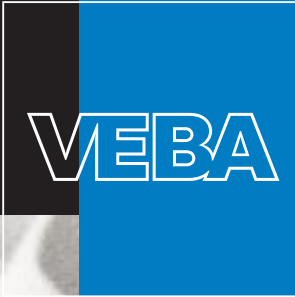


1999

# Annual Report

357  
13  
12  
323  
232  
448  
23  
453  
4  
298  
22  
374  
35  
37  
333  
20  
34  
7  
10  
993  
473  
33  
298  
2  
1999  
32  
387  
422  
13  
17  
10  
825  
232  
448  
4  
298  
22  
374  
32  
37  
2150  
1999  
3  
10  
993  
825  
37  
10  
993  
387  
422  
13  
17  
10  
22  
374  
24  
31  
150  
1999  
3  
45  
550  
309



**Energy.** PreussenElektra is Germany's second-largest utility and supplies roughly one fifth of the country's electricity. Its grid area covers one third of Germany. PreussenElektra's primary energy sources are coal and nuclear power. Our electricity subsidiary is also active in the natural gas, water, and district-heating distribution sectors.

VEBA Oel's operations comprise the exploration and production of petroleum and natural gas as well as the refining and marketing of petroleum and petrochemical products. Via its Aral subsidiary VEBA Oel is Germany's number one service station operator. Through VEBA Wärmeservice it is the German market leader in heating oil. Via its Ruhr Oel shareholding VEBA Oel has Germany's largest refinery system.

**Chemicals.** Degussa-Hüls ranks among the world's largest specialty chemicals enterprises. It commands numerous leading market positions for products like feed additives, superabsorbents, coating raw materials, hydrogen peroxide, industrial carbon black, silicic acids, phenol, and methacrylates. Operations are divided into four reporting segments: Health & Nutrition, Specialty Products, Polymers & Intermediates, and Performance Materials.

**Real-Estate Management.** With roughly 125,000 of its own housing units, another 50,000 via shareholdings, and numerous commercial properties, Viterra is one of Germany's foremost real-estate service companies.

Energy

PreussenElektra AG Hanover Capital: DM1,250 million	100%	VEBA Oel AG Gelsenkirchen Capital: DM488 million	100%
• PreussenElektra Kraftwerke AG & Co. KG Hanover Capital: DM500 million	100%	• VEBA Oil & Gas GmbH Essen Capital: DM697 million	100%
• PreussenElektra Kernkraft GmbH & Co. KG Hanover Capital: DM400 million	100%	• VEBA Oil Supply and Trading GmbH Hamburg Capital: DM6 million	100%
• PreussenElektra Netz GmbH & Co. KG Hanover Capital: DM500 million	100%	• Ruhr Oel GmbH Düsseldorf Capital: DM602 million	50%
• PreussenElektra Engineering GmbH Gelsenkirchen Capital: DM22 million	100%	• Aral AG Bochum Capital: DM300 million	98.9%
• Avacon AG Helmstedt Capital: €135 million	54.7%	• VEBA Wärmeservice GmbH Gelsenkirchen Capital: DM45.7 million	100%
• e.dis Energie Nord AG Fürstenwalde an der Spree Capital: €175 million	70.0%	• AFC Aviation Fuel Company mbH Hamburg Capital: DM8 million	50%
• Schleswig Aktiengesellschaft Rendsburg Capital: DM200 million	65.3%	• VEBA Erdöl-Raffinerie Emsland GmbH & Co. KG Lingen Capital: €0.05 million	100%
• Pesag Aktiengesellschaft Paderborn Capital: DM33 million	54.7%	• VEBA Oel Verarbeitungs GmbH Gelsenkirchen Capital: DM0.05 million	100%
• EWE Aktiengesellschaft Oldenburg Capital: DM300 million	27.4%		
• Energie-Aktiengesellschaft Mitteldeutschland EAM Kassel Capital: DM120 million	46.0%		
• Thüga Aktiengesellschaft Munich Capital: DM320 million	56.5%		
• Gelsenwasser AG Gelsenkirchen Capital: DM171.9 million	52.1%		
• Veag Vereinigte Energiewerke AG Berlin Capital: €1,000 million	26.3%		
• Bewag Aktiengesellschaft Berlin Capital: DM1,120 million	23.0%		
• Hamburgische Electricitäts-Werke Aktiengesellschaft Hamburg Capital: DM460 million	15.4%		
• Electriciteitsbedrijf Zuid-Holland N.V. Voorburg (Netherlands) Capital: NLG20 million	100.0%		
• Sydkraft AB Malmö (Sweden) Capital: SEK1,910 million	20.7%		
• BKW FMB Energie AG Bern (Switzerland) Capital: CHF132 million	20.0%		

Chemicals

Degussa-Hüls AG Frankfurt am Main Capital: €399 million	64.7%
• Asta Medica AG Dresden Capital: DM100 million	100%
• Stockhausen GmbH & Co. KG Krefeld Capital: DM84 million	99.9%
• Röhm GmbH Darmstadt Capital: DM119 million	99.5%
• Oxeno Olefinchemie GmbH Marl Capital: DM35 million	100%
• Phenolchemie GmbH & Co. KG Gladbeck Capital: DM100 million	99.5%
• Cerdec AG Keramische Farben Frankfurt am Main Capital: DM30 million	100%
• Creavis Gesellschaft für Technologie und Innovation mbH Marl Capital: DM0.1 million	100%
• Infracor GmbH Marl Capital: DM45 million	100%
• Degussa-Hüls Antwerpen N.V. Antwerp (Belgium) Capital: BFR1,100 million	100%
• Degussa-Hüls Corporation Ridgefield Park, New Jersey (USA) Capital: US\$20,400	100%
• Degussa-Hüls Ltda. Guarulhos (Brazil) Capital: BRL123 million	100%
• Allgemeine Gold- und Silberscheideanstalt AG Pforzheim Capital: DM20 million	90.8%
• Degussa-Hüls Japan Co. Ltd. Tokyo (Japan) Capital: JPY495 million	100%
• Degussa-Hüls China Ltd. Hong Kong Capital: HKD1 million	100%
• Algorax Pty. Ltd. Port Elizabeth (South Africa) Capital: ZAR1.8 million	55%

Real-Estate Management

Viterra AG Essen Capital: DM350 million	100%
• Viterra Wohnen AG Bochum Capital: DM0.5 million	100%
• Viterra Wohnpartner AG Bochum Capital: DM5.05 million	100%
• Viterra Baupartner AG Bochum Capital: DM33.6 million	100%
• VEBA Wohnen GmbH Gelsenkirchen-Buer Capital: DM15.3 million	83.66%
• VEBA Urbana GmbH Düsseldorf Capital: DM31.9 million	58.17%
• Deutschbau-Holding GmbH Eschborn Capital: DM20 million	50%
• WBRM-Holding GmbH Essen Capital: €1 million	50%
• Viterra Energy Services AG Essen Capital: DM7 million	100%
• Viterra Sicherheit und Service GmbH Essen Capital: DM5 million	100%
• Viterra Gewerbeimmobilien GmbH Essen Capital: DM1 million	100%

Other Activities

• Stinnes AG Mülheim an der Ruhr Capital: DM371 million	65.5%
• VEBA Electronics LLC Santa Clara, California (USA)	100%
• VEBA Telecom GmbH Düsseldorf Capital: DM250 million	100%
• MEMC Electronic Materials, Inc. St. Peters, Missouri (USA) Capital: US\$508 million	71.8%

With more than 1,500 locations worldwide, Stinnes ranks among the world's premier distribution and logistics enterprises.

VEBA Electronics is one of the three largest distributors of electronic components worldwide.

VEBA Telecom holds a stake in France's Bouygues Telecom.

MEMC is one of the world's leading manufacturers of silicon wafers and has production facilities in the US, Asia, and Europe.

VEBA Group Financial Highlights

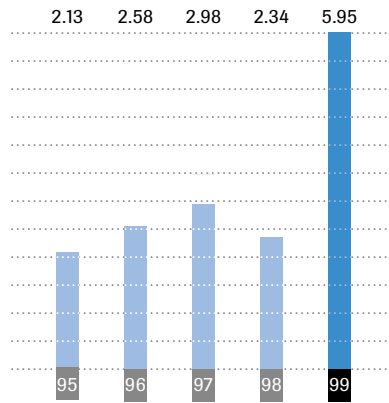
	1995	1996	1997	1998	1999	1999	1998/1999
in millions of	€	€	€	€	€	DM	%
Sales	37,003	38,112	42,294	42,787	52,905	103,473	+ 23.6
Income							
pretax income	1,961	2,268	2,543	2,392	3,953	7,731	+ 65.3
net income	1,077	1,347	1,544	1,152	2,902	5,676	+ 151.9
after minority interests	979	1,257	1,437	1,196	2,668	5,218	+ 123.1
Internal operating profit	-	2,035	2,240	1,946	2,274	4,448	+ 16.9
Return on equity							
after taxes <sup>1)</sup> in percent	11.4	13.3	13.5	10.4	20.4	-	10.0 <sup>2)</sup>
Investments	4,971	4,491	8,111	4,225	7,017	13,724	+ 66.1
Cash flow from							
operations	4,028	4,580	4,465	3,088	3,255	6,366	+ 5.4
Shareholders' equity	10,713	11,781	12,946	13,468	17,372	33,977	+ 29.0
Total assets	34,641	36,771	41,208	43,069	52,384	102,454	+ 21.6
Employees at year-end <sup>3)</sup>	125,158	123,391	129,960	116,774	131,602	-	+ 12.7
Per share	€	€	€	€	€	DM	
US GAAP earnings	2.13	2.58	2.98	2.34	5.95	11.64	+ 154.3
Cash dividend	0.87	0.97	1.07	1.07	1.25	2.44	+ 16.8
Dividend including							
tax credit	1.24	1.39	1.53	1.53	1.79	3.50	+ 17.0
Book value <sup>4)</sup>	18.32	20.18	22.78	23.40	28.60	55.94	+ 22.2
Cash flow from							
operations	-	9.27	8.98	6.14	6.47	12.66	+ 5.4

VEBA Group by Division 1999

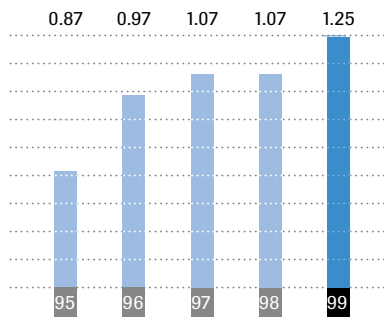
	Elec- tricity	Oil	Chemicals	Real- Estate Man- agement	Distribu- tion/ Logistics	Tele- commu- nications	Silicon Wafers	Others	Total
€ in millions									
Sales	7,719	11,778	14,632	1,145	16,872	108	651	-	52,905
Internal operating profit	1,505	78	475	184	267	- 180	- 214	159	2,274
Cash flow from									
operations	1,728	601	603	43	156	- 215	- 99	438	3,255
Investments	1,349	1,308	1,298	333	741	171	60	1,757	7,017
Employees at year-end	20,556	5,863	44,334	4,901	49,818	72	5,600	458	131,602
DM in millions									
Sales	15,097	23,036	28,618	2,239	32,999	211	1,273	-	103,473
Internal operating profit	2,944	153	929	360	522	- 352	- 419	311	4,448
Cash flow from									
operations	3,380	1,175	1,179	84	305	- 420	- 194	857	6,366
Investments	2,639	2,558	2,539	651	1,449	335	117	3,436	13,724

- 1) Net income divided by average shareholders' equity, excluding minority interests.
- 2) Change in percentage points.
- 3) Excluding suspended working relationships and including all less than part-time employees as of 1996 (total).
- 4) Excluding minority interests.

**US GAAP Earnings  
per Share in €**



**Dividend per Share in €**



It's often the little things that make life more enjoyable. VEBA does its part by supplying the basics. Electricity, natural gas, water, fuels, performance chemicals, and real-estate services. They all come together in our customers' homes. And what's good for our customers is good for us: being able to offer multiple utility services from a single source creates exciting new competitive advantages for the Group.

### February

- Stinnes makes an offer to purchase the remaining shares in Sweden's BTL. The move represents a consistent continuation of Stinnes's focus on logistics services. After the tender period expires Stinnes holds nearly all of BTL's shares.
- The merger of Degussa and Hüls is entered into the Commercial Register and is retroactively effective as of October 1, 1998.

### March

- VEBA divests its 10.2 percent stake in Cable & Wireless, the UK telecoms company, and achieves a book gain of €1.3 billion.
- PreussenElektra increases its shareholding to 20.6 percent and its voting rights to 32.6 percent in Sydkraft, Sweden's second-largest energy utility.

### April

- VEBA and RWE sell Otelo's fixed-line business to Mannesmann Arcor for €1.15 billion.
- MEMC completes its planned capital increase in order to implement financial restructuring. VEBA had agreed to purchase any unsubscribed shares. The Group's stake in MEMC increases to 71.8 percent.

### May

- VEBA and RWE sell the stake in the German cable-TV operator TeleColumbus they hold via VRT (the new name for their Otelo joint venture) to a Deutsche Bank investment company for about €740 million. The deal is effective as of July 1, 1999.

### June

- In a first tranche VEBA floats 34.5 percent of Stinnes's shares. To further focus the Group, VEBA will divest Stinnes completely in the next few years.

### July

- PreussenElektra signs an agreement to acquire Electriciteitsbedrijf Zuid-Holland, a Dutch energy utility.

### September

- VEBA and VIAG conclude an Agreement in Principle to merge their companies and create a clearly structured business group focusing on its core energy and specialty chemicals businesses. In both of these sectors the new company will occupy premier positions in Germany and worldwide.
- In support of the merger VEBA acquires a 10 percent stake in VIAG from the Free State of Bavaria. These shares will not participate in the share exchange, making the purchase similar to a preemptive share buy-back.

### October

- In accordance with the resolution adopted at the last Annual Shareholders' Meeting, VEBA shares are converted to bearer shares without nominal value. The conversion has no effect on the share price.
- VRT concludes an agreement to sell its 60.25 percent shareholding in E-Plus, the German mobile telecoms company, to France Télécom. VEBA's share of the €7.4 billion sale price amounts to €3.8 billion. Bell South, also an E-Plus shareholder, exercises its preemption rights and will acquire the E-Plus shareholding under the same conditions worked out with France Télécom.

### December

- VEBA Oel acquires the interests of the other Aral shareholders Mobil Oil and Wintershall at the turn of the year. The deal lifts VEBA Oel's Aral stake from 56 to roughly 99 percent.
- To further streamline its portfolio Degussa-Hüls sells the PVC maker Vestolit to a UK-led investor group for more than €150 million.
- VEBA sells its shareholding in Cablecom, the Swiss cable-TV operator, to US-based NTL. VEBA's share of the sale price amounts to about €870 million.

## Contents

• Supervisory Board	4
• Report of the Supervisory Board	5
• Board of Management	7
• Letter to Our Shareowners	8
• The VEBA–VIAG Merger	12
• The VEBA Share	16
• Report of the Board of Management:	
• Review of Operations	18
• Additional Information:	
• CFROI by Segment	28
• Strategy and Investment Plan	30
• Group Divisions:	
• Electricity	34
• Oil	42
• Chemicals	46
• Real-Estate Management	54
• Distribution/Logistics	58
• Telecommunications	60
• Silicon Wafers	61
• Human Resources	62
• Environmental Protection	66
• Consolidated Financial Statements	67
• Mandates of Board Members	114
• Major Affiliated and Associated Companies	118
• VEBA Group: Ten-Year Highlights	120
• Financial Calendar	121

### Honorary Chairman of the Supervisory Board

- Dr. Günter Vogelsang  
Düsseldorf

### Supervisory Board

- Hermann Josef Strenger  
Chairman of the Supervisory Board, Bayer AG, Leverkusen  
Chairman
- Hubertus Schmoldt  
Chairman of the Board of Management,  
Industriegewerkschaft Bergbau, Chemie, Energie, Hanover  
Deputy Chairman
- Ralf Blauth  
Industrial clerk  
(Industriekaufmann), Marl
- Dr. Rolf-E. Breuer  
Spokesperson of the Board of Management, Deutsche Bank AG, Frankfurt am Main
- Dr. Gerhard Cromme  
Chairman of the Board of Management, Thyssen Krupp AG, Essen
- Rainer Dücker  
Power plant worker, Lübeck
- Henner Hecht-Wieber  
Electrician, Düsseldorf
- Wolf-Rüdiger Hinrichsen  
Accounting and Administration Manager (kfm. Angestellter), Düsseldorf
- Ulrich Hocker  
General Manager, Deutsche Schutzvereinigung für Wertpapierbesitz e.V., Düsseldorf
- Dr. h.c. André Leysen  
Chairman of the Administrative Board, Gevaert N.V., Mortsel, Belgium
- Dr. Klaus Liesen  
Chairman of the Supervisory Board, Ruhrgas AG, Essen
- Herbert Mai  
Chairman, Gewerkschaft Öffentliche Dienste, Transport und Verkehr, Stuttgart
- Dagobert Millinghaus  
Accounting and Administration Manager (kfm. Angestellter), Mülheim an der Ruhr
- Margret Mönig-Raane  
First Chair, Gewerkschaft Handel, Banken, Versicherungen, Düsseldorf
- Dr. Henning Schulte-Noelle  
Chairman of the Board of Management, Allianz AG, Munich
- Morris Tabaksblat  
Chairman of the Administrative Board, Reed Elsevier plc, Amsterdam, Holland
- Kurt F. Viermetz  
Member of the Board of Directors, J.P. Morgan & Co., Inc., New York
- 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-Hüls AG, Marl
- Kurt Weslowski  
Chemical worker, Gelsenkirchen



**Hermann J. Strenger**  
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 six meetings in 1999. We comprehensively debated all measures subject to Supervisory Board approval. Between meetings, Supervisory Board members received detailed information on major business transactions of key importance for the further development of the Company. Furthermore, the Supervisory Board's Executive Committee received oral reports submitted by the Board of Management and discussed them in depth at three sessions. The Chairman of the Supervisory Board maintained constant contact with the Chairman of the Board of Management and was continuously informed about all major business transactions as well as the development of key financial figures.

Reporting by the Board of Management focused particularly on the planned merger with VIAG. At two meetings in September we were informed in detail about the strategic background and the key points of the Agreement in Principle to merge the two companies, and approved the latter. In December we also dealt intensively with the Merger Report, the Valuation

Report, the exchange ratio of VIAG and VEBA shares, and the interim Financial Statements as of September 30, 1999. We approved the Merger Report.

Other subjects discussed by the Supervisory Board included the financial situation and business prospects of the major Group companies, measures to enhance competitiveness and reinforce the businesses' market position, as well as investment, financing, and personnel planning for 2000 through 2002. During Supervisory Board meetings, the Board of Management also regularly informed us about the use and scope of derivative financial instruments.

In our meetings in April and May we dealt in detail with the sale of Otelo's fixed-line business to the Mannesmann Group and with the key aspects of VEBA's strategic orientation. In September and December the Board of Management informed us fully about Preussen-Elektra's acquisition of EZH, the Dutch energy utility, the sale of the 60.25 percent stake in E-Plus held jointly with RWE, and VEBA Oel's acquisition of the remaining Aral shares.

PwC Deutsche Revision Wirtschaftsprüfungsgesellschaft, Düsseldorf, the auditors approved by the Annual Shareholders' Meeting and appointed by the Supervisory Board, audited the Financial Statements of VEBA AG and the Consolidated Financial Statements as of December 31, 1999, as well as the combined Review of Operations, and submitted an unqualified opinion thereon. The auditors also reviewed and delivered an audit opinion on the Consolidated Financial Statements' compliance with US Generally

Accepted Accounting Principles. Furthermore, the auditors examined VEBA 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 VEBA 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 VEBA AG prepared by the Board of Management and also the Consolidated Financial Statements. The Financial Statements of VEBA AG 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 future development of the Company.

We agree with the Board of Management's proposal for appropriating net income available for distribution, which includes a dividend payment of €1.25 per share for 1999.



## Report of the Supervisory Board

On September 19, 1999, Alfred H. Berson passed away at the age of 73. Mr. Berson was a member of the Board of Management from 1981 to 1991 and during this period made a decisive contribution to key development initiatives and major business transactions. With his balanced judgment, he was an astute and valuable adviser who rendered exemplary service to VEBA during a dynamic phase of its development. We will not forget him.

Alain D. Bandle, a member of VEBA AG's Board of Management since 1998, left the Board by mutual agreement as of October 29, 1999. We wish to express our thanks to him for his excellent work and great commitment to VEBA.

Helmut Mamsch, a member of VEBA AG's Board of Management since 1993, will leave the Board by mutual agreement as of March 31, 2000. From 1993 to 1996 he was also Chairman of Raab Karcher AG's Board of Management and from 1996 to 1998 was Chairman of Stinnes AG's Board of Management. We wish to express our thanks to him for his superb work and outstanding achievements for the Group.

The Supervisory Board thanks the Boards of Management, the Works Councils, and all the employees of VEBA AG and its affiliated companies for their dedication and hard work.

Düsseldorf  
March 29, 2000  
The Supervisory Board



Hermann J. Strenger  
Chairman

## Board of Management



### Board of Management

- Ulrich Hartmann  
Born in Berlin in 1938  
Member of the Board of Management since 1989  
Chairman and CEO  
Düsseldorf
- Alain D. Bandle  
Born in Zurich in 1953  
Member of the Board of Management since 1998  
Telecommunications  
Düsseldorf  
(until October 29, 1999)
- Dr. Wulf H. Bernotat  
Born in Göttingen in 1948  
Member of the Board of Management since 1998  
Chairman of the Board of Management, Stinnes AG  
Mülheim an der Ruhr
- Gunther Beuth  
Born in Stolp in 1937  
Member of the Board of Management since 1998  
Chairman of the Board of Management, Viterro AG  
Essen
- Wilhelm Bonse-Geuking  
Born in Arnsberg in 1941  
Member of the Board of Management since 1995  
Chairman of the Board of Management, VEBA Oel AG  
Gelsenkirchen
- Dr. Hans Michael Gaul  
Born in Düsseldorf in 1942  
Member of the Board of Management since 1990  
Chief Financial Officer  
Düsseldorf
- Dr. Hans-Dieter Harig  
Born in Alt-Jassewitz in 1938  
Member of the Board of Management since 1988  
Chairman of the Board of Management,  
PreussenElektra AG, Hanover
- Dr. Manfred Krüper  
Born in Gelsenkirchen in 1941  
Member of the Board of Management since 1996  
Group Human Resource Management, Düsseldorf
- Helmut Mamsch  
Born in Bergen in 1944  
Member of the Board of Management since 1993  
Group Strategic Development  
Düsseldorf  
(until March 31, 2000)

### Executive Vice Presidents

- Gert von der Groeben  
Düsseldorf  
(since March 24, 1999)
- Dr. Walter Hohlefelder  
Düsseldorf  
(until March 31, 1999)
- Ulrich Hüppe  
Düsseldorf
- Dr. Hansgeorg Köster  
Düsseldorf
- Dr. Rolf Pohlig  
Düsseldorf
- Dr. August-Wilhelm Preuss  
Düsseldorf

From left to right

**Manfred Krüper**  
**Alain D. Bandle**  
**Hans-Dieter Harig**  
**Hans Michael Gaul**  
**Wulf H. Bernotat**  
**Gunther Beuth**  
**Ulrich Hartmann**  
**Helmut Mamsch**  
**Wilhelm Bonse-Geuking**



**Ulrich Hartmann**  
Chairman of the Board  
of Managers and CEO

Dear Shareowners:

At our Extraordinary Shareholders' Meeting on February 10, 2000, you gave the go-ahead to build a European powerhouse by voting overwhelmingly in favor of the VEBA-VIAG merger. The tie-up will lift our core energy and specialty chemicals businesses into new dimensions. In both sectors the new company will occupy premier positions that we intend to rapidly enlarge.

The merger represents a consistent continuation of our successful *Focus and Growth* strategy. In the last few years we have concentrated on high-growth businesses and between 1993 and 1999 reduced the Group's annual costs by €2.1 billion.

### Record Operating Earnings and Dividend

In 1999 we reaped the initial rewards of these efforts. Group internal operating profit climbed by about 17 percent—from just under €2 billion to a record €2.3 billion. We achieved this all-time high despite the fact that Electricity's earnings came in almost 20 percent behind the prior year's record. Marked earnings improvements in the other Divisions more than offset Electricity's decline.

This demonstrates that we have the strength to make it through the current lean period in the power sector and to emerge with renewed strength from today's predatory competition. The electricity market is going through a shakeout, and we are growing at above-average rates. PreussenElektra increased its sales volume 4 percent in 1999, whereas the German market as a whole expanded by just 1 percent. It is evident that we can only expand our market position

in this harsh competitive climate by accepting a temporary earnings reduction in our Electricity Division. For 2000 we expect this decline to be more than offset by significantly improved operating earnings in all of our other Divisions.

Pretax income grew from €2.4 billion to roughly €4.0 billion in 1999. Besides higher operating earnings, the sharp rise was fueled by substantial book gains from the disposal of our telecoms activities. Pretax income for 1999 does not include the book gains totaling €4.3 billion from the sale of E-Plus and Cablecom. They take effect in 2000. These gains alone will lift pretax income for 2000 above the prior year's level.

VEBA's record earnings consolidated its position as one of Europe's financially strongest companies. The Board of Management and the Supervisory Board therefore propose that net income available for distribution be used to pay an increased cash dividend of €1.25 (1998: €1.07) per share. Including the tax credit, entitled domestic shareowners will receive a total of €1.79 (1998: €1.53) per share—the highest dividend in VEBA's history.

### Structures Further Optimized

Though 1999 was understandably dominated by the preparations for our tie-up with VIAG, we nevertheless continued to optimize our current businesses. VEBA is entering the merger not only in excellent financial shape, but also with further structural improvements.

PreussenElektra continued to become more international by acquiring the Dutch utility EZH, giving it securing a foothold on Holland's attractive electricity market. Our Electricity Division established itself as a

player in European power trading. It added new service offerings and marketing schemes to its proven model of sales partnerships with regional and municipal utilities.

We achieved a long-term goal when VEBA Oel obtained full management control of Aral. The move gives our Oil Division complete strategic flexibility and makes it an attractive partner for international joint ventures and alliances.

In the Chemicals Division we successfully completed the integration of Degussa and Hüls and focused its portfolio on the high-growth and largely non-cyclical specialty chemicals segment. Degussa-Hüls is rapidly realizing the merger's synergies.

Germany's largest private provider of real-estate services took the name *Viterra* in spring 1999. Clearly aligned with four business units, the company combines real-estate expertise and real-estate services. Viterra further extended its lead on the German market.

Although we did not achieve our strategic objectives in the telecoms business, our shareholdings created significant value. Since 1994 we invested a total of about €3.6 billion in telecoms. The disposal of our principal telecoms interests in 1999 already generated a reflux of funds amounting to €8.9 billion—a significant gain. We still hold our valuable shareholding in Bouygues Telecom.

Last year we successfully launched Stinnes on the stock exchange. As planned, we will also divest our remaining 65.5 percent stake in the global logistics group. VEBA Electronics extended its presence on all key markets worldwide, particularly in its components

business. The rigorous cost-cutting measures initiated at MEMC in the prior year began to take hold in 1999.

### **Innovation Drives Growth**

At VEBA we know that today's ideas are tomorrow's businesses. Our Group-wide innovation initiative has helped us develop new products and services. E-commerce will be the focus of our innovation projects in 2000. Powerline communication (PLC) is an exciting technology that combines electricity as well as data and voice communications over a single line. The PLC project began under the wing of VEBA Telecom and has given rise to a new company in which PreussenElektra has a majority interest. Oneline AG possesses highly advanced and field-tested PLC technology that is scheduled to be ready for market this year.

### **Becoming a European Powerhouse**

Our merger with VIAG is fueling additional growth in our core businesses. The two companies' energy and specialty chemicals operations complement each other superbly. The tie-up gives us the critical mass necessary to play a leading role in Europe's energy sector. Merging Bayernwerk and PreussenElektra will yield about €700 million in synergies. These savings are in addition to ongoing cost-cutting programs. The move also bolsters our position in the increasingly global chemicals business.

Together we will aggressively exploit the competitive opportunities in our core businesses and build a new powerhouse. The basic structure is already in place. And the finishing work is progressing quickly.

We have already passed key merger milestones. We still await the antitrust authorities' approval, but we are confident that regulatory requirements will not alter the merger's key points—or impair its synergetic potential.

*Fast forward* has been the slogan of our merger. So right from the start we formed numerous project teams to quickly implement the merger and integrate the two companies. These teams are on schedule and making rapid progress. We have defined the organizational structure of the new holding company and of the energy group as well as filled key management positions. In Chemicals we are formulating a comprehensive strategic plan that will lay the groundwork for a successful future.

### **E.ON: a World-Class Business Group**

The new Group's core businesses are clearly defined: energy and specialty chemicals. In addition, VIAG Telecom enables us to participate in the telecoms sector's growth and value potential. We intend to float shares in VIAG Telecom at an appropriate time. We will also retain the largely non-cyclical real-estate management business. We expect it to make a growing contribution to Group earnings. We plan to exit our other activities when the time is right. We will invest the sales proceeds to fuel growth in our core businesses.

We intend to seize the considerable opportunities created by the liberalization of Europe's energy sector and to expand our global presence in the chemicals

industry. The merged company will have a new name to underscore its global leadership. We propose to call it E.ON. It is more than a new corporate name. From our shares to our energy group's products and services, E.ON will be the brand that earns us rapid recognition in Germany, Europe, and around the world. E.ON ideally identifies the new Group as a competent and customer-oriented service provider of life's essentials.

### **A Premier European Multi-Utility Offering Electricity, Natural Gas, and Water**

Merging PreussenElektra and Bayernwerk to form E.ON's Energy Division represents an important initial step toward becoming a premier European multi-utility. Combining our electricity, gas, and water activities and implementing well-defined sales and marketing strategies will enable us to expand our market share in Europe. Our strengths lie in customized and economically priced products and services for all customer segments. We intend to enlarge our presence on several power exchanges and become Europe's leader in this growth segment.

Acquisitions and joint ventures—especially in neighboring European countries—offer additional opportunities for sustained growth. Electricity stands at the forefront of our expansion plans, but we also intend to enlarge our natural gas and water activities. This

will enable us to play an active role in further consolidating the European power market. At the same time we will seize opportunities for profitable investments overseas.

Via internal and external growth we plan to double the energy group's sales within five years.

### **Global Player in Specialty Chemicals**

Merging Degussa-Hüls and SKW Trostberg will also lift our Chemicals Division into a new dimension. The new company will rank among the premier global players in specialty chemicals. Low production costs and outstanding expertise across numerous growth segments will drive additional growth. In specialty chemicals we intend to boost sales from today's €14 billion to more than €20 billion over the next five years. The new chemicals group will enlarge its international operations, principally in North America and Asia.

### **E.ON: an Attractive Investment**

We have laid the groundwork for profitable growth. It will primarily be in our core businesses, but also in Telecommunications and Real-Estate Management. We expect that E.ON, your new company, will start work early this summer. *Fast forward* will remain our byword. We will not only keep pace with our highly dynamic markets. We will remain the pacesetter. E.ON harbors considerable potential, and the tie-up gives us the decisive key to unlock that potential. We also intend to make additional, cross-border moves.

Creating value for you, our shareowners, will remain our number-one priority. The deregulated European energy market offers substantial scope for entrepreneurial activity. These exciting opportunities are not reflected in current market valuations. The uncertain future of electricity prices and the political debate on opting out of nuclear power continue to weigh on utilities' share prices. But these factors will soon become less significant. In the medium term we expect electricity prices to stabilize. And we are committed to protecting our rights to operate our nuclear power stations—whether by consensus or by legal action. The fundamentals are unequivocal: E.ON will be a high-growth and highly profitable company with a clear structure and enormous financial strength. A company that will create considerable value for you, its shareowners.

Yours sincerely,



Ulrich Hartmann

On September 27, 1999, VEBA and VIAG announce their intention to merge to form the world's largest publicly listed energy utility. With a clear focus and premier market positions in its core energy and chemicals businesses, the new company will actively shape its liberalized markets. The next three pages show some of the highlights of the merger process.

# Fast Forward into the Future. Together.



Ulrich Hartmann and Prof. Wilhelm Simson, the CEOs of VEBA and VIAG, hold a press conference in Munich to present their plan to create a leading European powerhouse. The same day they fly to Frankfurt and then on to London to discuss the deal with institutional investors. All three gatherings give the planned tie-up a very positive reception. Now begins the highly detailed work of making the merger reality.

A button from a CD player takes center stage as the merger's symbol: fast forward. While working at a rapid pace to implement the merger, both companies continue to optimize their current businesses. VEBA and VIAG keep their shareowners and the public informed about the tie-up via print ads and internet reports.

The VEBA-VIAG Merger



VEBA's Hans Michael Gaul and Ulrich Hartmann and VIAG's Wilhelm Simson and Erhard Schipporeit sign the Merger Agreement. The document spells out the details of the merger and sets the share exchange ratio. The court-appointed merger auditor confirms the ratio as true and fair.



Shareowners and shareowner representatives discuss all aspects of the merger at VEBA's and VIAG's Extraordinary Shareholders' Meetings. Both companies' shareowners approve the tie-up by an overwhelming majority.



An internal merger newspaper, *Fusionsreport*, keeps employees of both companies up to date throughout the entire merger process via interviews, management statements, and background reports.



## The VEBA Share

### Key Figures per Share

	1999	1999	1998	+/-
	DM	€	€	%
Year-end share price	94.76	48.45	50.46	- 4.0
US GAAP earnings	11.64	5.95	2.43	+154.3
Dividend	2.44	1.25	1.07	+ 16.8
Cash flow from operations	12.66	6.47	6.14	+ 5.4
Book value <sup>1)</sup>	55.94	28.60	23.40	+ 22.2

1) Excluding minority interests.

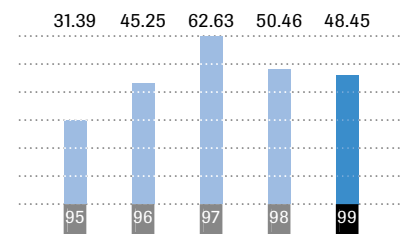
### VEBA Shares Decline Slightly in Line with Sector

At €48.45, the VEBA share closed 1999 slightly lower than its year-end 1998 price. VEBA shareowners who reinvested their cash dividend saw the value of their VEBA portfolio slip by 2.1 percent. The VEBA share thus marginally outperformed its European peer index, the Stoxx Utilities, which declined 2.8 percent. By comparison, German and European equity markets performed very well overall in 1999. The DAX index of Germany's top 30 blue chips was up 39.1 percent on the year, and the Euro Stoxx 50 climbed 48.6 percent. Both indices therefore significantly outperformed VEBA shares.

### VEBA Share Portfolio Shows Marked Double-Digit Growth over Long Term

Investors who purchased VEBA shares for DM10,000 at the end of 1994 and reinvested their cash dividends saw the value of their investment rise to roughly DM19,500 by the end of 1999. The investment thus almost doubled over the five-year period. The 95 percent appreciation amounts to an annual increase of 14.3 percent. Over the same period the DAX rose on average 27.0 percent per year, the Euro Stoxx 50 rose 33.2 percent annually, and VEBA's peer European utility index—the Stoxx Utilities—was up 21.2 percent per annum. So compared with the strong overall per-

### Year-End Share Price in €



formance of European equities, the VEBA share's performance for 1994 through 1999 was below average.

Long-term investors who purchased VEBA shares 10 years ago at year-end 1989 saw their investment more than triple in value. At 12.3 percent, the VEBA share's average annual increase outperformed its peer index, the C-DAX Utilities, which climbed 11.2 percent per year over the same period. The overall German stock market (DAX) increased 14.5 percent annually from 1989 to 1999.

### Dividend Increases to €1.25

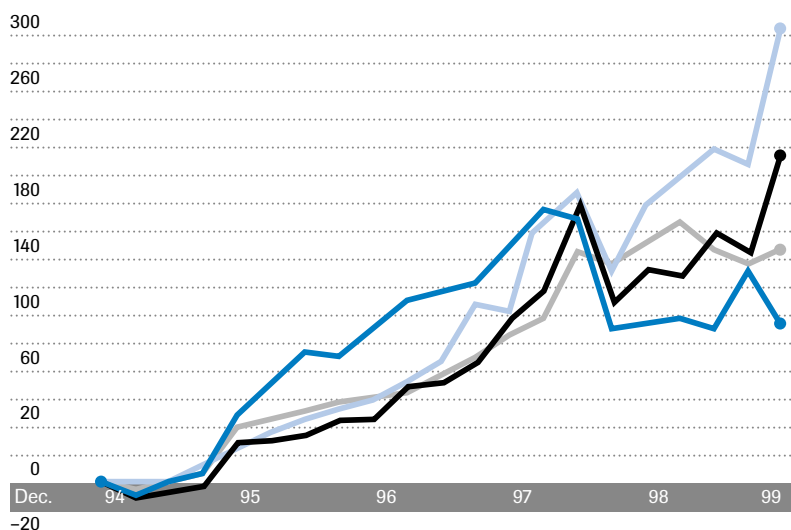
At the Annual Shareholders' Meeting, the Board of Management and the Supervisory Board will propose to increase the dividend from the previous year's €1.07 to €1.25 for the 1999 financial year. Entitled domestic shareowners also receive a tax credit of €0.54. Including the tax credit, VEBA's dividend has increased 10.3 percent per year over the last five years.

### VEBA Shares Converted to Shares without Nominal Value

In the wake of the conversion of VEBA's capital stock from deutschmarks to euros and in accordance with the resolution adopted at the May 1999 Annual Shareholders'

### Five-Year Total Return in Percent VEBA Share, DAX, Euro Stoxx 50, & Euro Stoxx Utilities

- VEBA
- DAX
- Euro Stoxx 50
- Stoxx Utilities



## VEBA Share Key Figures

per share		1995	1996	1997	1998	1999	1999
US GAAP earnings	€	2.13	2.58	2.98	2.34	5.95	DM 11.64
Cash flow from operations	€	-	9.27	8.98	6.14	6.47	DM 12.66
Dividend	€	0.87	0.97	1.07	1.07	1.25	DM 2.44
including tax credit	€	1.24	1.39	1.53	1.53	1.79	DM 3.50
Dividend declared	€ million	424	480	534	540	629	DMmillion 1,229
Share price: high	€	31.50	46.20	62.63	67.08	62.60	DM 122.43
low	€	25.28	31.44	44.89	41.36	41.60	DM 81.36
year-end	€	31.39	45.25	62.63	50.46	48.45	DM 94.76
Number of shares	million	488.2	493.8	497.2	502.8	502.8	million 502.8
Market capitalization	€ billion	15.3	22.3	31.1	25.4	24.4	DMmillion 47.6
Book value <sup>1)</sup>	€	18.32	20.18	22.78	23.40	28.60	DM 55.94
Market-to-book-value ratio <sup>2)</sup>	%	171	224	275	216	169	% 169
VEBA share trading volume <sup>3)</sup>	€ billion	36.5	52.6	102.6	22.2	21.1	DMbillion 41.3
DAX trading volume	€ billion	689.7	961.5	1,953.9	667.5	755.5	DMbillion 1,477.0
VEBA Share	%	5.3	5.5	5.3	3.3	2.8	% 2.8

1) Shareholders' equity excluding minority interests.

2) Year-end share price expressed as a percentage of book value, excluding minority interests.

3) On all German stock exchanges (including XETRA); starting in 1998, figures are order book statistics and are thus not comparable with previous years.

Meeting, VEBA shares were converted in early October 1999 from shares with a nominal value to bearer shares without nominal value. The conversion had no effect on the share price. Depository banks automatically converted their customers' shares.

### Delistings in Vienna and Amsterdam

Since the mid-1980s VEBA shares were also listed on stock exchanges in Vienna and Amsterdam. Comparatively few VEBA shares traded at these two exchanges. The introduction of the euro also meant that they were trading in the same cur-

rency as in Germany. We therefore applied for delistings, and in late October 1999 trading in VEBA shares ended in Vienna and Amsterdam.

VEBA shares will continue to trade on all German exchanges, the Swiss Exchange, and via ADRs on the New York Stock Exchange.

### Investor Relations Activities Further Enhanced

The objective of our investor relations activities is to further reinforce our shareowners', potential investors', and financial analysts' confidence in VEBA. By ensuring an ongoing flow of open and comprehensive information about our businesses' current situation and outlook, we strive to enable the market to arrive at a fair valuation of our stock.

To meet the global capital market's rising demand for information, we again stepped up our IR activities in 1999. We have increased the number of one-on-one meetings with investors and the number of presentations to institutional investors and analysts in and outside Germany. More and more investors take part in our telephone conferences. We invite you to visit us at [www.veba.com](http://www.veba.com) and to subscribe to our email service at [investorrelations@veba.de](mailto:investorrelations@veba.de).

For 2000 we are expanding our internet offerings to provide our shareowners with more rapid access to more comprehensive information.

- Merger with VIAG represents consistent continuation of VEBA's strategy
- Record results give Group good momentum into merger
- Internal operating profit of VEBA activities expected up year-on-year in 2000

## VEBA Group

	1999	1999	1998	+/-
in millions of	DM	€	€	%
Sales	103,473	52,905	42,787	+ 23.6
Internal operating profit	4,448	2,274	1,946	+ 16.9
Cash flow from operations	6,366	3,255	3,088	+ 5.4
Investments	13,724	7,017	4,225	+ 66.1
Employees at year-end		131,602	116,774	+ 12.7

### Merger with VIAG Represents Consistent Continuation of VEBA's Strategy

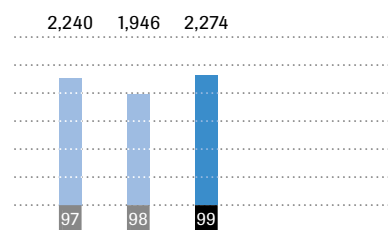
In 1999 we laid the groundwork for the VEBA-VIAG merger. Our planned tie-up with VIAG represents a consistent continuation of our *Focus and Growth* strategy.

Our management approach of recent years has consistently been to enhance shareholder value over the long term. Since 1993 we have curtailed annual costs by €2.1 billion, disposed of businesses with €8.4 billion in sales, and more than halved the number of our business areas from over 60 to 30. It is from this platform that we have set out to grow. We have also clearly defined our key areas: energy and specialty chemicals are the Group's core businesses. Our tie-up with VIAG catapults us ahead in implementing this strategy. We are forging the world's largest publicly listed energy service provider and the world's largest specialty chemicals group.

While intensively preparing for our merger with VIAG, we continued to optimize our businesses. In 1999 we again achieved significant structural improvements that strengthened our core activities.

- We further bolstered PreussenElektra's European market position by acquiring EZH, the Dutch power utility, and by increasing our stakes in Sweden's Sydkraft and Switzerland's BKW.
- We obtained full management control of Aral as of the turn of the year 1999-2000. The move further expands VEBA Oel's premier market position in Germany's petroleum sector. It also clears the way for our Oil Division's strategic realignment.
- We successfully completed the integration of Degussa and Hüls and further streamlined Chemicals' portfolio.
- We successfully floated an initial tranche of Stinnes shares.
- Finally, we divested our telecoms activities—and achieved considerable profits—as it had become evident that we were not going to achieve our strategic goal of becoming a major international player.

## Internal Operating Profit € in Millions



## Group Sales

€ in millions	1999	1998	+/- %
Electricity	7,719	8,141	- 5.2
Oil	11,778	10,282	+ 14.5
Chemicals	14,632	4,653	+ 214.5
Real-Estate Management	1,145	1,451	- 21.1
Distribution/Logistics	16,872	17,376	- 2.9
Telecommunications	108	201	- 46.3
Silicon Wafers	651	683	- 4.7
<b>Total External Sales</b>	<b>52,905</b>	<b>42,787</b>	<b>+ 23.6</b>
Sales outside Germany	26,099	16,466	+ 58.5

## Internal Operating Profit

€ in millions	1999	1998	+/- %
Electricity	1,505	1,875	- 19.7
Oil	78	235	- 66.8
Chemicals	475	251	+ 89.2
Real-Estate Management	184	149	+ 23.5
Distribution/Logistics	267	144	+ 85.4
Telecommunications	- 180	- 461	+ 61.0
Silicon Wafers	- 214	- 240	+ 10.8
Others	159	- 7	-
<b>Total</b>	<b>2,274</b>	<b>1,946</b>	<b>+ 16.9</b>

## Group Sales Increase to €53 Billion

Group sales were up 23.6 percent to €53 billion in 1999. The first-time full consolidation of Degussa-Hüls was the primary contributor to the increase. Owing to the adjustment of the former Degussa's financial year, 1999 financials also include Degussa's fourth quarter 1998 sales of roughly €1.8 billion. Adjusted for this effect, Group sales came in about 19 percent ahead of the previous year's figure.

Electricity's sales were 5.2 percent lower year-on-year despite higher sales volumes. The keen competition on Germany's liberalized electricity market made it necessary for us to make considerable price concessions, particularly to regional distributors and large special-rate customers.

Our Oil Division's sales rose 14.5 percent on slightly lower sales volumes. Higher crude-oil and product prices inflated sales figures, as did the €0.031 (6Pf) per liter increase in Germany's petroleum tax in effect since April 1, 1999.

Our chemicals business picked up noticeably in the course of the year after a sluggish start early in 1999. The above-mentioned consolidation led to a 214.5 percent upsurge in reported sales. Adjusted for this effect, 1999 sales in all four of Chemicals' reporting segments—Health & Nutrition, Specialty Products, Polymers & Intermediates, and Performance Materials—were on par with the previous year's levels. Fourth quarter 1999 sales in some cases topped the year-earlier quarter by as much as 20 percent.

Adjusted for the divestment of its personal security and service-station engineering units, Real-Estate Management's sales came in roughly 3 percent higher.

Distribution/Logistics' sales were down 2.9 percent year-on-year. Portfolio optimizing measures—particularly the 1998 disposal of the DIY and Sanitary Equipment/Heating/Tiles units as well as the 1999 divestment of Stinnes Tire Service and BTL's air and sea freight activities—reduced Stinnes's sales 13.5 percent. Distinctly higher demand for semiconductors enabled VEBA Electronics to lift 1999 sales 34.5 percent. Adjusted for disposal effects, Stinnes grew sales about 4 percent.

Telecommunications' reported sales include proportionate figures from the fixed-line business and cable-TV activities sold in 1999.

As in the previous year, excess capacity on the wafer market led to dramatic price declines. Despite a 9 percent increase in sales volume, Silicon Wafers' sales slipped 4.7 percent.

At €27 billion, the Group's sales in Germany were up 1.8 percent year-on-year. Sales outside Germany climbed 58.5 percent to €26 billion. Euroland sales—excluding Germany—came in at €7 billion.

## Group to Enter Merger in Very Good Financial Shape

VEBA will enter the merger with VIAG in very good financial shape. The Group's internal operating profit—our most important key figure for managing the Company—increased about 17 percent in 1999 to €2.3 billion. Note 28 of the Consolidated Financial Statements on page 111 explains how we calculate internal operating profit.

At €1,505 million, Electricity's internal operating profit came in 19.7 percent behind the previous year's record showing. Preussen-Elektra's ongoing cost-management programs and its 3.9 percent increase in sales volume could only partially offset price cuts brought on by keener competition.

Oil's internal operating profit of €78 million was 66.8 percent below the level achieved in the previous

year owing to considerably shrunken margins in the downstream business as well as to significant one-off charges and production startup delays in the upstream sector.

At €475 million, Chemicals' marked 89.2 percent upsurge in internal operating profit is due to the first-time full consolidation of Degussa-Hüls. Its 1999 figures also include Degussa's fourth quarter 1998 internal operating profit of €66 million. Adjusted for these effects, Chemicals' 1999 internal operating profit was distinctly below the previous year's fine performance owing to weaker business early in 1999 resulting from the difficult economic climate.

Real-Estate Management raised its internal operating profit 23.5 percent to €184 million. Principal factors were the positive performance of Viterra's real-estate services unit and the elimination of losses via the 1998 disposal of the service station engineering unit.

Distribution/Logistics grew 1999 internal operating profit 85.4 percent to €267 million. Stinnes's Chemicals and Building Materials units in particular put in improved performances. The prior year's disposal of the DIY and Sanitary Equipment/Heating/Tiles units positively impacted operating earnings. The resurgent market for electronic components helped VEBA Electronics post a considerably higher internal operating profit.

Telecommunications markedly curtailed its operating loss to €180 million mainly via the disposal of shareholdings with high startup losses.

Our Silicon Wafers Division also cut its loss considerably despite dramatic price declines. The improvement is attributable to the intensive

€ in millions	1999	1998	+/- %
<b>Group Internal Operating Profit</b>	<b>2,274</b>	<b>1,946</b>	<b>+ 16.9</b>
Net book gains	2,221	616	-
Cost-control and restructuring measures	- 464	- 463	-
Other non-operating earnings	- 379	83	-
Foreign E&P taxes	301	210	-
<b>Pretax Income</b>	<b>3,953</b>	<b>2,392</b>	<b>+ 65.3</b>
Income taxes	- 1,051	- 1,240	-
<b>Income after Taxes</b>	<b>2,902</b>	<b>1,152</b>	<b>+ 151.9</b>
Minority interests	- 234	44	-
<b>Group Net Income</b>	<b>2,668</b>	<b>1,196</b>	<b>+123.1</b>

cost-management measures MEMC introduced in 1998. Despite higher sales volume the company was able to reduce costs by about €100 million.

Pretax income surged 65.3 percent in 1999 to about €4 billion. This significant increase is the result of considerably higher net book gains, particularly from the sale of our Cable & Wireless stake, Otelo's fixed-line business, and our German cable-TV operator Tele-Columbus. We completely wrote off our €123 million engagement in Iridium's satellite-based mobile activities. The book gains from the disposal of E-Plus and Cablecom, the Swiss cable-TV operator, will be realized in the current financial year because closing did not take place until early 2000.

At €464 billion, restructuring and cost-management expenditures primarily impacted Electricity and Chemicals.

Income taxes declined 15.2 percent year-on-year to €1.1 billion.

## Group Internal Operating Profit

The tax rate for 1999 was 27 percent compared with 52 percent in 1998.

Group net income (after taxes and minority interests) totaled €2.7 billion, up 123 percent over the previous year.

## Dividend Increased to €1.25

VEBA AG's net income amounted to €885 million. After transferring €257 million to other retained earnings, 1999 net income available for distribution totaled €628 million.

At the Annual Shareholders' Meeting on May 25, 2000, we will propose that net income available for distribution be used to pay an increased dividend of €1.25 per share (€1.07 per share). Together with the tax credit of roughly €0.54 (€0.46), entitled domestic shareholders will receive a total of about €1.79 per share (€1.53).

The full financial statements of VEBA 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 VEBA AG and at [www.veba.com](http://www.veba.com).

## Financial Statements of VEBA AG (Summary)

€ in millions	Dec. 31, 1999	Dec. 31, 1998
<b>Balance Sheet</b>		
Property, plant, and equipment	141	97
Intangible assets	11,391	11,665
Fixed assets	11,532	11,762
Receivables from affiliated companies	2,247	2,330
Other receivables	322	79
Liquid funds	1,037	17
Current assets	3,606	2,426
<b>Total Assets</b>	<b>15,138</b>	<b>14,188</b>
Shareholders' equity	7,621	7,275
Reserves subject to special taxation	609	538
Provisions	2,017	1,215
Liabilities to affiliated companies	4,847	4,548
Other liabilities	44	612
<b>Total Liabilities and Shareholders' Equity</b>	<b>15,138</b>	<b>14,188</b>

€ in millions	1999	1998
<b>Income Statement</b>		
Income from equity interests	1,735	1,866
Interest income (net)	- 60	- 67
Other expenditures and income (net)	336	- 84
Pretax income	2,011	1,715
Taxes	- 1,126	- 780
<b>Income after Taxes</b>	<b>885</b>	<b>935</b>
Net income transferred to retained earnings	- 257	- 395
<b>Net Income Available for Distribution</b>	<b>628</b>	<b>540</b>

## VEBA Group Investments

€ in millions	1999	1998	+/- %
Electricity	1,349	1,442	- 6.4
Oil	1,308	460	+ 184.3
Chemicals	1,298	761	+ 70.6
Real-Estate Management	333	205	+ 62.4
Distribution/Logistics	741	583	+ 27.1
Telecommunications	171	360	- 52.5
Silicon Wafers	60	218	- 72.5
VEBA AG/Others	1,757	196	+ 796.4
<b>Total</b>	<b>7,017</b>	<b>4,225</b>	<b>+ 66.1</b>
Investments outside Germany	1,818	1,593	+ 14.1

## Investments Significantly Increased

The VEBA Group spent €2,526 million (€2,840 million) on property, plant, and equipment and €4,491 million (€1,385 million) on intangible assets. This includes €381 million in spending at companies valued at equity. At €7,017 million (€4,225 million), total investments were approximately 66 percent higher than the prior year's level.

In 1999 Electricity invested €1,349 million (€1,442 million). Investments in property, plant, and equipment including intangible assets of €593 million mainly served to optimize power distribution. Investments in financial assets amounted to €756 million, primarily to increase our stakes in Sweden's Sydkraft and Switzerland's BKW.

Capital expenditures in Oil of €1,308 million (€460 million) included the purchase of Wintershall's shares in Aral and the acquisition of Erdöl-Raffinerie Emsland. In addition, a further €256 million (€253 million) was invested in the Ruhr Oel and Aral shareholdings.

Due to the first-time full consolidation of Degussa-Hüls, 1999 investments in the Chemicals Division increased to €1,298 million (€761 million). Investments in property, plant, and equipment climbed to €949 million. To bolster our leading market positions—particularly in specialty chemicals—we increased capacity for important

products. Investments in financial assets totaled €349 million.

At €333 million (€205 million), Real-Estate Management's 1999 investments markedly exceeded the previous year's level. They included the expenditures to acquire shareholdings in the Berlin and Munich metropolitan areas and—together with HypoVereinsbank—a majority shareholding in WohnBau Rhein-Main. Investments in property, plant, and equipment totaled €169 million and investments in financial assets €164 million.

Distribution/Logistics' 1999 capital spending came to €741 million—27 percent more than in 1998. A major share of this spending went toward acquiring the remaining shares in BTL, the Swedish logistics group.

Following the sale of fixed-line and cable-TV operations, proportionate investment in Telecommunications totaled only €171 million.

With capital spending of €60 million (€218 million), in 1999 we again drastically reduced the investment volume at Silicon Wafers.

VEBA AG's 1999 investments in financial assets totaled approximately €1,714 million and were mainly to acquire 10 percent of VIAG's capital stock from the Free State of Bavaria.

Total domestic investment amounted to €5,199 million (€2,632 million), while expenditures outside Germany totaled €1,818 million (€1,593 million).

### Investments Fully Financed by Internally Generated Cash Flow

Group investments in 1999 resulted in cash outflows of €7,017 million.

Accounting for:

- proceeds received from fixed-asset disposals in the amount of €6,307 million and
- changes in other cash investments in current assets of –€1,002 million,

cash used for investing activities totaled €1,712 million (1998: €2,273 million).

This financing requirement was fully funded by €3,255 million in cash from operations.

The detailed Statement of Cash Flows can be found in the Consolidated Financial Statements section of the Annual Report.

Liquid funds (cash and other current financial investments) increased €1,330 million to €1,837 million.

At year-end 1999, VEBA had at its disposal a total of €3.3 billion in credit lines through banks, a €1 billion long-term syndicated loan facility, the €1 billion Commercial Paper program, and the €2 billion Euro Medium Term Note program. As of the balance-sheet date, these financing instruments were still unutilized.

### Statement of Cash Flows (Summary)

€ in millions	1999	1998
Cash from operations	3,255	3,088
Cash used for investing activities	– 1,712	– 2,273
Cash used for financing activities	– 1,383	– 861
<b>Net Change in Liquid Funds</b>	<b>+ 160</b>	<b>– 46</b>
<b>Liquid Funds as of December 31</b>	<b>1,837</b>	<b>507</b>

### Foreign Exchange and Interest Rate Management

VEBA 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 off-balance-sheet derivative financial instruments.

As of December 31, 1999, the face value of foreign exchange hedging transactions was €3,042 million; that of interest rate hedging transactions, €1,923 million; and that of commodity derivatives, €808 million. The market values of transactions for which no hedge accounting was applicable totaled €6.9 million for foreign exchange, €2.2 million for interest rate, and –€11.5 million for commodity hedging transactions.

### Asset and Capital Structure Improved

In 1999 the first-time full consolidation of Degussa-Hüls and investment activities led to a €4.4 billion increase in fixed assets. With current assets also increasing by €4.9 billion, total assets rose by €9.3 billion to €52.4 billion. Our equity

ratio increased slightly to 33.2 percent compared with 31.3 percent in the previous year.

Long-term debt rose €2.7 billion to €20.7 billion, again owing mainly to the Degussa-Hüls consolidation.

The following key figures demonstrate that the VEBA Group improved its asset and capital structure through the end of 1999:

- Fixed assets are covered by shareholders' equity at 48.7 percent (43.0 percent).
- Fixed assets are covered by long-term capital at 106.7 percent (100.6 percent).

Standard & Poor's and Moody's have rated VEBA since early 1995. In 1999 S&P and Moody's gave VEBA's long-term bonds ratings of Aa2 and AA, respectively. VEBA's short-term bonds received ratings of P-1 and A-1+, respectively. These very good ratings underscore the Group's sound financial standing.



## Consolidated Assets, Liabilities, and Shareholders' Equity

	1999		1998	
	€ in billions	%	€ in billions	%
Fixed assets	35.7	68.1	31.3	72.7
Current assets	16.7	31.9	11.8	27.3
<b>Assets</b>	<b>52.4</b>	<b>100.0</b>	<b>43.1</b>	<b>100.0</b>

	1999		1998	
	€ in billions	%	€ in billions	%
Shareholders' equity	17.4	33.2	13.5	31.3
Long-term liabilities	20.7	39.5	18.0	41.7
Short-term liabilities	14.3	27.3	11.6	27.0
<b>Liabilities</b>	<b>52.4</b>	<b>100.0</b>	<b>43.1</b>	<b>100.0</b>

### Work Force Increases Considerably Due to Degussa-Hüls Merger

At year-end 1999 the VEBA Group employed 131,602 people worldwide—up 13 percent year-on-year. This sharp increase is exclusively due to the inclusion of the merged Degussa-Hüls. In our other Divisions, restructuring measures led to staff declines of about 4,200, while disposals reduced the number of employees by roughly 11,200.

### Research and Development: Chemicals Further Strengthened

The inclusion of the merged Degussa-Hüls markedly increased the VEBA Group's 1999 R&D spending to €583 million compared with €194 million in 1998. Degussa-Hüls attracted the largest share with 85 percent followed by MEMC at 14 percent.

Degussa-Hüls's R&D expenditures totaled €498 million, equivalent to 3.4 percent of its sales. The

focus was on Asta Medica's research-intensive pharmaceuticals business (pharmaceutical agents), Creanova's specialty chemicals activities (engineering plastics, environmentally friendly coating raw materials), Advanced Fillers and Pigments (high-performance fillers for car and truck tires), and Fine Chemicals (special amino acids, biocatalysts, and greener synthesis processes).

MEMC's R&D focused on continuing development of next-generation 300mm wafers. MEMC also introduced new products in 1999 as part of its effort to further tailor its product palette to its customers' needs. Its 1999 R&D expenditures were almost unchanged versus 1998 on a dollar basis, but up about 8 percent to €80 million owing to currency fluctuations.

### Major Events after the Close of the 1999 Financial Year

- As of January 1, 2000, VEBA Oel acquired the Aral shares held by subsidiaries of Mobil Oil, increasing its Aral stake to roughly 99 percent.

- On January 10, 2000, Preussen-Elektra acquired EZH, a Dutch energy utility.
- VRT and Bell South concluded the sale and transfer agreement for the shares in E-Plus. The agreement was registered by a notary public on January 26, 2000. Closing took place on February 10, 2000.
- At VEBA's Extraordinary Shareholders' Meeting on February 10, 2000, 99.9 percent of the shareholders approved the merger with VIAG.
- VIAG shareowners also approved the merger by a 99.5 percent vote at VIAG's Extraordinary Shareholders' Meeting on February 14, 2000.

## Risk Management System and Reporting

The requirements of the 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. As part of their audit, the auditors of publicly listed companies assess whether the system will successfully fulfill its tasks. This audit requirement applies to all financial years which began after December 31, 1998. VEBA already underwent this audit voluntarily in 1998.

Even before *KonTraG* came into effect the VEBA Group had an effective risk management system in place. We use an integrated system embedded into 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. In 1998 a Group-wide project was launched to analyze, aggregate, and document existing risks and control systems at the Group level. The reliability of our risk management system is checked regularly by the internal audit and controlling departments of our Divisions and of VEBA AG as well as by our independent auditors. The documentation and evaluation of our system is annually updated across the Group in the following steps:

1. Standardized documentation of risks 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 VEBA Group and are thus also significant for VEBA AG:

- Operational risks: Our Electricity, Oil, 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 VEBA is exposed to interest rate, commodity price, and currency risks. These risks are hedged on a Group-wide basis. In cases where VEBA intends to hedge these risks, the Company makes use of derivative financial instruments. These instruments are used solely for hedging purposes. Owing to our Financial Controlling and Corporate Treasury Departments' strict guidelines, the counterparty risk of financial transactions is insignificant.

- External business risks: During the normal course of business VEBA's subsidiaries are particularly susceptible to market risks that are increased by ongoing globalization and keener competition. The liberalization of the European energy market exposes in particular our Electricity Division to risks, but also creates new opportunities. We are actively shaping the vigorous competitive battle for customers from our strong position as a low-cost generator. This sometimes means that we must grant considerable price concessions. Our ongoing measures to reduce costs and boost profitability are helping us strengthen our competitive position. Nevertheless, a further intensification of competition will for the near future negatively impact our Electricity Division's earnings.

The VEBA Group fulfills its social and political responsibilities and encourages intensive dialogue with all groups involved in decision-making processes. We want to use our expertise to facilitate objective discussions of politically controversial topics. The predominant issue for us currently is the German government's plan to opt out of nuclear energy.

We are also focusing on the precarious economic situation of Veag, the energy utility based in eastern Germany. Together with Veag's other shareholders we approved measures that will solve the company's short-term liquidity problems. The measures are designed to stabilize Veag's financial situation by fully realizing the company's rationalization potential and by combining its lignite production and lignite-based electricity generation. They also include measures among the shareholders to lower the delivery terms of Veag's electricity procurement contracts with its shareholders and to make available shareholder loans. Together with Veag's other shareholders and with political leaders we are also searching for a solution to ensure the company's long-term commercial existence. At this stage we are unable to assess the situation's effects concretely.

## **Outlook**

In line with our *Focus and Growth* strategy, our core businesses are energy (power, oil, natural gas, and water) and specialty chemicals. These markets are subject to extraordinarily swift and dynamic change. Europe's energy markets have been liberalized. The energy industry in Germany and Europe is undergoing a process of massive concentration. The chemicals industry is currently witnessing increasingly global competition and structural changes along the value chain.

Merging VEBA and VIAG is the right response to these challenges. Together we will have the strength to play a leading role in shaping the global competitive arena.

We anticipate that the merger will yield synergistic effects of roughly €800 million per year—of which about €700 million will be in the energy group. These savings are in addition to our ongoing cost-management programs totaling at least €670 million per year. These permanent savings will take effect in stages and be realized by 2002. In addition to the merger's synergistic effects, one-off charges of roughly €400 million and about €75 million in transaction costs will be associated with the tie-up.

Liberalization and globalization create exciting new opportunities. We will consistently exploit these opportunities and rapidly expand the leading positions we hold in our core businesses. We will also take steps to make our energy activities more international and to cement our global market leadership in specialty chemicals.

We also plan to continue to increase the value of our telecoms (VIAG Telecom) and real-estate activities. We will exit our other businesses. The proceeds from these disposals will primarily be used to reinforce our core activities.

This is the final investment plan for the VEBA Group in its current form. We will present a joint plan for the merged company after the tie-up with VIAG is successfully completed. We have planned investments of €6.0 billion for 2000. This figure includes the acquisition of Mobil's Aral shares and of EZH, the Dutch utility. Around 70 percent of planned

investments is earmarked for Germany. The remaining funds will be targeted mainly at other European countries and America.

Ongoing cost-management measures will increase Electricity's competitiveness. But we anticipate that considerably fiercer competition will cut further into margins in 2000 and that Electricity's internal operating profit for 2000 will fall distinctly below 1999 levels.

We anticipate that the positive effects from the integration of Aral and more favorable economic conditions will lead to a sharp increase in Oil's earnings.

We expect that in 2000 Chemicals will post higher earnings year-on-year owing to the positive outlook for chemicals markets and to the synergistic effects from the Degussa-Hüls merger.

We look in particular for the real-estate services market to continue to grow as well as for Real-Estate Management to continue its positive performance of the previous year and to again distinctly lift internal operating profit.

In Telecommunications we again expect Bouygues Telecom to report a startup loss for 2000. But the loss will be more than offset by interest

income on divestment gains.

We anticipate that Distribution/Logistics will continue its positive earnings performance and that Silicon Wafers will again reduce operating losses in 2000. We intend to exit both these businesses.

Overall, we expect Electricity's decline in operating earnings to be more than offset by markedly improved internal operating profit at all our other Divisions. On the whole, we thus anticipate that in 2000 VEBA's business activities will best 1999's record internal operating profit.

Including book gains from divestments—particularly those of E-Plus and Cablecom—pretax income and net consolidated income for 2000 will come in considerably ahead of the record numbers posted in 1999.

We monitor the success of our business units periodically using cash flow return on investment (CFROI) as our key performance indicator. CFROI is the ratio of EBITDA (earnings before interest expenses, taxes, depreciation, and amortization) to invested capital (gross investment basis).

The CFROI numerator and denominator are determined before depreciation in order to prevent fixed-asset age structures and depreciation policies from distorting performance evaluation. Moreover, EBITDA is net of effects arising from taxes and financial transactions. EBITDA represents the sustainable return on capital employed generated by operations. One-off and rare effects are netted out of individual EBITDA components. These mainly include book gains and losses from divestments as well as restructuring and cost-management expenses.

To determine the total amount of capital invested in a business field, cumulative depreciations on fixed assets are added back to book values. When companies are acquired, adjustments are made for cumulative depreciations existing on the purchase date because, from VEBA's point of view, invested capital equals only the purchase price plus assumed debt. Total capital employed (= gross asset value) is reduced by available provisions and liabilities that are non-interest-bearing.

The following table shows the VEBA Group's CFROI and how it is derived. Group EBITDA and internal operating profit reached new all-time highs in 1999. Nevertheless, Group CFROI declined from 9.8 to 9.3 percent owing to Oil's and Electricity's weaker performances.

Our Electricity Division experienced a drop in EBITDA due to electricity price reductions owing to keen competition. At 8.7 percent, its return is markedly lower than the record level posted a year earlier.

Oil's CFROI decreased significantly to 9.3 percent principally owing to dissatisfying earnings produced by refinery operations. Furthermore, portions of the purchase price of the acquisition of additional shares in Aral had already been paid at year-end although corresponding earnings contributions could not yet be included in CFROI.

As a result of the first-time full consolidation of Degussa-Hüls, Chemicals' return is up on the previous year at 11.2 percent. On a comparable basis, CFROI decreased due to the difficult business climate in the first six months.

The increase in the return on capital in Real-Estate Management to 9.4 percent is the result of measures to optimize the housing stock portfolio and the positive CFROI performance achieved by the services unit.

## VEBA CFROI

€ in millions	1999	1998
<b>Internal Operating Profit</b>	<b>2,274</b>	<b>1,946</b>
Interest expenses charged against internal operating profit	377	334
Imputed interest expenses for provisions for pensions and nuclear waste management	429	485
Depreciation/amortization of intangible and fixed assets and associated and affiliated companies valued at equity	2,895	2,614
<b>EBITDA</b>	<b>5,975</b>	<b>5,379</b>
<b>Total Assets</b>	<b>52,384</b>	<b>43,069</b>
Cumulative depreciation/amortization of intangible and fixed assets and associated and affiliated companies valued at equity	34,960	29,667
Adjustment for cumulative depreciation of acquired companies	- 3,627	- 1,714
<b>Gross Asset Value</b>	<b>83,717</b>	<b>71,022</b>
Non-interest-bearing provisions <sup>1)</sup>	- 8,290	- 7,185
Non-interest-bearing liabilities <sup>2)</sup>	- 8,419	- 7,767
<b>Gross Investment Basis</b>	<b>67,008</b>	<b>56,070</b>
<b>Average Gross Investment Basis<sup>3)</sup></b>	<b>64,219</b>	<b>54,901</b>
<b>CFROI</b>	<b>9.3%</b>	<b>9.8%</b>

1) Includes all provisions except provisions for pensions and nuclear waste management.

2) Low-interest-bearing and non-interest-bearing financial liabilities in the Real-Estate Management and Oil Divisions and non-interest-bearing operating liabilities in accordance with Note 24 to the Consolidated Financial Statements as well as deferred income.

3) Calculated on a pro-forma basis to improve informational value in 1999 (full consolidation of Degussa-Hüls).

Position	Electricity	Oil	Chemicals	Real-Estate Management	Distribution/Logistics Stinnes	VEBA Electronics	Tele-communications	Silicon Wafers	VEBA AG/ Consolidation	VEBA Group	
€ in millions											
Internal operating profit	1,505	78	475	184	180	87	- 180	- 214	159	2,274	
Interest expenses charged against internal operating profit	156	0	159	58	91	68	15	62	- 232	377	
Imputed interest expenses for provisions for pensions and nuclear waste management	209	33	126	11	23	6	0	12	9	429	
Depreciation/amortization of intangible and fixed assets and associated and affiliated companies valued at equity	1,104	256	857	133	241	86	66	147	5	2,895	
<b>EBITDA</b>	<b>2,974</b>	<b>367</b>	<b>1,617</b>	<b>386</b>	<b>535</b>	<b>247</b>	<b>- 99</b>	<b>7</b>	<b>- 59</b>	<b>5,975</b>	
Average gross investment basis <sup>1)</sup>	34,111	3,926	14,483	4,130	4,490	2,139	1,725	1,842	- 2,627	64,219	
<b>Cash Flow Return on Investment in %</b>	<b>1999</b>	<b>8.7</b>	<b>9.3</b>	<b>11.2</b>	<b>9.4</b>	<b>11.9</b>	<b>11.5</b>	<b>- 5.7</b>	<b>0.4</b>	<b>-</b>	<b>9.3</b>
	<b>1998</b>	<b>11.3</b>	<b>15.4</b>	<b>9.1</b>	<b>8.6</b>	<b>10.6</b>	<b>8.9</b>	<b>- 11.1</b>	<b>- 2.1</b>	<b>-</b>	<b>9.8</b>

1) Annual averages.

In the Distribution/Logistics Division, both Stinnes and VEBA Electronics managed to lift CFROI markedly. The advance to 11.9 percent posted by Stinnes primarily stems from considerable earnings improvements recorded by the Building Materials and Chemicals units. In addition, the capital base was reduced as a result of portfolio-related measures. VEBA Electronics benefited from the strong growth of the market for semiconductors. Despite the

increase in the capital base (especially in terms of working capital), the return was up 2.6 percentage points to 11.5 percent.

In Telecommunications the capital base was lowered significantly while CFROI improved from -11.1 percent to -5.7 percent—both mainly due to the divestment of loss-making shareholdings.

Silicon Wafers lifted CFROI to 0.4 percent. Primary drivers were the improved cost position along with higher sales volume, which rose by roughly 9 percent. The persistent decline in wafer prices kept EBITDA from advancing further.

## Strategy and Investment Plan

€ in billions	2000-2002	%
Electricity	2.8	21
Oil	3.1	23
Chemicals	3.7	28
Real-Estate Management	1.2	9
Distribution/Logistics	1.0	8
Silicon Wafers	0.4	3
VEBA AG	1.0	8
<b>Total</b>	<b>13.2</b>	<b>100</b>

### Merger with VIAG Represents Important Growth

We have consistently refined our *Focus and Growth* strategy. Our two core businesses are energy (electricity, oil, natural gas, and water) and chemicals. We will concentrate our resources even more exclusively on these businesses. Our superb market positions and the promising market outlook create particularly good opportunities for profitable growth in these areas.

The markets of our core energy and chemicals businesses are going through a major shakeout. The liberalized power sector is witnessing a tough battle for market share. The keys to success are having the best cost position and customer-centric products and ser-

vices. Size matters in the competitive arena of the future. The chemicals business is becoming increasingly global and demands greater specialization.

Our tie-up with VIAG decisively improves our strategic position. Together we will achieve new dimensions in both core businesses. The merger will strengthen our platform for further growth and boost our long-term profitability. We are the pacesetter in the consolidation trend that is spreading across Europe's energy sector.

The VEBA-VIAG merger is a first, important step toward achieving growth. Others will follow. Our strategic goals are clear. With our power, gas, and water activities we want to be one of the world's premier multi-utilities. We want to further enlarge our leading position in specialty chemicals and in particular to expand internationally.

### Energy: Becoming a Leading European Powerhouse

#### Electricity

The liberalization of Europe's electricity markets has created new growth opportunities and simultaneously unleashed a wave of consolidations. Companies with the best cost position and a customer-focused organization will emerge as

the leading players. VEBA intends to resolutely exploit the opportunities brought on by market change.

The merger of PreussenElektra and VIAG's Bayernwerk subsidiary will create one of Europe's leading energy service providers. We intend to grow internally by capturing additional market share on the basis of a clear marketing strategy, low generation costs, and the realization of significant synergies. We plan to grow externally by making acquisitions and entering joint ventures in major markets, particularly in neighboring European countries. The main focus of our expansion plans is the electricity sector, though we will also enlarge our gas and water activities. These markets offer attractive growth opportunities. And we can profit from jointly marketing electricity, gas, and water.

The new energy group will occupy premier market positions and be a leading European powerhouse. It will also seek engagements outside Europe that offer attractive growth opportunities.

## Oil

Active on Germany's petroleum market—Europe's largest—, VEBA Oel has resolutely transformed itself from being a fuels producer to being a service provider for mobility and heating. The recent spate of oil industry mega-mergers has turned up the competitive pressure substantially. VEBA Oel continues to boost its long-term competitiveness along the entire value chain via consistent cost cutting and restructuring. Following the fundamental reorganization of the upstream sector in 1998, VEBA Oel has achieved complete strategic flexibility downstream by increasing its Aral stake in late 1999. This makes the company an attractive partner for strategic alliances and joint ventures. Its entire petroleum marketing business will be bundled and expanded under the Aral brand name.

## Chemicals: Expand Position as Global Market Leader in Specialty Chemicals

With premier positions in high-growth markets, Degussa-Hüls has a worldwide presence. The VEBA-VIAG merger will further strengthen our chemicals business. Joining Degussa-Hüls and VIAG's SKW

Trostberg subsidiary will forge the world's leading specialty chemicals group. The merged company will play a leading role in reshaping the global specialty chemicals market. We will exploit growth opportunities—particularly in Asia and the USA—to rapidly expand our fine and specialty chemicals activities. These two markets are characterized by low cyclicity and high profitability.

We intend to substantially enhance profitability by optimizing our business portfolio, by managing costs, and by stepping up the integration of our chemicals activities. The merged group's broader technology and R&D platform will help us boost the innovativeness that drives internal growth.

## Other Activities

### Real-Estate Management

As an integrated real-estate group, Viterra will realize substantial value reserves by actively managing its large real-estate portfolio. It will also focus on expanding its residential development (the building

and marketing of housing units), commercial investment and development, and real-estate services activities. Viterra's largely non-cyclical businesses will make steadily increasing contributions to Group earnings. We will also be able to leverage the real-estate sector's increasing overlap with energy-related services to further develop our core energy business.

### Distribution/Logistics

All five of Stinnes's divisions—Transportation, Chemicals, Building Materials, Materials, and Full-Line Wholesaling—hold premier positions. This makes Stinnes ideally suited to outperform its competitors in the attractive growth market for logistics services. Stinnes will in particular expand Transportation, Chemicals, and Materials on an international scale. In a first tranche we placed 34.5 percent of Stinnes's capital stock with private investors in mid-June 1999. We also intend to divest the remaining shares.

VEBA Electronics has cemented its fine position as the world's third-largest distributor of electronic components. The ongoing integration of its subsidiaries has improved the company's cost structure and



competitiveness. The business outlook for the next few years is very positive—particularly in the components business—, despite unrelenting pressure on margins. We are thus confident that we will be able to optimally divest VEBA Electronics.

## **Telecommunications**

Following the sale of the fixed-line business to Mannesmann Arcor, we have concentrated on developing our mobile telecoms activities. Our planned merger with VIAG made it necessary for the two companies to dispose of one of their German mobile networks. This was E-Plus. By selling our fixed-line and mobile telecoms operations at the right time we realized substantial value for our shareowners.

Following the VEBA-VIAG merger, the Telecommunications Division will consist mainly of VEBA's Bouygues Telecom stake and of VIAG Telecom. The tie-up does not change the current plans for developing VIAG Telecom. Taking into consideration value and financial aspects, we also intend to float shares in our telecoms operations at an appropriate time in the near future.

## **Silicon Wafers**

Extensive restructuring and cost-cutting measures have substantially improved MEMC's competitive position. Resurgent demand for semiconductor products is reducing excess capacity on the wafer market. Stable prices and market consolidation form the basis for a return to profitable growth. Silicon wafers is no longer one of our core businesses. We intend to dispose of our MEMC stake.

## **Investment Plan 2000–2002**

This is the final investment plan for the VEBA Group in its current form. We will present a joint plan for the merged company—particularly for our core energy and chemicals businesses—after the tie-up with VIAG is successfully completed.

We reduced the planning horizon to three years owing to ever shorter product life cycles and rapidly changing markets and competitive arenas.

VEBA plans to invest €13.2 billion over the next three years. Three fourths of our capital spend-

ing—€9.6 billion—will be used to strengthen our core energy (power and oil) and chemicals businesses. The focus will be on protecting and expanding our leading market positions. Around 70 percent of planned investments is earmarked for Germany. The remaining funds will be targeted primarily at other European countries and America.

We will invest around €2.8 billion in Electricity during the next three years. These funds will principally be devoted to internal growth, with the main focus being on projects in Germany. This plan does not include the cross-boarder moves that will be part of our joint strategy with VIAG.

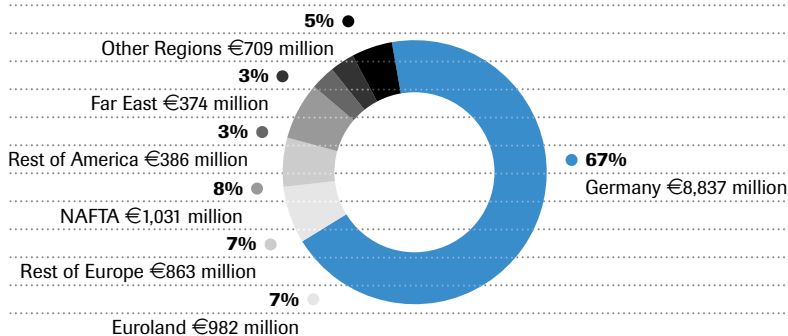
Over the plan period €3.1 billion will be invested in Oil. This amount includes the acquisition of Aral shares from Mobil. In addition, around €200 million of pro-rated capital expenditure is planned for the non-consolidated Ruhr Oel joint venture. In the upstream sector we will continue to implement our regional focus initiatives and to achieve a more competitive cost position. Downstream, Aral will continue to expand its Eastern European network, particularly in Poland. It also plans to build more large service stations with extended convenience store offerings. The international character of the

E&P business and the expansion of Aral's Eastern European network mean that more than one third of Oil's capital expenditures will go outside Germany.

The total volume of capital expenditures in our chemicals business amounts to around €3.7 billion. The main focus will be to expand the capacity of our largely non-cyclical and high-growth specialty chemicals activities. This includes enlarging Advanced Fillers and Pigments' production capacity for intermediate products for the tire industry. Siventio plans to build new plants for Aerosil<sup>®</sup> production and to bolster its silanes activities. Almost half of all capital spending is earmarked for strengthening Chemicals' businesses outside Germany, particularly in America and Asia.

Real-Estate Management's main focus will be on optimizing its housing stock. Its major investment projects include purchasing additional housing stock, taking stakes in real-estate ventures, and modernizing its existing housing stock. We will invest a total of around €1.2 billion in Real-Estate Management, primarily in Germany.

### VEBA Investment Plan by Region



We plan to invest about €1 billion in Distribution/Logistics, of which more than 70 percent will be outside Germany. Stinnes is only included in the investment plans for 2000 and 2001 owing to our intention to divest it. The main goals in the next few years will be to improve efficiency and to further internationalize the group. Particular focus will be on Transportation, Chemicals, and Materials. More than half of VEBA Electronics' investment volume will be for a series of minor acquisitions.

In the context of restructuring measures we have again substantially reduced the level of capital

expenditure in the silicon wafer business to around €0.4 billion. The top priority is to achieve cost leadership in all wafer segments in order to ensure a sustained return to profitability. At the same time we will defend our position as one of the world's leading wafer producers.

Not a morning person? Power from PreussenElektra can help you get started with hot coffee and toast.



- Internal operating profit below prior year's record
- Power trading off to successful start
- Electricity sales volume further increased
- European market position enlarged
- Markedly lower operating earnings expected in 2000 due to keen competition

PreussenElektra generates, transmits, and supplies electricity. Each morning power from our electricity subsidiary toasts bread and brews coffee in one third of Germany's kitchens. PreussenElektra is also increasingly active in the rest of Europe. It already has stakes in major electric companies in the Netherlands, Sweden, and Switzerland. Proof that PreussenElektra is seizing the opportunities offered by Europe's liberalized power market and actively shaping its future.



**PreussenElektra AG, Hanover**

in millions of	1999	1999	1998	+/- %
	DM	€	€	
Sales	15,097	7,719	8,141	- 5.2
Internal operating profit	2,944	1,505	1,875	- 19.7
Cash flow from operations	3,380	1,728	2,235	- 22.7
Investments	2,639	1,349	1,442	- 6.4
Employees at year-end		20,556	21,936	- 6.3

**Internal Operating Profit below Prior Year's Record**

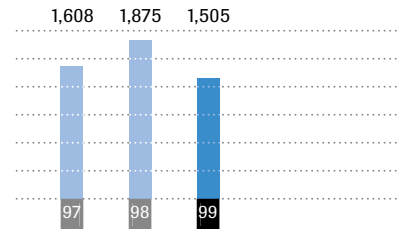
Competition on the liberalized electricity market heated up considerably in 1999. PreussenElektra actively seized the resulting opportunities and captured new customers outside its grid area even though this required making considerable price concessions. There were also particularly sharp price reductions on deliveries to regional utilities and large special-rate customers. As a result, sales dropped 5.2 percent in 1999 despite a 3.9 percent increase in sales volume. PreussenElektra's ongoing cost-management programs and higher sales volume could not offset price cuts brought on by fiercer competition. Internal operating profit thus came in 19.7 percent behind the previous year's record performance.

**Slight Decline in Primary Energy and Power Consumption**

German consumption of primary energy was down 1.8 percent year-on-year. Consumption of lignite declined slightly more than 3 percent. Due to the downturn in the steel industry and the reduced use of hard coal in the electricity sector, consumption of hard coal decreased 7 percent. Natural gas

consumption was up slightly. The portion of aggregate energy accounted for by nuclear power advanced some 5 percent owing to higher plant availability. Regenerative energy sources produced about 15 percent more power due

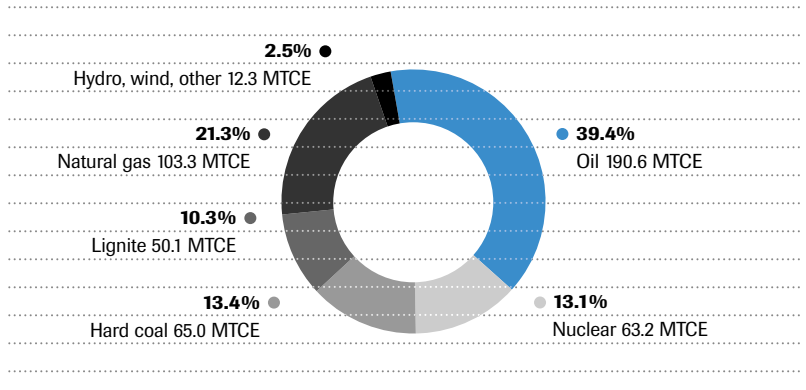
**Internal Operating Profit € in Millions**



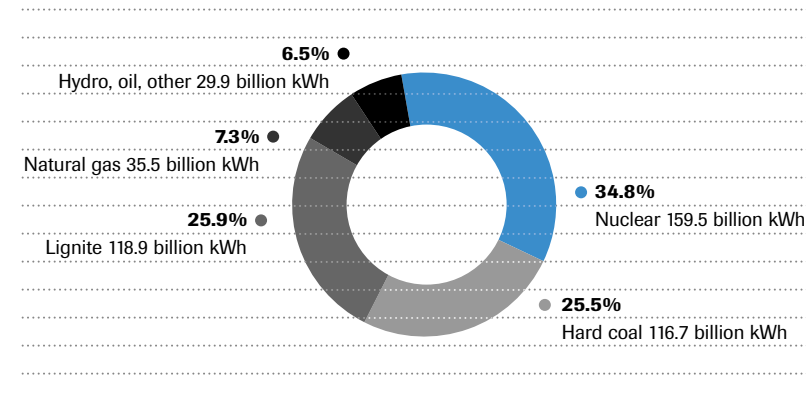
to greater precipitation and to the renewed increase in the number of wind-driven power plants. But their share of total primary energy consumption was under 1 percent.

Electricity consumption from the public grid was slightly higher than

**1999 German Primary Energy Consumption in Million Tons Coal Equivalent (MTCE)<sup>1)</sup>**



**1999 Net Power Generation on German Public Grid<sup>1)</sup>**



1) Preliminary figures.

**Total Power Supplied  
PreussenElektra Group**

in billion kWh	1999	1998	+/- %
Inside the grid area			
Standard-rate customers	13.2	13.6	- 2.9
Industrial and commercial special-rate customers	24.6	25.5	- 3.5
Regional and municipal power utilities	43.8	43.1	+ 1.6
Outside the grid area			
Industrial and commercial special-rate customers	3.9	3.8	+ 2.6
Neighboring utilities	20.9	20.2	+ 3.5
Traders	3.9	-	-
<b>Total Power Supplied</b>	<b>110.3</b>	<b>106.2</b>	<b>+ 3.9</b>

in the previous year owing mainly to greater demand from trade and industry. Standard-rate customers again consumed less electricity compared with the prior year due to warm weather.

**Electricity Feed-In Law Reformed**

Under Germany's Electricity Feed-In Law, grid operators must provide financial support to renewable energy sources for up to 5 percent of their electricity sales volume. In 1999 PreussenElektra's feed-in burden came to €230 million. In February 2000 the *Bundestag* (Germany's lower house of parliament) passed an amendment to the Feed-In Law. Its key new element is the introduction of a country-wide burden-sharing scheme for grid operators. If approved by the *Bundesrat* (Germany's upper house of parliament), the law will for the first time distribute the burden of environmentally friendly power generation across all German states and provide significant relief for PreussenElektra. However, another hike in feed-in fees for renewable energy is also envisioned. This will raise the feed-in fee to €0.091 (17.8Pf) per kWh.

**Electricity Transit Rules Adapted to Market Requirements**

The new Association Agreement (*Verbändevereinbarung*), which simplifies grid access, took effect on January 1, 2000. All grid users

will in future pay a grid access fee and thus help bear total network costs. There will no longer be a distance component.

The new Agreement divides Germany into two trading zones in order to cover high-voltage transmission costs. PreussenElektra Netz along with the grid operators of Veag, VEW, HEW, and Bewag are in the northern trading zone. Bayernwerk, RWE, and EnBW are in the southern trading zone. If there is a greater net power flow into one of the zones the traders in the surplus zone pay a €0.0013 (0.25Pf) per kWh transaction component. There will be a similar fee for power imports or exports from the grids of Germany's neighbors.

The European Commission is currently scrutinizing the new Association Agreement as part of a separate antitrust review in accordance with Article 82 of the EU Treaty. Based on current information we assume that the EU's antitrust authorities will tolerate the new Association Agreement until a pan-European power transmission policy is developed.

### Consensus Talks with German Government Still without Notable Results

A total of four discussions have been held with the German federal government to achieve consensus between state and industry on energy-related matters. The talks have remained without notable results.

We are still interested in achieving far-reaching consensus with the federal government on energy issues. We also believe it would be wrong to phase out nuclear energy entirely. But efforts cannot be limited merely to finding mutual solutions regarding nuclear power plant operating lifetimes. Issues such as final storage sites, reprocessing, and transport must also be considered.

We hope to bring these negotiations to a positive conclusion this year. However, we do not intend to reach consensus at all costs. We stand on solid legal ground. We will therefore demand in court to be compensated for damages if we are forced to exit the nuclear energy business.

### Eco-Tax Creates Competitive Disadvantages

The €0.01 (2Pf) per kWh Electricity Tax introduced in 1999 will be increased to a total of €0.02 (4Pf) per kWh by 2003. The legislation also foresees continuing the preferential tax treatment of highly fuel-efficient gas-fired power stations. The EU Commission declared that the tax relief amounted to an investment subsidy. The Commission has not yet approved the subsidies.

The tax relief measures could encourage large electricity customers to procure their own generation assets. Because Germany's power market is open, the unequal treatment of primary energy sources creates additional competitive burdens for domestic energy utilities. The government's plan to give preferential tax treatment to municipal utilities operating combined heat and power stations would further distort competition.

### Power Trading Off to Successful Start

PreussenElektra increased its electricity sales volume about 4 percent in 1999, posting a record of 110.3 billion kWh. While deliveries to household customers declined, more electricity was delivered to regional and municipal power utilities. Larger volumes of electricity were also sold to power utilities and to special-rate customers outside PreussenElektra's grid area.

### Primary Energy Sources: Share of Own Generation<sup>1)</sup>

percentages	1999	1998
Nuclear	45.9	40.8
Hard coal	42.8	47.3
Imported hard coal	(21.6)	(22.2)
Lignite	7.4	8.0
Natural gas/oil	2.1	2.3
Hydroelectric and other	1.8	1.6

1) Includes jointly operated power stations.

### Power Station Capacity

in MW	Dec. 31, 1999	Dec. 31, 1998	+/- %
Hard coal/lignite	7,858	7,872	+ 0.2
Nuclear	3,285	3,285	± 0.0
Oil/gas	2,891	2,895	- 0.2
Run-of-river/ pumped storage, wind energy, other	980	948	+ 3.4
<b>Group Power Stations</b>	<b>15,014</b>	<b>15,000</b>	<b>+ 0.1</b>
Jointly operated power stations	2,543	2,530	+ 0.5
<b>Total</b>	<b>17,557</b>	<b>17,530</b>	<b>+ 0.2</b>

## PreussenElektra Group Gas Distribution

in billion kWh	1999	1998	+/- %
Households and small consumers	16.8	17.3	- 2.9
Trade and industry	14.9	11.5	+ 29.6
Gas utilities	16.5	9.6	+ 71.9
<b>Total</b>	<b>48.2</b>	<b>38.4</b>	<b>+25.5</b>

The liberalization of the electricity market has enabled PreussenElektra to capture new household customers across Germany. On September 9, 1999, PreussenElektra launched its attractive “Elektra Direkt Family” and “Elektra Direkt Single” retail products tailored to the requirements of individual households.

In 1999 PreussenElektra’s stepped-up energy trading activities helped increase sales volume for the first time. Substantial amounts of electricity were delivered to domestic and foreign traders—including via the power exchanges in Amsterdam and Oslo. PreussenElektra has been conducting spot trading activities on the Scandinavian “NordPool” and Dutch “APX” power exchanges since spring 1999. As it enlarged its electricity trading operations, PreussenElektra introduced a high-performance trade and risk management system.

### Tie-Up of Regional Utilities Completed

To meet the challenges of energy sector competition, several regional utilities in eastern and western Germany merged in 1999 to form two companies: Avacon and e.dis Energie Nord. PreussenElektra

holds majority stakes in both. e.dis has concentrated its activities on selling electricity to roughly 1.3 million customers in Mecklenburg-Vorpommern and Brandenburg. Its grid area comprises 36,460 km<sup>2</sup>. Avacon offers electricity, gas, water, and heating services to about 1.1 million customers in its grid area spanning 24,500 km<sup>2</sup> and focuses on Lower Saxony and Saxony-Anhalt.

### Natural Gas Distribution up Markedly; Water Sales Volume Largely Unchanged

Integrating Ferngas Salzgitter’s operations into the newly established Avacon increased PreussenElektra’s reported gas sales volume about 26 percent to 48.2 billion kWh. By contrast, district-heating deliveries remained below the previous year’s level.

Cost-conscious water consumption kept water sales volume on par with the prior year’s figure despite the warm summer. The main player in this sector is PreussenElektra’s Gelsenwasser subsidiary, Germany’s largest private water utility. Gelsenwasser supplied approximately 2.7 million residents in the Ruhr and neighboring regions with potable water in 1999.

### Energy Procurement Optimized

Electricity requirements advanced 3.6 percent to 115.0 billion kWh, of which 56.9 percent (59.3 percent) was covered by the company’s own

generation assets. More electricity was procured from jointly operated power stations than in the previous year. Increasing amounts of power were purchased from third parties with a view to optimizing electricity procurement. Domestic and foreign companies supplied 31.9 billion kWh, about 6 percent more than in 1998. This for the first time includes affordable supplies acquired on the Amsterdam and Oslo power exchanges. There was a 12.7 percent rise in electricity fed into the grid from wind-driven power plants.

### European Market Position Enlarged

By acquiring the Dutch electricity and heating utility Electriciteitsbedrijf Zuid-Holland (EZH), PreussenElektra further enlarged its share of the European market. The purchase agreement was signed in July 1999, and the 100 percent shareholding was transferred in January 2000. EZH is one of Holland’s four major power utilities and has a total installed capacity of 1,770 MW. The Dutch utility also founded its own marketing company in the Netherlands in 1999. EZH.Elektra will market electricity produced by EZH to the Benelux countries.

PreussenElektra has had a joint venture with Switzerland’s BKW FMB Energie (BKW) since 1996. It stepped up these activities in 1999 and increased its shareholding in BKW to 20 percent. As the energy sector becomes more international, southern Europe’s markets take on increasing importance. So in September 1999 PreussenElektra



established a marketing office in Italy in collaboration with BKW. Elektra Italia will mainly market imported electricity in Italy.

PreussenElektra also opened a marketing office in Poland. PreussenElektra Polska aims to market power generated in Poland to Polish clients. The new office is also making preparations to trade electricity within Poland and with Poland's neighbors.

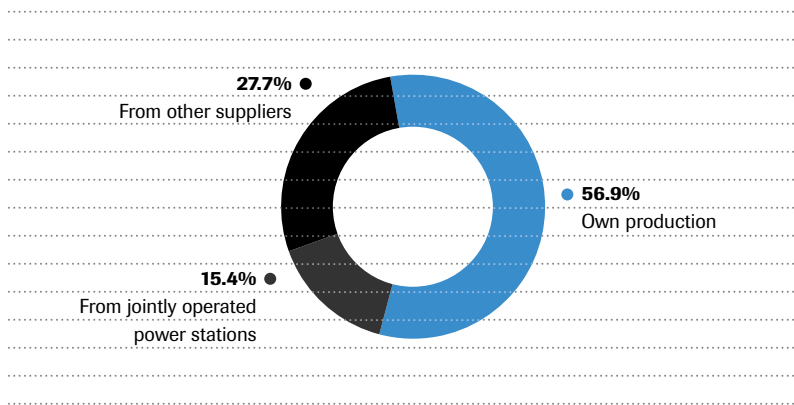
### Investments Down Year-on-Year

Electricity's investments totaled €1,349 million in 1999, down 6.4 percent compared with 1998's €1,442 million. Spending on property, plant, and equipment including intangible assets amounted to €593 million (1998: €911 million). Of this capital expenditure €69 million went to power plants and district heating facilities, €466 million was earmarked for electricity and district heating distribution companies, €36 million for gas and waterworks facilities, and €22 million for other assets. At €756 million, 1999 financial investments were on par with the previous year's figure. The year's major projects were the acquisition of additional shares in Sweden's Sydkraft and Switzerland's BKW.

### Outlook

Preparing and implementing the merger of PreussenElektra and VIAG's Bayernwerk will be the

### PreussenElektra's Electricity Procurement in 1999



major highlights of 2000. We have launched an integration project to jointly realign these businesses. The measures are designed so that the merged energy group can immediately take up operations in its new guise.

We will resolutely seize opportunities for growth abroad, primarily in countries where we can leverage the synergies of our electricity trading activities with our existing generation assets. We will also continue to expand our position in the gas and water businesses.

In addition to acquisitions, we are placing mounting emphasis on our joint ventures and alliances in Europe because customers with activities in several countries increasingly demand one-stop shopping for electricity, gas, and heat. Bayernwerk's operations—mainly in Hungary and the Czech Republic—optimally supplement our international portfolio with its

focus on the Scandinavian and Baltic regions.

We will capitalize on our ongoing cost-management measures to increase competitiveness and consolidate our position on the liberalized electricity market. But we anticipate that considerably keener competition will cut further into margins in 2000 and that Electricity's internal operating profit for 2000 will fall markedly below 1999 levels.

- Internal operating profit positive despite tough market conditions in downstream sector
- Acquisition of remaining Aral shares increases strategic flexibility
- Service station network further expanded in Eastern European growth markets
- Sharp earnings upsurge expected in 2000

**VEBA Oel AG, Gelsenkirchen**

	1999	1999	1998	+/-
in millions of	DM	€	€	%
Sales	23,036	11,778	10,282	+ 14.5
Internal operating profit	153	78	235	- 66.8
Cash flow from operations	1,175	601	300	+100.3
Investments	2,558	1,308	460	+184.3
Employees at year-end		5,863	6,433	- 8.9

**Internal Operating Profit Positive despite Tough Market Conditions**

At €78 million, Oil's internal operating profit was markedly below the level achieved in the previous year, but positive despite tough market conditions. The decline was owing to shrunken margins in the downstream business and to significant one-off charges and production startup delays in the upstream sector.

1999 was a difficult year for the entire petroleum industry. The already unfavorable economic climate worsened. The price for a barrel of crude oil climbed from US\$10 in February to more than US\$25 in December. The average price for 1999 was US\$18/barrel compared with US\$13/barrel in 1998. But it proved impossible to pass on the entire increase to customers via higher product prices. As a result, refinery margins collapsed. They were down on average more than 50 percent year-on-year and reached historic lows. Fuel and petrochemical margins also contracted appreciably. The demand for heating oil in 1999 likewise came in far behind 1998 levels.

Sales rose 14.5 percent on slightly lower sales volume. Higher crude-oil and product prices inflated sales figures, as did the €0.031 (6Pf) per liter increase in the petroleum tax

in effect since April 1, 1999. At €3,802 million, the petroleum tax comprised 32 percent of 1999 sales. Excluding the petroleum tax, sales were roughly 22 percent higher at €7,976 million.

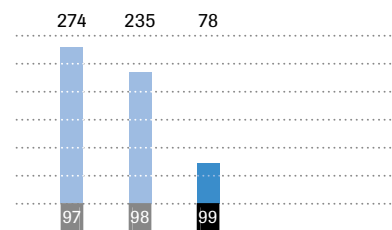
**Strategic Flexibility Considerably Increased by Acquisition of Remaining Aral Shares**

In 1998 the reorganization of Deminex and the launch of VEBA Oil & Gas gave VEBA Oel complete flexibility in the upstream sector. In late 1999 VEBA Oel achieved the same breakthrough on the downstream side. It acquired Mobil Oil's and Wintershall's Aral stakes, lifting its own Aral shareholding from 56 to roughly 99 percent. Aral will be fully consolidated beginning in the 2000 financial year.

VEBA Oel can now fully integrate Aral and manage it in line with its own corporate strategy. It plans to bundle its entire petroleum retail business—including its VEBA Wärmeservice heating-oil subsidiary—under the Aral brand name.

Achieving full management control of Aral will give VEBA Oel profitable growth in an attractive end-customer market. Additional earnings improvements can be expected from synergies, particularly in petroleum product marketing. Above all, VEBA Oel now has considerably greater flexibility to enter strategic partnerships in order to enhance its market position in Europe.

**Internal Operating Profit € in Millions**



**Exploration and Production Streamlines Portfolio and Introduces Cost-Cutting Measures**

Crude oil production by VEBA Oil & Gas (VOG) rose 3.3 percent to 52.4 million barrels. This results from the first-time consolidation of shareholdings in Norway and Egypt. Adjusted for this effect, production dropped by 3 million barrels year-on-year owing to Libya's lower OPEC quotas and to maintenance work in the UK. Natural gas production declined by 138 million m<sup>3</sup> to 1.2 billion m<sup>3</sup> because of reduced demand at gas utilities in the UK and The Netherlands as well as decreased production from mature fields in Syria.

VOG took part in 26 (1998: 17) exploration wells in 1999, of which 12 (1998: 5) yielded hydrocarbons. Proven crude oil and natural gas reserves rose at year-end by 181.6 million boe (barrels of oil equivalent) to 654.4 million boe owing in part to the first-time consolidation of the reserves of VOG's shareholdings in Norway and Egypt. Adjusted for this effect, reserves were up 149.2 million boe resulting from higher heavy oil reserves in Venezuela.

A dry well in Venezuela and lower-than-expected reserves in the UK made it necessary for VOG to take a write-down in the value of its reserves. Combined with production declines, the write-down led to unsatisfactory upstream earnings despite higher oil prices. In 1999 VOG began to optimize its portfolio and introduced additional cost-cutting measures in order to combat the earnings situation, fiercer competition, and resulting cost pressure.

**Refining Hampered by Low Margins**

Our refining business was hampered by extremely low refinery margins and particularly by low demand for heating oil. Average 1999 refinery margins slipped to less than US\$7 per metric ton—an historic low—due to overcapacities worldwide. Margins were especially slim for heating oil and diesel.

VEBA Oel has been producing new, environmentally friendlier fuels at all its refineries since fourth quarter 1999. These new fuels meet the standards of the first stage of the EU's Auto Oil Program. Beginning in November 2001 VEBA Oel will offer fuels with an even lower sulfur content that meet the standards of the second stage of the EU program. It has already made initial capital expenditures and begun converting its refineries.

Our refineries' crude oil distillation facilities operated slightly below the prior year's throughput. Our conversion plants' capacity utilization was on par with the previous year. Crude oil was supplied primarily by VEBA Oil Supply & Trading, a subsidiary. In 1999 North Africa and the North Sea were again the most important supply regions.

At 31.8 million metric tons, sales of petroleum products were down 3.6 percent year-on-year. Sales volume in Germany fell by 4.3 percent in line with the market; sales outside Germany sank 2.4 percent. The jet fuel business again experienced vigorous growth. Gasoline sales volume in 1999 was slightly lower than in 1998,

whereas diesel sales volume was marginally higher. The heating oil business was down sharply owing to warm winter weather.

VEBA Oel acquired the Emsland refinery—with an annual crude-oil refining capacity of 3.8 million metric tons—and petroleum marketing operations from Wintershall as part of the Aral deal. The acquisition creates additional potential for improvements such as synergistic effects and integrating VEBA Oel's and Wintershall's marketing activities.

**Petrochemicals Shows Marked Growth in the Core Olefin Business**

Our petrochemical operations held their own in a tough business climate. Slackening worldwide demand for petrochemical products brought on by the Asian economic crisis and the lag in passing on higher crude oil prices to customers resulted in lower margins. Petrochemicals nevertheless again achieved distinctly positive operating earnings.

Capacity expansion measures boosted the sales volume of petrochemical products to a record 4.3 million metric tons. Petrochemicals achieved the most marked increase in its core olefin business, with ethylene and propylene sales volumes up about 9 percent. Olefin plant availability was 100 percent in 1999.

In October 1999 Petrochemicals increased the annual capacity of one of its olefin plants in Gelsenkirchen by 75,000 metric tons or 17 percent to a total of 515,000 metric tons. The furnaces at Ruhr Oel's Münchsmünster olefin plant were refitted in 1999. The improved facility makes it possible to expand annual ethylene capacity by 20,000 metric tons to 300,000 metric tons and at the same time meet the standards of the first stage of the EU's Auto Oil Program.

### **Mobility Sees Higher Fuel Sales Volume despite Rising Prices**

Steeper crude oil prices and the repeated increase in the petroleum tax led to markedly higher fuel prices in 1999. Proportionately higher procurement costs cut into gas station margins. German fuel consumption climbed by around 2 percent—despite higher prices—largely because of a 5 percent rise in diesel sales.

Aral's 1999 combined domestic gasoline and diesel sales volume was on par with the previous year's level. The gasoline sales volume came in slightly behind the prior year's performance. By contrast, the diesel business posted a marked increase. Aral is by far Germany's leading service station operator and in 1999 consolidated its premier position. Aral achieved high operating earnings despite the pressure on margins.

Aral further optimized its domestic network in 1999. The number of service stations showed no major change at 2,381 (1998: 2,418). In Eastern Europe's growth markets the network was expanded by 30 new service stations, particularly in Poland where Aral now has 75 service stations. Aral has an established market position in Hungary and the Czech Republic with 60 stations in each country. The service station market is in its early stages in Slovakia where Aral had 10 stations at year-end 1999.

The convenience store business continues to grow appreciably on the back of additional product offerings and expanded Bistro services.

### **Heating Further Improves Market Position in End-Customer Segment**

The heating oil business was hurt by considerably weaker demand. Domestic heating oil sales volume fell by 14.5 percent to 29.6 million metric tons. The pending introduction of the eco-tax (*Ökosteuer*) in April 1, 1999, led to stockpiling in the first quarter. But demand contracted substantially during the remainder of the year owing to high heating oil prices and to mild weather late in the year.

This also resulted in lower sales volume for VEBA Wärmeservice (VWS). But acquiring Westfalen AG's heating oil business as of April 1, 1999, and introducing new product quality standards enabled VWS to expand its market share, particularly in the end-customer segment. Overall, VWS's sales volume sank 21 percent to 3.7 million metric tons.

Higher heating oil margins only partially offset the precipitous decline in sales volume. The heating services business also performed well short of expectations. Together with charges for the restructuring of marketing operations, these developments pushed earnings below the previous year's level.

### **Investments Distinctly Higher Owing to Aral Acquisition**

At roughly €1,308 million, VEBA Oel's 1999 investments were 184 percent higher than in 1998. The sharp increase results in part from the acquisition of Wintershall's Aral shareholding and the Emsland oil refinery in late 1999. Spending on fixed assets totaled €401 million. VEBA Oel spent €907 million on financial assets. Including the non-consolidated

Aral and Ruhr Oel shareholdings, capital expenditures amounted to €1,564 million compared with €713 million in 1998.

€381 million was invested in the upstream sector, particularly for a heavy oil project in Venezuela and to develop new fields in the British and Dutch North Sea.


Our pro-rated investment budget for Aral came to €214 million. The priorities were optimizing Aral's domestic network and expanding its network in Eastern Europe.

### **Outlook**

We expect the market conditions for the oil industry to improve in 2000. We anticipate that crude oil production will be higher and average crude oil prices distinctly lower compared with year-end 1999. Refinery margins are likely to improve substantially over the previous year's lean numbers. But overcapacities in Europe will prevent margins from reaching satisfactory levels. On the petrochemicals side, we expect firm margins in the first half of 2000.

Overall, we anticipate that more favorable economic conditions and positive effects from the Aral integration will lead to a vigorous upsurge in earnings. We are also introducing targeted cost-cutting measures, particularly in the upstream and refining sectors.

Acquiring full control of Aral has laid the groundwork for a strategic and structural reorientation. Partnerships and/or alliances will enhance VEBA Oel's future performance and competitiveness.



Toothpaste belongs on your brush, not in the sink. Silicic acids from Degussa-Hüls give toothpaste its creamy cling.

Chemicals

- Sales and operating earnings up markedly year-on-year
- Merger of Degussa and Hüls successfully implemented
- Divestment of non-core activities continued
- Higher operating earnings expected in 2000



Our chemicals subsidiary makes more silicic acid than any other producer in the world. At twelve facilities in seven countries. Silicic acids boost the performance of a wide array of products we use every day. They make tires grip, seals watertight, computer chips error-free, and toothpaste creamy. It's this kind of innovativeness that makes customers cling to Degussa-Hüls. And that gives our chemicals group an edge over its competitors.

# Chemicals

## Degussa-Hüls AG, Frankfurt am Main

	1999 <sup>1)</sup>	1999 <sup>1)</sup>	1998 <sup>2)</sup>	+/-
in millions of	DM	€	€	%
Sales	28,618	14,632	4,653	+ 214.5
Internal operating profit	929	475	251	+ 89.2
Cash flow from operations	1,179	603	574	+ 5.1
Investments	2,539	1,298	761	+ 70.6
Employees at year-end		44,334	18,737	+ 136.6

1) Includes Degussa's 4Q98 financials.

2) Hüls plus the former Degussa accounted for at equity.

### Sales and Internal Operating Profit up Sharply

Chemicals' sharp 215 percent increase in sales and 89 percent upsurge in internal operating profit are due to the first-time full consolidation of Degussa-Hüls. Owing to the adjustment of the former Degussa's financial year, Chemicals' 1999 figures also include Degussa's fourth quarter 1998 sales of roughly €1.8 billion and internal operating profit of €66 million. Adjusted for this effect, Chemicals' 1999 internal operating profit was distinctly below the previous year's good showing.

The economic crises in Asia, Latin America, and Russia hurt the chemicals industry into the spring of 1999. The prices of important products skidded worldwide. The simultaneous increase in raw materials prices exerted additional earnings pressure on Germany's chemical companies. Thanks to resurgent foreign demand the business climate for chemicals improved perceptibly throughout the rest of 1999.

Our chemicals business improved increasingly during the course of the year after a sluggish start early in 1999. While first-half 1999 sales and operating earnings were in some areas distinctly below the

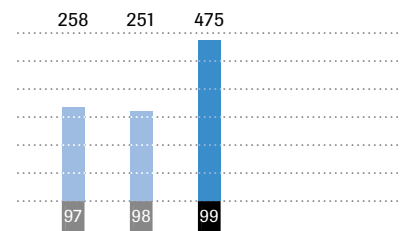
year-earlier figures, in the third and fourth quarters we achieved impressive improvements.

### Degussa-Hüls Merger Highlights 1999

The merger of Degussa and Hüls was entered into the Commercial Register on February 1, 1999. The merger was effective as of October 1, 1998. Degussa's financial year had been from October 1 to September 30. In 1999 the merged Degussa-Hüls had a curtailed financial year that lasted from October 1 to December 31. In the future, Degussa-Hüls's financial year will, like VEBA's, be the calendar year.

Chemicals successfully integrated both companies' businesses. After combining overlapping business areas, Degussa-Hüls has now completed the link-up of its foreign sales organizations, thus guaranteeing a uniform market presence. Following the sale of the PVC manufacturer Vestolit and the bundling of its precious-metals activities, Degussa-Hüls is organized into 13 strategic business units that

## Internal Operating Profit € in Millions





# Chemicals

## Chemicals Sales (Excluding Precious Metals Trading)

€ in million	1999 <sup>1)</sup>	1998 <sup>2)</sup>	+/- %
Health and Nutrition	2,150	2,141	+ 0.4
Specialty Products	2,095	2,139	- 2.1
Polymers and Intermediates	2,236	2,206	+ 1.4
Performance Materials	3,354	3,410	- 1.6
Services	581	442	+ 31.4
<b>Total</b>	<b>10,416</b>	<b>10,338</b>	<b>+ 0.8</b>

1) Excludes the former Degussa's 4Q98 financials.  
2) Pro-forma calculation based on the full consolidation of Degussa.

comprise four reporting segments: Health & Nutrition, Specialty Products, Polymers & Intermediates, and Performance Materials. It also has a Services segment with extensive activities.

The synergies from the Degussa-Hüls merger are beginning to take hold. By year-end 1999 Chemicals had already stripped out €90 million in annual costs—half the planned savings measures. This had a €55 million positive effect on earnings. Before the tie-up we estimated that combining Degussa and Hüls would yield annual synergies of €180 million starting in 2002. This figure is already accounted for by concrete projects primarily involving purchasing and procurement, the integration of overlapping businesses and regional organizations, and facility infrastructure. The merger's savings potential was offset in 1999 by one-off charges of €92 million.

As part of its strategic realignment, in 1999 Degussa-Hüls sold the PVC manufacturer Vestolit, the chemicals distributor Neuber, its 50 percent stake in Ultraform and US-based Ultraform Company, and Röhm Enzyme. It also combined its Precious Metals and Automotive Catalysts business units with Cerdec AG's ceramic paint and coatings activities to form dmc<sup>2</sup>: Degussa Metals Catalysts Cerdec. The move gives dmc<sup>2</sup> greater flexibility for joint ventures, strategic alliances, and an eventual IPO. We are examining various options for divesting our Asta Medica subsidiary.

The following section on the performance of Degussa-Hüls's reporting segments compares 1999 with pro-forma figures for 1998. The 1999 figures do not include Degussa's fourth quarter 1998 financials.

### Health & Nutrition Holds its Own despite Tough Business Climate

This segment consists of Asta Medica (pharmaceutical products), Feed Additives, Dental, and Stockhausen (primarily superabsorbents, flocculants, and skin protection products).

Asta Medica's sales were off 2 percent year-on-year owing to Russia's economic crisis and the devaluation of the Brazilian real. By contrast, Asta Medica's internal

operating profit improved due to the vigorous implementation of its restructuring programs and to its shift to a higher-margin product palette. Despite the difficulties on Germany's health-care sector, Asta Medica's domestic businesses were strong earnings contributors along with its operations in western Europe and Brazil. In the wake of its realignment, Asta Medica will in future focus on four business areas: oncology/endocrinology, respiratory illnesses and allergies, special products, and health care. In addition, it will concentrate on its core markets in Europe, the US, and Brazil.

Dental's sales climbed 5 percent despite the ongoing health-care reform debate and uncertainty over whether patients would be reimbursed for the cost of implants and prostheses. Internal operating profit came in considerably higher than the prior year's weak showing. Dental achieved this improvement primarily by restructuring its domestic marketing organization, reducing costs, and boosting efficiency.

Lower prices led to an 8 percent decline in sales at Feed Additives. Internal operating profit came in distinctly behind 1998's strong performance. The Asian economic crisis put considerable pressure on sales prices. This was particularly true for this business unit's main product, the essential amino acid methionine. Degussa-Hüls is the only single-source supplier of methionine, lysine, and threonine—the three most important amino

acids for animal nutrition. Ongoing expansion measures will enable Degussa-Hüls to further strengthen its leading position as a provider of amino acids.

Stockhausen lifted 1999 sales 6 percent. Its internal operating profit was also up. The superabsorbents business was particularly successful. Stockhausen expanded its position as the world's largest producer of superabsorbents by opening a new production facility in Krefeld, Germany. Superabsorbents are used for absorbing moisture in diapers and other hygiene products. In water-treatment chemicals, Stockhausen continued its global expansion program by opening a flocculants production facility in Russia.

### **Specialty Products Further Expands Core Businesses**

The Specialty Products reporting segment comprises three strategic business units: Creanova (coating raw materials, engineering plastics, and colorants), Industrial Chemicals, and Fine Chemicals.

Following a weak start in early 1999 the demand for Creanova's products increased palpably from March on. Sales rose 6 percent year-on-year, and internal operating profit improved distinctly. In engineering plastics Degussa-Hüls occupies leading positions in attractive market segments as a

supplier to the automotive, electronics, textile, sporting goods, and telecoms sectors. The company is the world's leading supplier of colorants for building and industrial paints and is among the premier producers of resins and crosslinking agents for the coatings and paint industries. By opening a new production facility the company cemented its position as the world-wide leader in isophorone and isophorone derivatives.

Industrial Chemicals' sales slipped 11 percent, while internal operating profit in 1999 was far ahead of 1998's showing. Its recent expansion strategy has paid off. Industrial Chemicals has strengthened its position as the world's second-largest supplier of bleaching chemicals via acquisitions and capital expenditures. Degussa-Hüls is also the world's second-largest supplier of chemicals and system solutions for the mining industry.

Fine Chemicals' 1999 performance was marked by the effects of the Asian economic crisis. Lower prices and sales volumes brought on by fiercer competition led to a drop in sales and operating earnings. Following the bundling of Degussa's and Hüls's fine chemicals operations, the merged company is among the leading fine chemicals suppliers for the life sciences industry. Degussa-Hüls intends to further expand this position via an extensive investment program. Spending will be targeted at high-value-added agents and intermediate products for the pharmaceutical and agrochemical industries. These products are custom manufactured using processes developed in close cooperation with customers.

### **Polymers & Intermediates Concentrates Portfolio on Specialty Products**

In 1999 this reporting segment comprised Röhm (methacrylate products), Vestolit (PVC), Oxeno Olefinchemie, and Phenolchemie (phenol and acetone).

Röhm is one of the world's leading suppliers of methacrylate products like acrylic glass. Its 1999 sales climbed 4 percent and its internal operating profit was also up year-on-year. Following its tie-up with Degussa's Agomer subsidiary, Röhm's portfolio spans a wide range of specialty and standard methacrylate products. The merger also offers considerable potential for cost synergies.

Vestolit's sales declined. The PVC manufacturer's internal operating profit was distinctly lower year-on-year. To further optimize its portfolio, Degussa-Hüls sold Vestolit to a group of international investors. The sale is retroactively effective to November 30, 1999.

Oxeno's performance improved noticeably in the second half of 1999. But overall its earnings declined compared with the previous year's good showing. Sales increased 12 percent. In January 1999 Oxeno increased its isononanol production capacity from 40,000 to 140,000 tons per year in order to strengthen its position as the world's second-largest supplier of this plasticizer alcohol. Isononanol is inexpensive to produce and offers many advantages in applications.

Phenolchemie again had higher sales and sales volumes. Owing to continued reduced margins, Phenolchemie's 1999 internal operating profit was far under 1998's very good performance. Additional phenol capacity has led to increasing competition since early 1999. Phenolchemie protected its position as the worldwide market leader for phenol and acetone and further expanded its market share, particularly in America and the Far East.

## **Performance Materials Globalizes Further for Growth**

This reporting segment comprises Sivento, Advanced Fillers and Pigments, as well as Precious Metals, Automotive Catalysts, and Cerdec. The latter three business units were combined into dmc<sup>2</sup> as of January 1, 2000.

Lively demand enabled Sivento to boost 1999 sales 10 percent. Operating earnings declined compared with 1998's very good showing. Combining its fumed silica (Aerosil<sup>®</sup>), silanes, and chemical catalysts units created new growth opportunities, especially in the area of surface finishes. Sivento intends to form raw materials alliances with its large customers in order to protect its position as the world's premier producer of Aerosil<sup>®</sup>. These alliances include plans to build new production facilities. Sivento is also the global leader in chlorosilanes and organosilanes. These

businesses performed well in 1999. Its chemical catalysts business was very successful. Sivento was able to expand its position in the specialty business.

Advanced Fillers and Pigments lifted its sales 16 percent year-on-year primarily owing to the first-time inclusion of Seoul-based Korea Carbon Black, acquired in 1998. Internal operating profit came in on par with the previous year's good showing. Most of Degussa-Hüls's industrial carbon black companies posted lower earnings because of considerably higher raw materials costs. This development was partially compensated by Korea Carbon Black, which fully met our expectations in its first year of operations. The rubber silanes and precipitated silica businesses also performed encouragingly.

Precious Metals came close to matching 1998's sales. Its 1999 internal operating profit topped the prior year's figure. In Precious Metals, Degussa-Hüls is increasingly focusing its activities on inorganic and organic precious-metals chemistry and on precious-metals catalysts.

Automotive Catalysts expanded its market position and grew sales 24 percent. Operating earnings for 1999 were below the previous year's performance owing to additional R&D expenditures, startup costs for new production capacity, and the economic crisis in South America.

Cerdec's 1999 sales were up slightly year-on-year despite the poor business climate in Europe, especially for construction and chinaware ceramics. Operating

earnings declined compared with the previous year. Degussa-Hüls acquired the remaining 30 percent stake in Cerdec from Switzerland's Ciba Spezialitätenchemie as of March 17, 1999. Cerdec is now a wholly owned subsidiary.

## **Investments Targeted at Products with Promising Future**

Including the former Degussa's fourth quarter 1998 spending, Degussa-Hüls invested a total of €1,298 million in 1999 compared with €761 million in 1998. It expanded production capacity for important products in order to bolster its leading market positions, particularly in specialty chemicals. To this end it spent €949 million on fixed assets that included:

- expanding existing production facilities for feed additives in Wesseling, for superabsorbents in Krefeld and Greensboro (USA), and for acrylic acid in Marl (completion date: late 2000)
- opening new facilities for engineering plastics in Marl, for fine chemicals in Lülldorf, and for the coating raw material isophorone in Mobile (USA) (completion date: early 2000)
- building new facilities for the plasticizer alcohol insonanol in Marl and for phenol and acetone in Mobile
- building a new facility for pure chlorosilanes and expanding an existing Aerosil<sup>®</sup> facility in Rheinfelden as well as expanding a precipitated silica production site in Wesseling.

A substantial portion of the €349 million of investments in financial assets is attributable to the increase in Degussa Bank's loan portfolio.

### **Research and Development Boosts Competitiveness**

Degussa-Hüls spent €498 million on R&D in 1999. This amounts to 3.4 percent of sales. 43 percent of this total went to Health & Nutrition, 20 percent to Specialty Products, 7 percent to Polymers & Intermediates, 28 percent to Performance Materials, and 2 percent to Creavis. About 3,700 Degussa-Hüls employees are active in R&D at 25 facilities worldwide.

Degussa-Hüls's goal in R&D is to increase its long-term competitiveness. Developing new products and processes enables the company to protect and expand its leading positions as well as tap new markets.

Molecular biology and genetics form an important part of Degussa-Hüls's R&D program. These projects are aimed at developing new production processes for the B-vitamins in feed additives and at further increasing high-performance bases for amino acid production. Fine Chemicals' research includes work on biocatalytic systems for obtaining special amino acids as valuable intermediate products for the life sciences.

Advanced Fillers and Pigments is developing new, highly dispersed silanic acids and new carbon blacks. These compounds increase tires' stability and lower their roll resistance. This makes tires last longer and improves cars' fuel consumption.

### **Outlook**

We expect worldwide demand for our chemical products to continue to recover in 2000. The economies of Asia and the EU will gain strength. The US economy's vigorous growth rate could, however, subside somewhat this year.

In 2000 we expect further operational improvements in all reporting segments owing to more positive economic forecasts, new capacity for important products, and the synergy effects of the Degussa-Hüls merger. Overall, we anticipate that Chemicals will post higher operating earnings as long as the extraordinarily high prices for important raw materials return to normal levels and as long as wage costs increase only moderately.

Degussa-Hüls's growth strategy combines consistent expansion of its core businesses with the streamlining of its non-core activities. In addition to growing internally, we will also look for opportunities to strengthen and expand our core areas via acquisitions. We see particularly good opportunities to expand Fine Chemicals, Advanced Fillers and Pigments, and our silanic acid activities.

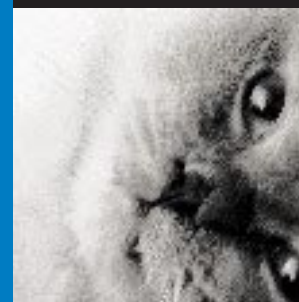
A black and white photograph of a fluffy cat, possibly a Persian or similar breed, lying on a couch. The cat is looking towards the camera with a calm expression. The background is softly blurred, showing the cushions of the couch and a hint of a room. The overall mood is cozy and domestic.

**Viterra makes  
life more comfortable  
for all a home's  
occupants by  
offering attractive  
properties and  
innovative services.**

Real-Estate  
Management

- Internal operating profit up markedly
- Structural realignment implemented
- Regional diversification of housing stock consistently continued
- Further earnings increase anticipated for 2000

Over 400,000 people in Germany call a Vitera apartment their home. Our real-estate subsidiary also builds 1,500 economically priced single-family homes and town homes each year. And it has a full range of real-estate services that include metering, building security, and energy saving heating plans. Vitera helps its customers live comfortably, safely, and economically. Which is why Vitera is Germany's number one private real-estate services company.



# Real-Estate Management

## Viterra AG, Essen

	1999	1999	1998	+/-
in millions of	DM	€	€	%
Sales	2,239	1,145	1,451	- 21.5
Internal operating profit	360	184	149	+ 23.5
Cash flow from operations	84	43	244	- 82.4
Investments	651	333	205	+ 62.4
Employees at year-end		4,901	5,842	- 16.1

### Internal Operating Profit up Markedly

Viterra lifted 1999 internal operating profit 23.5 percent to €184 million. At €156 million, Residential Investment was the main earnings performer. Sales were down 21.5 percent year-on-year to €1,145 million, principally owing to the disposal of the personal security and service-station engineering units. Adjusted for divestment effects, sales came in roughly 3 percent higher.

### Structural Realignment Implemented

The 1999 financial year saw the successful implementation of the 1998 merger of VEBA Immobilien and Raab Karcher's real-estate service activities. The combined company renamed itself Viterra in spring 1999 to reflect its reorientation. Viterra has four strategic business units: Residential Investment, Residential Development, Residential Services, and Commercial Real Estate. The new company combines real-estate expertise with real-estate services in growth markets.

With roughly 125,000 units of its own and about 50,000 via shareholdings, Viterra is Germany's largest private owner of housing units. Residential Investment topped last year's operating earnings due to higher returns on property sales and to higher proceeds from its

Deutschbau shareholding. Viterra continues to optimize its housing stock and sold 2,935 housing units in 1999.

Residential Development builds and markets town homes and condominiums. Viterra has established itself as one of Germany's leading players in this segment. It built 1,500 housing units in 1999. Residential Development's internal operating profit was also up distinctly.

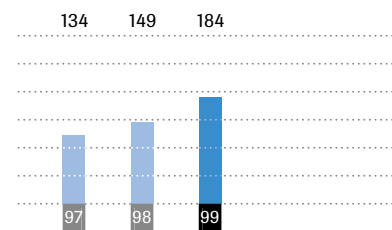
Residential Services is active in metering services for water and heat, security products and services, heat-contracting, and property management. It continues to grow. This Viterra business unit lifted its internal operating profit on the back of increased overall demand for real-estate services.

In Viterra's newly formed Commercial Real Estate unit, rental income and income from property sales offset the startup costs of expanding the property development business and write-downs on existing properties.

### Investments up Distinctly Year-on-Year

Viterra invested €333 million in 1999, a distinct 62.4 percent more than in 1998. At €190 million, Residential Investment received the lion's share. Viterra continued its strategy of achieving a more regionally diversified housing stock by acquiring shareholdings in the Berlin and Munich metropolitan areas. Together with Munich's Hypo-Vereinsbank, Viterra took a

## Internal Operating Profit € in Millions



majority stake in WohnBau Rhein-Main's 14,000 housing units in and around Frankfurt. Residential Services' €85 million in capital spending is earmarked primarily for the expansion of Energy Services.

### Outlook

For 2000 we expect continued strong demand for economically priced private homes in Germany. The same also goes for economically priced owner-occupied condominiums, depending on interest rate trends. The construction of rental units continues to be unattractive. The declining market for new rentals might thus bottom out in the states of the former West Germany. We look for the real-estate services market to continue to grow. Rising demand, particularly in large urban areas, should positively impact commercial real-estate development and sales.

In this climate we expect Viterra to continue its positive performance of the previous year and to markedly increase sales and internal operating profit.

# Other Activities Distribution/Logistics

- Sales and internal operating profit up markedly
- Stinnes shares successfully floated
- VEBA Electronics puts in gratifying performance
- Further earnings improvements expected in 2000

## Stinnes AG, Mülheim an der Ruhr VEBA Electronics LLC, St. Clara (USA)

	1999	1999	1998	+/-
in millions of	DM	€	€	%
Sales	32,999	16,872	17,376	- 2.9
Internal operating profit	522	267	144	+ 85.4
Cash flow from operations	305	156	334	- 53.3
Investments	1,449	741	583	+ 27.1
Employees at year-end		49,818	55,185	- 9.7

### Sales and Internal Operating Profit up Year-on-Year

Distribution/Logistics sharply increased 1999 sales and internal operating profit compared with the previous year. Sales were up distinctly in Stinnes's core businesses. But portfolio slimming measures like the disposal of the DIY, Sanitary Equipment/Heating/Tiles, and Stinnes Tire Service units in 1998 and the divestment of BTL's air and sea freight activities in 1999 reduced Stinnes's sales 13.5 percent to €11,713 million. The logistics group's 1999 internal operating profit climbed to €180 million in 1999 compared with €125 million in 1998. Distinctly higher demand for semiconductors enabled VEBA Electronics to lift 1999 sales to €5,159 million against 1998 sales of €3,837 million. At €87 million, the electronics distributor's 1999 internal operating profit was up distinctly compared with 1998's €19 million.

### Stinnes Shares Successfully Floated

In mid-June VEBA placed 34.5 percent of Stinnes's capital stock—primarily with international institutional investors—in a first tranche. Stinnes's shares trade on stock markets in Frankfurt and Düsseldorf. Stinnes has been included in the M-DAX, Germany's stock index for medium-sized companies, since December 20, 1999. At year-end Stinnes's share price had risen to €21—about 45 percent above its

€14.50 IPO price. By comparison, the M-DAX rose only 4.4 percent between mid-June and year-end.

### Stinnes

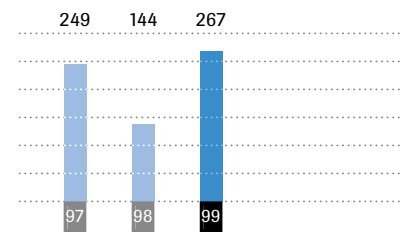
#### Transportation Cements Strong Position in European Overland Transport

Via its Schenker Group subsidiary, Stinnes is one of the world's leading providers of integrated transport and logistics services. Stinnes cemented its strong position in European overland transport by acquiring the remaining shares in Sweden's BTL in April 1999. The integration of Schenker's and BTL's activities has largely been completed. The sale of BTL's air and sea freight activities contributed to lowering Transportation's sales from €5,319 million in 1999 to €5,176 million in the year under review. Transportation's 1999 internal operating profit was burdened by acquisition costs and goodwill write-downs from its complete takeover of BTL.

#### Chemicals Puts In Gratifying Performance

Stinnes's Brenntag subsidiary makes it one of the world's largest chemicals distributors. Despite a

### Internal Operating Profit € in Millions



sluggish European chemicals market in the first half of 1999 and the ongoing Asian economic crisis, Chemicals put in a good performance. In a difficult business climate Brenntag was able to increase sales and internal operating profit distinctly.

#### Building Materials Rallies

Building Materials rallied in 1999 after the considerable difficulties of 1997 and 1998. The restructuring measures initiated in 1998 began to take effect and Building Materials returned to profitability in the second quarter of 1999. First quarter losses were more than offset by earnings improvements in the remaining three quarters. Sales were down insubstantially owing to Germany's continued sluggish construction market.

#### Materials Posts Higher Internal Operating Profit despite Lower Sales

In early 1999 Stinnes combined its Stinnes Interfer (steel trading) and Frank & Schulte (raw materials trading) subsidiaries to form a new business unit called Materials. This unit's 1999 sales sank appreciably compared with the previous year owing principally to lower world steel and steel-product prices. Restructuring and cost-management programs largely



## Distribution/Logistics

€ in millions	1999	1998	+/-
<b>Sales</b>			%
Stinnes	11,713	13,540	- 13.5
VEBA Electronics	5,159	3,837	+ 34.5
<b>Total</b>	<b>16,872</b>	<b>17,377</b>	<b>- 2.9</b>
<b>Internal Operating Profit</b>			
Stinnes	180	125	+ 44.0
VEBA Electronics	87	19	+ 357.9
<b>Total</b>	<b>267</b>	<b>144</b>	<b>+ 85.4</b>

enabled Materials to offset market woes and post a higher internal operating profit year-on-year.

### Full-Line Wholesaling Further Enhances European Market Position

Stinnes Intertec distributes technical and consumer goods like auto parts, car-care products, electronic installation materials, bicycle components, and tools. It further enhanced its European market position in 1999. Despite the disposal of its car audio business, 1999 sales climbed about 10 percent over the prior year's total of €172 million. Stinnes Intertec's internal operating profit bested the previous year's figure.

### VEBA Electronics

#### Sales and Internal Operating Profit up Markedly

VEBA Electronics is one of the world's three largest distributors of electronic components. It has facilities on all continents. VEBA Electronics' 1999 sales were up 34.5 percent. At €87 million, its internal operating profit was also markedly higher year-on-year.

## Increasing Demand for Semiconductors

After a very weak 1998, the world market for semiconductors recovered in 1999. VEBA Electronics benefited from the market resurgence and grew sales considerably in its Electronic Components unit. Despite slightly weaker demand, Electronic Systems was again able to lift sales of computer systems and peripherals.

The previous year's tendency toward the global distribution of electronic components gained further impetus from both the customer and supplier sides. Manufacturers increasingly prefer to work with distributors who can distribute their products via a comprehensive sales and service organization. VEBA Electronics has established itself on all major markets in order to profit from this trend.

### Investments Distinctly above Prior Year's Level

Distribution/Logistics' investments climbed 27.1 percent to €741 million. Spending on fixed and intangible assets amounted to €295 million; €446 million went to financial assets.

Stinnes's €676 million in investments were spent primarily to build up its international businesses, particularly to acquire the remaining shares in BTL. It also invested to expand its international network by setting up new logistics centers in The Netherlands, Austria, and the USA.

VEBA Electronics invested €65 million, principally to improve information systems and to expand its service organization.

## Outlook

We expect Distribution/Logistics' positive earnings performance to continue in 2000.

Stinnes will benefit from its focus on higher-margin businesses, from optimizations generated by its restructuring programs, and from an improved business climate. The logistics group anticipates achieving a higher internal operating profit in 2000 than in 1999.

VEBA Electronics again looks for distinctly higher demand at both Electronics Components and Electronics Systems. We therefore expect an improved internal operating profit in 2000.

In line with its strategic reorientation, VEBA no longer counts Stinnes and VEBA Electronics among its core businesses. We will exit these businesses and create optimal value for our shareowners.

# Other Activities **Telecommunications**

- Significant value realized in Telecommunications
- Operating loss markedly reduced
- Continued positive development in 2000 expected at Bouygues Telecom

## VEBA Telecom GmbH, Düsseldorf

	1999	1999	1998	+/-
in millions of	DM	€	€	%
Sales	211	108	201	- 46.3
internal operating profit	- 352	- 180	- 461	+ 61.0
Cash flow from operations	- 420	- 215	92	-
Investments	335	171	360	- 52.5
Employees at year-end		8	1,965	- 99.6

### Significant Value Realized in Telecommunications

VEBA entered the telecoms sector in 1994. In 1999 the Group took significant steps to realize the considerable value it had created. After divesting its major interests, VEBA Telecom essentially now only retains its 17.5 percent stake in Bouygues Telecom, the French mobile communications operator. The company put in a very good performance in 1999 and captured 20 percent of the burgeoning market for new subscribers in France. It ended 1999 with more than 3.2 million total subscribers.

VEBA did not achieve its overall strategic goals in Telecommunications. But via disposals the Company has realized significant value from its telecoms activities. It invested a total of €3.6 billion in Telecommunications. By the middle of 2000 VEBA will have had a reflux of funds amounting to €8.9 billion including the proceeds from its E-Plus and Cablecom stakes. To this the future proceeds from Bouygues Telecom will be added.

### Fixed-Line and Mobile Communications Activities Divested

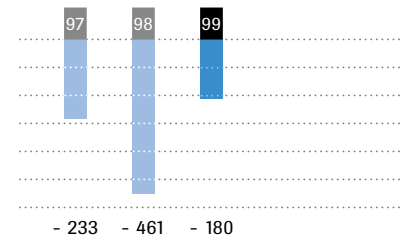
Otelo, our joint venture with RWE, sold its fixed-line business to Mannesmann Arcor in early April. High costs and slim margins (particularly in the private customer segment) convinced us to withdraw from the fixed-line business. VEBA realized a book gain of €392 million on the sale.

With significant investments looming and Germany's cable-TV market ripe for consolidation, in May 1999 we divested the stake in the German cable-TV operator TeleColumbus held via VRT, formerly known as Otelo. The disposal of TeleColumbus netted VEBA a book gain of €232 million and was effective as of July 1, 1999.

In October 1999 we concluded a sales agreement with France Télécom for our E-Plus stake. VEBA's share of the sales price amounts to €3.8 billion. Bell South subsequently exercised its preemption rights as an E-Plus shareholder for the same sale conditions. The disposal of E-Plus became necessary in advance of the Company's upcoming merger with VIAG, which also has a mobile telecom. The sale enabled VEBA to profit from E-Plus's favorable value growth. The Group will not realize the estimated book gain of roughly €3.5 billion until 2000 because E-Plus was not transferred to Bell South until early this year.

In December 1999 VEBA concluded an agreement for the disposal of its 32 percent shareholding in Cablecom, the Swiss cable-TV company. The estimated book gain of €780 million will also be realized in 2000.

## Internal Operating Profit € in Millions



### Operating Losses Markedly Reduced

Telecommunications' reported sales include proportionate figures from the fixed-line business and the cable-TV operator TeleColumbus. The marked improvement in internal operating profit resulted mainly from the disposal of activities with high startup losses. Fixed-line startup losses only burdened 1999 internal operating profit for the first three months. E-Plus's startup losses only affected earnings for the first six months owing to the disposal.

Bouygues Telecom continues to report high startup losses. We completely wrote off our roughly €123 million engagement in Iridium's satellite-based mobile activities owing to this company's poor business outlook.

### Outlook

We expect Bouygues Telecom to continue to perform well and to participate in the vigorous growth of France's mobile telecoms market. The company's increasing number of subscribers will help it to further improve operational earnings.

Overall, we expect Bouygues Telecom to report sharply reduced startup losses for 2000. The losses will be more than offset by interest income from gains made via disposals.

# Other Activities Silicon Wafers

- Higher sales volume and cost-management measures reduce operating loss
- Investments distinctly reduced
- Further earnings improvement expected in 2000

## MEMC Electronic Materials, Inc., St. Peters (USA)

	1999	1999	1998	+/-
in millions of	DM	€	€	%
Sales	1,273	651	683	- 4.7
Internal operating profit	- 419	- 214	- 240	+ 10.8
Cash flow from operations	- 194	- 99	100	-
Investments	117	60	218	- 72.5
Employees at year-end		5,600	6,190	- 9.5

### Operating Loss Reduced Markedly in 1999

MEMC Electronic Materials is one of the world's leading manufacturers of silicon wafers for the semiconductor industry. It has production facilities in the USA, Asia, and Europe and is active in all major semiconductor markets. MEMC reduced its operating loss 10.8 percent to €214 million in 1999. The improvement is attributable to higher sales volumes brought on by the semiconductor industry's increased wafer demand and to the intensive cost-management measures MEMC introduced in 1998. These measures have already stripped out roughly €100 million in costs.

### Overcapacity Continues to Hurt Wafer Market

All wafer manufacturers anticipated increased demand and so in recent years have added production capacity. Demand did not develop as expected. This led to excess capacity and a dramatic price collapse. Despite higher sales volumes, MEMC's sales slipped 4.7 percent owing to considerably lower prices. The share of sales represented by advanced wafers rose from 47 to 52 percent. Advanced wafers are

those with a diameter of more than 150mm and include epi wafers of all diameters. Epi wafers have an additional layer of silicon.

### VEBA Increases its MEMC Stake

MEMC increased its capital stock by \$200 million in March and April 1999 in order to implement financial restructuring. VEBA participated in the increase in line with its roughly 53 percent stake and also purchased all unsubscribed shares. VEBA now has a 71.8 percent stake in MEMC.

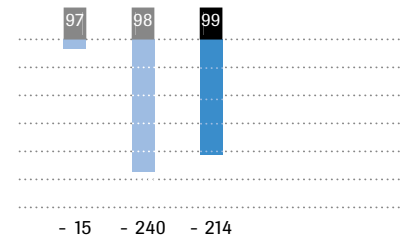
### Investments Further Reduced

Owing to adequate capacity, MEMC's 1999 spending was on projects that are essential for the company's future performance. At €60 million, investments were down markedly year-on-year and were earmarked for introducing SAP software, controlling and improving quality, and supporting cost-management programs.

### Research and Development

MEMC continued to develop the 300mm generation of wafers. It also further tailored its product line to its customers' needs by introducing several new products in 1999. MEMC registered 62 patents worldwide compared with 50 in 1998 and 13 in 1995.

## Internal Operating Profit € in millions



### Outlook

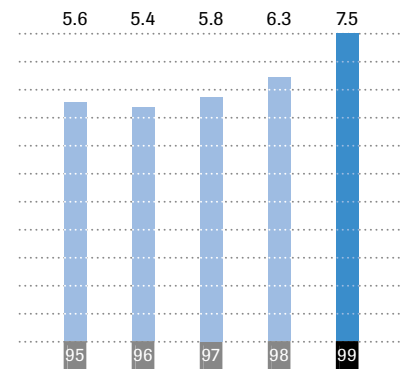
MEMC expects further improvements in operating earnings in 2000. It will continue its vigorous cost-cutting measures and aims to be the wafer industry's cost-leader. Silicon wafer prices have stabilized since late 1999. Moreover, MEMC should profit from the expected resurgence of the market for semiconductors and wafers in 2000.

We intend to continue to boost MEMC's value and divest it at an appropriate time. VEBA is focusing on its energy and chemicals activities and no longer views silicon wafers as a core business.

## Group Employees

	Dec. 31, 1999	Dec. 31, 1998	+/- %
Employees in Germany	82,012	77,554	+ 5.7
Salaried staff	45,090	41,488	+ 8.7
Wage earners	27,897	26,439	+ 5.5
Trainees	6,075	5,800	+ 4.7
Less than part time	2,950	3,827	- 22.9
Employees outside Germany	49,590	39,220	+ 26.4
<b>Total</b>	<b>131,602</b>	<b>116,774</b>	<b>+ 12.7</b>

## Personnel Costs € in Billions



### Human Resource Management: A Strategic Component of Value Creation

Group-wide strategic human resource management makes an important contribution to boosting shareholder value. It monitors and directs human capital the way value-oriented controlling monitors and directs financial capital. To achieve its goals, HR strategy must be consistently integrated into corporate strategy.

The central aim of our HR policy is to help VEBA employees think and act like entrepreneurs by giving them more responsibility and by fostering flexible and innovative work processes. The rapid changes occurring in the Group underscore the need for HR to facilitate employees' adapting to their new work environment. The following were the highlights of HR's 1999 activities.

### Value-Oriented Remuneration for Top-Level Executives

VEBA has increased the variable component of executive pay in order to more clearly link it to the Company's—and managers' individual—performance. In 1999 we held more meetings with top-level executives to set the performance targets. The executives' targets were set to ensure that their remuneration is in line with the achievement of their targets for corporate and individual performance.

VEBA's new stock appreciation rights (SARs) represent another important way to link executive pay to the Company's performance. SARs are indexed so that they can only be exercised when VEBA's share price outperforms the Euro Stoxx 50. Proceeds from exercising SARs are paid in cash, not in shares. Executives will be granted new SARs each year. About 120 Board of Management members and top-level executives are currently in the SAR program.

We plan to extend value-oriented remuneration to a greater number of employees.

### InvestmentPlan Will Help Employees Save for Their Future

The VEBA InvestmentPlan responds to the increasing need for employees to supplement their retirement income. The new plan offers employees bonuses for long-term saving. All Group employees in Germany will be able to participate in the InvestmentPlan in 2000. It supplements the SAR program for top-level executives and represents an extension of the employee share scheme. The latter continues to be extremely popular: 66 percent of Group employees in Germany purchased VEBA shares in 1999, the program's sixteenth year.

In addition to acquiring VEBA shares, the InvestmentPlan enables employees to invest in mutual funds set up specially for VEBA. There will be two funds. The first is

an international equity fund with a European focus. The second is a bond fund. Employees can make regular monthly contributions to the Plan via payroll deduction, one-time investments, or both. There are no fund management or depository bank fees.

The VEBA InvestmentPlan offers much more than discounted employee shares. It rewards long-term saving by giving employees an investment bonus. The bonus is paid on annual investments of up to €3,000 and increases the longer the investment is held.

By building on its employee share program to create the VEBA InvestmentPlan, VEBA is making a proactive contribution to the current public debate about the role of companies in helping their employees invest for the future.

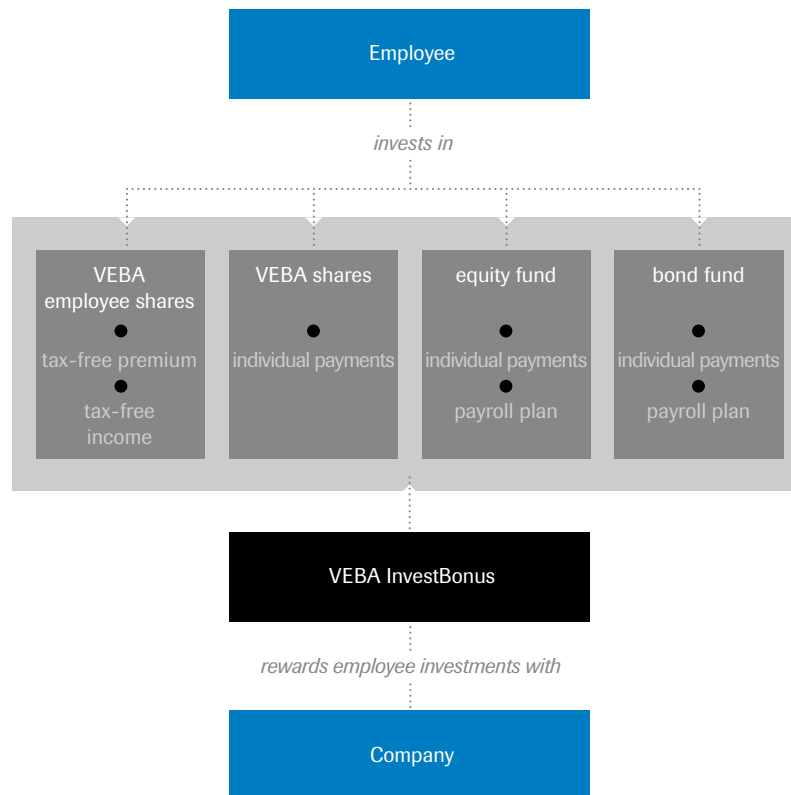
### Company Pensions Combine Increased Performance Component with Cost-Effectiveness

Government pension systems are undergoing major changes. That is why company pensions are becoming increasingly important for ensuring employees' financial security in old age. But traditional pension plans often do not lend themselves to innovative HR policies and also represent a considerable cost factor.

In 1999 the VEBA Group moved in a new direction by establishing a defined contribution plan. The scheme gives company pensions a solid basis for the future. Its key features are:

- an expanded performance component based on annual pension contributions instead of pension payments being linked exclusively to an employee's pre-retirement salary level

### InvestmentPlan



- more flexibility by incorporating the Group's business performance into its contribution to the plan
- improved calculability of companies' pension obligations
- greater transparency by offering employees pensions that are straightforward and easy to calculate.

The Group has also further expanded its deferred compensation program. Deferred compensation and the VEBA InvestmentPlan provide employees with attractive supplementary pension options.

### More Flexible Work Schedules

In May 1999 VEBA launched FlexWork. The program complements the Group's array of ongoing part-time programs. It aims to promote part-time work—and thus protect jobs—by enabling employees to create their own customized work schedules. The scheme responds to many employees' desire for greater flexibility in planning and organizing their lives. And for the first time it gives employees a legal right to work between three-quarters and full-time as well as an unlimited and unconditional right to return to full-time employment whenever they choose.

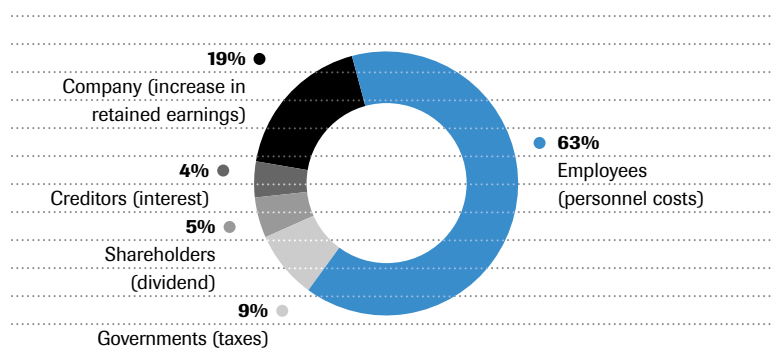
## Executive Development Activities Stepped up

VEBA has a Group-wide executive development program that was expanded in 1999. Based on our Divisions' own customized development schemes, it offers advanced training and development that includes achieving top qualification standards.

An integral part of the program is the extremely successful international management seminar for Group executives held in cooperation with INSEAD, one of France's premier business schools, since 1997. In 1999 we sent a group of VEBA's high potentials to INSEAD. Our Divisions also held numerous seminars for their managers in cooperation with top business educators like the London Business School, the University of St. Gallen, and Germany's Gracht Palace executive program.

Growth- and performance-oriented executive development requires a regular analysis of existing management potential. The Divisions carry out an annual review process in addition to the annual meeting of VEBA's Board of Management devoted to HR matters. The results constitute the basis for individual development measures. The VEBA Executive Forum is of particular importance to the Group-wide development of management potential. In the two-day Forum, members of VEBA's Board of Management

## Application of Net Added-Value within the VEBA Group



€ in millions	1999		1998	
		%		%
<b>Employees (personnel costs)</b>	<b>7,503</b>	<b>62.5</b>	<b>6,260</b>	<b>69.7</b>
thereof:				
Wages and salaries	(5,773)	(46.1)	(4,807)	(53.5)
Social security	(1,006)	(8.4)	(871)	(9.7)
Insurance pensions	(724)	(6.0)	(582)	(6.5)
Creditors (interest)	549	4.6	334	3.7
Governments (taxes)	1,050	8.8	1,240	13.8
Shareholders (dividend)	628	5.2	540	6.0
Company (increase in retained earnings)	2,274	18.9	613	6.8
<b>Net Value-Added</b>	<b>12,004</b>	<b>100.0</b>	<b>8,987</b>	<b>100.0</b>

meet with senior Group executives to analyze and discuss business strategy. This helps VEBA's Board members gauge the abilities of potential candidates for top-level management positions.

VEBA's Executive Management System supports the Group's succession and career planning. The system is a database containing background and development data on Group executives. It represents an important tool for succession planning and filling management positions.

## Developing Employees and High Potentials

As with initial job training, VEBA attaches major importance to continual professional development, as is evidenced by our Divisions' wide array of supplementary training programs.

VEBA Campus, organized for the first time in 1999, is an exciting new program. It facilitates networking

and Group-wide knowledge transfer by serving as a forum for top executives to meet and interact with the Company's high potentials. In 1999 VEBA stepped up its recruiting activities at leading European universities and at career fairs for top university graduates and MBAs. Our Group-wide Top Talent Program is designed to recruit outstanding management talent over the next few years and to help them realize their potential via custom-tailored professional development programs. The scheme is also designed for high potentials from within the Group.

#### VEBA Group Plays Active Role via Job Initiatives

The VEBA employment initiative created in 1997 in cooperation with the Group Works Council was continued in 1999. With about 5,600 trainees in Germany, the VEBA Group was able to maintain its training rate of 7 percent at the same high level as in the previous year. Our objective is to maintain the Group's percentage of trainees at this level in the coming years.

VEBA's employment initiative *Venturing into New Working Worlds* is designed for secondary-school graduates who have not been able to find a trainee position. In 1999 the program again enabled young people to accumulate valuable employment experience. Our university graduate initiative focuses on young people with university training who have not yet found a job matching their training and

skills. In 1999 the scheme gave numerous college graduates the opportunity to embark on their careers.

As part of the nationwide *Initiative for Employment* launched by BASF, the Mining, Chemicals, and Energy Workers Union, and the Bertelsmann Foundation, VEBA created a Düsseldorf network that supports the development and implementation of employment-promoting measures at the regional level. Our Divisions have been active in this initiative in other regional networks.

#### VEBA-VIAG Merger: Key Challenge for HR Management

Planning and supporting the VEBA-VIAG merger process—including the tie-ups of the energy and chemicals groups—will represent a key challenge for HR managers and labor representatives in 2000. The focus will be on:

- implementing and monitoring the required personnel adjustment processes and measures
- integrating the companies' employees and corporate cultures
- harmonizing compensation schemes as well as HR and executive development systems.

Special teams of HR managers from both VEBA and VIAG have been preparing and coordinating all activities and measures. They have worked with both companies' labor

#### 1999 Employees by Division

Employees	Dec. 31, 1999	Dec. 31, 1998	+/-
			%
Electricity	20,556	21,936	- 6.3
Oil	5,863	6,433	- 8.9
Chemicals	44,334	18,737	+ 136.6
Real-Estate Management	4,901	5,842	- 16.1
Distribution/Logistics	49,818	55,185	- 9.7
Telecommunications	72	1,965	- 96.3
Silicon Wafers	5,600	6,190	- 9.5
VEBA AG/Other	458	486	- 5.8
<b>Total</b>	<b>131,602</b>	<b>116,774</b>	<b>+ 12.7</b>

representatives in a spirit of trust and cooperation.

#### Workforce Increases in Chemicals, Declines in Other Divisions

The VEBA Group employed 131,602 people at year-end 1999—a 12.7 percent increase over the year-end 1998 figure of 116,774. The rise is primarily the result of the merger of Degussa and Hüls. Ongoing restructuring measures and divestments again led to fewer people working in the other Divisions. This is principally the result of our telecoms disposals as well as the sale of Sanitary Equipment/Heating/Tiles and Stinnes Tire Service. The Group continued to become more international in 1999. The share of Company employees working outside Germany increased from 33.6 percent in 1998 to 37.7 percent in the year under review.

## Environmental Protection

	1999	1999	1998	+/-
in millions of	DM	€	€	%
Investments	158	81	165	- 50.9
Operating costs <sup>1)</sup>	1,258	643	741	- 13.2

1) Includes capital service.

The VEBA Group invested €81 million in environmental protection in 1999. At roughly €643 million, operating costs incurred for environmental protection (including capital service) remained at a very high level.

Environmental protection has always been a top priority at VEBA. In the past environmental protection focused on reducing emissions at power stations and production facilities. Today it centers around reducing energy consumption, using energy more wisely, preserving the climate, and conserving natural resources.

### PreussenElektra: a Highly Energy-Efficient Power Generator

PreussenElektra has continually boosted the energy efficiency of its power stations in recent years. Since 1990 it has increased the capacity of its generation assets by about 220 MW without additional fuel requirements. Between 1990 and 2000 this prevented more than 4 million tons of CO<sub>2</sub> from entering the atmosphere.

PreussenElektra has completed its synergy house program to promote energy-efficient home construction. Our electricity subsidiary launched the scheme in 1995 along with 23 participating companies. A total of 413 synergy houses were built. The project was accompanied by a scientific study analyzing the homes' energy consumption and homeowners' energy habits.

### Degussa-Hüls Releases First Joint Environmental Report

Degussa-Hüls released its first joint report on its environmental protection activities in June 1999, only five months after its merger. The report is based on data from 37 production facilities in 5 countries. The numbers were positive. Between 1994 and 1998 specific energy use declined 12 percent and specific water use 13 percent.

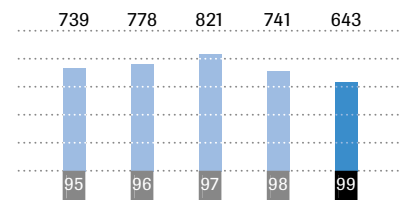
Degussa-Hüls's new silicon tetrachloride production facility in Bitterfeld, Germany, employs a closed material cycle. The facility is operated in conjunction with a customer's neighboring quartz glass production site. The hydrogen chloride used to produce silicon tetrachloride is separated during the manufacture of quartz glass. Following an intermediate processing step, the hydrogen chloride is then returned to the Degussa-Hüls facility.

### VEBA Oel Converting to Higher Quality Fuels

Since fourth quarter 1999 VEBA Oel has been producing new, environmentally friendlier fuels at all its refineries. These fuels meet EU guidelines. Beginning in early 2000 motorists will be able to choose high quality fuels with lower levels of benzol and sulfur.

A tank maintenance program was launched at the Gelsenkirchen refinery. VEBA Oel will invest a total of €28 million over the next ten years to equip its tanks with double bottoms and leakage monitoring systems.

## Operating Costs € in Millions



### Viterra Promotes Energy-Saving at Home

In 1999 Viterra Contracting GmbH modernized over 900 heat-production units in Viterra's housing units in North Rhine-Westphalia—twice as many as in 1998. The combined energy savings and CO<sub>2</sub> reductions achieved in these modernized facilities equals the exhaust emitted annually by 1,100 cars.

Viterra Baupartner AG built about 1,200 energy-efficient homes in 1999. These homes are 30 percent more efficient than ordinary houses.

### Stinnes Expands Combi-Transportation

One of Stinnes's central goals is to minimize the environmental impact of its logistics operations. A key component of its efforts is to shift traffic from road to rails. Combi-lifters, a freight railcar with a special lifting mechanism for containers, are a technically advanced yet simple way to link road and rail traffic. By purchasing 10 combi-lifters in 1999 Stinnes continued its strategy of expanding combined road and rail transportation.



## Consolidated Financial Statements

- Sales up 23.6 percent to €52,905 million
- Group internal operating profit up 16.9 percent
- Pretax earnings up 65.3 percent
- Consolidated Net Income up 123.1 percent
- US GAAP earnings per share up 154.3 percent to €5.95

## Independent Auditor's Report

We have audited the annual Consolidated Financial Statements and the Group Management Report of VEBA AG, Düsseldorf/Berlin, which is combined with the Management Report for the single financial statements, for the business year from January 1, 1999 to December 31, 1999. The preparation of the annual Consolidated Financial Statements and Group Management Report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual Consolidated Financial Statements and the combined Management Report based on our audit.

We conducted our audit of the annual Consolidated Financial Statements in accordance with §317 HGB ("German Commercial Code") and the generally accepted standards for the audit of financial statements promulgated by the *Institut der Wirtschaftsprüfer in Deutschland* (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual Consolidated Financial Statements in accordance with German generally accepted accounting principles and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Com-

pany and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of companies included in the Consolidated Financial Statements, the definition of the consolidated Group, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual Consolidated Financial Statements and the combined Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual Consolidated Financial Statements give a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with German generally accepted accounting principles. On the whole the combined Management Report provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Düsseldorf, March 14, 2000

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Brebeck  
Wirtschaftsprüfer  
(German Public Auditor)

Wiegand  
Wirtschaftsprüfer  
(German Public Auditor)

## VEBA Group Consolidated Income Statement

€ in millions	Notes	1999	1998
<b>Sales</b>	(3)	<b>52,905</b>	<b>42,787</b>
Petroleum and electricity tax		- 3,942	- 3,742
		48,963	39,045
Costs of goods sold and services provided		- 40,981	- 33,121
<b>Gross Profit from Sales</b>		<b>7,982</b>	<b>5,924</b>
Selling expenses		- 4,127	- 3,325
General and administrative expenses		- 1,800	- 1,530
Other operating income	(4)	4,411	2,868
Other operating expenses	(5)	- 2,810	- 1,855
Financial earnings	(6)	297	310
<b>Pretax Income</b>		<b>3,953</b>	<b>2,392</b>
Income taxes	(7)	- 1,051	- 1,240
<b>Net Income</b>		<b>2,902</b>	<b>1,152</b>
Minority interests	(8)	- 234	44
<b>Group Income (Attributable to VEBA)</b>		<b>2,668</b>	<b>1,196</b>
Changes in retained earnings		- 2,040	- 656
<b>Consolidated Net Income Available for Distribution (Dividend of VEBA AG)</b>		<b>628</b>	<b>540</b>

## VEBA Group Consolidated Balance Sheet

### Assets

€ in millions		Dec. 31, 1999	Dec. 31, 1998
Intangible assets	(11)	3,399	2,197
Property, plant and equipment	(12)	18,382	16,354
Financial assets	(13)	13,865	12,765
<b>Fixed Assets</b>		<b>35,646</b>	<b>31,316</b>
Inventories	(14)	4,413	2,931
Receivables and other assets	(15)	10,386	8,191
Liquid funds	(16)	1,837	507
<b>Current Assets</b>		<b>16,636</b>	<b>11,629</b>
<b>Prepaid Expenses</b>	(17)	<b>102</b>	<b>124</b>
		<b>52,384</b>	<b>43,069</b>

### Liabilities and Stockholders' Equity

€ in millions		Dec. 31, 1999	Dec. 31, 1998
Capital stock	(18)	1,307	1,285
Additional paid-in capital	(19)	2,197	2,219
Retained earnings	(20)	10,250	7,723
Consolidated net income available for distribution		628	540
Minority interests	(21)	2,990	1,701
<b>Stockholders' Equity</b>		<b>17,372</b>	<b>13,468</b>
Provisions for pensions	(22)	5,689	4,845
Other provisions	(23)	14,179	12,956
<b>Provisions</b>		<b>19,868</b>	<b>17,801</b>
Financial liabilities		5,163	3,600
Other liabilities		9,580	7,841
<b>Liabilities</b>	(24)	<b>14,743</b>	<b>11,441</b>
<b>Deferred Income</b>		<b>401</b>	<b>359</b>
		<b>52,384</b>	<b>43,069</b>

## Consolidated Statement of Cash Flows

€ in millions	1999	1998
Net income	2,668	1,196
Minority interests	234	– 44
Net depreciation of fixed assets	3,165	2,829
Changes in provisions	524	298
Other non-cash items	– 445	– 170
Profits from disposition of fixed assets	– 2,603	– 600
Changes in current assets and current liabilities		
Inventories	– 257	144
Receivables	– 1,084	– 265
Liabilities	1,053	– 300
<b>Cash Provided by Operating Activities</b>	<b>3,255</b>	<b>3,088</b>
Proceeds from disposition of equity interests	5,142	898
Proceeds from disposition of other financial assets	486	394
Proceeds from disposition of intangible and other fixed assets	679	616
Purchases of equity interests	– 3,515	– 849
Purchases of other financial assets	– 976	– 536
Purchases of intangible and other fixed assets	– 2,526	– 2,840
Changes in other current financial investments	– 1,002	44
<b>Cash Used for Investing Activities</b>	<b>– 1,712</b>	<b>– 2,273</b>
Proceeds from the issuance of shares		
including capital increases from minority interests	–	109
Cash dividends paid		
VEBA AG	– 540	– 534
Minority shareholders	– 106	– 88
Proceeds from the addition of financial liabilities	1,141	944
Repayment of financial liabilities	– 1,878	– 1,292
<b>Cash Used for Financing Activities</b>	<b>– 1,383</b>	<b>– 861</b>
<b>Net Change in Liquid Funds</b>	<b>160</b>	<b>– 46</b>
Effect of foreign exchange rates on liquid funds	15	– 55
Liquid funds at beginning of year	356	457
<b>Liquid Funds at Year-End</b>	<b>531</b>	<b>356</b>
Other current financial investments	1,306	151
<b>Liquid Funds as Shown on the Balance Sheet</b>	<b>1,837</b>	<b>507</b>

## Consolidated Statements of Changes in Stockholders' Equity

€ in millions	Capital stock	Additional paid-in capital	Retained earnings	Un-appropriated profit	Minority interests	Total
<b>January 1, 1999</b>	<b>1,285</b>	<b>2,219</b>	<b>7,723</b>	<b>540</b>	<b>1,701</b>	<b>13,468</b>
Capital increase using corporate funds	22	- 22				-
Dividend of VEBA AG for the previous year				- 540		- 540
Net income transferred to retained earnings and minority interests			2,040		234	2,274
Proposed dividend of VEBA AG for the year under review				628		628
Differences from foreign currency translation			358		124	482
Other changes			129		931	1,060
<b>December 31, 1999</b>	<b>1,307</b>	<b>2,197</b>	<b>10,250</b>	<b>628</b>	<b>2,990</b>	<b>17,372</b>
<b>January 1, 1998</b>	<b>1,271</b>	<b>2,125</b>	<b>7,397</b>	<b>534</b>	<b>1,619</b>	<b>12,946</b>
Issuance of new shares from conditional capital through the exercise of option rights attached to the 1993/2000 option bond of VEBA International Finance B.V.	14	94				108
Dividend of VEBA AG for the previous year				- 534		- 534
Net income transferred to retained earnings and minority interests			656		- 44	612
Proposed dividend of VEBA AG for the year under review				540		540
Differences from foreign currency translation			- 256		- 54	- 310
Other changes			- 74		180	106
<b>December 31, 1998</b>	<b>1,285</b>	<b>2,219</b>	<b>7,723</b>	<b>540</b>	<b>1,701</b>	<b>13,468</b>

**(1) Summary of Accounting, Valuation, and Consolidation Policies****Basis of Presentation**

The Consolidated Financial Statements of VEBA AG have been prepared in accordance with generally accepted accounting principles in Germany (German GAAP) as prescribed by the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). In line with the ongoing internationalization of the Company's accounting and disclosure policies, the VEBA Group Consolidated Financial Statements have also been prepared in compliance with US GAAP, as far as permissible under German GAAP, since January 1, 1995, with the exception of mergers, where the book-value method is generally applied.

In circumstances where the application of US GAAP is not permissible under German GAAP, the

effects of applying US GAAP on net income and stockholders' equity are included in a reconciliation in Note 2. Included in the amounts provided is the US GAAP impact regarding the accounting for mergers based on book values under German GAAP. Furthermore, the Consolidated Financial Statements have been supplemented to include additional information required under US GAAP.

The accounting, valuation, and consolidation methods applied in 1998 remain unchanged except as discussed in Note 2. The VEBA Consolidated Financial Statements are provided in euros ("€") for the first time due to the euro's introduction on January 1, 1999. All figures are based on the official exchange rate of €1 = DM1.95583.

Had the amounts been calculated for 1998 using the floating € to DM exchange rate, they would differ from the amounts provided.

**Auditors' Report States Compliance with US GAAP**

Compliance with applicable accounting and valuation principles as well as the mandatory disclo-

tures in the Notes to the Consolidated Financial Statements required by US GAAP were audited by the

Group's auditor. The compliance is confirmed within the auditor's report.

**Scope of Consolidation****Number of Fully Consolidated Companies**

	Domestic	Foreign	Total
December 31, 1998	312	498	810
Additions	39	124	163
Disposals	56	81	137
<b>December 31, 1999</b>	<b>295</b>	<b>541</b>	<b>836</b>

Besides VEBA AG, the scope of consolidation includes all material subsidiaries in which VEBA AG directly or indirectly exercises control through a majority of the stockholders' voting rights. Majority-owned companies in which VEBA does not exercise full control due to limitations related to the powers of management are accounted for under the equity method. Com-

panies whose combined impact on the Group's net worth, financial position, and results are insignificant are valued at cost.

Changes to the scope of consolidation in 1999 are listed above.

Disposals are principally the result of divestments undertaken by Stinnes and of mergers in the Electricity Division.

Additions of subsidiaries are primarily attributable to the first-time full consolidation of Degussa-Hüls. In 1998 Hüls was fully consolidated on the basis of VEBA's 99.8 percent shareholding; Degussa was accounted for using the equity method on the basis of VEBA's 36.4-percent stake. The merger of Degussa and Hüls became retroactively effective as of October 1, 1998,

when the merger was filed with the Commercial Register on February 1, 1999. The exchange ratio was one Degussa share for one share in the new entity. Including additional shares representing 2.3 percent of Degussa-Hüls's share capital ac-

quired in the reporting period, VEBA now holds a 64.7 percent stake in Degussa-Hüls. Because of the full consolidation of Degussa-Hüls the 1999 financial statements are not fully comparable to 1998. Full consolidation of

Degussa-Hüls in 1998 would have resulted in the following changes to the 1998 VEBA Consolidated Financial Statements:

Unaudited pro-forma figures	Change, € in millions
Sales	+ 9,885
Net income (VEBA's share)	- 20
Fixed assets	+ 2,160
Current assets	+ 2,550
Minority interests	+ 900
Provisions	+ 1,400
Liabilities	+ 2,410

Stinnes's initial public offering took place on June 14, 1999. In this first tranche VEBA placed 34.5 percent of Stinnes's capital stock amounting to €380 million on the stock market.

In 1999 Stinnes's stake in BTL increased to 98.7 percent as a result of its tender offer to BTL's shareholders. In 1998 BTL was fully consolidated for the first time. Stinnes's Sanitary Equipment/Heating/Tiles and Tire Service units, no longer considered core businesses, were divested as of January 1, 1999.

VEBA's stake in MEMC increased from 53.1 percent to 71.8 percent as a result of the \$200 million capital increase undertaken in March and April 1999 to facilitate financial restructuring.

Otelo's fixed-line business was sold on April 1, 1999, for €1.15 billion. Pursuant to a 1997 contractual agreement, the 22.5 percent interest in Otelo that corresponded to the shareholding reacquired from Cable & Wireless in 1997 was transferred to RWE for €617 million. VEBA now holds a 51.25 percent stake in VR Telecommunications (VRT), the new name for the joint venture. RWE's interest in VRT is 48.75 percent. Effective July 1, 1999, the 100 percent shareholding in the German cable-television operator

TeleColumbus held by VRT was sold. The proceeds from the disposal totaled €747 million. VRT is proportionally consolidated in the VEBA Consolidated Financial Statements.

With the exception of the first-time full consolidation of Degussa as a result of its merger with Hüls, overall comparability with the previous year is not materially affected by changes in the scope of consolidation.

Generally, associated companies in which VEBA holds an equity stake between 20 percent and 50 percent are valued at equity. A total of 183 domestic and 48 foreign associated and non-consolidated subsidiaries were valued at equity in 1999 compared with 167 domestic and 48 foreign companies in 1998.

The primary reason for the change in associated companies relates to Degussa, which was valued using the equity method on the basis of VEBA's shareholding before its merger with Hüls. Furthermore RAG was also valued at equity for the first time in 1999.

After acquiring additional shares and voting rights in Sydkraft, VEBA now holds 20.7 percent of the Swedish utility's capital stock and 33.4 percent of its voting rights. An overview of the scope of con-

solidation and other significant shareholdings is disclosed on the inside front cover of the annual report. Pages 118 and 119 show the major joint ventures, subsidiaries and associated companies along with the relevant shareholdings, stockholders' equity, sales and income. A list of VEBA Group shareholdings has been filed with the Commercial Register of the District Court in Düsseldorf, HRB 22 315.

## Consolidation Policy

According to legal provisions, the Consolidated Financial Statements include the financial statements of individual subsidiaries as well as adjustments required to conform consistently to the accounting policies of VEBA.

Capital consolidation is conducted in accordance with the book value method, which as applied by VEBA is substantially equivalent to the purchase method according to US GAAP. The book value method offsets acquisition costs against attributable stockholders' equity held by the parent company at the time of acquisition. Differences between acquisition costs and attributable stockholders' equity are wholly or partially allocated to the subsidiary's assets and liabilities. Acquisition costs not allocated to

assets are recognized as positive or negative goodwill, as applicable. Goodwill is amortized over its estimated useful life. Goodwill and negative goodwill of different subsidiaries are not offset against each other. Amortization of goodwill and negative goodwill is disclosed as other operating expenses or income, respectively.

Intercompany results, expenses and income as well as receivables and liabilities between the consolidated companies are eliminated. Deferred taxes are applied to consolidation adjustments affecting net income, where applicable.

The same consolidation policies apply to joint ventures consolidated under the proportionate method. Necessary consolidation adjustments arising from relationships

with companies consolidated on a proportionate basis are prepared according to attributable stockholders' equity.

Goodwill arising from companies valued at equity is calculated based on the same principles that are applicable to fully consolidated companies. To the extent possible valuations are performed according to the Company's uniform valuation principles; intra-group profits are eliminated.

## Currency Translation

The financial statements of the foreign subsidiaries and the attributable stockholders' equity of foreign associated companies are translated according to the functional currency method. Since nearly all subsidiaries are economically independent, their balance sheets are translated into euros at the rates on the balance-sheet date and their income statements are

translated with average rates of the reporting period. The differences from the prior year's translation of assets and liabilities as well as differences between the balance sheet and the income statement do not affect income. VEBA's share of such differences is included as a component of stockholders' equity; the minority interests' share is included in minority interests.

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

Currency	ISO Code	€1, rate as of the balance-sheet date		€1, annual average rate	
		Dec. 31, 1999	Dec. 31, 1998	1999	1998
Swiss francs	CHF	1.61	1.60	1.60	1.61
British pound	GBP	0.62	0.70	0.66	0.67
Japanese yen	JPY	102.73	134.84	121.32	145.05
Swedish krona	SEK	8.56	9.45	8.81	8.84
US dollar	USD	1.00	1.17	1.07	1.11



## Summary of Significant Accounting Policies

### Intangible Assets and Property, Plant and Equipment

Acquired intangible assets are valued at acquisition costs and amortized by the straight-line method over their useful lives. Goodwill from capital consolidation

as well as goodwill reported within the subsidiaries' individual financial statements are amortized using the straight-line method over their remaining useful lives for a period generally between 8 and 15 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	up to 15 years
Nuclear plants	19 years
Equipment, fixtures, furniture and office equipment	3 to 25 years

The Company's oil and natural gas exploration and production activities are accounted for under the successful efforts method. Under this method, costs for exploration and production like productive wells and development dry holes are generally capitalized. These capitalized assets can be tangible or intangible in nature. Capitalized assets of commercially productive drillings are amortized on the basis of the units of production to the extent that reserves are extracted or, except for certain immaterial properties, according to the declining-balance method. Previously capitalized costs of commercially unproductive drillings, based largely on historical experience, are immediately expensed under the successful efforts method. Costs of

the portion of undeveloped acreage likely to be unproductive, are amortized over the period of exploration. Other exploratory expenditures, including geological and geophysical (seismic) costs, other dry hole costs and annual lease rentals, are expensed against earnings as incurred.

Immovable assets are amortized according to the straight-line method while movable assets are generally depreciated using the declining-balance method. The 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. Additionally, write-downs are provided as a result of anticipated

other than temporary decreases in value, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Low-value assets are depreciated in full in the year of addition.

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

As of January 1, 1995, interest on debt is capitalized in the production costs of property, plant and equipment that is constructed over a certain period of time. Production costs are amortized over their useful lives commencing on the completion or commissioning date of the item concerned.

### Financial Assets

Shares in associated and non-consolidated affiliated companies are generally valued according to the equity method or, if immaterial, at acquisition cost. Accounting policies of VEBA are also applied to associated companies. Other investments

are primarily valued at the lower of acquisition costs or market values.

Interest-bearing loans are valued at face values; interest-free and low-interest loans are discounted to their present values.

Securities are valued at acquisition costs. Write-downs are made

only when other than temporary decreases in value have occurred.

**Current Assets**

Inventories are stated at the lower of acquisition or production costs or market values. Besides production materials and wages, production costs contain proportionate material and production overhead based on standard capacity. The costs of general administration, voluntary social benefits, pensions and interest on borrowings are not capitalized. Raw materials, products and goods purchased for resale are valued at LIFO or average cost

while supplies are valued using the average-cost method. Inventory risks resulting from excess and obsolescence are taken into account by adequate valuation allowances.

Receivables and other 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 credit risk; these are

generally based on empirical values from the past. Securities are stated at the lower of acquisition costs or repurchase or market values.

**Provisions and Liabilities**

Provisions for pensions are based on actuarial computations according to the projected unit credit method. Obligations for post-retirement benefits at US subsidiaries are also included in provisions for pensions.

Provisions for deferred taxes are calculated according to the liability method. Deferred tax assets and liabilities are offset to the extent possible. Due to the reduction of the retention tax rate by the German Tax Relief Act 1999/2000/2002,

deferred taxes for domestic companies are calculated based on a tax rate of 52 percent in 1999 (1998: 57 percent) on the basis of a retention tax rate of 40 percent for corporate income tax, a solidarity surcharge of 5.5 percent on corporate income tax, and the trade income tax. Deferred taxes for foreign companies are calculated at local tax rates.

Environmental liabilities are accrued when it is probable that a liability has been incurred and the amount of liability can be reason-

ably estimated. The estimated liability of the Company is not discounted or reduced for possible recoveries from insurance carriers.

All identifiable risks and undetermined liabilities are included in the calculation of other provisions.

Liabilities are generally shown at redemption value.

### **Derivative Financial Instruments**

Derivative financial instruments are used for hedging purposes. Interest rate, interest rate/cross currency and cross currency swaps and forward rate agreements as well as currency forwards and options are utilized to hedge interest rate and foreign exchange risks. Crude oil swaps as well as refinery margin hedging and petroleum product 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. The Company uses these derivative financial instruments to hedge booked, pending, and planned underlying transactions. Booked transactions represent those that have already been recorded in the financial statements. Pending transactions are those for which there is a firm commitment that none of the parties has yet fulfilled. Planned transactions are those that are anticipated to occur with a high possibility in the future.

In principle, booked and pending underlying transactions as well as their respective hedges are assigned to portfolios for valuation purposes. Portfolios are set up for each currency and, within each currency, separately for currency and interest rate instruments, as well as according to commodity types. A refinery margin portfolio is set up containing margin derivatives for different products in order to hedge the overall margin. In addition, particularly with regard to interest rate risk and price risk in petroleum and precious metals, hedges are also assigned directly to booked and pending underlying transactions and proven petroleum reserves (micro hedges).

Underlying transactions and derivative financial instruments that are assigned to a portfolio but not

combined to form micro hedges are valued separately at market values as of the balance-sheet date and aggregated to the portfolio's overall market value. Derivative financial instruments used to hedge planned underlying transactions are also adjusted to market value at the balance sheet date with the resulting gain or loss recognized in the portfolios. According to accounting policies under German GAAP, a portfolio with a negative valuation result gives rise to a provision for pending losses; a positive market value is disregarded. Market values of derivative financial instruments are calculated based on market quotations or actuarial computations on the basis of models commonly used in the market.

The following is a summary of the treatment of utilized financial instruments in the Consolidated Financial Statements:

- Currency, crude oil, and precious metals forwards, crude oil swaps, as well as refinery margin and product swaps are valued separately at future rates or market prices as of the balance-sheet date. These are pending transactions and are in principle not included in the balance sheet and income statement until maturity. Valuation results at the balance-sheet date are considered in the valuation of the portfolios.
- Market prices for currency and precious metals options are determined by valuation methods commonly used in the market. Paid and received option premiums are stated as other assets or other liabilities and are not accounted for until maturity. Valuation results at the balance-sheet date are assigned to portfolios.
- Marked values are determined for interest rate, interest rate/cross currency, cross currency swaps, forward rate agreements, and interest rate options for each

individual transaction as of the balance-sheet date. Interest exchange amounts are basically considered with an effect on current results at the date of payment or accrual. Paid and received option premiums are stated as other assets or other liabilities and are not accounted for until the time of maturity of the individual option contracts.

- 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 centers. Paid initial margins are stated as 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.

### Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows is classified by operating, investing and financing activities pursuant to the applicable statement issued by the Institut der Wirtschaftsprüfer (German Institute of Certified Public Accountants) and the principles applied under US GAAP. The separately disclosed other non-cash items are mainly

comprised of undistributed earnings from companies valued at equity.

The Company's liquid funds shown in the Consolidated Statement of Cash Flows comprise only liquid funds and current securities with an original maturity of less than three months. Liquid funds and securities with an original maturity of more than three months are disclosed under other current

financial investments in the Consolidated Statement of Cash Flows. 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 liquid funds is separately disclosed.

### Segment Information

Segment reporting is in accordance with Statement of Financial Accounting Standards (FAS) 131 "Disclosures about Segments of an Enterprise and Related Information." According to FAS 131, the internal

reporting organization that is used by management for making operating decisions and assessing performance is designated as the source of the Company's reportable segments; the measure of segment profit or loss is the measure used

by the chief operating decision maker. FAS 131 also requires the Company to provide information 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 may differ from those estimates.

## (2) Significant Differences Between German and United States Generally Accepted Accounting Principles

The Consolidated Financial Statements comply with US GAAP as far as permissible under German GAAP, with the exception of mergers, where the book-value method is generally

applied. The remaining differences between German and US GAAP only relate to valuation methods which are required under US GAAP, but are not allowed under German

GAAP. The differences affecting consolidated net income and stockholders' equity are as follows.

### (a) Business Combinations

German GAAP requires that mergers be accounted for in the financial statements 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. Under US GAAP, the measurement date is the date of the registration in the Commercial Register. Assets and liabilities assumed have to be accounted for at their fair values using the purchase method of accounting.

On February 1, 1999, Degussa, in which Hüls had held a 36.4 percent shareholding, was merged into Hüls, in which VEBA had until that time held a 99.8 percent interest. After the merger VEBA held 62.4 percent of the merged Degussa-Hüls. In VEBA's Consolidated German GAAP Financial Statements the merger is accounted for using the book-value method. Degussa-Hüls is fully consolidated in VEBA's Consolidated German GAAP Financial Statements as of October 1, 1998, the date the merger took economic effect.

As for acquisitions through issuance of a subsidiary's stock, US GAAP applies the purchase method to the merger. The purchase price for the increase in the Degussa shareholding from 36.4 to 100 percent is based on the roughly €2.4 billion market value of 63.6 percent of Degussa's shares. After the allocation to the fair values of assets and liabilities (mainly licenses, patents, and brand names totaling €265 million) and acquired in process research and development activities (in the amount of €160 million), the remaining differ-

ence between the purchase price and the acquired share in Degussa's net equity is capitalized as goodwill and amortized over a period of 15 years. Under US GAAP, VEBA's 36.4 percent stake in the former Degussa is accounted for using the equity method until February 1, 1999, the date of the filing of the merger with the Commercial Register. The full consolidation of Degus-

sa-Hüls does not begin until this date. The impact on net income resulting from the different treatment is shown under (d) Equity Valuation. In addition, the increase in stockholders' equity resulting from the difference between the attributable stockholders' equity of Degussa-Hüls after the merger and the attributable stockholders' equity in Hüls before the merger

has been recognized in net income in the amount of €559 million.

The differences between the book-value method under German GAAP and the purchase method under US GAAP as well as the effect resulting from the difference in measurement dates of Degussa-Hüls's full consolidation are shown in the reconciliation.

**(b) Capitalized Interest**

Pursuant to German Commercial Code (HGB) regulations, it is permitted under certain circumstances, but not required, to capitalize interest as a part of the historical cost of acquisition of assets that are constructed or otherwise produced for an enterprise's own use. The capitalization of such interest

costs is, however, required by US GAAP. VEBA has implemented the valuation option provided by the German Commercial Code to capitalize interest in 1995 and capitalizes interest costs in compliance with US GAAP. Due to the historical cost principle, retroactive capitalization of interest costs for the financial years up to 1995 is not

allowed under German GAAP.

For purposes of reconciliation to US GAAP, interest is capitalized on debt apportionable to the construction period of fixed assets through 1994 and depreciated over the expected useful life of the qualifying asset.

**(c) Valuation of Securities and Other Investments**

Under German GAAP, securities and other investments as well as long-term and current securities are valued at the lower of acquisition cost or market value on the balance-sheet date. Under US GAAP, long-term and current securities and other share investments are classified into one of three categories: held-to-maturity securities, available-for-sale securities or

trading securities. The Company's securities and other investments are classified as available for sale and are therefore valued at market value on the balance-sheet date. Under US GAAP, unrealized gains and losses from these securities available for sale are excluded from earnings and directly included in stockholders' equity.

Stockholders' equity has been restated as of December 31, 1998. This does not have a material

effect within the reconciliation to US GAAP on the stockholders' equity for the financial years reported and no effect on net income for the years presented.

**(d) Equity Valuation/Negative Goodwill**

For purposes of reconciliation to US GAAP, the financial statements of associated companies accounted for using the equity method have been adjusted using valuation principles prescribed by US GAAP. To the extent that certain equity investees do not prepare consolidated US GAAP financial statements, an estimate is made of reconciling

items based on information provided by the company.

Based on a change in circumstances, VEBA changes its basis for estimating earnings for one equity investee. This resulted in an additional loss at the amount of €37 million recorded in the current year. No retroactive restatement is required.

Negative goodwill from capital consolidation must be released

under German GAAP if expected expenses occur at the time the shareholding is acquired and/or on consolidation for the first time, or if it becomes apparent that it corresponds to a realized profit upon the balance-sheet date. Under US GAAP, negative goodwill is amortized according to schedule over its expected useful life.

- (e) Provisions for Pensions and Similar Liabilities**  
 In some group companies the unfunded accumulated benefit obligation exceeds accrued pension provisions. In such cases, under US GAAP, provisions for pensions are increased by an additional minimum liability which is accounted for as an intangible asset not to exceed the unrecognized prior service costs. Additional minimum liability in excess of the unrecognized prior service costs is charged directly against stockholders' equity. Under US GAAP, the amount has no impact on net income. Pursuant to German GAAP regulations, the funding of this additional minimum liability is immediately recorded in the income statement of the current year. 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 US GAAP, such accruals may only be established 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 US 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 US GAAP, deferred taxes also are calculated for tax loss carryforwards and for accounting and valuation adjustments required under US 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. Stockholders' equity was restated as of December 31, 1998. This did not have a material effect on the stockholders' equity of the financial years reported and no effect on net income for the financial years shown in the reconciliation to US GAAP.
- (g) Other**  
 Other differences in accounting principles mainly include unrealized gains from foreign currency translation, outstanding financial derivatives as of the balance-sheet date, and the treatment of initial public offerings and merger costs, stock appreciation rights, and leasing contracts.
- (h) Minority Interests**  
 Under US GAAP, minority interests are not included in net income or stockholders' equity. Effects on stockholders' equity and net income regarding minority interests and resulting from US GAAP adjustments are therefore shown separately.

### Reconciliation to US GAAP

€ in millions	1999		1998	
	Stockholders' equity	Net income	Stockholders' equity	Net income
<b>Stockholders' Equity/Net Income as Disclosed in the Consolidated Financial Statements</b>	<b>17,372</b>	<b>2,902</b>	<b>13,468</b>	<b>1,152</b>
Minority interests	- 2,990	- 234	- 1,701	44
<b>Stockholders' Equity/Net Income (Excluding Minority Interests)</b>	<b>14,382</b>	<b>2,668</b>	<b>11,767</b>	<b>1,196</b>
<b>US GAAP Adjustments</b>				
Business combinations	(a) 1,372	323	-	-
Capitalized interest	(b) 156	- 51	182	- 49
Valuation of securities and other investments	(c) 596	-	2,210	-
Equity valuation/negative goodwill	(d) 124	69	54	10
Provisions for pensions and similar liabilities	(e) 79	30	20	21
Deferred taxes	(f) - 544	- 226	- 309	16
Other	(g) 405	76	35	11
Minority interests	(h) - 905	102	- 104	- 31
<b>Total Adjustments</b>	<b>1,283</b>	<b>323</b>	<b>2,088</b>	<b>- 22</b>
<b>US GAAP Stockholders' Equity/Net Income</b>	<b>15,665</b>	<b>2,991</b>	<b>13,855</b>	<b>1,174</b>
<b>US GAAP Basic Earnings per Share</b>		<b>€5.95</b>		<b>€2.34</b>
<b>US GAAP Diluted Earnings per Share</b>		<b>€5.95</b>		<b>€2.33</b>

Left is a summary of the significant adjustments to net income and stockholders' equity which would be required for full compliance with US GAAP, but are disallowed under German GAAP.

US GAAP earnings per share are based on the weighted average of outstanding common stock and common stock equivalents. The determination of common stock and common stock equivalents which form the basis for calculating diluted EPS is as follows.

### Determination of Weighted Number of Shares and Share Equivalents

	1999	1998
Shares	502,797,780	501,259,780
Share equivalents	-	1,005,134
<b>Shares and Share Equivalents</b>	<b>502,797,780</b>	<b>502,264,914</b>

## Reporting Comprehensive Income

€ in millions	1999	1998
<b>US GAAP Net Income</b>	<b>2,991</b>	<b>1,174</b>
<b>Other Comprehensive Income, Net of Tax</b>		
Foreign currency translation adjustments	358	- 256
Unrealized holding gains and losses on securities and other investments	218	256
(after-tax benefit [expense] 1999: €357 million and 1998: -€321 million)		
Less: reclassification adjustment for gains realized	- 1,386	- 33
(after-tax benefit [expense] 1999: -€43 million and 1998: -€43 million)		
Minimum pension liability adjustment	-	- 20
(after-tax benefit [expense] 1999: -€7 million and 1998: €27 million)		
<b>Other Comprehensive Income</b>	<b>- 810</b>	<b>- 53</b>
<b>Comprehensive Income</b>	<b>2,181</b>	<b>1,121</b>

In addition to net income, comprehensive income includes all changes in stockholders' equity that do not affect net income except those resulting from investments by, and distributions to, stockholders.

## Other Accumulated Comprehensive Income Balances Year Ended December 31

€ in millions	Foreign currency items	Unrealized gains on securities	Minimum pension liability adjustment	Other accumulated comprehensive income
<b>January 1, 1999</b>	<b>- 162</b>	<b>1,417</b>	<b>- 47</b>	<b>1,208</b>
Current-period change	358	- 1,168	-	- 810
<b>December 31, 1999</b>	<b>196</b>	<b>249</b>	<b>- 47</b>	<b>398</b>
<b>January 1, 1998</b>	<b>94</b>	<b>1,194</b>	<b>- 27</b>	<b>1,261</b>
Current-period change	- 256	223	- 20	- 53
<b>December 31, 1998</b>	<b>- 162</b>	<b>1,417</b>	<b>- 47</b>	<b>1,208</b>

€ in millions	1999	1998
US GAAP equity before other accumulated comprehensive income	15,267	12,647
Other accumulated comprehensive income	398	1,208
<b>Total US GAAP Equity</b>	<b>15,665</b>	<b>13,855</b>

### New US Accounting Standards Not Yet Adopted

In June 1999, FAS No. 137, "Accounting for Derivative Financial Instruments and Hedging Activities—Deferral of the Effective Date

of SFAS 133" was approved. It postpones the first-time application of FAS No. 133 by one year. VEBA intends to adopt this standard as of January 1, 2001. This statement enhances accounting and disclosure

requirements. From today's point of view the impact on the Consolidated Financial Statements is expected to be immaterial.



## Notes to the Consolidated Income Statements

### (3) Sales

€ in millions	
2000	665
2001	672
2002	680
2003	687
2004	694
	<b>3,398</b>

A detailed analysis of sales by division and geographical region is provided in the Segment Information under Note (28).

Sales in the financial year include petroleum and electricity taxes in the amount of €3,942 million (1998: €3,742 million). Sales also include revenues from the rental business,

primarily from the real estate sector, in the amount of €605 million (1998: €608 million).

Future revenues arising from rental tenancy and leasing contracts total €3,398 million for the next five years and are due according to the table at left.

### (4) Other Operating Income

€ in millions	1999	1998
Gains from the disposal of fixed assets	2,670	992
Release of provisions	406	295
Exchange-rate differences	346	144
Reimbursements of incurred costs	135	244
Other trade income	124	88
Recoveries	79	41
Reimbursements and grants	55	189
Income from the reorganization of Deminex and the exchange of shares BTL/Poseidon	-	212
Amortization of negative goodwill from capital consolidation	-	144
Miscellaneous	596	519
	<b>4,411</b>	<b>2,868</b>

Left is a detail of other operating income.

Gains from the disposal of fixed assets are comprised primarily of gains resulting from the deconsolidation and/or the disposal of the shareholding in Cable & Wireless (€1,347 million), TeleColumbus, and VRT's fixed-line business. In the reporting period, income from the release of provisions primarily relates to the release of accruals for personnel costs and transactions in the ordinary course of business. These provisions had to be released because present circumstances indicate that they are no longer probable.

Miscellaneous other operating income includes a number of items such as income from the reversal of previously recorded impairments, income from rentals and licenses as well as passed-on personnel and administrative costs.

**(5) Other Operating Expenses**

€ in millions	1999	1998
Research and development costs	583	194
Additions to accruals	468	113
Amortization of goodwill from capital consolidation	276	171
Other passed-on expenses	217	79
Bad debt expense	188	160
Reorganization costs	163	268
Exchange-rate differences	146	81
Losses from the disposal of fixed assets	139	109
Miscellaneous	630	680
	<b>2,810</b>	<b>1,855</b>

Left is a detail of other operating expenses.

Other operating expenses include costs that cannot be allocated to production, administration, or selling costs. In the reporting period, in addition to the aforementioned, miscellaneous other expenses include among other items expenses resulting from financial instruments, expenses for exploration, other taxes, rentals, leaseholdings, and ground rent.

**(6) Financial Earnings**

€ in millions	1999	1998
Income from companies in which share investments are held	70	115
thereof from affiliated companies		
€14 million (1998: €21 million)		
Income from profit-and-loss-pooling agreements	10	10
thereof from affiliated companies		
€3 million (1998: €3 million)		
Income from companies accounted for under the equity method	684	558
thereof from affiliated companies		
€5 million (1998: €3 million)		
Losses from companies accounted for under the equity method	- 303	- 333
thereof from affiliated companies		
-€103 million (1998: -€171 million)		
Losses from profit-and-loss-pooling agreements	- 13	- 4
thereof from affiliated companies		
-€2 million (1998: -€1 million)		
Write-downs of investments	- 14	- 19
<b>Income from Equity Interests</b>	<b>434</b>	<b>327</b>
Income from long-term securities and long-term loans	201	156
Other interest and similar income	234	172
thereof from affiliated companies		
€3 million (1998: €1 million)		
Interest and similar expenses	- 548	- 334
thereof from affiliated companies		
-€3 million (1998: -€1 million)		
<b>Interest Income (Net)</b>	<b>- 113</b>	<b>- 6</b>
Write-downs of financial assets and long-term loans	- 24	- 11
	<b>297</b>	<b>310</b>

Income from equity interests includes goodwill amortization of companies valued at equity totaling €133 million (1998: €180 million) as well as income resulting from the release of negative goodwill relating to companies accounted for under the equity method in the amount of €154 million (1998: €129 million). Included in financial earnings are losses from an equity investee amounting to €63 million that are covered by the amortization of negative goodwill. To entrance the true and fair presentation, write-downs of interests are included in income from equity interests since 1999. The prior year's figures are reclassified accordingly.

Net interest income includes an addition to the provision for interest expense arising from tax requirements in the amount of €164 million. Interest expense is reduced by capitalized interest on debt totaling €56 million (1998: €56 million).

## (7) Income Taxes

Income taxes including deferred taxes are as follows.

€ in millions	1999	1998
Current taxes		
Domestic corporate income tax	1,473	756
Domestic trade tax on income	518	314
Foreign income tax	393	274
	2,384	1,344
Deferred taxes	- 1,333	- 104
	<b>1,051</b>	<b>1,240</b>

The increase in domestic corporate income tax and trade tax on income is mainly due to provisions for possible burdens resulting from the German Tax Relief Act 1999/2000/2002 and the German Internal Revenue Service's more stringent legal interpretation regarding the

tax treatment of provisions for nuclear waste disposal. Deferred tax assets increased significantly as a result of temporary differences resulting from the accounting for provisions for nuclear waste disposal for financial reporting and tax purposes.

The effective tax rate in 1999 was 26.6 percent compared with 51.8 percent in 1998. The table below is a reconciliation to the current 40 percent statutory tax rate (1998: 45 percent).

€ in millions	1999		1998	
		%		%
Corporate income tax (1999: 40% and 1998: 45%)	1,581	40.0	1,077	45.0
Credit for dividend distributions	- 135	- 3.4	- 116	- 4.8
German trade tax on income net of federal tax benefit	394	10.0	183	7.7
Foreign tax-rate differential	85	2.2	- 105	- 4.4
Changes in the tax rate	- 121	- 3.1	- 23	- 0.9
Tax effect on:				
Tax-free income	- 760	- 19.2	- 73	- 3.2
Temporary differences and losses for which no tax benefit was recorded	13	0.3	333	13.9
Net operating loss utilization	- 137	- 3.6	- 53	- 2.2
Income from associated companies valued at equity	- 64	- 1.6	- 3	- 0.1
Change in goodwill and negative goodwill from capital consolidation	130	3.3	35	1.5
Income from deconsolidation	6	0.2	- 66	- 2.8
Other	59	1.5	51	2.1
<b>Income Taxes/ Effective Tax Rate</b>	<b>1,051</b>	<b>26.6</b>	<b>1,240</b>	<b>51.8</b>

Income before income taxes is attributable to foreign and domestic locations as shown below.

€ in millions	1999	1998
Domestic	3,533	2,345
Foreign	420	47
	<b>3,953</b>	<b>2,392</b>

Deferred income-tax assets and liabilities calculated in accordance

with US GAAP are summarized below.

€ in millions	1999	1998
Deferred tax assets		
Intangible assets	–	51
Accruals and liabilities	2,455	597
Net operating loss carryforwards	876	1,298
Other	203	132
	<b>3,534</b>	<b>2,078</b>
Valuation allowance	– 351	– 593
Deferred tax assets	<b>3,183</b>	<b>1,485</b>
Deferred tax liabilities		
Intangible assets	230	–
Fixed assets	3,209	2,449
Investments	412	737
Deferred tax liabilities	<b>3,851</b>	<b>3,186</b>
<b>Net Deferred Tax Liability under US GAAP</b>	<b>668</b>	<b>1,701</b>

The difference between deferred tax liabilities under US GAAP totaling €668 million (1998: €1,701 million) and deferred tax liabilities of €124 million under German GAAP (1998: €1,392 million) is shown in the reconciliation (see Note 2) in the amount of –€544 million (1998: –€309 million) as an adjustment to

stockholders' equity according to US GAAP.

Based on past results of subsidiaries and expectations of similar performance in the future, the taxable income of these subsidiaries will likely be sufficient to fully recognize the net deferred asset related to these subsidiaries. A valuation

allowance has been provided for the portion of the deferred tax asset for which these criteria have not been met.

Tax-loss carryforwards at year-end are as follows.

€ in millions	1999	1998
Domestic loss carryforwards		
Corporate income tax	395	793
Trade tax on income	1,758	1,499
Foreign loss carryforwards	903	681

Domestic tax losses can be carried forward indefinitely. Foreign loss carryforwards have various expiration periods.

Undistributed earnings of consolidated foreign subsidiaries expected to be reinvested indefinitely amounted to €315 million in the year under review compared with

€404 million in 1998. Deferred tax liabilities related to these profits were not calculated because this is not practicable.

## (8) Minority Interests in Net Income

Minority shareholders participate in the profits of the consolidated companies in the amount of €324

million (1998: €173 million) and losses amounting to €90 million (1998: €217 million).

## (9) Other Information

The following tables show significant expenses contained in the operating areas of production, sales and administration, and other operating expenses.

### Material Costs

€ in millions

	1999	1998
Costs of raw materials and supplies and purchased goods	27,264	20,622
Costs of purchased services	5,523	5,888
	<b>32,787</b>	<b>26,510</b>

### Personnel Costs

€ in millions

	1999	1998
Wages and salaries	5,773	4,807
Social security contributions	1,006	871
Pension costs and other employee benefits	724	582
thereof pension costs	(714)	(580)
	<b>7,503</b>	<b>6,260</b>

## Stock-Based Compensation

As of the balance-sheet date, the VEBA Group had various stock-based compensation plans including stock appreciation rights ("SARs") within VEBA AG and Stinnes and a stock option program within MEMC. All plans are accounted for in accordance with Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation."

### Stock Appreciation Rights

The following information applies to both stock appreciation programs within VEBA AG and Stinnes. Differences regarding Stinnes' program are provided in parentheses or are otherwise indicated.

VEBA AG and Stinnes independently decided to introduce SAR programs in March 1999. VEBA AG granted 1 million SARs, retroactive to the beginning of 1999, to approximately 120 top-level executives worldwide—including all members of VEBA AG's Board of Management—as part of their compensation.

In July 1999, Stinnes granted 3.4 million SARs to about 260 top-level executives—including all members of Stinnes AG's Board of Management—as part of their compensation.

The Executive Committee of VEBA AG's and Stinnes AG's Supervisory Board determined the number of SARs to be granted to the members of the respective company's Board of Management. The Executive Committees of the major Group companies' Supervisory Boards determined the number of SARs to be granted to the members of these companies' Boards of Management. The Boards of Management of the relevant companies determined the number of SARs granted to the remaining qualified executives.

The SARs were granted based on the market price on January 4, 1999 (the average market price between June 28 and July 9, 1999). The weighted average fair value of options granted was €721 (€2.01) on the date of grant. The value of VEBA's SARs was calculated by using

recognized option-pricing models. The SARs were priced using the following weighted-average assumptions: expected volatility of VEBA shares of 24.9 percent, of the Euro Stoxx 50 of 18.23 percent; correlation of the share price and the index's performance of 0.57; expected exercise term and effective life of four years; risk-free interest rate of 3.5 percent and an expected dividend yield of approximately 2.0 percent. Due to the lack of historical experience at the time of grant and a directly comparable entity, the assumptions used for calculating the value of Stinnes's SARs have been developed based on the assumptions used for VEBA's SARs.

For both plans, the compensation to be received from the exercise of SARs is paid in cash and is calculated as the difference between the VEBA (Stinnes) stock price and the respective companies' indexed stock price multiplied by the number of SARs to be exercised. The above-mentioned VEBA (Stinnes) stock

price equals the average quotation of the last six months before exercise. The calculation considers possible dilution effects from capital changes and dividend payments that have occurred between grant and exercises. 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 both programs 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 2004). SARs not exercised by the final exercise date on November 3, 2003 (May 3, 2004), will automatically be considered as exercised.

The SARs granted under both programs are non-transferable. Under certain conditions they can be exercised before the exercise date in the case of termination of employment; otherwise they are canceled. In the current reporting period, 30,000 SARs were canceled as a result of termination of employment.

Below is a summary of the VEBA and Stinnes stock plan activity for 1999.

	VEBA SARs	Stinnes SARs
Outstanding at beginning of year		
Granted	1,037,000	3,447,800
Exercised	-	-
Cancelled	-	30,000
Outstanding at year-end	1,037,000	3,417,800
SARs exercisable at year-end	-	-

There was no compensation cost recognized regarding VEBA AG's SAR program in 1999 as the difference between the VEBA stock price as defined above at December 31, 1999, and the indexed stock price was negative €7.61. Total compensation cost under German GAAP recognized in 1999 with regards to Stinnes's SAR program amounted to €14 million. The impact of the different accounting treatments under German GAAP and US GAAP is reflected in Note 2 (g). The difference in the Stinnes's stock price as defined above at December 31, 1999, and the indexed stock price was €4.13. The weighted-average expected life of the options is 3 (3.5) years.

### Stock Option Plan

MEMC has an Equity Incentive Plan (the Plan) that provides for the award of incentive and non-qualified stock options, restricted stock and performance shares. Total shares authorized for grant under the Plan are 3,597,045. The exercise price of each option equals the market price of MEMC's common stock at the date of the grant, and each option's maximum term is 10 years.

Total compensation cost in 1999, 1998, and 1997 recognized for options granted under the Plan based on the fair value at the grant dates consistent with the alternative method set forth under Statement of Financial Accounting No. 123, "Accounting for Stock-Based Compensation" was €1.9, €3.2, and €2.3.

## Employees

In the period under review the breakdown by division of the average number of employees, including trainees and interns as well as part-time and less than part-time employees, is shown as right.

The employee headcount for the year under review includes 576 employees (1998: 1,950) apportionable to VEBA through VRT companies consolidated on a proportionate basis in Telecommunications.

Because of the disposal of VRT's fixed-line business as of April 1, 1999, and of TeleColumbus as of July 1, 1999, average figures in

Telecommunications have low informational value. As of December 31, 1999, VRT employed a total of 107 people.

Employees	1999	1998
Electricity	20,888	22,126
Oil	6,042	6,560
Chemicals	44,853	18,856
Real-Estate Management	4,683	13,461
Distribution/Logistics	49,703	62,095
Telecommunications	594	1,967
Silicon Wafers	5,704	6,794
Others	463	478
	<b>132,930</b>	<b>132,337</b>
thereof trainees/interns	(5,962)	(6,188)
thereof part-time and less-than-part-time employees	(10,987)	(10,383)

## Taxes Other than Income Taxes

Taxes other than income taxes total €59 million (1998: €63 million), resulting principally from property tax and real-estate transfer tax in the current period.

## (10) Income and Expenses Not Related to the Financial Year

Income and expenses not related to the financial year represent items impacting the current year's results due to changes in facts and circumstances related to events of prior years. They are largely included in other operating income and expenses.

Income related to other financial years amounted to €353 million (1998: €394 million) and derives primarily from the release of provisions and refunds. Expenses related to other years total €349 million (1998: €364 million). These expenses mainly represent provisions

recognized to account for prior years' contingencies in which management currently considers the risk of loss to be both probable and estimable.

## Notes to the Consolidated Balance Sheet

## (11) Intangible Assets

€ in millions	Licenses	Goodwill from financial statements	Goodwill from capital consolidation	Advance payments	Total
<b>Acquisition Costs</b>					
<b>Balance on January 1, 1999</b>	<b>1,014</b>	<b>363</b>	<b>1,967</b>	<b>50</b>	<b>3,394</b>
Exchange rate differences	49	27	69	1	146
Change in scope of consolidation	181	137	12	- 1	329
Additions	111	14	508	33	666
Disposals	309	36	54	10	409
Transfers	13	- 1	900	- 5	907
<b>Balance on December 31, 1999</b>	<b>1,059</b>	<b>504</b>	<b>3,402</b>	<b>68</b>	<b>5,033</b>
<b>Accumulated Depreciation</b>					
<b>Balance on January 1, 1999</b>	<b>353</b>	<b>136</b>	<b>682</b>	<b>26</b>	<b>1,197</b>
Exchange rate differences	15	8	8	2	33
Change in scope of consolidation	99	7	- 25	- 1	80
Additions	180	37	280	3	500
Disposals	199	24	33	2	258
Transfers	6	-	76	-	82
<b>Balance on December 31, 1999</b>	<b>454</b>	<b>164</b>	<b>988</b>	<b>28</b>	<b>1,634</b>
<b>Net Book Value on December 31, 1999</b>	<b>605</b>	<b>340</b>	<b>2,414</b>	<b>40</b>	<b>3,399</b>
<b>Net Book Value on December 31, 1998</b>	<b>661</b>	<b>227</b>	<b>1,285</b>	<b>24</b>	<b>2,197</b>

## (12) Property, Plant and Equipment

€ in millions	Real estate, leasehold rights and buildings	Mine development costs, mines, and drillings	Technical equipment, plant and machinery	Other equip- ment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
<b>Acquisition and Production Costs</b>						
<b>Balance on January 1, 1999</b>	<b>9,876</b>	<b>829</b>	<b>29,774</b>	<b>2,576</b>	<b>1,284</b>	<b>44,339</b>
Exchange rate differences	196	18	497	48	83	842
Change in scope of consolidation	1,361	- 20	2,887	604	158	4,990
Additions	299	5	798	366	1,089	2,557
Disposals	357	5	605	474	45	1,486
Transfers	127	- 8	667	38	- 838	- 14
<b>Balance on December 31, 1999</b>	<b>11,502</b>	<b>819</b>	<b>34,018</b>	<b>3,158</b>	<b>1,731</b>	<b>51,228</b>
<b>Accumulated Depreciation</b>						
<b>Balance on January 1, 1999</b>	<b>3,983</b>	<b>518</b>	<b>21,525</b>	<b>1,925</b>	<b>34</b>	<b>27,985</b>
Exchange rate differences	43	35	285	27	2	392
Change in scope of consolidation	623	- 19	2,015	466	-	3,085
Additions	350	56	1,641	350	21	2,418
Disposals	142	34	455	394	3	1,028
Transfers	- 61	- 13	45	23	-	- 6
<b>Balance on December 31, 1999</b>	<b>4,796</b>	<b>543</b>	<b>25,056</b>	<b>2,397</b>	<b>54</b>	<b>32,846</b>
<b>Net Book Value on December 31, 1999</b>	<b>6,706</b>	<b>276</b>	<b>8,962</b>	<b>761</b>	<b>1,677</b>	<b>18,382</b>
<b>Net Book Value on December 31, 1998</b>	<b>5,893</b>	<b>311</b>	<b>8,249</b>	<b>651</b>	<b>1,250</b>	<b>16,354</b>

Property, plant, and equipment includes the capitalized interest on debt apportionable to the construc-

tion period in 1999 in the amount of €56 million (1998: €56 million).



€ in millions	1999	1998
Electricity	844	934
Oil	402	423
Chemicals	998	732
Real-Estate Management	248	178
Distribution/Logistics	515	543
Telecommunications	27	167
Silicon Wafers	49	194
Others	140	32
	<b>3,223</b>	<b>3,203</b>

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

### (13) Financial Assets

€ in millions	Shares in 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 operation	Other long-term loans	Total
<b>Acquisition Costs</b>									
<b>Balance on</b>									
<b>January 1, 1999</b>	<b>543</b>	<b>457</b>	<b>6,599</b>	<b>2,640</b>	<b>835</b>	<b>1,796</b>	<b>-</b>	<b>596</b>	<b>13,466</b>
Exchange rate differences	-	1	104	13	33	-	-	3	154
Change in scope of consolidation	78	-	117	46	3	13	576	6	839
Additions	54	92	869	1,726	48	363	430	82	3,664
Disposals	69	2	370	1,443	78	200	286	87	2,535
Transfers	3	-	- 698	- 146	- 56	-	-	4	- 893
<b>Balance on</b>									
<b>December 31, 1999</b>	<b>609</b>	<b>548</b>	<b>6,621</b>	<b>2,836</b>	<b>785</b>	<b>1,972</b>	<b>720</b>	<b>604</b>	<b>14,695</b>
<b>Accumulated Depreciation</b>									
<b>Balance on</b>									
<b>January 1, 1999</b>	<b>109</b>	<b>1</b>	<b>413</b>	<b>43</b>	<b>99</b>	<b>1</b>	<b>-</b>	<b>35</b>	<b>701</b>
Exchange rate differences	1	-	-	-	-	-	-	-	1
Change in scope of consolidation	40	-	- 1	8	-	1	-	3	51
Additions	62	-	79	70	7	19	-	13	250
Disposals	11	-	65	2	1	-	-	18	97
Transfers	1	-	- 72	- 5	-	-	-	-	- 76
<b>Balance on</b>									
<b>December 31, 1999</b>	<b>202</b>	<b>1</b>	<b>354</b>	<b>114</b>	<b>105</b>	<b>21</b>	<b>-</b>	<b>33</b>	<b>830</b>
<b>Net Book Value on</b>									
<b>December 31, 1999</b>	<b>407</b>	<b>547</b>	<b>6,267</b>	<b>2,722</b>	<b>680</b>	<b>1,951</b>	<b>720</b>	<b>571</b>	<b>13,865</b>
<b>Net Book Value on</b>									
<b>December 31, 1998</b>	<b>434</b>	<b>456</b>	<b>6,186</b>	<b>2,597</b>	<b>736</b>	<b>1,795</b>	<b>-</b>	<b>561</b>	<b>12,765</b>

### Shares in Affiliated and Associated Companies Accounted for under the Equity Method

<b>Earnings Data</b>	1999	1998
€ in millions		
Sales	38,208	38,883
Net income	392	341
VEBA portion of net income	196	141
Adjustments to conform with VEBA accounting and valuation policies and amortization/release of goodwill and negative goodwill	133	84
<b>Investment in Companies which are Accounted for under the Equity Method</b>	<b>329</b>	<b>225</b>

The summarized financial information at left displays condensed information related to the Company's affiliated and associated companies that are accounted for using the equity method.

<b>Balance Sheet Data</b>	Dec. 31, 1999	Dec. 31, 1998
€ in millions		
Fixed assets	51,526	39,680
Current assets and prepaid expenses	22,287	13,147
Accruals	25,691	14,776
Liabilities and deferred income	30,883	23,339
Net assets	17,239	14,712
VEBA share in equity	4,741	4,084
Adjustments to conform with VEBA accounting and valuation policies and effects of equity valuation	1,791	2,460
<b>Investment in Companies which are Accounted for under the Equity Method</b>	<b>6,532</b>	<b>6,544</b>

The statements for the year under review reflect the first-time equity valuation of RAG. As a result of the full consolidation of Degussa-Hüls, the statements no longer contain the earnings and balance-sheet data from the shareholding in Degussa accounted for under the equity method in 1998.

The Company's share of undistributed earnings of affiliated and associated companies included in consolidated retained earnings is €596 million. Dividends collected by VEBA from these companies are €324 million in 1999 compared with €331 million in 1998.

Application of the equity method to additions to investments in associated and affiliated companies resulted in goodwill of €47 million (1998: €15 million). Negative goodwill resulting from the first-time application of the equity method and allocated to equity amounted to €624 million (1998: €7 million).

### Other Financial Assets

<b>Securities Available for Sale</b> € in millions	1999			1998		
	Book values	Market values	Unrealized profits	Book values	Market values	Unrealized profits
Fixed-term securities	332	333	1	229	257	28
Mutual funds	1,617	1,974	357	1,563	1,886	323
Other shareholdings and securities	2,724	2,955	231	2,601	4,456	1,855
	<b>4,673</b>	<b>5,262</b>	<b>589</b>	<b>4,393</b>	<b>6,599</b>	<b>2,206</b>

The Company's 10 percent stake in VIAG acquired from the Free State of Bavaria on October 07, 1999, is reported under other shareholdings and securities.

The book and market values of the other investments and long-

term securities are summarized above.

The disposals of securities available for sale generated proceeds in the amount of €3,024 million (€236 million) and capital gains in the amount of €1,429 million (1998: €65 million).

€ in millions	Book value	Market value
Less than 1 year	72	71
Between 1 and 5 years	222	223
More than 5 years	38	39
	<b>332</b>	<b>333</b>

Maturities of fixed-term securities as of December 31, 1999, are shown above.

Long-term loans are shown below.

	1999			1998
	€ in millions	Interest rate	Maturity	€ in millions
Loans to affiliated companies	547	up to 7.2%	up to 2035	456
Loans to other associated Companies	680	up to 6.1%	up to 2007	736
Loans related to banking operations	720	up to 6%	up to 2009	-
Other loans	571	up to 8.75%	up to 2010	561
	<b>2,518</b>			<b>1,753</b>

As a result from other than temporary decreases in value, fixed assets were subject to write-downs in the amount of €262 million

(1998: €178 million). In the reporting period they primarily related to write-downs of financial assets in the Telecommunications Division.

#### (14) Inventories

€ in millions	1999	1998
<b>Raw Materials and Supplies</b>		
<b>by Division</b>		
Electricity	472	459
Oil	162	105
Chemicals	458	107
Silicon Wafers	53	44
Other	36	40
	<b>1,181</b>	<b>755</b>
<b>Work in Progress</b>	<b>317</b>	<b>138</b>
<b>Finished Products by Division</b>		
Oil	147	61
Chemicals	807	421
Silicon Wafers	49	55
Other	22	27
	<b>1,025</b>	<b>564</b>
<b>Goods Purchased for Resale</b>	<b>1,862</b>	<b>1,461</b>
<b>Advance Payments</b>	<b>28</b>	<b>13</b>
	<b>4,413</b>	<b>2,931</b>

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 €96 million (1998: €92 million) and crude oil supplies of €96 million (1998: €55 million).

Inventories in the amount of €875 million (1998: €407 million) are valued according to the LIFO method. The difference between valuation according to LIFO and higher replacement costs is €458 million (1998: €16 million). The difference in comparison with the previous year's figure results

primarily from the first-time inclusion of the precious metals stocks' market valuation.

**(15) Receivables and Other Assets**

€ in millions	1999		1998	
		with a remaining term of more than 1 year		with a remaining term of more than 1 year
Accounts receivable trade	6,306	3	4,336	1
Affiliated companies	122	2	64	-
Associated companies and other share investments	1,352	9	1,035	103
Reinsurance claim due from Versorgungskasse Energie Mutual Insurance Fund	542	517	511	402
Receivables from banking operations	202	61	-	-
Other assets	1,862	200	2,245	68
	<b>10,386</b>	<b>792</b>	<b>8,191</b>	<b>574</b>

The reinsurance claim due from the Versorgungskasse Energie (VVG) Mutual Insurance Fund partially covers pension obligations to PreussenElektra employees.

In the year reported, other assets primarily consist of tax-refund claims of €562 million (1998: €317 million), short-term loans of €409 million (1998: €98 million), unbilled receivables from services and deliveries to third parties and receivables

from fixed asset disposals of €290 million (1998: €340 million).

The VRT shareholding held for sale, which was included in other assets in 1998, was sold to RWE as of July 1, 1999.

**(16) Liquid Funds**

€ in millions	1999	1998
Securities	271	157
Cash and cash equivalents	1,566	350
	<b>1,837</b>	<b>507</b>

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

Securities € in millions	1999			1998		
	Book values	Market values	Unrealized gains	Book values	Market values	Unrealized gains
Fixed-term maturities	248	250	2	149	152	3
Investment Funds	10	10	-	-	-	-
Other	13	18	5	8	9	1
	<b>271</b>	<b>278</b>	<b>7</b>	<b>157</b>	<b>161</b>	<b>4</b>

The securities' book and market values are shown above.

The disposal of securities available for sale generated sales proceeds in the amount of €33 million (1998: €275 million). Compared with the

prior year (1998: €11 million), no capital gains from disposals were recorded in the reporting period.

€ in millions	Book values	Market value
Less than 1 year	128	128
1 to 5 years	116	118
More than 5 years	4	4
	<b>248</b>	<b>250</b>

Maturities of fixed-term securities as of December 31, 1999, are shown above.

In 1999, 360,360 shares of VEBA stock (0.08 percent of VEBA's outstanding stock) were purchased on the stock market at an average price of €54.39 per share for employees within the Group. These shares were sold to employees at preferential prices between €27.02 and

€50.94. The difference between the purchase price and resale price of the employee shares issued has been charged to personnel expenses.

### (17) Prepaid Expenses

This item includes debt discounts in the amount of €1 million (1998: €2 million).

### (18) Capital Stock

At the 1999 Annual Stockholders' Meeting it was resolved to convert the capital stock from DM to euros. The euro-denominated capital stock will be 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. The capital stock now consists of 502,797,780 bearer shares without nominal value. These amendments were filed with the Commercial Register of the Düsseldorf District Court HRB 22315 on August 20, 1999, and with 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 bonds with conversion or option rights on shares of VEBA Aktiengesellschaft until May 26, 2004. This conditional capital can 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. Both capital amounts expire 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 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.

In compliance with Article 21 of Germany's Securities Trading Act (WphG), Allianz AG informed VEBA AG's Board of Management on May 11, 1995, that it holds more than 10 percent of VEBA AG's capital stock.

**(19) Additional Paid-in Capital**

Additional paid-in capital results exclusively from share issuance premiums. It dropped €22 million

to €2,197 million compared with December 31, 1998, due to the capital increase using corporate

funds when the capital stock was converted from DM to euros.

**(20) Retained Earnings**

€ in millions	1999	1998
Legal reserves	45	45
Other retained earnings	10,205	7,678
	<b>10,250</b>	<b>7,723</b>

Other retained earnings include the difference resulting from the cumulative conversion from the local currency of foreign subsidiaries' financial statements in the amount of €196 million (1998: -€162 million).

**(21) Minority Interests**

€ in millions	1999	1998
Electricity	1,490	1,339
Chemicals	961	7
Real-Estate Management	32	17
Distribution/Logistics	411	218
Telecommunications	- 5	6
Silicon Wafers	100	114
Other	1	-
	<b>2,990</b>	<b>1,701</b>

Minority interests in stockholders' equity and net income or losses of the consolidated subsidiaries is attributable to the divisions as at left.

**(22) Provisions for Pensions**

€ in millions	1999	1998
<b>Projected Benefit Obligation at January 1</b>	<b>5,263</b>	<b>4,994</b>
Service cost	121	101
Interest cost	360	319
Business combinations	795	68
Prior service costs	37	14
Actuarial gains (-)/losses	- 14	68
Exchange-rate differences	60	- 21
Pensions paid	- 365	- 280
<b>Projected Benefit Obligation at December 31</b>	<b>6,257</b>	<b>5,263</b>

In general, pension plans are based on length of service. Benefits for salary plans are generally based on compensation during the final years of employment and years of service, while hourly plans are based upon a fixed benefit rate in effect on the retirement date and years of service. Performance-linked benefit obligations—for which the Company guarantees a certain level of benefit—are provided for through a provision for pensions.

Pension plans and their respective costs are determined using the projected unit credit method in accordance with US GAAP as defined by SFAS No. 87, "Employers' Accounting for Pensions," whereby current pensions and remuneration prevailing on the balance-sheet date as well as future increases in these parameters are included in the valuation. Generally, this results

in a higher liability valuation compared with the valuation determined using the discount value method according to Article 6a of the German Income Tax Act, which results in minimum valuations for German financial reporting purposes.

The change in the projected benefit obligation is shown in the table on the left.

An additional amount of €30 million (1998: €132 million) was incurred for defined contribution pension plans in which the Company pays fixed contributions to an out-

side insurance carrier, as well as for other pension obligations. The change in plan assets is shown below.

€ in millions	1999	1998
<b>Plan Assets at January 1</b>	<b>188</b>	<b>144</b>
Actual return on plan assets	29	12
Company contributions	13	3
Business combinations	74	62
Exchange-rate differences	37	- 14
Pensions paid	- 17	- 19
<b>Plan Assets at December 31</b>	<b>324</b>	<b>188</b>

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

€ in millions	1999	1998
Funded status	5,933	5,075
Unrecognized actuarial loss	- 284	- 331
Unrecognized prior service cost	- 59	- 10
Unfunded accrued benefit cost	<b>5,590</b>	<b>4,734</b>
Additional minimum liability	99	111
<b>Provisions for Pensions Disclosed on the Balance Sheet</b>	<b>5,689</b>	<b>4,845</b>

According to German GAAP, the additional minimum liability has been expensed to the income statement in the amount of €99 million (1998: €111 million). Under US GAAP, however, it is accounted for as an intangible asset of €28 million (1998: €0 million) and directly charged against stockholders' equity without having an effect on net income in the amount of €71 million (1998: €111 million). The accumulated benefit obligation and fair values of plan assets for pension plans that have an additional minimum liability are €1,654 million (1998: €1,531 million) and €251 (1998: €115), respectively.

Provisions for pensions of domestic subsidiaries determined in compliance with US GAAP (excluding the additional minimum liability) are €470 million (1998: €380 million) higher than the provisions determined according to Sec. 6a of the German Income Tax Act. Provisions for pensions shown on the balance sheet also include obligations of US companies arising from post-retirement health-care benefits in the amount of €40 million (1998: €67 million).

Based on actuarial computations, the total net periodic pension cost is comprised of the following.

€ in millions	1999	1998
Service cost	121	101
Interest cost	360	319
Expected return on plan assets	- 23	- 15
Prior service costs	7	5
Amortization of gains (-)/losses	13	38
<b>Net Periodic Pension Cost</b>	<b>478</b>	<b>448</b>

The chemical industry's mortality tables ("PK-Chemie 1996 R") are used throughout the domestic affiliated companies to determine the actuarial values of obligations beginning on December 31, 1997. These tables have lower death and invalidity probabilities than the previously used tables by Klaus Heubeck from 1983. The related additional cost of funding provisions for pensions is to be amortized over

the expected average number of years of service beginning in 1998.

Actuarial value of the domestic subsidiaries were computed with official tables based on the following assumptions.

	Dec. 31, 1999	Dec. 31, 1998
Discount rate	6.25 %	6.0 %
Projected salary increases (non-vested)	2.75 %	2.5 %
Projected pension increases	1.25 %	1.0 %



## (23) Other Provisions

Other provisions break down as listed below.

€ in millions	1999	1998
Provisions for nuclear waste management	5,889	5,771
Provisions for taxes	2,696	2,766
thereof for deferred taxes		
€124 million (1998: €1,392 million)		
Provisions for personnel costs	1,373	1,041
Provisions for outstanding trade invoices	821	662
Provisions for environmental remediation	496	408
Provisions for reclamation	175	182
Miscellaneous	2,729	2,126
	<b>14,179</b>	<b>12,956</b>

### Provisions for Nuclear Waste Management

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 €681 million (1998: €691 million). The advance payments are prepayments to the 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 laws prescribed by the Federal Republic of Germany (*Atomgesetz*). Operators may either recycle or permanently dispose of nuclear waste.

PreussenElektra has entered into contracts with two European fuel reprocessing firms, BNFL in Great Britain and Cogema in France, for the reprocessing of all spent nuclear fuel. The contract terms are through 2005, with an option of a 10-year extension. The radioactive waste which results from the reprocess-

ing 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 transportation of spent fuel to the reprocessing firms, of fuel reprocessing, and of outbound transportation of nuclear waste. The stated cost estimates are based primarily upon existing contracts. All cost estimates are continually updated.

The accrual 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 civil law (*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.

In addition to its consolidated nuclear power plants, PreussenElektra owns shares of three associated companies which also operate nuclear power facilities. These associated companies are accounted for under the equity method.

## Other

Provisions for taxes consist mainly of corporate income taxes, including the solidarity surcharge, trade tax on income, foreign income taxes, and deferred taxes. Provisions for deferred taxes primarily relate to temporary differences from the adjustments of individual financial statements to the accounting policies as applied by VEBA. The decrease in provisions for deferred taxes in the current year principally relates to the offsetting of existing deferred tax liabilities against deferred tax assets recognized due to temporary differences in connection with the treatment of nuclear provisions in the tax and commercial balance sheet. Deferred taxes are mainly of a long-term nature.

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

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.

Provisions for environmental remediation refer primarily to land reclamation, rehabilitating contaminated sites, redevelopment and water protection measures, bore-hole sealing, clearing mining fields, and recultivating landfills.

Of the provisions for reclamation, €90 million (1998: €98 million) is for potential damages arising from former hard coal mining activities and €85 million (1998: €84 million) from lignite mining.

Miscellaneous provisions cover numerous other risks and include provisions for tax related interest expense, restructuring, demolition and dismantling obligations, pending losses from unsettled transactions, and guarantees.

Other provisions include €9,577 million (1998: €8,933 million) which are long-term in nature.

Provisions for personnel costs and other provisions include provisions for restructuring and cost-management programs. The various cost-management programs, which are already underway, affect almost all divisions. The plans primarily focus on the reduction of personnel costs by eliminating positions and offering early retirement benefits. The plans include two major components: severance and early retirement costs. Both plans call for a series of post-retirement payments to the employee.

Plans implemented in recent years to reduce the labor force, primarily in Chemicals and Oil, were for the most part fully implemented by the end of 1999. The Company expects the amount accrued for severance payments to be fully utilized by the middle of the next decade.

Additionally, the plans, mainly in the Electricity and Oil divisions, include the elimination of certain positions by providing early retirement benefits for employees meeting the requirements set forth in the applicable plan. These plans are also expected to run through the middle of the next decade. Accruals for the cost of early retirement are accrued when corresponding collective or shop agreements are entered into or an employee formally accepts the plan.

Provisions for restructuring in 1999 are shown below.

€ in millions

	Balance Dec. 31, 1998	Additions 1999	Amounts paid in 1999	Other Changes	Balance Dec. 31, 1999
Severance payments	249	129	86	32	324
Early retirement plans	136	51	73	29	143
Other	46	58	16	- 11	77
	<b>431</b>	<b>238</b>	<b>175</b>	<b>50</b>	<b>544</b>

The other changes in the amount of €50 million principally refer to changes in the scope of consolidation.

Restructuring expenses are included in the income statement as part of the cost of goods sold and services provided, selling expenses,

general administrative expenses and other operating expenses. They are as follows.

€ in millions	1999	1998
Severance payments	129	25
Early retirement plans	51	36
Impairments	-	91
Other	58	6
	<b>238</b>	<b>158</b>

Restructuring expenses in the financial year under review primarily result from the Oil and Chemical Divisions.

## (24) Liabilities

€ in millions	1999				1998	
	Total	With a remaining term of			Total	With a remaining term of more than 1 year
		up to 1 year	1 to 5 years	over 5 years		
Option bonds	266	266	-	-	266	266
Bank loans	3,685	788	1,429	1,468	2,822	2,072
Liabilities related to banking operations	991	505	202	284	-	-
Bills payable	10	10	-	-	206	1
Other financial liabilities	211	29	159	23	306	-
<b>Financial Liabilities</b>	<b>5,163</b>	<b>1,598</b>	<b>1,790</b>	<b>1,775</b>	<b>3,600</b>	<b>2,339</b>
Accounts payable	3,339	3,328	11	-	2,363	14
Affiliated companies	187	187	-	-	101	-
Associated and other companies	2,181	2,132	3	46	2,027	49
Capital expenditure grants	343	24	93	226	351	320
Construction grants from energy customers	1,338	98	370	870	1,268	1,137
Advance payments	215	172	43	-	209	60
Other liabilities	1,977	1,734	76	167	1,522	271
thereof taxes	(335)	(335)	-	-	(245)	-
thereof social security contributions	(153)	(153)	-	-	(98)	-
<b>Operating Liabilities</b>	<b>9,580</b>	<b>7,675</b>	<b>596</b>	<b>1,309</b>	<b>7,841</b>	<b>1,851</b>
	<b>14,743</b>	<b>9,273</b>	<b>2,386</b>	<b>3,084</b>	<b>11,441</b>	<b>4,190</b>

The utilization of the outstanding Commercial Papers in the amount of €306 million shown under other financial liabilities in 1998, was fully repaid in 1999. As of December 31, 1999, other financial liabilities mainly include bearer bonds of the Degussa Bank.

A total of €1,444 million (1998: €1,508 million) in liabilities is secured by mortgages on real estate, thereof €966 million (1998: €1,046 million) by mortgage loans taken by the Real-Estate Management Division.

€480 million in financial liabilities (1998: €447 million) are non-interest bearing and low-interest liabilities granted to companies in the Real-Estate Management Division and the Oil Division. They are attributable to low-interest loans for the construction of subsidized housing with an interest rate below 2 percent and to non-interest bearing German government loans for petroleum and natural gas exploration. € 7,537 million in operating liabilities are non-interest bearing (1998: €6,962 million).

### Financial Liabilities

The option bond with a nominal value of US\$300 million is repayable on April 6, 2000. It was issued in 1993 by VEBA International Finance B.V., a wholly-owned subsidiary of VEBA, each in an amount of US\$5,000, with 28 warrants attached, redeemable for VEBA shares.

Interest at a rate of 6 percent is payable annually. VEBA has given its unconditional and irrevocable guarantee for the due payments of principal and interest. The option period expired on April 6, 1998.

Bank loans are summarized below.

	1999			1998
	€ in millions	Interest rate	Maturity	€ in millions
Bank loans secured by mortgages on real estate	449	0.5 %–7.5 %	through 2040	736
Bank loans secured by mortgages on real estate	825	7.6 %–19.5 %	through 2040	629
Other secured bank loans	193	0.5 %–19.5 %	through 2040	62
Unsecured bank loans, drawings on credit lines, short-term loans	2,218	0.5 %–19.5 %	through 2040	1,395
	<b>3,685</b>			<b>2,822</b>

Bank loans with interest rates below market levels were mainly taken by Real-Estate Management to finance its rented real estate. As part of these financing agreements, this Division

may only charge rents that are below prevailing market rates. Due to these conditions such loans are shown at nominal value on the balance sheet.

Interest payments to banks amounted to €99 million in 1999 compared with €131 million in 1998.

Bank loans had the maturities shown below as of December 31, 1999.

€ in millions	
2000	788
2001	385
2002	455
2003	275
2004	314
thereafter	1,468
	<b>3,685</b>

In addition to the drawings on credit lines shown above, at year-end 1999 VEBA AG had committed and available credit lines of €3,254 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 London Interbank Offered Rate (LIBOR). In addition, a seven-year, €1,022 million syndicated credit line facility with an interest rate of up to 0.125 percentage point above Euribor. The entire amount was fully available at the end of 1999.

€1 billion in Commercial Paper and €2 billion in Medium Term Notes are also available to the Company for financing purposes. They have not been utilized as of the balance-sheet date.

## Capital Expenditure and Construction Grants

Capital expenditure grants that do not yet affect earnings are paid primarily by customers in the Electricity Division for capital expenditures made on their behalf, while VEBA retains these assets. The grants are non-refundable and

recognized in other operating income based upon the depreciable lives of the related asset or contract term.

Construction grants are paid by customers of the Electricity Division for costs of new electricity and gas

hook-ups according to generally binding link-up terms. The grants are non-refundable and generally recognized as sales according to the duration of the relevant contracts.

## Contingent Liabilities

€ in millions	1999	1998
Contingent liabilities on bills of exchange	6	11
Contingent liabilities from guarantees	389	267
Contingent liabilities from warranties	99	75
Contingent liabilities from granting collateral on behalf of third parties	129	57
Other contingent liabilities	22	72
	<b>645</b>	<b>482</b>

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

Contingent liabilities also exist according to Sec. 24 of the Private Limited Liability Companies Act for outstanding contributions of co-shareholders to the capital of various companies. These amounts relate to future capital contributions required to be made by other co-stockholder parties for which the Company could be held liable, should the required co-shareholders fail to meet their obligation.

As of December 31, 1999, long-term contractual obligations exist to purchase fixed quantities of electricity from both jointly operated power plants 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. Among 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 €11,836 million and split up as follows:

€ in million	
2000	947
2001	939
2002	921
2003	938
2004	912
thereafter	7,179
	<b>11,836</b>

There also exist additional customary long-term fuel procurement contracts.

### Other Financial Obligations

€ in millions	
2000	282
2001	229
2002	187
2003	158
2004	128
thereafter	581
	<b>1,565</b>

Obligations arising from rental, tenancy and leasing agreements are due as above.

Expenses arising from such contracts that are reflected in the Income Statement amount to €367 million (1998: €580 million).

Other financial obligations which primarily relate to commitments for capital expenditures on expansion and environmental protection mea-

asures, commitments to grant credits as well as contracted but not yet effective investments in financial assets total €2,559 million (1998: €464 million). Included in the commitments to grant credits is a conditional obligation to grant subordinated loans in the amount of €256 million (1998: €293 million), thereof €128 million (1998: €258 million) to E-Plus. The con-

tracted but not yet effective investments in financial assets result primarily from purchase price commitments related to the acquisition of certain Mobil Oil subsidiaries, which own 28 percent in Aral and of the 87.4 percent stake in EZH (see Note 29).

### (25) Litigation and Claims

Various legal actions, governmental investigations, proceedings, and claims are pending or may be instituted or asserted in the future against the Company. Since litigation is subject to numerous uncer-

tainties, their outcome cannot be ascertained. Although the amount of liability at December 31, 1999 with respect to these matters cannot be ascertained, management believes that the resulting liabilities

would not materially affect the Company's consolidated financial position.

### (26) Information on the Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows precedes the notes.

The financing requirements for investments net of disposals (€1,712 million) were fully covered by cash from operations (€3,255 million). In total cash used for financing activities—to distribute dividends and to repay financial liabilities—amounted to €1,383 million. Liquid funds increased by €160 million in the year under review.

Cash provided by operating activities includes interest payments of €342 million (1998: €242 million); income-tax payments net of refunds amounted to €1,356 million (1998: €1,316 million).

Payments for acquisitions of subsidiaries amounted to €1,600 million (1998: €543 million). Liquid funds acquired herewith amounted to €3 million (1998: €55 million). These acquisitions rendered assets amounting to €1,969 million (1998: €1,561 million) as well as provisions and liabilities totaling €577 million (1998: €973 million).

Because the Degussa shareholding was acquired already in 1997, only Degussa's liquid funds of €391 million as of the date of the first-time full consolidation were to be considered in the Consolidated Statement of Cash Flows besides the cash inflows and outflows recorded in the period under review.

The deconsolidation of shareholdings and business units resulting from divestments led to reductions of €972 million related to assets and €467 million related to provisions and liabilities. Liquid funds divested herewith amounted to €8 million.

Non-cash investing activities in the amount of €360 million in 1999 mainly relate to the merger of Degussa and Hüls. Due to the different treatment of the merger of Degussa and Hüls under US GAAP (see Note 2) the non-cash activities under US GAAP would amount to €2.4 billion.

## (27) Derivative Financial Instruments

During the normal course of business, VEBA is exposed to currency, interest rate, and commodity price risks. The Company also makes use

of derivative financial instruments to eliminate or limit these risks. 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 booked, pending, and planned deliveries, services, and other business transactions (underlying transactions). Derivative instruments held by the Company are used for hedging and not for trading purposes.

In line with VEBA's hedging policy, portfolio hedge transactions can be entered into for periods of up to twelve months at a time to cover currency risks. Portfolio hedge transactions represent a number of individual underlying transactions that have been grouped together and hedged as an individual unit. As of December 31, 1999, currency hedges were conducted especially for the US dollar, British pound, and Swedish krona.

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.

VEBA's Corporate Treasury, which is also 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 the Company's approval, the currency and interest rate risks of Group companies are hedged with external parties. The Company is informed at regular intervals about the scope of underlying and hedging transactions via the computerized 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. To ensure efficient risk management, 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 Group. 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 the net asset value that result from price fluctuations on various financial markets. In line with international banking standards, market risk has been calculated with the value-at-risk method on the basis of the RiskMetrics data published regularly by RiskMetrics Group. The maximum potential loss within the following

business day from derivative positions that are not hedge-accounted 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. Correlations between currencies are disregarded.

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, 1999, are listed in the following table.

## Financial Derivatives for Hedging Foreign Currency and Interest Rate Risks as of December 31, 1999

€ in millions	Total volume of derivative financial instruments			Market risk of financial derivatives (portion outside hedge accounting)			
	Nominal value	Market value <sup>1)</sup>	Value-at-risk	Nominal value	Market value <sup>1)</sup>	Value-at-risk	Risk acc. to stress-test
(Remaining maturities)							
FX forward transactions							
Buy							
up to 1 year	423.8	6.7	4.6	185.2	8.3	1.9	5.8
more than 1 year	14.4	1.0	0.3	-	-	-	-
Sell							
up to 1 year	2,506.3	- 47.1	26.9	327.2	- 0.1	4.6	13.7
more than 1 year	26.0	- 4.0	0.6	-	-	-	-
FX currency options							
Buy							
up to 1 year	23.1	- 0.4	0.0	23.1	- 0.4	0.0	0.0
more than 1 year	-	-	-	-	-	-	-
Sell							
up to 1 year	48.7	- 0.9	0.1	48.7	- 0.9	0.1	0.3
more than 1 year	-	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>3,042.3</b>	<b>- 44.7</b>	<b>24.7</b>	<b>584.2</b>	<b>6.9</b>	<b>6.2</b>	<b>18.6</b>
Cross currency swaps							
up to 1 year	297.6	35.3	4.9	-	-	-	-
1 year to 5 years	562.0	- 65.0	11.8	-	-	-	-
more than 5 years	102.3	- 5.2	3.4	-	-	-	-
Interest rate/cross currency swaps							
up to 1 year	1.9	0.3	0.0	-	-	-	-
1 year to 5 years	-	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>963.8</b>	<b>- 34.6</b>	<b>14.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Interest rate swaps							
fixed-rate payer							
up to 1 year	90.3	- 0.3	0.1	35.7	0.0	0.0	0.0
1 year to 5 years	261.2	- 0.9	0.4	72.9	1.1	0.3	0.9
more than 5 years	229.5	- 0.6	1.8	19.9	1.1	0.1	0.3
fixed-rate receiver							
up to 1 year	26.6	0.1	0.0	-	-	-	-
1 year to 5 years	27.6	0.6	0.0	-	-	-	-
more than 5 years	-	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>635.2</b>	<b>- 1.1</b>	<b>2.2</b>	<b>128.5</b>	<b>2.2</b>	<b>0.4</b>	<b>1.2</b>
Forward rate agreements							
Buy							
up to 1 year	151.8	0.0	0.0	-	-	-	-
1 year to 5 years	-	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-	-
Sell							
up to 1 year	151.8	0.1	0.0	-	-	-	-
1 year to 5 years	-	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>303.6</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Interest rate options							
Buy							
up to 1 year	-	-	-	-	-	-	-
1 year to 5 years	-	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-	-
Sell							
up to 1 year	19.9	0.0	0.0	19.9	0.0	0.0	0.0
1 year to 5 years	-	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>19.9</b>	<b>0.0</b>	<b>0.0</b>	<b>19.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total/Portfolio</b>	<b>4,964.8</b>	<b>- 80.3</b>	<b>41.1</b>	<b>732.6</b>	<b>9.1</b>	<b>6.6</b>	<b>19.8</b>

1) Market value deviation from nominal value.



The market risk excluding hedge accounting shows the outstanding nominal volumes and market values of financial derivatives after 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 when planned payments are hedged. 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 under hedge accounting for the 1999 financial year and as of December 31, 1998, are listed below.

€ in millions (Remaining maturities)	Sep. 30, 1999			Jun. 30, 1999			Mar. 31, 1999			Dec. 31, 1998		
	Nominal value	Market value <sup>1)</sup>	Value-at-risk	Nominal value	Market value <sup>1)</sup>	Value-at-risk	Nominal value	Market value <sup>1)</sup>	Value-at-risk	Nominal value	Market value <sup>1)</sup>	Value-at-risk
<b>FX forward transactions</b>												
Buy												
up to 1 year	252.9	1.2	3.0	161.2	2.4	1.9	292.8	2.6	3.1	277.7	- 3.8	3.3
more than 1 year	-	-	-	-	-	-	-	-	-	-	-	-
Sell												
up to 1 year	463.6	23.2	5.3	353.7	9.1	5.1	633.2	9.4	6.1	647.8	1.9	8.4
more than 1 year	-	-	-	-	-	-	-	-	-	-	-	-
<b>FX currency options</b>												
Buy												
up to 1 year	78.5	- 1.0	0.1	115.2	0.6	0.4	60.2	0.7	0.1	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-	-	-
Sell												
up to 1 year	101.0	0.6	0.3	143.7	- 1.6	0.6	116.0	- 1.6	0.4	-	-	-
more than 1 year	-	-	-	-	-	-	13.0	0.0	0.1	-	-	-
<b>Subtotal/Portfolio</b>	<b>896.0</b>	<b>24.0</b>	<b>7.8</b>	<b>773.8</b>	<b>10.5</b>	<b>6.4</b>	<b>1,115.2</b>	<b>11.1</b>	<b>7.0</b>	<b>925.5</b>	<b>- 1.9</b>	<b>5.6</b>
<b>Interest rate swaps</b>												
fixed-rate payer												
up to 1 year	55.1	- 0.1	0.3	56.6	- 0.4	0.0	42.2	- 0.5	0.0	-	-	-
1 year to 5 years	68.4	0.6	0.2	70.3	0.5	0.4	81.1	- 1.0	0.3	-	-	-
more than 5 years	18.8	0.7	0.0	19.4	0.7	0.2	18.6	- 0.2	0.2	-	-	-
<b>Subtotal/Portfolio</b>	<b>142.3</b>	<b>1.2</b>	<b>0.5</b>	<b>146.3</b>	<b>0.8</b>	<b>0.6</b>	<b>141.9</b>	<b>- 1.7</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Interest rate options</b>												
Sell												
up to 1 year	18.8	- 0.1	0.1	19.4	- 0.1	0.1	18.6	- 0.6	0.1	-	-	-
1 year to 5 years	-	-	-	-	-	-	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>18.8</b>	<b>- 0.1</b>	<b>0.1</b>	<b>19.4</b>	<b>- 0.1</b>	<b>0.1</b>	<b>18.6</b>	<b>- 0.6</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total/Portfolio</b>	<b>1,057.1</b>	<b>25.1</b>	<b>8.4</b>	<b>939.5</b>	<b>11.2</b>	<b>7.1</b>	<b>1,275.7</b>	<b>8.8</b>	<b>7.6</b>	<b>925.5</b>	<b>- 1.9</b>	<b>5.6</b>

1) Market value deviation from nominal value.

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 €76 million (1998: €47 million) on the balance-sheet date. The market risk according to the value-at-risk model amounts to €44 million (1998: €16 million).

Other equity interests and securities are also based on market prices. A 10 percent hypothetical

change in the market value of these assets would amount to €325 million (1998: €470 million).

### 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 Division and precious metals trading. Electricity price hedges were also used to a very limited extent for the first time in 1999. There were no outstanding hedging transactions in the Electricity Division on the quarterly balance-sheet dates. Exclusive use is made of established and commonly used instruments with sufficient market liquidity. The counterparties to these transactions are financial institutions and trading companies that satisfy VEBA's credit rating criteria.

Hedging transactions involving oil-related derivatives cover the risk of fluctuating prices for petroleum 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 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.

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 immaterial volume of the hedge instruments in metals is contracted in order to use expected price fluctuations.

**Total Volume of Oil- and Metal-Related Financial Derivatives during the 1999 Financial Year  
and as of December 31, 1998**

€ in millions (Remaining maturities)	Dec. 31, 1999		Sep. 30, 1999		Jun. 30, 1999		Mar. 31, 1999		Dec. 31, 1998	
	Nominal value	Market value <sup>1)</sup>	Nominal value	Market value <sup>1)</sup>	Nominal value	Market value <sup>1)</sup>	Nominal value	Market value <sup>1)</sup>	Nominal value	Market value <sup>1)</sup>
Crude oil swaps										
Buy										
up to 1 year	33.2	3.4	51.6	4.2	27.2	2.5	53.9	2.8	103.6	- 25.7
more than 1 year	-	-	-	-	30.3	3.0	29.1	- 0.3	0.0	0.0
Sell										
up to 1 year	188.2	- 20.8	95.0	- 29.6	130.9	- 23.0	145.2	- 2.6	190.3	51.2
more than 1 year	-	-	-	-	30.9	- 2.4	29.7	0.9	20.7	0.4
<b>Subtotal/Portfolio</b>	<b>221.4</b>	<b>- 17.4</b>	<b>146.6</b>	<b>- 25.4</b>	<b>219.3</b>	<b>- 19.9</b>	<b>257.9</b>	<b>0.8</b>	<b>314.6</b>	<b>25.9</b>
Refinery margin and petroleum product swaps										
up to 1 year	220.3	- 5.2	186.4	0.8	176.9	14.3	138.5	11.8	147.8	11.7
more than 1 year	11.0	1.5	27.5	- 0.3	24.7	- 1.7	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>231.3</b>	<b>- 3.7</b>	<b>213.9</b>	<b>0.5</b>	<b>201.6</b>	<b>12.6</b>	<b>138.5</b>	<b>11.8</b>	<b>147.8</b>	<b>11.7</b>
Exchange-traded oil future contracts										
Buy										
up to 1 year	15.2	0.1	14.1	- 0.7	17.0	1.2	17.2	2.3	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell										
up to 1 year	52.9	- 0.5	7.2	0.2	25.2	- 1.8	34.6	- 6.5	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>68.1</b>	<b>- 0.4</b>	<b>21.3</b>	<b>- 0.5</b>	<b>42.2</b>	<b>- 0.6</b>	<b>51.8</b>	<b>- 4.2</b>	<b>0.0</b>	<b>0.0</b>
<b>Total/Portfolio Oil-Related Financial Derivatives</b>	<b>520.8</b>	<b>- 21.5</b>	<b>381.8</b>	<b>- 25.4</b>	<b>463.1</b>	<b>- 7.9</b>	<b>448.2</b>	<b>8.4</b>	<b>462.4</b>	<b>37.6</b>
OTC precious metal future contracts										
Buy										
up to 1 year	128.0	5.2	125.9	2.8	55.0	0.2	40.5	0.7	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell										
up to 1 year	56.7	- 10.3	65.8	- 7.5	95.4	- 6.3	55.0	- 12.1	-	-
more than 1 year	2.5	0.2	1.9	- 0.3	1.3	0.0	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>187.2</b>	<b>- 4.9</b>	<b>193.6</b>	<b>- 5.0</b>	<b>151.7</b>	<b>- 6.1</b>	<b>95.5</b>	<b>- 11.4</b>	<b>0.0</b>	<b>0.0</b>
Precious metal options										
Buy										
up to 1 year	0.5	0.0	-	-	13.0	0.0	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell										
up to 1 year	3.0	0.0	2.3	0.0	2.4	0.0	-	-	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>3.5</b>	<b>0.0</b>	<b>2.3</b>	<b>0.0</b>	<b>15.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Exchange traded metal future contracts										
Buy										
up to 1 year	11.2	0.4	3.1	0.1	8.7	0.1	8.9	0.2	-	-
more than 1 year	-	-	-	-	-	-	-	-	-	-
Sell										
up to 1 year	85.1	- 4.6	63.5	- 3.6	55.6	- 0.5	40.4	0.8	-	-
more than 1 year	-	-	2.1	- 0.2	-	-	-	-	-	-
<b>Subtotal/Portfolio</b>	<b>96.3</b>	<b>- 4.2</b>	<b>68.7</b>	<b>- 3.7</b>	<b>64.3</b>	<b>- 0.4</b>	<b>49.3</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total/Portfolio Metal-Related Financial Derivatives</b>	<b>287.0</b>	<b>- 9.1</b>	<b>264.6</b>	<b>- 8.7</b>	<b>231.4</b>	<b>- 6.5</b>	<b>144.8</b>	<b>- 10.4</b>	<b>0.0</b>	<b>0.0</b>
<b>Total/Portfolio Oil- and Metal-Related Financial Derivatives</b>	<b>807.8</b>	<b>- 30.6</b>	<b>646.4</b>	<b>- 34.1</b>	<b>694.5</b>	<b>- 14.4</b>	<b>593.0</b>	<b>- 2.0</b>	<b>462.4</b>	<b>37.6</b>

1) Market value deviation from nominal value.

The market value of commodity hedging transactions for which VEBA has not established hedge accounting is –€11.5 million.

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 (1998: €23 million). These are commodity hedging transactions for which VEBA has not established

hedging conditions involving booked or pending underlying transactions.

### 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, counterparty risk until maturity is restricted to the replacement cost incurred by covering the open position should a counterparty default. Only transactions with a positive market value for VEBA are exposed to this risk. Exchange traded oil and metal

future contracts with a nominal value of €164.4 million as of December 31, 1999, bear no counterparty risk. Derivative transactions are generally executed on the basis of standard agreements that allow all outstanding transactions with contracting partners to be offset. Counterparties only include financial institutions that satisfy VEBA's credit rating criteria. The Divisions involved in oil- and metal-related forwards 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 have the following lifetime and credit structure as of December 31, 1999.

Rating of Counterparties € in millions	Total		up to 1 year		1 to 5 years		more than 5 years	
	Nominal value	Counterparty risk	Nominal value	Counterparty risk	Nominal value	Counterparty risk	Nominal value	Counterparty risk
Standard & Poor's and/or Moody's								
AAA and Aaa	761.0	4.0	546.5	1.9	66.7	1.0	147.8	1.1
AA+ and Aaa or AAA and Aa1 through AA- and Aa3	2,820.3	51.7	2,010.1	49.0	682.4	2.7	127.8	0.0
AA- and A1 or A+ and Aa3 through A or A2	1,694.2	18.3	1,505.1	14.5	132.9	3.4	56.2	0.4
Other	332.7	8.7	310.0	8.0	22.7	0.7	0.0	0.0
<b>Total</b>	<b>5,608.2</b>	<b>82.7</b>	<b>4,371.7</b>	<b>73.4</b>	<b>904.7</b>	<b>7.8</b>	<b>331.8</b>	<b>1.5</b>

## (28) Segment Information

The Company's reportable segments are presented in line with the Group's internal organizational and reporting structure organized according to products and services. The reportable segments are Electricity, Oil, Chemicals, Real-Estate Management, Distribution/Logistics, Telecommunications, and Silicon Wafers. Both the holding company and effects from consolidation are included in the item "Other/Consolidation."

Internal operating profit is the most important internal key figure at VEBA in terms of earnings and serves as an indicator of a business's long-term earnings power. Internal operating profit is adjusted pre-tax income (after foreign taxes related to exploration and production). Pretax income is adjusted - primarily to exclude material non-operating income and expenses which are unusual (as defined by VEBA Group) 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.

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

€ in millions	1999	1998
<b>Internal Operating Profit</b>	<b>2,274</b>	<b>1,946</b>
Net book gains	2,221	616
Restructuring expenses/ cost management programs	- 464	- 463
Other non-operating earnings	- 379	83
Foreign exploration and production income taxes	301	210
<b>Income before Income Taxes</b>	<b>3,953</b>	<b>2,392</b>

Net book gains in the reporting period primarily comprise gains of the disposal of the shareholding in Cable & Wireless plc (€1,347 million), the TeleColumbus group, and VRT's fixed-line business. They are offset by the expense resulting from the complete write off of the Corporation's engagement in Iridium.

Restructuring and cost-management expenses principally relate to regional distribution companies in Electricity and expenses associated with the Degussa-Hüls merger.

Other non-operating earnings in the year under review include expenses stemming from the additions to provisions for tax-related interest expenses resulting from the German Tax Relief Act 1999/2000/2002 as well as the German Internal Revenue Services' more stringent legal interpretation regarding the

tax treatment of provisions for nuclear waste disposal. Due to the sale contract regarding VEBA's interest in E-Plus in 1999, for which closing took place on February 10, 2000, other non-operating earnings also include E-Plus's operating losses accounted for using the equity method since July 1, 1999.

Due to the high tax burden, statements on pretax income in VEBA Oel's upstream sector are not of great significance. Internal operating profit for the Oil Division is therefore stated net of foreign E&P 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.

<b>Segment Information by Division</b> € in million		Electricity	Oil	Chemicals	Real-Estate Management	Distribution/Logistics	Telecommunications	Silicon Wafers	Holding/ Others	Total
External sales <sup>1)</sup>	1999	7,719	11,778	14,632	1,145	16,872	108	651	-	52,905
	1998	8,141	10,282	4,653	1,451	17,376	201	683	-	42,787
Intersegment sales <sup>2)</sup>	1999	5,164	3,164	4,396	119	1,251	9	249	-	14,352
	1998	5,609	2,830	1,656	207	493	12	189	-	10,996
Total sales	1999	12,883	14,942	19,028	1,264	18,123	117	900	-	67,257
	1998	13,750	13,112	6,309	1,658	17,869	213	872	-	53,783
Depreciation/amortization and write-downs	1999	1,109	257	770	133	317	100	148	100	2,934
	1998	1,215	158	377	140	336	274	150	73	2,723
Earnings from companies accounted for under the equity method	1999	505	14	18	9	10	- 193	- 11	72	424
	1998	439	- 10	48	13	9	- 268	- 34	2	199
Interest income	1999	147	18	- 51	- 53	- 135	32	- 60	160	58
	1998	201	25	22	- 61	- 137	17	- 39	- 33	- 5
Internal operating profit	1999	1,505	78	475	184	267	- 180	- 214	159	2,274
	1998	1,875	235	251	149	144	- 461	- 240	- 7	1,946
Capital expenditures										
Companies accounted for under the equity method	1999	273	-	12	52	1	43	-	-	381
	1998	124	-	1	13	20	1	24	-	183
Other financial assets	1999	483	907	337	112	445	101	11	1,714	4,110
	1998	407	36	170	37	192	196	-	164	1,202
Other fixed assets	1999	593	401	949	169	295	27	49	43	2,526
	1998	911	424	590	155	371	163	194	32	2,840
Total capital expenditures	1999	1,349	1,308	1,298	333	741	171	60	1,757	7,017
	1998	1,442	460	761	205	583	360	218	196	4,225
Total assets	1999	23,898	5,295	9,734	3,395	7,971	901	1,603	- 413	52,384
	1998	22,700	3,292	4,120	3,702	7,644	2,414	1,473	- 2,276	43,069

1) External sales include petroleum and electricity taxes of €3,942 million (1998: €3,742 million).

2) Intersegment sales are priced at market prices.

## Geographic Segmentation

The regional segmentation of external sales, internal operating profit, and fixed assets is as follows.

<b>Geographic Segment Information</b> € in millions		Germany	Euroland	Rest of Europe	USA	Other	Total
External sales by destination	1999	26,806	6,549	5,945	8,688	4,917	52,905
	1998	26,320	4,594	4,292	5,092	2,489	42,787
External sales by operation	1999	32,453	5,046	2,593	8,123	4,690	52,905
	1998	28,347	4,992	2,689	4,791	1,968	42,787
Internal operating profit	1999	1,875	49	142	73	135	2,274
	1998	2,036	- 76	102	- 163	47	1,946
Long-lived assets	1999	13,425	700	1,234	1,963	1,060	18,382
	1998	12,894	567	998	1,337	558	16,354

## Information on Major Customers

Excluding Germany, VEBA's customer structure did not result in any major concentration in any given geographical region or business area. Due to the large number of

customers and the variety of business activities, there are no customers whose business volume is material compared with the company's total business volume.

### (29) Subsequent Events

- As of January 1, 2000, VEBA Oel acquired subsidiaries of Mobil Oil which own 28 percent of Aral's shares. VEBA's interest in Aral, accounted for at equity in the current year, will be fully consolidated in the 2000 financial year. In the year under review Aral's unaudited sales were €10,641 million and its unaudited consolidated net income was -€17 million.
- As of January 10, 2000, Preussen-Elektra acquired an 87.4 percent shareholding of EZH, a Dutch energy utility. The remaining 12.6 percent was acquired on January 27, 2000. EZH will be fully consolidated in 2000. According to EZH's financial statements for the year ended December 31, 1999, in accordance with Dutch GAAP sales amounted to €491 million and net income to €22 million.
- VRT and Bell South concluded the sale and transfer agreement for the shares in E-Plus which was registered by a notary public on January 26, 2000. Closing took place on February 10, 2000, where the agreed-on sale price became due and was paid. The sale price is €7.4 billion in addition to the extinguishment of shareholder loans in the amount of €1 billion. VEBA's share in both amounts is 51.25 percent. The contingent liability obligation to grant subordinated shareholder loans mentioned in note 24 therefore no longer exists.
- At VEBA's Extraordinary Stockholders' Meeting on February 10, 2000, 99.9 percent of the VEBA stockholders approved the merger with VIAG. VIAG stockholders also approved the merger by a 99.5 percent vote at VIAG's Extraordinary Stockholders' Meeting on February 14, 2000.

### (30) Supervisory Board and Board of Management

Provided that the Annual Stockholders' Meeting of VEBA AG on May 25, 2000, approves the proposed dividend, total remuneration of the members of the Supervisory Board amounts to €1.8 million and that of the members of the Board of Management, including compensation for the performance of duties at subsidiaries, amount to €9.6 million.

Total payments to retired members of the Board of Management and their beneficiaries amount to €7.4 million.

Provisions of €39.5 million have been provided for the pension obligations of VEBA to retired members of the VEBA Board of Management and their beneficiaries.

As of December 31, 1999, loans granted to members of the Board

of Management totaling €0.2 million had been completely repaid. The contractual interest rate on these loans was 5.5 percent per year with a term of 6 years.

The members of the Supervisory Board and the Board of Management are listed on pages 4 and 7.

Düsseldorf, March 10, 2000

The Board of Management

Hartmann

Bernotat

Beuth

Bonse-Geuking

Gaul

Harig

Krüper

Mamsch

### Information on Additional Mandates Carried by Members of VEBA AG's Supervisory Board

**Hermann Josef Strenger**  
Chairman of the Supervisory Board,  
Bayer AG  
Chairman

- Bayer AG (Chairman)
- Commerzbank AG
- Degussa-Hüls AG
- Linde AG
- Agfa-Gevaert N.V. (Chairman)

**Hubertus Schmoltdt**  
Chairman of the  
Industriegewerkschaft Bergbau,  
Chemie, Energie  
Deputy Chairman

- Bayer AG
- Buna Sow Leuna  
Olefinverbund GmbH
- RAG Coal International AG

**Ralf Blauth**  
Industrial Clerk

- Degussa-Hüls AG

**Dr. Rolf-E. Breuer**  
Spokesperson of the Board  
of Management,  
Deutsche Bank 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,  
Thyssen Krupp AG

- Thyssen Krupp Industries AG  
(Chairman)<sup>1</sup>
- Allianz Versicherungs-AG
- RAG Aktiengesellschaft
- Ruhrgas AG
- Volkswagen AG

- ABB AG
- Suez Lyonnaise des Eaux S.A.
- Thomson-CSF S.A.
- The Budd Company<sup>2</sup>

**Rainer Dücker**  
Power Plant Worker

- PreussenElektra AG
- PreussenElektra Netz Verwal-  
tungs-GmbH

**Ulrich Hocker**  
General Manager,  
Deutsche Schutzvereinigung für  
Wertpapierbesitz e.V.

- Brau und Brunnen AG
- Concordia Bau und Boden AG  
(Chairman)
- DSL Holding AG
- Gerresheimer Glas AG
- Karstadt Quelle 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
- Philipp Holzmann AG
- Schenker AG
- Agfa-Gevaert N.V.
- Cobepa N.V.
- Gevaert N.V. (Chairman)
- GIB Group N.V.
- Tessenderlo Chemie N.V.
- Vlaamse Uitgeversmaatschappij  
N.V.

As of December 31,  
1999

- 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

<sup>1</sup> Exempted Group  
mandate

<sup>2</sup> Other Group mandate



**Dr. Klaus Liesen**  
Chairman of the Supervisory Board,  
Ruhrgas AG

- Allianz AG (Chairman)
- Deutsche Bank AG
- Mannesmann AG
- Preussag AG
- Ruhrgas AG (Chairman)
- Volkswagen AG (Chairman)
- Beck GmbH & Co. KG

**Herbert Mai**  
Chairman of the Gewerkschaft  
Öffentliche Dienste, Transport  
und Verkehr

- Deutsche Lufthansa AG

**Dagobert Millinghaus**  
Accounting and Administration  
Manager

- Stinnes AG

**Margret Mönig-Raane**  
First Chair,  
Gewerkschaft Handel, Banken und  
Versicherungen

- Deutsche Bank AG

**Dr. Henning Schulte-Noelle**  
Chairman of the Board  
of Management,  
Allianz AG

- Allianz Lebensversicherungs-AG  
(Chairman)<sup>1</sup>
- Allianz Versicherungs-AG (Chair-  
man)<sup>1</sup>
- BASF AG
- Dresdner Bank AG
- Linde AG
- MAN AG
- Mannesmann AG
- Münchener Rückversicherungs-  
Gesellschaft AG
- Siemens AG
- ThyssenKrupp AG
- AGF S.A.<sup>2</sup>
- Elvia Versicherungen AG<sup>2</sup>
- Fireman's Fund Inc.<sup>2</sup>
- RAS S.p.A.<sup>2</sup>

**Morris Tabaksblat**  
Chairman of the  
Administrative Board,  
Reed Elsevier plc

- Reed Elsevier plc. (Chairman)
- Aegon N.V.
- TNT Post Group N.V.

**Kurt F. Viermetz**  
Member of the Board of Directors,  
J. P. Morgan & Co., Inc.

- Bayerische Hypo- und Vereins-  
bank AG (Chairman)
- Hoechst AG
- Grosvenor Estate Holdings
- J.P. Morgan & Co., Inc.

**Dr. Bernd Voss**  
Member of the Board  
of Management,  
Dresdner Bank AG

- Deutsche Hypothekenbank  
Frankfurt-Hamburg AG<sup>1</sup>
- Dresdner Bauspar AG<sup>1</sup>
- Oldenburgische Landesbank AG  
(Chairman)<sup>1</sup>
- Continental AG
- Deutsche Schiffsbank AG
- Karstadt Quelle AG
- Preussag AG
- Quelle AG
- Stinnes AG
- Varta AG
- Volkswagen AG
- Wacker Chemie GmbH
- Reuschel & Co. (Chairman)<sup>2</sup>

**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 Oel Verarbeitungs GmbH

### Mandates Carried by Members of VEBA AG's Board of Management

**Ulrich Hartmann**  
Chairman and CEO

- Degussa-Hüls AG (Chairman)<sup>1</sup>
- PreussenElektra AG (Chairman)<sup>1</sup>
- Stinnes AG (Chairman)<sup>1</sup>
- VEBA Oel AG (Chairman)<sup>1</sup>
- Viterra AG (Chairman)<sup>1</sup>
- Deutsche Lufthansa AG
- Hochtief AG
- IKB Deutsche Industriebank AG
- Münchener Rückversicherungs-Gesellschaft AG (Chairman)
- RAG Aktiengesellschaft (Chairman)
- Henkel KGaA

**Alain D. Bandle**  
Member of the Board of Management  
Telecommunications  
(until October 29, 1999)

- E-Plus Mobilfunk GmbH (Chairman)
- Bouygues Telecom S.A.
- VEBA Telecom GmbH (Chairman)<sup>2</sup>

**Dr. Wulf H. Bernotat**  
Member of the Board of Management  
Chairman of the Board of Management of Stinnes AG

- Brenntag AG (Chairman)<sup>1</sup>
- Schenker AG (Chairman)<sup>1</sup>
- Stinnes Interfer AG (Chairman)<sup>1</sup>
- Stinnes Corporation (Chairman)<sup>2</sup>

**Gunther Beuth**  
Member of the Board of Management  
Chairman of the Board of Management of Viterra AG

- Viterra Baupartner AG (Chairman)<sup>1</sup>
- Viterra Energy Services AG (Chairman)<sup>1</sup>
- Viterra Wohnen AG (Chairman)<sup>1</sup>
- Viterra Wohnpartner AG (Chairman)<sup>1</sup>
- Deutschbau Wohnungsgesellschaft mbH
- LEG Landesentwicklungsgesellschaft mbH
- Rheinische Hypothekenbank AG
- Deutschbau Holding GmbH
- VEBA Assekuranz Vermittlungs-GmbH<sup>2</sup>
- Westdeutsche ImmobilienBank
- Westfälische Provinzialversicherung

**Wilhelm Bonse-Geuking**  
Member of the Board of Management  
Chairman of the Board of Management of VEBA Oel AG

- PreussenElektra Kraftwerke AG<sup>1</sup>
- VEBA Wärmeservice GmbH (Chairman)<sup>1</sup>
- VEBA Oel Verarbeitings GmbH (Chairman)<sup>1</sup>
- Aral AG
- VEBA Oil & Gas GmbH (Chairman)<sup>2</sup>
- HDI Haftpflichtverband der Deutschen Industrie
- Petrolera Cerro Negro S.A.

As of December 31, 1999, or the date of retirement from the 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

1 Exempted Group mandate

2 Other Group mandate

**Dr. Hans Michael Gaul**  
Member of the Board  
of Management  
Chief Financial Officer

- Degussa-Hüls AG<sup>1</sup>
- PreussenElektra AG<sup>1</sup>
- Stinnes AG<sup>1</sup>
- VEBA Oel AG<sup>1</sup>
- Viterra AG<sup>1</sup>
- Allianz Versicherungs-AG
- DKV AG
- E-Plus Mobilfunk GmbH
- RAG Aktiengesellschaft
- VAW aluminium AG
- Volkswagen AG
- MEMC, Inc.<sup>2</sup>
- VEBA Assekuranz Vermittlungs-GmbH (Chairman)<sup>2</sup>
- VEBA Corporation<sup>2</sup>
- VEBA Electronics, Llc.<sup>2</sup>
- VEBA Telecom GmbH<sup>2</sup>
- VR Telecommunications GmbH & Co.

**Dr. Hans-Dieter Harig**  
Member of the Board  
of Management  
Chairman of the Board  
of Management  
of PreussenElektra AG

- Avacon AG (Chairman)<sup>1</sup>
- Gelsenwasser AG (Chairman)<sup>1</sup>
- PreussenElektra Kraftwerke AG (Chairman)<sup>1</sup>
- Schlesweg AG (Chairman)<sup>1</sup>
- Thüga AG (Chairman)<sup>1</sup>
- Bewag Aktiengesellschaft
- Energie-Aktiengesellschaft Mitteldeutschland
- EWE Aktiengesellschaft
- Hamburgische Electricitäts-Werke AG
- Veag Vereinigte Energiewerke AG (Chairman)
- BKW FMB Energie AG
- PreussenElektra Kernkraft Verwaltungs-GmbH (Chairman)<sup>2</sup>
- PreussenElektra Netz Verwaltungs-GmbH<sup>2</sup>
- Sydkraft AB (Chairman)
- Uranit GmbH

**Dr. Manfred Krüper**  
Member of the Board  
of Management  
Group Human Resource Management

- Viterra AG<sup>1</sup>
- VEBA Oel AG<sup>1</sup>
- RAG Aktiengesellschaft
- RAG Immobilien AG
- Victoria Lebensversicherungs AG
- Victoria Versicherung AG
- VEBA Telecom GmbH<sup>2</sup>

**Helmut Mamsch**  
Member of the Board  
of Management  
Group Corporate Strategy

- Degussa-Hüls AG<sup>1</sup>
- Commerzbank AG
- Kali und Salz Beteiligungs AG
- Readymix AG
- SGE Deutsche Holding GmbH
- Steag AG
- Logica PLC
- MEMC, Inc. (Chairman)<sup>2</sup>
- VEBA Corporation (Chairman)<sup>2</sup>
- VEBA Electronics, Llc. (Chairman)<sup>2</sup>
- VEBA Telecom GmbH<sup>2</sup>

## Major Shareholdings

Name	Location	Share in acc. with § 16 German Stock Corporation Act	Stockholders' Equity <sup>1)</sup>	Earnings <sup>1)</sup>	Sales <sup>1)</sup>
		%	€	€	€
			in millions	in millions	in millions
<b>I. Affiliated Companies</b>					
<b>Electricity</b>					
<b>PreussenElektra AG</b>	Hanover	100.0	2,254.0	269.6 <sup>2)</sup>	3,060.7
Avacon AG	Helmstedt	54.7	492.3	157.9	1,786.1
Braunschweigische Kohlen-Bergwerke AG	Helmstedt	99.9	202.8	28.4 <sup>2)</sup>	211.5
e. dis. Energie Nord AG	Fürstenwalde an der Spree	70.0	687.1	49.4	1,213.4
Gelsenwasser AG	Gelsenkirchen	52.1	206.4	22.7	219.4
Kernkraftwerk Brokdorf GmbH	Hamburg	80.0	230.1	23.0 <sup>2)</sup>	390.3
PreussenElektra Kernkraft GmbH & Co. KG	Hanover	100.0	204.5	93.2	1,122.4
PreussenElektra Kraftwerke AG	Hanover	100.0	114.5	109.1 <sup>2)</sup>	887.2
PreussenElektra Kraftwerke AG & Co. KG	Hanover	100.0	255.6	119.5	766.0
PreussenElektra Netz GmbH & Co. KG	Hanover	100.0	255.6	186.6	629.0
Schleswig AG	Rendsburg	65.3	323.9	29.2	948.1
Thüga AG	Munich	56.5	788.2	72.1	191.4
PreussenElektra Scandinavia AB	S, Malmö	100.0	819.9	27.7	4.0
<b>Oil</b>					
<b>VEBA Oel AG</b>	Gelsenkirchen-Buer	100.0	671.5	270 <sup>2)</sup>	9,229.8
VEBA Oel VEG GmbH	Gelsenkirchen-Buer	100.0	20.5	5.8 <sup>2)</sup>	149.3
VEBA Oil & Gas GmbH	Essen	100.0	444.1	70.1 <sup>2)</sup>	603.9
VEBA Oil Libya GmbH	Gelsenkirchen-Buer	100.0	134.0	3.0 <sup>2)</sup>	348.3
VEBA Wärmeservice GmbH	Gelsenkirchen-Buer	100.0	33.3	0.2 <sup>2)</sup>	1,702.8
VEBA Oil & Gas UK Ltd.	UK, London	100.0	342.6	80.7	235.7
<b>Chemicals</b>					
<b>Degussa-Hüls AG</b>	Frankfurt am Main	64.7	2,309.5	191.6	5,100.4
Allgemeine Gold- und Silberscheideanstalt AG	Pforzheim	90.8	34.3	3.9	213.0
Asta Medica AG	Dresden	100.0	154.1	13.3 <sup>2)</sup>	315.5
Cerdec AG Keramische Farben	Frankfurt am Main	100.0	58.2	2.0	105.7
Degussa Bank GmbH	Frankfurt am Main	100.0	40.9	9.7 <sup>2)</sup>	14.1
Oxeno Olefinchemie GmbH	Marl	100.0	38.6	17.3 <sup>2)</sup>	432.7
Phenolchemie GmbH & Co. KG	Gladbeck	99.5	69.0	10.2	584.4
Röhm GmbH	Darmstadt	99.5	187.4	27.4 <sup>2)</sup>	729.9
Stockhausen GmbH & Co. KG	Krefeld	99.9	144.7	33.6	353.5
Creanova Inc.	USA, Somerset, NJ	100.0	181.3	11.1	376.3
Degussa-Hüls Antwerpen N.V.	B, Antwerp	100.0	56.0	14.1	304.0
Degussa-Hüls Corporation <sup>3)</sup>	USA, Ridgefield Park, NJ	100.0	800.7	49.1	2,647.0
Degussa-Hüls Ltda.	BR, Guarulhos	90.9	75.5	11.3	190.4
<b>Real-Estate Management</b>					
<b>Viterra AG</b>	Essen	99.9	666.7	24.2 <sup>2)</sup>	405.8
VEBA Wohnen GmbH	Gelsenkirchen-Buer	100.0	37.3	8.3 <sup>2)</sup>	49.2
Viterra Baupartner AG	Bochum	100.0	22.3	7.0 <sup>2)</sup>	156.1
Viterra Energy Services AG	Essen	100.0	12.8	- 2.7 <sup>2)</sup>	30.0
<b>Distribution/Logistics</b>					
<b>Stinnes Aktiengesellschaft</b>	Mülheim an der Ruhr	65.5	808.2	92.9	1,531.7
Brenntag AG & Co. OHG Chemieevertrieb	Mülheim an der Ruhr	100.0	82.8	8.7 <sup>2)</sup>	412.9
Stinnes Interfer Beteiligungs-AG & Co. OHG	Essen	100.0	66.8	18.1 <sup>2)</sup>	1,090.2
Stinnes Intertec GmbH & Co. OHG	Mülheim an der Ruhr	100.0	14.6	3.4 <sup>2)</sup>	138.8
Brenntag S.A.	F, Chassieu	100.0	52.7	6.0	305.8
BTL AB	S, Göteborg	100.0	263.2	- 28.8	0.3
Raab Karcher Bauwstoffen B.V.	NL, Breda	100.0	28.9	7.0	275.5
Schenker BTL-AB	S, Göteborg	100.0	45.9	40.2	935.1
Schenker-BTL AG	A, Vienna	100.0	29.5	10.1	350.2
Stinnes Corporation	USA, Tarrytown, NY	100.0	138.2	19.5	1,019.6
<b>VEBA Electronics GmbH</b>	Düsseldorf	100.0	598.1	- 12.6	-
EBV-Elektronik GmbH	Kirchheim	100.0	69.9	2.4	489.5
VEBA Electronics Beteiligungs GmbH	Essen	100.0	577.1	- 2.4	-
VEBA Electronics US Holding GmbH	Düsseldorf	100.0	371.9	0.0	-
EBV Electronics Holdings Inc.	USA, Wilmington, DE	100.0	248.9	-	-
Insight Electronics LLC	USA, San Diego, CA	100.0	85.8	23.8	767.2
VEBA Electronics LLC	USA, Wilmington, DE	100.0	431.4	- 0.9	-
VEBA Electronics UK PLC	UK, Salford	100.0	123.2	- 2.4	-
Wyle Electronics. Inc.	USA, Irvine, CA	100.0	184.5	- 19.7	1,809.7

1) These 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 the year-end current rate, and sales are translated at the average rate of the year.

2) Profit- and loss-pooling agreement (earnings before pooling).

3) Joint venture, prorata consolidated.

Name	Location	Share in acc. with § 16 German Stock Corporation Act	Stockholders' Equity <sup>1)</sup>	Earnings <sup>1)</sup>	Sales <sup>1)</sup>
		%	€	€	€
			in millions	in millions	in millions
<b>Others</b>					
E-Plus Mobilfunk GmbH	Düsseldorf	60.3	-1,745.1	- 177.7	1,214.8
VEBA Telecom GmbH	Düsseldorf	100.0	1,248.5	- 42.4 <sup>2)</sup>	-
VR Telecommunications GmbH & Co. <sup>3)</sup>	Norderfriedrichskoog	51.2	2,347.6	836.1	116.5
MEMC Electronic Materials. Inc.	USA, St. Peters, MO	71.8	767.6	- 100.9	132.3
MEMC Southwest. Inc.	USA, Sherman, TX	80.0	270.0	- 23.1	163.3
VEBA Corporation	USA, New York, NY	100.0	1,379.1	32.9	-
<b>II. Associated Companies<sup>4)</sup></b>					
<b>Electricity</b>					
Bewag AG	Berlin	23.0	1,897.5	151.9	1,994.8
Energie-Aktiengesellschaft Mitteldeutschland	Kassel	46.0	189.5	16.1	834.9
Erdgas Mitteldeutschland GmbH	Kassel	26.0	30.8	4.7	151.7
Erdgas Schwaben GmbH	Augsburg	48.0	47.5	8.4	146.6
Erdgas Südbayern GmbH	Munich	25.0	45.4	5.9	250.1
Erdgas Südsachsen GmbH	Chemnitz	49.0	112.7	5.1	194.2
EWE Aktiengesellschaft	Oldenburg	27.4	463.4	41.4	1,924.7
Fränkisches Überlandwerk AG	Nuremberg	61.2	101.0	12.5	427.6
Freiburger Energie- und Wasserversorgungs-AG	Freiburg	35.9	66.5	18.2 <sup>2)</sup>	223.5
Gasag Berliner Gaswerke AG	Berlin	13.0	434.5	- 45.7	431.2
Gemeinschaftskernkraftwerk Grohnde GmbH	Emmerthal	50.0	153.4	10.7 <sup>2)</sup>	212.5
Hamburgische Electricitäts-Werke AG	Hamburg	15.4	631.9	83.5	1,397.0
Hein Gas Hamburger Gaswerke GmbH	Hamburg	28.1	160.5	22.5	629.3
Kernkraftwerk Krümmel GmbH	Hamburg	50.0	102.3	10.2 <sup>2)</sup>	228.6
Kernkraftwerke Lippe-Ems GmbH	Lingen	12.5	465.5	50.6 <sup>2)</sup>	519.3
Lausitzer Braunkohle AG	Senftenberg	30.0	803.6	8.2	827.6
Mainova Aktiengesellschaft	Frankfurt am Main	24.3	374.9	2.8	1,002.2
rhenag Rheinische Energie AG	Cologne	41.9	214.9	16.1	75.2
Städtische Werke Magdeburg GmbH	Magdeburg	29.0	120.5	5.6	205.7
Stadtwerke Hannover AG	Hanover	12.0	255.5	39.0 <sup>2)</sup>	629.5
swb AG	Bremen	22.5	242.6	33.4	643.9
Überlandwerk Unterfranken AG	Würzburg	40.1	108.7	11.6	365.7
Veag Vereinigte Energiewerke AG	Berlin	26.3	2,099.1	-	2,443.1
BKW FMB Energie AG	CH, Bern	20.0	161.4	18.6	684.2
Gräningeverkens AB	S, Bollstabruk	13.3	311.1	36.9	240.8
Sydskraft AB	S, Malmö	20.7	2,200.9	309.4	177.6
<b>Oil</b>					
Aral AG	Bochum	70.9	168.7	12.7 <sup>2)</sup>	3,464.0
Ruhr Oel GmbH	Düsseldorf	50.0	368.3	-	994.0
<b>Chemicals</b>					
Norddeutsche Raffinerie AG	Hamburg	10.0	233.7	23.9	1,135.4
Polymer Latex GmbH & Co. KG	Marl	50.0	112.3	11.5	321.6
TFL Ledertechnik GmbH & Co. KG	Darmstadt	50.0	68.5	4.8	203.5
Cyro Industries	USA, Rockaway, NJ	50.0	149.8	25.1	227.2
Nippon Aerosil Co., Ltd.	J, Tokyo	50.0	30.4	4.3	63.4
<b>Real-Estate Management</b>					
Deutschbau-Holding GmbH	Frankfurt am Main	50.0	713.7	- 24.1	-
WBRM-Holding GmbH	Essen	50.0	84.9	- 7.5	-
<b>Others</b>					
RAG Aktiengesellschaft	Essen	39.2	481.8	0.0	6,196.0
VIAG AG	Munich	10.0	4,558.0	223.9	-
Bouygues Telecom S.A.	F, Velizy-Villacoublay	17.5	710.5	- 394.1	593.4
Cablecom Holding AG	CH, Frauenfeld	32.0	115.6	29.0	351.5
Posco Hüls Co. Ltd.	ROK, Chonan	40.0	111.7	- 10.6	148.2
Taisil Electronic Materials. Inc.	RC, Hsin-Chu	45.0	195.8	- 10.7	88.6

1) These 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 the year-end current rate, and sales are translated at the average rate of the year.

2) Profit- and loss-pooling agreement (earnings before pooling).

3) Joint venture, prorata consolidated.

4) Mainly previous year's figures, unless profit- and loss-pooling agreement exists.

## VEBA Group: Ten-Year Highlights

		1990	1991	1992	1993	1994 <sup>1)</sup>	1995	1996	1997	1998	1999
<b>Sales</b>	€ million	27,912	30,424	33,448	33,924	36,451	37,003	38,112	42,294	42,787	52,905
thereof											
domestic	percent	71.2	74.5	73.3	71.7	71.6	70.0	68.6	65.3	61.5	50.7
foreign	percent	28.8	25.5	26.7	28.3	28.4	30.0	31.4	34.7	38.5	49.3
<b>Income</b>											
before income taxes	€ million	1,291	1,329	954	779	1,304	1,961	2,268	2,543	2,392	3,953
after income taxes	€ million	618	625	533	518	807	1,077	1,347	1,544	1,152	2,902
after minority interests	€ million	561	560	463	422	698	979	1,257	1,437	1,196	2,668
Internal operating profit	€ million							2,035	2,240	1,946	2,274
US GAAP earnings per share	€	-	-	-	-	1.78	2.13	2.58	2.98	2.34	5.95
Total dividend	€ million	252	277	284	323	373	424	480	534	540	628
Dividend per share	€	0.56	0.61	0.61	0.66	0.77	0.87	0.97	1.07	1.07	1.25
<b>Assets</b>											
Fixed assets	€ million	14,444	15,732	17,092	18,000	20,955	23,268	25,326	29,802	31,316	35,646
Current assets	€ million	9,108	8,922	9,632	10,398	10,809	11,373	11,445	11,406	11,753	16,738
thereof: liquid funds	€ million	(2,120)	(1,548)	(1,447)	(1,878)	(2,145)	(2,128)	(2,541)	(652)	(507)	(1,837)
Total assets	€ million	23,552	24,654	26,724	28,398	31,764	34,641	36,771	41,208	43,069	52,384
<b>Liabilities and Stockholders' Equity</b>											
Stockholders' equity	€ million	7,336	7,719	8,027	8,464	9,254	10,713	11,781	12,946	13,468	17,372
thereof: capital stock	€ million	(1,146)	(1,154)	(1,183)	(1,242)	(1,242)	(1,248)	(1,262)	(1,271)	(1,285)	(1,307)
(thereof: minority interests)	€ million	(627)	(671)	(739)	(750)	(1,019)	(1,770)	(1,816)	(1,618)	(1,701)	(2,990)
Provisions	€ million	9,050	9,879	11,056	12,097	14,368	15,930	16,285	17,003	17,801	19,868
Financial liabilities	€ million	3,170	2,894	2,989	2,700	1,999	1,803	1,880	3,315	3,600	5,163
Other liabilities	€ million	3,996	4,162	4,652	5,137	6,143	6,195	6,825	7,944	8,200	9,981
Total liabilities and stockholders' equity	€ million	23,552	24,654	26,724	28,398	31,764	34,641	36,771	41,208	43,069	52,384
<b>Cash Flow/Investments</b>											
Cash flow from operations	€ million	-	2,638	3,061	3,311	3,927	4,028	4,580	4,465	3,088	3,255
Investments	€ million	2,379	3,179	3,114	2,684	4,797	4,971	4,491	8,111	4,225	7,017
<b>Employees (Dec. 31)<sup>2)</sup></b>		106,877	116,979	129,802	128,348	126,875	125,158	123,391	129,960	116,774	131,602
<b>Financial Ratios</b>											
Equity ratio	percent	31.1	31.3	30.0	29.8	29.1	30.9	32.0	31.4	31.3	33.2
Long-term capital in percent of property, plant and equipment	percent	118.2	114.4	110.4	113.1	107.8	108.7	106.5	98.6	100.4	106.9
Return on equity after taxes	percent	8.5	8.1	6.5	5.6	8.7	11.4	13.3	13.5	10.4	20.4
Net financial position (liquid funds minus financial liabilities)	€ million	- 1,050	- 1,346	- 1,542	- 821	146	325	661	- 2,663	- 3,093	- 3,326
Cash flow from operations in percent of sales	percent	-	8.7	9.2	9.8	10.8	10.9	12.0	10.6	7.2	6.2

1) After accounting adjustments for US GAAP.

2) Excluding suspended working relationships and including less than part-time employees as of 1996 (total).

## Financial Calendar

**May 11, 2000** Interim Report: January–March 2000

**May 25, 2000** 2000 Annual Shareholders' Meeting, 10am, Grugahalle, Essen

**May 26, 2000** Dividend Payment

**August 17, 2000** Interim Report: January–June 2000

**November 15, 2000** Interim Report: January–September 2000

**March 27, 2001** Annual Press Conference, Annual Analyst Conference

**May 18, 2001** 2001 Annual Shareholders' Meeting

More information on VEBA  
is available from:

Corporate Communications  
VEBA AG  
Bennigsenplatz 1  
40474 Düsseldorf  
Germany

+49 (211) 4579-367 (t)  
+49 (211) 4579-532 (f)

info@veba.de  
www.veba.com

Art direction:  
Hesse Designstudios

Photo contributions:  
Christian von Alvensleben  
Bayer AG (p. 5)  
Michael Dannenmann (pp. 7 and 8)  
Lisa Farkas-Uhde (pp.12–15)  
Wolfram Scheible (p. 14)

Typesetting:  
Lettern Partners, Düsseldorf

Lithography:  
Junck Reprotechnik, Düsseldorf

Printing:  
Druckerei Bachem, Cologne

**The German version of this  
Annual Report is legally binding.**

