

2000 Annual Report



e-on

E.ON AG: an overview

Energy. E.ON AG’s energy companies supply Germany and Europe with electricity, district heating, natural gas, water, and petroleum products.

E.ON Energie AG was forged by the tie-up of PreussenElektra and Bayernwerk. Via subsidiaries and shareholdings, E.ON Energie supplies roughly one third of Germany’s population with power, about 10 million inhabitants with drinking water, and just over five million customers with natural gas. It also has stakes in major energy companies in Sweden, Switzerland, the Netherlands, Italy, Russia, Latvia, Hungary, and the Czech Republic.

VEBA Oel’s operations encompass global petroleum exploration and production, petroleum refining and petrochemicals, and petroleum product retailing. VEBA Oel’s Aral subsidiary is Germany’s premier service station operator and heating oil retailer. VEBA Oel also operates Germany’s biggest refinery system.

Chemicals. Merging Degussa-Hüls AG and SKW Trostberg AG created the world’s largest specialty chemicals group: the new Degussa AG. Degussa is arrayed in six market-oriented divisions: Health and Nutrition, Construction Chemicals, Fine and Industrial Chemicals, Performance Chemicals, Coatings and Advanced Fillers, and Specialty Polymers. Degussa is the global market leader for numerous products.

Energy						Chemicals				Other Activities									
E.ON Energie AG Munich Capital: €639 million				100%		VEBA Oel AG Gelsenkirchen Capital: DM488 million				100%		Degussa AG Düsseldorf Capital: €206 million				64.6%			
E.ON Kraftwerke GmbH Hanover Capital: €103 million		100%		OBAG AG Regensburg Capital: €94 million		97.6%		VEBA Oil & Gas GmbH Essen Capital: €356 million		100%		dmc ² Degussa Metals Catalysts Cerdec AG. Hanau Capital: DM50 million		100%		Viterra AG Essen Capital: €182 million		100%	
E.ON Kernkraft GmbH Hanover Capital: €110 million		100%		Pesag Aktiengesellschaft Paderborn Capital: €17 million		54.7%		VEBA Oil Refining & Petrochemicals GmbH Gelsenkirchen Capital: €50 million		100%		Goldschmidt AG Essen Capital: €34 million		97.3%		Stinnes AG Mülheim an der Ruhr Capital: €190 million		65.5%	
E.ON Wasserkraft GmbH Landshut Capital: €173 million		100%		Schleswag Aktiengesellschaft Rendsburg Capital: €102 million		65.3%		VEBA Oil Supply and Trading GmbH Hamburg Capital: €3 million		100%		Röhm GmbH & Co. KG Darmstadt Capital: DM102 million		100%		Klöckner & Co AG Duisburg Capital: €100 million		100%	
E.ON Netz GmbH Bayreuth Capital: €110 million		100%		TEAG Thüringer Energie AG Erfurt Capital: €92 million		74.9%		Ruhr Oel GmbH Düsseldorf Capital: €223 million		50%		Stockhausen GmbH & Co. KG Krefeld Capital: DM84 million		99.9%		VIAG Telecom Beteiligungs GmbH Munich Capital: €0.3 million		100%	
E.ON Trading GmbH Munich Capital: €10 million		100%		Überlandwerk Unterfranken AG Würzburg Capital: €45 million		92.4%		Aral Aktiengesellschaft & Co. Bochum Capital: €172 million		100%		Degussa-Hüls Antwerpen N.V. Antwerp (Belgium) Capital: BEF 1,100 million		100%		E.ON Telecom GmbH Düsseldorf Capital: €128 million		100%	
E.ON Vertrieb GmbH Munich Capital: €1.25 million		100%		Contigas Deutsche Energie- Aktiengesellschaft Munich Capital: €118 million		98.7%		Aral Wärme Service GmbH Gelsenkirchen Capital: €23 million		100%		SKW Biosystems SAS Boulogne Billancourt (France) Capital: FRF 978 million		100%		VAW aluminium AG Bonn Capital: DM227 million		100%	
E.ON Engineering GmbH Gelsenkirchen Capital: €11 million		100%		Thüga AG Munich Capital: €164 million		57.3%		Erdöl-Raffinerie-Emsland GmbH & Co. KG Lingen Capital: €0.05 million		100%		Degussa-Hüls Corporation Ridgefield Park, NJ (USA) Capital: \$6 million		100%		MEMC Electronic Materials Inc. St. Peters, MO (USA) Capital: \$772 million		71.8%	
Avacon AG Helmstedt Capital: €53 million		54.7%		Gelsenwasser AG Gelsenkirchen Capital: €88 million		80.5%		VEBA Oel-Verarbeitungs GmbH Gelsenkirchen Capital: €0.05 million		100%		SKW Americas, Inc. Cleveland, OH (USA) Capital: \$60 million		100%		With roughly 125,000 housing units of its own, another 50,000 via shareholdings, and numerous commercial properties, Viterra is one of Germany's foremost real-estate service enterprises.			
e.dis. Energie Nord AG Fürstenwalde an der Spree Capital: €175 million		70%		E.ON Benelux Generation N.V. Voorburg (the Netherlands) Capital: NLG 19 million		100%						Degussa-Hüls Ltda. Guarulhos (Brazil) Capital: BRL 53 million		100%		Stinnes's more than 1,500 facilities around the globe put it in the top tier of distribution and logistics companies.			
Elektrizitätswerk Minden-Ravensberg Minden Capital: €41 million		25.1%		Sydkraft AG Malmö (Sweden) Capital: SEK 1,910 million		29.4%						Degussa-Hüls Japan Co., Ltd. Tokyo (Japan) Capital: JPY 998 million		100%		Klöckner & Co's extensive network of facilities in Europe and North America makes it a leading materials distribution specialist.			
Energie-Aktiengesellschaft Mitteldeutschland EAM Kassel Capital: €61 million		46%		Watt AG Zurich (Switzerland) Capital: CHF 88 million		24.5%						NMB Co., Ltd. Tokyo (Japan) Capital: JPY 4,540 million		100%		VIAG Telecom holds a majority interest in ONE, Austria's third-largest cellular phone company. ONE also offers fixed-line and internet services.			
EVO Energieversorgung Oberfranken AG Bayreuth Capital: €90 million		90.8%		BKW FMB Energie AG Bern (Switzerland) Capital: CHF 132 million		20%						Korea Carbon Black Co., Ltd. Inchon (South Korea) Capital: KRW 107,804 million		100%		VAW aluminium is one of Europe's biggest aluminum manufacturers and processors. VAW has customers around the world in the packaging, automotive, construction, printing, and transportation industries.			
EWE Aktiengesellschaft Oldenburg Capital: €153 million		27.4%		Dél-dunántúli Áramszolgáltató Részvénytársaság Pécs (Hungary) Capital: HUF 30 billion		90.6%										MEMC is one of the world's premier makers of silicon wafers and owns production facilities in the U.S., Asia, and Europe.			
Isar-Amperwerke AG Munich Capital: €192 million		87.3%		Tiszántúll Áramszolgáltató RL Debrecen (Hungary) Capital: HUF 34 billion		83.1%													

E.ON 2000

E.ON Group financial highlights			
€ in millions (pro forma) ¹	1999	2000	+/- %
Sales	69,745	93,240	+34
Income			
Pretax income	5,048	6,802	+35
Net income	3,095	4,184	+35
After minority interests	2,839	3,678	+30
Internal operating profit	2,748	2,762	+1
Return on equity after taxes ² in percent	11.2	13.5	+2.3 ³
Investments	11,045	14,961	+35
Cash flow from operations	4,866	3,889	-20
Stockholders' equity	26,293	28,033	+7
Total assets	94,628	106,215	+12
Employees at year-end	203,733	186,788	-8
Per share in € (pro forma)			
Earnings	3.90	5.07	+30
Cash dividend	1.25	1.35	+8
Dividend including tax credit	1.79	1.93	+8
Stockholders' equity ⁴	36.09	38.61	+7
Cash flow from operations	6.68	5.36	-20
¹ Pro-forma figures for 1999 and 2000 are shown in accordance with U.S. GAAP and depict the E.ON Group as if the VEBA-VIAG merger had been consummated as of January 1, 1999.			
² Net income (excluding minority interests) ÷ annual average stockholders' equity (excluding minority interests).			
³ Change in percentage points.			
⁴ Excluding minority interests.			

E.ON Group by Division 2000								
€ in millions (pro forma)	Electricity	Oil	Chemicals	Real Estate	Tele-communications	Other Activities	Holding/Other	Total
Sales	13,350	28,780	20,267	1,324	383	25,733	3,403	93,240
Internal operating profit	1,725	310	672	212	-546	620	-231	2,762
Cash flow from operations	1,037	918	501	5	-761	617	1,572	3,889
Investments	3,766	1,723	1,868	484	5,135	1,317	668	14,961
Employees at year-end	34,406	8,593	62,110	5,567	1,409	74,044	659	186,788

In June 2000, VEBA and VIAG became E.ON. The merged company ranks among the world's largest investor-owned energy service providers and is the world's biggest specialty chemicals group. E.ON is also a new brand—a brand that's already recognized by nine out of ten people in Germany. Each day last year, becoming E.ON was a big part of our lives. On each page of our 2000 Annual Report, you'll find part of **E.ON**.

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Energetic and innovative. Warm and welcoming. That's our new logo. Its organic form along with our new corporate color—a vibrant red—define our new look.

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Supervisory Board

Honorary Chairman

Prof. Dr. Günter Vogelsang
Düsseldorf

Supervisory Board

Hermann Josef Strenger

Chairman of the Supervisory Board,
Bayer AG, Leverkusen
Chairman
(until May 25, 2000)

Dr. Klaus Liesen

Chairman of the Supervisory Board,
Ruhrgas AG, Essen
Chairman
(since May 25, 2000)

Hubertus Schmoldt

Chairman of the Board of
Management, Industriegewerk-
schaft Bergbau, Chemie, Energie,
Hanover
Deputy Chairman

Dr. Karl-Hermann Baumann

Chairman of the Supervisory Board,
Siemens AG, Munich
(since May 25, 2000)

Ralf Blauth

Industrial Clerk (*Industriekaufmann*),
Marl

Dr. Rolf-E. Breuer

Spokesman of the Board of
Management, Deutsche Bank AG,
Frankfurt am Main

Dr. Gerhard Cromme

Chairman of the Board of
Management, ThyssenKrupp AG,
Düsseldorf

Rainer Dücker

Power Plant Worker, Hanover
(until December 31, 2000)

Henner Hecht-Wieber

Electrician, Bochum
(until August 31, 2000)

Wolf-Rüdiger Hinrichsen

Accounting and Administration
Manager (*kfm. Angestellter*),
Düsseldorf

Ulrich Hocker

General Manager, German Investor
Protection Association, Düsseldorf

Dr. Jochen Holzer

Honorary Senator, former
Chairman of the Supervisory Board,
VIAG AG, Munich
(since May 25, 2000)

Dr. h.c. André Leysen

Chairman of the Administrative
Board, GEVAERT N.V., Mortsel,
Belgium

Herbert Mai

Former Chairman, Gewerkschaft
Öffentliche Dienste, Transport und
Verkehr, Stuttgart

Dagobert Millinghaus

Accounting and Administration
Manager (*kfm. Angestellter*),
Mülheim an der Ruhr

Margret Mönig-Raane

Chairwoman,
Gewerkschaft Handel, Banken und
Versicherungen, Düsseldorf

Ulrich Otte

Systems Engineer (*Leittechniker*),
Munich
(since January 1, 2001)

Armin Schreiber

Electrical Engineer, Grafenrheinfeld
(since November 29, 2000)

Dr. Henning Schulte-Noelle

Chairman of the Board of
Management, Allianz AG, Munich

Morris Tabaksblat

Chairman of the Administrative
Board, Reed Elsevier plc.,
Amsterdam, the Netherlands
(until May 25, 2000)

Kurt F. Viermetz

Retired Vice-Chairman and Director
of the Board, J.P. Morgan & Co., Inc.,
New York, USA

Dr. Bernd W. Voss

Member of the Board of
Management, Dresdner Bank AG,
Frankfurt am Main

Dr. Peter Weber

Director of the Legal Department,
Degussa AG, Marl

Kurt Weslowski

Chemical Worker, Gelsenkirchen

Report of the Supervisory Board



Dr. Klaus Liesen
Chairman of the
Supervisory Board

The Supervisory Board monitored and advised management during the financial year under review. Management regularly informed us about the progress of business and the financial status of the Company. We discussed oral and written reports submitted by the Board of Management in depth at eight meetings in 2000. We debated comprehensively all measures subject to Supervisory Board approval. Between meetings, the Board of Management provided Supervisory Board members with detailed information in writing on major business transactions of key importance for the Company's further development. Furthermore, the Supervisory Board's Executive Committee received oral reports presented by the Board of Management and discussed them in depth at six sessions. The Chairman of the Supervisory Board was informed on an ongoing basis about all major business transactions as well as the development of key financial figures.

At its meetings, the Supervisory Board dealt intensively with the Group's strategic focus on its core energy and specialty chemicals businesses. Reporting by the Board of Management also concentrated on the merger of VEBA and VIAG and the progress of post-merger integration. We were continuously informed about the status of the Energy Division's divestitures and asset sales stemming from the EU Commission's antitrust requirements. In addition, the Board of Management presented us detailed information about the merger of PreussenElektra and Bayernwerk to form E.ON Energie AG as well as that of Degussa-Hüls and SKW Trostberg to create the new Degussa AG. We thoroughly debated the merged companies' strategic orientation.

The effects of power market liberalization and their consequences for E.ON Energie formed a key topic of our discussions. In addition, we comprehensively debated the agreement reached with the German government on the continued use of nuclear energy and developments in the area of energy policy.

Report of the Supervisory Board

We dealt in depth with the disposal of the majority stake in Schmalbach-Lubeca, the sale of Gerresheimer Glas and the Company's electronics business as well as Degussa-Hüls's and SKW Trostberg's takeover of Laporte, the UK-based fine chemicals company. We likewise discussed in detail VIAG Interkom's participation in Germany's UMTS auction and the option agreement reached with British Telecom regarding VIAG Interkom. The Board of Management also informed us about UMTS license auctions in Switzerland and Austria as well as the sale of the stake in Orange Communications, the Swiss mobile communications company.

Other subjects of our discussions included the financial situation and business prospects of the major Group companies; investment, financing, and personnel planning for 2001 through 2003; and the Company's complete conversion to U.S. generally accepted accounting principles (U.S. GAAP). During Supervisory Board meetings, the Board of Management also regularly informed us about the use and scope of derivative financial instruments. In addition, we resolved to authorize management to repurchase E.ON AG shares.

The auditors, PwC Deutsche Revision Wirtschaftsprüfungsgesellschaft, Düsseldorf, approved by the Annual Shareholders' Meeting and appointed by the Supervisory Board, audited the Financial Statements of E.ON AG and the Consolidated Financial Statements as of December 31, 2000, as well as the combined Review of Operations, and submitted an unqualified opinion thereon. The auditors also reviewed and deliv-

ered an audit opinion on the Consolidated Financial Statements, compiled for the first time in compliance with U.S. GAAP. The Consolidated Financial Statements are supplemented by the required disclosures in compliance with § 292a of Germany's Commercial Code. The Consolidated Financial Statements compiled under U.S. GAAP exempts the Company from the requirement to release Consolidated Financial Statements in accordance with German GAAP. Furthermore, the auditors examined E.ON AG's early risk detection system. This examination revealed that the system is fulfilling its tasks. All members of the Supervisory Board received the Financial Statements, the Review of Operations, and the Auditor's Reports. The Supervisory Board's Executive Committee and the Supervisory Board itself at its meeting to approve the Financial Statements also reviewed these documents in detail with the auditors present.

We examined the Financial Statements of E.ON AG, the Review of Operations, and the proposal of the Board of Management regarding the appropriation of net income available for distribution and agreed to these without any objections. We approved the Auditor's Report.

We approved the Financial Statements of E.ON AG prepared by the Board of Management and also the Consolidated Financial Statements. The Financial Statements are thus adopted. We approved the Consolidated Financial Statements. We agree with the Report of the Board of Management and, in particular, with its statements concerning the Company's future development.

We agree with the Board of Management's proposal for appropriating net income available for distribution, which includes a cash dividend payment of €1.35 per share.

On September 14, 2000, Prof. Dr. Johannes Zahn passed away at the age of 93. Prof. Zahn was a member of VEBA AG's Supervisory Board and its Executive Committee from 1966 through 1983. With his international experience and wise counsel, he made a decisive contribution to our Group during the dynamic phase of its development following the first partial privatization. Prof. Zahn's name will always remain closely associated with E.ON's history.

On November 25, 2000, Prof. Dr. Dr. h.c. Marcus Bierich passed away at the age of 74. Prof. Bierich was a member of VEBA AG's Supervisory Board from 1983 through 1998. His balanced judgment combined with his impressive intellect and abilities made him a valuable and prescient adviser. Prof. Bierich rendered exemplary service to the Group during an important stage of its development. We will honor his memory.

Following the conclusion of VEBA AG's Annual Shareholders' Meeting on May 25, 2000, Hermann J. Strenger, member of the Supervisory Board since 1988 and Chairman of the Supervisory Board as well as member of its Executive Committee since 1993, resigned from the Supervisory Board. In exemplary fashion, he used his vast experience, decisiveness, and business acumen to guide and support the Group's new strategic orientation and expansion. Mr. Strenger rendered tremendous service to the Company during a significant phase of its history.

Morris Tabaksblat, member of the Supervisory Board since 1998, also resigned his mandate on May 25, 2000. The Supervisory Board thanks him for his excellent work.

As their successors, the shareholders elected Dr. Karl-Hermann Baumann and Dr. Jochen Holzer to the Supervisory Board at VEBA AG's 2000 Annual Shareholders' Meeting.

At its meeting on May 25, 2000, the Supervisory Board elected Dr. Klaus Liesen to be its Chairman until the end of its remaining term.

Henner Hecht-Wieber and Rainer Dücker resigned their mandates as Supervisory Board members effective August 31 and December 31, 2000, respectively.

A court appointed Armin Schreiber to succeed Mr. Hecht-Wieber as an employee representative member of the Supervisory Board. Ulrich Otte joined the Supervisory Board as a substitute member to succeed Mr. Dücker.

The Supervisory Board thanks these gentlemen for their fine work and their constructive approach to their responsibilities.

The mandate of Helmut Mamsch, member of the Board of Management since 1993, was terminated by mutual agreement on March 31, 2000.

Following the entry of the VEBA-VIAG merger that formed E.ON into the Commercial Register on June 16, 2000, the mandates of the following members of the Board of Management were terminated by mutual agreement:

- Dr. Wulf H. Bernotat, member of the Board of Management since 1998
- Gunther Beuth, member of the Board of Management since 1998
- Wilhelm Bonse-Geuking, member of the Board of Management since 1995
- Dr. Hans-Dieter Harig, member of the Board of Management since 1988

We would like to take this opportunity to again thank these gentlemen for their superb work and their outstanding achievements for the E.ON Group.

As of June 16, 2000, the Supervisory Board appointed Prof. Dr. Wilhelm Simson as a member and Chairman of the Board of Management, and Dr. Erhard Schipporeit as a member of the Board of Management.

The Supervisory Board wishes to thank the entire Board of Management, the Works Councils and all the employees of E.ON AG and its affiliated companies for their dedication and hard work.

Düsseldorf
March 26, 2001
The Supervisory Board



Dr. Klaus Liesen
Chairman

Board of Management



Prof. Dr. Wilhelm Simson

Born 1938 in Cologne
Member of the Board
of Management since 2000
Chairman and co-CEO
Düsseldorf
(since June 16, 2000)

Ulrich Hartmann

Born 1938 in Berlin
Member of the Board
of Management since 1989
Chairman and co-CEO
Düsseldorf

Dr. Hans Michael Gaul

Born 1942 in Düsseldorf
Member of the Board
of Management since 1990
Controlling/Corporate Planning,
M & A, Legal Affairs
Düsseldorf

Dr. Wulf H. Bernotat, born 1948 in Göttingen
Member of the Board of Management since 1998
Chairman of the Board of Management, Stinnes AG,
Mülheim an der Ruhr
(until June 16, 2000)

Gunter Beuth, born 1937 in Stolp
Member of the Board of Management since 1998
Chairman of the Board of Management, Viterra AG,
Essen
(until June 16, 2000)

Wilhelm Bonse-Geuking, born 1941 in Arnsberg
Member of the Board of Management since 1995
Chairman of the Board of Management, VEBA Oel AG,
Gelsenkirchen
(until June 16, 2000)

Dr. Hans-Dieter Harig, born 1938 in Alt-Jassewitz
Member of the Board of Management since 1998
Chairman of the Board of Management, E.ON Energie AG,
Munich
(until June 16, 2000)



Dr. Manfred Krüper

Born 1941 in Gelsenkirchen
Member of the Board
of Management since 1996
Human Resources,
Infrastructure and Services,
Procurement, Organization
Düsseldorf

Dr. Erhard Schipporeit

Born 1949 in Bitterfeld
Member of the Board
of Management since 2000
Finance, Accounting, Taxes, IT
Düsseldorf
(since June 16, 2000)

Helmut Mamsch, born 1944 in Bergen
Member of the Board of
Management since 1993
Group Corporate Strategy
Düsseldorf
(until March 31, 2000)

Executive Vice Presidents

Bernhard Gerstenberg, Düsseldorf
Gert von der Groeben, Düsseldorf
Ulrich Hüppe, Düsseldorf
Dr. Rolf Pohlig, Düsseldorf
Michael Söhlke, Düsseldorf
Hans Gisbert Ulmke, Düsseldorf



Ulrich Hartmann and Prof. Dr. Wilhelm Simson

Letter to our shareowners

Dear Shareowners:

You're holding your new company's very first Annual Report. At the start of the third millennium, the Group also entered a new era. We successfully completed Germany's largest-ever merger. The E.ON Group has a new, clearly defined corporate structure. And in its first year, your company demonstrated its impressive earnings strength.

We lifted our core energy and specialty chemicals businesses into a new dimension. E.ON Energie has established itself as a top-tier European utility. Degussa is already the global leader in the attractive specialty chemicals sector. We're now further enlarging these solid positions and growing internationally. At the same time, we're divesting our non-core activities. We've already successfully sold a number of businesses. These include E-Plus, VEBA Electronics, Gerresheimer Glas, Orange Communications, and most recently VIAG Interkom. Total proceeds from these divestitures amount to about €21 billion. By selling non-core assets, we've freed up substantial resources to fuel targeted growth in our core businesses.

Even with the merger and the disposals, we never took our eye off day-to-day operations. We successfully met the challenges in our markets and again put in an outstanding performance.

2000 internal operating profit up slightly from prior year's record. At €2.8 billion, our internal operating profit for 2000 was slightly higher than the previous year's all-time high. This primarily reflects substantially reduced losses in Telecommunications in the wake of disposals, higher crude oil prices paired with a strong dollar, and the cost reductions achieved in our Electricity Division.

We established the new earnings record despite Germany's fiercely contested power market. As we had anticipated, keen competition in the electricity sector left its mark on E.ON Energie's internal operating profit. Unlike in the previous financial year, in 2000 our Electricity Division felt the full brunt of market liberalization. The Group's other divisions all reported higher earnings, in some cases substantially so.

Pretax income for 2000 advanced to roughly €6.8 billion versus €5 billion in 1999. This marked increase is due mainly to the substantial net book gains on our asset sales.

Management to propose new record dividend. By posting all-time-high earnings, E.ON has shown from the start that it's one of Europe's financially strongest companies. That's why E.ON's Board of Management and Supervisory Board will propose that net income available for distribution be used to pay an increased cash dividend of €1.35 per share (1999: €1.25). Including the tax credit, entitled shareowners in Germany will receive a total of €1.93 per share (1999: €1.79)—a new company record.

E.ON shareowners who reinvested their cash dividends saw the value of their E.ON portfolio rise 36.7 percent in 2000. That's a very impressive performance. The DAX index of Germany's top 30 blue chips fell 7.5 percent over the same period, and the EuroStoxx 50 index of top European equities declined 1.7 percent. E.ON stock also outperformed its peer index, the Stoxx Utilities, which ended the year 9.3 percent higher.

The share buyback program we initiated last fall is another illustration of E.ON's pro-shareowner stance. We've begun to repurchase up to 76 million E.ON shares—10 percent of the Company's capital stock. By mid-March we had bought back over 5 percent of E.ON's capital stock on-market.

We further optimized our accounting and controlling systems in order to provide you, our shareowners, with the most transparent picture possible of our business performance. Our financial statements—in full compliance with U.S. GAAP—and our performance metric—return on capital employed (ROCE)—make it easier to compare us with our international competitors. We're therefore among the companies that meet the world's most demanding standards for transparency. Enhancing shareholder value over the long term will remain the guiding principle as we further develop our businesses.

Increased internationalization of our energy business in full swing. With 33 percent market share, E.ON Energie has a superb position in Germany's power sector. Our energy companies also occupy strong positions in natural gas and water.

With shareholdings and ventures across Europe—particularly in Scandinavia, Eastern Europe, the Benelux countries, and Switzerland—E.ON Energie already ranks among Europe's premier utilities.

Wherever possible, we will extend these leading positions by enlarging our existing minority stakes into majorities that can be fully consolidated. We intend to seize the opportunities created by energy industry consolidation to enter markets where we're not currently active. And not just in the electricity sector. The nascent liberalization of Europe's natural gas market also opens the door to new growth opportunities. The convergence of power and gas markets is intensifying. By linking the two businesses, we create a channel for offering our customers one-stop energy shopping, which could include water services.

In February 2001 we tendered an offer to the minority shareholders of Sydkraft, our Swedish subsidiary. The offer is a significant step forward strategically. Taking a majority stake in Sydkraft fortifies our position on Scandinavia's attractive power market. When Sydkraft is consolidated, E.ON will advance to become Germany's number one and Europe's number three utility.

Our ambitions don't stop there. We aim to occupy a leading position of truly European dimensions. But we also intend to have market positions overseas, where there are also interesting growth opportunities.

E.ON supports market-based policy solutions to energy and environmental issues. Public policy plays a very significant role in the energy business, even in liberalized markets. The agreement in principle reached with the German government on the continued use of atomic energy protects the investments we've made in our nuclear generation assets. Now it's a matter of implementing a compromise in the spirit of the agreement.

We also need a viable framework for climate and environmental policy. We're prepared to work constructively with political leaders on these topics, as well. That's why, together with other electric companies, we recently unveiled a Climate Protection Action Program. Our goal is to find environmental policy solutions that reflect the realities of Europe's energy market.

Letter to our shareowners

Oil Division boosts competitiveness. VEBA Oel's realignment last year gives it a corporate structure for dealing with the harsh competition of the global oil business. The integration of Aral was completed rapidly. The cost-cutting measures implemented in recent years have strengthened the company substantially.

Nevertheless, in a business dominated by the international super-majors, additional efforts will be necessary to ensure VEBA Oel's sustained competitiveness. So we're continuing to examine a variety of scenarios for mergers and alliances.

Chemicals: becoming the global market leader. The merger of Degussa-Hüls and SKW Trostberg, completed earlier this year, allows us to leverage significant synergy and restructuring potential in our Chemicals Division. This will enable Degussa to enhance its sustained profitability.

The new Degussa has a lean, decentralized, and powerful corporate structure. It will be able to operate with a high degree of flexibility on global markets. A key task this year will be to further sharpen the company's focus on high-growth specialty chemicals activities. Degussa has already begun its program to divest non-core assets with roughly €6 billion in sales. It intends to complete the majority of its disposal program during the current year.

The takeover of Laporte, the UK-based fine chemicals enterprise, was initiated during the merger process. Laporte is a superbly positioned company with above-average profitability. It's an ideal match for Degussa. Acquiring Laporte reinforces our Chemical

Division's long-term position in attractive market segments. There are other exciting growth opportunities, particularly in North America and Asia.

Other Activities put in strong performances. Our non-core activities all performed well last year. Viterro further cemented its position on Germany's real-estate market. The key elements of its strategy are active portfolio management, further expansion of its real-estate-related services, and the systematic enlargement of its commercial property portfolio.

In Telecommunications we still have interests in Austria's ONE and France's Bouygues Telecom. We succeeded in creating substantial value via the disposals of E-Plus, Cablecom, Switzerland's Orange Communications, and VIAG Interkom—before the collapse in value of telecoms.

Last year we also found optimal disposal solutions for VEBA Electronics, Gerresheimer Glas, and Schmalbach-Lubeca.

An important factor affecting the sale of additional Stinnes shares and of VAW aluminium is the tax relief on capital gains that will take effect in 2002. We intend to dispose of Klöckner & Co this year. Market sentiment regarding technology stocks will influence the timing of the divestiture of MEMC.

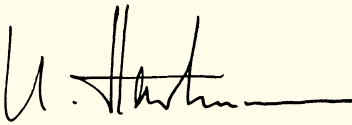
New all-time highs anticipated in 2001. E.ON got off to a strong start in its first financial year. The outlook for this year is extremely promising.

We expect our Electricity Division to post a slightly higher internal operating profit. One contributing factor is the stabilization of electricity prices. We're fostering this trend by shutting down some of our generation assets to reduce market overcapacity. In addition, merger synergies of €700 million will be fully realized, to a great extent by the end of this year. Moreover, we will proceed aggressively with our ongoing cost-cutting program.

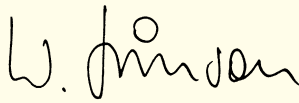
We anticipate that our Oil Division's internal operating profit will be on par with last year's solid results. Better margins at the pump should serve to offset the expected normalization of crude oil prices and the dollar exchange rate. In Chemicals, planned asset sales will sharpen Degussa's focus on its high-margin core businesses. We're forecasting another improvement in Chemicals' internal operating profit. Overall, we expect our Other Activities to post higher internal operating profit. We anticipate that 2001 Group internal operating profit will considerably surpass last year's figure.

We've set ambitious goals for this year. The momentum from the merger will not diminish. We will leverage our enhanced strength as we compete with our industry rivals. Above all, we will move forward decisively with our international expansion. You can be certain that in everything we do our highest priority will be to create value for you, our shareowners.

Yours sincerely,



Ulrich Hartmann



Prof. Dr. Wilhelm Simson

The year in review

January

- VEBA Oel acquires Mobile Oil's interest in Aral, giving it a total of about 99 percent of Aral's shares.
- PreussenElektra acquires Electriciteitsbedrijf Zuid-Holland (EZH), a Dutch energy utility. EZH now does business as E.ON Benelux Generation.

February

- The Company sells its interest in E-Plus (held indirectly via VRT) to Bell South, an American telecom.
- At Extraordinary Shareholders' Meetings, shareholders vote overwhelmingly in favor of the VEBA-VIAG merger.

March

- VEBA Telecom sells its 32 percent stake in Cablecom Holding to US-based NTL.

June

- The VEBA-VIAG merger is entered into the Commercial Register. The tie-up forges E.ON: one of the world's largest investor-owned energy service providers and the world's biggest specialty chemicals group.

July

- As part of the ongoing focus on its core businesses, E.ON sells its 73 percent stockholding in Gerresheimer Glas to Investcorp, a UK-based investment group.
- The merger of Bayernwerk and PreussenElektra is entered into the Commercial Register. The merged entity is called E.ON Energie.
- E.ON launches a major ad campaign in Germany. Within a month, 40 percent of Germans recognize the E.ON brand name. This makes E.ON's brand recognition more than three times higher than that of PreussenElektra or Bayernwerk.

August

- E.ON folds its Schmalbach-Lubeca stake into the newly-formed AV Packaging. Allianz Capital Partners takes a majority stake in the company.
- E.ON sells the electronic components and systems distribution operations managed by its VEBA Electronics subsidiary to a consortium of European and American buyers.
- In compliance with its antitrust commitments, E.ON Energie agrees to swap assets with Hamburgische Electricitäts-Werke (HEW). Under the terms of the agreement, E.ON Energie is to sell its 49 percent stake in Bewag, the Berlin-based energy utility, to HEW. In return, E.ON Energie is to receive HEW's 61.9 percent shareholding in Hein Gas Hamburger Gaswerke plus a cash payment. The deal remains in limbo because of an arbitration procedure initiated by Mirant (formerly Southern Energy), also a Bewag shareholder.



- E.ON and British Telecom (BT) reach an agreement under which E.ON has the option to sell its VIAG Interkom interest to BT in January 2001. BT has the option to acquire this interest from E.ON between May and July 2001.
- VIAG Interkom acquires a German UMTS license for about €8.4 billion.

October

- In response to power market liberalization and Europe's excess generating capacity, E.ON Energie moves to shut down roughly 4,800 megawatts of its installed capacity by 2003. This equals nearly a sixth of the company's total production capacity.
- E.ON Energie and Sydkraft, its Swedish subsidiary, sign a letter of intent with Vattenfall, the Swedish utility. The deal calls for E.ON Energie to transfer its 15.4 percent stake in HEW to Vattenfall; Sydkraft is also to transfer its 21.8 percent HEW shareholding to Vattenfall. In return, E.ON Energie and Sydkraft will receive shareholdings in Norway, Sweden, the Czech Republic, and Lithuania as well as a cash payment.
- At Degussa-Hüls's and SKW Trostberg's Extraordinary Shareholders' Meetings, the companies' investors overwhelmingly approve the proposed merger to form the new Degussa.

November

- ONE, E.ON's Austrian telecoms shareholding, acquires an Austrian UMTS license for around €121 million.
- E.ON sells its 42.5 percent stake in Orange Communications, the Swiss cellular phone company, to France Télécom.

December

- Stinnes successfully completes a public offer to purchase outstanding shares in Holland Chemical International (HCI). HCI is listed on the Amsterdam Stock Exchange. The acquisition makes Stinnes the global leader in chemicals distribution.
- E.ON Energie and RWE reach an agreement with HEW on the sale of their direct and indirect shareholdings in Vereinigte Energiewerke Aktiengesellschaft (Veag) and Lausitzer Braunkohle Aktiengesellschaft (Laubag). E.ON Energie holds a 48.75 percent stake in Veag; RWE has a 32.5 percent stockholding. E.ON Energie holds a 45 percent stake in Laubag; RWE holds 47.5 percent. Part of the deal calls for HEW to transfer its 15.7 percent shareholding in Sydkraft to E.ON Energie. The agreement requires German and European anti-trust approval as well as a go-ahead from the German government office responsible for matters related to the country's reunification.



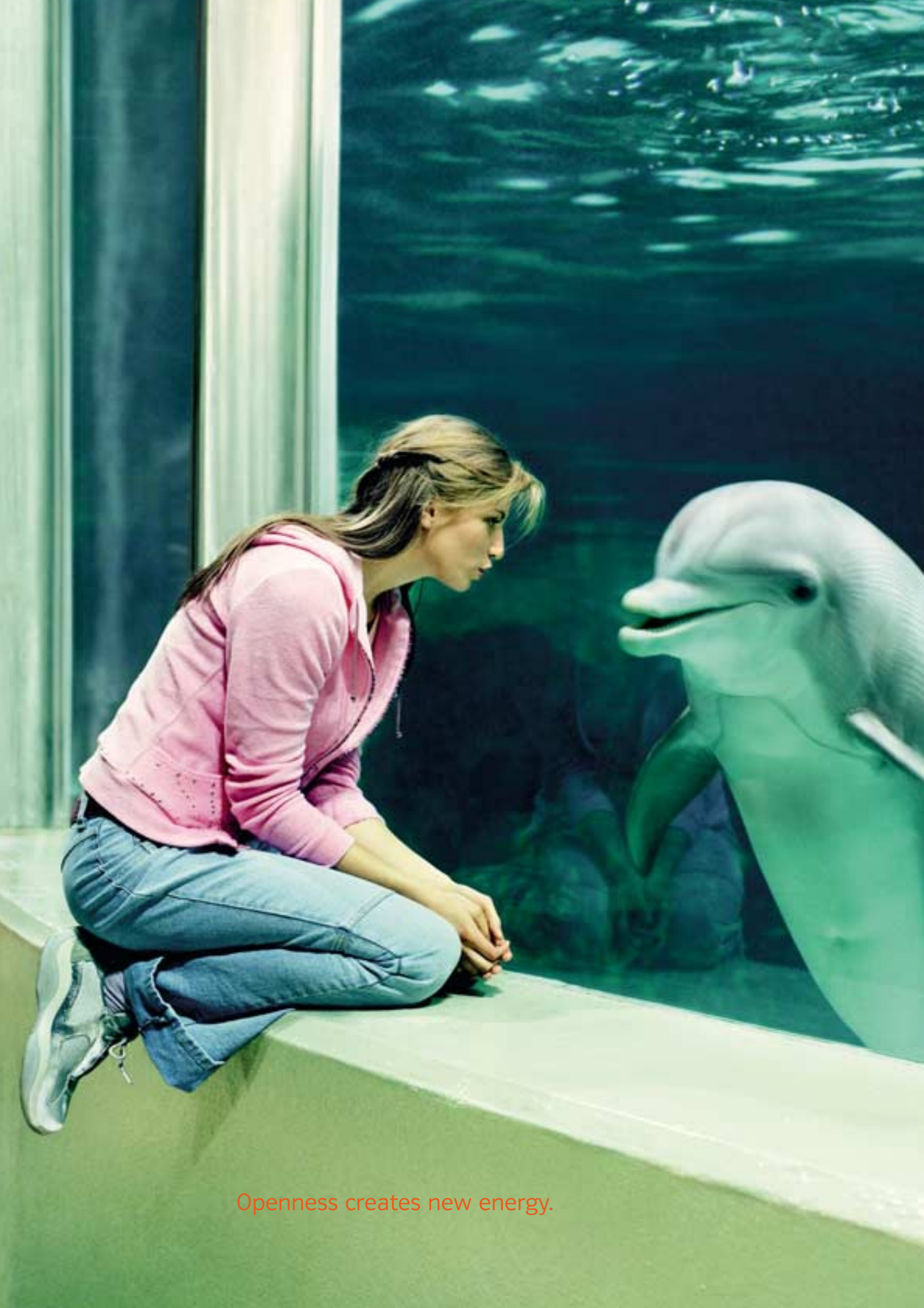


The photographs on the next ten pages stem from E.ON's ad campaign which ran in the second half of 2000. The campaign was aimed at investors and opinion leaders. Several of the images appeared in the German financial press as well as in top international publications like the *Financial Times*, *Forbes*, and *Le Capital*. The campaign's key message is that E.ON stands for "new energy." Each image symbolizes an aspect of E.ON's brand personality: courage, openness, inspiration, determination, and concentration.



Courage creates new energy.





Openness creates new energy.







Inspiration creates new energy.



Determination creates new energy.



Concentration creates new energy.





Report of the Board of Management: Review of Operations

001	002	003	004	005	006	007	008	009	010	011	012
025	026	027	028	029	030	031	032	033	034	035	036
049	050	051	052	053	054	055	056	057	058	059	060
073	074	075	076	077	078	079	080	081	082	083	084
097	098	099	100	101	102	103	104	105	106	107	108
121	122	123	124	125	126	127	128	129	130	131	132

013	014	015	016	017	018	019	020	021	022	023	024
037	038	039	040	041	042	043	044	045	046	047	048
061	062	063	064	065	066	067	068	069	070	071	072
085	086	087	088	089	090	091	092	093	094	095	096
109	110	111	112	113	114	115	116	117	118	119	120
133	134	135	136	137	138	139	140	141	142	143	144

- VEBA-VIAG merger successfully completed
- E.ON Group accelerates focus on core businesses
- Internal operating profit for 2000 keeps pace with prior year's all-time high
- Consolidated net income increases 30 percent year-on-year
- Marked increase in Group internal operating profit anticipated for 2001

Review of Operations

E.ON Group 2000					
€ in millions	2000 pro forma	1999 pro forma	+/- % pro forma	2000 actual	1999 actual
Sales	93,240	69,745	+34	82,983	50,515
Internal operating profit	2,762	2,748	+1	2,396	2,072
Cash flow from operations	3,889	4,866	-20	3,473	3,255
Investments	14,961	11,045	+35	13,475	7,017
Employees at year-end	186,788	203,733	-8	186,788	131,602

Highlight of 2000: VEBA-VIAG merger that forged E.ON.

The VEBA-VIAG merger that created E.ON was the highlight of 2000. For both partners, the tie-up represented a logical continuation of their strategies. E.ON concentrates on two core businesses: energy and specialty chemicals. On the energy side, we successfully combined PreussenElektra and Bayernwerk, creating one of the world's largest investor-owned energy service providers. On the chemicals side, we laid the groundwork for the tie-up of Degussa-Hüls and SKW Trostberg. The merger of the two companies in early 2001 formed the world's biggest specialty chemicals group. In addition to our two core businesses, we will continue to enhance the value of our Real Estate Division.

These were the main merger milestones of 2000:

- An overwhelming majority of VEBA and VIAG shareholders approved the merger at Extraordinary Shareholders' Meetings held in February 2000.
- The merger that formed E.ON was entered into the Commercial Register on June 16, 2000. As of this date, VIAG ceased to exist as an independent legal entity, and VIAG shareholders became E.ON shareholders.
- E.ON stock was traded for the first time on June 19, 2000.
- The tie-up of PreussenElektra and Bayernwerk to form E.ON Energie was entered into the Commercial Register on July 14, 2000.

- At the October 2000 Extraordinary Shareholders' Meetings of Degussa-Hüls and SKW Trostberg, an overwhelming majority of shareholders approved the merger to create the new Degussa. The merger was entered into the Commercial Register in February 2001.

Numerous integration project teams worked on designing the new Group's post-merger corporate structure as well as the structure of the Energy and Chemicals Divisions. The new corporate architectures were thus already in place when the mergers became official, enabling the new companies to begin work without delay.

Portfolio management accelerates focus on core businesses.

We will combine our strengths and systematically focus our financial resources in order to bolster and extend the leading market positions we occupy in our core businesses. The continual optimization of the Group's portfolio is therefore an integral aspect of our value-oriented management approach. In 2000 our active portfolio management already resulted in the disposal of our shareholdings in E-Plus, Cablecom, Gerresheimer Glas, Orange Communications, the sale of the activities managed by VEBA Electronics, and the divestiture of our majority stake in Schmalbach-Lubeca.

The proceeds from asset sales create a solid foundation from which to accelerate growth in our core businesses. In 2000 we implemented the following measures to strengthen our core businesses:

- We further improved our Electricity Division's European market position by acquiring EZH, the Dutch power utility (which now operates as E.ON Benelux Generation) and by increasing our stake in Sweden's Sydkraft.
- After acquiring all of Aral, we executed the planned strategic realignment of our Oil Division and transferred complete responsibility for day-to-day operations to three autonomous subsidiaries.
- We pressed forward with and successfully completed the merger of Degussa-Hüls and SKW Trostberg. The tie-up, which became official in early 2001, created the foundation for leveraging substantial synergy and restructuring potential. Moreover, the takeover of Laporte, the British specialty chemicals enterprise, represents a major strategic step toward expanding our leading global position in the attractive fine chemicals sector.

Group financial reporting now in full compliance with U.S. GAAP. In a complex transition process, E.ON fully converted the accounting and valuation policies of the former VEBA and VIAG to U.S. GAAP. Prior to the merger, VIAG reported its figures based on International Accounting Standards (IAS). VEBA reported its figures in compliance with U.S. GAAP, as far as permissible under German GAAP.

Under U.S. GAAP, the date of the merger's entry into the Commercial Register determines the inclusion of the former VIAG in E.ON's Consolidated Financial Statements. For this reason, the companies of the former VEBA contribute full twelve-month figures to the 2000 financial year. The companies of the former VIAG contribute figures for the period July through December only; comparative figures for 1999 only include the companies of the former VEBA. It is not possible to compare the Company's financial performance in 1999 and 2000 on the basis of these figures.

We have therefore also calculated pro-forma figures for 1999 and 2000 in accordance with U.S. GAAP. These pro-forma figures represent the E.ON Group as if the VEBA-VIAG merger had been consummated on January 1, 1999.

The following comments are based on the consolidated pro-forma figures.

Group sales increase to €93 billion. Group sales for 2000 rose 34 percent year-on-year to €93 billion. The Oil and Chemicals Divisions were the main contributors to the increase.

Despite 15 percent higher sales volumes, Electricity's sales rose only 1 percent year-on-year due to significant price cuts, particularly since the second half of 1999.

Oil's sales surged 135 percent owing to the first-time full consolidation of Aral, higher sales volumes, sustained rises in crude oil and product prices worldwide, and the strong dollar. The renewed hike in Germany's petroleum tax on January 1, 2000, also served to increase sales revenues.

Group sales					
€ in millions	2000 pro forma	1999 pro forma	+/- % pro forma	2000 actual	1999 actual
Electricity	13,350	13,180	+1	11,027	7,768
Oil	28,780	12,229	+135	28,780	12,229
Chemicals	20,267	16,487	+23	18,198	12,320
Real Estate	1,324	1,167	+13	1,324	1,167
Telecommunications	383	253	+51	229	111
Other Activities	25,733	24,974	+3	23,606	17,571
E.ON AG/consolidation ¹	3,403 ²	1,455	+134	-181	-651
Total external sales	93,240	69,745	+34	82,983	50,515

¹Includes Schmalbach-Lubeca in the actual figures for 2000 and in the pro-forma figures for 1999 and 2000.
²Includes VEBA Electronics from July 1 to September 30, 2000.

Sales were sharply higher at our Chemicals Division, reflecting a favorable world economic climate. Higher product prices (mainly resulting from higher raw material costs partially being passed on to customers) and appreciably higher sales volumes also served to lift sales. It should be noted that under U.S. GAAP—unlike under German GAAP—the former Degussa's fourth quarter 1998 sales are no longer included in the comparison figures for 1999.

Our Real Estate Division continued on its growth track. Sales advanced roughly 13 percent, owing principally to higher sales generated at Residential Development and Commercial Real Estate.

Connect Austria (ONE), our Austrian telecoms shareholding, was the sole contributor to sales in our Telecommunications Division. Under U.S. GAAP, ONE is fully consolidated in 2000. ONE's sales climbed 51 percent compared with the year-earlier figure. VIAG Interkom, consolidated on a pro-rata basis in VIAG's Financial Statements in 1999 in accordance with IAS, is accounted for at equity under U.S. GAAP.

Our Other Activities generated 3 percent higher sales. At €21,308 million, Distribution/Logistics' sales were relatively unchanged year-on-year. The increase at Stinnes is largely due to a positive performance by Chemicals and by the air and sea freight activities. We sold our electronics businesses to a consortium of European and American buyers in the fall of 2000. Sales at VEBA Electronics, which are reported in our Distribution/Logistics segment, declined appreciably.

Review of Operations

VEBA Electronics' third-quarter sales are not included in this segment's full-year sales figure because the company's activities were transferred to the new owners with economic effect as of July 1, 2000. The sales uptick at Klöckner is mainly indicative of higher prices and acquisitions. Improvements in all reporting segments served to boost Aluminum's sales 19 percent to €3,480 million. Sales at our Silicon Wafers Division rose 45 percent due to increased sales volume and slightly higher wafer prices.

The Group generated just under 50 percent of its sales outside Germany. About 14 percent of sales were reported in euroland countries excluding Germany.

Internal operating profit for 2000 keeps pace with previous year's all-time high. Group internal operating profit for 2000 totaled €2.8 billion, a slight increase from 1999's all-time high. This means that Group internal operating profit performed significantly better than had been forecast on the basis of our nine-month figures released in December 2000.

The 2000 financial year was the first to feel the full impact of Germany's liberalized power market for an entire 12 months. Despite vigorous cost management and 15 percent higher sales volumes, Electricity's internal operating profit declined 30 percent year-on-year to €1,725 million due to substantial price reductions.

Internal operating profit at our Oil Division surged 812 percent to €310 million thanks to higher crude oil prices, higher refining margins, and a strong dollar. By contrast, the dramatic collapse of margins in the service station business negatively impacted earnings. Goodwill amortization and interest expenses stemming from the acquisition of Aral shares in late 1999 and early 2000 also impaired earnings. Moreover, hedging transactions dampened a portion of the earnings increase.

Chemicals' internal operating profit rose a sharp 58 percent to €672 million on the back of strong global demand in the chemicals industry and favorable currency effects. Synergy effects from the Degussa-Hüls merger also had a positive effect. The implementation of synergies is well under way. In accordance with U.S. GAAP, the former Degussa's internal operating profit from fourth quarter 1998 is no longer included in the 1999 figures.

Our Real Estate Division's internal operating profit advanced 12 percent to €212 million. The rise is largely attributable to the increased number of housing units sold and to the sale of shares in a small property company.

The improvement in Telecommunications' internal operating profit stems mainly from the disposal of shareholdings—Otelo's fixed-line business in 1999 and E-Plus in 2000—that were characterized by heavy start-up losses. Earnings were impaired by the substantially higher customer acquisition costs resulting from the burgeoning cellular phone sector.

Internal operating profit posted by our Other Activities rose a marked 55 percent to €620 million. At €461 million, Distribution/Logistics' 2000 internal operating profit was 34 percent higher year-on-year. Stinnes's European overland transport and its air and sea freight units were particularly strong earnings contributors. VEBA Electronics' internal operating profit rose considerably from the previous year, although this

Group internal operating profit

€ in millions	2000 pro forma	1999 pro forma	+/- % pro forma	2000 actual	1999 actual
Electricity	1,725	2,466	-30	1,099	1,370
Oil	310	34	+812	310	34
Chemicals	672	426	+58	576	275
Real Estate	212	189	+12	212	189
Telecommunications	- 546	- 789	+31	- 156	- 150
Other Activities	620	400	+55	412	57
E.ON AG/consolidation ¹	- 231 ²	22	-	-57	297
Total	2,762	2,748	+1	2,396	2,072

¹Includes Schmalbach-Lubeca in the actual 2000 figures and in the pro-forma figures for 1999 and 2000.

²Includes VEBA Electronics' results from July 1 to September 30, 2000.

The main drivers behind this positive development are reduced losses at Telecommunications following the disposal of shareholdings, higher crude oil prices paired with a strong dollar, and the cost reductions we achieved at our Electricity Division.

figure does not include the company's third-quarter results, since its operations were transferred to the new owners with economic effect as of July 1, 2000. Klöckner delivered a distinctly higher internal operating profit resulting mainly from higher prices and better margins. Hefty price increases for raw materials and production inputs caused Aluminum's internal operating profits to fall 18 percent to €227 million. At €68 million, Silicon Wafers curtailed its operating loss for the second year running. The result reflects increased demand from the semiconductor industry, slightly higher wafer prices, and the Division's improved cost position.

Pretax income rose 35 percent to €6,802 million. This substantial increase is primarily attributable to the significant net book gains from the disposal of the Company's shareholdings in E-Plus (€3,518 million) and Cablecom, the Swiss cable-TV operator (€789 million).

Restructuring and cost-management expenditures chiefly impacted our Electricity, Chemicals, and Oil Divisions. Other non-operating earnings mainly include write-downs stemming from the divestment of shareholdings in Veag and Laubag initiated to fulfill the EU Commission's antitrust requirements. The dissolution of labor agreements at E.ON Energie as well as tax-related interest expenses also had a negative effect.

Income taxes increased to €2,618 million. The tax rate for 2000 was 38.5 percent compared with 38.7 percent in 1999. Minority interests rose because after Stinnes's IPO its minority interests did not affect earnings until second-half 2000 and because MEMC's loss was markedly lower in 2000.

Group net income (after taxes and minority interests) totaled €3,678 million, up 30 percent from the previous year.

Group net income					
€ in millions	2000 pro forma	1999 pro forma	+/- % pro forma	2000 actual	1999 actual
Group internal operating profit	2,762	2,748	+1	2,396	2,072
Net book gains	4,755	2,428	+96	4,636	2,337
Cost-management and restructuring expenses	-555	-367	-51	-510	-402
Other non-operating earnings	-712	-62	-1,048	-523	92
Foreign E&P taxes	552	301	+83	552	301
Pretax income	6,802	5,048	+35	6,551	4,400
Income taxes	-2,618	-1,953	-34	-2,512	-1,277
Income after taxes	4,184	3,095	+35	4,039	3,123
Minority interests	-506	-256	-98	-469	-132
Group net income	3,678	2,839	+30	3,570	2,991

Dividend increases to €1.35. Under German commercial law, the merger of VIAG AG into VEBA AG took economic effect as of January 1, 2000. The merger was entered into the Düsseldorf Commercial Register (HRB 22315) on June 16, 2000. On the same day, VEBA AG was renamed E.ON AG. The Company's registered office remains in Düsseldorf.

Employing the book-value method, E.ON AG continued to use the book values of the assets and liabilities transferred in the merger as shown in VIAG AG's closing balance sheet.

To facilitate comparisons, the Balance Sheet and the Income Statement on the next page have a column headed "Previous financial year" next to the column headed "Previous legal year" (VEBA AG). The column headed "Previous financial year" shows the figures that would have resulted if E.ON AG had already existed in its current form as of January 1, 1999.

E.ON AG's 2000 net income amounts to €1,794 million. After transferring €822 million to other retained earnings, net income available for distribution totals €972 million.

At the Annual Shareholders' Meeting on May 18, 2001, management will propose that net income available for distribution be used to pay an increased cash dividend of €1.35 per share compared with €1.25 last year. Together with the tax credit of €0.58 (€0.54), entitled domestic shareowners will receive a total of €1.93 per share versus €1.79 the year before.

Review of Operations

Financial Statements of E.ON AG (summary)

Balance Sheet € in millions	Dec. 31, 2000	Financial Dec. 31, 1999	Legal Dec. 31, 1999
Property, plant, and equipment	156	147	141
Financial assets	15,406	15,638	11,391
Fixed assets	15,562	15,785	11,532
Receivables from affiliated companies	8,680	3,330	2,247
Other receivables	1,352	468	322
Liquid funds	242	1,120	1,037
Current assets	10,275	4,918	3,606
Total assets	25,836	20,703	15,138
Shareholders' equity	13,333	12,215	7,621
Reserves subject to special taxation	636	666	609
Provisions	2,461	2,202	2,017
Liabilities to affiliated companies	6,388	5,002	4,847
Other liabilities	3,018	618	44
Total liabilities and stockholders' equity	25,836	20,703	15,138

Income Statement

€ in millions	2000	Financial 1999	Legal 1999
Income from equity interests	5,772	2,157	1,735
Interest income (net)	-32	-49	-60
Other expenditures and income (net)	-566	273	336
Pretax income	5,174	2,381	2,011
Extraordinary expenses	-1,164	-	-
Taxes	-2,216	-1,241	-1,126
Income after taxes	1,794	1,140	885
Net income transferred to retained earnings	-822	-290	-257
Net income available for distribution	972	850	628

E.ON Group Investments

€ in millions	2000 pro forma	1999 pro forma	+/- % pro forma	2000 actual	1999 actual
Electricity	3,766	2,923	+29	3,356	1,349
Oil	1,723	1,308	+32	1,723	1,308
Chemicals	1,868	2,154	-13	1,675	1,298
Real Estate	484	333	+45	484	333
Telecommunications	5,135	1,202	+327	4,591	171
Other Activities	1,317	1,019	+29	1,161	801
E.ON/consolidation*	668	2,106	-68	485	1,757
Total	14,961	11,045	+35	13,475	7,017
Investments outside Germany	2,979	3,242	-8	2,673	1,818

*Includes Schmalbach-Lubeca in actual figures for 2000 and pro-forma figures for 1999 and 2000.

We intend to adjust the dividend proposal as necessary if the Corporation's ongoing share buyback program reduces the number of entitled shares by the date of the Annual Shareholders' Meeting. The cash dividend of €1.35 per entitled share will remain unchanged. That portion of the dividend payout due to shares that are no longer entitled to dividends will be carried forward. The income taxes arising from the lower corporate income tax credit will be reported separately.

The complete financial statements of E.ON AG, with the unqualified opinion issued by the auditors, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, will be published in the *Bundesanzeiger* and filed in the Commercial Register of the Düsseldorf District Court, HRB 22 315. Copies are available on request from E.ON AG and at www.eon.com.

Investments increase markedly. The E.ON Group invested €4,408 million (€4,089 million) in property, plant, and equipment in 2000. The Group invested €10,553 million (€6,955 million) in financial assets; this figure includes €1,405 million for investments in companies accounted for at equity. At €14,961 million, total investments for 2000 exceeded prior-year capital spending (€11,045 million) by 35 percent.

Electricity's capital expenditures rose 29 percent year-on-year to €3,766 million (€2,923 million). Investments in property, plant, and equipment including intangible assets of €989 million mainly served to optimize power distribution facilities. Investments in financial assets amounted to €2,777 million. The acquisition of EZH, a Dutch energy utility, was the company's most significant investment. EZH now operates as E.ON Benelux Generation.

At €1,723 million (€1,308 million), our Oil's investments increased appreciably year-on-year due mainly to the acquisition of Mobil's Aral shares.

Our Chemicals Division invested €1,868 million (€2,154 million) in 2000. Capital expenditures focused on strengthening and expanding our leading market positions in Chemicals' core businesses. Investments in property, plant, and equipment climbed to €1,232 million. €636 million was invested in financial assets.

Real-Estate's 2000 investments totaled €484 million (€333 million) and were thus significantly higher year-on-year. Capital expenditures on property, plant, and equipment amounted to €399 million. €85 million was invested in financial assets. Investments were aimed primarily at the Residential Investment and Commercial Real Estate divisions.

Investments at Telecommunications amounted to €5,135 million in the year under review. Of this total, €376 million was invested in property, plant, and equipment. Telecommunications' investments in financial assets totaled €4,759 million. This figure mainly reflects shareholder loans to VIAG Interkom stemming from its acquisition of UMTS licenses.

We invested €1,317 million (€1,019 million) in our Other Activities in 2000. Distribution/Logistics invested €736 million in 2000, 9 percent less than in the previous year. A large part of Stinnes's spending—€573 million—went toward acquiring Holland-based HCI. VEBA Electronics and Klöckner invested €47 million and €116 million, respectively. Aluminum invested €514 million (€153 million), of which €194 million went toward property, plant, and equipment and €320 million toward financial assets. The largest single investment was the October 2000 acquisition of Kurri-Kurri, the Australian primary aluminum company. At €67 million, we held Silicon Wafers' 2000 capital expenditures to the prior year's modest level (€60 million).

The Group's 2000 investments in Germany totaled €11,982 million (€7,803 million). Capital spending outside Germany amounted to €2,979 million (€3,242 million).

Nearly 70 percent of investments financed by cash flow.

Group investments in 2000 resulted in cash outflows of €14,961 million. Accounting for proceeds received from fixed-asset disposals and changes in other cash investments in current assets, cash used for investment activities totaled €5,687 million (1999: €4,155 million).

This financing requirement was funded by €3,889 million in cash flow from operations as well as by debt.

Liquid funds (cash and other current financial investments) decreased by €1,028 million to €8,501 million.

At year-end 2000, E.ON had at its disposal a total of €2.7 billion in short-term credit lines through banks, a €1 billion long-term syndicated loan facility, the €2 billion Commercial Paper program, and the €2 billion Medium Term Note program. As of the balance-sheet date, roughly €3 billion of these financing instruments had been utilized.

Statement of Cash Flows (summary)				
€ in millions	2000 pro forma	1999 pro forma	2000 actual	1999 actual
Cash from operations	3,889	4,866	3,473	3,255
Cash used for investing activities	-5,687	-4,155	-4,348	-1,712
Cash from financing activities	+2,244	-517	+1,943	-1,383
Net change in liquid funds	+446	+194	+1,068	+160
Liquid funds as of December 31	8,501	9,529	8,501	1,844

Foreign exchange and interest rate management.

E.ON pursues systematic and Group-wide foreign exchange and interest rate management. Its objective is to limit the Group's exposure to exchange, interest rate, and commodity price fluctuations. To this end we also use derivative financial instruments. These consist of established and commonly used instruments. They are transacted with financial institutions, brokers, and metals trading companies whose credit rating is monitored on an ongoing basis.

As of December 31, 2000, the face value of foreign exchange hedging transactions was €7,175 million; that of interest rate hedging transactions, €2,867 million. The market values of foreign exchange hedging transactions for which no hedge accounting was applicable totaled €17.9 million. Such transactions are used to hedge exchange rates for planned transactions. The market values of interest rate hedging transactions for which no hedge accounting was applicable totaled -€3.2 million.

Derivative financial instruments are used to limit exposure to risks from changes in commodity prices, in particular in the Oil and Aluminum Divisions as well as the Precious Metals unit. In addition, the Electricity Division used electricity and gas price hedging transactions to a limited extent in 2000. The face value of commodity hedging transactions amounted to €3,479 million as of December 31, 2000. The market values of hedging transactions for which no hedge accounting was applicable totaled -€20.3 million.

Review of Operations

Consolidated assets, liabilities, and stockholders' equity								
	2000 pro forma		1999 pro forma		2000 actual		1999 actual	
	€bn	%	€bn	%	€bn	%	€bn	%
Long-term assets	65.6	61.8	60.2	63.6	65.6	61.8	37.3	66.4
Short-term assets	40.6	38.2	34.4	36.4	40.6	38.2	18.9	33.6
Assets	106.2	100.0	94.6	100.0	106.2	100.0	56.2	100.0
Stockholders' equity	28.0	26.4	26.3	27.8	28.0	26.4	15.8	28.1
Minority interests	5.1	4.8	4.9	5.2	5.1	4.8	3.9	6.9
Long-term liabilities	40.8	38.4	41.5	43.8	40.8	38.4	22.3	39.7
Short-term liabilities	32.3	30.4	21.9	23.2	32.3	30.4	14.2	25.3
Liabilities and stockholders' equity	106.2	100.0	94.6	100.0	106.2	100.0	56.2	100.0

Asset and capital structure. Investment activities in 2000 led to an increase in long-term assets of €5.4 billion. With short-term assets also increasing by €6.2 billion, total assets rose by €11.6 billion to €106.2 billion. The Corporation's equity ratio for 2000 decreased slightly to 26.4 percent compared with 27.8 percent in the previous year.

Long-term liabilities declined €0.7 billion to €40.8 billion.

The following key figures underscore the E.ON Group's solid asset and capital structure through the end of 2000:

- Long-term assets are covered by stockholders' equity at 42.7 percent (43.7 percent).
- Long-term assets are covered by long-term capital at 112.7 percent (120.8 percent).

Standard & Poor's and Moody's have rated E.ON since early 1995. As of December 31, 2000, S&P and Moody's gave E.ON's long-term bonds ratings of Aa2 and AA, respectively. E.ON's short-term bonds received ratings of P-1 and A-1+, respectively. These very good ratings underscore the Group's sound financial standing.

Implementing Group strategy impacts personnel structure. The E.ON Group employed 186,788 people worldwide at the end of 2000—a year-on-year decline of roughly 17,000 employees or 8 percent. A large part of this was attributable to the disposal of non-core assets such as VEBA Electronics (representing a reduction of 6,200 employees) and the Company's majority stake in Schmalbach-Lubeca (which reduced staff by 8,700).

Ongoing restructuring measures at our Electricity Division reduced the workforce there by 1,500 employees. The sale of Raab Karcher's building materials unit led to staff reductions of 6,000 employees at Stinnes. By contrast, the number of employees at VEBA Oel increased by 2,900 due to Aral's first-time full consolidation, and the number of staff at our Electricity Division rose by 800 in the wake of acquiring EZH, a Dutch energy utility (EZH is now called E.ON Benelux Generation).

The internationalization of the E.ON Group continues unabated. There were 83,338 Group employees—44.6 percent of our total workforce—at locations outside Germany at year-end 2000, up from the prior year's 37.5 percent.

Research and development: focus on chemicals. Expenditures on research and development (R&D) at the E.ON Group totaled €661 million (€728 million) in 2000. Our Chemicals Division was responsible for the majority—82 percent—of R&D spending. Silicon Wafers followed with 12 percent.

Chemicals' R&D expenditures amounted to 3.2 percent of sales excluding precious-metals trading.

All divisions initiated numerous new R&D projects in the year under review.

Process innovation at the Flavors and Fruit Systems division enabled it to develop a new class of flavors. Construction Chemicals markedly expanded the new generation of concrete super-liquifiers. At the Fine Chemicals division, new biocatalytic systems that are both more efficient and more environmentally friendly were developed for manufacturing pharmaceutical amino acids. The Oligomers/Silicones unit successfully developed quick-hardening UV silicone release coatings for labels and adhesive tape. Powerful emulsifiers developed by Degussa's Care Specialties unit offer customers in the cosmetic industry completely new ways of making formulas. The Silica, Silanes, and Catalysts unit is developing metal-oxide dispersions, especially for chemical-mechanical polishing (CMP) for next-generation computer chips. The High Performance Polymers unit developed highly diversified polyamides that facilitate the manufacture of more powerful adhesive agents for multi-layered fuel line systems.

At Silicon Wafers, MEMC continued to develop next-generation 300mm wafers. MEMC's R&D expenditures of €78 million were about 3 percent below the prior year's figure.

Major events after the close of the financial year.

- On January 15, 2001, Degussa-Hüls and SKW Trostberg tendered a cash offer of £6.97 per share to the stockholders of Laporte, a British specialty chemicals company. By early March, Degussa had already secured 94 percent of Laporte's capital stock.
- On January 16, 2001, E.ON exercised the put option to sell its 45 percent interest in VIAG Interkom to British Telecom (BT). E.ON had concluded the option agreement with BT in August 2000. The disposal generates proceeds totaling €11.4 billion. This figure includes the exercise price of €7.25 billion as well as shareholder loans.

- On February 1, 2001, E.ON Energie acquired additional shares in Sydkraft, the Malmö-based energy utility, from four Swedish municipalities. The purchase increases E.ON Energie's stake to 29.4 percent of Sydkraft's capital stock and 42.8 percent of its voting rights. On February 21, 2001, E.ON Energie tendered an offer to Sydkraft's minority stockholders. The offer is valued at SEK 240 for series A Sydkraft shares and SEK 200 for series C shares. The transaction is subject to approval by the EU Commission.
- The merger of Degussa-Hüls and SKW Trostberg that formed the new Degussa became official when it was entered into the Commercial Register on February 9, 2001.

Risk management system and existing risks. The requirements of Germany's Control and Transparency in Business Act (KonTraG), which came into effect on May 1, 1998, include obliging the boards of management of publicly listed companies to establish risk management systems.

Even before KonTraG came into effect, VEBA and VIAG both had effective group-wide risk management systems in place. In 1999, in accordance with KonTraG, both companies analyzed and documented their risk management systems and reported on identified risks in the Review of Operations section of their 1999 Annual Reports. Both companies' independent auditors examined the early risk detection systems. This examination revealed that the systems were fulfilling their tasks.

Following the merger of VEBA and VIAG to form E.ON, we combined and further developed the existing risk management systems. We use an integrated system embedded in our business procedures. The system includes our controlling processes, Group-wide guidelines, data processing systems, and regular reports to the Board of Management and Supervisory Board. The efficiency and reliability of our risk management system is checked regularly by the internal audit and controlling departments of our Divisions and of E.ON AG as well as by our independent auditors.

Review of Operations

Uniform guidelines on risk reporting throughout the Group came into effect in August 2000. The documentation and evaluation of our system is regularly updated in the following steps:

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

The following important risk categories exist within the E.ON Group, and are thus also material for E.ON AG.

- **Operational risks:** Our Energy and Chemicals Divisions in particular operate technologically complex production facilities. Operational failures or extended production downtimes could negatively impact our earnings. The following are among the significant measures we employ to address these risks:
 - Detailed operational and procedural guidelines.
 - Further refinement of our production procedures and technologies.
 - Regular facility maintenance.
 - Employee training programs.
 - Appropriate insurance coverage.
- **Financial risks:** During the normal course of business, E.ON is exposed to interest rate, commodity price, and currency risks. The instruments used to hedge these risks are described in detail in the Notes to the Consolidated Financial Statements. Furthermore, there are potential currency fluctuation risks from short-term securities, but these are controlled and monitored by appropriate fund management.

- **External risks:** During the normal course of business, E.ON's subsidiaries are susceptible to market risks that are enhanced by ongoing globalization and keener competition. The liberalization of the European energy market exposes our Energy Division in particular to price and sales volume risks. The synergy effects arising from the merger of VEBA and VIAG, together with our ongoing cost control measures, bolster our earnings power and solidify our competitive position. We also hedge against market price fluctuations in power trading by utilizing derivative financing instruments. These instruments are subject to the stringent requirements of our internal trading guidelines.

The political, social, and legal environment in which the E.ON Group does business is a source of additional risks. For E.ON, the predominant theme in 2000 was the talks held with the German government on opting out of nuclear energy. The agreement in principle reached with the German government represents a compromise, one that provides political safeguards for us to continue operating our existing nuclear power plants. Agreement has not yet been reached with the federal government on the necessary amendments to the German Nuclear Power Regulations Act. Until an understanding is reached on such amendments, E.ON cannot seek the approval of its Supervisory Board. The approval of E.ON's Supervisory Board is required before the parties can sign the draft agreement. Other key issues for E.ON are the eco-tax reform, the Renewable Energy Act (EEG), and the new regulations to promote combined heat and power stations. E.ON encourages active dialog with all groups involved in the decision-making process. We want to use our expertise to facilitate objective discussion of politically controversial topics and play an active role in shaping our business environment.

Outlook. The VEBA-VIAG tie-up that forged E.ON represents another major milestone of our Focus & Growth strategy. By systematically focusing on our core energy and specialty chemicals businesses, by merging PreussenElektra and Bayernwerk to form E.ON Energie, and by merging Degussa-Hüls and SKW Trostberg to

create the new Degussa we have laid a superb foundation for further growth. Obtaining optimal value on the disposal of our non-core assets is one of the means we will use to free up the funds needed for this next stage of growth.

Two acquisitions represent the first steps in 2001 aimed at implementing our growth strategy. On the energy side, we moved to acquire Sydkraft, Sweden's second largest utility. On the chemicals side, we took over UK-based Laporte. These investments will significantly augment our Electricity Division's leading position on Europe's energy market and will make our Chemicals Division the top global player in the highly attractive fine chemicals sector.

E.ON's planned investments for 2001 amount to €6.8 billion. More than 65 percent of planned investments are earmarked for our core energy and specialty chemicals businesses. This figure does not include the medium-sized and major acquisitions—like the Laporte takeover—that are integral to the growth strategy of our core businesses.

For 2001 we anticipate that the energy market will continue to consolidate and that power prices will stabilize or recover. The synergy effects generated by the PreussenElektra-Bayernwerk merger, capacity adjustments to our generation portfolio, and cost management measures are expected to further improve our Electricity Division's competitiveness. Overall, we anticipate that Electricity's 2001 internal operating profit will show a slight improvement from 2000.

Our Oil Division's new corporate structure and sharply reduced costs put it in a good position to meet the challenges of the coming years. We are looking for underlying conditions to return to normal in 2001. We anticipate that crude oil prices, the dollar exchange rate, and petroleum and petrochemical refining margins will all be below last year's levels. But we are also projecting appreciably improved service station margins. Overall, we anticipate that Oil's 2001 internal operating profit will be on par with last year's solid results.

For 2001 we expect Chemicals' strong performance to continue. There is, however, a risk that the economic climate will worsen. The takeover of Laporte, the UK-based fine chemicals firm, is also expected to have a positive impact. Because Degussa's core businesses are characterized by above-average earnings, in 2001 we expect the company's current portfolio to again post a higher internal operating profit.

We expect the positive pattern established in our Real Estate Division to be sustained in 2001 and anticipate that internal operating profit for 2001 will exceed the prior year's figure.

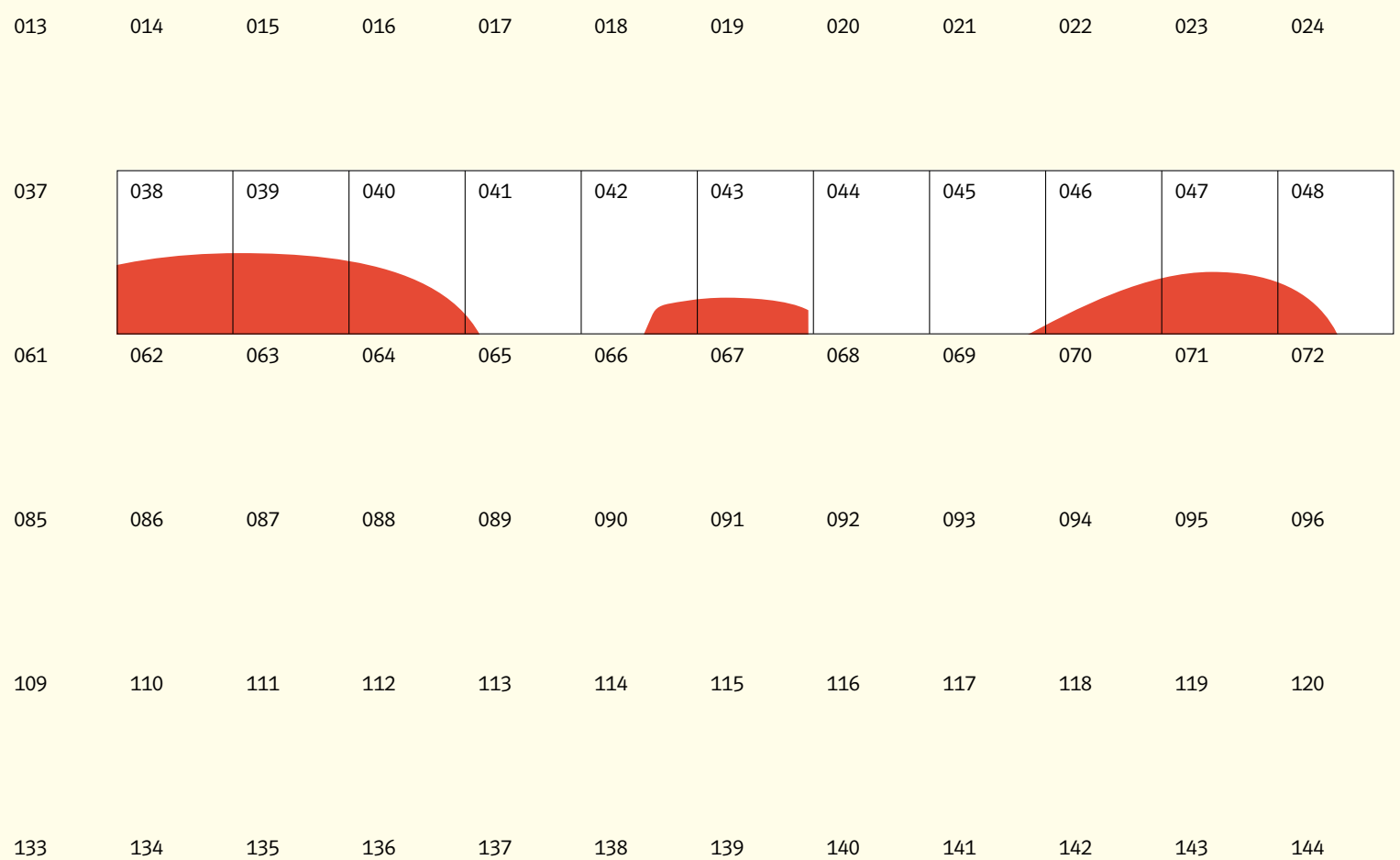
At Telecommunications we again expect to report startup losses for 2001, but these will be significantly lower than in 2000.

For our Other Activities we anticipate further improvements at Stinnes and a markedly higher internal operating profit at VAW aluminium. We expect Klöckner & Co to deliver a slightly lower internal operating profit. Owing to the worsening situation on the silicon wafer market, from today's perspective we anticipate that in 2001 MEMC will post a loss on the level of the prior year.

Overall, we expect that the Group's 2001 internal operating profit will markedly exceed 2000's figure. However, we anticipate that pretax income for 2001 will be substantially below last year's record. Due to the tax relief on capital gains that will take effect in Germany in 2002, we do not expect to receive significant gains from disposals in 2001.

Additional information

001	002	003	004	005	006	007	008	009	010	011	012
025	026	027	028	029	030	031	032	033	034	035	036
049	050	051	052	053	054	055	056	057	058	059	060
073	074	075	076	077	078	079	080	081	082	083	084
097	098	099	100	101	102	103	104	105	106	107	108
121	122	123	124	125	126	127	128	129	130	131	132



- E.ON stock outperforms market in 2000
- Dividend increases to €1.35
- E.ON systematically continues value-oriented management approach
- Focus on core energy and specialty chemicals businesses creates superb platform for further growth

E.ON shares

Key figures per share

In €	2000	1999	+/- %
Year-end share price	64.80	48.45 ¹	+34
U.S. GAAP earnings ²	5.07	3.90	+30
Dividend	1.35	1.25 ¹	+8
Cash flow from operations ²	5.36	6.68	-20
Book value ^{2, 3}	38.61	36.09	+7

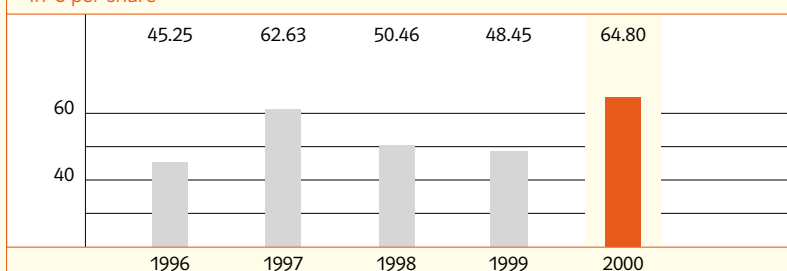
¹Figure refers to the former VEBA AG.

²Pro forma.

³Stockholders' equity excluding minority interests.

Year-end share price

In € per share*



*Numbers for 1996–1999 refer to the former VEBA AG.

E.ON shares are listed on all German stock exchanges, the Swiss Stock Exchange, and as American Depositary Receipts (ADRs) on the New York Stock Exchange.

VEBA and VIAG stock exchanged for E.ON shares. In June 2000 VIAG AG was merged into VEBA AG. The merged entity changed its name to E.ON AG. In order to grant entitled VIAG investors shares in E.ON, E.ON increased its capital stock by €648 million to around €1,955 million. The Merger Agreement between VEBA and VIAG stipulated a share exchange ratio of 5:2. This meant that entitled VIAG shareholders received two E.ON shares for five VIAG shares. A total of roughly 249 million new E.ON shares were issued, bringing the total number of E.ON shares to about 752 million. Shares in the former VEBA were exchanged 1:1 for E.ON stock when the Company adopted its new name.

E.ON stock: clear market outperformer in 2000. At €64.80, E.ON stock closed 2000 much higher than its year-end 1999 quote of €48.45. Shareowners who reinvested their cash dividends saw the value of their E.ON portfolio rise by 36.7 percent in 2000. With the DAX index of Germany's top 30 blue chips down 7.5 percent on the year and the Euro Stoxx 50 index of premier European equities off 1.7 percent, E.ON stock distinctly outperformed German and European equity markets. E.ON's European peer index, the Stoxx Utilities, closed 9.3 percent higher on the year, but fell well short of E.ON's stock performance. Investors in the former VIAG achieved even better returns. The value of their portfolio climbed 43.3 percent in 2000.

VEBA/E.ON share portfolio sustains double-digit growth. Investors who purchased VEBA shares for DM10,000 at the end of 1995 and reinvested their cash dividends saw the value of their investment rise to roughly DM22,800 by the end of 2000. The investment thus more than doubled over the five-year period. The 128 percent appreciation represents an annual increase of 17.9 percent. This means that VEBA/E.ON stock performed almost as well as Europe's Stoxx Utilities index, which rose 20.1 percent per year over the same span. At 20.9 percent, the five-year average annual return to shareholders of the former VIAG was even better. Between 1995 and 2000 Germany's DAX index advanced 23.3 percent annually. The Euro Stoxx 50 rose 28.4 percent each year on average. Measured against these German and European blue-chip indices, VEBA/E.ON stock was thus a below-average performer.

The VEBA/E.ON portfolio of long-term investors increased 4.5-fold in value in the ten years since the end of 1990. At 18.5 percent, VEBA/E.ON stock's average annual increase bested both German stocks—the DAX index climbed 16.5 percent per year since 1990—and its European peer index, the Stoxx Utilities, which advanced 17.1 percent per year over the same period. Shareholders in the former VIAG AG saw the value of their portfolio grow 17.1 percent annually between 1990 and 2000.

Dividend increases to €1.35. At the 2001 Annual Shareholders' Meeting, E.ON's Board of Management and Supervisory Board will propose that the cash dividend for the 2000 financial year be increased to €1.35. The previous year's dividend was €1.25. Entitled domestic shareowners also receive a tax credit of €0.58 per share. Including the tax credit, dividends have increased 9.25 percent per year over the last five years.

Capital stock raised by about €30 million or 11 million shares. Following the tie-up of VEBA and VIAG, the two companies' utilities, VIAG's Bayernwerk AG and VEBA's PreussenElektra AG, were merged to form E.ON Energie AG. Agreement was reached with E.ON Energie's minority shareholders—chiefly municipalities in Bavaria—to swap their E.ON Energie shares for E.ON stock. For this purpose, E.ON made partial use of Authorized Capital II to raise its capital stock by about €30 million in return for payments in kind. This increased the number of E.ON shares by about 11 million for a total of roughly 763 million shares.

Certification of E.ON shares ended. Among the resolutions passed at the former VEBA's Extraordinary Shareholders' Meeting on February 10, 2000, was a resolution to end certification. Shareholders' right to certification of their shares and profit-sharing coupons is thus excluded except as provided by the rules governing stock exchanges on which the shares are listed (see Section 4, Paragraph 2, of the Articles of Incorporation of E.ON AG). E.ON therefore will not issue stock certificates. Certification was excluded in order to save the Company—and its shareowners—the high costs of printing and distributing share certificates.

E.ON shares

E.ON share key figures¹

Per share		1996	1997	1998	1999	2000
U.S. GAAP earnings ²	€	2.58	2.98	2.34	3.90	5.07
Cash flow from operations ²	€	9.27	8.98	6.14	6.68	5.36
Dividend	€	0.97	1.07	1.07	1.25	1.35
including tax credit	€	1.39	1.53	1.53	1.79	1.93
Dividend declared ²	€m	480	534	540	849	972 ⁶
12-month high	€	46.20	62.63	67.08	62.60	66.55
12-month low	€	31.44	44.89	41.36	41.60	41.01
Year-end	€	45.25	62.63	50.46	48.45	64.80
Number of shares	million	493.8	497.2	502.8	502.8	763.3
Market capitalization	€bn	22.3	31.1	25.4	24.4	49.5
Book value ^{2, 3}	€	20.18	22.78	23.40	36.09	38.61
Market-to-book-value ratio ^{2, 4}	%	224	275	216	134	168
E.ON share trading volume ⁵	€bn	52.6	102.6	22.2	21.1	28.6
DAX trading volume	€bn	961.5	1,953.9	667.5	755.5	1,179.9
E.ON's share of DAX volume	%	5.5	5.3	3.3	2.8	2.4

¹Numbers up to 1999 refer to the former VEBA AG.

²E.ON Group figures for 1999 and 2000 are pro forma.

³Stockholders' equity excluding minority interests.

⁴Year-end stock price expressed as a percentage of book value (excluding minority interests).

⁵All German stock exchanges (including XETRA); beginning in 1998, figures are order-book statistics and are thus not comparable with prior years.

⁶The figures reflect the Company's repurchase of 5.64 percent of its capital stock.

E.ON launches share buyback program. In May 2000 the former VEBA's Annual Shareholders' Meeting authorized the Company to repurchase its shares until October 2001. E.ON can buy back up to 10 percent of its own capital stock. Fully utilizing the authorization would result in the repurchase of about 76 million shares. In September 2000 E.ON's Board of Management moved to initiate the stock buyback program. By December 31, 2000, E.ON had repurchased slightly more than 15 million of its own shares or exactly 2 percent of its capital stock. The Corporation has continued to repurchase shares. On February 14, 2001, E.ON passed the 5-percent mark. Our share buyback program is Germany's largest ever. Plans call for canceling by far the majority of repurchased shares.

Capital market's interest in E.ON grows steadily. E.ON has a higher weighting in key global equity indices than did VEBA and VIAG. That's why E.ON has stepped up its already extensive investor relations activities.

By ensuring an ongoing flow of accurate and comprehensive information about our companies' current business climate and outlook, we strive to enable the market to arrive at a fair valuation of our stock. Our fundamental principle is to provide all investors and analysts with the same excellent service.

The market's steadily growing interest in E.ON is reflected in the greater number of roadshows, presentations, and meetings we have held in and outside Germany. It is also demonstrated by investors' expanded use of our website (www.eon.com) and increased participation in our telephone conferences.

In order to satisfy the global capital market's rising demand for information, in 2001 we plan to release even more data and to expand our use of the latest communication technologies, including live webcasts of our analysts conferences.

ROCE by segment

E.ON systematically continues value-oriented management approach. The new E.ON Group's primary goal remains enhancing shareholder value over the long term. That is why we have put a unified, Group-wide planning and controlling system into place. The system ensures that the Company as a whole and our individual businesses are managed with an eye to increasing value and that our financial resources are allocated efficiently.

E.ON's key performance metric is return on capital employed (ROCE). To monitor the periodic performance of our business units, we compare a unit's ROCE with its business-specific cost of capital. Value is only created when ROCE exceeds this minimum return.

The cost of capital employed is determined by calculating the weighted average cost of equity and debt. The cost of equity is the return expected by an investor on the stock of companies in the same risk category. The cost of debt equals the long-term financing terms that apply in the E.ON Group. We take into account that the interest on debt reduces the Company's tax burden (tax shield).

The table at right illustrates the derivation of cost of capital before and after taxes. The Group's average cost of capital is currently 7.3 percent after taxes and 11.2 percent before taxes. The individual segments' pre-tax capital costs vary between 7.6 and 14.9 percent. This range reflects the segments' different risk potential.

Risk-free interest rate	5.6 %
Market premium	5.0 %
Beta factor ¹	0.80
Cost of equity (after taxes)	9.6%
Cost of debt (before taxes)	5.9 %
Tax shield (35%) ²	-2.0%
Cost of debt (after taxes)	3.9%
Share of equity	60 %
Share of debt	40 %
Cost of capital (after taxes)	7.3 %
Cost of capital (before taxes)³	11.2 %
¹ The beta factor is used as an indicator of a stock's relative risk. A beta greater than 1 signals a higher risk than the risk level of the overall market; a beta factor of less than 1 signals a lower risk. ² This reduction takes into account that the interest on debt reduces the Company's tax burden. ³ (Cost of capital before taxes) x (1 - tax rate) = cost of capital after taxes 11.2% x (1 - 35%) = 7.3%	

ROCE by segment

E.ON Group ROCE		
€ in millions (pro forma)	2000	1999
Internal operating profit	2,762	2,748
+ Interest income (net) charged against internal operating profit ¹	747	974
= EBIT	3,509	3,722
+ Goodwill amortization	877	924
= EBITA	4,380	4,646
Intangible assets and property, plant, and equipment	38,558	36,815
+ Shares in affiliated and associated companies and other share investments	20,002	18,240
+ Cumulative goodwill amortization	1,574	1,707
+ Inventories	7,166	7,184
+ Accounts receivable	11,297	9,191
+ Other noninterest-bearing current assets (including prepaid expenses)	9,036	7,067
- Noninterest-bearing provisions ²	-15,080	-15,932
- Noninterest-bearing liabilities (including deferred income)	-15,195	-12,326
= Capital employed	57,358	51,946
Average annual capital employed³	54,652	51,946
ROCE	8.0 %	8.9 %

¹This figure is calculated by adding in interest expenses and subtracting interest income. The pro-forma commentary on page 076 explains the derivation of interest income (net) charged against internal operating profit.

²Noninterest-bearing provisions mainly include short-term provisions. They do not include provisions for pensions, nuclear-waste management, or other interest-bearing long-term provisions.

³For 1999, capital employed is calculated as of the balance-sheet date because no pro-forma figures exist for 1998.

ROCE. ROCE is defined as the ratio of earnings before interest, taxes, and amortization (EBITA) to capital employed. Capital employed is equal to operating assets less the amount of noninterest-bearing available capital.

ROCE measures the sustainable return on invested capital generated by operating a business. We chose to use EBITA as our earnings measure because it is net of the effects of taxes, financial transactions, and acquisitions. Moreover, EBITA does not include one-off and rare effects.

The table above shows the E.ON Group's ROCE and how it is derived.

ROCE in 2000. In the 2000 financial year our ROCE declined by 0.9 percentage points year-on-year to 8.0 percent. The primary cause was the earnings decline at our Electricity Division. Nearly all other Divisions increased their returns, in some cases markedly so.

The Group's return of 8.0 percent is below its cost of capital of 11.2 percent. This underperformance results almost exclusively from Telecommunications' negative return. In addition to startup losses, Telecommunications' high level of capital employed negatively impacts the Group's return. Not including Telecommunications, the Group's return was 11.1 percent. The divestiture of VIAG Interkom will result in a markedly improved return in 2001.

Our Electricity Division's return fell to 10.8 percent, slightly under its cost of capital. This primarily reflects the sharp drop in power prices in the wake of market liberalization. We have already initiated a number of counteractive measures to improve Electricity's return. We moved to shut down 4,800 megawatts of generating capacity; adopting a results-oriented approach, we positioned E.ON as a premium energy brand; and we implemented far-reaching cost-cutting measures by realizing merger synergies. These measures will show their full effects over time.

Despite the increase in capital employed following the complete acquisition of Aral shares, our Oil Division's return displayed a strong recovery. High crude oil prices, improved refinery margins, and cost cutting all combined to boost earnings substantially, particularly on the refinery side.

Our Chemicals Division also markedly increased its return compared with the prior year. The rapid and successful implementation of the Degussa-Hüls and SKW-Goldschmidt mergers along with the healthy overall economy helped to improve earnings. We

ROCE by Division											
€ in millions (pro forma)	Year	Electricity	Oil	Chemicals	Real Estate	Telecommunications	Distribution/Logistics	Aluminum	Silicon Wafers	Other/Consolidation	E.ON Group
Internal operating profit	2000	1,725	310	672	212	-546	461	227	-68	-231	2,762
+ Interest income (net) charged against internal operating profit ¹	2000	-87	168	314	73	-9	181	34	94	-21	747
= EBIT	2000	1,638	478	986	285	-555	642	261	26	-252	3,509
+ Goodwill amortization	2000	212	63	215	13	4	84	3	2	281	877
= EBITA	2000	1,850	541	1,201	298	-551	726	264	28	29	4,386
	1999	3,044	53	915	269	-768	645	318	-144	314	4,646
÷ Capital employed²	2000	17,151	3,612	11,727	2,576	10,188	5,449	1,622	1,537	790	54,652
	1999	17,165	2,475	11,010	2,454	8,410	6,781	1,429	1,429	793	51,946
= ROCE	2000	10.8%	15.0%	10.2%	11.6%	-5.4%	13.3%	16.3%	1.8%	-	8.0%
	1999	17.7%	2.2%	8.3%	11.0%	-9.1%	9.5%	22.2%	-10.1%	-	8.9%
Cost of capital		11.0%	10.6%	12.0%	7.6%	13.9%	10.9%	12.0%	14.9%	-	11.2%

¹This figure is calculated by adding in interest expenses and subtracting interest income.
²For 2000: annual average. For 1999: as of the balance-sheet date (no pro-forma figures exist for 1998).

intend to further increase profitability by leveraging synergies and restructuring potential from the merger that forged Degussa, by managing Degussa's portfolio, and by optimizing business processes on an ongoing basis.

Expanded housing unit sales enabled our Real Estate Division to again post a slightly higher return. This Division's ROCE benefits from the low book values of its housing stock.

The disposal of shareholdings and reduced startup losses led to improved earnings and ROCE at Telecommunications. Due to the considerable startup losses of our remaining activities, however, Telecommunications' return stayed negative.

Distribution/Logistics also put in a strong performance. All businesses posted higher returns and exceeded their individual cost of capital.

Aluminum did not repeat its record return of the year-earlier period, as price hikes for raw materials and inputs impaired earnings.

Our wafer business again achieved a positive return on the back of higher sales volume and an improved cost position.

Strategy and investment plan

Investment plan 2001–2003

	€bn	%
Electricity	7.3	47
Oil	0.7	5
Chemicals	4.1	26
Real Estate	1.2	8
Other Activities	2.2	14
Total	15.5	100

Successful merger to form E.ON: key strategic milestone.

The VEBA-VIAG tie-up that forged E.ON represents another major milestone of our Focus & Growth strategy. By systematically focusing on our core energy and specialty chemicals businesses—and by merging our core subsidiaries—we have laid a superb foundation for further growth. To generate the funds necessary to enlarge our core businesses we intend to obtain optimal value on the disposal of our non-core assets. In early 2001 we were already able to achieve the first successes of our growth strategy. On the energy side, the move in February to acquire a majority stake in Sydkraft, Sweden's second largest utility, will significantly augment our leading position on Europe's energy market. On the specialty chemicals side, the takeover of UK-based Laporte will make us a top global player in the highly attractive fine chemicals sector.

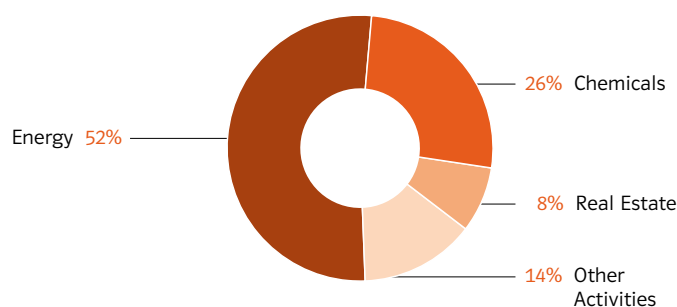
E.ON's investment plan reflects its strategic focus on energy and specialty chemicals. In the next three years, more than three fourths of planned capital spending will be channeled into the Company's two core businesses. An additional 8 percent is earmarked for Real Estate. Just under half of our investments will go toward enlarging established market positions and developing new markets and products. These capital expenditures will help cement and further expand our market positions in our core businesses. More than 60 percent of planned investments are targeted at Germany. The remaining funds are aimed primarily at the rest of Europe (25 percent) and America (8 percent). It should be noted that our additional strategic investments will significantly increase the share of the Group's capital spending devoted to new markets and products as well as the share of expenditures outside Germany.

Energy: top European utility with global market positions.

Electricity, natural gas, and water. In the wake of liberalization, Europe's power and gas sectors have begun to consolidate. Market consolidation in Germany and Europe will continue to provide E.ON with growth opportunities. The tie-up of PreussenElektra and Bayernwerk that formed E.ON Energie has already given us a top-notch position on Europe's electricity market. Building on our established strengths in Scandinavia, Eastern Europe, Switzerland, and the Netherlands, we plan to markedly enlarge our market position in Europe. We intend to grow internally by expanding our supply activities. And we intend to acquire integrated companies that own direct customer relationships in attractive markets. We also plan to pursue growth opportunities overseas. Here, too, we will take an integrated approach by creating value in generation, distribution, and supply, keeping our focus on direct customer access. Moreover, we will be stepping up the expansion of our natural gas and water activities in order to exploit internal growth prospects and take advantage of cross-selling opportunities. But we will not pursue growth at any price, but rather always to enhance shareholder value.

Achieving value-oriented growth is critical for our energy activities. E.ON Energie's other business driver remains cost leadership along the entire value chain: generation, transmission, distribution, and supply. Preemptive cost-cutting programs and merger synergies in excess of €700 million—which will be fully realized by 2002—will ensure that we remain the cost leader in Germany, Europe's most fiercely contested power market.

Investments by Division



The current investment plan represents the Group's first post-merger budget. E.ON plans to invest €15.5 billion over the next three years. This figure does not include the medium-sized and major acquisitions that are integral to the growth strategy of our Energy and Chemicals Divisions. These strategic investments will be funded by the sale of non-core assets, which we expect to generate proceeds in the double-digit billion range.

Overall, we plan to invest about €7.3 billion over the next three years. The focus will be on Germany, mainly to enlarge existing market positions and develop new markets and products. The above-mentioned medium-sized and major international acquisitions are not included in this figure.

Oil. We realigned the Oil Division in fall 2000. The holding company, VEBA Oel AG, provides financial and strategic management for our oil activities. Being autonomous entities enables VEBA Oel's three subsidiaries to operate successfully in their specific markets. In exploration and production, VEBA Oil & Gas has successfully completed its portfolio streamlining program. Its planned capital expenditures will go toward increasing production in its core fields. At VEBA Oil Refining & Petrochemicals (VORP), the focus is on improving the company's cost structure and value-added component. VORP will also evaluate selected growth opportunities. As a retailer, Aral's strategy centers around extending its cost leadership and expanding its successful convenience store business as well as further improving its market position in Eastern Europe.

In line with these strategic goals, E.ON plans to invest €0.7 billion in VEBA Oel during the planning period.

Chemicals: the world's premier specialty chemicals company. Combining Degussa-Hüls and SKW Trostberg created the new Degussa: the global market leader in specialty chemicals. Degussa already occupies numerous leading positions in attractive specialty segments. It intends to solidify and enlarge these positions via targeted internal and external growth and by boosting profitability. Resources will be targeted at businesses that market highly differentiated products featuring substantial customer benefits. Assets that do not meet these criteria will be divested at optimal value. These mainly include ASTA Medica, Degussa Bank, Degussa Dental, dmc², Phenolchemie, and SKW Piesteritz, as well as the Gelatins, Metallurgical Chemicals, and Salt Products business units.

The tie-up that forged the new Degussa substantially enlarged our technology and R&D platforms. We intend to systematically seize the opportunities offered by our enhanced R&D capability. Active portfolio management, cost cutting, and stepped up integration will all help to markedly improve Degussa's profitability. The new group intends to pursue growth opportunities, particularly in America and Asia.

Chemicals will attract €4.1 billion in investments over the next three years. This number does not include major acquisitions like the purchase of Laporte.

Almost half of all planned capital spending is aimed at extending established market positions as well as at tapping new markets and developing new products. The lion's share will go to Degussa's core businesses. Investments outside Germany will be targeted primarily at America, Western Europe, and Asia.

Real Estate. We intend to diligently continue Viterra's realignment into a growth-oriented and integrated real-estate group. Investments will concentrate on actively managing Viterra's extensive housing stock, further its developing real-estate service businesses, and systematically expanding the company's commercial real-estate portfolio.

Real Estate's capital expenditures total €1.2 billion during the planning period. The focus will be on the Residential Investment division. Viterra intends to achieve additional growth—beyond the budget plan—at its Commercial division.

Other Activities. E.ON is in the process of systematically divesting its non-core assets. In 2000 the Company sold its shareholdings in E-Plus, Cablecom, VEBA Electronics, Gerresheimer Glas, and Orange Communications—quickly and on favorable terms. It also disposed of its majority stake in Schmalbach-Lubeca. In January 2001 E.ON sold its VIAG Interkom interest for an exercise price of about €7.3 billion in line with its option deal with British Telecom. For the time being, E.ON will work diligently to enhance the value of its remaining telecoms activities: Austria's ONE and France's Bouygues Telecom. The tax relief on capital gains that will take effect in Germany in 2002 is an important consideration for the sale of additional Stinnes shares and for the divestiture of VAW aluminium. Klöckner & Co is slated for sale in 2001. Market sentiment regarding technology stocks is a key factor for timing the divestment of MEMC.

Other Activities will attract investments totaling €2.2 billion during the planning period. The budget includes individual businesses until their planned deconsolidation. The sale of non-core assets is expected to generate proceeds in the double-digit billion range.

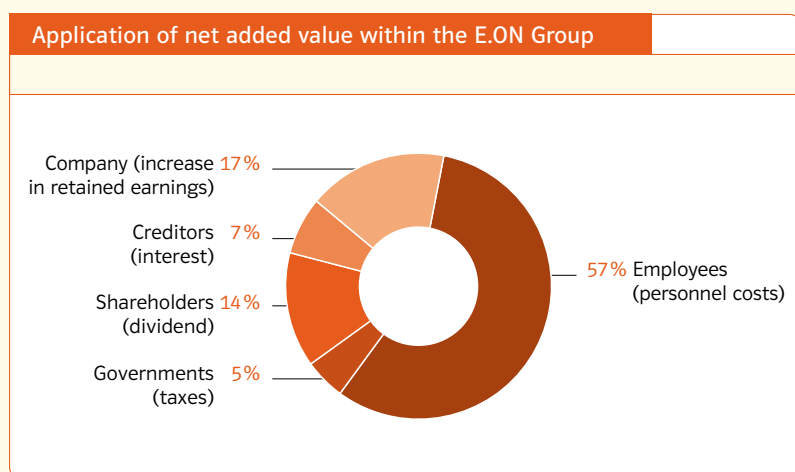
Employees

Employees			
Year-end figures	2000	1999	+/- %
Electricity	34,406	35,968	-4
Oil	8,593	5,863	+47
Chemicals	62,110	62,464	-1
Real Estate	5,567	4,901	+14
Telecommunications	1,409	962	+46
Other Activities	74,044	92,784	-25
E.ON AG/Other	659	791	-17
Group employees	186,788	203,733	-8

Post-merger integration: a key challenge for human resource management. The VEBA-VIAG tie-up and the subsequent integration process represented key human resource (HR) challenges in 2000. Rapid and transparent decisions on personnel matters—especially regarding top management positions—helped accelerate the merger process. Management audits ensured that objective and fair criteria were used to fill positions. Throughout the merger process we informed all employees quickly and comprehensively about current projects and decisions. A series of events helped to integrate VEBA and VIAG employees and to create an E.ON corporate culture.

Necessary personnel adjustments—like transferring employees to new locations—were accompanied by appropriate compensation packages or umbrella agreements. These were negotiated quickly and fairly with employee representatives. The strong emphasis placed on HR issues before the merger and the prompt attention paid to them afterward made important contributions toward speeding the integration of VEBA and VIAG.

HR and corporate strategy closely linked. Fundamental changes await us in the coming years, from the Group's ongoing focus and increasing internationalization to e-commerce and m-commerce. In an environment of change, it is important for HR and corporate strategy to be closely linked. This is why we will soon be accelerating the pace of our transition away from work- and organization-based structures toward dynamic, project-oriented processes and more flexible work schedules.



Net added value				
Pro forma	2000		1999	
	€m	%	€m	%
Employees (personnel costs)	10,858	57.4	10,393	62.5
thereof:				
Wages and salaries	(8,612)	(45.5)	(8,313)	(50.0)
Social security	(1,396)	(7.4)	(1,256)	(7.5)
Insurance pensions	(850)	(4.5)	(824)	(5.0)
Creditors (interest)	1,261	6.7	1,202	7.2
Governments (dividend)	2,618	13.8	1,953	11.7
Shareholders (dividend)	972	5.1	849	5.1
Company (increase in retained earnings)	3,213	17.0	2,245	13.5
Net added value	18,922	100.0	16,642	100.0

Performance-based pay. We have increased the variable component of our top managers' remuneration. The variable element takes into account both personal and corporate performance. To help measure personal achievement, top managers and their superiors agree on a set of targets at the beginning of each year. The performance-based compensation scheme that currently affects top-level managers will successively be expanded to include more management staff and employees.

E.ON InvestmentPlan helps employees invest for the future. We launched the E.ON InvestmentPlan last year. The Plan is an extension of the Company's employee stock purchase program and provides employees with incentives for long-term saving, particularly to supplement their retirement income. The InvestmentPlan was introduced in the second half of 2000 at the companies of the former PreussenElektra and Degussa-Hüls as well as at VEBA Oel, Viterro, and E.ON headquarters. Staff at the former Bayernwerk and SKW Trostberg companies will be brought into the Plan in 2001.

In addition to facilitating the purchase of E.ON shares, the InvestmentPlan enables employees to invest in equity and bond funds. The Company rewards long-term saving by giving employees a progressively larger investment bonus. Six months after it was launched, over 60 percent of eligible employees were enrolled in the Plan.

Employee training and job initiatives. Employee training and job initiatives were again a top HR priority at E.ON in the year under review. We not only maintained our job training offerings at their current high level, but also continued our Venturing into New Worlds of Work initiative. This scheme is designed to give young

people without a high-school diploma the opportunity to acquire crucial work experience. E.ON is also committed to providing trainee positions for individuals who are physically challenged.

E.ON is active in Germany's nationwide Initiative for Employment. Since fall 2000, E.ON has headed up four joint projects involving other members of the Düsseldorf regional network. These include a checklist for young people entering the labor market, an innovative job creation project, and support schemes for startups.

Ongoing employee and management development programs. E.ON recognizes that HR marketing and ongoing employee development are essential to ensure that the Group continues to attract and retain top job candidates. A major milestone in this effort was the founding of E.ON Corporate University. Employee and management development programs are Group-wide in their focus. They are continually updated to help the Company retain its high potentials and systematically promote their general management skills. These programs reinforce E.ON's policy of attempting to fill top management positions from within its own ranks.

- The Top Talent Program, which is aimed at top university graduates from inside or outside the Company who already have professional experience, lets enrollees work on a project team while attending courses on international management.

Employees

- E.ON Campus gives our high potentials the opportunity to interact with top E.ON executives and discuss current Company topics and broader business issues. The program is designed to facilitate Group-wide networking, knowledge transfer, and interdisciplinary projects.
- The INSEAD Business School and the International Institute for Management Development are two examples of executive development programs that are custom-tailored for E.ON. Held once a year, these programs explore international management topics as well as E.ON-specific issues.
- The E.ON Executive Forum serves primarily to help assess the executive potential of the Group's top-level managers. Observers consist of members of E.ON's Board of Management and the Chairmen of the Boards of Management of the major Group companies.

Professional development. Ongoing professional development and supplementary training at all levels of the Company are crucial to sustaining our competitiveness. Every year E.ON employees improve their knowledge and skills at over 4,000 Company-sponsored courses—from foreign-language, computer, commercial, and technology training programs to advanced learning in project management and negotiating. Last year more than 50,000 E.ON employees took advantage of the Corporation's professional development offerings.

Workforce levels impacted by implementation of Group strategy. The E.ON Group employed 186,788 people at the end of 2000—a year-on-year decline of roughly 17,000 employees or 8 percent. A large part of this was attributable to the disposal of non-core assets like VEBA Electronics (representing a reduction of 6,200 employees) and the Company's majority stake in Schmalbach-Lubeca (which reduced staff by 8,700).

Ongoing restructuring measures at our Electricity Division reduced the workforce there by 1,500 employees. The sale of Raab Karcher's building materials unit led to staff reductions of 6,000 employees at Stinnes. By contrast, the number of employees at VEBA Oel increased by 2,900 due to Aral's first-time full consolidation, and the number of staff at our Electricity Division rose by 800 in the wake of acquiring EZH, a Dutch energy utility (EZH is now called E.ON Benelux Generation).

The internationalization of the E.ON Group continues unabated. There were 83,338 Group employees—44.6 percent of our total workforce—at locations outside Germany at year-end 2000, up from 37.5 percent at year-end 1999.

Environmental protection

Caring for the environment is a key part of the way E.ON and our subsidiaries do business. Our stewardship includes integrating conservation issues into the planning stage of projects, monitoring the environmental corporate citizenship of our suppliers, and striving continuously to use resources even more efficiently.

E.ON Energie regards renewables as a significant tool for advancing the cause of environmental protection. That's why in 2000 our energy subsidiary once again initiated in-house projects and development programs as well as offered environmentally friendly energy products to its customers. It also wholeheartedly supports the efficient use and conversion of energy. E.ON Energie's signature of the German power industry's climate protection declaration underscores its commitment.

E.ON Energie's stewardship of the environment goes beyond merely complying with existing law. For example, its power transmission division verifies the recyclability of the materials it uses. To the extent possible, it employs water-soluble products with a low heavy-metal content for the anticorrosive coatings that must be applied regularly to protect electricity pylons and transformer substations.

Last year **VEBA Oel** continued to invest in new refining facilities for enhanced fuels. Since mid-February 2001 all Aral service stations in Germany have been selling low-sulfur SuperPlus gasoline containing only 10 parts per million (ppm) of sulfur. The refineries of VEBA Oil Refining & Petrochemicals are already preparing for the second stage of the fuel directive that takes effect in 2005. The directive calls for the phased-in reduction of the sulfur-content of all fuels to 50 ppm and eventually to 10 ppm.

VEBA Oel also invests extensively in soil and water protection. Over the next 10 years the existing tanks at its Gelsenkirchen facility will be retrofitted with double bottoms as well as leakage and tank shell monitoring systems. Our oil subsidiary also plans to initiate a step-by-step program to modernize its wastewater systems.

Environmental protection			
€ in millions	2000	1999	+/- %
Investments	141	132	+7
Operating costs (including capital service)	1,104	1,222	-10
Preliminary figures			

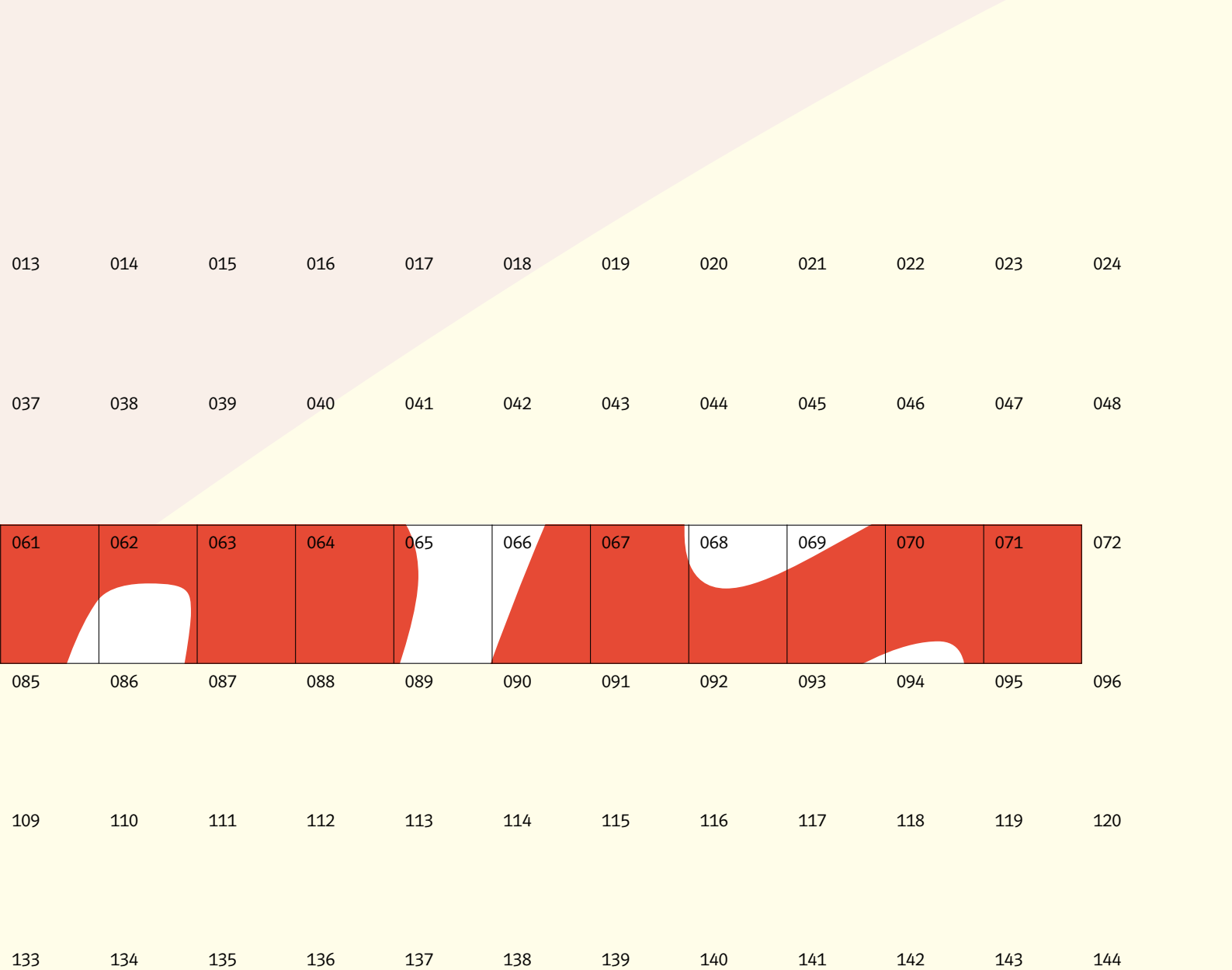
Degussa is unequivocally committed to sustainable development and participates actively in the global chemical industry's Responsible Care Initiative. At the start of 2001 Degussa issued new internal guidelines on environmental, safety, health, and quality issues. The guidelines' German acronym is USGQ. A binding USGQ code of practice ensures that all Degussa companies meet the same standards. Degussa will publish its first post-merger responsible-care and environmental report in June 2001.

Last year Degussa invested worldwide in measures to protect the environment. For example, the company installed emissions and waste-treatment mechanisms at the new acrylic acid facility in Marl; it erected a centralized wastewater treatment facility in Trostberg; it initiated a project to retain water in its fire-fighting system in Essen; it used organic carbon bonding to reduce the impact of wastewater in Thailand; and it invested in measures to reduce dust emissions in Chile and Singapore. Because Degussa increasingly takes an integrated approach to environmental protection, its conservation investments in 2000 declined slightly year-on-year. Degussa considers conservation issues early in the product development process. This obviates the need for additional hefty investments to protect the environment during production.

In 2000 Degussa-Hüls impressed analysts of the Zurich-based Sustainable Asset Management Group with its commitment to sustainable development. The SAM analysts responded by including Degussa-Hüls in the Dow Jones Sustainability Share Index. Degussa will also apply to have its stock listed in this index.

Group Divisions

001	002	003	004	005	006	007	008	009	010	011	012
025	026	027	028	029	030	031	032	033	034	035	036
049	050	051	052	053	054	055	056	057	058	059	060
073	074	075	076	077	078	079	080	081	082	083	084
097	098	099	100	101	102	103	104	105	106	107	108
121	122	123	124	125	126	127	128	129	130	131	132



- Merger of PreussenElektra and Bayernwerk consummated
- Oil Division's realignment executed according to plan
- Tie-up of Degussa-Hüls and SKW Trostberg successfully completed
- Real Estate Division sustains growth pattern

Electricity

- PreussenElektra and Bayernwerk consummate merger
- Sagging power prices impair earnings
- Agreement reached on continued use of nuclear energy
- E.ON Energie adjusts generation capacity to match demand
- 2001 internal operating profit projected to be slightly above previous year's figure

E.ON Energie AG, Munich			
€ in millions (pro forma)	2000	1999	+/- %
Sales*	13,350	13,180	+1
Internal operating profit	1,725	2,466	-30
Cash flow from operations	1,037	2,498	-58
Investments	3,766	2,923	+29
Employees at year-end	34,406	35,968	-4

*Includes electricity taxes.

Primary energy consumption in Germany. Preliminary estimates for 2000 put Germany's consumption of primary energy at about 484 million tons coal equivalent, on par with the prior year's figure.

The sales volume of petroleum products declined slightly, whereas natural gas consumption fell markedly owing to mild autumn temperatures across the country. In 2000 Germany burned more hard coal and lignite than in 1999.

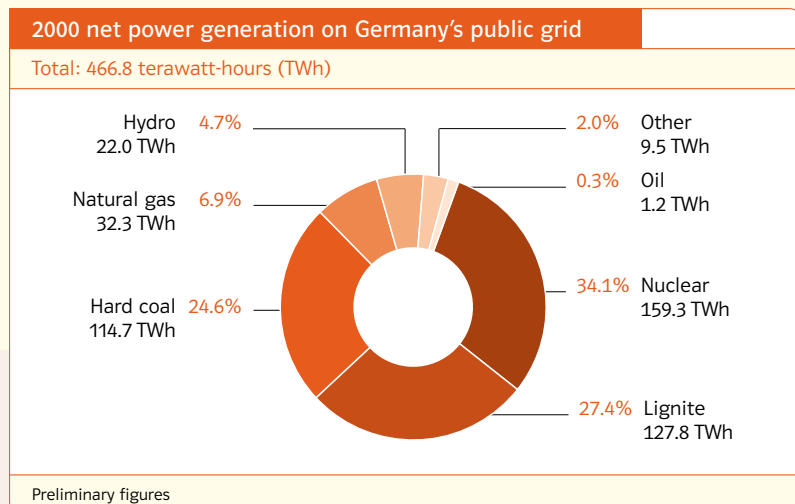
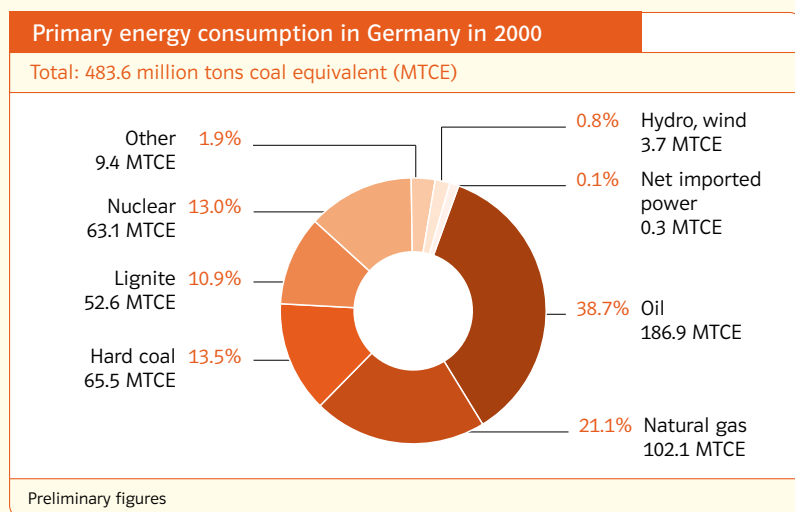
Electricity consumption from Germany's public grid amounted to 490 billion kilowatt-hours (kWh) in 2000. This represents about a 2 percent increase over the 1999 total. At 159.3 billion kWh, nuclear energy generation was relatively unchanged from 1999. Nuclear energy met 34 percent of Germany's power needs in 2000. Conventional power units covered around 59 percent of German consumption, hydroelectric plants just under 5 percent, and other types of power plants roughly 2 percent.

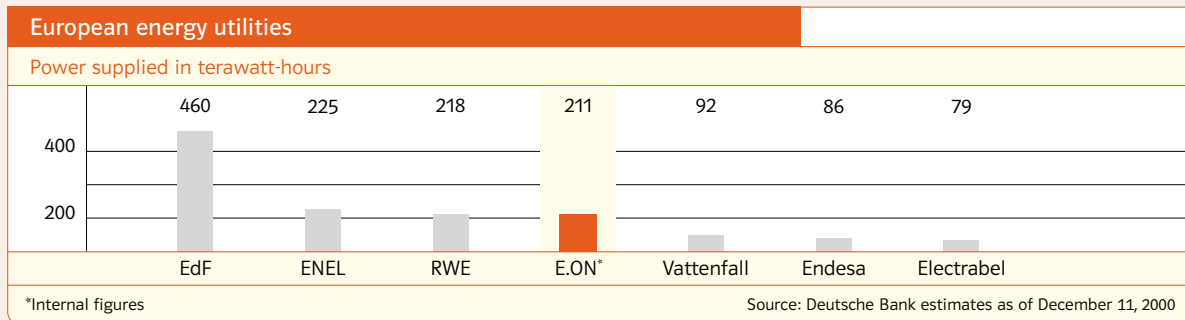
PreussenElektra and Bayernwerk consummate merger.

On June 13, 2000, the EU Commission gave antitrust approval to the merger of VEBA and VIAG. This paved the way for the integration of the two groups' energy companies, PreussenElektra and Bayernwerk. The merger of PreussenElektra and Bayernwerk was consummated on July 14, 2000, the date the merged entity—E.ON Energie—was entered into the Commercial Register.

Following the tie-up of PreussenElektra and Bayernwerk, the two companies' operating units and business activities were combined and reorganized into the following divisions: Conventional Power, Nuclear Power, Transmission, Hydroelectric Power, Trading, and Distribution & Supply. The company's data processing and facility management operations will be merged in 2001.

Under the post-merger integration plan, the parent company, E.ON Energie AG, is responsible for managing the interaction of generation, trading, transmis-





sion, and supply. It sets operational targets and manages control functions. The operating companies are legally and organizationally autonomous. They act as profit centers in line with the Group's overall strategy.

Internal operating profit lags behind previous year's figure. The liberalization of Germany's power market began in April 1998. But it was not until 2000 that an entire financial year bore the full impact of deregulation. Keen price competition extended across all customer segments and led to severe price cuts.

E.ON Energie supplied 15 percent more power in 2000 than in the prior year. Despite the gain, sales rose just 1 percent owing to markedly lower power prices, particularly since the second half of 1999. As expected, E.ON Energie's 2000 internal operating profit slid 30 percent year-on-year despite vigorous cost management. Later in 2000, power prices began to stabilize.

By year-end 2000 E.ON Energie had already realized annual cost savings totaling €200 million as part of the anticipated synergies from the PreussenElektra-Bayernwerk merger.

Energy utilities reach compromise with German government on future of the country's nuclear power plants. On June 14, 2000, the German government and the country's major energy utilities reached an agreement in principle on the future of Germany's nuclear power stations. The agreement sets the maximum amount of electricity that Germany's nuclear power plants are allowed to generate between January 1, 2000, and their final decommissioning. The agreement allows electric companies to shift power production among their assets so that they can generate electricity at their most economically efficient units. The federal government's objective is to end nuclear power production in Germany. In light of this, the agreement represents an acceptable compromise, one that provides political safeguards for Germany's energy utilities to continue operating their existing nuclear power plants. Agreement has not yet been reached with the federal government on the necessary amendments to the German Nuclear Power Regulations Act. Until an understanding is reached on such amendments, E.ON

cannot seek the approval of its Supervisory Board. The approval of E.ON's Supervisory Board is required before the parties can sign the draft agreement.

On May 18, 2000, the so-called Co-Generation Protection Act took effect in Germany. It requires local network operators, under certain conditions, to buy power from combined heat and power (CHP) stations. The law combines the procurement requirement with a country-wide burden-sharing scheme. In particular, the law is intended to provide transitional support for municipal CHP units. The federal government has plans to amend the current co-generation law by 2002 or earlier. The main feature of the proposed law is the introduction of a CHP quota system. Under the legislation, electric suppliers would be required to procure an increasing share of their power needs from CHP plants. The law aims to reduce CO₂ emissions at Germany's power stations by 23 million tons phased in by 2010.

E.ON Energie has made it clear to Germany's political leaders that legislative tampering with the country's recently liberalized power market would be economically harmful. It would both destroy capital and eliminate jobs at existing power stations.

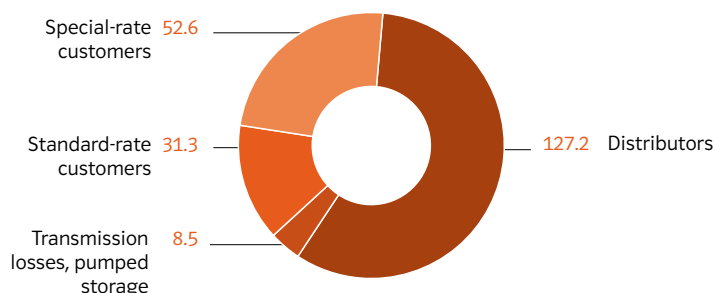
In response, E.ON Energie, along with other German electric companies, proposed an Action Program for Climate Protection on January 26, 2001. Provided that the government renounces its proposed quota system, the energy companies agreed to implement measures to cut CO₂ emissions by a total of 45 million tons by 2010. Germany's Economics Minister accepted the Action Program as a viable alternative to the government's quota scheme. He has announced his desire to transform the Action Program into a binding climate-control agreement between Germany's government and its energy industry by April 1, 2001.

Electricity

Antitrust approval of VEBA-VIAG merger. As part of the EU Commission's merger control process, VEBA and VIAG agreed to dispose of a number of shareholdings. Germany's antitrust regulators made similar requirements when they approved the RWE-VEW tie-up. The elimination of cross shareholdings between RWE-VEW and VEBA-VIAG was a key issue.

E.ON Energie power supplied

In terawatt-hours



Power supplied by E.ON Energie

In millions of kilowatt-hours	2000	1999	+/- %
Standard-rate customers	31,301	29,485	+6
Special-rate customers	52,555	49,988	+5
Regional and municipal utilities	117,472	99,254	+18
Traders	9,724	4,902	+98
Total power supplied	211,052	183,629	+15

E.ON Energie generation capacity

In megawatts at year-end	2000	1999
Nuclear	8,377	8,349
Lignite	2,077	2,077
Hard coal	9,794	9,944
Natural gas	4,721	4,721
Oil	1,152	1,152
Hydro	2,854	2,854
Other	46	46

E.ON Energie divested its VEW stake around the end of last year. In return, RWE transferred its shareholdings in Gasag and Gelsenwasser to E.ON Energie.

In addition, an asset-swap agreement was reached regarding RWE's stakes in Bawag, Bergemann, and Erdgas Schwaben.

Furthermore, E.ON Energie and RWE have decided to dissolve Rhenag Energie and divide its assets between them.

E.ON Energie and RWE sold their stakes in Veag and Laubag to HEW on December 13, 2000. As part of the combined cash and equity deal, E.ON Energie will receive HEW's 15.7 percent shareholding in Sydkraft.

E.ON Energie also agreed to sell its 49 percent interest in Bewag to HEW. In return, E.ON Energie is to receive HEW's 61.85 percent stake in Hein Gas Hamburger Gaswerke GmbH plus cash. The transaction is still pending because another Bewag shareholder, Mirant (formerly Southern Energy), obtained a temporary injunction against the divestiture. E.ON Energie has filed a motion to have the injunction lifted and is currently in out-of-court arbitration with Mirant.

E.ON Energie agreed to sell its 15.4 percent stake in HEW to Vattenfall, a Swedish electric company. In return, E.ON Energie will receive a 33.3 percent shareholding in Baltic Cable, a 41.7 percent interest in VCE, a Czech regional utility, a 10.6 percent stake in Lithuania's LPC, and a cash payment.

E.ON Energie adjusts generation capacity to match demand.

In response to the harsh competition on Germany's power market, E.ON Energie evaluated the economic viability of its entire generation fleet. As a result of the analysis, the company decided in October 2000 to shut down 4,800 megawatts (MW) of its 30,000 MW of total installed capacity. The move primarily affects smaller and older power plants that are unable to operate economically over the medium term.

Power sales volume climbs 15 percent. In September 2000 the power supply arms of PreussenElektra and Bayernwerk were combined to form E.ON Vertrieb. Electricity prices for regional distribution companies, by far the supply division's largest customer segment, bottomed out in the first half of 2000. Since that time, power prices have gradually stabilized. Prices for industrial special-rate customers also displayed initial signs of consolidation following two years of erosion. Electric companies continued to compete aggressively for retail customers. Customer loyalty, however, has meant that comparatively few residential customers have switched suppliers.

In October 2000 E.ON Energie and six of its German regional subsidiaries acquired a majority interest in mercateo.com, an internet marketplace. E-commerce provides E.ON Energie with an important new distribution channel for its power products.

Power supplied rose 15 percent year-on-year to 211,052 million kilowatt-hours (kWh). The increase results primarily from distinctly greater commodity trading volumes, the integration of the Dutch electric company E.ON Benelux Generation, and the acquisition of new customers in Germany and Europe. Power supplied to regional and municipal electric companies in and outside Germany climbed 18 percent to 117,472 million kWh. Electricity supplied to special-rate customers advanced 5 percent, while power supplied to standard-rate customers rose 6 percent. Transmission losses and pumped storage together consumed 8,488 million kWh. Total power supplied increased 16 percent to 219,540 million kWh.

E.ON Energie procures majority of power from its own generation assets. Electricity procurement in 2000 totaled 219.6 billion kWh. Of this total, 57 percent or 124.5 billion kWh came from E.ON Energie's own generation assets; 43 percent or 95 billion kWh was procured from outside sources.

E.ON Energie's conventional thermal power stations produced 59.8 billion kWh in 2000. Hard-coal-fired power units contributed 43 billion kWh to this figure, lignite-fired power stations 12.1 billion kWh. The company's oil- and gas-fired power plants and CHP stations generated 4.7 billion kWh. Output at its nuclear assets totaled 55.4 billion kWh. E.ON Energie's hydroelectric stations produced 8.8 billion kWh of electricity.

E.ON Energie purchased a total of 95 billion kWh of power, 16.9 billion kWh of which was from jointly operated units. The significant share of purchased power partially reflects procurement commitments in Hungary and eastern Germany.

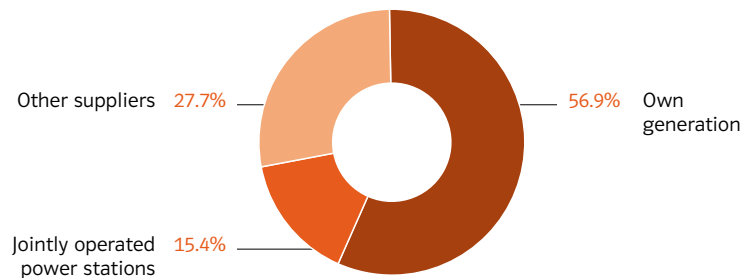
European power trading expanded. In early October 2000 E.ON Energie's commodity trading activities were combined into E.ON Trading. E.ON Trading has built on the success of VEBA's and VIAG's trading arms and has continually expanded its European power trading

operations. Trading volume in 2000 rose 73 percent to 46.1 billion kWh compared with 26.7 billion kWh in 1999, making E.ON Trading one of Europe's premier power trading companies.

E.ON Trading's core markets are Germany, Switzerland, the Netherlands, Austria, and Scandinavia. It also trades power in Italy, Belgium, and the Czech Republic. E.ON Trading is active on Europe's leading power exchanges in Oslo (NordPool), Amsterdam (APX), Leipzig (LPX), and Frankfurt (EEX). As the rest of Europe transitions to liberalization, E.ON Trading is gradually expanding its commodity trading operations into new marketplaces.

E.ON Energie power procurement in 2000

As percentages



Sources of proprietary generation

As percentages

2000

1999

Nuclear	44.5	46.7
Hard coal	34.5	34.2
Lignite	9.8	8.6
Natural gas & oil	3.8	2.3
Hydro & other	7.4	8.2

Electricity trading volume*

In terawatt-hours

2000

Sale	23.4
Purchase	22.7

*Includes spot market.

Electricity

E.ON Energie sales by division*

€ in millions (pro forma)	2000	1999	+/- %
Electricity	9,828	10,781	-9
Natural gas	1,594	1,176	+36
Water	217	220	-1
District heating	150	120	+25
Other	1,213	619	+96
Total	13,002	12,916	+1

*Excludes electricity tax.

Natural gas distribution bests prior year's total. E.ON Energie sold a total of 72.5 billion kWh of natural gas, an annual gain of 14 percent. Reported sales volume was higher primarily because in 2000 Ferngas Salzgit-ter was included in Avacon's 12-month figures for the first time. Natural gas sales rose 36 percent to €1.6 billion. Wholesale gas prices advanced markedly during 2000 on the back of sharply higher petroleum prices.

E.ON Energie's stakes in regional and municipal operators make it a major player on Germany's natural gas market. The company also has shareholdings in Italy, Austria, the Czech Republic, Hungary, Poland, Latvia, Sweden, and the Netherlands. These companies are active along the entire value chain, from exploration and production to ultimate-customer distribution. In the Czech Republic E.ON Energie has a considerable share of the retail gas distribution market. In Latvia E.ON Energie and Ruhrgas together own nearly 43 percent of Latvijas Gaze, a nationwide operator.

Water sales volume declines from previous year. At 259 million cubic meters, E.ON Energie supplied 3 percent less water in 2000 than in the previous year. Its 2000 sales totaled €217 million compared with €220 million in 1999.

E.ON Aqua was formed in 2000 with the aim of further expanding the group's water business. E.ON Aqua's key shareholding is Gelsenwasser, Germany's largest private water utility. After acquiring RWE's Gelsenwasser stake in early 2001, E.ON Aqua now owns more than 80 percent of the company.

In 2000 Gelsenwasser and its shareholdings supplied water to 2.7 million inhabitants and treated the wastewater of 1.2 million inhabitants. It also provided these services to numerous industrial enterprises.

Investments increase. At €3,766 million, investments in 2000 were 29 percent higher than in the prior year.

Expenditures on property, plant, and equipment including intangible assets totaled €989 million for 2000 compared with €1,103 million in the previous year. €773 million of this went to power plants and district heating facilities, €212 million to electricity, gas, and district heating distribution, and €4 million to power trading.

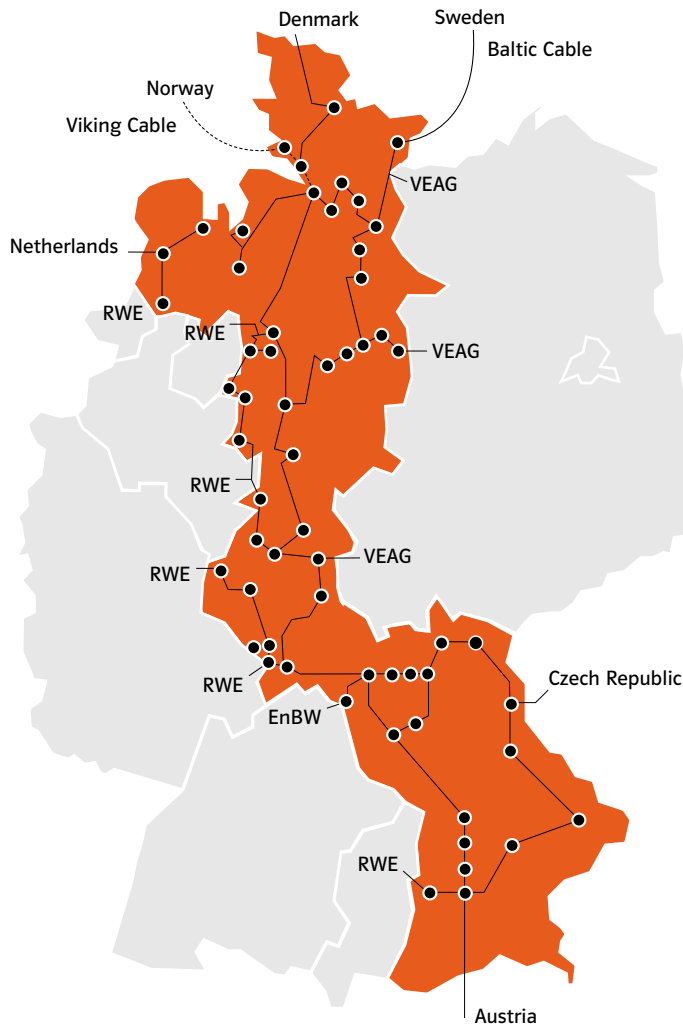
E.ON Energie invested €2,777 million in financial assets in 2000 versus €1,820 million in 1999. The acquisition of EZH, a Dutch energy utility, was the company's most significant investment. EZH now operates as E.ON Benelux Generation.

Developing innovative technologies is top priority. One of E.ON Energie's top priorities is to play an active role in developing innovative technologies. The company continues to update its power station technology. This includes improving materials, optimizing operations, and developing new methods and processes for coal-based electric generation such as circulating pressurized fluidized bed technology. E.ON Energie is active in applying the latest advances in power storage and distribution technology. These include high temperature superconductors, new switching components, and improved batteries. The company is also developing renewables such as wind, biomass, and solar energy. Moreover, E.ON Energie continually develops innovative IT applications and new technologies for generating power and heat, particularly micro-energy technology like fuel cells.

E.ON Energie's 55 percent stake in ONELINE gives it a presence in the development of information technologies. ONELINE is carrying out a large-scale field trial to test Powerline communications technology in customers' homes. This technology provides a platform for offering additional services like energy management, information products, and IT services.

Over the next few years, new and increasingly cheaper technologies will make distributed power and heat generation increasingly relevant. In addition to the regenerative technologies required by Germany's Renewable Energy Act (EEG), E.ON Energie is initiating a series of pilot projects to test and further develop such technologies, particularly fuel cells, micro-gas turbines, and small-scale CHP stations. In the future E.ON Energie intends to expand its use of these technologies and employ them in ways that make business sense.

E.ON Energie high-voltage grid



Outlook. The synergy effects created by the PreussenElektra-Bayernwerk merger, capacity adjustments to our generation portfolio, and aggressive cost management will further improve our competitiveness. In addition, we intend to significantly strengthen our international position—especially in Europe’s liberalized energy market—by making acquisitions in our core energy businesses of electricity, natural gas, and water.

In early February E.ON Energie acquired an additional 5.3 percent of the capital stock and 8.5 percent of the voting rights in Sydkraft, the Swedish utility. In keeping with Swedish practice, E.ON Energie submitted a public tender offer to the remaining shareholders. Acquiring a majority stake in Sydkraft cements our position in Sweden’s substantial energy market and

builds a solid foundation for additional growth and further expansion in Europe.

For 2001 we expect that the energy market will continue to consolidate and that power prices will stabilize or recover. Overall, we anticipate that our Electricity Division’s 2001 internal operating profit will show a slight improvement from 2000.

Oil

- Internal operating profit up sharply despite price wars at the pump
- Additional cost-cutting measures initiated
- Realignment completed according to plan
- 2001 internal operating profit expected to repeat prior year's strong performance

VEBA Oel AG, Gelsenkirchen			
€ in millions	2000	1999	+/- %
Sales*	28,780	12,229	+135
Internal operating profit	310	34	+812
Cash flow from operations	918	601	+53
Investments	1,723	1,308	+32
Employees at year-end	8,593	5,863	+47

*Includes petroleum taxes.

German petroleum industry profits from positive underlying conditions. Germany's petroleum industry benefited from unusually high crude oil prices, substantially higher refining and petrochemical margins, and a strong dollar. A sharp decline in service station margins, however, negatively impacted earnings.

Reduced OPEC oil production quotas along with brisk demand and low inventories lifted the annual average price for a barrel of crude oil from \$10.5 to \$28.4. Buoyant demand also drove up refining margins from \$10.4 to \$27 per ton. By contrast, Germany's service station sector posted considerable losses resulting mainly from keener competition and heightened price consciousness among consumers. Higher prices and comparatively mild weather prevented the anticipated increase in heating oil demand from materializing.

Internal operating profit up sharply despite price wars at the pump. VEBA Oel's internal operating profit surged from €34 million in 1999 to €310 million in the year under review. Higher crude oil prices and refining margins benefited the company's upstream, refining, and petrochemicals units. By contrast, extremely unsatisfactory margins severely burdened Aral's internal operating profit. VEBA Oel augmented its Aral shareholding in late 1999 and early 2000. Goodwill amortization and interest expenses stemming from the acquisition as well as hedging transactions also offset a portion of earnings gains.

Sales volumes and sales revenue distinctly higher.

Petroleum and petrochemical sales volumes were up distinctly year-on-year—from 31.8 million tons to 39.5 million tons. The increase reflects the first-time full consolidation of Aral and the inclusion of the aromatics business of the Emsland refinery (ERE) acquired in late 1999. Sales revenues also rose on the back of higher sales volumes, a sustained increase in international crude-oil and product prices, and a strong dollar. Sales reached €28.8 billion in 2000, representing a 135 percent rise over the year-earlier total. Sales figures were partially inflated by an eco-tax increase instituted on January 1, 2000. Including German sales tax, this raised the price of a liter of fuel an additional 7 pfennigs (€0.036). At €8.6 billion, petroleum and eco-taxes together comprised around 30 percent of sales. Excluding petroleum taxes, 2000 sales climbed just under 140 percent, reaching €20.2 billion compared with €8.4 billion in 1999.

Enhanced cost-cutting measures. Our Oil Division's "VEBA Oel 2000" cost-cutting program, launched in 1995, generated savings of over €400 million by 2000. In response to improved cost structures among its competitors following a spate of industry mergers, last year VEBA Oel initiated further cost-cutting measures, particularly in its refinery operations.

Restructuring of operations completed on schedule. In 2000 VEBA Oel completed the realignment envisioned in its 1999 plan. Exploration and production operations were combined into VEBA Oil & Gas (VOG) in the wake of Deminex's reorganization in 1998. The entire petroleum retail business—including heating-oil delivery—was folded into Aral. Responsibility for the production of petroleum and petrochemical products was assigned to the newly formed VEBA Oil Refining & Petrochemicals (VORP). All three of VEBA Oel's subsidiaries bear full responsibility for managing their operations. They have strong competitive positions and the flexibility and independence to react swiftly and purposefully to seize growth opportunities in their

markets. As a leanly staffed holding company, VEBA Oel AG will focus on the financial and strategic management of its three subsidiaries.

VOG posts distinctly higher earnings in upstream business. VOG is responsible for the international exploration, development, and production of oil and natural gas. VOG concentrates on four main regions: Northwestern Europe, North Africa/Near East, Caspian region/Middle East, and Northern Latin America.

In 2000 VOG produced a total of about 58.3 million barrels of oil equivalent (boe). Proven crude oil and natural gas reserves at year-end came to 604 million boe.

VOG has consistently optimized its portfolio and now focuses on high-yield projects, further bolstering its competitive position.

VOG's upstream business profited from high crude oil prices and the strong dollar. Additional positive factors included the lack of any sizable non-recurring charges as well as a one-off gains from the sale of fields. VOG's earnings were markedly higher in 2000 than in the prior year.

Lower margins at the pump impair Aral earnings.

With over 2,500 service stations, Aral is Germany's pre-eminent service station operator. Since taking over VEBA Oel's liquid petroleum products business, Aral is also Germany's leading supplier of heating oil. In 2000 Aral reported negative operating earnings for the first time since the early 1980s. Price hikes on international petroleum markets, the stronger dollar, and a renewed increase in Germany's eco-tax sent gasoline prices to over DM2 per liter—more than \$3.50 a gallon. In addition, a competitor introduced a discount-based customer card. This unleashed a price war on the German market, which at times resulted in dramatically diminished margins for all service station operators. Although margins have stabilized again since October 2000, the improvement came too late to fully compensate for our petroleum retailer's losses earlier in the year.

By contrast, the convenience store business performed extremely well, once again achieving large gains in sales, market share, and earnings. Aral's new business activities—e-commerce, for example—also had promising launches.

VEBA Wärmeservice became an Aral business unit in November 2000 and now operates as Aral Wärme Service. A sustained drop in demand in the heating oil sector as well as insufficient capacity utilization again resulted in unsatisfactory earnings. The heating oil business has therefore been targeted for immediate and far-reaching restructuring measures.

VORP reports very solid first-year earnings. VORP commenced operations in October 2000. Its activities consist of supplying crude oil and additional materials to refineries as well as refining and selling petrochemical products. Its petroleum products are marketed by Aral.

In contrast to the previous year, 2000 was characterized by extremely high margins. Earnings in petroleum refining markedly exceeded our expectations. All refineries were earnings contributors. Positive factors included successful cost-cutting measures and a high rate of plant availability. VORP refined a total of 14.8 million tons of crude oil. Due to ERE's first-time inclusion, this represents an annual increase of 4 million tons or 34 percent.

Petrochemical demand and margins also surged ahead compared with the previous year. The integration of ERE as well as high availability at all petrochemical facilities contributed to a year-on-year increase in total sales volume of 6 percent for a record 5.1 million tons. This figure topped an already excellent result in 1999.

Investments distinctly higher. Investments in the 2000 financial year increased by 32 percent to around €1.7 billion (1999: €1.3 billion). This mainly reflected the acquisition of Mobil's Aral stake and the first-time full consolidation of Aral.

Outlook. We expect market conditions to return to normal in 2001. We anticipate that crude oil prices, the dollar exchange rate, and petroleum and petrochemical refining margins will all be below last year's levels. But we are also projecting appreciably improved service station margins.

Internal operating profit at VOG and VORP will in part be markedly lower than last year's figures. We expect Aral to report considerably higher earnings on the back of improved margins.

Overall, we anticipate that Oil's 2001 internal operating profit will be on par with 2000's solid results. VEBA Oel's new corporate structure and sharply reduced costs put it in a good position to meet the challenges of the coming years.

Chemicals

- Sales and internal operating profit up year-on-year
- Merger of Degussa-Hüls and SKW Trostberg successfully completed
- Laporte acquisition will extend leading global position in fine chemicals
- Internal operating profit for 2001 expected to match prior year's high level

Degussa AG, Düsseldorf			
€ in millions (pro forma)	2000	1999	+/- %
Sales	20,267	16,487	+23
Internal operating profit	672	426	+58
Cash flow from operations	501	1,013	-51
Investments	1,868	2,154	-13
Employees at year-end	62,110	62,464	-1

Chemicals industry in 2000 on growth track. Thanks to robust business abroad and an economic upswing at home, Germany's chemicals industry can look back on a largely successful 2000. Chemicals production in Germany grew by around 3 percent from the previous year. Sales in the country's chemicals sector exceeded the prior year's level by about 12 percent and topped €100 billion for the first time. This hefty gain reflects not only higher unit sales but also higher producer prices, which rose by around 5 percent owing to price hikes for crude oil. Chemicals exports were the driving force behind the industry's growth and advanced 13 percent year-on-year. This figure contains a significant currency component due to the weak euro. Earnings in the chemicals industry suffered in some sectors owing to dramatic increases in crude oil prices, as not all manufacturers were able to pass along higher prices to their customers.

Sales and internal operating profit top prior year's levels. Our Chemicals Division had a very successful 2000. Aided by a strong global economy, we achieved significant growth in sales and internal operating profit in the first nine months. The pace slowed some-

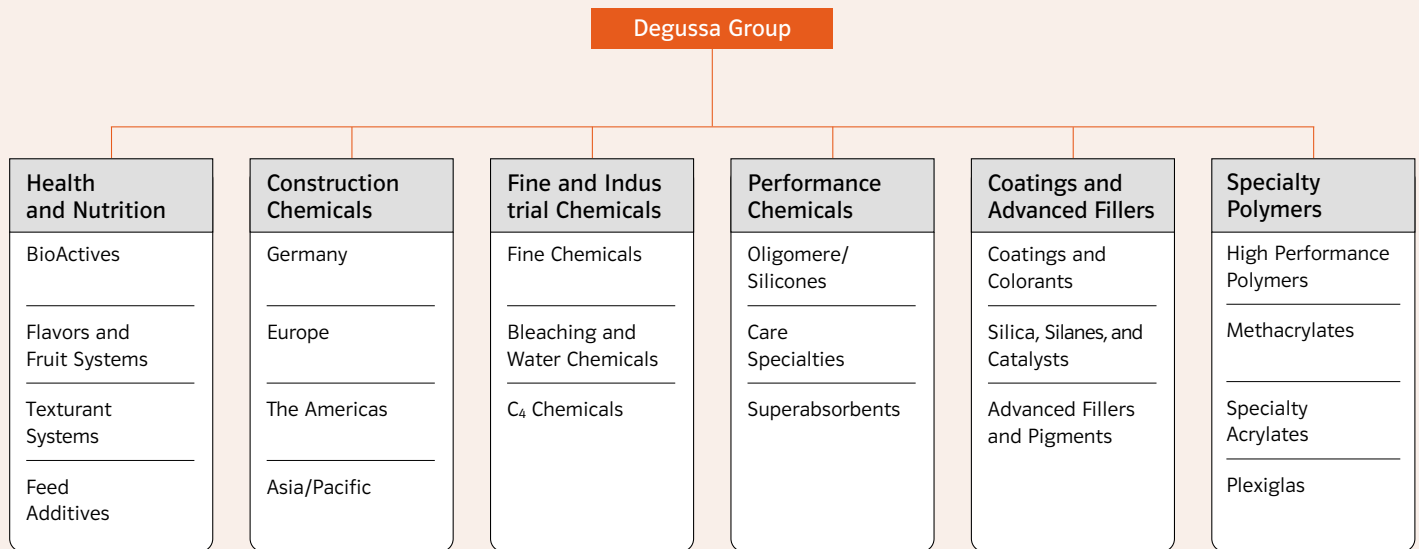
what in the fourth quarter. Full-year 2000 sales advanced 23 percent year-on-year to €20.3 billion, and internal operating profit was up 58 percent to €672 million.

Excluding precious-metals trading, sales climbed 21 percent to €16.9 billion. Adjusted for acquisitions and disposals in the group of consolidated companies, the increase amounted to 26 percent. Higher sales volumes and favorable currency effects accounted for the lion's share of sales growth. The substantial rise in raw materials costs was partially passed on to customers and largely determined price levels. Actual sales price increases were rare.

Merger of Degussa-Hüls and SKW Trostberg successfully completed. Degussa-Hüls and SKW Trostberg were managed as independent companies in 2000. The tie-up of the two enterprises to form the new Degussa became official when it was entered into the Commercial Register on February 9, 2001. E.ON's 64.55 percent stake makes it Degussa's majority shareholder.

Düsseldorf-based Degussa is the world's largest specialty chemicals group. Its core business is organized into six market-oriented divisions:

- Health and Nutrition
- Construction Chemicals
- Fine and Industrial Chemicals
- Performance Chemicals
- Coatings and Advanced Fillers
- Specialty Polymers



Focus on core businesses via active portfolio management. The new Degussa will concentrate on the highly profitable specialty chemicals sector and plans to divest all non-core activities. These mainly include ASTA Medica, Degussa Bank, Degussa Dental, dmc², Phenolchemie, and SKW Piesteritz as well as the Gelatins, Metallurgical Chemicals, and Salt Products business units. The companies intended for disposal had 2000 sales of more than €6 billion. Divestitures are expected to take place over the next two years. There are a number of possible disposal scenarios. These include selling assets to companies that can better integrate and develop them, forming joint ventures, or offering shares in a stock flotation. Proceeds from divestitures will be used to fuel growth in Degussa's core specialty chemicals business.

Degussa is rapidly implementing its divestiture program. The disposal of dmc² is the biggest project. Degussa is simultaneously pursuing the possibility of an IPO and the possibility of selling the business to an investor. It has decided to break up ASTA Medica, its pharmaceutical subsidiary. Degussa also plans to sell Phenolchemie. The butylacryl unit and the pentaerythrite business, with production facilities in Bruchhausen, were divested in the year under review. Degussa has begun its exit from the zeolite business and from production at Katalysatorenwerke Hüls.

In January 2001 Degussa-Hüls and SKW Trostberg tendered a cash offer of £6.97 per share to the stockholders of Laporte, the British specialty chemicals firm. Laporte's management endorsed the offer. The purchase price totals €1.8 billion after subtracting liquid funds. The acquisition of Laporte represents an important strategic step toward extending Degussa's leading global position in the attractive fine chemicals sector. By early March Degussa had already secured 94 percent of Laporte's capital stock.

Leveraging synergy and restructuring potential to boost sustained profitability. Merging Degussa-Hüls and SKW Trostberg enables our Chemicals Division to leverage substantial synergy and restructuring potential. This is expected to increase sustained profitability. Beginning in 2003 Degussa expects annual earnings improvements to total €300 million. Around €50 million will come from eliminating overlapping businesses, in particular at Fine Chemicals and Care Specialties, as well as from combining administrative units. Degussa plans to achieve additional earnings improvements worth about €250 million annually by optimizing and restructuring its key business processes. The best@chem project launched in July 2000 plays a crucial role in process optimization.

Chemicals

Sales (excluding precious-metals trading)			
€ in millions (pro forma)	2000	1999	+/- %
Core activities	10,442	8,709	+20
Health and Nutrition	1,078	807	+34
Construction Chemicals	1,680	1,537	+9
Fine and Industrial Chemicals	1,767	1,389	+27
Performance Chemicals	1,362	1,001	+36
Coatings and Advanced Fillers	2,516	2,136	+16
Specialty Polymers	1,297	1,183	+10
Other	742	629	+17
Non-core activities	6,473	5,227	+24
Total	16,915	13,936	+21

Core activities put in successful performance. With sales of €1.1 billion—up 34 percent year-on-year—Health and Nutrition lifted earnings markedly. One of the main factors was the superb performance of Feed Additives, which benefited from lively demand and the strong dollar. Texturant Systems and Flavors and Fruit Systems also significantly improved their contribution to earnings. BioActives likewise reported higher earnings due to the inclusion of a newly acquired U.S.-based dietary supplement company.

Construction Chemicals grew sales 9 percent to €1.7 billion. Earnings were up distinctly. Businesses based in the U.S., where the strong economy contributed to the sharp increase, performed particularly well. The Asia/Pacific and European divisions also posted distinctly improved earnings. By contrast, earnings in Germany were off compared with the prior year owing to a stagnant construction sector.

Sales at Fine and Industrial Chemicals rose 27 percent to €1.8 billion. Earnings were also higher. Bleaching and Water Chemicals reported very fine results

that reflected extremely brisk demand, particularly in North America. Fine Chemicals' earnings contribution came in behind the year-earlier figure due to planned production plant shut-downs. At C₄ Chemicals, the plasticizers and plasticizer alcohols business continued to develop successfully. Earnings improved appreciably.

Performance Chemicals managed a significant increase in sales of 36 percent to €1.4 billion. Earnings fell short of the prior year's strong showing. The Super-absorbents business unit was responsible for the decline. This unit posted earnings that were considerably lower than the good results recorded in the previous year due to the substantial hike in raw materials costs and higher fixed asset charges for the expansion of the acrylic acid production facilities in Marl. By contrast, heavy demand helped Care Specialties and Oligomers/Silicones to report greatly improved earnings.

The Coatings and Advanced Fillers division started from a favorable position and again was able to significantly improve its performance. Greater demand worldwide served to lift sales 16 percent to €2.5 billion. Earnings were considerably higher. The Coatings and Colorants business unit was particularly successful. It benefited from brisk demand and the strong dollar. Silica, Silanes, and Catalysts also contributed improved earnings due to strong global demand for aerosil. By contrast, the Advanced Fillers and Pigments business unit—where industrial carbon black in particular felt the impact of considerably higher carbon black oil costs—was unable to match its 1999 earnings performance.

Specialty Polymers expanded sales 10 percent to €1.3 billion. Earnings rose sharply. All units experienced brisk demand, which contributed to the division's strong showing. At High Performance Polymers, C₁₂ derivatives reported a particularly strong increase in sales volume. The Specialty Acrylates and Methacrylates business units also posted good unit sales and earnings. The Plexiglas business likewise reported improved earnings despite markedly higher raw material costs.

Non-core activities have strong overall performance.

Non-core activities generated total sales of €6.5 billion in 2000—a 24 percent increase from the previous year. Earnings improved sharply. The dmc² business unit had an especially successful year. It achieved distinctly higher earnings on the back of greatly increased demand for its products. SKW Piesteritz, Phenolchemie, Oxxynova (the DMT business), Metallurgical Chemicals, and Gelatins all contributed higher earnings. ASTA Medica's far-reaching restructuring program showed the first signs of success.

Degussa expands sales in all regions. Degussa grew revenues in all sales regions. The company's sales organization is active in over 100 countries. Degussa operates upward of 300 production facilities in more than 50 countries. Over 70 percent of sales (excluding precious-metals trading) are generated outside Germany.

Europe remains our Chemicals Division's biggest market. Here Degussa lifted sales 13 percent to €9.8 billion. Both in Germany and across Europe, the operations of most divisions ran well. Sales generated by custom-manufacturing operations at Fine Chemicals showed solid growth. dmc² also had a very successful year due to lively demand, especially for catalytic converters.

North American sales rose 25 percent to €3.9 billion. The healthy U.S. economy along with the integration of Harris Specialty Chemicals Group helped Construction Chemicals to grow sales distinctly. Buoyed by brisk demand from the U.S. paper and pulp industry, Bleaching and Water Chemicals also had an extremely strong year.

Sales in Latin America advanced 51 percent to €0.8 billion. In November 2000 the foundation was laid for an industrial carbon black facility in Brazil with a capacity of 60,000 tons per year.

Degussa also generated higher sales in Asia. At €2.0 billion, sales were up 45 percent on the back of a very solid overall performance and the first-time inclusion of Japan's Nippon Aerosil. In China's fast-growing market, Degussa and a Chinese partner began to make water-treatment and paper-industry products. Degussa continues to expand its footprint in Asia via acquisitions and joint ventures.

In Africa, Australia, and Oceania, Degussa boosted sales 64 percent year-on-year to €0.4 billion. The marked increase reflects good development at Degussa Catalyst (based in Port Elizabeth, South Africa) and the first-time consolidation of Degussa Peroxide (headquartered in Morrinsville, New Zealand).

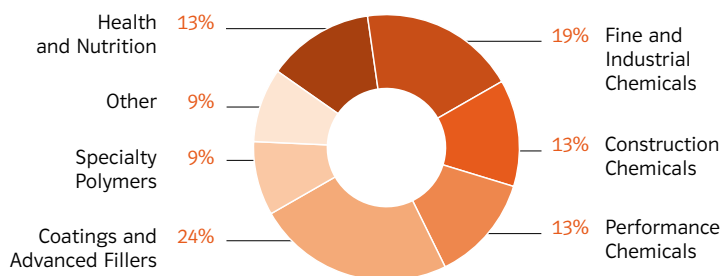
Chemicals

Investments strengthen core businesses. Investments focused on strengthening and expanding our Chemicals Division's leading market positions.

In 2000 Degussa invested €1,232 million in property, plant, and equipment (including intangible assets) compared with €1,151 million in the previous year. Overall, 68 percent of fixed-asset investments went to production facilities, 28 percent to general-purpose facilities, and 4 percent to research and development facilities.

Investments in fixed assets by core activity

Total: €953 million



€119 million—10 percent—of Chemicals' capital spending went toward expanding the Health and Nutrition division. Construction Chemicals invested €125 million (10 percent) in its businesses worldwide. A further 15 percent or €185 million was invested in Fine and Industrial Chemicals. Performance Chemicals completed a major investment project in acrylic acids in Marl, Germany, lifting its investments to €128 million (10 percent). Coatings and Colorants also completed four larger projects, including the construction of an aerosil facility in Rheinfelden, Germany. These increased its capital expenditures for 2000 to €227 million (19 per-

cent). Specialty Polymers invested €88 million (7 percent). Others investments—which include capital spending on non-core activities—came to €360 million (29 percent); this figure includes the construction of a phenol/acetone plant in Mobile, Alabama.

Degussa invested €636 million in financial assets. €440 million of this amount went toward the nearly 20 percent stake in Laporte that Degussa acquired on-market in December 2000. Another €61 million was invested to raise Degussa's shareholding in Nippon Aerosil, its Japan-based joint venture, from 50 percent to 80 percent. €50 million went toward acquiring Traco Labs, an American dietary supplement company headquartered in Champaign, Illinois.

Research and development designed to ensure market and customer proximity. The goal of Degussa's research and development (R&D) program is to foster growth via innovation. Innovations accelerate Chemicals' earnings growth, cement its competitive advantages, and help focus the expansion of its market positions.

Degussa's R&D expenditures totaled €542 million in the year under review and amounted to 3.2 percent of sales excluding precious-metals trading. Degussa currently employs around 4,400 people at more than 50 R&D facilities worldwide.

In keeping with the different requirements of Degussa's markets and customers, R&D is organized largely along decentralized lines. The divisions are directly responsible for the majority of their ongoing R&D projects. This ensures that the innovation process is structured to meet the needs of Degussa's markets and customers.

The divisions are supported by Degussa's Innovation and Technology Management Department. This department coordinates all R&D activities and aligns R&D with Degussa's strategy. The objective is to tap product and market segments beyond Degussa's current portfolio, segments that have above-average growth and earnings potential. CREAVIS, Degussa's technology and innovation subsidiary, supports the company's R&D projects.

All divisions initiated numerous new R&D projects in the year under review.

Process innovation at the Flavors and Fruit Systems unit enabled it to develop a new class of flavors. Food and beverages can now be flavored with the taste of Tequila.

Construction Chemicals markedly expanded its new generation of concrete super-liquifiers. Compared with traditional super-liquifiers, these products display excellent processing qualities and a high degree of concrete strength.

At the Fine Chemicals division, new biocatalytic systems that are both more efficient and more environmentally friendly were developed for manufacturing pharmaceutical amino acids.

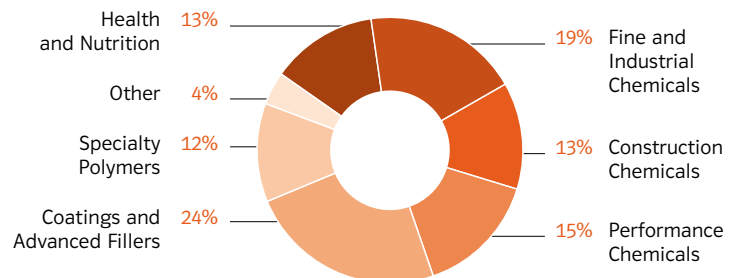
The Oligomers/Silicones unit successfully developed quick-hardening UV silicone release coatings for labels and adhesive tape. Powerful emulsifiers developed by Degussa's Care Specialties unit offer customers in the cosmetic industry completely new ways to make formulas. These include an organically modified siloxane that produces a pleasant feeling on the skin.

The Silica, Silanes, and Catalysts unit is developing metal-oxide dispersions, especially for chemical-mechanical polishing (CMP) for next-generation computer chips.

The High Performance Polymers unit developed highly diversified polyamides that facilitate the manufacture of more powerful adhesive agents for multi-layered fuel line systems.

R&D expenditures by core activity

Total: €322 million



Outlook. For 2001 we expect Chemicals' strong performance to continue. There is, however, a risk that the economic climate will worsen, particularly in our key North American market. Growth rates could slacken somewhat in Europe, as well. Nevertheless, we anticipate that Degussa's superb market positions in its core businesses will enable it to succeed even in a tough business environment. The acquisition of Laporte, the UK-based fine chemicals firm, is also expected to have a positive impact. The acquisition will, however, result in higher interest expenses and goodwill amortization.

Because Degussa's core businesses are characterized by above-average earnings, in 2001 we expect its current portfolio to again report a higher internal operating profit.

Real Estate

- Internal operating profit increases again
- All divisions sustain growth pattern
- Residential Investment successfully implements portfolio strategy
- Internal operating profit expected to rise again in 2001

Viterra AG, Essen			
€ in millions	2000	1999	+/- %
Sales	1,324	1,167	+13
Internal operating profit	212	189	+12
Cash flow from operations	5	43	-88
Investments	484	333	+45
Employees at year-end	5,567	4,901	+14

Growth pattern sustained in 2000. Viterra continued to grow sales in 2000. All four divisions—Residential Investment, Residential Development, Residential Services, and Commercial Real Estate—put in satisfactory performances.

Viterra boosted sales 13 percent to €1,324 million. The increase was fueled primarily by Residential Development and Commercial Real Estate, each of which posted double-digit growth rates. Internal operating profit climbed about 12 percent from €189 million in 1999 to €212 million in the year under review. Residential Investment repeated as Viterra's top earnings performer.

Generally favorable business development. Residential Investment successfully continued its portfolio strategy. The division sold 3,698 housing units in 2000 compared with 2,935 units in the year before—a 26 percent increase. It expanded sales by resolutely optimizing and modernizing its housing stock. It substantially improved internal operating profit by systematically selling rental units and by divesting its shareholding in a small residential property company.

Residential Development finished putting its German branch structure into place. It successfully completed its first project in Poland. Despite an unfriendly market environment, Residential Development raised its sales appreciably. Financing effects from property sales and weaker demand for single-family homes in second half 2000 depressed internal operating profit.

Residential Services pursued the growth course mapped out in 1999. The principal contributor was Viterra Energy Services, which continued to expand its activities internationally. Despite only moderately

higher sales, Residential Services' internal operating profit rose appreciably.

Commercial Real Estate has put its strategic focus on office buildings and logistics facilities. Its sales growth is chiefly attributable to the sale of a large property in Berlin. Internal operating profit advanced slightly against the year-earlier figure.

Investments up distinctly. At €484 million, Viterra's investments were up a marked 45 percent on the previous year. About €399 million was channeled into property, plant, and equipment. €85 million was invested in financial assets. Around 8 percent of capital spending was outside Germany. Expenditures focused on Residential Investment (which attracted €112 million) and Commercial Real Estate (whose investments totaled €292 million).

At Residential Investment, the lion's share of capital spending in 2000 was aimed at maintaining and improving the division's housing stock. Expanding Residential Services attracted €74 million, of which about 74 percent went to Viterra Energy Services. The Commercial Real Estate division significantly reinforced its position in the emerging market for logistics facilities by acquiring eight logistics centers from Germany's postal service and nine other facilities across the country. At €292 million, Commercial's investments for 2000 were almost nine times higher than in 1999.

Outlook. Viterra's strategic mission is to develop a growth-oriented and integrated real-estate group. Viterra actively manages its property portfolio, is establishing and expanding its real-estate-related services, and aims to occupy a leading position in the development of residential and commercial real estate.

Overall, we expect the positive pattern established in our Real Estate Division to be sustained in 2001 and anticipate that internal operating profit for 2001 will exceed the prior year's figure.

Telecommunications

- Operating loss curtailed
- ONE highly successful in Austria
- Substantial net book gains realized through disposals
- Sharply lower startup losses anticipated in 2001

Operating loss curtailed year-on-year. ONE, our Telecommunications Division's Austrian telecoms interest, is fully consolidated under U.S. GAAP in 2000. Switzerland's Orange Communications and France's Bouygues Telecom are accounted for at equity. VIAG Interkom, which was consolidated on a pro-rata basis in VIAG's financial statements under IAS in 1999, is also accounted for at equity in accordance with U.S. GAAP.

The disposal of shareholdings with high startup losses—Otelo's fixed-line business in 1999 and E-Plus in 2000—is the main reason for the improvement in Telecommunications' internal operating profit. The appreciably higher costs to acquire customers due to the cellular phone sector's lively growth had a dampening effect on earnings.

ONE: a successful player on Austria's mobile phone market. ONE achieved a significant breakthrough in 2000. The subscriber base swelled from 500,000 at the start of the year to more than 1.3 million at year-end. The majority of ONE's customers—1.15 million—are cellular phone subscribers. A further 120,000 use the f-ONE fixed-line network, and 70,000 customers use i-ONE, the company's internet portal. Just two years after its market entry, ONE can already claim 20 percent of Austria's cellular phone market. The customer structure is especially gratifying: more than half of ONE's customers are post-paid subscribers.

In Austria's UMTS auction, ONE and five other bidders each obtained two frequencies for a price of about €121 million—relatively low for Europe.

ONE continued to expand its network in 2000, achieving 97 percent population coverage.

Sale of shareholdings realizes substantial net book gains. In February 2000 we sold our interest in E-Plus to Bell South, the American telecoms company, for about €3.8 billion. In November 2000 we also disposed of our 42.5 percent stake in Orange Communications, the Swiss mobile phone enterprise, to France Télécom in a combined cash and equity deal. We received proceeds of more than €1.8 billion (including shareholder loans of around €480 million) for our Orange interest.

E.ON Telecom GmbH, Düsseldorf VIAG Telecom GmbH, Munich			
€ in millions (pro forma)	2000	1999	+/- %
Sales	383	253	+51
Internal operating profit	-546	-789	+31
Cash flow from operations	-761	-1,078	+29
Investments	5,135	1,202	+327
Employees at year-end	1,409	962	+46

Vigorous market growth in Germany and France.

VIAG Interkom, our German telecoms shareholding, benefited from the sustained exuberant growth in the mobile phone sector. In the summer of 2000 VIAG Interkom acquired one of Germany's six 3G licenses for about €8.4 billion.

In August 2000 we concluded an option agreement with British Telecom (BT). Under the terms of the agreement, we could dispose of our 45 percent interest in VIAG Interkom to BT in January 2001 for an exercise price of around €7.3 billion. The agreement also granted BT the option to acquire this shareholding from us in the period May through July 2001. We exercised the option in January 2001.

Bouygues Telecom, our French cellular phone interest, continued to expand its share of France's burgeoning new customer market. Bouygues Telecom had some 5.2 million mobile phone subscribers at year-end.

Outlook. The key theme at ONE during 2001 will be 3G cellular phone services. It intends to launch GPRS data services in the first quarter. In addition, ONE is already preparing to establish UMTS and is planning UMTS services.

We expect Bouygues Telecom to continue profiting from France's vigorous market growth. Bouygues Telecom is not participating in France's beauty contest for awarding UMTS licenses owing to the contest's unacceptable conditions. Only two providers are still in the running for one of the four UMTS licenses. The beauty contest is still in progress.

Overall, in 2001 we expect our Telecommunications Division to report further startup losses, though substantially below the previous year's level.

Other Activities

Distribution/Logistics

Stinnes AG, Mülheim an der Ruhr
VEBA Electronics, LLC, Santa Clara, CA (USA)
Klöckner & Co AG, Duisburg

€ in millions (pro forma)	2000	1999	+/- %
Sales	21,308	21,397	+/-0
Internal operating profit	461	344	+34
Cash flow from operations	235	209	+12
Investments	736	806	-9
Employees at year-end	53,439	60,567	-12

Stinnes posts markedly higher internal operating profit and bolsters chemical logistics business. Buoyed by a favorable economy, Stinnes once again markedly increased its earnings power in 2000. The company's ongoing focus on logistics activities was also a factor in its improved performance.

At €12,026 million, Stinnes's sales were up 2 percent year-on-year. The uptick is due primarily to Chemicals' fine performance and to Transportation's air and sea freight operations.

The rise in internal operating profit—up 7 percent to €203 million—distinctly outpaced sales growth. The European overland transport and air and sea freight units were particularly strong earnings performers.

As part of its concentration on logistics services, in 2000 Stinnes sold assets—including its Building Materials unit—with sales of €2.3 billion. Stinnes used the proceeds mainly to fuel growth in its chemical logistics operations. Selected acquisitions expanded the company's European footprint in chemicals distribution. Acquiring Holland Chemical International, which operates primarily in North and South America as well as in Scandinavia and Eastern Europe, makes Stinnes a top global player in chemicals distribution. In the year under review Stinnes acquired assets with €1.7 billion in sales. In the same span the company generated just under 60 percent of its sales outside Germany.

VEBA Electronics sold. VEBA Electronics posted sales of €3,926 million. Internal operating profit advanced 84 percent to €158 million. These figures do not include the company's second-half 2000 results because we sold VEBA Electronics' electronic components and systems distribution businesses to a consortium of European and American buyers. The activities were transferred to the new owners with economic effect as of July 1, 2000. The entire transaction was completed on October 31, 2000.

Klöckner & Co increases sales volume, sales revenue, and internal operating profit; continues to steadily optimize business structure. In the last six months of 2000 Klöckner came close to repeating its dynamic first-half performance. Sales volume climbed 4.5 percent in full-year 2000 to 10 million tons. This figure for the last time includes Klöckner's trading business. Materials warehousing and trading grew sales volume 9.6 percent year-on-year to 7.1 million tons.

The annual increase in sales revenue surpassed the rise in sales volume. Sales revenue advanced 21 percent to €5,355 million mainly owing to price increases and acquisitions. Internal operating profit climbed from €68 million in 1999 to €100 million in 2000.

Klöckner continued to steadily optimize its business structure in the year under review. In December 2000 the company divested its global trading operations with sales of €815 million. The disposal of its large-volume chain-of-delivery business, which was capital-intensive and offered relatively low margins, represents a further step toward Klöckner's focus on materials warehousing and trading, related services, and system solutions.

Outlook. Overall, we expect to continue to expand our established market positions in Distribution/Logistics.

We anticipate that the positive earnings trend at Stinnes will carry over into 2001 despite the transition to slower economic growth worldwide. Stinnes expects particularly substantial earnings contributions from its Transportation and Chemicals divisions. We anticipate that in 2001 Klöckner will post lower, but nevertheless satisfactory, earnings.

Aluminum

Increased procurement costs burden internal operating profit. Higher procurement costs negatively impacted Aluminum's internal operating profit. At €3,480 million, sales were up a total of 19 percent owing to improvements at all segments. But hefty price increases for raw materials and inputs along with price guarantees for primary aluminum sales reduced VAW's internal operating profit 18 percent to €227 million.

Development largely satisfactory across all segments.

The Primary Materials, Rolled Products, and Flexible Packaging segments all generated higher sales. The principal drivers were higher aluminum prices, the strong dollar, and, in some cases, higher sales volumes. Price hikes for metals and raw materials were largely responsible for the lower internal operating profit at Primary Materials, Rolled Products, and Flexible Packaging. Automotive Products posted a higher internal operating profit.

VAW aluminium, Bonn			
€ in millions (pro forma)	2000	1999	+/- %
Sales	3,480	2,926	+19
Internal operating profit	227	275	-18
Cash flow from operations	326	339	-4
Investments	320	153	+109
Employees at year-end	13,990	17,971	-22

Outlook. Despite the weaker economy, we expect Aluminum's internal operating profit to come in markedly higher in 2001 due to the restructuring measures that have already been initiated at many of VAW's facilities.

Silicon Wafers

MEMC curtails operating loss for second year running.

MEMC Electronic Materials is one of the world's leading manufacturers of silicon wafers for the semiconductor industry. In 2000 the company reduced its operating loss by 69 percent to €68 million. The improvement is attributable to increased demand in the semiconductor industry, slightly higher prices, and an improved cost position reflecting MEMC's far-reaching restructuring program.

Demand matches supply on 200mm wafer market.

The silicon wafer market has been overbuilt in recent years. In 2000 demand began to match supply in the 200mm wafer segment. As a result, MEMC was able to raise its prices somewhat.

MEMC Electronic Materials, Inc., St. Peters, MO (USA)			
€ in millions	2000	1999	+/- %
Sales	944	651	+45
Internal operating profit	-68	-219	+69
Cash flow from operations	56	-99	-
Investments	67	60	+12
Employees at year-end	6,615	5,600	+18

Outlook. Owing to the worsening situation on the silicon wafers market, from today's perspective we anticipate that in 2001 MEMC will post a loss on the level of the prior-year figure.

Consolidated Financial Statements

001	002	003	004	005	006	007	008	009	010	011	012
025	026	027	028	029	030	031	032	033	034	035	036
049	050	051	052	053	054	055	056	057	058	059	060

073	074	075	076	077	078	079	080	081	082	083	084
097	098	099	100	101	102	103	104	105	106	107	108
121	122	123	124	125	126	127	128	129	130	131	132

013	014	015	016	017	018	019	020	021	022	023	024
037	038	039	040	041	042	043	044	045	046	047	048
061	062	063	064	065	066	067	068	069	070	071	072
085	086	087	088	089	090	091	092	093	094	095	096
109	110	111	112	113	114	115	116	117	118	119	120
133	134	135	136	137	138	139	140	141	142	143	144

- E.ON Consolidated Financial Statements in full compliance with U.S. GAAP
- Group pro-forma internal operating profit up 0.5 percent
- Pro-forma pretax income increases 35 percent
- Pro-forma consolidated net income up 30 percent
- Pro-forma earnings per share increase 30 percent to €5.07

Pro-forma figures

Note: In a complex transition process, E.ON fully converted the accounting and valuation policies of the former VEBA and VIAG to U.S. GAAP. Prior to the merger, VIAG reported its figures based on International Accounting Standards (IAS). VEBA reported its figures in compliance with U.S. GAAP, as far as permissible under German GAAP.

Under U.S. GAAP, the date of the merger's entry into the Commercial Register determines the inclusion of the former VIAG in E.ON's Consolidated Financial Statements. For this reason, the companies of the former VEBA contribute full twelve-month figures to the 2000 financial year 2000. The companies of the former VIAG contribute figures for the period July through December only; comparative figures for the previous year only include the companies of the former VEBA. It is not possible to compare the Company's financial

performance in 1999 and 2000 on the basis of these figures.

We have therefore also calculated pro-forma figures for 1999 and 2000 in accordance with U.S. GAAP. These pro-forma figures represent the E.ON Group as if the VEBA-VIAG merger had been consummated on January 1, 1999.

The following comments are based on the consolidated pro-forma figures.

Consolidated Statements of Income (pro forma)		
€ in millions (except per share amounts)	2000	1999
Sales	93,240	69,745
Petroleum and electricity tax	-8,935	-4,065
Sales, net of petroleum and electricity tax	84,305	65,680
Cost of goods sold and services provided	-71,009	-54,223
Gross profit from sales	13,296	11,457
Selling expenses	-7,045	-5,477
General and administrative expenses	-3,366	-2,902
Other operating income	7,993	6,408
Other operating expenses	-3,631	-3,768
Financial earnings, net	-445	-670
Income before income taxes	6,802	5,048
Income taxes	-2,618	-1,953
Income after income taxes	4,184	3,095
Minority interests	-506	-256
Net income	3,678	2,839
Earnings per share		
Basic earnings per share	5.07	3.90
Diluted earnings per share	5.07	3.90

E.ON Group Consolidated Balance Sheet (pro forma)

€ in millions	2000	1999
Assets		
Intangible assets	9,714	9,061
Property, plant, and equipment	28,844	27,754
Financial assets	24,782	23,380
Fixed assets	63,340	60,195
Inventories	7,166	7,184
Accounts receivable	11,297	9,191
Other receivables and assets	13,443	6,013
Businesses held for sale	989	989
Liquid funds	8,501	9,529
Non-fixed assets	41,396	32,906
Deferred taxes	1,074	961
Prepaid expenses	405	566
Total assets (thereof short-term 2000: 40,623; 1999: 34,459)	106,215	94,628

E.ON Group Consolidated Balance Sheet (pro forma)

€ in millions	2000	1999
Liabilities and stockholders' equity		
Capital stock	1,985	1,985
Additional paid-in capital	11,402	11,402
Retained earnings	14,705	12,360
Accumulated other comprehensive income	866	546
Treasury stock	-925	-
Stockholders' equity	28,033	26,293
Minority interests	5,123	4,888
Provision for pensions	8,736	8,451
Other provisions	24,799	25,628
Accrued liabilities	33,535	34,079
Financial liabilities	14,047	11,929
Other liabilities	21,873	13,978
Liabilities	35,920	25,907
Deferred taxes	2,720	2,975
Deferred income	884	486
Total liabilities (thereof short-term 2000: 32,238; 1999: 21,969)	78,182	68,335
Total liabilities and stockholders' equity	106,215	94,628

Statement of Cash Flows (pro forma)

€ in millions	2000	1999
Cash provided by (used for) operating activities	3,889	4,866
Cash used for investing activities	-5,687	-4,155
Cash used for financing activities	2,244	-517
Net change in liquid funds	446	194
Liquid funds as of December 31	8,501	9,529

Pro-forma figures

Segment information by Division (pro forma)

€ in millions	Electricity		Oil		Chemicals		Real Estate	
	2000	1999	2000	1999	2000	1999	2000	1999
External sales	13,301	13,059	28,062	11,778	20,139	16,409	1,300	1,145
Intersegment sales	49	121	718	451	128	78	24	22
Total sales	13,350	13,180	28,780	12,229	20,267	16,487	1,324	1,167
EBITDA	3,597	4,925	1,111	309	2,249	1,730	419	396
Depreciation/amortization and write-downs	1,959	2,038	632	260	1,263	1,062	134	134
EBIT	1,638	2,887	478	48	986	668	285	262
Interest income	87	-420	-168	-15	-314	-243	-73	-73
Internal operating profit	1,725	2,466	310	34	672	426	212	189
thereof: earnings from companies accounted for at equity	121	375	38	-3	23	18	3	10
Capital expenditures								
Investments	3,766	2,923	1,723	1,308	1,868	2,154	484	333
Companies accounted for at equity	458	553	-	-	48	18	2	52
Other financial assets	2,319	1,267	1,111	907	588	985	83	112
Other fixed assets	989	1,103	612	401	1,232	1,151	399	169
Total assets	47,647	46,021	9,178	5,489	19,158	17,117	4,074	3,399

The Company's reportable segments are presented in line with the Company's internal organizational and reporting structure based on products and services. The segments are managed separately because each business develops, manufactures, and sells distinct products and services. The reportable segments are Electricity, Oil, Chemicals, Real Estate, Telecommunications, Distribution/Logistics, Aluminum, and Silicon Wafers. The column "Other/Consolidation" includes the holding company, AV Packaging GmbH (Schmalbach-Lubeca), which is accounted for under the equity method, and effects from consolidation.

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 operations (after foreign taxes related to exploration and production). Pretax income is adjusted primarily to exclude material non-operating income and expenses which are unusual or infrequent. These adjustments primarily include book gains and losses from large divestments and restructuring expenses.

Reconciliation of internal operating profit to income before income taxes is as follows:

Net book gains in the reporting period primarily comprise gains from the disposal of the shareholdings in E-Plus (approximately €3.5 billion) and in Cablecom, the Swiss cable-TV company (€0.8 billion).

Restructuring and cost-management expenses were incurred by the Chemicals Division in the amount of approximately €200 million, by the Electricity Division in the amount of approximately €160 million, and by the Oil Division in the amount of approximately €120 million stemming from its realignment.

Other non-operating earnings in 2000 include expenses related to the disposal of shareholdings required by antitrust authorities (about €400 million), the costs of the VEBA-VIAG merger and the mergers in the Chemicals and Electricity Divisions (approximately €200 million) as well as tax-related interest expenses (about €75 million).

Due to the high tax burden, pre-tax income in VEBA Oel's upstream sector is not of great significance. Internal operating profit for the Oil Division is therefore stated net of foreign exploration and production income taxes; this procedure deviates from the method applied to determine internal operating profit in other segments. These taxes must be added back when reconciling from internal operating profit to pretax income.

Pretax income

€ in millions	2000	1999
Group internal operating profit	2,762	2,748
Net book gains	+ 4,755	+ 2,428
Restructuring expenses	- 555	- 367
Other non-operating earnings	- 712	- 62
Foreign E&P taxes	+ 552	+ 301
Pretax income	6,802	5,048

Telecommunications		Distribution/Logistics		Aluminum		Silicon Wafers		Holding/Other		E.ON AG total	
2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
382	250	21,262	21,283	3,438	2,926	944	651	4,412	2,244	93,240	69,745
1	3	47	114	42	-	-	-	-1,009	-789	-	-
383	253	21,309	21,397	3,480	2,926	944	651	3,403	1,455	93,240	69,745
-447	-571	991	923	370	397	213	-	130	456	8,634	8,564
108	229	350	383	109	82	187	147	382	506	5,125	4,842
-555	-800	642	540	261	315	26	-147	-252	-50	3,509	3,722
9	11	-181	-196	-34	-40	-94	-72	22	73	-747	-974
-546	-789	461	343	227	275	-68	-219	-231	23	2,762	2,748
-365	-603	9	10	19	12	16	-11	-189	-351	-326	-543
5,135	1,202	736	806	514	153	67	60	668	2,106	14,961	11,045
854	771	7	1	1	-	16	-	19	-	1,405	1,395
3,906	101	399	455	319	3	-12	11	435	1,720	9,148	5,561
375	330	330	350	194	150	63	49	214	386	4,408	4,089
18,628	9,318	8,727	10,322	2,915	2,497	2,050	1,603	-6,162	-1,138	106,215	94,628

Our 2000 Annual Report is our first to report our internal performance indicators—earnings before interest, taxes, depreciation, and amortization (EBITDA) and earnings before interest and taxes (EBIT)—by segment.

Placing these different earnings measures side-by-side makes it possible to analyze the Group's overall business performance according to its operational, investment, acquisition, and financial drivers.

The figures reported in our segment information may deviate from those shown in the Company's Consolidated Statement of Income because they are adjusted for one-off and rare effects.

To serve internal management and control purposes, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions resulting from personnel expenses is allocated to interest income. The interest portions of the allocations of other long-term provisions are treated analogously to the degree that they are reported on different lines of the Consolidated Income Statement.

Interest income (net) for 1999 consisted almost exclusively of tax-related interest expenses stemming from the German tax authority's more stringent interpretation regarding the tax treatment of nuclear waste disposal.

In 2000 tax-related interest expenses are on the decline and were more than offset by a one-off gain from the sale of securities at our Energy Division.

€ in millions	2000	1999
Interest income	-54	-244
Interest income (net) ¹	- 38	+ 172
Interest portion of long-term provisions	- 655	- 902
Interest income (net) charged against internal operating profit	-747	-974

¹This figure is calculated by adding in interest expenses and subtracting interest income.

The decline in the interest portion of additions to long-term provisions is attributable to lower waste management requirements at our Energy Division.

Independent Auditor's Report

We have audited the accompanying consolidated balance sheets of E.ON AG, Düsseldorf, and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, statements of changes in equity and cash flows as well as notes for the years then ended. These consolidated financial statements prepared in accordance with United States Generally Accepted Accounting Principles are the responsibility of company's Board of Managing Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW) as well as in accordance with United States Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit the consolidated financial statements referred to above present fairly, in all material respect, the net assets and financial position of the group as of December 31, 2000 and

1999, and of its results of operations and its cash flows for the years then ended in conformity with United States Generally Accepted Accounting Principles.

Our audit, which according to German auditing regulations also extends to the group management report prepared by the Board of Managing Directors which has been combined with the management report of E.ON AG as a legal entity for the business year from January 1 to December 31, 2000, has not led to any reservations. In our opinion, on the whole the combined management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the combined management report for the business year from January 1 to December 31, 2000, satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Düsseldorf, March 13, 2001

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Brebeck
Wirtschaftsprüfer
(German Public Auditor)

Wiegand
Wirtschaftsprüfer
(German Public Auditor)

E.ON AG and Subsidiaries Consolidated Statements of Income			
€ in millions, except for per share amounts	Note	2000	1999
Sales	(6)	82,983	50,515
Petroleum and electricity tax		-8,935	-3,943
Sales, net of petroleum and electricity tax		74,048	46,572
Cost of goods sold and services provided	(7)	-62,869	-39,231
Gross profit from sales		11,179	7,341
Selling expenses		-6,096	-3,838
General and administrative expenses		-2,777	-1,693
Other operating income	(8)	7,657	5,444
Other operating expenses	(9)	-3,353	-3,040
Financial earnings, net	(10)	-59	186
Income before income taxes		6,551	4,400
Income taxes	(11)	-2,512	-1,277
Income after income taxes		4,039	3,123
Minority interests	(12)	-469	-132
Net income		3,570	2,991
Earnings per share			
Basic earnings per share		5.75	5.95
Diluted earnings per share		5.75	5.95

Notes

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	Note	Dec. 31, 2000	Dec. 31, 1999
Assets			
Intangible assets	(14)	9,714	4,740
Property, plant and equipment	(15)	28,844	18,790
Financial assets	(16)	24,782	14,925
Fixed assets		63,340	38,455
Inventories	(17)	7,166	4,487
Receivables, trade	(18)	11,297	6,332
Other receivables and assets	(18)	13,443	4,072
Businesses held for sale	(4)	989	-
Liquid funds	(19)	8,501	1,844
Non-fixed assets		41,396	16,735
Deferred taxes	(11)	1,074	927
Prepaid expenses	(20)	405	102
Total assets (thereof short-term 2000: 40,623; 1999: 18,893)		106,215	56,219

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	Note	Dec. 31, 2000	Dec. 31, 1999
Liabilities and stockholders' equity			
Capital stock	(21)	1,985	1,307
Additional paid-in capital	(22)	11,402	2,197
Retained earnings	(23)	14,705	11,763
Accumulated other comprehensive income	(24)	866	546
Treasury stock	(25)	-925	-
Stockholders' equity		28,033	15,813
Minority interests	(26)	5,123	3,895
Provisions for pensions	(27)	8,736	5,678
Other	(28)	24,799	14,002
Accrued liabilities		33,535	19,680
Financial liabilities	(29)	14,047	5,227
Other liabilities	(29)	21,873	9,446
Liabilities		35,920	14,673
Deferred taxes	(11)	2,720	1,756
Deferred income		884	402
Total liabilities (thereof short-term 2000: 32,238; 1999: 14,231)		78,182	40,406
Total liabilities and stockholders' equity		106,215	56,219

E.ON AG and Subsidiaries Consolidated Statements of Cash Flow

€ in millions	2000	1999
Net income	3,570	2,991
Income applicable to minority interests	469	132
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	4,905	3,165
Other non-cash items	1,438	-445
Gains from disposition of		
Equity interests	-4,562	-2,289
Other financial assets	-64	-7
Intangible and fixed assets	-360	-307
Changes in deferred taxes	293	-1,494
Changes in provisions	205	1,797
Changes in operating assets and liabilities:		
Inventories	-1,207	-257
Trade receivables	-1,808	-1,970
Other assets	-723	886
Accounts payable, trade	570	976
Other liabilities	747	77
Cash provided by (used for) operating activities	3,473	3,255
Proceeds from disposition of		
Equity interests	5,883	5,142
Other financial assets	1,707	486
Intangible and fixed assets	1,129	679
Purchase of		
Equity investments	-4,541	-3,517
Other financial assets	-5,175	-976
Intangible and fixed assets	-3,759	-2,524
Changes in securities (other than trading) (> 3 months)	-912	-250
Changes in other liquid funds (> 3 months)	1,320	-752
Cash provided by (used for) investing activities	-4,348	-1,712
Payments for treasury stock	-925	-
Payment of cash dividends to		
Shareholders of E.ON AG	-628	-540
Minority stockholders	-74	-106
Proceeds from financial liabilities	10,261	1,141
Repayments of financial liabilities	-6,691	-1,878
Cash provided by (used for) financing activities	1,943	-1,383
Net increase (decrease) in cash and cash equivalents maturing (< 3 months)	1,068	160
Effect of foreign exchange rates on cash and cash equivalents (< 3 months)	18	15
Cash and cash equivalents at the beginning of period (< 3 months)	531	356
Liquid funds at end of period (< 3 months)	1,617	531
Securities at the end of period (other than trading; > 3 months)	6,836	265
Other liquid funds at the end of period (> 3 months)	48	1,048
Liquid funds as shown on the balance sheet	8,501	1,844

Notes

E.ON AG and Subsidiaries Consolidated Statements of Changes in Stockholders' Equity

€ in millions	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income			Treasury stock	Total
				Cumulative translation adjustment	Available for sale securities	Minimum pension liability		
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

(1) Organization and Basis of Presentation

The Consolidated Financial Statements of E.ON AG ("E.ON", the "Corporation", or the "Company") have been prepared for the first time in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). E.ON, which until June 16, 2000, reported under the name of VEBA Aktiengesellschaft ("VEBA"), previously prepared its Consolidated Financial Statements in accordance with accounting principles generally accepted in Germany ("German GAAP") as prescribed by the German Commercial Code ("Handelsgesetzbuch" or "HGB") and the German Stock Corporation Act ("Aktiengesetz") and applied U.S. GAAP as far as permissible under German GAAP. VEBA also provided a reconciliation of differences between German GAAP and U.S. GAAP. To conform to the current year presentation, all amounts previously reported in accordance with German GAAP have been restated to be in accordance with U.S. GAAP. E.ON is using the relief outlined in § 292a of the German Commercial Code, which exempts companies from preparing consolidated financial statements in accordance with German GAAP if the consolidated financial statements are prepared in accordance with internationally accepted accounting principles and comply with the Fourth and Seventh Directive of the European Community. For the interpretation of these directives the Company relied on German Accounting Standard No. 1 (DRS 1), "Exempting Consolidated Financial Statements in accordance with § 292a of the German Commercial Code." A description of the significant differences between U.S. GAAP and German GAAP as well as a reconciliation from U.S. GAAP to German GAAP of stockholders' equity and net income for the year ended December 31, 1999, has been provided in Note 5.

On June 16, 2000, VEBA and VIAG Aktiengesellschaft ("VIAG") merged into E.ON. The merger is discussed further in Note 4.

(2) Summary of Significant Accounting Policies

Principles of Consolidation. The Consolidated Financial Statements include the accounts of E.ON AG and all material majority-owned subsidiaries (affiliated companies) in which E.ON AG directly or indirectly exercises control through a majority of the stockholders' voting rights. Majority-owned companies in which E.ON does not exercise control are accounted for under the equity method. Companies are also accounted for under the

equity method if E.ON holds between 20 and 50 percent of shares and the ability to exercise significant influence in the investees' operations and corporate governance is granted (associated companies). Other share investments represent those in which E.ON holds less than 20 percent ownership, which are accounted for at cost. A list of all E.ON stockholdings and other interests has been filed with the Commercial Register of the Düsseldorf District Court (HRB 22 315).

Intercompany results, expenses and income as well as receivables and liabilities between the consolidated companies are eliminated.

Business Combinations. For business combinations accounted for under the purchase method of accounting, all assets acquired and liabilities assumed are recorded at fair value. Any excess of the purchase price over the fair value of net assets acquired is capitalized as goodwill. Situations in which the fair value of net assets acquired is greater than the purchase price paid generate negative goodwill only to the extent that it remains after being allocated to reduce proportionately the values otherwise assigned to non-current assets (with the exception of long-term investments in marketable securities and net deferred tax assets) to zero. Goodwill and negative goodwill are amortized over the expected useful life on a straight-line basis. Goodwill and negative goodwill of different subsidiaries are not offset against each other. Amortization of goodwill and negative goodwill is reported as other operating expenses or income, respectively. Goodwill and negative goodwill arising from companies for which the equity method is applied are calculated on the same principles that are applicable to fully consolidated companies.

Businesses held for sale consist of companies identified as held for sale in conjunction with the merger between VEBA and VIAG based on their estimated net realized value as determined by expected future cash flows. These businesses are expected to be divested within one year. 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.

Notes

Foreign Currencies. The assets and liabilities of the Company's foreign subsidiaries where the functional currency is other than the euro are generally translated using year-end exchange rates, while the statements of income are translated using average exchange rates during the year. Differences arising from the translation of assets and liabilities in comparison with the translation of prior years are included as a separate component of stockholders' equity and accordingly have no effect on net income. Foreign currency transaction gains and losses are included in other operating income and other operating expenses, respectively.

The following major currencies of countries outside the European Currency Union have experienced the exchange-rate fluctuations shown below:

Currency		€1, rate as of the balance-sheet date		€1, annual average rate	
	ISO- Code	Dec. 31, 2000	Dec. 31, 1999	2000	1999
Swiss francs	CHF	1.52	1.61	1.56	1.60
British pound	GBP	0.62	0.62	0.61	0.66
Japanese yen	JPY	106.92	102.73	99.47	121.32
Swedish krona	SEK	8.83	8.56	8.45	8.81
US dollar	USD	0.93	1.00	0.92	1.07

Revenue Recognition. The Company generally recognizes revenue net of sales tax upon delivery to customers or by fulfillment of service contracts. Delivery has occurred when the risks and rewards associated with ownership have transferred to the buyer. Provisions for discounts and rebates to customers as well as returns and other adjustments are provided for in the same period the related sales are recorded. Fulfillment of service contracts occurs when substantially all performance obligations have been met.

Telecommunications-related activation fees are deferred and amortized over the longer of the contract period or the length of the average customer

relationship period. The related subscriber acquisition costs are deferred to the extent of the related activation fees. All other subscriber acquisition costs are expensed as incurred.

Petroleum Revenue Tax. The charge for petroleum revenue tax is based upon a fixed rate for the quantity sold.

Electricity Revenue Tax. The electricity tax took effect on April 1, 1999. The tax is levied primarily on electricity delivered to end customers by domestic utilities and consists of a fixed tax rate per MWh. This rate varies among different classes of customers.

Advertising Costs. Advertising costs are expensed as incurred and totaled €205 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 ("FAS") No. 128, "Earnings per Share." Basic EPS is computed by dividing consolidated net earnings by the weighted average number of common shares outstanding. Diluted EPS is computed by dividing consolidated net earnings by the sum of the weighted average number of common shares outstanding and the weighted average number of potential common shares outstanding.

Intangible Assets and Property, Plant and Equipment. Acquired intangible assets including licenses, patents, trademarks, customer lists and other advance payments are valued at acquisition costs and amortized by the straight-line method over their expected useful lives for a period generally up to 20 years. The concession for the utilization of water power concerning the Rhine-Main-Danube riverway is amortized over 40 years. Goodwill results from the acquisition of an entity where the purchase price exceeds the fair market value of the identifiable assets of the entity less its liabilities at the date of acquisition. Goodwill is amortized using the straight-line method over its

expected useful life for a period generally between 8 and 20 years. Property, plant and equipment are valued at acquisition or production costs and depreciated over their expected useful lives.

Useful lives of Property, Plant and Equipment

Buildings	10 to 50 years
Drillings	15 years
Chemical plants and refineries	5 to 25 years
Power plants	
Conventional plants	10 to 15 years
Nuclear plants	19 years
Hydro power stations and other facilities used to generate renewable energy	10 to 50 years
Equipment, fixtures, furniture and office equipment	3 to 25 years

Immovable assets are depreciated according to the straight-line method, while movable assets, depending on the use, are depreciated using either the declining-balance method or straight-line method. When using the declining-balance method a change from the declining-balance method to the straight-line method is made in the year in which the amount of straight-line depreciation exceeds the sum determined by the declining-balance method.

Intangible and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the sum of the future undiscounted cash flows expected to be generated from the use of the asset is insufficient to recover its related carrying value. The carrying value of such asset is written down to fair value, which is generally determined from estimated discounted future net cash flows.

The Company's oil and natural gas exploration and production activities are accounted for under the successful-efforts method. Under this method, costs of

productive wells and development of dry holes are initially capitalized as an intangible fixed asset. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets. Both tangible and intangible assets as well as productive acreage are capitalized and amortized on the unit of production basis. All exploration expenditure determined as unsuccessful is charged against income. Costs of that portion of undeveloped acreage likely to be unproductive, based largely on historical experience, are amortized over the period of exploration. Exploration license acquisition costs are amortized over the estimated period of exploration. Other exploratory expenditures, including geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred.

Repair and maintenance costs are expensed as incurred. Renewals and production costs that extend the useful life of an asset are capitalized.

Interest has been capitalized on debt apportionable to the construction period of qualifying assets as a part of their cost of acquisition. The additional acquisition cost is depreciated over the expected useful life of the related asset. Production costs are depreciated over the expected useful lives of the items concerned commencing on the completion or commissioning date. Interest incurred during 2000 was €1,003 million (1999: €599 million). Of this amount, interest capitalized was €15 million (1999: €56 million). Interest expensed was €988 million (1999: €543 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 FAS 115, "Accounting for Certain Investments in Debt and Equity Securities." FAS 115 requires that a security be accounted for according to its classification as either trading, available-for-sale or held to maturity. Debt securities for which the Company does not have the positive intent and ability to hold to maturity and all marketable securities are classified as securities available-for-sale. The Company does not hold any securities classified as trading. Securities classified as available-for-sale are carried at

Notes

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 and other operating expenses.

Assets Held for Sale. If assets are identified as held for sale, depreciation will be discontinued, and the Company determines the fair value of such assets. If the fair value of the assets which have been identified for sale, less selling costs, is less than the net book value of the assets, a valuation reserve is established. Fair value is determined based upon discounted cash flows of the assets at rates which management deems reasonable for the type of property and prevailing market conditions, appraisals and, if appropriate, current estimated net sales proceeds from pending offers.

Liquid Funds. Liquid funds include securities, checks, cash on hand and bank balances. Depending on their maturities, liquid funds are considered either cash and cash equivalents or other short-term investments.

E.ON considers liquid funds with an original maturity of three months or less to be cash equivalents.

Other short term investments represent liquid funds with an original maturity of more than three months.

Inventories. The Company values inventories at the lower of acquisition or production costs or market values. Raw materials, products and goods purchased for resale are valued at LIFO or average cost. In addition to production materials and wages, production costs include proportionate material and production over-

head based on standard capacity. The costs of general administration, voluntary social benefits, pensions and interest on borrowings are not capitalized. Inventory risks resulting from excess and obsolescence are taken into account by adequate valuation allowances.

Receivables and Other Assets. These assets are stated at face values. Valuation allowances are provided for identifiable individual risks for these items as well as long-term loans. Adequate lump-sum valuation allowances are provided to cover the general risk; and are generally based on empirical values from the past.

Accrued and Other Liabilities. The valuation of provisions for pension throughout the Company is based upon actuarial computations using the projected unit credit method in accordance with FAS 87, "Employers' Accounting for Pensions," and FAS 106, "Employers' Accounting for Postretirement Benefits other than Pensions."

Other provisions and liabilities are recorded when an obligation to a third party has been incurred, the payment is probable and the amount is settled or can be reasonably estimated.

Deferred taxes. Deferred taxes are provided for all temporary differences between the tax and commercial balance sheet. According to FAS 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. FAS 109 also

requires the recognition of future tax benefits of net operating loss carryforwards. A valuation allowance is provided for deferred tax assets if it is more likely than not that the tax benefit will not be realized.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income for the period that includes the enactment date. In October 2000, the President of the Federal Republic of Germany signed into law the Tax Reduction Act. As a result, deferred taxes for domestic companies are calculated based on a tax rate of 39 percent (1999: 52 percent) 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 11.

Derivative Financial Instruments. Derivative financial instruments are used for hedging purposes. The Company uses interest rate and cross currency swaps and interest rate options as well as currency forwards and options. These instruments are utilized to hedge interest rate and foreign exchange risks. Hedging transactions are utilized to hedge price risks resulting from fluctuations in raw materials and commodity prices. Crude oil swaps and options, petroleum product and crack swaps are used to cover risks potentially ensuing from fluctuations in crude oil and product prices. Precious metals futures serve to hedge underlying transactions in metals trading and to cover price risks of the product and processing businesses. To hedge price risks resulting from fluctuations in prices and margins in the aluminum market, the Company uses forward contracts. Gas and electricity swaps and options are entered into in order to enable the Company to better coordinate power generating capacities and delivery agreements. The Company uses these derivative financial instruments to hedge recognized

transactions, firm commitments and anticipated transactions.

Fair value is calculated for each derivative financial instrument. The fair value is the price at which one party would assume the rights and/or duties of another party. Fair values of financial derivatives have been calculated with commonly used market valuation methods and with reference to available market information at the balance sheet date. Considering the fluctuation of value-influencing market data, the fair values shown may not be indicative of the amounts the Company could realize under current market conditions.

The following is a summary of the methods and assumptions for the valuation and income effects of utilized derivative financial instruments in the Consolidated Financial Statements:

- Currency, crude oil, aluminum and precious metals forwards, crude oil, gas, electricity as well as crack and product swaps are valued separately at future rates or market prices as of the balance sheet date. The fair values of forward contracts are based on spot prices that consider forward premiums or discounts.
- Market prices for currency, crude oil, precious metals, gas and electricity options are determined by means of valuation methods commonly used in the market.
- The fair values of existing instruments to hedge interest rate risk were determined by discounting future cash flows using market interest rates over the remaining term of the instrument. Discounted cash values are determined for interest rate and cross currency swaps for each individual transaction as of the balance sheet date. Interest exchange amounts are considered with an effect on current results at the date of payment or accrual. Market values for interest rate options are determined on the basis of quoted market prices or on calculations based on option pricing models.

Notes

- Exchange-traded oil and metal future contracts are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses. Paid initial margins are disclosed under other assets. Variation margins received or paid during the term are stated under other liabilities or other assets, respectively. They are accounted for with an impact on earnings at settlement or realization, respectively.

Gains and losses on foreign exchange contracts are recognized in other operating income, respectively expenses. Income or expenses resulting from interest rate contracts are reported in "Interest and similar income or expenses." Amounts relating to commodity contracts are accounted for as an adjustment of sales or costs of sales, respectively.

Derivative financial instruments utilized to hedge the Company's exposure to currency, interest rate or price risks are accounted for together with the underlying business transactions ("hedge accounting") if there is a direct connection between a derivative financial instrument and an underlying transaction. Once allocated, gains and losses from these valuation units, which are used to manage currency, interest rate and commodity price risks of identifiable assets, liabilities, or firm commitments, do not affect income until the underlying transaction is realized.

All financial derivatives purchased to offset the Company's net exposure to currency, interest rate or commodity price risks and which are not designated as hedges of specific assets, liabilities, firm commitments and anticipated transactions, are marked to market, and any resulting unrealized gains or losses are recognized currently in income. The carrying amounts of derivative instruments are included under other assets and accrued liabilities.

Generally, all financial derivatives used by the Company for hedging currency risks are marked to market, and any resulting unrealized gains and losses are rec-

ognized currently in income. For all foreign currency denominated balance sheet items fair values are also calculated by using the adequate spot rate. The resulting unrealized gains and losses of the individually valued foreign currency positions are recognized currently in income.

Those financial derivatives entered into by the Company to offset its exposure to anticipated cash flows which do not meet the requirements for applying hedge accounting are, accordingly, marked to market at each reporting period with unrealized gains and losses recognized in income. At such time that the Company meets the requirements for hedge accounting and designates the derivative financial instrument as a hedge of a committed transaction, subsequent unrealized gains and losses would be deferred and recognized along with the effects of the underlying transaction.

If a derivative instrument ceases to meet the criteria for hedge accounting, any subsequent gains and losses are currently recognized in income. If an anticipated transaction does not occur or if the financial derivative is sold or terminated prior to maturity, any gains or losses are recognized in the above-mentioned income sections.

Consolidated Statement of Cash Flows. The Consolidated Statement of Cash Flows is classified by operating, investing and financing activities pursuant to FAS 95, "Statement of Cash Flows." The separate line item, other non-cash items, is mainly comprised of undistributed earnings from companies valued at equity. Effects of changes in the scope of consolidation are shown in investing activities and have been eliminated from the items in the three classification areas. This also applies to valuation changes due to exchange-rate fluctuations whose impact on cash and cash equivalents is separately disclosed.

Segment Information. Segment reporting is in accordance with FAS 131, "Disclosures about Segments of an Enterprise and Related Information." The management approach required by FAS 131 designates the internal reporting organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable

segments. The measure of segment internal operating profit or loss is the measure reviewed by the chief operating decision-maker. FAS 131 also requires disclosures about products and services, geographic areas and major customers.

Use of Estimates. The preparation of financial statements requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements. In June 1998, FAS 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. FAS 133 addresses the accounting for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. In June 1999, FAS 137 was issued, deferring the effective date of FAS 133 to January 1, 2001. In June 2000, FAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of FASB Statement No. 133," was issued.

The Company plans to adopt FAS 133, as amended by FAS 138, as of January 1, 2001. Therefore the Company analyzed the hedging strategies used and the documentation prepared. In areas where the Company will make use of hedge accounting under the requirements of FAS 133, the formal documentation was analyzed and a project was established to identify derivatives embedded in other contracts. The Company expects a transition adjustment affecting the results

of operations amounting up to €60 million and no material impact on its financial position.

In September 2000, FAS 140, "Accounting for Transfers and Servicing of Financial Assets of Liabilities," was issued. This new standard determines accounting principles and financial statement disclosures for securitizations and other transfers of financial assets and collateral. The accounting principles are effective for transactions occurring after March 31, 2001. The new disclosure requirements are effective for fiscal years ending after December 15, 2000. Adoption of this standard is not anticipated to have a material effect on E.ON's consolidated financial statements.

(3) Scope of Consolidation

Changes to the scope of consolidation in 2000 are listed below:

Scope of Consolidation			
	Domestic	Foreign	Total
Consolidated companies as of December 31, 1999	295	541	836
Acquisitions	199	509	708
Disposals	43	159	202
Consolidated companies as of December 31, 2000	451	891	1,342

See Note 4 for additional information on significant acquisitions and disposals.

In 2000, a total of 184 domestic and 75 foreign associated and non-consolidated companies were valued at equity (1999: 183 and 48, respectively).

(4) Acquisitions and Dispositions

Merger of VEBA and VIAG. On June 16, 2000, the merger between VEBA and VIAG was completed. The merger was entered into the Commercial Register on June 16, 2000. For convenience reasons, June 30, 2000 has been chosen as the merger date.

Notes

VIAG was a corporate group operating in five core businesses, classified in two main categories: energy and telecommunications (services) as well as chemicals, packaging and aluminum (innovative industries). VIAG was one of Germany's largest industrial groups. VIAG's divisions were Bayernwerk AG for the energy business, SKW Trostberg AG for the chemicals business, VIAG Telecom Beteiligungs-GmbH for the telecommunications business, VAW aluminium AG for the aluminum business and Schmalbach-Lubeca AG and Gerresheimer Glas AG for the packaging business.

representing a purchase price of €9,271 million. The total purchase price was €10,920 million and includes incidental acquisition costs of €57 million.

The difference of €340 million between the purchase price of the acquired identifiable net assets and their fair values as of June 30, 2000, was capitalized as goodwill and will be amortized over 20 years using the straight-line method.

As a result of the transfer of the Company's shares in Schmalbach-Lubeca AG to AV Packaging GmbH (AVP), which is valued at equity, goodwill attributable to Schmalbach-Lubeca in the amount of €361 million is included in the book value of the AVP shareholding as of December 31, 2000.

The remaining negative goodwill of €21 million is reported as a liability and will be amortized on a straight-line basis over 20 years.

Operations of VIAG are included in the Consolidated Statements of Income from July 1 to December 31, 2000.

Subsequent to the merger between VEBA and VIAG, the electricity divisions of both companies, PreussenElektra and Bayernwerk, were merged into E.ON Energie AG. In September 2000 E.ON acquired the remaining 2.46 percent of E.ON Energie AG through the issuance of 11,387,615 E.ON AG shares resulting in a purchase price of €686 million. This acquisition was accounted for under the purchase method. An amount of €566 million was recorded as goodwill, which is being amortized over 20 years on a straight-line basis.

Of the amount allocated to the net realizable value of VIAG's business, €1,217 million has been identified as pertaining to the businesses, which the Company has identified as held for sale. The allocation of the purchase price to the businesses held for sale was determined based on the estimated sales prices for all businesses held for sale less estimated cash out flows through disposal date. The final sales price and cash flows pertaining to these businesses may differ from the amounts allocated.

Of the businesses held for sale, Gerresheimer Glas was sold on July 3, 2000. The proceeds and resulting tax benefits amounted to €228 million. Due to the accounting treatment for businesses held for sale, no gain or loss was recognized.

As a result of antitrust requirements, the Company must divest the shares formerly held by VIAG in LAUBAG Lausitzer Braunkohle AG (Laubag), VEAG Vereinigte Energiewerke AG (Veag), and Berliner Kraft- und Licht-AG (Bewag). The fair value was determined on

Pro-forma Statements of Income

€ in millions	2000	1999
Sales	93,240	69,745
Petroleum and electricity tax	-8,935	-4,065
Sales, net of petroleum and electricity tax	84,305	65,680
Cost of goods sold and services provided	-71,009	-54,223
Gross profit from sales	13,296	11,457
Selling expenses	-7,045	-5,477
General and administrative expenses	-3,366	-2,902
Other operating income	7,993	6,408
Other operating expenses	-3,631	-3,768
Financial earnings, net	-445	-670
Income before income taxes	6,802	5,048
Income taxes	-2,618	-1,953
Income after income taxes	4,184	3,095
Minority interests	-506	-256
Net income	3,678	2,839
Earnings per share		
Basic earnings per share	5.07	3.90
Diluted earnings per share	5.07	3.90

The merger between VEBA and VIAG was accounted for under the purchase method of accounting. The merger was completed on a step-by-step basis. The first step was the acquisition from the Free State of Bavaria on October 7, 1999, of a total of 10 percent of VIAG's shares at €23.00 per share, resulting 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

the basis of agreements or contractual negotiations. No material cash flows from and to these investments have occurred through December 31, 2000.

Approximately €234 million has been recorded as accrued restructuring charges in connection with the merger. These accruals consist primarily of personnel costs related to the proposed closures of several power plants. Actual amounts paid through December 31, 2000 are insignificant.

The table opposite reflects pro-forma combined results of the Company as if the acquisition had taken place at the beginning of the periods presented.

The table at right reflects the combined balance sheet of E.ON as of December 31, 1999, as if the merger of VEBA and VIAG had taken place at the beginning of the 1999 financial year.

This pro-forma information is not necessarily indicative of what the actual combined results of operations might have been if the acquisitions had occurred at the beginning of fiscal 2000 and 1999. For purposes of calculating pro-forma results of operations, only significant items that were directly attributable to the acquisition of VIAG were considered. Such items include elimination of VEBA's 10 percent investment in VIAG (from September 1999 through the date of acquisition VEBA had a 10 percent investment in VIAG), and purchase accounting adjustments including the related effects thereon recorded as a result of the merger.

Other Acquisitions. After the acquisition of a subsidiary of Wintershall which own 15 percent of Aral's shares as of December 31, 1999, VEBA Oel further increased its shareholding in Aral by acquiring subsidiaries of Mobil Oil which own 28 percent of Aral's shares as of January 1, 2000. On December 31, 2000, VEBA Oel acquired the remaining outstanding 1.1 percent of Aral's shares. The aggregate purchase price for Aral approximated €1,899 million. The acquisition has been accounted for under the purchase method of accounting and resulted in goodwill of €881 million, which will be amortized on a straight-line basis over a period of 20 years. Aral is fully consolidated in the current period for the first time.

On January 10, 2000, PreussenElektra (now E.ON Energie) acquired 87.4 percent of Electriciteitsbedrijf

Zuid-Holland N.V. (EZH), the Dutch energy utility headquartered in Voorburg (recently renamed in E.ON Benelux Generation). PreussenElektra acquired the remaining shares in EZH on January 27, 2000. The total purchase price was €1,082 million. Goodwill resulting from first-time consolidation under the purchase method amounted to €590 million. EZH's results for the entire 2000 financial year are included in the Company's Consolidated Financial Statements. The goodwill will be amortized over 15 years using the straight-line method.

Pro-forma Consolidated Balance Sheet	
€ in millions	Dec. 31, 1999
Assets	
Intangible assets	9,061
Property, plant and equipment	27,754
Financial assets	23,380
Fixed assets	60,195
Inventories	7,184
Receivables, trade	9,191
Other receivables and assets	6,013
Businesses held for sale	989
Liquid funds	9,529
Non-fixed assets	32,906
Deferred taxes	961
Prepaid expenses	566
Total assets	94,628

Pro-forma Consolidated Balance Sheet	
€ in millions	Dec. 31, 1999
Liabilities and stockholders' equity	
Capital stock	1,985
Additional paid-in capital	11,402
Retained earnings	12,360
Accumulated other comprehensive income	546
Stockholders' equity	26,293
Minority interests	4,888
Provisions for pensions	8,451
Other	25,628
Accrued liabilities	34,079
Financial liabilities	11,929
Other liabilities	13,978
Liabilities	25,907
Deferred taxes	2,975
Deferred income	486
Total liabilities	68,335
Total liabilities and stockholders' equity	94,628

Notes

At the beginning of December 2000, Stinnes acquired 17,675,816 shares of the publicly traded chemical distributor Holland Chemical International N.V., Amsterdam, The Netherlands ("HCI"). This equals 99.41 percent of outstanding shares. The purchase price per share was €16.2. The total purchase price for HCI was €293.1 million. The acquisition has been accounted for under the purchase method and resulted in a goodwill of €185.2 million which will be amortized on a straight-line basis over 20 years. The consolidation took place for the first time as of December 1, 2000.

Other Disposals. VIAG Telecom sold its 42.5 percent interest in Orange Communications S.A., the Swiss cellular phone company, to France Télécom on November 10, 2000. The sales price for the interest including the transfer of shareholder loans amounted to €1.8 billion. The transfer of the shareholder loans and one fourth of the value of the shareholding in Orange Communications was payable in cash. The remaining three fourths were paid for via the issuance of 102,675,638 shares in Orange S.A. The first official trading day of Orange stock was February 13, 2001. The sale of the shareholding did not result in a significant gain because it was accounted for at its fair value as part of the merger.

The operating entities of the Company's VEBA Electronics subsidiary were sold in October 2000 to a consortium of buyers consisting of Arrow Electronics, Melville (NY/USA), Avnet, Phoenix (AZ/USA), and Schroder Ventures, London (UK). The purchase price including the transfer of shareholder loans amounted to \$2.35 billion (€2.6 billion). A gain of €44 million was recorded upon sale. VEBA Electronics is included in the Company's Consolidated Statements of Income until September 30, 2000.

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

VR Telecommunications GmbH & Co (VRT) and BellSouth concluded the sale and transfer contract for the shares in E-Plus, which was registered by a notary public on January 26, 2000. Closing took place on February 10, 2000. The sale price was €7.4 billion in addition to the extinguishment of stockholder loans in the amount of €1.0 billion. E.ON's share in both amounts was 51.25 percent.

(5) Effects of the transition to U.S. GAAP

The Consolidated Financial Statements as of December 31, 1999, were prepared in accordance with German GAAP. U.S. GAAP was applied as far as permissible under German GAAP. Additionally, a reconciliation of net income and stockholders' equity to U.S. GAAP was provided. As of December 31, 2000, the Consolidated Financial Statements have been prepared solely in accordance with U.S. GAAP. Prior year amounts have been restated accordingly.

Reconciliation to U.S. GAAP. At right is a summary of the significant adjustments to net income and stockholders' equity as of and for the year ending December 31, 1999, which would be required if U.S. GAAP had been fully applied rather than German GAAP.

Significant Differences between German GAAP and U.S. GAAP. The Consolidated Financial Statements as of December 31, 1999, formally complied with U.S. GAAP as far as permissible under German GAAP with the exception of mergers where the book value method was applied. The remaining differences between German and U.S. GAAP related only to valuation and accounting methods which are required under U.S. GAAP, but not allowed under German GAAP. These significant differences affecting the consolidated net income and stockholders' equity are as follows.

a. Business Combinations. Under U.S. GAAP, the measurement date is the date of the registration in the Commercial Register. Assets and liabilities assumed are accounted for at their fair values under the purchase method. German GAAP requires that mergers be accounted for as of the date agreed upon in the merger contract. The acquiring company can choose to assume the transferring legal entity's assets and liabilities by applying either the book value method or the fair value method.

Reconciliation of net income to U.S. GAAP		
€ in millions	Note	1999
Net income as reported in the consolidated income statements under German GAAP		2,902
Minority interests		-234
Net income as reported in the consolidated income statements under German GAAP after minority interests		2,668
Adjustments required to conform with U.S. GAAP		
Mergers	(a)	323
Capitalization of interest	(b)	-51
Securities and other investments	(c)	-
Equity valuation/negative goodwill	(d)	69
Provisions for pensions and similar liabilities	(e)	30
Deferred taxes	(f)	-226
Other	(g)	76
Minority interests	(h)	102
Net income in accordance with U.S. GAAP		2,991

Reconciliation of stockholders' equity to U.S. GAAP		
€ in millions	Note	1999
Stockholders' equity as reported in the consolidated balance sheets under German GAAP		17,372
Minority interests on December 31, 1999 in accordance with German GAAP		-2,990
Stockholders' equity as reported in the consolidated balance sheets under German GAAP after minority interests		14,382
Adjustments required to conform with U.S. GAAP		
Mergers	(a)	1,372
Capitalization of interest	(b)	156
Securities and other investments	(c)	905
Equity valuation/negative goodwill	(d)	124
Provisions for pensions and similar liabilities	(e)	79
Deferred taxes	(f)	-705
Other	(g)	405
Minority interests	(h)	-905
Stockholders' equity in accordance with U.S. GAAP		15,813

Notes

b. Capitalization of Interest. The capitalization of interest as a part of the historical cost of acquiring assets that are constructed or otherwise produced for an enterprise's own use is required by U.S. GAAP. German GAAP permits, but does not require, such capitalization. Under U.S. GAAP, interest has been capitalized on debt apportionable to the construction period of qualifying assets as a part of their cost of acquisition. The additional acquisition cost is depreciated over the expected useful life of the related asset.

c. Securities and Other Investments. Under U.S. GAAP, securities and other share investments are classified into one of the three categories: held-to-maturity securities, available-for-sale securities or trading securities. The Company's securities and other investments are considered to be available-for-sale and thus must be valued at market value at the balance sheet date. Unrealized holding gains and losses are excluded from earnings and reported as an adjustment to net equity. Under German GAAP, securities and other investments are valued at the lower of acquisition costs or market value at the balance sheet date.

The available for sale treatment for the shareholding in VIAG as of December 31, 1999 had to be retroactively reversed in 2000 due to the acquisition of the remaining 90 percent of VIAG shares and the full consolidation in 2000. Based on the at equity valuation, the unrealized loss with an amount of €309 million is reversed in 1999.

d. Equity Valuation/Negative Goodwill. For purposes of the reconciliation to U.S. GAAP, the earnings of companies accounted for using the equity method have been determined using valuation principles prescribed by U.S. GAAP. To the extent that certain equity investees

do not prepare consolidated U.S. GAAP financial statements, an estimate is made of the reconciling items based on information provided by the relevant company.

In addition to the above, under U.S. GAAP, a remaining negative goodwill is amortized over its expected useful life. Negative goodwill from consolidation must be released under German GAAP when expenses or losses expected at the time the stockholding is acquired are incurred, or if it becomes apparent that the negative goodwill corresponds to a realized profit on the balance sheet date.

e. Provisions for Pensions and Similar Liabilities. Due to changes of the calculation bases, the unfunded accumulated benefit obligation exceeds the accrued pension provision in some group companies. In such cases, under U.S. GAAP, provisions for pensions are increased by an additional minimum liability which do not affect income as far as not to exceed the unrecognized prior service cost. Additional minimum liability in excess of the unrecognized prior service cost is charged directly against stockholders' equity. Under U.S. GAAP the additional minimum liability has no impact on net income. Pursuant to German GAAP this additional minimum liability is expensed to the income statement.

Under German GAAP, accruals are established for the estimated number of employees nearing retirement who are expected to elect a government-subsidized early retirement program. Under U.S. GAAP, such accruals may be established only if the employee consents by entering into a binding contractual agreement.

f. Deferred Taxes. Under German GAAP, deferred taxes are calculated based on the liability method for all timing differences between valuation amounts in the Tax and Consolidated Balance Sheet. For quasi-permanent differences that are released over a very long period of time or only during the course of a company's divestment or liquidation, deferred taxes can only be recognized if the future reversal is probable. Deferred tax assets are not recognized for tax loss carryforwards.

Under U.S. GAAP, deferred taxes are provided for all temporary differences between the Tax and Consolidated Balance Sheet (temporary concept). The temporary concept also applies to quasi-permanent differences. Under U.S. GAAP, deferred taxes also are calculated for tax loss carryforwards and for accounting and valuation adjustments required under U.S. GAAP. Deferred taxes are calculated using the liability method and are based on enacted tax rates. A valuation allowance is established when it is more likely than not that the deferred tax assets will not be realized. The deferred tax adjustment included in the reconciliation to U.S. GAAP also contains the income tax effects of the other U.S. GAAP adjustments described within this Note, were appropriate.

The deferred tax assets in the amount of €161 million relating to the fair-value treatment of the Company's VIAG shares as of December 31, 1999 were adjusted retroactively (see Note c. Securities and other investments).

g. Other. Other differences in accounting principles include unrealized gains from foreign currency translation, outstanding financial derivatives, the capitalization of lease contracts, stock appreciation rights and the accounting for costs related to initial public offerings and mergers.

h. Minority Interests. Contrary to U.S. GAAP, under German GAAP, participation of minority stockholders in subsidiaries is shown as part of stockholders' equity and net income. For reconciliation purposes, minority interests in the effects resulting from U.S. GAAP adjustments are shown separately.

(6) Sales

A detailed analysis of sales by segment and geographical region is provided in the segment information under Note 34.

Sales also include rental income, primarily from the Real Estate Division, in the amount of €605 million (1999: €605 million).

Future revenues arising from rental, tenancy and leasing agreements for the next five years are due as follows:

€ in millions	
2001	681
2002	687
2003	697
2004	694
2005	701
After 2005	62
	3,522

(7) Cost of Goods Sold and Services Provided

The following table provides a detailed analysis of the cost of goods sold and services provided by segment:

€ in millions		
	2000	1999
Electricity	9,396	6,358
Oil	18,049	7,805
Chemicals	14,590	9,759
Real Estate	859	691
Telecommunications	197	125
Distribution/Logistics	17,829	14,488
Aluminum	1,490	-
Silicon Wafers	804	662
Others/Consolidation	-345	-657
Total	62,869	39,231

Notes

Other operating income

€ in millions	2000	1999
Gains from the disposal of fixed assets	4,985	2,670
Exchange-rate differences	653	357
Release of provisions	229	406
Other trade income	179	124
Reimbursements of incurred costs	151	135
Reimbursements and grants	38	55
Recoveries	36	79
SAB 51 gain	-	559
Amortization of negative goodwill	-	178
Miscellaneous	1,386	881
	7,657	5,444

(8) Other Operating Income

At left is a detail of other operating income.

The total includes income not related to the financial year amounting to €97 million (1999: €353 million).

In 2000, gains from the disposal of fixed assets primarily comprise gains resulting from the disposal of the shareholdings in E-Plus (€3,527 million) and Cablecom (€788 million). Income from the release of provisions primarily relates to the release of accruals for personnel costs. These provisions had to be released because present circumstances indicate that they are no longer probable.

The SAB 51 gain reported last year represents the difference between the stockholders' equity in Degussa-Hüls after the merger and the proportional stockholders' equity in Hüls before the merger (€559 million).

Other operating expenses

€ in millions	2000	1999
Exchange-rate differences	588	146
Research and development costs	572	583
Amortization of goodwill	502	386
Additions to accruals	319	438
Bad debt expense	219	188
Losses from the disposal of fixed assets	101	139
Reorganization costs	78	163
Other passed-on expenses	44	217
In-process research and development to be determined by the merger	-	160
Miscellaneous	930	620
	3,353	3,040

(9) Other Operating Expenses

At left is a detail of other operating expenses.

The total includes expenses not related to the financial year amounting to €38 million (1999: €349 million).

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 among other items to expenses resulting from financial instruments, expenditures for crude-oil procurement by Preussag Energie AG, expenditures from Preussag Energie's share in VRT's earnings, rentals, leaseholdings and ground rent.

(10) Financial Earnings

Goodwill amortization of companies valued at equity totaling €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 €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 €552 million.

Net interest income includes an addition to a provision for interest expense arising from tax requirements in the amount of €75 million (1999: €164 million). Interest expense is reduced by capitalized interest on debt totaling €15 million (1999: €56 million).

Write-downs of €356 million were taken on the stakes held by the former VEBA in companies due to be divested in line with the antitrust requirements associated with the VEBA-VIAG merger.

Financial earnings		
€ in millions	2000	1999
Income from companies in which share investments are held; thereof from affiliated companies €20 million (1999: €14 million)	174	71
Income from profit- and loss-pooling agreements thereof from affiliated companies €5 million (1999: €3 million)	25	9
Income from companies accounted for under the equity method; thereof from affiliated companies €265 million (1999: €5 million)	891	596
Losses from companies accounted for under the equity method; thereof from affiliated companies -€4 (1999: -€103 million)	-950	-325
Losses from profit- and loss-pooling agreements; thereof from affiliated companies -€1 million (1999: -€2 million)	-39	-11
Write-downs of investments	-91	-14
Income from equity interests	10	326
Income from long-term securities and long-term loans	332	203
Other interest and similar income; thereof from affiliated companies €25 million (1999: €3 million)	605	224
Interest and similar expenses; thereof from affiliated companies -€107 million (1999: -€3 million)	-988	-543
Interest expense (net)	-51	-116
Write-downs of financial assets and long-term loans	-18	-24
	-59	186

Notes

(11) Income Taxes

Income taxes including deferred taxes detailed in the table below.

Prior to the Tax Reduction Act, German corporate tax law applied the split-rate imputation system ("Anrechnungsverfahren") with regard to the taxation of a corporation and its shareholders. In general, Ger-

man corporations were subject to corporate income tax at a rate of 40 percent on non-distributed profits in 2000 and 1999 as well as 30 percent on distributed profits. The corporate income tax liability is subject to a solidarity surcharge of 5.5 percent. Taxpayers residing in Germany are entitled to a refundable tax credit in the case of dividends distributed from fully taxed German source. A German corporation is also subject to trade tax.

The German Tax Reduction Act ("Steuersenkungsgesetz") took effect on January 1, 2001 and replaces the corporate imputation system with a classic corporate tax system. From 2001 the corporate income tax rate on distributed and non-distributed profits is reduced to 25 percent. The change in the system is facilitated by a number of transitional provisions.

One of E.ON Energie's subsidiaries has been granted a tax holiday for a period of 4 years (1998-2001); as such this entity's earnings have been tax-free. At this time, E.ON Energie is unable to estimate the potential tax effects to which this entity will be subjected if this tax holiday is not extended and as a result no deferred taxes have been provided.

The differences between the statutory tax rate on non-distributed profits of 40 percent (1999: 40 percent) in Germany and the effective tax rate of 38.3 percent in 2000 and 29.0 percent in 1999 are summarized as follows:

Reconciliation to the effective tax rate				
€ in millions	2000 Amount	2000 Percent	1999 Amount	1999 Percent
Corporate income tax (2000: 40%, 1999: 40%)	2,620	40.0	1,760	40.0
Credit for dividend distributions	-193	-2.9	-135	-3.0
Municipal trade taxes net of federal tax benefit	66	1.0	394	9.0
Foreign tax-rate differential	204	3.1	103	2.3
Tax rate and tax law changes	-852	-13.0	-122	-2.8
Tax-free income	-163	-2.5	-777	-17.7
Change in valuation allowances	15	0.2	-	-
Equity accounting	-98	-1.5	-64	-1.5
Non-deductible goodwill/badwill-amortization	240	3.7	128	2.9
Other permanent differences	673	10.2	-10	-0.2
Income taxes/effective tax rate	2,512	38.3	1,277	29.0

Income before income taxes		
€ in millions	2000	1999
Domestic	5,120	3,980
Foreign	1,431	420
Total	6,551	4,400

Income before income taxes is attributable to the geographic locations as at left.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial purposes and the amounts used for income tax purposes.

Deferred tax assets and liabilities are summarized as follows as of December 31:

Deferred tax assets and liabilities		
€ in millions	2000	1999
Deferred tax assets		
Intangible assets	295	33
Fixed assets	1,063	300
Investments and long-term financial assets	2,335	298
Inventories	105	259
Receivables	120	115
Net operating loss carryforwards	994	876
Accruals	2,499	2,756
Liabilities	377	85
Other	911	31
	8,699	4,753
Valuation allowance	-271	-351
	8,428	4,402
Deferred tax liabilities		
Intangible assets	-809	-263
Fixed assets	-1,957	-1,524
Investments and long-term financial assets	-2,956	-871
Inventories	-110	-99
Receivables	-905	-83
Accruals	-341	-244
Liabilities	-2,779	-2,128
Other	-217	-19
	-10,074	-5,231
Net deferred tax assets/(liabilities)	-1,646	-829

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

Net deferred income tax assets and liabilities				
€ in millions	December 31, 2000		December 31, 1999	
	Total	Thereof non-current	Total	Thereof non-current
Deferred tax assets	1,345	808	1,278	1,209
Valuation allowance	-271	-207	-351	-290
Net deferred tax assets	1,074	601	927	919
Deferred tax liabilities	-2,720	-2,536	-1,756	-1,633
Net deferred tax assets (liabilities)	-1,646	-1,935	-829	-714

Notes

Tax loss carryforwards

€ in millions	2000	1999
Domestic loss carryforwards	2,074	2,153
Foreign loss carryforwards	1,937	903

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 above.

For domestic tax losses there is no expiration date; foreign loss carryforwards expire as follows: €35 million in 2001, €345 million between 2002 and 2010, €799 million between 2010 and 2020 and €758 million do not have an expiration date.

Undistributed earnings of foreign subsidiaries considered to be reinvested indefinitely amounted to €1,462 million as of December 31, 2000 (1999: €315 million). Deferred tax liabilities related to these profits are not calculated as it was not practicable.

(12) Minority Interests in Net Income

Minority stockholders participate in the profits of the consolidated companies in the amount of €524 million (1999: €355 million) and losses amounting to €55 million (1999: €223 million).

(13) Other Information

In 2000, E.ON purchased 245,210 (1999: 360,360) of its shares (0.03 percent (1999: 0.08) of E.ON's outstanding shares) on the stock market at an average price of €58.46 [1999: €54.39] per share for employees within the Company. These shares were sold to the employ-

ees at preferential prices between €39.26 and €50.77 (1999: between €27.02 and €50.94). The difference between purchase price and resale price was charged to personnel expenses.

Stock-Based Compensation. As of the balance sheet date, the E.ON Group had various stock-based compensation plans including stock appreciation rights ("SARs") within E.ON AG and Stinnes and a stock option program within MEMC. All plans are accounted for in accordance with FAS 123, "Accounting for Stock-Based Compensation".

Stock Appreciation Rights. The following information applies to both stock appreciation programs within E.ON AG and Stinnes. Differences regarding Stinnes's program are provided in parentheses or are otherwise indicated.

In 2000, E.ON AG and Stinnes AG independently decided to proceed with their SAR programs (the second tranche) which were set up for the first time in 1999 (the first tranche).

In March 2000, E.ON AG granted approx. 1.5 million SARs, retroactive to the beginning of 2000, to 155 executives worldwide, respectively 114 for the first tranche, including all members of E.ON AG's Board of Management, as part of their compensation. In the SAR program executives of Stinnes and Degussa-Hüls as companies with a stock exchange listing of their shares were not included. In July 2000, Stinnes granted approx. 1.36 million SARs to 250 executives worldwide, respectively 260 for the first tranche, including all members of Stinnes AG's Board of Management, as part of their compensation.

The SARs of the second tranche for E.ON AG are based on the market price of E.ON shares on January 3, 2000, and on January 4, 1999, for the first tranche. The market price of Stinnes shares on June 30, 2000, for the second tranche and on the average market price between June 28 and July 9, 1999, for the first tranche.

For both tranches of E.ON and Stinnes, the compensation to be received from the exercise of SARs is

Personnel costs

€ in millions	2000	1999
Wages and salaries	7,112	5,773
Social security contributions	1,246	1,006
Pension costs and other employee benefits, thereof pension costs €773 million (1999: €684 million)	784	694
	9,142	7,473

paid in cash. The calculation always considers possible dilution effects from capital changes and dividend payments that have occurred between grant and exercise. The SARs granted are non-transferable. Under certain conditions they can be exercised before the exercise date or according to the conditions of the SARs in the case of termination of employment, they are cancelled. The table at right shows the SARs which were cancelled in the current reporting period as a result of termination of employment.

The second tranche for E.ON is calculated as the difference between the E.ON share price at the day of SAR exercise and the market price at the time of grant which was €48.35 as of January 3, 2000, multiplied by the number of SARs to be exercised. The SARs have a term of seven years. Before any exercise of E.ON SARs the following two conditions have to be met: Between grant and exercise the E.ON share price has outperformed the Stoxx Utilities Price Index on at least ten consecutive business days and the E.ON share price at the date of exercise is at least 20 percent above the share price at SAR grant. Qualified executives can exercise all or a portion of the SARs granted to them within pre-determined exercise periods in the years 2002 until 2006. SARs not exercised by the final exercise date (the last business day four weeks after publication of the interim report for the third quarter 2006) will automatically be considered as exercised. The grant of SARs depends on the possession of a certain number of E.ON shares which have to be held until maturity of the SARs issued in 2000.

For the second tranche of Stinnes the compensation is calculated as the difference between the Stinnes calculated stock price and its indexed stock price multiplied by the number of SARs to be exercised. The above mentioned Stinnes calculated stock price equals the average quotation of the last six

	E.ON		Stinnes	
	First tranche	Second tranche	First tranche	Second tranche
Cancelled (termination of employment)	77,700	18,000	200,000	31,700

months before exercise. To calculate the indexed stock price, the stock price as of the date of grant at June 30, 2000, which amounted to €21.00, is multiplied by the ratio of the average M-DAX performance during the last six months prior to exercise divided by the performance of this index at the date of grant, which was 4,457.92. The Stinnes SARs have a term of five years. Qualified executives can exercise all or a portion of the SARs granted to them on pre-determined exercise dates within the years 2002 until 2005. SARs not exercised by the final exercise date (May 2, 2005), will automatically be considered as exercised.

The compensation for the first tranche to be received from the exercise of SARs for E.ON and Stinnes is calculated as the difference between the E.ON (Stinnes) calculated stock price and the respective company's indexed stock price multiplied by the number of SARs to be exercised. The above-mentioned E.ON (Stinnes) calculated stock price equals the average quotation of the last six months before exercise. To calculate the respective company's indexed stock price, the respective company's stock price at the date of grant €54.67 (€15.28) is multiplied by the ratio of the average Euro Stoxx 50 (M-DAX) performance during the last six months prior to exercise divided by the performance of the applicable index at the date of grant 4,376.82 (3,921.05). The SARs granted under the first tranche in 1999 have a term of five years. Qualified executives can exercise all or a portion of the SARs granted to them on pre-determined exercise dates in 2002 and 2003 (between July 2002 and July 2004). SARs not exercised by the final exercise date on November 3, 2003 (May 3, 2004), will automatically be considered as exercised.

Notes

Below is a summary of the quantity of SARs concerning the E.ON and Stinnes stock plan activity for 2000 and 1999, respectively:

Development of SAR programs			
	2000		1999
	First tranche	Second tranche	First tranche
E.ON			
Outstanding at beginning of year	1,037,000	-	-
Granted	-	1,461,800	1,037,000
Exercised	-	-	-
Cancelled	77,700	18,000	-
Outstanding at end of year	959,300	1,443,800	1,037,000
SARs exercisable at year-end	-	-	-
Stinnes			
Outstanding at beginning of year	3,417,800	-	-
Granted	3,400	1,297,700	3,447,800
Exercised	411,100	12,800	-
Cancelled	170,000	31,700	30,000
Outstanding at end of year	2,840,100	1,253,200	3,417,800
SARs exercisable at year-end	-	-	-

Concerning the second tranche there was a compensation cost accrued in the amount of approximately €11.9 million regarding E.ON AG's SAR program in 2000 as the difference between the E.ON calculated stock price, as defined above, at December 31, 2000, and the stock price at grant was €16.45. There was a compensation cost recognized in the amount of approximately €1.4 million regarding Stinnes AG's SAR program in 2000 as the difference in the Stinnes' calculated stock price, as defined above, at December 31, 2000, and the indexed stock price was €4.36.

There was no compensation cost recognized regarding the first tranche of E.ON AG's SAR program in 2000 as the difference between the E.ON calculated stock price, as defined above, at December 31, 2000, and the indexed stock price was €-17.48. There was a compensation cost of approximately €13.5 million recognized regarding the first tranche of Stinnes AG's program in 2000 as the difference in the Stinnes' calculated stock price, as defined above, at December 31, 2000 and the indexed stock price was €9.52.

Stock option plan. MEMC has an Equity Incentive Plan (the "Plan") that provides for the award of incentive several kinds of stock options. Total shares authorized for grant under the Plan are 7,197,045. Stock options to employees are typically granted on January 1 and vest at a rate of 25 percent annually over four years. Stock options to non-employee directors are also typically granted on January 1 but vest at a rate of 33 1/3 percent annually over three years. The exercise price of each option equals the market price of the MEMC's common stock at the date of the grant, and each option's maximum term is 10 years.

Total compensation cost in 2000 and 1999 recognized under the Plan based on the fair value at the grant dates consistent with the alternative method set forth under FAS 123 was €1.6 million (1999: €1.9 million).

The fair value of options granted is estimated on the date of grant using Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999 respectively: risk-free interest rate of 6.7 percent and 4.8 percent; expected life of six years for all periods; expected volatility of 77.1 percent and 57.6 percent; expected dividends of zero percent for all periods.

A summary of MEMC's Plan activity with respect to stock options is presented opposite.

Development of stock option plan MEMC			
	Number of shares	Weighted-average option price (in €)	Weighted-average fair value of options granted (in €)
Year ended December 31, 2000			
Outstanding at beginning of year	2,325,744	18.05	
Granted	668,000	13.55	9.44
Exercised	-78,600	13.23	
Cancelled	-217,360	24.24	
Outstanding at end of year	2,697,784	16.58	
Options exercisable at year-end	1,596,343	19.09	
Year ended December 31, 1999			
Outstanding at beginning of year	1,773,174	18.87	
Granted	687,700	8.14	4.79
Exercised	-21,200	14.19	
Cancelled	-113,930	22.08	
Outstanding at end of year	2,325,744	15.58	
Options exercisable at year-end	1,396,428	18.53	

A summary of information about stock options at December 31, 2000 is presented below:

Options outstanding			
Range of exercise prices (in €)	Number outstanding at December 31, 2000	Weighted-average remaining contractual life	Weighted-average exercise price (in €)
26.09	342,484	4.5 years	26.09
35.47 - 53.80	115,100	5.1 years	35.96
24.46 - 31.52	151,050	5.9 years	24.54
3.40 - 16.58	797,600	7.0 years	16.37
6.52 - 20.72	637,350	8.0 years	9.46
8.09 - 21.87	654,200	9.1 years	13.55
3.40 - 53.80	2,697,784	7.3 years	16.58

Exercisable options outstanding		
Range of exercise prices (in €)	Number exercisable at December 31, 2000	Weighted-average exercise price (in €)
26.09	342,484	26.09
35.47 - 53.80	115,100	35.96
24.46 - 31.52	141,800	24.53
3.40 - 16.58	601,934	16.42
6.52 - 20.72	317,625	9.43
8.09 - 21.87	77,400	13.33
3.40 - 53.80	1,569,343	19.09

In January 2001, MEMC granted options to purchase 539,900 shares of common stock at €10.42 to €11.72 per share. These options will expire in January 2011.

Notes

Employees		
	2000	1999
Electricity	27,371	20,888
Oil	8,648	6,042
Chemicals	53,534	44,853
Real Estate	5,229	4,683
Telecommunications	1,234	594
Distribution/Logistics	57,432	49,703
Aluminum	13,978	-
Silicon Wafers	6,080	5,704
Other	9,519	463
Total*	183,025	132,930

*thereof trainees/interns 5,030 (1999: 5,962)
thereof part-time and less than part-time employees 16,487 (1999: 10,987)

Employees. In the current reporting period, the Company employed an average of 183,025 people, including 5,030 trainees and interns. The breakdown by division is at left.

Taxes Other Than Income Taxes. Taxes other than income taxes total €168 million (1999: €59 million), resulting principally from property tax and real estate transfer tax in the current period.

(14) Intangible Assets

Impairment changes on intangible assets were €14 million (1999: €0 million).

Intangible Assets				
€ in millions	Licenses	Goodwill	Advance payments	Total
Acquisition costs balance at January 1, 2000	1,424	4,967	68	6,459
Exchange rate differences	22	73	-	95
Change in scope of consolidation	2,927	1,956	74	4,957
Additions	337	113	45	495
Disposals	384	246	10	640
Transfers	547	-194	-35	318
Balance at December 31, 2000	4,873	6,669	142	11,684
Accumulated depreciation balance at January 1, 2000	470	1,221	28	1,719
Exchange rate differences	11	13	-1	23
Change in scope of consolidation	-	-406	11	-395
Additions	344	502	20	866
Disposals	271	229	-	500
Transfers	363	-79	-27	257
Balance at December 31, 2000	917	1,022	31	1,970
2000 net book value	3,956	5,647	111	9,714
Acquisition costs balance at January 1, 1999	1,014	2,330	50	3,394
Exchange rate differences	49	96	1	146
Change in scope of consolidation	546	1,210	-1	1,755
Additions	111	522	33	666
Disposals	309	90	10	409
Transfers	13	899	-5	907
Balance at December 31, 1999	1,424	4,967	68	6,459
Accumulated depreciation balance at January 1, 1999	353	818	26	1,197
Exchange rate differences	15	16	2	33
Change in scope of consolidation	99	-18	-1	80
Additions	196	386	3	585
Disposals	199	57	2	258
Transfers	6	76	-	82
Balance at December 31, 1999	470	1,221	28	1,719
1999 net book value	954	3,746	40	4,740

(15) Property, plant and equipment

Property, plant and equipment includes the capitalized interest on debt as part of their cost of acquisition in the amount of €15 million (1999: €56 million). Impairment changes on property, plant and equipment were €257 million (1999: €156 million).

Property, plant and equipment						
€ in millions	Real estate, leasehold rights and buildings	Mine development costs, mines, drillings	Technical equipment, plant, and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Acquisition 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
Acquisition and production costs balance at January 1, 1999	9,876	829	29,774	2,576	1,284	44,339
Exchange rate differences	196	18	497	48	83	842
Change in scope of consolidation	1,615	-17	3,035	607	211	5,451
Additions	299	5	798	366	1,089	2,557
Disposals	357	5	605	474	45	1,486
Transfers	127	-8	667	38	-838	-14
Balance at December 31, 1999	11,756	822	34,166	3,161	1,784	51,689
Accumulated depreciation balance at January 1, 1999	3,983	518	21,525	1,925	34	27,985
Exchange rate differences	43	35	285	27	2	392
Change in scope of consolidation	623	-19	2,015	466	-	3,085
Additions	356	57	1,687	350	21	2,471
Disposals	142	34	455	394	3	1,028
Transfers	-61	-13	45	23	-	-6
Balance at December 31, 1999	4,802	544	25,102	2,397	54	32,899
1999 net book value	6,954	278	9,064	764	1,730	18,790

Notes

Additions to property, plant and equipment and intangible assets by division		
€ in millions	2000	1999
Electricity	823	844
Oil	713	402
Chemicals	1,044	998
Real Estate	399	248
Telecommunications	310	27
Distribution/Logistics	348	515
Aluminum	379	-
Silicon Wafers	63	49
Others	65	140
Total	4,144	3,223

The table at left provides an analysis of additions to property, plant and equipment and intangible assets by division.

With tangible fixed assets, restrictions on disposals exist in the amount of €348 million mainly with technical equipment and land. Additional information on secured tangible fixed assets is listed under liabilities (see Note 29).

(16) Financial Assets

Financial Assets									
€ in millions	Shares in non-consolidated affiliated companies	Long-term loans to affiliated companies	Shares in associated companies	Other share investments	Loans to associated and other companies	Long-term securities	Loans related to banking operations	Other long-term loans	Total
Acquisition costs balance at January 1, 2000	609	548	8,379	1,785	785	2,330	720	604	15,760
Exchange rate differences	-	-	7	-16	-4	2	-	-2	-13
Change in scope of consolidation	4,358	50	6,638	869	316	2,073	-	263	14,567
Additions	355	42	1,431	1,033	584	709	23	94	4,271
Disposals	776	533	3,590	228	260	1,155	-	238	6,780
Transfers	38	-	192	-228	-3	-2,122	-	-4	-2,127
Balance at December 31, 2000	4,584	107	13,057	3,215	1,418	1,837	743	717	25,678
Accumulated depreciation balance at January 1, 2000	202	1	359	114	105	21	-	33	835
Exchange rate differences	1	-	-	-	-	-	-	-	1
Change in scope of consolidation	30	-	-29	-75	2	-18	-	1	-89
Additions	19	1	468	77	13	2	-	1	581
Disposals	180	-	128	9	102	-	-	14	433
Transfers	-	-	-	4	-3	-	-	-	1
Balance at December 31, 2000	72	2	670	111	15	5	-	21	896
2000 net book value	4,512	105	12,387	3,104	1,403	1,832	743	696	24,782
Acquisition costs balance at January 1, 1999	543	457	6,653	3,964	835	2,679	-	596	15,727
Exchange rate differences	-	1	104	13	33	-	-	3	154
Change in scope of consolidation	78	-	198	46	3	13	576	6	920
Additions	54	92	2,492	674	48	363	430	82	4,235
Disposals	69	2	370	2,766	78	725	286	87	4,383
Transfers	3	-	-698	-146	-56	-	-	4	-893
Balance at December 31, 1999	609	548	8,379	1,785	785	2,330	720	604	15,760
Accumulated depreciation balance at January 1, 1999	109	1	413	43	99	1	-	35	701
Exchange rate differences	1	-	-	-	-	-	-	-	1
Change in scope of consolidation	40	-	-1	8	-	1	-	3	51
Additions	62	-	84	70	7	19	-	13	255
Disposals	11	-	65	2	1	-	-	18	97
Transfers	1	-	-72	-5	-	-	-	-	-76
Balance at December 31, 1999	202	1	359	114	105	21	-	33	835
1999 net book value	407	547	8,020	1,671	680	2,309	720	571	14,925

The stockholdings held by the former VEBA in Bewag, Veag, and Laubag are included in shares in associated companies. The stockholding held by the former VEBA in HEW is included in other share investments. These four stockholdings are to be divested as a result of antitrust requirements associated with the VEBA-VIAG merger.

Notes

Earnings data

€ in millions	2000	1999 ¹
Sales	38,912	57,695
Net income	-193	867
E.ON's portion of net income	-30	244
Other ²	-29	27
Income from companies which are accounted for under the equity method	-59	271

¹1999 figures include the 10 percent stockholding in VIAG.

²Other 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).

Balance sheet data

€ in millions	2000	1999 ¹
Fixed assets	60,967	72,232
Current assets and prepaid expenses	33,875	35,553
Accruals	23,693	40,372
Liabilities and deferred income	42,367	41,561
Net assets	28,782	25,852
E.ON's equity in net assets	11,007	5,602
Other ²	5,530	2,678
Investment in companies which are accounted for under the equity method	16,537	8,280

¹1999 figures include the 10 percent stockholding in VIAG.

²Other 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).

Shares in affiliated and associated companies accounted for under the equity method. The summarized financial information at left represents an aggregation of the Company's affiliated and associated companies which are accounted for under the equity method.

E.ON's share of undistributed earnings of affiliated and associated companies included in consolidated retained earnings is €1,119 million (1999: €596 million) as of December 31, 2000. Dividends from affiliated and associated companies are €427 million (1999: €324 million). Application of the equity method to additions of investments in associated and affiliated companies resulted in goodwill of €6,458 million (1999: €47 million), of which €4,572 million is apportionable to VIAG Interkom and €1,621 million to Orange Communications S.A., both of which were fair valued due to the VEBA-VIAG merger. From the first-time application of the equity method of accounting no negative goodwill resulted (1999: €624 million).

Other Financial Assets. As discussed in Note 4, the former VEBA acquired the remaining 90 percent of VIAG during the period under report. The 10 percent stockholding in VIAG, acquired from the Free State of Bavaria on October 7, 1999 for €1,592 million, was included in other share investments. This investment was previously accounted for under the cost method of accounting and classified as available for sale resulting in an unrealized loss of €309 million, which includes €161 million in deferred taxes. In accordance with ARB 51 (Accounting Research Bulletin), the Company restated the 1999 Consolidated Financial Statements to eliminate the effect of classifying this investment as available for sale.

The aggregate costs, fair values, and gross unrealized holding gains and losses for each class of securities are summarized as follows:

Securities available for sale

€ in millions	2000				1999			
	Cost	Fair values	Gross unrealized loss	Gross unrealized gain	Cost	Fair values	Gross unrealized loss	Gross unrealized gain
Fixed-term securities	570	620	-	50	332	333	6	7
Non-fixed-term securities	3,619	4,316	3	700	2,749	3,647	-	898
	4,189	4,936	3	750	3,081	3,980	6	905

Disposal of available-for-sale securities generated proceeds in the amount of €417 million (1999: €3,024 million) and capital gains in the amount of €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.

Maturities of fixed-term securities as of December 31, 2000 are as at left.

Long-term loans are as follows:

Securities available for sale				
€ in millions	2000		1999	
	Cost	Fair value	Cost	Fair value
Less than 1 year	96	96	72	71
Between 1 and 5 years	352	397	222	223
More than 5 years	122	127	38	39
	570	620	332	333

Loans						
	2000			1999		
	€ in millions	Interest rate up to	Maturity through	€ in millions	Interest rate up to	Maturity through
Loans to affiliated companies	105	6.00 %	2015	547	7.20 %	2035
Loans to associated companies	1,403	5.30 %	2010	680	6.10 %	2007
Loans related to banking operations	743	7.00 %	2009	720	6.00 %	2009
Other loans	696	7.00 %	2010	571	8.75 %	2010
	2,947			2,518		

As of December 31, 2000, €24,686 million financial assets mature after more than one year (1999: €14,854 million).

Impairment charges on financial assets are recorded in the amount of €395 million (1999: €106 million).

(17) Inventories

Work in progress is shown together with finished products because they are combined for the purpose of valuation by the LIFO method. Raw materials and supplies contain utilities' fuel inventories in the amount of €183 million (1999: €96 million) and crude oil supplies of €127 million (1999: €96 million).

Inventories in the amount of €1,660 million (1999: €875 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 €941 million (1999: €458 million).

Inventories		
€ in millions	2000	1999
Raw materials and supplies by segment		
Electricity	818	472
Oil	181	162
Chemicals	878	552
Aluminum	202	-
Silicon Wafers	57	53
Others	101	39
	2,237	1,278
Work in progress	622	445
Finished products by segment		
Oil	118	147
Chemicals	1,781	807
Aluminum	561	-
Silicon Wafers	85	49
Others	63	29
	2,608	1,032
Goods purchased for resale	1,699	1,732
	7,166	4,487

Notes

Receivables and Other Assets

€ in millions	2000		1999	
	With a remaining term up to one year	With a remaining term of more than one year	With a remaining term up to one year	With a remaining term of more than one year
Accounts receivable trade	10,799	498	6,329	3
Affiliated companies	631	8	120	2
Associated companies and other share investments	5,472	25	1,346	9
Reinsurance claim due from Versorgungskasse Energie Mutual Insurance Fund	138	432	25	517
Receivables from banking operations	150	37	141	61
Other assets	3,576	2,974	1,665	186
	20,766	3,974	9,626	778

(18) Receivables and Other Assets

The amounts at left are presented net of valuation allowances for doubtful accounts.

Accounts receivable and other assets in the amount of €7,099 million (1999: €758 million) are interest-bearing.

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

Other assets mainly include accounts receivables relating to E.ON Benelux's cross-border lease transactions for power stations amounting to €1,395 million; these are carried as other liabilities in the same amount. Other assets also consist of tax-refund claims of €1,208 million (1999: €562 million) and short-term loans of €443 million (1999: €409 million) as well as other receivables of €1,240 million (1999: €290 million) related in 2000 primarily to the sale of Orange Communications S.A. In addition, other assets include assets held for sale in the amount of €42 million (1999: €0 million).

Valuation Allowances for Doubtful Accounts

€ in millions	At beginning of year 2000	Additions affecting income	Disposals affecting income	Additions not affecting income	Disposals not affecting income	At end of year 2000
Accounts receivable trade	335	354	-192	220	-297	420
Receivables from other affiliated companies	13	20	-96	108	-2	43
Other receivables and assets	51	71	-15	19	-10	116
Total 2000	399	445	-303	347	-309	579
	At beginning of year 1999	Additions affecting income	Disposals affecting income	Additions not affecting income	Disposals not affecting income	At end of year 1999
Accounts receivable trade	266	147	-51	71	-98	335
Receivables from other affiliated companies	3	2	-1	10	-1	13
Other receivables and assets	65	19	-43	20	-10	51
Total 1999	334	168	-95	101	-109	399

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

(19) Liquid Funds

Cash and cash equivalents include checks, cash on hand and balances on Bundesbank accounts and at other banking institutions.

Liquid funds		
€ in millions	2000	1999
Cash and cash equivalents with an original maturity of 3 month or less	1,153	518
Cash and cash equivalents with an original maturity greater than 3 month	48	1,048
Securities with an original maturity of 3 month or less	464	13
Securities with an original maturity greater than 3 month	6,836	265
	8,501	1,844

The securities' aggregate costs, fair values and gross unrealized holding gains are as follows:

Securities available for sale								
€ in millions	2000				1999			
	Cost	Fair values	Unrealized loss	Unrealized gain	Cost	Fair values	Unrealized loss	Unrealized gain
Fixed-term securities	416	418	-	2	248	250	-	2
Non-fixed-term securities	6,688	6,882	-	194	23	28	-	5
	7,104	7,300	-	196	271	278	-	7

The disposal of securities available-for-sale generated proceeds in the amount of €2,016 million (1999: €33 million). Capital losses from disposal with an amount of €10 million (1999: €0) were recorded in the reporting period. E.ON uses the specific identification method as a basis for determining cost and calculating realized gains and losses.

Maturities of fixed-term securities as of December 31, are as follows:

Maturities of fixed-term securities				
€ in millions	2000		1999	
	Cost	Fair value	Cost	Fair value
Less than 1 year	206	207	128	128
Between 1 and 5 years	165	166	116	118
More than 5 years	45	45	4	4
	416	418	248	250

(20) Prepaid Expenses

As in prior year, the prepaid expenses mature within one year.

Notes

(21) Capital Stock

Development in 2000: In connection with the merger of VEBA and VIAG the capital stock was increased from €1,307,274,228 by €647,695,048 to €1,954,969,276 through the issuance of 249,113,480 bearer shares without nominal value. Each share has an imputed share amount in capital stock of €2.60. These shares participate in the Company's earnings beginning from January 1, 2000. These amendments were entered into the Commercial Register of the Düsseldorf District Court HRB 22 315 on June 9, 2000.

Under the resolution adopted by E.ON AG's Board on Management on August 29, 2000, the Company made partial use of Authorized Capital II to increase its capital stock from €1,954,969,276 by €29,607,799 to €1,984,577,075 by issuing 11,387,615 bearer shares. Each share has an imputed share amount in capital stock of €2.60 and participates in the Company's earnings beginning from January 1, 2000. The increase in capital stock resulted from a contribution in kind of shares of E.ON Energie AG. These amendments were entered into the Commercial Register of the Düsseldorf District Court HRB 22 315 on November 3, 2000.

The Company's capital stock now consists of 763,298,875 bearer shares issued without nominal value (1999: 502,797,780).

The total amount of outstanding shares as of December 31, 2000 is 712,781,940 (1999: 502,797,780).

At the Annual Shareholders' Meeting on May 25, 2000, the authorization granted at the 1998 Annual Shareholders' Meeting to increase the Company's capital stock by a maximum of €125.0 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 €125.0 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 €50.0 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 €180.0 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 €180.0 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, 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 €180.0 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.

Development in 1999: The resolution adopted at the May 1999 Annual Shareholders' Meeting to increase the Company's capital stock conditionally by €50.0 million has been cancelled. In its place, the Company's capital stock was conditionally increased by €75.0 million until May 25, 2005, to issue conversion rights or option certificates for the shares of E.ON AG or of companies in which the Company holds a direct or indirect majority stake. The Board of Management is authorized to exclude shareholders' subscription rights in this regard.

At the Annual Shareholders' Meeting on May 25, 2000, VEBA AG was authorized until October 31, 2001, to repurchase its own shares up to a maximum of

10 percent of the Company's capital at the time of the repurchase. As of December 31, 2000, a total of 15,265,979 E.ON shares (2 percent of the Company's capital stock) had been purchased for an average purchase price of €60.60 per share. These shares are recognized in stockholders' equity. See Note 25.

The resolution passed at the 1999 Annual Shareholders' Meeting authorizing management to purchase the Company's own shares until October 31, 2000, was cancelled.

At the 1999 Annual Stockholders' Meeting of VEBA AG it was resolved to convert the capital stock from DM to €. The euro-denominated capital stock was increased by €21,892,114.01 to €1,307,274,228.00 using corporate funds by converting a portion of additional paid-in capital. The capital stock was reclassified such that a DM5 nominal share was replaced by a share without nominal value. New shares were not issued. As a result capital stock then consisted of 502,797,780 bearer shares without nominal value. These amendments were entered into the Commercial Register of the Düsseldorf District Court HRB 22315 on August 20, 1999, and into that of the Berlin-Charlottenburg District Court 93 HRB 1647 on September 3, 1999.

It was also resolved to establish conditional capital of up to €50 million to issue partial convertible bonds or bonds with option rights on shares of E.ON AG until May 26, 2004. This conditional capital may exclude stockholders' subscription rights.

The 1998 Annual Stockholders' Meeting approved authorized capital of DM250 million for the issuance of new shares in exchange for cash with stockholders' subscription rights and authorized capital of DM250 million for the issuance of new shares in exchange for capital contributions excluding stockholders' subscription rights. The authorization for both of these capital amounts expires on May 13, 2003. At the 1999 Annual Stockholders' Meeting it was resolved to convert these amounts to €125 million each.

In 1996, additional authorized capital totaling DM100 million was approved for the issuance of new shares in exchange for cash. This capital authorization expires on May 22, 2001. The Board of Management is empowered to decide on the exclusion of stockholders' subscription rights. At the 1999 Annual Stockholders' Meeting it was resolved to convert this amount to €50 million.

Disclosure requirements in conjunction with Germany's Securities Trading Act (WpHG). In compliance with Article 21, Paragraph 1 of Germany's Securities Trading Act (WpHG), Allianz of Munich informed the Company that its direct and indirect share of E.ON AG's voting rights totals 10.2 percent. This figure includes the voting rights held by Lambda-Vermögensverwaltungsgesellschaft mbH (Lambda). In compliance with Article 21, Paragraph 1 of Germany's Securities Trading Act, Lambda informed the Company that its share of the voting rights of E.ON AG of Düsseldorf fell below 10 percent owing to VEBA AG's merger with Munich-based VIAG AG on June 16, 2000. Lambda currently holds 6.7 percent of E.ON AG's voting rights. Also in compliance with Article 21, Paragraph 1 of Germany's Securities Trading Act, the Free State of Bavaria informed the Company that its share of the voting rights of E.ON AG of Düsseldorf increased to above the 5-percent mark owing to VEBA AG's merger with Munich-based VIAG AG on June 16, 2000. The Free State of Bavaria currently holds 5.56 percent of E.ON AG's voting rights.

Notes

(22) Additional Paid-in Capital

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

Additional paid-in capital rose €9,205 million to €11,402 million compared with year-end 1999. The increase results from the share exchange that accompanied the VEBA-VIAG merger and from the acquisition of the remaining 2.46 percent stockholding in E.ON Energie AG by issuing shares in E.ON AG. The additional paid-in capital created by this transaction corresponds to the difference between the nominal value of the shares issued and their market value.

(23) Retained Earnings

Retained earnings		
€ in millions	2000	1999
Legal reserves	45	45
Other retained earnings	14,660	11,718
	14,705	11,763

(24) Other Comprehensive Income

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

Other comprehensive income						
€ in millions	2000			1999		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Foreign currency translation adjustments	255	-	255	358	-	358
Unrealized holding gains arising during period	207	-106	101	170	196	366
Less: reclassification adjustment for gains included in income	-18	10	-8	-1,429	43	-1,386
Minimum pension liability adjustment	-93	65	-28	7	-7	-
Total other comprehensive income	351	-31	320	-894	232	-662

(25) Treasury Stock Repurchase Program

The Shareholders' Meeting on May 25, 2000, authorized the Board of Management to repurchase shares through October 31, 2001. The repurchase can either be executed as an on-market buy-back or via a Public Tender Offer. If the authorization is fully utilized, E.ON will buy back about 76 million of its shares. This would amount to €4.5 billion based on an average price of €60 per share.

On September 22, 2000, E.ON's Board of Management decided to conduct an on-market share buy-back of up to 10 percent of the Company's capital stock

over the next nine months. As of December 31, 2000, E.ON had repurchased 15,265,979 of its shares at an average price of €60.60 per share. This amounts to 2 percent of its capital stock.

Plans call for a substantial part of repurchased shares to be cancelled. This is subject to Supervisory Board approval.

(26) Minority Interests

Minority interests is attributable to the following divisions:

Minority interests		
€ in millions	2000	1999
Electricity	2,145	1,528
Oil	8	-
Chemicals	2,176	1,736
Real Estate	11	32
Telecommunications	22	-5
Distribution/Logistics	540	441
Aluminum	19	-
Silicon Wafers	197	160
Others	5	3
	5,123	3,895

(27) Provisions for Pensions

As a general rule, the Company's pension plans are based on pay and length of service. Employees who entered the Company prior to 1999 participate in a final pay arrangement where the amount of benefits depends on final salary, averaged over the last years of employment, and on the period of Company service. For employees who joined the Company after the date mentioned above, a cash balance plan applies under which notional contributions, based on current earnings, are actuarially converted into pension units. In addition, the Company sponsors a performance linked program. Under this arrangement, additional notional contributions are set aside. As under the cash balance plan described above these contributions are actuarially converted into pension units.

The liabilities arising from the pension plans and their respective costs are determined using the projected unit credit method in accordance with FAS No. 87, "Employers' Accounting for Pensions." The valuation is based on current pensions and earnings and on economic assumptions, which have been chosen in such a way so as to reflect the realistic long-term expectations.

The change in the projected benefit obligation is as follows:

Projected benefit obligation		
€ in millions	2000	1999
Projected benefit obligation at January 1	6,246	5,263
Service cost	150	121
Interest cost	503	360
Business combinations	2,982	784
Prior service costs	40	37
Actuarial (gains)/losses	710	-14
Exchange rate differences	40	60
Others	-60	-
Pensions paid	-527	-365
Projected benefit obligation at December 31	10,084	6,246

Notes

Change in plan assets		
€ in millions	2000	1999
Plan assets at January 1	324	188
Actual return on plan assets	2	29
Company contributions	29	13
Employees contribution	3	-
Business combinations	599	74
Exchange rate differences	32	37
Pensions paid	-42	-17
Others	30	-
Plan assets at December 31	977	324

An additional amount of €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 at left.

Funded status		
€ in millions	2000	1999
Funded status	9,106	5,922
Unrecognized actuarial loss	-476	-284
Unrecognized prior service cost	-97	-59
Unfunded accrued benefit cost	8,533	5,579
Additional minimum liability	203	99
Provisions for pensions	8,736	5,678

The funded status of all defined benefit pension plans based on the projected benefit obligation ("PBO") is shown at left.

In accordance with U.S. GAAP, the additional minimum liability has no impact on net income. The additional minimum liability is accounted for as an intangible asset in the amount of €40 million (1999: €28 million) not to exceed the unrecognized prior service costs. Any remaining additional minimum liability is charged, net of tax, directly against stockholders' equity in the amount of €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 €2,852 million (1999: €1,654 million) and €119 million (1999: €251 million), respectively.

Provision for pensions shown on the balance sheet also include obligations of U.S. companies arising from post-retirement health-care benefits in the amount of €93 million (1999: €40 million).

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

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 were 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.

Total net periodic pension cost		
€ in millions	2000	1999
Service cost	150	121
Interest cost	503	360
Expected return on plan assets	-53	-23
Prior service costs	21	7
Net amortization of (gains)/losses	2	13
Net periodic pension cost	623	478

Actuarial assumptions		
In percent	2000	1999
Discount rate	6.25	6.25
Projected salary increases-nonvested	2.75	2.75
Expected return on plan assets	6.25	6.25
Projected pension payment increases	1.25	1.25

Notes

Other provisions		
€ in millions	2000	1999
Provisions for nuclear waste management (1)	11,170	5,889
Provisions for taxes (2)	4,623	2,572
Provisions for personnel costs (3)	2,218	1,656
Provisions for outstanding trade invoices (4)	1,806	821
Provisions for environmental remediation (5)	741	494
Provisions for reclamation (6)	175	175
Miscellaneous (7)	4,066	2,395
	24,799	14,002

(28) Other Provisions

As of December 31, 2000, €16,668 million of the above provisions mature after more than one year (1999: €9,453 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 €1,239 million (1999: €681 million). The advance payments are pre-payments to nuclear fuel reprocessors, to other waste-management companies as well as to governmental authorities relating to reprocessing facilities for spent fuel rods and the construction of permanent storage facilities. The requirement for spent nuclear fuel reprocessing and disposal/storage is based on the German Nuclear Power Regulations Act (*Atomgesetz*).

Operators may either recycle or permanently dispose of nuclear waste.

E.ON Energie has entered into contracts with two large European fuel reprocessing firms, BNFL in the UK and Cogema in France, for the reprocessing of all spent nuclear fuel. The contract terms are through 2005. The radioactive waste which results from reprocessing will be returned to Germany to be stored in an authorized storage facility.

The accrual for the costs of spent nuclear fuel reprocessing includes the costs for all components of the reprocessing requirements including the costs of transporting spent fuel to the reprocessing firms, of fuel reprocessing, and of outbound transportation of nuclear waste. The stated cost estimates are based primarily on existing contracts.

Accruals for the costs of permanent disposal of spent fuel rods include contractual costs for procuring intermediate containers and estimates for the costs of intermediate on-site storage at power stations, the costs of transporting spent fuel rods to conditioning facilities, conditioning costs, and costs for procuring permanent storage containers.

Cost estimates for reprocessing and for permanent disposal are updated continually. The accrual for the disposal of spent fuel rods is provided over the period in which the fuel is consumed to generate electricity.

The liability for the nuclear portion of nuclear plant decommissioning is based on the *Atomgesetz*, while the liability for the non-nuclear portion depends upon legally binding civil and public regulations as well as voluntary agreements.

After cessation of energy production, the nuclear inventory will be removed from the power plant. The entire plant then will either be immediately dismantled and removed completely or sealed for a certain period of time (approximately 30 years) before final removal.

The accrual for the costs of nuclear plant decommissioning includes the expected costs for run-out operation, closure and maintenance of the facility, dismantling and removal of both the nuclear and non-nuclear portions of the plant, conditioning, and temporary and final storage of contaminated waste. The expected decommissioning and storage costs are based upon studies performed by independent third parties and are updated continuously. The accrual is provided over 19 years.

The accrual for the costs of the disposal of low level nuclear waste covers all cost of conditioning and final storage of low level waste which is generated in the operations of the facilities.

For all facilities in Germany, accruals for the costs of nuclear fuel reprocessing, of nuclear plant decommissioning, and of the disposal of low level nuclear waste are calculated using similar methods and also include the costs for the permanent disposal of radioactive waste.

Permanent disposal costs include investment, operating, and financing costs for the permanent storage facilities in Gorleben and Konrad and stem from advance payment regulations for permanent storage facilities and are based on data from German Federal Office for Nuclear Safety (*Bundesamt für Strahlen-*

schutz). Each year the Company makes advance payments to the *Bundesamt für Strahlenschutz* commensurate with its growing information base.

Furthermore, in calculating the provisions for nuclear waste management, the Company took into account the effects of the nuclear energy consensus agreement reached by the German government and the country's major energy utilities on June 14, 2000.

(2) Provisions for taxes mainly consist of corporate income taxes, including the solidarity surcharge, trade tax on income and foreign income taxes.

(3) Provisions for personnel expenses primarily cover provisions for vacation pay, early retirement benefits, anniversary obligations and other deferred personnel costs.

(4) Provisions for outstanding trade invoices represent the recognition of a liability for cost of products or services received or rendered for which a related invoice has not been received.

(5) Provisions for environmental remediation refer primarily to land reclamation, rehabilitating contaminated sites, redevelopment and water protection measures, borehole sealing, clearing mining fields and recultivating landfills.

(6) Of the provisions for reclamation, €90 million (1999: €90 million) is for potential damages arising from former hardcoal mining activities and €85 million (1999: €85 million) 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.

Notes

(29) Liabilities

Liabilities								
€ in millions	2000				1999			
	Total	With a remaining term of			Total	With a remaining term of		
		up to 1 year	1 to 5 years	over 5 years		up to 1 year	1 to 5 years	over 5 years
Option bonds	-	-	-	-	266	266	-	-
Bank loans/Liabilities to banks	10,871	4,184	4,332	2,355	3,749	794	1,458	1,497
Liabilities related to banking operations	1,048	573	195	280	991	505	202	284
Bills payable	115	115	-	-	10	10	-	-
Other financial liabilities	2,212	2,047	150	15	211	29	159	23
Financial liabilities	14,246	6,919	4,677	2,650	5,227	1,604	1,819	1,804
Accounts payable	5,926	5,895	31	-	3,336	3,318	18	-
Affiliated companies	4,863	4,717	93	53	187	187	-	-
Liabilities to companies in which participating interests are held	2,775	2,658	33	84	2,181	2,132	3	46
Capital expenditure grants	337	25	95	217	343	24	93	226
Construction grants from energy customers	2,765	210	778	1,777	1,338	98	370	870
Advance payments (deferred revenue)	381	333	48	-	215	172	43	-
Other	4,853	2,508	268	2,077	1,846	1,734	76	36
thereof taxes	(769)	(769)	-	-	(242)	(242)	-	-
thereof social security contributions	(201)	(201)	-	-	(110)	(110)	-	-
Other liabilities	21,900	16,346	1,346	4,208	9,446	7,665	603	1,178
Liabilities	36,146	23,265	6,023	6,858	14,673	9,269	2,422	2,982

In the Consolidated Balance Sheets as of December 31, 2000, liabilities are reported net of the interest portion of non-interest-bearing and low-interest liabilities in the amount of €35,920 million. This interest portion, which amounts to €226 million, is reported under pre-paid expenses in the Company's Consolidated Balance Sheets.

Financial Liabilities. The option bond nominal value of US\$300 million of coupon bonds issued in 1993 by VEBA International Finance B.V. (now: E.ON International Finance B.V.), a wholly-owned subsidiary of E.ON, each in an amount of US\$5,000.00, with 28 warrants attached, was redeemed at par on April 6, 2000. Interest at a rate of 6 percent was payable annually. E.ON has given its unconditional and irrevocable guar-

antee for the due payments of principal and interest. The option period expired on April 6, 1998.

As of December 31, 2000, other financial liabilities mainly include Medium Term Notes and Commercial Paper of E.ON AG as well as bearer bonds of the Degussa Bank. These bonds have various maturity dates and carry interest rates that range from 4.9 percent to 9.5 percent.

Secured liabilities to banks totaled €1,703 million at December 31, 2000 (1999: €1,467 million). The collateral includes mortgages of €1,310 million (1999: €1,312 million). Of the remaining liabilities to non-banks disclosed, only insignificant amounts are secured.

€927 million in financial liabilities (1999: €480 million) are non-interest bearing and low-interest liabilities granted to companies in the Real Estate Division and the Oil Division. They are attributable to low-interest loans for the construction of subsidized housing with an interest rate below 2 percent and to non-interest bearing German government loans for petroleum and natural gas exploration.

€14,311 million in operating liabilities are non-interest bearing (1999: €7,537 million).

Bank loans are summarized as follows:

Bank loans						
	2000			1999		
	€ in millions	Interest rate	Maturity	€ in millions	Interest rate	Maturity
Bank loans secured by mortgages on real estate	339	0.5% - 7.5%	through 2040	449	0.5% - 7.5%	through 2040
Bank loans secured by mortgages on real estate	1,032	7.6% - 19.5%	through 2040	825	7.6% - 19.5%	through 2040
Other secured bank loans	332	0.5% - 19.5%	through 2040	193	0.5% - 19.5%	through 2040
Unsecured bank loans, drawings on credit lines, short-term loans	9,168	0.5% - 19.5%	through 2040	2,282	0.5% - 19.5%	through 2040
	10,871			3,749		

Bank loans that bear interest below market rates have been granted mainly to the Real Estate Division for financing residential rental properties. 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 discontinuation is reported under prepaid expenses and released in subsequent years as rent. The interest on the liabilities results in increased interest expenses.

Interest payments to banks amount to €293 million (1999: €99 million).

As of December 31, 2000, bank loans have the following maturities:

Bank loan maturities	
€ in millions	
2001	3,991
2002	1,934
2003	639
2004	1,022
2005	3,285
	10,871

In addition to the drawings on credit lines shown above, at year-end 2000 E.ON AG had committed and available credit lines of €2,295 million at domestic and foreign banks for financing purposes. These lines of credit at domestic and foreign banks have maturities of up to one year and variable interest rates up to 0.25 percent above the EURIBOR or the London Inter-

bank Offered Rate (LIBOR). In addition, a two-year, €1,022 million syndicated credit line facility with an interest rate of up to 0.125 percentage point above EURIBOR. The Company had utilized €400 million of the syndicated credit line facility as of year-end 2000.

€2 billion in Commercial Paper and €2 billion in Medium Term Notes are also available to the Company for financing purposes. As of the balance-sheet date, €1,896 million of the Commercial Paper and €106 million of Medium Term Note programs had been utilized.

Other Liabilities. The figure shown under liabilities to affiliated companies includes VR Telecommunications GmbH & Co's loans of roughly €4.5 billion, approximately €4.2 billion of which was transferred to VIAG Telecom to finance VIAG Interkom's acquisition of a German UMTS license.

Capital expenditure grants of €337 million are paid primarily by customers in the Electricity Division for capital expenditures made on their behalf, while E.ON retains the assets. The grants are non-refundable and are recognized in other operating income based upon the depreciable lives of the related asset.

Construction grants of €2,765 million are paid by customers of the Electricity Division for costs of connections according to the generally binding linkup terms. The grants are non-refundable and are recognized as sales according to the useful life.

Notes

(30) Contingencies and Commitments

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

Contingencies		
€ in millions	2000	1999
Contingent liabilities on bills of exchange	41	6
Contingent liabilities from guarantees	619	389
Contingent liabilities from warranties	770	99
Contingent liabilities from granting collateral on behalf of third parties	710	129
Other contingent liabilities	150	22
	2,290	645

Contingent liabilities also exist according to Sec. 24 of the Private Limited Liability Companies Act ("*GmbHG*") for outstanding contributions of co-stockholders to the capital of various companies. These relate to future capital contributions required to be made by other co-stockholders parties for which E.ON could be held liable should the required co-stockholders fail to meet its obligations.

Long-term Contractual Obligations. As of December 31, 2000, long-term contractual obligations related to jointly operated power plants exist to purchase fixed quantities of electricity from both affiliated companies and other utilities. The purchase price of electricity from jointly operated power plants is determined by the supplier's production cost plus a profit margin that is generally calculated on the basis of an agreed return on capital. Other utilities are primarily operators of wind-driven power plants to whom a regulated remuneration at fixed minimum prices must be paid in accordance with the Electricity Feed-In Law.

Long-term contractual obligations have also been entered into by the Electricity Division in connection with the reprocessing and storage of spent fuel elements. Respective prices are based on prevailing market conditions.

Purchase commitments for the remaining term of the aforementioned long-term contractual obligations total €5,219 million and are as follows:

Purchase commitments	
€ in millions	
2001	571
2002	504
2003	460
2004	443
2005	426
Thereafter	2,815
	5,219

There also exist additional customary long-term fuel procurement contracts.

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

Other financial obligations	
€ in millions	
2001	398
2002	311
2003	273
2004	246
2005	242
Thereafter	1,157
	2,627

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

Other financial obligations in the amount of €2,980 million (1999: €2,559 million) include the €2,045 million cash offer for Laporte plc. Commitments for capital expenditures on expansion and environmental protection measures, commitments to grant credits as well as other contracted but not yet effective investments in financial assets are also included. Included in the commitments to grant credits is a conditional obligation to grant subordinated loans in the amount of €213 million (1999: €256 million). Moreover, the Electricity Division has financial commitments relating to a cash offer to minority shareholders of OBAG, EVO, Contigas, and Isar-Amperwerke.

(31) Litigation and Claims

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

In the wake of the various corporate restructurings of the past several years, shareholders have filed a number of claims (*Spruchstellenverfahren*). The claims contest the adequacy of share exchange ratios or cash settlements. The claims impact the Company's Electricity, Chemicals, and Distribution/Logistics Divisions as well as the VEBA-VIAG merger. Because the share exchange ratios and settlements were determined by outside experts and reviewed by independent auditors, E.ON believes that the exchange ratios and settlements are correct.

E.ON is a member of "Remembrance, Responsibility, and the Future" (*Erinnerung, Verantwortung und Zukunft*), the foundation established by German companies to benefit Nazi-era forced laborers. On July 17, 2000, an agreement was signed by the Federal Republic of Germany and the USA. The agreement was designed to achieve the final dismissal of all existing and future lawsuits in the USA. Despite the agreement, it is possible that individual or class-action lawsuits will be filed in the USA. As the successor entity to VIAG, E.ON AG is currently named as a defendant in a class-action lawsuit directed at various banks. The Company assumes that the establishment of the Remembrance, Responsibility, and the Future foundation will lead to the dismissal of all existing lawsuits in the USA against German companies.

Notes

(32) Supplemental Disclosure of Cash Flow Information

The financing requirements for investments net of disposals of €4,348 million (1999: 1,712 million) were covered by cash from operations totaling €3,473 million (1999: 3,255 million). The assumption of additional debt was required to financing all activities. Cash used for financing activities amounted to €1,943 million (1999: €1,383 million). Liquid funds increased by €1,068 million (1999: €160 million) in the year under review.

Supplemental disclosure of cash flow information		
€ in millions	2000	1999
Cash paid during the year for		
Interest, net of amounts capitalized	257	342
Income taxes, net of refunds	2,789	1,356
Non-cash investing and financing activities		
Merger of Degussa and Hüls	-	2,400
Merger of VEBA and VIAG	9,271	-
Contribution of Schmalbach-Lubeca for shares of AV Packaging	290	-
Disposal of shares of Orange Communication S.A.	1,077	-
Acquisition of minority interest in E.ON Energie	612	-

Payments for acquisitions of subsidiaries during the current year amount to €2,710 million (1999: €1,600 million). Liquid funds acquired herewith amount to €238 million (1999: €3 million). These purchases rendered assets amounting to €5,264 million (1999: €1,969 million) as well as provisions and liabilities totaling €2,749 million (1999: €577 million).

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

Liquid funds at MKC in the amount of €74 million are subject to Korean government currency quotas.

(33) Financial Instruments

a) Derivative Financial Instruments

During the normal course of operational business and resulting financing activities, E.ON is exposed to currency, interest rate, and commodity price risks. The Company makes use of derivative financial instruments to eliminate or limit these risks. Derivative instruments held by the Company are used for hedging and not for trading purposes. For hedging purposes, exclusive use is made of established and commonly used instruments with sufficient market liquidity.

Currency and Interest Rate Derivatives. On the balance-sheet date, hedging transactions cover risks in interest and exchange rates arising from transactions that include recognized transactions, firm commitments and anticipated deliveries, services, and other business transactions (underlying transactions).

In line with E.ON's hedging policy, in general macro-hedging transactions can be completed for periods of up to twelve months at a time to cover currency risks. Macro-hedging transactions represent a number of individual underlying transactions that have been grouped together and hedged as an individual unit. As of December 31, 2000, currency hedges were conducted especially for the U.S. dollar, British pound, and Japanese Yen.

Financial derivatives are also concluded in order to realize time congruent hedging of interest rate risks. Macro-hedging transactions can be concluded for periods of up to five years to cover interest rate risks. For micro-hedging purposes, any adequate term is allowed for individual hedges of foreign exchange and interest rates. However, these transactions must perfectly match the amounts and terms of the respective

underlying transactions in order to form hedge accounting. Once allocated, gains and losses from these valuation units do not effect income until the underlying transaction is realized.

The Company's Corporate Treasury, which is responsible for entering into derivative foreign exchange and interest rate contracts, acts as a service center for the Company and not as a profit center. With E.ON AG's approval, the currency and interest rate risks of Group companies are also hedged with external parties. The Company is informed at regular intervals about the scope of underlying and hedging transactions via the EDP-based reporting and controlling system implemented throughout the Group.

The range of action, responsibilities, and financial reporting procedures are outlined in detail in the Company's internal guidelines. The individual subgroup headquarters have enacted for their responsible financial risk management own guidelines. To ensure efficient risk management at E.ON AG, the Treasury, Back Office, and Finance Controlling Departments are organized as strictly separate units. Standard software is employed in processing business transactions. The Finance Controlling Department ensures continuous and independent risk management. It prepares operational financial plans, calculates market-price and counterparty risks, and evaluates financial transactions. The Finance Controlling Department reports at regular intervals on the Group's market-price and counterparty risks. Those Group's subsidiaries which make use of external hedging transactions have similar organizational arrangements.

A computerized reporting and controlling system for treasury activities has been developed and implemented throughout the Company. This allows for the systematic and consistent detection and analysis of all the Company's overall financial and market risks in the area of currencies and interest rates. The system is also used to determine, analyze, and monitor the Company's short- and long-term financing and investment requirements. In addition, the deployed systems guarantee continuous and up-to-date analysis of market and counterparty risks ensuing from concluded short- and long-term deposits and hedging transactions.

Currency and Interest Rate Market Risks. With respect to derivatives, market risks contain the positive and negative changes in net asset value that result from price fluctuations on various financial markets. The market values of derivative financial instruments are calculated by comparing all relevant price components of a transaction at the time of the deal with those prevailing on the valuation date. In line with international banking standards, market risk has been calculated with the value-at-risk method on the basis of the RiskMetrics data and risk management software of RiskMetrics Group. The maximum potential loss within the following business day from derivative positions that are not covered by booked and pending transactions is calculated based on empirical standard deviations and using a confidence interval of 99 percent. Correlations between individual instruments within a single currency are accounted for; the risk of a portfolio is generally lower than the sum of its individual risks. For the foreign exchange and interest rate derivatives correlations between instruments and currencies are recognized.

As a means of monitoring market risks, including those cases with extreme market price fluctuations, a stress test is performed on derivative positions at regular intervals and in line with the recommendations issued by the Bank for International Settlements (BIS). Financial derivatives by transaction and maturity as of December 31, 2000, are listed in the table on the next page.

Notes

Financial derivatives for hedging foreign currency and interest rate risks as of December 31, 2000

€ in millions (Remaining maturities)	Total volume of derivative financial instruments			Market risk of financial derivatives not covered by booked and pending transactions			
	Nominal value	Market value ¹	Value-at-risk	Nominal value	Market value ¹	Value-at-risk	Risk acc. to stress-test
FX forward transactions							
Buy	2,814.5	-87.9	20.7	280.3	1.3	14.7	44.1
Sell	3,413.3	101.9	38.8	812.2	5.5	2.6	7.8
FX currency options							
Buy	594.5	2.6	1.9	594.5	2.6	1.9	5.7
Sell	352.8	8.5	0.7	352.8	8.5	0.7	2.1
Subtotal	7,175.1	25.1	25.0	2,039.8	17.9	18.7	56.1
Cross currency swaps							
up to 1 year	71.3	-11.4	2.7	-	-	-	-
1 year to 5 years	348.9	17.1	4.1	-	-	-	-
more than 5 years	51.1	-3.3	1.2	-	-	-	-
Interest rate/cross currency swaps							
up to 1 year	11.1	-1.9	0.5	-	-	-	-
1 year to 5 years	180.7	15.4	9.2	-	-	-	-
more than 5 years	-	-	-	-	-	-	-
Subtotal	663.1	15.9	4.3	-	-	-	-
Interest rate swaps							
Fixed-rate payer							
up to 1 year	107.4	0.7	1.0	-	-	-	-
1 year to 5 years	1,314.3	-16.6	3.1	62.6	-2.6	1.2	3.6
more than 5 years	303.2	-4.3	1.7	26.0	-0.6	0.2	0.6
Fixed-rate receiver							
up to 1 year	32.3	0.2	0.5	-	-	-	-
1 year to 5 years	20.5	-0.1	8.9	-	-	-	-
more than 5 years	38.3	0.8	0.4	-	-	-	-
Subtotal	1,816.0	-19.3	9.9	88.6	-3.2	1.3	3.9
Interest rate options							
Buy							
up to 1 year	-	-	-	-	-	-	-
1 year to 5 years	183.1	0.8	0.1	-	-	-	-
more than 5 years	138.6	1.2	0.2	-	-	-	-
Sell							
up to 1 year	-	-	-	-	-	-	-
1 year to 5 years	7.6	0.0	0.0	-	-	-	-
more than 5 years	58.1	0.0	0.0	-	-	-	-
Subtotal	387.4	2.0	0.3	-	-	-	-
Total	10,041.6	23.7	32.8	2,128.4	14.7	19.1	57.3

¹Market value deviation from nominal value.

The market risk shows the outstanding nominal values and market values of financial derivatives after economic hedging correlations are assigned between hedging contracts and booked and pending transactions as of the balance-sheet date. They represent those financial derivatives that are not assigned to a balance sheet item or a pending purchase or sales contract. These items occur if the Company conclude hedging transactions in order to hedge currency and interest rate risks deriving from anticipated transactions. Nevertheless to a large extent interest rate

derivatives are hedge-accounted with underlying balance-sheet transactions.

The market risk of currency forwards, options, interest rate swaps and options, which are not covered by booked and pending transactions for the 2000 Financial Year and as of December 31, 1999 are listed on the next page.

Market risk of financial derivatives not covered by booked and pending transactions during Financial Year 2000 and as of December 31, 1999

Market risk of financial derivatives not covered by booked and pending transactions during financial year 2000 and as of Dec. 31, 1999						
€ in millions (Remaining maturities)	September 30, 2000			June 30, 2000		
	Nominal value	Market value ¹	Value-at-risk	Nominal value	Market value ¹	Value-at-risk
FX forward transactions						
Buy	1,007.8	57.8	21.2	533.6	9.8	5.7
Sell	774.8	-46.8	3.9	563.7	4.9	4.7
FY currency options						
Buy	325.1	2.2	0.7	9.4	0.0	0.7
Sell	214.9	2.6	0.6	300.0	-4.1	-
Subtotal	2,322.6	15.8	25.0	1,406.7	10.6	10.8
Interest rate swaps						
Fixed-rate payer						
up to 1 year	-	-	-	-	-	-
1 year to 5 years	57.8	-2.6	1.7	5.1	-0.2	-
more than 5 years	26.7	0.2	0.5	36.2	1.0	0.4
Subtotal	84.5	-2.4	2.1	41.3	0.8	0.4
Total	2,407.1	13.4	27.1	1,448.0	11.4	10.9

€ in millions (Remaining maturities)	March 31, 2000			December 31, 1999		
	Nominal value	Market value ¹	Value-at-risk	Nominal value	Market value ¹	Value-at-risk
FX forward transactions						
Buy	765.8	35.8	2.9	185.2	8.3	1.9
Sell	582.2	-16.9	6.8	327.2	-0.1	4.6
FY currency options						
Buy	14.5	0.0	0.1	23.1	-0.4	0.0
Sell	327.7	0.2	1.0	48.7	-0.9	0.1
Subtotal	1,690.2	19.1	8.9	584.2	6.9	6.2
Interest rate swaps						
Fixed-rate payer						
up to 1 year	2.5	0.0	0.0	35.7	0.0	0.0
1 year to 5 years	5.1	-0.3	0.4	72.9	1.1	0.3
more than 5 years	36.2	0.9	0.0	19.9	1.1	0.1
Subtotal	43.8	0.6	0.4	128.5	2.2	0.4
Total	1,734.0	19.7	9.0	712.7	9.1	6.6

¹Market value deviation from nominal value.

The increase of the nominal value in financial derivatives essentially arises from the merger between VEBA and VIAG as per July 1, 2000.

A sensitivity analysis was performed on the Group's short- and long-term capital investments and borrowings including interest rate derivatives. For instance, a 100 basis-point shift in the interest rate structure curve would change the interest rate portfolio's market value by €126 million (1999: €76 million) on the balance sheet date. The market risk according to the value-at-risk model amounts to €97 million (1999: €44 million).

Other equity interests and securities are also based on market prices. A 10 percent potential change in the market value of these assets would amount to €563 million (1999: €325 million).

Notes

Commodity Derivatives. Furthermore, the businesses of certain subsidiaries are exposed to risks resulting from fluctuations in the prices of raw materials and commodities. Hedging transactions of notable scope are only concluded in the Oil and Aluminum Division as well as precious metals trading. Electricity and gas price hedges were also used to a limited extent in 2000. The counterparties to these transactions are financial institutions, broker and trading companies that satisfy E.ON's credit rating criteria.

Hedging transactions involving oil-related derivatives cover the risk of fluctuating prices for crude oil and petroleum products arising from production, refining, and distribution. Pursuant to the guidelines of the divisions affected, macro-hedging transactions can be concluded to cover volumes representing an equivalent of up to a full year of production. In certain cases, it is permissible to conclude appropriate forward transactions to hedge longer-term underlying transactions. Congruent derivatives can be used to hedge open positions in oil or oil-product trading on a case by case basis. These items have individual volumes with short terms and are directly related to the underlying transaction. In order to meet the criteria for hedge accounting under SFAS 133 in the future crack swaps were split into crude oil and product swaps. These transactions lead to a considerable increase in nominal value, without changing the net position.

In order to hedge fluctuating prices and margins in the aluminum market arising from production and marketing, the Aluminum Division concluded hedging transactions.

For gold, silver, and other precious metals, derivatives are used to hedge price risks resulting from the product and processing businesses. Over-the-counter hedging transactions are utilized in addition to metals transactions at commodity exchanges. An insignificant volume of the hedge instruments in metals is contracted, in order to use expected price fluctuations.

The hedging transactions in the Electricity Division are used to hedge electricity and gas price fluctuations and enable the Company to better coordinate power generating capacities and delivery agreements.

Total volume of oil-, metal-, gas- and electricity-related financial derivatives during the 2000 Financial Year and as of December 31, 1999

€ in millions (Remaining maturities)	Dec. 31, 2000		Sep. 30, 2000		June 30, 2000		March 31, 2000		Dec. 31, 1999	
	Nominal value	Market value ¹	Nominal value	Market value ¹	Nominal value	Market value ¹	Nominal value	Market value ¹	Nominal value	Market value ¹
Crude oil swaps										
Buy up to 1 year	293.5	-31.7	90.2	-4.6	55.4	7.5	76.2	-1.0	33.2	3.4
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	159.8	12.6	176.4	-40.6	193.9	-63.4	234.0	-43.9	188.2	-20.8
more than 1 year	25.6	-4.7	40.0	-9.9	36.7	-4.2	-	-	-	-
Subtotal	478.9	-23.8	306.6	-55.1	286.0	-60.1	310.2	-44.9	221.4	-17.4
Refinery margin and petroleum product swaps										
up to 1 year	424.3	20.5	161.6	-30.9	129.3	-24.1	154.3	-12.9	220.3	-5.2
more than 1 year	151.3	18.0	9.4	-2.2	0.7	0.6	-	-	11.0	1.5
Subtotal	575.6	38.5	171.0	-33.1	130.0	-23.5	154.3	-12.9	231.3	-3.7
Crude oil options										
Buy up to 1 year	41.9	-0.1	37.1	4.5	56.6	6.8	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	136.9	4.3	141.8	-3.5	96.7	-5.0	-	-	-	-
more than 1 year	136.7	-2.5	172.8	-5.7	171.3	-6.7	-	-	-	-
Subtotal	315.5	1.7	351.7	-4.7	324.6	-4.9	-	-	-	-
Exchange traded oil future contracts										
Buy up to 1 year	4.3	-0.2	43.9	0.8	37.2	6.8	87.7	-1.5	15.2	0.1
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	20.2	0.6	18.7	-0.5	29.7	-2.3	103.5	-0.9	52.9	-0.5
more than 1 year	5.6	-0.2	-	-	-	-	-	-	-	-
Subtotal	30.1	0.2	62.6	0.3	66.9	4.5	191.2	-2.4	68.1	-0.4
Total oil-related financial derivatives	1,400.1	16.6	891.9	-92.6	807.5	-84.0	655.7	-60.2	520.8	-21.5
OTC precious metal future contracts										
Buy up to 1 year	282.7	17.6	265.5	-0.2	207.7	8.5	146.4	3.0	128.0	5.2
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	213.8	-22.0	183.6	-8.4	153.9	-17.5	159.2	-18.1	56.7	-10.3
more than 1 year	5.7	0.4	5.1	0.3	5.3	-0.4	-	-	2.5	0.2
Subtotal	502.2	-4.0	454.2	-8.3	366.9	-9.4	305.6	-15.1	187.2	-4.9
Aluminum future contracts										
Buy up to 1 year	524.6	-13.5	382.6	26.5	-	-	-	-	-	-
more than 1 year	59.8	-0.3	66.8	1.3	-	-	-	-	-	-
Sell up to 1 year	589.5	-28.4	542.3	77.3	-	-	-	-	-	-
more than 1 year	274.5	-12.4	329.7	39.3	-	-	-	-	-	-
Subtotal	1,448.4	-54.6	1,321.4	144.4	-	-	-	-	-	-
Precious metal options										
Buy up to 1 year	-	-	-	-	-	-	-	-	0.5	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	-	-	-	-	-	-	-	-	3.0	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-	3.5	-
Carryover	1,950.6	-58.6	1,775.6	136.1	366.9	-9.4	305.6	-15.1	190.7	-4.9

¹Market value deviation from nominal value.

Notes

Total volume of oil-, metal-, gas- and electricity-related financial derivatives during the Financial Year 2000 and as of Dec. 31, 1999

€ in millions (Remaining maturities)	Dec. 31, 2000		Sep. 30, 2000		June 30, 2000		March 31, 2000		Dec. 31, 1999	
	Nominal value	Market value ¹	Nominal value	Market value ¹	Nominal value	Market value ¹	Nominal value	Market value ¹	Nominal value	Market value ¹
Carryover	1,950.6	-58.6	1,775.6	136.1	366.9	-9.4	305.6	-15.1	190.7	-4.9
Exchange traded metal future contracts										
Buy up to 1 year	19.4	1.8	32.9	1.8	32.0	2.0	37.2	-0.4	11.2	0.4
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	46.0	-3.1	43.4	0.5	49.7	0.1	72.2	0.4	85.1	-4.6
more than 1 year	-	-	-	-	0.4	-	0.4	-	-	-
Subtotal	65.4	-1.3	76.3	2.3	82.1	2.1	109.8	-	96.3	-4.2
Total metal-related financial derivatives	2,016.0	-59.9	1,851.9	138.4	449.0	-7.3	415.4	-15.1	287.0	-9.1
Electricity swaps										
Buy up to 1 year	-	-	0.5	0.2	-	-	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	-	-	1.1	-0.9	-	-	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Subtotal	-	-	1.6	-0.7	-	-	-	-	-	-
Electricity options										
Buy up to 1 year	0.7	-	24.4	1.8	-	-	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	7.2	-0.5	27.8	-6.8	-	-	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Subtotal	7.9	-0.5	52.2	-5.0	-	-	-	-	-	-
Gas swaps										
Buy up to 1 year	25.1	0.4	25.1	2.1	-	-	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	-	-	-	-	-	-	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Subtotal	25.1	0.4	25.1	2.1	-	-	-	-	-	-
Gas options										
Buy up to 1 year	29.8	0.2	29.8	1.9	-	-	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell up to 1 year	-	-	-	-	-	-	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Subtotal	29.8	0.2	29.8	1.9	-	-	-	-	-	-
Total electricity- and gas-related financial derivatives	62.8	0.1	108.7	-1.7	-	-	-	-	-	-
Total oil-, metal-, electricity- and gas-related financial derivatives	3,478.9	-43.2	2,852.5	44.1	1,256.5	-91.3	1,071.1	-75.3	807.8	-30.6

¹Market value deviation from nominal value.

The increase of the nominal value in financial derivatives essentially arises from the merger between VEBA and VIAG as per July 1, 2000.

A 10 percent change in underlying raw material and commodity prices would cause the market value of commodity hedging transactions to change by

€11 million (1999: €11 million). These are commodity hedging transactions for which no hedge accounting was applied.

Counterparty Risk from the use of Derivative Financial Instruments.

Counterparty risk addresses potential losses that may arise from the non-fulfillment of contractual obligations by individual counterparties. With respect to derivative transactions, during lifetime counterparty risk is restricted to the replacement cost incurred by covering the open position should a counterparty default. Only transactions with a positive market value for E.ON are exposed to this risk. Exchange traded oil and metal future contracts with a nominal value of €95.5 million as of December 31, 2000 (1999: €164.4 million) bear no counterparty risk. Derivative transactions are generally executed on the basis of standard agreements that allow all outstanding trans-

actions with contracting partners to be offset. The netting of transactions with positive and negative outstanding market values is not considered in the table below. Qualified counterparties only include financial institutions, broker and metal trading companies that satisfy E.ON's credit criteria. The Divisions involved in oil-, metal-, gas- and electricity-related derivatives also perform thorough credit checks and monitor credit-worthiness on an ongoing basis. In general, collateral for derivative transactions is neither provided nor received.

In summary, derivatives had the following lifetime and credit structure as of December 31, 2000:

Rating of counterparties								
Standard & Poor's and/or Moody's	Total		up to 1 year		1 to 5 years		more than 5 years	
	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk
€ in millions								
AAA and Aaa	1,360.9	21.3	711.2	14.3	492.8	5.9	156.9	1.1
AA+ and Aaa or AAA and Aa1 through AA- and Aa3	5,884.3	127.7	4,295.8	86.4	1,356.4	38.9	232.1	2.4
AA- and A1 or A+ and Aa3 through A or A2	3,478.3	129.8	2,335.6	86.9	996.8	42.5	145.9	0.4
Other	2,701.5	56.1	1,933.6	40.7	713.5	15.0	54.4	0.4
Total	13,425.0	334.9	9,276.2	228.3	3,559.5	102.3	589.3	4.3

b) Non Derivative Financial Instruments

The estimated fair-value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company would realize under current market conditions.

The estimated fair value of financial instruments at December 31, 2000 and 1999, is summarized.

Market values				
€ in millions	As of Dec. 31, 2000		As of Dec. 31, 1999	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial instruments (other than derivative instruments)				
Assets:				
Loans	2,948	3,014	2,518	2,545
Securities	8,189	9,132	2,222	2,580
Cash and cash equivalents	1,201	1,201	1,566	1,566
Other	630	630	611	611
Liabilities:				
Financial liabilities	14,047	13,998	5,227	5,119

Notes

The increase of the nominal value in non derivative financial instruments essentially arises from the merger between VEBA and VIAG as per July 1, 2000.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

For cash and cash equivalents the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of loans and other financial instruments is valued by discounting the future cash flows by using the current rate for comparable instruments. The fair value of funds and non-marketable securities is based on quoted market prices of the investments or other appropriate valuation techniques.

Fair values for financial liabilities were estimated by discounting expected cash flows using market interest rates currently available for debt of similar terms and remaining maturities. The carrying value of commercial paper, medium term notes and borrowings under revolving credit facilities were assumed to approximate fair value due to their short maturities.

The Company believes the overall credit risk related to non derivative financial instruments is insignificant.

(34) Segment Information

The Company's reportable segments are presented in line with the Company's internal organizational and reporting structure based on products and services. The segments are managed separately because each business develops, manufactures, and sells distinct products and services. The reportable segments are Electricity, Oil, Chemicals, Real Estate, Telecommunications, Distribution/Logistics, Aluminum and Silicon Wafers. The column "Other/Consolidation" includes the holding company, AV Packaging GmbH (Schmalbach-Lubeca), which is accounted for under the equity method, and effects from consolidation.

Below is information on the Company's business segments.

Electricity consists of E.ON Energie AG, which was formed on July 13, 2000, by the PreussenElektra-Bayernwerk merger. E.ON Energie supplies electricity, district heating, natural gas, water, and water-related services.

VEBA Oel manages the Company's oil, gas, and petrochemicals operations. VEBA Oel's core business consists of the exploration for and production of hydrocarbons, refining of crude oil, production of petrochemicals and the marketing of petroleum products and petrochemicals.

The Chemicals Division comprises Degussa-Hüls AG and SKW Trostberg AG. Both are specialty chemicals companies. On February 9, 2001 the two companies merged to form Degussa AG.

Real Estate consists of Viterra, a real-estate services group. Viterra has four strategic business units: Residential Investment, Residential Development, Residential Services, and Commercial.

The Company's telecommunications activities are overseen by two holding companies: E.ON Telecom (formerly VEBA Telecom) and VIAG Telecom Beteiligungs GmbH. In August 2000, E.ON concluded an option agreement with British Telecommunications plc. (BT). The agreement grants VIAG Telecom Beteiligungs GmbH a put option, and BT a call option, on the shareholding in VIAG Interkom in 2001.

The Company’s distribution and logistics operations are organized in three holding companies: Stinnes, Klöckner AG, and (until September 30, 2000) VEBA Electronics. Stinnes provides logistics services in the following areas: Transportation, Chemicals, Raw Materials, Steel, and Full-line Wholesaling. Klöckner is a leading multi-metal distributor. VEBA Electronics is a distributor of electronic components.

The Company’s Aluminum Division consists of VAW aluminium AG, a leading aluminum manufacturer and processor for the packaging, automotive, and construction industries. VAW has four divisions: Primary Materials, Rolled Products, Automotive Products, and Flexible Packaging.

MEMC manages the Group’s silicon wafer operations. MEMC is one of the world’s premier manufacturers of silicon wafers used in the manufacture of semiconductors.

Other includes E.ON AG, shareholders 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 operations (after foreign taxes related to exploration and production). Income from operations for a certain reporting period corresponds to pretax income as reported in the Consolidated Income Statement for that period. Pretax income is adjusted primarily to exclude material non-operating income and expenses which are unusual (as defined by E.ON) or infrequent. These adjustments primarily include book gains and losses from large divestments and restructuring expenses.

Depreciation of fixed assets, income from companies accounted for under the equity method, and interest income have been adjusted to exclude non-operating expenses and income and may therefore deviate from earnings reported in the Consolidated Statement of Income.

To serve internal management and control purposes, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions resulting from personnel expenses is allocated to interest income. The interest portions of the allocations of other long-term provisions are treated analogously to the degree that they are reported on different lines of the Consolidated Income Statement.

The individual reporting segments apply the accounting standards listed under Note (2). Internal sales are valued at market prices.

Reconciliation of internal operating profit to income before income taxes is as follows:

Segment information		
€ in millions	2000	1999
Internal operating profit	2,396	2,072
Net book gains (a)	4,636	2,337
Restructuring expenses/ cost management programs (b)	-510	-402
Other non-operating earnings (c)	-523	92
Foreign exploration and production income taxes (d)	552	301
Income before income taxes	6,551	4,400

Notes

(a) Net book gains in the reporting period primarily comprise gains from the disposal of the shareholdings in E-Plus (approximately €3.5 billion) and in Cablecom, the Swiss cable-TV company (approximately €0.8 billion).

(b) Restructuring and cost-management expenses were incurred by the Chemicals Division in the amount of approximately €180 million, by the Electricity Division in the amount of approximately €160 million, and by the Oil Division in the amount of approximately €120 million stemming from its realignment.

(c) Other non-operating earnings in 2000 include expenses related to the disposal of shareholdings required by antitrust authorities (approximately €350 million)

as well as the costs of the VEBA-VIAG merger and the mergers in the Chemicals and Electricity Divisions (approximately €200 million).

(d) Due to the high tax burden, pre-tax income in VEBA Oel's upstream sector is not of great significance. Internal operating profit for the Oil Division is therefore stated net of foreign exploration and production income taxes; this procedure deviates from the method applied to determine internal operating profit in other segments. These taxes must be added back when reconciling from internal operating profit to pretax income.

Segment information by division											
€ in millions		Electricity	Oil	Chemicals	Real Estate	Tele-communication	Distribution/Logistics	Aluminum	Silicon Wafers	Holding/Others	Total
External sales ¹	2000	10,977	28,062	18,072	1,300	228	20,838	1,760	944	802	82,983
	1999	7,719	11,778	12,242	1,145	108	16,872	-	651	-	50,515
Intersegment sales	2000	50	718	126	24	1	47	17	-	-983	-
	1999	49	451	78	22	3	48	-	-	-651	-
Total sales	2000	11,027	28,780	18,198	1,324	229	20,885	1,777	944	-181	82,983
	1999	7,768	12,229	12,320	1,167	111	16,920	-	651	-651	50,515
Depreciation, amortization and write-downs	2000	1,615	632	1,061	134	259	316	58	187	185	4,447
	1999	1,134	260	843	134	158	319	-	147	-	2,995
Earnings from companies accounted for under the equity method	2000	109	38	21	2	-86	9	11	16	-72	48
	1999	418	-3	20	10	-196	10	-	-11	63	311
Interest income	2000	497	15	133	15	130	34	7	5	-19	817
	1999	314	18	87	5	47	24	-	2	-70	427
Interest expense	2000	460	183	401	88	107	213	22	99	40	1,613
	1999	390	33	258	-78	15	188	-	74	102	982
Internal operating profit	2000	1,099	310	576	212	-156	384	96	-68	-57	2,396
	1999	1,370	34	275	189	-150	276	-	-219	297	2,072
Capital expenditures											
Companies accounted for under the equity method	2000	458	-	48	2	386	8	1	16	19	938
	1999	273	-	12	52	43	1	-	-	-	381
Other financial assets	2000	2,057	1,111	583	83	3,895	356	313	-12	392	8,778
	1999	483	907	337	112	101	445	-	11	1,714	4,110
Other fixed assets	2000	841	612	1,044	399	310	298	119	62	74	3,759
	1999	593	401	949	169	27	295	-	49	43	2,526
Total capital expenditures	2000	3,356	1,723	1,675	484	4,591	662	433	66	485	13,475
	1999	1,349	1,308	1,298	333	171	741	-	60	1,757	7,017
Total assets	2000	57,244	9,178	19,158	4,074	12,711	8,727	2,915	2,050	-9,842	106,215
	1999	24,834	5,489	12,674	3,399	1,024	8,033	-	1,816	-1,050	56,219

¹External sales include petroleum and electricity taxes of €8,935 million (1999: €3,942 million).

Geographic segment information							
€ in millions		Germany	Europe (eurozone excluding Germany)	Europe (other)	USA	Others	Total
External sales							
By destination	2000	42,050	11,458	8,402	12,544	8,529	82,983
	1999	25,594	6,253	5,677	8,296	4,695	50,515
By operation	2000	48,093	8,958	8,562	11,132	6,238	82,983
	1999	30,988	4,819	2,476	7,755	4,477	50,515
Internal operating profit	2000	1,551	290	209	-14	360	2,396
	1999	1,675	49	142	71	135	2,072
Long-lived assets	2000	19,450	3,383	1,415	2,779	1,817	28,844
	1999	13,833	700	1,234	1,963	1,060	18,790

Geographic Segmentation. The table above details external sales (by destination and by operation) and internal operating profit and long-lived assets information by geographic area for the years ended December 31.

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.

Notes

(35) Supervisory Board and Board of Management

Provided that the Annual Stockholders' Meeting of E.ON on May 18, 2001 approves the proposed dividend, total remuneration of the members of the Supervisory Board will amount to €2.8 million (1999: €1.8 million) and those of the members of the Board of Management, including compensation for the performance of duties at subsidiaries, will amount to €13.0 million (1999: €9.6 million).

Total payments to retired members of the Board of Management and their beneficiaries amounted to €8.1 million (1999: €7.4 million).

Provisions of €66.1 million (1999: €39.5 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, 2000 and 1999, no loans to members of the Board of Management exist.

The members of the Supervisory Board and the Board of Management are listed on pages 4, 8 and 9.

(36) Earnings per Share

The computation of basic and diluted earnings per share for net income is as follows.

Earnings per share		
In million of euros or million of shares, except earnings per share	2000	1999
Numerator:		
Net income	3,570	2,991
Denominator:		
Weighted-average number of shares outstanding, basic	621	503
Dilutive effect of convertible bonds and notes	-	-
Shares issued on exercise of dilutive options	-	-
Shares purchased with proceeds of options	-	-
Weighted-average number of shares outstanding, diluted	621	503
Earnings per share		
Basic	5.75	5.95
Diluted	5.75	5.95

(37) Subsequent Events

The merger of Degussa-Hüls and SKW Trostberg, both E.ON subsidiaries, was entered into the Düsseldorf District Court's Commercial Register (HRB 39 635) on February 9, 2001. The merged company, called Degussa AG, has its registered office in Düsseldorf.

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

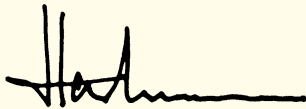
On January 16, 2001, E.ON AG exercised the put option to sell its 45 percent stockholding in VIAG Interkom. E.ON had agreed on the put option with London-based British Telecommunications in August 2000. This resulted in a cash inflow at VTB (VIAG Telecom Beteiligungs GmbH) in February 2001 in the total amount of €11.35 billion including shareholder loans

in the amount of €4.1 billion. Since the interest in VIAG Interkom was stated at fair value due to the merger of VEBA and VIAG, the gain from sale in 2001 will be immaterial.

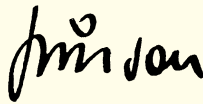
In January 2001 E.ON Energie AG raised its stake in Malmö-based Sydkraft AG, the Swedish energy utility. E.ON Energie increased its share of Sydkraft's capital stock by 5.3 percent for a total of 29.4 percent. It increased its share of the Swedish company's voting rights by 8.5 percent for a total of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

Düsseldorf, March 12, 2001

The Board of Management



Hartmann



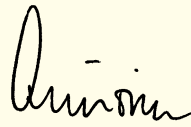
Simson



Gaul



Krüper



Schipporeit

Mandates of Board Members

Information on additional mandates carried by members of E.ON AG's Supervisory Board

Hermann Josef Strenger

Chairman of the Supervisory Board,
Bayer AG

Chairman (until May 25, 2000)

- Bayer AG (Chairman)
- Commerzbank AG
- Degussa-Hüls AG
- Linde AG
- Agfa-Gevaert N.V.

Dr. Klaus Liesen

Chairman of the Supervisory Board,
Ruhrgas AG

Chairman (since May 25, 2000)

- Allianz AG (Chairman)
- Deutsche Bank AG
- Preussag AG
- Ruhrgas AG (Chairman)
- Volkswagen AG (Chairman)
- Beck GmbH & Co. KG

Hubertus Schmoldt

Chairman of the Board of
Management, Industriegewerk-
schaft Bergbau, Chemie, Energie
Deputy Chairman

- Bayer AG
- Buna Sow Leuna
Olefinverbund GmbH
- RAG Coal International AG

Dr. Karl-Hermann Baumann

Chairman of the Supervisory Board,
Siemens AG

(since May 25, 2000)

- Allianz AG
- Deutsche Bank AG
- Linde AG
- mg technologies AG
- Schering AG
- Siemens AG (Vorsitz)
- ThyssenKrupp AG
- Wilhelm von Finck AG

Ralf Blauth

Industrial Clerk
(*Industriekaufmann*)

- Degussa-Hüls AG

Dr. Rolf-E. Breuer

Spokesman of the Board of
Management, Deutsche Bank AG

- DB Industrial Holdings AG¹
(Chairman)
- Bertelsmann AG
- Deutsche Börse AG (Chairman)
- Deutsche Lufthansa AG
- Münchener Rückversicherungs-
Gesellschaft AG
- Siemens AG
- Compagnie de Saint-Gobain S.A.
- Landwirtschaftliche Rentenbank

Dr. Gerhard Cromme

Chairman of the Board of
Management, ThyssenKrupp AG

- Allianz Versicherungs-AG
- Ruhrgas AG
- Volkswagen AG
- Thyssen Krupp Industries AG¹
(Chairman)
- Suez Lyonnaise des Eaux S.A.
- Thales/Thomson-CSF S.A.
- The Budd Company²

Rainer Dücker

Power Plant Worker
(until December 31, 2000)

- E.ON Energie AG
- E.ON Netz GmbH

Ulrich Hocker

General Manager, German Investor
Protection Association

- Brau und Brunnen AG
- Concordia Bau und Boden AG
(Chairman)
- Gerresheimer Glas AG
- Karstadt Quelle AG
- Systracom Bank AG
- Thyssen Krupp Steel AG
- Gartmore Capital Strategy Fonds
- Phoenix Mecano AG

Dr. h.c. André Leysen

Chairman of the Administrative
Board, Gevaert N.V.

- Agfa-Gevaert AG (Chairman)
- Bayer AG
- Deutsche Telekom AG
- Schenker AG
- Agfa-Gevaert N.V. (Chairman)
- Gevaert N.V. (Chairman)
- GIB Group N.V.
- Tessenderlo Chemie N.V.
- Vlaamse Uitgeversmaatschappij
N.V.

As of December 31, 2000, or the date of retirement from E.ON AG's Supervisory Board

- Supervisory Board mandates in accordance with Sec. 100, Para. 2 of the German Stock Corporation Act (AktG)
- Membership in comparable domestic and foreign supervisory bodies of commercial enterprises

¹Exempted Group mandate

²Other Group mandate

Herbert Mai

Former Chairman, Gewerkschaft
Öffentliche Dienste, Transport und
Verkehr

- Deutsche Lufthansa AG

Dagobert Millinghaus

Accounting and Administration
Manager (*kfm. Angestellter*)

- Stinnes AG

Margret Mönig-Raane

Chairwoman, Gewerkschaft
Handel, Banken und
Versicherungen

- Deutsche Bank AG

Dr. Henning Schulte-Noelle

Chairman of the Board
of Management, Allianz AG

- Allianz Lebensversicherungs-AG¹ (Chairman)
- Allianz Versicherungs-AG¹ (Chairman)
- BASF AG
- Dresdner Bank AG
- Linde AG
- MAN AG
- Münchener Rückversicherungs-Gesellschaft AG
- Siemens AG
- ThyssenKrupp AG
- AGF S.A.²
- Elvia Versicherungen AG²
- Fireman's Fund Inc.²
- RAS S.p.A.²
- Vodafone Group plc

Morris Tabaksblat

Chairman of the Administrative
Board, Reed Elsevier plc.
(until May 25, 2000)

- Aegon N.V.
- Reed Elsevier plc. (Chairman)
- TNT Post Group N.V.

Kurt F. Viermetz

Retired Vice-Chairman and Director
of the Board, J.P. Morgan & Co., Inc.

- Bayerische Hypo- und Vereins-Bank AG (Chairman)
- Grosvenor Estate Holdings

Dr. Bernd Voss

Member of the Board of
Management, Dresdner Bank AG

- Deutsche Hypothekenbank Frankfurt-Hamburg AG¹
- Dresdner Bauspar AG¹
- Oldenburgische Landesbank AG¹ (Chairman)
- Continental AG
- Deutsche Schiffsbank AG (Chairman)
- Karstadt Quelle AG
- Preussag AG
- Quelle AG
- Varta AG
- Volkswagen AG
- Wacker Chemie GmbH
- Bankhaus Reuschel & Co (Chairman)

Dr. Peter Weber

Director of the Legal Department,
Degussa-Hüls AG

- Degussa-Hüls AG
- Wohnungsgesellschaft Hüls mbH

Kurt Weslowski

Chemical Worker

- VEBA Oel AG
- VEBA Oil Refining & Petrochemicals GmbH

Mandates of Board Members

Mandates carried by members of E.ON AG's Board of Management

Ulrich Hartmann

Chairman and co-CEO

- E.ON Energie AG¹ (Chairman)
- VEBA Oel AG¹ (Chairman)
- Deutsche Lufthansa AG
- Hochtief AG
- IKB Deutsche Industriebank AG (Chairman)
- Münchener Rückversicherungs-Gesellschaft AG (Chairman)
- RAG Aktiengesellschaft (Chairman)
- Henkel KGaA

Prof. Dr. Wilhelm Simson

Chairman and co-CEO
(since June 16, 2000)

- Degussa-Hüls AG¹ (Chairman)
- Goldschmidt AG¹ (Chairman)
- SKW Trostberg AG¹ (Chairman)
- VIAG Telecom AG¹ (Chairman)
- MEMC Electronic Materials, Inc.² (Chairman)

Dr. Wulf H. Bernotat

Member of the Board
of Management

(until June 16, 2000)

Chairman of the Board
of Management, Stinnes AG

- Brenntag AG¹ (Chairman)
- Schenker AG¹ (Chairman)
- Stinnes Interfer AG¹ (Chairman)
- Stinnes Corporation (Chairman)

Gunther Beuth

Member of the Board
of Management

(until June 16, 2000)

Chairman of the Board
of Management, Viterra AG

- Viterra Baupartner AG¹ (Chairman)
- Viterra Energy Services AG¹ (Chairman)
- Viterra Wohnen AG¹ (Chairman)
- Viterra Wohnpartner AG¹ (Chairman)
- Deutschbau Immobilien-Dienstleistungen GmbH
- Deutschbau Wohnungsgesellschaft mbH
- Rheinische Hypothekenbank AG
- Deutschbau Holding GmbH
- Westdeutsche ImmobilienBank
- Westfälische Provinzialversicherung

Wilhelm Bonse-Geuking

Member of the Board
of Management

(until June 16, 2000)

Chairman of the Board
of Management, VEBA Oel AG

- Aral AG¹ (Chairman)
- VEBA Wärmeservice GmbH¹ (Chairman)
- VEBA Oel Verarbeitings GmbH¹ (Chairman)
- PreussenElektra Kraftwerke AG¹
- HDI Haftpflichtverband der Deutschen Industrie
- VEBA Oil & Gas GmbH² (Chairman)
- Petrolera Cerro Negro S.A.

Dr. Hans Michael Gaul

Member of the Board
of Management

Controlling/Corporate
Planning, M&A, Legal Affairs

- Degussa-Hüls AG¹
- E.ON Energie AG¹
- Stinnes AG¹ (Chairman)
- VEBA Oel AG¹
- Viterra AG¹ (Chairman)
- Allianz Versicherungs-AG
- DKV AG
- RAG Aktiengesellschaft
- SKW Trostberg AG²
- Steag AG
- Volkswagen AG
- E.ON North America, Inc.²
- MEMC Electronic Materials, Inc.²
- VEBA Electronics, LLC.² (Chairman)

As of December 31, 2000, or the date of retirement from E.ON AG's Board of Management

- Supervisory Board mandates in accordance with Sec. 100, Para. 2 of the German Stock Corporation Act (AktG)
- Membership in comparable domestic and foreign supervisory bodies of commercial enterprises

¹Exempted Group mandate

²Other Group mandate

Dr. Hans-Dieter Harig

Member of the Board
of Management

(until June 16, 2000)

Chairman of the Board
of Management,

PreussenElektra AG

- Avacon AG¹ (Chairman)
- Gelsenwasser AG (Chairman)
- PreussenElektra Kraftwerke AG¹ (Chairman)
- Thüga AG¹ (Chairman)
- Bewag Aktiengesellschaft
- Energie-Aktiengesellschaft Mitteldeutschland
- EWE Aktiengesellschaft
- Hamburgische Electricitäts-Werke AG
- Schleswig AG (Chairman)
- Veag Vereinigte Energiewerke AG (Chairman)
- BKW FMB Energie AG
- Electriciteitsbedrijf Zuid-Holland (E.Z.H.)² (Chairman)
- PreussenElektra Kernkraft Verwaltungs-GmbH² (Chairman)
- PreussenElektra Netz Verwaltungs-GmbH²
- Sydkraft AB (Chairman)
- Uranit GmbH

Dr. Manfred Krüper

Member of the Board
of Management

Human Resources,
Infrastructure and Services,
Procurement, Organization

- Klöckner & Co AG¹
- Stinnes AG¹
- VAW aluminium AG¹
- Viterro AG¹
- VEBA Oel AG¹
- RAG Aktiengesellschaft
- RAG Immobilien AG
- Victoria Versicherung AG
- Victoria Lebensversicherung AG

Helmut Mamsch

Member of the Board
of Management

(until March 31, 2000)

Group Corporate Strategy

- Degussa-Hüls AG¹
- Commerzbank AG
- Kali und Salz Beteiligungs AG
- Readymix AG
- SGE Deutsche Holding GmbH
- Steag AG
- Logica PLC
- MEMC Electronic Materials, Inc.² (Chairman)
- VEBA Telecom GmbH²

Dr. Erhard Schipporeit

Member of the Board
of Management

(since June 16, 2000)

Finance, Accounting, Taxes, IT

- Degussa-Hüls AG¹
- E.ON Energie AG¹
- Goldschmidt AG¹
- Klöckner & Co AG¹ (Chairman)
- VAW aluminium AG¹ (Chairman)
- AXA Colonia Lebensversicherung AG
- Commerzbank AG
- Schmalbach-Lubeca AG (Chairman)
- SKW Trostberg AG²
- VIAG Telecom AG²
- Connect Austria GmbH²
- E.ON Risk Consulting GmbH² (Chairman)

Major shareholdings

Name	Location	Stake	Stockholders' Equity ¹	Earnings ¹	Sales ¹
		%	€m	€m	€m
I. Consolidated subsidiaries					
Electricity					
E.ON Energie AG	Munich	100.0	4,879.2	2,135.8 ²	835.5
Avacon AG	Helmstedt	53.4	555.0	99.9	1,824.1
Braunschweigische Kohlen-Bergwerke AG	Helmstedt	99.9	202.8	6.3 ²	151.2
Contigas Deutsche Energie-Aktiengesellschaft	Munich	98.7	594.1	34.6 ²	193.6
e.dis. Energie Nord AG	Fürstenwalde	70.0	724.1	31.5	1,034.3
E.ON Benelux Generation B.V.	NL, Voorburg	100.0	424.9	37.1	529.1
EVO Energieversorgung Oberfranken AG	Bayreuth	90.7	242.8	63.1 ²	598.8
Gelsenwasser AG	Gelsenkirchen	52.4	220.1	31.2	223.9
Isar-Amperwerke AG	Munich	98.5	422.9	300.0 ²	1,238.4
OBAG AG	Regensburg	97.6	249.9	63.5 ²	999.8
Rhein-Main-Donau AG	Munich	77.5	110.2	0.0	148.6
Schleswig Aktiengesellschaft	Rendsburg	65.3	367.3	63.9	1,121.0
TEAG Thüringer Energie AG	Erfurt	74.9	466.6	43.2	765.4
Thüga Aktiengesellschaft	Munich	57.3	819.5	80.4	186.1
Oil					
VEBA Oel AG	Gelsenkirchen	100.0	671.5	316.5 ²	0.0
Aral AG & Co KG	Bochum	99.0	224.3	12.0 ²	11,937.7
VEBA Oil & Gas GmbH	Essen	100.0	444.1	248.9 ²	1,004.0
VEBA Oil Libya GmbH	Gelsenkirchen	100.0	134.0	3.0 ²	513.8
VEBA Oil Refining & Petrochemical GmbH	Gelsenkirchen	100.0	159.3	105.4 ²	8,821.6
Chemicals					
Degussa AG ⁵	Düsseldorf	64.6	3,690.0	297.8	1,887.6
ASTA Medica Aktiengesellschaft	Dresden	100.0	81.0	-73.1 ²	317.0
Degussa-Hüls Corporation	USA, Ridgefield Park, NJ	100.0	936.7	23.9	4,757.4
dmc ² Degussa Metals Catalysts Cerdec AG	Hanau	100.0	214.5	7.7	3,309.4
Oxeno Olefinchemie GmbH	Marl	100.0	38.6	23.7	726.8
Phenolchemie GmbH & Co. KG	Gladbeck	100.0	66.0	48.4	1,145.0
Röhm KG	Darmstadt	100.0	145.6	28.1 ²	805.2
Stockhausen GmbH & Co. KG	Krefeld	100.0	148.3	30.6	445.6
Telecommunications					
Connect Austria Gesellschaft für Telekommunikation GmbH	A, Vienna	50.1	44.4	-49.3	226.9
E.ON Telecom GmbH	Düsseldorf	100.0	1,248.5	601.0 ²	0.0
VIAG Telecom Beteiligungs GmbH	Munich	100.0	3,375.2	2,187.0 ²	0.0
VR Telecommunications GmbH & Co.	Norderfriedrichskoog	51.2	8,037.0	6,525.4	0.0
Real Estate					
Viterra AG	Essen	100.0	666.7	143.7 ²	423.0
Viterra Baupartner AG	Bochum	100.0	39.2	-4.0 ²	207.1
Viterra Energy Services AG	Essen	100.0	12.8	51.4 ²	30.1
Distribution/Logistics					
Stinnes Aktiengesellschaft	Mülheim an der Ruhr	65.5	860.3	90.2	3,555.3
Brenntag S.A.	F, Chassieu	100.0	63.8	11.1	362.7
BTL AB	S, Göteborg	100.0	198.1	-12.9	0.0
Holland Chemical International N.V.	NL, Amsterdam	100.0	160.0	21.9	1,426.0
Schenker International AB	S, Göteborg	100.0	136.1	48.5	55.3
Klöckner & Co Aktiengesellschaft	Duisburg	100.0	463.5	13.5	0.0
Aluminum					
VAW aluminium AG	Bonn	100.0	1,570.4	64.6	2,262.2
V.A.W. North American Holdings, Inc.	USA, Dover, DE	100.0	114.0	26.0	298.8

Name	Location	Stake	Stockholders' Equity ¹	Earnings ¹	Sales ¹
		%	€m	€m	€m
Other					
Aviga Aktiengesellschaft	Duisburg	100.0	220.1	-33.0	0.0
CCA Holding, Inc. ⁴	USA, Wilmington, DE	100.0	62.3	1.9	205.4
E.ON North America, Inc.	USA, New York, NY	100.0	1,165.4	-326.0	0.0
MEMC Electronic Materials, Inc.	USA, St. Peters, MO	71.8	830.1	-116.6	518.5
II. Other shareholdings³					
Electricity					
Bayerngas GmbH	Munich	22.0	133.2	9.6	661.7
Bewag Aktiengesellschaft	Berlin	49.0	1,942.5	128.3	1,752.1
BKW FMB Energie AG	CH, Bern	20.0	420.2	54.4	1,426.9
Energie-Aktiengesellschaft Mitteldeutschland EAM	Kassel	46.0	220.8	27.9	886.2
EWE Aktiengesellschaft	Oldenburg	27.4	479.0	41.6	1,834.7
Fränkisches Überlandwerk AG	Nuremberg	61.2	113.4	17.8	413.4
Gasag Berliner Gaswerke Aktiengesellschaft	Berlin	13.0	434.5	-45.7	431.2
Gemeinschaftskernkraftwerk Grohnde GmbH	Emmerthal	50.0	153.4	10.7 ²	325.6
Graninge Aktiebolag	S, Bollstabruk	13.3	311.1	36.9	240.8
Hamburgische Electricitäts-Werke AG	Hamburg	15.4	631.9	83.5	1,397.0
Hein Gas Hamburger Gaswerke GmbH	Hamburg	28.1	160.3	22.3	595.3
Kernkraftwerk Brunsbüttel GmbH	Hamburg	33.3	32.2	3.2 ²	121.3
Kernkraftwerk Krümmel GmbH	Hamburg	50.0	102.3	10.2 ²	188.8
Lausitzer Braunkohle Aktiengesellschaft (Laubag)	Senftenberg	60.0	796.0	0.1	702.9
Lenenergo AG	RUS, St. Petersburg	9.3	455.1	-16.7	716.2
Mainova Aktiengesellschaft	Frankfurt am Main	24.3	389.5	43.1	950.9
rhenag Rheinische Energie Aktiengesellschaft	Cologne	41.9	228.8	27.7	152.4
Stadtwerke Hannover AG	Hanover	12.0	280.3	24.8 ²	596.2
Sydkraft AB	S, Malmö	20.7	2,421.5	220.1	1,678.0
VEAG Vereinigte Energiewerke AG	Berlin	48.8	1,144.8	-954.4	2,248.5
Watt AG	CH, Zurich	24.5	650.8	58.7	0.0
Oil					
Ruhr Oel GmbH	Düsseldorf	50.0	276.8	3.0	801.0
Chemicals					
Cyro Industries	USA, Rockaway, NJ	50.0	182.8	16.4	296.4
Polymer Latex GmbH & Co. KG	Marl	50.0	102.8	-7.9	362.5
Telecommunications					
Bouygues Telecom S.A.	F, Velizy-Villacoublay	17.5	1,308.0	-276.9	2,037.1
VIAG Interkom GmbH & Co	Munich	45.0	2,510.6	-570.4	838.4
Other					
Aluminium Norf GmbH	Neuss	50.0	143.5	18.5 ²	306.3
Deutschbau-Holding GmbH	Eschborn	50.0	651.7	-2.1	0.0
Hamburger Aluminium-Werk GmbH	Hamburg	33.3	19.2	0.1	136.7
Norddeutsche Affinerie AG	Hamburg	10.0	250.3	40.8	1,896.7
RAG Aktiengesellschaft ⁴	Essen	39.2	2,146.2	169.0	13,650.4
WBRM-Holding GmbH	Essen	50.0	59.2	-30.4	0.0

¹These figures comply with the financial statements prepared in accordance with the specific generally accepted accounting principles of each country and do not reflect the amounts included in the Consolidated Financial Statements. Stockholders' equity and earnings are translated at year-end current rates; sales are translated at annual average rates.

²Profit- and loss-pooling agreement (earnings before pooling).

³Mainly previous-year figures unless profit- and loss-pooling agreement exists.

⁴Figures derived from the Consolidated Financial Statements.

⁵Stockholders' equity, earnings, and sales following the consummation of the merger of Degussa-Hüls AG and SKW Trostberg AG.

Two-year highlights (pro forma)

€ in millions	1999	2000
Sales	69,745	93,240
Income		
Pretax income	5,048	6,802
Income after taxes	3,095	4,184
Income after minority interests	2,839	3,678
Internal operating profit	2,748	2,762
Earnings per share in €	3.90	5.07
Dividend per share in €	1.25	1.35
Assets		
Long-term assets	60,169	65,592
Short-term assets	34,459	40,623
thereof: liquid funds	9,529	8,501
Total assets	94,628	106,215
Liabilities and stockholders' equity		
Stockholders' equity	26,293	28,033
thereof: capital stock	1,985	1,985
Minority interests	4,888	5,123
Long-term liabilities	41,478	40,821
thereof: provisions	28,683	27,940
thereof: financial liabilities	8,000	7,130
thereof: other liabilities	4,795	5,751
Short-term liabilities	21,969	32,238
thereof: provisions	8,371	8,315
thereof: financial liabilities	3,929	6,917
thereof: other liabilities	9,669	17,006
Total liabilities and stockholders' equity	94,628	106,215
Cash flow/investments		
Cash flow from operations	4,866	3,889
Investments	11,045	14,961
Employees at year-end	203,733	186,788
Financial ratios		
Equity ratio (as a percentage)	27.8	26.4
Long-term assets as a percentage of property, plant, and equipment	120.8	112.8
Return on equity after taxes (as a percentage)	11.2	13.5
Net financial position (liquid funds minus financial liabilities)	-2,400	-5,546
Cash flow from operations as a percentage of sales	7.0	4.2

Financial Calendar

May 18, 2001	Interim Report: January – March 2001
May 18, 2001	2001 Annual Shareholders' Meeting
May 21, 2001	Dividend Payment
August 16, 2001	Interim Report: January – June 2001
November 15, 2001	Interim Report: January – September 2001
March 21, 2002	Annual Press Conference, Annual Analyst Conference
May 28, 2002	Annual Shareholders' Meeting

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**Only the German version of this
Annual Report is legally binding.**

This Annual Report contains certain forward-looking statements that are subject to risk and uncertainties. For information identifying economic, currency, regulatory, technological, competitive, and some other important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, you should refer to E.ON's filings to the Securities and Exchange Commission (Washington, DC), as updated from time to time, in particular to the discussion included in the section of E.ON's 2000 Annual Report on Form 20-F entitled "Item 3. Key Information: Risk Factors."

