Interim report January 1 – June 30, 2000

II/00

- VEBA-VIAG merger to form E.ON is official
- Declining electricity prices weigh on internal operating profit
- Full-year outlook: considerably higher group net income and lower group internal operating profit

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Note: The merger of VEBA and VIAG to form E.ON was entered into the Commercial Register on June 16, 2000. The interim report as of June 30, 2000, is therefore still based on the historical accounting and valuation policies of VEBA and VIAG. For this reason the companies of the former VIAG group for the last time reported their figures based on International Accounting Standards (IAS). The companies of the former VEBA group reported their figures in compliance with US Generally Accepted Accounting Principles (US GAAP), as far as permissible under German GAAP with the exception of mergers, where the book value method is generally applied. Both the 2000 and 1999 figures contained in this E.ON interim report are not consolidated. They were calculated by adding up VEBA's and VIAG's figures.

The accounting and valuation policies of the E.ON group will be converted completely to US GAAP when the E.ON interim report for the period ending September 30, 2000, is published. The earnings impact of this conversion cannot presently be quantified. It is therefore not taken into account in the figures for the period ended June 30, 2000. The conversion may have a material effect on earnings and can positively or negatively impact E.ON's consolidated results.

The early conversion to US GAAP moves the planned release date for E.ON's interim report for the period ending September 30, 2000, from November 15 to December 7, 2000.

January 1 – June 30 € in millions	2000	1999	+/– %
Group external sales	**46,881**	**34,878**	**+ 34**
Group internal operating profit	**1,712**	**1,896**	**– 10**
Net book gains	4,464	1,875	+ 138
Cost-management and restructuring expenses	– 116	– 81	– 43
Other non-operating earnings	– 620	– 200	– 210
Foreign E&P taxes	224	118	+ 90
Pretax income	**5,664**	**3,608**	**+ 57**
Income taxes	– 2,344	– 843	– 178
Income after taxes	3,320	2,765	+ 20
Minority interests	– 288	– 183	– 57
Group net income	**3,032**	**2,582**	**+ 17**

First-half 2000 sales climbed 34 percent to roughly €46.9 billion. The increase is primarily attributable to VEBA Oel's first-time full consolidation of Aral. In addition, Distribution/Logistics posted markedly higher sales; VEBA Electronics was a particularly strong performer owing to the booming semiconductor market. Chemicals' reported sales for first half 1999 included the former Degussa's fourth quarter 1998 revenues of €1.8 billion due to Degussa-Hüls's then differing financial year. Adjusted for this effect, Chemicals' sales advanced 28 percent.

Adjusted for the former Degussa's fourth quarter 1998 earnings of €66 million, group internal operating profit slipped 10 percent year-on-year owing to the expected sharp decline at our Electricity division. Electricity's earnings were off 33 percent compared with last year's good performance. By contrast, Oil's internal operating profit rose considerably. Chemicals' earnings topped those of the year-earlier period by 22 percent on a like-for-like basis. The distinct improvement in Telecommunications' internal operating profit results principally from the disposal of shareholdings with high startup losses. Distribution/Logistics, Aluminum, and Packaging posted substantially higher earnings. We again markedly curtailed Silicon wafers' loss in the period under review. In first half 2000 the group released negative goodwill in the amount of €100 million (1H99: €106 million) and amortized goodwill totaling €316 million (1H99: €274 million).

Pretax income climbed 57 percent to €5,664 million. This extremely sharp increase is mainly due to significant net book gains from the disposal of our shareholdings in E-Plus (€3,518 million) and Cablecom (€789 million), the Swiss cable TV operator.

Restructuring and cost-management expenses impacted Electricity and Chemicals in particular. Other non-operating expenses result primarily from extraordinary charges related to the nuclear energy consensus.

Income taxes rose to €2,344 million. The tax rate was 41 percent against 23 percent a year ago. The share of tax-exempt gains from asset disposals was smaller compared with last year. This factor was largely responsible for the increased tax burden.

At €3,032 million, group net income after taxes and minority interests was up 17 percent year-on-year.

Internal operating profit by division

January 1 – June 30 € in millions	2000	1999	+/– %
Electricity	1,118	1,665	– 33
Oil	55	– 27	–
Chemicals	379	377	+ 1
Telecommunications	– 274	– 374	+ 27
Real estate	39	79	– 51
Other activities	454	129	+ 252
E.ON AG/consolidation	– 59	47	–
Group internal operating profit	**1,712**	**1,896**	**– 10**

Energy.

Electricity

January 1 – June 30 € in millions	2000	1999	+/- %
Sales*	6,356	6,679	– 5
Internal oper. profit	1,118	1,665	– 33
Production/sales volume	millions of kWh	millions of kWh	
Power supplied	104,221	89,466	+ 16
Power generated	60,390	55,709	+ 8

*Includes €205 million (1H99: €84 million) in electricity taxes.

Electricity boosted its power supplied by 16 percent. The increase is principally the result of higher volume deliveries to distributors outside Germany, traders, and special-rate customers as well as of the first-time inclusion of the Dutch energy utility Electriciteitsbedrijf Zuid-Holland (EZH). Preliminary estimates indicate that net consumption from Germany's public grid was up 1.5 percent in first half 2000. Though sales volume was up, sales revenue dipped 5 percent year-on-year owing to the substantial decline in electricity prices, particularly in the second half of 1999. As expected, Electricity's internal operating profit slid 33 percent compared with the prior year's figure despite stepped-up cost-management measures.

PreussenElektra's sales volume was up 17 percent to 63,101 million kWh. The increase is mainly due to higher volume deliveries to energy utilities and special-rate customers outside the company's grid area as well as to the first-time inclusion of EZH. Despite the distinct decline in electricity prices, sales rose 4 percent to €4,031 million on the back of higher sales volume and the first-time consolidation of EZH. At €528 million, PreussenElektra's internal operating profit was down 42 percent year-on-year (1H99: €910 million).

Bayernwerk lifted its sales volume 16 percent to 41,120 million kWh. In addition to expanded power trading activities, the increase is particularly attributable to higher volume deliveries to industrial customers, regional distributors, and household customers. Despite higher sales volume, sales revenue dropped 17 percent to €2,325 million, and internal operating profit dipped 22 percent to €590 million owing to ongoing declines in power prices in the wake of electricity market liberalization.

Oil

January 1 – June 30 € in millions	2000	1999	+/- %
Sales	13,086	4,818	+ 172
thereof petroleum taxes	4,691	1,864	+ 152
Internal oper. profit	55	– 27	–
Production/ sales volume			
Crude oil production[1]	26,165	26,329	– 1
Natural gas production[2]	569	648	– 12
Petrochemical products sales volume[3]	19,303	15,645	+ 23
Petroleum products sales volume[3]	2,598	2,113	+ 23

[1] in 1,000 bbl
[2] in million m³
[3] in 1,000 t

Our **Oil division's** first-half crude oil production was on par with the year-earlier figure. Natural gas production dropped due primarily to the sale of two fields in the UK and to natural production declines in the Netherlands. Despite weak demand for heating oil, the sales volume of petroleum products in Germany increased 25 percent, owing principally to the first-time full consolidation of Aral. Buoyant demand and increased capacity utilization as well as the inclusion of the Emsland refinery's aromatics business helped to markedly lift the sales volume of petrochemical products.

Sales were up distinctly year-on-year due mainly to the first-time full consolidation of Aral, to considerably higher crude oil prices, and to the increased sales volume of petrochemical products. VEBA Oel's first-half internal operating profit was negatively impacted by interest payments and goodwill amortization related to the acquisition of Aral shares as well as by markedly slimmer margins at the pump. The considerable improvement in internal operating profit is principally the result of the doubling of crude oil prices—from $13.4/barrel in 1H99 to $26.8/barrel in 1H00—and to higher refining and petrochemical margins. At $20.4/ton, the Rotterdam refining margin was up more than $9/ton on the year-earlier figure. Cost-cutting measures in refinery operations also positively impacted earnings.

→ Chemicals.

January 1 – June 30 € in millions	2000	1999*	+/– %
Sales	9,712	9,412	+ 3
Internal oper. profit	379	377	+ 1

*Includes the former Degussa's 4Q98 figures.

Chemicals' sales were up 3 percent, and its internal operating profit was up 1 percent year-on-year.

At €7,644 million, Degussa-Hüls's sales were on par with the prior year's figure, whereas its internal operating profit rose 1 percent to €276 million. The year-earlier period included the former Degussa's fourth quarter 1998 sales of roughly €1.8 billion and internal operating profit of €66 million. Adjusted for this effect, first-half 2000 sales climbed about 30 percent and internal operating profit rose 33 percent. These distinct growth rates are mainly the result of continued favorable underlying economic conditions for Germany's chemicals sector and the strong dollar. Internal operating profit was also positively impacted by synergy effects from the Degussa-Hüls merger. The implementation of synergies is well under way. More than two thirds of the €180 million in total planned synergies were realized by June 30, 2000. Performance Materials, Specialty Products, and Polymer & Intermediates posted considerably higher results. By contrast, the Health & Nutrition segment reported lower earnings.

SKW Trostberg lifted first-half sales distinctly to €2,068 million, primarily owing to the resurgent chemicals market, acquisitions, and the stronger dollar and yen. All four divisions contributed: Nature Products, Chemicals, Construction Chemicals, and Performance Chemicals. Performance Chemicals' Tenside unit posted the highest increase on the back of the acquisition of US-based Witco ODG. SKW's Chemicals division also bested expectations distinctly owing to favorable prices for fertilizers and ammonia. At €103 million, SKW's internal operating profit was on par with the prior year's level due to increased interest expenses and goodwill amortization related to acquisitions in the USA.

Telecommunications.

January 1 – June 30 € in millions	2000	1999	+/– %
Sales	467	239	+ 95
Internal oper. profit	– 274	– 374	+ 27

The disposal of businesses with high startup losses appreciably improved **Telecommunications'** internal operating profit. Earnings were also positively impacted by interest income on sales proceeds, particularly from E-Plus.

VIAG Interkom, the Munich-based telecommunications company in which E.ON has a 45 percent stake, has benefited from the continued vigorous growth in mobile communications. Its cellular customer base expanded by more than 400,000 in the second quarter of 2000 to slightly more than 1.8 million subscribers. VIAG Interkom is consolidated on a pro rata basis. Its pro rata sales in first half 2000 more than doubled year-on-year to €300 million. About 30 percent of sales came from business customers. VIAG Interkom's cellular network comprised about 7,000 base stations at the end of June 2000. Further expanding and optimizing VIAG Interkom's mobile network are prerequisites for innovations like GPRS and UMTS.

E.ON has a 30-percent stake in ONE, the Austrian telecoms enterprise. The company continues to perform well. ONE offers mobile, fixed-line, and internet services in Austria. By the end of June, ONE had raised its subscriber base to 830,000, of which almost 730,000 are cellular subscribers. ONE's mobile network has about 96 percent population coverage in Austria. As of June 30, 60,000 Austrians were using f-ONE (the company's fixed-line service) and 40,000 were using i-ONE (the company's internet service).

E.ON has a 42.5 percent stake in Switzerland's Orange Communications, which has also benefited from the booming cellular market. Within a year of market entry Orange had over 600,000 customers and achieved 95 percent brand recognition. It has roaming agreements with 120 mobile network operators in 70 countries..

In first half 2000, Bouygues Telecom, the French mobile communications company in which E.ON has a 17.5 percent stake, had a market share of more than 19 percent in the high-growth new customer segment. At the end of June, Bouygues Telecom had more than 3.8 million cellular subscribers. Bouygues Telecom's growing customer base enabled it to further shrink its loss compared with the prior year.

Real estate.

January 1 – June 30 € in millions	2000	1999	+/– %
Sales	563	515	+ 9
Internal oper. profit	39	79	– 51

Real estate posted higher sales. Residential Development, Residential Investment, and the Energy Services unit were the main contributors. Internal operating profit was down substantially year-on-year. Residential Investment sold 585 housing units in first half 2000, distinctly fewer than the 1,307 it sold in first half 1999, resulting in correspondingly lower revenues. The decline in Energy Services' internal operating profit resulted from a postponement in the inclusion of earnings. Both effects will be balanced out during the course of the year.

Other activities.

January 1 – June 30 € in millions	2000	1999	+/– %
Distribution/Logistics			
Sales	12,898	10,225	+ 26
Internal oper. profit	330	119	+ 177
Aluminum			
Sales	1,807	1,380	+ 31
Internal oper. profit	156	101	+ 54
Packaging			
Sales	1,.491	1,233	+ 21
Internal oper. profit	30	27	+ 11
Silicon wafers			
Sales	411	301	+ 37
Internal oper. profit	– 62	– 118	+ 47

Distribution/Logistics (Stinnes, VEBA Electronics, and Klöckner & Co.) grew sales and earnings considerably compared with the previous year's figures.

At €6,240 million, Stinnes's sales rose 8 percent year-on-year owing mainly to positive business development at its Chemicals unit and in its air and sea freight business. Internal operating profit climbed 41 percent to €104 million, distinctly outpacing sales growth. Nearly all business areas developed positively during the first half. The European overland transport and Chemicals units were particularly strong earnings performers.

VEBA Electronics lifted sales 76 percent to €3,926 million and boosted its internal operating profit from the prior year's €22 million to €153 million for first half 2000. This significant improvement is the result of the continued booming semiconductor market in Europe and the US.

In materials distribution Klöckner & Co. continued its positive performance from the first quarter. Steel prices were up markedly from first-half 1999 levels. A buoyant steel processing sector also led to increased demand. In this environment Klöckner & Co. grew sales 23 percent to €2,732 million; its internal operating profit surged more than 200 percent to €73 million.

With first-half 2000 sales of €1,807 million and earnings of €156 million, our **Aluminum division** (VAW aluminium) increased its numbers distinctly, particularly owing to higher raw aluminum prices and the stronger dollar. The Primary Materials unit had very good results. Despite lower sales volume for higher-margin converted foils and slimmer margins in the strip business, Rolled Products' earnings were almost on par with the prior year's figure. Pressure on margins at the Europe-based companies weighed on Flexible Packaging's earnings. Higher raw material prices could only partially be passed on to customers.

Packaging also posted higher sales and internal operating profit. Schmalbach-Lubeca put in a gratifying first-half performance. Sales climbed 21 percent to €1,193 million on the back of volume increases in polyethylene (PET) caps and beverage cans as well as exchange rate effects at US-based businesses. Internal operating profit improved to €22 million owing mainly to successful restructuring measures at PET packaging. Gerresheimer Glas's fine performance led to distinctly higher sales and to internal operating profit on par with the year-earlier level. As part of the ongoing focus on core businesses, E.ON sold its majority stake in Gerresheimer to Investcorp, a UK-based international investment group, and to London-based Chase Capital Partners.

Silicon wafers benefited from considerably greater demand from the semiconductor industry, which led to improved capacity utilization across the industry and to slightly higher wafer prices. MEMC increased sales distinctly due to higher unit sales and to the stronger dollar. Operating losses were reduced substantially year-on-year owing to improved sales volume and to successful cost management measures. MEMC's sales volume, sales revenue, and operating earnings also improved quarter-on-quarter.

Employees.

	June 30, 2000	Dec. 31, 1999	+/– %
Electricity	34,744	35,968	– 3
Oil	8,694	5,863	+ 48
Chemicals	62,644	62,464	–
Telecommunications*	5,208	4,540	+ 15
Real estate	5,158	4,901	+ 5
Other activities	95,785	98,884	– 3
E.ON AG/other	651	791	– 18
Total	**212,884**	**213,411**	**–**

*Includes all VIAG Interkom employees.

The E.ON Group **employed** 212,884 people at the end of June 2000. The divestment of Stinnes's Raab Karcher Building Materials unit in the second quarter resulted in a staff decline of 6,000. In addition, restructuring measures reduced staff in nearly all our divisions. PreussenElektra's first-time consolidation of EZH (+800 employees) and VEBA Oel's first-time consolidation of Aral and the Emsland refinery (+2,900 employees) represented the largest staff additions. The number of Telecommunications' employees increased by about 660 owing to VIAG Interkom's ongoing expansion.

Staff declined by about 4,500 or 2 percent compared with the year-earlier period mainly owing to the disposal of Raab Karcher Building Materials, Stinnes Tire Service, and Sanitary Equipment/Heating/Tiles.

First-half 2000 expenses for wages and salaries including social security contributions amounted to €5.34 billion compared with €5.26 billion for the first six months of last year.

Investments.

January 1 – June 30 € in millions	2000	%	1999	%
Electricity	1,849	41	1,332	36
Oil	1,277	28	192	5
Chemicals	650	14	919*	25
Telecommunications	153	3	212	6
Real estate	72	2	132	4
Other activities	549	12	852	23
E.ON AG/other/ consolidation	– 14	–	44	1
Total	**4,536**	**100**	**3,683**	**100**

*Includes the former Degussa's 4Q98 investments.

E.ON group's first-half **investments** for 2000 totaled €4,536 million—up 23 percent year-on-year. Spending on fixed and intangible assets amounted to €1,809 million (1H99: €2,000 million). Investments in financial assets increased by €1,044 million to €2,727 million.

The increase in investments over the year-earlier period is due exclusively to the acquisition of EZH, the Dutch energy utility, and of Mobil Oil's stake in Aral.

Highlights.

The merger of Bayernwerk and PreussenElektra was entered into the Commercial Register on July 13, 2000. The tie-up formed **E.ON Energie,** Europe's largest private power company.

In July E.ON folded its **Schmalbach-Lubeca** stake into the newly formed AV Packaging. The new entity tendered a purchase offer to Schmalbach-Lubeca's minority shareholders. The deadline of the offer is August 24, 2000. At the end of the offer period Allianz Capital Partners will take a majority stake in AV Packaging.

As part of the focus on its core energy and specialty chemicals businesses, in August E.ON sold the activities of its **VEBA Electronics** subsidiary to a consortium of European and US buyers. The sale price for the electronic components and electronics systems distributors totaled €2.6 billion. The sale is subject to antitrust clearance.

In August **E.ON Energie** reached an agreement with HEW, the Hamburg-based energy company, to acquire HEW's 15.7 percent stake in Sydkraft AB, the Swedish energy utility, and its 61.9 percent stake in HEIN GAS Hamburger Gaswerke. E.ON Energie will also receive a cash payment of €248 million. In return, in compliance with commitments made as part of the merger control process, the company's 49 percent stake in BEWAG, the Berlin-based utility, will be transferred to HEW. The deal is subject to supervisory board and antitrust approval. HEIN GAS's other shareholders have preemption rights.

Outlook.

The following forecasts are based on the former VEBA's and the former VIAG's individual accounting and valuation methods. The E.ON group will publish its figures for the period ending September 30, 2000, uniformly according to US GAAP.

Group internal operating profit for full year 2000 will not match the previous year's record showing. We anticipate that the decline will be similar to the development in the first half of the year. The main cause for the decrease is significant price cuts in the Electricity division. We expect our other divisions in some cases to report considerably improved operating results.

In our Electricity division we anticipate that power prices will not decline further. As expected, intensified cost management, initial merger-related synergies, and further sales volume increases will not offset the price collapse, particularly from the second half of 1999. We thus anticipate that Electricity's full year 2000 earnings will come in markedly below the prior year's showing.

Our Oil division will benefit from higher crude oil prices and improved refining margins; despite continued slim margins at the pump, we anticipate that Oil's internal operating profit will be considerably higher year-on-year.

Owing to favorable underlying economic developments and to synergy effects from the Degussa-Hüls merger we expect Chemicals to post higher earnings for 2000 than in the 1999 financial year including by the former Degussa's fourth quarter 1998. The preparations for merging Degussa-Hüls and SKW Trostberg to form the new Degussa AG are moving forward at a rapid pace. Positive effects from the tie-up are not expected to be felt until after the close of the current financial year.

In Telecommunications we anticipate that vigorous growth in the mobile communications market and the resulting higher costs for customer acquisition will lead to considerable startup losses, but on a level that is lower than in the prior year.

As for our other activities, we expect Aluminum's 2000 internal operating profit to be on par with the 1999 figure. All other divisions will post higher—in some case quite considerably higher—internal operating profits compared with the previous year.

Owing to considerable net book gains from divestments, both pretax and group net income will come in far ahead of last year's figures.

Financial calendar

December 7, 2000	Interim report: January - September 2000
March 27, 2001	Annual press and analyst conferences
May 18, 2001	Annual shareholders' meeting
May 18, 2001	Interim report: January - March 2001
August 16, 2001	Interim report: January - June 2001