



## Interim report: January 1 - September 30, 2000

III/00

- Pretax income up 55 percent year-on-year
- Lower electricity prices reduce internal operating profit by roughly 9 percent; slight improvement on this performance expected for full year
- Accounting in accordance with US GAAP

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# E.ON interim report January 1 – September 30, 2000

## Group performance

**Note:** The merger of VEBA and VIAG to form E.ON was entered into the Commercial Register on June 16, 2000. This interim report for the period ended September 30, 2000, publishes for the first time consolidated figures for the E.ON Group prepared in accordance with US Generally Accepted Accounting Principles (US GAAP).

Prior to the merger VIAG reported its figures based on International Accounting Standards (IAS). VEBA reported its figures in compliance with US GAAP, as far as permissible under German GAAP. In a complex transition process E.ON completely converted its accounting and valuation policies to US GAAP. As in the past, interim report figures are not audited.

Under US GAAP, the date of the merger's entry into the Commercial Register determines the inclusion of the former VIAG in E.ON's Financial Statements. For this reason, the companies of the former VEBA contribute full nine-month figures to this earnings release. The companies of the former VIAG contribute figures for the period July 1 through September 30, 2000; prior years' figures only include the companies of the former VEBA. For the period January 1 to September 30, 2000, this results in Group external sales of €59,781 million (1999: €36,312 million), pretax income of €6,927 million (1999: €4,024 million), and Group net income of €3,429 million (1999: €2,884 million). On the basis of these figures it is not possible to compare the Company's financial performance in 1999 and 2000.

In order to make it possible to compare the Company's actual performance in these two financial years, this interim report contains consolidated pro-forma figures for the E.ON Group for January 1 to September 30, 2000, for the corresponding year-earlier period, and for full year 1999. These pro-forma figures are also calculated in accordance with US GAAP.

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

January 1 – September 30 (pro forma)	2000	1999	+/- %
€ in millions			
<b>Group external sales</b>	<b>69,855</b>	<b>50,020</b>	<b>+ 40</b>
<b>Group internal operating profit</b>	<b>1,895</b>	<b>2,073</b>	<b>- 9</b>
Net book gains	4,558	2,245	+ 103
Cost-management and restructuring expenses	- 135	- 204	+ 34
Other non-operating earnings	387	268	+ 44
Foreign E&P taxes	365	179	+ 104
<b>Pretax income</b>	<b>7,070</b>	<b>4,561</b>	<b>+ 55</b>
Income taxes	- 3,051	- 1,553	- 96
Income after taxes	4,019	3,008	+ 34
Minority interests	- 311	- 93	- 234
<b>Group net income</b>	<b>3,708</b>	<b>2,915</b>	<b>+ 27</b>

holdings in E-Plus (€3,518 million) and in Cablecom (€789 million), the Swiss cable TV operator.

Restructuring and cost-management expenses impacted Electricity and Chemicals in particular. Other non-operating earnings result primarily from lower provisions at Electricity and from the disposal of VEBA Electronics. VEBA Electronics' third-quarter earnings are no longer included in Group internal operating profit because the entire transaction was not closed until late October, although these operations were transferred to the acquiring parties with economic effect as of July 1.

Income taxes rose to €3,051 million. The tax rate was 43 percent against 34 percent a year ago. The share of tax-exempt gains from asset disposals was larger last year. This factor was largely responsible for the increased tax burden. Minority interests rose because Degussa-Hüls's 1999 earnings were negatively impacted by merger-related extraordinary expenses, because after Stinnes's IPO its minority interests did not affect earnings until 2H99, and because MEMC's losses are markedly reduced in 2000.

At €3,708 million, Group net income after taxes and minority interests was up 27 percent year-on-year.

E.ON's sales climbed 40 percent to roughly €69.9 billion in the first nine months of 2000. The marked increase is primarily attributable to VEBA Oel's first-time full consolidation of Aral. In addition, Chemicals and Distribution/Logistics posted considerably higher sales.

Group internal operating profit slipped 9 percent year-on-year owing to the expected sharp decline at our Electricity Division. Internal operating profit at our Oil and Chemicals Divisions rose appreciably. Telecommunications' improved performance results principally from the disposal of shareholdings with high startup losses. Real Estate's nine-month internal operating profit declined considerably year-on-year, whereas Distribution/Logistics posted substantially higher operating earnings. We curtailed Silicon Wafers' loss by 60 percent in the period under review. In the first nine months of 2000 the Group amortized goodwill totaling €581 million compared with €590 million in the year-earlier period.

Pretax income climbed 55 percent to €7,070 million. This sharp uptick is mainly due to significant net book gains from the disposal of our share-

## Internal operating profit (pro forma) by division

	9 months 2000	9 months 1999	+/- %	Full year 1999
€ in millions				
Electricity	1,255	1,818	- 31	2,410
Oil	226	- 44	-	34
Chemicals	507	377	+ 34	490
Telecommunications	- 543	- 583	+ 7	- 789
Real Estate	53	106	- 50	189
Other Activities	556	321	+ 73	417
E.ON AG/consolidation	- 159	78	-	55
<b>Group internal operating profit</b>	<b>1,895</b>	<b>2,073</b>	<b>- 9</b>	<b>2,806</b>

# E.ON interim report January 1 – September 30, 2000

## Performance by division

### → Energy.

#### Electricity

Pro forma	2000	1999	+/- %
Jan. 1 – Sep. 30			
€ in millions			
Sales	9,132	9,756	- 6
thereof electricity			
taxes	304	176	+ 73
Internal oper. profit	1,255	1,818	- 31
Production/ sales volume	millions of kWh	millions of kWh	
Power supplied	156,036	133,129	+ 17
Power generated	90,081	81,858	+ 10
Gas sales volume	50,444	37,770	+ 34
Water sales volume in millions of m <sup>3</sup>	195	202	- 3

In our **Electricity Division**, E.ON Energie, which emerged from the Preussen-Elektra-Bayernwerk merger, boosted its power supplied by 17 percent. The increase is principally due to the first-time inclusion of the Dutch energy utility Electriciteitsbedrijf Zuid-Holland (EZH) and to higher volume deliveries to power traders. Deliveries to distributors outside Germany, special-rate customers, and household customers were also up. Preliminary estimates indicate that net consumption from Germany's public grid climbed slightly more than 2 percent in the first nine months of 2000. The increase in E.ON Energie's power generated results almost completely from the integration of EZH.

In E.ON Energie's other power resources and water business units, district heating and steam sales volumes rose 6 percent. Natural gas sales volume advanced 34 percent. In July 1999 Ferngas Salzgitter was folded into Avacon, a fully consolidated subsidiary of E.ON Energie. This is

largely responsible for the increase in gas sales volume. By contrast, water deliveries declined 3 percent compared with the year-earlier period.

Although E.ON Energie's sales volume was up, the company's sales revenue dipped 6 percent year-on-year owing to the appreciable decline in electricity prices, particularly since 2H99. As expected, Electricity's internal operating profit slid 31 percent compared with the prior year's figure despite stepped-up cost-management measures.

#### Oil

Jan. 1 – Sep. 30	2000	1999	+/- %
€ in millions			
Sales	20,226	8,035	+ 152
thereof petroleum			
taxes	6,932	2,838	+ 144
Internal oper. profit	226	- 44	-
Production/ sales volume			
Crude oil production <sup>1</sup>	38,996	39,339	- 1
Natural gas production <sup>2</sup>	769	901	- 15
Petroleum products sales volume <sup>3</sup>	29,178	23,948	+ 22
Petrochemical products sales volume <sup>3</sup>	3,838	3,205	+ 20

Our **Oil Division's** crude oil production was nearly on par with the year-earlier figure. Natural gas production fell further due to natural production declines in the Netherlands and to the sale of two fields in the UK. The sales volume of petroleum products rose 22 percent principally because of the first-time full consolidation of Aral. Buoyant demand and increased capacity utilization as well as the inclusion of the aromatics business of the Emsland refinery acquired in late 1999 sent the sales volume of petrochemical products 20 percent higher.

VEBA Oel's sales were up distinctly year-on-year due to the first-time full consolidation of Aral, to considerably higher crude oil prices, and to higher product prices. The considerable improvement in internal operating profit is mainly the result of appreciably

higher average crude oil prices—from \$15.8/barrel in 1999 to \$28.0/barrel in 2000—and to higher refining and petrochemical margins. At \$24.8/ton, the Rotterdam refining margin was up more than \$14.6/ton on the year-earlier figure. By contrast, operating earnings were negatively impacted by price wars at the gas pump.

<sup>1</sup> in 1,000 bbl

<sup>2</sup> in million m<sup>3</sup>

<sup>3</sup> in 1,000 t

# E.ON interim report January 1 – September 30, 2000

## Performance by division

### → Chemicals.

Pro forma	2000	1999	+/- %
Jan. 1 – Sep. 30			
€ in millions			
Sales	14,821	11,427	+ 30
Internal oper. profit	507	377	+ 34

**Chemicals'** sales were up 30 percent, and its internal operating profit rose 34 percent year-on-year. It should be noted that under US GAAP—unlike under German GAAP—the prior year's figures no longer include the former Degussa's 4Q98 sales and internal operating profit.

Degussa-Hüls's sales and internal operating profit again showed vigorous growth on the back of lively global demand in the chemical sector and favorable currency effects. Sales revenues were also positively impacted by markedly higher product prices brought on by sharply higher raw material prices that were passed on to customers. Distinctly higher sales volumes accounted for nearly half the increase in sales revenues. Synergy effects from the Degussa-Hüls merger positively affected internal operating profit. The implementation of synergies is well under way. At €131 million, three quarters of the €180 million in total planned annual synergies were already realized by September 30, 2000. With the exception of Health & Nutrition, all reporting segments contributed to the earnings uptick.

SKW Trostberg lifted sales appreciably owing to the positive business climate, favorable currency effects, and acquisitions made during the previous year. All four divisions contributed: Nature Products, Chemicals, Construction Chemicals, and Performance Chemicals. More than three quarters of sales were posted outside Germany; US operations were by far the biggest sales contributors. Increased goodwill amortization related to acquisitions and interest expenses negatively impacted SKW's internal operating profit.

### → Telecommunications.

Pro forma	2000	1999	+/- %
Jan. 1 – Sep. 30			
€ in millions			
Sales	264	188	+ 40
Internal oper. profit	- 543	- 583	+ 7

In accordance with US GAAP, ONE, our Austrian **Telecommunications** interest, is fully consolidated. Switzerland's Orange Communications and France's Bouygues Telecom are accounted for at equity. Under US GAAP, VIAG Interkom is also accounted for at equity; under IAS, it was consolidated on a pro-rata basis in VIAG's Financial Statements.

The disposal of shareholdings with high startup losses—Otelo's fixed-line business in 1999 and E-Plus in 2000—is primarily responsible for Telecommunications' improved internal operating profit. Earnings were negatively impacted by considerably higher customer acquisition costs owing to the burgeoning cellular phone market.

ONE has a market share of about 18 percent in Austria and continues to perform gratifyingly. At the end of September ONE had about 1 million cellular subscribers, more than half of whom are contract subscribers. Including its fixed-line and internet users, ONE has over 1.2 million customers. ONE's mobile network has about 96 percent population coverage in Austria.

VIAG Interkom, our German telecommunications subsidiary, benefited from the continued ebullient growth in

mobile communications. In the third quarter its cellular customer base expanded by more than 33 percent quarter-on-quarter to nearly 2.4 million subscribers. VIAG Interkom's cellular network comprised about 7,300 base stations at the end of September 2000.

Orange Communications, the Swiss mobile communications interest that we sold to France Telecom in November 2000, also benefited from the booming cellular market. Within a year of market entry Orange had over 750,000 subscribers.

Bouygues Telecom, our French mobile communications shareholding, continued to expand its market share in the high-growth new customer segment. At the end of September Bouygues Telecom had 4.5 million cellular subscribers.

# E.ON interim report January 1 – September 30, 2000

## Performance by division

### → Real Estate.

Jan. 1 - Sep. 30	2000	1999	+/- %
€ in millions			
Sales	832	771	+ 8
Internal oper. profit	53	106	- 50

In our **Real Estate Division** Viterra posted higher sales. Residential Development and Residential Services were the main contributors. Internal operating profit was still down substantially year-on-year due mainly to higher maintenance and modernization expenditures at Residential Investment as well as to higher personnel and interest expenses at Residential Development. Moreover, fewer housing

units were sold compared with the year-earlier period, resulting in correspondingly lower revenues. By contrast, Energy Services further expanded its metering business—particularly outside Germany—and lifted its internal operating profit year-on-year.

### → Other Activities.

Pro forma	2000	1999	+/- %
Jan. 1 - Sep. 30			
€ in millions			
<b>Distribution/Logistics</b>			
Sales	19,330	15,711	+ 23
Internal oper. profit	396	255	+ 55
<b>Aluminum</b>			
Sales	2,530	2,040	+ 24
Internal oper. profit	180	191	- 6
<b>Packaging</b>			
Sales	1,891	1,553	+ 22
Internal oper. profit	50	48	+ 4
<b>Silicon wafers</b>			
Sales	654	475	+ 38
Internal oper. profit	- 70	- 173	+ 60

**Distribution/Logistics** (Stinnes, VEBA Electronics, and Klöckner & Co.) grew sales and earnings considerably compared with the previous year's figures. Stinnes's sales rose year-on-year owing mainly to positive business development at its chemicals unit and in its air and sea freight business. The increase in internal operating profit slightly outpaced sales growth. The European overland transport, air and sea freight, and chemicals units were particularly strong earnings performers. VEBA Electronics boosted sales and internal operating profit markedly.

E.ON has sold the activities managed by VEBA Electronics to a group of European and American investors. The full transaction was completed on October 31, 2000. In materials distribution Klöckner & Co. continued its positive performance from the first half of the year. Steel prices stabilized at a distinctly higher level compared with the year-earlier period. A buoyant steel processing sector also led to increased demand. Klöckner grew sales and internal operating profit considerably.

Our **Aluminum Division** (VAW aluminum) boosted sales distinctly, particularly owing to higher raw aluminum prices and to higher sales volumes. Sharply higher raw material prices had a dampening effect on internal operating profit. The Primary Materials unit posted very good results. Rolled Products reported slimmer margins and slightly lower earnings. Pressure on margins at Europe-based companies weighed on Flexible Packaging's earnings. Higher raw material prices could only partially be passed on to customers. Automotive Products improved earnings on the back of higher sales volumes.

In our **Packaging Division** Schmalbach-Lubeca posted higher sales and internal operating profit. In July 2000 E.ON folded its Schmalbach-Lubeca stake into the newly formed AV

Packaging. This company tendered a purchase offer to the minority shareholders. The offer deadline was August 24, 2000. At the close of the offer period Allianz Capital Partners took a majority stake in AV Packaging, which is accounted for at equity in E.ON's Financial Statements beginning October 1, 2000.

**Silicon Wafers** benefited from buoyant demand in the semiconductor industry, which enabled it to increase sales volumes. Slightly higher wafer prices and ongoing cost-management measures also made a positive impact. MEMC increased sales distinctly. Operating losses were reduced substantially year-on-year. MEMC's sales volume, sales revenue, and internal operating profit also improved again quarter-on-quarter.

# E.ON interim report January 1 – September 30, 2000

## Other information

### → Employees.

Pro forma	Sep. 30, 2000	Dec. 31, 1999	+/- %
Electricity	35,017	35,968	- 3
Oil	8,673	5,863	+ 48
Chemicals	63,003	62,464	+ 1
Telecommunications	1,249	962	+ 30
Real Estate	5,448	4,901	+ 11
Other Activities	90,017	92,784	- 3
E.ON AG/other	651	791	- 18
<b>Total</b>	<b>204,058</b>	<b>203,733</b>	<b>0</b>

The E.ON Group **employed** 204,058 people worldwide at the end of September 2000. The divestment of Stinnes's Raab Karcher Building Materials and Baustoff-Union units resulted in a staff decline of roughly 7,200. Moreover, restructuring measures reduced staff in nearly all our divisions.

VEBA Oel's first-time consolidation of Aral and the Emsland refinery, MEMC's first-time consolidation of MEMC Korea Company, and E.ON Energie's first-time consolidation of EZH increased staff by about 4,700. Acquisitions in Australia and the UK added approximately 1,500 employees in Aluminum and Distribution/Logistics. Compared with year end 1999,

Telecommunications' and Real Estate's staff expanded by about 800 people via organic growth in and outside Germany.

Expenses for wages and salaries including social security contributions amounted to €8.03 billion in the first nine months of 2000 compared with €7.87 billion for the year-earlier period.

### → Investments.

Pro forma	Jan. 1 – Sep. 30	2000	1999	
€ in millions		%	%	
Electricity	2,808	38	1,815	34
Oil	1,425	19	300	6
Chemicals	1,030	14	1,355	26
Telecommunications	1,029	14	291	5
Real Estate	144	2	203	4
Other Activities	752	10	1,033	20
E.ON AG/other/ consolidation	232	3	258	5
<b>Total</b>	<b>7,420</b>	<b>100</b>	<b>5,255</b>	<b>100</b>

The E.ON Group's **investments** in the first nine months of 2000 totaled €7,420 million—up 41 percent year-on-year. Spending on fixed and intangible assets amounted to €2,809 million. Investments in financial assets came to €4,611 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.

In the context of power market liberalization and excess generating capacity in Germany and Europe, **E.ON Energie** moved in early October to take about 4,800 MW of its 30,000 MW of installed capacity off line by 2003. By implementing these measures E.ON Energie anticipates an earnings improvement of approximately €715 million\* over a ten-year period.

In October **E.ON Energie** and Sydkraft, the Swedish energy utility, signed a letter of intent with Vattenfall, another Swedish utility. The agreement calls for the two companies to transfer their stakes in Hamburgische Electricitätswerke (HEW) to Vattenfall. E.ON Energie has a 15.4 percent stake in HEW; Sydkraft has a 21.8 percent stake in HEW. In return, E.ON Energie and Sydkraft will receive selected Vattenfall shareholdings in Norway, Sweden, the Czech Republic, and Lithuania plus about €490 million in cash.

At Extraordinary Shareholders' Meetings in October **Degussa-Hüls's** and **SKW Trostberg's** shareholders voted overwhelmingly in favor of the planned merger of the two companies to form the new **Degussa**. After the tie-up E.ON will hold slightly more than 64 percent of the new company.

In August E.ON and British Telecom (BT) reached 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 in the period from May to July 2001. The exercise price for E.ON's 45 percent interest is more than €7 billion.

**VIAG Interkom** successfully participated in Germany's auction for UMTS licenses. The price for the licenses came to roughly €8.4 billion.

In Austria's UMTS auction in late October and early November, E.ON's Austrian telecoms shareholding **ONE** acquired a license for two frequency blocks for about €121 million.

E.ON sold its 42.5 percent stake in **Orange Communications**, the Swiss cellular phone company, to France Telecom in November. The proceeds came to at least €1.6 billion, including approximately €480 million in shareholder loans. The purchase price can increase by up to 20 percent depending on the UMTS license fee.

In early December **Stinnes** successfully completed a public offer to purchase outstanding shares in Holland Chemical International (HCI). HCI is listed on the Amsterdam Stock Exchange. HCI's shareholders tendered 99.4 percent of the company's shares for €16.20 per share. Including the

assumption of liabilities, the purchase price amounts to about €545 million. The acquisition makes Stinnes a leading global player in chemicals distribution. The deal is subject to regulatory approval.

\* Some interim reports contained a printing error. The correct figure is approximately €715 million (DM1.4 billion) and not €1.4 billion.

# E.ON interim report January 1 – September 30, 2000

## Other information

### → Outlook.

Owing to considerable net book gains from divestments, pretax income for full year 2000 will come in far ahead of last year's figures. Group internal operating profit was down around 9 percent in the first three quarters of 2000. We expect full-year Group internal operating profit to improve slightly on this performance.

In **Electricity** there have been preliminary indications of a trend shift in power prices. We continue to anticipate, however, that Electricity's full-year 2000 internal operating profit will come in markedly below the prior year's showing.

Our **Oil Division's** performance will benefit from higher crude oil prices, the strong dollar, and higher refining

margins. Despite slim margins at the pump, we therefore expect Oil's internal operating profit to be considerably higher year-on-year.

In **Chemicals** we anticipate rising global demand for our products owing to the continued favorable economic climate. Overall, we expect Chemicals' internal operating profit to distinctly exceed the prior year's performance.

In **Telecommunications** we continue to anticipate considerable startup losses, but on a level that is lower than in the prior year. The elimination of startup losses via disposals and interest earnings on sales proceeds will more than offset markedly higher customer acquisition costs resulting from the vigorous growth in the mobile communications market.

We continue to expect that **Real Estate's** full-year internal operating profit will surpass the previous year's showing.

We anticipate that our **Other Activities** will post higher—in some cases quite considerably higher—internal operating profits compared with the prior year.

### → Financial calendar.

#### **March 27, 2001**

Annual press and analysts' conferences

#### **May 18, 2001**

Annual Shareholders' Meeting

#### **May 18, 2001**

Interim report: January – March 2001

#### **August 16, 2001**

Interim report: January – June 2001

#### **November 15, 2001**

Interim report: January – September 2001

This earnings release 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 (formerly: VEBA's) SEC filings as updated from time to time, in particular to the discussion included in the Description of Business section of VEBA's 1999 Annual Report on Form 20-F.