**	**503**
Securities at the end of period (other than trading > 3 months)	6,997	7,861	6,836	265
Other liquid funds at the end of period (> 3 months)	39	44	48	1,031
Cash and cash equivalents from discontinued operations at the end of period (< 3 months)	—	—	116	45
Liquid funds as shown on the balance sheet	**10,810**	**12,144**	**8,501**	**1,844**

* Note 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

E.ON AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in millions of €)

				Accumulated Other Comprehensive Income					
	Capital Stock	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustment	Available for Sale Securities	Minimum Pension Liability	Cash Flow Hedges	Treasury Stock	Total
January 1, 1999	**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**
Shares reacquired								(3,539)	(3,539)
Cancelled shares	(186)		(4,004)					4,190	—
Dividends paid			(954)						(954)
Net income			2,048						2,048
Other comprehensive income				(75)	(755)	(245)	(51)		(1,126)
Total comprehensive income									922
December 31, 2001	**1,799**	**11,402**	**11,795**	**376**	**(265)**	**(320)**	**(51)**	**(274)**	**24,462**

The accompanying Notes are an integral part of these Consolidated Financial Statements.

E.ON AG AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The Consolidated Financial Statements of E.ON AG have been prepared in accordance with generally accepted accounting principles in the United States of America (''U.S. GAAP'').

E.ON makes use of the relief outlined in § 292a of the German Commercial Code, which exempts companies from preparing consolidated financial statements in accordance with generally accepted accounting principles in Germany (''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''.

Solely for the convenience of the reader, the December 31, 2001 financial statements have also been translated into United States dollars (''$'') at the rate of €1 = $0.8901, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 2001. 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 its subsidiaries. The subsidiaries, associated companies and other related companies have been included in accordance with the following criteria:

- 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 are fully consolidated.
- Majority-owned companies (unconsolidated affiliates) in which E.ON does not exercise management 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 their shares and E.ON has 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 generally accounted for under the cost method (related companies).

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

Business combinations accounted for under the purchase method of accounting record all assets acquired and liabilities assumed 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 negative goodwill remains after being allocated to reduce proportionately the values otherwise assigned to non-current assets (with the exception of long-term investments in marketable securities and net deferred tax assets) to zero. Goodwill and negative goodwill of different subsidiaries are not offset against each other. Goodwill and negative goodwill are amortized over the expected useful life on a straight-line basis. 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 as are applicable to fully consolidated companies.

Businesses Held for Sale

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 were 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. Businesses held for sale are discussed in detail in Note 4.

SAB 51 Treatment

The accounting method adopted by the Company for the issuance of a subsidiary's stock is through recognition of gains or losses in non-operating income or non-operating expenses, respectively.

Foreign Currencies

The assets and liabilities of the Company's foreign subsidiaries where the functional currency is other than the euro are 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 Monetary Union (1) have experienced the exchange rate fluctuations shown below:

Currency	ISO-Code	Rate in € as of the Balance Sheet Date		Annual Average Rate in €		
		Dec. 31, 2001	Dec. 31, 2000	2001	2000	1999
Swiss francs	CHF	1.48	1.52	1.51	1.56	1.60
British pound	GBP	0.61	0.62	0.62	0.61	0.66
Japanese yen	JPY	115.33	106.92	108.68	99.47	121.32
Swedish krona	SEK	9.30	8.83	9.26	8.45	8.81
US dollar	USD	0.88	0.93	0.90	0.92	1.07

(1) The countries within the European Monetary Union are Belgium, Germany, Finland, France, Ireland, Italy, Luxemburg, the Netherlands, Austria, Portugal, Greece and Spain.

Revenue Recognition

The Company generally recognizes revenue upon delivery of products to customers or upon fulfilment 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. Fulfilment of service contracts occurs when substantially all performance obligations have been met.

As in accordance with SEC Staff Accounting Bulletin No. 101 ("SAB 101"), telecommunications-related activation fees are deferred and amortized over the longer of the contract or the length of the average customer relationship period and 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 megawatt hour ("MWh"). This rate varies among different classes of customers.

Advertising Costs

Advertising costs are expensed as incurred and totalled €352 million in 2001 (2000: €205 million, 1999: €112 million).

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 (''SFAS'') No. 128, Earnings per Share. Basic EPS is computed by dividing consolidated net income by the weighted average number of ordinary shares outstanding. Diluted EPS is computed by dividing consolidated net income by the sum of the weighted average number of ordinary shares outstanding and the weighted average number of potential ordinary 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 historical cost 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 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 historical 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 components	10 to 15 years
Nuclear components	up to 25 years
Hydro power stations and other facilities used to generate renewable energy	10 to 50 years
Equipment, fixtures, furniture and office equipment	3 to 25 years

Buildings, power plants, chemical plants and refineries are depreciated according to the straight-line method. Depreciation expense for equipment, fixtures, furniture and office equipment is determined by either the declining-balance method until the straight-line method yields larger expenses or the straight-line 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 according to SFAS No. 19 ''Financial Accounting and Reporting by Oil and Gas Producing Companies''. 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 to be 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 apportioned 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 2001 was €1,294 million (2000: €978 million, 1999: €591 million). Of this amount, interest capitalized was €37 million (2000: €15 million, 1999: €55 million). Interest expensed was €1,257 million (2000: €963 million, 1999: €536 million).

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 SFAS No. 115, ''Accounting for Certain Investments in Debt and Equity Securities''. SFAS 115 requires that a security be accounted for according to its classification as either trading, available-for-sale or held to maturity. Debt securities 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 is 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. Available-for-sale securities that management does not intend to hold long term are classified as liquid funds. 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, average cost or other methods. 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 recorded at their nominal values. Valuation allowances are provided for identified individual risks for these items as well as for long-term loans. Adequate lump-sum valuation allowances are provided to cover the general risk and are generally based on empirical values and assumptions made by the Company in 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 SFAS No. 87, ''Employers' Accounting for Pensions'', and SFAS No. 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 German tax and U.S. GAAP consolidated balance sheet. According to SFAS No. 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. SFAS 109 also requires the recognition of future tax benefits of net operating loss and tax credit 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. The deferred taxes for domestic companies are calculated based on a tax rate of 39 percent (2000: 39 percent, 1999: 52 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 8.

Derivative Instruments and Hedging Activities

Statement of Financial Accounting Standards No. 133, ''Accounting for Derivative Instruments and Hedging Activities'' (''SFAS 133''), as amended by SFAS 137 and SFAS 138 and as interpreted by the Derivatives Implementation Group (DIG), was adopted by the Company effective as of January 1, 2001. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. SFAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting.

Hedge effectiveness is assessed consistently with the method and risk management strategy documented for each hedging relationship. On at least a quarterly basis, the Company assesses the effectiveness of each hedging relationship retrospectively and prospectively to ensure that hedge accounting was appropriate for the prior period and continues to be appropriate for future periods. The Company applies the short cut method in assessing effectiveness when possible. The Company considers hedge accounting to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80 to 125 percent effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

If a derivative instrument qualifies as a fair value hedge under the applicable guidance, and is documented as such, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s), is recorded in earnings based on the income classification of the item being hedged. These changes also adjust the book values of the derivative and hedged item. If a derivative instrument qualifies as a cash flow hedge under the applicable guidance and is documented as such, the effective portion of the hedging instrument's gain or loss is reported in stockholder's equity (as a component of accumulated other comprehensive income) and is reclassified into earnings in the period(s) during which the transaction being hedged affects earnings. Gains or losses reclassified from stockholder's equity to earnings are classified in accordance with the earnings treatment of the hedged transaction. The ineffective portion of a hedging derivative's fair value change, where that derivative is used in a cash flow hedge, is recorded in current earnings. Classification in the Consolidated Statements of Income of the ineffective portion of the hedging instrument's gain or loss is based on the income statement classification of the transaction being hedged. For derivative instruments designated as a hedge of the foreign currency risk in a net investment in a foreign operation, gains or losses due to fluctuations in market rates are recorded in the cumulative translation adjustment within stockholder's equity (as a component of accumulated other comprehensive income). If a derivative instrument does not qualify as either a net investment hedge or a cash flow hedge under the applicable guidance, the change in the fair value of the derivative is immediately recognized in the Consolidated Statements of Income.

Certain contracts that meet the definition of a derivative under SFAS 133 may qualify as a normal purchase or a normal sale. A normal purchase or a normal sale is excluded from the scope of SFAS 133. Specific criteria must be met and documented in order for a contract that would otherwise be regarded as a derivative to qualify as a normal purchase or a normal sale. The Company has evaluated its commodity contracts to determine if they meet the definition of a derivative and qualify as a normal purchase or a normal sale.

The Company also evaluates contracts for "embedded" derivatives, and considers whether any embedded derivatives have to be bifurcated, or separated, from the host contracts in accordance with SFAS 133 requirements. Embedded derivatives may have terms that are not clearly and closely related to the terms of the host contract in which they are included. If embedded derivatives exist and are not clearly and closely related to the host contract, they are accounted for separately from the host contract as derivatives, with changes in their fair value recorded in current earnings, to the extent that the hybrid instrument is not already accounted at fair value. In this context, the Company has certain put and call options on publicly traded shares, which it considers to be embedded derivatives.

In the normal course of operations, certain entities are involved in energy trading and risk management activities. In accordance with Emerging Issues Task Force No. 98-10 "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" ("EITF 98-10") all contracts entered into for trading purposes by an entity involved in such activities (energy trading contracts) are measured at fair value and recorded in the consolidated balance sheet with gains and losses included in current earnings. Gains and losses on energy trading contracts are classified as other income or other expense.

When hedge accounting is discontinued due to the Company's determination that the derivative no longer qualifies as an effective fair value hedge, the Company will continue to carry the derivative on the Consolidated Balance Sheet at its fair value. The related hedged asset or liability will cease to be adjusted for changes in fair value that are due to the previously hedged risk. When the Company discontinues hedge accounting in a cash flow hedge because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized in current earnings. If a derivative instrument ceases to meet the criteria for hedge accounting, any subsequent gains and losses are recognized in current earnings.

The cumulative effect of adopting SFAS 133 at January 1, 2001, representing the initial revaluation of derivatives and other items as described above, was an after tax charge of €26 million included in net income and a decrease of €7.6 million included in the cumulative-effect-type adjustment of other comprehensive income, a component of stockholder's equity. Based on estimates, €0.9 million is expected to be reclassified into current earnings during 2002.

Please see Note 31 for a complete discussion of the Company's strategy and objectives for the use of derivative instruments.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows is classified by operating, investing and financing activities pursuant to SFAS 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 prepared in accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." The management approach required by SFAS 131 designates that the internal reporting organization that is used by management for making operating decisions and assessing performance should be used as the source for presenting 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. SFAS 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.

Reclassifications

Certain reclassifications to the prior year presentation have been made to conform with the current year presentation.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), which is effective for all business combinations initiated and accounted for by the purchase method before and after June 30, 2001. SFAS 141 requires that all business combinations be accounted for using the purchase method, use of the pooling of interests method is no longer permitted. SFAS 141 requires that an intangible asset acquired in a business combination be recognized apart from goodwill if the intangible asset arises from contractual or other legal rights or the acquired intangible asset is capable of being separated from the acquired enterprise. SFAS 141 requires that the Company disclose the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. When the amounts of goodwill and intangible assets acquired are significant in relation to the price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. As of the earlier of the first day of the fiscal year beginning after December 15, 2001, or the date SFAS 142 is initially applied in its entirety, the amount of any negative goodwill related to an excess over cost arising from a business combination for which the acquisition date was before July 1, 2001, shall be written off and recognized as the effect of a change in accounting principle. The same treatment applies to an investment accounted for by the equity method acquired before July 1, 2001. Adoption of the provisions of SFAS 141 will result in a release to income in the amount of €190 million, which reflects the reversal of negative goodwill as part of the cumulative effect of a change in accounting principle.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (''SFAS 142'') which is effective for fiscal years beginning after December 15, 2001. SFAS 142 requires that goodwill and indefinite lived intangible assets no longer be periodically amortized, but rather be tested for impairment on an annual basis using a fair value based approach. The first step of the transitional assessment is required to be completed by June 30, 2002. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. The second step is required to be completed as soon as possible, but no later than December 31, 2002. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the Company's Consolidated Statements of Income. As of December 31, 2001, the Company had €6,083 million of goodwill, net of accumulated amortization of €1,353 million.

The Company is currently evaluating the impact of these new standards on its financial statements and has adopted them as of January 1, 2002.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (''SFAS 143'') which is effective for fiscal years beginning after June 15, 2002. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. When the liability is recorded, the Company will capitalize the costs of the liability by increasing the carrying amount of the long lived asset. Over the estimated life of the asset, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. The Company is currently reviewing the impact this standard will have on its financial statements and will adopt SFAS 143 beginning January 1, 2003.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets (''SFAS 144'') which is effective beginning January 1, 2002. The FASB's new rules on asset impairment supersede Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (''SFAS 121'') and provide a single accounting model for long lived assets to be disposed of. Although SFAS 144 retains many of the fundamental recognition and measurement provisions of SFAS 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. Under SFAS 144, long-lived assets are to be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The new rules also supercede the provisions of APB Opinion No. 30, Reporting Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions (''APB 30''), with regard to reporting the effects of a disposal of a segment of a business to include a component of an entity (rather than only a segment of a business) and require that expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred. The Company is currently evaluating the impact of SFAS 144; due to its divestment program it expects to have more discontinued operations in the future.

(3) Scope of Consolidation

Changes to the scope of consolidation in 2001 are listed below:

Scope of Consolidation	Domestic	Foreign	Total
Consolidated companies as of December 31, 2000	451	891	1,342
Acquisitions	38	258	296
Disposals	86	299	385
Consolidated companies as of December 31, 2001	**403**	**850**	**1,253**

In 2001, a total of 187 domestic and 85 foreign associated and non-consolidated companies were valued at equity (2000: 184 and 75, respectively). See below for additional information on significant acquisitions and disposals.

(4) Acquisitions, Dispositions and Discontinued Operations

Significant Transactions in 2001: Acquisitions

Sydkraft.

During the first part of 2001, E.ON Energie AG (''E.ON Energie''), acquired a controlling interest in Sydkraft AB (''Sydkraft''), a Swedish energy group in a series of transactions. E.ON Energie owned 24.1% of Sydkraft as per December 31, 2000. The Company following these transactions owned a 60.8% equity interest and fully consolidated Sydkraft in the consolidated financial statements effective May 1, 2001. The acquisition was accounted for using the purchase method of accounting and the total purchase price paid for the above acquisitions amounted to approximately €1.7 billion. As the fair value of the acquired net assets exceeded the purchase price, no goodwill was recorded.

In October 2001, E.ON Energie concluded a put option agreement which allows the minority shareholder to exercise its right to sell its remaining stake in Sydkraft. The put option is valued at approximately €2 billion and is valid through the end of 2005.

HEIN GAS.

In June 2001, E.ON's energy division acquired an additional 61.85% interest in HEIN GAS Hamburger Gaswerke GmbH (''Hein Gas'') for €514 million. The acquisition was accounted for using the purchase method of accounting and resulted in goodwill of €74 million, amortized over a 20-year period. E.ON Energie's total investment in Hein Gas, subsequent to the 2001 acquisition, totals 89.9% and therefore, Hein Gas was fully consolidated effective June 1, 2001.

SKW Trostberg.

In the beginning of 2001, Degussa-Hüls and SKW Trostberg merged into an entity called ''Degussa AG'' with Degussa-Hüls acting as the acquirer. In October 2000, the merger was approved by both the shareholders of Degussa-Hüls and SKW Trostberg, and in early 2001 the European antitrust authorities approved the merger. On February 9, 2001 the merger was entered into the Commercial Register. The purchase was effected through a share transaction using the following exchange ratios:

- one Degussa AG share for one Degussa-Hüls AG share
- five Degussa AG shares for 22 SKW Trostberg AG shares

This share exchange results in E.ON holding a 64.55% ownership in Degussa AG. E.ON accounted for the merger as a transaction between entities under common control and therefore, there were no fair value adjustments made to E.ON's interest in SKW Trostberg held prior to the merger; however the minority shareholder interest of SKW Trostberg was accounted for using the purchase method of accounting. For convenience purposes, February 1, 2001 was chosen as the merger date. The purchase price was €559 million and related goodwill was €397 million. E.ON recognized a SAB 51 gain of €184 million which represents the difference between E.ON's net investment basis in the newly formed Degussa AG and its old basis in Degussa-Hüls and SKW Trostberg prior to the merger.

Laporte.

On January 12, 2001, Degussa made a public offer to purchase 80.4% of the shares of Laporte plc., a specialty chemicals company, for €6.97 per share or €1.8 billion. In December 2000, Degussa made an initial purchase of 19.6% of Laporte for €434 million. The acquisition has been accounted for using the purchase method of accounting; the total goodwill amounted to €1.2 billion. Laporte was fully consolidated in the financial statements of Degussa beginning March 31, 2001.

The following unaudited pro forma consolidated results of operations of the Company are presented as if the acquisitions of Sydkraft, Hein Gas, and Laporte had taken place at the beginning of the periods presented.

Pro Forma € in millions except per share amounts	2001 unaudited	2000 unaudited
Net sales(1)	73,056	74,464
Net income	2,186	3,669
Earnings per share	3.24	5.91

(1) excludes the net sales of discontinued operations from the silicon wafer and aluminum operations.

This unaudited pro forma information is not necessarily indicative of what the actual combined results of operations might have been had the acquisitions occurred at the beginning of fiscal year 2000 and 2001, respectively.

Significant Transactions in 2001: Dispositions and Discontinued Operations

Dispositions

VIAG Interkom.

In January 2001, E.ON exercised its put option to sell it's 45 percent interest in VIAG Interkom. E.ON had agreed on the put option with British Telecommunications plc ("BT") in August 2000. The proceeds from the sale of the interest amounted to roughly €11.4 billion which comprise the price for the option, after adjustment of effects resulting from the auction of a UMTS license, in the amount of €7.25 billion and the repayment of shareholder loans. A net gain of €110 million was recognized on the sale.

Kloeckner & Co.

In October 2001, Klöckner & Co was sold to Balli Group plc for €1.1 billion. The purchase price included the assumption of debt and pension provisions of approximately €800 million, with the remainder paid in cash. A gain of approximately €140 million was recognized on the sale.

Degussa Dispositions.

- In April 2001, Degussa sold its 100% stake in Phenolchemie GmbH & Co. KG to the British INEOS group for €388 million, which includes the assumption of €66 million in debt.
- In August 2001, Degussa sold the precious metals activities of dmc^2(Degussa Metals Catalysts Cerdec AG) to the U.S. OM Group, Inc. for €1.2 billion.
- In October 2001, Degussa sold ASTA Medica's oncology business to Baxter Healthcare S.A., a Swiss subsidiary of the U.S. based company Baxter International., for €525 million.
- In October 2001, Degussa sold the Degussa Dental Group to the U.S. company Dentsply International Inc. for €576 million, which includes the assumption of €27 million in debt.

A net gain in the amount of €530 million resulted from these dispositions.

Other.

During 2001, E.ON, in compliance with antitrust requirements, sold investments in LAUBAG Lausitzer Braunkohle AG (LAUBAG), VEAG Vereinigte Energiewerke AG (VEAG), Berliner Kraft-und Licht AG, (BEWAG) and Hamburgische Elektricitaetswerke AG (HEW). The investments related to VEBA were classified as "Financial assets" and the investments related to VIAG were classified as "Businesses held for sale" in the December 31, 2000 balance sheet. The following summarizes those dispositions:

- LAUBAG and VEAG were sold on May 16, 2001 for €837 million, resulting in a €1 million loss.
- BEWAG was sold on May 16, 2001 for €1,394 million resulting in a gain of €63 million. The consideration consisted of 61.85% of Hein Gas outstanding shares and €870 million in cash.
- HEW was sold on May 17, 2001 for €419 million resulting in a gain of €63 million.

Discontinued Operations

The Company has discontinued the operations of its silicon wafer and aluminum business segments and these segments are accounted for as such in accordance with APB 30. Amounts in the financial statements and related notes for the year ended December 31, 2001 as well as the Consolidated Statement of Income for 2000 and related notes thereto have been reclassified to reflect the discontinued operations.

Operating results up through the measurement date for discontinued operations are reported, net of tax, under "(Loss) income from discontinued operations" in the accompanying Consolidated Statements of Income. In addition, the loss arising from the disposal of the discontinued silicon wafer operations has been recorded in a separate line item, net of tax, under "Loss on disposal of silicon wafer segment" in the accompanying Consolidated Statements of Income.

For financial reporting purposes, the assets and liabilities of the discontinued aluminium operations are combined and classified in the accompanying Consolidated Balance Sheets as of December 31, 2001, under "Operating receivables and other operating assets."

The impacts of cash flows from the discontinued operations have been eliminated from the Consolidated Statements of Cash Flows for all periods presented. The liquid fund balances in 2001 related to discontinued aluminium operations are classified with the other assets and liabilities as a net number under "Other receivables." The liquid fund balances of discontinued operations in prior periods are shown as cash and cash equivalents from discontinued operations at the beginning of the period and the end of the period, as applicable.

MEMC.

E.ON entered into an agreement for the sale of its silicon wafer operations to TPG Partners III ("TPG") pursuant to a Purchase Agreement dated September 30, 2001 for a symbolic price of $6.00 for both E.ON's 71.8% interest in MEMC and outstanding shareholder loans. The transaction closed on November 13, 2001. The total purchase price is subject to upward adjustments of up to $150 million as outlined in the Purchase Agreement, subject to MEMC meeting certain pre-defined operating objectives during 2002. Due to the contingent nature of these operating objectives, which are outside the control of the Company, this contingent payment has not been factored into the loss on the sale of the discontinued silicon wafer operations.

The following table provides detail of the net earnings from the discontinued operations of the silicon wafer business:

€ in millions	2001	2000	1999
Sales, net	555	944	651
Costs of goods sold and services provided	582	804	661
Gross profit from sales	(27)	140	(10)
Other expense, net	(1,160)	(140)	(148)
Income before income taxes	(1,187)	—	(158)
Income taxes	229	(6)	62
Loss from discontinued operation	(958)	(6)	(96)
Minority interests in discontinued operations	148	12	39
(Loss) income from discontinued operations	(810)	6	(57)

The total loss on discontinued operations of MEMC of €810 million is composed of losses from the operations of €326 million, net of €277 million in tax expense, and the loss on disposal of €484 million, net of a €506 million tax benefit.

VAW.

On January 6, 2002, E.ON entered into a Share Purchase Agreement with Hohenstaufen Zweihunderterste Vermoegensverwaltungs GmbH, a wholly owned subsidiary of Norsk Hydro ASA (''Norsk Hydro''), to sell 100% of its shares in and shareholder loans to VAW aluminum AG (''VAW''). The closing of the transaction was contingent on the approval of the E.ON Supervisory Board (Aufsichtsrat) and the Norsk Hydro corporate assembly. The E.ON Supervisory Board approved the transaction on December 12, 2001 and the Norsk Hydro corporate assembly approved the transaction on January 28, 2002. The aggregate consideration paid for the 100% interest and the repayment of shareholders loans will amount to €3.1 billion.

The sales purchase agreement between E.ON and Norsk Hydro contains several representations and warranties as well as indemnifications customary for such transactions. The agreement provides that the maximum aggregate liability of the Company for indemnifications and breaches of representations and warranties is €250 million.

The following table provides details of the net earnings from the discontinued operations of the aluminum business:

€ in millions	2001	2000
Sales, net	3,814	1,760
Costs of goods sold and services provided	3,061	1,435
Gross profit from sales	753	325
Other expense, net	(402)	(197)
Income before income taxes	351	128
Income taxes	(74)	(13)
Income from discontinued operations	277	115
Minority interests in discontinued operations	(3)	(1)
Income from discontinued operations	274	114

The following table provides details of the net assets from the discontinued operations of the aluminum business:

€ in millions	December 31, 2001
Fixed Assets	1,193
Non-fixed Assets	1,898
Liabilities	2,421
Negative Goodwill	192
Net assets	478

Significant Transactions in 2000: Acquisitions

Merger of VEBA and VIAG.

On June 16, 2000, the merger between VEBA and VIAG was completed and entered into the Commercial Register. For convenience reasons, June 30, 2000 was chosen as the merger date. Operations of VIAG are included in the Consolidated Statements of Income beginning July 1, 2000. The merged entity was subsequently renamed ''E.ON AG.''

The merger between VEBA and VIAG was accounted for under the purchase method of accounting, with VEBA as the acquiring entity. The total purchase price amounted to €10,920 million and included acquisition costs of €57 million. 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 million.
- 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 million.

The initial difference of €340 million between the purchase price of the acquired net identifiable assets and their fair values as of June 30, 2000 was capitalized as goodwill. Subsequent to the transfer of Schmalbach Lubeca to AV Packaging GmbH (AVP) in the second half of 2000, following which it is accounted for at equity, goodwill associated with the merger decreased by €361 million. The remaining negative goodwill of €21 million is reported as a liability in the December 31, 2000 consolidated balance sheet and is amortized on a straight-line basis over 20 years.

Of the amount allocated to the net realizable value of VIAG's business, €2,020 million has been identified as pertaining to 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 sales prices for all businesses held for sale less cash out flows through disposal date.

Subsequent to the merger of VEBA and VIAG, the following merger related transactions occurred:

- 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 million. This acquisition was also accounted for under the purchase method. An amount of €548 million was recorded as goodwill, which is being amortized over 20 years on a straight-line basis.
- Gerresheimer Glas was sold for proceeds of €228 million. No gain or loss was recognized on the disposition of this entity, as it was classified as a business held for sale.
- VEW AG was sold for proceeds of €731 million. Due to the accounting treatment for businesses held for sale, no gain or loss was recognized.

The table below reflects the pro forma income statement of E.ON as if the merger had taken place in the periods presented.

€ in millions except per share amounts	Pro Forma 2000 unaudited	Pro Forma 1999 unaudited
Net sales(1)	79,923	65,029
Net income	3,678	2,839
Earnings per share	5.07	3.90

(1) excludes the sales of discontinued operations from the silicon wafer and aluminum operations.

This 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 year 2000. 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 (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 2000 Acquisitions.

- As of January 1, 2000, VEBA Oel acquired an additional 28% ownership interest in Aral through the acquisition of additional subsidiaries of Mobil Oil. On January 1, 2001, VEBA Oel increased its ownership in Aral to 100% by acquiring the remaining outstanding 1.12% of Aral's shares. The aggregate purchase price of the above transactions approximated €1,899 million. The acquisition has been accounted for under the purchase method of accounting and resulted in goodwill of €881 million, amortized on a straight-line basis over 20 years. Aral was fully consolidated starting January 1, 2000.

- In January 2000, Preussen Elektra (now E.ON Energie) acquired 100% of Electriciteitsbedrijf Zuid-Holland N.V. (''EZH'') which has been renamed E.ON Benelux Generation N.V. a Dutch energy utility headquartered in Voorburg, The Netherlands. The purchase price was €1,082 million. Goodwill resulting from the application of purchase method accounting amounted to €590 million, amortized over 15 years using the straight-line method. EZH's results were consolidated effective January 1, 2000.

- 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% of HCI's outstanding shares. The purchase price per share was €16.20. The total purchase price for HCI was €293 million. The acquisition has been accounted for under the purchase method and resulted in goodwill of €185.2 million, amortized on a straight-line basis over 20 years. HCI was fully consolidated effective December 1, 2000.

Significant Transactions in 2000: Disposals

Telecommunications.

- On February 10, 2000, the sale and transfer contract for the shares in E-Plus with BellSouth was concluded. The sale price was €7.4 billion in addition to the extinguishment of stockholder loans in the amount of €1.0 billion. E.ON's share in both amounts was 51.25 percent.

- As of March 28, 2000, Cablecom was sold. The sale price amounted to €851 million and resulted in a gain of €788 million.

- The Company sold its 42.5% 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. Cash proceeds were received for the shareholder loans and one fourth of the value of the shareholding in Orange Communications. The remaining sales price was paid 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, as it was accounted for at its fair value as part of the merger.

Other.

In October 2000 E.ON sold the operating entities of VEBA Electronics 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 million was recorded upon sale. VEBA Electronics was deconsolidated effective September 30, 2000.

Significant Transactions in 1999

On February 1, 1999, Degussa, in which Hüls then held a 36.4 percent shareholding, was merged into Hüls, in which E.ON held at 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 was based on a €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 million) and purchased in-process research and development activities (€160 million) — the remaining difference between the purchase price and the acquired share in Degussa's net equity was capitalized as goodwill (€963 million), 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. The increase in stockholders' equity resulting from the difference between E.ON's share of stockholders' equity in Degussa-Hüls after the merger and E.ON's share of stockholders' equity in Hüls before the merger has been recognized in income in the amount of €559 million ("SAB 51 Gain").

(5) Cost of Goods Sold and Services Provided

The following table provides an overview of the cost of goods sold and services provided by segment:

€ in millions	2001	2000	1999
Energy	14,840	9,396	6,358
Oil	15,760	18,049	7,805
Chemicals	13,504	14,590	9,759
Real Estate	835	859	691
Telecommunications	408	197	125
Distribution/Logistics	13,269	17,829	14,488
Others	(544)	(290)	(657)
Total	**58,072**	**60,630**	**38,569**

(6) Other Operating Income/Expenses

The following table provides details of other operating income/expenses, net:

€ in millions	2001	2000	1999
Gains from the disposal of businesses and/or fixed assets	1,610	4,881	2,531
SAB 51 gain	184	—	559
Amortization of negative goodwill	—	—	178
Research and development costs	(510)	(485)	(583)
Amortization of goodwill	(475)	(501)	(386)
Bad debt expense	(122)	(210)	(188)
Other	25	727	367
Total	**712**	**4,412**	**2,478**

As discussed in more detail in Note 4, the gains from the disposal of fixed assets in 2001 primarily consist of gains realized on the sale of investments in subsidiaries by Degussa, E.ON Energie and Viag Telecom. In 2000, gains from the disposal of fixed assets primarily comprise gains resulting from the disposal of shareholdings in E-Plus (€3,527 million) and Cablecom (€788 million). 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 million, Tele Columbus and VRT's fixed-line business.

As discussed in more detail in Note 4, the common control merger of Degussa-Hüls and SKW Trostberg resulted in E.ON realizing a SAB 51 gain of €184 million. Also in 1999, a SAB 51 gain resulted from the merger of Degussa and Hüls.

Other operating expenses include costs that cannot be allocated to production, administration or selling costs. In addition to the aforementioned, miscellaneous other operating expenses relate to expenses resulting from the cancellation of long term energy contracts, rentals, leaseholdings, interest expense related to real estate and external consulting costs.

(7) Financial Earnings

€ in millions	2001	2000	1999
Income from companies in which share investments are held; thereof from affiliated companies €73 (2000: €20, 1999: €14)	288	170	71
Income from profit- and loss-pooling agreements; thereof from affiliated companies €0 (2000: €5, 1999: €3)	35	25	9
Income from companies accounted for under the equity method; thereof from affiliated companies €1 (2000: €265, 1999: €5)	934	863	596
Losses from companies accounted for under the equity method; thereof from affiliated companies €0 (2000: €(4), 1999: €(103))	(249)	(950)	(314)
Losses from profit- and loss-pooling agreements; thereof from affiliated companies €0 (2000: €(1), 1999: €(2))	(14)	(39)	(11)
Write-downs of investments	(86)	(91)	(14)
Income (loss) from equity interests	**908**	**(22)**	**337**
Income from long-term securities and long-term loans	262	332	203
Other Interest and similar income; thereof from affiliated companies €16 (2000: €25, 1999: €3)	824	595	222
Interest and similar expenses; thereof from affiliated companies €6 (2000: €107, 1999: €(3))	(1,257)	(963)	(536)
Interest and similar expenses (net)	**(171)**	**(36)**	**(111)**
Write-downs of financial assets and long-term loans	(47)	(17)	(24)
Financial earnings	**690**	**(75)**	**202**

The decrease in losses from companies accounted for under the equity method in 2001 compared to 2000 results primarily from the disposition of VIAG Interkom in January 2001. Increases in interest income from investment of excess funds were offset by increases in interest expense resulting from higher debt levels.

In 2000, a write-down of €356 million was taken on the stakes held by the former VEBA in equity method held companies which were divested during 2001 in order to comply with antitrust requirements associated with the VEBA-VIAG merger. This amount is included in losses from companies accounted for under the equity method.

Goodwill amortization of companies valued at equity totalling €153 million (2000: €275 million, 1999: €133 million) as well as income resulting from the amortization of negative goodwill relating to companies accounted for under the equity method in the amount of €3 million (2000: €25 million, 1999: €74 million) are included in income from equity interests. The accumulated amortization of goodwill of companies accounted for under the equity method is €518 million (2000: €552 million, 1999: €0 million).

Interest expense is reduced by capitalized interest on debt totalling €37 million (2000: €15 million, 1999: €55 million).

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 million recorded in 1999 and is included in financial earnings.

(8) Income Taxes

Income taxes including deferred taxes are as follows:

€ in millions	2001	2000	1999
Current Taxes			
Domestic corporate income tax	125	1,985	1,458
Domestic trade tax on income	171	77	511
Foreign income tax	755	819	389
Other	15	35	—
	1,066	2,916	2,358
Deferred Taxes			
Domestic	(103)	(335)	(949)
Foreign	(202)	(88)	(70)
	(305)	(423)	(1,019)
Income Taxes	**761**	**2,493**	**1,339**

The German Tax Reduction Act (''Steuersenkungsgesetz'') took effect on January 1, 2001 and replaced the corporate imputation system with a classic corporate tax system (Halbeinkünfteverfahren). The corporate income tax rate on distributed earnings of 30 percent and non-distributed profits of 40 percent was reduced to 25 percent. The corporate income tax liability still remains subject to a solidarity surcharge of 5.5 percent, and the trade tax on income is still in effect. At the shareholder level, the corporate imputation system mentioned above was applicable to dividends paid for 2000 for the last time. With respect to dividends paid for 2001, generally only half of the distributed profits are included in the taxable income of individual shareholder's resident in Germany.

In light of the positive developments of two precedent setting tax proceedings in two lower German tax courts, the Company released a tax provision that had been previously established to account for a probable liability stemming from the profit and loss sharing agreements with former non-profit real estate companies. This reduced domestic income taxes by approximately €527 million. A final decision from the federal tax court is pending.

Due to the accounting treatment of VIAG Interkom within the purchase price allocation in the VEBA-VIAG merger, the disposition of VIAG Interkom in 2001 resulted in a minimal gain and corresponding effect on tax expense.

A release of valuation allowances in the current period, related to acquired tax benefits recognized in conjunction with the purchase price allocation of the VEBA-VIAG merger reduced goodwill by €178 million. These benefits were primarily on corporate and trade tax loss carryforwards.

Income taxes resulting from the discontinued operations of MEMC and VAW are shown separately under ''(Loss) income from discontinued operations'' in the Consolidated Statements of Income and are not included in the above table.

The earnings of the Dutch subsidiary, E.ON Benelux Generation N.V., have been entitled to a tax holiday which expired after the 2001 tax year. E.ON is still in negotiations with the relevant tax authorities to determine the applicable tax basis for the assets and liabilities of the subsidiary. At this time, the Company is unable to estimate the potential deferred tax effects that the change to taxable status will have. As a result, no deferred taxes have been provided for this entity.

The differences between the statutory tax rate of 25 percent (2000 and 1999: 40 percent) in Germany and the effective tax rate of 19.5 percent in 2001, 38.8 percent in 2000 and 29.4 percent in 1999 are summarized as follows:

€ in millions	2001 Amount	2001 Percent	2000 Amount	2000 Percent	1999 Amount	1999 Percent
Corporate income tax (2001: 25%; 2000: 40%)	975	25.0	2,569	40.0	1,823	40.0
Credit for dividend distributions(1)	—	—	(193)	(3.0)	(135)	(3.0)
Municipal trade taxes net of federal tax benefit	271	6.9	66	1.0	392	8.6
Foreign tax-rate differential	381	9.7	202	3.1	95	2.1
Change in valuation allowances	(17)	(0.4)	7	0.1	—	—
Tax rate and tax law changes	(188)	(4.8)	(835)	(13.0)	(122)	(2.7)
Tax-effects on Tax-free income	(172)	(4.4)	(138)	(2.1)	(777)	(17.0)
Equity accounting	(210)	(5.4)	(93)	(1.4)	(64)	(1.4)
Non-deductible goodwill/badwill-amortization	158	4.1	240	3.7	128	2.8
Other permanent differences(2)	(437)	(11.2)	668	10.4	(1)	—
Income taxes/effective tax rate	**761**	**19.5**	**2,493**	**38.8**	**1,339**	**29.4**

(1) The tax credit resulting from the dividend for the reporting period will be recognized for U.S. GAAP purposes in 2002.

(2) Including the release of tax accruals in 2001, in the amount of €527 million.

Income from continuing operations before income taxes is attributable to the following geographic locations:

€ in millions	2001	2000	1999
Domestic	2,988	5,018	3,925
Foreign	910	1,405	633
Total	**3,898**	**6,423**	**4,558**

Deferred tax assets and liabilities which are mainly of a long-term nature are summarized as follows as of December 31:

€ in millions	2001	2000
Deferred Tax Assets		
Intangible Assets	32	295
Fixed Assets	483	1,063
Investments and long-term financial assets	360	2,335
Inventories	96	105
Receivables	359	120
Net operating loss carryforwards and tax credits	1,331	994
Accruals	2,209	2,499
Liabilities	590	377
Other	908	911
	6,368	8,699
Valuation allowance	(254)	(271)
	6,114	**8,428**

€ in millions	2001	2000
Deferred Tax Liabilities		
Intangible assets	(741)	(809)
Fixed assets	(2,519)	(1,957)
Investments and long-term financial assets	(904)	(2,956)
Inventories	(73)	(110)
Receivables	(389)	(905)
Accruals	(440)	(341)
Liabilities	(2,936)	(2,779)
Other	(360)	(217)
	(8,362)	**(10,074)**
Net deferred tax assets/(liabilities)	**(2,248)**	**(1,646)**

Net deferred income tax assets and liabilities in the consolidated balance sheets are as follows:

€ in millions	December 31, 2001 Total	December 31, 2001 Thereof Non-current	December 31, 2000 Total	December 31, 2000 Thereof Non-current
Deferred tax assets	2,498	1,628	1,345	808
Valuation allowance	(254)	(243)	(271)	(207)
Net deferred tax assets	**2,244**	**1,385**	**1,074**	**601**
Deferred tax liabilities	(4,492)	(3,060)	(2,720)	(2,536)
Net deferred tax assets/liabilities	**(2,248)**	**(1,675)**	**(1,646)**	**(1,935)**

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:

€ in millions	2001	2000
Domestic tax loss carryforwards	4,497	2,074
Foreign tax loss carryforwards	1,504	1,937
Total	**6,001**	**4,011**

For domestic tax loss carryforwards there are no expiration dates whereas for foreign tax loss carryforwards they will expire as follows: €8.7 million in 2002, €40.6 million between 2003 and 2006, and €726.7 million which do not have an expiration date. The expiration dates of the remaining foreign tax loss carryforwards are more than 5 years.

Deferred tax liabilities related to undistributed earnings of foreign subsidiaries considered to be reinvested indefinitely were not calculated as doing so was not practicable.

(9) Minority Interests in Net Income

Minority stockholders participate in the profits of the consolidated companies in the amount of €557 million (2000: €524 million, 1999: €355 million) and losses amounting to €30 million (2000: €44 million, 1999: €184 million).

(10) Other Information

€ in millions Personnel Costs	2001	2000	1999
Wages and salaries	6,910	6,651	5,575
Social security contributions	1,276	1,137	958
Pension costs and other employee benefits; thereof pension costs €868 (2000: €753, 1999: €670)	868	764	680
Total	**9,054**	**8,552**	**7,213**

In 2001, E.ON purchased 345,485 (2000: 245.210) of its shares (representing 0.05 percent, 2000: 0.03 percent of E.ON's outstanding shares) on the stock market at an average price of €56.93 (2000: €58.46) per share for employees within the Company. These shares were sold to the employees at preferential prices between €26.59 and €49.35 (2000: between €39.26 and €50.77). The difference between the 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, Degussa and Stinnes. These stock-based compensation plans are accounted for in accordance with SFAS No. 123, ''Accounting for Stock-Based Compensation,'' in connection with FASB Interpretations (FIN) No. 28, ''Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans''.

The three programs have the following elements in common:

- When exercising SARs, qualified executives also receive a cash bonus. Possible dilutive effects of capital-related measures and dividend payments between the options' time of issuance and exercise are taken into consideration when calculating the compensation.
- SARs that have been issued are non-transferable and may be exercised prematurely only if certain conditions apply when the qualified executive leaves the Group, or according to the options' conditions. Otherwise, the options expire.
- Options have a limited term. SARs that remain unexercised on the corresponding tranche's last exercise date shall be considered as having been exercised automatically on such date.

Stock Appreciation Rights of E.ON AG

E.ON AG proceeded with the SAR program that has been in existence since 1999 with the issuance of a third tranche in 2001.

Within the scope of this third tranche, a total of 1.8 million stock appreciation rights was granted to 231 executives worldwide (second tranche: 155; first tranche: 114), including all the members of the Board of Management of E.ON AG, as part of their compensation package. This included executives from E.ON AG as well as its major subsidiaries E.ON Energie, VEBA OEL and Viterra. Degussa and Stinnes are both listed companies and initiated and/or continued their own SAR programs.

For the third tranche of E.ON's SAR program, the compensation is calculated analogously to that of the second tranche, i.e. as the difference between E.ON's share price at the time of exercise and its quotation at issuance on January 2, 2001, or January 3, 2000, corresponding to €62.95 and €48.35, respectively, multiplied by the number of options exercised. These SARs have a term of seven years. Before any exercise of E.ON SARs, the two following conditions have to be met. Between the date of issuance and exercise, E.ON's share price must outperform the Stoxx Utilities Price Index on at least ten consecutive business days and E.ON's share price at the date of exercise must be at least 20 percent above the share price at the time of issuance. Qualified executives can exercise all or a portion of the SARs issued to them after a two-year blocking period within pre-determined exercise windows, i.e. four weeks after the publication of an E.ON Interim Report or Consolidated Financial Statements, in the years between 2003 and 2007 and/or 2002 and 2006. The last exercise date is the last business day four weeks after the publication of E.ON's Interim Report for Q3 2007 or 2006. SARs can only be issued if the qualified executive owns a certain number of shares in E.ON, which must be held until the issued SARs' date of maturity.

On exercise of first-tranche stock options, the qualified executive receives a compensation equaling the difference between the share price at the time of exercise and E.ON AG's indexed share price, multiplied by the number of options exercised. The aforementioned exercise price corresponds to the share's average stock-market quotation in the last six months leading up to the exercise. The indexed stock price is calculated by taking the share price as of the date of issuance (€54.67) and multiplying it by the ratio of the average quotation of the Euro Stoxx 50 Performance Index in the last six months prior to the exercise to the performance of this index, i.e. 4,376.82. SARs issued as part of the first tranche have a term of five years and may be exercised after a three-year blocking period in full or in parts on pre-defined cut-off dates from 2002 and 2003. The last exercise date is November 3, 2003.

E.ON's SAR program has shown the following developments since 1999:

	2001			2000		1999
Development of SAR program of E.ON	**1st Tranche**	**2nd Tranche**	**3rd Tranche**	**1st Tranche**	**2nd Tranche**	**1st Tranche**
Outstanding at beginning of year	959,300	1,443,800	—	1,037,000	—	—
Granted	—	—	1,822,620	—	1,461,800	1,037,000
Exercised	—	36,000	—	—	—	—
Cancelled	5,500	63,000	—	77,700	18,000	—
Outstanding at end of year	**953,800**	**1,344,800**	**1,822,620**	**959,300**	**1,443,800**	**1,037,000**
SARs exercisable at year end	—	—	—	—	—	—
Accruals as of December 31, (€ in millions)	3	13	—	—	12	—

In the year under review, compensation cost in the amount of approximately €16.4 million was accrued for E.ON AG's granted SARs (previous year: €11.9 million) since the internal values (imputed exercise compensation as of the balance-sheet date) of an SAR totaled €3.32 and €13.08 as of December 31, 2001 for the first and second tranches, respectively. No compensation cost was recognized for the third tranche of E.ON AG's SAR program in 2001 as the intrinsic value of an SAR as of December 31, 2001 was a negative €4.77.

Stock Appreciation Rights of Stinnes AG

In 1999, Stinnes introduced an SAR program that is identical to the SAR program E.ON AG launched for the first tranche. In the year being reviewed, this program was continued with the issuance of a third tranche.

Effective July 2, 2001, within the scope of the third tranche, Stinnes issued 0.9 million SARs to 254 executives worldwide (second tranche: 250; first tranche: 260), including all of the members of the Board of Management of Stinnes AG, as part of their compensation package.

On exercise of all of Stinnes' SAR tranches, the qualified executive receives a cash bonus equaling the difference between the share price at the time of exercise and Stinnes' indexed share price, multiplied by the number of options exercised. The aforementioned exercise price corresponds to the share's average stock-market quotation in the last six months leading up to the exercise. The indexed share price is calculated by multiplying the base price by the ratio of the M-DAX Performance Index's average development in the last six months prior to the exercise of the option to its quotation at the time of issuance. Stinnes SARs have a term of five years and may be exercised after a two-year blocking period (first tranche: three-year blocking period) in full or in parts at pre-determined cut-off dates until their date of maturity. Base data for the three tranches are as follows:

Base data of SAR program of Stinnes	1st Tranche	2nd Tranche	3rd Tranche
Strike price (€)	15	21	24
Reference index	4.070	4.458	4.804
Term	1999-2004	2000-2005	2001-2006
Last exercise date	May 3, 2004	May 2, 2005	May 3, 2006

Stinnes' SAR program has shown the following developments since 1999:

Development of SAR program of Stinnes	2001 1st Tranche	2001 2nd Tranche	2001 3rd Tranche	2000 1st Tranche	2000 2nd Tranche	1999 1st Tranche
Outstanding at beginning of year	2,840,100	1,253,200	—	3,417,800	—	—
Granted	10,000	8,000	945,200	3,400	1,297,700	3,447,800
Exercised	244,100	83,800	—	411,100	12,800	—
Cancelled	40,000	29,200	9,600	170,000	31,700	30,000
Outstanding at end of year	**2,566,000**	**1,148,200**	**935,600**	**2,840,100**	**1,253,200**	**3,417,800**
SARs exercisable at year end	—	—	—	—	—	—
Accruals as of December 31, (€ in millions)	13	1	—	14	1	2

In the year under review, a compensation cost amount of approximately €14.3 million was accrued for Stinnes AG's granted SARs (previous year: €14.9 million) since the internal values of an SAR totaled €6.08 and €1.51 as of December 31, 2001 for the first and second tranches, respectively. No compensation cost was recognized for the third tranche because the internal value of an SAR as of the cut-off date was negative.

Stock Appreciation Rights of Degussa AG

In 2001, Degussa introduced an SAR program that is identical to the SAR program E.ON AG launched for the second and third tranches.

Within the scope of the first tranche, effective February 9, 2001, Degussa issued 0.9 million SARs to 153 executives worldwide, including all of the members of the Board of Management of Degussa AG, as part of their compensation package.

On exercise of SARs from the Degussa program, the qualified executive receives a cash bonus equaling the difference between Degussa AG's share price at the time of exercise and the base price of €33.40, multiplied by the number of options exercised. The base price is the arithmetic mean of Degussa's quotations on the XETRA electronic stock trading system from August 9, 2000 through February 9, 2001. Degussa SARs may be exercised if the two following conditions are met. Degussa's share price has outperformed the Degussa Stock Option Specialty Chemicals Index, which comprises eight leading European specialty chemicals enterprises, on at least ten consecutive business days between the date of issuance and exercise, and Degussa's share price at the time of exercise is at least 20 percent higher than the base price. Degussa SARs have a term of seven years and may be exercised after a two-year blocking period in full or in parts on certain pre-defined cut-off dates between February 9, 2003 and February 8, 2008. The last exercise date is the last business day four weeks after the publication of Degussa's Interim Report for Q3 2007. SARs can only be issued if the qualified executive owns a certain number of shares in Degussa, which must be held until the issued SARs' date of maturity.

Degussa's SAR program showed the following developments in 2001:

Development of SAR program of Degussa	2001 1st Tranche
Outstanding at beginning of year	—
Granted	931,400
Exercised	—
Cancelled	—
Outstanding at end of year	**931,400**
SARs exercisable at year end	—
Accruals as of December 31, (€ in millions)	—

No compensation cost was recognized for the first tranche, because the internal value of an SAR as of the cut-off date was a negative €5.15.

Employees

In the current reporting period, the Company employed an average of 165,219 people, including 6,818 trainees and interns and excluding employees of discontinued operations. The breakdown by division is as follows:

	2001	2000	1999
Energy	38,796	27,371	20,888
Oil	7,882	8,648	6,042
Chemicals	59,261	53,534	44,853
Telecommunications	1,474	1,234	594
Real Estate	5,664	5,229	4,683
Distribution/Logistics	51,516	57,432	49,703
Other	626	9,519	463
Total	**165,219**	**162,967**	**127,226**

Taxes Other Than Income Taxes

Taxes other than income taxes totalled €69.4 million in 2001 (2000: €154 million, 1999: €48 million), resulting principally from property tax and real estate transfer tax in the current period.

(11) Earnings per Share

The computation of basic and diluted earnings per share is as follows:

In million of euros or million of shares, except earnings per share	2001	2000	1999
Income from continuing operations	2,610	3,450	3,048
(Loss) income from discontinued operations	(536)	120	(57)
Cumulative effect of change in accounting principle, net	(26)	—	—
Net income	**2,048**	**3,570**	**2,991**
Weighted-average number of shares outstanding	674	621	503
Basic earnings per share:			
Income from continuing operations	3.87	5.56	6.06
(Loss) income from discontinued operations	(0.80)	0.19	0.11
Cumulative effect of accounting change	(0.04)	—	—
Net income	**3.03**	**5.75**	**5.95**
Dilutive earnings per share:			
Income from continuing operations	3.87	5.56	6.06
(Loss) income from discontinued operations	(0.80)	0.19	(0.11)
Cumulative effect of accounting change	(0.04)	—	—
Net income	**3.03**	**5.75**	**5.95**

There are no potentially dilutive shares outstanding and, as such, basic and dilutive earnings per share are identical.

(12) Intangible Assets

€ in millions	Licenses	Goodwill	Other Intangible Assets	Total
Acquisition costs balance at January 1, 2001	**4,873**	**6,669**	**142**	**11,684**
Exchange rate differences	11	17	1	29
Change in scope of consolidation	421	691	(5)	1,107
Additions	718	318	44	1,080
Disposals	(577)	(217)	(57)	(851)
Transfers	35	(42)	—	(7)
Balance at December 31, 2001	**5,481**	**7,436**	**125**	**13,042**
Accumulated depreciation balance at January 1, 2001	**917**	**1,022**	**31**	**1,970**
Exchange rate differences	5	(1)	1	5
Change in scope of consolidation	5	(112)	2	(105)
Additions	394	475	17	886
Disposals	(164)	(10)	(13)	(187)
Transfers	34	(21)	2	15
Balance at December 31, 2001	**1,191**	**1,353**	**40**	**2,584**
2001 net book value	**4,290**	**6,083**	**85**	**10,458**
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**

No impairment charges on intangible assets were incurred in 2001 (2000: €14 million, 1999: €0 million).

(13) Property, plant and equipment

€ in millions	Real Estate, Leasehold Rights and Buildings	Mine Development Costs, Mines, Drillings	Technical Equipment, Plant and Machinery	Equipment, Fixtures, Furniture and Office Equipment	Advance Payments and Construction in Progress	Total
Acquisition and production costs balance at January 1, 2000	**17,351**	**33**	**42,604**	**3,098**	**1,589**	**64,675**
Exchange rate differences	(12)	—	18	12	4	22
Change in scope of consolidation	2,953	—	8,150	394	158	11,655
Additions	541	—	1,384	393	1,507	3,825
Disposals	(631)	—	(1,167)	(432)	(257)	(2,487)
Transfers	220	—	862	60	(1,166)	(24)
Balance at December 31, 2001	**20,422**	**33**	**51,851**	**3,525**	**1,835**	**77,666**
Accumulated depreciation balance at January 1, 2001	**5,672**	**14**	**27,986**	**2,146**	**13**	**35,831**
Exchange rate differences	2	—	10	—	—	12
Change in scope of consolidation	595	—	4,379	416	22	5,412
Additions	524	3	2,425	392	8	3,352
Disposals	(137)	—	(712)	(349)	(14)	(1,212)
Transfers	(1)	—	—	(7)	(7)	(15)
Balance at December 31, 2001	**6,655**	**17**	**34,088**	**2,598**	**22**	**43,380**
2001 net book value	**13,767**	**16**	**17,763**	**927**	**1,813**	**34,286**
Acquisition and production 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**

Property, plant and equipment includes the capitalized interest on debt apportioned to the construction period of qualifying assets as part of their cost of acquisition in the amount of €37 million (2000: €15 million, 1999: €55 million). Impairment charges on property, plant and equipment were €15 million (2000: €257 million, 1999: €156 million).

With tangible fixed assets, restrictions on disposals exist in the amount of €1,723 million, mainly with respect to technical equipment and land. For additional information on secured tangible fixed assets see Note 27.

(14) Financial Assets

€ in millions	Shares in Non-Consolidated Affiliated Companies	Shares in Associated Companies	Other Share Investments	Long-Term Loans to Affiliated Companies	Loans to Associated and Other Companies	Loans Related to Banking Operations	Other Long-Term Loans	Long-Term Securities	Total
Acquisition costs balance at January 1, 2001	**4,584**	**13,057**	**3,215**	**107**	**1,418**	**743**	**717**	**1,837**	**25,678**
Exchange rate differences	(34)	(26)	(10)	—	(2)	—	(7)	—	(79)
Change in scope of consolidation	(2,153)	(134)	(128)	(4)	(261)	—	255	(4)	(2,429)
Additions	2,269	4,068	534	82	419	1	136	3,554	11,063
Disposals	(3,992)	(9,658)	(455)	(87)	(414)	(36)	(166)	(1,219)	(16,027)
Transfers	565	70	(541)	15	(314)	—	240	(3)	32
Balance at December 31, 2001	**1,239**	**7,377**	**2,615**	**113**	**846**	**708**	**1,175**	**4,165**	**18,238**
Accumulated depreciation balance at January 1, 2001	**72**	**670**	**111**	**2**	**15**	**—**	**21**	**5**	**896**
Exchange rate differences	—	(6)	3	—	—	—	—	—	(3)
Change in scope of consolidation	(2)	(136)	—	—	—	—	(1)	(1)	(140)
Additions	56	117	33	—	18	—	2	1	227
Disposals	(5)	(153)	(6)	(1)	(10)	—	(2)	(1)	(178)
Transfers	—	56	(56)	—	—	—	—	—	—
Adjustment of other comprehensive income	—	—	373	—	—	—	—	1,766	2,139
Balance at December 31, 2001	**121**	**548**	**458**	**1**	**23**	**—**	**20**	**1,770**	**2,941**
2001 net book value	**1,118**	**6,829**	**2,157**	**112**	**823**	**708**	**1,155**	**2,395**	**15,297**
Acquisition costs balance at January 1, 2000	**609**	**8,379**	**1,785**	**548**	**785**	**720**	**604**	**2,330**	**15,760**
Exchange rate differences	—	7	(16)	—	(4)	—	(2)	2	(13)
Change in scope of consolidation	4,358	6,638	869	50	316	—	263	2,073	14,567
Additions	355	1,431	1,033	42	584	23	94	709	4,271
Disposals	(776)	(3,590)	(228)	(533)	(260)	—	(238)	(1,155)	(6,780)
Transfers	38	192	(228)	—	(3)	—	(4)	(2,122)	(2,127)
Balance at December 31, 2000	**4,584**	**13,057**	**3,215**	**107**	**1,418**	**743**	**717**	**1,837**	**25,678**
Accumulated depreciation balance at January 1, 2000	**202**	**359**	**114**	**1**	**105**	**—**	**33**	**21**	**835**
Exchange rate differences	1	—	—	—	—	—	—	—	1
Change in scope of consolidation	30	(29)	(75)	—	2	—	1	(18)	(89)
Additions	19	468	77	1	13	—	1	2	581
Disposals	(180)	(128)	(9)	—	(102)	—	(14)	—	(433)
Transfers	—	—	4	—	(3)	—	—	—	1
Balance at December 31, 2000	**72**	**670**	**111**	**2**	**15**	**—**	**21**	**5**	**896**
2000 net book value	**4,512**	**12,387**	**3,104**	**105**	**1,403**	**743**	**696**	**1,832**	**24,782**

Significant additions to shares in associated companies made during 2001 relate to acquisitions made by the energy division of minority interests in various entities throughout Europe and Eastern Europe. Increases in long-term securities in 2001 relate to purchases of marketable securities for the purposes of investing excess cash at the energy division.

Dispositions of shares in associated companies relate primarily to the sale of VIAG Interkom in February 2001 and the sale of the shareholdings held by the former VEBA in BEWAG, VEAG, and LAUBAG. The stockholding held by the former VEBA in HEW is included in other share investments for the year end 2000. These four stockholdings were divested as a result of the antitrust requirements associated with the VEBA-VIAG merger in 2001

In November 2001, the shareholders of VRT decided to dissolve the company. The majority of the share capital and cash reserves of VRT were distributed to shareholders, which is shown as a disposal of €3,992 million under shares in non-consolidated affiliated companies.

During 2000, the increase of shares in non-consolidated affiliated companies due to a change in scope of consolidation related primarily to the Company's 51.25 percent shareholding in VRT. The Company 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 due to a contractual change. 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.

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:

€ in millions Earnings data	2001	2000	1999
Sales	35,745	38,255	57,458
Net income/(loss)	1,143	(236)	893
E.ON's portion of net income (loss)	**509**	**(50)**	**255**
Other(1)	176	(37)	27
Income from companies which are accounted for under the equity method	**685**	**(87)**	**282**

€ in millions Balance sheet data	2001	2000
Fixed assets	38,114	60,967
Current assets and prepaid expenses	23,186	33,875
Accruals	22,347	23,693
Liabilities and deferred income	22,470	42,367
Net assets	16,483	28,782
E.ON's equity in net assets	6,366	11,007
Other(1)	1,130	5,530
Investment in companies which are accounted for under the equity method	**7,496**	**16,537**

(1) 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).

Dividends from affiliated and associated companies were €593 million (2000: €427 million, 1999: €324 million). The decrease in investments in companies as compared to 2000 primarily reflect the disposals of interests in VIAG Interkom and Orange Communications S.A. Additions of investments in associated and affiliated companies, which are accounted for under the equity method, resulted in goodwill of €469 million (2000: €6,458 million, 1999: €47 million) of which in the year 2000, €4,572 million was attributable to VIAG

Interkom and €1,621 million to Orange Communications S.A. Based on the additions in investments, which are accounted for under the equity method, no negative goodwill resulted in either period.

The summarized financial information for the reporting period ended December 31, 1999, reflects the first-time equity valuation of RAG.

Other Financial Assets

The aggregate costs, fair values, and gross unrealized holding gains and losses for each class of securities and maturities of fixed-term securities as of December 31, 2001 and in 2000 are summarized as follows:

€ in millions Securities available for sale	2001 Cost	Fair Value	Gross Unrealized Loss	Gross Unrealized Gain	2000 Cost	Fair Value	Gross Unrealized Loss	Gross Unrealized Gain
Fixed-Term Securities								
Less than 1 year	379	380	—	1	96	96	—	—
Between 1 and 5 years	313	370	—	57	352	397	—	45
More than 5 years	114	121	—	7	122	127	—	5
	806	**871**	**—**	**65**	**570**	**620**	**—**	**50**
Non-fixed-term Securities	**5,302**	**3,682**	**1,707**	**87**	**3,619**	**4,316**	**3**	**700**
Total	**6,108**	**4,553**	**1,707**	**152**	**4,189**	**4,936**	**3**	**750**

Disposal of available-for-sale securities generated proceeds in the amount of €621 million (2000: €417 million, 1999: €3,024 million) and capital gains in the amount of €85 million (2000: €28 million, 1999: €1,429 million). The Company uses the specific identification method as a basis for determining cost and calculating realized gains and losses.

Long-term loans are as follows:

Loans	2001 € in millions	Interest Rate up to	Maturity through	2000 € in millions	Interest Rate up to	Maturity through
Loans to affiliated companies	112	8.00%	2015	105	6.00%	2015
Loans to associated companies	823	12.50%	2007	1,403	5.30%	2010
Loans related to banking operations	708	5.60%	2007	743	7.00%	2009
Other Loans	1,155	9.00%	2010	696	7.00%	2010
Total	**2,798**			**2,947**		

As of December 31, 2001, €14,917 million financial assets mature after more than one year (2000: €24,686 million). Impairment charges on financial assets amounted to €50 million (2000: €395 million, 1999: €106 million).

(15) Inventories

€ in millions	2001	2000
Raw materials and supplies by segment		
Energy	955	818
Oil	167	181
Chemicals	585	878
Real Estate	133	—
Distribution/Logistics	37	92
Other(1)	30	268
	1,907	**2,237**
Work in progress	649	622
Finished products by segment		
Energy	82	—
Oil	196	118
Chemicals	1,138	1,781
Real Estate	140	—
Distribution/Logistics	23	29
Other(1)	16	680
	1,595	2,608
Goods purchased for sale	846	1.699
Total	**4,997**	**7,166**

(1) Inventories related to discontinued operations have been reclassified to Other for the year 2000.

Work in progress is shown together with finished products because they are combined for the purpose of valuation by the LIFO method.

Inventories in the amount of €641 million (2000: €1,660 million) 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 €121 million (2000: €941 million).

(16) Receivables and Other Assets

	December 31, 2001		December 31, 2000	
€ in millions	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
Financial receivables from affiliated companies	13	1	403	—
Financial receivables from associated companies	860	8	41	—
Other financial assets	90	472	163	—
Financial receivables and other financial assets	**963**	**481**	**607**	**—**
Accounts receivable trade	9,218	112	10,799	498
Other receivables from affiliated companies	362	24	228	8
Associated companies and other share investments	598	5	5.431	25
Reinsurance claim due from Versorgungskasse Energie Mutual Insurance Fund	19	619	138	432
Receivables from banking operations	165	—	150	37
Other operating assets	4,932	1,749	3,413	2,974
Operating receivables and other operating assets	**15,294**	**2,509**	**20,159**	**3,974**
Receivables and other assets	**16,257**	**2,990**	**20,766**	**3,974**

Accounts receivable and other assets in the amount of €4,051 million (2000: €7,099 million) are interest-bearing.

The reinsurance claim due from the Versorgungskasse Energie Mutual Insurance Fund results from pension obligations due to E.ON Energie AG employees. The claims of these employees at the point of retirement are covered to a certain extent by insurance contracts made with this mutual insurance fund.

Other assets in 2001 mainly include accounts receivables related to E.ON Benelux's cross-border lease transactions for power stations amounting to €1,470 million; these are carried at the same amount in other liabilities. Other assets also consist of tax-refund claims of €1,757 million (2000: €1,208 million) and short-term loans of €358 million (2000: €443 million), financial derivatives assets of €819 million (2000: €0 million) as well as the net investment in the discontinued aluminium operations division of €478 million.

Other assets in 2000 included a receivable for the sale of Orange Communications (€1,240 million) which was with shares issued in connection with the initial public offering of Orange S.A. The receivables from associated companies in 2000 were mainly due to short-term loans given to VIAG Interkom in connection with the acquisition of a UMTS license in Germany.

Valuation Allowances for Doubtful Accounts

The following amounts are presented net of valuation allowances for doubtful accounts:

€ in millions	2001	2000	1999
January 1	**579**	**399**	**334**
Additions affecting income	349	445	168
Disposals affecting income	(33)	(303)	(95)
Additions not affecting income	100	347	101
Disposals not affecting income	(509)	(309)	(109)
December 31	**486**	**579**	**399**

The additions and disposals not affecting income relate primarily to changes in the scope of consolidation.

(17) Liquid Funds

€ in millions	2001	2000
Cash and cash equivalents with an original maturity of 3 months or less	4,036	1,153
Cash and cash equivalents with an original maturity greater than 3 months	44	48
Securities with an original maturity of 3 months or less	203	464
Securities with an original maturity greater than 3 months	7,861	6,836
Total	**12,144**	**8,501**

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, gross unrealised holding gains and maturities of fixed-term securities as of December 31 are as follows:

	2001				2000			
€ in millions	Cost	Fair Value	Gross Unrealized Loss	Gross Unrealized Gain	Cost	Fair Value	Gross Unrealized Loss	Gross Unrealized Gain
Fixed-Term Securities								
Less than 1 year	1,583	1,622	—	39	206	207	—	1
Between 1 and 5 years	759	787	—	28	165	166	—	1
More than 5 years	706	924	1	219	45	45	—	—
	3,048	3,333	1	286	416	418	—	2
Non-fixed-term Securities	**4,858**	**4,731**	**304**	**177**	**6,688**	**6,882**	**—**	**194**
Total	**7,906**	**8,064**	**305**	**463**	**7,104**	**7,300**	**—**	**196**

The disposal of securities available-for-sale generated proceeds in the amount of €3,572 million (2000: €2,016 million, 1999: €33 million). Capital losses from disposal in an amount of €140 million in 2001 (2000: €10 million, 1999: €0 million) 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.

(18) Prepaid Expenses and Deferred Income

As in prior years, prepaid expenses mature within one year. Deferred income totaled €816 million in 2001, of which €474 million matures within one year.

(19) Capital Stock

Developments in 2001:

Pursuant to shareholder resolutions approved at the annual general meetings of shareholders held on May 25, 2000 and May 18, 2001, 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, 2002. See Note 23 for further information on the stock repurchase program as well as the cancellation of repurchased shares.

The Company's capital stock now consists of 692,000,000 bearer shares issued without nominal value (2000: 763,298,875). The total amount of outstanding shares as of December 31, 2001 is 652,029,964 (2000: 712,781,940).

Developments 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 ordinary 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 ordinary 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 Dsseldorf District Court (HRB 22 315) on November 3, 2000.

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 million 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 million 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 million 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 million (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 million (Authorized Capital II) through the issuance of new shares in return for contributions in kind (with the exclusion of shareholders' subscription rights). Following the above-mentioned capital increase in August 2000, Authorized Capital II now amounts to €150.4 million.

In addition, the Board of Management was authorized to increase the Company's capital stock by a maximum of €180 million (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.

Disclosure requirements in conjunction with Germany's Securities Trading Act (WpHG)

According to its Schedule 13G/A2 filing, as of December 31, 2001, Allianz AG directly and indirectly held 61,807,102 Ordinary Shares, or 8.9 percent of the voting rights of E.ON, compared with 83,386,334 Ordinary Shares, or 10.9 percent of the voting rights of E.ON, held as of December 31, 2000. As of December 31, 2001, Deutsche Bank AG directly and indirectly held 32,701,578 Ordinary Shares, or 4.3 percent of the voting rights of E.ON, compared with 50,091,308 Ordinary Shares, or 6.6 percent of the voting rights of E.ON held as of April 9, 2001. Deutsche Bank AG held 26,846,741 Ordinary Shares as of December 31, 2000, or 3.5 percent of the voting rights of E.ON, and, prior to the VEBA-VIAG merger, held 36,322,589 Ordinary Shares, or 7.2 percent of the voting rights of E.ON. Before the merger of Lambda Vermögensverwaltungsgesellschaft mbH, a majority owned investment company of Allianz AG, and E.ON, which was effective as of July 27, 2001, Lambda Vermögensverwaltungsgesellschaft mbH held 6.7 percent of the voting rights of E.ON. As a result of this merger, according to the notification requirements under German Law, Allianz AG informed E.ON that its total direct and indirect shareholding decreased from 10.2 percent to 7.6 percent of the voting rights of E.ON. In addition, as of July 16, 2001, according to the notification requirements under German law, the Free State of Bavaria informed E.ON that it reduced its stake in E.ON and that it held less than 5.0 percent of the voting rights of E.ON, compared with 5.6 percent of the voting rights of E.ON that it reported holding as of June 26, 2000.

(20) Additional Paid-in Capital

Additional paid-in capital results exclusively from share issuance premiums.

In 2000, additional paid-in capital rose €9,205 million to €11,402 million compared with year-end 1999. The increase resulted 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.

(21) Retained Earnings

€ in millions	2001	2000	1999
Legal reserves	45	45	45
Other retained earnings	11,750	14,660	11,718
Total	**11,795**	**14,705**	**11,763**

* In May 2001, E.ON's stockholders approved the dividend proposed by E.ON's Supervisory Board and Board of Management in the amount of 1.35€ per share, which totalled €954 million and was paid during 2001.

(22) Other Comprehensive Income

The changes in the components of other comprehensive income and the related tax effects are as follows:

€ in millions	2001 Before Tax Amount	2001 Tax (Expense)/ Benefit	2001 Net-of-Tax Amount	2000 Before Tax Amount	2000 Tax (Expense)/ Benefit	2000 Net-of-Tax Amount	1999 Before Tax Amount	1999 Tax (Expense)/ Benefit	1999 Net-of-Tax Amount
Foreign currency translation adjustments	(39)	—	(39)	255	—	255	358	—	358
Less: reclassification adjustment for gains included in income	(36)	—	(36)	—	—	—	—	—	—
Unrealized holding gains/(losses) arising during the period	(1,766)	983	(783)	207	(106)	101	170	196	366
Less: reclassification adjustment for gains included in income	63	(35)	28	(18)	10	(8)	(1,429)	43	(1,386)
Minimum pension liability adjustment	(381)	136	(245)	(93)	65	(28)	7	(7)	—
Cash Flow Hedges	(67)	16	(51)	—	—	—	—	—	—
Total other comprehensive income	**(2,226)**	**1,100**	**(1,126)**	**351**	**(31)**	**320**	**(894)**	**232**	**662**

(23) Treasury Stock Repurchase Program

As of October 31, 2001, the Company had bought back 76,329,887 Ordinary Shares at an average price of €58.69 per share, representing approximately ten percent of E.ON's total share capital. As of November 13, 2001, E.ON's Board of Management decided to cancel 71,298,875 Ordinary Shares. This decision was approved by the Supervisory Board on December 12, 2001. The remaining repurchased shares will be used to hedge E.ON's stock appreciation rights or will be sold to employees as employee shares. These amendments were entered into the Commercial Register of the Düsseldorf District Court (HRB 22315 on December 27, 2001).

(24) Minority Interests

Minority interests are attributable to the following divisions:

€ in millions	2001	2000	1999
Energy	3,629	2,145	1,528
Oil	12	8	—
Chemicals	2,172	2,176	1,736
Real Estate	14	11	32
Telecommunications	(15)	22	(5)
Distribution/Logistics	521	540	441
Others	29	221	163
Total	**6,362**	**5,123**	**3,895**

(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 SFAS 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:

€ in millions	2001	2000
Projected benefit obligation at January 1	10,084	6,246
Service cost	169	150
Interest cost	599	503
Business combinations/Divestitures	(248)	2,982
Prior service costs	27	40
Actuarial (gains)/losses	553	710
Exchange rate differences	35	40
Other	8	(60)
Pensions paid	(584)	(527)
Projected benefit obligation at December 31	**10,643**	**10,084**

An additional amount of €38 million (2000: €53 million, 1999: €30 million) was incurred for defined contribution pension plans, in which the Company pays fixed contributions to an external insurer and to a pension fund, respectively.

The change in plan assets is as follows:

€ in millions	2001	2000
Plan assets at January 1	977	324
Actual return on plan assets	(33)	2
Company contributions	20	29
Employees contributions	4	3
Business combinations	237	599
Exchange rate differences	33	32
Pensions paid	(72)	(42)
Others	17	30
Plan assets at December 31	**1,183**	**977**

The funded status of all defined benefit pension plans based on the projected benefit obligation ("PBO") is as follows:

€ in millions	2001	2000
Unfunded status	9,460	9,106
Unrecognized actuarial loss	(1,324)	(476)
Unrecognized prior service cost	(68)	(97)
Unfunded accrued benefit cost	8,068	8,533
Additional minimum liability	680	203
Provisions for pensions	**8,748**	**8,736**

The additional minimum liability is accounted for as an intangible asset €58 million (2000: €40 million) not to exceed the unrecognised prior service cost. Any remaining additional minimum liability is charged, directly against stockholders' equity €622 million (2000: €163 million, 1999: €71 million). The accumulated benefit obligation and fair value of the plan assets for pension plans under which an additional minimum liability arises are €7,808 million (2000: €2,852 million) and €315 million (2000: €119 million) respectively. The increases in actuarial losses and additional minimum liability are attributable to the interest rate decreasing significantly for the year end 2001.

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 €72 million (2000: €93 million).

Based upon actuarial computations, the total net periodic pension cost is comprised of the following:

€ in millions	2001	2000	1999
Service cost	166	150	121
Interest cost	599	503	360
Expected return on plan assets	(84)	(53)	(23)
Prior service costs	18	21	7
Net amortization of (gains)/losses	6	2	13
Net periodic pension cost	**705**	**623**	**478**

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:

In percent	2001	2000
Discount rate	5.75	6.25
Projected salary increases — nonvested	2.75	2.75
Expected return on plan assets	5.75	6.25
Projected pension payment increases	1.25	1.25

(26) Other Provisions

€ in millions	2001	2000
Provisions for nuclear waste management (1)	10,740	11,170
Provisions for taxes (2)	3,970	4,623
Provisions for personnel costs (3)	1,739	2,218
Provisions for outstanding trade invoices (4)	2,126	1,806
Provisions for environmental remediation (5)	680	741
Provisions for reclamation (6)	255	175
Miscellaneous (7)	4,543	4,066
Total	**24,053**	**24,799**

As of December 31, 2001, €17,816 million of the above provisions mature after more than one year (2000: €16,668 million).

(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 €733 million (2000: €1,239 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. For the year ended 2001, income after taxes of €87 million resulted from a time extension until permanent storage facilities are utilized. 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 from its German plants. 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 the estimated useful life of the nuclear plant.

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 and the energy consensus agreed to on June 11, 2001.

Under Swedish law, Sydkraft is required to make advance payments to the country's national fund for nuclear waste management. Each year, the Swedish nuclear energy inspection authority calculates the advance payments for the disposal of high-level radioactive waste and nuclear power plant decommissioning based on the amount of electricity produced at particular nuclear power station. The calculations are then submitted to government offices for approval. Upon approval, the corresponding advance payments are made to the national fund for nuclear waste management and shown as an expenditure.

In the case of low-level and medium-level radioactive waste, a joint venture owned by Swedish nuclear power station operators levies charges annually for the actual waste management costs accrued. Sydkraft shows the corresponding payments as an expenditure.

(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, €151 million (2000: €90 million) is for potential damages arising from former hard coal mining activities and €99 million (2000: €85 million) for those 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

€ in millions	Total	December 31, 2001 With a Remaining Term of up to 1 Year	1 to 5 Years	Over 5 Years	Total	December 31, 2000 With a Remaining Term of up to 1 Year	1 to 5 Years	Over 5 Years
Bonds	1,689	239	1,238	212	206	41	150	15
Bank loans/Liabilities to banks	9,167	2,553	3,890	2,724	10,871	4,184	4,332	2,355
Liabilities related to banking operations	1,110	642	221	247	1,048	573	195	280
Bills payable	30	30	—	—	115	115	—	—
Other financial liabilities	991	335	484	172	2,460	2,314	34	112
Financial Liabilities to banks and third parties	**12,987**	**3,799**	**5,833**	**3,355**	**14,700**	**7,227**	**4,711**	**2,762**
Financial Liabilities to affiliated companies	831	827	4	—	4,601	4,463	91	47
Liabilities to companies in which participating interests are held	2,501	2,385	38	78	53	53	—	—
Financial Liabilities to group companies	3,332	3,212	42	78	4,654	4,516	91	47
Financial liabilities	**16,319**	**7,011**	**5,875**	**3,433**	**19,354**	**11,743**	**4,802**	**2,809**
Accounts payable	4,368	4,365	3	—	5,926	5,895	31	—
Liabilities to affiliated companies	334	261	—	73	262	254	2	6
Liabilities to companies in which participating interests are held	312	311	1	—	2,722	2,605	33	84
Capital expenditure grants	290	21	83	186	337	25	95	217
Construction grants from energy consumers	3,005	100	460	2,445	2,765	210	778	1.777
Advance payments (deferred revenue)	323	310	13	—	381	333	48	—
Other	5,392	3,072	424	1,896	4,399	2,200	234	1,965
thereof taxes	[918]	[918]	—	—	[769]	[769]	—	—
thereof social security contributions	[170]	[170]	—	—	[201]	[201]	—	—
Operating liabilities	**14,024**	**8,440**	**984**	**4,600**	**16,792**	**11,522**	**1,221**	**4,049**
Liabilities	**30,343**	**15,451**	**6,859**	**8,033**	**36,146**	**23,265**	**6,023**	**6,858**

Liabilities are reported net of the interest portion of non interest-bearing and low-interest liabilities in the amount of €30,113 million. This interest portion amounts to €230 million (2000: €226 million) and is shown under prepaid expenses.

Financial Liabilities

Bonds in the amount of €1,099 million relate to E.ON Energie's subsidiary, Sydkraft. These bonds are denominated in Swedish krona and primarily have interest rates ranging from 3 to 6 percent. In addition, this line item includes the bearer bonds of the Degussa Bank that have various maturity dates and carry interest rates ranging from 4.9 to 9.5 percent.

Bank loans are summarized as follows:

Bank loans	2001 € in millions	2001 Interest Rate	2000 € in millions	2000 Interest Rate
Bank loans secured by mortgages on real estate	1,312	0%-7%	339	0.5%-7.5%
Bank loans secured by mortgages on real estate	153	7.1%-14%	1,032	7.6%-19.5%
Other secured bank loans	1,306	0%-14%	332	0.5%-19.5%
Unsecured bank loans, drawings on credit lines, short-term loans	6,396	0%-14%	9,168	0.5%-19.5%
Total	**9,167**		**10,871**	

Bank loans that bear interest below market rates have been granted mainly to the real estate division for financing residential rental real estate. Under this form of financing, the real estate 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 discounting is reported under deferred income and released in subsequent years as rental income. The interest on the liabilities results in increased interest expenses.

As of December 31, 2001, bank loans had the following maturities:

€ in millions	**2001**
2002	2,553
2003	1,506
2004	1,022
2005	635
2006	727
after 2006 to 2040	2,724
Total	**9,167**

Secured liabilities to banks totalled €2,771 million at December 31, 2001 (2000: €1,703 million). The collateral includes mortgages of €1,465 million (2000: €1,310 million).

At year end 2001, E.ON had available credit lines of €6,325 million at domestic and foreign banks for financing purposes. These lines of credit 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). Included in the above figure, the Company has a 14 month, €1,022 million syndicated credit line facility with an interest rate of 0.125 percentage points above EURIBOR. The Company had not utilized the syndicated credit line facility as of year end 2001.

In November 2001, the Company, at the corporate level, increased its Medium Term Notes program to €7.5 billion, from €2 billion. In addition, in February 2002, the €2 billion in Commercial Paper was increased to €5 billion which is also available for financing purposes. As of the balance-sheet date, E.ON and its subsidiaries had utilized €1,060 million of the Commercial Paper program while the Medium Term Note program had not been utilized. Due to the acquisition of Sydkraft, the Company also has a Commercial Paper program in the amount of $200 million as well as a Medium Term Note program in SEK 8 billion, of which approximately SEK 7.6 billion or €0.8 billion (included in the above amount) was utilized in 2001.

Other financial liabilities mainly include non-interest bearing and low-interest liabilities granted to companies in the real estate division and the oil division in the amount of €748 million (2000: €927 million). They are primarily comprised of 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.

Operating Liabilities

Operating liabilities in the amount if €13,267 million are non-interest bearing (2000: €14,311 million).

Capital expenditure grants of €290 million (2000: €337 million) are paid primarily by customers in the energy 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 €3,005 million (2000: €2,765 million) are paid by customers of the energy 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.

Operating liabilities also include E.ON Benelux's cross-border lease transactions for power stations amounting to €1,470 million as well as the negative fair values of derivative financial instruments of €819 million and other loans in the amount of €562 million.

(28) Contingencies and Commitments

Contingent liabilities as listed below have not been accrued as the risk of losses is not considered probable.

€ in millions	2001	2000
Contingent liabilities on bills of exchange	4	41
Contingent liabilities from guarantees	625	619
Contingent liabilities from warranties	1,343	770
Contingent liabilities from granting collateral on behalf of third parties	215	710
Other contingent liabilities	384	150
Total	**2,571**	**2,290**

Pursuant to the amendments of Germany's Nuclear Powers Regulation Act (Atomgesetz, or "AtG") and the amendments to the Regulation regarding the Provision for Coverage of the AtG *(Atomrechtliche Deckungsvorsorge-Verordnung,* or *"AtDeckV")*, German nuclear power station operators are required to provide nuclear accident liability coverage of up to €2.6 billion per accident. Standard insurance policies exist to cover damages of up to €102.3 million. Damages that exceed this amount are covered up to €255.6 million per accident by an institution called *Nuclear Haftplicht GbR*. In proportion to their shareholdings in nuclear power stations, Group companies have agreed to provide that their subsidiaries operating nuclear power stations maintain a level of liquidity that would enable them at all times to meet their obligations as members of the *Nuklear Haftpflicht GbR*.

To provide liability coverage for the additional €2,244.4 million required by the above-mentioned amendments, E.ON Energie AG and the other parent companies of German nuclear power station operators reached a Solidarity Agreement *(Solidarvereinbarung)* on July 11, July 27, August 21, and August 28, 2001. If an accident occurs, the Solidarity Agreement calls for the nuclear power station operator liable for the damages to receive — after the operator's own resources and those of its parent company are exhausted — financing sufficient for the operator to meet its financial obligations. Under the Solidarity Agreement, E.ON Energie AG's share of the liability coverage is 40.6 percent. This percentage includes a 5 percent charge for the administrative costs of processing damage claims. The Solidarity Agreement took effect the day on which the AtG and AtDeckV provisions raising liability coverage to €2.6 billion took effect.

In accordance with Swedish law, Sydkraft has issued guarantees to governmental authorities. The guarantees were issued to cover possible additional costs related to the disposal of high-level radioactive waste and to nuclear power plant decommissioning. These costs could arise if actual costs exceed advance payments made in the past.

In addition, Sydkraft is also responsible for eventual costs related to the disposal of low-level radioactive waste if actual waste management costs exceed the advance payments Sydkraft has made in the past to a joint venture owned by Swedish nuclear power station operators.

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, 2001, 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 energy 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 €2.532 million at December 31, 2001 and are as follows:

€ in millions	
2002	466
2003	393
2004	360
2005	361
After 2006	952
Total	**2,532**

Also, additional customary long-term fuel procurement contracts exist.

Other Financial Obligations

Obligations arising from rental, tenancy and leasing agreements are due as follows:

€ in millions	
2002	304
2003	290
2004	223
2005	198
After 2006	476
Total	**1,491**

Expenses arising from such contracts are reflected in the Consolidated Statements of Income and amount to €408 million (2000: €497 million, 1999: €367 million).

Other financial obligations in the amount of €1,574 million (2000: €2,980 million) include 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. Included in the commitments to grant credits is a conditional obligation to grant subordinated loans in the amount of €102 million (2000: €213 million). Moreover, the Energy Division has financial commitments relating to a cash offer to minority shareholders of E.ON Bayern, (formerly OBAG, EVO, Isar-Amperwerke) and Contigas.

As further discussed in Note 4, the Company has a put option to purchase additional shares of Sydkraft for approximately €2 billion.

(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 relate to mergers involving the Company's Energy, 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.

(30) Supplemental Disclosure of Cash Flow Information

€ in millions	2001	2000	1999
Cash paid during the year for			
Interest, net of amounts capitalized	1,193	257	342
Income taxes, net of refunds	2,494	2,789	1,356
Non-cash investing and financing activities			
Acquisition of Hein Gas (61,85%)	514	—	—
Merger of Degussa-Hüls and SKW	559	—	—
Merger of VEBA and VIAG	—	9,271	—
Contribution of Schmalbach Lubeca for shares of AV Packaging	—	290	—
Disposal of shares of Orange Communications	—	1,077	—
Acquisition of minority interest in E.ON Energie	—	612	—
Merger of Degussa and Hüls	—	—	2,400

See Note 4 for details regarding the acquisition of Hein Gas, the merger of Degussa-Hüls and SKW, the merger of VEBA and VIAG, the acquisition of E.ON Energie's minority interest and the merger of Degussa and Hüls.

Cash flow from continuing operations increased to €3.9 billion (2000: €3.2 billion) in the year under review. It should be noted that due to tax payments in the amount of €1.8 billion (2000: €1.5 billion) regarding profits garnered through the sale of non-core business activities, cash flow from operations was reduced. Cash flow from investing activities amounted to €10.8 billion, the increase was primarily related to the sale of Viag Interkom.

The Company had a positive cash flow of €14.7 billion from its operations and its investing activities. This cash was used to finance the Company's treasury stock repurchase program (€3.5 billion), the dividend payment of (€1.2 billion) and to substantially reduce financial liabilities. Lastly, liquid funds rose from €8.5 billion to €12.1 billion.

Payments for acquisitions of subsidiaries during the current year amount to €3,387 million (2000: €2,710 million, 1999: €1,600 million). Liquid funds acquired herewith amount to €1,348 million (2000: €238 million, 1999: €3 million). These purchases resulted in the addition of assets amounting to €14,291 million (2000: €5,264 million, 1999: €1,969 million) as well as provisions and liabilities totalling €9,788 million (2000: €2,749 million, 1999: €577 million).

The deconsolidation of shareholdings and business units resulting from divestments led to reductions of €6,912 million (2000: €7,239 million, 1999: €972 million) related to assets and €4,186 million (2000: €4,474 million, 1999: €467 million) related to provisions and liabilities. Liquid funds divested herewith amounted to €188 million (2000: €212 million, 1999: €8 million).

(31) Derivative Financial Instruments

Strategy and Objectives

The Company uses derivatives to derive an economic benefit in order to offset fluctuations in earnings, cash flows, and equity associated with movements in exchange rates, interest rates and commodity prices. Due to the extensive documentation requirements and strict effectiveness criteria of SFAS 133, less than half of the Company's interest rate derivatives qualify for hedge accounting under SFAS 133. Hedge accounting with regards to foreign exchange derivatives are mainly used for hedging net investments in foreign operations as well as securing long term debt in connection with acquisition activities. The Company's policy permits the use of derivatives if they are associated with underlying physical assets, forecasted physical transactions, legal rights or obligations.

During the normal course of business, the Company is exposed to foreign currency risk, interest rate risk, and commodity price risk. These risks create volatility in earnings, equity, and cash flows from period to period. The Company makes use of derivative instruments in various strategies to eliminate or limit these risks. The Company classifies, for financial reporting purposes, hedging activities as three distinct types of hedges — fair value, cash flow and net investment in foreign operations. Certain contracts arising in the course of normal operations are considered energy trading contracts in accordance with EITF 98-10.

E.ON AG has enacted general risk management guidelines for the use of derivative instruments which form a comprehensive framework for the Company. Each reporting unit has also adopted industry-specific risk management guidelines to manage the appropriate risks arising from their respective activities. The reporting units' guidelines operate within the general risk management framework of E.ON AG. As part of the Company's framework for interest rate and foreign currency risk management, an enterprise-wide reporting system is used to monitor each reporting unit's exposures to these risks and their long-term and short-term financing needs.

Fair Value Hedges

The Company seeks to maintain in certain cases a desired level of floating-rate assets and debt. To this end, the Company uses interest rate and cross-currency swaps to manage interest rate and foreign currency risk arising from long-term debt obligations denominated in Euros and foreign currencies (principally US dollars). The Company does not exclude any component of derivative gains and losses from the assessment of hedge effectiveness. The ineffective portion as per December 31, 2001 of fair value hedges resulted in a gain of €4.2 million.

Cash Flow Hedges

Uncertainty regarding the amount of interest rate risk arises from floating-rate debt issued by the Company and its reporting units. As of December 31, 2001, floating-rate debt designated in foreign currency cash flow hedges was up to 8 years and up to 7 years for interest rate cash flow hedges.

A desired level of fixed-rate debt is maintained through the use of interest rate and cross-currency swaps. By using these swaps, the Company pursues its strategy to hedge payments in foreign currency and in Euros from interest bearing assets and liabilities in the functional currency of the respective E.ON company by using cash flow hedge accounting. Moreover the Company created cash flow hedges with forecasted transactions in foreign currencies and has in the past, created cash flow hedges for future oil exploration and refinery margins resulting from forecasted underlying transactions. Neither forecasted transactions nor options qualify for hedge accounting under SFAS 133 at December 31, 2001.

Commodity price risks include exposure to fluctuations in spot and forward prices for crude oil, petroleum products and refinery margins. These risks were reduced by using crude oil, refinery margin, and petroleum product swaps, forwards, and futures to fix the price of forecasted exploration and refinery production. Crude oil and petroleum product swaps are used to hedge forecasted production. The Company's objective is to hedge a fixed percentage of forecasted crude oil production and up to the forecasted refinery output of petroleum products. Production forecasts are monitored and updated on a regular basis.

During the year ended December 31, 2001, hedge accounting was discontinued for crude oil and petroleum product swaps. The discontinuation of hedge accounting resulted in a loss of €2.6 million. As of December 31, 2001, a deferred gain of €1.3 million remained in accumulated other comprehensive income relating to forecasted transactions previously designated in cash flow hedges and is anticipated to impact earnings over the next twelve months.

The amount of ineffectiveness for cash flow hedges recorded for the year ended December 31, 2001 was a gain of €6.9 million. The Company does not exclude any component of derivative gains and losses from the assessment of hedge effectiveness. For the year ended December 31, 2001, reclassifications from accumulated other comprehensive income for cash flow hedges resulted in a loss of €14.5 million. The Company estimates that reclassifications from accumulated other comprehensive income for cash flow hedges in the next twelve months will result in a loss of €1.2 million.

Net Investment Hedges

The Company uses to a limited extent foreign currency loans and forwards to protect the value of its investments in its foreign operations denominated in foreign currencies. The Company does not exclude any component of derivative gains and losses from the assessment of hedge effectiveness. For the year ended December 31, 2001, the Company recorded a loss of €25.8 million which was recognized within the cumulative translation adjustment (a component of accumulated other comprehensive income within stockholders' equity) related to net investment hedges.

Energy Trading Contracts

Certain reporting units engage in energy trading activities in the normal course of operations. These activities are subject to the Company's derivatives policies. The reporting units involved in such activities enter into energy trading contracts for the following purposes: price risk management, system optimization, load balancing and margin improvement. The Company's policy permits the use of derivatives in the energy division if (1) the reporting unit has the capability and resources to physically deliver the asset, or (2) the derivative is matched to forecasted production or generation. In the energy division, the total nominal volume of derivatives amounted to €11.4 billion as per December 31, 2001. For the year ended December 31, 2001 the Company recorded realized and unrealized gains and losses for all commodity derivatives of €63 million and €69.9 million, respectively.

Valuation of Derivative Instruments

The fair value of derivative instruments is sensitive to movements in the underlying market rates and variables. The Company monitors the fair value of derivative instruments on a periodic basis. The fair value of foreign currency, commodity and interest rate derivatives is monitored on a periodic basis ranging from daily, to at least quarterly. Fair values are calculated for each derivative financial instrument which is the price at which one party would assume the rights and duties of another party. Fair values of financial derivatives have been calculated using common market valuation methods with reference to available market data as of the balance sheet date.

The following is a summary of the methods and assumptions for the valuation of utilized derivative financial instruments in the Consolidated Financial Statements.

- Currency, crude oil forwards, crude oil, gas, coal, 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 spot and forward contracts are based on spot prices that consider forward premiums or discounts from quoted prices in the relevant markets when possible. Certain long-term commodity forward contracts are valued using weighted-average probability models reflecting the underlying conditions and variables associated with the contractual agreement.

- Market prices for currency, crude oil, gas and electricity options are valued using standard option-pricing models commonly used in the market. Embedded caps, floors, and collars are considered in the valuation by calculating the fair value separately for such features similar to stand-alone options.

- 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 energy 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.

€ in millions Total Volume of Foreign Currency and Interest Rate Derivatives (Remaining maturities)	Total Volume of Derivative Financial Instruments Dec. 31, 2001 Nominal value	Market value(1)	Total Volume of Derivative Financial Instruments Dec. 31, 2000 Nominal value	Market value(1)
FX forward transactions				
Buy	2,095.4	35.3	2,319.1	(66.3)
Sell	2,935.9	(48.5)	2,739.6	89.5
FX currency options				
Buy	896.4	7.2	338.3	0.2
Sell	28.6	1.7	82.9	1.9
Subtotal	**5,956.3**	**(4.3)**	**5,479.9**	**25.3**
Cross currency swaps				
up to 1 year	67.0	(11.9)	72.7	(11.4)
1 year to 5 years	1,892.0	73.9	348.9	17.1
more than 5 years	211.8	(3.4)	51.1	(3.3)
Interest rate / cross currency swaps				
up to 1 year	253.4	37.8	—	—
1 year to 5 years	629.7	20.0	180.7	15.4
more than 5 years	—	—	—	—
Subtotal	**3,053.9**	**116.4**	**653.4**	**17.8**
Interest rate swaps				
Fixed-rate payer				
up to 1 year	118.7	(1.1)	107.9	0.9
1 year to 5 years	2,129.8	(25.3)	1,306.2	(11.7)
more than 5 years	319.7	(13.2)	498.0	(9.3)
Fixed-rate receiver				
up to 1 year	56.8	0.2	24.5	0.3
1 year to 5 years	391.1	15.2	—	—
more than 5 years	128.4	3.3	38.4	0.8
Subtotal	**3,144.5**	**(20.9)**	**1,975.0**	**(19.0)**
Interest rate options				
Buy				
up to 1 year	—	—	—	—
1 year to 5 years	253.2	(0.5)	1.8	—
more than 5 years	—	—	36.3	0.4
Sell				
up to 1 year	—	—	—	—
1 year to 5 years	36.3	(0.1)	—	—
more than 5 years	—	—	36.3	—
Subtotal	**289.5**	**(0.6)**	**74.4**	**0.4**
Total	**12,444.2**	**90.6**	**8,182.7**	**24.5**

(1) Market value deviation from nominal value.

The above table no longer includes the figures related to discontinued operations, namely the amounts related to VAW. The VAW nominal volume amount in the foreign exchange area is €1,369 million as per December 31, 2001 (2000 €1,393 million) and the market value amount was (€35.5) million as per December 31, 2001 (2000 (€2.7) million). The VAW nominal volume amount in the interest rate area amounted to €201 million as per December 31, 2001 (2000 €186 million) and the market value amount was (€4.3) million as per December 31, 2001 (2000 (€4.1) million).

Volumes related to dmc[2] and Klöckner & Co. are no longer shown as the corresponding portions of these businesses were sold entirely in 2001 and the Company has no further obligations regarding financial derivatives. As of December 31, 2000, the total nominal volume of financial derivatives for both dmc[2] and Klöckner & Co. amounted to €280 million and the total market value amount was €7.7 million.

The above table includes both derivatives which qualify and do not qualify for SFAS 133 hedge accounting treatment.

€ in millions **Total Volume of Oil Related Financial Derivatives (Remaining Maturities)**	**Dec. 31, 2001** Nominal Value	Market Value(1)	**Dec. 31, 2000** Nominal Value	Market Value(1)
Crude oil swaps				
Buy				
up to 1 year	398.5	(19.4)	293.5	(31.7)
more than 1 year	6.7	(0.3)	—	—
Sell				
up to 1 year	383.9	23.3	159.8	12.6
more than 1 year	6.0	(0.4)	25.6	(4.7)
Subtotal	**795.1**	**3.2**	**478.9**	**(23.8)**
Refinery margin and petroleum product swaps				
up to 1 year	—	—	424.3	20.5
more than 1 year	—	—	151.3	18.0
Subtotal	**—**	**—**	**575.6**	**38.5**
Crude oil options				
Buy				
up to 1 year	—	—	41.9	(0.1)
more than 1 year	—	—	—	—
Sell				
up to 1 year	—	—	136.9	4.3
more than 1 year	—	—	136.7	(2.5)
Subtotal	**—**	**—**	**315.5**	**1.7**
Exchange traded oil future contracts				
Buy				
up to 1 year	5.8	0.1	4.3	(0.2)
more than 1 year	—	—	—	—
Sell				
up to 1 year	10.6	0.6	20.2	0.6
more than 1 year	—	—	5.6	(0.2)
Subtotal	**16.4**	**0.7**	**30.1**	**0.2**
Total Oil related financial derivatives	**811.5**	**3.9**	**1,400.1**	**16.6**

€ in millions Total Volume of Gas, Coal and Electricity Related Financial Derivatives (Remaining Maturities)	Dec. 31, 2001 Nominal Value	Dec. 31, 2001 Market Value(1)	Dec. 31, 2000 Nominal Value	Dec. 31, 2000 Market Value(1)
Electricity swaps				
Buy				
up to 1 year	670.9	31.4	—	—
more than 1 year	98.3	6.3	—	—
Sell				
up to 1 year	859.0	(57.7)	—	—
more than 1 year	701.0	(27.7)	—	—
Subtotal	**2,329.2**	**(47.7)**	**—**	**—**
Electricity options				
Buy				
up to 1 year	534.0	13.8	0.7	—
more than 1 year	11.0	0.1	—	—
Sell				
up to 1 year	571.3	(8.5)	7.2	(0.5)
more than 1 year	22.3	3.3	—	—
Subtotal	**1,138.6**	**8.7**	**7.9**	**(0.5)**
Exchange traded electricity future contracts				
Buy				
up to 1 year	60.4	0.4	—	—
more than 1 year	66.5	1.0	—	—
Sell				
up to 1 year	76.7	(3.6)	—	—
more than 1 year	9.9	(0.2)	—	—
Subtotal	**213.5**	**(2.4)**	**—**	**—**
OTC-Forwards				
Buy				
up to 1 year	3,206.3	397.3	—	—
more than 1 year	538.6	(1.0)	—	—
Sell				
up to 1 year	3,317.8	(394.4)	—	—
more than 1 year	645.8	2.5	—	—
Subtotal	**7,708.5**	**4.4**	**—**	**—**
Gas and coal swaps				
Buy				
up to 1 year	39.3	(2.5)	25.1	0.4
more than 1 year	—	—	—	—
Sell				
up to 1 year	1.3	—	—	—
more than 1 year	—	—	—	—
Subtotal	**40.6**	**(2.5)**	**25.1**	**0.4**
Gas options				
Buy				
up to 1 year	—	—	29.8	0.2
more than 1 year	—	—	—	—
Sell				
up to 1 year	—	—	—	—
more than 1 year	—	—	—	—
Subtotal	**—**	**—**	**29.8**	**0.2**
Total Electricity and gas related financial derivatives	11,430.4	(39.5)	62.8	0.1
Total Oil, Gas and Coal and Electricity related financial derivatives	**12,241.9**	**(35.6)**	**1,462.9**	**16.7**

(1) Market value deviation from nominal value.

The above table no longer includes the figures related to discontinued operations, namely the amounts related to VAW. The VAW nominal volume amount in the commodity area is €1,449 million as per December 31, 2001 (2000: €1,448 million) and the market value amount was (€1.1) million as per December 31, 2001 (2000: (€54.6) million).

Volumes related to dmc[2] are no longer shown as the corresponding portion of this business was sold entirely in 2001 and the Company has no further obligations regarding financial derivatives. As of December 31, 2000 the total nominal volume amount in the commodity area was €568 million and the market value was €(5.3) million.

The Company does not apply SFAS 133 hedge accounting in the commodities area.

Counterparty Risk From the Use of Derivative Financial Instruments

The Company is exposed to credit (or repayment) risk and market risk through the use of derivative instruments. If the counterparty fails to fulfill its performance obligations under a derivative contract, the Company's credit risk will equal the positive market value in a derivative. Currently, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Company, thus creating a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, assumes no repayment risk.

In order to minimize the credit risk in derivative instruments, the Company enters into transactions with high quality counterparties which include financial institutions, commodities exchanges, energy traders, and broker-dealers that satisfy the Company's established credit approval criteria. The credit ratings of all derivative counterparties are reviewed on a regular basis through the Company's application of the established credit approval criteria. The reporting units involved in electricity-, oil-, gas- and coal related derivatives also perform thorough credit checks and monitor credit worthiness on a regular basis. Derivative transactions are generally executed on the basis of standard agreements that allow all outstanding transactions with contracting partners to be offset. Exchange traded electricity and oil future contracts with a nominal value of €230 million as of December 31, 2001 (2000: €30 million) bear no counterparty risk. In general, collateral for derivative transactions are neither provided nor received.

The netting of transactions with positive and negative outstanding market values is not shown in the table below. In summary, as of December 31, 2001, the Company's financial derivatives had the following credit structure and lifetime.

€ in millions	Total(1)		Up to 1 Year		1 to 5 Years		More then 5 Years	
Rating of Counterparties Standard & Poor's and/or Moody's	**Nominal Value**	**Counter-party Risk**	**Nominal Value**	**Counter-party Risk**	**Nominal Value**	**Counter-party Risk**	**Nominal Value**	**Counter-party Risk**
AAA and Aaa	872.7	1.9	237.1	0.3	512.9	1.6	122.7	—
AA+ and Aaa or AAA and Aa1 through AA– and Aa3	8,740.9	191.6	4,608.4	81.2	3,631.2	106.7	501.3	3.7
AA– and A1 or A+ and Aa3 through A or A2	3,496.7	108.2	2,509.5	88.2	971.3	19.8	15.9	0.2
Other	11,345.9	551.1	8,703.4	410.5	2,568.8	139.4	73.7	1.2
Total	**24,456.2**	**852.8**	**16,058.4**	**580.2**	**7,684.2**	**267.5**	**713.6**	**5.1**

(1) The above table does not contain figures related to discontinued operations, namely the amounts related to VAW. The VAW nominal volume amount was €3,019 million and the volume in the area of counterparty risk was €60 million as of December 31, 2001. Other mainly includes domestic counterparties which are not rated, by either Standard & Poor's and/or Moody's.

(32) 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, 2001 and 2000, is summarized as follows:

€ in millions Non-derivative financial instruments	2001 Book Value	2001 Market Value	2000 Book Value	2000 Market Value
Financial Instruments (other than derivative financial instruments)				
Assets				
Loans	2,798	2,833	2,947	3,013
Securities	9,755	10,459	8,189	9,132
Liquid funds	4,080	4,080	1,201	1,201
Others	1,444	1,444	607	607
Liabilities				
Financial liabilities	16,089	16,059	19,128	19,079

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 its non derivative financial instruments is insignificant.

(33) 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 Energy, Chemicals, Oil, Real Estate, Telecommunications and Distribution/Logistics. The column ''Holding/Others'' includes the holding company and effects from consolidation.

Below is information on the Company's business segments.

Energy 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.

The Oil division 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.

The Company's distribution and logistics operations are organized in three holding companies: Stinnes, Klöckner AG & Co (until September 30, 2001), and VEBA Electronics (until October 31, 2000). Stinnes provides logistics services in the following areas: Transportation, Chemicals, Raw Materials, Steel and Full-line Wholesaling. Klöckner is a leading multi-metal distributor.

Holding/Others 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 from continuing operations before income taxes (after foreign taxes related to exploration and production). Income from continuing operations before income taxes 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 Statements 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 Statements of Income.

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:

€ in millions Segment Information	2001	2000	1999
Internal operating profit	3,553	2,256	2,236
Net book gains (a)	908	4,630	2,337
Restructuring expenses/cost management programs (b)	(360)	(466)	(397)
Other non-operating income/(expense) (c)	(615)	(549)	81
Foreign exploration and production income taxes (d)	412	552	301
Income from continuing operations before income taxes	**3,898**	**6,423**	**4,558**

(a) Net book gains in 2001 primarily result from the successful desinvestment program by Degussa, mainly by selling the business units ''Onkologie'' and ''Dental'' for a book gain of approximately €530 million. For the energy segment, the disposition of BEWAG and HEW as well as changes in the portfolios of Thüga and Avacon led to a gain of approximately €240 million. Other gains on acquisitions resulted from selling Klöckner und Co. (€140 million) and Viag Interkom (€110 million). Offsetting these gains was a loss from selling securities of €135 million at E.ON Energie.

(b) Restructuring and cost-management expenses were incurred by the current restructuring program of Degussa in the amount of approximately €204 million. E.ON Energie incurred costs regarding the retirement of power plants and stemming from its realignment in the amount of approximately €75 million. Further, Viterra incurred costs of approximately €45 million for the reorganisation of its construction business.

(c) Other non-operating earnings in 2001 include expenses related to the energy segment in the amount of approximately €240 million. These expenses result primarily from the cancellation of long term delivery energy contracts. These contracts, signed in the early 90's became uneconomical due to the liberalisation of the energy markets and the resulting decrease in prices for purchasing and selling energy. Cancelling these contracts before their expiration date will result in an improvement in future earnings. At the Chemicals Division, non-recurring costs occurred due to the merger of Degussa-Hüls and SKW Trostberg in the amount of €198 million. As discussed in more detail in Note 4, the common control merger of Degussa-Hüls and SKW Trostberg resulted in E.ON realizing a SAB 51 gain of €184 million. In addition, in 2001 E.ON paid €75 million more in contributions to a foundation called ''Stiftungsinitiative der deutschen Wirtschaft''. Finally, a provision of approximately €40 million for terminating a commercial real estate project in Berlin was incurred.

(d) Due to the high tax burden, pre-tax income in the Oil segment 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 income from ordinary business activities.

€ in millions Segment information by division		Energy	Chemicals	Oil	Real Estate	Telecom-munication	Distribution/ Logistics	Holding/ Others	Total
External sales	2001	18,400	17,330	26,422	1,268	556	15,548	140	79,664
	2000	10,977	18,072	28,062	1,300	228	20,838	802	80,279
	1999	7,719	12,242	11,778	1,145	108	16,872	—	49,864
Intersegment sales	2001	49	68	477	23	—	35	(652)	—
	2000	50	126	718	24	1	47	(966)	—
	1999	49	78	451	22	3	48	—	651
Total sales	2001	18,449	17,398	26,899	1,291	556	15,583	(512)	79,664
	2000	11,027	18,198	28,780	1,324	229	20,885	(164)	80,279
	1999	7,768	12,320	12,229	1,167	111	16,920	(651)	49,864
Amortization and write-downs	2001	1,989	1,220	568	134	147	299	6	4,363
	2000	1,615	1,061	632	134	259	316	225	4,242
	1999	1,134	843	260	134	158	319	—	2,848
Earnings from companies accounted for under the equity method	2001	415	41	36	10	(20)	7	317	806
	2000	463	21	38	2	(240)	9	82	375
	1999	418	20	(3)	10	(196)	10	63	322
Interest income/(expense), net	2001	(68)	(344)	(185)	(91)	(63)	(122)	163	(710)
	2000	37	(268)	(168)	(73)	(27)	(179)	(81)	(759)
	1999	(76)	(171)	(15)	(73)	32	(164)	(227)	(694)
Internal operating profit	2001	1,971	541	432	245	(148)	299	213	3,553
	2000	1,099	576	310	212	(360)	384	35	2,256
	1999	1,370	275	34	189	(150)	276	242	2,236
Capital expenditures									
Companies accounted for under the equity method	2001	755	2	—	—	—	3	—	760
	2000	458	48	—	2	386	8	17	919
	1999	273	12	—	52	43	1	—	381
Other financial assets	2001	2,209	692	42	63	—	18	379	3,403
	2000	2,057	583	1,111	83	3,895	356	393	8,478
	1999	483	337	907	112	101	445	1,714	4,099
Other fixed assets	2001	1,063	1,399	617	108	243	294	44	3,768
	2000	841	1,044	612	399	310	298	73	3,577
	1999	593	949	401	169	27	295	43	2,477
Total capital expenditures	2001	4,027	2,093	659	171	243	315	423	7,931
	2000	3,356	1,675	1,723	484	4,591	662	483	12,974
	1999	1,349	1,298	1,308	333	171	741	1,757	6,957
Total assets(1)	2001	54,903	18,127	9,243	4,716	9,266	7,682	(4,891)	99,046
	2000	57,244	19,158	9,178	4,074	12,711	8,727	(4,877)	106,215
	1999	24,834	12,674	5,489	3,399	1,024	8,033	1,816	57,269

(1) Total assets include net assets from discontinued operations, namely VAW aluminium (€478 million). In 2000, E.ON's total assets include the total assets from VAW aluminium (€2,915 million) and MEMC (€2,050 million), which are shown under "Holding/Others". In addition, in order to increase the transparency of the results from the sale of E-Plus, Cablecom, Orange Communications and VIAG Interkom, interest income and interest related to investments have been reclassified from the telecommunications segment to "Holding/Others".

A reclassification for the year 2000 has been made to conform with the 2001 presentation in the energy division.

Geographic Segmentation

The following table details external sales (by destination and by location of operation) and internal operating profit and long-lived assets information by geographic area for the years ended December 31.

€ in millions Geographic Segment Information		Germany	Europe (Eurozone Excluding Germany)	Europe (Other)	USA	Others	Total
External Sales							
By Destination	2001	45,117	10,656	8,025	7,500	8,366	79,664
	2000	41,616	10,833	7,971	11,897	7,962	80,279
	1999	25,557	6,189	5,638	7,959	4,521	49,864
By Operation	2001	54,294	7,624	5,985	8,368	3,393	79,664
	2000	46,908	8,479	8,550	10,577	5,765	80,279
	1999	30,951	4,755	2,437	7,418	4,303	49,864
Internal Operating Profit	2001	2,537	90	508	156	262	3,553
	2000	1,393	251	207	101	304	2,256
	1999	1,620	45	142	220	209	2,236
Long-lived assets	2001	21,006	2,659	7,733	1,613	1,275	34,286
	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

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.

(34) Supervisory Board and Board of Management

Provided that the Annual Stockholders' Meeting of E.ON on May 28, 2002 approves the proposed dividend, total remuneration of the members of the Supervisory Board will amount to €2.4 million (2000: €2.8 million) and those of the members of the Board of Management, including compensation for the performance of duties at subsidiaries, will amount to €8,8 million (2000: €13.0 million, 1999: €9.6 million).

Total payments to retired members of the Board of Management and their beneficiaries amounted to €5.6 million (2000: €8.1 million). Provisions of €67.7 million (2000: €66.1 million) 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, 2001 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."

(35) Subsequent Events

As discussed in more detail in Note 4, on January 6, 2002 E.ON agreed to sell its aluminum operations to Norsk Hyrdro ASA, Oslo Norway for €3,107 million which includes the assumption of debt and pension accruals in the amount of €1.2 billion. The transaction is expected to close in the first quarter of 2002.

On January 16, 2002, E.ON Energie acquired 34% of Espoon Sähkö Oy, a Finnish energy utility for €160 million.

E.ON entered into a participation agreement with BP plc ("BP") by which BP would participate in a capital increase in E.ON's wholly owned subsidiary Veba Oel AG (Veba Oel). BP would make a capital contribution and receive 51% of the outstanding capital of Veba Oel and E.ON would receive repayment of €1.9 billion of shareholder loans. On February 7, 2002 the capital increase of Veba Oel was effected. E.ON has a put option to require BP to acquire E.ON's remaining 49% interest in Veba Oel for approximately €2.8 billion.

As required in the participation agreement between E.ON and BP, on January 29, 2002 Veba Oel sold its entire exploration and production business to Petro Canada, Alberta Canada for approximately €2.4 billion. Upon the exercise of the put option, E.ON's total proceeds from the sale of VEBA Oel will amount to €3.3 billion, including approximately €500 million from the above sale.

On February 19, 2002 E.ON filed a formal application with Germany's Minister of Economics and Technology for ministerial approval of E.ON's acquisition of 25.5% of the shares in Ruhrgas AG, which would be indirectly acquired through E.ON's purchase of Gelsenberg AG. The application also contains E.ON's notification that it intends to apply for ministerial approval of its acquisition of Bergemann GmbH which has a 34.8% ownership in Ruhrgas.

In January 2002, E.ON reached an agreement with France Telecom regarding the sale of shares in Orange S.A. The Orange S.A. shares were part of the payment to E.ON for France Telecom's acquisition of Orange Communications in November 2000. The agreement allows E.ON to begin selling the shares after 26 February 2002. The put and call clauses linked to these shares were also renegotiated. The Company now has a put option for shares at a strike price of €9.25 and a call option for shares at a strike price of €11.25. Both options expire in June 2002.

(36) Supplementary Information Concerning Oil and Gas Producing Activities (unaudited)

The following information for E.ON is presented in accordance SFAS 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 — unaudited

(in millions of €)	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
At December 31, 2001							
Capitalized costs							
Proved properties	542.4	383.8	1,131.9	1,036.1	283.1	85.8	3,463.1
Unproved properties	22.2	22.9	0.6	118.5	55.8	8.8	228.8
Total	564.6	406,7	1,132.5	1,154.6	338.9	94.6	3,691.9
Accumulated depreciation, depletion and amortization	409.0	185.2	1,096.8	617.4	53.4	25.8	2,387.6
Net capitalized costs	**155.6**	**221.5**	**35.7**	**537.2**	**285.5**	**68.8**	**1,304.3**
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**

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 — unaudited

(in millions of €)	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Year ended December 31, 2001							
Acquisitions of proved properties	—	—	—	—	—	—	—
Acquisitions of unproved properties	—	—	—	—	—	—	—
Exploration	2.2	8.1	1.0	2,6	11.7	32.6	58.2
Development	28.0	54.7	35.4	147.3	7,1	38.0	310.5
Total costs incurred	**30.2**	**62.8**	**36.4**	**149.9**	**18.8**	**70.6**	**368.7**
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**

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 — unaudited

(in millions of €)	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Year ended December 31, 2001							
Sales to consolidated companies	182.0	18.0	—	29.7	—	—	229.7
Sales to third-parties	261.1	102.5	525.5	222.1	79.1	—	1,190.3
Total sales	**443.1**	**120.5**	**525.5**	**251.8**	**79.1**	**—**	**1,420.0**
Production costs	79.1	22.5	219.2	54.5	69.0	—	444.3
Exploration expensed	2.2	2.1	1.0	2.6	3.9	17.2	29.0
Depreciation, depletion and amortization	25.1	21.9	56.4	74.1	30.1	—	207.6
Royalties	85.4	0.3	—	—	8.1	—	93.8
Total costs	**191.8**	**46.8**	**276.6**	**131.2**	**111.1**	**17.2**	**774.7**
Results before taxes	**251.3**	**73.7**	**248.9**	**120.6**	**(32.0)**	**(17.2)**	**645.3**
Income taxes	222.5	36.9	124.8	36.2	11.1	5.8	437.3
Results after taxes	**28.8**	**36.8**	**124.1**	**84.4**	**(43.1)**	**(23.0)**	**208.0**

	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
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**

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 SFAS 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, 2001, 2000 and 1999 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.

Net proved reserves of crude oil
(in millions of barrels) — unaudited

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
At January 1, 2001	**177.5**	**13.3**	**36.3**	**43.6**	**242.4**	**—**	**513.1**
Revisions of previous estimates	(7.3)	3.5	20.5	12.2	—	—	28.9
Extensions, discoveries and other	—	—	—	—	0.2	3.0	3.2
Acquisitions of reserves in place	—	—	—	—	—	—	—
Sales of reserves in place	—	—	—	—	—	—	—
Production for the year	(16.5)	(1.0)	(14.3)	(8.1)	(4.9)	—	(44.8)
At December 31, 2001	**153.7**	**15.8**	**42.5**	**47.7**	**237.7**	**3.0**	**500.4**
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**	**—**	**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**
Proved developed reserves							
At December 31, 2001	151.2	15.8	28.2	39.8	55.6	—	290.6
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

VEBA Oil's proportional interest in reserves of equity method investees

	Norway	Egypt	Total
At December 31, 2001	14.6	6.4	21.0
At December 31, 2000	15.7	8.1	23.8
At December 31, 1999	17.6	7.3	24.9

Net proved reserves of natural gas
(in billions of cubic feet)
unaudited

	Netherlands	Syria	UK	Rest of World	Total
Proved reserves					
At January 1, 2001	**98.3**	**20.8**	**73.4**	**189.5**	**382.0**
Revisions of previous estimates	4.7	2.4	16.0	—	23.1
Extensions, discoveries and other	1.9	—	—	—	1.9
Acquisitions of reserves in place	—	—	—	—	—
Sales of reserves in place	—	—	—	—	—
Production for the year	(22.1)	(9.1)	(9.9)	—	(41.1)
At December 31, 2001	**82.8**	**14.1**	**79.5**	**189.5**	**365.9**
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**
Proved developed reserves					
At December 31, 2001	82.8	14.1	70.3	—	167.2
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

VEBA Oil's proportional interest in reserves of equity method investees — unaudited

	Norway	Total
At December 31, 2001	4.5	4.5
At December 31, 2000	5.4	5.4
At December 31, 1999	5.5	5.5

Average sales prices — unaudited

	Indonesia	Libya	Netherlands	Syria	UK	Venezuela
Average sales prices						
per bbl of crude oil (in €)						
2001	—	26.88	23.12	26.25	27.35	15.24
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
per mcf of natural gas (in €)						
2001	—	—	3.79	2.82	2.73	—
2000	3.21	—	3.10	3.42	2.60	—
1999	2.42	—	1.82	1.98	2.19	—
Average production cost per barrel of oil equivalent (in €)						
2001	—	4.80	5.53	4.71	4.77	6.87
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

Net oil and gas wells completed or abandoned — unaudited

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Year ended December 31, 2001							
Exploratory							
— productive	0.5	0.2	—	—	0.3	0.5	1.5
— dry	—	0.2	—	—	—	0.2	0.4
Development							
— productive	2.5	0.3	5.2	1.8	—	1.7	11.5
— dry	—	—	1.1	0.8	—	—	1.9
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

Number of productive oil and gas wells — unaudited

	Egypt	Libya	Netherlands	Norway	Syria	UK	Venezuela	Rest of World	Total
At December 31, 2001									
Oil wells									
— gross	48.0	198.0	2.0	68.0	201.0	32.0	118.0	—	667.0
— net	11.8	91.7	0.9	0.4	70.9	8.3	19.7	—	203.7
Gas wells									
— gross	5.0	—	52.0	—	—	1.0	—	—	58.0
— net	1.2	—	7.1	—	—	0.8	—	—	9.1
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

Productive oil and gas wells (in thousand of acres) — unaudited

	Egypt	Kazakhstan	Libya	Netherlands	Norway	Syria	UK	Venezuela	Rest of World	Total
At December 31, 2001										
Developed										
— gross	25.4	—	285.7	36.3	72.4	477.7	77.9	10.4	—	985.8
— net	6.2	—	140.0	5.6	1.8	168.1	34.3	1.7	—	357.7
Undeveloped										
— gross	9,080.6	3,576.6	5,938.9	1,836.4	463.3	—	440.1	184.4	1.083.0	22,603.3
— net	2,224.8	1,430.6	2,876.7	385.5	7.0	—	151.4	47.1	175.7	7,298.8
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

Drilling and production activities in progress (number of oil and gas wells) — unaudited

	Egypt	Libya	Netherlands	Norway	Syria	UK	Venezuela	Rest of World	Total
At December 31, 2001									
Exploratory									
— gross	—	—	3.0	—	—	—	—	1.0	4.0
— net	—	—	1.1	—	—	—	—	0.2	1.3
Development									
— gross	2.0	7.0	—	6.0	5.0	3.0	—	10.0	33.0
— net	0.3	3.4	—	—	1.8	1.8	—	1.7	9.0
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

Standardized measure of discounted future net cash flow — unaudited

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, 2001							
Future cash flows	2,432.2	617.4	1,171.5	1,209.9	2,883.8	590,2	8,905.0
Future production and development costs	(969.0)	(279.8)	(447.3)	(797.3)	(1,172.6)	(169.9)	(3,835.9)
Future income tax expense	(1,253.5)	(168.8)	(277.9)	(123.8)	(581.8)	(198.6)	(2,604.4)
Future net cash flows	**209.7**	**168.8**	**446.3**	**288.8**	**1,129.4**	**221.7**	**2,464.7**
Discount	(77.1)	(47.8)	(95.8)	(81.0)	(806.1)	(117.9)	(1,225.7)
Standardized measure of discounted future net cash flows	**132.6**	**121.0**	**350.5**	**207.8**	**323.3**	**103.8**	**1,239.0**
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**

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, 2001, 2000 and 1999.

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
Net change in sales and transfer prices and in production costs related to future production	(15.9)	9.9	(92.9)	(59.4)	(17.6)	6.0	(169.9)
Changes in estimated future development costs	—	(14.4)	(16.9)	(28.9)	(20.9)	1.2	(79.9)
Sales and transfers of oil and gas produced during the period	(15.2)	(22.8)	(188.9)	(118.4)	(11.5)	—	(356.8)
Net change due to extensions, discoveries and improved recovery	—	1.3	—	—	0.5	14.8	16.6
Net change due to purchases and sales of minerals in place	—	—	—	—	—	—	—
Net change due to revisions in quantity estimates	(6.7)	28.0	288.3	178.8	—	—	488.4
Previously estimated development costs incurred during the period	—	—	—	—	—	—	—
Accretion of discount	7.3	23.7	(8.0)	(15.1)	4.9	—	12.8
Other	—	—	—	—	—	—	—
Net change in income taxes	—	—	—	—	—	—	—
Discounted future net cash flows at December 31, 2001	**132.6**	**121.0**	**350.5**	**207.8**	**323.3**	**103.8**	**1,239.0**
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**

	Libya	Netherlands	Syria	UK	Venezuela	Rest of World	Total
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)
Discounted future net cash flows at December 31, 1999	**173.3**	**86.3**	**596.1**	**450.2**	**555.2**	**66.8**	**1,927.9**

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 21, 2002

E.ON AG

By: /s/ DR. ERHARD SCHIPPOREIT

Dr. Erhard Schipporeit
Member of the Board of Management and
Chief Financial Officer