

E.ON U.S. LLC

**Response to the AG's Request for Information
Dated February 1, 2008**

Case No. 2007-00455

Question No. 97

Witness: Valerie L. Scott

Q-97. Identify and provide any filings before the Securities & Exchange Commission (SEC) which reference this proposed transaction.

A-97. The following SEC filings by E.ON AG reference the proposed transaction:

| FILER | FORM | DATE | REMARKS | Pages |
|---------|------|------------------|------------------------------|--|
| E.ON AG | 6-K | August 15, 2007 | Interim Report – II/2007 | 9, 46, 47, 50 |
| E.ON AG | 6-K | May 9, 2007 | Interim Report – I/2007 | 9, 46, 50 |
| E.ON AG | 20-F | March 3, 2007 | 2006 Form 20-F Annual Report | 100, 138, F-20, F-21, F-23, F-29, F-77 |
| E.ON AG | 6-K | November 8, 2006 | Interim Report – III/2006 | 9, 32, 33, 38, 39 |
| E.ON AG | 6-K | August 15, 2006 | Interim Report – II/2006 | 9, 29, 30, 35 |
| E.ON AG | 6-K | May 11, 2006 | Interim Report – I/2006 | 9, 26, 27, 33 |
| E.ON AG | 20-F | March 9, 2006 | 2005 Form 20-F Annual Report | 91, 92, 126, F-20, F-21, F-33, F-78 |

Based upon reasonable investigation, the above filings represent all known SEC submissions by E.ON AG or affiliates containing references to the proposed transaction. The respondent is not reasonably in a position to determine whether unaffiliated, third parties have or have not referred to the proposed transaction in their SEC filings.

Pursuant to SEC rules regarding de-listing and deregistration, E.ON AG ceased to be subject to SEC periodic reporting requirements applicable to foreign private issuers during November 2007.

The 2006 and 2005, E.ON AG Annual Reports are also included in the attachments.

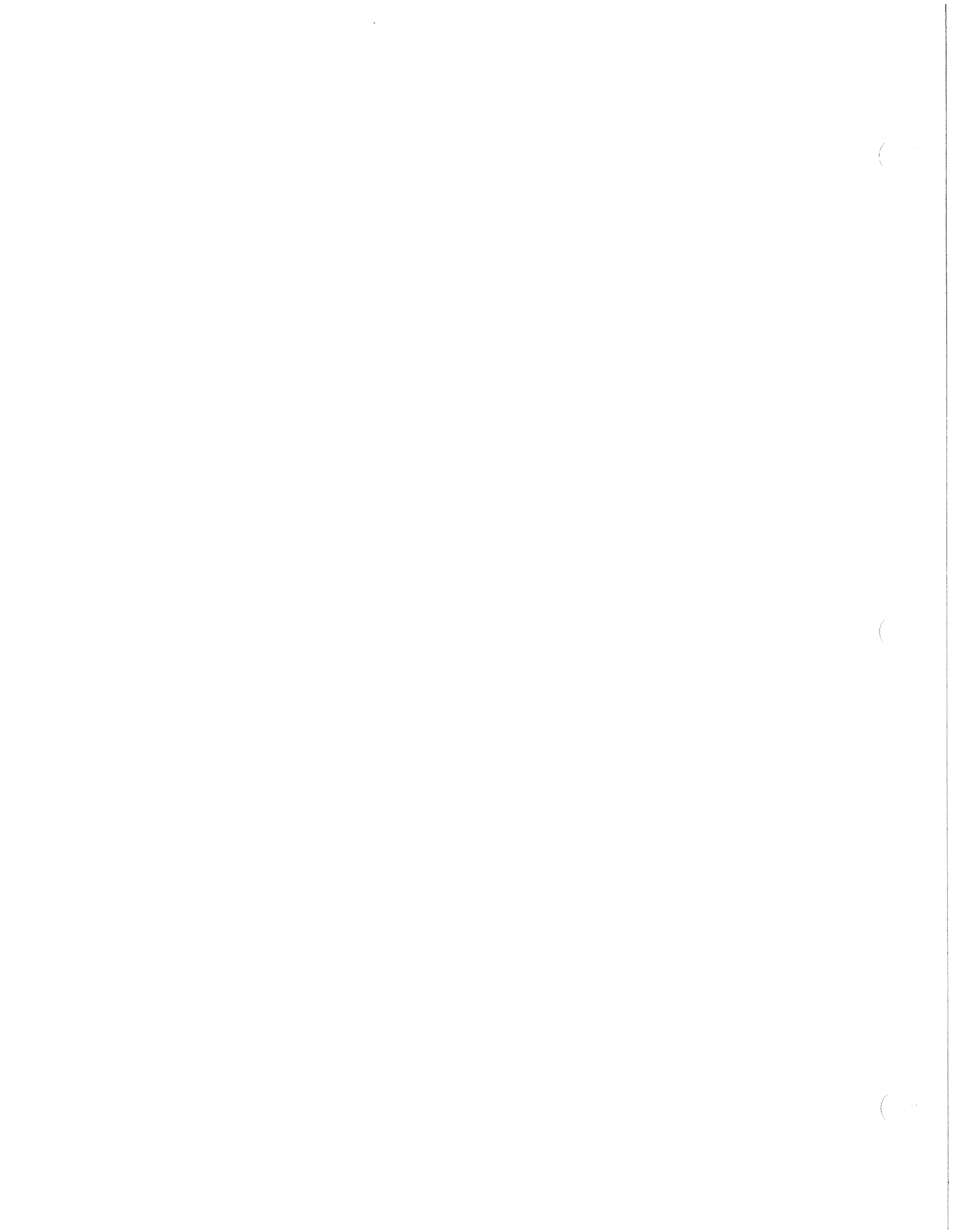


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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of August, 2007

E.ON AG

(Translation of Registrant's Name into English)

E.ON AG
E.ON-Platz 1
D-40479 Düsseldorf
Germany

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

2007

January February March

April May June

July August September

October November December

2 E.ON Group Financial Highlights

| E.ON Group Financial Highlights¹ | | | |
|--|---------|---------|-------|
| January 1 - June 30 € in millions | 2007 | 2006 | +/- % |
| Electricity sales (billion kWh) ² | 241.1 | 215.4 | +12 |
| Gas sales (billion kWh) ² | 618.4 | 671.4 | -8 |
| Sales (including electricity and energy taxes) | 36,659 | 36,848 | -1 |
| Sales | 35,559 | 34,239 | +4 |
| Adjusted EBITDA | 6,956 | 6,639 | +5 |
| Adjusted EBIT | 5,426 | 5,089 | +7 |
| Income/Loss (-) from continuing operations before income taxes | 5,755 | 3,763 | +53 |
| Income/Loss (-) from continuing operations | 4,413 | 2,709 | +63 |
| Income/Loss (-) from discontinued operations, net | -93 | 737 | - |
| Net income | 4,320 | 3,446 | +25 |
| Net income attributable to shareholders of E.ON AG | 3,968 | 3,142 | +26 |
| Adjusted net income | 3,087 | 2,833 | +9 |
| Investments | 2,684 | 2,120 | +27 |
| Cash provided by operating activities | 4,759 | 2,761 | +72 |
| Free cash flow | 2,207 | 1,267 | +74 |
| Net financial position (June 30 and December 31) | 499 | -137 | - |
| Economic net debt (June 30 and December 31) | -16,432 | -18,233 | - |
| Employees (June 30 and December 31) | 82,288 | 80,612 | +2 |
| Earnings per share attributable to shareholders of E.ON AG (€) | 6.02 | 4.77 | +26 |

¹Effective the beginning of the 2007 financial year, we prepare our Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS"). Explanatory notes on the conversion of Group Reporting Policies to IFRS and IFRS reconciliations can be found on pages 34 and 52-59 of the Condensed Consolidated Interim Financial Statements and on pages 60-61.

²Unconsolidated figures.

Through the fiscal year ended December 31, 2006, E.ON prepared its consolidated financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), but has adopted International Financial Reporting Standards ("IFRS"), which are applicable in the European Union, as its primary set of accounting principles as of January 1, 2007. Unless otherwise indicated, the financial data for periods beginning after January 1, 2007, reflected in this presentation have been prepared in accordance with IFRS. This report may contain references to certain financial measures (including forward-looking measures) that are not calculated in accordance with either IFRS or U.S. GAAP and are therefore considered "non-GAAP financial measures" within the meaning of the U.S. federal securities laws. E.ON presents a reconciliation of these non-GAAP financial measures to the most comparable U.S. GAAP measure or target, either in this presentation or on its website at www.eon.com. Management believes that the non-GAAP financial measures used by E.ON, when considered in conjunction with (but not in lieu of) other measures that are computed in accordance with IFRS or U.S. GAAP, enhance an understanding of E.ON's liquidity and profitability. A number of these non-GAAP financial measures are also commonly used by securities analysts, credit rating agencies, and investors to evaluate and compare the periodic and future operating performance and value of E.ON and other companies with which E.ON competes. These non-GAAP financial measures should not be considered in isolation as a measure of E.ON's profitability or liquidity and should be considered in addition to, rather than as a substitute for, net income, cash provided by operating activities, and the other income or cash flow data prepared in accordance with IFRS or U.S. GAAP. In particular, there are material limitations associated with our use of non-GAAP financial measures, including the limitations inherent in our determination of each of the relevant adjustments. The non-GAAP financial measures used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

January 1 – June 30, 2007

- Adjusted EBIT up 7 percent
- Upstream operations considerably expanded
- Wind farms in Spain and Portugal acquired
- Outlook for full year 2007 unchanged:
5 to 10 percent increase in adjusted EBIT expected

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4 Dear Shareholders,

The E.ON Group's positive development continued in the second quarter of 2007. We increased sales by 4 percent in the first six months of 2007, from last year's €34.2 billion to €35.6 billion, and adjusted EBIT by 7 percent, from €5.1 billion to €5.4 billion. Net income attributable to shareholders of E.ON AG increased by 26 percent to €4 billion. We continue to expect the E.ON Group's full-year adjusted EBIT to surpass the prior-year level. We expect an increase of 5 to 10 percent.

In late May 2007, we presented our package of initiatives for the E.ON Group's further strategic development. The key topics are strategy and organizational structure, growth, enhancing profitability, and managing our capital structure. We're taking a more European approach towards managing our businesses, particularly trading and power generation, in order to seize the earnings and growth opportunities created by the integration of Europe's energy markets. We're combining all our European trading activities—power, gas, coal, oil, and CO₂ emission allowances—in a new unit called E.ON Energy Trading. Similarly, a new unit will manage the construction of new coal-fired and gas-fired power plants across Europe. We're also combining—and considerably expanding—E.ON's renewable-energy and climate-protection activities. We're hard at work implementing these projects. Our acquisition of Dong's wind farms in Spain and Portugal last week represents a decisive step towards achieving these objectives.

At the same time, E.ON will grow significantly. By the end of 2010, we plan to initiate investments totaling €60 billion, 70 percent of which are to achieve further growth. A key focus is the construction of technologically advanced and climate-friendly power plants, for which we've earmarked €12 billion. We plan to invest €3 billion in renewable energy. We estimate that the acquisition of Endesa assets in Europe and Viesgo will amount to about €10 billion. Together, these investments will increase our generating capacity in Europe by about 50 percent by 2010, further expanding the European footprint of our already excellent and balanced generation portfolio. These investments will also help protect the earth's climate. Our ambitious goal is to reduce, by 2030, our carbon-dioxide emissions per megawatt-hour by about 50 percent compared with 1990 levels. To get there, we intend to substantially expand our renewables capacity and significantly increase our investment in new technological developments. Our new coal-fired power plants will set standards for reducing carbon emissions and will be fitted for subsequent carbon capture and storage ("CCS"). We're already involved in projects in Germany, the United States, the United Kingdom, and Sweden to develop the advanced technologies necessary to make CCS operational. We intend to invest €10 billion in our gas business. First, we're building new storage facilities, pipelines, and LNG terminals. Second, we're significantly expanding our position as a gas producer. In late July, we acquired 28 percent of Skarv and Idun, important natural gas fields in the Norwegian North Sea. Total investments of just under €2 billion to acquire a stake in the fields and to tap their reserves will bring us a big step towards achieving our goal of sourcing 10 billion cubic meters ("bcm") of natural gas from our own production portfolio. For ten years after production begins, our annual share of the fields' production will be about 1.4 bcm, enough gas to supply a city of 2.5 million people for one year.

To manage our capital structure going forward, we're using a new steering metric called "debt factor," which is equal to the ratio between economic net debt and adjusted EBITDA. At 1.5, E.ON's debt factor at year end 2006 is significantly lower than that of comparable European energy companies. In order to have a more efficient capital structure, we've defined 3 as our target debt factor. We intend to actively manage our capital structure going forward. If, as is currently the case, our debt factor is significantly below the target, we'll take on more debt through, for example, a higher dividend yield, special dividends, or share buybacks. Our priority, however, will always be on making value-enhancing investments. We aim to achieve a more efficient capital structure by the end of 2008. Our investment program will significantly increase our debt. We're supplementing this program with a roughly €7 billion share buyback which we began in late June 2007 and will complete by the end of 2008.

Our package of initiatives lays the groundwork for the continued successful development of our company, from which you, our shareholders, will benefit.

Sincerely yours,



Dr. Wulf H. Bernotat

E.ON Stock

E.ON stock (including the dividend) finished the first six months of 2007 up 24 percent, significantly outperforming other European blue chips as measured by the EURO STOXX 50 (+10 percent) and its peer index, the STOXX Utilities (+11 percent). The trading volume of E.ON stock climbed by nearly 40 percent year on year to €70.3 billion, making E.ON the fourth most-traded stock in the DAX index of Germany's top 30 blue chips. As of June 29, 2007, E.ON was the second-largest DAX stock in terms of market capitalization.

E.ON stock is listed on the New York Stock Exchange as American Depositary Receipts ("ADRs"). The conversion ratio between E.ON ADRs and E.ON stock is three to one. The value of three E.ON ADRs is effectively that of one share of E.ON stock.

On June 27, 2007, E.ON began its previously announced share buyback program under which it will buy €7 billion of its own stock by the end of 2008, with roughly half being purchased this year. The shares will subsequently be cancelled, thereby reducing E.ON's capital stock. The share buyback program is an important step towards optimizing E.ON's capital structure. It will also increase the attractiveness of E.ON stock, since it will positively influence earnings per share and the dividend yield.

Visit eon.com for the latest information about E.ON stock.

| E.ON Stock | | |
|--|------------------|------------------|
| | June 29, 2007 | Dec. 29, 2006 |
| Shares outstanding (millions) ¹ | 659 | 660 |
| Closing price (€) | 124.29 | 102.83 |
| Market capitalization (€ in billions) ² | 86.0 | 71.2 |

¹Excludes treasury stock.
²Based on E.ON's entire capital stock (692,000,000 shares).

| Performance and Trading Volume | | |
|--------------------------------|--------|--------|
| January 1 - June 30 | 2007 | 2006 |
| High (€) ¹ | 124.29 | 100.35 |
| Low (€) ¹ | 96.05 | 82.12 |
| Trading volume ² | | |
| Millions of shares | 651.5 | 537.1 |
| € in billions | 70.3 | 50.5 |

¹XETRA
²Source: Bloomberg (all German stock exchanges).



6 Interim Group Management Report

Business and Operating Environment

Conversion of Group Reporting Policies to International Financial Reporting Standards ("IFRS")
 Through the end of the 2006 financial year, E.ON AG prepared its Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Effective January 1, 2007, we apply International Financial Reporting Standards ("IFRS"), which deviate substantially from U.S. GAAP in a number of respects. Detailed explanatory notes on the conversion of Group Reporting Policies to IFRS and IFRS reconciliations can be found on pages 34 and 52-59 of the Condensed Consolidated Interim Financial Statements and on pages 60-61. Until we publish complete Consolidated Financial Statements under IFRS for the year ending December 31, 2007, the financial information in this report will remain preliminary due to possible changes to individual reporting standards.

Energy Price Developments

Throughout the first half of 2007, European power and natural gas markets were driven by three main factors:

- international oil, coal, and CO₂ prices
- warm weather
- the hydrological balance in the Nordic region.

Although prices declined on most European gas and power markets in the first weeks of the year, they rose again starting in March in response to higher coal, oil, and phase-two CO₂ prices.

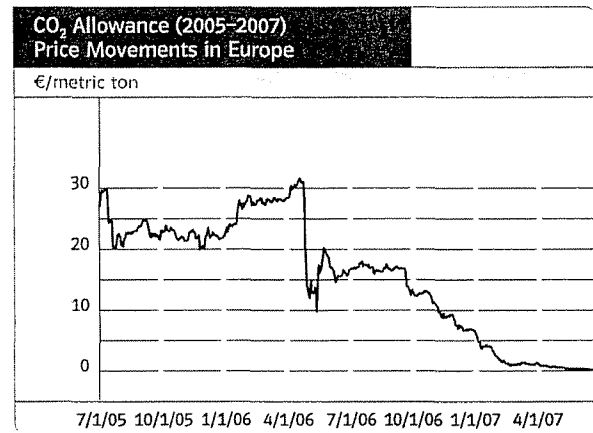
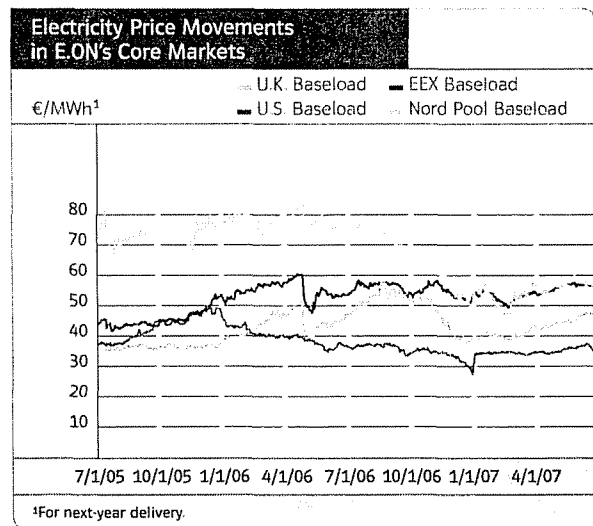
The price of Brent crude oil increased significantly beginning in January due to renewed tension in the Middle East and Nigeria and lower oil-product inventories in the United States. At the end of June, Brent was quoted at \$71 per barrel, about \$17 per barrel higher than in January.

Coal prices have moved continually higher this year, particularly in the second quarter. In June, coal was selling for \$81 per metric ton, the highest level since June 2004. The increase was mainly due to sustained strong demand in the Pacific market, high freight rates (which account for about 35 percent of the price of coal), and loading problems in Australian ports.

Germany's average natural gas import prices, which are indexed mainly to heating oil prices, decreased during the first months of 2007 but over the coming months are expected to reflect the oil price increases seen since January. Unseasonably warm winter weather pushed down U.K. natural gas prices in January and February. With rising oil prices, U.K. gas prices increased in March but since then have remained almost unchanged as a result of good supply. Despite high storage inventories, U.S. natural gas prices moved higher due

to unusually warm weather (which increased the demand for peaking power provided by gas-fired generating units) and updated hurricane forecasts.

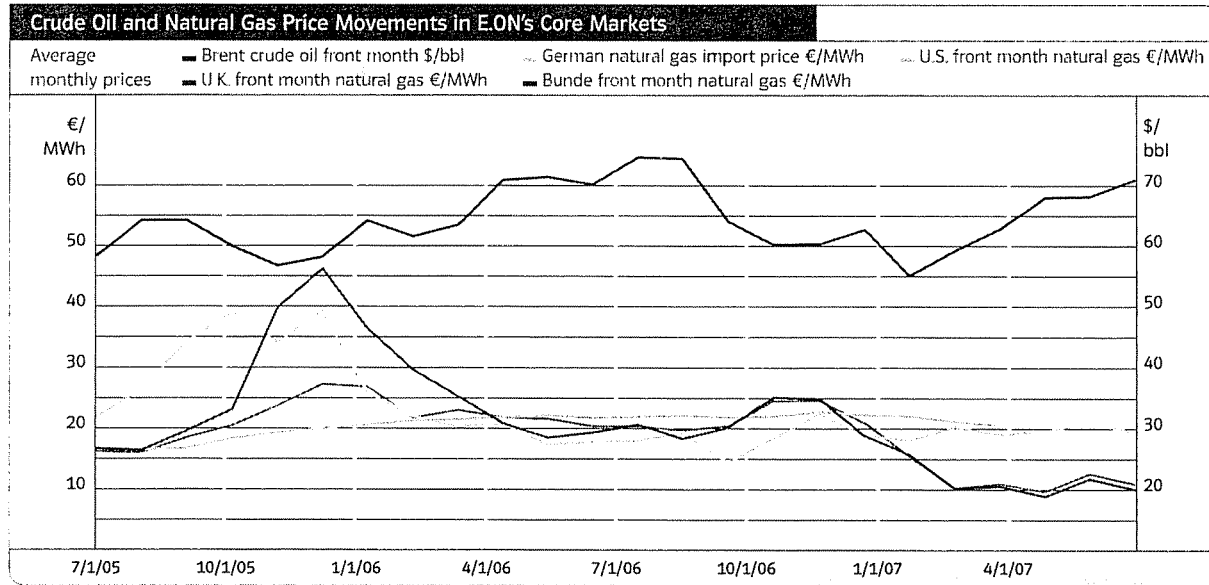
Two factors caused CO₂ prices for phase one (2005-2007) of the European Emissions Trading Scheme ("ETS") to stabilize at less than €1 per metric ton. First, installations affected by the ETS will be able to meet their carbon-emission cap. It is widely expected that phase one of the ETS will be oversupplied. Second, phase-one allowances cannot be used for phase two (2008-2012).



Phase-two prices increased in response to high oil and gas prices and the EU Commission's decision to reduce the caps on installations proposed by the member states. In addition, member states will be able to import significantly fewer credits for emission reductions achieved outside the EU.

Wholesale power prices across Europe remained heavily influenced by fuel and CO₂ prices. Since March 2007, German and Nordic power prices increased on the back of higher coal and CO₂ prices. Nordic power prices were also influenced by

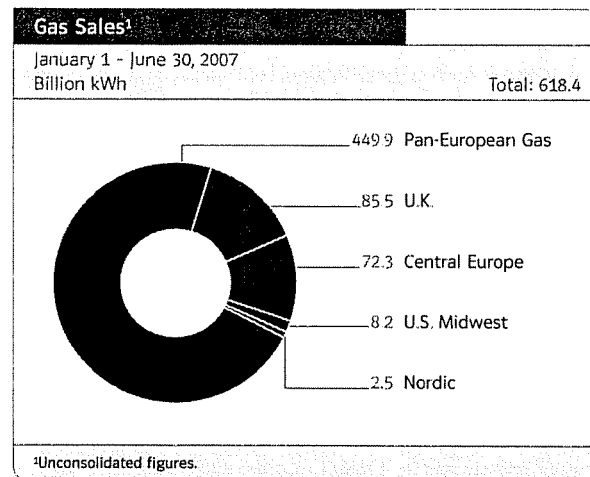
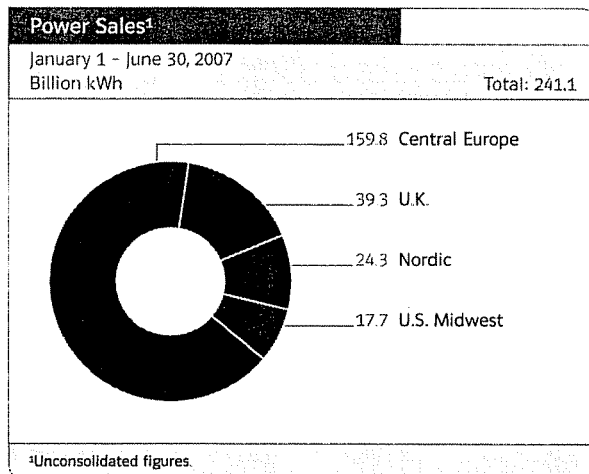
lower water reservoir levels. U.K. prices tracked CO₂ and natural gas prices. Forward power prices in the United States increased, following the trend set by U.S. natural gas prices.



Power and Gas Sales

The E.ON Group increased its power sales volume by 12 percent, from 215.4 billion kWh in the first half of 2006 to 241.1 billion kWh in the first half of 2007. Central Europe's 16-percent increase in volume is predominantly attributable to significantly higher deliveries onto its network of electricity pursuant to Germany's Renewable Energy Law. U.K. sold slightly more electricity, while Nordic sold 8 percent more and U.S. Midwest 5 percent more. The respective factors were higher sales volumes at the Nord Pool, Northern Europe's energy exchange, and favorable temperatures compared with the first half of 2006 in Kentucky.

Natural gas sales volumes declined by 8 percent year on year from 671.4 billion kWh to 618.4 billion kWh, mainly due to higher temperatures in Europe compared with the prior-year period. Warmer weather reduced sales volumes by 7 percent at Pan-European Gas, 16 percent at Central Europe, 3 percent at U.K., and 32 percent at Nordic. By contrast, U.S. Midwest sold 19 percent more natural gas primarily due to low temperatures in the Midwestern United States at the beginning of the year.



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Earnings Situation

Sales up 4 Percent

Increased sales at the Central Europe, U.K., and Nordic market units are partially attributable to higher electricity sales volumes. Higher average electricity prices constituted the main factor at Central Europe and U.K. In addition, Central Europe benefited from significantly higher deliveries onto its network of electricity pursuant to Germany's Renewable Energy Law and from business expansion, particularly in Italy. Sales at Pan-European Gas were lower primarily due to a weather-driven decline in sales volumes in the midstream business and lower sales prices in the upstream business. The decline in U.S. Midwest's sales is due exclusively to exchange rates.

| Sales | | | |
|--------------------------------------|---------------|---------------|-----------|
| January 1 - June 30 € in millions | 2007 | 2006 | +/- % |
| Central Europe | 16,603 | 14,536 | +14 |
| Pan-European Gas | 11,724 | 12,179 | -4 |
| U.K. | 6,717 | 6,370 | +5 |
| Nordic | 1,774 | 1,562 | +14 |
| U.S. Midwest | 912 | 974 | -6 |
| Corporate Center | -2,171 | -1,382 | - |
| Sales | 35,559 | 34,239 | +4 |

Adjusted EBIT 7 Percent above Prior-Year Figure

Adjusted EBIT, E.ON's key figure for purposes of internal management control and as an indicator of a business's long-term earnings power, is derived from income/loss (-) from continuing operations before income taxes and interest and similar expenses (net) and is adjusted to exclude certain extraordinary items. The adjustments include interest and similar expenses (net) (which is adjusted using economic criteria and excludes certain special items), book gains and losses on disposals, and other nonoperating income and expenses of a nonrecurring or rare nature (see commentary on page 51).

The U.K. market unit made a key contribution to the E.ON Group's improved adjusted EBIT, primarily due to lower procurement costs. The supply shortage in Great Britain in early 2006 had increased these costs considerably. Central Europe's adjusted EBIT was positively affected by the development of electricity prices and negatively affected by a temperature-driven decline in natural gas sales volumes. Nordic's adjusted EBIT rose on higher electricity sales volumes. Adjusted EBIT at Pan-European Gas was down year on year due mainly to a weather-driven decline in sales volumes and lower earnings from storage valuation. U.S. Midwest's adjusted EBIT was slightly lower due to currency factors.

| Adjusted EBIT | | | |
|--------------------------------------|--------------|--------------|-----------|
| January 1 - June 30 € in millions | 2007 | 2006 | +/- % |
| Central Europe | 2,544 | 2,495 | +2 |
| Pan-European Gas | 1,631 | 1,697 | -4 |
| U.K. | 741 | 455 | +63 |
| Nordic | 475 | 425 | +12 |
| U.S. Midwest | 176 | 190 | -7 |
| Corporate Center | -141 | -173 | - |
| Adjusted EBIT | 5,426 | 5,089 | +7 |

Net Income Significantly above Prior-Year Level

Net income attributable to shareholders of E.ON AG of €4 billion and corresponding earnings per share of €6.02 were both 26 percent above the prior-year level.

| Net Income | | | |
|---|--------------|--------------|------------|
| January 1 - June 30 € in millions | 2007 | 2006 | +/- % |
| Adjusted EBITDA | 6,956 | 6,639 | +5 |
| Depreciation, amortization, and impairments affecting adjusted EBIT | -1,530 | -1,550 | - |
| Adjusted EBIT | 5,426 | 5,089 | +7 |
| Adjusted interest expense (net) | -460 | -547 | - |
| Net book gains | 963 | 230 | - |
| Other nonoperating earnings | -174 | -1,009 | - |
| Income/Loss (-) from continuing operations before income taxes | 5,755 | 3,763 | +53 |
| Income taxes | -1,342 | -1,054 | - |
| Income/Loss (-) from continu- ing operations | 4,413 | 2,709 | +63 |
| Income/Loss (-) from discontinued operations, net | -93 | 737 | - |
| Net income | 4,320 | 3,446 | +25 |
| Thereof attributable to shareholders of E.ON AG | 3,968 | 3,142 | +26 |
| Thereof minority interests | 352 | 304 | +16 |

Adjusted interest expense (net) improved by €87 million compared with the prior year. A lower net interest expense for pensions resulting from higher anticipated income from plan assets, particularly at the Central Europe market unit, was the main factor.

| Adjusted Interest Expense (Net) | | |
|---|-------------|-------------|
| January 1 - June 30 € in millions | 2007 | 2006 |
| Interest and similar expenses (net) shown in Consolidated Statements of Income | -467 | -583 |
| (+) Interest income not affecting net income | 7 | 36 |
| Adjusted interest expense (net) | -460 | -547 |

Net book gains in the first half of 2007 were about €730 million above the prior-year figure and resulted, as in the first half of 2006, primarily from the sale of securities at Central Europe.

Other nonoperating earnings primarily reflect the marking to market of derivatives in the amount of €245 million. The roughly €1 billion increase from the prior-year figure of -€778 million is attributable to positive earnings effects at U.K., Pan-European Gas, and Nordic. By contrast, costs relating to the Endesa acquisition plan (€301 million) and the storm in Sweden in early 2007 (€95 million) adversely affected other nonoperating earnings.

Income/Loss (-) from continuing operations before income taxes rose considerably relative to the prior-year figure. The main factors were higher net book gains and the positive effect of the marking to market of derivatives along with the improvement in adjusted EBIT.

Our continuing operations recorded a tax expense of €1.3 billion in the first half of 2007. This represents a tax rate of 23 percent compared with 28 percent in the prior-year period. The decline is mainly attributable to a higher share of tax-free income.

Income/Loss (-) from discontinued operations, net, contains the results of Western Kentucky Energy, which is held for sale. Pursuant to IFRS, its results are reported separately in the Consolidated Statements of Income. The prior-year figure also includes earnings from our shareholdings in E.ON Finland (sold in June 2006) and in Degussa (sold in July 2006) (see commentary on pages 46-47).

Adjusted Net Income 9 Percent above Prior-Year Figure

Net income reflects not only our operating performance but also special effects such as the marking to market of derivatives. Adjusted net income is an earnings figure after interest and similar expenses (net), income taxes, and minority interests that has been adjusted to exclude certain special effects. The adjustments include the marking to market of derivatives, book gains and losses on disposals, as well as other nonoperating income and expenses (after taxes and minority interests) of a special or rare nature. Adjusted net income also excludes income/loss (-) from discontinued operations and from the cumulative effect of the IFRS conversion (after taxes and minority interests) as well as special tax effects. Special tax effects relate to the consequences of changes in the tax laws in Germany and the United Kingdom.

| Adjusted Net Income | | | |
|---|--------------|--------------|------------|
| January 1 - June 30 | | | |
| € in millions | 2007 | 2006 | + / % |
| Net income attributable to shareholders of E.ON AG | 3,968 | 3,142 | +26 |
| Net book gains | -963 | -230 | - |
| Other nonoperating earnings | 174 | 1,009 | - |
| Taxes and minority interests on nonoperating earnings | -57 | -360 | - |
| Special tax effects | -128 | - | - |
| Income/Loss (-) from discontinued operations, net | 93 | -728 | - |
| Adjusted net income | 3,087 | 2,833 | +9 |

Financial Condition

Investments Significantly above Prior-Year Level
The E.ON Group's investments in the period under review were 27 percent above the prior-year figure. We invested €2.6 billion in property, plant, and equipment and intangible assets compared with €1.5 billion in the prior year. Share investments totaled €0.1 billion versus €0.6 billion in the prior year.

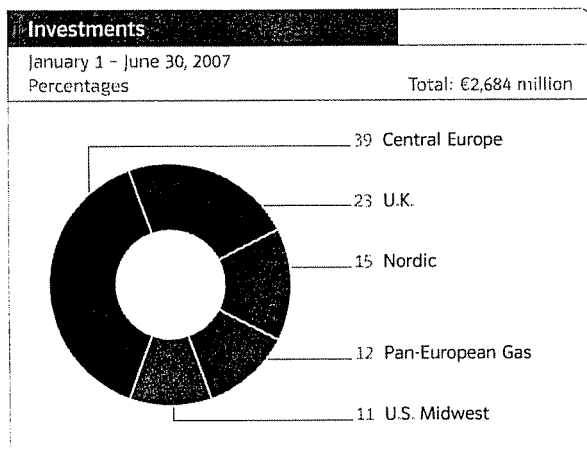
| Investments ¹ | | | |
|--------------------------|--------------|--------------|------------|
| January 1 - June 30 | | | |
| € in millions | 2007 | 2006 | + / - % |
| Central Europe | 1,047 | 825 | +27 |
| Pan-European Gas | 1,174 | 583 | +101 |
| U.K. | 624 | 308 | +103 |
| Nordic | 398 | 274 | +45 |
| U.S. Midwest | 307 | 154 | +99 |
| Corporate Center | -866 | -24 | - |
| Investments | 2,684 | 2,120 | +27 |

¹Excludes other financial assets.

Central Europe invested €222 million more in the first half of 2007 than in the prior-year period. Investments in property, plant, and equipment and intangible assets totaled €943 million (prior year: €667 million). Investments in power generation were €252 million higher, mainly due to ongoing generation projects in Germany and Italy. Share investments of €104 million were €54 million below the prior-year level.

Pan-European Gas invested €1,174 million. Of this figure, €288 million (prior year: €151 million) went towards property, plant, and equipment and intangible assets. Share investments of €886 million (prior year: €432 million) almost exclusively reflect the intragroup acquisition of Contigas Deutsche Energie-AG from the Central Europe market unit. A corresponding deduction was taken at the Corporate Center level.

10 Interim Group Management Report



U.K.'s investments were €316 million higher primarily due to increased additions to property, plant, and equipment. The non-regulated business increased investment in the development of new generation capacity and gas storage. Expenditure in the regulated business increased as a result of allowance under the five-year regulation review.

Nordic invested €124 million more than in the prior year. Nordic invested €393 million (prior year: €223 million) in intangible assets and property, plant, and equipment to maintain and expand existing production plants and to upgrade and extend the distribution network. Share investments totaled €5 million compared with €51 million in 2006.

U.S. Midwest's investments increased compared with the prior year primarily due to increased spending for SO₂ emissions mitigation equipment and the new baseload unit under construction at the Trimble County 2 plant. This unit is expected to enter service in 2010.

Cash Flow Considerably Higher, Financial Position Strengthened

Management's analysis of E.ON's financial condition uses, among other financial measures, cash provided by operating activities, free cash flow, net financial position, and economic net debt.

The E.ON Group's cash provided by operating activities in the first six months of 2007 was 72 percent above the prior-year level.

The increase in Central Europe's cash provided by operating activities is mainly attributable to positive effects relating to working capital, intragroup tax offsets, and the consolidation of Versorgungskasse Energie. A higher gross margin in the electricity business was offset by a temperature-driven decline in gas margins.

Pan-European Gas recorded a significant improvement in cash provided by operating activities in the first half of 2007. One reason was the inclusion of the E.ON Földgáz companies, which did not become consolidated E.ON companies until March 31 of the prior year. Another positive effect in the current-year period related to the injection and withdrawal of gas at E.ON Ruhrgas AG storage facilities, which more than offset the negative effects in the Up-/Midstream business in the first quarter of 2007.

| Cash Provided by Operating Activities | | | |
|---|--------------|--------------|---------------|
| January 1 - June 30 € in millions | 2007 | 2006 | +/- |
| Central Europe | 1,787 | 1,087 | +700 |
| Pan-European Gas | 2,119 | 847 | +1,272 |
| U.K. | 655 | -75 | +730 |
| Nordic | 550 | 546 | +4 |
| U.S. Midwest | 121 | 270 | -149 |
| Corporate Center | -473 | 86 | -559 |
| Cash provided by operating activities | 4,759 | 2,761 | +1,998 |
| Investments in property, plant, and equipment and intangible assets | 2,552 | 1,494 | +1,058 |
| Free cash flow | 2,207 | 1,267 | +940 |

U.K.'s cash provided by operating activities was significantly higher year on year. The improvement was mainly due to the avoidance of first quarter 2006 gas issues caused by supply problems and cold weather, recovery of aged debt, and retail price rises offset by higher commodity costs. Working capital decreased following the retail price reduction in April, reducing debt outstanding.

Nordic's cash provided by operating activities increased slightly. Positive effects from higher power sales volumes and improvements in working capital were offset by cash-effective costs for the January storm and by higher income tax payments.

Cash provided by operating activities at U.S. Midwest was lower mainly due to increased pension contributions made in the first half of 2007.

The Corporate Center's cash provided by operating activities was significantly below the prior-year level, primarily due to lower external tax refunds.

In general, surplus cash provided by operating activities at Central Europe, U.K., and U.S. Midwest is lower in the first quarter of the year (despite the high sales volume typical of this season) due to the nature of their billing cycles, which in the first quarter are characterized by an increase in receivables combined with cash outflows for goods and services. During the remainder of the year, there is typically a corresponding reduction in working capital, resulting in surplus cash provided by operating activities, although sales volumes in these quarters (with the exception of U.S. Midwest) are actually lower. The fourth quarter is characterized by an increase in working capital. At Pan-European Gas, by contrast, cash provided by operating activities is recorded principally in the first quarter, whereas there are cash outflows for intake at gas storage facilities in the second and third quarters.

We define free cash flow as cash provided by operating activities less investments in intangible assets and property, plant, and equipment. Due to the increase in cash provided by operating activities, free cash flow was 74 percent above the prior-year number despite higher investments in property, plant, and equipment and in intangible assets.

Net financial position equals the difference between our total financial assets and our total financial liabilities. Our net financial position of €499 million was €636 million above the figure reported as of December 31, 2006 (-€137 million). High free cash flow (€2.2 billion) and proceeds from disposals (€0.6 billion) served to improve our net financial position during the first half of 2007. By contrast, the dividend payout including the related tax payment (-€2.2 billion) resulted in substantial cash outflow. To increase transparency, since December 31, 2006, we also include financial liabilities to affiliated companies and to associated companies in our net financial position. Our financial position as of June 30, 2006, was adjusted accordingly.

Besides financial liabilities, there are other line items, such as provisions for pensions and provisions for asset retirement and similar obligations, that are debt-like. Financial assets include liquid funds and long-term securities and funds that are attributable to, and earmarked for, these provisions. Starting with the first quarter of 2007, we are reporting a new key figure, "economic net debt," to provide a more meaningful description of the E.ON Group's actual financial situation.

This key figure supplements net financial position with provisions for pensions and provisions for asset retirement and similar obligations (less prepayments).

Provisions for pensions declined compared with year end 2006 mainly due to actuarial gains attributable to higher interest rates used to calculate the defined benefit obligation.

| Economic Net Debt | | | |
|---|------------------|------------------|------------------|
| € in millions | June 30, 2007 | Dec. 31, 2006 | June 30, 2006 |
| Liquid funds | 7,930 | 6,189 | 6,092 |
| Securities and funds (non-current assets) | 6,859 | 7,146 | 6,893 |
| Total financial assets | 14,789 | 13,335 | 12,985 |
| Financial liabilities to banks and third parties | -12,300 | -11,465 | -15,511 |
| Financial liabilities resulting to group companies | -1,990 | -2,007 | -2,150 |
| Total financial liabilities | -14,290 | -13,472 | -17,661 |
| Net financial position | 499 | -137 | -4,676 |
| Provisions for pensions and similar obligations | -2,658 | -3,962 | -5,998 |
| Asset retirement and similar obligations | -15,526 | -15,424 | -15,037 |
| Less prepayments to the Swedish Nuclear Fund | 1,253 | 1,290 | 1,156 |
| Economic net debt | -16,432 | -18,233 | -24,555 |

Following the announcement of our new investment plan for the period 2007-2010, on May 31, 2007, Moody's confirmed its long-term rating for E.ON at A2 with a stable outlook. Previously, Moody's had downgraded its long-term rating for E.ON from Aa3 to A2 after we signed an agreement with Enel and Acciona to acquire certain assets. Moody's short-term rating for E.ON was unchanged at P-1.

On June 12, 2007, Standard & Poor's lowered its long-term rating for E.ON from AA- to A (stable outlook) and its short-term rating from A-1+ to A-1 following the announcement of E.ON's revised strategy on May 31, 2007.

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Asset Situation

At the end of the first half of 2007, long-term assets and short-term assets accounted for 76 percent and 24 percent, respectively, of total stockholders' equity and liabilities, unchanged from year end 2006. Total stockholders' equity and liabilities at the balance-sheet date were slightly below the level as of December 31, 2006.

At 41 percent, our equity ratio was almost unchanged from year end 2006.

The following key figures underscore that the E.ON Group continues to have a solid asset and capital structure:

- Long-term assets are covered by stockholders' equity at 54 percent (year end 2006: 53 percent).
- Long-term assets are covered by long-term capital at 103 percent (year end 2006: 102 percent).

| Consolidated Assets, Liabilities, and Equity | | | | |
|--|----------------|------------|----------------|------------|
| € in millions | June 30, 2007 | % | Dec. 31, 2006 | % |
| Current assets | 95,329 | 76 | 96,488 | 76 |
| Non-current assets | 30,569 | 24 | 31,087 | 24 |
| Total assets | 125,898 | 100 | 127,575 | 100 |
| Equity | 51,856 | 41 | 51,245 | 40 |
| Non-current liabilities | 46,688 | 37 | 46,947 | 37 |
| Current liabilities | 27,354 | 22 | 29,383 | 23 |
| Total equity and liabilities | 125,898 | 100 | 127,575 | 100 |

Employees

On June 30, 2007, the E.ON Group had 82,288 employees worldwide, about 2 percent more than at year end 2006. E.ON also had 1,999 apprentices and 262 board members and managing directors.

At the end of the second quarter of 2007, 47,770 employees, or 58 percent of all staff, were working outside Germany, essentially unchanged from year end 2006.

The slight increase in Central Europe's workforce compared with year end 2006 was due primarily to the hiring of former apprentices in Germany who had completed their training.

The number of employees at Pan-European Gas declined mainly due to efficiency-enhancement measures at E.ON Gaz România.

Additions primarily to sales staff at U.K. and the hiring of seasonal staff for the summer months at Nordic were responsible for the workforce increases at these market units. The number of employees at U.S. Midwest did not change significantly.

At the end of June 2007, the Corporate Center had 45 more employees than at year end 2006, primarily because E.ON Academy and E.ON Montan, which had previously not been consolidated E.ON companies, were merged into E.ON AG.

During the reporting period, wages and salaries including social security contributions and retirement payments totaled €2.3 billion, compared with €2.3 billion a year ago.

| Employees ¹ | | | |
|--------------------------------------|------------------|------------------|-----------|
| | June 30, 2007 | Dec. 31, 2006 | +/- % |
| Central Europe | 44,088 | 43,546 | +1 |
| Pan-European Gas | 12,161 | 12,417 | -2 |
| U.K. | 16,491 | 15,621 | +6 |
| Nordic | 6,127 | 5,693 | +8 |
| U.S. Midwest | 2,931 | 2,890 | +1 |
| Corporate Center | 490 | 445 | +10 |
| Group | 82,288 | 80,612 | +2 |
| Discontinued operations ² | 477 | 473 | +1 |

¹Figures do not include apprentices, managing directors, or board members.
²Includes WKE at the U.S. Midwest market unit.

Risk Situation

In the normal course of business, we are subject to a number of risks that are inseparably linked to the operation of our businesses.

Energy production and distribution involves technologically complex facilities. Operational failures or extended production stoppages of facilities or components of facilities could adversely impact our earnings situation. We minimize these risks through ongoing employee training and qualification programs and regular maintenance and enhancement of our facilities.

Our operations expose us to interest-rate, currency, and counterparty risks as well as commodity price risks for electricity, natural gas, coal, oil, and carbon dioxide. We minimize these risks through the use of instruments suited to this purpose.

Our market units operate in an international market environment characterized by general risks related to the business cycle and by increasingly intense competition. We use a comprehensive sales management system and intensive customer management to minimize the price and volume risks faced by our power and gas business on liberalized markets.

The political, legal, and regulatory environment in which the E.ON Group does business is a source of additional external risks. Changes to this environment can make planning uncertain. Our goal is to play an informed and active role in shaping our business environment. We pursue this goal by engaging in a systematic and constructive dialog with government agencies and policymakers. Currently, the following issues are of particular relevance:

- In late April, the German federal cabinet agreed to amendments to the Law Against Anticompetitive Behavior which will lead to a considerable broadening of antitrust oversight in Germany's electricity and natural gas markets. In the future, companies that individually or jointly have a dominant position in these markets may not charge prices or demand commercial conditions that are less favorable than those of other companies in comparable markets or charge prices that disproportionately exceed their costs. E.ON expects the implementation of these provisions to considerably impede competition in Germany's energy markets but is currently unable to quantify the effects on E.ON. The new anticompetitive behavior provisions expire at the end of 2012.
- As part of an anticompetitive practices case, the German Federal Cartel Office ("FCO") is investigating the treatment of CO₂ emission allowances as a cost factor in the price of electricity. A fundamental principle of emissions trading is that treating emission allowances as a cost factor provides an incentive to reduce CO₂ emissions. The FCO is currently investigating whether it is an anticompetitive practice to factor CO₂ emission allowances into the price of electricity although the allowances were allocated at no cost.
- The EU Commission carried out investigations at the premises of several energy companies in Europe, including E.ON AG and some of its affiliates, in May and December 2006 and subsequently submitted requests for information regarding different regulatory and energy-market-related issues to E.ON Energie and E.ON Ruhrgas. The two companies have now responded to these requests. On July 18, 2007, the Commission initiated antitrust proceedings against E.ON Ruhrgas and Gaz de France. The proceedings possibly relate to an agreement made in 1975—an agreement that was rescinded several years ago and, moreover, had no practical significance—regarding the transport of natural gas via the Megal gas pipeline in which E.ON Ruhrgas and Gaz de France have ownership interests. The Commission points out that the initiation of proceedings does not imply that there is conclusive proof of an infringement.
- E.ON Ruhrgas filed a complaint with the State Superior Court in Düsseldorf against the FCO's order of January 13, 2006, relating to long-term gas supply contracts. In this main case, E.ON Ruhrgas is contesting the FCO's competitive injunction which forbids E.ON Ruhrgas from competing to supply a certain portion of municipal utilities' gas needs even if it meets the volume and contract-duration requirements defined by the FCO. For example, if a municipal utility has a four-year contract with E.ON Ruhrgas covering 80 percent of its gas supply needs and, two years later, asks for bids to supply the remaining 20 percent of its needs, E.ON Ruhrgas is not allowed to submit a bid. The State Superior Court in Düsseldorf heard oral arguments in this case on July 11, 2007. We are still awaiting the outcome of the proceedings. Following its

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preliminary analysis, the court is inclined to reject our complaint. The hearing gave E.ON Ruhrgas another opportunity to present the key arguments as to why the competitive injunction is bad for the German economy. The court announced that it will issue a ruling on September 19, 2007.

- In January 2007, the EU Commission put forward a comprehensive package of energy policy proposals. It can be anticipated that these proposals will result in legislative initiatives designed to enhance climate protection efforts, promote the implementation of energy-efficiency measures, and further intensify regulatory intervention. At this time, the effects of such legislative initiatives on our business cannot be predicted. Under discussion is a proposal to require ownership unbundling of energy networks from the other segments of the energy supply business. We consider this infringement of ownership to be illegal, although we are unable at this time to rule it out. We believe that it would make more sense to first wait and evaluate the effectiveness of the legal unbundling requirements which only recently took effect. However, in order to play a constructive role in the current policy-making process, E.ON is conducting talks with the EU Commission about alternative models that would also help integrate the EU internal market.
- In mid-June 2007, the German Federal Government presented regulations for an incentive-based regulation system; these regulations are subject to the approval of the Bundesrat, Germany's upper house of parliament. Under Germany's Energy Law of 2005, the current cost-based, rate-of-return model for network charges is to be replaced by an incentive-based regulation system in order to create additional incentives for enhancing the efficiency of network operations. In principle, we support the rapid introduction of a reasonable incentive-based system but continue to believe that the current recommendations require significant modifications. At this time, we cannot rule out the possibility that the German Federal Network Agency will establish efficiency-enhancement targets that are unattainable. Because the exact details of many key aspects of the incentive-based system remain undecided, we cannot at this time reliably assess its consequences.
- On July 6, 2007, the Bundesrat passed the Corporate Tax Reform Law of 2008, which will be applied in the third quarter of 2007.

The operational and strategic management of the E.ON Group relies heavily on highly complex information technology. Our IT systems are maintained and optimized by qualified E.ON Group experts, outside experts, and a wide range of technical security measures.

In the period under review, the E.ON Group's risk situation did not change substantially from year end 2006.

Subsequent Events

- Within its share buyback program started on June 27, 2007, E.ON repurchased 8,922,473 own shares at an average price of €119.41 per share, of which 246,865 are included in these Consolidated Financial Statements. Up to now, this corresponds to a 1.29-percent-buyback of E.ON's capital stock at an acquisition cost of €1,065 million. The company plans to buy back stock worth approximately €7 billion by the end of 2008, half of it in 2007. The goals of the share buy back are to optimize E.ON's capital structure as well as to make E.ON shares more attractive.
- In late July, E.ON concluded a purchase agreement with Shell to acquire 28 percent of Skarv and Idun, two important Norwegian natural gas fields, for \$893 million (approximately €650 million). E.ON's share of the investments for developing the fields will be about \$1.4 billion. Plans call for gas production to begin in 2011. E.ON's share of these fields' production will be about 1.4 billion cubic meters of natural gas per year for at least ten years. The sale is subject to the relevant Norwegian regulatory approval and is expected to be completed by the end of 2007.
- In early August 2007, E.ON acquired Energi E2 Renovables Ibéricas ("E2-I"), a wind farm operator, from the Danish utility Dong Energy at a purchase price of €722 million. This acquisition enables E.ON to greatly expand its wind power business. The purchase price includes €256 million for the assumption of existing net debt. Currently, E2-I generates electricity in Spain and Portugal from renewables with a total capacity in operation of about 260 MW. Most of its assets are state-of-the-art wind farms. The remainder are small-scale hydroelectric and biomass

generating units. Further wind farms totaling approximately 560 megawatt are already being planned at particularly favorable locations on the Iberian peninsula; they are planned for completion in the next four years.

- On August 7, 2007, E.ON, ThyssenKrupp and RWE came to an agreement with the foundation "RAG-Stiftung" to sell their shares in RAG Aktiengesellschaft to the RAG-Stiftung. The three shareholding companies hold a total of 90 percent of the share capital. The blocks of shares are expected to be transferred on November 30, 2007, for a price of €1 each.

Forecast

Earnings Development

We continue to expect adjusted EBIT for full year 2007 to surpass the high prior-year level. We expect an increase of 5 to 10 percent. However, not all market units will contribute equally to the improvement. From today's perspective, we also continue to anticipate an increase in net income attributable to shareholders of E.ON AG. However, net income will be particularly influenced by the marking to market of derivatives at year end.

The earnings forecast by market unit is as follows:

We expect the Central Europe market unit's 2007 adjusted EBIT to be above the prior-year figure, with the positive development of gross margins in the electricity business more than offsetting temperature-driven declines in natural gas sales volumes and negative effects from the increased feed-in of renewable-source electricity.

We now expect Pan-European Gas's adjusted EBIT for the 2007 financial year to be on par with the prior-year figure. The midstream business will deteriorate further as the year progresses due to competition and regulatory effects. In the first half of the year, midstream's lower sales volumes and declining earnings from storage usage were partially counteracted by operating effects. The decline in midstream's adjusted EBIT will be mitigated by earnings improvements in the downstream business, particularly due to the absence of effects relating to the regulation of network charges in Germany.

The 2007 adjusted EBIT of the U.K. market unit is expected to be broadly in line with 2006. This is a challenging target with key sensitivities for the remainder of 2007 being retail price

positions, the impact of weather on volumes and prices, management of retail debtors, and asset performance.

We expect Nordic's adjusted EBIT for 2007 to be significantly above the level of 2006. Earnings development will be positively affected by higher volumes in both hydropower and nuclear production and by higher average wholesale electricity prices.

We expect U.S. Midwest's 2007 adjusted EBIT to be below 2006 due primarily to lower gas margins as a result of the timing of gas cost recoveries from customers and to the strong euro.

Opportunities

Positive developments in foreign-currency rates and market prices for commodities such as electricity, natural gas, coal, oil, and carbon dioxide can create opportunities for our operations. In addition, continued positive development of market prices can create opportunities relating to the short-term securities we own.

Periods of exceptionally cold weather—very low average temperatures or extreme daily lows—in the fall and winter months can create opportunities for us to meet higher demand for electricity and natural gas. Similarly, periods of exceptionally hot weather in the summer months can create opportunities for our U.S. Midwest market unit to meet the greater demand for electricity resulting from increased air-conditioning use.

Our investment policy is aimed at strengthening and enlarging our leading position in our target markets and to systematically seize opportunities, including opportunities in future markets.

16 Market Units

Central Europe

| Central Europe | | | | |
|---------------------|--------|--------|-------|--|
| January 1 - June 30 | | | | |
| € in millions | 2007 | 2006 | +/- % | |
| Sales | 16,603 | 14,536 | +14 | |
| Adjusted EBITDA | 3,280 | 3,218 | +2 | |
| Adjusted EBIT | 2,544 | 2,495 | +2 | |

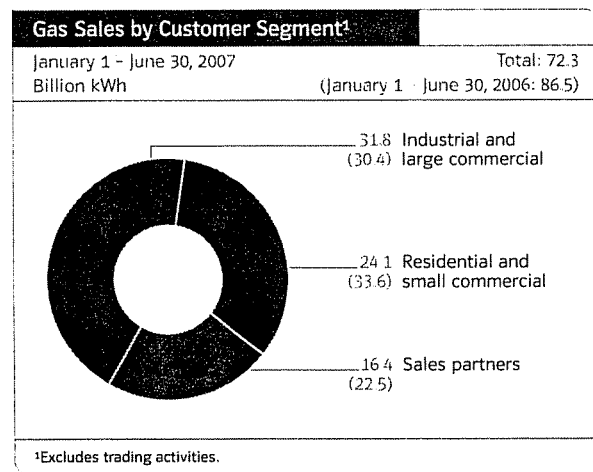
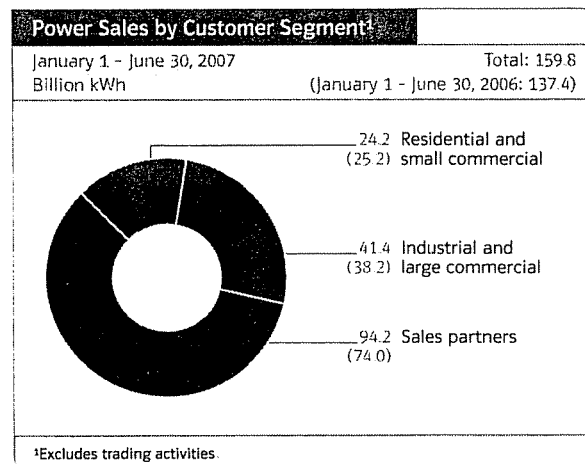
Power and Gas Sales

The Central Europe market unit grew power sales by 22.4 billion kWh to 159.8 billion kWh. The increase is mainly attributable to higher deliveries onto Central Europe's network of electricity pursuant to Germany's Renewable Energy Law and to higher volumes to sales partners. Furthermore, the results for the first six months of 2007 for the first time include the sales volume of Italy's Dalmine Energie ("Dalmine"), which became a consolidated E.ON company in December 2006.

Gas sales volumes declined by 14.2 billion kWh due to Europe's warmest winter since comprehensive weather records began to be kept in 1901. The inclusion of newly consolidated companies, mainly JCP of the Czech Republic (since September 2006) and Dalmine of Italy, had a positive effect on gas sales volumes.

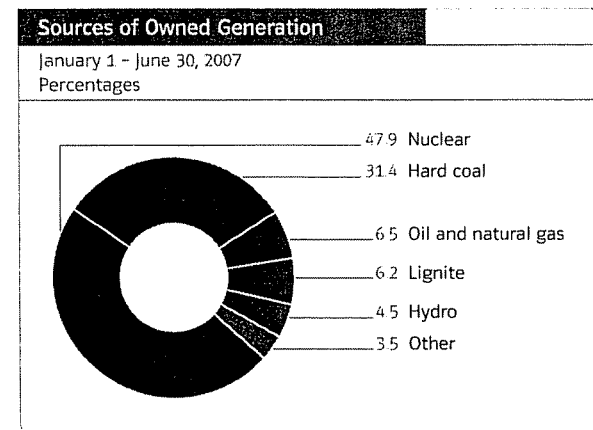
Power Generation and Procurement

Central Europe utilized its flexible mix of generation assets to meet about 41 percent of its electricity requirements, compared with 47 percent in the prior-year period. It procured around 22.1 billion kWh more electricity from jointly owned power plants and outside sources than in the prior year; of this figure, electricity delivered onto Central Europe's network under Germany's Renewable Energy Law accounted for 10 billion kWh. The above-mentioned consolidation effects also served to increase the amount of electricity procured from outside sources.



| Power Generation and Procurement ¹ | | | |
|---|--------------|--------------|------------|
| January 1 - June 30 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Owned generation | 67.8 | 67.9 | - |
| Purchases | 99.0 | 76.9 | +29 |
| from jointly owned power plants | 5.9 | 6.4 | -8 |
| from outside sources | 93.1 | 70.5 | +32 |
| Power procured | 166.8 | 144.8 | +15 |
| Station use, line loss, pumped-storage hydro | -7.0 | -7.4 | - |
| Power sales | 159.8 | 137.4 | +16 |

¹Excludes trading activities.



Sales and Adjusted EBIT

Central Europe increased sales by about €2 billion relative to the prior-year period. The increase is mainly attributable to the expansion of operations (particularly in Italy), higher electricity prices, the passthrough of the significantly greater volume of electricity procured under Germany's Renewable Energy Law, and increased sales in the power trading business. These effects were mitigated by a temperature-driven decline in sales in the natural gas business.

Adjusted EBIT exceeded the prior-year figure by €49 million, with Central Europe's businesses developing as follows:

Central Europe West Power increased adjusted EBIT by €311 million compared with the prior-year period. Positive price effects and the absence of aperiodic negative effects recorded in the prior-year period were partially mitigated by lower results from power trading, higher electricity procurement costs, and higher expenditures resulting from an increase in the amount of renewable-source electricity delivered onto the network. Adjusted EBIT was also adversely affected by lower results from network activities.

Adjusted EBIT at Central Europe West Gas was €138 million below the prior-year figure due primarily to the very mild winter and the resulting decline in sales volumes.

Central Europe East's adjusted EBIT was nearly at the prior-year level. The mild winter also led to lower sales volumes, particularly in the gas business, in Eastern Europe. The negative effects of lower sales volumes and of higher other expenditures were offset primarily by higher gross margins in Hungary and by positive earnings contributions from JCP and Teplárna Otrokovice, whose results were not included in the prior-year period.

Adjusted EBIT recorded under Other/Consolidation was €108 million below the prior-year figure, mainly as a result of lower earnings from currency hedging transactions and the translation of loans denominated in foreign currencies and as a result of negative consolidation effects.

| Financial Highlights by Business | | | | | | | | | | |
|--------------------------------------|---------------------|-------|-------|-------|---------------------|-------|---------------------|------|----------------|--------|
| January 1 - June 30 € in millions | Central Europe West | | | | Central Europe East | | Other/Consolidation | | Central Europe | |
| | Power | | Gas | | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales ¹ | 11,824 | 9,494 | 2,254 | 3,095 | 2,030 | 1,727 | 495 | 220 | 16,603 | 14,536 |
| Adjusted EBITDA | 2,626 | 2,322 | 326 | 472 | 288 | 292 | 40 | 132 | 3,280 | 3,218 |
| Adjusted EBIT | 2,169 | 1,858 | 222 | 360 | 174 | 190 | -21 | 87 | 2,544 | 2,495 |

¹Trading activities are recognized net.

18 Market Units

Pan-European Gas

| Pan-European Gas | | | |
|---------------------|--------|--------|-------|
| January 1 - June 30 | 2007 | 2006 | +/- % |
| € in millions | | | |
| Sales | 11,724 | 12,179 | -4 |
| Adjusted EBITDA | 1,901 | 1,962 | -3 |
| Adjusted EBIT | 1,631 | 1,697 | -4 |

Market Development

Germany consumed 18.5 percent less natural gas in the first half of 2007 than in the prior-year period. The decline resulted mainly from warm weather in the first quarter which served to reduce gas sales volumes by about 20 percent.

Gas Sales

E.ON Ruhrgas AG's gas sales volumes generally tracked the broader market, with a 20-percent volume decline in the first quarter followed by a 5-percent volume decline in the second quarter.

| Gas Sales ¹ by Period | | | |
|----------------------------------|-------|-------|-------|
| January 1 - June 30 | 2007 | 2006 | +/- % |
| Billion kWh | | | |
| First quarter | 213.4 | 266.3 | -20 |
| April | 48.0 | 56.6 | -15 |
| May | 44.3 | 43.3 | +2 |
| June | 38.8 | 38.7 | - |
| Second quarter | 131.1 | 138.6 | -5 |
| Gas sales | 344.5 | 404.9 | -15 |

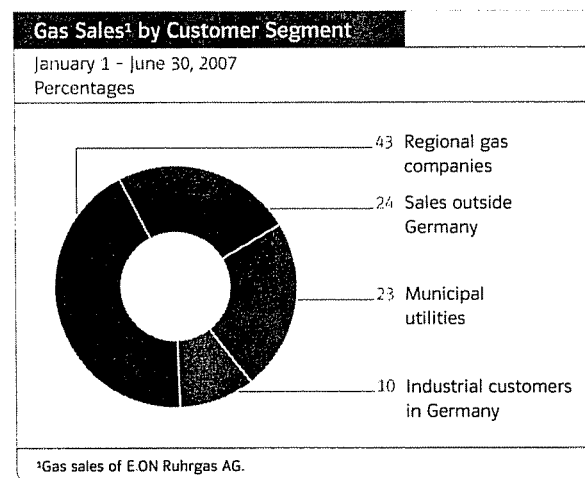
¹Gas sales of E.ON Ruhrgas AG

In the first half of 2007, Pan-European Gas's business outside Germany grew again. In the second quarter, E.ON Ruhrgas concluded five new contracts for summer gas deliveries with customers in Denmark, the Netherlands, and Slovakia and extended five contracts with customers in Denmark and France. It also concluded contracts at trading points in Denmark, France, and Italy. E.ON Ruhrgas competed successfully for industrial customers in the German market, concluding new contracts with several major industrial customers and/or extending existing contracts.

E.ON Ruhrgas traded 3.21 billion kWh of natural gas at E.ON Gastransport's notional trading points in the second quarter of 2007, following 2.06 billion kWh in the first quarter. E.ON Ruhrgas's trading operations make a significant contribution towards creating market liquidity.

Downstream Shareholdings Gas Sales Volume

The majority shareholdings in Pan-European Gas's Downstream Shareholdings business sold 105.4 billion kWh of natural gas in the first half of 2007, up 29 percent from the 81.4 billion kWh sold in the year-earlier period. The sharp increase was caused by the inclusion of E.ON Földgáz of Hungary in the first quarter of 2007; this company was not included until the second quarter in 2006.



Fifth Gas Release Auction Held

Pursuant to the ministerial approval of E.ON's acquisition of Ruhrgas, in 2002 the Company agreed to hold six annual auctions for a total of 200 billion kWh of the natural gas from E.ON Ruhrgas's long-term import contracts. The contracts awarded in the Internet-based auction have a three-year term. In this year's auction, the fifth overall, 13 bidders were awarded a total of about 33 billion kWh of natural gas. The delivery point is Waidhaus on the German-Czech border.

Slightly Lower Upstream Production

In the upstream business, lower gas production from fields characterized by a natural production decline was nearly counteracted by production from newly operational fields. This led only to a slight decline in gas production compared with the first half of 2006, although gas production of the Johnston field in the British North Sea was at times curtailed due to price factors. Oil production was stable compared with the prior-year period.

| Upstream Production | | | |
|---|------|------|-------|
| January 1 - June 30 | 2007 | 2006 | +/- % |
| Liquids/oil (million barrels) | 2.7 | 2.7 | - |
| Gas (million standard cubic meters) | 376 | 399 | -6 |
| Total (million barrels of oil equivalent) | 5.1 | 5.2 | -2 |

Minke field in the U.K. North Sea, in which E.ON Ruhrgas UK has a 42.7-percent stake, began production in June. The gas produced in this field will be sold to E.ON D-Gas, an E.ON Ruhrgas subsidiary, and marketed in the Netherlands.

To further expand its upstream business, in June E.ON Ruhrgas concluded an agreement with Maersk Olie og Gas AS, a Danish oil and gas production company, to acquire stakes in two production licenses in the U.K. Central North Sea. E.ON Ruhrgas will acquire 22.3 percent of the production blocks which are located about 200 kilometers off the coast of Aberdeen, Scotland. In July, drilling had already begun in the Ockley prospect.

Build-up of LNG Operations

Pan-European Gas intends to further diversify its natural gas procurement sources by entering the liquefied natural gas ("LNG") business. LNG is a key factor in Europe's future security of supply. Moreover, it offers good growth potential in an increasingly global gas market.

In the second quarter of 2007, E.ON Ruhrgas booked about 1.7 billion cubic meters ("bcm") of annual regasification capacity at the LNG terminal on the U.K. Isle of Grain. The terminal's current capacity will be expanded by roughly 6.7 bcm to about 20 bcm per year. E.ON Ruhrgas concluded an agreement through 2029, with regular operation expected to begin in October 2010. Possible synergies could result from the supply of an E.ON UK gas-fired power plant being built near the Isle of Grain terminal.

Simplified Network Access

To further simplify access to Germany's natural gas transport system, E.ON Gastransport and RWE Transportnetz Gas have reached the German gas industry's first cooperative agreement between different pipeline operators. The two companies plan to create a joint market territory for low-caloric natural gas ("L gas"), which comes predominantly from Dutch and German natural gas fields, in order to further reduce the number of market territories effective October 1, 2008.

Sales and Adjusted EBIT

Pan-European Gas's sales totaled €11,724 million, 4 percent less than the prior-year figure of €12,179 million.

Sales in the Up-/Midstream business were below the prior-year level. Warm weather in the first quarter led to a significant decline in sales volumes in the midstream business, while the sales decline in the upstream business is mainly attributable to lower sales prices.

The Downstream Shareholdings business partially counteracted the development of the Up-/Midstream business. The inclusion of the two E.ON Földgáz companies in the first half of 2007 was the main factor in the sales increase. The other companies in the downstream business recorded temperature-driven declines in sales.

Pan-European Gas's adjusted EBIT in the first half of 2007 was down €66 million, or 4 percent, from the prior-year figure.

Adjusted EBIT at the midstream business was lower than the figure for the first half of 2006 due to a decline in sales volumes resulting from warm winter weather and to lower earnings from storage valuation. In addition, prior-year adjusted EBIT was positively affected by nonrecurring income from the final clearing of trading transactions. The earnings decline was mitigated by the absence in the current-year period of the adverse earnings effect recorded in the prior year resulting from the fact that procurement prices are adjusted more rapidly than sales prices. Adjusted EBIT at the upstream business declined due to lower sales prices.

The increase in adjusted EBIT in the Downstream Shareholdings business did not fully counteract the earnings decline in the Up-/Midstream business. The inclusion of the E.ON Földgáz companies for the entire first half of the year along with book gains on the sale of shareholdings had a positive effect on adjusted EBIT. These positive factors more than offset the temperature-driven earnings decline in the gas business of the other downstream shareholdings and slightly lower equity earnings from associated companies.

| Financial Highlights by Business | | | | | | | | |
|--------------------------------------|---------------|--------|-----------------------------|-------|-------------------------|------|------------------|--------|
| January 1 - June 30 € in millions | Up-/Midstream | | Downstream Shareholdings | | Other/ Consolidation | | Pan-European Gas | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales | 8,971 | 10,297 | 3,056 | 2,239 | -303 | -357 | 11,724 | 12,179 |
| Adjusted EBITDA | 1,287 | 1,425 | 602 | 532 | 12 | 5 | 1,901 | 1,962 |
| Adjusted EBIT | 1,097 | 1,223 | 522 | 468 | 12 | 6 | 1,631 | 1,697 |

20 Market Units

U.K.

| U.K. | | | |
|---------------------|-------|-------|-------|
| January 1 - June 30 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Sales | 6,717 | 6,370 | +5 |
| Adjusted EBITDA | 1,004 | 732 | +37 |
| Adjusted EBIT | 741 | 455 | +63 |

Market Development

Electricity consumption in England, Wales, and Scotland was 171 billion kWh for the first six months of 2007, 9 billion kWh lower than in the equivalent period in 2006, primarily due to warmer weather. Gas consumption for the first six months of 2007 was 574 billion kWh compared with 554 billion kWh in 2006. The increase was due to higher demand from gas power stations and an increase in gas exports from the United Kingdom to Europe.

Pricing activity in the residential market appears to have stabilized following price-reduction announcements from all the major suppliers in the first quarter of the year. Customer accounts at 8.1 million are 0.5 million lower than the same position as of June 2006. Customer churn has increased in response to price movements across the industry. E.ON UK has responded with price reductions and other sales initiatives.

Power and Gas Sales

Sales of power and gas to residential, SME, and I&C customers declined due to warmer weather, lower customer numbers, and changing customer behaviors as a result of higher prices and climate-change awareness. Sales to the market rose significantly due to the lower retail demand.

| Sales by Customer Segment ¹ | | | |
|--|-------------|-------------|-----------|
| January 1 - June 30 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Power—Residential & SME | 17.7 | 19.9 | -11 |
| Power—I&C | 9.2 | 9.2 | - |
| Power—Market sales | 12.4 | 9.6 | +29 |
| Total power sales | 39.3 | 38.7 | +2 |
| Gas—Residential & SME | 31.3 | 40.7 | -23 |
| Gas—I&C | 12.6 | 16.7 | -25 |
| Gas—Market sales | 41.6 | 30.6 | +36 |
| Total gas sales | 85.5 | 88.0 | -3 |

¹Excludes trading activities.

Power Generation and Procurement

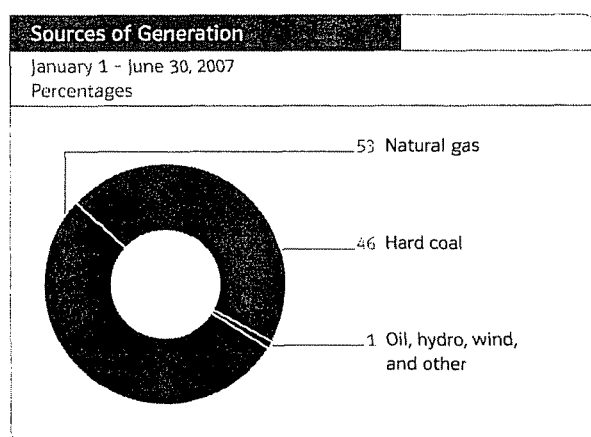
Owned generation increased in 2007 compared with 2006 due to increased gas generation partially offset by lower coal generation. Gas generation increased due to higher spark spreads (power prices less gas and CO₂ prices) coupled with excellent availability. Coal generation reduced due to lower dark spreads (power prices less coal and CO₂ prices). Power purchased from other suppliers decreased in 2007 compared with 2006 primarily due to lower sales to residential and SME customers.

| Power Generation and Procurement | | | |
|--|-------------|-------------|-----------|
| January 1 - June 30 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Owned generation ¹ | 22.1 | 18.5 | +19 |
| Purchases | 17.3 | 20.9 | -17 |
| from jointly owned power plants | 0.7 | 0.3 | +133 |
| from outside sources | 16.6 | 20.6 | -19 |
| Power procured | 39.4 | 39.4 | - |
| Station use, line loss, pumped-storage hydro | -0.1 | -0.7 | - |
| Power sales | 39.3 | 38.7 | +2 |

¹Excludes non-merchant CHP and non wholly owned plants.

There was no change in attributable generation capacity between June 2006 and June 2007. Some merchant CHP plants are now classified as natural gas.

The shift from coal to gas generation compared with the prior year is explained by the changing economics of power production caused by an increase in spark spreads and the reduction in dark spreads.



E.ON UK is currently looking at options to develop further power plants in the United Kingdom over the next few years. The objective is to deliver secure energy supplies, reduce CO₂ emissions to tackle the challenge of climate change, and keep energy as affordable as possible for our customers.

During the first half of 2007, work continued on Stags Holt and Robin Rigg wind farms. E.ON UK also continued to generate from biomass by co-firing with coal at Kingsnorth and Ironbridge power stations. The wood-burning plant at Lockerbie is still scheduled for commercial operation during the fourth quarter of 2007. Construction has also commenced on a 1,200 MW gas-fired station with combined heat and power at our Isle of Grain site in Kent.

E.ON UK has applied for consent to build a 1,200 MW CCGT at the site of one of its former coal-fired stations at Drakelow in Derbyshire.

Sales and Adjusted EBIT

E.ON UK increased its sales in the first six months of 2007 compared with the prior year primarily due to price increases in the retail business and higher sales volumes from the Energy Wholesale business. E.ON UK delivered an adjusted EBIT of €741 million in the first half of 2007, of which €266 million was in the regulated business and €535 million in the non-regulated business.

Adjusted EBIT at the regulated business increased by €35 million principally due to tariff increases.

Adjusted EBIT at the non-regulated business increased by €276 million. The key features are the avoidance of the high gas input costs during the first quarter of 2006 caused by the gas supply issues and cold weather, as well as retail price rises in 2007 offset by lower retail sales volumes due to warmer weather and lower customer numbers.

Adjusted EBIT recorded under Other/Consolidation was €25 million lower, mainly due to higher hedging costs associated with foreign-exchange movements.

| Financial Highlights by Business | | | | | | | | |
|--------------------------------------|--------------------|------|------------------------|-------|-------------------------|------|-------|-------|
| January 1 - June 30 € in millions | Regulated Business | | Non-regulated Business | | Other/ Consolidation | | U.K. | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales | 440 | 415 | 6,476 | 6,062 | -199 | -107 | 6,717 | 6,370 |
| Adjusted EBITDA | 333 | 308 | 729 | 459 | -58 | -35 | 1,004 | 732 |
| Adjusted EBIT | 266 | 231 | 535 | 259 | -60 | -35 | 741 | 455 |

22 Market Units

Nordic

| Nordic | | | |
|---------------------|-------|-------|-------|
| January 1 - June 30 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Sales | 1,774 | 1,562 | +14 |
| Adjusted EBITDA | 646 | 614 | +5 |
| Adjusted EBIT | 475 | 425 | +12 |

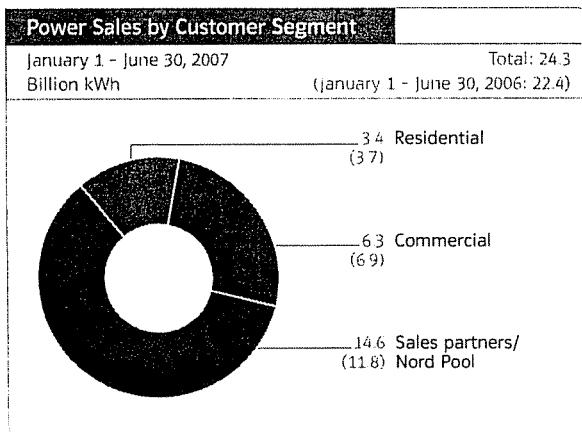
Market Development

The Nordic region consumed about 204 billion kWh of electricity during the first half of 2007, 6 billion kWh less than in the same period in 2006. However, consumption in the second quarter was on par with 2006 despite the warmer weather.

Net power flow between the Nordic region and surrounding countries turned from a net import during the first quarter to a net export during the second. Consequently, first-half imports and exports were almost in balance. Net exports to Germany were 4 billion kWh compared with 2.3 billion kWh in 2006. The hydrological situation was above normal during the first half of 2007.

Power Sales

E.ON Nordic sold 1.9 billion kWh more electricity than in the first half of 2006, mainly due to increased sales at Nord Pool, Northern Europe's energy exchange. This was primarily a result of higher hydropower production. Sales to residential and commercial customers decreased by 0.9 billion kWh relative to the prior year due to milder weather and increased competition.



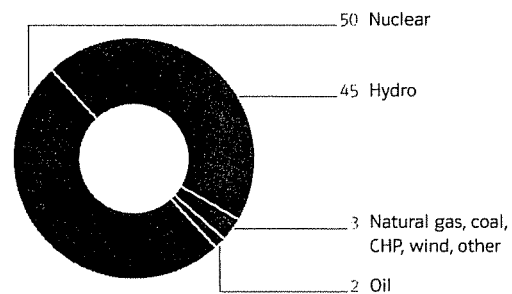
Power Generation and Procurement

E.ON Nordic's owned generation increased by 1.2 billion kWh relative to the prior year. Hydropower production was above normal due to higher reservoir inflow during the last quarter of 2006 and the first quarter of 2007. Nuclear power production was below the prior year mainly due to the late restart of E.ON's Oskarshamn 1 nuclear plant following the incident at Forsmark in July 2006. Purchases from outside sources increased significantly, driven mainly by cross-border trading activities.

| Power Generation and Procurement | | | |
|--|-------------|-------------|-----------|
| January 1 - June 30 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Owned generation | 17.4 | 16.2 | +7 |
| Purchases | 8.1 | 7.4 | +9 |
| from jointly owned power plants | 5.1 | 5.5 | -7 |
| from outside sources | 3.0 | 1.9 | +58 |
| Power procured | 25.5 | 23.6 | +8 |
| Station use, line loss, pumped-storage hydro | -1.2 | -1.2 | - |
| Power sales | 24.3 | 22.4 | +8 |

Sources of Owned Generation

January 1 - June 30, 2007
Percentages



Gas and Heat Sales

Heat sales decreased as a consequence of milder weather at the beginning of the year. Gas sales were 1.2 billion kWh below the prior-year figure due to increased competition and milder weather.

| Gas and Heat Sales | | | |
|---------------------|------|------|---------|
| January 1 - June 30 | | | |
| Billion kWh | 2007 | 2006 | + / - % |
| Gas sales | 2.5 | 3.7 | -32 |
| Heat sales | 4.2 | 5.0 | -16 |

Sales and Adjusted EBIT

Nordic's sales increased by €212 million compared with the prior year. Sales in the non-regulated business increased as a result of significantly higher electricity volumes sold to Nord Pool and the positive impact of hedging activities. The increase in power sales was to some extent offset by declining gas and heat sales. Sales in the regulated business decreased by €13 million primarily due to lower distributed gas volumes.

Nordic's adjusted EBIT increased by €50 million year on year to €475 million. Compared with the prior-year period, adjusted EBIT for the non-regulated business was positively impacted by higher electricity volumes and successful hedging for the production portfolio. This was to some extent offset by the decline in spot prices. Adjusted EBIT at the regulated business was almost unchanged from the prior year. Lower volumes in the electricity distribution business were counteracted by lower costs for line loss, mainly as a result of lower spot prices. The gas distribution business was negatively affected by lower volumes, resulting in a slightly lower adjusted EBIT.

On January 14, 2007, a storm in southern Sweden caused substantial damage to the electricity distribution system in some areas. The costs of repair work and compensation of customers are approximately €95 million. Storm-related costs will not affect adjusted EBIT, as this event was exceptional in nature.

| Financial Highlights by Business | | | | | | | | |
|--------------------------------------|--------------------|------|------------------------|-------|-------------------------|------|--------|-------|
| January 1 - June 30 € in millions | Regulated Business | | Non-regulated Business | | Other/ Consolidation | | Nordic | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales | 365 | 378 | 1,548 | 1,123 | -139 | 61 | 1,774 | 1,562 |
| Adjusted EBITDA | 166 | 170 | 486 | 452 | -6 | -8 | 646 | 614 |
| Adjusted EBIT | 113 | 116 | 378 | 326 | -16 | -17 | 475 | 425 |

24 Market Units

U.S. Midwest

| U.S. Midwest | | | |
|---------------------|------|------|-------|
| January 1 - June 30 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Sales | 912 | 974 | -6 |
| Adjusted EBITDA | 254 | 279 | -9 |
| Adjusted EBIT | 176 | 190 | -7 |

Market Development

Electricity consumption in the Midwestern United States increased by approximately 3 percent in the first half of 2007, as compared with the same period in 2006, due to increased demand caused by colder-than-normal weather in February and higher economic growth.

Power and Gas Sales

Regulated utility retail power sales volumes increased in 2007 compared with 2006, primarily due to colder weather in February and warmer weather in May and June. Off-system power sales volumes were lower in 2007, primarily due to less generation available and lower market prices.

Gas sales increased in 2007 compared with 2006, primarily due to colder weather in the beginning of 2007 and market factors that produced opportunities for off-system gas sales.

| Sales by Customer Segment | | | |
|---------------------------|-------------|-------------|------------|
| January 1 - June 30 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Retail customers | 16.8 | 15.7 | +7 |
| Off-system sales | 0.9 | 1.2 | -25 |
| Power sales | 17.7 | 16.9 | +5 |
| Retail customers | 7.8 | 6.9 | +13 |
| Off-system sales | 0.4 | - | - |
| Gas sales | 8.2 | 6.9 | +19 |

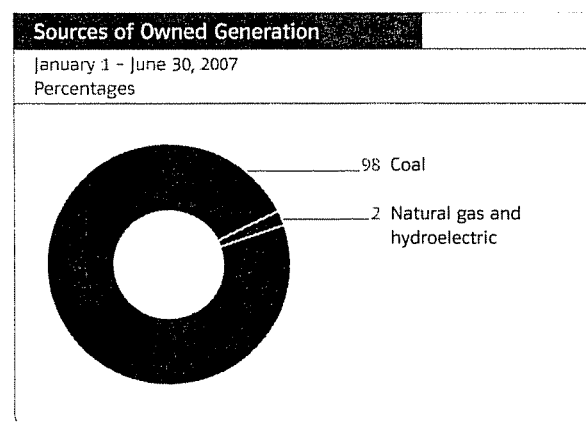
Power Generation and Procurement

U.S. Midwest generated more electricity at its own power plants in the first half of 2007 due to improved unit performance and higher power sales compared with the prior-year period.

| Power Generation and Procurement | | | |
|----------------------------------|-------------|-------------|-----------|
| January 1 - June 30 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Owned generation | 17.7 | 16.7 | +6 |
| Purchases | 1.5 | 1.8 | -17 |
| Power procured | 19.2 | 18.5 | +4 |
| Station use, line loss | -1.5 | -1.6 | - |
| Power sales | 17.7 | 16.9 | +5 |

U.S. Midwest's attributable generating capacity was unchanged from year end 2006.

Coal-fired power plants accounted for 98 percent of U.S. Midwest's owned generation for the first half of 2007, while gas-fired and hydro generating assets accounted for the remaining 2 percent.



Sales and Adjusted EBIT

U.S. Midwest's sales in the first half of 2007 were lower compared with last year, primarily due to the stronger euro. In local currency, sales were slightly higher, with higher retail volumes partially offset by lower gas prices.

U.S. Midwest's adjusted EBIT decreased by 7 percent. The decrease is attributable to the stronger euro, as adjusted EBIT in local currency was flat. Lower gas margins as a result of the timing of gas cost recoveries from customers and lower off-system electric sales were mostly offset by higher retail electric volumes.

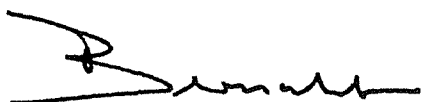
| Financial Highlights by Business | | | | | | |
|--------------------------------------|--------------------|------|----------------------------------|------|--------------|------|
| January 1 - June 30 € in millions | Regulated Business | | Non-regulated Business/ Other | | U.S. Midwest | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales | 888 | 939 | 24 | 35 | 912 | 974 |
| Adjusted EBITDA | 254 | 275 | - | 4 | 254 | 279 |
| Adjusted EBIT | 178 | 194 | -2 | -4 | 176 | 190 |

26 Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the Interim Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Düsseldorf, August 14, 2007

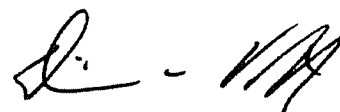
The Board of Management



Bernotat



Bergmann



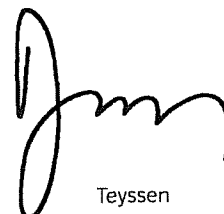
Dänzer-Vanotti



Feldmann



Schenck



Teysen

Review Report

27

To E.ON AG, Düsseldorf

We have reviewed the Condensed Consolidated Interim Financial Statements—comprising the balance sheet, income statement, condensed cash flow statement, statement of recognized income and expense and selected explanatory notes—and the Interim Group Management Report of E.ON AG, Düsseldorf, for the period from January 1 to June 30, 2007, which are parts of the half-year financial report pursuant to § (Article) 37w WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the Condensed Consolidated Interim Financial Statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the Interim Group Management Report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to issue a review report on the Condensed Consolidated Interim Financial Statements and on the Interim Group Management Report based on our review.

We conducted our review of the Condensed Consolidated Interim Financial Statements and the Interim Group Management Report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the Condensed Consolidated Interim Financial Statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial

reporting as adopted by the EU and that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the Condensed Consolidated Interim Financial Statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Düsseldorf, August 14, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Vogelpoth
Wirtschaftsprüfer
(German Public Auditor)

Laue
Wirtschaftsprüfer
(German Public Auditor)

28 Condensed Consolidated Interim Financial Statements

| E.ON AG and Subsidiaries Consolidated Statements of Income | | April 1 - June 30 | | January 1 - June 30 | |
|---|-------|-------------------|---------------|---------------------|---------------|
| € in millions | Notes | 2007 | 2006 | 2007 | 2006 |
| Sales including electricity and energy taxes | | 14,970 | 15,346 | 36,659 | 36,848 |
| Electricity and energy taxes | | -481 | -959 | -1,100 | -2,609 |
| Sales | (14) | 14,489 | 14,387 | 35,559 | 34,239 |
| Changes in inventories (finished goods and work in progress) | | 41 | 10 | 66 | 20 |
| Own work capitalized | | 126 | 67 | 179 | 117 |
| Other operating income | | 943 | 1,289 | 3,914 | 2,936 |
| Cost of materials | | -10,231 | -10,230 | -25,736 | -25,155 |
| Personnel expenses | | -1,210 | -1,117 | -2,319 | -2,278 |
| Depreciation, amortization and impairment charges | | -748 | -784 | -1,510 | -1,614 |
| Other operating expenses | | -2,242 | -2,158 | -4,577 | -4,500 |
| Income/Loss (-) from companies accounted for under the equity method | | 215 | 267 | 475 | 450 |
| Income/Loss (-) from continuing operations before financial results and income taxes | (14) | 1,383 | 1,731 | 6,051 | 4,215 |
| Financial results | (7) | -20 | -108 | -296 | -452 |
| Income from share investments | (7) | 166 | 120 | 171 | 131 |
| Income from other securities, interest and similar income | (7) | 365 | 332 | 625 | 677 |
| Interest and similar expenses | (7) | -551 | -560 | -1,092 | -1,260 |
| Income taxes | | -315 | -455 | -1,342 | -1,054 |
| Income/Loss (-) from continuing operations | | 1,048 | 1,168 | 4,413 | 2,709 |
| Income/Loss (-) from discontinued operations, net | (5) | -20 | 24 | -93 | 737 |
| Net income | | 1,028 | 1,192 | 4,320 | 3,446 |
| Thereof shareholders of E.ON AG | | 901 | 1,097 | 3,968 | 3,142 |
| Thereof minority interests | | 127 | 95 | 352 | 304 |
| in € | | | | | |
| Earnings per share (attributable to shareholders of E.ON AG)—basic and diluted | (8) | | | | |
| from continuing operations | | 1.40 | 1.63 | 6.16 | 3.66 |
| from discontinued operations | | -0.03 | 0.04 | -0.14 | 1.11 |
| from net income | | 1.37 | 1.67 | 6.02 | 4.77 |

| E.ON AG and Subsidiaries Consolidated Balance Sheets | | | | |
|--|-------|------------------|------------------|-----------------|
| € in millions | Notes | June 30, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Assets | | | | |
| Goodwill | (9) | 15,184 | 15,320 | 15,494 |
| Intangible assets | | 3,704 | 3,894 | 4,207 |
| Property, plant and equipment | | 43,308 | 42,484 | 41,067 |
| Companies accounted for under the equity method | (10) | 7,657 | 7,770 | 9,507 |
| Other financial assets | (10) | 18,961 | 20,679 | 16,544 |
| Share investments | (10) | 12,102 | 13,533 | 10,073 |
| Non-current securities | (10) | 6,859 | 7,146 | 6,471 |
| Financial receivables and other financial assets | | 2,395 | 2,631 | 3,268 |
| Operating receivables and other operating assets | | 2,644 | 2,463 | 1,737 |
| Deferred tax assets | | 1,476 | 1,247 | 2,108 |
| Non-current assets | | 95,329 | 96,488 | 93,932 |
| Inventories | | 3,606 | 4,199 | 2,587 |
| Financial receivables and other financial assets | | 1,309 | 1,477 | 1,090 |
| Operating receivables and other operating assets | | 16,799 | 18,611 | 17,962 |
| Liquid funds | | 7,930 | 6,189 | 9,901 |
| Restricted cash | | 423 | 587 | 98 |
| Securities and fixed-term deposits | | 2,896 | 4,448 | 5,455 |
| Cash and cash equivalents | | 4,611 | 1,154 | 4,348 |
| Assets held for sale | (5) | 925 | 611 | 682 |
| Current assets | | 30,569 | 31,087 | 32,222 |
| Total assets | | 125,898 | 127,575 | 126,154 |

| E.ON AG and Subsidiaries Consolidated Balance Sheets | | | | |
|--|-------|------------------|------------------|-----------------|
| € in millions | Notes | June 30, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Equity and liabilities | | | | |
| Capital stock | | 1,799 | 1,799 | 1,799 |
| Additional paid-in capital | | 11,760 | 11,760 | 11,749 |
| Retained earnings | | 26,749 | 24,350 | 22,910 |
| Accumulated other comprehensive income | | 9,152 | 11,033 | 8,150 |
| Treasury stock | (11) | -266 | -230 | 256 |
| Equity attributable to shareholders of E.ON AG | | 49,194 | 48,712 | 44,352 |
| Minority interests (before reclassification) | | 5,116 | 4,994 | 4,747 |
| Reclassification of liabilities related to put options | | -2,454 | -2,461 | -3,130 |
| Minority interests | | 2,662 | 2,533 | 1,617 |
| Equity | | 51,856 | 51,245 | 45,969 |
| Financial liabilities | | 10,233 | 10,029 | 10,985 |
| Operating liabilities | | 5,273 | 5,432 | 5,666 |
| Provisions for pensions and similar obligations | (13) | 2,658 | 3,962 | 9,768 |
| Other provisions | | 21,108 | 20,461 | 19,143 |
| Deferred tax liabilities | | 7,416 | 7,063 | 7,625 |
| Non-current liabilities | | 46,688 | 46,947 | 53,187 |
| Financial liabilities | | 4,057 | 3,443 | 3,455 |
| Operating liabilities | | 16,593 | 19,731 | 18,457 |
| Other provisions | | 5,936 | 5,594 | 4,250 |
| Liabilities associated with assets held for sale | (5) | 768 | 615 | 836 |
| Current liabilities | | 27,354 | 29,383 | 26,998 |
| Total equity and liabilities | | 125,898 | 127,575 | 126,154 |

30 Condensed Consolidated Interim Financial Statements

| E.ON AG and Subsidiaries Consolidated Statements of Cash Flows | | |
|---|---------------|---------------|
| January 1 - June 30 | | |
| € in millions | 2007 | 2006 |
| Net income | 4,320 | 3,446 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Income from discontinued operations, net | 93 | -737 |
| Depreciation, amortization and impairment on intangible assets and property, plant and equipment | 1,510 | 1,614 |
| Changes in provisions | 710 | 1,317 |
| Changes in deferred taxes | -56 | -462 |
| Other non-cash income and expenses | 189 | -30 |
| Gain/Loss on disposal of intangible assets, property, plant and equipment, equity investments and securities (> 3 months) | -1,082 | -323 |
| Changes in current assets and liabilities | -925 | -2,064 |
| Cash provided by operating activities of continuing operations (operating cash flow) | 4,759 | 2,761 |
| Proceeds from disposal of | | |
| intangible assets and property, plant and equipment | 145 | 102 |
| equity investments | 464 | 441 |
| Purchase of investments in | | |
| intangible assets and property, plant and equipment | -2,552 | -1,494 |
| equity investments | -132 | -626 |
| Changes in securities and fixed-term deposits | 2,142 | -2,230 |
| Changes in restricted cash | 164 | -26 |
| Cash provided by (used for) investing activities of continuing operations | 231 | -3,833 |
| Payments received/made from changes in capital | 13 | -3 |
| Payments for treasury stock, net | -36 | 0 |
| Payment of cash dividends to | | |
| shareholders of E.ON AG | -2,210 | -4,614 |
| minority stockholders | -223 | -226 |
| Change in financial liabilities | 921 | 3,452 |
| Cash provided by (used for) financing activities of continuing operations | -1,535 | -1,391 |
| Net increase (decrease) in cash and cash equivalents from continuing operations | 3,455 | -2,463 |
| Cash provided by operating activities of discontinued operations | 8 | 83 |
| Cash used for investing activities of discontinued operations | -8 | -123 |
| Cash provided by financing activities of discontinued operations | 0 | 2 |
| Net increase (decrease) in cash and cash equivalents from discontinued operations | 0 | -38 |
| Effect of foreign exchange rates on cash and cash equivalents | 2 | -14 |
| Cash and cash equivalents at the beginning of the period | 1,154 | 4,348 |
| Cash and cash equivalents at the end of the quarter | 4,611 | 1,833 |

| E.ON AG and Subsidiaries | | |
|--|---------------|--------------|
| Consolidated Statements of Recognized Income and Expenses | | |
| January 1 – June 30 | 2007 | 2006 |
| € in millions | | |
| Net income | 4,320 | 3,446 |
| Cash flow hedges | 103 | -1,053 |
| Available-for-sale securities | -2,185 | 2,670 |
| Changes in actuarial gains/losses of defined benefit pension plans and other employee benefits | 1,113 | 1,188 |
| Currency translation adjustments | -69 | -417 |
| Deferred taxes on changes recognized in equity | -211 | -857 |
| Income and expenses recognized in equity | -1,249 | 1,531 |
| Total of recognized income and expenses (Total comprehensive income) | 3,071 | 4,977 |
| Thereof shareholders of E.ON AG | 2,728 | 4,443 |
| Thereof minority interests | 343 | 534 |

32 Notes to the Condensed Consolidated Interim Financial Statements

| Summary of Changes in Equity | | | |
|---|---------------|-------------------------------|----------------------|
| € in millions | Capital stock | Additional paid-in capital | Retained earnings |
| Balance as of January 1, 2006 | 1,799 | 11,749 | 22,910 |
| Shares repurchased/sold | | | |
| Dividends paid | | | -4,614 |
| Other changes in minority interests | | | |
| Net additions/disposals from the reclassification of liabilities related to put options | | | |
| Net income | | | 3,142 |
| Changes in actuarial gains/losses of defined benefit pension plans and other employee benefits | | | 683 |
| Other comprehensive income | | | |
| Total comprehensive income | | | |
| Balance as of June 30, 2006 | 1,799 | 11,749 | 22,121 |
| Balance as of January 1, 2007 | 1,799 | 11,760 | 24,350 |
| Shares repurchased/sold | | | |
| Capital increase | | | |
| Capital decrease | | | |
| Dividends paid | | | -2,210 |
| Other changes in minority interests | | | |
| Net additions/disposals from the reclassification of liabilities related to put options | | | |
| Net income | | | 3,968 |
| Changes in actuarial gains/losses of defined benefit pension plans and other employee benefits | | | 641 |
| Other comprehensive income | | | |
| Total comprehensive income | | | |
| Balance as of June 30, 2007 | 1,799 | 11,760 | 26,749 |

| Accumulated other comprehensive income | | | | | | | | |
|--|-------------------------------|------------------|----------------|--|--|--|--------------------|--------|
| Currency translation adjustments | Available-for-sale securities | Cash flow hedges | Treasury stock | Equity attributable to shareholders of E.ON AG | Minority interests (before reclassification) | Reclassification of liabilities related to put options | Minority interests | Total |
| 675 | 7,343 | 132 | -256 | 44,352 | 4,747 | -3,130 | 1,617 | 45,969 |
| | | | | | | | | 0 |
| | | | | -4,614 | -226 | | -226 | -4,840 |
| | | | | | -72 | | -72 | -72 |
| | | | | | | 679 | 679 | 679 |
| | | | | 3,142 | 304 | | 304 | 3,446 |
| | | | | 683 | 60 | | 60 | 743 |
| -714 | 2,244 | -912 | | 618 | 170 | | 170 | 788 |
| | | | | 4,443 | 534 | | 534 | 4,977 |
| -39 | 9,587 | -780 | -256 | 44,181 | 4,983 | -2,451 | 2,532 | 46,713 |
| 632 | 10,491 | -90 | -230 | 48,712 | 4,994 | -2,461 | 2,533 | 51,245 |
| | | | -36 | -36 | | | | -36 |
| | | | | | 85 | | 85 | 85 |
| | | | | | -63 | | -63 | -63 |
| | | | | -2,210 | -228 | | -228 | -2,438 |
| | | | | | -15 | | -15 | -15 |
| | | | | | | 7 | 7 | 7 |
| | | | | 3,968 | 352 | | 352 | 4,320 |
| | | | | 641 | 46 | | 46 | 687 |
| -64 | -1,897 | 80 | | -1,881 | -55 | | -55 | -1,936 |
| | | | | 2,728 | 343 | | 343 | 3,071 |
| 568 | 8,594 | -10 | -266 | 49,194 | 5,116 | -2,454 | 2,662 | 51,856 |

34 Notes to the Condensed Consolidated Interim Financial Statements

(1) Basis of Presentation

Based in Germany, the E.ON Group ("E.ON" or the "Group") is an international group of companies with integrated electricity and gas operations. The Group is organized around five defined target markets:

- The Central Europe market unit, led by E.ON Energie AG ("E.ON Energie"), Munich, Germany, operates E.ON's integrated electricity business and the downstream gas business in Central Europe.
- Pan-European Gas is responsible for the upstream and midstream gas business. Moreover, this market unit holds predominantly minority shareholdings in the downstream gas business. This market unit is led by E.ON Ruhrgas AG ("E.ON Ruhrgas"), Essen, Germany.
- The U.K. market unit encompasses the integrated energy business in the United Kingdom. This market unit is led by E.ON UK plc ("E.ON UK"), Coventry, U.K.
- The Nordic market unit, which is led by E.ON Nordic AB ("E.ON Nordic"), Malmö, Sweden, focuses on the integrated energy business in Northern Europe. It operates through the integrated energy company E.ON Sverige AB ("E.ON Sverige"), Malmö, Sweden.
- The U.S. Midwest market unit, led by E.ON U.S. LLC ("E.ON U.S."), Louisville, Kentucky, U.S., is primarily active in the regulated energy market in the U.S. state of Kentucky.

The Corporate Center contains those interests held directly by E.ON AG ("E.ON" or the "Company") that are not allocated to a particular segment, as well as E.ON AG itself.

These market units are the primary segments as defined in International Accounting Standard ("IAS") 14, "Segment Reporting" ("IAS 14"). The Corporate Center also contains the consolidation effects that take place at the Group level.

Note 14 provides additional information about the market units.

With European Union ("EU") Regulation 1606/2002 dated July 19, 2002, the European Parliament and the European Council mandated the adoption of International Financial Reporting Standards ("IFRS") into EU law governing the Consolidated Financial Statements of publicly traded companies

for fiscal years beginning on or after January 1, 2005. However, member states may defer mandatory application of IFRS until 2007 for companies that, like E.ON, have been preparing their Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and whose stock is officially listed for public trading in a non-EU member state. In Germany, the Bilanzrechtsreformgesetz ("BilReG") implemented the option to defer mandatory IFRS application in October 2004.

E.ON made use of this option and, accordingly, the Condensed Interim Financial Statements for the six months ended June 30, 2007 have been prepared in accordance with IFRS, specifically IAS 34, "Interim Financial Reporting" ("IAS 34"), and IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). This Interim Report has been prepared in accordance with all IFRS effective and adopted for use in the EU as of the end of the interim period.

The IFRS effective or available for voluntary early adoption in this Interim Report as of June 30, 2007, are subject to change or to the issuance of additional interpretations until December 31, 2007. Accordingly, the accounting policies relevant for this Interim Report may be adjusted in future periods and are only considered final when the first IFRS financial statements are prepared for the year ending December 31, 2007.

The preparation of the Consolidated Financial Statements for interim financial reporting in accordance with IFRS has led to changes in the Group's accounting policies as compared with the accounting principles used in the most recent annual Consolidated Financial Statements, i.e. U.S. GAAP. The following accounting policies have been applied for all periods presented in this Interim Report. They have also been used in accordance with IFRS 1 for the preparation of the opening balance sheet under IFRS as of January 1, 2006. The effects of the transition from U.S. GAAP to IFRS are discussed in Note 15.

(2) Summary of Significant Accounting Policies

Scope of Consolidation

The Consolidated Financial Statements incorporate the financial statements of E.ON AG and entities controlled by E.ON ("subsidiaries"). Control is achieved when the parent company has the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. In addition, special purpose entities are consolidated when the substance of the relationship indicates that the entity is controlled by E.ON. However, certain subsidiaries controlled by E.ON that are inconsequential, both individually and in the aggregate, are accounted for as financial instruments under IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), generally at fair value, and are reviewed for impairment if indications of a decline of the fair value arise. If required, an impairment is recognized as an expense. Impairment losses may not be reversed in future reporting periods through income.

The results of the subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Income from the date of acquisition or until the date of the disposal, respectively.

Where necessary, adjustments are made to the subsidiaries' financial statements to bring their accounting policies into line with those of the Group. Intercompany receivables, liabilities and results between Group companies are eliminated in the consolidation.

Associated Companies

An associate is an entity over which E.ON has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is achieved when E.ON has the power to participate in the financial and operating policy decisions of the investee but does not control or jointly control these decisions. Significant influence is generally presumed if E.ON directly or indirectly holds 20 percent or more, but less than 50 percent, of an entity's voting rights.

Interests in associated companies are accounted for under the equity method. In addition, majority-owned companies in which E.ON does not exercise control, due to restrictions concerning the control of assets or management, are also generally accounted for under the equity method. Certain associated companies, however, that are inconsequential, both individually and in the aggregate, are accounted for as financial instruments under IAS 39, generally at fair value, and are reviewed for impairment consistent with non-consolidated subsidiaries.

Interests in associated companies accounted for under the equity method are reported on the balance sheet at cost, adjusted for changes in the Group's share of the net assets after the date of acquisition, as well as any impairment charges. Losses that exceed the Group's interest in an associated company are not recognized. Any goodwill resulting from the acquisition of an associated company is included within the carrying amount of the investment.

Intercompany results arising from transactions with associated companies accounted for under the equity method are eliminated within the consolidation process if and to the extent these are material.

Companies accounted for under the equity method are tested for impairment by comparing the carrying amount with its recoverable amount. If the carrying amount exceeds the recoverable amount, the carrying amount is adjusted in the amount of this difference. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed.

Joint Ventures

Joint ventures are also accounted for under the equity method. Intercompany results arising from transactions with joint-venture companies are eliminated within the consolidation process if and to the extent these are material.

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Business Combinations

In accordance with the exemption allowed under IFRS 1, the provisions of IFRS 3, "Business Combinations" ("IFRS 3"), were not applied with respect to the accounting for business combinations which occurred before January 1, 2006. The goodwill maintained from this period does not include any intangible assets that must be reported separately under IFRS. Conversely, there are no intangible assets that until now had been reported separately that must be included in goodwill. As no adjustment for intangible assets was required relating to such business combinations, the goodwill previously reported was maintained in E.ON's opening balance sheet under IFRS. Business combinations are accounted for under the purchase method, whereby the purchase price is offset against the proportional share in the acquired company's net assets. In doing so, the values at the date of the exchange are used as a basis. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values, regardless of the extent attributable to minority interests. The fair values of individual assets are determined using published exchange or market prices at the time of acquisition in the case of marketable securities, for example, and in the case of land, buildings and more significant technical equipment, generally using independent expert reports that have been prepared by third parties. If exchange or market prices are unavailable for consideration, fair values are determined using the most reliable information available that is based on market prices for comparable assets or on suitable valuation techniques. In such cases, E.ON determines fair value using the discounted cash flow method by discounting estimated future cash flows by a weighted average cost of capital as applied for internal valuation purposes. Estimated cash flows are consistent with the internal mid-term planning data for the next three years, followed by two additional years of cash flow projections, which are extrapolated until the end of an asset's useful life using a growth rate based on industry and internal projections. The discount rate reflects specific risks inherent to the asset.

Intangible assets must be recognized separately from goodwill if they are clearly separable or if their recognition arises from a contractual or other legal right. Provisions for restructuring measures may not be recorded in a purchase price allocation. If the purchase price paid exceeds the proportional share in the net assets at the time of acquisition, the positive difference is recognized as goodwill. A negative difference is immediately recognized in income.

Foreign Currency Translation

The Company's transactions denominated in foreign currencies are translated at the current exchange rate at the date of the transaction. Monetary foreign currency items are adjusted to the current exchange rate at each balance sheet date; any gains and losses resulting from fluctuations in the relevant currencies are included in other operating income and other operating expenses, respectively. Gains and losses from the translation of financial instruments used in hedges of net investments in its foreign operations are recorded with no effect on net income as a component of equity.

The functional currency as well as the reporting currency of E.ON AG is the euro. The Consolidated Financial Statements are presented in euro as well. The assets and liabilities of the Company's foreign subsidiaries with a functional currency other than the euro are translated using period-end exchange rates, while items of the statements of income are translated using average exchange rates for the period. Significant transactions of foreign subsidiaries occurring during the fiscal year are translated in the financial statements using the exchange rate at the date of the transaction. Differences arising from the translation of assets and liabilities, as well as gains or losses in comparison with the translation of prior years, are included as a separate component of equity and accordingly have no effect on net income. In accordance with IFRS 1, E.ON offset the cumulative translation differences that were recognized in equity from the translation of financial statements into the reporting currency of E.ON in prior periods against retained earnings at the date of transition.

The foreign currency translation effects that are attributable to monetary financial instruments classified as available-for-sale are recognized in net income. For non-monetary financial instruments classified as available-for-sale, the foreign currency translation effects are recognized in equity with no effect on net income.

Revenue Recognition

The Company generally recognizes revenue upon delivery of products to customers or upon fulfillment of services. Delivery has occurred when the risks and rewards associated with ownership have been transferred to the buyer, compensation has been contractually established and collection of the resulting receivable is probable. Revenues from the sale of goods and services are measured at the fair value of the consideration received or receivable.

Sales in the Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest market units result primarily from the sale of electricity and gas to industrial and commercial customers and to retail customers. Additional revenue is earned from the distribution of electricity and deliveries of steam and heat.

Revenues from the sale of electricity and gas to industrial and commercial customers and to retail customers are recognized when earned on the basis of a contractual arrangement with the customer; they reflect the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and period-end.

Electricity and Energy Taxes

The electricity tax is levied on electricity delivered to retail customers by domestic utilities in Germany and Sweden and is calculated on the basis of a fixed tax rate per kilowatt-hour ("kWh"). This rate varies between different classes of customers.

The new German Energy Tax Act ("Energiesteuergesetz," "EnergieStG") regulates the taxation of energy generated from petroleum, natural gas and coal. It replaced the Petroleum Tax Act ("Mineralölsteuergesetz") effective August 1, 2006. Under the Energy Tax Act, natural gas tax is not levied until delivery to the end consumer. Under the previously applicable Petroleum Tax Act, natural gas tax became due at the time of the procurement or removal of the natural gas from storage facilities.

Earnings per Share

Basic (undiluted) earnings per share is computed by dividing the consolidated net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the relevant period. At E.ON the computation of diluted earnings per share is identical to basic earnings per share, because E.ON AG has no dilutive potential ordinary shares.

Goodwill and Intangible Assets

Goodwill

According to IFRS 3, goodwill is not amortized, but rather tested for impairment at the cash-generating unit level on at least an annual basis. Impairment tests must also be performed between these annual tests if events or changes in circumstances indicate that the carrying amount of the respective cash-generating unit might not be recoverable. E.ON has identified the operating units one level below its primary segments as its cash-generating units.

In an impairment test, the recoverable amount of a cash-generating unit is compared with its carrying amount, including goodwill. If the carrying amount exceeds the recoverable amount, the goodwill allocated to the cash-generating unit is adjusted in the amount of this difference. Impairment losses for goodwill may not be reversed in future reporting periods.

The recoverable amount is the higher of a cash-generating unit's fair value less costs to sell and its value in use. In a first step, E.ON determines the recoverable amount of a cash-generating unit on the basis of the fair value (less costs to sell) using valuation procedures that make use of the Company's current mid-term planning data for internal reporting. Measurement is based on the discounted cash flow method and market comparables.

E.ON has elected to perform the annual testing of goodwill for impairment at the cash-generating unit level in the fourth quarter of each fiscal year.

Intangible Assets

IAS 38, "Intangible Assets" ("IAS 38"), requires that intangible assets be amortized over their useful lives unless their lives are considered to be indefinite. Any intangible asset that is not subject to amortization must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

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Intangible assets subject to amortization are classified as marketing-related, customer-related, contract-based, and technology-based. They are all measured at cost and amortized using the straight-line method over their expected useful lives, generally for a period between 5 and 25 years or between 3 and 5 years for software, respectively. Useful lives and amortization methods are subject to annual verification. Intangible assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that such assets may be impaired.

In accordance with IAS 36 "Impairment of Assets" ("IAS 36"), the carrying amount of an intangible asset, whether subject to amortization or not, is tested for impairment by comparing the carrying value with its recoverable amount, which is the higher of an asset's value in use and its fair value less costs to sell. Should the carrying amount exceed the recoverable amount, an impairment charge equal to the difference between the carrying amount and the recoverable amount is recognized. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed. A reversal shall not cause the carrying amount of an intangible asset subject to amortization to exceed the amount that would have been presented had no impairment taken place during the preceding periods.

If a recoverable amount cannot be determined for an individual intangible asset, the recoverable amount for the smallest identifiable group of assets (cash-generating unit) that the intangible asset may be assigned to is determined.

Emission Rights

Under IFRS, emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets and are not amortized. *Emission rights are capitalized at cost on acquisition or when issued for the respective reporting period as (partial) fulfillment of the notice of allocation from the responsible national authorities.*

Provisions are recorded for emissions made. The provision is measured at the carrying amount of the emission rights held. Any shortfall in emission rights is accrued throughout the year within other provisions. The expenses incurred for the recognition of the provision are reported under cost of materials.

As part of operating activities, emission rights are also held for proprietary trading purposes. Emission rights held for proprietary trading are reported under other operating assets and measured at the lower of cost or fair value.

Property, Plant and Equipment

Property, plant and equipment are initially measured at acquisition or production cost, including decommissioning or restoration cost that must be capitalized, and are depreciated over their expected useful lives, generally using the straight-line method.

| Useful Lives of Property and Equipment | |
|---|----------------|
| Buildings | 10 to 50 years |
| Technical equipment, plant and machinery | 10 to 65 years |
| Other equipment, fixtures, furniture and office equipment | 3 to 25 years |

Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that an asset may be impaired. In such a case, property, plant and equipment are tested for impairment according to the principles described for intangible assets. If an impairment loss is determined, the remaining useful life of the asset might also be subject to adjustment, if necessary. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed. Such reversal shall not cause the carrying amount to exceed the amount that would have been presented had no impairment taken place during the preceding periods.

Interest on debt apportioned to the construction period of qualifying assets is capitalized as part of their cost of acquisition or construction and depreciated over the expected useful life of the related asset.

Repair and maintenance costs are expensed as incurred.

Investment subsidies do not reduce the acquisition and production costs of the respective assets; they are instead reported on the balance sheet as deferred income.

Leasing

Leasing transactions are classified according to the lease agreements and to the underlying risks and rewards specified therein in line with IAS 17, "Leases" ("IAS 17"). In addition, IFRIC 4, "Determining Whether an Arrangement Contains a Lease" ("IFRIC 4"), further defines the criteria as to whether an agreement that conveys a right to use an asset meets the definition of a lease. E.ON is party to some agreements in which it is the lessor and other agreements in which it is the lessee. Certain purchase and supply contracts in the electricity and gas business as well as certain rights of use may be classified as leases if the criteria are met.

Leasing transactions in which E.ON is the lessee are classified either as finance leases or operating leases. If the Company has the majority of the risks and rewards from the leased property, the lease is classified as a finance lease. Accordingly, the Company recognizes the asset and associated liability on its balance sheet. The liability is subsequently measured using the effective interest method. All other transactions in which E.ON is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

Leasing transactions in which E.ON is the lessor and the lessee enjoys substantially all the risks and all rewards of the leased property are classified as finance leases. In this type of lease, E.ON records the present value of the minimum lease payments as a receivable. Payments by the lessee are allocated between a reduction of the lease receivable and interest income. All other transactions in which E.ON is the lessor are categorized as operating leases. E.ON records the leased property as an asset and the lease payments as income.

Financial Instruments

Financial instruments are reported at fair value using trade date accounting. Equity investments and securities are measured in accordance with IAS 39. IAS 39 requires a financial asset to be accounted for according to its classification as held-for-trading, available-for-sale, loans and receivables or as held-to-maturity. Management determines the classification of the financial assets at initial recognition.

IAS 39 requires that derivative financial instruments are classified as financial instruments held for trading. These instruments are reported under other operating receivables and liabilities. No further financial instruments classified as held-for-trading exist within the Group.

Securities classified as available-for-sale are carried at fair value on a continuing basis, with any resulting unrealized gains and losses, net of related deferred taxes, reported as a separate component within equity until realized. Realized gains and losses are recorded based on the specific identification method. Unrealized losses previously recognized in equity indicating an impairment are included in the line item financial results.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables are reported under receivables and other assets. They are subsequently measured at amortized cost, using the effective interest method. Valuation allowances are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

Financial liabilities within the scope of IAS 39 are measured at amortized cost using the effective interest method. Initial recognition occurs at fair value plus transaction cost. In subsequent periods, the amortization and accretion of any premium or discount is included in interest income.

Inventories

The Company measures inventories at the lower of acquisition or production cost and net realizable value. The cost for gas inventories, raw materials, finished products and goods purchased for resale is determined based on the average cost method. In addition to production materials and wages, production costs include material and production overheads based on normal capacity. The costs of general administration, voluntary social benefits and pensions are not capitalized. Inventory risks resulting from excess and obsolescence are provided for using appropriate valuation allowances whereby inventories are written down to net realizable value.

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Receivables and Other Assets

Receivables (including trade receivables) and other assets are initially measured at fair value which approximates nominal value. Valuation allowances are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

Liquid Funds

Liquid funds include current available-for-sale securities, checks, cash on hand and bank balances. Bank balances and available-for-sale securities with an original maturity of more than three months are recognized under securities and fixed-term deposits. Liquid funds with an original maturity of less than three months are considered to be cash and cash equivalents, unless they are restricted.

Restricted cash with a remaining maturity in excess of twelve months is classified as financial receivables and other financial assets.

Assets Held for Sale and Liabilities Associated with Assets Held for Sale

Individual non-current assets or groups of assets held for sale and any directly attributable liabilities (disposal groups) are reported separately in the Consolidated Balance Sheet, whereby the assets and liabilities must be intended for sale in a single transaction.

Discontinued operations are components of an entity that are either held for sale or have already been sold and can be clearly distinguished from other corporate operations, both operationally and for financial reporting purposes. Additionally, the component classified as a discontinued operation must represent a major business line or a specific geographic area of the Group.

Non-current assets that are held for sale either individually or collectively as part of a disposal group, or that belong to a discontinued operation, are no longer depreciated. They are instead accounted for at the lower of the carrying amount and the fair value less any remaining costs to sell. If the fair value is less than the carrying amount, an impairment loss is recognized.

The income and losses resulting from the measurement of components held for sale at fair value less any remaining costs to sell, as well as the gains and losses arising from the disposal of discontinued operations, are reported separately on the face of the income statement under income/loss from discontinued operations, net, as is the income from the ordinary operating activities of these divisions. Prior-year income statement figures are adjusted accordingly. The cash flows of discontinued operations are reported separately in the cash flow statement with prior-year figures being adjusted accordingly. However, there is no reclassification of prior-year balance sheet line items attributable to discontinued operations.

Equity Instruments

IFRS defines equity as the residual interest in the Group's assets after deducting all liabilities. Therefore, equity is the net of all recognized assets and liabilities.

E.ON has entered into conditional and unconditional purchase commitments to minority shareholders. By means of these agreements, the minority shareholders have the right to require E.ON to purchase their shares on specified conditions. None of the contractual obligations has led to the transfer of substantially all of the risk and rewards to E.ON at the time of entering into the contract. IAS 32, "Financial Instruments: Presentation" ("IAS 32"), prescribes that a liability must be recognized at the present value of the probable future exercise price. The liability is reclassified from a separate component within minority interests and reported separately. The reclassification occurs irrespective of the probability of exercise. Expenses resulting from the accretion of the liability are recognized in interest expenses.

Where shareholders of entities own statutory, non-excludable rights of termination (for example, in German partnerships), such termination rights require the reclassification of minority interests from equity into liabilities under IAS 32. The liability is recognized at the present value of the expected settlement amount irrespective of the probability of termination. Changes in the value of the liability are reported within other operating income. Accretion of the liability and the minority shareholders' share in net income are shown as interest expense.

Share-Based Payment

Share-based payment plans issued in the E.ON Group are accounted for in accordance with IFRS 2, "Share-Based Payment" ("IFRS 2"). Both the E.ON Share Performance Plan introduced in fiscal 2006 and the remaining Stock Appreciation Rights granted between 1999 and 2005 as part of the virtual stock option program of E.ON AG are share-based payment transactions with cash compensation, the value of which is reported at fair value of the liability at each balance sheet date. Compensation expense is recorded ratably over the vesting period. E.ON determines fair value using the Monte Carlo simulation technique.

Provisions for Pensions and Similar Obligations

The valuation of defined benefit obligations in accordance with IAS 19, "Employee Benefits" ("IAS 19"), is based on actuarial computations using the projected unit credit method, with actuarial valuations performed at year-end. The valuation encompasses both pension obligations and pension entitlements known on the balance sheet date as well as economic trend assumptions made in order to reflect realistic expectations.

Actuarial gains and losses that may arise from differences between the estimated and actual number of beneficiaries and from the underlying assumptions are recognized in full in the period in which they occur. Such gains and losses are not reported within the Consolidated Statements of Income but rather are recognized within the Statements of Recognized Income and Expenses.

The service cost representing the additional benefits that employees earned under the benefit plan during the fiscal year is reported under personnel expenses; interest expenses and expected return on plan assets are reported under financial results.

Past service cost is recognized immediately to the extent that the benefits are already vested or is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and reduced by the fair value of plan assets. If a net asset position arises from this calculation, the amount is limited to the unrecognized past service cost plus the present value of available refunds and reductions in future contributions.

Payments for defined contribution benefit plans are expensed as incurred and reported under personnel expenses. Contributions to government benefit plans are treated as defined contribution benefit plans to the extent that the Group's obligations under these benefit plans correspond to those under defined contribution benefit plans.

Other Provisions

In accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"), provisions are recognized when E.ON has a legal or constructive present obligation towards third parties as a result of a past event, it is probable that E.ON will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The provision is recognized at the expected settlement amount. Long-term obligations are reported as liabilities at the present value of their expected settlement amounts if the interest rate effect (the difference between present value and repayment amount) resulting from discounting is material; future cost increases that are foreseeable and likely to occur on the balance sheet date must also be included in the measurement. Long-term obligations are discounted at the market interest rate applicable as of the respective balance sheet date. The accretion amounts and the effects of changes in interest rates are generally presented as part of financial results. A reimbursement related to the provision that is virtually certain to be collected is capitalized as a separate asset. No offsetting within provisions is permitted.

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Obligations arising from the decommissioning and restoration of property, plant and equipment are recorded during the period of their occurrence in the form of a discounted provision, provided that the obligation can be reliably estimated. The carrying amounts of the respective property, plant and equipment are increased by the same amounts. In subsequent periods, capitalized asset retirement costs are amortized over the expected remaining useful lives of the assets, and the provision is accreted to its present value on an annual basis.

Changes in estimates arise in particular from deviations from original cost estimates, from changes to the maturity or the scope of the relevant obligation, and also as a result of the regular adjustment of the discount rate to current market interest rates. The adjustment of provisions for the decommissioning and restoration of property, plant and equipment for changes to estimates is generally recognized by way of a corresponding adjustment to assets, with no effect on income. If the property, plant and equipment to be decommissioned have already been fully depreciated, changes to estimates are recognized within the income statement.

The estimates for nuclear decommissioning provisions are based on external studies and are continuously updated. The amounts of the other provisions related to nuclear power (disposal of spent nuclear fuel rods and low-level nuclear waste) are also determined using external studies.

The Nordic market unit has a right of reimbursement from the Swedish nuclear fund totaling €1,253 million as of June 30, 2007 (December 31, 2006: €1,290 million, January 1, 2006: €1,137 million). This refund is not offset against nuclear energy provisions but is disclosed in the balance sheet under non-current financial receivables.

Trade Payables

Trade payables are measured at amortized cost, which generally approximates nominal value.

Income Taxes

According to IAS 34, income tax expense for the interim period is recognized based on the effective tax rate expected for the full financial year. Taxes related to certain special items are reflected in the quarter in which they occur.

According to IAS 12, "Income Taxes" ("IAS 12"), deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements (liability method). The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss. IAS 12 further requires that deferred tax assets be recognized for unused tax loss carryforwards and unused tax credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be applicable for taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates and tax law is generally recognized in income. Equity is adjusted for deferred taxes that had previously been recognized directly in equity. Deferred taxes for domestic companies are generally calculated using the total tax rate of 39 percent (2006: 39 percent). This tax rate includes, in addition to the 25 percent corporate income tax, a solidarity surcharge of 5.5 percent on the corporate tax, and the average trade tax rate applicable to the E.ON Group. Foreign subsidiaries use applicable national tax rates.

Derivative Instruments and Hedging Activities

IAS 39 contains accounting and measurement guidance for hedge accounting and for derivative financial instruments, including certain derivative financial instruments embedded in other contracts.

Derivative financial instruments and separated embedded derivatives are measured at fair value at initial recognition and in subsequent periods. Gains and losses from changes in fair value are immediately recognized in net income.

Instruments commonly used are foreign currency forwards, swaps and options, interest-rate swaps, interest-rate options and cross-currency swaps. Equity forwards are entered into to cover price risks on securities. In commodities, the instruments used include physically and financially settled forwards and options based on the prices of electricity, gas, coal, oil and emission rights. As part of conducting operations in commodities, derivatives are also acquired for proprietary trading purposes. Income and losses from these derivative proprietary trading instruments are shown net in the Consolidated Statements of Income.

IAS 39 prescribes requirements for designation and documentation of hedging relationships, the hedging strategy, as well as ongoing retrospective and prospective measurement of effectiveness in order to qualify for hedge accounting. The Company does not exclude any component of derivative gains and losses from the measurement of hedge effectiveness. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80 to 125 percent effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

For qualifying fair value hedges, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s) are recognized in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's gain or loss is recognized in equity (as a component of accumulated other comprehensive income) and is reclassified into earnings in the period or periods during which the transaction being hedged affects income. The hedging result is reclassified into income immediately if it becomes probable that the hedged underlying transaction will no longer occur. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recognized immediately in the income statement. To hedge the foreign currency risk arising from the Company's net investment in foreign operations, derivative as well as non-derivative financial instruments are used. Gains or losses due to changes in fair value and from foreign currency translation are recorded separately within equity as currency translation adjustments.

Fair values of derivative financial instruments are classified as other operating assets and liabilities. Changes in fair value of derivative instruments affecting income are classified as other operating income or expenses. Gains and losses from interest-rate derivatives are included in interest income. Certain realized amounts are, if related to the sale of products or services, included in sales or cost of materials.

Unrealized gains and losses resulting from the initial measurement of derivative financial instruments at the inception of the contract are not recognized in income. They are instead deferred and recognized in income systematically over the term of the derivative. An exception to the accrual principle applies if unrealized gains and losses from the initial measurement are verified by quoted market prices, observable prices of other current market transactions or other observable data supporting the valuation technique. In this case the gains and losses are recognized in income.

Risk Management

During the normal course of business, the Company is exposed to foreign currency risk, interest rate risk, and commodity price risk. These risks create volatility in earnings, equity, and cash flows from period to period. The Company makes use of derivative financial instruments in various strategies to eliminate or limit these risks.

The Company's policy generally permits the use of derivatives if they are associated with underlying assets or liabilities, forecasted transactions, or legally binding rights or obligations. Some of the companies in the market units also conduct proprietary trading in commodities within the risk management guidelines described below.

E.ON AG has enacted general risk management guidelines for the use of derivative interest and foreign currency instruments as well as for commodity risk management that constitute a comprehensive framework for the entire Group. The market units have also adopted specific risk management guidelines to eliminate or limit risks arising from their respective activities. The market units' guidelines operate within the general risk management guidelines of E.ON AG. As part

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of the Company's framework for interest rate, foreign currency and commodity risk management, an enterprise-wide reporting system is used to monitor each reporting unit's exposures to these risks and their long-term and short-term financing needs. The creditworthiness of counterparties is monitored on a regular basis.

Commodity derivatives are used for price risk management, system optimization, load balancing and margin improvement. Any use of derivatives is only allowed within limits that are established and monitored by a board independent from the trading operations. Proprietary trading activities are subject to particularly strict limits. The risk ratios and limits used mainly include value-at-risk figures, as well as volume, credit and book limits. Additional key elements of risk management are the clear division of duties between scheduling, trading, settlement and control, as well as a risk reporting independent from the trading operations.

Interest, currency and equity-related derivatives are only used for hedging purposes.

Consolidated Statement of Cash Flows

In accordance with IAS 7, "Cash Flow Statements" ("IAS 7"), the Consolidated Statements of Cash Flows are classified by operating, investing and financing activities. Cash flows from discontinued operations are reported separately in the Consolidated Statement of Cash Flows. Interest received and paid, income taxes paid and refunded, as well as dividends received are classified as operating cash flows, whereas dividends paid are classified as financing cash flows. Changes to the scope of consolidation have no effect on the Consolidated Statement of Cash Flows; only the purchase prices paid for subsidiaries in this context (or the sales prices received, respectively) are reported under investing activities, net of cash or cash equivalents acquired or divested as part of the transaction. This also applies to valuation changes due to exchange rate fluctuations, whose impact on cash and cash equivalents is separately disclosed.

Presentation of the Consolidated Balance Sheets and Statements of Income

In accordance with IAS 1, "Presentation of Financial Statements" ("IAS 1"), the Consolidated Balance Sheets have been prepared using a classified balance sheet structure. Assets that will be realized within twelve months of the reporting date, as well as liabilities that are due to be settled within one year of the reporting date are classified as current.

In addition, as part of the transition to IFRS, classification of the Income Statement was changed to the nature of expense method which is also applied for internal purposes.

Critical Accounting Estimates and Assumptions; Critical Judgments in the Application of Accounting Policies

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that may influence the application of accounting principles within the Group and affect the valuation and presentation of reported figures. Actual amounts could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods if both periods are affected.

(3) New Standards and Interpretations

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued standards and interpretations whose application is not yet mandatory in the reporting period. The application of some of these standards and interpretations is at the present time still subject to adoption by the EU, which remains outstanding.

IFRS 8, "Operating Segments"

In November 2006, the IASB issued IFRS 8, "Operating Segments" ("IFRS 8"), which contains new requirements for a company's disclosure about its operating segments. IFRS 8 replaces IAS 14 and adopts almost completely the requirements of Statement of Financial Accounting Standards ("SFAS") 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), the corresponding accounting standard under U.S. GAAP. The management approach required by IFRS designates that the internal reporting organization used by management for making operating decisions and assessing performance should be used as the source for presenting a company's reportable segments. The standard is to be applied for fiscal years beginning on or

after January 1, 2009; earlier application is encouraged. However, it has not been transferred by the EU into European law yet. Thus, E.ON's intention to voluntarily apply IFRS 8 earlier than required was not executed within this Interim Report.

IAS 23, "Borrowing Costs"

In March 2007, the IASB issued revised IAS 23, "Borrowing Costs" ("IAS 23"). IAS 23 eliminates the option of recognizing borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of such directly attributable borrowing costs is now mandatory. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. However, the standard has not been transferred by the EU into European law yet. Revised IAS 23 has no impact for E.ON as E.ON capitalizes borrowing costs as a part of the cost of acquisition or construction.

IFRIC 11, "IFRS 2—Group and Treasury Share Transactions"

IFRIC 11, "IFRS 2—Group and Treasury Share Transactions" ("IFRIC 11"), addresses how to apply IFRS 2 to share-based payment arrangements in which an entity's own equity instruments or equity instruments of another company in the same group are granted. IFRIC 11 requires share-based compensation systems in which a company receives goods or services as consideration for its own equity instruments to be accounted for as equity-settled share-based payment transactions. IFRIC 11 further provides guidance on how share-based compensation systems in which a parent company's equity instruments are granted should be accounted for at a member of a group of companies. IFRIC 11 is to be applied for fiscal years beginning on or after March 1, 2007. The share-based payment arrangements established within the E.ON Group are not subject to IFRIC 11 because they are cash-settled. Accordingly, the initial application of IFRIC 11 will not have any effect on the Consolidated Financial Statements.

IFRIC 12, "Service Concession Arrangements"

IFRIC 12, "Service Concession Arrangements" ("IFRIC 12"), governs accounting for arrangements in which a government or other public-sector institution (grantor) grants contracts to private companies (grantees) for the performance of public

services. In performing these services, the private company uses infrastructure that continues to be owned by the government/public-sector institution. The private company is responsible for the construction, operation, and maintenance of the infrastructure. IFRIC 12 is to be applied for fiscal years beginning on or after January 1, 2008; however, it has not yet been transferred by the EU into European law. E.ON is currently evaluating the effects of first-time application of IFRIC 12 on the Consolidated Financial Statements.

IFRIC 13, "Customer Loyalty Programmes"

IFRIC 13, "Customer Loyalty Programmes" ("IFRIC 13"), addresses accounting by entities that grant loyalty award credits. The interpretation clarifies how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. IFRIC 13 is to be applied for fiscal years beginning on or after July 1, 2008. However, the interpretation has not been transferred by the EU into European law yet. The adoption of IFRIC 13 is not expected to have a material impact on E.ON's Consolidated Financial Statements.

IFRIC 14, "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC 14, "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC14"), provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability for defined benefit plans may be affected when there is a statutory or contractual minimum funding requirement. Under IFRIC 14 no additional liability needs to be recognized by the employer unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The interpretation is mandatory for fiscal years beginning on or after January 1, 2008; however, it has not yet been transferred by the EU into European law. E.ON is currently evaluating the effects of the first-time application of IFRIC 14 on the Consolidated Financial Statements.

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(4) Scope of Consolidation

The number of consolidated companies changed as follows during the reporting period:

| Scope of Consolidation | Domestic | Foreign | Total |
|---|------------|------------|------------|
| Consolidated companies as of December 31, 2006 | 139 | 362 | 501 |
| Additions | 6 | 10 | 16 |
| Disposals/Mergers | 2 | 6 | 8 |
| Consolidated companies as of June 30, 2007 | 143 | 366 | 509 |

In addition, 168 companies have been accounted for under the equity method as of June 30, 2007 (December 31, 2006: 168).

(5) Disposals and Discontinued Operations**Disposals and Discontinued Operations in 2007****U.S. Midwest
WKE**

Through Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, USA, E.ON U.S. has a 25-year lease on and operates the generating facilities of Big Rivers Electric Corporation ("BREC"), a power generation cooperative in western Kentucky, and a coal-fired facility owned by the city of Henderson, Kentucky, U.S.

In March 2007, E.ON U.S. entered into a termination agreement with BREC to terminate the lease and the operational agreements for nine coal-fired and one oil-fired electricity generation units in western Kentucky, which were held through its wholly-owned subsidiary WKE.

The closing of the agreement is subject to a number of conditions, including review and approval by various regulatory agencies and acquisition of certain consents by other interested parties. Subject to such contingencies, the parties are working on completing the termination transaction during 2007. WKE therefore continues to be classified as a discontinued operation, just as in 2006.

The tables below provide selected financial information from the discontinued WKE operations in the U.S. Midwest segment for the periods indicated:

| Selected Financial Information— WKE—(Summary) | | |
|---|-------------|------------|
| January 1 - June 30 | 2007 | 2006 |
| € in millions | | |
| Sales | 99 | 114 |
| Other income/(expenses), net | -239 | 22 |
| Income from continuing operations before income taxes and minority interests | -140 | 136 |
| Income taxes | 54 | -52 |
| Income from discontinued operations | -86 | 84 |

| Major Balance Sheet Line Items— WKE—(Summary) | | | |
|--|------------------|------------------|-----------------|
| € in millions | June 30, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Property, plant and equipment | 186 | 215 | 211 |
| Other assets | 491 | 396 | 471 |
| Total assets | 677 | 611 | 682 |
| Total liabilities | 768 | 615 | 836 |

In addition in the first half of 2007, there were gains from the discontinued operations in the Company's former Viterra segment totaling €6 million as well as losses from the sale of the former Oil segment amounting to €13 million.

ONE

In June 2007, E.ON and its partners Telenor and Tele Danmark signed a contract to sell their shares in the Austrian telecommunications company ONE GmbH ("ONE"), Vienna, Austria, to a consortium of bidders consisting of France Télécom and the financial investor Mid Europa Partners. The proceeds from the sale of E.ON's 50.01 percent interest in ONE including the consideration for the shareholder loans granted totals roughly €550 million. E.ON will realize a gain from the transaction in the amount of approximately €330 million. The closing, which is subject to the approval by the responsible authorities, is expected to take place during 2007. As of the end of June 2007, ONE was classified as asset held for sale.

Discontinued Operations in 2006

In addition to WKE, E.ON Finland and Degussa were classified as discontinued operations in 2006.

Nordic

E.ON Finland

In June 2006, E.ON Nordic and the Finnish energy group Fortum Power and Heat Oy ("Fortum") finalized the transfer to Fortum of all of E.ON Nordic's shares in E.ON Finland. The purchase price for the 65.56 percent stake totaled approximately €390 million. E.ON Finland was classified as a discontinued operation in mid-January 2006.

The table below provides selected financial information from the discontinued operations of the Nordic segment for the periods indicated:

| Selected Financial Information— E.ON Finland—(Summary) | |
|---|-----------|
| January 1 - June 30 | 2006 |
| € in millions | |
| Sales | 131 |
| Gain on disposal, net | 11 |
| Other income/(expenses), net | -115 |
| Income from continuing operations before income taxes and minority interests | 27 |
| Income taxes | -7 |
| Income from discontinued operations | 20 |

Degussa

As part of the implementation of the framework agreement entered into at the end of 2005 by E.ON AG and RAG AG ("RAG"), Essen, Germany, on the sale of the stake in Degussa AG

("Degussa"), Düsseldorf, Germany, held by E.ON (42.9 percent), this stake was transferred into the RAG Projektgesellschaft in March 2006. E.ON's stake in RAG Projektgesellschaft was then forward sold. The forward sales agreement was executed at the beginning of July, resulting in the completion of the disposal of the remaining Degussa stake. The purchase price was paid at the end of August 2006. The transaction resulted in a gain of €981 million, which was subsequently adjusted for the intercompany gain attributable to E.ON's minority interest in RAG (39.2 percent). A gain of €596 million was thus realized from the transfer and the subsequent sale.

As the interest in Degussa qualified as a discontinued operation under IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5"), this gain is reported as income from discontinued operations in E.ON's Consolidated Financial Statements along with E.ON's equity in Degussa's first quarter earnings in 2006 of €37 million. In total, a gain of €633 million was recognized for Degussa.

(6) Research and Development Costs

Research and development costs in the E.ON Group amounted to €12 million in the first six months of 2007 (first six months of 2006: €7 million).

(7) Financial Results

The following table provides details of financial results for the periods indicated:

| Financial Results | April 1 - June 30 | | January 1 - June 30 | |
|---|-------------------|-------------|---------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| € in millions | | | | |
| Income from companies in which share investments are held | 169 | 120 | 188 | 137 |
| Writedown of share investments | -3 | 0 | -17 | -6 |
| Income from share investments | 166 | 120 | 171 | 131 |
| Income from other securities, interest and similar income | 365 | 332 | 625 | 677 |
| Interest and similar expenses | -551 | -560 | -1,092 | -1,260 |
| Thereof accretion expense related to asset retirement obligations | -119 | -115 | -237 | -230 |
| Interest and similar expenses (net) | -186 | -228 | -467 | -583 |
| Financial results | -20 | -108 | -296 | -452 |

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(8) Earnings per Share

The computation of diluted EPS is identical to basic EPS, as E.ON AG does not have any dilutive securities.

The computation of earnings per share for the periods indicated is shown below:

| Earnings per Share | | | | |
|---|------------|--------------|--------------|--------------|
| | April 1 | June 30 | January 1 - | June 30 |
| € in millions | 2007 | 2006 | 2007 | 2006 |
| Income/Loss (-) from continuing operations | 1,048 | 1,168 | 4,413 | 2,709 |
| less: Minority interests | -127 | -91 | -352 | -295 |
| Income/Loss (-) from continuing operations attributable to shareholders of E.ON AG | 921 | 1,077 | 4,061 | 2,414 |
| Income/Loss (-) from discontinued operations, net | -20 | 24 | -93 | 737 |
| less: Minority interests | 0 | -4 | 0 | -9 |
| Income/Loss (-) from discontinued operations, net attributable to shareholders of E.ON AG | -20 | 20 | -93 | 728 |
| Net income attributable to shareholders of E.ON AG | 901 | 1,097 | 3,968 | 3,142 |
| Weighted-average number of shares outstanding (shares in million) | 659 | 659 | 659 | 659 |
| in € | | | | |
| Earnings per share (attributable to shareholders of E.ON AG) | | | | |
| from continuing operations | 1.40 | 1.63 | 6.16 | 3.66 |
| from discontinued operations | -0.03 | 0.04 | -0.14 | 1.11 |
| from net income | 1.37 | 1.67 | 6.02 | 4.77 |

(9) Goodwill

During the period indicated, the carrying amount of goodwill changed as follows in each of E.ON's segments:

| Goodwill | | | | | | | |
|---|----------------|------------------|--------------|------------|--------------|------------------|---------------|
| € in millions | Central Europe | Pan-European Gas | U.K. | Nordic | U.S. Midwest | Corporate Center | E.ON Group |
| Book value as of December 31, 2006 | 2,485 | 4,399 | 4,956 | 298 | 3,182 | 0 | 15,320 |
| Goodwill additions/disposals | | 1 | | 2 | | | 3 |
| Other changes ¹ | -46 | 10 | -18 | -6 | -79 | | -139 |
| Book value as of June 30, 2007 | 2,439 | 4,410 | 4,938 | 294 | 3,103 | 0 | 15,184 |

¹Other changes include transfers and exchange rate differences for the respective reporting period.

(10) Financial Assets

The Company's financial assets consisted of the following:

| Financial Assets | | | |
|---|---------------|---------------|---------------|
| € in millions | June 30, 2007 | Dec 31, 2006 | Jan. 1, 2006 |
| Companies accounted for under the equity method | 7,657 | 7,770 | 9,507 |
| Share investments | 12,102 | 13,533 | 10,073 |
| Thereof investment in OAO Gazprom | 10,562 | 11,918 | 8,141 |
| Non-current securities | 6,859 | 7,146 | 6,471 |
| Total | 26,618 | 28,449 | 26,051 |

(11) Treasury Stock

As of June 30, 2007, E.ON AG held 4,227,368 treasury shares (December 31, 2006: 3,930,537). The increase results from the share buyback program started on June 27, 2007, as well as from the acquisition of shares designated for resale to employees as part of an employee stock purchase program. Another 28,472,194 shares of E.ON stock continue to be held by an E.ON subsidiary. E.ON thus held 4.7 percent of its capital stock as treasury shares as of the balance sheet date. For further information on the share buyback program, please see Note 16.

(12) Dividends Paid

On May 3, 2007, the shareholders in the Annual Shareholders Meeting voted to distribute a dividend of €3.35 for each dividend-paying ordinary share, a €0.60 increase from the previous dividend paid in 2006 (excluding a special dividend of €4.25 per share in 2006). This corresponds to a total dividend paid of €2,210 million.

(13) Provisions for Pensions and Similar Obligations

Pension provisions decreased compared to year-end 2006 primarily due to actuarial gains resulting from higher discount rates.

During the first six months of 2007, contributions to increase the percentage of obligations funded by plan assets of approximately €384 million were made, of which approximately €268 million and €81 million are attributable to the Contractual Trust Arrangement for German subsidiaries and to the U.S. Midwest market unit, respectively.

The funded status, which is equal to the difference between the defined benefit obligation and the fair value of plan assets, is reconciled with the amounts recognized within the Consolidated Balance Sheets as shown in the following table:

| Net Amount Recognized | | | |
|---|---------------|---------------|--------------|
| € in millions | June 30, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Defined benefit obligation | 15,889 | 17,306 | 17,849 |
| Fair value of plan assets | -13,324 | -13,342 | -8,076 |
| Funded status | 2,565 | 3,964 | 9,773 |
| Unrecognized past service cost | -4 | -4 | -5 |
| Net amount recognized | 2,561 | 3,960 | 9,768 |
| Thereof accounted as | | | |
| Operating receivables | -97 | -2 | 0 |
| Provisions for pensions and similar obligations | 2,658 | 3,962 | 9,768 |

| Discount Rate | | | |
|----------------------|---------------|---------------|--------------|
| Percentages | June 30, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Germany | 5.25 | 4.50 | 4.00 |
| United Kingdom | 5.82 | 5.10 | 4.80 |
| United States | 6.36 | 5.95 | 5.50 |

The net periodic benefit cost for defined benefit plans is as follows:

| Net Periodic Benefit Cost for Defined Benefit Plans | | | | |
|--|-------------------|------------|---------------------|------------|
| € in millions | April 1 - June 30 | | January 1 - June 30 | |
| | 2007 | 2006 | 2007 | 2006 |
| Employer service cost | 63 | 67 | 124 | 131 |
| Interest cost | 202 | 191 | 408 | 382 |
| Expected return on plan assets | -183 | -134 | -369 | -249 |
| Past service cost | 0 | 0 | 0 | 1 |
| Settlements and curtailments | 1 | 0 | 3 | 0 |
| Total | 83 | 124 | 166 | 265 |

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(14) Segment Information

The reportable segments of the E.ON Group are presented in line with the Company's internal organizational and reporting structure.

- The Central Europe market unit operates E.ON's integrated electricity business and downstream gas business in Central Europe.
- Pan-European Gas is responsible for the European upstream and midstream gas business. Moreover, this market unit holds predominantly minority shareholdings in the downstream gas business.
- The U.K. market unit encompasses the integrated energy business in the United Kingdom.
- The Nordic market unit focuses on the integrated energy business in Northern Europe.

- The U.S. Midwest market unit is primarily active in the regulated energy market in the U.S. state of Kentucky.
- The Corporate Center contains the interests managed directly by E.ON AG, E.ON AG itself, and consolidation effects at the Group level.

Under IFRS, E.ON is required to report under discontinued operations those operations of a reportable or operating segment, or of a component thereof, which either have been disposed of or are classified as held for sale. In the first six months of 2007, this applied to WKE, which is held for sale. In the first six months of 2006, in addition to WKE, E.ON Finland and Degussa were also held for sale and were sold in June and August 2006, respectively. For the purposes of our business segment reporting, our results for the period ended June 30, 2007, and for the prior-year period do not include the results of our discontinued operations (see the commentary on page 40).

Financial Information by Business Segment

| January 1 - June 30 € in millions | Central Europe | | Pan-European Gas | | U.K. | |
|--|----------------|---------------|------------------|---------------|---------------|---------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| External sales | 16,254 | 14,269 | 10,041 | 11,171 | 6,628 | 6,300 |
| Intersegment sales | 349 | 267 | 1,683 | 1,008 | 89 | 70 |
| Sales | 16,603 | 14,536 | 11,724 | 12,179 | 6,717 | 6,370 |
| Adjusted EBITDA | 3,280 | 3,218 | 1,901 | 1,962 | 1,004 | 732 |
| Depreciation and amortization | -721 | -723 | -250 | -255 | -263 | -277 |
| Impairments ¹ | -15 | - | -20 | -10 | - | - |
| Adjusted EBIT | 2,544 | 2,495 | 1,631 | 1,697 | 741 | 455 |
| thereof earnings from companies accounted for under the equity method ¹ | 133 | 112 | 307 | 320 | 11 | 2 |
| Segment result per IAS 14 ² | 3,641 | 2,347 | 1,807 | 1,422 | 870 | 96 |
| Cash provided by operating activities | 1,787 | 1,087 | 2,119 | 847 | 655 | -75 |
| Investments | 1,047 | 825 | 1,174 | 583 | 624 | 308 |
| Intangible assets and property, plant and equipment | 943 | 667 | 288 | 151 | 624 | 305 |
| Share investments | 104 | 158 | 886 | 432 | - | 3 |
| Total assets (June 30 and December 31) | 61,282 | 59,093 | 34,369 | 36,994 | 18,949 | 19,636 |
| thereof intangible assets (June 30 and December 31) | 1,926 | 1,965 | 858 | 867 | 683 | 793 |
| thereof property, plant and equipment (June 30 and December 31) | 17,808 | 17,664 | 6,353 | 6,289 | 7,586 | 7,157 |

¹Impairments recognized in adjusted EBIT differ from the relevant amounts reported in accordance with IFRS due to impairments of equity method investments and other share investments as well as due to impairments recognized within non-operating expenses. Under IFRS, impairments of equity method investments and other share investments are included in income/loss (-) from companies accounted for under the equity method and financial results, respectively. In the first six months of 2007, differences resulted from impairment charges on equity method investments and other share investments. In the first six months of 2006, the deviation was primarily due to impairments of property, plant and equipment at the Pan-European Gas market unit as well as intangible assets at the U.K. market unit which were recognized within nonoperating expenses.

²The segment result as required by IAS 14 is defined as income from continuing operations before financial results and income taxes. In contrast to the adjusted EBIT, which E.ON uses for internal performance measurement and as an indicator for sustainable profitability, the segment result according to IFRS is not adjusted for non-recurring items.

Adjusted EBIT, E.ON's key figure for purposes of internal management control and as an indicator of a business's long-term earnings power, is derived from income/loss (-) from continuing operations before income taxes and interest income and adjusted to exclude certain special items. The adjustments include adjusted interest expense (net), net book gains, and other nonoperating earnings.

Adjusted interest expense (net) is calculated by taking the interest and similar expenses (net) recorded in the Consolidated Statements of Income and adjusting it using economic criteria and excluding certain special items (that is, the portions of interest expense that are nonoperating). Net book gains are equal to the sum of book gains and book losses from disposals included in other operating income and expenses. Other nonoperating earnings consists of other nonoperating income and expenses of a nonrecurring or rare nature.

Depending on the case, such income and expenses may affect different line items of the Consolidated Statements of Income. For example, effects from the marking to market of derivatives are recorded under other operating income and expenses, while impairment charges on property, plant, and equipment are recorded under depreciation, amortization, and impairment charges.

Page 8 in the Interim Group Management Report of this Interim Report contains a detailed reconciliation of adjusted EBIT to net income. Due to the adjustments made, our financial information by business segment may differ from the corresponding IFRS figures.

| Nordic | | U.S. Midwest | | Corporate Center | | E.ON Group | |
|---------------|---------------|--------------|--------------|------------------|----------------|----------------|----------------|
| 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| 1,723 | 1,524 | 912 | 974 | 1 | 1 | 35,559 | 34,239 |
| 51 | 38 | - | - | -2,172 | -1,383 | - | - |
| 1,774 | 1,562 | 912 | 974 | -2,171 | -1,382 | 35,559 | 34,239 |
| 646 | 614 | 254 | 279 | -129 | -166 | 6,956 | 6,639 |
| -170 | -189 | -78 | -83 | -7 | -7 | -1,489 | -1,534 |
| -1 | - | - | -6 | -5 | - | -41 | -16 |
| 475 | 425 | 176 | 190 | -141 | -173 | 5,426 | 5,089 |
| 5 | 4 | 13 | 8 | 6 | 4 | 475 | 450 |
| 471 | 361 | 202 | 186 | -940 | -197 | 6,051 | 4,215 |
| 550 | 546 | 121 | 270 | -473 | 86 | 4,759 | 2,761 |
| 398 | 274 | 307 | 154 | -866 | -24 | 2,684 | 2,120 |
| 393 | 223 | 307 | 154 | -3 | -6 | 2,552 | 1,494 |
| 5 | 51 | - | - | -863 | -18 | 132 | 626 |
| 13,652 | 13,565 | 8,473 | 8,387 | -10,827 | -10,100 | 125,898 | 127,575 |
| 202 | 229 | 18 | 20 | 17 | 20 | 3,704 | 3,894 |
| 7,234 | 7,184 | 4,143 | 4,000 | 184 | 190 | 43,308 | 42,484 |

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(15) IFRS Reconciliation and Interim Financial Statements of the E.ON Group for the First Half of 2007

Explanatory Notes Concerning the Transition of Group Accounting Policies to International Financial Reporting Standards

E.ON will prepare its first Consolidated Financial Statements in accordance with IFRS for December 31, 2007. These financial statements will also include comparable financial statements for the fiscal year ended December 31, 2006. The effective date of the E.ON Group's IFRS Consolidated Opening Balance Sheet is January 1, 2006 (the date of transition to IFRS according to IFRS 1).

According to IFRS 1, the first IFRS Consolidated Financial Statements must use recognition and measurement principles that are based on standards and interpretations that are mandatory at December 31, 2007, the date of first-time preparation of Consolidated Financial Statements according to IFRS, provided these have been published effective December 31, 2007, and adopted by the EU. These accounting and measurement principles must be applied retrospectively to the date of transition to IFRS and for all periods presented within the first IFRS Consolidated Financial Statements.

Any resulting differences between the carrying amounts of assets and liabilities according to IFRS as of January 1, 2006, compared with those presented in the U.S. GAAP Consolidated Balance Sheet as of December 31, 2005, were recognized in equity within the IFRS opening balance sheet.

The Interim Financial Statements for the six months ended June 30, 2007, have been prepared in accordance with all IFRS effective and adopted for use in the EU as of the end of the interim period.

As the IASB may issue additional pronouncements prior to the preparation of the Consolidated Financial Statements for the year ending December 31, 2007, whose application is mandatory or which E.ON may elect to apply prematurely, the IFRS applied to the 2007 year-end financial statements may deviate in some respects from the standards utilized within the Interim Financial Statements for the six months ended June 30, 2007.

As provided for by IFRS 1, E.ON has applied the mandatory exceptions as well as certain optional exemptions described in the following text to the retrospective application of IFRS.

Explanation of the IFRS 1 Exemptions Applied by E.ON

In the IFRS Consolidated Opening Balance Sheet as of January 1, 2006, the carrying amounts of assets and liabilities from the U.S. GAAP balance sheet as of December 31, 2005, are generally recognized and measured according to those IFRS regulations in effect on December 31, 2007. For certain individual cases, however, IFRS 1 provides for optional exemptions to the general principle of retrospective application of IFRS. The following discussion describes the exemptions that E.ON has made use of in preparing its IFRS Consolidated Opening Balance Sheet.

Business Combinations

E.ON has elected to utilize the option under IFRS 1 not to apply the provisions of IFRS 3 retrospectively to business combinations that took place prior to the transition to IFRS. The presentation of these business combinations according to U.S. GAAP was maintained. In general, all of those assets and liabilities that were acquired in a business combination and that fulfill the IFRS recognition criteria must be recognized in the IFRS consolidated opening balance sheet. Furthermore assets and liabilities that were not recognized under U.S. GAAP but are subject to recognition under IFRS are recognized in the IFRS opening balance sheet. Any resulting adjustment amounts are recognized in retained earnings with no effect on net income unless they pertain to intangible assets whereby an adjustment of the goodwill determined under U.S. GAAP would be required. As no adjustment for intangible assets was required relating to such business combinations, the goodwill previously reported under U.S. GAAP was maintained in E.ON's opening balance sheet under IFRS.

Goodwill must be tested for impairment at the time of transition to IFRS. No impairment was determined by E.ON at the time of transition.

Cumulative Translation Differences

E.ON has elected to utilize the exemption provided for under IFRS 1 whereby the unrealized cumulative translation differences resulting from the translation of financial statements into the reporting currency of E.ON and previously reported within other comprehensive income, may be recognized in full at the time of transition to IFRS within equity.

In a subsequent disposal of an enterprise, only those foreign currency translation differences that were recognized in equity after the preparation of the opening balance sheet, are recognized in the gain or loss on disposal.

Significant Effects of Transition from U.S. GAAP to IFRS

The following reconciliations and their associated explanatory notes provide an overview of the effects of transition to IFRS. The adjustments are presented in the following sections:

- Equity as of January 1, 2006
- Equity as of June 30, 2006
- Equity as of December 31, 2006
- Net income for the interim period from January 1, 2006, through June 30, 2006
- Net income for the second quarter from April 1, 2006, through June 30, 2006
- Net income for the fiscal year from January 1, 2006, through December 31, 2006

Reconciliation of Equity

| Reconciliation of Equity | | Dec 31, | June 30, | Jan. 1, |
|---|---|---------------|---------------|---------------|
| € in millions | | 2006 | 2006 | 2006 |
| Equity under U.S. GAAP | | 47,845 | 44,389 | 44,484 |
| Change in the presentation of minority interests | a | 4,917 | 4,919 | 4,734 |
| Equity under U.S. GAAP, including minority interests | | 52,762 | 49,308 | 49,218 |
| Effects of IAS 32 | b | -2,780 | -2,643 | -3,249 |
| Inventories | c | 348 | 336 | 134 |
| Pensions and similar obligations | d | -81 | -122 | -1,391 |
| Other provisions | e | -129 | -55 | -43 |
| Derivatives | f | 226 | -389 | -566 |
| Valuation of available-for-sale financial instruments | g | 370 | 362 | 377 |
| U.S. Regulation | h | 279 | 398 | 403 |
| Income taxes | i | 223 | 63 | 800 |
| Other | j | 27 | -545 | 286 |
| Total adjustments | | -1,517 | -2,595 | -3,249 |
| Equity under IFRS | | 51,245 | 46,713 | 45,969 |

a) Changes in the Presentation of Minority Interests
Under IFRS, minority interests of third parties in the Group are reported as part of equity. Under U.S. GAAP, minority interests are reported separately from shareholders' equity.

b) Effects of IAS 32
Put Options on Minority Interests

Financial instruments for which a right of repayment exists for the investor do not constitute equity instruments under the IFRS definition of equity. E.ON has made conditional and unconditional commitments to certain minority shareholders to acquire the outstanding shares. As a result, a liability in the amount of the present value of the future exercise price must be reported. This reclassification from equity is irrespective of the probability of exercise and is reported separately within minority interests.

Under U.S. GAAP, these potential commitments are generally reported similar to derivatives at fair value.

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Minority Interests in German Partnerships

Under German corporate law, shareholders of a German partnership have a statutory, non-excludable right of termination. Under IAS 32, this right of termination causes the minority interests in the Group to be considered repayable. Accordingly, a corresponding liability at the present value of the expected settlement amount must be reclassified from equity, irrespective of the probability of exercise. The reclassification is reported separately within minority interests.

Under U.S. GAAP, these partnership interests are shown under minority interests.

In total, these effects resulted in a reduction in equity of €3,249 million within the opening balance sheet (June 30, 2006: -€2,643 million; December 31, 2006: -€2,780 million).

c) Inventories

Under U.S. GAAP, gas inventories were generally measured at LIFO. Under IAS 2, "Inventories" ("IAS 2"), this measurement method is not allowed. The adjustment to average-cost measurement of gas inventories resulted in an increase in equity of €134 million within the opening balance sheet (June 30, 2006: €336 million; December 31, 2006: €348 million).

d) Pensions and Similar Obligations

Both U.S. GAAP and IFRS require the formation of provisions for pension obligations. Differences in the opening balance sheet in the values recognized under IAS 19, and SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), resulted in particular from the election to recognize all cumulative actuarial gains and losses in equity under IFRS. As part of the transition, the intangible pension asset and the prepaid pension asset as well as the additional minimum liability were eliminated. As a result, equity decreased by €1,391 million within the opening balance sheet (June 30, 2006: -€122 million; December 31, 2006: -€81 million). Due to actuarial gains recognized directly in equity under IFRS the difference decreased by June 30, 2006. The further decline by December 31, 2006 is predominantly due to the first-time application of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"), which also requires recognition of actuarial gains and losses within equity.

e) Other Provisions

Under IFRS, long-term provisions must generally be discounted at the market interest rate applicable as of the respective balance sheet date if the interest rate effect (the difference between present value and repayment amount) resulting from discounting is material. In contrast, U.S. GAAP sets more stringent requirements with regard to discountability, with the result that under IFRS, more provisions are recognized at their lower present values.

A further difference exists with regard to the subsequent measurement of provisions for asset retirement obligations. Under both U.S. GAAP and IFRS, the acquisition or production costs of property, plant and equipment must be increased to include future asset retirement cost. The increased amount is amortized over the useful life of the corresponding asset. Each subsequent remeasurement of the provision under IFRS leads to an increase or a reduction of the entire cost of the asset to be decommissioned, while a remeasurement under U.S. GAAP leads to an increase or a reduction of only the asset retirement cost. Remeasurements of this type only affect the income statement if a reduction of the provision causes the carrying amount of the corresponding asset (or, under U.S. GAAP, the asset retirement cost portion) to be reduced to zero; in this case, each further reduction of the provision is recognized in income. As a consequence of the different definitions of the corresponding asset items, remeasurements of asset retirement obligations are less frequently recognized within the income statement under IFRS than under U.S. GAAP.

A further reduction in equity resulted from the different treatment of the bonus features ("Aufstockungsbeträge") of early retirement arrangements under IFRS.

In total, the differences in the accounting for other provisions resulted in a reduction in equity of €43 million within the opening balance sheet (June 30, 2006: -€55 million; December 31, 2006: -€129 million).

f) Derivatives

Further differences exist with regard to the definition of a derivative. Under U.S. GAAP, there are industry-specific exceptions for power-plant-specific supply contracts that are unknown under IFRS. This means that the definition of a derivative encompasses more contracts under IFRS.

In the case of embedded derivatives in certain supply and sale contracts, IFRS provides for the possibility of measuring only the embedded derivative, while reporting the non-derivative portion as a pending transaction. This is an exception for own use contracts. Under U.S. GAAP, the existence of an embedded derivative in these contracts gives rise to fair value reporting through income for the contract as a whole. Further effects arise from the definition of a derivative with regard to net settlement and market liquidity.

In total, these effects resulted in a reduction in equity of €566 million within the opening balance sheet (June 30, 2006: -€389 million; December 31, 2006: increase of €226 million).

g) Valuation of Available-for-Sale Financial Instruments

Under U.S. GAAP, non-marketable equity instruments are accounted for at cost. Under IFRS, all equity instruments must be reported at fair value to the extent that the fair value can be reliably determined. This applies even if an exchange quotation or another publicly available market price does not exist. Unrealized gains and losses from available-for-sale financial instruments, with the exception of impairment charges are reported in equity and reclassified when realized. The fair value measurement of available-for-sale equity instruments resulted in an increase in equity of €377 million within the opening balance sheet (June 30, 2006: €362 million; December 31, 2006: €370 million).

h) U.S. Regulation

Accounting for E.ON's regulated utility businesses, Louisville Gas and Electric Company, Louisville, Kentucky, U.S., and Kentucky Utilities Company, Lexington, Kentucky, U.S., of the U.S. Midwest market unit, conforms to U.S. generally accepted principles as applied to regulated public utilities in the United States of America. These entities are subject to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), under which certain costs that would otherwise be charged to expense are deferred as regulatory assets

based on expected recovery of such costs from customers in future rates approved by the relevant regulator. Likewise, certain credits that would otherwise be reflected as income are deferred as regulatory provisions. The current or expected recovery by the entities of deferred costs and the expected return of deferred credits is generally based on specific rate-making decisions or precedent for each item. The regulatory assets and liabilities under U.S. GAAP do not fulfill the recognition criteria for assets and liabilities under IFRS. As a result, these regulatory assets and liabilities were offset against equity and resulted in an increase in equity of €403 million within the opening balance sheet (June 30, 2006: €398 million; December 31, 2006: €279 million).

i) Income Taxes

Compared with U.S. GAAP, the adjustments described above result in changes in temporary differences between IFRS carrying amounts and tax-basis values and, accordingly, to changes in deferred taxes.

Furthermore, under IAS 12, deferred taxes arising from investments in subsidiaries and associates (outside basis differences) are not recognized to the extent that the investor is able to control the timing of the reversal of the temporary difference and to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

Both of these effects had a significant impact on the effective tax rate applied for measuring quarterly taxes so that the material differences between IFRS and U.S. GAAP as of June 30, 2006 are due to different effective tax rates.

In total, these effects resulted in an increase in equity within the opening balance sheet of €800 million (June 30, 2006: €63 million; December 31, 2006: €223 million).

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j) Other
Leasing

In a manner analogous to EITF 01-8, "Determining Whether an Arrangement Contains a Lease" ("EITF 01-8"), IFRIC 4 provides for the reporting of embedded leases. IFRIC 4 requires retrospective application whereas the equivalent provisions of EITF 01-8 under U.S. GAAP had to be applied prospectively as of May 28, 2003. The positive effect of this application on equity amounted to €90 million within the opening balance sheet (June 30, 2006: €90 million; December 31, 2006: €125 million).

Change in Scope of Consolidation

One gas storage company in the Pan-European Gas market unit must be additionally consolidated under IFRS. The obligation to consolidate arises from SIC Interpretation 12, "Consolidation—Special Purpose Entities" ("SIC 12"), since E.ON has a right to obtain the majority of this company's benefits and is thereby exposed to the majority of its business risks. The U.S. GAAP criterion of asymmetric distribution of opportunities and risks under Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"), is not met. Moreover, there are significant protective rights for minority shareholders, meaning that control in the context of U.S. GAAP is not present. The consolidation of the gas storage company resulted in an increase in equity of €81 million in the opening balance sheet (June 30, 2006: €75 million; December 31, 2006: €70 million).

Impairment

Under U.S. GAAP, the first step in the impairment testing of property, plant and equipment and intangible assets is to determine whether the carrying amount of the asset or group of assets being tested may not be recoverable. The carrying amount is not recoverable if it exceeds the estimated future undiscounted cash flows arising from the use of the asset or group of assets tested. In such a case, the second step is to recognize an impairment charge in the amount of the difference between the previous carrying amount and the lower

fair value. Under IFRS no two-step approach exists. The carrying amount of the asset being tested is compared with its recoverable amount, which is the higher of an asset's value in use and its fair value less costs to sell. If the carrying amount exceeds the corresponding recoverable amount, an impairment charge is recognized in the amount of the difference. In the fourth quarter of 2006, impairment charges in the amount of €186 million were recognized in accordance with IFRS on property, plant and equipment and intangible assets at the U.K. market unit. No impairment was necessary under U.S. GAAP because the undiscounted cash flows exceeded the carrying amounts of the assets. As of December 31, 2006, this resulted in a decrease in equity under IFRS of €186 million.

Degussa

Furthermore, the conversion to IFRS of our interest in Degussa within the opening balance sheet as well as the subsequent related impacts during 2006 from the application of the equity method and the accounting for the disposal of Degussa under IFRS resulted in the following impacts on equity: January 1, 2006: -€31 million; June 30, 2006: -€866 million; December 31, 2006: -€142 million. The significant fluctuation during 2006 results from the mark-to-market valuation of the forward contract entered into in the first quarter 2006 in conjunction with the sale of our interest in Degussa which was executed in July 2006. Unlike IFRS, this contract does not meet the definition of a derivative under U.S. GAAP and therefore was previously not recognized at fair value.

Reconciliation of Net Income

| Reconciliation of Net Income | | | | |
|---|---|--------------|----------------------------|--------------------------------|
| € in millions | | 2006 | April 1 June 30 2006 | January 1 - June 30 2006 |
| Net income under U.S. GAAP | | 5,057 | 1,109 | 2,827 |
| Change in the presentation of minority interests | a | 526 | 93 | 305 |
| Net income under U.S. GAAP, including minority interests | | 5,583 | 1,202 | 3,132 |
| Effects of IAS 32 | b | -121 | -14 | -39 |
| Inventories | c | 214 | 4 | 201 |
| Pensions and similar obligations | d | 118 | 26 | 60 |
| Other provisions | e | -78 | -4 | -12 |
| Derivatives | f | 791 | 178 | 173 |
| Valuation of available-for-sale financial instruments | g | -55 | -21 | -33 |
| U.S. Regulation | h | 9 | 5 | 24 |
| Income taxes | i | -363 | -216 | -288 |
| Other | j | -16 | 32 | 228 |
| Total adjustments | | 499 | -10 | 314 |
| Net income under IFRS | | 6,082 | 1,192 | 3,446 |

a) Changes in the Presentation of Minority Interests
Consistent with the change in presentation within the balance sheet, minority interests are reported directly in equity under IFRS as part of the allocation of earnings. Under U.S. GAAP, minority interests in earnings are reported within the calculation of net income.

b) Effects of IAS 32

Put Options on Minority Interests

Financial instruments for which a right of repayment exists do not constitute equity instruments under the IFRS definition of equity. E.ON has made conditional and unconditional repurchase offers to certain minority shareholders to acquire the outstanding shares. Correspondingly, a liability in the amount of the present value of the future exercise price must be reported, irrespective of the probability of exercise. The accretion expense for the liability is shown in interest income. The minority interest remains part of the earnings' allocation reported directly within equity under IFRS.

Under U.S. GAAP, these potential commitments are generally reported at fair value similar to derivatives. Minority interests are included in the calculation of net income.

Minority Interests in German Partnerships

Under German corporate law, shareholders of a German partnership have a statutory, non-excludable right of termination. Under IAS 32, this right of termination causes the minority interests in the Group to be considered repayable. Accordingly, a corresponding liability in the present value of the expected settlement amount must be reclassified from minority interests. The shares in earnings to which the minority shareholders are entitled as well as the accretion expense for the liability must be shown as interest expense. Other changes in the value of the liability are reported as other operating income and expenses.

Under U.S. GAAP, these partnership interests are shown under minority interests. The share in earnings to which these minority shareholders are entitled is still shown as minority interests in earnings and included in the calculation of net income.

These effects resulted in a decrease of net income by €121 million for the year ended December 31, 2006 (second quarter 2006: -€14 million; first half 2006: -€39 million).

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c) Inventories

The adjustment from LIFO measurement of gas inventories as was generally applied under U.S. GAAP to average-cost measurement under IFRS resulted in an increase in net income of €214 million for the year ended December 31, 2006 (second quarter 2006: €4 million; first half 2006: €201 million).

d) Pensions and Similar Obligations

E.ON has elected the option under IAS 19 to recognize all actuarial gains and losses within equity with no further amortization through net income as required under U.S. GAAP.

As a result, net income increased by €118 million for the year ended December 31, 2006 (second quarter 2006: €26 million; first half 2006: €60 million).

e) Other Provisions

The differences in the accounting treatment of other provisions described in connection with the reconciliation of equity resulted in a reduction in net income of €78 million for the year ended December 2006 (second quarter 2006: -€4 million; first half 2006: -€12 million). The increased charge as of the end of the fiscal year is primarily due to early retirement agreements at the Central Europe market unit.

f) Derivatives

Under U.S. GAAP, there are industry-specific exceptions for power-plant-related supply contracts that are unknown under IFRS. This means that the definition of a derivative encompasses more contracts under IFRS.

In the case of embedded derivatives in certain supply and sale contracts, IFRS provides for the possibility of measuring only the embedded derivative, while reporting the non-derivative portion as a pending transaction. Under U.S. GAAP, the existence of an embedded derivative in these contracts gives rise to fair value reporting through income for the contract as a whole. Further effects arise from the definition of a derivative with regard to net settlement and market liquidity.

The total increase in net income for the year ended December 31, 2006, attributable to these circumstances was €791 million (second quarter 2006: €178 million; first half 2006: €173 million).

g) Valuation of Available-for-Sale Financial Instruments

Under IFRS, the foreign currency translation effects from monetary financial instruments classified as available-for-sale are recognized in income to the extent to which they are related to acquisition costs. Under U.S. GAAP, these effects are classified as other comprehensive income, along with all other changes in fair value. For the year ended December 31, 2006, this resulted in a decrease in net income of €55 million (second quarter 2006: -€21 million; first half 2006: -€33 million).

h) U.S. Regulation

The regulatory assets and liabilities under U.S. GAAP do not fulfill the recognition criteria for assets and liabilities under IFRS. Immediate recognition in the income statement of the resulting income and expenses resulted in an increase in net income of €9 million for the year ended December 31, 2006 (second quarter 2006: €5 million; first half 2006: €24 million).

i) Income Taxes

During the 2006 fiscal year, the above deviations in income, particularly with respect to pensions, resulted in changes of deferred taxes that reduced net income.

Furthermore, under IAS 12, deferred taxes arising from investments in subsidiaries and associates (outside basis differences) are not recognized to the extent that the investor is able to control the timing of the reversal of the temporary difference and to the extent that it is probable that the temporary differences will not reverse in the foreseeable future. In comparison with U.S. GAAP, this resulted in an increase in net income under IFRS.

Both of these effects had a significant impact on the effective tax rate applied for measuring quarterly taxes so that the material differences between IFRS and U.S. GAAP in the first half 2006 are due to different effective tax rates.

Overall the changes in income taxes resulted in a reduction of net income during the year ended December 31, 2006, of €363 million (second quarter 2006: -€216 million; first half 2006: -€288 million).

j) Other

A further difference results from the conversion to IFRS of our interest in Degussa both with respect to the equity results as well as the book gain calculated upon disposal in 2006. The conversion led to an increase in net income of €205 million for the year ended December 31, 2006 as well as for the first half 2006. This was offset by an impairment charge of €186 million at the U.K. market unit recognized only under IFRS in the fourth quarter 2006.

Cash Flow Adjustments

As a result of the conversion to IFRS, E.ON's first half 2006 cash flows from operating, investing and financing activities were adjusted by -€12 million, €17 million and -€4 million (2006: -€33 million, €44 million and -€10 million) compared to U.S. GAAP, respectively. These insignificant adjustments result from differences in the scope of consolidation and the accounting for leasing in connection with IFRIC 4.

(16) Subsequent events

Within its share buyback program started on June 27, 2007, E.ON repurchased 8,922,473 own shares at an average price of €119.41 per share, of which 246,865 are included in these Consolidated Financial Statements. Up to now, this corresponds to a 1.29-percent-buyback of E.ON's capital stock at an acquisition cost of €1,065 million. The company plans to buy back stock worth approximately €7 billion by the end of 2008, half of it in 2007. The goals of the share buy back are to optimize E.ON's capital structure as well as to make E.ON shares more attractive.

In late July, E.ON concluded a purchase agreement with Shell to acquire 28 percent of Skarv and Idun, two important Norwegian natural gas fields, for \$893 million (approximately €650 million). E.ON's share of the investments for developing the fields will be about \$1.4 billion. Plans call for gas production to begin in 2011. E.ON's share of these fields' production will be about 1.4 billion cubicmeters of natural gas per year for at least ten years. The sale is subject to the relevant Norwegian regulatory approval and is expected to be completed by the end of 2007.

In early August 2007, E.ON acquired Energi E2 Renovables Ibéricas ("E2-I"), a wind farm operator, from the Danish utility Dong Energy at a purchase price of €722 million. This acquisition enables E.ON to greatly expand its wind power business. The purchase price includes €256 million for the assumption of existing net debt. Currently, E2-I generates electricity in Spain and Portugal from renewables with a total capacity in operation of about 260 MW. Most of its assets are state-of-the-art wind farms. The remainder are small-scale hydroelectric and biomass generating units. Further wind farms totaling approximately 560 megawatt are already being planned at particularly favourable locations on the Iberian peninsula; they are planned for completion in the next four years.

On August 7, 2007, E.ON, ThyssenKrupp and RWE came to an agreement with the foundation "RAG-Stiftung" to sell their shares in RAG Aktiengesellschaft to the RAG-Stiftung. The three shareholding companies hold a total of 90 percent of the share capital. The blocks of shares are expected to be transferred on November 30, 2007, for a price of €1 each.

(17) Group Auditor Review

The Consolidated Interim Financial Statements as of June 30, 2007 and 2006 as well as the opening balance sheet as of January 1, 2006 and the Consolidated Financial Statements as of December 31, 2006 have been reviewed by our independent auditors.

60 Other Explanations Concerning the IFRS Reconciliations

In addition to the explanations in Note 15 concerning the reconciliation of equity and net income, the following describes the effects of the transition to IFRS on other important key financial figures.

Reconciliation of Adjusted EBIT

The reconciliation of adjusted EBIT from U.S. GAAP to IFRS for the second quarter 2006, the first half 2006 as well as for the year ended December 31, 2006 is presented in the following tables:

| Reconciliation of Adjusted EBIT | | | | | | | | | |
|--|-------------------|-------------------------|------------|------------|-----------------|---------------------|----------------------------|----------------------------------|---------------|
| April 1 - June 30, 2006 € in millions | Central Europe | Pan- European Gas | U.K. | Nordic | U.S. Midwest | Corporate Center | Core Energy Business | Other Activities ¹ | E.ON Group |
| Adjusted EBIT under U.S. GAAP² | 1,041 | 725 | 413 | 128 | 73 | -78 | 2,302 | - | 2,302 |
| Inventories | - | 4 | - | - | - | - | 4 | - | 4 |
| Pensions and similar obligations | 23 | 2 | 2 | - | - | 2 | 29 | - | 29 |
| Other provisions | 17 | -4 | - | -1 | - | 1 | 13 | - | 13 |
| Derivatives | - | - | -5 | - | - | - | -5 | - | -5 |
| U.S. Regulation | - | - | - | - | 5 | - | 5 | - | 5 |
| Other | -4 | 12 | 2 | -1 | - | 2 | 11 | - | 11 |
| Total adjustments | 36 | 14 | -1 | -2 | 5 | 5 | 57 | - | 57 |
| Adjusted EBIT under IFRS | 1,077 | 739 | 412 | 126 | 78 | -73 | 2,359 | - | 2,359 |

¹Included in the other activities under U.S. GAAP was the 42.9 percent interest in Degussa accounted for at equity until its disposal in July 2006.
²Non-GAAP financial measure; see reconciliation in Interim Report II/2006, page 9.

| Reconciliation of Adjusted EBIT | | | | | | | | | |
|--|-------------------|-------------------------|------------|------------|-----------------|---------------------|----------------------------|----------------------------------|---------------|
| January 1 - June 30, 2006 € in millions | Central Europe | Pan- European Gas | U.K. | Nordic | U.S. Midwest | Corporate Center | Core Energy Business | Other Activities ¹ | E.ON Group |
| Adjusted EBIT under U.S. GAAP² | 2,454 | 1,458 | 451 | 428 | 165 | -173 | 4,783 | 53 | 4,836 |
| Inventories | - | 201 | - | - | - | - | 201 | - | 201 |
| Pensions and similar obligations | 52 | 4 | 4 | - | 1 | 4 | 65 | - | 65 |
| Other provisions | 6 | 12 | - | -3 | - | -1 | 14 | - | 14 |
| Derivatives | - | - | -1 | - | - | - | -1 | - | -1 |
| U.S. Regulation | - | - | - | - | 24 | - | 24 | - | 24 |
| Other | -17 | 22 | 1 | - | - | -3 | 3 | -53 | -50 |
| Total adjustments | 41 | 239 | 4 | -3 | 25 | - | 306 | -53 | 253 |
| Adjusted EBIT under IFRS | 2,495 | 1,697 | 455 | 425 | 190 | -173 | 5,089 | - | 5,089 |

¹Included in the other activities under U.S. GAAP was the 42.9 percent interest in Degussa accounted for at equity until its disposal in July 2006.
²Non-GAAP financial measure; see reconciliation in Interim Report II/2006, page 9.

| Reconciliation of Adjusted EBIT | | | | | | | | | |
|--|-------------------|-------------------------|--------------|-------------|-----------------|---------------------|----------------------------|----------------------------------|---------------|
| 2006 € in millions | Central Europe | Pan- European Gas | U.K. | Nordic | U.S. Midwest | Corporate Center | Core Energy Business | Other Activities ¹ | E.ON Group |
| Adjusted EBIT under U.S. GAAP² | 4,168 | 2,106 | 1,229 | 619 | 391 | -416 | 8,097 | 53 | 8,150 |
| Inventories | 1 | 213 | - | - | - | - | 214 | - | 214 |
| Pensions and similar obligations | 102 | 9 | 6 | - | 3 | 8 | 128 | - | 128 |
| Other provisions | 33 | -7 | - | -107 | - | -3 | -84 | - | -84 |
| Derivatives | - | - | 8 | - | - | - | 8 | - | 8 |
| U.S. Regulation | - | - | - | - | 32 | - | 32 | - | 32 |
| Other | -69 | 26 | -4 | - | - | 8 | -39 | -53 | -92 |
| Total adjustments | 67 | 241 | 10 | -107 | 35 | 13 | 259 | -53 | 206 |
| Adjusted EBIT under IFRS | 4,235 | 2,347 | 1,239 | 512 | 426 | -403 | 8,356 | - | 8,356 |

¹Included in the other activities under U.S. GAAP was the 42.9 percent interest in Degussa accounted for at equity until its disposal in July 2006
²Non-GAAP financial measure, see reconciliation in 2006 Annual Report, page 36.

The increase in adjusted EBIT according to IFRS is primarily due to the change in measurement of gas inventories from LIFO under U.S. GAAP to average-cost measurement under IFRS. An additional positive effect results from the reduction of the expense for pensions compared with U.S. GAAP which is primarily due to the elimination of the amortization of actuarial gains and losses in the income statement. The immediate recognition in income of U.S. regulatory assets and liabilities recognized in accordance with U.S. GAAP within the U.S. Midwest market unit also led to an increase in adjusted EBIT.

These positive effects were offset by the negative impact of differences in the accounting for other provisions. As required under IFRS, the adjusted EBIT of the "other activities" which was attributable to the equity earnings of E.ON's share in Degussa under U.S. GAAP, has been reclassified to discontinued operations.

For a detailed explanation of these effects see the description in Note 15 of the reconciliation of equity and net income.

Reconciliation of Adjusted Net Income

The following table describes the reconciliation from U.S. GAAP to IFRS of adjusted net income for the second quarter 2006, the first half 2006 as well as for the entire 2006 fiscal year:

| Reconciliation of Adjusted Net Income | | | |
|--|--------------|-------------------------------|---------------------------------|
| € in millions | 2006 | April 1 - June 30, 2006 | January 1 - June 30, 2006 |
| Adjusted net income under U.S. GAAP¹ | 4,386 | 1,490 | 2,847 |
| Differences on EBIT | 206 | 57 | 253 |
| Adjusted interest income (net) | 133 | -11 | -14 |
| Income taxes | -73 | -187 | -263 |
| Minority interests | 30 | 3 | 10 |
| Total adjustments | 296 | -138 | -14 |
| Adjusted net income under IFRS | 4,682 | 1,352 | 2,833 |

¹Non-GAAP financial measure, see reconciliation in 2006 Annual Report, page 37.

The definition and reconciliation of net income to adjusted net income under IFRS is presented on page 9.

In addition to the differences in adjusted EBIT, the increase in adjusted net income as compared with U.S. GAAP, especially for the year ended December 31, 2006, is due primarily to the differences in adjusted interest income which results mainly from the differences in the accounting treatment of other provisions which are described in Note 15.

Financial Calendar

| | |
|-------------------|--|
| November 13, 2007 | Interim Report: January - September 2007 |
| March 6, 2008 | Release of 2007 Annual Report |
| April 30, 2008 | 2008 Annual Shareholders Meeting |
| May 2, 2008 | Dividend Payout |
| May 14, 2008 | Interim Report: January - March 2008 |
| August 13, 2008 | Interim Report: January - June 2008 |
| November 12, 2008 | Interim Report: January - September 2008 |

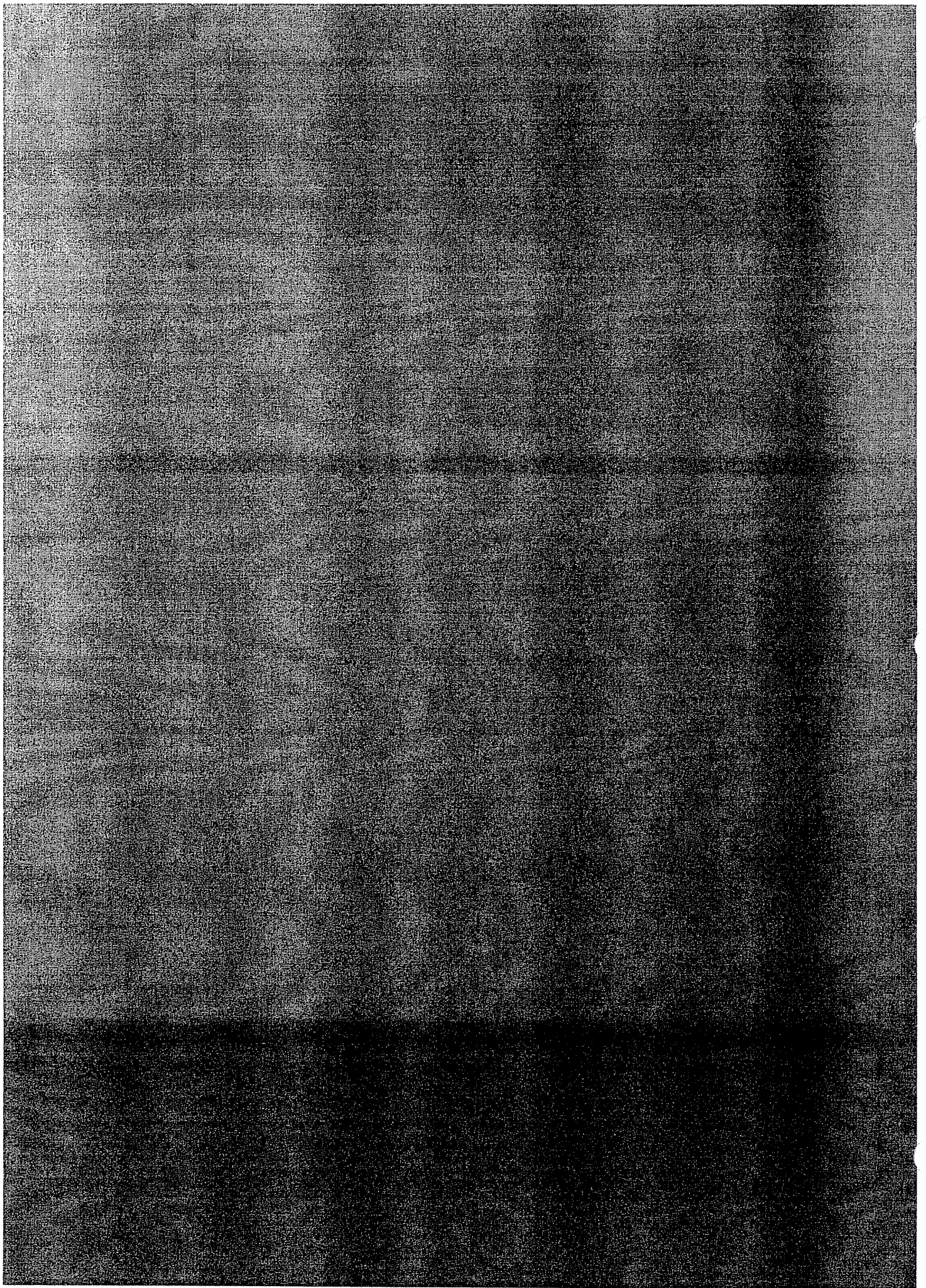
For more information about E.ON:

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www.eon.com

Only the German version of this Interim Report is legally binding.

This Interim Report contains certain forward-looking statements that are subject to risk and uncertainties. For information identifying economic, currency, regulatory, technological, competitive, and some other important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, you should refer to E.ON's filings to the Securities and Exchange Commission (Washington, DC), as updated from time to time, in particular to the discussion included in the sections of the E.ON 2006 Annual Report on Form 20-F entitled "Item 3. Key Information: Risk Factors," "Item 5. Operating and Financial Review and Prospects," and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."



SEC FORM 6-K – MAY 2007

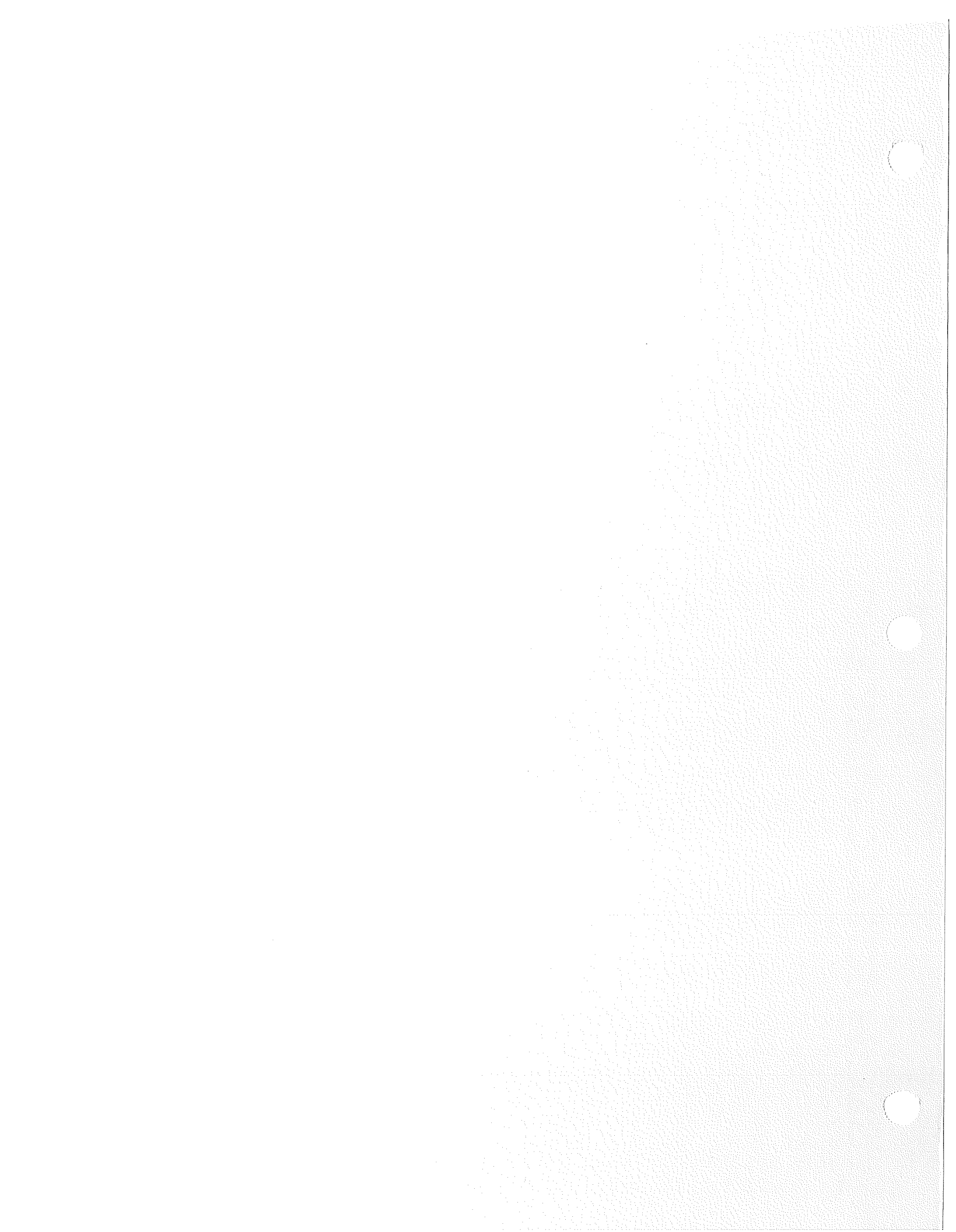


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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of May 2007

E.ON AG

(Translation of Registrant's Name into English)

E.ON AG
E.ON-Platz 1
D-40479 Düsseldorf
Germany

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

2007

January February March

April May June

July August September

October November December

2 E.ON Group Financial Highlights

| E.ON Group Financial Highlights¹ | | | |
|--|---------|---------|-------|
| January 1 - March 31 € in millions | 2007 | 2006 | +/- % |
| Electricity sales (billion kWh) ² | 126.3 | 116.6 | +8 |
| Gas sales (billion kWh) ² | 392.0 | 424.5 | -8 |
| Sales (including electricity and energy taxes) | 21,689 | 21,502 | +1 |
| Sales | 21,070 | 19,852 | +6 |
| Adjusted EBITDA | 4,096 | 3,496 | +17 |
| Adjusted EBIT | 3,315 | 2,730 | +21 |
| Income/Loss (-) from continuing operations before income taxes | 4,392 | 2,140 | +105 |
| Income/Loss (-) from continuing operations | 3,365 | 1,541 | +118 |
| Income/Loss (-) from discontinued operations, net | -73 | 713 | - |
| Net income | 3,292 | 2,254 | +46 |
| Net income attributable to shareholders of E.ON AG | 3,067 | 2,045 | +50 |
| Adjusted net income | 1,974 | 1,481 | +33 |
| Investments | 1,165 | 1,191 | -2 |
| Cash provided by operating activities | 2,408 | 1,935 | +24 |
| Free cash flow | 1,350 | 1,313 | +3 |
| Net financial position (March 31 and December 31) | 1,770 | -137 | - |
| Economic net debt (March 31 and December 31) | -15,745 | -18,231 | +14 |
| Employees (March 31 and December 31) | 81,286 | 80,612 | +1 |
| Earnings per share attributable to shareholders of E.ON AG (€) | 4.65 | 3.10 | +50 |

¹Effective the beginning of the 2007 financial year, we prepare our Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS). Explanatory notes on the conversion of Group Reporting Policies to IFRS and IFRS reconciliations can be found on pages 34 and 52 to 59 of the Condensed Consolidated Interim Financial Statements and on pages 60 to 61.

²Unconsolidated figures.

Through the fiscal year ending December 31, 2006, E.ON prepared its consolidated financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), but has adopted International Financial Reporting Standards ("IFRS") as its primary set of accounting principles as of January 1, 2007. Unless otherwise indicated, the financial data for periods beginning after January 1, 2007, reflected in this presentation have been prepared in accordance with IFRS, while those for prior periods have been prepared in accordance with U.S. GAAP. This report may contain references to certain financial measures (including forward-looking measures) that are not calculated in accordance with either IFRS or U.S. GAAP and are therefore considered "non-GAAP financial measures" within the meaning of the U.S. federal securities laws. E.ON presents a reconciliation of these non-GAAP financial measures to the most comparable U.S. GAAP measure or target, either in this presentation or on its website at www.eon.com. Management believes that the non-GAAP financial measures used by E.ON, when considered in conjunction with (but not in lieu of) other measures that are computed in accordance with IFRS or U.S. GAAP, enhance an understanding of E.ON's results of operations. A number of these non-GAAP financial measures are also commonly used by securities analysts, credit rating agencies, and investors to evaluate and compare the periodic and future operating performance and value of E.ON and other companies with which E.ON competes. These non-GAAP financial measures should not be considered in isolation as a measure of E.ON's profitability or liquidity and should be considered in addition to, rather than as a substitute for, net income, cash provided by operating activities, and the other income or cash flow data prepared in accordance with IFRS or U.S. GAAP. In particular, there are material limitations associated with our use of non-GAAP financial measures, including the limitations inherent in our determination of each of the relevant adjustments. The non-GAAP financial measures used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

E.ON AG Interim Report I/2007

3

January 1 - March 31, 2007

- Adjusted EBIT up 21 percent
- Agreement signed with Enel and Acciona on acquisition of assets in Italy and Spain
- Outlook for full year 2007 adjusted upward: increase in adjusted EBIT expected

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Dear Shareholders,

In the first quarter of 2007, our business again performed very positively. We increased sales by 6 percent year on year, from last year's €19.9 billion to €21.1 billion, and adjusted EBIT by 21 percent, from €2.7 billion to €3.3 billion. Net income attributable to shareholders of E.ON AG increased by 50 percent to €3.1 billion. We now expect the E.ON Group's full-year adjusted EBIT to surpass the prior-year level.


The events surrounding Endesa were the dominant theme of this past quarter, as well. Although our takeover plans didn't end on a completely positive note, we did achieve a reasonable compromise that again represents a significant strategic advance in Europe. The completion of this transaction will give E.ON a portfolio of assets that represents nearly one third of Endesa's global generating capacity. It will give us a platform in Spain that we can build on, improve our position in Italy, and provide us, for the first time, with a position in power generation in France. Our footprint in Spain and Italy will then be about the size of our footprint in Northern Europe. After establishing a strong position in Northern, Western, and Eastern Europe, we'll now build up a strong position in Southern Europe, as well. We'll thus achieve our strategic objective, albeit not to the degree we'd have wished. We'll then be the first truly European player in the energy sector.

Our task will be to transform our unique pan-European position into competitive advantages. In the future, we'll be better positioned than any other energy company to optimize our investments across national boundaries, establish efficient organizational structures, and drive market integration. As a company that operates in more than 25 countries, we have a very real interest in Europe fulfilling its vision of a single, uniform internal market for energy. As in the past, we'll continue to accompany our strategic action with energy-policy initiatives and with real investments to improve competition in Europe's power and gas markets. We're driving competition. We're taking concrete action so that Europe's electricity and gas customers always have access to secure and reasonably priced energy. The current market environment calls for efficient energy companies that not only make demands but also make real investments. That's why our efforts to enhance the E.ON Group's profitability go hand in hand with our energy-policy initiatives.

In a strategy project called europe.on, we're currently optimizing our structures and processes so that E.ON is even better equipped for competition and can continue to actively shape Europe's energy marketplace. We aim to make E.ON even more profitable by further improving the efficiency, quality, and customer orientation of our business and by systematically realizing the cost-cutting potential that comes with the ongoing internationalization of our business. Our objective continues to be to make E.ON the strongest and most capable energy company in Europe's energy sector.

To summarize, we'll resolutely orient ourselves towards—and foster—competition in Europe. We're committed to competition because we know what E.ON can achieve. To get there, we intend to focus the group's energies still more, enhance efficiency, and reduce costs further. With the biggest investment program in our company's history, we remain on course for growth. We'll build up new positions in our core European market but also in other growth regions. Our industry is about to enter a huge capital investment cycle, mainly in power generation and the modernization of energy infrastructure. This will lead to a reshuffling of market shares. We believe that we're superbly prepared to seize growth opportunities that meet our strict investment criteria. Going forward, we also intend to actively manage our capital structure. What counts for us is that we grow profitably so that we create value and fresh prospects for you, our shareholders.

Sincerely yours,



Dr. Wulf H. Bernotat

E.ON Stock

E.ON stock finished the first quarter of 2007 down slightly (-1 percent) from year end 2006. By comparison, other European blue chips as measured by the EURO STOXX 50 rose slightly (+2 percent), as did E.ON's peer index, the STOXX Utilities (+3 percent).

The trading volume of E.ON stock climbed by more than 60 percent year on year to €34.2 billion, making E.ON the fifth most-traded stock in the DAX index of Germany's top 30 blue chips. As of March 30, 2007, E.ON was the second-largest DAX stock in terms of market capitalization.

E.ON stock is listed on the New York Stock Exchange as American Depositary Receipts (ADRs). Effective March 29, 2005, the conversion ratio between E.ON ADRs and E.ON stock is three to one. The value of three E.ON ADRs is effectively that of one share of E.ON stock.

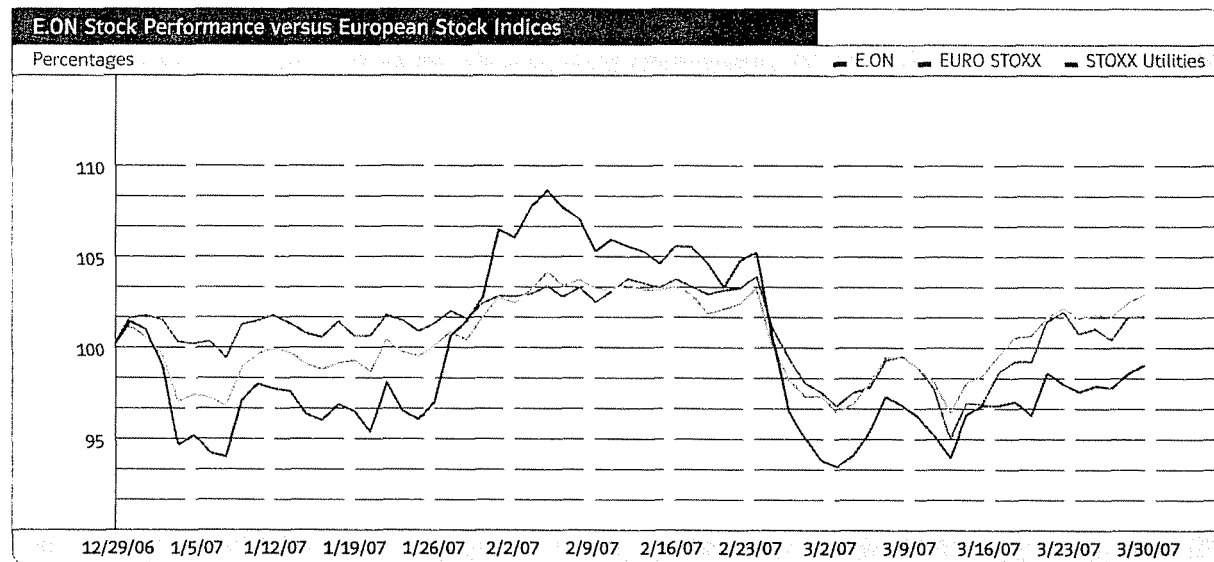
Visit eon.com for the latest information about E.ON stock.

| E.ON Stock | | |
|--|-----------------|-----------------|
| | Mar 30, 2007 | Dec 29, 2006 |
| Shares outstanding (millions) ¹ | 660 | 660 |
| Closing price (€) | 101.78 | 102.83 |
| Market capitalization (€ in billions) ² | 70.4 | 71.2 |

¹Excludes treasury stock.
²Based on E.ON's entire capital stock (692,000,000 shares).

| Performance and Trading Volume | | |
|--------------------------------|--------|-------|
| January 1 - March 31 | 2007 | 2006 |
| High (€) ¹ | 111.65 | 96.10 |
| Low (€) ¹ | 96.05 | 87.07 |
| Trading volume ² | | |
| Millions of shares | 335.8 | 231.6 |
| € in billions | 34.2 | 21.2 |

¹XETRA.
²Source: Bloomberg (all German stock exchanges).



6 Interim Group Management Report

Business and Operating Environment

Conversion of Group Reporting Policies to International Financial Reporting Standards ("IFRS")
 Through the end of the 2006 financial year, E.ON AG prepared its Consolidated Financial Statements in accordance with Accounting Principles Generally Accepted in the United States ("U.S. GAAP"). Effective January 1, 2007, we apply International Financial Reporting Standards ("IFRS"), which deviate substantially from U.S. GAAP in a number of respects.

Detailed explanatory notes on the conversion of Group Reporting Policies to IFRS and IFRS reconciliations can be found on pages 34 and 52 to 59 of the Condensed Consolidated Interim Financial Statements and on pages 60 to 61. Until we publish complete Consolidated Financial Statements under IFRS for the year ended December 31, 2007, the financial information in this report will remain preliminary due to possible changes to individual reporting standards.

Energy Price Developments

Throughout the first quarter of 2007, European power and natural gas markets were driven by three main factors:

- international oil, coal, and CO₂ prices
- warm and mild weather
- the hydrological balance in the Nordic region.

After a continued decline in most of Europe in the first weeks of the quarter, prices rose in response to higher oil and phase-two CO₂ prices.

In January the price of Brent crude oil stopped its downward trend and increased significantly due to renewed tension in the Middle East and lower inventories of oil products in the United States. At the end of the quarter, Brent was quoted at \$68 per barrel, about \$15 per barrel higher than in January 2007.

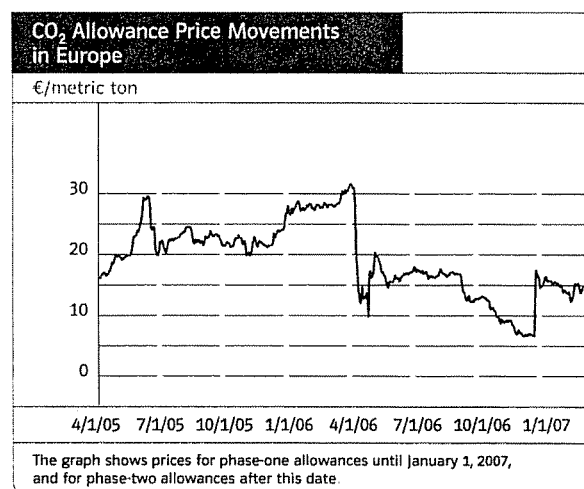
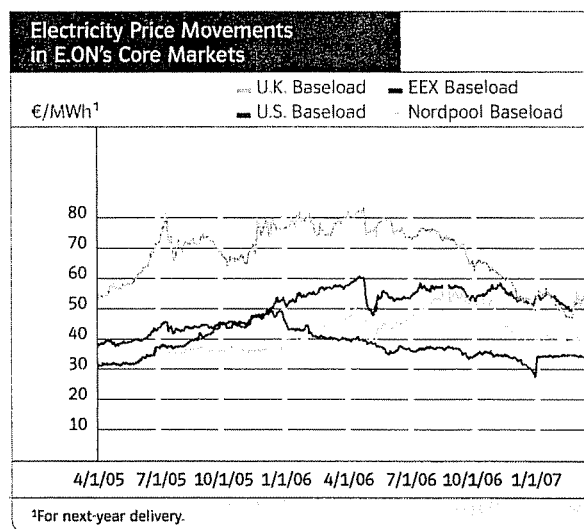
Coal prices remained high, supported by sustained strong demand in the Pacific market, high freight rates, and loading problems in Australian ports.

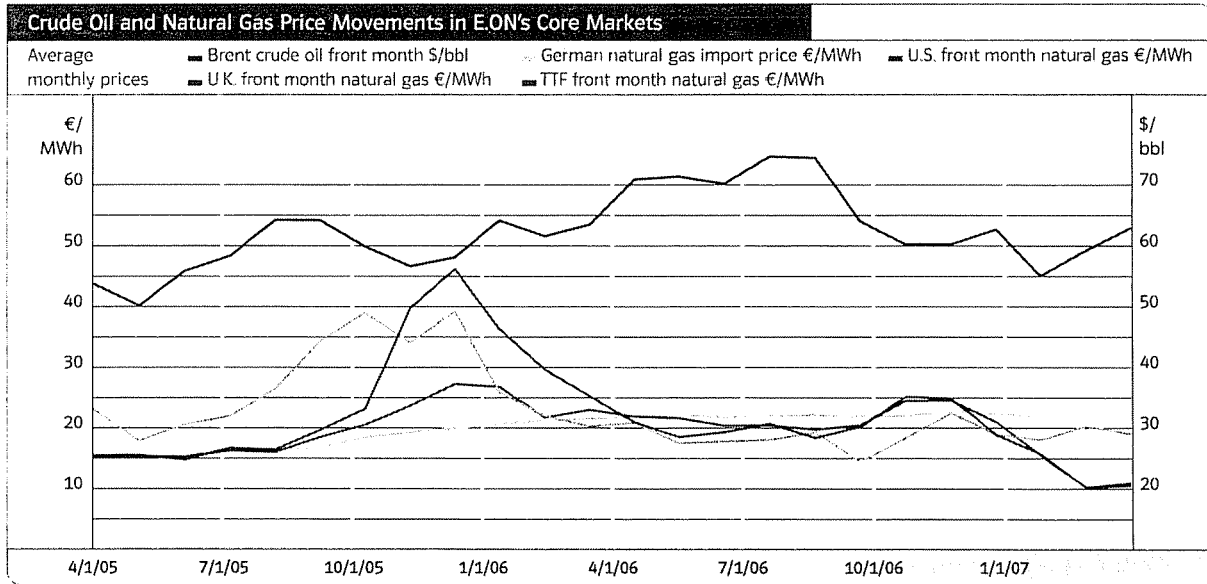
Germany's average natural gas import prices, which are indexed mainly to heating oil prices, decreased during the first quarter of 2007. Unseasonably warm winter weather pushed down U.K. natural gas prices in January and February. As oil prices rose, gas prices began to follow suit in March. U.S. natural gas prices remained stable due to high storage inventories.

Two factors caused CO₂ prices for phase one of the European Emission Trading Scheme (ETS) to stabilize at less than €1 per metric ton. First, installations affected by the ETS will be able to meet their carbon-emission cap. Second, phase-one allowances cannot be used for the second phase (2008-2012).

Phase-two prices increased in response to higher oil and gas prices and the EU Commission's decision to reduce the caps on Czech and Polish installations below the caps proposed by the Czech and Polish governments.

Wholesale power prices across Europe remained heavily influenced by fuel and CO₂ prices. German and Nordic power prices increased on the back of higher CO₂ prices. U.K. prices tracked CO₂ and natural gas prices. Forward power prices in the United States remained stable, following the trend set by U.S. natural gas prices.

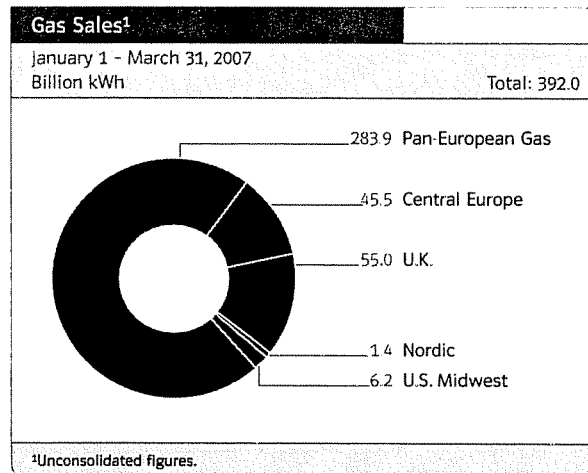
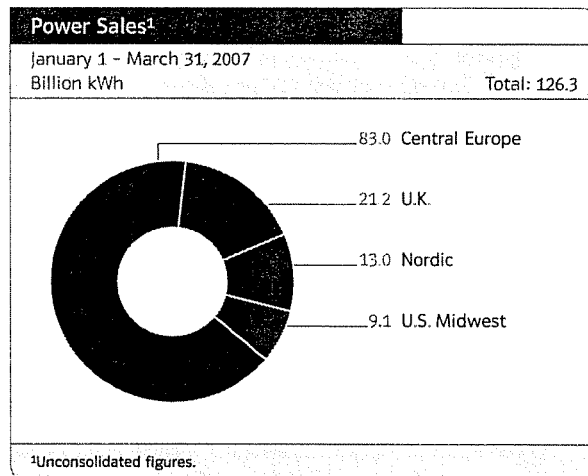




Power and Gas Sales

The E.ON Group increased its power sales volume by 8 percent, from 116.6 billion kWh in the first quarter of 2006 to 126.3 billion kWh in the first quarter of 2007. Central Europe's 13-percent increase in volume is predominantly attributable to significantly higher deliveries onto its network of electricity under Germany's Renewable Energy Law. U.K. sold 6 percent less electricity, mainly due to mild weather, while Nordic sold 7 percent more and U.S. Midwest 6 percent more. The respective factors were higher sales volumes at the Nord Pool, Northern Europe's energy exchange, and a colder first quarter of 2007 in Kentucky.

Natural gas sales volumes declined by 8 percent year on year to 424.5 billion kWh, mainly due to higher temperatures in Europe compared with the prior-year quarter. Warmer weather reduced sales volumes by 7 percent at Pan-European Gas, 16 percent at Central Europe, 2 percent at U.K., and 36 percent at Nordic. U.S. Midwest sold 22 percent more natural gas primarily due to lower temperatures.



8 Interim Group Management Report

Earnings Situation

Sales up 6 Percent

Improved sales at the Central Europe, U.K., and Nordic market units are partially attributable to higher sales volumes. Average electricity and natural gas prices were higher in some cases, which constituted another positive factor at Central Europe and U.K. In addition, Central Europe benefited from business expansion, particularly in Italy. Sales at Pan-European Gas were higher primarily due to the inclusion of the E.ON Földgáz Group in the current-year quarter. The decline in U.S. Midwest's sales is due to the unfavorable exchange rate.

| Sales | | | |
|----------------------|---------------|---------------|-----------|
| January 1 - March 31 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Central Europe | 9,001 | 7,981 | +13 |
| Pan-European Gas | 7,814 | 7,525 | +4 |
| U.K. | 4,195 | 3,766 | +11 |
| Nordic | 1,029 | 885 | +16 |
| U.S. Midwest | 498 | 555 | -10 |
| Corporate Center | -1,467 | -860 | - |
| Sales | 21,070 | 19,852 | +6 |

Adjusted EBIT 21 Percent above Prior-Year Figure

Lower procurement costs at the U.K. market unit constituted a key factor in the E.ON Group's improved adjusted EBIT. The gas supply shortage in Great Britain in early 2006 had increased these costs considerably. The increase at Pan-European Gas is mainly attributable to the first-time inclusion of E.ON Földgáz in the current-year quarter. Central Europe's adjusted EBIT was positively affected by the development of electricity prices and negatively affected by the temperature-driven decline in natural gas sales volumes. Nordic's adjusted EBIT declined due to lower spot electricity prices. U.S. Midwest's adjusted EBIT was lower due to the unfavorable exchange rate and lower margins in the natural gas business.

| Adjusted EBIT | | | |
|----------------------|--------------|--------------|------------|
| January 1 - March 31 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Central Europe | 1,431 | 1,418 | +1 |
| Pan-European Gas | 1,126 | 958 | +18 |
| U.K. | 436 | 43 | +914 |
| Nordic | 287 | 299 | -4 |
| U.S. Midwest | 93 | 112 | -17 |
| Corporate Center | -58 | -100 | - |
| Adjusted EBIT | 3,315 | 2,730 | +21 |

Net Income Significantly above Prior-Year Level

Net income attributable to shareholders of E.ON AG of €3.1 billion and earnings per share of €4.65 were both 50 percent above the prior-year level.

| Net Income | | | |
|---|--------------|--------------|-------------|
| January 1 - March 31 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Adjusted EBITDA | 4,096 | 3,496 | +17 |
| Depreciation, amortization, and impairments affecting adjusted EBIT | -781 | -766 | - |
| Adjusted EBIT | 3,315 | 2,730 | +21 |
| Adjusted interest expense (net) | -279 | -331 | - |
| Net book gains | 885 | 143 | - |
| Other nonoperating earnings | 471 | -402 | - |
| Income/Loss (-) from continuing operations before income taxes | 4,392 | 2,140 | +105 |
| Income taxes | -1,027 | -599 | - |
| Income/Loss (-) from continuing operations | 3,365 | 1,541 | +118 |
| Income/Loss (-) from discontinued operations, net | -73 | 713 | - |
| Net income | 3,292 | 2,254 | +46 |
| Thereof attributable to shareholders of E.ON AG | 3,067 | 2,045 | +50 |
| Thereof minority interests | 225 | 209 | - |

Adjusted interest expense (net) improved by €52 million compared with the prior year. A lower interest expense for pensions resulting from higher income from plan assets, particularly at the Central Europe market unit, was the main factor.

Net book gains in the first quarter of 2007 were significantly above the prior-year figure and resulted, as in the prior-year quarter, from the sale of securities at Central Europe.

Other nonoperating earnings primarily reflect the marking to market of derivatives in the amount of €566 million. The change from the prior-year figure of -€196 million is attributable to positive earnings effects at Central Europe, Pan-European Gas, and Nordic. By contrast, costs relating to the storm in Sweden in early 2007 reduced other nonoperating earnings by €95 million. The prior-year figure mainly reflects negative effects from the marking to market of derivatives (€196 million) as well as impairment charges of €70 million on intangible assets and property, plant, and equipment at Pan-European Gas and U.K.

Income/Loss (-) from continuing operations before income taxes rose considerably relative to the prior-year figure. The main factors were higher net book gains and the positive effect of the marking to market of derivatives along with the improvement in adjusted EBIT.

Our continuing operations recorded a tax expense of €1 billion in the first quarter of 2007. This represents a tax rate of 23 percent compared with 28 percent in the prior-year period. The decline is mainly attributable to a higher share of tax-free income.

Income/Loss (-) from discontinued operations, net, includes the results of Western Kentucky Energy, which is held for sale. Pursuant to IFRS, its results are reported separately in the Consolidated Statements of Income. The prior-year figure also includes the shareholding in Degussa which was sold in July 2006 (see commentary in note 5 of the Notes).

Adjusted Net Income 33 Percent above Prior-Year Figure

Net income reflects not only our operating performance but also special effects such as the marking to market of derivatives. Adjusted net income is an earnings figure after interest income, income taxes, and minority interests that has been adjusted to exclude certain special effects. The adjustments include book gains and losses from divestments, restructuring expenses, other nonoperating income and expenses (after taxes and minority interests) of a special or rare nature. Adjusted net income also excludes income/loss (-) from discontinued operations and from the cumulative effect of the IFRS conversion (after taxes and minority interests) as well as special tax effects.

| Adjusted Net Income | | | |
|---|--------------|--------------|------------|
| January 1 - March 31 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Net income attributable to shareholders of E.ON AG | 3,067 | 2,045 | +50 |
| Net book gains | -885 | -143 | - |
| Other nonoperating earnings | -471 | 402 | - |
| Taxes and minority interests on nonoperating earnings | 203 | -115 | - |
| Special tax effects | -13 | - | - |
| Income/Loss (-) from discontinued operations, net | 73 | -708 | - |
| Adjusted net income | 1,974 | 1,481 | +33 |

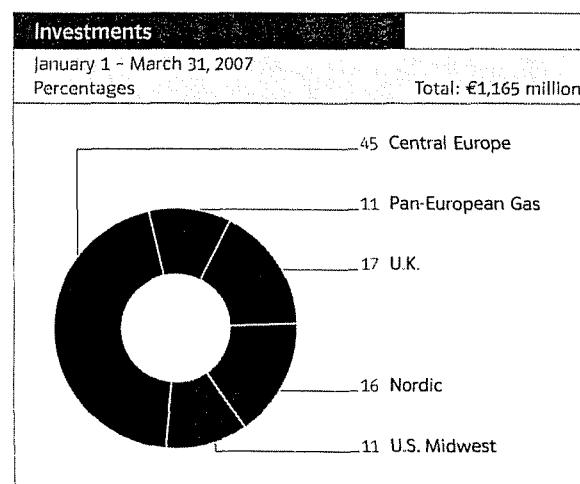
Financial Condition

Investments at Prior-Year Level

The E.ON Group's investments in the period under review were 2 percent below the prior-year figure. We invested €1.1 billion in property, plant, and equipment and intangible assets compared with €0.6 billion in the prior year. Share investments totaled €0.1 billion versus €0.6 billion in the prior year.

| Investments ¹ | | | |
|--------------------------|--------------|--------------|-----------|
| January 1 - March 31 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Central Europe | 523 | 360 | +45 |
| Pan-European Gas | 1,002 | 511 | +96 |
| U.K. | 196 | 130 | +51 |
| Nordic | 184 | 138 | +33 |
| U.S. Midwest | 127 | 66 | +92 |
| Corporate Center | -867 | -14 | - |
| Investments | 1,165 | 1,191 | -2 |

¹Excludes other financial assets.



10 Interim Group Management Report

In the first quarter of 2007, Central Europe invested €163 million more than in the prior-year period. Investments in property, plant, and equipment and intangible assets totaled €433 million (prior year: €283 million). Investments in power generation were €136 higher, mainly due to ongoing generation projects in Italy and Germany. Share investments of €90 million were consistent with the prior-year level.

Pan-European Gas invested €1,002 million. Of this figure, €124 million (prior year: €57 million) went towards property, plant, and equipment and intangible assets. Share investments of €878 million (prior year: €454 million) almost exclusively reflect the acquisition of Contigas Deutsche Energie-AG from the Central Europe market unit. A corresponding deduction was taken at the Corporate Center level.

U.K.'s investments were €66 million higher primarily due to increased additions to property, plant, and equipment. The non-regulated business increased investment in the development of new generation capacity and gas storage. Expenditure in the regulated business increased as a result of allowance under the five-year regulation review.

Nordic invested €46 million more than in the prior year. Nordic invested €181 million (prior year: €93 million) in intangible assets and property, plant, and equipment to maintain and expand existing production plants and to upgrade and extend the distribution network. This includes efficiency-enhancing investments in Nordic's nuclear power plants, construction of a new CHP plant, and investments in the distribution network. Share investments totaled €3 million compared with €45 million in 2006.

E.ON U.S.'s investments increased compared with the prior year, primarily due to increased spending for SO₂ emissions equipment and the new baseload unit under construction at the Trimble County 2 plant. This unit is expected to enter service in 2010.

Cash Flow and Net Debt

Management's analysis of E.ON's financial condition uses, among other financial measures, cash provided by operating activities, free cash flow, net financial position, and economic net debt. Free cash flow is defined as cash provided by operating activities less investments in intangible assets and property, plant, and equipment. We use excess cash primarily to make acquisitions, pay out cash dividends, repay debts, and make short-term financial investments. Net financial position equals the difference between our financial assets and total financial liabilities.

| Cash Provided by Operating Activities | | | | |
|---|----------|--------------|--------------|-------------|
| January 1 | March 31 | | | |
| € in millions | | 2007 | 2006 | +/- |
| Central Europe | | 543 | 391 | +152 |
| Pan-European Gas | | 1,851 | 1,562 | +289 |
| U.K. | | 31 | -280 | +311 |
| Nordic | | 295 | 286 | +9 |
| U.S. Midwest | | 54 | 164 | -110 |
| Corporate Center | | -366 | -188 | -178 |
| Cash provided by operating activities | | 2,408 | 1,935 | +473 |
| Investments in property, plant, and equipment and intangible assets | | 1,058 | 622 | +436 |
| Free cash flow | | 1,350 | 1,313 | +37 |

The E.ON Group's cash provided by operating activities in the first three months of 2007 was 24 percent above the prior-year level.

The increase in Central Europe's cash provided by operating activities is mainly attributable to intragroup tax offsets and the consolidation of Versorgungskasse Energie. An increase in working capital had a negative impact on cash provided by operating activities. A higher gross margin in the electricity business was counteracted by a temperature-driven decline in gas sales volumes.

Pan-European Gas recorded a significant improvement in cash provided by operating activities in the first quarter of 2007. The main reason was the inclusion of the cash provided by operating activities of the E.ON Földgáz Group, whose subsidiaries became consolidated E.ON companies on March 31, 2006. This development was partially mitigated by negative effects in the gas business.

U.K.'s cash provided by operating activities was significantly higher year on year. The improvement was mainly due to the avoidance of first quarter 2006 gas issues caused by supply problems and cold weather, recovery of aged debt, and retail price rises offset by higher commodity costs.

Nordic's cash provided by operating activities increased slightly. The negative effect of lower electricity prices was offset by improvements in working capital and lower tax payments.

Cash provided by operating activities at U.S. Midwest was lower mainly due to increased pension contributions in the first quarter of 2007.

The Corporate Center's cash provided by operating activities was significantly below the prior-year level, primarily due to higher intragroup tax offsets and interest payments.

In general, surplus cash provided by operating activities at Central Europe, U.K., and U.S. Midwest is lower in the first quarter of the year (despite the high sales volume typical of this season) due to the nature of their billing cycles, which in the first quarter are characterized by an increase in receivables combined with cash outflows for goods and services. During the remainder of the year, there is typically a corresponding reduction in working capital, resulting in surplus cash provided by operating activities, although sales volumes in these quarters (with the exception of U.S. Midwest) are actually lower. The fourth quarter is characterized by an increase in working capital. At Pan-European Gas, by contrast, cash provided by operating activities is recorded principally in the first and fourth quarters, whereas there are cash outflows for intake at gas storage facilities in the second and third quarters.

Due to the increase in cash provided by operating activities, free cash flow was 3 percent above the prior-year number despite higher investments in property, plant, and equipment and in intangible assets. The high free cash flow and proceeds from disposals served to improve our net financial position by €1,907 million to €1,770 million (figure as of December 31, 2006: -€137 million).

To increase transparency, since December 31, 2006, we also include financial liabilities to affiliated companies and to associated companies and other share investments in our net financial position. Our financial position as of March 31, 2006, was adjusted accordingly. Besides financial liabilities, there are other line items, such as provisions for pensions and provisions for waste management and asset retirement obligations, that are debt-like. Financial assets include liquid funds and long-term securities and funds that are attributable to, and earmarked for, these provisions. Therefore, starting with the first quarter of 2007, we are reporting a new key figure, "economic net debt," to provide a more meaningful description of the E.ON Group's actual financial situation. This key figure supplements net financial position with pension obligations and asset retirement and similar obligations (less prepayments).

| Economic Net Debt | | | |
|---|------------------|------------------|------------------|
| € in millions | Mar. 31, 2007 | Dec. 31, 2006 | Mar. 31, 2006 |
| Liquid funds | 8,435 | 6,189 | 9,389 |
| Securities and funds (fixed assets) | 6,777 | 7,146 | 6,697 |
| Total financial assets | 15,212 | 13,335 | 16,086 |
| Financial liabilities to banks and third parties | -11,457 | -11,465 | -14,350 |
| Financial liabilities resulting to group companies | -1,985 | -2,007 | -2,077 |
| Total financial liabilities | -13,442 | -13,472 | -16,427 |
| Net financial position | 1,770 | -137 | -341 |
| Pension obligations, net ¹ | -3,322 | -3,960 | -6,570 |
| Asset retirement and similar obligations | -15,435 | -15,424 | -14,986 |
| Less prepayments to the Swedish Nuclear Fund | 1,242 | 1,290 | 1,136 |
| Economic net debt | -15,745 | -18,231 | -20,761 |

¹Provisions for pensions less the positive surplus of plan assets.

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On April 4, 2007, Moody's downgraded its Aa3 long-term rating for E.ON bonds to A2 with a stable outlook following E.ON's announcement that it would not pursue its offer for Endesa and that it had signed an agreement with Enel and Acciona. The A2 rating takes into consideration E.ON's investment plan and its intention to purchase parts of companies from Enel and Acciona. Moody's rating also includes headroom in case E.ON makes additional acquisitions or investments or higher dividend payouts to its shareholders. On April 4, 2007, also in conjunction with Endesa, Standard & Poor's ("S&P") announced that its AA- long-term rating for E.ON bonds remained on credit watch with negative implications. Commercial paper issued by E.ON has a short-term rating of A-1+ and P-1 by S&P and Moody's, respectively.

In connection with the offer for Endesa, E.ON negotiated credit facilities totaling €42.4 billion between February 2006 and March 2007. E.ON cancelled these facilities in April 2007 following the CNMV's announcement that the offer was not successful because the minimum acceptance ratio had not been met.

Asset Situation

The decline in long-term assets at the end of the first quarter of 2007 compared with year end 2006 results in part from the change in the fair value of our OAO Gazprom stake.

Despite the seasonal reduction in natural gas stocks, liquid funds were higher, primarily due to higher receivables and to cash provided by operating activities in the first quarter. This led to an increase in short-term assets compared with the end of the prior year. Total stockholders' equity and liabilities at the balance-sheet date were almost unchanged from December 31, 2006.

At 41 percent, our equity ratio was also almost unchanged from year end 2006.

The following key figures underscore that the E.ON Group continues to have a solid asset and capital structure:

- Long-term assets are covered by stockholders' equity at 56 percent (year end 2006: 53 percent).
- Long-term assets are covered by long-term capital at 105 percent (year end 2006: 102 percent).

| Consolidated Assets, Liabilities, and Stockholders' Equity | | | | |
|--|----------------|------------|----------------|------------|
| € in millions | Mar. 31, 2007 | % | Dec. 31, 2006 | % |
| Current assets | 95,321 | 74 | 96,488 | 76 |
| Non-current assets | 33,859 | 26 | 31,087 | 24 |
| Total assets | 129,180 | 100 | 127,575 | 100 |
| Stockholders' equity | 53,205 | 41 | 51,245 | 40 |
| Current liabilities | 46,964 | 36 | 46,947 | 37 |
| Non-current liabilities | 29,011 | 23 | 29,383 | 23 |
| Total stockholders' equity and liabilities | 129,180 | 100 | 127,575 | 100 |

Employees

On March 31, 2007, the E.ON Group had 81,286 employees worldwide, about 1 percent more than at year end 2006. E.ON also had 2,098 apprentices and 259 board members and managing directors.

At the end of the first quarter, 46,893 employees, or 57.7 percent of all staff, were working outside Germany, essentially unchanged from year end 2006.

| Employees ¹ | | | |
|--------------------------------------|------------------|------------------|-----------|
| | Mar. 31, 2007 | Dec. 31, 2006 | +/- % |
| Central Europe | 43,933 | 43,546 | +1 |
| Pan-European Gas | 12,251 | 12,417 | -1 |
| U.K. | 16,025 | 15,621 | +3 |
| Nordic | 5,726 | 5,693 | +1 |
| U.S. Midwest | 2,901 | 2,890 | - |
| Corporate Center | 450 | 445 | +1 |
| Group | 81,286 | 80,612 | +1 |
| Discontinued operations ² | 476 | 473 | +1 |

¹Figures do not include apprentices, managing directors, or board members.
²Includes WKE at the U.S. Midwest market unit.

Central Europe's workforce grew slightly, rising by 1 percent to 43,933, primarily due to the hiring of former apprentices who had completed their training.

The number of employees at Pan-European Gas declined by about 1 percent to 12,251 relative to year end 2006, mainly due to efficiency-enhancement measures at E.ON Gaz Romania.

At the end of the first quarter of 2007, U.K. had 16,025 employees. This roughly 3-percent increase is mainly attributable to the further additions in customer service staff.

Nordic and U.S. Midwest had 5,726 and 2,901 employees, respectively, at the end of the first quarter of 2007, essentially unchanged from year end 2006.

During the reporting period, wages and salaries including social security contributions and retirement payments totaled €1.1 billion, compared with €1.2 billion a year ago.

Risk Situation

In the normal course of business, we are subject to a number of risks that are inseparably linked to the operation of our businesses.

Energy production and distribution involves technologically complex facilities. Operational failures or extended production stoppages of facilities or components of facilities could adversely impact our earnings situation. We minimize these risks through ongoing employee training and qualification programs and regular maintenance and enhancement of our facilities.

Our operations expose us to interest rate, currency, and counterparty risks as well as commodity price risks for electricity, natural gas, coal, oil, and carbon dioxide. We minimize these risks through the use of instruments suited to this purpose.

Our market units operate in an international market environment characterized by general risks related to the business cycle and by increasingly intense competition. We use a comprehensive sales management system and intensive customer management to minimize the price and volume risks faced by our power and gas business on liberalized markets.

The political, legal, and regulatory environment in which the E.ON Group does business is a source of additional external risks. Changes to this environment can make planning uncertain. Our goal is to play an informed and active role in shaping our business environment. We pursue this goal by engaging in a systematic and constructive dialog with government agencies and policymakers. Currently, the following issues are of particular relevance:

- The German federal government has introduced a draft bill to tighten the provisions of the laws against anti-competitive behavior in the country's electricity and natural gas markets. The draft bill stipulates that companies that individually or jointly have a dominant position in an energy market may not charge prices or demand commercial conditions that are less favorable than those of other companies in comparable markets or charge prices that disproportionately exceed their costs. E.ON believes that, if implemented as currently drafted, these provisions would considerably impede competition in Germany's energy markets, but is currently unable to quantify the effects that the implementation of the tightened provisions would have on E.ON.

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- As part of an anticompetitive practices case, the German Federal Cartel Office ("FCO") is investigating the treatment of CO₂ emission allowances as a cost factor in the price of electricity. A fundamental principle of emissions trading is that treating emission allowances as a cost factor provides an incentive to reduce CO₂ emissions. The FCO is currently investigating whether it is an anti-competitive practice to factor CO₂ emission allowances into the price of electricity although the allowances were allocated at no cost.
- The European Commission carried out investigations at the premises of several energy companies in Europe, including E.ON AG and some of its affiliates, in May and December 2006, followed by requests for information regarding different regulatory and energy-market-related issues of E.ON Energie and E.ON Ruhrgas. The European Commission is currently processing and analyzing the respective data.
- In January 2007 the EU Commission put forward a comprehensive package of energy policy proposals. It can be anticipated that these proposals will result in legislative initiatives designed to enhance climate protection efforts, promote the implementation of energy-efficiency measures, and further intensify regulatory intervention. At this time, the effects of such legislative initiatives on our business cannot be predicted. Under discussion is a proposal to require ownership unbundling of energy networks from the other segments of the energy supply business. We consider this infringement of ownership to be illegal, although we are unable at this time to rule it out.
- In early April 2007, the German Federal Ministry of Economics and Technology issued draft regulations on an incentive-based regulation system. Under Germany's Energy Law of 2005, the current cost-based rate-of-return model for network charges is to be replaced by an incentive-based regulation system. In principle, we support the rapid introduction of a reasonable incentive-based system but believe that the current recommendations require significant modifications. At this time, we cannot rule out the possibility that the German Federal Network Agency will establish efficiency-enhancement targets that are unattainable. Because exact details of many key aspects of the incentive-based system remain undecided, we cannot reliably assess the financial consequences at this time.

The operational and strategic management of the E.ON Group relies heavily on highly complex information technology. Our IT systems are maintained and optimized by qualified E.ON Group experts, outside experts, and a wide range of technical security measures.

In the period under review, the E.ON Group's risk situation did not change substantially from year end 2006.

Subsequent Events

On April 2, 2007, E.ON signed an agreement with Enel and Acciona to put an end to the substantial uncertainty surrounding the takeover bid for Endesa. Pursuant to the agreement, E.ON did not consummate its takeover bid designed to obtain a majority stake in Endesa and committed itself not to make a new takeover bid for Endesa during the next four years. This eliminated the conditional obligation that had been in effect as of the balance-sheet date to acquire up to 100 percent of the shares in Endesa for approximately €42 billion. In exchange, Enel and Acciona committed themselves to launch, in the very near future, a takeover bid for Endesa with a minimum price of €41 per share. If Enel and Acciona gain control of Endesa, E.ON will receive an extensive portfolio of equity holdings including operations in Spain, Italy, and France and in Poland and Turkey. This corresponds to a total volume of about €10 billion. The planned takeover of Endesa generated expenses related to fees for the availability of credit facilities and the issuance of guarantees as well as consulting services. Prior to the signing of the agreement with Enel and Acciona, these costs were capitalized in the E.ON Consolidated Balance Sheet. In the second quarter of 2007, these capitalized costs will be expensed, resulting in a charge of approximately €300 million against non-operating income.

Other

In March 2007, the Securities and Exchange Commission notified E.ON that it had terminated its formal investigation into the Company and was not recommending enforcement action.

Forecast

Earnings Development

Based on the E.ON Group's positive earnings development in the first quarter, we now expect adjusted EBIT to surpass the high prior-year level. However, not all market units will contribute equally to the improvement. From today's perspective, we also anticipate an increase in net income attributable to shareholders of E.ON AG in 2007. However, net income will be particularly influenced by the marking to market of derivatives at year end.

The earnings forecast by market unit is as follows:

We expect the Central Europe market unit's 2007 adjusted EBIT to be above the prior-year figure, with the positive development of gross margins in the electricity business more than offsetting temperature-driven declines in natural gas sales volumes and negative effects from increased feed-in of renewable-source electricity.

We expect Pan-European Gas's adjusted EBIT for the 2007 financial year to be slightly below the figure for 2006. Despite positive nonrecurring effects in the first quarter that more than counteracted lower sales volumes, the midstream business will deteriorate significantly due to competition and regulatory effects as well as declining earnings from storage usage. These effects will be mitigated by earnings improvements in the downstream business, particularly due to the absence of nonrecurring charges relating to the regulation of network charges in Germany and higher adjusted EBIT contributions at our shareholdings in Hungary.

The 2007 adjusted EBIT of the U.K. market unit is expected to be broadly in line with 2006. The key market feature of the first quarter was the retail price reductions announced by all of the major suppliers. E.ON UK announced in February 2007 that domestic energy prices will be reduced as a result of decreasing wholesale energy prices, confirming the business's intent to provide value to its customers.

We expect Nordic's adjusted EBIT for 2007 to be significantly above the level of 2006. Earnings development will be positively affected by higher volumes in both hydropower and nuclear production, as well as by higher average wholesale electricity prices.

We expect U.S. Midwest's 2007 adjusted EBIT to be below 2006 due to lower gas margins as a result of the timing of gas cost recoveries from customers.

Opportunities

Positive developments in prime-interest rates, foreign-currency rates, and market prices for commodities such as electricity, natural gas, coal, oil, and carbon dioxide can create opportunities for our operations. In addition, continued positive development of market prices can create opportunities relating to the short-term securities we own.

Periods of exceptionally cold weather—very low average temperatures or extreme daily lows—in the fall and winter months can create opportunities for us to meet higher demand for electricity and natural gas. Similarly, periods of exceptionally hot weather in the summer months can create opportunities for our U.S. Midwest market unit to meet the greater demand for electricity resulting from increased air conditioning use.

Our investment policy is aimed at strengthening and enlarging our leading position in our target markets and to systematically seize opportunities, including opportunities in future markets.

16 Market Units

Central Europe

| Central Europe | | | |
|----------------------|-------|-------|-------|
| January 1 - March 31 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Sales | 9,001 | 7,981 | +13 |
| Adjusted EBITDA | 1,801 | 1,780 | +1 |
| Adjusted EBIT | 1,431 | 1,418 | +1 |

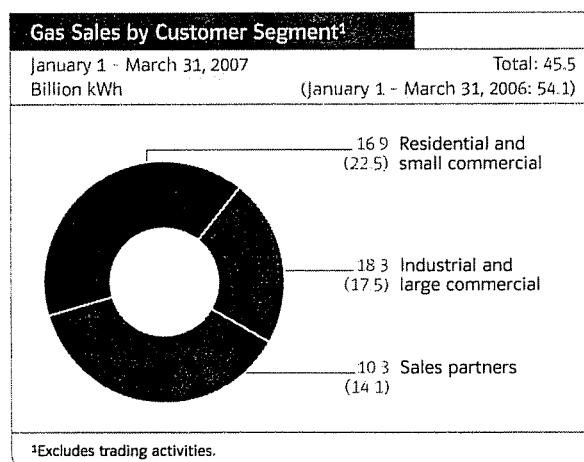
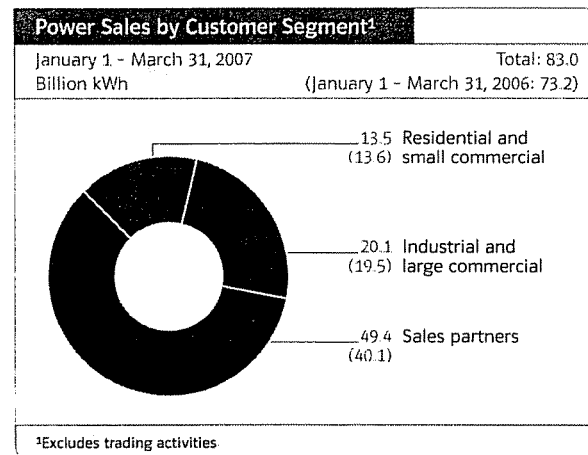
Power and Gas Sales

The Central Europe market unit grew power sales by 9.8 billion kWh to 83.0 billion kWh. The increase is mainly attributable to significantly higher deliveries onto Central Europe's network of electricity subsidized under Germany's Renewable Energy Law. Furthermore, the sales volume of Italy's Dalmine Energie ("Dalmine"), which became a consolidated E.ON company in December 2006, is included for the first time.

Gas sales volumes declined by 8.6 billion kWh due to Europe's warmest winter since comprehensive weather records began to be kept in 1901. The inclusion of newly consolidated companies, mainly JCP of the Czech Republic (since September 2006) and Dalmine of Italy, had a positive effect on gas sales volumes.

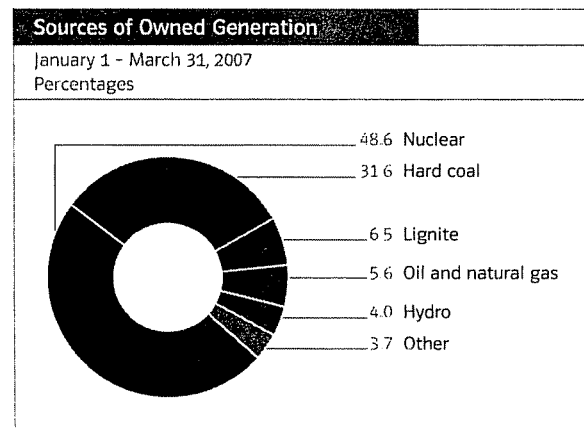
Power Generation and Procurement

Central Europe utilized its flexible mix of generation assets to meet about 40 percent of its electricity requirements, compared with 47 percent in the prior-year period. It procured around 11.4 billion kWh more electricity from outside sources than in the prior year. The increased procurement from outside sources and the corresponding decline in owned generation are predominantly attributable to the increase in the amount of electricity delivered onto Central Europe's network under Germany's Renewable Energy Law. The above-mentioned consolidation effects also served to increase the amount of electricity procured from outside sources.



| Power Generation and Procurement ¹ | | | |
|---|-------------|-------------|------------|
| January 1 - March 31 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Owned generation | 34.9 | 36.7 | -5 |
| Purchases | 52.0 | 40.8 | +27 |
| from jointly owned power plants | 3.1 | 3.3 | -6 |
| from outside sources | 48.9 | 37.5 | +30 |
| Power procured | 86.9 | 77.5 | +12 |
| Station use, line loss, pumped-storage hydro | -3.9 | -4.3 | - |
| Power sales | 83.0 | 73.2 | +13 |

¹Excludes trading activities.



Sales and Adjusted EBIT

Central Europe increased sales by about €1 billion relative to the prior-year period. The increase is mainly attributable to the expansion of operations (particularly in Italy), higher electricity prices, and the passthrough of the significantly greater volume of electricity purchased under Germany's Renewable Energy Law. These effects were mitigated by a temperature-driven decline in sales in the gas business.

Adjusted EBIT rose by €13 million year on year, with Central Europe's businesses developing as follows:

Central Europe West Power increased adjusted EBIT by €88 million compared with the prior-year period. Positive price effects and the absence of aperiodic negative effects recorded in the prior-year quarter were partially mitigated by lower results from power trading, higher electricity procurement costs, higher expenditures resulting from an increase in the

amount of renewable-source electricity delivered onto the network, and a reduction in owned generation. Adjusted EBIT was also adversely affected by lower results from the network business mainly due to regulation.

Adjusted EBIT at Central Europe West Gas was €83 million below the prior-year figure due primarily to the very mild winter and the resulting decline in sales volumes.

Central Europe East's adjusted EBIT was at the prior-year level. The negative effects of lower sales volumes were offset by positive earnings contributions from JCP and Teplárna Otrokovice, whose results were not included in the prior-year period, and a price-driven increase in gross margin in Hungary.

Adjusted EBIT recorded under Other/Consolidation was also almost at the prior-year level.

| Financial Highlights by Business | | | | | | | | | | |
|---------------------------------------|---------------------|-------|-------|-------|---------------------|------|---------------------|------|----------------|-------|
| January 1 - March 31 € in millions | Central Europe West | | | | Central Europe East | | Other/Consolidation | | Central Europe | |
| | Power | | Gas | | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales ¹ | 6,249 | 5,041 | 1,408 | 1,843 | 1,099 | 987 | 245 | 110 | 9,001 | 7,981 |
| Adjusted EBITDA | 1,404 | 1,315 | 228 | 315 | 152 | 144 | 17 | 6 | 1,801 | 1,780 |
| Adjusted EBIT | 1,172 | 1,084 | 176 | 259 | 96 | 94 | -13 | -19 | 1,431 | 1,418 |

¹Trading activities are recognized net.

18 Market Units

Pan-European Gas

| Pan-European Gas | | | |
|---------------------------------------|-------|-------|-------|
| January 1 - March 31 € in millions | 2007 | 2006 | +/- % |
| Sales | 7,814 | 7,525 | +4 |
| Adjusted EBITDA | 1,271 | 1,084 | +17 |
| Adjusted EBIT | 1,126 | 958 | +18 |

Market Development

Due to warmer weather, Germany consumed about one fifth less natural gas in first quarter of 2007 than in the prior-year period.

Gas Sales

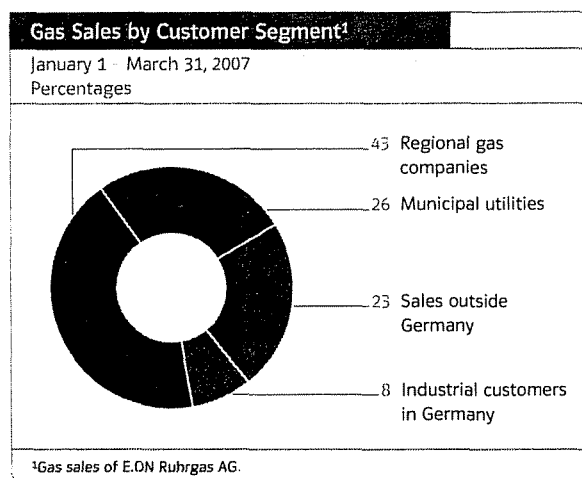
Between January and March 2007, E.ON Ruhrgas AG sold 213.4 billion kWh of natural gas. Unseasonably mild weather was the decisive factor in the 20 percent decline.

| Gas Sales by Period ¹ | | | |
|-------------------------------------|--------------|--------------|------------|
| January 1 - March 31 Billion kWh | 2007 | 2006 | +/- % |
| January | 76.0 | 95.4 | -20 |
| February | 69.4 | 86.5 | -20 |
| March | 68.0 | 84.4 | -19 |
| Total | 213.4 | 266.3 | -20 |

¹Gas sales of E.ON Ruhrgas AG.

Pan-European Gas's business outside Germany continues to develop successfully. In January 2007 E.ON Ruhrgas began supplying a municipal gas utility in Denmark, making E.ON Ruhrgas the country's second-largest wholesale gas supplier. It will supply about 500 million cubic meters to Denmark's number-two gas utility, which provides gas service to industrial, commercial, and residential customers in and around Copenhagen and Jutland. E.ON Ruhrgas concluded eight new supply contracts in France and Italy with terms of between five months and a year and an aggregate volume of 700 million kWh. It concluded three flexible supply contracts in the Netherlands.

Sales by customer segment changed only slightly from the prior-year period. Sales outside Germany accounted for 23 percent of total sales, an increase of three percentage points. As in the prior year, regional gas companies constituted the biggest customer segment, although their share of total volume declined from 47 to 43 percent. Municipal utilities accounted for 26 percent of volume (one percentage point higher) and industrial customers for 8 percent (unchanged from the prior-year period).



Downstream Shareholdings Gas Sales Volume

The majority shareholdings in Pan-European Gas's Downstream Shareholdings segment sold 70.5 billion kWh of natural gas in the first quarter of 2007, up 74 percent from the 40.5 billion kWh sold in the year-earlier quarter. The sharp increase was caused by the inclusion of E.ON Földgáz of Hungary, which in the prior year was not included until the second quarter. Excluding E.ON Földgáz's volume, Downstream Shareholdings sold 25 percent less natural gas.

On March 1, 2007, E.ON Földgáz Trade held its second natural gas auction. In addition to the annual mandated amount (1 billion cubic meters), the company also offered one third of the gas not sold in the 2006 auction. Four gas-trading companies purchased an aggregate 1.2 billion cubic meters of gas in this year's auction.

Upstream Production Lower

Production in the upstream business declined slightly compared with the prior-year quarter. Lower oil production from fields characterized by a natural production decline was nearly counteracted by production from newly operational fields. Natural decline was also responsible for a portion of the reduction in natural gas production, although lower prices were also a factor. Production was cut back in the first quarter due to lower spot gas prices.

| Upstream Production | | | |
|---|-------|-------|-------|
| January 1 - March 31 | 2007 | 2006 | +/- % |
| Liquids/oil (thousand barrels) | 1,386 | 1,388 | - |
| Gas (million standard cubic meters) | 202 | 216 | -6 |
| Total (million barrels of oil equivalent) | 2.6 | 2.8 | -7 |

In the current round of license allocations in January, the Norwegian Energy Ministry awarded E.ON Ruhrgas Norge three licenses in the Norwegian Sea and the northern Norwegian North Sea. The shares of the respective licenses are between 30 and 50 percent. Furthermore, one of the licenses named E.ON Ruhrgas Norge as the operator. E.ON Ruhrgas Norge now has a total of ten production licenses in Norway, which include 30 percent of the Njord Field, which is already producing oil and which will begin producing natural gas at the end of this year. In February 2007 E.ON Ruhrgas UK North Sea acquired stakes in three more exploration blocks in the British North Sea in a round of license allocations.

Storage Capacity Auction Held

As part of the E.ON Group's competition initiative, E.ON Ruhrgas auctioned a portion of its natural gas storage capacity on February 20, 2007. It was the first auction of its kind and met with high demand: 29 customers from nine different countries bid for storage capacity. All 20 lots of 10 million cubic meters of working gas were awarded to a total of seven bidders. The price of an average lot was €0.15 per cubic meter. The storage capacity awarded in the auction has been available since April 1, 2007.

E.ON Ruhrgas's traded 2.06 billion kWh of natural gas at E.ON Gastransport's virtual trading points in the first quarter of 2007, making a significant contribution to creating market liquidity.

Sales and Adjusted EBIT

Pan-European Gas increased sales by 4 percent, from €7,525 million to €7,814 million.

Sales growth is attributable to a number of factors. The downstream business particularly benefited from the first-time inclusion of the E.ON Földgáz Group. The other companies in the downstream business recorded temperature-driven declines in sales. Sales in the Up-/Midstream segment were below the prior-year level. The temperature-driven decline in sales volumes in the midstream business adversely affected sales, as did lower sales prices for gas and oil and currency effects in the upstream business.

Pan-European Gas's adjusted EBIT in the first quarter of 2007 was up €168 million, or 18 percent, from the prior-year figure.

The Downstream Shareholdings segment is mainly responsible for the increase. The first-time inclusion of the E.ON Földgáz Group and a significant increase in equity earnings from associated companies had a positive effect on adjusted EBIT, as did book gains on the sale of shareholdings. These effects offset the temperature-driven earnings decline in the shareholdings' gas business.

Adjusted EBIT at the midstream business was negatively impacted by the decline in sales volumes resulting from warm winter weather. However, this was compensated by the absence in the current year of the adverse earnings effect recorded in the prior year resulting from the fact that procurement prices are adjusted to rising oil prices faster than sales prices are. In fact, there was a positive effect in the current-year quarter.

As with sales, adjusted EBIT in the upstream business was adversely affected by lower sales prices.

| Financial Highlights by Business | | | | | | | | |
|---------------------------------------|---------------|-------|-----------------------------|-------|-------------------------|------|------------------|-------|
| January 1 - March 31 € in millions | Up-/Midstream | | Downstream Shareholdings | | Other/ Consolidation | | Pan-European Gas | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales | 5,962 | 6,606 | 2,036 | 1,118 | -184 | -199 | 7,814 | 7,525 |
| Adjusted EBITDA | 861 | 831 | 389 | 249 | 21 | 4 | 1,271 | 1,084 |
| Adjusted EBIT | 755 | 730 | 349 | 224 | 22 | 4 | 1,126 | 958 |

20 Market Units

U.K.

| U.K. | | | |
|----------------------|-------|-------|-------|
| January 1 - March 31 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Sales | 4,195 | 3,766 | +11 |
| Adjusted EBITDA | 569 | 185 | +208 |
| Adjusted EBIT | 436 | 43 | +914 |

Market Development

Electricity consumption in England, Wales, and Scotland reported through the British Electricity Trading and Transmission Arrangements was 92 TWh during the first quarter of 2007, which was lower than 2006 consumption of 99 TWh due to warm weather. Gas consumption at 331 billion kWh was broadly in line with 2006 consumption (326 billion kWh).

During 2007, the residential market has witnessed a series of price decreases following falls in the price of wholesale gas. E.ON announced cuts of 5 percent in power and 16 percent in gas prices effective April 30, 2007.

Power and Gas Sales

Residential and small and medium sized enterprises ("SME") power and gas sales were lower compared with the first quarter of 2006 due to warmer weather, lower customer numbers, and changes in consumer behavior. The industrial and commercial sales ("I&C") business continues to focus on securing profitable customers rather than volume. Gas market sales rose as a result of reducing retail demand.

| Sales by Customer Segment | | | |
|---------------------------|-------------|-------------|-----------|
| January 1 - March 31 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Power - Residential & SME | 10.4 | 11.5 | -10 |
| Power - I&C | 4.8 | 4.8 | - |
| Power - Market sales | 6.0 | 6.3 | -5 |
| Total power sales | 21.2 | 22.6 | -6 |
| Gas - Residential & SME | 22.7 | 29.3 | -23 |
| Gas - I&C | 7.9 | 10.4 | -24 |
| Gas - Market sales | 24.4 | 16.6 | +47 |
| Total gas sales | 55.0 | 56.3 | -2 |

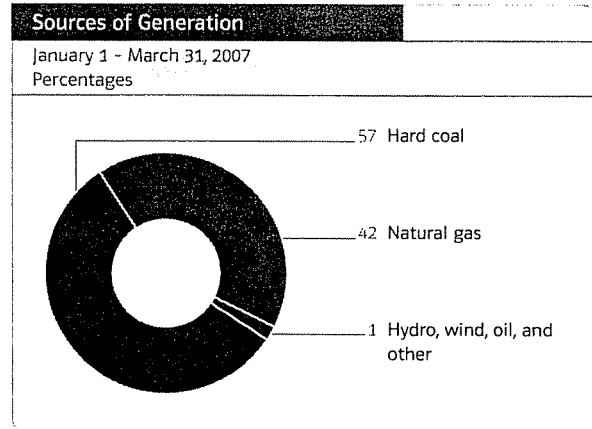
Power Generation and Procurement

Power purchased from other suppliers decreased in the first quarter of 2007 compared with 2006 primarily due to lower sales to residential and SME customers and lower market sales.

| Power Generation and Procurement | | | |
|--|-------------|-------------|-----------|
| January 1 - March 31 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Owned generation ¹ | 12.3 | 12.2 | +1 |
| Purchases | 8.9 | 11.1 | -20 |
| from jointly owned power plants | 0.4 | 0.2 | +100 |
| from outside sources | 8.5 | 10.9 | -22 |
| Power procured | 21.2 | 23.3 | -9 |
| Station use, line loss, pumped-storage hydro | - | -0.7 | - |
| Power sales | 21.2 | 22.6 | -6 |

¹Excludes non-merchant CHP and non wholly owned plants.

There was no change in attributable generation capacity between March 2006 and March 2007. Some merchant CHP plants are now classified as natural gas.



The reduction in the percentage of generation from coal (and the increase in the percentage of generation from gas) is due to the improved economics of gas generation in 2007 since 2006.

E.ON UK is currently looking at options to develop further power plants in the United Kingdom over the next few years. The objective is to deliver secure energy supplies, reduce carbon emissions to tackle the challenge of climate change, and keep energy as affordable as possible for our customers.

During quarter one, work continued on Stags Holt and Robin Rigg wind farms. E.ON UK also continued to generate from biomass in 2007 by co-firing with coal at Kingsnorth and Ironbridge power stations, generating a total of 82 GWh of renewable energy in from January 1 to March 31. Construction continued at the wood-burning plant at Lockerbie, with commercial operation scheduled for December 2007.

E.ON UK has applied for consent to build a 1,200 MW CCGT at the site of one of its former coal-fired stations at Drakelow in Derbyshire.

Sales and Adjusted EBIT

E.ON UK increased its sales in the first three months of 2007 compared with the prior year primarily due to price increases in the retail business and higher sales volumes from the Energy Wholesale business. E.ON UK delivered an adjusted

EBIT of €436 million in the first quarter of 2007, of which €143 million was in the regulated business and €325 million in the non-regulated business.

Adjusted EBIT at the regulated business increased by €19 million principally due to tariff increases.

Adjusted EBIT at the non-regulated business increased by €386 million. The key features are the avoidance of the high gas input costs during the first quarter of 2006 caused by the gas supply issues and cold weather, and retail price rises in 2007.

Adjusted EBIT recorded under Other/Consolidation was €12 million lower due to higher hedging costs associated with foreign-exchange movements.

| Financial Highlights by Business | | | | | | | | |
|---------------------------------------|--------------------|------|------------------------|-------|-------------------------|------|-------|-------|
| January 1 - March 31 € in millions | Regulated Business | | Non-regulated Business | | Other/ Consolidation | | U.K. | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales | 236 | 213 | 4,048 | 3,603 | -89 | -50 | 4,195 | 3,766 |
| Adjusted EBITDA | 177 | 161 | 423 | 42 | -31 | -18 | 569 | 185 |
| Adjusted EBIT | 143 | 124 | 325 | -61 | -32 | -20 | 436 | 43 |

22 Market Units

Nordic

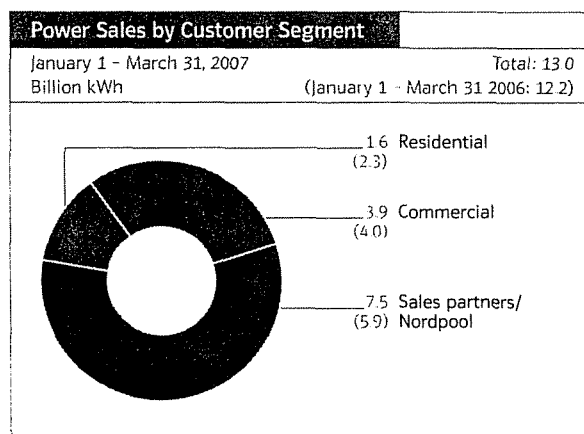
| Nordic | | | |
|---------------------------------------|-------|------|-------|
| January 1 - March 31 € in millions | 2007 | 2006 | +/- % |
| Sales | 1,029 | 885 | +16 |
| Adjusted EBITDA | 373 | 383 | -3 |
| Adjusted EBIT | 287 | 299 | -4 |

Market Development

The Nordic region consumed about 115 billion kWh of electricity during the first quarter of 2007, 6 billion kWh less than in the same period in 2006. The main reason is that the weather was unseasonably mild this year and cold last year. Net power imports to the Nordic region from surrounding countries increased to almost 2 billion kWh, about 1 billion kWh higher than last year. This was mainly due to Norwegian water-reservoir management and the opening of Estlink, a high-voltage submarine cable linking Estonia and Finland. Net exports to Germany were 1.3 billion kWh compared with 3 billion kWh in 2006. The hydrological situation was above normal in the first quarter of 2007, with an average surplus of about 10 billion kWh.

Power Sales

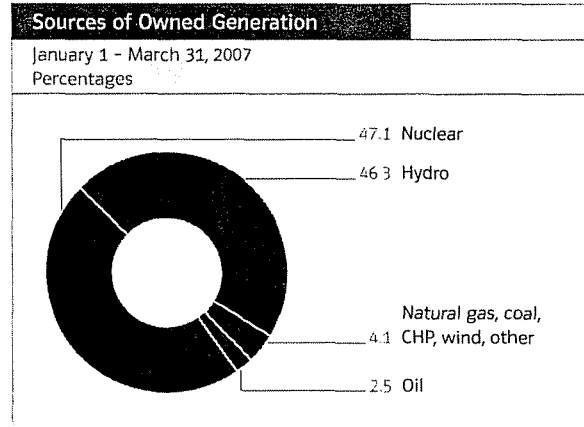
E.ON Nordic sold 0.8 billion kWh more electricity than in the first quarter of 2006, mainly due to increased sales at Nord Pool, Northern Europe's energy exchange. This was primarily a result of higher hydropower production. Sales to residential customers decreased by 0.7 billion kWh relative to the prior year due to milder weather and increased competition.



Power Generation and Procurement

E.ON Nordic's owned generation increased by 0.2 billion kWh relative to the prior year. Hydropower production was above normal due to higher reservoir inflow during the last quarter 2006 and the first quarter 2007. Nuclear power production was below the prior year mainly due to the late restart of E.ON's Oskarshamn I nuclear plant following the incident at Forsmark in July 2006. Purchases from outside sources increased significantly, driven mainly by cross-border trading activities.

| Power Generation and Procurement | | | |
|--|-------------|-------------|-----------|
| January 1 - March 31 Billion kWh | 2007 | 2006 | +/- % |
| Owned generation | 9.4 | 9.2 | +2 |
| Purchases | 4.3 | 3.8 | +13 |
| from jointly owned power plants | 2.7 | 2.9 | -7 |
| from outside sources | 1.6 | 0.9 | +78 |
| Power procured | 13.7 | 13.0 | +5 |
| Station use, line loss, pumped-storage hydro | -0.7 | -0.8 | - |
| Power sales | 13.0 | 12.2 | +7 |



Gas and Heat Sales

Heat sales decreased as a consequence of milder weather during the beginning of the year. Gas sales were 0.8 billion kWh below the prior-year figure due to increased competition and milder weather.

| Gas and Heat Sales | | | |
|----------------------|------|------|-------|
| January 1 - March 31 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Gas sales | 1.4 | 2.2 | -36 |
| Heat sales | 3.0 | 3.4 | -12 |

Sales and Adjusted EBIT

Nordic's sales, excluding energy taxes, increased by €144 million compared with the prior year. Sales in the non-regulated business increased as a result of significantly higher electricity volumes sold to Nord Pool and successful hedging activities. The increase in power sales was to some extent offset by declining gas and heat sales. Sales in the regulated business decreased by €7 million primarily due to lower distributed gas volumes.

Nordic's adjusted EBIT decreased by €12 million year on year to €287 million. Compared with the prior-year period, adjusted EBIT for the non-regulated business was negatively impacted by lower spot electricity prices. The decline in spot prices was mainly offset by successful hedging for the production portfolio and to some extent by higher volumes. Adjusted EBIT at the regulated business was unchanged from the prior year. Lower volumes in the electricity distribution business were counteracted by lower costs for line loss, mainly as a result of lower spot prices. The gas distribution business was negatively affected by lower volumes resulting in a slightly lower adjusted EBIT.

On January 14, 2007, a storm in southern Sweden caused substantial damage to the electricity distribution system in some areas. The costs of repair work and compensation of customers are currently estimated at €95 million. Storm-related costs will not affect adjusted EBIT, as this event was exceptional in nature.

| Financial Highlights by Business | | | | | | | | |
|---------------------------------------|--------------------|------|------------------------|------|-------------------------|------|--------|------|
| January 1 - March 31 € in millions | Regulated Business | | Non-regulated Business | | Other/ Consolidation | | Nordic | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales | 204 | 211 | 895 | 640 | -70 | 34 | 1,029 | 885 |
| Adjusted EBITDA | 93 | 93 | 286 | 295 | -6 | -5 | 373 | 383 |
| Adjusted EBIT | 66 | 66 | 232 | 242 | -11 | -9 | 287 | 299 |

24 Market Units

U.S. Midwest

| U.S. Midwest | | | |
|----------------------|------|------|-------|
| January 1 - March 31 | | | |
| € in millions | 2007 | 2006 | +/- % |
| Sales | 498 | 555 | -10 |
| Adjusted EBITDA | 132 | 160 | -18 |
| Adjusted EBIT | 93 | 112 | -17 |

Market Development

Electricity consumption in the Midwestern United States increased by approximately 2 percent in the first quarter of 2007, as compared to the same period in 2006, due to increased demand across the residential sector caused by colder-than-normal weather in February.

Power and Gas Sales

Regulated utility retail power sales volumes increased in 2007 compared with 2006, primarily due to colder weather in February. Off-system power sales volumes were consistent with 2006.

Gas sales increased in 2007 compared with 2006 primarily due to colder weather in 2007 and market factors that produced opportunities for off-system gas sales.

| Sales by Customer Segment | | | |
|---------------------------|------------|------------|------------|
| January 1 - March 31 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Retail customers | 8.5 | 8.0 | +6 |
| Off-system sales | 0.6 | 0.6 | - |
| Power sales | 9.1 | 8.6 | +6 |
| Retail customers | 5.8 | 5.1 | +14 |
| Off-system sales | 0.4 | - | - |
| Gas sales | 6.2 | 5.1 | +22 |

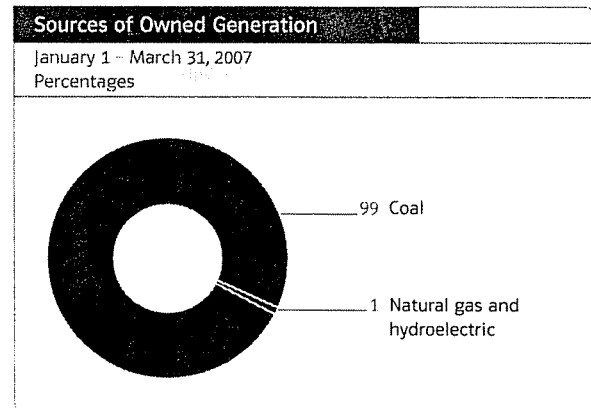
Power Generation and Procurement

U.S. Midwest generated more electricity at its own power plants in the first quarter of 2007 due to improved unit performance compared with the prior-year period.

| Power Generation and Procurement | | | |
|----------------------------------|------------|------------|-----------|
| January 1 - March 31 | | | |
| Billion kWh | 2007 | 2006 | +/- % |
| Owned generation | 9.2 | 8.5 | +8 |
| Purchases | 0.7 | 1.0 | -30 |
| Power procured | 9.9 | 9.5 | +4 |
| Station use, line loss | -0.8 | -0.9 | - |
| Power sales | 9.1 | 8.6 | +6 |

U.S. Midwest's attributable generating capacity was unchanged from year end 2006.

Coal-fired power plants accounted for 99 percent of U.S. Midwest's owned generation for the first three months of 2007, while gas-fired and hydro generating assets accounted for the remaining 1 percent.



Sales and Adjusted EBIT

U.S. Midwest's sales in the first quarter of 2007 were lower compared with last year primarily due to the stronger euro. In local currency, sales were relatively flat, with lower gas prices offset by higher retail electric volumes.

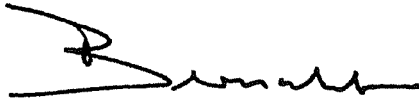
U.S. Midwest's adjusted EBIT decreased by 17 percent partly due to the stronger euro. Furthermore, higher retail volumes were more than offset by lower gas margins as a result of the timing of gas cost recoveries from customers.

| Financial Highlights by Business | | | | | | |
|---------------------------------------|--------------------|------|----------------------------------|------|--------------|------|
| January 1 - March 31 € in millions | Regulated Business | | Non-regulated Business/ Other | | U.S. Midwest | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sales | 488 | 538 | 10 | 17 | 498 | 555 |
| Adjusted EBITDA | 135 | 156 | -3 | 4 | 132 | 160 |
| Adjusted EBIT | 96 | 115 | -3 | -3 | 93 | 112 |

26 Declaration of the Board of Management

We confirm, to the best of our knowledge, that the Condensed Consolidated Interim Financial Statements and the Interim Group Management Report have been prepared in accordance with the generally accepted accounting principles for interim financial reporting under IFRS and accurately present the Group's net assets, financial position and results of operations. The Interim Group Management Report presents a true and fair view of the actual operations of the Group, including the results of operations and the position of the Group, and describes the material opportunities and risks of the Group's future development in the remainder of the fiscal year.

Düsseldorf, May 8, 2007



Dr. Wulf H. Bernotat
Chairman of the
Board of Management
of E.ON AG



Dr. Marcus Schenck
Member of the
Board of Management
of E.ON AG

Review Report

To E.ON AG, Düsseldorf

We have reviewed the Condensed Consolidated Interim Financial Statements—comprising the balance sheet, income statement, cash flow statement, statement of recognised income and expense and selected explanatory notes—together with the Interim Group Management Report of E.ON AG, Düsseldorf for the period from January 1 to March 31, 2007, which are components of the quarterly financial report pursuant to § (Article) 37x Abs. (paragraph) 3 WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the Condensed Consolidated Interim Financial Statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the Interim Group Management Report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to issue a review report on the Condensed Consolidated Interim Financial Statements and on the Interim Group Management Report based on our review.

We conducted our review of the Condensed Consolidated Interim Financial Statements and the Interim Group Management Report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the Condensed Consolidated Interim Financial Statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and thus provides less assurance than an audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the Condensed Consolidated Interim Financial Statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the Interim Group Management Report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Düsseldorf, May 8, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Vogelpoth
Wirtschaftsprüfer
(German Public Auditor)

Laue
Wirtschaftsprüfer
(German Public Auditor)

28 Condensed Consolidated Interim Financial Statements

| E.ON AG and Subsidiaries Consolidated Statements of Income | | | |
|---|-------|---------------|---------------|
| January 1 - March 31 | | | |
| € in millions | Notes | 2007 | 2006 |
| Sales including electricity and energy taxes | | 21,689 | 21,502 |
| Electricity and energy taxes | | -619 | -1,650 |
| Sales | (14) | 21,070 | 19,852 |
| Changes in inventories (finished goods and work in progress) | | 25 | 10 |
| Own work capitalized | | 53 | 50 |
| Other operating income | | 2,971 | 1,647 |
| Cost of materials | | -15,505 | -14,925 |
| Personnel expenses | | -1,109 | -1,161 |
| Depreciation, amortization and impairment charges | | -762 | -830 |
| Other operating expenses | | -2,335 | -2,342 |
| Income/Loss (-) from companies accounted for under the equity method | | 260 | 183 |
| Income/Loss (-) from continuing operations before financial results and income taxes | (14) | 4,668 | 2,484 |
| Financial results | (7) | -276 | -344 |
| Income from share investments | (7) | 5 | 11 |
| Income from other securities, interest and similar income | (7) | 260 | 345 |
| Interest and similar expenses | (7) | -541 | -700 |
| Income taxes | | -1,027 | -599 |
| Income/Loss (-) from continuing operations | | 3,365 | 1,541 |
| Income/Loss (-) from discontinued operations, net | (5) | -73 | 713 |
| Net income | | 3,292 | 2,254 |
| thereof: | | | |
| Shareholders of E.ON AG | | 3,067 | 2,045 |
| Minority interests | | 225 | 209 |
| in € | | | |
| Earnings per share (attributable to shareholders of E.ON AG)—basic and diluted | (8) | | |
| from continuing operations | | 4.76 | 2.03 |
| from discontinued operations | | -0.11 | 1.07 |
| from net income | | 4.65 | 3.10 |

| E.ON AG and Subsidiaries Consolidated Balance Sheets | | | | |
|--|-------|------------------|------------------|-----------------|
| € in millions | Notes | Mar. 31, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Assets | | | | |
| Goodwill | (9) | 15,209 | 15,320 | 15,494 |
| Intangible assets | | 3,804 | 3,894 | 4,207 |
| Property, plant and equipment | | 42,509 | 42,484 | 41,067 |
| Companies accounted for under the equity method | (10) | 8,164 | 7,770 | 9,507 |
| Other financial assets | (10) | 19,084 | 20,679 | 16,544 |
| Share investments | (10) | 12,307 | 13,533 | 10,073 |
| Non-current securities | (10) | 6,777 | 7,146 | 6,471 |
| Financial receivables and other financial assets | | 2,579 | 2,631 | 3,268 |
| Operating receivables and other operating assets | | 2,769 | 2,463 | 1,737 |
| Deferred tax assets | | 1,203 | 1,247 | 2,108 |
| Non-current assets | | 95,321 | 96,488 | 93,932 |
| Inventories | | 2,838 | 4,199 | 2,587 |
| Financial receivables and other financial assets | | 1,432 | 1,477 | 1,090 |
| Operating receivables and other operating assets | | 20,509 | 18,611 | 17,962 |
| Liquid funds | | 8,435 | 6,189 | 9,901 |
| Restricted cash | | 493 | 587 | 98 |
| Securities and fixed-term deposits | | 2,754 | 4,448 | 5,455 |
| Cash and cash equivalents | | 5,188 | 1,154 | 4,348 |
| Assets held for sale | (5) | 645 | 611 | 682 |
| Current assets | | 33,859 | 31,087 | 32,222 |
| Total assets | | 129,180 | 127,575 | 126,154 |

| E.ON AG and Subsidiaries Consolidated Balance Sheets | | | | |
|--|-------|------------------|------------------|-----------------|
| € in millions | Notes | Mar. 31, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Equity and liabilities | | | | |
| Capital stock | | 1,799 | 1,799 | 1,799 |
| Additional paid-in capital | | 11,760 | 11,760 | 11,749 |
| Retained earnings | | 27,781 | 24,350 | 22,910 |
| Accumulated other comprehensive income | | 9,341 | 11,033 | 8,150 |
| Treasury stock | (11) | -230 | -230 | -256 |
| Equity attributable to shareholders of E.ON AG | | 50,451 | 48,712 | 44,352 |
| Minority interests (before reclassification) | | 5,208 | 4,994 | 4,747 |
| Reclassification of liabilities related to put options | | -2,454 | -2,461 | -3,130 |
| Minority interests | | 2,754 | 2,533 | 1,617 |
| Equity | | 53,205 | 51,245 | 45,969 |
| Financial liabilities | | 10,033 | 10,029 | 10,985 |
| Operating liabilities | | 5,325 | 5,432 | 5,666 |
| Provisions for pensions and similar obligations | (13) | 3,527 | 3,962 | 9,768 |
| Other provisions | | 20,977 | 20,461 | 19,143 |
| Deferred tax liabilities | | 7,102 | 7,063 | 7,625 |
| Non-current liabilities | | 46,964 | 46,947 | 53,187 |
| Financial liabilities | | 3,409 | 3,443 | 3,455 |
| Operating liabilities | | 19,055 | 19,731 | 18,457 |
| Other provisions | | 5,852 | 5,594 | 4,250 |
| Liabilities associated with assets held for sale | (5) | 695 | 615 | 836 |
| Current liabilities | | 29,011 | 29,383 | 26,998 |
| Total equity and liabilities | | 129,180 | 127,575 | 126,154 |

30 Condensed Consolidated Interim Financial Statements

| E.ON AG and Subsidiaries Consolidated Statements of Cash Flows | | |
|---|--------------|---------------|
| January 1 - March 31 | | |
| € in millions | 2007 | 2006 |
| Net income | 3,292 | 2,254 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Income/Loss from discontinued operations, net | 73 | -713 |
| Depreciation, amortization and impairment on intangible assets and property, plant and equipment | 762 | 830 |
| Changes in provisions | 794 | 1,173 |
| Changes in deferred taxes | 66 | -261 |
| Other non-cash income and expenses | -111 | -126 |
| Gain/Loss on disposal of intangible assets, property, plant and equipment, equity investments and securities (> 3 months) | -973 | -189 |
| Changes in current assets and liabilities | -1,495 | -1,033 |
| Cash provided by operating activities of continuing operations (operating cash flow) | 2,408 | 1,935 |
| Proceeds from disposal of | | |
| intangible assets and property, plant and equipment | 77 | 50 |
| equity investments | 335 | 5 |
| Purchase of investments in | | |
| intangible assets and property, plant and equipment | -1,058 | -622 |
| equity investments | -107 | -569 |
| Changes in securities and fixed-term deposits | 2,143 | -2,286 |
| Changes in restricted cash | 100 | 28 |
| Cash provided by (used for) investing activities of continuing operations | 1,490 | -3,394 |
| Payments received/made from changes in capital | 47 | -1 |
| Payments for treasury stock, net | 0 | 0 |
| Payment of cash dividends to | | |
| shareholders of E.ON AG | 0 | 0 |
| minority stockholders | -31 | -29 |
| Change in financial liabilities | 122 | 2,001 |
| Cash provided by (used for) financing activities of continuing operations | 138 | 1,971 |
| Net increase (decrease) in cash and cash equivalents from continuing operations | 4,036 | 512 |
| Cash provided by operating activities of discontinued operations | 2 | 42 |
| Cash used for investing activities of discontinued operations | -2 | -29 |
| Cash provided by financing activities of discontinued operations | 0 | 1 |
| Net increase (decrease) in cash and cash equivalents from discontinued operations | 0 | 14 |
| Effect of foreign exchange rates on cash and cash equivalents | -2 | 31 |
| Cash and cash equivalents at the beginning of the period | 1,154 | 4,348 |
| Cash and cash equivalents included within assets held for sale at the end of the quarter | 0 | -52 |
| Cash and cash equivalents at the end of the quarter | 5,188 | 4,853 |

| Statement of Recognized Income and Expenses | | |
|--|---------------|--------------|
| January 1 - March 31 | 2007 | 2006 |
| € in millions | | |
| Net income | 3,292 | 2,254 |
| Cash flow hedges | 219 | -1,103 |
| Available-for-sale securities | -1,961 | 1,909 |
| Changes in actuarial gains/losses of defined benefit pension plans and other employee benefits | 580 | 585 |
| Currency translation adjustments | -110 | -221 |
| Deferred taxes on changes recognized in equity | -85 | -377 |
| Income and expenses recognized in equity | -1,357 | 793 |
| Total of recognized income and expenses (Total comprehensive income) | 1,935 | 3,047 |
| thereof: | | |
| Shareholders of E.ON AG | 1,739 | 2,855 |
| Minority interests | 196 | 192 |

32 Notes to the Condensed Consolidated Interim Financial Statements

| Summary of Changes in Equity | | | |
|--|---------------|----------------------------|-------------------|
| € in millions | Capital stock | Additional paid-in capital | Retained earnings |
| Balance as of January 1, 2006 | 1,799 | 11,749 | 22,910 |
| Shares repurchased/sold | | | |
| Dividends paid | | | |
| Other changes in minority interests | | | |
| Net additions/disposals from the reclassification of liabilities related to put options | | | |
| Net income | | | 2,045 |
| Changes in actuarial gains/losses of defined benefit pension plans and other employee benefits | | | 307 |
| Other comprehensive income | | | |
| Total comprehensive income | | | |
| Balance as of March 31, 2006 | 1,799 | 11,749 | 25,262 |
| Balance as of January 1, 2007 | 1,799 | 11,760 | 24,350 |
| Shares repurchased/sold | | | |
| Capital increase | | | |
| Dividends paid | | | |
| Net additions/disposals from the reclassification of liabilities related to put options | | | |
| Net income | | | 3,067 |
| Changes in actuarial gains/losses of defined benefit pension plans and other employee benefits | | | 364 |
| Other comprehensive income | | | |
| Total comprehensive income | | | |
| Balance as of March 31, 2007 | 1,799 | 11,760 | 27,781 |

| Accumulated other comprehensive income | | | | | | | | | |
|--|-------------------------------|------------------|----------------|--|--|--|--------------------|--------|--|
| Currency translation adjustments | Available-for-sale securities | Cash flow hedges | Treasury stock | Equity attributable to shareholders of E.ON AG | Minority interests (before reclassification) | Reclassification of liabilities related to put options | Minority interests | Total | |
| 675 | 7,343 | 132 | -256 | 44,352 | 4,747 | -3,130 | 1,617 | 45,969 | |
| | | | | | | | | 0 | |
| | | | | | -28 | | -28 | -28 | |
| | | | | | | | | 0 | |
| | | | | | | -1 | -1 | -1 | |
| | | | | 2,045 | 209 | | 209 | 2,254 | |
| | | | | 307 | 40 | | 40 | 347 | |
| -248 | 1,699 | -948 | | 503 | -57 | | -57 | 446 | |
| | | | | 2,855 | 192 | | 192 | 3,047 | |
| 427 | 9,042 | -816 | -256 | 47,207 | 4,911 | -3,131 | 1,780 | 48,987 | |
| 632 | 10,491 | -90 | -230 | 48,712 | 4,994 | -2,461 | 2,533 | 51,245 | |
| | | | | | | | | 0 | |
| | | | | | 48 | | 48 | 48 | |
| | | | | | -30 | | -30 | -30 | |
| | | | | | | 7 | 7 | 7 | |
| | | | | 3,067 | 225 | | 225 | 3,292 | |
| | | | | 364 | 22 | | 22 | 386 | |
| -73 | -1,744 | 125 | | -1,692 | -51 | | -51 | -1,743 | |
| | | | | 1,739 | 196 | | 196 | 1,935 | |
| 559 | 8,747 | 35 | -230 | 50,451 | 5,208 | -2,454 | 2,754 | 53,205 | |

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(1) Basis of Presentation

The E.ON Group ("E.ON" or the "Group") is an internationally active group of energy companies with integrated electricity and gas operations based in Germany. The Group is organized around five defined target markets:

- The Central Europe market unit, led by E.ON Energie AG ("E.ON Energie"), Munich, Germany, operates E.ON's integrated electricity business and the downstream gas business in Central Europe.
- Pan-European Gas is responsible for the upstream and midstream gas business. Moreover, this market unit holds predominantly minority shareholdings in the downstream gas business. This market unit is led by E.ON Ruhrgas AG ("E.ON Ruhrgas"), Essen, Germany.
- The U.K. market unit encompasses the integrated energy business in the United Kingdom. This market unit is led by E.ON UK plc ("E.ON UK"), Coventry, U.K.
- The Nordic market unit, which is led by E.ON Nordic AB ("E.ON Nordic"), Malmö, Sweden, focuses on the integrated energy business in Northern Europe. It operates through the integrated energy company E.ON Sverige AB ("E.ON Sverige"), Malmö, Sweden.
- The U.S. Midwest market unit, led by E.ON U.S. LLC ("E.ON U.S."), Louisville, Kentucky, U.S., is primarily active in the regulated energy market in the U.S. state of Kentucky.

The Corporate Center contains those interests held directly by E.ON AG ("E.ON" or the "Company") that are not allocated to a particular segment, as well as E.ON AG itself.

These market units are the primary segments as defined in International Accounting Standard ("IAS") 14, "Segment Reporting" ("IAS 14"). The Corporate Center also contains the consolidation effects that take place at the Group level.

Note 14 provides additional information about the market units.

With European Union ("EU") Regulation 1606/2002 dated July 19, 2002, the European Parliament and the European Council mandated the adoption of International Financial Reporting Standards ("IFRS") into EU law governing the Consolidated Financial Statements of publicly traded companies for fiscal years beginning on or after January 1, 2005.

However, member states may defer mandatory application of IFRS until 2007 for companies that, like E.ON, have been preparing their Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and whose stock is officially listed for public trading in a non-EU member state. In Germany, the Bilanzrechtsreformgesetz ("BilReG") implemented the option to defer mandatory IFRS application in October 2004.

E.ON made use of this option and, accordingly, the condensed Interim Financial Statements for the three months ended March 31, 2007 have been prepared for the first time in accordance with IFRS, specifically IAS 34, "Interim Financial Reporting," ("IAS 34") and IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). This Interim Report has been prepared in accordance with all IFRS effective and adopted for use in the EU as of the end of the interim period.

The IFRS effective or available for voluntary early adoption in this Interim Report as of March 31, 2007, are subject to change or to the issuance of additional interpretations until December 31, 2007. Accordingly, the accounting policies relevant for this interim report may be adjusted in future periods and are only considered final when the first IFRS financial statements are prepared for the year ended December 31, 2007.

The preparation of the Consolidated Financial Statements for interim financial reporting in accordance with IFRS has led to changes in the Group's accounting policies as compared with the accounting principles used in the most recent annual Consolidated Financial Statements, i.e. U.S. GAAP. The following accounting policies have been applied for all periods presented in this interim report. They have also been used in accordance with IFRS 1 for the preparation of the opening balance sheet under IFRS as of January 1, 2006. The effects of transition from U.S. GAAP to IFRS are discussed in Note 15.

(2) Summary of Significant Accounting Policies

Scope of Consolidation

The Consolidated Financial Statements incorporate the financial statements of E.ON AG and entities controlled by E.ON ("Subsidiaries"). Control is achieved when the parent company has the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. In addition, special purpose entities are consolidated when the substance of the relationship indicates that the entity is controlled by E.ON. However, certain subsidiaries controlled by E.ON that are inconsequential, both individually and in the aggregate, are accounted for as financial instruments under IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), generally at fair value and are reviewed for impairment if indications of a decline of the fair value arise. If required, an impairment is recognized as expense. Impairment losses may not be reversed in future reporting periods through income.

The results of the subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Income from the date of acquisition or until the date of the disposal, respectively.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group. Intercompany receivables, liabilities and results between Group companies are eliminated in the consolidation.

Associated Companies

An associate is an entity over which E.ON has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is achieved when E.ON has the power to participate in the financial and operating policy decisions of the investee but does not control or jointly control these decisions. Significant influence is generally presumed if E.ON directly or indirectly holds 20 percent or more, but less than 50 percent, of an entity's voting rights.

Interests in associated companies are accounted for under the equity method. In addition, majority-owned companies in which E.ON does not exercise control, due to restrictions concerning the control of assets or management, are also generally accounted for under the equity method. Certain associated companies, however, that are inconsequential, both individually and in the aggregate, are accounted for as financial instruments under IAS 39, generally at fair value and are reviewed for impairment consistent with non-consolidated subsidiaries.

Interests in associated companies accounted for under the equity method are reported on the balance sheet at cost, adjusted for changes in the Group's share of the net assets after the date of acquisition, as well as any impairment charges. Losses that exceed the Group's interest in an associated company are not recognized. Any goodwill resulting from the acquisition of an associated company is included within the carrying amount of the investment.

Intercompany results arising from transactions with associated companies accounted for under the equity method are eliminated within the consolidation process if and to the extent these are material.

Companies accounted for under the equity method are tested for impairment by comparing the carrying amount with its recoverable amount. If the carrying amount exceeds the recoverable amount, the carrying amount is adjusted in the amount of this difference. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed.

Joint Ventures

Joint ventures are also accounted for under the equity method. Intercompany results arising from transactions with joint-venture companies are eliminated within the consolidation process if and to the extent these are material.

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Business Combinations

In accordance with the exemption allowed under IFRS 1, the provisions of IFRS 3, "Business Combinations," ("IFRS 3") were not applied with respect to the accounting for business combinations which occurred before January 1, 2006. The goodwill maintained from this period does not include any intangible assets that must be reported separately under IFRS. Conversely, there are no intangible assets that until now had been reported separately which must be included in goodwill. As no adjustment for intangible assets was required relating to such business combinations, the goodwill previously reported was maintained in E.ON's opening balance sheet under IFRS. Business combinations are accounted for under the purchase method, whereby the purchase price is offset against the proportional share in the net assets of the acquired company. In so doing, the values at the date of the exchange are used as a basis. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values, regardless of the extent attributable to minority interests. The fair values of individual assets are determined using published exchange or market prices at the time of acquisition in the case of marketable securities, for example, and in the case of land, buildings and more significant technical equipment, generally using independent expert reports that have been prepared by third parties. If exchange or market prices are unavailable for consideration, fair values are determined using the most reliable information available that is based on market prices for comparable assets or on suitable valuation techniques. In such cases, E.ON determines fair value using the discounted cash flow method by discounting estimated future cash flows by a weighted average cost of capital as applied for internal valuation purposes. Estimated cash flows are consistent with the internal mid-term planning data for the next three years, followed by two additional years of cash flow projections, which are extrapolated until the end of an asset's useful life using a growth rate based on industry and internal projections. The discount rate reflects specific risks inherent to the asset.

Intangible assets must be recognized separately from goodwill if they are clearly separable or if their recognition arises from a contractual or other legal right. Provisions for restructuring measures may not be recorded in a purchase price allocation. If the purchase price paid exceeds the proportional share in the net assets at the time of acquisition, the positive difference is recognized as goodwill. A negative difference is immediately recognized in income.

Foreign Currency Translation

The Company's transactions denominated in foreign currencies are translated at the current exchange rate at the date of the transaction. Monetary foreign currency items are adjusted to the current exchange rate at each balance sheet date; any gains and losses resulting from fluctuations in the relevant currencies are included in other operating income and other operating expenses, respectively. Gains and losses from the translation of financial instruments used in hedges of net investments in its foreign operations are recorded with no effect on net income as a component of stockholders' equity.

The functional currency as well as the reporting currency of the E.ON AG is the euro. The Consolidated Financial Statements are presented in euro as well. The assets and liabilities of the Company's foreign subsidiaries with a functional currency other than the euro are translated using year-end exchange rates, while the statements of income are translated using annual-average exchange rates. Significant transactions of foreign subsidiaries occurring during the fiscal year are translated in the financial statements using the exchange rate at the date of the transaction. Differences arising from the translation of assets and liabilities, as well as gains or losses in comparison with the translation of prior years, are included as a separate component of stockholders' equity and accordingly have no effect on net income. In accordance with IFRS 1, E.ON offset the cumulative translation differences that were recognized in equity from the translation of financial statements into the reporting currency of E.ON in prior periods against retained earnings at the date of transition.

The foreign currency translation effects that are attributable to monetary financial instruments classified as available-for-sale are recognized in net income. For non-monetary financial instruments classified as available-for-sale, the foreign currency translation effects are recognized in stockholders' equity with no effect on net income.

Revenue Recognition

The Company generally recognizes revenue upon delivery of products to customers or upon fulfillment of services. Delivery has occurred when the risks and rewards associated with ownership have been transferred to the buyer, compensation has been contractually established and collection of the resulting receivable is probable. Sales revenues for goods and services are measured at the fair value of the consideration received or receivable.

Sales in the Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest market units result primarily from the sale of electricity and gas to industrial and commercial customers and to retail customers. Additional revenue is earned from the distribution of electricity and deliveries of steam and heat.

Revenues from the sale of electricity and gas to industrial and commercial customers and to retail customers are recognized when earned on the basis of a contractual arrangement with the customer; they reflect the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and period-end.

Electricity and Energy Taxes

The electricity tax is levied on electricity delivered to retail customers by domestic utilities in Germany and Sweden and is calculated on the basis of a fixed tax rate per kilowatt-hour (kWh). This rate varies between different classes of customers.

The new German Energy Tax Act ("Energiesteuergesetz," "EnergieStG") regulates the taxation of energy generated from petroleum, natural gas and coal. It replaced the Petroleum Tax Act ("Mineralölsteuergesetz") effective August 1, 2006. Under the Energy Tax Act, natural gas tax is not levied until delivery to the end consumer. Under the previously applicable Petroleum Tax Act, natural gas tax became due at the time of the procurement or removal of the natural gas from storage facilities.

Earnings per Share

Basic (undiluted) earnings per share is computed by dividing the consolidated net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the relevant period. At E.ON the computation of diluted earnings per share is identical to basic earnings per share, because E.ON AG has no dilutive potential ordinary shares.

Goodwill and Intangible Assets

Goodwill

According to IFRS 3, goodwill is not amortized, but rather tested for impairment at the cash-generating unit level on an at least annual basis. Impairment tests must also be performed between these annual tests if events or changes in circumstances indicate that the carrying amount of the respective cash-generating unit might not be recoverable. E.ON has identified the operating units one level below its primary segments as its cash-generating units.

In an impairment test, the recoverable amount of a cash-generating unit is compared with its carrying amount, including goodwill. If the carrying amount exceeds the recoverable amount, the goodwill allocated to the cash-generating unit is adjusted in the amount of this difference. Impairment losses for goodwill may not be reversed in future reporting periods.

The recoverable amount is the higher of a cash-generating unit's fair value less costs to sell and its value in use. In a first step, E.ON determines the recoverable amount of a cash-generating unit on the basis of the fair value (less costs to sell) using valuation procedures that make use of the Company's current mid-term planning data for internal reporting. Measurement is based on the discounted cash flow method and market comparables.

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E.ON has elected to carry out the annual testing of goodwill for impairment at the cash-generating unit level in the fourth quarter of each fiscal year.

Intangible Assets

IAS 38, "Intangible Assets" ("IAS 38"), requires that intangible assets be amortized over their useful lives unless their lives are considered to be indefinite. Any intangible asset that is not subject to amortization must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. This impairment test for intangible assets with indefinite useful lives consists of a comparison of the recoverable amount of the asset with its carrying amount. Should the carrying amount exceed the recoverable amount, an impairment charge equal to the difference is recognized.

Intangible assets subject to amortization are classified as marketing-related, customer-related, contract-based, and technology-based. They are all measured at cost and amortized using the straight-line method over their expected useful lives, generally for a period between 5 and 25 years or between 3 and 5 years for software, respectively. Useful lives and amortization methods are subject to annual verification. Intangible assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that such asset may be impaired.

In accordance with IAS 36, the carrying amount of an intangible asset, either subject to amortization or not, is tested for impairment by comparing the carrying value with its recoverable amount, which is the higher of an asset's value in use and its fair value less costs to sell. Should the carrying amount exceed the recoverable amount, an impairment charge equal to the difference between the carrying amount and the recoverable amount is recognized. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed. A reversal shall not cause the carrying amount of an intangible asset subject to amortization to exceed that which would have been presented had no impairment taken place during the preceding periods.

If a recoverable amount cannot be determined for an individual intangible asset, the recoverable amount for the smallest identifiable group of assets (cash-generating unit) that the intangible asset may be assigned to is determined.

Emission Rights

Under IFRS, emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets and are not amortized. Emission rights are capitalized at cost on acquisition or when issued for the respective reporting period as (partial) fulfillment of the notice of allocation from the responsible national authorities.

Provisions are recorded for emissions made. The provision is measured at the carrying amount of the emission rights held. Any shortfall in emission rights is accrued throughout the year within other provisions. The expenses incurred for the recognition of the provision are reported under cost of materials.

As part of operating activities, emission rights are also held for proprietary trading purposes. Emission rights held for proprietary trading are reported under other operating assets and measured at the lower of cost or fair value.

Property, Plant and Equipment

Property, plant and equipment are initially measured at acquisition or production cost, including decommissioning or restoration cost that must be capitalized, and are depreciated over their expected useful lives, generally using the straight-line method.

Useful Lives of Property and Equipment

| | |
|---|----------------|
| Buildings | 10 to 50 years |
| Technical equipment, plant and machinery | 10 to 65 years |
| Other equipment, fixtures, furniture and office equipment | 3 to 25 years |

Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that an asset may be impaired. In such a case, property, plant and equipment is tested for impairment according to the principles described for intangible assets. If an impairment loss is determined, the remaining useful life of the asset

might also be subject to adjustment, if necessary. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed. Such reversal shall not cause the carrying amount to exceed that which would have been presented had no impairment taken place during the preceding periods.

Interest on debt apportioned to the construction period of qualifying assets is capitalized as a part of their cost of acquisition or construction and depreciated over the expected useful life of the related asset.

Repair and maintenance costs are expensed as incurred.

Investment subsidies do not reduce the acquisition and production costs of the respective assets; they are instead reported on the balance sheet as deferred income.

Leasing

Leasing transactions are classified according to the lease agreements and to the underlying risks and rewards specified therein in line with IAS 17, "Leases" ("IAS 17"). In addition, IFRIC 4, "Determining Whether an Arrangement Contains a Lease" ("IFRIC 4"), further defines the criteria as to whether an agreement that conveys a right to use an asset meets the definition of a lease. E.ON is party to some agreements in which it is the lessor and other agreements in which it is the lessee. Certain purchase and supply contracts in the electricity and gas business as well as certain rights of use may be classified as leases if the criteria are met.

Leasing transactions in which E.ON is the lessee are classified either as finance leases or operating leases. If the Company has the majority of the risks and rewards from the leased property, the lease is classified as a finance lease. Accordingly, the company recognizes the asset and associated liability on its balance sheet. The liability is subsequently measured using the effective interest method. All other transactions in which E.ON is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

Leasing transactions in which E.ON is the lessor and the lessee enjoys substantially all the risks and all rewards of the leased property are classified as a finance leases. In this type of lease, E.ON records the present value of the minimum lease

payments as a receivable. Payments by the lessee are allocated between a reduction of the lease receivable and interest income. All other transactions in which E.ON is the lessor are categorized as operating leases. E.ON records the leased property as an asset and the lease payments as income.

Financial Instruments

Financial instruments are reported at fair value using trade date accounting. Equity investments and securities are measured in accordance with IAS 39. IAS 39 requires a financial asset to be accounted for according to its classification as held-for-trading, available-for-sale, loans and receivables or as held-to-maturity. Management determines the classification of the financial assets at initial recognition.

IAS 39 requires that derivative financial instruments are classified as financial instruments held for trading. These instruments are reported under other operating receivables and liabilities. No further financial instruments classified as held for trading exist within the Group.

Securities classified as available-for-sale are carried at fair value on a continuing basis, with any resulting unrealized gains and losses, net of related deferred taxes, reported as a separate component within equity until realized. Realized gains and losses are recorded based on the specific identification method. Unrealized losses previously recognized in equity indicating an impairment are included in the line item financial results.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables are reported under receivables and other assets. They are subsequently measured at amortized cost, using the effective interest method. Valuation allowances are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

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Financial liabilities within the scope of IAS 39 are measured at amortized cost. Initial recognition occurs at fair value plus transaction cost. Financial liabilities are subsequently measured using the effective interest method. The amortization and accretion of any premium or discount is included in interest income.

Inventories

The Company measures inventories at the lower of acquisition or production cost and net realizable value. The cost for gas inventories, raw materials, finished products and goods purchased for resale is determined based on the average cost method. In addition to production materials and wages, production costs include material and production overheads based on normal capacity. The costs of general administration, voluntary social benefits and pensions are not capitalized. Inventory risks resulting from excess and obsolescence are provided for using appropriate valuation allowances whereby inventories are written down to net realizable value.

Receivables and Other Assets

Receivables (including trade receivables) and other assets are initially measured at fair value which approximates nominal value. Valuation allowances are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

Liquid Funds

Liquid funds include current available-for-sale securities, checks, cash on hand and bank balances. Bank balances and available-for-sale securities with an original maturity of more than three months are recognized under "securities and fixed-term deposits." Liquid funds with an original maturity of less than three months are considered to be cash and cash equivalents, unless they are restricted.

Restricted cash with a remaining maturity in excess of twelve months is classified as financial receivables and other financial assets.

Assets Held for Sale and Liabilities Associated with Assets Held for Sale

Individual non-current assets or groups of assets held for sale and any directly attributable liabilities (disposal groups) are reported separately in the Consolidated Balance Sheet, whereby the assets and liabilities must be intended for sale in a single transaction.

Discontinued operations are components of an entity that are either held for sale or have already been sold and can be clearly distinguished from other corporate operations, both operationally and for financial reporting purposes. Additionally, the component classified as a discontinued operation must represent a major business line or a specific geographic area of the Group.

Non-current assets that are held for sale either individually or collectively as part of a disposal group, or which belong to a discontinued operation, are no longer depreciated. They are instead accounted for at the lower of the carrying amount and the fair value less any remaining costs to sell. If the fair value is less than the carrying amount, an impairment loss is recognized.

The income and losses resulting from the measurement of components held for sale at fair value less any remaining costs to sell, as well as the gains and losses arising from the disposal of discontinued operations, are reported separately on the face of the income statement under income/loss from discontinued operations, net, as is the income from the ordinary operating activities of these divisions. Prior-year income statement figures are adjusted accordingly. The cash flows of discontinued operations are reported separately in the cash flow statement with prior year figures being adjusted accordingly. However, there is no reclassification of prior year balance sheet line items attributable to discontinued operations.

Equity Instruments

IFRS defines equity as the residual interest in the Group's assets after deducting all liabilities. Therefore, equity is the net of all recognized assets and liabilities.

E.ON has entered into conditional and unconditional purchase commitments to minority shareholders. By means of these agreements, the minority shareholders have the right to require E.ON to purchase their shares on specified conditions.

None of the contractual obligations has led to the transfer of substantially all of the risk and rewards to E.ON at the time of entering into the contract. IAS 32, "Financial Instruments: Presentation" ("IAS 32"), prescribes that a liability must be recognized at the present value of the probable future exercise price. The liability is reclassified from a separate item within minority interests and reported separately. The reclassification occurs irrespective of the probability of exercise. Expenses resulting from the accretion of the liability are recognized in interest expenses.

Where shareholders of entities own statutory, non-excludable rights of termination (for example, in German partnerships), such termination rights require the reclassification of minority interests from equity into liabilities under IAS 32. The liability is recognized at the present value of the expected settlement amount irrespective of the probability of termination. Changes in the value of the liability are reported within other operating income. Accretion of the liability and the minority shareholders' share in net income are shown as interest expense.

Share-Based Payment

Share-based payment plans issued in the E.ON Group are accounted for in accordance with IFRS 2, "Share-Based Payment" ("IFRS 2"). Both the E.ON Share Performance Plan introduced in fiscal 2006 and the remaining Stock Appreciation Rights granted between 1999 and 2005 as part of the virtual stock option program of E.ON AG are share-based payment transactions with cash compensation, the value of which is reported at fair value of the liability at each balance sheet date. Compensation expense is recorded ratably over the vesting period. E.ON determines fair value using the Monte Carlo simulation technique.

Provisions for Pensions and Similar Obligations

The valuation of defined benefit obligations is based on actuarial computations using the projected unit credit method, with actuarial valuations performed at year-end. The valuation encompasses both pension obligations and pension entitlements known on the balance sheet date as well as economic trend assumptions made in order to reflect realistic expectations.

Actuarial gains and losses that may arise from differences between the estimated and actual number of beneficiaries and from the underlying assumptions are recognized in full in the period in which they occur. Such gains and losses are not reported within the Consolidated Income Statement but rather are recognized within the Statement of Recognized Income and Expenses.

The service cost representing the additional benefits that employees earned under the benefit plan during the fiscal year is reported under personnel expenses; interest expenses and expected return on plan assets are reported under financial results.

Past service cost is recognized immediately to the extent that the benefits are already vested or is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost, and reduced by the fair value of plan assets. If a net asset position arises from this calculation, the amount is limited to the unrecognized past service cost plus the present value of available refunds and reductions in future contributions.

Payments for defined contribution benefit plans are expensed as incurred and reported under personnel expenses. Contributions to government benefit plans are treated as defined contribution benefit plans to the extent that the obligations of the Group under these benefit plans correspond to those under defined contribution benefit plans.

Other Provisions

In accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"), provisions are recognized when E.ON has a legal or constructive present obligation towards third parties as a result of a past event, it is probable that E.ON will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The provision is recognized at the expected settlement

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amount. Long-term obligations are reported as liabilities at the present value of their expected settlement amounts, if the interest rate effect (the difference between present value and repayment amount) resulting from discounting is material; future cost increases that are foreseeable and likely to occur on the balance sheet date must also be included in the measurement. Long-term obligations are discounted at the market interest rate applicable as of the respective balance sheet date. The accretion amounts and the effects of changes in interest rates are generally presented as part of financial results. A reimbursement related to the provision that is virtually certain to be collected is capitalized as a separate asset. No offsetting within provisions is permitted.

Obligations arising from the decommissioning and restoration of property, plant and equipment are recorded during the period of their occurrence in the form of a discounted provision, provided that the obligation can be reliably estimated. The carrying amounts of the respective property, plant and equipment are increased by the same amounts. In subsequent periods, capitalized asset retirement costs are amortized over the expected remaining useful lives of the assets, and the provision is accreted to its present value on an annual basis.

Changes in estimates arise in particular from deviations from original cost estimates, from changes to the maturity or the scope of the relevant obligation, and also as a result of the regular adjustment of the discount rate to current market interest rates. The adjustment of provisions for the decommissioning and restoration of property, plant and equipment for changes to estimates is generally recognized by way of a corresponding adjustment to assets, with no effect on income. If the property, plant or equipment to be decommissioned has already been fully depreciated, changes to estimates are recognized within the income statement.

The estimates for nuclear decommissioning provisions are based on external studies and are continuously updated. The amounts of the other provisions related to nuclear power (disposal of spent nuclear fuel rods and low-level nuclear waste) are also determined using external studies.

The Nordic market unit has a right of reimbursement from the Swedish nuclear fund totaling €1,242 million as of March 31, 2007 (December 31, 2006: €1,290 million, January 1, 2006: €1,137 million). This refund is not offset against nuclear energy provisions but is disclosed in the balance sheet under non-current financial receivables.

Trade Payables

Trade payables are measured at amortized cost, which generally approximates nominal value.

Income Taxes

According to IAS 34, income tax expense for the interim period is recognized based on the effective tax rate expected for the full financial year. Taxes related to certain special items are reflected in the quarter in which they occur.

According to IAS 12, "Income Taxes" ("IAS 12"), deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements (liability method). The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss. IAS 12 further requires that deferred tax assets be recognized for unused tax loss carryforwards and unused tax credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized.

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be applicable for taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates and tax law is generally recognized in income. Stockholders' equity is adjusted for deferred taxes that had previously been recognized directly in equity. Deferred taxes for domestic companies are generally calculated using the total tax rate of 39 percent (2006: 39 percent). This tax rate includes, in addition to the 25 percent corporate income tax, a solidarity surcharge of 5.5 percent on the corporate tax, and the average trade tax rate applicable to the E.ON Group. Foreign subsidiaries use applicable national tax rates.

Derivative Instruments and Hedging Activities

IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), contains accounting and measurement guidance for hedge accounting and for derivative financial instruments, including certain derivative financial instruments embedded in other contracts.

Derivative financial instruments and separated embedded derivatives are measured at fair value at initial recognition and in subsequent periods. Gains and losses from changes in fair value are immediately recognized in net income.

Instruments commonly used are foreign currency forwards, swaps and options, interest-rate swaps, interest-rate options and cross-currency swaps. Equity forwards are entered into to cover price risks on securities. In commodities, the instruments used include physically and financially settled forwards and options based on the prices of electricity, gas, coal, oil and emission rights. As part of conducting operations in commodities, derivatives are also acquired for proprietary trading purposes. Income and losses from these derivative proprietary trading instruments are shown net in the Consolidated Statement of Income.

IAS 39 prescribes requirements for designation and documentation of hedging relationships, the hedging strategy, as well as ongoing retrospective and prospective measurement of effectiveness in order to qualify for hedge accounting. The Company does not exclude any component of derivative gains and losses from the measurement of hedge effectiveness. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80 to 125 percent effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

For qualifying fair value hedges, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s) are recognized in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's gain or loss is recognized in stockholders' equity (as a component of accumulated other comprehensive income) and is reclassified into earnings in the period or periods during which the transaction being hedged affects income. The hedging result is reclassified into income immediately if it

becomes probable that the hedged underlying transaction will no longer occur. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recognized immediately in the income statement. To hedge the foreign currency risk arising from the Company's net investment in foreign operations, derivative as well as non-derivative financial instruments are used. Gains or losses due to changes in fair value and from foreign currency translation are recorded separately within stockholders' equity as currency translation adjustments.

Fair values of derivative financial instruments are classified as other operating assets and liabilities. Changes in fair value of derivative instruments affecting income are classified as other operating income or expenses. Gains and losses from interest-rate derivatives are included in interest income. Certain realized amounts are, if related to the sale of products or services, included in sales or cost of materials.

Unrealized gains and losses resulting from the initial measurement of derivative financial instruments at the inception of the contract are not recognized in income. They are instead deferred and recognized in income systematically over the term of the derivative. An exception to the accrual principle applies if unrealized gains and losses from the initial measurement are verified by quoted market prices, observable prices of other current market transactions or other observable data supporting the valuation technique.

Risk Management

During the normal course of business, the Company is exposed to foreign currency risk, interest rate risk, and commodity price risk. These risks create volatility in earnings, equity, and cash flows from period to period. The Company makes use of derivative financial instruments in various strategies to eliminate or limit these risks.

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The Company's policy generally permits the use of derivatives if they are associated with underlying assets or liabilities, forecasted transactions, or legally binding rights or obligations. Some of the companies in the market units also conduct proprietary trading in commodities within the risk management guidelines described below.

E.ON AG has enacted general risk management guidelines for the use of derivative interest and foreign currency instruments as well as for commodity risk management that constitute a comprehensive framework for the entire Group. The market units have also adopted specific risk management guidelines to eliminate or limit risks arising from their respective activities. The market units' guidelines operate within the general risk management guidelines of E.ON AG. As part of the Company's framework for interest rate, foreign currency and commodity risk management, an enterprise-wide reporting system is used to monitor each reporting unit's exposures to these risks and their long-term and short-term financing needs. The creditworthiness of counterparties is monitored on a regular basis.

Commodity derivatives are used for price risk management, system optimization, load balancing and margin improvement. Any use of derivatives is only allowed within limits that are established and monitored by a board independent from the trading operations. Proprietary trading activities are subject to particularly strict limits. The risk ratios and limits used mainly include value-at-risk figures, as well as volume, credit and book limits. Additional key elements of risk management are the clear division of duties between scheduling, trading, settlement and control, as well as a risk reporting independent from the trading operations.

Interest, currency and equity-related derivatives are only used for hedging purposes.

Consolidated Statement of Cash Flows

In accordance with IAS 7, the Consolidated Statement of Cash Flows is classified by operating, investing and financing activities. Cash flows from and to discontinued operations are reported separately in the Consolidated Statement of Cash Flows. Interest received and paid, income taxes paid and refunded, as well as dividends received are classified as operating cash flows, whereas dividends paid are classified as financing cash flows. Changes to the scope of consolidation have no effect on the Consolidated Statement of Cash Flows; only the purchase prices paid for subsidiaries in this context (or the sales prices received, respectively) are reported under investing activities, net of cash or cash equivalents acquired or divested as part of the transaction.

This also applies to valuation changes due to exchange rate fluctuations, whose impact on cash and cash equivalents is separately disclosed.

Presentation of the Consolidated Balance Sheets and Statements of Income

In accordance with IAS 1, "Financial Statement Presentation" ("IAS 1"), the Consolidated Balance Sheets have been prepared using a classified balance sheet structure. Assets that will be realized within twelve months of the reporting date, as well as liabilities that are due to be settled within one year of the reporting date are classified as current.

In addition, as part of the transition to IFRS, classification of the Income Statement was changed to the nature of expense method which is also applied for internal purposes.

Critical Accounting Estimates, Assumptions and Judgments in the Application of Accounting Policies

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that may influence the application of accounting principles within the Group and affect the valuation and presentation of reported figures. Actual amounts could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods, if both periods are affected.

(3) New Standards and Interpretations

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued standards and interpretations whose application is not yet mandatory in the reporting period. The application of some of these standards and interpretations is at the present time still subject to adoption by the EU, which remains outstanding. The effects on the Group's financial statements of the first-time adoption of the standards described below are currently under evaluation.

IFRS 8, "Segment Reporting"

In November 2006, the IASB issued IFRS 8, "Segment Reporting" ("IFRS 8"), which contains new requirements for a company's disclosure about its operating segments. IFRS 8 replaces IAS 14 and adopts almost completely the requirements of Statement of Financial Accounting Standards ("SFAS") 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), the corresponding accounting standard under U.S. GAAP. The management approach required by IFRS designates that the internal reporting organization used by management for making operating decisions and assessing performance should be used as the source for presenting the company's reportable segments. The standard is to be applied for fiscal years beginning on or after January 1, 2009; earlier application is encouraged. However, it has not been transferred by the EU into European law yet. Thus, E.ON's intention to voluntarily apply IFRS 8 earlier than required was not executed within this interim report.

IAS 23, "Borrowing Costs"

In March 2007, the IASB issued revised IAS 23, "Borrowing Costs" ("IAS 23"). IAS 23 eliminates the option of recognizing borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of such directly attributable borrowing costs is now mandatory. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. However, the standard has not been transferred by the EU into European law yet. Revised IAS 23 has no impact for E.ON as E.ON capitalizes borrowing costs as a part of the cost of acquisition or construction.

IFRIC 10, "Interim Financial Reporting and Impairment"

In July 2006, the IFRIC issued IFRIC 10, "Interim Financial Reporting and Impairment" ("IFRIC 10"). IFRIC 10 addresses the apparent conflict between the requirements of IAS 34, "Interim Financial Reporting," and the requirements in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. According to IFRIC 10, any such impairment losses recognized in an interim financial statement must not be reversed in subsequent interim or annual financial statements. The provisions of IFRIC 10 are effective for annual periods beginning on or after November 1, 2006. However,

the Company has not adopted IFRIC 10, as it has not yet been transferred by the EU into European law. The adoption of IFRIC 10 is not expected to have a material impact on the Consolidated Financial Statements.

IFRIC 11, "IFRS 2—Group and Treasury Share Transactions"

IFRIC 11, "IFRS 2—Group and Treasury Share Transactions," ("IFRIC 11") addresses how to apply IFRS 2 to share-based payment arrangements in which an entity's own equity instruments or equity instruments of another company in the same group are granted. IFRIC 11 requires share-based compensation systems in which the Company receives goods or services as consideration for its own equity instruments to be accounted for as equity-settled share-based payment transactions. IFRIC 11 further provides guidance on how share-based compensation systems in which equity instruments of the parent company are granted should be accounted for at a member of a group of companies. IFRIC 11 is to be applied for fiscal years beginning on or after March 1, 2007. However, the Company has not adopted this interpretation, as it has not yet been transferred by the EU into European law. The share-based payment arrangements established within the E.ON Group are not subject to IFRIC 11 because they are cash-settled. Accordingly, the initial application of IFRIC 11 will not have any effect on the Consolidated Financial Statements.

IFRIC 12, "Service Concession Arrangements"

IFRIC 12, "Service Concession Arrangements" ("IFRIC 12"), governs accounting for arrangements in which a government or other public-sector institution (grantor) grants contracts to private companies (grantees) for the performance of public services. In performing these services, the private company uses infrastructure that continues to be owned by the government/public-sector institution. The private company is responsible for the construction, operation, and maintenance of the infrastructure. IFRIC 12 is to be applied for fiscal years beginning on or after January 1, 2008; however, it has not yet been transferred by the EU into European law. E.ON is currently evaluating the effects of first-time application of IFRIC 12 on the Consolidated Financial Statements.

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(4) Scope of Consolidation

The number of consolidated companies changed as follows during the reporting period:

| Scope of Consolidation | | | |
|---|------------|------------|------------|
| | Domestic | Foreign | Total |
| Consolidated companies as of December 31, 2006 | 139 | 362 | 501 |
| Additions | 3 | 6 | 9 |
| Disposals/Mergers | - | 3 | 3 |
| Consolidated companies as of March 31, 2007 | 142 | 365 | 507 |

In addition, 166 companies have been accounted for under the equity method as of March 31, 2007 (December 31, 2006: 168).

(5) Discontinued Operations**Discontinued Operations in 2007**
**U.S. Midwest
WKE**

Through Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, USA, E.ON U.S. has a 25-year lease on and operates the generating facilities of Big Rivers Electric Corporation ("BREC"), a power generation cooperative in western Kentucky, and a coal-fired facility owned by the city of Henderson, Kentucky.

In March 2007, E.ON U.S. entered into a termination agreement with BREC to terminate the lease and the operational agreements for nine coal-fired and one oil-fired electricity generation units in western Kentucky, which were held through its wholly-owned subsidiary WKE.

The closing of the agreement is subject to a number of conditions, including review and approval by various regulatory agencies and acquisition of certain consents by other interested parties. Subject to such contingencies, the parties are working on completing the termination transaction during 2007. WKE therefore continues to be classified as a discontinued operation, just as in 2006.

The tables below provide selected financial information from the discontinued WKE operations in the U.S. Midwest segment for the periods indicated:

| Selected Financial Information— WKE—(Summary) | | |
|---|-------------|------------|
| January 1 - March 31 | 2007 | 2006 |
| € in millions | | |
| Sales | 53 | 59 |
| Other income/(expenses), net | -171 | 80 |
| Income from continuing operations before income taxes and minority interests | -118 | 139 |
| Income taxes | 45 | -53 |
| Income from discontinued operations | -73 | 86 |

| Major Balance Sheet Line Items— WKE—(Summary) | | | |
|--|--------------|---------------|--------------|
| € in millions | Mar 31, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Property, plant and equipment | 182 | 215 | 211 |
| Other assets | 463 | 396 | 471 |
| Total assets | 645 | 611 | 682 |
| Total liabilities | 695 | 615 | 836 |

Discontinued Operations in 2006

In addition to WKE, E.ON Finland and Degussa were classified as discontinued operations in 2006.

Nordic**E.ON Finland**

In June 2006, E.ON Nordic and the Finnish energy group Fortum Power and Heat Oy ("Fortum") finalized the transfer to Fortum of all of E.ON Nordic's shares in E.ON Finland. E.ON Finland was classified as a discontinued operation in mid-January 2006.

The table below provides selected financial information from the discontinued operations of the Nordic segment for the periods indicated:

| Selected Financial Information— E.ON Finland—(Summary) | |
|---|-----------|
| January 1 - March 31 | 2006 |
| € in millions | |
| Sales | 85 |
| Other income/(expenses), net | -85 |
| Income from continuing operations before income taxes and minority interests | 0 |
| Income taxes | -6 |
| Income from discontinued operations | -6 |

Degussa

As part of the implementation of the framework agreement entered into at the end of 2005 by E.ON AG and RAG AG ("RAG"), Essen, Germany, on the sale of the stake in Degussa AG ("Degussa"), Düsseldorf, Germany, held by E.ON (42.9 percent), this stake was transferred into the RAG Projektgesellschaft in March 2006. E.ON's stake in RAG Projektgesellschaft was then forward sold. The forward sales agreement was executed at the beginning of July, resulting in the completion of the disposal of the remaining Degussa stake. The purchase price was paid at the end of August 2006. The transaction resulted in a gain of €981 million, which was subsequently adjusted for the intercompany gain attributable to E.ON's minority interest in RAG (39.2 percent). A gain of €596 million was thus realized from the transfer and the subsequent sale.

As the interest in Degussa qualified as a discontinued operation under IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5"), this gain is reported as income from discontinued operations in E.ON's Consolidated Financial Statements along with E.ON's equity in Degussa's first quarter earnings of €37 million. In total, a gain of €633 million was recognized for Degussa.

(6) Research and Development Costs

Research and development costs in the E.ON Group amounted to €5 million in the first three months of 2007 (first quarter of 2006: €4 million).

(7) Financial Results

The following table provides details of financial results for the periods indicated:

| Financial Results | | |
|---|-------------|-------------|
| January 1 - March 31 € in millions | 2007 | 2006 |
| Income from companies in which share investments are held | 19 | 18 |
| Writedown of share investments | -14 | -7 |
| Income from share investments | 5 | 11 |
| Income from other securities, interest and similar income | 260 | 345 |
| Interest and similar expenses | -541 | -700 |
| thereof: accretion expense related to asset retirement obligations: -118 (2006: -115) | | |
| Interest and similar expenses (net) | -281 | -355 |
| Financial results | -276 | -344 |

(8) Earnings per Share

The computation of earnings per share for the periods indicated is shown below:

| Earnings per Share | | |
|---|--------------|--------------|
| January 1 - March 31 € in millions | 2007 | 2006 |
| Income/Loss (-) from continuing operations | 3,365 | 1,541 |
| less: Minority interests | -225 | -204 |
| Income/Loss (-) from continuing operations attributable to shareholders of E.ON AG | 3,140 | 1,337 |
| Income/Loss (-) from discontinued operations, net | -73 | 713 |
| less: Minority interests | 0 | -5 |
| Income/Loss (-) from discontinued operations, net attributable to shareholders of E.ON AG | -73 | 708 |
| Net income attributable to shareholders of E.ON AG | 3,067 | 2,045 |
| Weighted-average number of shares outstanding (in 1,000) | 660 | 659 |
| in € | | |
| Earnings per share (attributable to shareholders of E.ON AG) | | |
| from continuing operations | 4.76 | 2.03 |
| from discontinued operations | -0.11 | 1.07 |
| from net income | 4.65 | 3.10 |

The computation of diluted EPS is identical to basic EPS, as E.ON AG does not have any dilutive securities.

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(9) Goodwill

During the period indicated, the carrying amount of goodwill changed as follows in each of E.ON's segments:

| Goodwill | | | | | | | |
|---|----------------|------------------|--------------|------------|--------------|------------------|---------------|
| € in millions | Central Europe | Pan-European Gas | U.K. | Nordic | U.S. Midwest | Corporate Center | E.ON Group |
| Book value as of December 31, 2006 | 2,485 | 4,399 | 4,956 | 298 | 3,182 | 0 | 15,320 |
| Goodwill additions/disposals | - | - | - | 1 | - | - | 1 |
| Other changes ¹ | -21 | 13 | -60 | -9 | -35 | - | -112 |
| Book value as of March 31, 2007 | 2,464 | 4,412 | 4,896 | 290 | 3,147 | 0 | 15,209 |

¹Other changes include transfers and exchange rate differences from the respective reporting year.

(10) Financial Assets

The Company's financial assets consisted of the following:

| Financial Assets | | | |
|---|---------------|---------------|---------------|
| € in millions | Mar. 31, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Companies accounted for under the equity method | 8,164 | 7,770 | 9,507 |
| Share investments | 12,307 | 13,533 | 10,073 |
| thereof: Investment in OAO Gazprom | 10,723 | 11,918 | 8,141 |
| Non-current securities | 6,777 | 7,146 | 6,471 |
| Total | 27,248 | 28,449 | 26,051 |

(11) Treasury Stock

The number of treasury shares as of March 31, 2007, was unchanged from the figure as of December 31, 2006. E.ON AG held 3,930,537 treasury shares. Another 28,472,194 shares of E.ON stock were held by an E.ON subsidiary. E.ON thus holds 4.7 percent of its capital stock as treasury shares.

(12) Dividends Paid

On May 3, 2007, the Annual Shareholders Meeting voted to distribute a dividend of €3.35 for each dividend-paying ordinary share, a €0.60 increase from the previous dividend paid in 2006 (excluding a special dividend of €4.25 per share in 2006). This corresponds to a total dividend payout of €2,210 million.

(13) Provisions for Pensions and Similar Obligations

The funded status, which is equal to the difference between the defined benefit obligation and the fair value of plan assets, is reconciled with the amounts recognized within the Consolidated Balance Sheet as shown in the following table:

| Net Amount Recognized | | | |
|---|------------------|------------------|-----------------|
| € in millions | Mar. 31, 2007 | Dec. 31, 2006 | Jan. 1, 2006 |
| Defined benefit obligation | 16,691 | 17,306 | 17,849 |
| Fair value of plan assets | -13,365 | -13,342 | -8,076 |
| Funded status | 3,326 | 3,964 | 9,773 |
| Unrecognized past service cost | -4 | -4 | -5 |
| Net amount recognized | 3,322 | 3,960 | 9,768 |
| thereof accounted as | | | |
| Operating receivables | -205 | -2 | 0 |
| Provisions for pensions and other employee benefits | 3,527 | 3,962 | 9,768 |

During the first quarter of 2007, contributions to increase the percentage of obligations funded by plan assets of approximately €116 million were made, of which approximately €80 million are attributable to the U.S. Midwest market unit.

The net periodic benefit cost for defined plans is as follows:

| Net Periodic Benefit Cost for Defined Benefit Plans | | |
|--|-----------|------------|
| January 1 - March 31 € in millions | 2007 | 2006 |
| Employer service cost | 61 | 64 |
| Interest cost | 206 | 191 |
| Expected return on plan assets | -186 | -115 |
| Past service cost | 0 | 1 |
| Settlements and Curtailments | 2 | 0 |
| Total | 83 | 141 |

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(14) Segment Information

The reportable segments of the E.ON Group are presented in line with the Company's internal organizational and reporting structure.

- The Central Europe market unit operates E.ON's integrated electricity business and downstream gas business in Central Europe.
- Pan-European Gas is responsible for the European upstream and midstream gas business. Moreover, this market unit holds predominantly minority shareholdings in the downstream gas business.
- The U.K. market unit encompasses the integrated energy business in the United Kingdom.

- The Nordic market unit focuses on the integrated energy business in Northern Europe.
- The U.S. Midwest market unit is primarily active in the regulated energy market in the U.S. state of Kentucky.
- The Corporate Center contains the interests managed directly by E.ON AG, E.ON AG itself, and consolidation effects at the Group level.

Under IFRS, E.ON is required to report under discontinued operations those operations of a reportable or operating segment, or of a component thereof, that either have been disposed of or are classified as held for sale. In the first three months of 2007, this applied to WKE, which is held for sale. In the first 3 months of 2006, in addition to WKE, E.ON

| Financial Information by Business Segment | | | | | | |
|---|----------------|---------------|------------------|---------------|---------------|---------------|
| January 1 - March 31 | Central Europe | | Pan-European Gas | | U.K. | |
| € in millions | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| External sales | 8,818 | 7,852 | 6,606 | 6,855 | 4,147 | 3,726 |
| Intersegment sales | 183 | 129 | 1,208 | 670 | 48 | 40 |
| Sales | 9,001 | 7,981 | 7,814 | 7,525 | 4,195 | 3,766 |
| Adjusted EBITDA | 1,801 | 1,780 | 1,271 | 1,084 | 569 | 185 |
| Depreciation and amortization ¹ | -356 | -362 | -127 | -126 | -133 | -142 |
| Impairments ¹ | -14 | - | -18 | - | - | - |
| Adjusted EBIT | 1,431 | 1,418 | 1,126 | 958 | 436 | 43 |
| thereof: earnings from companies accounted for under the equity method ¹ | 60 | 57 | 181 | 113 | 6 | 6 |
| Segment result per IAS 14² | 2,860 | 1,413 | 1,343 | 870 | 504 | 88 |
| Cash provided by operating activities | 543 | 391 | 1,851 | 1,562 | 31 | -280 |
| Investments | 523 | 360 | 1,002 | 511 | 196 | 130 |
| Intangible assets and property, plant and equipment | 433 | 283 | 124 | 57 | 196 | 127 |
| Share investments | 90 | 77 | 878 | 454 | - | 3 |
| Total assets (at March 31 and December 31) | 60,442 | 59,093 | 34,768 | 36,994 | 19,867 | 19,636 |

¹Depreciation, amortization, and impairments recognized in Adjusted EBIT differ from the respective amount reported in accordance with IFRS primarily due to impairments of equity method investees and other share investments which under IFRS are included in income/loss (-) from companies accounted for under the equity method and financial results, respectively. In addition, in the first quarter 2006, differences result from an impairment of property, plant and equipment at the Pan-European Gas market unit as well as tangible and intangible assets at the U.K. market unit which were recognized within non-operating expenses.

²The segment result as required by IAS 14 is defined as income from continuing operations before financial results and income taxes. In contrast to the Adjusted EBIT, which E.ON uses for internal performance measurement purposes and as an indicator for sustainable profitability, the segment result according to IFRS is not adjusted for non-recurring items.

Finland and Degussa were also held for sale and were sold in June and August 2006, respectively. For the purposes of our business segment reporting, our results for the period ended March 31, 2007, and for the prior-year period do not include the results of our discontinued operations (see the commentary on page 40).

Adjusted EBIT, E.ON's key figure for purposes of internal management control and as an indicator of a business's long-term earnings power, is derived from income/loss (-) from continuing operations before income taxes and interest income and adjusted to exclude certain special items. The adjustments include book gains and losses on disposals, restructuring expenses, and other non-operating income and

expenses of a non-recurring or rare nature. In addition, interest income is adjusted using economic criteria and excludes certain special items.

Page 8 in the Interim Group Management Report of this Interim Report contains a detailed reconciliation of adjusted EBIT to net income. Due to the adjustments made, our financial information by business segment may differ from the corresponding IFRS figures.

| Nordic | | U.S. Midwest | | Corporate Center | | E.ON Group | |
|---------------|---------------|--------------|--------------|------------------|----------------|----------------|----------------|
| 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| 1,001 | 862 | 498 | 555 | 0 | 2 | 21,070 | 19,852 |
| 28 | 23 | - | - | -1,467 | -862 | - | - |
| 1,029 | 885 | 498 | 555 | -1,467 | -860 | 21,070 | 19,852 |
| 373 | 383 | 132 | 160 | -50 | -96 | 4,096 | 3,496 |
| -85 | -84 | -39 | -42 | -4 | -4 | -744 | -760 |
| -1 | - | - | -6 | -4 | - | -37 | -6 |
| 287 | 299 | 93 | 112 | -58 | -100 | 3,315 | 2,730 |
| 4 | 2 | 5 | 3 | 4 | 2 | 260 | 183 |
| 299 | 194 | 91 | 112 | -429 | -193 | 4,668 | 2,484 |
| 295 | 286 | 54 | 164 | -366 | -188 | 2,408 | 1,935 |
| 184 | 138 | 127 | 66 | -867 | -14 | 1,165 | 1,191 |
| 181 | 93 | 127 | 66 | -3 | -4 | 1,058 | 622 |
| 3 | 45 | - | - | -864 | -10 | 107 | 569 |
| 13,431 | 13,565 | 8,386 | 8,387 | -7,714 | -10,100 | 129,180 | 127,575 |

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(15) IFRS Reconciliation and Interim Financial Statements of the E.ON Group for the First Quarter of 2007

Explanatory Notes Concerning the Transition of Group Accounting Policies to International Financial Reporting Standards (IFRS)

E.ON will prepare its first Consolidated Financial Statements in accordance with IFRS for December 31, 2007. These financial statements will also include comparable financial statements for the fiscal year ending December 31, 2006. The effective date of the E.ON Group's IFRS Consolidated Opening Balance Sheet is January 1, 2006 (the date of transition to IFRS according to IFRS 1).

According to IFRS 1, the first IFRS Consolidated Financial Statements must use recognition and measurement principles that are based on standards and interpretations that are mandatory at December 31, 2007, the date of first-time preparation of Consolidated Financial Statements according to IFRS, provided these have been published effective December 31, 2007, and adopted by the EU. These accounting and measurement principles must be applied retrospectively to the date of transition to IFRS and for all periods presented within the first IFRS Consolidated Financial Statements.

Any resulting differences between the carrying amounts of assets and liabilities according to IFRS as of January 1, 2006, compared with those presented in the U.S. GAAP Consolidated Balance Sheet as of December 31, 2005, were recognized in equity within the IFRS opening balance sheet.

The interim financial statements for March 31, 2007, have been prepared in accordance with all IFRS effective and adopted for use in the EU as of the end of the interim period.

As the IASB may issue additional pronouncements prior to the preparation of the Consolidated Financial Statements for the year ended December 31, 2007, whose application is mandatory or which E.ON may elect to apply prematurely, the IFRS applied to the 2007 year-end financial statements may deviate in some respects from the standards utilized within the interim financial statements for the three months ended March 31, 2007.

As provided for by IFRS 1, E.ON has applied the mandatory exceptions as well as certain optional exemptions described in the following text to the retrospective application of IFRS.

Explanation of the IFRS 1 Exemptions Applied by E.ON

In the IFRS Consolidated Opening Balance Sheet as of January 1, 2006, the carrying amounts of assets and liabilities from the U.S. GAAP balance sheet as of December 31, 2005, are generally recognized and measured according to those IFRS regulations in effect on December 31, 2007. For certain individual cases, however, IFRS 1 provides for optional exemptions to the general principle of retrospective application of IFRS. The following discussion describes the exemptions that E.ON has made use of in preparing its IFRS Consolidated Opening Balance Sheet.

Business Combinations

E.ON has elected to utilize the option under IFRS 1 not to apply the provisions of IFRS 3 retrospectively to business combinations that took place prior to the transition to IFRS. The presentation of these business combinations according to U.S. GAAP was maintained. In general, all of those assets and liabilities that were acquired in a business combination and which fulfill the IFRS recognition criteria must be recognized in the IFRS consolidated opening balance sheet. Furthermore assets and liabilities that were not recognized under U.S. GAAP but are subject to recognition under IFRS are recognized in the IFRS opening balance sheet. Any resulting adjustment amounts are recognized in retained earnings with no effect on net income unless they pertain to intangible assets whereby an adjustment of the goodwill determined under U.S. GAAP would be required. As no adjustment for intangible assets was required relating to such business combinations, the goodwill previously reported under U.S. GAAP was maintained in E.ON's opening balance sheet under IFRS.

Goodwill must be tested for impairment at the time of transition to IFRS. No impairment was determined by E.ON at the time of transition.

Cumulative Translation Differences

E.ON has elected to utilize the exemption provided for under IFRS 1 whereby the unrealized cumulative translation differences, resulting from the translation of financial statements into the reporting currency of E.ON and previously reported within other comprehensive income, may be recognized in full at the time of transition to IFRS within equity.

In a subsequent disposal of an enterprise, only those foreign currency translation differences that were recognized in equity after the preparation of the opening balance sheet, are recognized in the gain or loss on disposal.

Significant Effects of Transition from U.S. GAAP to IFRS

The following reconciliations and their associated explanatory notes provide an overview of the effects of transition to IFRS. The adjustments are presented in the following sections:

- Equity as of January 1, 2006
- Equity as of March 31, 2006
- Equity as of December 31, 2006
- Net income for the interim period from January 1, 2006, through March 31, 2006
- Net income for the fiscal year from January 1, 2006, through December 31, 2006

Reconciliation of Equity

| Equity Reconciliation | | Dec. 31, | Mar. 31, | Jan. 1, |
|---|---|---------------|---------------|---------------|
| € in millions | | 2006 | 2006 | 2006 |
| Equity under U.S. GAAP | | 47,845 | 47,781 | 44,484 |
| Change in the presentation of minority interests | a | 4,917 | 4,792 | 4,734 |
| Equity under U.S. GAAP, including minority interests | | 52,762 | 52,573 | 49,218 |
| Effects of IAS 32 | b | -2,780 | -3,277 | -3,249 |
| Inventories | c | 348 | 331 | 134 |
| Pensions and similar obligations | d | -81 | -756 | -1,391 |
| Other provisions | e | -129 | -51 | -43 |
| Derivatives | f | 226 | -562 | -566 |
| Valuation of available-for-sale financial instruments | g | 370 | 382 | 377 |
| U.S. Regulation | h | 279 | 410 | 403 |
| Income taxes | i | 223 | 491 | 800 |
| Other | j | 27 | -554 | 286 |
| Total adjustments | | -1,517 | -3,586 | -3,249 |
| Equity under IFRS | | 51,245 | 48,987 | 45,969 |

a) Change in the Presentation of Minority Interests
Under IFRS, minority interests of third parties in the Group are reported as part of equity. Under U.S. GAAP, minority interests are reported separately from shareholders' equity.

b) Effects of IAS 32

Put Options on Minority Interests

Financial instruments for which a right of repayment exists for the investor do not constitute equity instruments under the IFRS definition of equity. E.ON has made conditional and unconditional commitments to certain minority shareholders

to acquire the outstanding shares. As a result, a liability in the amount of the present value of the future exercise price must be reported. This reclassification from equity is irrespective of the probability of exercise and is reported separately within minority interests.

Under U.S. GAAP, these potential commitments are generally reported similar to derivatives at fair value.

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Minority Interests in German Partnerships

Under German corporate law, shareholders of a German partnership have a statutory, non-excludable right of termination. Under IAS 32, this right of termination causes the minority interests in the Group to be considered repayable. Accordingly, a corresponding liability at the present value of the expected settlement amount must be reclassified from equity, irrespective of the probability of exercise. The reclassification is reported separately within minority interests.

Under U.S. GAAP, these partnership interests are shown under minority interests.

In total, these effects resulted in a reduction in equity of €3,249 million within the opening balance sheet (March 31, 2006: -€3,277 million; December 31, 2006: -€2,780 million).

c) Inventories

Under U.S. GAAP, gas inventories were generally measured at LIFO which under IAS 2, "Inventories" ("IAS 2"), is not allowed. The adjustment to the average-cost measurement of gas inventories resulted in an increase in equity of €134 million within the opening balance sheet (March 31, 2006: €331 million; December 31, 2006: €348 million).

d) Pensions and Similar Obligations

Both U.S. GAAP and IFRS require the formation of provisions for pension obligations. Differences in the opening balance sheet in the values recognized under IAS 19, "Employee benefits" ("IAS 19"), and SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), resulted in particular from the election to recognize all cumulative actuarial gains and losses in equity under IFRS. As part of the transition the intangible pension asset and the prepaid pension asset as well as the additional minimum liability have been eliminated. As a result, equity decreased by €1,391 million within the opening balance sheet (March 31, 2006: -€756 million; December 31, 2006: -€81 million). The lower difference at December 31, 2006 as compared to the opening balance sheet is predominantly due to the first-time application of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"), which also requires recognition of actuarial gains and losses within equity.

e) Other Provisions

Under IFRS, long-term provisions must generally be discounted at the market interest rate applicable as of the respective balance sheet date if the interest rate effect (the difference between present value and repayment amount) resulting from discounting is material. In contrast, U.S. GAAP sets more stringent requirements with regard to discountability, with the result that under IFRS, more provisions are recognized at their present values, which are lower than the respective repayment amount.

A further difference exists with regard to the subsequent measurement of provisions for asset retirement obligations. Under both U.S. GAAP and IFRS, the acquisition or production costs of property, plant and equipment must be increased to include future asset retirement cost. The increased amount is amortized over the useful life of the corresponding asset. Each subsequent remeasurement of the provision under IFRS leads to an increase or a reduction of the entire cost of the asset to be decommissioned, while a remeasurement under U.S. GAAP leads to an increase or a reduction of only the asset retirement cost. Remeasurements of this type only affect the income statement if a reduction of the provision causes the carrying amount of the corresponding asset (or, under U.S. GAAP, the asset retirement cost portion) to be reduced to zero; in this case, each further reduction of the provision is recognized in income. As a consequence of the different definitions of the corresponding asset items, remeasurements of asset retirement obligations are less frequently recognized within the income statement under IFRS than under U.S. GAAP.

A further reduction in equity resulted from the different treatment of the bonus features ("Aufstockungsbeträge") of early retirement arrangements under IFRS.

In total, the differences in the accounting for other provisions resulted in a reduction in equity of €43 million within the opening balance sheet (March 31, 2006: -€51 million; December 31, 2006: -€129 million).

f) Derivatives

Further differences exist with regard to the definition of a derivative. Under U.S. GAAP, there are industry-specific exceptions for power-plant-specific supply contracts that are unknown under IFRS. This means that the definition of a derivative encompasses more contracts under IFRS.

In the case of embedded derivatives in certain supply and sale contracts, IFRS provides for the possibility of measuring only the embedded derivative, while reporting the non-derivative portion as a pending transaction. This is an exception for own use contracts. Under U.S. GAAP, the existence of an embedded derivative in these contracts gives rise to fair-value reporting through income for the contract as a whole. Further effects arise from the definition of a derivative with regard to net settlement and market liquidity.

In total, these effects resulted in a reduction in equity of €566 million within the opening balance sheet (March 31, 2006: -€562 million; December 31, 2006: increase of €226 million).

g) Valuation of Available-for-Sale Financial Instruments

Under U.S. GAAP, non-marketable equity instruments are accounted for at cost. Under IFRS, all equity instruments must be reported at fair value to the extent that the fair value can be reliably determined. This applies even if an exchange quotation or another publicly available market price does not exist. Unrealized gains and losses from available-for-sale financial instruments, with the exception of impairment charges recognized in income due to a permanent impairment of value, are reported in equity and reclassified when realized. The fair-value measurement of available-for-sale equity instruments resulted in an increase in equity of €377 million within the opening balance sheet (March 31, 2006: €382 million; December 31, 2006: €370 million).

h) U.S. Regulation

Accounting for E.ON's regulated utility businesses, Louisville Gas and Electric Company, Louisville, Kentucky, U.S., and Kentucky Utilities Company, Lexington, Kentucky, U.S., of the U.S. Midwest market unit, conforms to U.S. generally accepted principles as applied to regulated public utilities in the United States of America. These entities are subject to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), under which certain costs that would otherwise be charged to expense are deferred as regulatory assets

based on expected recovery of such costs from customers in future rates approved by the relevant regulator. Likewise, certain credits that would otherwise be reflected as income are deferred as regulatory provisions. The current or expected recovery by the entities of deferred costs and the expected return of deferred credits is generally based on specific rate-making decisions or precedent for each item. The regulatory assets and liabilities under U.S. GAAP do not fulfill the recognition criteria for assets and liabilities under IFRS. As a result, these regulatory assets and liabilities were offset against equity and resulted in an increase in equity of €403 million within the opening balance sheet (March 31, 2006: €410 million; December 31, 2006: €279 million).

i) Income Taxes

Compared with U.S. GAAP, the adjustments described above result in changes in temporary differences between IFRS carrying amounts and tax-basis values and, accordingly, to changes in deferred taxes.

Furthermore, under IAS 12, deferred taxes arising from investments in subsidiaries and associates (outside basis differences) are not recognized to the extent that the investor is able to control the timing of the reversal of the temporary difference and to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

Both of these effects had a significant impact on the effective tax rate applied for measuring quarterly taxes so that the material differences between IFRS and U.S. GAAP as of March 31, 2006 are due to different effective tax rates.

In total, these effects resulted in an increase in equity within the opening balance sheet of €800 million (March 31, 2006: €491 million; December 31, 2006: €223 million).

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j) Other Leasing

In a manner analogous to EITF 01-8, "Determining Whether an Arrangement Contains a Lease" ("EITF 01-8"), IFRIC 4 provides for the reporting of embedded leases. IFRIC 4 requires retrospective application whereas the equivalent provisions of EITF 01-8 under U.S. GAAP had to be applied prospectively as of May 28, 2003. The positive effect of this application on equity amounted to €90 million within the opening balance sheet (March 31, 2006: €91 million; December 31, 2006: €125 million).

Change in Scope of Consolidation

One gas storage company in the Pan-European Gas market unit must be additionally consolidated under IFRS. The obligation to consolidate arises from SIC Interpretation 12, "Consolidation—Special Purpose Entities" ("SIC 12"), since E.ON has a right to the majority of this company's benefits and is thereby exposed to its business risks. The U.S. GAAP criterion of asymmetric distribution of opportunities and risks under Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"), is not met. Moreover, there are significant protective rights for minority shareholders, meaning that control in the context of U.S. GAAP is not present. The consolidation of the gas storage company resulted in an increase in equity of €81 million in the opening balance sheet (March 31, 2006: €80 million; December 31, 2006: €70 million).

Impairment

Under U.S. GAAP, the first step in the impairment testing of property, plant and equipment and intangible assets is to determine whether the carrying amount of the asset or group of assets being tested may not be recoverable. The carrying amount is not recoverable if it exceeds the estimated future undiscounted cash flows arising from the use of the asset or group of assets tested. In such a case, the second step is to recognize an impairment charge in the amount of the difference between the previous carrying amount and the lower fair value. Under IFRS no two-step approach exists. The carrying amount of the asset being tested is compared with its recoverable amount, which is the higher of an asset's value

in use and its fair value less costs to sell. If the carrying amount exceeds the corresponding recoverable amount, an impairment charge is recognized in the amount of the difference. In the fourth quarter of 2006, impairment charges in the amount of €186 million were recognized in accordance with IFRS on property, plant and equipment and intangible assets at the U.K. market unit. No impairment was necessary under U.S. GAAP because the undiscounted cash flows exceeded the carrying amounts of the assets. As of December 31, 2006, this resulted in a decrease in equity under IFRS of €186 million.

Degussa

Furthermore, the conversion to IFRS of our interest in Degussa within the opening balance sheet as well as the subsequent related impacts during 2006 from the application of the equity method and the accounting for the disposal of Degussa under IFRS resulted in the following impacts on equity: January 1, 2006: -€31 million; March 31, 2006: -€913 million; December 31, 2006: -€142 million. The significant fluctuation during 2006 results from the mark to market valuation of the forward contract entered into in the first quarter 2006 in conjunction with the sale of our interest in Degussa which was executed in July 2006. Unlike IFRS, this contract does not meet the definition of a derivative under U.S. GAAP and therefore was previously not recognized at fair value.

Reconciliation of Net Income

| Net Income Reconciliation | | | Jan. 1 - Mar. 31, 2006 |
|---|---|--------------|------------------------------|
| € in millions | | 2006 | 2006 |
| Net income under U.S. GAAP | | 5,057 | 1,718 |
| Change in the presentation of minority interests | a | 526 | 212 |
| Net income under U.S. GAAP, including minority interests | | 5,583 | 1,930 |
| Effects of IAS 32 | b | -121 | -25 |
| Inventories | c | 214 | 197 |
| Pensions and similar obligations | d | 118 | 34 |
| Other provisions | e | -78 | -8 |
| Derivatives | f | 791 | -5 |
| Valuation of available-for-sale financial instruments | g | -55 | -12 |
| U.S. Regulation | h | 9 | 19 |
| Income taxes | i | -363 | -72 |
| Other | j | -16 | 196 |
| Total adjustments | | 499 | 324 |
| Net income under IFRS | | 6,082 | 2,254 |

a) Change in the Presentation of Minority Interests
Consistent with the change in presentation within the balance sheet, minority interests are reported directly in equity under IFRS as part of the allocation of earnings. Under U.S. GAAP, minority interests in earnings are reported within the calculation of net income.

b) Effects of IAS 32

Put Options on Minority Interests

Financial instruments for which a right of repayment exists do not constitute equity instruments under the IFRS definition of equity. E.ON has made conditional and unconditional repurchase offers to certain minority shareholders to acquire the outstanding shares. Correspondingly, a liability in the amount of the present value of the future exercise price must be reported, irrespective of the probability of exercise. The accretion expense for the liability is shown in interest income. The minority interest remains part of the earnings' allocation reported directly within equity under IFRS.

Under U.S. GAAP, these potential commitments are generally reported at fair value similar to derivatives. Minority interests are included in the calculation of net income.

Minority Interests in German Partnerships

Under German corporate law, shareholders of a German partnership have a statutory, non-excludable right of termination. Under IAS 32, this right of termination causes the minority interests in the Group to be considered repayable. Accordingly, a corresponding liability in the present value of the expected settlement amount must be reclassified from minority interests. The shares in earnings to which the minority shareholders are entitled as well as the accretion expense for the liability must be shown as interest expense. Changes in the value of the liability are reported as other operating expense.

Under U.S. GAAP, these partnership interests are shown under minority interests. The share in earnings to which these minority shareholders are entitled is still shown as minority interests in earnings and included in the calculation of net income.

These effects resulted in a decrease of net income by €121 million for the year ended December 31, 2006 (first quarter 2006: -€25 million).

58 Notes to the Condensed Consolidated Interim Financial Statements

c) Inventories

The adjustment from LIFO measurement of gas inventories as was generally applied under U.S. GAAP to average-cost measurement under IFRS resulted in an increase in net income of €214 million for the year ended December 31, 2006 (first quarter 2006: €197 million).

d) Pensions and Other Employee Benefits

E.ON has elected the option under IAS 19 to recognize all actuarial gains and losses within equity with no further amortization through net income as required under U.S. GAAP.

As a result, net income increased by €118 million for the year ended December 31, 2006 (first quarter 2006: €34 million).

e) Other Provisions

The differences in the accounting treatment of other provisions described in connection with the reconciliation of equity resulted in a reduction in net income of €78 million for the year ended December 2006 (first quarter 2006: -€8 million). The increased charge as of the end of the fiscal year is due primarily to early retirement agreements at the Central Europe market unit.

f) Derivatives

Under U.S. GAAP, there are industry-specific exceptions for power-plant-related supply contracts that are unknown under IFRS. This means that the definition of a derivative encompasses more contracts under IFRS.

In the case of embedded derivatives in certain supply and sale contracts, IFRS provides for the possibility of measuring only the embedded derivative, while reporting the non-derivative portion as a pending transaction. Under U.S. GAAP, the existence of an embedded derivative in these contracts gives rise to fair-value reporting through income for the contract as a whole. Further effects arise from the definition of a derivative with regard to net settlement and market liquidity.

The total increase in net income for the year ended December 31, 2006, attributable to these circumstances was €791 million (first quarter 2006: €5 million reduction).

g) Valuation of Available-for-Sale Financial Instruments

Under IFRS, the foreign currency translation effects from monetary financial instruments classified as available-for-sale are recognized in income to the extent to which they are related to acquisition costs. Under U.S. GAAP, these effects are classified as other comprehensive income, along with all other changes in fair value. For the year ended December 31, 2006, this resulted in a decrease in net income of €55 million (first quarter 2006: -€12 million).

h) U.S. Regulation

The regulatory assets and liabilities under U.S. GAAP do not fulfill the recognition criteria for assets and liabilities under IFRS. Immediate recognition in the income statement of the resulting income and expenses resulted in an increase in net income of €9 million for the year ended December 31, 2006 (first quarter 2006: €19 million).

i) Income Taxes

During the 2006 fiscal year, the above deviations in income, particularly with respect to pensions, resulted in changes of deferred taxes that reduced net income.

Furthermore, under IAS 12, deferred taxes arising from investments in subsidiaries and associates (outside basis differences) are not recognized to the extent that the investor is able to control the timing of the reversal of the temporary difference and to the extent that it is probable that the temporary differences will not reverse in the foreseeable future. In comparison with U.S. GAAP, this resulted in an increase in net income under IFRS.

Both of these effects had a significant impact on the effective tax rate applied for measuring quarterly taxes so that the material differences between IFRS and U.S. GAAP in the first quarter 2006 are due to different effective tax rates.

Overall the changes in income taxes resulted in a reduction of net income during the year ended December 31, 2006, of €363 million (first quarter 2006: -€72 million).

j) Other

A further difference results from the conversion to IFRS of our interest in Degussa both with respect to the equity results as well as the book gain calculated upon disposal in 2006. The conversion led to an increase in net income of €205 million for the year ended December 31, 2006 as well as for the first quarter 2006. This was offset by an impairment charge of €186 million at the U.K. market unit recognized only under IFRS in the fourth quarter 2006.

Cash Flow Adjustments

As a result of the conversion to IFRS, E.ON's first quarter 2006 cash flows from operating, investing and financing activities were adjusted by -€7 million, €9 million and -€2 million (December 31, 2006: -€33 million, €44 million and -€10 million) compared to U.S. GAAP, respectively. These insignificant adjustments result from differences in scope of consolidation and the accounting for leasing in connection with IFRIC 4.

(16) Subsequent Events

On April 2, 2007, E.ON signed an agreement with Enel and Acciona to put an end to the substantial uncertainty surrounding the takeover bid for Endesa. Pursuant to the agreement, E.ON did not consummate its takeover bid designed to obtain a majority stake in Endesa and committed itself not to make a new takeover bid for Endesa during the next four years. This eliminated the conditional obligation that had been in effect as of the balance-sheet date to acquire up to 100 percent of the shares in Endesa for approximately €42 billion. In

exchange, Enel and Acciona committed themselves to launch, in the very near future, a takeover bid for Endesa with a minimum price of €41 per share. If Enel and Acciona gain control of Endesa, E.ON will receive an extensive portfolio of equity holdings including operations in Spain, Italy, and France and in Poland and Turkey. This corresponds to a total volume of about €10 billion. The planned takeover of Endesa generated expenses related to fees for the availability of credit facilities and the issuance of guarantees as well as consulting services. Prior to the signing of the agreement with Enel and Acciona, these costs were capitalized in the E.ON Consolidated Balance Sheet. In the second quarter of 2007, these capitalized costs will be expensed, resulting in a charge of approximately €300 million against non-operating income.

(17) Group Auditor Review

The Consolidated Interim Financial Statements as of March 31, 2007 and 2006 as well as the opening balance sheet as of January 1, 2006 and the Consolidated Financial Statements as of December 31, 2006 have been reviewed by our independent auditors.

60 Other Explanations Concerning the IFRS Reconciliations

In addition to the explanations in Note 15 concerning the reconciliation of equity and net income, the following describes the effects of the transition to IFRS on other important key financial figures.

Reconciliation of Adjusted EBIT

The reconciliation of adjusted EBIT from U.S. GAAP to IFRS for the first quarter 2006 as well as for the year ended December 31, 2006 is presented in the following tables:

| Adjusted EBIT | | | | | | | | | |
|--|-------------------|-------------------------|-----------|------------|-----------------|---------------------|----------------------------|----------------------------------|---------------|
| January 1 - March 31, 2006 € in millions | Central Europe | Pan- European Gas | U.K. | Nordic | U.S. Midwest | Corporate Center | Core Energy Business | Other Activities ¹ | E.ON Group |
| Adjusted EBIT under U.S. GAAP² | 1,413 | 733 | 38 | 300 | 92 | -95 | 2,481 | 53 | 2,534 |
| Inventories | - | 197 | - | - | - | - | 197 | - | 197 |
| Pensions and other employee benefits | 29 | 2 | 2 | - | 1 | 2 | 36 | - | 36 |
| Other provisions | -11 | 16 | - | -2 | - | -2 | 1 | - | 1 |
| Derivatives | - | - | 4 | - | - | - | 4 | - | 4 |
| U.S. Regulation | - | - | - | - | 19 | - | 19 | - | 19 |
| Other | -13 | 10 | -1 | 1 | - | -5 | -8 | -53 | -61 |
| Total adjustments | 5 | 225 | 5 | -1 | 20 | -5 | 249 | -53 | 196 |
| Adjusted EBIT under IFRS | 1,418 | 958 | 43 | 299 | 112 | -100 | 2,730 | - | 2,730 |

¹Included in the other activities under U.S. GAAP was the 42.9 percent interest in Degussa accounted for at equity until its disposal in July 2006.
²Non-GAAP financial measure; see reconciliation in Interim Report I/2006, page 8.

| Adjusted EBIT | | | | | | | | | |
|--|-------------------|-------------------------|--------------|-------------|-----------------|---------------------|----------------------------|----------------------------------|---------------|
| 2006 € in millions | Central Europe | Pan- European Gas | U.K. | Nordic | U.S. Midwest | Corporate Center | Core Energy Business | Other Activities ¹ | E.ON Group |
| Adjusted EBIT under U.S. GAAP² | 4,168 | 2,106 | 1,229 | 619 | 391 | -416 | 8,097 | 53 | 8,150 |
| Inventories | 1 | 213 | - | - | - | - | 214 | - | 214 |
| Pensions and other employee benefits | 102 | 9 | 6 | - | 3 | 8 | 128 | - | 128 |
| Other provisions | 33 | -7 | - | -107 | - | -3 | -84 | - | -84 |
| Derivatives | - | - | 8 | - | - | - | 8 | - | 8 |
| U.S. Regulation | - | - | - | - | 32 | - | 32 | - | 32 |
| Other | -69 | 26 | -4 | - | - | 8 | -39 | -53 | -92 |
| Total adjustments | 67 | 241 | 10 | -107 | 35 | 13 | 259 | -53 | 206 |
| Adjusted EBIT under IFRS | 4,235 | 2,347 | 1,239 | 512 | 426 | -403 | 8,356 | - | 8,356 |

¹Included in the other activities under U.S. GAAP was the 42.9 percent interest in Degussa accounted for at equity until its disposal in July 2006.
²Non-GAAP financial measure; see reconciliation in 2006 Annual Report, page 36.

The increase in adjusted EBIT according to IFRS is primarily due to the change in measurement of gas inventories from LIFO under U.S. GAAP to average-cost measurement under IFRS. An additional positive effect results from the reduction of the expense for pensions compared with U.S. GAAP which is primarily due to the elimination of the amortization of actuarial gains and losses in the income statement. The immediate recognition in income of U.S. regulatory assets and liabilities recognized in accordance with U.S. GAAP within the U.S. Midwest market unit also led to an increase in adjusted EBIT.

These positive effects were offset by the negative impact of differences in the accounting for other provisions. As required under IFRS, the adjusted EBIT of the "other activities" which was attributable to the equity earnings of E.ON's share in Degussa under U.S. GAAP, has been reclassified to discontinued operations.

For a detailed explanation of these effects see the description in Note 15 of the reconciliation of equity and net income.

Reconciliation of Adjusted Net Income

The following table describes the reconciliation from U.S. GAAP to IFRS of adjusted net income for the first quarter as well as for the entire 2006 fiscal year:

| Adjusted Net Income | | |
|--|--------------|------------------------------|
| € in millions | 2006 | Jan. 1 - Mar. 31, 2006 |
| Adjusted net income under U.S. GAAP¹ | 4,386 | 1,357 |
| Differences on EBIT | 206 | 196 |
| Adjusted interest income (net) | 133 | -3 |
| Income taxes | -73 | -76 |
| Minority interests | 30 | 7 |
| Total adjustments | 296 | 124 |
| Adjusted net income under IFRS | 4,682 | 1,481 |

¹Non-GAAP financial measure; see reconciliation in 2006 Annual Report, page 37.

The definition and reconciliation of net income to adjusted net income under IFRS is presented on page 9.

In addition to the differences in adjusted EBIT, the increase in adjusted net income as compared with U.S. GAAP, especially for the year ended December 31, 2006, is due primarily to the differences in adjusted interest income which results mainly from the differences in the accounting treatment of other provisions which are described in Note 15.

Financial Calendar

| | |
|-------------------|--|
| August 15, 2007 | Interim Report: January - June 2007 |
| November 13, 2007 | Interim Report: January - September 2007 |
| March 6, 2008 | Release of 2007 Annual Report |
| April 30, 2008 | 2008 Annual Shareholders Meeting |
| May 2, 2008 | Dividend Payout |
| May 14, 2008 | Interim Report: January - March 2008 |
| August 13, 2008 | Interim Report: January - June 2008 |
| November 12, 2008 | Interim Report: January - September 2008 |

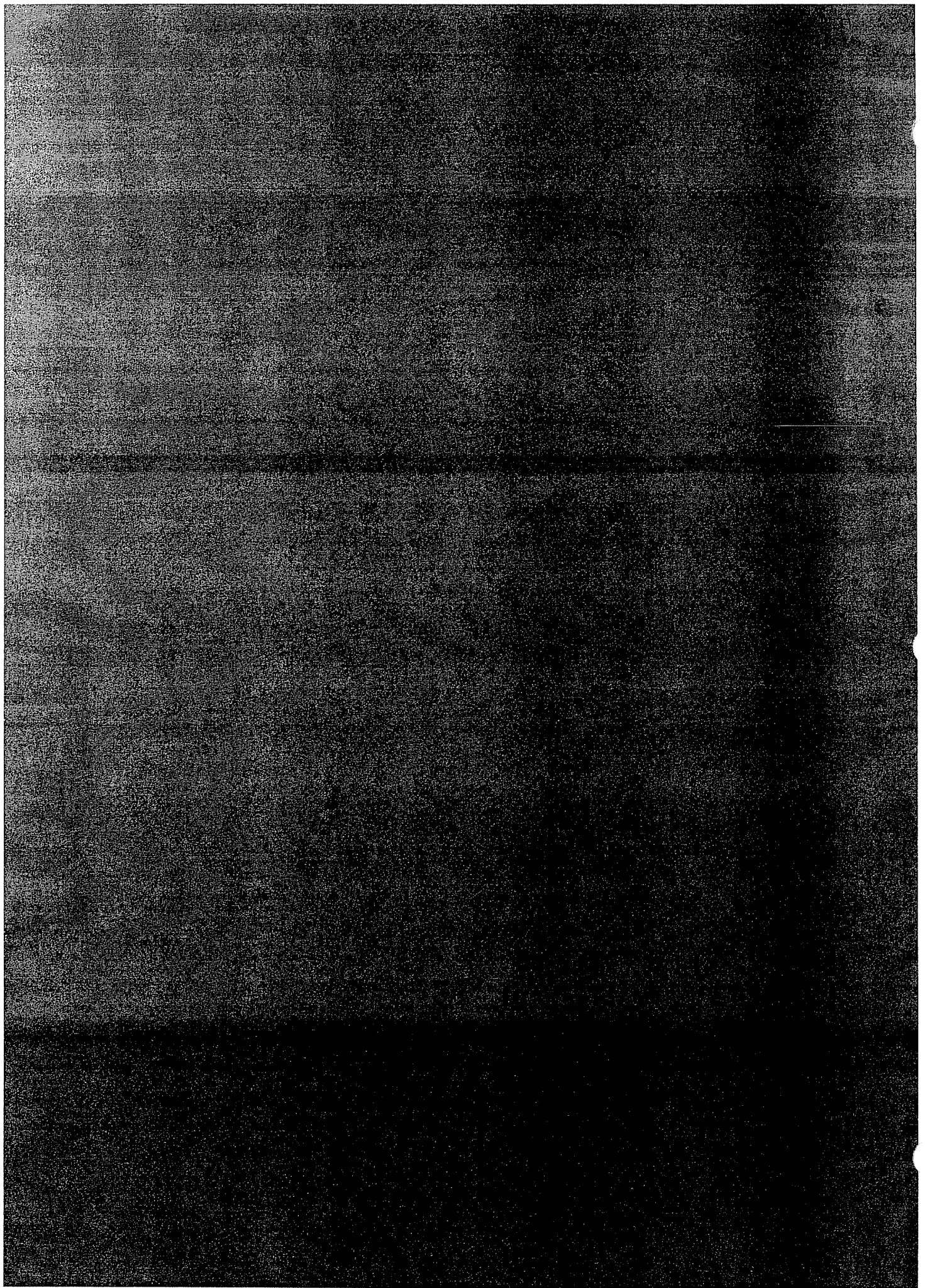
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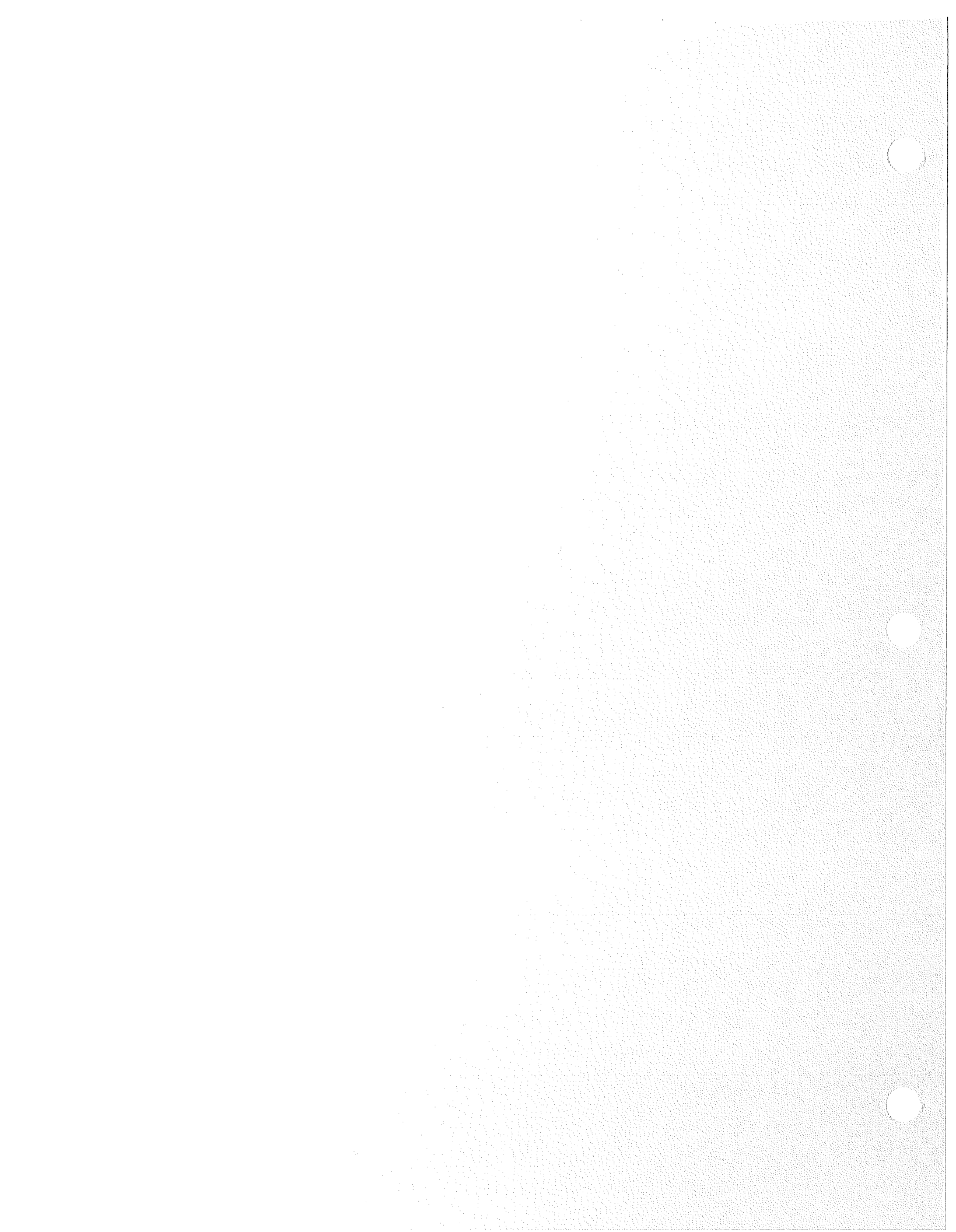
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Only the German version of this Interim Report is legally binding.

This Interim Report contains certain forward-looking statements that are subject to risk and uncertainties. For information identifying economic, currency, regulatory, technological, competitive, and some other important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, you should refer to E.ON's filings to the Securities and Exchange Commission (Washington, DC), as updated from time to time, in particular to the discussion included in the sections of the E.ON 2006 Annual Report on Form 20-F entitled "Item 3. Key Information: Risk Factors," "Item 5. Operating and Financial Review and Prospects," and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."



SEC FORM 20-F – DECEMBER 31, 2006



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____.

For the transition period from _____ to _____

Commission file number: 1-14688

E.ON AG

(Exact name of Registrant as specified in its charter)

E.ON AG

(Translation of Registrant's name into English)

Federal Republic of Germany
(Jurisdiction of Incorporation or Organization)

E.ON-Platz 1, D-40479 Düsseldorf, GERMANY
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|---|--|
| American Depositary Shares representing | |
| Ordinary Shares with no par value | New York Stock Exchange |
| Ordinary Shares with no par value | New York Stock Exchange* |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2006, 659,597,269 outstanding Ordinary Shares with no par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note — checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

* Not for trading, but only in connection with the registration of American Depositary Shares.

As used in this annual report,

- “E.ON,” the “Company,” the “E.ON Group” or the “Group” refers to E.ON AG and its consolidated subsidiaries.
- “VEBA” refers to VEBA AG and its consolidated subsidiaries prior to its merger with VIAG AG and the name change from VEBA AG to E.ON AG. “VIAG” or the “VIAG Group” refers to VIAG AG and its consolidated subsidiaries prior to its merger with VEBA.
- “PreussenElektra” refers to PreussenElektra AG and its consolidated subsidiaries, which merged with Bayernwerk AG and its consolidated subsidiaries to form E.ON’s German and continental European energy business in the Central Europe market unit consisting of E.ON Energie AG and its consolidated subsidiaries (“E.ON Energie”).
- “E.ON Ruhrgas” refers to E.ON Ruhrgas AG (formerly Ruhrgas AG or “Ruhrgas”) and its consolidated subsidiaries, which collectively comprise E.ON’s gas business in the Pan-European Gas market unit.
- “E.ON UK” refers to E.ON UK plc (formerly Powergen UK plc or “Powergen”) and its consolidated subsidiaries, which collectively comprise E.ON’s U.K. energy business in the U.K. market unit. Until December 31, 2003, Powergen and its consolidated subsidiaries, including LG&E Energy LLC (“LG&E Energy”), which was held by Powergen until its transfer to a direct subsidiary of E.ON AG in March 2003, formed E.ON’s former Powergen division (“Powergen Group”).
- “E.ON Sverige” refers to E.ON Sverige AB (formerly Sydkraft AB or “Sydkraft”) and its consolidated subsidiaries, and “E.ON Finland” refers to E.ON Finland Oyj (“E.ON Finland”) and its consolidated subsidiaries, which collectively comprised E.ON’s Nordic energy business in the Nordic market unit until the disposal of E.ON Finland.
- “E.ON U.S.” refers to E.ON U.S. LLC (formerly LG&E Energy) and its consolidated subsidiaries, which collectively comprise E.ON’s U.S. energy business in the U.S. Midwest market unit. Until December 31, 2003, E.ON U.S. formed the U.S. business of the Powergen Group.
- “Viterra” refers to Viterra AG and its consolidated subsidiaries, which collectively comprised E.ON’s real estate business in the other activities segment.
- “Degussa” refers to Degussa AG and its consolidated subsidiaries, which collectively comprised E.ON’s chemicals business in the other activities segment.
- “VEBA Oel” refers to VEBA Oel AG and its consolidated subsidiaries, which collectively comprised E.ON’s former oil division.
- “VAW” refers to VAW aluminium AG and its consolidated subsidiaries, which collectively comprised E.ON’s former aluminum division.

Unless otherwise indicated, all amounts in this annual report are expressed in European Union euros (“euros” or “EUR” or “€”), United States dollars (“U.S. dollars” or “dollars” or “\$”), British pounds (“GBP”), Swedish krona (“SEK”) or Swedish öre (“öre”). Amounts stated in dollars, unless otherwise indicated, have been translated from euros at an assumed rate solely for convenience and should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. Unless otherwise stated, such dollar amounts have been translated from euros at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on December 29, 2006, which was \$1.3197 per €1.00. Such rate may differ from the actual rates used in the preparation of the consolidated financial statements of E.ON as of December 31, 2006, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2006, included in Item 18 of this annual report (the “Consolidated Financial Statements”), which are expressed in euros, and, accordingly, dollar amounts appearing in this annual report may differ from the actual dollar amounts that were translated into euros in the preparation of such financial statements. For information regarding recent rates of exchange, see “Item 3. Key Information — Exchange Rates.”

Beginning in 2000, E.ON has prepared its financial statements in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). Formerly, the Company prepared its financial statements

in accordance with generally accepted accounting principles in Germany as prescribed by the German Commercial Code (*Handelsgesetzbuch*, the “Commercial Code”) and the German Stock Corporation Act (*Aktiengesetz*, the “Stock Corporation Act”). Sales and adjusted EBIT presented in this annual report for each of E.ON’s segments are based on the consolidated accounts of the E.ON Group as shown in Note 31 (Segment Information) of the Notes to Consolidated Financial Statements under the captions “External sales” and “Adjusted EBIT” and are presented prior to the elimination of intersegment transactions. “Adjusted EBIT” is the measure pursuant to which the Group has evaluated the performance of its segments and allocated resources to them since 2004. Adjusted EBIT is an adjusted figure derived from income/(loss) from continuing operations (before intra-Group eliminations when presented on a segment basis) before income taxes and minority interests, excluding interest income. Adjustments include net book gains resulting from disposals, as well as cost-management and restructuring expenses and other non-operating earnings of an exceptional nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions and nuclear waste management is allocated to adjusted interest income. E.ON uses adjusted EBIT as its segment reporting measure in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 131, *Disclosures about Segments of an Enterprise and Related Information* (“SFAS 131”). However, on a consolidated Group basis adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. For a reconciliation of Group adjusted EBIT to net income for each of 2006, 2005 and 2004, see “Item 5. Operating and Financial Review and Prospects — Results of Operations — Business Segment Information.” Adjusted EBIT should not be considered in isolation as a measure of E.ON’s profitability and should be considered in addition to, rather than as a substitute for, the most directly comparable U.S. GAAP measures. In particular, there are material limitations associated with the use of adjusted EBIT as compared with such U.S. GAAP measures, including the limitations inherent in E.ON’s determination of each of the adjustments noted above. E.ON seeks to compensate for those limitations by providing a detailed reconciliation of adjusted EBIT to income from continuing operations before income taxes and minority interests and net income, the most directly comparable U.S. GAAP measures, in the section of Item 5 noted above, as well as the more detailed textual analysis of year-on-year changes in the key components of each of the reconciling items appearing under the caption “Reconciliation of Adjusted EBIT” in “Item 5. Operating and Financial Review and Prospects — Results of Operations — Business Segment Information,” “— Year Ended December 31, 2006 Compared with Year Ended December 31, 2005” and “— Year Ended December 31, 2005 Compared with Year Ended December 31, 2004.” As a result of these limitations and other factors, adjusted EBIT as used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

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

This annual report contains certain forward-looking statements and information relating to the E.ON Group that are based on beliefs of its management, as well as assumptions made by and information currently available to E.ON. When used in this document, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan” and “project” and similar expressions, as they relate to the E.ON Group or its management, are intended to identify forward-looking statements. Such statements reflect the current views of E.ON with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the E.ON Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by the Group’s targeted customers, changes in business strategy, lack of successful completion of planned acquisitions and dispositions and/or the realization of expected benefits and various other factors, both referenced and not referenced in this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this annual report as anticipated, believed, estimated, expected, intended, planned or projected. E.ON does not intend, and does not assume any obligation, to update these forward-looking statements.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

SELECTED FINANCIAL DATA

The selected financial data presented below in accordance with U.S. GAAP as of and for each of the years in the five-year period ended December 31, 2006 have been excerpted from or are derived from the Consolidated Financial Statements of E.ON as of and for the period ended December 31, 2006, 2005, 2004, 2003 and 2002, respectively.

The selected financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements.

| | Year Ended December 31, | | | | | |
|--|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 2006(1) | 2006 | 2005 | 2004 | 2003 | 2002 |
| | (in millions, except share amounts) | | | | | |
| Statement of Income Data: | | | | | | |
| Sales | \$ 89,422 | €67,759 | €56,141 | €46,489 | €44,839 | €35,133 |
| Sales excluding electricity and natural gas taxes(2) | 84,721 | 64,197 | 51,616 | 42,150 | 39,953 | 34,200 |
| Income/(Loss) from continuing operations before income taxes | 6,774 | 5,133 | 7,152 | 6,332 | 5,204 | (1,013) |
| Income/(Loss) from continuing operations after income taxes(3) | 7,200 | 5,456 | 4,891 | 4,480 | 4,051 | (324) |
| Income/(Loss) from continuing operations | 6,506 | 4,930 | 4,355 | 4,011 | 3,602 | (949) |
| Income/(Loss) from discontinued operations(4) | 168 | 127 | 3,059 | 328 | 1,485 | 3,535 |
| Net income | 6,674 | 5,057 | 7,407 | 4,339 | 4,647 | 2,777 |
| Basic earnings/(Loss) per share from continuing operations | 9.87 | 7.48 | 6.61 | 6.11 | 5.51 | (1.45) |
| Basic earnings (Loss) per share from discontinued operations, net(4) | 0.25 | 0.19 | 4.64 | 0.50 | 2.27 | 5.42 |
| Basic earnings per share from net income(5) | 10.12 | 7.67 | 11.24 | 6.61 | 7.11 | 4.26 |
| Balance Sheet Data: | | | | | | |
| Total assets | \$167,908 | €127,232 | €126,562 | €114,062 | €111,850 | €113,503 |
| Long-term financial liabilities | 13,143 | 9,959 | 10,555 | 13,540 | 14,884 | 17,576 |
| Stockholders' equity(6) | 63,141 | 47,845 | 44,484 | 33,560 | 29,774 | 25,653 |
| Number of authorized shares | | 692,000,000 | 692,000,000 | 692,000,000 | 692,000,000 | 692,000,000 |

(1) Amounts in this column are unaudited and have been translated solely for the convenience of the reader at an exchange rate of \$1.3197 = €1.00, the Noon Buying Rate on December 29, 2006.

- (2) Laws in Germany and other European countries in which E.ON operates require the seller of electricity to collect electricity taxes and remit such amounts to tax authorities. Similar laws also require the seller of natural gas to collect and remit natural gas taxes to tax authorities.
- (3) Before minority interest of €526 million for 2006, as compared with €536 million, €469 million, €449 million and €625 million for 2005, 2004, 2003 and 2002, respectively.
- (4) For more details, see “Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions — Discontinued Operations” and Note 4 of the Notes to Consolidated Financial Statements.
- (5) Includes earnings per share from the first-time application of new U.S. GAAP standards of €0.00, €(0.01), €0.00, €(0.67) and €0.29 for 2006, 2005, 2004, 2003 and 2002, respectively.
- (6) After minority interests.

DIVIDENDS

The following table sets forth the annual dividends paid per ordinary unit bearer share of E.ON AG (each, an “Ordinary Share”) in euros, and the dollar equivalent, for each of the years indicated. The table does not reflect the related tax credits available to German taxpayers who receive dividend payments. Owners of Ordinary Shares who are United States residents should be aware that they will be subject to German withholding tax on dividends received. See “Item 10. Additional Information — Taxation.”

| <u>Year Ended December 31,</u> | Dividends Paid per Ordinary Share with no par value | |
|--------------------------------|--|-------|
| | € | \$(1) |
| 2002..... | 1.75 | 1.96 |
| 2003..... | 2.00 | 2.39 |
| 2004..... | 2.35 | 3.04 |
| 2005(2)..... | 2.75 | 3.50 |
| 2006(3)..... | 3.35 | 4.42 |

- (1) Translated into dollars at the Noon Buying Rate on the dividend payment date, which typically occurred during the second quarter of the following year, except for the 2006 amount, which has been translated at the Noon Buying Rate on December 29, 2006.
- (2) An extra dividend for 2005 of €4.25 per Ordinary Share, resulting from the proceeds from the sale of E.ON’s remaining 42.9 percent stake in Degussa, was paid together with the regular 2005 dividend amount. For details on this transaction, see “Item 5. Operating and Financial Review and Prospects — Overview.”
- (3) The dividend amount for the year ended December 31, 2006 is the amount proposed by E.ON’s Supervisory Board and Board of Management and has not yet been approved by its stockholders. Prior to the payment of the dividends, a resolution approving such amount must be passed by E.ON’s stockholders at the annual general meeting to be held on May 3, 2007.

See also “Item 8. Financial Information — Dividend Policy.”

EXCHANGE RATES

Fluctuations in the exchange rate between the euro and the dollar will affect the dollar equivalent of the euro price of the Ordinary Shares traded on the German stock exchanges and, as a result, will affect the price of the Company's American Depositary Receipts ("ADRs") traded in the United States. Such fluctuations will also affect the dollar amounts received by holders of ADRs on the conversion into dollars of cash dividends paid in euros on the Ordinary Shares represented by the ADRs.

The following table sets forth, for the periods indicated, the average, high, low and/or period-end Noon Buying Rates for euros expressed in \$ per €1.00.

| <u>Period</u> | <u>Average(1)</u> | <u>High</u> | <u>Low</u> | <u>Period-End</u> |
|-----------------|-------------------|-------------|------------|-------------------|
| 2002 | 0.9495 | | | 1.0485 |
| 2003 | 1.1411 | | | 1.2597 |
| 2004 | 1.2478 | | | 1.3538 |
| 2005 | 1.2400 | | | 1.1842 |
| 2006 | 1.2661 | | | 1.3197 |
| September | | 1.2833 | 1.2648 | |
| October | | 1.2773 | 1.2502 | |
| November | | 1.3261 | 1.2705 | |
| December | | 1.3327 | 1.3073 | |
| 2007 | | | | |
| January | | 1.3286 | 1.2904 | |
| February | | 1.3246 | 1.2933 | |

(1) The average of the Noon Buying Rates for the relevant period, calculated using the average of the Noon Buying Rates on the last business day of each month during the period.

On March 2, 2007, the Noon Buying Rate was \$1.3182 per €1.00.

RISK FACTORS

On May 1, 1998, the German Control and Transparency in Business Act (*Gesetz zur Kontrolle und Transparenz im Unternehmensbereich*, or "*KonTraG*"), came into effect. The provisions of *KonTraG* include the requirement that the board of management of a German stock corporation establish a risk management system to identify material risks to the corporation at an early stage. As part of their audit, the auditors of a stock corporation assess whether the system meets the requirements of *KonTraG*. The audit requirement has been applicable to all fiscal years beginning after December 31, 1998, although the former VEBA underwent this audit voluntarily already in fiscal year 1998.

Even prior to the requirements introduced by *KonTraG*, the Company believes it had an effective risk management system which integrates risk management in its Group-wide business procedures. The system includes controlling processes, Group-wide guidelines, data processing systems and regular reports to the Board of Management and Supervisory Board. The reliability of the risk management system is reviewed regularly by the internal audit units of the Company as well as by the Company's external independent auditors, based on requirements set forth in the Stock Corporation Act. The documentation and evaluation of the Company's risks are updated quarterly throughout the Group in the following steps:

- Standardized documentation of risks and countermeasures;
- Evaluation of risks according to the degree of severity and the probability of occurrence, and an annual assessment of the effectiveness of existing countermeasures; and
- Analysis of the results and structured disclosure in a risk report.

The following discussion groups risks according to the categories of external, operational and financial risks, as used by the Company in its risk management system.

External

The Company faces the general risks of economic downturns experienced by all businesses. The following are specific external risks the Company faces:

The Company's core energy operations face strong competition, which could depress margins.

Since 1998, liberalization of the electricity markets in the EU has greatly altered competition in the German electricity market, which was formerly characterized by numerous strong competitors. Following liberalization, significant consolidation has taken place in the German market, resulting in four major interregional utilities: E.ON, RWE AG ("RWE"), Vattenfall Europe AG ("Vattenfall Europe") and EnBW Energie Baden-Württemberg AG ("EnBW"). In addition, the market for electricity trading has become more liquid and competitive, with a total trading volume of approximately 1,133 terawatt hours ("TWh") at the European Energy Exchange (EEX) spot and futures market in 2006, and additional volumes being traded on the over-the-counter market. Liberalization of the German electricity market also caused prices to decrease beginning in 1998, although prices have increased since 2001. Retail prices now exceed 1998 levels, and prices for sales to distributors and industrial customers have also increased. These price increases have generally been driven by increases in the price of fuel, as well as regulatory and other costs, with the result that competitive pressure on margins continues to exist. Higher wholesale prices are also expected to lead to the construction of new generation facilities, thereby increasing competition and the pressure on margins when the first such facilities come into operation. Although the Company intends to compete vigorously in the changed German electricity market, it cannot be certain that it will be able to develop its business as successfully as its competitors. For information about regulatory changes that are affecting the German electricity market, see the discussion on changes in laws and regulations below.

Outside Germany, the electricity markets in which the Company operates are also subject to strong competition. The Company has significant U.K. and Swedish operations in electricity generation, distribution and supply, on both the wholesale and retail levels. Increased competition from new market entrants and existing market participants could adversely affect the Company's U.K. or Swedish market share in both the retail and wholesale sectors. The Company cannot guarantee it will be able to compete successfully in the United Kingdom,

the Nordic countries, Eastern Europe, Italy or other electricity markets where it is already present or in new electricity markets the Company may enter. E.ON Ruhrgas also faces risks associated with increased competition in the gas sector; see “Item 4. Information on the Company — Business Overview — Pan-European Gas — Competitive Environment” and “— Regulatory Environment — Germany: Gas.”

Changes in applicable laws and regulations as well as the introduction of new laws and regulations could materially and adversely affect the Company’s financial condition and results of operations.

In each of its operations, the Company must comply with a number of laws and government regulations. For more information on laws and regulations affecting the Company’s core energy business, including additional details on each of the regulatory regimes discussed below, see “Item 4. Information on the Company — Regulatory Environment.” From time to time, changes or new laws, including applicable tax laws, and regulations may be introduced which may negatively affect the Company’s businesses, financial condition and results of operations.

For example, the EU adopted new electricity and gas directives in 2003 which required changes to the electricity and gas industries of some EU member states, including Germany. One of the requirements is that an independent regulatory authority be established in each member state to oversee access to the electricity and gas networks. According to the directives, this regulatory body should have the authority to set or approve network charges or, alternatively, the methodologies used for calculating them, as well as the power to control compliance with the charges or methodologies once they are set. In Germany, the relevant legislation came into force in July 2005 and the German legislature authorized the Federal Network Agency (*Bundesnetzagentur* or the “BNetzA,” previously called the Regulatory Authority of Telecommunications and Post) to act as the required independent regulatory body. The new German energy legislation and the appointment of the BNetzA to oversee access to German electricity and gas networks has changed the previous system of negotiated third party network access in the electricity and gas industries in Germany. Although the new legislation has already come into force, the Company cannot yet predict all of the consequences of the new system, as the exact interpretation of some of the new regulatory rules is still pending and not all ordinances are in force; in particular, the new incentive regulation system has not been established. However, the BNetzA has interpreted some of the new regulatory rules and ordinances to reach a conclusion that is different than that reached by, and in some cases less favorable to, the Company as well as other German utilities. For example, the new German energy law contains two phases of regulation, and in the starting phase, the BNetzA and the state level regulators have to approve the network charges that are calculated by the network operators using a cost-based rate-of-return model. Thus the BNetzA and the state level regulators effectively set the network charges for network operators ex-ante. In 2006, the BNetzA reduced the allowed network charges submitted for its approval by the Company’s electricity and gas distribution network operators, as described below. In doing so, the BNetzA used a different interpretation of the new ordinance than that used by E.ON’s network operators (and the majority of German network operators) to calculate their network charges. The BNetzA has also announced that the reduced charges will be applicable from earlier dates than those which the Company believes should apply, so that the Company (and other German network operators) would need to refund amounts to customers equal to the difference between the calculated network charges as submitted to the BNetzA and the allowed network charges approved by the BNetzA for the time period in dispute. Several German utility companies have challenged the BNetzA’s decisions in third party legal proceedings; however, final decisions have not yet been made and E.ON intends to wait for the outcome of the pending legal proceedings before making any refunds to customers. For more information, see “Item 4. Information on the Company — Regulatory Environment.”

In the gas market, the gas industry developed an industry-wide gas network access model in order to comply with the new legislation, and the agreed model, with two variants for gas transportation, was finalized in mid-2006. Shortly thereafter, one of the variants for gas transportation was challenged in legal proceedings and the BNetzA decided that the challenged variant for gas transportation, which was widely used in the gas industry, does not comply with the new energy law, thus necessitating changes to the existing gas network operators’ cooperation agreement.

In addition, in November 2006 a new network connection ordinance came into force in Germany which increases potential liability for network operators for damages caused by energy supply disturbances.

In Sweden, new legislation was also adopted in order to comply with the requirements of the EU's electricity and gas directives, and the Company cannot be certain that the new requirements will not have a negative effect on its Swedish operations. In addition, Sweden has also enacted new legislation concerning electricity distribution which requires customer compensation for power blackouts lasting more than 12 hours. As discussed below, in early 2007 a severe storm resulted in a power outage in Sweden that affected approximately 170,000 E.ON Sverige customers, and many of these customers are entitled to compensation under the new law.

The EU has also adopted a directive requiring member states to establish a greenhouse gas emissions allowance trading scheme, under which permits to emit a specified amount of carbon dioxide ("CO₂ emission certificates") are to be allocated to affected power stations and other industrial installations. All member states have already passed the required legislation and allocated the necessary CO₂ emission certificates for the first phase of the scheme, mostly free of charge. Although the Company does not generally expect the introduction of the emissions trading scheme to have a negative impact on its operations, the fact that the directive has only recently been implemented makes it impossible for the Company to predict how the trading of CO₂ emission certificates will develop or what long-term impact, if any, the new regime will have on its financial condition and results of operations. However, in each of 2005 and 2006, companies of both the U.K. and Central Europe market units had to purchase additional CO₂ emission certificates on the market, with a resultant increase in operating costs. Further, member states are currently developing national allocation plans for the next phase of the greenhouse gas emissions allowance trading scheme, which will run from 2008-2012, and a reduced number of CO₂ emission certificates is expected to be issued for this phase, which could further impact the Company's operations. In Germany, the EU and the German government have already agreed on a reduced allocation of CO₂ emissions certificates. In a reflection of current international heightened awareness of climate change, the European Commission recently published a package of measures to establish a new EU energy policy with the aim of, *inter alia*, combating climate change. In the package, the European Commission proposed further ambitious targets for cutting greenhouse gas emissions. The Company is unable to predict if and when such targets might be passed into law. For more information, see "Item 4. Information on the Company — Regulatory Environment" and "Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2006 Compared with Year Ended December 31, 2005" and "Year Ended December 31, 2005 Compared with Year Ended December 31, 2004."

In addition, in the summer of 2005 the Competition Directorate-General of the European Commission launched a sector inquiry concerning the electricity and gas markets in the EU. This investigation is based on Article 17 of Regulation 1/2003 and assesses the competition conditions in European gas and electricity markets. It cannot be excluded that this inquiry could result in individual antitrust proceedings against E.ON Group companies and/or legislative initiatives (at the EU or national level) that would seek to increase the current level of competition in the EU energy market. In its final report issued on January 10, 2007, the European Commission has identified the following barriers to a fully functioning internal energy market, which are market concentration, vertical foreclosure, lack of market integration and transparency and price formation.

The findings of the sector inquiry enable the European Commission to focus its enforcement action on the concerns identified in the report, such as: achieving adequate unbundling of network and supply activities, removing the regulatory gaps, in particular for cross border issues, addressing market concentration and barriers to entry, as well as increasing transparency in market operations.

One of the main suggestions arising from the sector inquiry report is ownership unbundling, *i.e.*, the separation of ownership between the electricity and gas networks and commercial activities elsewhere in the value chain. It is not clear yet whether the European Commission will decide to mandate ownership unbundling or choose to attempt to resolve the identified problems using other options, such as a fully independent system operator. On February 15, 2007, the EU Energy Council discussed the presented energy package in detail, including the results of the sector inquiry final report. The European Council will discuss the measures for an action plan at its meeting on March 8, 2007. The German Presidency has announced its intention not to support ownership unbundling but to analyze all possible options, including an independent system operator, and it is at this time impossible to predict the results of this inquiry, if any.

The European Commission also carried out investigations at the premises of several energy companies in Europe, including E.ON AG and some of its affiliates, in May and December 2006, followed by requests for

information regarding different regulatory and energy market-related issues of E.ON Energie and E.ON Ruhrgas. The European Commission is currently analyzing the respective data and has recently issued additional requests for information. The European Commission is currently investigating the circumstances under which a seal installed by investigators at one of the Company's facilities failed.

In Germany, a draft bill has been introduced in the German parliament to tighten the provisions of Germany's law against restraints on competition. The draft bill stipulates that undertakings holding a dominant position in an energy market shall not charge or impose prices, price components or other commercial conditions that are less favorable than those of other undertakings in comparable markets (even if the deviation is slight) or charge prices that disproportionately exceed their costs. E.ON believes that, if implemented as currently drafted, these provisions would impede competition in Germany's energy markets, but is currently unable to quantify the effects that the implementation of the tightened provisions would have on E.ON.

Regulatory actions can also affect the prices the Company may charge customers. For example:

- As noted above, in Germany the BNetzA has reduced the allowed network charges which were submitted for approval by the Company's electricity and gas distribution network operators. For electricity, approved network charges of E.ON's transmission system operator as well as its regional distribution network operators averaged a 13.7 percent reduction from the network charges E.ON originally filed for approval, while approved network charges for E.ON's regional gas distribution network operators averaged a 10.0 percent reduction from those initially proposed by the Company. The approved network charges were based on a different interpretation of Germany's new energy law by the BNetzA than that used by E.ON's network operators (and the majority of German network operators) to calculate their network charges.
- In Germany, the state antitrust authorities as well as the German Federal Cartel Office (*Bundeskartellamt*) regularly examine gas tariffs of utilities for household customers to determine whether these prices constitute market abuse. The companies belonging to the E.ON Energie group have delivered the information required. No formal proceedings are pending.
- The Federal Cartel Office has opened proceedings against E.ON Energie and RWE, alleging that these two companies are abusing their dominant position in the energy market by including the costs for CO₂ emission certificates in the calculation of energy prices for industrial customers. In this context, RWE has already received a statement of objections from the Federal Cartel Office. E.ON believes that the way the Group's businesses calculate their electricity prices is in accordance with accepted calculation methods and therefore there have been no illegal acts by the Group in this regard. Should the Federal Cartel Office qualify E.ON's calculation method as an abuse of a dominant position, E.ON would appeal against the decision. However, the outcome of such an appeal cannot be predicted.
- Electricity and gas prices and sales practices have also been the subject of periodic challenges by the German antitrust authorities, although to date E.ON has prevailed in such cases, sometimes on appeal after a negative ruling by a court of first instance. Currently, 54 customers of E.ON Hanse AG ("E.ON Hanse") have brought a claim asserting that recent price increases violate certain provisions of the German Civil Code (*Bürgerliches Gesetzbuch*). In order to support its case that the price increases were reasonable within the meaning of applicable law, E.ON Hanse has disclosed the basis on which it calculates prices for household customers to the District Court (*Landgericht*) in Hamburg. The court is currently examining E.ON Hanse's submissions in this respect. In an unrelated proceeding, E.ON Westfalen Weser AG ("E.ON Westfalen Weser") has brought suit against a group of customers that have refused to pay the increased prices. No assurances can be given as to the outcome of either of these proceedings.
- With effect from April 2005, regulators in the United Kingdom renewed a price control framework for electricity distribution customers that is in effect through the five year period ending March 2010.
- In the United States, the rates for E.ON U.S.'s retail electric and gas customers in Kentucky, its principal area of operations, are set by state regulators and remain in effect until such time as an adjustment is sought and approved. E.ON U.S.'s affected utilities applied for and received increases in regulated tariffs effective as of July 1, 2004.

For additional information on these developments, see “Item 4. Information on the Company — Regulatory Environment.” For all of its operations, adverse changes in price controls, rate structures or the level of competition could have an adverse effect on the Company’s financial condition and results of operations.

Rising fuel prices could materially and adversely affect the Company’s results of operations and financial condition.

A significant portion of the expenses of the Company’s regional market units are made up of fuel costs, which are heavily influenced by prices in the world market for oil, natural gas, fuel oil and coal. Similarly, the majority of E.ON Ruhrgas’ expenses are for purchases of natural gas under long-term take or pay contracts that link the gas prices to that of fuel oil and other competing fuels. The prices for such commodities have historically been volatile and there is no guarantee that prices will remain within projected levels. The price of oil in particular rose in 2006, although it declined somewhat in the second half of the year, while the recent fall in oil prices is not yet reflected in the average price of Germany’s natural gas imports due to time lags in indexation. The Company’s electricity operations do maintain some flexibility to shift power production among different types of fuel, and the Company is also partially hedged against rising fuel prices. However, increases in fuel costs could have an adverse effect on the Company’s operating results or financial condition if it is not able (or not permitted by regulatory authorities) to shift production to lower-cost fuel or to adjust its rates to offset such increases in fuel prices on a timely or complete basis.

For more information about E.ON Ruhrgas’ take or pay contracts, including a discussion of the so-called “time lag” effect, see the discussion on E.ON Ruhrgas’ long-term gas supply contracts below. The Company could also incur losses if its hedging strategies are not effective. For more information about the Company’s hedging policies and the instruments used, see “— Financial” below, “Item 5. Operating and Financial Review and Prospects — Exchange Rate Exposure and Currency Risk Management” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk.”

Recent events have heightened concerns about the reliability of Russian gas supplies, on which E.ON Ruhrgas depends.

E.ON Ruhrgas currently obtains nearly 30 percent of its total gas supply from Russia pursuant to long-term supply contracts it has entered into with OOO Gazexport (now Gazprom export), a subsidiary of OAO Gazprom (“Gazprom”) (in which E.ON Ruhrgas holds a 3.5 percent direct interest and an additional stake of 2.9 percent). Recent events in some countries of the former Soviet Union have heightened concerns in parts of Western Europe about the reliability of Russian gas supplies. Historically cold temperatures in Russia in the winter of 2005-2006 increased gas consumption, leading some Western European countries to report declines in pressure in gas pipelines and shortfalls in the volume of gas they received from Russia. In addition, a dispute between Russia and Ukraine over the imposition of significant price increases on Russian gas delivered to Ukraine at the beginning of 2006 led to interruptions in the supply of Russian gas to Ukraine (and through Ukraine to other countries) in the early days of January. In late 2006, a similar price dispute between Russia and Belarus led to Belarus blocking the transit of gas and oil through that country, while in early 2007 Poland attempted to raise transit fees charged to Gazprom for Russian gas and oil being shipped to Western Europe through Poland, leading to speculation that Gazprom might retaliate by halting gas and oil shipments. Economic or political instability or other disruptive events in any “transit country” through which Russian gas must pass before it reaches its final destination in Western Europe can have a material adverse effect on the supply of such gas, and all such events are completely outside the control of E.ON Ruhrgas. Although E.ON Ruhrgas has to date not experienced any interruptions in supply or declines in delivered gas volumes below those which are guaranteed to it under its long-term contracts, no assurance can be given that such interruptions or declines will not occur. The terms of E.ON Ruhrgas’ long-term supply contracts for Russian gas require that the contracted volumes of gas be delivered to E.ON Ruhrgas at the German border, with the risk of ownership only passing to E.ON Ruhrgas at that point, but provide that such obligations can be suspended due to events of *force majeure*. Any prolonged interruption or decline in the amount of gas delivered to E.ON Ruhrgas under its contracts with Gazprom, its subsidiaries or any other party would result in E.ON Ruhrgas having to use its storage reserves to make up the shortfall with respect to amounts it is contracted to deliver to customers, and could have a material adverse effect on E.ON’s results of operations and financial condition.

The Company's revenues and results of operations fluctuate by season and according to the weather, and management expects these fluctuations to continue.

The demand for electric power and natural gas is seasonal, with the Company's operations generally experiencing higher demand during the cold weather months of October through March and lower demand during the warm weather months of April through September. The exception to this is the Company's U.S. power business, where hot weather results in an increased demand for electricity to run air conditioning units. As a result of these seasonal patterns, the Company's revenues and results of operations are higher in the first and fourth quarters and lower in the second and third quarters, with the U.S. power business having its highest revenues in the third quarter and a secondary peak in the first and fourth quarters. Revenues and results of operations for all of the Company's energy operations can be negatively affected by periods of unseasonably warm weather during the autumn and winter months, as occurred at certain of E.ON's market units in 2006. The Company's Nordic operations could be negatively affected by a lack of precipitation (which would lead to a decline in hydroelectric generation, as occurred in 2006) and its European energy operations could also be negatively affected by a summer with higher than average temperatures to the extent its plants were required to reduce or shut down operations due to a lack of water needed for cooling the plants. Management expects seasonal and weather-related fluctuations in revenues and results of operations to continue. Particularly severe weather can also lead to power outages, as discussed in more detail below.

Operational

The Company's core energy businesses operate technologically complex production facilities and transmission systems. Operational failures or extended production downtimes could negatively impact the Company's financial condition and results of operations. The Company's businesses are also subject to risks in the ordinary course of business such as the loss of personnel or customers, and losses due to bad debts. The Company believes it has appropriate risk control measures in effect to counteract and address these types of risks. The following are additional operational risks the Company faces:

E.ON Ruhrgas' long-term gas supply contracts expose it to volume and price risks, and it has had to terminate certain of its long-term sales contracts due to a negative decision by the German Federal Cartel Office.

As is typical in the gas industry, E.ON Ruhrgas enters into long-term gas supply contracts with natural gas producers to secure the supply of almost all the gas E.ON Ruhrgas purchases for resale. These contracts, which generally have terms of around 20 to 25 years, require E.ON Ruhrgas to purchase minimum amounts of natural gas over the period of the contract or to pay for such amounts even if E.ON Ruhrgas does not take the gas, a standard industry practice known as "take or pay." The minimum amounts are generally about 80 percent of the firmly contracted quantities. Historically, E.ON Ruhrgas has also entered into long-term gas sales contracts with its customers, although these contracts are shorter than the gas supply contracts (for distributors and municipal utilities, which constitute the majority of E.ON Ruhrgas' customers, the contracts generally have longer terms, while contracts for industrial customers usually have terms between one and five years), and, as described in more detail below, have been challenged by the German Federal Cartel Office. In addition, the majority of these gas sales contracts do not include fixed take or pay provisions. Since E.ON Ruhrgas' gas supply contracts have longer terms than its gas sales contracts, and commit E.ON Ruhrgas to paying for a minimum amount of gas over a long period, E.ON Ruhrgas is exposed to the risk that it will have an excess supply of natural gas in the long term should it have fewer committed purchasers for its gas in the future and be unable to otherwise sell its gas on favorable terms. Such a shortfall could result if a significant number of E.ON Ruhrgas' customers (or their end customers) shifted from natural gas to other forms of energy or if E.ON Ruhrgas' customers began to acquire increased volumes of gas from other sources. The ministerial approval E.ON obtained for the acquisition of Ruhrgas required E.ON Ruhrgas to divest its stakes in two gas distributors, as well as granting these distributors the right to terminate their gas sales contracts with E.ON Ruhrgas. The ministerial approval also gave most of E.ON Ruhrgas' distribution customers the right to reduce the amounts of natural gas purchased from E.ON Ruhrgas. To date, most customers have decided not to exercise these options. For additional information on these developments, see "Item 4. Information on the Company — Business Overview — Pan-European Gas — Sales."

In January 2006, the German Federal Cartel Office (*Bundeskartellamt*) issued a decision prohibiting E.ON Ruhrgas from enforcing its existing long-term gas sales contracts with regional and local distribution companies after October 1, 2006 and from entering into new sales contracts with those customers that are identical or similar in nature. For details on this decision and the effect on E.ON Ruhrgas, see "Item 4. Information on the Company — Business Overview — Pan-European Gas — Sales." E.ON Ruhrgas believes that the Federal Cartel Office is overlooking the negative impact its decision would have on security of supply and that by excluding suppliers from competing to supply additional volume, the Federal Cartel Office inadmissibly interferes with freedom of contract. Therefore, E.ON Ruhrgas has appealed against the decision issued by the Federal Cartel Office and sought temporary relief in a summary proceeding in order to prevent the decision from taking immediate effect. In June 2006, the State Superior Court (*Oberlandesgericht*) in Düsseldorf decided in the summary proceeding that E.ON Ruhrgas will not be granted temporary relief. Consequently, E.ON Ruhrgas had to terminate the supply contracts with regional and local distribution companies that are covered by the Federal Cartel Office decision as of October 1, 2006. E.ON Ruhrgas is currently challenging the Federal Cartel Office decision in a full proceeding before the State Superior Court, which is expected to last through 2007. In the meantime, it has concluded new contracts having a duration of only 1 or 2 years with virtually all of the regional and local distribution companies whose prior contracts it had been required to cancel. Although the court's negative decision on E.ON Ruhrgas' application for an injunction is not determinative in the full proceeding, no assurance can be given that E.ON Ruhrgas will be successful in that proceeding or any subsequent appeals, or otherwise be allowed to conclude contracts that exceed the combination of supply share and duration set by the decision of the Federal Cartel Office and/or bid for the remaining volumes.

If these or other developments were to cause the volume of gas E.ON Ruhrgas is able to sell to fall below the volume it is required to purchase, the take or pay provisions of some of E.ON Ruhrgas' gas supply contracts may become applicable, which would negatively affect its results of operations. In addition, due to increasing competition linked to the liberalization of the gas market and the entry of new competitors, E.ON Ruhrgas may not be able to renew some of its existing gas sales contracts as they expire, or to gain new contracts. This may also have the effect of leaving E.ON Ruhrgas with an excess supply of natural gas and/or decrease in margins.

As is standard in the gas industry, the price E.ON Ruhrgas pays for gas under its long-term gas supply contracts is calculated on the basis of complex formulas incorporating variables based on current market prices for fuel oil, gas oil, coal and/or other competing fuels, with prices being automatically re-calculated periodically, usually quarterly, by reference to market prices of the relevant fuels during a prior period. Price terms in E.ON Ruhrgas' gas sales contracts are generally pegged to the price of competing fuels and provide for automatic quarterly price adjustments based on fluctuations in underlying fuel prices, again by reference to market prices during a prior period. Since E.ON Ruhrgas' supply and sales contracts are generally indexed to different types of oil and related fuels, in different proportions and are adjusted according to different formulas, E.ON Ruhrgas' margins for natural gas may be significantly affected in the short term by variations in the price of oil or other fuels, which are generally reflected in prices payable under its supply contracts before they are reflected in prices paid under sales contracts, the so-called "time lag" effect. Although E.ON Ruhrgas seeks to manage this risk by matching the general terms of its portfolio of sales contracts with those of its supply contracts, there can be no assurance that it will always be successful in doing so, particularly in the short term. For more information on E.ON Ruhrgas' gas supply and sales contracts, see "Item 4. Information on the Company — Business Overview — Pan-European Gas."

If the Company's plans to make selective acquisitions and investments to enhance its core energy business are unsuccessful, the Company's future earnings and share price could be materially and adversely affected.

The Company's business strategy involves selective acquisitions and investments in its core business area of energy. This strategy depends in part on the Company's ability to successfully identify and acquire companies that enhance its business on acceptable terms. In order to obtain the necessary approvals for acquisitions, the Company may be required to divest other parts of its business, or to make concessions or undertakings which materially affect its operations. For example, the Company's efforts to obtain control of Ruhrgas through a series of purchases from the holders of Ruhrgas interests were initially blocked by the German Federal Cartel Office and then by a series of plaintiffs who succeeded in convincing the State Superior Court in Düsseldorf to issue a temporary injunction preventing the Company from completing the transaction. In order to receive the ministerial approval of the German

Economics Ministry that overruled the initial decision of the Federal Cartel Office, the Company was required to make significant concessions, including committing to divest certain operations, to have E.ON Ruhrgas sell a significant quantity of natural gas at auction (with opening bids set at below-market prices) and to offer certain customers the option of reducing the volume of gas they had contracted for. In addition, in settling the claims of the plaintiffs who had received the temporary injunction, the Company agreed to divest certain of its operations, to provide certain of the plaintiffs with energy supply contracts and network access, and to make certain infrastructure improvements, as well as making financial payments. For more information, see “Item 4. Information on the Company — History and Development of the Company — Ruhrgas Acquisition.” Each of these matters delayed completion of the Ruhrgas acquisition and had the effect of increasing the cost of the transaction to the Company.

In February 2006, E.ON announced that it would launch an all cash tender offer for 100 percent of the share capital of Endesa, S.A. (“Endesa”), the largest electric utility in Spain and Portugal, which also has significant operations in Latin America and southern Europe. E.ON’s original bid set an offer price of €27.50 per Endesa ordinary share and American Depositary Share (“ADS”). Over the course of the following twelve months, E.ON raised its offer price twice, first to €35.00 for each Endesa security and then to €38.75. The potential cost to E.ON for the acquisition of 100 percent of Endesa has therefore increased from approximately €29.1 billion to approximately €41 billion. E.ON intends to finance the acquisition through a combination of its own resources and new financing in the form of a committed line of credit provided by a syndicate of international banks that incorporates a number of conditions. The offer has also been subject to a series of legal challenges in Spain and the United States, a number of which remain pending. No assurance can be given that E.ON will be able to complete the transaction successfully on the proposed terms or at all. For additional information, see “Item 4. Information on the Company — History and Development of the Company — Proposed Endesa Acquisition.”

In addition, there can be no assurances that the Company will be able to achieve the benefits it expects from any acquisition or investment. For example, the Company may fail to retain key employees, may be unable to successfully integrate new businesses with its existing businesses, may incorrectly judge expected cost savings, operating profits or future market trends and regulatory changes, or may spend more on the acquisition, integration and operations of new businesses than anticipated. Legal challenges may also have an impact. Especially large acquisitions, such as that of Ruhrgas, the purchase of which was completed in March 2003, or the proposed acquisition of Endesa, present particularly difficult challenges. Investments and acquisitions in new geographic areas or lines of business require the Company to become familiar with new markets and competitors and expose the Company to commercial and other risks, as well as additional regulatory regimes relating to the acquired businesses that may be stricter than the ones the Company is currently subject to. Because of the risks and uncertainty associated with acquisitions and investments, any acquired businesses or investments may not achieve the profitability expected by the Company.

The Company could be subject to environmental liability associated with its nuclear and conventional power operations that could materially and adversely affect its business. In addition, new or amended environmental laws and regulations may result in significant increases in costs for the Company.

Under German law, the owner of an electric power generation facility is subject to liability provisions that guarantee comprehensive compensation to all injured parties in the event of environmental damages caused by the facility. In addition, there has been some relaxation in the evidence required under the German Environmental Liability Law (*Umwelthaftungsgesetz*) to establish, prove and quantify environmental claims. Under German law and in accordance with contractual indemnities, the Company may still be subject to future environmental claims with respect to alleged historical environmental damage arising from certain of its discontinued and disposed of operations, including, but not limited to, the VEBA Oel oil business, the VAW aluminum operations and the Klöckner & Co AG distribution and logistics businesses, as well as Degussa’s operations. If claims were to be asserted against the Company in relation to environmental damages and plaintiffs were successful in proving their claims, such claims could result in material losses to the Company.

German law also provides that in the case of a nuclear accident in Germany, the owner of the reactor, the factory or the nuclear material storage facility is subject to liability provisions that guarantee comprehensive compensation to all injured parties. Under German nuclear power regulations, the owner is strictly liable, and the geographical scope of its liability is not limited to Germany. E.ON’s Swedish nuclear power stations also expose the

Company to liability under applicable Swedish law. In 2006 an inquiry opened by the Swedish government proposed both unlimited liability for nuclear plant operators and that such operators be obligated to purchase greater insurance coverage, although it is unclear what effect the inquiry's proposals of new legislation will have. The Company does not operate or have interests in nuclear power plants outside of Germany, Sweden and Switzerland, including in the United Kingdom, the United States or the countries in Eastern Europe in which it operates. The Company takes extensive safety and risk management measures in the operation of its nuclear power operations, and has mandatory insurance with respect to its nuclear operations as described in "Item 4. Information on the Company — Environmental Matters — Germany: Electricity" and "— Nordic." However, any claims against the Company arising in the case of a nuclear power accident could exceed the coverage of such insurance, and cause material losses to the Company.

The Company expects that it will incur costs associated with future environmental compliance, especially compliance with clean air laws. For example, the U.S. Environmental Protection Agency ("EPA") has introduced regulations regarding the reduction of nitrogen oxide ("NO_x") and sulphur dioxide ("SO₂") emissions from electricity generating units. These regulations require E.ON U.S. to make significant additional capital expenditures in pollution control equipment. E.ON U.S. expects to incur total costs of \$1.1 billion in installing these pollution controls during the 2007 through 2009 time period. E.ON U.S. expects to recover a significant portion of these costs over time from customers of its regulated utility businesses. In the United Kingdom, legislation to implement the EU Large Combustion Plants Directive has been adopted which requires E.ON UK to make decisions as to whether it will invest in enhanced pollution control devices, reduce operating time at certain of its plants or consider closing certain plants in the future. Similarly, the German government has amended an ordinance of the German Federal Pollution Control Act (*Bundesimmissionsschutzgesetz*, or "BImSchG") to introduce lower emission limits for air pollutants such as carbon monoxide and NO_x. This amendment requires both E.ON Energie and E.ON Ruhrgas to make investments in pollution control devices. Currently, none of E.ON's market units can predict the extent to which their respective operations will be affected by the new legislation and/or regulations. Revisions to existing environmental laws and regulations and the adoption of new environmental laws and regulations may result in significant increases in costs for the Company. Any such increase in costs that cannot be fully recovered from customers may adversely affect the Company's operating results or financial condition.

Although environmental laws and regulations have an increasing impact on the Company's activities in almost all the countries in which it operates, it is impossible to predict accurately the effect of future developments in such laws and regulations on the Company's future earnings and operations. For example, the EU has published a package of measures for a new energy policy which includes ambitious targets for cutting greenhouse gas emissions, but the Company cannot predict when or in what form these measures might be passed into law, or how the Company might be impacted. For detail, see the discussion on changes in laws and regulations above. Some risk of environmental costs and liabilities is inherent in particular operations and products of the Company, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred. For more information on environmental matters, see "Item 4. Information on the Company — Environmental Matters."

If power outages or shutdowns involving the Company's electricity operations occur, the Company's business and results of operations could be negatively affected.

Significant parts of Europe and the United States and Canada have experienced major power outages in recent years. The reasons for these blackouts vary, although generally they involved a locally or regionally inadequate balance between power production and consumption, with single failures triggering a cascade-like shutdown of lines and power plants following overload or voltage problems. The likelihood of this type of problem has increased in recent years following the liberalization of EU electricity markets, partly due to an emphasis on unrestricted cross-border physically-settled electricity trading that has resulted in a substantially higher load on the international network, which was originally designed mainly for purposes of mutual assistance and operations optimization. As a result, there are transmission bottlenecks at many locations in Europe, and the high load has resulted in lower levels of safety reserves in the network. In Germany, where power plants are located in closer proximity to population centers than in many other countries, the risk of blackouts is lower due to shorter transmission paths and a strongly meshed network. In addition, the spread of a power failure is less likely in Germany due to the organization of the German power grid into four balancing zones. Nevertheless, the Company's German or international electricity

operations could experience unanticipated operating or other problems leading to a power failure or shutdown. For example:

- On January 8-9, 2005, a severe storm hit Sweden, destroying the electricity distribution grid in some areas in the south of the country. Approximately 250,000 E.ON Sverige customers were affected by the resulting power outage, and some customers were left without electricity for several weeks. In 2005, E.ON Sverige recorded related costs for rebuilding its distribution grid and compensating customers of approximately €140 million.
- In July 2006, a transmission-related incident at the Forsmark nuclear power plant in Sweden (in which E.ON Sverige owns a minority interest) resulted in an emergency shutdown of the plant and subsequent modifications to the plant's transmission infrastructure. Reviews of similar infrastructure at other reactors following the Forsmark incident took a number of Swedish reactors out of service for a period of several weeks and revealed the need for a significant overhaul at the Oskarshamn I reactor operated by E.ON Sverige, which was only restarted in January 2007.
- On November 4, 2006, an overload in the northwestern German power transmission grid occurred, leading to disturbances in other parts of the continental European power grid and an interruption of the power supply for more than 15 million European households located in parts of Germany, France, Belgium, the Netherlands, Italy and Spain. According to initial findings, the overload occurred after the E.ON Netz GmbH ("E.ON Netz", a subsidiary of E.ON Energie) control center made an erroneous estimation in its planned interruption of a high voltage power line across the Ems river in Germany to allow the passage of a Norwegian cruise liner. Functioning safety mechanisms and close cooperation among European transmission system operators ensured that a full reconnection of the power grids and stabilization of the system occurred within 38 minutes after the grid separated into three "islands", thus avoiding an uncontrolled blackout. A further investigation of the circumstances leading to the power blackout (including whether other factors played a role) will determine if consumers affected by the power interruption are entitled to compensation by E.ON Netz.
- On January 14, 2007, another severe storm hit southern Sweden. Approximately 170,000 E.ON Sverige customers were affected by the resulting power outage, and some customers were left without electricity for up to ten days. Preliminary estimates of the costs to be incurred by E.ON Nordic for rebuilding its distribution grid and compensating affected customers are in the range of €95 million.
- On January 18 and 19, 2007, a severe storm hit several European countries, damaging the electricity distribution grid of E.ON Energie in some areas of Germany, the Czech Republic, Hungary and Romania. In Germany, approximately 750,000 customers were disconnected from the grid (in the Czech Republic: approximately 500,000 customers; in Hungary: approximately 90,000 customers; and in Romania: approximately 5,000 customers). Approximately 80 percent of the affected customers were reconnected within one day, and nearly all customers were reconnected within three days. The costs of repairing the damages are not expected to be significant.

For more information on these events, see "Item 4. Information on the Company — Business Overview — Central Europe" and "— Nordic." The areas of the United States in which E.ON U.S. operates are also from time to time subject to severe weather, such as ice storms, which could cause power outages. In Germany, about 40 percent of the country's wind turbines are connected to the power grid of E.ON Energie, mostly in the north of Germany. In the case of a power grid failure, older wind power plants may switch off automatically; this possible separation of a number of wind power plants from the grid may in turn increase the impact of the original power failure in the grid. The Company can give no assurances that power failures or shutdowns involving its operations will not occur in the future, or that any such power failure or shutdown would not have a negative effect on the Company's business and results of operations.

Financial

The Company is exposed to financial risks that could have a material effect on its financial condition.

During the normal course of its business, the Company is exposed to the risk of energy price volatility, as well as interest rate, commodity price, currency and counterparty risks. These risks are partially hedged on a Group-wide (or market unit-wide) basis, but the Company may incur losses if any of the variety of instruments and strategies it uses to hedge exposures are not effective. For more information about these risks and the Company's hedging policies and instruments, see "Item 5. Operating and Financial Review and Prospects — Exchange Rate Exposure and Currency Risk Management" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk." For more information about E.ON Ruhrgas' take or pay contracts, see the discussion on E.ON Ruhrgas' long-term gas contracts above.

The Company is also exposed to other financial risks. For example, it holds certain stock investments which may expose it to the risk of stock market declines. Financial markets have experienced volatility in recent years, and markets may decline again or become even more volatile. In addition, a significant portion of the Company's outstanding debt bears interest at floating rates; the Company's interest expense will therefore increase if the relevant base rates rise. The value of the Company's investments in fixed rate bonds will be adversely affected by a rise in market interest rates.

The Company also faces risks arising from its energy trading operations. In general, the Company seeks to hedge risks associated with volatile energy-related prices (including the prices of CO₂ emission certificates) by entering into fixed-price bilateral contracts, fuel-price indexed bilateral contracts, futures and options contracts traded on commodities exchanges, and swaps and options traded in over-the-counter financial markets. To the extent the Company is unable to hedge these risks, or enters into hedging contracts that fail to address its exposure or incorrectly anticipate market movements, it may suffer losses, some of which could be material. In addition to the risks associated with adverse price movements, credit risk is also a factor in the Company's energy marketing, trading and treasury activities, where loss may result from the non-performance of contractual obligations by a counterparty. The Company maintains credit policies and control procedures with respect to counterparties to protect it against losses associated with such types of credit risk, although there can be no assurance that these policies and procedures will fully protect the Company. The marking to market of many of E.ON's hedging instruments required by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), has also increased the volatility of the Company's results of operations, though it has not had a material effect on E.ON's overall risk exposure. For example, in 2006, unrealized losses from the marking to market of derivatives, principally at the U.K. market unit, reduced other non-operating expenses by approximately €2.7 billion. For more information about the Company's energy trading operations, its hedging policies and the instruments used, see "Item 4. Information on the Company — Business Overview — Central Europe — Trading," "— Pan-European Gas — Trading," "— U.K. — Energy Wholesale — Energy Trading," "— Nordic — Trading" and "— U.S. Midwest — Power Generation — Asset-Based Energy Marketing," "Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2006 Compared with Year Ended December 31, 2005," "— Year Ended December 31, 2005 Compared with Year Ended December 31, 2004" and "— Exchange Rate Exposure and Currency Risk Management" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Item 4. Information on the Company.

HISTORY AND DEVELOPMENT OF THE COMPANY

E.ON AG is a stock corporation organized under the laws of the Federal Republic of Germany. It is entered in the Commercial Register (*Handelsregister*) of the local court of Düsseldorf, Germany, under HRB 22315. E.ON's registered office is located at E.ON-Platz 1, D-40479 Düsseldorf, Germany, telephone +49-211-45 79-0. E.ON's agent in the United States is E.ON North America, Inc., 405 Lexington Avenue, New York, NY 10174.

The State of Prussia established VEBA in 1929 when it consolidated state-owned coal mining and energy interests (hence the original name VEBA, "Vereinigte Elektrizitäts- und Bergwerks-Aktiengesellschaft").

Ownership of VEBA was transferred from the dissolved Prussian state to the Federal Republic of Germany. VEBA was partially privatized in 1965, leaving the German government with a 40.2 percent share. After several subsequent offerings, privatization was completed in 1987 when the German government offered its remaining 25.5 percent share to the public. During and since the privatization process, VEBA AG evolved into a management holding company, providing strategic leadership and resource allocation for the entire Group.

VEBA-VIAG MERGER

On June 16, 2000, VEBA AG merged with VIAG AG, one of the largest industrial groups in Germany. VEBA AG was subsequently renamed E.ON AG. The merger of VEBA and VIAG to form E.ON has created the largest industrial group in Germany, based on market capitalization at year-end 2006, with sales of €67.8 billion in 2006.

In order to effectuate the merger, VEBA and VIAG submitted an application to the Merger Task Force of the European Commission on December 14, 1999. The EU Commission examined the planned merger and, with its notification of June 13, 2000, declared it to be compatible with the common market. The EU Commission's approval required VEBA and VIAG to commit to make certain divestments in their combined electricity and chemical operations, and to give undertakings to 1) waive transfer charges for cross-zone deliveries of electricity within Germany, 2) purchase a certain minimum amount of electricity from Vattenfall Europe (formerly VEAG Vereinigte Energiewerke Aktiengesellschaft ("VEAG")), a utility primarily active in the eastern part of Germany, at market rates during the period ending on December 31, 2007, and 3) provide additional interconnector capacity on the border between Germany and Denmark.

The merger of VEBA and VIAG was legally implemented by merging VIAG AG into VEBA AG, with VEBA AG continuing as the surviving entity. The newly-merged company then received the new name E.ON AG. On June 16, 2000, the merger was entered into the Commercial Register in Düsseldorf. Upon registration with the Commercial Register in Düsseldorf, the merger was completed and became effective for purposes of U.S. GAAP as of July 1, 2000. VIAG AG was dissolved and its assets and liabilities were transferred to VEBA AG. Simultaneously, each VIAG shareholder, with the exception of VEBA AG, received two shares of the new company in exchange for each five VIAG shares held. Pursuant to this exchange ratio, the former VIAG shareholders (with the exception of VEBA AG) therefore held 33.1 percent of the company immediately after the merger, while the former VEBA shareholders held 66.9 percent.

POWERGEN GROUP ACQUISITION

In 2002, E.ON acquired the London- and Coventry-based British utility Powergen. As agreed between E.ON and Powergen, upon satisfaction of all conditions E.ON implemented the transaction under an alternative U.K. legal procedure known as a "scheme of arrangement" instead of a tender offer. The scheme of arrangement provided for the acquisition of all outstanding Powergen shares by virtue of an order of the English courts following approval of the transaction at a meeting of Powergen shareholders convened by order of the court. Following the receipt of the necessary regulatory approvals, E.ON completed its acquisition of the Powergen Group, which is now wholly owned by E.ON, on July 1, 2002. In March 2003, E.ON transferred LG&E Energy (Powergen's former principal U.S. operating subsidiary; now named E.ON U.S.) and its direct parent holding company to a direct subsidiary of E.ON AG. In July 2004, Powergen was renamed E.ON UK.

The total purchase price amounted to €7.6 billion (net of €0.2 billion cash acquired), and the assumption of €7.4 billion of debt. Goodwill in the amount of €8.9 billion resulted from the purchase price allocation. A significant deterioration in the market environment for the Powergen Group's U.K. and U.S. operations triggered an impairment analysis as of the acquisition date that resulted in an impairment charge of €2.4 billion, thus reducing the amount of goodwill associated with the transaction to €6.5 billion.

For more information on E.ON UK and E.ON U.S., see "— Business Overview — U.K." and "— U.S. Midwest."

RUHRGAS ACQUISITION

E.ON Ruhrgas is one of the leading non-state-owned gas companies in Europe and the largest gas business in Germany in terms of gas sales. Prior to its acquisition by E.ON, Ruhrgas was owned by a number of holding companies, with indirect stakes dispersed among a number of major industrial and energy companies both within and outside Germany.

In 2001, E.ON concluded contracts for the purchase of significant shareholdings in Ruhrgas with BP p.l.c. ("BP") and Vodafone Group Plc ("Vodafone"). E.ON also reached an agreement in principle with RAG Aktiengesellschaft ("RAG") to acquire its Ruhrgas stake. In January and February 2002, the German Federal Cartel Office blocked the consummation of the transactions with the aforementioned parties on the grounds that the proposed purchase would have a negative effect on competition in the German gas and electricity markets. E.ON appealed the decision to the German Federal Ministry for Economics and Labor (now renamed the Federal Ministry for Economics and Technology) (*Bundesministerium für Wirtschaft und Technologie*), which has the power to overrule the Cartel Office if it determines a transaction would result in an overriding general benefit to the German economy.

Between May and July 2002, E.ON reached agreements with ThyssenKrupp AG, Esso Deutschland GmbH, Deutsche Shell GmbH and TUI AG with respect to E.ON's acquisition of each company's respective stake in Ruhrgas. E.ON also reached a definitive agreement with RAG to acquire RAG's more than 18 percent interest in Ruhrgas and to sell E.ON's majority interest in Degussa to RAG in a two-step transaction. The successful completion of each of these arrangements would make E.ON the sole owner of Ruhrgas.

In July 2002, E.ON was granted the ministerial approval it had requested for the acquisition of a majority shareholding in Ruhrgas. The ministerial approval was linked with stringent requirements designed to promote competition in the gas sector. Ruhrgas was required to auction a specified volume of natural gas to its competitors and to legally unbundle its transmission system from its other operations. In addition, E.ON and Ruhrgas were required to divest several shareholdings. E.ON immediately completed the acquisition of 38.5 percent of Ruhrgas from BP, Vodafone and ThyssenKrupp AG.

A number of companies with alleged interests in the German energy industry filed complaints against the ministerial approval with the State Superior Court (*Oberlandesgericht*) in Düsseldorf and petitioned the court to issue a temporary injunction blocking the transaction. The court subsequently issued a series of orders in July, August and September 2002 that temporarily enjoined the Company's acquisition of a majority stake in Ruhrgas and prohibited the Company from exercising its shareholders' rights with respect to the Ruhrgas stake it had already acquired.

In September 2002, Germany's Federal Minister of Economics confirmed the essential aspects of the July 5 ministerial approval for E.ON's acquisition of Ruhrgas. However, the ministry linked its decision to a tightening of the requirements. Ruhrgas was also required to sell its stakes in two regional gas companies, and each of the companies required to be disposed of was granted a special right to terminate its existing purchase agreements with E.ON and Ruhrgas on a staggered basis. In addition, customers purchasing a majority of their gas requirements from Ruhrgas were granted the right to unilaterally reduce the contracted volumes, and Ruhrgas was required to auction 200 billion kilowatt hours ("kWh") of natural gas to its competitors, with the minimum bid in such auctions being lower than the average border-crossing price. The approval also provided that the ministry has the right to take further action in the event of any sale by E.ON of a controlling interest in E.ON Ruhrgas or a change in control over E.ON. On this basis, the ministry asked the State Superior Court to lift its temporary injunction. E.ON and E.ON Ruhrgas have complied with all of the conditions imposed by the ministerial approval.

In December 2002, the State Superior Court decided not to lift the temporary injunction, and formal proceedings (*Hauptverfahren*) regarding the injunction began in January 2003. On January 31, 2003, E.ON reached settlement agreements with all plaintiffs who had contested the validity of the ministerial approval. In accordance with these agreements, E.ON exchanged shareholdings with certain plaintiffs and agreed to enter into gas and/or electricity supply contracts, make certain infrastructure improvements (particularly with regard to gas distribution), and provide specified access to the gas and electricity supply grids, with others, as well as agreeing to

make other financial payments to the plaintiffs. In addition, Ruhrgas reconfirmed to all the parties its commitment to open and fair competition in the gas market.

In March 2003, E.ON acquired the remaining shares of Ruhrgas. The total cost of the transaction to E.ON, including settlement costs and excluding dividends received on Ruhrgas shares owned by E.ON prior to its consolidation, amounted to €10.2 billion. Beginning as of February 1, 2003, E.ON fully consolidated Ruhrgas, which was renamed E.ON Ruhrgas on July 1, 2004.

Upon termination of the court proceedings, the Company completed the first step of the RAG/Degussa transaction, *i.e.*, the Company acquired RAG's Ruhrgas stake for total consideration of €2.0 billion, and E.ON tendered 37.2 million of its shares in Degussa to RAG at the price of €38 per share, receiving total proceeds of €1.4 billion. Following this transaction and the completion of the subsequent mandatory tender offer to the other Degussa shareholders, RAG and E.ON each held a 46.5 percent interest in Degussa, with the remainder being held by the public. In the second step of the transaction, E.ON sold a further 3.6 percent of Degussa's stock to RAG with effect from June 1, 2004, giving RAG a 50.1 percent interest in Degussa. Total proceeds from the sale of this 3.6 percent stake amounted to €283 million. In December 2005, E.ON and RAG signed a framework agreement on the sale of E.ON's remaining 42.9 percent stake in Degussa to RAG. As part of the implementation of that framework agreement, E.ON transferred its stake in Degussa to RAG Projektgesellschaft mbH ("RAG Projektgesellschaft") in March 2006 and agreed on the forward sale of that entity to RAG for a purchase price of approximately €2.8 billion (equal to €31.50 per Degussa share). The transaction closed in July 2006. As a result, E.ON no longer holds any equity interest in Degussa.

In accordance with the obligations set out in the ministerial approvals mandating the auctioning of an aggregate amount of 200 billion kWh of baseload gas, on July 30, 2003, E.ON Ruhrgas offered approximately 33 billion kWh of natural gas from its portfolio of long-term supply contracts in the first of six internet-based annual auctions. Approximately 15 billion kWh of this gas were sold. On May 19, 2004, E.ON Ruhrgas offered approximately 39 billion kWh of gas under its long-term supply contracts in the second auction. The offered volume included one third of the volumes (approximately 6 billion kWh) left unsold in the first auction. In the 2004 auction, seven bidders purchased an aggregate volume of approximately 35 billion kWh of gas. On May 18, 2005, E.ON Ruhrgas offered approximately 39 billion kWh of gas under its long-term supply contracts in a third auction, which again included one-third of the volumes (approximately 6 billion kWh) not sold in the first auction. In the 2005 auction, seven bidders purchased the total volume of gas offered. In the fourth auction on May 17, 2006, E.ON Ruhrgas offered approximately 39 billion kWh of natural gas (including the remaining third of the volumes not sold in the first auction, *i.e.* approximately 6 billion kWh), and sold these volumes to seven bidders. The prices E.ON Ruhrgas obtained in the first two auctions were in line with the minimum prices set by the German Federal Ministry for Economics and Labor (now renamed the Federal Ministry for Economics and Technology) (*Bundesministerium für Wirtschaft und Technologie*). In the auctions conducted in 2005 and 2006, the quantities on offer were sold at a premium to the minimum price. E.ON Ruhrgas is required to hold two more annual gas auctions in 2007 and 2008, respectively.

For more information on E.ON Ruhrgas, see "— Business Overview — Pan-European Gas."

PROPOSED ENDESA ACQUISITION

Overview

On February 21, 2006, E.ON (acting through its wholly owned subsidiary E.ON Zwölfte Verwaltungs GmbH ("E.ON 12")) announced its intent to make an offer to acquire all the outstanding ordinary shares, par value €1.20 per share ("Endesa ordinary shares"), and ADSs ("Endesa ADSs", and together with the Endesa ordinary shares, the "Endesa securities") of Endesa, S.A., a Spanish public limited company, for €27.50 in cash, without interest. As explained in more detail below, the offer consists of an offer to all holders of Endesa ordinary shares (the "Spanish Offer") and a separate, concurrent offer to all holders of Endesa ordinary shares who are resident in the United States and to all holders of Endesa ADSs, wherever located (the "U.S. Offer", and together with the Spanish Offer, the "Offers"). The U.S. Offer is being made pursuant to the Offer to Purchase dated January 26, 2007, as amended and supplemented by the Supplement to the Offer to Purchase dated February 14, 2007 (as so amended and supplemented, the "Offer to Purchase"), which has been filed with the SEC as an exhibit to the tender offer

statement on Schedule TO filed by E.ON and E.ON 12 on January 26, 2007 (file number 005-80961) (as amended and supplemented prior to the date hereof, the "Schedule TO"). This summary of the terms of the Offers and certain related matters does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, the Schedule TO. The offer for Endesa was, at the time of the announcement, a competing offer to the one made by Gas Natural SDG, S.A. ("Gas Natural") for 100 percent of the shares of Endesa on September 5, 2005, which was authorized by the Comisión Nacional del Mercado de Valores (the "CNMV") on February 27, 2006. On February 1, 2007, Gas Natural announced that it terminated and withdrew its offer for Endesa.

The initial offer price of €27.50 was subsequently reduced by the amount of the special dividend paid by Endesa of €2.095 per Endesa ordinary share and Endesa ADS in July 2006, and the interim dividend paid by Endesa of €0.50 per Endesa ordinary share and Endesa ADS on January 2, 2007, in each case, pursuant to the terms of the originally announced offer price. As a result of an announcement made on September 26, 2006, E.ON committed to increase its offer price to at least €35.00 in cash for each Endesa ordinary share and each Endesa ADS. This commitment was reduced to at least €34.50 as a result of the interim dividend paid by Endesa of €0.50 per Endesa ordinary share and Endesa ADS on January 2, 2007. On February 2, 2007, pursuant to the Spanish "sealed envelope" procedure, E.ON 12 submitted proposed revised terms of the Spanish Offer to the CNMV for approval. The proposed revised terms, which provided for an increased offer price for the Spanish Offer of €38.75 in cash per Endesa ordinary share, were published by the CNMV later that day.

On February 6, 2007, the CNMV approved the proposed revised terms of the Spanish Offer, including the increased offer price of €38.75 in cash per Endesa ordinary share. The offer price under the U.S. Offer was increased by E.ON 12 to €38.75 in cash per Endesa ordinary share and Endesa ADS on February 8, 2007. As a matter of Spanish law, E.ON 12 is not permitted to further increase the offer price under the Offers. Given that Gas Natural announced the withdrawal of its offer on February 1, 2007, E.ON 12's offer is the only offer which is currently in force for the Endesa ordinary shares and Endesa ADSs. The new purchase price of €38.75 would result in an aggregate purchase price of approximately €41 billion if all Endesa securities were to be tendered.

On February 6, 2007, Endesa's board of directors unanimously determined that the offer price of €38.75 is fair from a financial point of view to Endesa's shareholders. However, no assurance can be given that E.ON will be able to complete the Offers successfully on the proposed terms or at all. See also "Item 3. Key Information — Risk Factors."

Acquisition of Endesa Ordinary Shares by Enel S.p.A. ("Enel")

On February 27, 2007, Enel announced that it had purchased a 9.99 percent stake in Endesa. In the context of that announcement, Enel made a series of public disclosures on February 28, 2007 in response to questions raised by the CNMV. These disclosures, together with other public statements made by Enel since that date, are summarized below. E.ON takes no responsibility whatsoever for the accuracy of these statements by Enel, as it has no way of independently confirming their validity.

On February 27, 2007, Enel announced that a total of 105,800,000 Endesa ordinary shares were acquired by UBS, a bank acting pursuant to a mandate and purchase order from Enel, at a price of €39 per share. The purchase of the stake was finalized the following day by Enel Energy Europe S.r.l. ("Enel Energy Europe"), a wholly owned subsidiary of Enel. As of February 28, 2007, Enel had not entered into any contract for derivatives, futures, equity swaps or any other financial instrument linked to Endesa shares, though it reserves the right to do so in the future. Enel also does not rule out any intention to acquire additional Endesa securities so as to bring its stake up to 24.99 percent, subject to the authorization of the relevant Spanish authorities and favorable market conditions. As of February 28, 2007, Enel announced that it is maintaining all of its options open and that neither Enel nor its executives have had any relation, written or oral, or have coordinated actions or have defined any written or oral pact with any of the significant shareholders of Endesa. As of February 28, 2007, there is no decision on behalf of Enel about the Offers currently underway by E.ON.

In the first days of March, 2007, Enel announced that Enel Energy Europe had entered into a series of share swap transactions with UBS Limited and Mediobanca, with the underlying securities being an aggregate of up to 127,101,597 additional Endesa ordinary shares (equal to 12.01 percent of Endesa's share capital). The swaps provide for cash settlement, with Enel Energy Europe having a conditional right to elect physical settlement (with

the conditions including Enel's obtaining the required administrative authorizations needed to complete its acquisition of Endesa shares). Enel also reported that Enel Energy Europe had obtained "collaterals" or "financing sources" for a total of 127,101,597 Endesa ordinary shares in order to satisfy its obligations under the swaps, at an average price of €39 per share.

E.ON will continue with its offer for Endesa.

Offer Structure, Conditions and Expected Timing

The U.S. Offer was initially subject to the following conditions:

- receipt of valid tenders in the U.S. Offer and the Spanish Offer for at least an aggregate of 529,481,934 Endesa ordinary shares (including Endesa ordinary shares represented by Endesa ADSs), representing 50.01 percent of Endesa's share capital (the "minimum tender condition");
- certain modifications being made to Endesa's articles of association with regard to limitations on voting rights, qualifications for directors and other corporate governance matters; and
- the completion of the Spanish Offer.

On March 6, 2007, E.ON, acting with the required consent of the Mandated Lead Arrangers (as defined below) for the financing for the Offers, withdrew the condition requiring Endesa's shareholders to approve the specified changes to the articles of association.

The Spanish Offer is subject to the same conditions as the U.S. Offer, except that while the U.S. Offer is conditioned on the completion of the Spanish Offer, the Spanish Offer is not conditioned on the U.S. Offer. Notwithstanding any other provision of the U.S. Offer and subject to applicable law, E.ON will have the right to withdraw the U.S. Offer and not accept, purchase or pay for, and shall have the right to extend the period of time during which the U.S. Offer is open and postpone acceptance and payment for any Endesa ordinary shares and Endesa ADSs deposited pursuant to the U.S. Offer, unless each of the above conditions are waived or satisfied by E.ON 12.

Whether the minimum tender condition has been satisfied will be determined as of the expiration of the acceptance period under the Offers. E.ON 12 has received relief from the SEC to permit E.ON 12, following the expiration of the acceptance period of the U.S. Offer, to reduce or waive the minimum tender condition in accordance with Spanish law and practice in the event that the minimum tender condition has not been satisfied, without extending the acceptance period of, or extending withdrawal rights under, the U.S. Offer. E.ON 12 may also waive the minimum tender condition at any time prior to the expiration of the acceptance period of the U.S. Offer. Pursuant to Spanish law, E.ON 12 is required to determine whether or not to reduce or waive the minimum tender condition no later than the day after the CNMV's notification to E.ON 12 of the anticipated number of acceptances of the Offers. This notification is expected to be made no later than three Spanish Exchange days after the expiration date of the Spanish Offer.

As of the date of this annual report, E.ON expects that the timetable for the Spanish Offer will be as follows, though (as noted above) E.ON may choose to withdraw the Offers at any time they are open or choose to extend the acceptance period of the Offers. Although the U.S. Offer is conditioned on the completion of the Spanish Offer, it is expected that the payment for the Endesa securities accepted for payment by E.ON in the U.S. Offer will occur simultaneously with or shortly after the payment with respect to the Spanish Offer. No assurance can be given that the Offers will in fact be completed in accordance with this expected timetable or at all.

| <u>Expected Date</u> | <u>Action</u> |
|--------------------------|---|
| March 29, 2007 | End of acceptance period of the Offers |
| April 3, 2007 | CNMV informs E.ON about acceptance levels |
| April 5, 2007 | Spanish stock exchanges publish results in official bulletins |
| April 12, 2007 | Settlement of tendered shares |

Financing for the Proposed Offer

In order to finance the Offers, E.ON, as borrower, initially entered on February 20, 2006 into a euro syndicated term and guarantee facility agreement for a total amount of €32 billion.

As a result of the announcement by E.ON of the increase of the offer price on September 26, 2006, a new euro syndicated term and guarantee facility agreement dated October 16, 2006 (the "Facility Agreement"), was entered into by E.ON as borrower and HSBC Bank plc, Citigroup Global Markets Limited, J.P. Morgan plc, BNP Paribas, The Royal Bank of Scotland plc and Deutsche Bank AG, acting as mandated lead arrangers (the "Mandated Lead Arrangers") for a total amount of up to €37.1 billion. In order to finance the Offers at the increased offer price of €38.75, E.ON entered into a new additional syndicated term loan and guarantee facility agreement with the same banks on February 2, 2007 (the "Supplemental Facility Agreement"). The total amount of financing made available under the Supplemental Facility Agreement was up to €5.3 billion in one tranche. On February 2, 2007, the supplemental facility was utilized in the sum of €3,926,644,534 to provide additional guarantees to the CNMV. Under the terms of the Supplemental Facility Agreement, the unutilized portion of the guarantee commitment was immediately cancelled and the size of the facility was reduced to €3,926,644,534. To date, the Facility Agreement and the Supplemental Facility Agreement have been used for the issuance of financial guarantees ("Avales") required by the CNMV in connection with the Spanish Offer; no cash drawdowns have yet been made.

E.ON will provide to E.ON 12 the funds that are obtained under the Facility Agreement and the Supplemental Facility Agreement, as well as any other funds which may be used in the Offers, through intra-Group loan agreements or capital contribution. E.ON will ensure that E.ON 12 is duly financed and capitalized at all times.

Below is a description of the material terms and conditions of the Facility Agreement. The terms and conditions of the Supplemental Facility Agreement are materially similar to those contained in the Facility Agreement (which are described below) except for the following: The date of maturity under the Supplemental Facility Agreement is February 20, 2009. The rate of interest under the Supplemental Facility Agreement is linked to a ratings based margin ratchet. Based on an expected initial A rating from Standard & Poor's and an initial A2 rating from Moody's the interest rate will be EURIBOR plus 27.5 basis points per annum for the first three months and EURIBOR plus 32.5 basis points per annum for the periods thereafter. The mandatory prepayment arrangements relating to the Facility Agreement do not apply to the Supplemental Facility Agreement.

Amount and Maturity of the Facility

The amount of financing made available under the Facility Agreement is up to €37.1 billion. It is divided into two tranches:

- Tranche A (2/3 of facility amount) with a maturity on February 18, 2008 and
- Tranche B (1/3 of facility amount) with a maturity on February 20, 2009.

Interest

The rate of interest under the Facility Agreement is linked to a ratings based margin ratchet. Based on an expected initial A rating from Standard & Poor's and an initial A2 rating from Moody's the margin will be EURIBOR plus 22.5 basis points per annum for Tranche A and EURIBOR plus 27.5 basis points per annum on Tranche B.

Mandatory Prepayment

The Facility Agreement includes a mandatory prepayment clause which requires E.ON to prepay and cancel the facility:

- upon a change of control if so requested by the majority of banks within 30 days of the occurrence of a change of control event;
- out of the net proceeds of amounts raised pursuant to the refinancing strategy for the amounts borrowed that E.ON intends to carry out;

- out of the net proceeds of any disposal required by any applicable law, regulation or any decision taken by a competent antitrust or other authority in connection with the acquisition of Endesa and received by E.ON (or capable of being made available to E.ON by way of inter-company loan or dividend); and
- out of the net proceeds of material disposals that are received by E.ON (or capable of being made available to E.ON by way of inter-company loan or dividend) in excess of €1 billion (either on its own or aggregated) as long as the total term loan commitments exceed €17 billion at the time of disposal.

Other Commitments

The Facility Agreement sets out, among others, general restrictions that will apply to E.ON and, after the settlement of the Offer, to Endesa and to its subsidiaries on the creation of new, or the maintenance of any existing, encumbrances, except those arising in the ordinary course of business and other exceptions to this general rule as set out in the Facility Agreement.

The Facility Agreement also contains restrictions on E.ON's ability to dispose of all or a substantial portion of its assets, which restrictions are subject to standard exceptions contained in financings of this type.

Furthermore, the Facility Agreement establishes general undertakings, including compliance with law and regulations, pari passu ranking, insurance and change of business restrictions which are in line with the Loan Market Association standard documentation.

The Facility Agreement does not contain any restriction on the dividend or investment policy of E.ON. Furthermore there is no restriction on the level of dividends paid or investments made by Endesa.

The Facility Agreement does not require E.ON to comply with any financial covenants, *i.e.*, it does not require the fulfillment of any financial ratios.

Events of Default

The Facility Agreement includes some events of default usually included in this kind of financing, including failure to pay, non-fulfillment of financial obligations, breach of representations and warranties and insolvency.

Security

The Facility Agreement does not require E.ON to provide any security in the form of pledges. Endesa is not a party to the Facility Agreement. E.ON does not foresee that it will pledge the ordinary shares of Endesa which it may purchase as a result of the Offers. The Facility Agreement does not require Endesa or the companies of its group to provide any security in the form of pledges or any other kind of guarantees as a result of the Offers.

Repayment Plans

Initially the whole settlement amount for the Offers will be funded with drawings under the Facility Agreement and, if necessary, the Supplemental Facility Agreement, but E.ON intends to repay the drawings as soon as possible (which could imply early repayment), and has four main sources of funds to do this, namely existing and future cash, equity or equity like issues, debt capital market issues and asset disposals. The timing and size of these funding sources will depend on prevailing market conditions and no decision in this regard has been made by E.ON at the date of this annual report, apart from what is indicated below.

- *Existing and Future Cash.* Initially the entire settlement amount for the Offers will be funded with bank debt, but part of this will be refinanced with existing cash resources. At the date of this annual report, it is expected that between €4 and €6 billion of liquid funds will be available for the refinancing of part of the bank debt. Also, E.ON's business is highly cash generative, and it is foreseen that strong cash flows will be available that are sufficient to comply with the investment plans and also repayment plans.
- *Equity or Equity like Issues.* Depending on the volume of acceptances of the Offers, E.ON may issue equity or equity like instruments to repay part of the bank debt and help to meet E.ON's rating objective. E.ON will consider issuing up to 10 percent of its equity capital.

- *Debt Capital Market Issues.* Subject to market conditions, E.ON intends to access the debt capital markets quickly, but in an orderly manner and will consider debt instruments in euros, sterling, U.S. dollars and possibly other currencies. E.ON has an existing €10 billion commercial paper program, and a €20 billion MTN program. Both programs have been already partially used but can be increased in size if required.
- *Asset Disposals.* If necessary, E.ON may also consider asset disposals to repay part of the bank debt and help to meet its rating objective. The proceeds of such sales would be used to repay the bank debt in line with the mandatory prepayment clause.

Certain Information on Endesa

The following information concerning Endesa is based on publicly available information (including Endesa's SEC filings and filings made by Endesa with the CNMV). Publicly available information concerning Endesa may contain errors. E.ON cannot take responsibility for the accuracy or completeness of the information contained in such public information, or for any failure by Endesa to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to E.ON.

Endesa is a company (*sociedad anónima*) organized under the laws of the Kingdom of Spain with limited liability. The principal executive offices of Endesa are located in Madrid at Calle Ribera del Loira, 60, Spain. Endesa's telephone number is +34 91 213 10 00.

Endesa was incorporated by notarial deed on November 18, 1944 under the corporate name Empresa Nacional de Electricidad, S.A., and is registered with the Commercial Registry of Madrid in Book 323, Folio 1, Sheet number 6405. It changed its corporate name to Endesa, S.A. pursuant to a shareholders' resolution dated June 25, 1997.

Endesa is engaged in the electricity business, which is principally focused on Spain and Portugal, the Southern European region (including Italy and France) and Latin America. Endesa is also involved in other activities related to its core energy business, such as renewable energy, and the distribution and supply of natural gas. At December 31, 2005, Endesa had a total installed capacity of 45,908 megawatts ("MW"), and in 2005, generated 185,264 gigawatt hours ("GWh") and sold 203,335 GWh, supplying electricity to approximately 23.2 million customers in 15 countries. At that date, Endesa had 27,204 employees, 53.2 percent of whom were located outside Spain and Portugal, and its total assets amounted to approximately €55 billion, 43.3 percent of which were located outside Spain and Portugal.

As of the date of this annual report, Endesa's share capital amounts to €1,270,502,540 and is represented by 1,058,752,117 issued shares of a single series, each with a nominal value of €1.20. All of the Endesa ordinary shares are fully subscribed, paid up and represented by account entries.

All of the Endesa ordinary shares are listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and are integrated in the Stock Markets Interconnection System. The Endesa ordinary shares are also listed on the Santiago Off Shore Stock Exchange in Chile. The Endesa ADSs, each representing one Endesa ordinary share, are listed on the NYSE and are evidenced by ADRs.

Strategic Considerations Supporting the Proposed Offer

The purpose of the Offers is to acquire all the outstanding Endesa ordinary shares and Endesa ADSs and obtain control of Endesa. E.ON's business purpose for the acquisition of Endesa is, among other things, to consolidate E.ON's business presence in the main countries of the European Union.

E.ON aims to operate the businesses of E.ON and Endesa as a complementary portfolio of assets, and execute them on a strategic business model designed to deliver value to both companies. Accordingly, E.ON has no plan to merge Endesa or any of the Endesa group of companies with E.ON or any of the companies in the E.ON Group, dissolve Endesa or any of the Endesa group of companies or to effect any significant reorganization of the Endesa group. It is E.ON's intention for Endesa to be responsible for managing a new market unit of the E.ON Group based in Madrid that will be responsible for Southern Europe and Latin America. The Offers are not being made for the purpose of generating synergies. E.ON believes that the acquisition of Endesa will be profitable whether or not there are specific cost savings that are realized as a result of the acquisition of Endesa. As of the date of this annual report, E.ON expects that the acquisition of Endesa will generate additional value that will reach its full effect starting in 2010.

E.ON has emphasized the importance of creating leading market positions as a key source of competitive advantage, both by creating economies of scale to reduce costs and by managing volatile commodity markets to reduce risks. E.ON believes that the Offers are fully in line with this strategy, as the acquisition of Endesa by E.ON would create a combined company with a competitive position (and sometimes a leading position) in Europe's principal regional power markets. In strategic terms, this transaction is a major step forward for E.ON in delivering its vision to create the world's leading power and gas company. The combination of E.ON and Endesa would:

- broaden the dimensions of E.ON in Europe's gas and power markets, given the positions of Endesa in Southern Europe;
- add Endesa's outstanding position in fast growing markets to E.ON's strong asset portfolio; and
- bring together two companies with the same vision of creating a leading integrated power and gas business, with the aim of investing for the long term to create value for both investors and customers.

Taken together, E.ON and Endesa serve more than 50 million customers and operate in more than 30 countries with a staff of more than 107,000 employees in 2005. The aggregate sales for the two companies in 2005 amounted to 608,000 million kWh of power and 945,000 million kWh of gas. Total capacity of the combined company would be approximately 100,000 MW, and total energy production would exceed 520 terawatt hours.

E.ON plans to maintain Endesa's current business policy and strategy and to continue developing Endesa's main business areas. The following is a brief description of E.ON's plans with respect to Endesa, should E.ON obtain control over Endesa, with respect to the corporate and territorial organization of Endesa and Endesa's assets. These plans and the related commitments assumed by E.ON have been made in light of the current Spanish regulatory framework and may be altered in the event of a material change in that regulatory framework.

E.ON intends immediately to take full advantage of one of Endesa's key areas of expertise, Endesa's Centre for Excellence in Distribution based in Barcelona. E.ON intends to build this center into a Global Centre of Excellence which will serve as a key resource of the entire E.ON Group.

As of the date of this annual report, E.ON does not have any specific plans regarding the use or disposal of Endesa's assets outside of the ordinary course of its business. E.ON is not planning to sell Endesa's assets. To the contrary, Endesa may benefit from the transfer of additional assets from E.ON to Endesa. There is no material overlap in the activities of E.ON and Endesa (except in certain regions of Northern Italy) and there is no need to sell any assets of Endesa to finance the Offers. However, E.ON will ensure that Endesa's business will stay in line with major business trends and may decide to sell assets of Endesa in the future, depending on the circumstances that exist at the time.

Antitrust and Regulatory Approvals

In connection with the Offers, the approval of various domestic and foreign regulatory authorities having jurisdiction over E.ON or Endesa, and their respective subsidiaries and their respective businesses, is required. The principal approvals required are described below.

Antitrust Approvals

European Union

E.ON and Endesa each conduct business in the member states of the European Union. Council Regulation (EC) No. 139/2004 requires that certain mergers or acquisitions involving parties with aggregate worldwide sales and individual European Union sales exceeding specified thresholds be notified to and approved by the European Commission before such mergers and acquisitions are consummated. This Regulation also gives the member states of the European Union the right to request that the European Commission refer jurisdiction to review a merger to their national competition authorities under the provisions of the relevant national merger law where it may have an effect on competition in a distinct national market. Such a request must be notified to the European Commission within 15 working days of the transaction's notification to the European Commission. There was no such referral in connection with the Offers.

E.ON, as sole shareholder of E.ON 12, submitted its proposed acquisition of Endesa to the European Commission on March 16, 2006. The European Commission reviewed the acquisition of Endesa pursuant to the Offers to determine whether the acquisition is compatible with the common market. The European Commission concluded that the proposed transaction would not significantly impede effective competition in the European Economic Area or any substantial part of it and therefore, on April 25, 2006, decided not to oppose the acquisition.

Litigation of Iberdrola against the EU Approval

On July 25, 2006, Iberdrola filed an appeal with the EC Court of First Instance against the decision of the European Commission as of April 25, 2006. The appeal does not automatically suspend the execution of the European Commission's decision. If the appeal were totally or partially upheld and the EC Court of Justice subsequently would confirm such decision of the Court of First Instance, pursuant to Article 10(5) of Council Regulation (EC) No. 139/2004, the acquisition of Endesa by E.ON 12 would be re-examined by the European Commission in the light of current market conditions. If the re-examination of the transaction led the European Commission to declare it incompatible with the common market or to declare it compatible with the common market subject to conditions, E.ON 12 understands that the European Commission may require them to dispose of all the Endesa ordinary shares or assets acquired, in order to restore the situation prevailing prior to the implementation of the concentration. However, such a disposition would not affect the purchase of Endesa's securities pursuant to the Offers. E.ON's outside counsel has received telephonic notice from the Court of First Instance that Iberdrola has withdrawn its appeal. Neither E.ON nor its counsel have as yet received written confirmation of such withdrawal.

Spain

According to Council Regulation (EC) No. 139/2004 and article 14.1 of Spanish Law 16/1989, of July 17, on the Defense of Competition, the acquisition by E.ON 12 of Endesa has been notified to the European Commission and not to the Service for the Defense of Competition, the Spanish competition authority, since it represents a combination involving parties with aggregate worldwide sales and individual European Union sales exceeding specified thresholds.

Other Jurisdictions

E.ON 12 is not required to file any notification with the competition authorities of the European Union member states with respect to the acquisition of Endesa by E.ON 12.

Based on its review of publicly available information regarding the businesses in which Endesa and its respective subsidiaries are engaged, the acquisition by E.ON 12 of Endesa is subject to the following notification requirements and/or approvals in non-European Union countries:

Argentina. The antitrust authorization period is 45 days from the date notice is complete, unless it is suspended by the Commission for the Defense of Competition in order to request additional information from E.ON 12. Therefore, in practice, it may take several months to obtain the authorization from the Argentine antitrust authority. If the authorization period is not suspended and the 45-day period expires without the Commission for the Defense of Competition having taken any decision, the Offers shall be deemed to have been tacitly approved by the Commission for the Defense of Competition.

E.ON 12 notified the Argentine competition authorities on May 22, 2006. After submitting its notice, the Commission for the Defense of Competition requested that E.ON 12 provide additional information in order to complete such notification, which suspended the 45-day deadline for the authorization of the transaction, and requested the opinion of the Argentine gas regulator (ENARGAS) and of the Argentine electricity regulator (ENRE) on the transaction. ENARGAS issued its opinion on November 15, 2006, expressing no concerns about the transaction, but ENRE has not yet started its review of the transaction. On November 22, 2006, the Commission for the Defense of Competition resumed its assessment of the transaction upon approval of E.ON 12's bid by the CNMV on November 16, 2006, but stated that it would not issue a final decision without the opinion of ENRE. The Offers do not need to be suspended pending the authorization. Nevertheless, should the authorization be denied after the completion of the Offers, E.ON 12 would be required to sell the assets and companies of Endesa in Argentina.

E.ON 12 believes that no circumstances exist that would prevent the acquisition of Endesa from being authorized by the Argentine competition authorities.

Brazil. On March 15, 2006, E.ON 12 filed a request for authorization with the Brazilian competition authorities. The antitrust authorization period is generally between two and three months, unless it is suspended by the Brazilian competition authorities in order to request additional information from E.ON 12. On March 27, 2006, the investigation department of the Brazilian Electric Energy Agency issued an opinion recommending the approval of the Offers. Furthermore, the investigation department of the Brazilian Ministry of Justice has requested the Brazilian Electric Energy Agency (the "ANEEL") to issue an opinion regarding the Offers. The Offers are currently under review by the ANEEL.

The Offers need not be suspended pending the authorization. Should the authorization be denied following the completion of the Offers, E.ON 12 would be required to sell the assets and companies of Endesa in Brazil. E.ON 12 believes that no circumstances exist that would prevent the acquisition of Endesa from being authorized by the Brazilian competition authorities.

Peru. Neither E.ON nor Endesa conduct business in Peru. Therefore, the acquisition of Endesa by E.ON 12 is not subject to any notification to the Peruvian competition authorities. E.ON 12 has received oral confirmation by the Peruvian competition authorities that it is not required to file a notification of the combination. Although not mandatory, E.ON 12 notified the Peruvian competition authorities on June 23, 2006, for information purposes only.

Based on its review of publicly available information regarding the businesses in which Endesa and its respective subsidiaries are engaged, E.ON 12 is not aware of any other authorization that would be necessary for E.ON 12 to obtain from other competition authorities in addition to the notifications and authorizations described above.

As of the date of this annual report, E.ON 12 is not able to accurately assess the financial and business impact that the failure to obtain any or all of the previous authorizations would have on the combined businesses of E.ON and Endesa. Notwithstanding this, it is not foreseeable that any such impact would be significant. In the event that the operation could be prohibited in some of the above countries, E.ON will sell the correspondent assets by means of a tender or by any other adequate procedure.

Other Regulatory Approvals

Spanish General Secretary of Energy

On March 8, 2006, E.ON 12 filed a notification of the Spanish Offer to the General Secretary of Energy (*Secretaría General de Energía*) of the Spanish Ministry of Industry, Tourism and Trade, in accordance with Article 3 and Transitory Provision Third of Law 5/1995, of March 23, on the applicable regime for the sale of government shareholdings in certain companies and golden shares (*Ley 5/1995, de 23 de marzo, de regimen jurídico de enajenación de participaciones públicas en determinadas empresas*).

On April 6, 2006, the General Secretary of Energy resolved, in light of the notification filed by E.ON 12, not to initiate the proceedings contemplated under article 4 of Spanish Law 5/1995.

The regime governing golden shares in Spanish Law 5/1995 was revoked by Spanish Law 13/2005, of May 26.

General Directorate for Energy of the Regional Government of the Balearic Islands

E.ON 12 filed an application to the General Directorate for Energy (*Dirección General de Energía*) of the Regional Government of the Balearic Islands on May 18, 2006, for the purposes of Decree 6/2006, of January 27, on the regulation of the procedure for the authorization of the transfer of electricity distribution facilities (*Decreto 6/2006, de 27 de enero, sobre la regulación del procedimiento de autorización de la transmisión de instalaciones de distribución de energía*). On November 15, 2006, the General Directorate for Energy granted the requested authorization.

National Commission for Energy

On March 23, 2006, E.ON 12 filed with the Spanish National Commission for Energy (*Comisión Nacional de Energía*) (the "CNE") an application requesting authorization to proceed with the Spanish Offer under the Royal Decree-Law 4/2006, of February 24, which amended the functions of the CNE.

On July 27, 2006, the CNE issued a resolution authorizing the Offers, subject to the fulfillment of 19 conditions.

On August 10, 2006, E.ON 12 filed an administrative appeal against the resolution of the CNE with the Spanish Ministry of Industry, Tourism and Trade (the "Spanish Ministry of Industry"), in which E.ON 12 argued that the conditions are excessive and unlawful.

On September 26, 2006, the European Commission declared that the conditions imposed on E.ON 12 by the CNE are incompatible with European Union law, and demanded their removal. On October 18, 2006, the European Commission initiated an infringement procedure against Spain for breach of European Union law by not complying with the order to remove the conditions.

On November 3, 2006, the Spanish Ministry of Industry confirmed the authorization of the Spanish Offer that had been granted by the CNE, removed some of the conditions and modified other conditions. The remaining conditions are outlined below:

- E.ON 12 must keep Endesa as the parent company of its group and may not merge any of its subsidiaries with E.ON 12 for a period of five years after having obtained control of Endesa. Endesa must keep its brand, registered office and administrative body.
- E.ON 12 must adequately fund Endesa in order to maintain a ratio of net financial debt to EBITDA of less than 5.25 for a period of three years after having obtained control of Endesa.
- Until the year 2010, member companies of the combined E.ON and Endesa group carrying out regulated activities in Spain may only pay dividends if the resources generated by them are sufficient to meet their financial and investment commitments.
- E.ON 12 must make all investments in regulated activities of gas and electricity as set out in the Endesa investment plans for the period 2006-2009 and certain other plans, and must furnish certain information and plans to the competent authorities.
- In the period from 2010 to 2015, E.ON 12 must annually inform the CNE about its future investment plans regarding regulated activities and strategic assets of gas and electricity.
- E.ON 12 must maintain Endesa's ordinary generation facilities for their remaining usable life as currently intended by Endesa.
- Until the year 2009, E.ON 12 may not redirect any natural gas to markets other than the Spanish market, if the annual volume of gas as set out in the natural gas supply plans submitted by Endesa to the CNE is not met.
- All nuclear facilities owned by Endesa must comply with the obligations and regulations regarding nuclear matters and all applicable law and agreements as to the management of such nuclear facilities regarding questions of security and supply of uranium.
- For a period of five years after obtaining control of Endesa, E.ON 12 must maintain the current companies owning assets used for the generation, distribution or transmission of insular or extra-peninsular electricity systems.
- For a period of five years after obtaining control of Endesa, E.ON 12 must guarantee that the aggregated annual consumption of each of Endesa's plants that currently consume Spanish coal is not less than the aggregated annual volume set out in the National Plan of Coal Mining 2006-2012.
- Future acquisitions of shares in Endesa shall be governed by the same set of rules as in force.

- E.ON 12 must not adopt strategic decisions as to Endesa which will affect the security of supply contrary to the Spanish law.
- Any violation of the conditions set out by the decision of the Spanish Ministry of Industry may lead to legal proceedings under the applicable Spanish energy regulations.
- If, during a period of ten years after E.ON 12 obtained control of Endesa, any third party acquires or attempts to acquire, directly or indirectly, shares in E.ON amounting to more than 50 percent of the share capital or granting more than 50 percent of the voting rights, E.ON must notify CNE, which will be entitled to modify the decision of the Spanish Ministry of Industry set forth above. In this case, CNE may require E.ON to dispose of all the ordinary shares of Endesa.
- The CNE may request the Spanish government to adopt measures based on the relevant Spanish regulations in order to guarantee the supply of energy in emergency situations.

E.ON 12 considers the conditions set forth in the decision of the Spanish Ministry of Industry acceptable and does not intend to challenge its decision in court.

However, on December 20, 2006, the European Commission ruled that the conditions set forth in the decision of the Spanish Ministry of Industry as of November 3, 2006 were incompatible with EU law and requested the Spanish government to withdraw the modified conditions by January 19, 2007. The Spanish government has not withdrawn the modified conditions. On January 31, 2007, according to Article 226 of the EC Treaty, the Commission sent a letter to Spain requesting it to comply with the Commission's Decisions of September 26 and December 20, 2006. If Spain does not comply with the Decisions, the Commission may issue a reasoned opinion against Spain. Finally, on January 25, 2007, the European Commission brought an action against Spain before the European Court of Justice regarding the approval of Royal Decree-Law 4/2006, of February 24, which amended the functions of the CNE.

Other Jurisdictions

Brazil. On July 3, 2006, E.ON 12 filed a request for authorization with the Brazilian energy regulatory agency (ANEEL) to acquire a controlling interest in Endesa's subsidiaries that hold public service concessions. In response to such request, the Secretary of Economic and Financial Control of ANEEL ruled by official letter dated August 14, 2006, that Endesa was required to request authorization, not E.ON 12. E.ON 12 has asked that Endesa undertake all necessary measures to enable the acquisition by E.ON 12 of Endesa's public service concessionaire subsidiaries in Brazil. On January 25, 2007, Endesa filed the new request for authorization with ANEEL. Although Brazilian law does not provide for a time limit for ANEEL to issue its authorization, this authorization may take approximately 45 business days to obtain.

If E.ON 12 does not obtain such authorization prior to the settlement of the Offers, E.ON 12 would be prevented from exercising control and, therefore, participating in the management of Endesa's subsidiaries. Furthermore, if the authorization is denied, E.ON 12 may be required to sell Endesa's public service concessionaire subsidiaries as well as the other subsidiaries operating under government authorization in Brazil. E.ON 12 would dispose of these assets by means of an auction or other efficient procedure. Finally, ANEEL may also decide to subject the grant of its authorization to certain conditions or restrictions. E.ON 12 is not able to estimate the impact of such restrictions.

Argentina. Authorization for the acquisition of indirect control over the subsidiaries of Endesa in Argentina is not required. However, each of the relevant subsidiaries of Endesa must communicate such event to the energy regulator in Argentina following the settlement of Offers. This reporting obligation is made for the purpose of updating the corresponding registers in the Argentine energy sector. The deadline for notification is 10 days following the settlement of the Spanish Offer.

Colombia. Acquisition of indirect control of the subsidiaries of Endesa in Colombia must be communicated to the Colombian energy regulator. Such communication is an informational obligation following the settlement of the Spanish Offer, for which no specific deadline is stipulated under Colombian law. The Colombian energy regulator could impose conditions relating to the terms of the government authorizations under which the

Colombian subsidiaries of Endesa operate. However, E.ON 12 believes that, in principle, there are no circumstances which might give rise to the imposition of conditions as a result of the acquisition of indirect control over the subsidiaries of Endesa in Colombia.

Turkey. Endesa has a 50 percent shareholding in a Turkish company, and accordingly, E.ON 12 has requested the compulsory authorization from the Turkish regulatory authorities in the energy sector prior to the acquisition of such shareholding.

E.ON 12 requested the corresponding authorization from the Turkish regulatory authorities in the energy sector on September 5, 2006. On September 13, 2006, the Turkish regulatory authorities stated that no decision can be made because the Offers are subject to conditions.

In the event that, after E.ON has obtained control of Endesa and authorization were denied, E.ON 12 would have to sell Endesa's holding in the Turkish company. However, E.ON 12 believes that the authorization will be obtained.

Poland. The acquisition of indirect control of the subsidiaries of Endesa in Poland is not subject to any authorization. However, E.ON 12 is required to provide notification of the transaction to the Polish energy regulator following the settlement of the Offers, although no specific deadline for doing so is specified under Polish law. This notification has the purpose of updating the registers in the Poland energy sector, and under no circumstances could it have an impact on the Offers or require E.ON 12 to proceed with the sale of Endesa's subsidiaries in Poland or of the assets of such subsidiaries.

Based on its review of publicly available information regarding the businesses in which Endesa and its respective subsidiaries are engaged, E.ON 12 is not aware of any other license or regulatory permits from the other regulatory authority within the energy sector that would be necessary for E.ON 12 to obtain in addition to the notification or authorization above described.

As of the date of this annual report, E.ON 12 is not able to accurately assess the financial and business impact that the failure to obtain any or all of the previous authorizations would have on the combined businesses of E.ON and Endesa. However, E.ON 12 does not estimate that there would be any significant impact. In any jurisdiction in which the transaction were not authorized, E.ON 12 would expect to dispose of the relevant assets by means of an auction or any other efficient procedure.

Other Legal Actions

Acciona Litigation

On October 12, 2006, E.ON and E.ON 12 filed a complaint against Acciona S.A. ("Acciona") and Finanzas Dos, S.A. ("Finanzas"), a wholly owned subsidiary of Acciona, in the U.S. District Court for the Southern District of New York (the "Court") alleging that a Schedule 13D filed by Acciona and Finanzas with the SEC on October 5, 2006, with respect to the acquisition of Endesa shares, was materially false and misleading. The complaint sought certain injunctive relief, including relief in the form of a declaration that the Schedule 13D violates Section 13(d) of the Exchange Act, an order requiring that Acciona and Finanzas correct by public means their material misstatements and omissions and be enjoined from purchasing or making any arrangement to purchase any Endesa ordinary shares until such time as they have filed an accurate Schedule 13D.

On October 13, 2006, E.ON and E.ON 12 filed a motion for a preliminary injunction as well as a motion for expedited scheduling and discovery, and the parties participated in an initial hearing with the Court to discuss the litigation. The Court scheduled a second hearing for October 20, 2006 to consider plaintiffs' motions and to schedule further proceedings in connection with plaintiffs' application for a preliminary injunction. On October 19, 2006, Acciona and Finanzas amended their Schedule 13D and made public certain information previously omitted from their Schedule 13D, including the existence of fourteen total return swap agreements with Banco Santander Central Hispano, S.A. ("Banco Santander") related to Endesa shares. Acciona and Finanzas also moved to dismiss the complaint asserting, among other things, that the amended Schedule 13D mooted E.ON's action. At the October 20, 2006 hearing, the Court requested that E.ON file an amended complaint addressing the amended Schedule 13D.

On November 3, 2006, E.ON filed an amended complaint (in which a wholly owned subsidiary of E.ON AG, BKB AG, was added as a plaintiff), a brief in opposition to Acciona's and Finanzas' motion to dismiss, and a renewed application for preliminary injunctive relief. The amended complaint alleges that the initial Schedule 13D filed by Acciona and Finanzas, as well as the Schedule 13D as amended on October 19, 2006, and October 25, 2006, are materially false and misleading and seeks certain injunctive relief, including relief in the form of a declaration that the Schedule 13D, as amended, violates Section 13(d) of the Exchange Act, an order requiring that Acciona and Finanzas correct by public means their material misstatements and omissions and be enjoined from purchasing or making any arrangement to purchase any Endesa ordinary shares in connection with the settlement of the total return swaps it entered into with Banco Santander.

On November 16, 2006, the Court advised that it would deny Acciona's motion to dismiss, and it granted E.ON's motion for expedited scheduling and discovery. On November 20, 2006, the Court issued an Opinion and Order denying Acciona's motion to dismiss.

On November 17, 2006, E.ON supplemented its amended complaint to add allegations that Acciona's acquisition of 13.692 percent of Endesa's shares on September 25, 2006 (the initial 10 percent acquired directly by Acciona on September 25, 2006, plus an additional 3.692 percent acquired by Banco Santander and subjected to the first total return swap with Acciona) were acquired by means of an illegal tender offer in violation of Sections 14(d) and 14(e) of the Exchange Act. E.ON seeks an order that Acciona be required to offer withdrawal rights (through an offer of rescission) to all Endesa shareholders who sold shares to Acciona or Banco Santander in response to Acciona's illegal tender offer.

On December 11, 2006, Acciona filed a motion to dismiss E.ON's illegal tender offer claim. On January 9, 2007, the Court issued an Opinion and Order denying that motion to dismiss.

On February 5, 2007, the Court granted E.ON's and E.ON 12's motion for a preliminary injunction against Acciona and Finanzas prohibiting them from any further violation of Section 13(d) under the Exchange Act and any other disclosure provision of the U.S. securities laws. The Court denied all other preliminary injunctive relief sought by E.ON and E.ON 12. On February 7, 2007, the Court set the initial scheduling conference for May 11, 2007.

On February 7, 2007, E.ON and E.ON 12 appealed the February 5, 2007 opinion and order of the Court to the extent that it denied preliminary injunctive relief sought by E.ON and E.ON 12 to the U.S. Court of Appeals for the Second Circuit (the "Second Circuit"). Also on February 7, 2007, E.ON and E.ON 12 filed with the Second Circuit a motion to expedite the appeal. On February 14, 2007, E.ON's and E.ON 12's motion to expedite the appeal was denied.

Barcelona Litigation I

On July 28, 2006, Gas Natural filed a pre-trial proceeding request with the Court for Business Matters No. 1 in Barcelona (Juzgado de lo Mercantil n° 1 de Barcelona) based on the Spanish Unfair Competition Law requesting Endesa, E.ON, HSBC Bank plc, BNP Paribas, Citigroup Global Markets Limited, J.P. Morgan plc and Deutsche Bank AG (the "Requested Parties") to furnish certain information and documents on the contacts maintained amongst them in connection with the Spanish Offer, alleging possible unfair competition practices and the use of inside information. On October 25, 2006, the Court for Business Matters No. 1 in Barcelona ordered the Requested Parties to provide copies of certain documents relating to the Spanish Offer within 15 days as from the notification of such decision. The requested documents, relating to the Spanish Offer, include, but are not limited to, the confidentiality agreements entered into by the Requested Parties, Board minutes, minutes of meetings, the agreements and mandate letters among Endesa, E.ON and their respective advisors, due diligence reports, and copies of all mailings amongst the Requested Parties. After the requested documents are furnished, the Court for Business Matters No. 1 in Barcelona will decide which of such documents shall be provided to Gas Natural. This decision will depend on the eventual relevance of such documents to serve as a basis for a possible future lawsuit.

The request for pre-trial proceedings does not imply the initiation of further jurisdictional proceedings against the Requested Parties. It is a pre-trial activity only, which purpose is to furnish the requesting party with sufficient information to decide whether or not to file a lawsuit. No request for precautionary measures has been filed. As of

the date hereof, Endesa, Deutsche Bank, JP Morgan and HSBC have appeared in the pre-trial proceedings. E.ON has not yet been formally notified of the proceedings.

Because this is pre-trial activity only and, as mentioned above, Gas Natural has not filed a request for precautionary measures, the Offers should not be affected by these proceedings. However, Gas Natural could file a lawsuit on the basis of information obtained in these proceedings and possibly request that the Spanish Offer be suspended.

Barcelona Litigation II

Gas Natural filed a lawsuit against E.ON with the Court for Business Matters No. 5 in Barcelona. Gas Natural alleges that E.ON is abusing a dominant position in violation of article 82 of the EC Treaty, and requests a Court judgment declaring the Offers void. On January 25, 2007, E.ON was served in Germany with the German versions of the complaint and court order, but not the Spanish versions. E.ON voluntarily appeared before the court on January 26, 2007, requesting that the court provide the entire court records in Spanish. This request does not imply any waiver of rights or tacit submission to the court. On January 30, 2007, the court provided E.ON with the Spanish version of the complaint together with its exhibits. As the vast majority of the exhibits which were given were in German, E.ON has filed a writ requesting the Spanish translations of the exhibits and a suspension of the deadline to file the answer to the claim, until the Spanish versions of the exhibits have been provided. The Court has granted Gas Natural a 10-day deadline to furnish the translation of the exhibits requested by E.ON, and has ordered that the course of the proceedings be suspended until Gas Natural furnishes the Spanish version of the exhibits. At this stage, Gas Natural has not yet provided the requested translations. In addition, E.ON has filed an appeal for reversal requesting the Court to fix the amount of the claim so as to render a resolution whereby it determines the amount of the claim is €36,526,948,036. Gas Natural has thereafter filed an opposition to the appeal for reversal requesting that the Court order the dismissal of the said appeal, leaving the amount in dispute as undetermined. Gas Natural has further filed complementary allegations to its opposition to E.ON's appeal for reversal.

Gas Natural New York Litigation

On November 30, 2006, Gas Natural filed a complaint against E.ON and E.ON 12 in the U.S. District Court for the Southern District of New York alleging that on November 17, 2006, E.ON and E.ON 12 had filed a false and misleading Schedule TO-C with the SEC containing a preliminary offer document in connection with the proposed tender offer for Endesa. On December 4, 2006, Gas Natural moved for a preliminary injunction seeking, among other things, to require E.ON and E.ON 12 to make additional disclosures to correct allegedly false and misleading statements and to prevent E.ON and E.ON 12, until additional disclosures were made, from taking further steps to consummate a U.S. tender offer or purchasing Endesa ordinary shares from U.S. holders. On December 11, 2006, E.ON and E.ON 12 moved to dismiss the lawsuit. On December 19, 2006, the Court dismissed most of the claims. The remaining claim concerns Gas Natural's allegation that E.ON and E.ON 12 failed to disclose material agreements with Endesa; the Court expressed no view on the merits of that claim, but held only that it had been pleaded with sufficient specificity to survive a motion to dismiss. By stipulation entered by the Court on December 27, 2006, Gas Natural withdrew without prejudice its motion for a preliminary injunction and the case was stayed until the earlier of 45 days from entry of the stipulation or E.ON's or E.ON 12's commencement of a tender offer in the U.S. for Endesa ordinary shares or ADSs.

The stay expired on January 26, 2007, when E.ON 12 commenced its U.S. tender offer for Endesa. On February 7, 2007, the Court set the initial scheduling conference for May 11, 2007. Gas Natural's complaint and other papers filed in the course of this proceeding are publicly available for a fee from the website of the PACER Service Center (<http://pacer.psc.uscourts.gov>), the U.S. Federal Judiciary's centralized system for electronic access to court records, by selecting on the PACER website the U.S. District Court for the Southern District of New York and querying the party name "E.ON". Material appearing on the website is not incorporated by reference in this annual report.

E.ON's Complaint Filed against Acciona, Gas Natural and Other Natural or Legal Persons before the CNMV

On January 2, 2007, E.ON filed a complaint against Acciona with the CNMV alleging that Acciona and Gas Natural are acting in concert without launching a joint tender offer in Spain and therefore are violating Spanish law. In its complaint, E.ON requests that Acciona shall be enjoined from acquiring Endesa ordinary shares and prohibited from exercising the voting rights of the Endesa ordinary shares already held.

Complaint Filed by Acciona with the CNMV against E.ON 12

On January 16, 2007, the CNMV received a letter from Acciona, in which Acciona claimed that, according to reports published in the press, E.ON 12 held certain information concerning Endesa that was not known to Endesa's shareholders. Acciona further stated in its letter that E.ON 12 should be compelled to disclose this information, and any future plans of E.ON 12 based on this information, to the Endesa shareholders and, in particular, to Acciona, in accordance with the principles of equal treatment and the protection of investors and so that shareholders are able to form a reasoned judgment regarding the Offers.

Specifically, Acciona requested that the Spanish Prospectus authorized on November 16, 2006, by the CNMV be modified to include this information or that the CNMV take any other measure to ensure that the Endesa shareholders are furnished with this information.

Acciona's Request for Preliminary Inquiries in Madrid

Acciona filed a request for pre-trial proceedings against E.ON before the courts in Madrid alleging possible unfair competition practices and the use of inside information between Endesa and E.ON. On March 2, 2007, E.ON was served with a resolution from the Court for Commercial Business n° 2 of Madrid which rejected most of the preliminary inquiries sought by Acciona. Notwithstanding this, the resolution orders E.ON to furnish certain information referring to some currency exchange values in Latin America and to a joint venture contract entered into by Endesa and Medgaz. Additionally, E.ON is requested to furnish its confidentiality agreement with Endesa, as well as the due diligence reports and the list of insiders in connection with its bid for Endesa.

In any case, this request for pre-trial proceedings does not necessarily imply the initiation of further jurisdictional proceedings against E.ON. It is merely a pre-trial activity, which has the purpose of furnishing Acciona with sufficient information to decide whether or not to file a lawsuit.

Obligation to Make Tender Offers in Other Jurisdictions

If the Offers are successful, pursuant to local laws in the countries of some of Endesa's subsidiaries, E.ON 12 may be required to make tender offers for the outstanding shares of certain subsidiaries. The only offers which might be made for the stock of publicly traded subsidiaries of Endesa are the following:

Brazil

In accordance with Law 6404/76 on stock companies, and Brazilian Securities Commission (*Comissao de Valores Mobiliarios*) Instruction 361/2002, upon taking effective control of Endesa, E.ON 12 might be required to launch a tender offer for Ampla Energia e Servicos, S.A., Ampla Investimentos e Servicos, S.A. and Companhia Energetica do Ceara (COELCE), Endesa subsidiaries whose shares are listed on the Sao Paulo Stock Exchange. Pursuant to the applicable Brazilian laws, these offers must be made for the whole share capital of such subsidiaries within 30 days after E.ON 12 takes effective control of Endesa. Anyway, pursuant to a recent interpretation of the applicable laws by the Brazilian Securities Commission, it is likely that E.ON 12 will not be requested to make any of these tender offers.

Peru

Pursuant to sections 68° to 74° of the Unified Text of the Securities Market Law, approved by the Supreme Decree N° 093-2002-EF enacted on June 15, 2002, and the regulation enacted by the Peruvian Securities Exchange Commission (CONASEV) under the Resolution N° 009-2006-EF/94.10, in force since May 2006 and amended by Peruvian Securities Exchange Commission (CONASEV) under Resolution N° 020-2006-EF/94.10 enacted in April

2006, if the Offers are successful, E.ON 12 would be required to launch a tender offer for Edegel S.A.A., Edelnor S.A.A., Generandes Perú S.A. and Empresa Eléctrica de Piura S.A., Endesa's subsidiaries which have at least one class of shares listed on the Lima Stock Exchange. Pursuant to the above regulations, these tender offers should be launched within four months after the settlement of the Offers and must be for the share capital of such subsidiaries not controlled by Endesa.

Chile

On December 7, 2005, the SVS confirmed, through *Oficio Ordinario n° 12.825*, that E.ON 12 is not required to launch a tender offer pursuant to Chilean Securities Law 18.045 or pursuant to the Chilean Stock Companies Law 18.046 for Enersis, S.A., Endesa Chile, S.A., Chilectra, S.A. and E.E. Pehuenche, S.A., Endesa subsidiaries which are listed on the Santiago de Chile Stock Exchange.

E.ON 12 estimates that the amount that would have to be spent for mandatory tender offers for minority interests in Brazil and Peru, as described above, would be approximately €550 million.

GROUP STRATEGY

E.ON's Business Model

E.ON's strategy is grounded in an integrated business model that is based on the following key points:

- *An Integrated Power and Gas Business.* E.ON intends to follow a long-term strategy with a clear focus on integrated power and gas operations that enjoy leading positions in their respective markets. In doing so, it seeks to develop positions throughout the energy value chain, including positions in infrastructure where they are seen as enhancing E.ON's access to markets and customers.
- *A Clear Geographic Focus.* E.ON seeks to strengthen its leading positions and performance in its existing markets (Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest), while taking focused steps in new markets such as Italy, Russia, Turkey and — through the proposed acquisition of Endesa — also Spain and Latin America.
- *Clear Strategic Priorities.* E.ON's first priority is to strengthen and grow its position in European markets while maintaining a strong and diversified generation portfolio and enhancing its gas supply position through investments in "equity gas" produced from fields in which E.ON holds an interest, as well as the potential development of liquefied natural gas ("LNG") as an alternative form of gas delivery. E.ON currently views the United States as an opportunity for more long-term growth.
- *Strict Investment Criteria.* In following this model, E.ON applies strict strategic and financial criteria to each potential investment, focusing on those which management believes exhibit the potential for material value creation.

Strategy

Building on this model, E.ON's corporate strategy is to maximize the value of its portfolio of focused energy businesses through:

- Creating value from the convergence of European energy markets (*e.g.*, as the United Kingdom becomes a net importer of gas and can take advantage of greater pipeline capacity connecting it to continental Europe, E.ON will be able to supply its retail gas business in the United Kingdom from its Pan-European Gas supply business);
- Creating value from vertical integration (*i.e.*, establishing a presence in all parts of the value chains for both power and gas);
- Creating value from the convergence of the electricity and gas value chains (*e.g.*, offering retail electricity and gas customers energy from a single source), thus providing E.ON with opportunities to realize economies of scale in servicing costs while increasing customer loyalty;

- Enhancing operational performance through identifying and transferring best practice for common activities throughout the Group's different market units (*e.g.*, effective programs for enhancing E.ON's electricity generation, distribution and retailing businesses);
- Improving the Group's competitive position in its target markets, both through organic growth and through pursuing selective investments which contribute to these objectives or provide stand alone value creation opportunities, as described below;
- Creation of a common corporate culture under the OneE.ON initiative, which seeks to enhance integration of all market units and their subsidiaries under the E.ON banner so as to help the E.ON Group realize its vision and strategic goals, while maintaining its commitment to corporate social responsibilities; and
- Tapping value-enhancing growth potential in new markets such as Italy, Russia, Turkey and Spain and Latin America.

In addition, E.ON has set a number of specific objectives for its market units in implementing its corporate strategy within each of its target markets, namely:

- Central Europe — Fortifying strong market positions, enhancing the company's competitive activities in the mass market and developing new growth potential through:
 - consolidation of distribution and sales activities and capitalizing on opportunities from power-gas convergence;
 - significant investment in power generation to maintain the market position;
 - hedging exposure to price risks through vertical integration of generation and sales operations;
 - participating in the privatization of power and downstream gas companies in Eastern Europe, as well as significant investments in power generation; and
 - continued growth in the market of Italy, *i.e.* in power generation, trading and the retail business.
- Pan-European Gas — Strengthening and diversifying E.ON Ruhrgas' current position through:
 - selective equity investments in gas production in the North Sea and Russia;
 - pursuing LNG options (including upstream positions) to maintain long-term supply diversification;
 - securing security of supply through new (and renewed) long-term supply contracts with producers; and
 - participating in infrastructure projects to enhance gas supply position in Europe.
- U.K. — Enhancing profitability of the U.K. businesses through:
 - investing in flexible generation assets and low carbon intensive generating technologies, such as Combined Cycle Gas Turbine ("CCGT"), to maintain a low cost hedge for changes in retail electricity demand;
 - investing in the generation of power from renewable resources to capture value from the U.K. government's renewable obligation mandate; and
 - investing in gas storage assets to hedge against potentially volatile gas price movements as the United Kingdom starts to become a net importer of gas.
- Nordic — Strengthening E.ON's position through:
 - expanding its presence in power generation;
 - enhancing scale through synergistic acquisitions in distribution and district heating; and
 - continued participation in gas supply and infrastructure developments.

- U.S. Midwest — Focusing on optimizing E.ON U.S.'s current operations in Kentucky and delivering additional performance improvements. This could include investments in generation capacity if the demand for electricity grows.

As it focuses on energy, E.ON will seek to maximize the value of its remaining non-core businesses by divesting them at an appropriate time and allocating the proceeds to strategic investments. As part of its strategy to focus on its core energy business, E.ON completed its disposal of Viterra and Ruhrgas Industries GmbH ("Ruhrgas Industries") in 2005 and the disposal of its remaining minority interest in Degussa in 2006.

The transformation of the Company into a focused energy business has entailed further divestment and acquisition activities in recent years. For more detailed information on the principal activities in implementing the transformation, see "— Powergen Group Acquisition," "— Ruhrgas Acquisition" and the respective market unit descriptions in "— Business Overview."

OTHER SIGNIFICANT EVENTS

In November 2004, E.ON Ruhrgas International AG ("ERI") signed an agreement for the acquisition of 75.0 percent minus one share each of the gas trading and gas storage businesses of the Hungarian oil and gas company MOL RT. ("MOL") and its 50.0 percent interest in the gas importer Panrusgáz Zrt. ("Panrusgáz"). In addition, MOL received a put option to sell to ERI up to 75.0 percent minus one share of its gas transmission business and put options to sell to ERI the remaining 25.0 percent plus one share in the MOL gas trading and gas storage businesses. As a condition of antitrust approval by the European Commission, MOL is obliged to sell the remaining 25.0 percent plus one share of the gas trading and storage businesses as well. As a result, ERI signed an agreement for the acquisition of the remaining 25.0 percent plus one share of each of these two companies. The acquisition of 100 percent of the gas trading and gas storage businesses was completed at the end of March 2006. The acquisition of MOL's 50.0 percent interest in Panrusgáz was completed at the end of October 2006.

In December 2005, E.ON AG and RAG signed a framework agreement on the sale of E.ON's remaining 42.9 percent stake in Degussa to RAG. The transaction was completed on July 3, 2006.

In February 2006, E.ON Nordic and Fortum Power and Heat Oy ("Fortum") signed an agreement providing for Fortum's acquisition of E.ON Nordic's entire 65.6 percent stake in E.ON Finland. On June 26, 2006, E.ON Nordic and Fortum finalized the transfer of all of E.ON Nordic's shares in E.ON Finland to Fortum.

In February 2006, E.ON filed a takeover offer for 100 percent of the share capital of Endesa.

See also "— Proposed Endesa Acquisition," the respective market unit descriptions in "— Business Overview" and the descriptions in "Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions" and "— Liquidity and Capital Resources."

CAPITAL EXPENDITURES

E.ON's aggregate capital expenditures for property, plant and equipment were €4.0 billion in 2006 (2005: €2.9 billion, 2004: €2.5 billion). For a detailed description of these capital expenditures, as well as E.ON's expected capital expenditures for the period beginning in 2007, see "Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources."

BUSINESS OVERVIEW

INTRODUCTION

E.ON is the largest industrial group in Germany, measured on the basis of market capitalization at year-end 2006. In 2006, the Group's core energy business was organized into the following separate market units: Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest, as well as the Corporate Center.

Central Europe. E.ON Energie is the lead company of the Central Europe market unit. E.ON Energie is one of the largest non-state-owned European power companies in terms of electricity sales, with revenues of

€28.4 billion (which included €1.1 billion of energy taxes that were remitted to the tax authorities) in 2006. E.ON Energie's core business consists of the ownership and operation of power generation facilities and the transmission, distribution and sale of electric power, gas and heat in Germany and continental Europe. The Central Europe market unit owns interests in and operates power stations with a total installed capacity of approximately 36,800 MW, of which Central Europe's attributable share is approximately 28,200 MW (not including mothballed, shutdown and reduced power plants). Through its own operations, as well as through distribution companies, in most of which it owns a majority interest, E.ON Energie also distributes electricity, heat and gas to regional and municipal utilities, commercial and industrial customers and residential customers. In 2006, E.ON Energie supplied approximately 18 percent of the electricity consumed by end users in Germany. The Central Europe market unit contributed 41.9 percent of E.ON's revenues and recorded adjusted EBIT of €4.2 billion in 2006.

Pan-European Gas. E.ON Ruhrgas is the lead company of the Pan-European Gas market unit. E.ON Ruhrgas is one of the leading non-state-owned gas companies in Europe and the largest gas business in Germany in terms of gas sales, with 709.7 billion kWh of gas sold in 2006. E.ON Ruhrgas' principal business is the supply (including gas exploration and production), transmission, storage and sale of natural gas. E.ON Ruhrgas imports gas from Russia, Norway, the Netherlands, the United Kingdom and Denmark, and also purchases gas from domestic sources. E.ON Ruhrgas sells this gas to regional and supraregional distributors, municipal utilities and industrial customers in Germany and increasingly also delivers gas to customers in other European countries. In addition, E.ON Ruhrgas is active in gas transmission within Germany via a network of approximately 11,400 kilometers ("km") of gas pipelines and operates a number of underground storage facilities in Germany. E.ON Ruhrgas also holds numerous stakes in German and other European gas transportation and distribution companies, as well as a small shareholding in Gazprom, Russia's main natural gas exploration, production, transportation and marketing company. In 2006, the Pan-European Gas market unit recorded revenues of €25.0 billion (which included €2.1 billion in natural gas and electricity taxes that were remitted, directly or indirectly, to the tax authorities) and adjusted EBIT of €2.1 billion. The Pan-European Gas market unit contributed 36.9 percent of E.ON's revenues in 2006.

U.K. E.ON UK is the lead company of the U.K. market unit. E.ON UK is an integrated energy company with its principal operations focused in the United Kingdom. E.ON UK and its associated companies are actively involved in the ownership and operation of power generation facilities, as well as in the distribution of electricity and supply of electric power and gas and in energy trading. E.ON UK owns interests in and operates power stations with a total installed capacity of approximately 10,800 MW, of which its attributable share is approximately 10,500 MW. E.ON UK served approximately 8.4 million electricity and gas customer accounts at December 31, 2006 and its Central Networks business served 4.9 million customer connections. In 2006, E.ON UK recorded revenues of €12.6 billion or 18.5 percent of E.ON's revenues, and adjusted EBIT of €1.2 billion.

Nordic. E.ON Nordic is the lead company of the Nordic market unit. It currently operates mainly through E.ON Sverige, an integrated energy company in which it holds a majority stake. E.ON Nordic and its associated companies are actively involved in the ownership and operation of power generation facilities, as well as the distribution and supply of electric power, gas and heat, primarily in Sweden but to a smaller extent also in Denmark and Finland. Through E.ON Sverige, E.ON Nordic owns interests in power stations with a total installed capacity of approximately 14,800 MW, of which its attributable share is approximately 7,300 MW (not including mothballed and shutdown power plants). In June 2006, E.ON Nordic and Fortum finalized the transfer of all of E.ON Nordic's 65.6 percent stake in E.ON Finland to Fortum pursuant to an agreement signed in February 2006. In 2006, E.ON Nordic recorded revenues of €3.2 billion (including €377 million of electricity and natural gas taxes that were remitted to the tax authorities) or 4.7 percent of E.ON's revenues, and adjusted EBIT of €619 million.

U.S. Midwest. E.ON U.S. is the lead company of the U.S. Midwest market unit. E.ON U.S. is a diversified energy services company with businesses in power generation, retail gas and electric utility services, as well as asset-based energy marketing. E.ON U.S.'s power generation and retail electricity and gas services are located principally in Kentucky, with a small customer base in Virginia and Tennessee. E.ON U.S. owns interests in and operates power stations with a total installed capacity of approximately 7,600 MW, of which its attributable share is approximately 7,500 MW (not including mothballed and shutdown power plants). In 2006, the U.S. Midwest market unit recorded revenues of €1.9 billion or 2.9 percent of E.ON's revenues, and adjusted EBIT of €391 million.

Corporate Center. The Corporate Center consists of E.ON AG itself, those interests owned directly and indirectly by E.ON AG that have not been allocated to any of the other segments, including its remaining telecommunications interests, and consolidation effects at the Group level, including the elimination of intersegment sales.

For information on E.ON's discontinued operations, including its former oil and aluminum divisions, as well as its real estate subsidiary Viterra and certain activities of the Pan-European Gas, Nordic and U.S. Midwest market units, see "— Discontinued Operations."

E.ON's financial reporting mirrors the E.ON group structure, with each of the five market units and the results of the Corporate Center (including consolidation effects) constituting a separate segment for financial reporting purposes. Until the sale of E.ON's remaining stake in Degussa in July 2006, the results of E.ON's minority interest in Degussa continued to be presented outside of the core energy business as part of E.ON's "Other Activities," which was reported as a separate segment. The primary measure by which management evaluates the performance of each segment in accordance with SFAS 131 is adjusted EBIT. E.ON defines this measure as an adjusted figure derived from income/(loss) from continuing operations (before intra-Group eliminations when presented on a segment basis) before income taxes and minority interests, excluding interest income. Adjustments include net book gains resulting from disposals, as well as cost-management and restructuring expenses and other non-operating earnings of an exceptional nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions and nuclear waste management is allocated to adjusted interest income. Management believes that this measure is the most useful segment performance measure because it better depicts the performance of individual business units independent of changes in interest income and taxes. However, on a consolidated Group basis adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. For a reconciliation of Group adjusted EBIT to net income for each of 2006, 2005 and 2004, see "Item 5. Operating and Financial Review and Prospects — Results of Operations — Business Segment Information." Adjusted EBIT should not be considered in isolation as a measure of E.ON's profitability and should be considered in addition to, rather than as a substitute for, the most directly comparable U.S. GAAP measures. In particular, there are material limitations associated with the use of adjusted EBIT as compared with such U.S. GAAP measures, including the limitations inherent in E.ON's determination of each of the adjustments noted above. E.ON seeks to compensate for those limitations by providing a detailed reconciliation of adjusted EBIT to income from continuing operations before income taxes and minority interests and net income, the most directly comparable U.S. GAAP measures, in the section of Item 5 noted above, as well as the more detailed textual analysis of year-on-year changes in the key components of each of the reconciling items appearing under the caption "Reconciliation of Adjusted EBIT" in "Item 5. Operating and Financial Review and Prospects — Results of Operations — Business Segment Information," "— Year Ended December 31, 2006 Compared with Year Ended December 31, 2005" and "— Year Ended December 31, 2005 Compared with Year Ended December 31, 2004." As a result of these limitations and other factors, adjusted EBIT as used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

The following table sets forth the revenues of E.ON's market units as well as the Corporate Center for 2006, 2005 and 2004:

| | 2006 | | 2005 | | 2004 | |
|----------------------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
| | (€ in millions) | % | (€ in millions) | % | (€ in millions) | % |
| Central Europe(1) | 28,380 | 41.9 | 24,295 | 43.3 | 20,752 | 44.6 |
| Pan-European Gas(2)(3) | 24,987 | 36.9 | 17,914 | 32.0 | 13,227 | 28.5 |
| U.K. | 12,569 | 18.5 | 10,176 | 18.1 | 8,490 | 18.3 |
| Nordic(2)(4) | 3,204 | 4.7 | 3,213 | 5.7 | 3,094 | 6.7 |
| U.S. Midwest(2) | 1,947 | 2.9 | 2,045 | 3.6 | 1,718 | 3.7 |
| Corporate Center(2)(5) | (3,328) | (4.9) | (1,502) | (2.7) | (792) | (1.8) |
| Total Revenues(6) | <u>67,759</u> | <u>100.0</u> | <u>56,141</u> | <u>100.0</u> | <u>46,489</u> | <u>100.0</u> |

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- (1) Includes energy taxes of €1,124 million in 2006, €1,049 million in 2005 and €1,051 million in 2004.
 - (2) Excludes the sales of certain activities now accounted for as discontinued operations. For more details, see “Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions — Discontinued Operations” and Note 4 of the Notes to Consolidated Financial Statements.
 - (3) Sales include natural gas and electricity taxes of €2,061 million in 2006, €3,110 million in 2005 and €2,923 million in 2004.
 - (4) Sales include electricity and natural gas taxes of €377 million in 2006, €382 million in 2005 and €376 million in 2004.
 - (5) Includes primarily the parent company and effects from consolidation, as well as the results of its remaining telecommunications interests, as noted above.
 - (6) Excludes intercompany sales.

Most of E.ON’s operations are in Germany. German operations produced 62.2 percent of E.ON’s revenues (measured by location of operation) in 2006 (2005: 65.3 percent; 2004: 64.6 percent). E.ON also has a significant presence outside Germany representing 37.8 percent of revenues by location of operation for 2006 (2005: 34.7 percent; 2004: 35.4 percent). In 2006, approximately 56.1 percent (2005: 59.8 percent; 2004: 61.6 percent) of E.ON’s revenues were derived from customers in Germany and 43.9 percent (2005: 40.2 percent; 2004: 38.4 percent) from customers outside Germany. For more details about the segmentation of E.ON’s revenues by location of operation and customers for the years 2006, 2005 and 2004, see Note 31 of the Notes to Consolidated Financial Statements. At December 31, 2006, E.ON had 80,612 employees, approximately 42.2 percent of whom were employed in Germany. For more information about employees, see “Item 6. Directors, Senior Management and Employees — Employees.”

E.ON believes that as of December 31, 2006, it had close to 478,000 shareholders worldwide. E.ON’s shares, all of which are Ordinary Shares, are listed on all seven German stock exchanges. They are also actively traded over the counter in London. E.ON’s ADSs are listed on the New York Stock Exchange (“NYSE”). Until March 28, 2005, one ADS represented one Ordinary Share. Since March 29, 2005, three ADSs represent one Ordinary Share.

CENTRAL EUROPE

Overview

The Central Europe market unit is led by E.ON Energie. E.ON Energie, which is wholly owned by E.ON, is one of the largest non-state-owned European power companies in terms of electricity sales. E.ON Energie had revenues of €28.4 billion (which included €1.1 billion of energy taxes that were remitted to the tax authorities), €23.6 billion of which in Germany, and adjusted EBIT of €4.2 billion in 2006. E.ON Energie, together with E.ON Ruhrgas and E.ON Nordic, is responsible for all of E.ON’s energy activities in Germany and continental Europe and is one of the four interregional electric utilities in Germany that are interconnected in the western European power grid.

In order to further focus its energy business in Germany and in continental Europe, E.ON Energie entered into the following transactions in 2006:

- In February 2006, E.ON Energie and RWE signed agreements to swap certain shareholdings in the Czech Republic and Hungary. These transactions were completed in August 2006.
- In July 2006, E.ON Ruhrgas and OAO Gazprom signed a framework agreement memorializing the basic understanding of the parties regarding a swap of assets, including a 25.0 percent plus one share interest in E.ON Hungária Energetikai ZRt. (“E.ON Hungária”), currently wholly owned by E.ON Energie, which is to be transferred to OAO Gazprom. For details, see “— Pan-European Gas — Overview.”
- In December 2006, E.ON Energie acquired 75.0 percent of the share capital of Dalmine Energie S.p.A. (“Dalmine”), an Italian company that focuses on electricity and gas wholesale.

For details, see “Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions.”

E.ON Energie is also embarking on a significant program to build new generating capacity in many of the countries in which it operates:

- Construction has already begun on new facilities at Irsching, Germany (a 530 MW advanced natural gas plant to be built in cooperation with Siemens AG, scheduled to begin operations in 2011), Datteln, Germany (a 1,100 MW hard coal plant, scheduled to begin operations in 2011) and Livorno Ferraris, Italy (an 800 MW natural gas plant, scheduled to begin operations in 2008).
- E.ON Energie is also committed to building a new plant at Irsching, Germany (an 800 MW natural gas plant). In addition, E.ON Energie plans to build new plants at the location of Staudinger, Germany (a 1,100 MW hard coal plant) and Maasvlakte, the Netherlands (a 1,100 MW hard coal plant) if all requirements are met.
- E.ON Energie plans to build various power plants in Eastern Europe.

For more information, see “Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources — Expected Investment Activity.”

E.ON Energie’s company structure reflects its operations in western and eastern Europe and, in addition, reflects the individual segments of its electricity business: generation, transmission, distribution, sales and trading. The following chart shows the major subsidiaries of the Central Europe market unit as of December 31, 2006, their respective fields of operation and the percentage of each held by E.ON Energie as of that date.

CENTRAL EUROPE MARKET UNIT

Holding Company

E.ON Energie AG

- Leading entity for the management and coordination of the group activities.
- Centralized strategic, controlling and service functions.

Western Europe

Conventional Power Plants

E.ON Kraftwerke GmbH (100%)

- Power generation by conventional power plants.
- Waste incineration.
- Renewables.
- District heating.
- Industrial power plants.

Nuclear Power Plants

E.ON Kernkraft GmbH (100%)

- Power generation by nuclear power plants.

Hydroelectric Power Plants

E.ON Wasserkraft GmbH (100%)

- Power generation by hydroelectric power plants.

E.ON Benelux Holding B.V. (100%)

- Power generation by conventional power plants in the Netherlands.
- District heating in the Netherlands.
- Sales of power and gas in the Netherlands.

Transmission

E.ON Netz GmbH (100%)

- Operation of high voltage grids (380 kilovolt-110 kilovolt).
- System operation, including provision of regulating and balancing power.

Distribution, Sales and Trading of Electricity, Gas and Heat

E.ON Sales & Trading GmbH (100%)

- Supply of electricity and energy services to large industrial customers, as well as to regional and municipal distributors.

- Centralized wholesale functions.
- Optimization of energy procurement costs.
- Physical energy trading and trading of energy-based financial instruments and related risk management.
- Optimization of the value of the power plants' assets in the market place.
- Emissions trading.

Seven regional energy companies across Germany (shareholding percentages range from 62.8 to 100.0 percent)

- Distribution and sales of electricity, gas, heat and water to retail customers.
- Ownership and operation of regional grid companies in compliance with the Energy Law of 2005.
- Energy support services.
- Waste incineration.

Ruhr Energie GmbH (100%)

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

Eastern Europe

E.ON Hungária Energetikai ZRt. (100%) (1)

- Generation, distribution and sales of electricity and gas in Hungary through its group companies.

E.ON Czech Holding AG (100%)

- Generation, distribution and sales of electricity and gas in the Czech Republic through its group companies.

E.ON Moldova S.A. (51.0%)

- Distribution and sales of electricity in Romania.

E.ON Bulgaria EAD (100%)

- Distribution and sales of electricity in Bulgaria through its group companies.

Západoslovenská energetika a.s. (49.0% held at equity)

- Distribution and sales of electricity in Slovakia.

Consulting and Support Services

E.ON Engineering GmbH (57.0%) (2)

- Provision of consulting and planning services in the energy sector to companies within the Group and third parties.
- Marketing of expertise in the area of conventional, renewable, cogeneration and nuclear power generation and pipeline business.

E.ON IS GmbH (60.0%) (3)

- Provision of information technology services to companies within the Group and third parties.

E.ON Facility Management GmbH (100%)

- Infrastructure services.

- (1) According to the framework agreement between E.ON Ruhrgas and OAO Gazprom regarding a swap of assets, including a 25.0 percent plus one share interest in E.ON Hungária, E.ON Energie's interest in E.ON Hungária will be reduced to 75.0 percent minus one share. For details, see "— Pan-European Gas — Overview."
- (2) The remaining 43.0 percent is held by E.ON Ruhrgas.
- (3) The remaining 40.0 percent is held by E.ON AG and E.ON Ruhrgas.

For financial reporting purposes, the Central Europe market unit comprises four business units: Central Europe West Power, Central Europe West Gas, Central Europe East and Other/Consolidation. The Central Europe West Power business unit reflects the results of the conventional (including waste incineration), nuclear and hydroelectric generation businesses, transmission of electricity, the regional distribution of power and the retail electricity business in Germany, as well as its trading business. In addition, Central Europe West Power also includes the results of E.ON Benelux Holding B.V. ("E.ON Benelux"), which operates power generation, district heating and gas and electricity retail businesses in the Netherlands. The Central Europe West Gas business unit reflects the results of the regional distribution of gas and the gas retail business in Germany. The Central Europe East business unit primarily includes the results of the regional distribution companies in Bulgaria, the Czech Republic, Hungary, Romania and Slovakia (with the Slovak activities being valued under the equity method given E.ON Energie's minority interest). Other/Consolidation primarily includes the results of E.ON Energie's retail business in Italy, other national and international shareholdings, service companies and E.ON Energie AG, as well as intrasegment consolidation effects.

Operations

Electricity generated at power stations is delivered to customers through an integrated transmission and distribution system. The principal segments of the electricity industry in the countries in which E.ON Energie operates are:

| | |
|---------------|--|
| Generation: | the production of electricity at power stations; |
| Transmission: | the bulk transfer of electricity across an interregional power grid, which consists mainly of overhead transmission lines, substations and some underground cables (at this level there is a market for bulk trading of electricity, through which sales and purchases of electricity are made between generators, regional distributors, and other suppliers of electricity); |
| Distribution: | the transfer of electricity from the interregional power grid and its delivery, across local distribution systems, to customers; |
| Sales: | the sale of electricity to customers; and |
| Trading: | the buying and selling of electricity and related products for purposes of portfolio optimization, arbitrage and risk management. |

E.ON Energie and its associated companies are actively involved in all segments of the electricity industry. Its core business consists of the ownership and operation of power generation facilities and the transmission, distribution and sale of electricity and, to a lesser extent, gas and heat, to interregional, regional and municipal utilities, traders and industrial, commercial and residential customers. Furthermore, E.ON Energie operates waste incineration facilities.

The following table sets forth the sources of E.ON Energie's electric power in kWh in 2006 and 2005:

| <u>Sources of Power</u> | <u>2006 million kWh</u> | <u>2005 million kWh</u> | <u>% Change</u> |
|--|---------------------------------|---------------------------------|---------------------|
| Own production | 131,304 | 129,063 | +1.7 |
| Purchased power | 149,867 | 142,215 | +5.4 |
| <i>from power stations in which E.ON Energie has an interest of 50 percent or less</i> | <i>12,287</i> | <i>12,019</i> | <i>+2.2</i> |
| <i>from other suppliers</i> | <i>137,580</i> | <i>130,196</i> | <i>+5.7</i> |
| Total power procured(1) | 281,171 | 271,278 | +3.6 |
| Power used for operating purposes, network losses and pump storage | <u>(12,951)</u> | <u>(12,735)</u> | +1.7 |
| Total | <u>268,220</u> | <u>258,543</u> | +3.7 |

(1) Excluding physically-settled electricity trading activities at E.ON Sales & Trading GmbH ("EST"). EST's physically-settled electricity trading activities amounted to 161,892 million kWh and 113,666 million kWh in 2006 and 2005, respectively.

In 2006, E.ON Energie procured a total of 281.2 billion kWh of electricity, including 13.0 billion kWh used for operating purposes, network losses and pumped storage. E.ON Energie purchased a total of 12.3 billion kWh of power from power stations in which it has an interest of 50 percent or less. In addition, E.ON Energie purchased 137.6 billion kWh of electricity from other utilities, 15.2 billion kWh of which were from Vattenfall Europe, the eastern German interregional utility, for redistribution by eastern German regional distributors. In addition, E.ON Energie purchased power from local generators in Hungary, the Czech Republic, Bulgaria and Romania totaling 39.7 billion kWh. The increase in purchased power compared to 2005 primarily reflects the first-time inclusion of a full year of results from operations acquired during 2005 (mainly in Bulgaria and Romania) as well as the purchase of significantly higher volumes of renewable source electricity, which is regulated under Germany's Renewable Energy Law (as defined in "— Regulatory Environment") (approximately 3.4 TWh). The increase in power used for operating purposes, network losses and pump storage is largely due to higher technical and non-technical network losses at the subsidiaries in Bulgaria and Romania, the results of which were included for an entire year for the first time in 2006.

E.ON Energie supplied approximately 18 percent of the electricity consumed by end users in Germany in 2006. Electricity accounted for 75.3 percent of E.ON Energie's 2006 sales (2005: 77.8 percent), gas revenues represented 17.6 percent (2005: 15.3 percent), district heating 2.2 percent (2005: 1.9 percent) and other activities 4.9 percent (2005: 5.0 percent).

The following table sets forth data on the sales of E.ON Energie's electric power in 2006 and 2005:

| <u>Sale of Power(1) to</u> | <u>Total 2006 million kWh</u> | <u>Total 2005 million kWh</u> | <u>% Change in Total</u> |
|--|---|---|----------------------------------|
| Non-consolidated interregional, regional and municipal utilities . . . | 145,688 | 138,425 | +5.2 |
| Industrial and commercial customers | 77,238 | 77,175 | — |
| Residential and small commercial customers | <u>45,294</u> | <u>42,943</u> | +5.5 |
| Total | <u>268,220</u> | <u>258,543</u> | +3.7 |

(1) Excluding physically-settled electricity trading activities at EST. EST's physically-settled electricity trading activities amounted to 161,892 million kWh and 113,666 million kWh in 2006 and 2005, respectively.

The increase in the total sale of power primarily reflects the first-time inclusion of a full year of results from operations acquired during 2005 (mainly in Bulgaria and Romania as well as the Netherlands). For further information, see "Item 5. Operating and Financial Review and Prospects — Results of Operations."

The following table sets forth data on the gas sales of E.ON Energie in 2006 and 2005:

| <u>Sale of Gas to</u> | <u>Total 2006 million kWh</u> | <u>Total 2005 million kWh</u> | <u>% Change in Total</u> |
|--|---|---|----------------------------------|
| Non-consolidated interregional, regional and municipal utilities . . . | 30,631 | 29,475 | +3.9 |
| Industrial and commercial customers | 53,208 | 46,199 | +15.2 |
| Residential and small commercial customers | 44,629 | 36,653 | +21.8 |
| Total | <u>128,468</u> | <u>112,327</u> | +14.4 |

E.ON Energie's total gas sales volume amounted to 128.5 billion kWh in 2006, a 14.4 percent increase from 112.3 billion kWh in 2005. The increase primarily reflects the first-time inclusion of a full year of results from Középdunántúli Gázszolgáltató ZRt. ("KÖGÁZ") and Dél-dunántúli Gázszolgáltató ZRt. ("DDGÁZ") in Hungary, NRE Energie b.v. ("NRE") in the Netherlands and Gasversorgung Thüringen GmbH ("GVT"), which has since been merged into Thüringer Energie AG ("TEAG"). A slight increase also resulted from the Czech company Jihočeská plynárenská a.s. ("JCP"), in which E.ON Energie increased its interest during the year, as well as from the newly-acquired Italian company Dalmine (included as of September and December 2006, respectively).

Western Europe

Power Generation

General. In Germany, E.ON Energie owns interests in and operates electric power generation facilities with a total installed capacity of approximately 34,500 MW, its attributable share of which is approximately 26,000 MW (not including mothballed, shutdown or reduced power plants). The German power generation business is subdivided into three units according to fuels used: E.ON Kraftwerke GmbH owns and operates the power stations using fossil fuel energy sources, as well as waste incineration plants and renewable generation facilities, E.ON Kernkraft GmbH ("E.ON Kernkraft") owns and operates the nuclear power stations and E.ON Wasserkraft GmbH owns and operates the hydroelectric power plants.

In the Netherlands, E.ON Energie operates, through its subsidiary E.ON Benelux, hard coal and natural gas power plants for the supply of electricity and heat to bulk customers and utilities. In 2006, it had a total installed generation capacity of approximately 1,900 MW.

Based on the consolidation principles under U.S. GAAP, E.ON Energie reports 100 percent of revenues and expenses from majority-owned power plants in its consolidated accounts without any deduction for minority interests. Conversely, 50 percent and minority-owned power plants are accounted for by the equity method. Power generation capacity in jointly owned plants is generally reported based on E.ON's ownership percentage.

The following table sets forth E.ON Energie's major electric power generation facilities (including cogeneration plants) in Germany and the Netherlands, the total capacity and the capacity attributable to E.ON Energie for each facility as of December 31, 2006, and their start-up dates.

E.ON ENERGIE'S ELECTRIC POWER STATIONS IN GERMANY AND THE NETHERLANDS

| <u>Power Plants</u> | <u>Total Capacity Net MW</u> | <u>Capacity Attributable to E.ON Energie</u> | | <u>Start-up Date</u> |
|--------------------------------|------------------------------|--|--------------|----------------------|
| | | <u>%(1)</u> | <u>MW</u> | |
| Nuclear | | | | |
| Brokdorf | 1,370 | 80.0 | 1,096 | 1986 |
| Brunsbüttel | 771 | 33.3 | 257 | 1976 |
| Emsland | 1,329 | 12.5 | 166 | 1988 |
| Grafenrheinfeld | 1,275 | 100.0 | 1,275 | 1981 |
| Grohnde | 1,360 | 83.3 | 1,133 | 1984 |
| Gundremmingen B. | 1,284 | 25.0 | 321 | 1984 |
| Gundremmingen C. | 1,288 | 25.0 | 322 | 1984 |
| Isar 1 | 878 | 100.0 | 878 | 1977 |
| Isar 2 | 1,400 | 75.0 | 1,050 | 1988 |
| Krümmler | 1,260 | 50.0 | 630 | 1983 |
| Unterweser | <u>1,345</u> | 100.0 | <u>1,345</u> | 1978 |
| Total | <u>13,560</u> | | <u>8,473</u> | |
| Lignite | | | | |
| Buschhaus | 352 | 100.0 | 352 | 1985 |
| Lippendorf S | 891 | 50.0 | 446 | 1999 |
| Schkopau | 900 | 55.6 | 500 | 1995 |
| Others (< 100 MW) | <u>33</u> | n/a | <u>17</u> | n/a |
| Total | <u>2,176</u> | | <u>1,315</u> | |
| Hard Coal | | | | |
| Bexbach 1 | 714 | 8.3 | 59 | 1983 |
| Datteln 3 | 113 | 100.0 | 113 | 1969 |
| Farge | 345 | 100.0 | 345 | 1969 |
| GKW Weser/Veltheim 3 | 303 | 67.0 | 203 | 1970 |
| Heyden | 875 | 100.0 | 875 | 1987 |
| Kiel | 323 | 50.0 | 162 | 1970 |
| Knepper C. | 345 | 100.0 | 345 | 1971 |
| Maasvlakte 1 (NL)(2). | 532 | 100.0 | 532 | 1988 |
| Maasvlakte 2 (NL)(2). | 520 | 100.0 | 520 | 1987 |
| Mehrum C. | 690 | 50.0 | 345 | 1979 |
| Rostock | 508 | 50.4 | 256 | 1994 |
| Scholven B | 345 | 100.0 | 345 | 1968 |
| Scholven C | 345 | 100.0 | 345 | 1969 |
| Scholven D | 345 | 100.0 | 345 | 1970 |
| Scholven E | 345 | 100.0 | 345 | 1971 |
| Scholven F. | 676 | 100.0 | 676 | 1979 |

| Power Plants | Total Capacity Net MW | Capacity Attributable to E.ON Energie | | Start-up Date |
|--------------------------------|--------------------------------------|--|--------------|--------------------------|
| | | %(1) | MW | |
| Hard Coal (continued) | | | | |
| Shamrock | 132 | 100.0 | 132 | 1957 |
| Staudinger 1 | 249 | 100.0 | 249 | 1965 |
| Staudinger 3 | 293 | 100.0 | 293 | 1970 |
| Staudinger 5 | 510 | 100.0 | 510 | 1992 |
| Wilhelmshaven | 747 | 100.0 | 747 | 1976 |
| Zolling | 449 | 100.0 | 449 | 1986 |
| Others (< 100 MW) | <u>353</u> | n/a | <u>322</u> | n/a |
| Total | <u>10,057</u> | | <u>8,513</u> | |
| Natural Gas | | | | |
| Kirchlengern | 180 | 62.9 | 113 | 1980 |
| Burghausen (CHP) | 120 | 100.0 | 120 | 2001 |
| Obernburg (CHP) | 100 | 50.0 | 50 | 1995 |
| Franken I/1 | 383 | 100.0 | 383 | 1973 |
| Franken I/2 | 440 | 100.0 | 440 | 1976 |
| Galileistraat (NL) (CHP) | 209 | 100.0 | 209 | 1988 |
| GKW Weser/Veltheim 4 GT | 390 | 67.0 | 261 | 1975 |
| Huntorf | 290 | 100.0 | 290 | 1977 |
| Irsching 3 | 415 | 100.0 | 415 | 1974 |
| Jena-Süd | 199 | 62.9 | 125 | 1996 |
| Kirchmöser | 160 | 100.0 | 160 | 1994 |
| RoCa 3 (NL) (CHP)(2) | 220 | 100.0 | 220 | 1996 |
| Robert Frank 4 | 491 | 100.0 | 491 | 1973 |
| Staudinger 4 | 622 | 100.0 | 622 | 1977 |
| Emden 4(3) | 433 | 100.0 | 433 | 1972 |
| Others (< 100 MW) | <u>737</u> | n/a | <u>599</u> | n/a |
| Total | <u>5,389</u> | | <u>4,931</u> | |
| Fuel Oil | | | | |
| Ingolstadt 3 | 386 | 100.0 | 386 | 1973 |
| Ingolstadt 4 | 386 | 100.0 | 386 | 1974 |
| Others (< 100 MW) | <u>381</u> | n/a | <u>381</u> | n/a |
| Total | <u>1,153</u> | | <u>1,153</u> | |

| <u>Power Plants</u> | <u>Total Capacity Net MW</u> | <u>Capacity Attributable to E.ON Energie</u> | | <u>Start-up Date</u> |
|---|------------------------------|--|----------------------|----------------------|
| | | <u>%(1)</u> | <u>MW</u> | |
| Hydroelectric | | | | |
| Braunau-Simbach | 100 | 50.0 | 50 | 1953 |
| Erzhausen | 220 | 100.0 | 220 | 1964 |
| Happurg | 160 | 100.0 | 160 | 1958 |
| Jochenstein | 132 | 50.0 | 66 | 1955 |
| Langenprozelten | 164 | 100.0 | 164 | 1975 |
| Reisach | 105 | 100.0 | 105 | 1955 |
| Walchensee | 124 | 100.0 | 124 | 1924 |
| Waldeck 1 | 120 | 100.0 | 120 | 1931 |
| Waldeck 2 | 440 | 100.0 | 440 | 1975 |
| Others (< 100 MW) | <u>1,843</u> | n/a | <u>1,664</u> | n/a |
| Total | <u>3,408</u> | | <u>3,113</u> | |
| Others (waste, wind, biomass et al.) | | | | |
| Waste | 261 | | 163 | |
| Wind, biomass et al. | <u>332</u> | | <u>210</u> | |
| Total | <u>593</u> | | <u>373</u> | |
| Total | <u>36,336</u> | | <u>27,871</u> | |
| Mothballed/Shutdown/Reduced | | | | |
| Mothballed | | | | |
| Irsching 1 | 151 | 100.0 | 151 | 1969 |
| Irsching 2 | 312 | 100.0 | 312 | 1972 |
| Pleinting 1 | 292 | 100.0 | 292 | 1968 |
| Pleinting 2 | 402 | 100.0 | 402 | 1976 |
| Staudinger 2 | 249 | 100.0 | 249 | 1965 |
| Dismantling | | | | |
| Arzberg 5 | 104 | 100.0 | 104 | 1966 |
| Arzberg 6 | 252 | 100.0 | 252 | 1974 |
| Arzberg 7 | 121 | 100.0 | 121 | 1979 |
| Offleben | 280 | 100.0 | 280 | 1972 |
| Rauxel 2 | 164 | 100.0 | 164 | 1967 |
| Scholven G | 672 | 50.0 | 336 | 1974 |
| Scholven H | 672 | 50.0 | 336 | 1975 |
| Stade | <u>640</u> | 66.7 | <u>417</u> | 1972 |
| Total | <u>4,311</u> | | <u>3,416</u> | |

(1) Percentage of total capacity attributable to E.ON Energie.

(2) Power station operated by E.ON Benelux under long-term cross-border leasing arrangement.

(3) Emden 4 was restarted on January 13, 2006.

(CHP) Combined Heat and Power Generation.

(NL) Located in the Netherlands.

For more information about E.ON Energie's power generation facilities in eastern Europe, see "— Eastern Europe."

Germany. E.ON Energie's German plants generate electricity primarily with nuclear power, bituminous coal (commonly referred to as "hard coal"), lignite, gas, fuel oil and water. The existing nuclear and hydroelectric power plants are E.ON Energie's source of power with the lowest variable costs and, together with lignite-based power plants, are used mainly to cover the base load. Hard coal is utilized mainly for middle load, while the other energy sources are used primarily for peak load.

Nuclear Power. E.ON Energie operates its German nuclear power plants through E.ON Kernkraft. These nuclear power plants are required to meet applicable German safety standards, which are among the most stringent standards in the world (see "— Environmental Matters — Germany: Electricity"). Until June 30, 2005, E.ON Energie's nuclear power plants delivered spent nuclear fuel elements to AREVA NC (formerly Compagnie Générale des Matières Nucléaires S.A. ("COGEMA")) in France and British Nuclear Group Sellafield Ltd (formerly British Nuclear Fuels plc.) in the United Kingdom for the reprocessing of their nuclear waste. Since June 30, 2005, German law has prohibited the delivery of spent nuclear fuel rods for reprocessing. Instead, operators must store spent fuel rods in interim facilities on the premises of the nuclear plants. For more details, see the description below under "Termination of Fuel Reprocessing." Under German law, the Federal Republic of Germany is responsible for the final storage of all domestic nuclear waste at the expense of the generator.

Operators of nuclear power plants are required under German law to establish sufficient financial provisions for future obligations that arise from the use of nuclear power. The three required provisions are for: (1) management of spent nuclear fuel rods, (2) disposal of contaminated operating waste and (3) the eventual decommissioning of nuclear plants. At year-end 2006, E.ON Energie had a total of approximately €13.2 billion provided for these purposes in respect of nuclear power plants included in its consolidated accounts, consisting of €4.2 billion for management of spent nuclear fuel rods, €0.5 billion for disposal of operational waste and €8.5 billion for decommissioning costs. These provisions are stated net of advance payments of €0.9 billion. In determining its pro rata share of these provisions, provisions attributed to minority interests included in E.ON Energie's consolidated accounts have been deducted and provisions for nuclear plants in which E.ON Energie has a minority interest are added. At year-end 2006, on such a pro rata basis, E.ON Energie's provisions for these purposes totaled €13.8 billion, as compared to €13.5 billion at year-end 2005.

In June 2004, German legislators passed an amendment to Germany's Ordinance on Advance Payments for the Establishment of Federal Facilities for Safe Custody and Final Storage for Radioactive Wastes (*Endlager-Vorausleistungsverordnung*). Under the amended ordinance, construction costs for the final nuclear waste storage facilities, located in Gorleben and Konrad, Germany, are now shared by the nuclear plant operators and other users, such as research institutes, in line with their expected usage of the storage facilities. Overall, this lowered E.ON's share of the costs and led to a reduction of the Company's provisions for nuclear waste management in 2004. Partially offsetting this reduction, the post-operation phase at nuclear power stations that use MOX fuel elements, which are fuel elements containing plutonium produced in the reprocessing process, was extended beginning in 2004 as a result of a change in the delivery schedule for MOX fuel elements.

E.ON Kernkraft purchases uranium and fuel elements for its nuclear power plants from independent domestic and international suppliers, primarily under long-term contracts. E.ON Energie considers the supply of uranium and fuel elements on the world market to be generally adequate.

In May 1995, PreussenElektra decided to shut down its nuclear power plant at Würgassen for economic reasons and, in October 1995, it applied for and received permission from the German authorities to decommission and dismantle the Würgassen plant in accordance with German nuclear energy legislation. E.ON Energie expects the decommissioning of Würgassen, which began in October 1995, to last until approximately 2015. In 2000, E.ON Energie also decided to shut down the nuclear power plant Stade. In July 2001, E.ON Kernkraft filed an application with the Lower Saxonian Ministry of Environment to decommission and dismantle Stade. E.ON Energie received the approval for decommissioning/dismantling in September 2005. Stade was shut down in November 2003, and E.ON Energie expects its decommissioning to last until approximately 2015. E.ON Energie has established a provision of €1.7 billion for the decommissioning of Würgassen and Stade, including the management of spent nuclear fuel rods and the dismantling of the plants.

After the German Social Democratic Party and the German Green Party (*Bündnis 90/Die Grünen*) (together, the “Coalition”) were elected to lead the German federal government in 1998, the Coalition agreed to phase out the generation of nuclear energy in Germany. The Coalition also agreed to hold “consensus-forming” discussions with operators of nuclear power plants in order to find a solution to various issues in the area of nuclear energy agreeable to all parties. The discussions began in January 1999 and resulted in an agreement on nuclear power in June 2001 and in an amendment of the German Nuclear Power Regulations Act (*Atomgesetz*, or “AtG”), which was passed by the German parliament in December 2001 and took effect in April 2002.

Among other things, the amendment provides as follows:

- **Nuclear Phase-out:** The operators of the nuclear plants have agreed to a specified number of operating kWh for each nuclear plant. This number has been calculated on the basis of 32 years of plant operation using a high load factor. The operators may trade allocated kWh among themselves. This means that if one nuclear plant closes before it has produced the allocated amount of kWh, the remaining kWh may be transferred to another nuclear power plant.
- **Termination of Fuel Reprocessing:** The transport of spent fuel elements for reprocessing was allowed until June 30, 2005. Following this deadline, the operators must store spent fuel in interim facilities on the premises of the nuclear plants. Such storage requires the approval and construction of interim storage facilities. The Company is to construct five interim on-site storage facilities. Two of these, Grafenrheinfeld and Grohnde, went into operation in the first quarter of 2006, while the remaining three interim on-site storage facilities (Brokdorf, Isar and Unterweser) are scheduled to go into operation in the first half of 2007.

As part of the agreement, the German federal government has agreed not to institute any future changes in German tax law which discriminate against nuclear power operations or other measures creating economic disadvantages in comparison with other forms of power generation.

The Company considers its provisions with respect to nuclear power operations to be adequate with respect to the costs of implementing the agreement. E.ON Energie has no plans to construct any new nuclear power plants in Germany.

In 2006, the Company concluded its discussions with the tax authorities regarding the treatment of its nuclear provisions for the years prior to 2002, and the tax calculations for these years have been agreed. All of the resulting tax has already been paid and the Company has established a provision to cover the potential tax amounts for the years 2002 onwards, which are still under review.

Hard Coal. In 2006, approximately 30 percent of the hard coal used by E.ON Energie’s German operations was mined in Germany. Traditionally, hard coal is mined in Germany under much more difficult conditions than in other countries. Therefore, German coal production costs are substantially above world market levels, and E.ON Energie strongly believes they will continue to remain high. Although electricity producers were in the past required to purchase German coal, they are now free to purchase coal from any source. To encourage the purchase of German coal, the German federal government has been paying direct subsidies to German producers enabling them to offer domestic coal at world market prices, although it is now in the process of reducing such subsidies. Due to high production costs and the reduction in subsidies, the volume of German coal production has shown a relatively steady decline in the past and is expected to continue to decline further. However, E.ON Energie expects that adequate supplies of imported coal for its operations will be available on the world coal market at acceptable prices. Hard coal is generally available from multiple sources, though prices are determined on international commodities markets and are therefore subject to fluctuations. E.ON Benelux also uses imported hard coal in its power plants.

Lignite. German lignite, also known as brown coal, has approximately one-third of the heating value of hard coal. E.ON Energie participates in lignite-based energy generation in western Germany through BKB Aktiengesellschaft (“BKB”) and in eastern Germany through Kraftwerk Schkopau GbR and a portion of one unit of Kraftwerk Lippendorf. Lignite is a readily available domestic fuel source that E.ON Energie obtains from its own reserves or under long-term contracts with German producers. The price of lignite is not generally volatile and is generally determined by reference to published indices in Germany. However, the price can fluctuate based on the underlying price of hard coal in global commodities markets.

Gas and Oil. In Germany, the price of natural gas is linked to the price of oil and other competing fuels. This mechanism has been enforced in order to reduce the influence of, and dependence on, gas-producing countries. Only about 16 percent of gas demand in Germany is satisfied by German deposits, while about 84 percent is satisfied through imports from foreign producers, primarily from Russia, Norway and the Netherlands. For its gas-fired power plants, E.ON Energie purchases gas from E.ON Ruhrgas and other international suppliers, mainly under short-term contracts. Fuel oil power plants are only used for peak load operations. E.ON Energie purchases its fuel oil from traders or directly from a number of oil companies. As with natural gas, the price of fuel oil depends on the price of crude oil. E.ON Benelux purchases predominantly Dutch gas under one-year contracts for its gas-fired power plants.

Water. This domestic source of energy is primarily available in southern Germany due to the presence of mountains and rivers. The variable costs of production are extremely low in the case of run-of-river plants and consequently, these plants are used to cover base load requirements. Storage and pump storage facilities are used to meet peak demand and for back-up power purposes.

Waste Incineration. E.ON Energie also has a waste incineration business, led by BKB and E.ON Westfalen Weser. In 2006, incinerated waste volumes totaled approximately 2.1 million tons. The waste incineration plants have a total power generation capacity of 261 MW of electricity, of which 163 MW is attributable to E.ON Energie. In December 2006, E.ON Energie acquired a 49.9 percent interest in the waste treatment and recycling company SOTEC GmbH ("SOTEC"). SOTEC is the owner of five waste incineration plants with a total power generation capacity of approximately 70 MW.

Demand for power tends to be seasonal, rising in the winter months and typically resulting in additional electricity sales by E.ON Energie in the first and fourth quarters. E.ON Energie believes it has adequate sources of power to meet foreseeable increases in demand, whether seasonal or otherwise. In order to benefit from economies of scale associated with large stations, E.ON Energie has built large capacity power station units in conjunction with other utilities where it does not require all of the electricity produced by such plants. In these cases, the purchase price of electricity is determined by the production cost plus a negotiated fee.

Although E.ON's power plants are maintained on a regular basis, there is a certain risk of failure for power plants of every fuel type (for example, in 2005 the breakdown of generators in the non-nuclear part of the Unterweser power plant and in the coal-fired Heyden power plant resulted in the plants being out of service for 12 and 8 weeks, respectively). Depending on the associated generation capacity, the length of the outage and the cost of the required repair measures, the economic damage due to such failure can vary significantly. In order to meet contractual commitments, electricity which cannot be generated at these plants has to be bought from other generators or has to be generated from more expensive plants. Thus, power plant outages can negatively affect the market unit's financial and operating results.

Transmission

The German power transmission grid of E.ON Energie, which operates with voltages of 380, 220 and 110 kilovolts, has a system length of over 41,000 km and a coverage area of nearly 200,000 km². It is located in the German states of Schleswig-Holstein, Lower Saxony, Mecklenburg-Western Pomerania, Brandenburg, North Rhine-Westphalia, Saxony-Anhalt, Hesse, Thuringia and Bavaria, and reaches from the Scandinavian border to the Alps. The grid is interconnected with the western European power grid with links to the Netherlands, Austria, Denmark and Eastern Europe. The system is mainly operated by E.ON Netz. The network of E.ON Netz allows long-distance power transport at low transmission losses and covers about 40 percent of the surface area of Germany. This system is operated from two main system control centers, one in Lehrte near Hanover and one in Karlsfeld near Munich, and from several regional control and service units at decentralized locations within the E.ON Netz grid area.

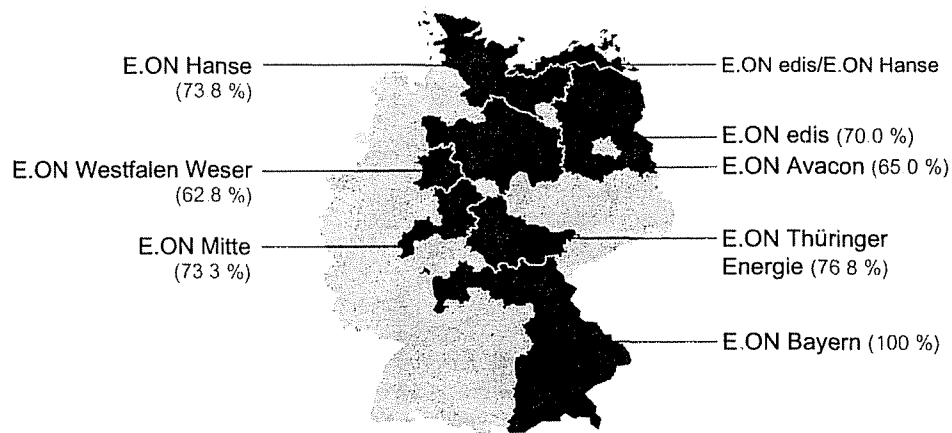
In November 2006, the E.ON Netz network control center made an erroneous estimation in the planned interruption of a high voltage power line across the Ems river in Germany, which led to a short but widespread power outage that affected a number of countries throughout Europe. For more information, see "Item 3. Key Information -- Risk Factors."

Access to E.ON Energie's power transmission grid is open to all potential users. The Company believes its usage fees and conditions comply with existing German regulations governing grid access. For further information about the impact of recent regulatory developments on E.ON Energie's transmission business and results, see "— Regulatory Environment" and "Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2006 Compared with Year Ended December 31, 2005 — Central Europe."

The Baltic Cable links the transmission grid of E.ON Energie to Scandinavia. For details, see "— Nordic — Electricity Distribution."

Distribution

Electricity. The German utilities historically established defined supply areas which were coextensive with their distribution grids. The following map shows E.ON Energie's current distribution area in Germany through its majority shareholdings in regional energy distribution companies:



In 2006, E.ON Energie's regional distribution companies were greatly affected by the implementation of the German Energy Law of 2005. According to this law, the legal unbundling of the formerly integrated distribution and sales business (for both electricity and gas) is mandatory as of July 1, 2007. Within the E.ON Energie group, the regional energy company E.ON Thüringer Energie AG ("ETE") was the first to establish a separate network operator, TEN Thüringer Energienetze GmbH, on April 1, 2006. This new company now operates and maintains the distribution grid, although the grid assets are still owned by ETE. All of E.ON Energie's other regional energy companies have similarly completed legal unbundling by January 1, 2007. In addition, the regulation of electricity network charges started in July 2005, and network operators had to submit their calculated network charges to Germany's energy regulator by the end of October 2005 for approval. The energy regulator approved reduced charges for each of E.ON Energie's network operators between July and October 2006. For more information, see "— Regulatory Environment — EU/Germany: General Aspects (Electricity and Gas) — Revisions of the German Energy Law" and "— Germany: Electricity — Electricity Network Charges."

In January 2007, a severe storm damaged the power grid of E.ON Energie in some areas of Germany. For more information, see "Item 3. Key Information — Risk Factors."

Gas. E.ON Energie's distribution subsidiaries supply natural gas to households, small businesses and industrial customers in many parts of Germany. Similar to "Electricity" above, E.ON Energie's regional distribution companies had to submit their calculated gas network charges to Germany's energy regulator by the end of January 2006. The energy regulator approved reduced charges for each of E.ON Energie's network operators between September and November 2006. For more information, see "— Regulatory Environment — Germany: Gas — Gas Network Charges."

Sales

In Germany, E.ON Energie supplies electricity, gas and heat, mainly through the regional energy companies in which it holds majority interests. As described below, E.ON Energie's wholly-owned subsidiary EST supplies electricity to these regional energy companies as well as to large municipal distributors and very large national and international industrial customers.

E.ON Energie's customers are interregional, regional and municipal utilities, traders, industrial and commercial customers and, only through regional distributors, residential and small commercial customers predominantly in those parts of Germany highlighted on the map shown in "Distribution" above. E.ON Energie supplied approximately 18 percent of the electricity consumed by end users in Germany in 2006. In compliance with the European Commission's conditions upon approving the VEBA-VIAG merger, E.ON Energie's majority-owned regional energy companies E.ON edis and ETE in eastern Germany purchase power primarily from E.ON Energie's competitor Vattenfall Europe. E.ON Energie's majority-owned energy company E.ON Avacon AG ("E.ON Avacon") likewise purchases its power primarily from Vattenfall Europe for those of its customers situated in the eastern German state of Saxony-Anhalt.

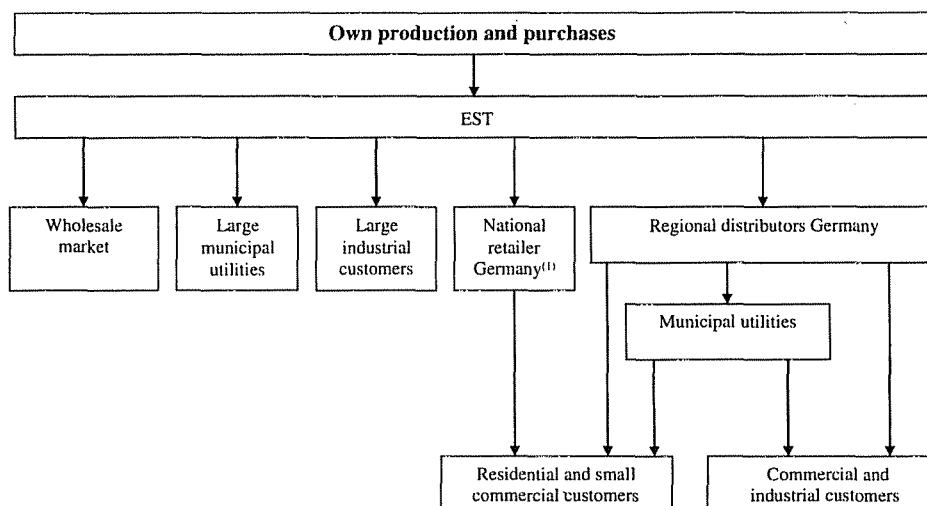
The following table sets forth the sale of electric power by E.ON Energie's German companies (excluding that used in physically settled trading activities), primarily in Germany, in 2006 and 2005:

| <u>Sale of Power to</u> | <u>2006 million kWh</u> | <u>2005 million kWh</u> | <u>% Change in Total</u> |
|---|---------------------------------|---------------------------------|----------------------------------|
| Non-consolidated interregional, regional and municipal utilities(1) | 135,112 | 116,654 | +15.8 |
| Industrial and commercial customers(2)(3) | 53,896 | 59,134 | -8.9 |
| Residential and small commercial customers | <u>29,736</u> | <u>29,978</u> | -0.8 |
| Total(3) | <u>218,744</u> | <u>205,766</u> | +6.3 |

- (1) The sale of power to non-consolidated interregional, regional and municipal utilities increased in 2006 compared with 2005, primarily reflecting two effects. Sales volumes of EST outside of Germany increased markedly, partially due to the transfer of contracts from companies outside of Germany to EST. The increase also reflects the reclassification in 2006 of sales that had been previously attributed to industrial and commercial customers.
- (2) The sale of power to industrial and commercial customers decreased in 2006 compared with 2005 due to the reclassification in 2006 of sales that are now attributed to non-consolidated interregional, regional and municipal utilities.
- (3) The sale of power includes sales of EST in other European countries.

In order to offer optimized services to major customers and to equalize supply and demand at all times with respect to the costs of procurement, E.ON Energie has integrated its trading and wholesale operations into EST. EST focuses on the national and international wholesale business for regional utilities, large municipal utilities and major industrial customers, and is also responsible for E.ON Energie's trading operations. The regional energy companies manage the main part of E.ON Energie's retail business, which is the supply of power to municipal

utilities, industrial and commercial customers, as well as residential and small commercial customers. In addition, in February 2007, E.ON Energie launched the new company E WIE EINFACH Strom & Gas GmbH (“E wie einfach” (meaning E like easy)), which is targeted at attracting additional residential and small business power and gas customers in the mass market throughout Germany. The following chart sets forth the principal supply structure of E.ON Energie’s electricity sales.



(1) Supply expected to start on April 1, 2007.

The supply contracts under which E.ON Energie’s regional energy companies (all are majority-owned) regularly order their required load for upcoming years have historically had relatively long terms. Typical supply contracts now last for one to three years. Potential alternative sources of electricity include the purchase of electricity from other utilities and auto-generation by municipalities, regional distributors or industrial customers. The regional distributors’ contracts with municipal utilities contain varying terms and conditions. Long-term concession contracts permit municipal utilities and regional distributors to supply electricity to residential customers within a municipality.

Gas. E.ON Energie’s gas sales volume in Germany in 2006 amounted to 106.2 billion kWh compared with 100.5 billion kWh in 2005. The increase is mainly due to the impact of the first full year of results from GVT, which was consolidated in July 2005.

Heat. E.ON Energie is one of the leading suppliers of district heating in Germany. It operates its own district heating networks and supplies several additional networks owned by other companies. E.ON Energie’s regional energy companies are also involved in district heat and steam delivery. E.ON Energie’s total district heat deliveries in Western Europe increased from 13.0 billion kWh in 2005 to 16.2 billion kWh in 2006, of which 11.3 billion kWh were supplied in Germany. The increase mainly reflects a business enlargement at E.ON Benelux (approximately 2.6 billion kWh).

Water. E.ON’s regional water business is conducted through certain of its distribution companies, particularly E.ON Hanse, E.ON Avacon and E.ON Westfalen Weser.

Customers. Through its subsidiaries and companies in which it has shareholdings, E.ON Energie serves approximately 9.5 million electricity customers in Germany. E.ON Energie’s German operations also supply approximately 1.9 million customers with gas and more than 0.5 million customers with water.

The Netherlands. In the Netherlands, E.ON Benelux acquired the Dutch power and gas company NRE in 2005. In 2006, the company supplied approximately 1.7 TWh of electricity and approximately 4.0 TWh of gas to approximately 0.3 million electricity and gas customers in the Netherlands.

Italy. Sales activities in Italy are conducted through E.ON Italia S.p.A. (“E.ON Italia”) (electricity) and Dalmine (electricity and gas). Both focus on industrial customers and local utilities. E.ON Italia is wholly owned by E.ON Energie. In 2006, E.ON Italia supplied 1.9 TWh of electricity. The 75.0 percent stake in Dalmine was acquired in December 2006 by EST. In 2006, the company supplied approximately 3.0 TWh of electricity and approximately 10.4 TWh of gas.

Trading

E.ON Energie has integrated its trading and wholesale operations into EST. An international team of traders buys and sells electricity on the spot and forward markets. E.ON Energie’s trading operations offer customized and standard products that are traded on a bilateral basis, as well as trading in standard exchange-traded instruments. EST’s trading focuses on Germany and continental Europe, including important European power exchanges such as the European Energy Exchange in Leipzig, the Amsterdam Power Exchange in the Netherlands, Powernext in France and the Energy Exchange Austria. EST also supplies cross border trading and risk management processes for optimizing international power procurement to E.ON Energie’s operations in Eastern Europe and is the procurer for E.ON Energie’s operations in Italy. As the central trading desk of the E.ON Energie group, EST is also responsible for CO₂ emissions trading. For further information on CO₂ emissions trading, see “— Regulatory Environment — EU/Germany: General Aspects (Electricity and Gas) — Greenhouse Gas Emissions Trading.” The volume of CO₂ emission certificates traded by EST amounted to 15.1 million tons in 2006 compared with 8.7 million tons in 2005.

E.ON Energie believes that its trading activities provide valuable market insight and have strengthened its competitive position in the European electricity market. E.ON Energie’s trading activities are focused on asset-backed trading in order to optimize the value of its generation portfolio, though E.ON Energie also engages in a limited amount of proprietary trading within its established risk limits.

E.ON Energie’s trading business has incorporated a complete and systematic risk management system in compliance with legal and regulatory requirements of the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, or “BAFin”), including the minimum requirements for risk management. An important aspect of the system is that the trading activities are monitored by a board independent from the trading operations. For more detailed information on E.ON Energie’s management of the risks related to its trading activities, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk — Commodity Price Risk Management.”

The volume of EST’s energy trading activities increased in 2006, reflecting higher liquidity and price volatility in the power markets. In addition, EST concluded a number of long-term contracts with industrial customers and regional and local utilities that allow the customers to purchase specified volumes of power for periods of up to 20 years at prices that are either fixed by the parties at the time of signing or indexed to fuel prices (predominantly coal). The following table sets forth the total volume of EST’s traded electric power in 2006 and 2005.

| <u>Trading of Power</u> | <u>2006 million kWh</u> | <u>2005 million kWh</u> | <u>% Change in Total</u> |
|---------------------------|---------------------------------|---------------------------------|----------------------------------|
| Power sold | 201,543 | 164,109 | +22.8 |
| Power purchased | <u>222,843</u> | <u>168,734</u> | +32.1 |
| Total | <u>424,386</u> | <u>332,843</u> | +27.5 |

Other

Consulting and Support Services. E.ON Engineering GmbH offers internal and external consulting, planning and construction services in the energy sector in fields such as chemical analytics and electrical, mechanical and civil engineering, with a focus on conventional and renewable power generation, cogeneration, use of biomass, pipeline construction, development of energy strategies and CO₂-emissions reduction. Building on their shareholdings in municipal and regional utilities, E.ON Energie and the regional distributors also establish partnerships and cooperative relationships with local authorities. E.ON Energie and the regional distributors

operate their own electricity and gas supply systems, and provide the local authorities with consulting, technical and managerial support to promote the efficient use of electricity and gas. E.ON Facility Management GmbH (“E.ON Facility Management”) provides technical, commercial and infrastructural facility management services, mainly for E.ON Energie group companies. In August 2004, E.ON Facility Management purchased Arena One GmbH (“Arena One”), which operates in the areas of catering, event and facility management. Since its acquisition by E.ON Facility Management, Arena One has itself acquired another catering company. E.ON IS GmbH (“E.ON IS”) is the provider for all information technology services needed in the E.ON Group. The company also offers information technology services for third parties. E.ON IS is wholly-owned by the E.ON Group, with E.ON Energie holding a 60.0 percent stake, E.ON AG holding a 26.0 percent stake and E.ON Ruhrgas holding the remaining 14.0 percent stake.

Other Minority Shareholdings. In the Alpine region, E.ON Energie owns a 21.0 percent equity interest and 20.0 percent voting interest in BKW FMB Energie AG (“BKW”), an integrated Swiss utility that owns important hydropower assets, as well as a single nuclear power station and interests in other nuclear power stations.

Eastern Europe

E.ON Energie has significant shareholdings in Hungary, the Czech Republic, Bulgaria, Romania and Slovakia, in which it has already built up a portfolio of activities. In Eastern Europe, E.ON Energie’s power generation facilities have a total installed capacity of approximately 490 MW, E.ON Energie’s attributable share of which is approximately 300 MW. National holding companies such as E.ON Hungária, E.ON Czech Holding AG and E.ON Bulgaria EAD coordinate E.ON Energie’s activities in the region.

In Hungary, E.ON Energie holds all of the shares (except for a “golden share” held by the Hungarian government) of the regional electricity distributors E.ON Dél-dunántúli Áramszolgáltató ZRt., E.ON Észak-dunántúli Áramszolgáltató ZRt. and E.ON Tiszántúli Áramszolgáltató ZRt. E.ON Hungária is active in the Hungarian sales market through its electricity and gas sales company E.ON Energiakereskedő Kft. In 2006, 2.5 million customers were provided with approximately 15.0 TWh of electricity. E.ON Energie also holds a 100.0 percent stake in the natural gas power generation companies Debreceni Kombinált Ciklusú Erőmű Kft. (95 MW) and Nyíregyházi Kombinált Ciklusú Erőmű Kft. (49 MW, scheduled to start production in April 2007). In March 2006, E.ON Hungária merged all of its small generation assets (an aggregate of 75 MW) into its wholly-owned subsidiary E.ON Energiatermelő Kft. In the gas sector, E.ON Energie holds a 98.1 percent stake in the gas distribution and supply company KÖGÁZ and a 99.9 percent stake in the gas distributor DDGÁZ. KÖGÁZ and DDGÁZ have been fully consolidated since April 2005. In 2006, the two companies provided approximately 0.6 million customers with approximately 15.4 TWh of gas. The agreement between E.ON Energie and RWE signed in February 2006, to swap certain of their respective shareholdings in Hungary and the Czech Republic, was closed in August 2006. Pursuant to this agreement, E.ON Energie acquired 49.9 percent of the shares of DDGÁZ and RWE acquired E.ON Energie’s 16.3 percent interest in Fővárosi Gázművek Részvénytársaság (“FÖGÁZ”). As of February 1, 2007, E.ON Hungária completed a reorganization to fulfill legal unbundling requirements. Business administration services are now in the newly-founded company E.ON Gazdasági Szolgáltató Kft., while the newly-founded companies E.ON Ügyfélszolgálati Kft. and E.ON Hálózati Szolgáltató Kft. handle customer services and network services, respectively. All sales activities are now carried out in E.ON Energiakereskedő Kft.

In the Czech Republic, E.ON Energie controls significant participations in the energy sector. As of January 1, 2005, E.ON Energie fulfilled legal unbundling requirements by creating three wholly-owned subsidiaries, E.ON Česká republika, a.s., E.ON Distribuce, a.s. and E.ON Energie, a.s. On a combined basis, these companies provided approximately 1.4 million customers with approximately 11.9 TWh of electricity in 2006. Under the swap of shareholdings with RWE noted above, in the gas sector E.ON Energie increased its interest in the distributor JCP to 59.8 percent. After the swap, E.ON Energie acquired an additional 39.2 percent stake in JCP from Oberösterreichische Ferngas AG (“Oberösterreichische Ferngas”) and other minority shareholders. As of December 31, 2006, E.ON Energie held a 99.0 percent interest in JCP. In January 2007, E.ON Energie received the remaining 1.0 percent interest from a squeeze-out proceeding and now holds 100 percent of JCP. As part of the asset swap, E.ON Energie also acquired a 25.0 percent minority interest in Prazská plynárenská Holding, a.s. (“PPH”) and a 49.3 percent minority interest in the gas distributor Prazská plynárenská, a.s. (“PP”). In return, RWE received E.ON Energie’s interests in the distribution companies Stredoceska plynárenská a.s. (14.3 percent),

Severomoravská plynárenská a.s. (9.6 percent), Západočeská plynárenská a.s. (47.9 percent) and Východočeská plynárenská a.s. (16.5 percent). E.ON Energie now owns minority shareholdings in the distributors Jihomoravská plynárenská a.s. (43.7 percent) and PP (49.3 percent), as well as in the holding company PPH (49.0 percent). In the generation sector, in August 2006, E.ON Energie acquired a 66.0 percent interest in the combined heat and power plant Teplárna Otrokovice a.s. ("Teplárna Otrokovice") from the energy group Czech Coal a.s. Teplárna Otrokovice has an installed capacity of approximately 50 MW, E.ON Energie's attributable share of which is approximately 33 MW. Czech Coal is to retain a 34.0 percent interest in the entity, which is located in the eastern part of the country near the Slovak border.

In February 2005, E.ON Energie acquired 67.0 percent stakes in each of the two northeastern Bulgarian electricity distribution companies Elektrorazpredelenie Varna AD ("Varna") and Elektrorazpredelenie Gorna Oryahovitza AD ("Gorna Oryahovitza"). The companies had combined sales of approximately 5.2 TWh and served approximately 1.2 million customers in 2006. As of January 1, 2007, the legal unbundling requirements were fulfilled through the foundation of E.ON Bulgaria Sales AD, which is now the sales company for the entire territory of northeastern Bulgaria, and E.ON Bulgaria Grid AD, which is now the distribution company for the entire territory of northeastern Bulgaria. The sales and distribution businesses of each of the former companies of Varna and Gorna Oryahovitza were integrated into these companies.

In September 2005, E.ON Energie acquired a 24.6 percent stake in the Romanian electricity distribution company Electrica Moldova S.A. ("Electrica Moldova") — renamed E.ON Moldova S.A. ("E.ON Moldova") — and simultaneously increased its stake in the company to 51.0 percent by subscribing to a capital increase. In 2006, the company sold approximately 3.3 TWh of electricity to approximately 1.4 million customers.

In 2002, E.ON Energie entered the Slovakian energy market by acquiring a 49.0 percent interest in the Slovakian electricity supplier Západoslovenská energetika a.s., which provided approximately 0.9 million customers with approximately 7.8 TWh of electricity in 2006.

In June 2006, E.ON Energie transferred its 20.3 percent interest in the eastern Lithuanian electricity distribution company Rytu Skirstomieji Tinklai to ERI.

E.ON Energie does not have interests in companies operating nuclear power plants other than those in Germany and Switzerland.

Competitive Environment

Since 1998, liberalization of the electricity markets in the EU has greatly altered competition in the German electricity market, which was formerly characterized by numerous strong competitors. Following liberalization, significant consolidation has taken place in the German market, resulting in three mergers of major interregional utilities in recent years: VEBA and VIAG forming E.ON, RWE and Vereinigte Elektrizitätswerke AG forming RWE (both in 2000) and Hamburgische Electricitäts-Werke AG/Bewag Berliner Kraft und Licht Aktiengesellschaft/VEAG/Lausitzer Braunkohle Aktiengesellschaft forming Vattenfall Europe in 2002. In 2006, E.ON, RWE, Vattenfall Europe and the other remaining major interregional utility, EnBW, supplied approximately two thirds of the total electricity production in Germany.

The interregional utilities own the high-voltage transmission lines in their traditional supply areas and are active in all phases of the electricity business. In addition to the interregional utilities, there are about 900 electric utilities in Germany at the state, regional and municipal level, many of which are partly or wholly owned by state or municipal governments. These utilities may be involved in various combinations of the generation, transmission, distribution and supply and trading functions. The liberalization of the electricity market in Germany has also led to new market structures with new market participants. The market for electricity has become more liquid and more competitive, and currently has the highest number of participants in continental Europe. Approximately 200 new market participants have entered the German market since 1998, with more than half of them engaged in electricity trading. The volume of electricity trading rose in 2006 (1,133 TWh at the European Energy Exchange's Spot and Futures Market compared with 602 TWh in 2005). The European Energy Exchange has also become a benchmark for electricity prices in central Europe.

Liberalization of the electricity market in Germany caused wholesale and consequently end customer electricity prices to decrease in 1998, with significant declines in some market segments. These declines were largely due to aggressive price setting by new competitors and suppliers, as well as other factors such as significant power plant overcapacity in Germany and Europe and relatively high and increasing price transparency. The rate of price declines began to slow in the second half of 2000, and prices have increased since 2001 but have developed differently in each of the customer segments. According to the German Electricity Association, VDEW, in 2006 prices paid by household customers were about 14 percent higher than in the liberalization year 1998, while prices (including electricity tax) paid by industrial customers were still about 8 percent lower than in 1998. In 2006, wholesale electricity prices in Germany stayed at a high level, but showed greater volatility, largely due to variations in CO₂ emission certificate prices. Some industrial customers were affected by the high wholesale prices, but others had already procured a lower price in 2004 or earlier. For this reason, the wholesale price increases did not affect the industrial customer segment to the same degree as household customers, who generally paid higher prices in 2006.

In addition to the effect of higher wholesale market prices, a significant factor in the overall price recovery are new or increased costs faced by electricity companies since the beginning of liberalization. Among these new or increased costs are the electricity tax (introduced in 1998 and subject to annual increases through 2003), duties and additional costs attributable to compliance with new legislation, including the Renewable Energy Law and Co-Generation Protection Law, as well as higher costs incurred in procuring balancing power to cover fluctuations in the availability of electricity from renewable resources such as wind. As most distributors have tried to pass these increases through to their customers, electricity prices have risen more rapidly than the associated margins for generators in recent years. Taxes and duties accounted for approximately 40 percent of German electricity prices for household customers in 2006, compared with about 25 percent before deregulation in 1998. Similarly, electricity taxes and duties increased from 2 percent of German electricity prices for industrial customers in 1998 to 19 percent in 2006. In view of recent developments in the commodity and fuel markets, E.ON Energie expects electricity prices in Germany to stabilize in 2007. E.ON Energie cannot exclude further price increases for end customers in 2007, which in most cases have to be approved by the relevant authorities. However, these price changes for end customers depend on the wholesale market prices for electricity. For information about court proceedings on price increases affecting some of E.ON Energie's majority-owned regional distribution companies, see "Item 3. Key Information — Risk Factors."

High environmental and nuclear safety standards, as well as high investments in new power plants, taxes on electricity, the requirements of the Co-Generation Protection Law and the Renewable Energy Law's requirement that regional utilities purchase electricity generated from renewable resources impose a considerable burden on German electricity prices for end customers. E.ON Energie still believes that it will be able to compete effectively in Germany. In addition, E.ON Energie believes that the liberalization of the gas and electricity markets may open new business opportunities. However, E.ON Energie may be unable to compete as effectively as other electricity companies due to the factors described above, as well as due to regulatory changes described in "— Regulatory Environment." Any of these or other factors could materially and adversely affect E.ON's financial condition and results of operations. See also "Item 3. Key Information — Risk Factors."

Outside Germany, the energy markets in which E.ON Energie operates are also subject to strong competition. In the countries of Eastern Europe where E.ON Energie has operations, full liberalization of the electricity and gas sales markets should be realized by July 1, 2007. This may alter competition in these electricity and gas markets, which could lead to decreasing end customer prices or to a loss of market shares. E.ON Energie cannot guarantee it will be able to compete successfully in electricity and gas markets where it already is present or in new electricity and gas markets it may enter.

PAN-EUROPEAN GAS

Overview

E.ON Ruhrgas is the lead company of the Pan-European Gas market unit and is responsible for all of E.ON's non-retail gas activities in continental Europe. In terms of sales, E.ON Ruhrgas is one of the leading non-state-owned gas companies in Europe and the largest gas company in Germany. E.ON Ruhrgas' principal business is the supply, transmission, storage and sale of natural gas. E.ON Ruhrgas also holds numerous stakes in German and other European gas transportation and distribution companies, as well as a small shareholding in Gazprom, Russia's

main natural gas exploration, production, transportation and marketing company. In 2006, the Pan-European Gas market unit recorded revenues of €25.0 billion (which included €2.1 billion in natural gas and electricity taxes that were remitted, directly or indirectly, to the German tax authorities) and adjusted EBIT of €2.1 billion. €17.0 billion of the Pan-European Gas market unit's 2006 revenues were generated in Germany and €8.0 billion was generated abroad (measured by location of customer).

In 2006, E.ON Ruhrgas entered into the following significant transactions:

- In March 2006, ERI completed the acquisition of 100 percent of the gas trading and gas storage businesses of the Hungarian oil and gas company MOL by acquiring ownership interests in MOL Földgázellátó Rt. and MOL Földgázártó Rt. (which have since been renamed E.ON Földgáz Trade and E.ON Földgáz Storage). The acquisition of MOL's 50.0 percent interest in the gas importer Panrusgáz was completed at the end of October 2006.
- In July 2006, E.ON Ruhrgas signed a framework agreement with OAO Gazprom memorializing the basic understanding of the parties regarding the swap of the following assets: E.ON Ruhrgas to receive 25.0 percent minus one share in the Severneftegazprom joint venture company, which holds the exploration and production license for the Yushno Russkoje gas field in Russia and Gazprom to receive 50.0 percent minus one share in each of E.ON Földgáz Trade and E.ON Földgáz Storage and 25.0 percent plus one share in E.ON Hungária. Any difference in the agreed value of the assets to be exchanged is to be settled, as applicable, by Gazprom through a cash payment and/or by E.ON through the payment of cash or E.ON Ordinary Shares (with Gazprom being able to select the method of payment). However, the timing of these transfers and the precise terms on which they are to be executed have yet to be determined.
- In December 2006, Thüga Aktiengesellschaft ("Thüga") agreed with EnBW to sell certain shareholdings to EnBW group companies. The transfer of the shareholdings is expected to take place in the first half of 2007.

Operations

Through E.ON Ruhrgas AG and its subsidiaries, E.ON Ruhrgas is primarily engaged in the following segments of the gas industry:

- | | |
|---------------|---|
| Supply: | The purchase of natural gas under long-term contracts with foreign and domestic producers, including the Russian gas company Gazprom, the world's largest gas producer in terms of volume, in which E.ON Ruhrgas holds a small shareholding. E.ON Ruhrgas also engages in gas exploration and production activities and, to supplement its supply as well as its sales business, in a limited amount of trading activities; |
| Transmission: | The transmission of gas within Germany via a network of approximately 11,400 km of pipelines in which E.ON Ruhrgas holds an interest; |
| Storage: | The storage of gas in a number of large underground natural gas storage facilities; and |
| Sales: | The sale of gas within Germany to supraregional and regional distributors, municipal utilities and industrial customers, as well as the delivery of gas to a number of customers in other European countries. |

In addition to its natural gas supply, transmission, storage and sales businesses, E.ON Ruhrgas owns numerous shareholdings in integrated gas companies, gas distribution companies and municipal utilities through its subsidiaries ERI and Thüga. ERI holds both majority and minority shareholdings in German and European energy companies, while Thüga holds primarily minority shareholdings in 93 regional and municipal electricity and gas utilities in Germany, as well as majority and minority shareholdings in a number of Italian gas distribution and sales companies.

For financial reporting purposes, the Pan-European Gas market unit is divided into three business units: Up-/Midstream, Downstream Shareholdings and Other/Consolidation. The Up-/Midstream business unit reflects the results of the supply, transmission, storage and sales businesses, with the midstream operations essentially including all of the supply and sales businesses other than exploration and production activities. The Downstream Shareholdings business unit reflects the results of ERI and Thüga. Other/Consolidation includes consolidation effects.

The following table provides information about purchases and sales of natural gas and coke oven gas by E.ON Ruhrgas' midstream operations for the years 2006 and 2005. The difference between gas supplies and gas sales in any given period is due to storage and metering differences and occurs routinely.

| <u>Purchases</u> | <u>Total 2006 billion kWh</u> | <u>%</u> | <u>Total 2005 billion kWh</u> | <u>%</u> |
|---|-----------------------------------|--------------|-----------------------------------|--------------|
| Imports | 609.9 | 84.4 | 580.0 | 84.5 |
| German sources | 113.3 | 15.6 | 106.1 | 15.5 |
| Total | <u>723.2</u> | <u>100.0</u> | <u>686.1</u> | <u>100.0</u> |
| <u>Sales</u> | | | | |
| Domestic distributors | 318.7 | 44.9 | 323.7 | 46.9 |
| Domestic municipal utilities | 163.1 | 23.0 | 160.9 | 23.3 |
| Domestic industrial customers | 67.6 | 9.5 | 70.4 | 10.2 |
| Sales abroad | 160.3 | 22.6 | 135.2 | 19.6 |
| Total | <u>709.7</u> | <u>100.0</u> | <u>690.2</u> | <u>100.0</u> |

In the table above, as well as in the descriptions of E.ON Ruhrgas' supply and sales businesses, purchase and sales volumes are presented for all periods excluding relatively small amounts of gas that E.ON Ruhrgas does not consider part of its primary business, including volumes handled for third parties. In addition, these gas volumes do not include gas volumes attributable to ERI or Thüga, which are part of the Downstream Shareholdings business unit.

The increase in total sales volume in 2006 is attributable to an increase in sales abroad, especially to customers in Sweden (including E.ON Sverige) and Denmark, short-term trading transactions in the United Kingdom and increased sales in France; the sales increase is primarily reflected in an increase in imports in 2006. For more information on E.ON Ruhrgas' gas supply contract with E.ON Sverige, see "— Nordic — Operations."

Supply

E.ON Ruhrgas purchases nearly all of its natural gas from producers in six countries: Russia, Norway, the Netherlands, Germany, the United Kingdom and Denmark. In 2006, E.ON Ruhrgas purchased a total of 723.2 billion kWh of gas, of which approximately 84.4 percent was imported and approximately 15.6 percent was purchased from German producers. E.ON Ruhrgas was the largest gas purchaser in Germany in 2006, acquiring more than half of the total volume of gas purchased for the German market. Of the 723.2 billion kWh of gas purchased in 2006, E.ON Ruhrgas bought approximately 27.2 percent from Norway and approximately 24.7 percent from Russia, its two largest suppliers. The following table provides information on the amount of gas purchased from each country and its percentage of the total volume of gas purchased by the midstream operations in the years 2006 and 2005:

| <u>Sources of Gas</u> | <u>Total 2006 billion kWh</u> | <u>%</u> | <u>Total 2005 billion kWh</u> | <u>%</u> |
|---------------------------|-----------------------------------|--------------|-----------------------------------|--------------|
| Germany | 113.3 | 15.6 | 106.1 | 15.5 |
| Russia | 178.4 | 24.7 | 193.5 | 28.2 |
| Norway | 196.5 | 27.2 | 188.4 | 27.5 |
| The Netherlands | 137.5 | 19.0 | 139.0 | 20.2 |
| United Kingdom | 67.2 | 9.3 | 34.1 | 5.0 |
| Denmark | 22.9 | 3.2 | 23.7 | 3.4 |
| Others(1) | 7.4 | 1.0 | 1.3 | 0.2 |
| Total | <u>723.2</u> | <u>100.0</u> | <u>686.1</u> | <u>100.0</u> |

(1) Italy, France, Austria, Hungary and Slovakia.

In the table above, purchase volumes are presented for all periods excluding relatively small amounts of gas that E.ON Ruhrgas does not consider part of its primary supply business, including volumes handled for third parties. In addition, these gas volumes do not include gas volumes attributable to ERI or Thüga.

As is typical in the gas industry, these purchases were primarily made under long-term supply contracts that E.ON Ruhrgas has with one or more gas producers in each country. Purchases under such contracts provided for nearly all of the gas bought by E.ON Ruhrgas in 2006; the remaining amounts were purchased on international spot markets or pursuant to short-term contracts. E.ON Ruhrgas' current long-term contracts with fixed terms (so-called "supply"-type contracts) have termination dates ranging from 2007 to 2036 (subject in certain cases to automatic extensions unless either party gives notice of termination), while so-called "depletion"-type contracts terminate upon the exhaustion of economic production from the relevant gas field. E.ON Ruhrgas believes that its existing contracts secure the supply of a total volume of approximately 13.5 trillion kWh of natural gas over the period to 2036. As is standard in the gas industry, the price E.ON Ruhrgas pays for gas under these contracts is calculated on the basis of complex formulas incorporating variables based upon current market prices for fuel oil, gas oil, coal and/or other competing fuels, with prices being automatically re-calculated periodically, usually monthly or quarterly. The contracts also generally provide for formal revisions and adjustments of the price or business terms to reflect changes in the market (in many cases expressly including changes in the retail market for natural gas and competing fuels), generally providing that such revisions may only be made once every few years unless the parties agree otherwise. Claims for revision are subject to binding arbitration in the event the parties cannot agree on the necessary adjustments. Certain contracts also provide E.ON Ruhrgas with the possibility of buying specified quantities of gas at prices linked to those on international spot markets. The contracts also require E.ON Ruhrgas to pay for specified minimum quantities of gas even if it does not take delivery of such quantities, a standard gas industry practice known as "take or pay." Take-or-pay quantities are generally set at approximately 80 percent of the firm contract quantities. To date, E.ON Ruhrgas has been able to avoid the application of these take-or-pay clauses in nearly all cases. The contracts also include quality and availability provisions (together with related discounts for non-compliance), *force majeure* provisions and other industry standard terms. E.ON Ruhrgas also has short-term arrangements with some of its suppliers, which provided less than 3 percent of E.ON Ruhrgas' gas supply in 2006. E.ON Ruhrgas generally takes delivery of the gas it imports at the point at which the relevant pipeline crosses the German border. For additional information on these contractual obligations, see "Item 5. Operating and Financial Review and Prospects — Contractual Obligations."

In the medium and long term, rising demand for gas in Europe, combined with falling indigenous production in European countries, particularly in the United Kingdom, will lead to a greater reliance on imports by European gas wholesalers. Accordingly, in the near future, gas producers will have to invest, in some cases quite considerably, in expanding their production capacities. In addition, the natural decline in output from older fields will need to be made up by the development of new fields. E.ON Ruhrgas believes that long-term gas purchase contracts will remain crucial to European gas supplies, ensuring a fair balance of risks between producers and importers. E.ON Ruhrgas believes the price adjustment provisions in such contracts ensure sufficient supplies of gas at competitive prices, while the take or pay provisions give producers the necessary long-term security for investing. The economic significance of such contracts has been acknowledged by the German government and, in principle, by the European Commission, and E.ON Ruhrgas seeks to balance its purchase and sale obligations so as to minimize risk. For information about risks relating to long-term gas supply contracts, see "Item 3. Key Information — Risk Factors."

E.ON Ruhrgas' supply sources are discussed below on a country-by-country basis.

Russia. In 2006, E.ON Ruhrgas purchased 178.4 billion kWh of gas, or 24.7 percent of its total gas purchased, from Russia. Russia is the largest supplier of natural gas to E.ON Ruhrgas, while E.ON Ruhrgas is the second-largest purchaser of gas from Russia. As with most of its gas imports, E.ON Ruhrgas takes ownership of its Russian gas when it reaches the German border.

All of E.ON Ruhrgas' purchases of Russian natural gas are made pursuant to long-term supply contracts with OOO Gazexport (now Gazprom export), the subsidiary of Gazprom responsible for exports. E.ON Ruhrgas holds a 3.5 percent direct interest in Gazprom; an additional stake of 2.9 percent in Gazprom is attributable to E.ON Ruhrgas on the basis of contractual arrangements relating to its minority interest in a Russian entity that holds these shares. E.ON Ruhrgas considers its shareholding in Gazprom to be an important element supporting its long-term supply relationship with Gazprom, which is the world's largest gas producer, having produced approximately 5.7 trillion kWh of gas in 2006. E.ON Ruhrgas expects the importance of Russian gas exports for Europe to increase as the indigenous production of important European supply countries decreases. Gazprom has indicated it will flexibly cover about one third of E.ON Ruhrgas' gas requirements for the German market until 2030. In July 2004, E.ON and Gazprom signed a

Memorandum of Understanding for a deepened strategic cooperation between the parties, pursuant to which E.ON, Gazprom and BASF AG (“BASF”) signed a basic agreement on the construction of the Nord Stream pipeline from Vyborg, Russia to Greifswald, Germany through the Baltic Sea in September 2005. In August 2006, the final shareholders’ agreement was signed. For details, see “— Transmission and Storage — Pipelines.”

In August 2006, E.ON and Gazprom finalized a series of agreements in Moscow. These agreements, which comprise extensions of existing contracts and a new supply contract, provide for the delivery of an aggregate of approximately 400 billion cubic meters (“m³”) of gas through 2036, and E.ON believes that these contracts represent an important contribution towards safeguarding long-term European gas supplies. The annual deliveries of approximately 24 billion m³ are equivalent to one third of the gas volume currently purchased by E.ON Ruhrgas. The two companies signed 15-year extensions of the existing contracts with Waidhaus, Germany as delivery point through 2035, as well as a new supply contract for additional gas to be delivered via the Nord Stream pipeline from 2010/2011 onwards.

Norway. In 2006, E.ON Ruhrgas purchased 196.5 billion kWh, or 27.2 percent of its total gas purchased, from Norwegian sources. E.ON Ruhrgas has supply contracts with a number of major Norwegian and international energy companies that hold concessions for the exploitation of Norwegian gas fields. Some of the contracts are of the “depletion”-type while others are “supply”-type contracts. E.ON Ruhrgas takes delivery of its Norwegian supplies mainly at the gas import points near Emden along the German North Sea coast.

The Netherlands. In 2006, E.ON Ruhrgas purchased 137.5 billion kWh, or 19.0 percent of its total gas purchased, pursuant to a single long-term supply contract with GasTerra B.V. This contract provides E.ON Ruhrgas with a certain degree of flexibility in managing its supply portfolio. E.ON Ruhrgas believes such flexibility is particularly important in this case, as the Dutch gas fields are relatively close to the end consumers of E.ON Ruhrgas’ imports, making it more economically viable for E.ON Ruhrgas to react to changes in market demand by varying contract quantities. E.ON Ruhrgas takes delivery of Dutch gas at the German border.

Germany. In 2006, E.ON Ruhrgas purchased 113.3 billion kWh, or 15.6 percent of its total gas purchased, from domestic gas production companies. E.ON Ruhrgas has long-term supply contracts for German natural gas with ExxonMobil Gas Marketing Deutschland GmbH (formerly Mobil Erdgas-Erdöl GmbH), ExxonMobil Gas Marketing Deutschland GmbH & Co. KG (50 percent of former Britta Erdgas und Erdöl GmbH (“BEB”)), Shell Erdgas Marketing GmbH & Co. KG (50 percent of former BEB), Gaz de France Produktion Exploration Deutschland GmbH (formerly Preussag Energie GmbH) and RWE Dea AG. A number of the contracts provide E.ON Ruhrgas with significant additional flexibility by providing for the supply of minimum and maximum quantities of gas, rather than a single fixed amount. E.ON Ruhrgas expects the volume of gas it purchases from domestic sources to decline over the coming years due to the depletion of German gas fields.

United Kingdom. In 2006, E.ON Ruhrgas purchased 67.2 billion kWh, or 9.3 percent of its total gas purchased, from U.K. sources. These quantities were partly purchased from BP Gas Marketing Ltd under a long-term supply contract, partly purchased on the spot short-term market and partly received as “equity gas” through E.ON Ruhrgas’ subsidiary E.ON Ruhrgas UK Exploration and Production Limited (“E.ON Ruhrgas UK”), which has interests in U.K. gas fields and infrastructure. See “— Exploration and Production” below for more information on E.ON Ruhrgas UK.

In contrast to much of its other imported gas, which E.ON Ruhrgas generally takes ownership of at the German border, E.ON Ruhrgas takes delivery of its purchased U.K. gas supplies partly at Bacton and Easington terminals in the United Kingdom and partly at Zeebrugge terminal in Belgium. Gas from the U.K. gas fields is transported to Belgium through the undersea gas pipeline run by the project company Interconnector (U.K.) Limited (“Interconnector”).

Denmark. In 2006, E.ON Ruhrgas purchased 22.9 billion kWh, or 3.2 percent of its total gas purchased, from the Danish supplier DONG Energy A/S (“DONG”), with which E.ON Ruhrgas has long-term supply contracts. E.ON Ruhrgas takes delivery of Danish gas at the German-Danish and Swedish-Danish border.

Trading

In order to optimize and manage price risks of its long-term gas portfolio, E.ON Ruhrgas engages in gas, oil and coal trading. The gas trading activities are concentrated at the national balancing point in the United Kingdom,

at the Zeebrugge hub in Belgium and at the Title Transfer Facility in the Netherlands (and, since October 2006, at the Virtuelle Handlungspunkte in Germany), and are mainly handled via brokers participating in open markets. Financial, oil and coal trading activities are undertaken mainly for hedging purposes. Proprietary trading is marginal compared to asset-based trading.

E.ON Ruhrgas' total traded gas volume for 2006 was 10.1 percent of total E.ON Ruhrgas sales, as compared with 5.9 percent in 2005, with the increase being attributable to increased hedging activities reflecting the expansion of the arbitrage business in the markets in the United Kingdom, Belgium and the Netherlands.

All of E.ON Ruhrgas' energy trading operations, including its limited proprietary trading, are subject to E.ON's risk management policies for energy trading. For additional information on these policies and related exposures, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Exploration and Production

E.ON Ruhrgas participates in the exploration and production segment of the gas industry through its gas production companies in the United Kingdom and in Norway.

United Kingdom. In the United Kingdom, E.ON Ruhrgas operates through its subsidiary E.ON Ruhrgas UK, which directly holds mainly minority interests in a number of gas production fields, exploration blocks and pipelines in the British North Sea. In addition, E.ON Ruhrgas UK is the sole shareholder of E.ON Ruhrgas UK North Sea Limited ("E.ON Ruhrgas North Sea") and its subsidiaries, which own interests in 16 gas fields and two pipeline systems as well as a trading business.

In 2006, the E.ON Ruhrgas UK group produced 7.7 billion kWh (725 million m³) of gas, compared with 5.3 billion kWh (479 million m³) of gas in 2005. The 45 percent increase reflects the first full year of production from the assets in which E.ON Ruhrgas North Sea holds an interest, which were acquired in November 2005. In addition, the E.ON Ruhrgas UK group produced 2.7 million barrels of liquids (oil and condensate) in 2006, compared with 2.5 million barrels in 2005. The Hunter and Glenelg fields started production in January and March 2006, respectively. At the end of 2006, the Merganser gas and condensate field also commenced production. In summer 2006, E.ON Ruhrgas North Sea successfully drilled and tested the Babbage appraisal well, its first well under own operatorship (its interest in the Babbage field is 47.0 percent).

The following table shows the name of each producing field in which the E.ON Ruhrgas UK group holds an interest, E.ON's ownership interest in the field, and the date each field commenced production:

E.ON Ruhrgas UK Group

| <u>Name of Producing Field</u> | <u>E.ON Share in %</u> | <u>Start-up Date</u> |
|--------------------------------|----------------------------|----------------------|
| Ravenspurn North | 28.75 | July 1990 |
| Caister | 40.0 | October 1993 |
| Johnston | 50.107 | September 1994 |
| Schooner | 4.83 | September 1996 |
| Elgin/Franklin | 5.2 | April 2001 |
| Scoter | 12.0 | December 2003 |
| Hunter | 79.0 | January 2006 |
| Glenelg | 18.57 | April 2006 |
| Merganser | 7.9185 | December 2006 |

The E.ON Ruhrgas UK group received its share of production from all of the producing fields in which it owned an interest in 2006.

Norway. E.ON Ruhrgas operates in Norway through its subsidiary E.ON Ruhrgas Norge AS ("E.ON Ruhrgas Norge"). E.ON Ruhrgas Norge owns 30.0 percent of the Njord oil and gas field. Currently, gas from this field is being re-injected to increase the rate of oil recovery. E.ON Ruhrgas Norge obtained 2.6 million barrels of oil

as a result of its stake in 2006 which were sold on the market. The field is currently expected to begin producing gas for sale later in 2007. To expand its business further, E.ON Ruhrgas Norge has applied for and received operator qualification on the Norwegian Shelf.

Russia. As noted above, in July 2006 E.ON Ruhrgas and Gazprom signed a framework agreement on the exchange of assets in the sectors of gas exploration and production as well as gas sales and trading and power. As part of this agreement, E.ON Ruhrgas will acquire a stake of 25.0 percent minus one share in the company Severneftegazprom, which holds the exploration and production license for the Yushno Russkoje gas field in Siberia.

Liquefied Natural Gas

LNG, which is liquefied in the gas producing country, transported by tanker and then converted back into gas at the receiving terminal, is an alternative to gas deliveries by pipeline. E.ON Ruhrgas is currently conducting a study on the construction of an LNG unloading and regasification terminal in Wilhelmshaven which would be Germany's first such facility. E.ON Ruhrgas has a majority shareholding in Deutsche Flüssigerdgas Terminal Gesellschaft mbH, which owns property to build the terminal in Wilhelmshaven, which, if built, could handle upon completion as much as 5 billion m³ of natural gas per year and would have the flexibility to handle another 5 billion m³ if required. According to initial calculations, the investments required would total approximately €695 million. No decision to build the terminal has yet been made, though its construction would be in line with E.ON's strategy of expanding its sources of natural gas with the goal of enhancing the security of its supply.

E.ON Ruhrgas and ADRIA LNG Study Company (whose current shareholders are OMV, TOTAL, RWE Transgas, INA and Geoplin) have agreed to prepare joint feasibility studies for the construction of an LNG regasification terminal in Croatia by signing a cooperation agreement. The studies are to be based on investigations already started in 1995 and will lay the foundations for a decision on what would be a major infrastructure project.

Transmission and Storage

E.ON Ruhrgas AG's technical infrastructure in Germany is comprised of pipelines and transport compressor stations (together, the "transmission system"), as well as underground gas storage facilities (including storage compressor stations) owned by E.ON Ruhrgas AG, those co-owned directly by E.ON Ruhrgas AG and other gas companies, and those owned by project companies in which E.ON Ruhrgas AG holds an interest.

Project companies are entities E.ON Ruhrgas AG has set up with German or European gas companies for a special purpose, such as establishing a pipeline connection between two countries or building and operating underground gas storage facilities. The following table provides more information on the E.ON Ruhrgas AG share in each of its German project companies as of December 31, 2006:

| <u>Project Company</u> | <u>E.ON Ruhrgas Share %</u> |
|--|-------------------------------------|
| DEUDAN (DEUDAN — Deutsch/Dänische Erdgastransport-Gesellschaft mbH & Co. KG) | 25.0 |
| EGL (Etzel Gas-Lager GmbH & Co.) | 74.8 |
| GHG (GHG-Gasspeicher Hannover Gesellschaft mbH) | 13.2 |
| MEGAL (MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG) | 51.0 |
| METG (Mittelrheinische Erdgastransportleitungsgesellschaft mbH) | 100.0 |
| NETG (Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co. KG) | 50.0 |
| NETRA (NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG) | 40.6 |
| TENP (Trans Europa Naturgas Pipeline GmbH & Co. KG) | 51.0 |

The E.ON Ruhrgas AG underground storage facilities are operated by E.ON Ruhrgas AG as storage system operator. The E.ON Ruhrgas AG transmission system is operated by E.ON Gastransport, a wholly-owned subsidiary of E.ON Ruhrgas AG, as transmission system operator. The underground storage facilities and the transmission system, based on service contracts, are monitored and maintained largely by E.ON Ruhrgas AG. The

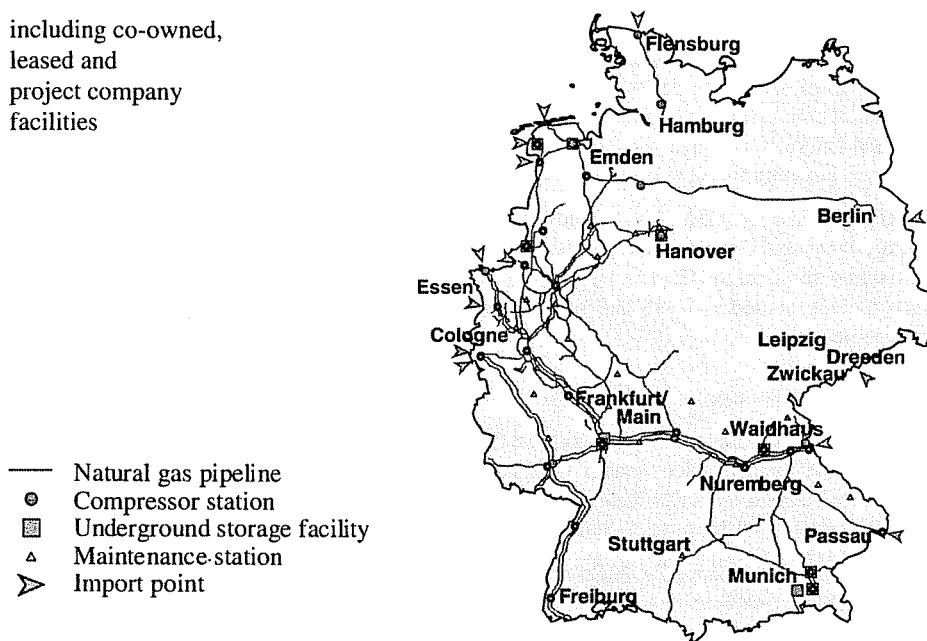
transmission system is used to transport the gas that E.ON Ruhrgas and third party customers receive from suppliers at gas import points on the German border or at other supply points within Germany to customers or to storage facilities for later use.

In accordance with Germany's energy law, the transmission system has been leased out to E.ON Gastransport together with all transmission rights and rights of beneficial use that E.ON Ruhrgas AG possesses in respect of third party transmission systems in Germany. For more information on Germany's new energy law, see "— Regulatory Environment — EU/Germany: General Aspects (Electricity and Gas)." For more information on E.ON Gastransport, see "— E.ON Gastransport" below.

The following map shows the pipelines as well as the location of compressor stations, gas storage facilities and field stations belonging to E.ON Ruhrgas AG's technical infrastructure:

E.ON Ruhrgas AG's Technical Infrastructure

including co-owned,
leased and
project company
facilities



As shown in the map above, E.ON Ruhrgas AG's transmission system and its underground storage facilities are located primarily in western Germany, the historical center of E.ON Ruhrgas' operations.

Pipelines. As of the end of 2006, E.ON Ruhrgas AG owned gas pipelines totaling 6,556 km and co-owned gas pipelines totaling 1,543 km with other companies. In addition, German project companies in which E.ON Ruhrgas AG holds an interest owned gas pipelines totaling 3,306 km at the end of 2006.

The following table provides more information on E.ON Ruhrgas AG's pipelines in Germany as of December 31, 2006:

| <u>Pipelines</u> | <u>Total km</u> | <u>Maintained by E.ON Ruhrgas AG km</u> |
|--|---------------------|---|
| Owned by E.ON Ruhrgas AG | 6,556 | 6,234 |
| Co-owned pipelines | 1,543 | 604 |
| DEUDAN (PC) | 110 | 0 |
| EGL (PC) | 67 | 67 |
| MEGAL (PC) | 1,080 | 1,080 |
| METG (PC) | 425 | 425 |
| NETG (PC) | 285 | 144 |
| NETRA (PC) | 341 | 106 |
| TENP (PC) | 998 | 998 |
| Companies in which E.ON Ruhrgas AG holds a stake through its subsidiaries ERI and Thüga | — | 2,032 |
| Owned by third parties | — | <u>1,034</u> |
| Total in Germany | <u>11,405</u> | <u>12,724</u> |

(PC) project company

E.ON Ruhrgas AG's share in the use of any particular pipeline it does not wholly own is determined by contract and is not necessarily related to E.ON Ruhrgas AG's interest in the pipeline. E.ON Ruhrgas AG's pipeline network is comprised of pipeline sections of varying diameters originally built according to the estimated capacity needed for the relevant section of the system. Currently, the pipeline network comprises 2,012 km of pipelines with a diameter of less than or equal to 300 millimeters, 3,054 km of pipelines with a diameter of more than 300 and less than or equal to 600 millimeters, 3,002 km of pipelines with a diameter of more than 600 and less than or equal to 900 millimeters, and 3,337 km of pipelines with a diameter of more than 900 and less than or equal to 1,200 millimeters.

In 2006, E.ON Ruhrgas AG maintained 6,234 km of its own pipelines, 604 km of co-owned pipelines, 1,034 km of pipelines owned by third parties and 2,032 km of pipelines owned by companies in which E.ON Ruhrgas AG holds a stake through its subsidiaries ERI and Thüga, as well as 2,820 km of pipelines owned by project companies in which E.ON Ruhrgas AG holds an interest. In total, E.ON Ruhrgas AG maintained (including providing local monitoring) 12,724 km of pipelines in 2006. For information on pipeline monitoring and maintenance, see "— Monitoring and Maintenance" below.

In addition to E.ON Ruhrgas AG's German transmission system, E.ON Ruhrgas has a 23.59 percent interest in Interconnector, a U.K. project company that owns the Interconnector transmission system, comprising a 235 km undersea gas pipeline from the United Kingdom to Belgium, a transport compressor station at Bacton (four units with a total installed capacity of approximately 116 MW) and a compressor station at Zeebrugge (four units with a total installed capacity of approximately 140 MW).

In July 2004, E.ON Ruhrgas acquired a 20.0 percent interest in BBL Company V.O.F., a Dutch project company founded in July 2004, which built a second undersea transmission system between continental Europe and the United Kingdom. This transmission system (comprising a 235 km undersea pipeline and a compressor station at Balgzand — three units with a total installed capacity of approximately 69 MW), which links Balgzand in the Netherlands to Bacton in the United Kingdom, started operation in December 2006.

E.ON Ruhrgas also owns a 3.0 percent interest in the Swiss project company Transitgas AG, which owns the Transitgas transmission system, running through Switzerland from Wallbach on the Swiss-German border and Rodersdorf on the French-Swiss border to Griespass on the Swiss-Italian border. The Transitgas system comprises

pipelines totaling 293 km and one transport compressor station at Ruswil (four units with a total installed capacity of approximately 60 MW).

In Romania, E.ON Ruhrgas has a 51.0 percent stake in the Romanian gas supplier E.ON Gaz România S.A. (“E.ON Gaz România”), the former S.C. Distrigaz Nord S.A. (“Distrigaz Nord”). E.ON Gaz România is active in gas distribution and supply in northern Romania; it owns gas pipelines totaling approximately 10,000 km and operates gas pipelines totaling 18,065 km.

In August 2006, Gazprom, E.ON Ruhrgas and Wintershall Aktiengesellschaft (“Wintershall”) signed the Final Shareholders’ Agreement providing for the construction of the Nord Stream pipeline (formerly the North European Gas Pipeline), which is planned to connect Vyborg on Russia’s Baltic coast with Greifswald on the German Baltic coast, thereby providing an additional undersea route for the supply of Russian natural gas to Germany, as compared with the current land routes through Ukraine and Poland. The three joint venture partners have formed the Swiss company Nord Stream AG, in which Gazprom holds a 51.0 percent interest and E.ON Ruhrgas and Wintershall each hold 24.5 percent stakes. For a limited period of time, Gazprom has the option to request that Wintershall and E.ON Ruhrgas each assign up to a 4.5 percent interest in the company to an entity designated by Gazprom, which would therefore become the fourth joint venture partner. The Final Shareholders’ Agreement has not become formally effective yet. It is not expected that the first pipeline could be completed before 2010 at the earliest. The current estimates of E.ON Ruhrgas’ share of the expected cost of the complete project are in the range of approximately €1.8 billion (assuming that E.ON Ruhrgas retains a 24.5 percent stake in Nord Stream).

Compressor Stations. Compressor stations are used to produce the pressure necessary to transport gas through pipelines and to inject gas into underground storage facilities. E.ON Ruhrgas AG owns or co-owns 15 compressor stations, nine operating for gas transportation purposes (with a total installed capacity of 305 MW), and six for gas storage purposes (with a total installed capacity of 79 MW). German project companies in which E.ON Ruhrgas AG holds an interest own an additional 17 transport compressor stations with a total installed capacity of 591 MW and two storage compressor stations with a total installed capacity of 17 MW. In 2006, E.ON Ruhrgas AG provided monitoring and maintenance services under service contracts for the nine transport compressor stations leased out to E.ON Gastransport and 13 transport compressor stations of the project companies. E.ON Ruhrgas AG also operated, monitored and maintained its six compressor stations operating for gas storage purposes. The current installed capacity of the compressor stations monitored and maintained by E.ON Ruhrgas AG totals 907 MW.

The following table provides more information about E.ON Ruhrgas AG’s and its project companies’ gas compressor stations in Germany as of December 31, 2006:

| <u>Owned or Co-owned by</u> | <u>Compressor Stations</u> | <u>Compressor Units</u> | <u>Total Installed Capacity MW</u> | <u>Compressor Units Monitored and Maintained by E.ON Ruhrgas AG</u> | <u>Installed Capacity of Compressor Units Monitored and Maintained by E.ON Ruhrgas AG MW</u> |
|--|----------------------------|-------------------------|------------------------------------|---|--|
| E.ON Ruhrgas AG (transportation and storage) | 15 | 44 | 384 | 44 | 384 |
| DEUDAN (PC) (transportation) . . . | 2 | 4 | 16 | 0 | 0 |
| EGL (PC) (storage) | 1 | 2 | 13 | 0 | 0 |
| GHG Hannover (PC) (storage) . . . | 1 | 3 | 4 | 0 | 0 |
| MEGAL (PC) (transportation) | 5 | 19 | 201 | 19 | 201 |
| METG (PC) (transportation) | 2 | 11 | 131 | 11 | 131 |
| NETG (PC) (transportation) | 2 | 5 | 50 | 2 | 20 |
| NETRA (PC) (transportation) | 2 | 5 | 42 | 3 | 20 |
| TENP (PC) (transportation) | 4 | 15 | 151 | 15 | 151 |
| Total in Germany | <u>34</u> | <u>108</u> | <u>992</u> | <u>94</u> | <u>907</u> |

(PC) project company

Due to the complexity of the transmission system, together with transmission rights and rights of beneficial use, as well as the number and complexity of factors influencing pipeline utilization, such as temperature, the volume of gas transported and the availability of compressor units, no meaningful data on the utilization of the transmission system is available. E.ON Ruhrgas AG had sufficient pipeline capacity in prior years and booked sufficient pipeline capacity in 2006. E.ON Ruhrgas AG believes that a shortage of pipeline capacity is not a material risk in the foreseeable future.

Storage. Underground gas storage facilities are generally used to balance gas supplies and heavily fluctuating demand patterns. For example, the gas sent out by E.ON Ruhrgas AG on a cold winter day is roughly four times as high as that on a hot summer day, while the flow of gas produced and purchased is much more constant. For this reason, E.ON Ruhrgas AG injects gas into storage facilities during warm weather periods and withdraws it in cold weather periods to cope with peak demand. E.ON Ruhrgas AG stores gas in large underground gas storage facilities, which are located in porous rock formations (depleted gas fields or aquifer horizons) or in salt caverns. Underground gas storage facilities consist of an underground section (cavity or porous rock and wells) and an above-ground part, namely the storage compressor station. As of the end of 2006, E.ON Ruhrgas AG owned five storage facilities, co-owned another two storage facilities and leased capacity in two storage facilities in order to meet its gas storage requirements. In addition, E.ON Ruhrgas AG had storage capacity available through two project companies in which it is a shareholder. Through these owned, co-owned, leased and project company storage facilities, a working gas storage capacity of approximately 5.2 billion m³ was available to E.ON Ruhrgas AG in 2006. Due to the number and complexity of factors influencing storage utilization, particularly temperature and the terms of supply and delivery contracts, E.ON Ruhrgas does not consider data on the utilization of gas storage capacity to be meaningful. E.ON Ruhrgas AG had sufficient storage capacity available both in 2006 and in prior years and does not consider a shortage of gas storage capacity to be a material risk in the foreseeable future. However, depending on a number of factors such as future gas sent out, E.ON Ruhrgas AG's gas supply and delivery situation and further gas sales potential in European countries other than Germany, E.ON Ruhrgas AG intends to increase working gas capacity by enlarging existing storage facilities, building new facilities and by leasing additional gas storage capacity in the future. For information about risks related to the reliability of gas supplies, see also "Item 3. Key Information — Risk Factors." The following table provides more information about E.ON Ruhrgas AG's underground gas storage facilities, all of which are situated in Germany, as of December 31, 2006:

| Underground Storage Facilities | E.ON Ruhrgas AG's Share in Working Capacity (million m ³) | E.ON Ruhrgas AG's Share in Maximum Withdrawal Rate (thousand m ³ /hour) | Owned by | E.ON Ruhrgas AG's Share in Storage Facility or in the Project Company % | Operated by E.ON Ruhrgas AG |
|--------------------------------|---|--|---|---|-----------------------------|
| Bierwang(P) | 1,360 | 1,200 | E.ON Ruhrgas AG | 100.0 | Yes |
| Empelde(C) | 18 | 47 | GHG-Gasspeicher Hannover Gesellschaft mbH(PC) | 13.2 | — |
| Epe(C) | 1,641 | 2,450 | E.ON Ruhrgas AG | 100.0 | Yes |
| Eschenfelden(P) | 48 | 87 | E.ON Ruhrgas AG/N-ERGIE AG | 66.7 | Yes |
| Etzel(C) | 375 | 987 | Etzel Gas-Lager GmbH & Co. (PC) | 74.8 | — |
| Hähnlein(P) | 80 | 100 | E.ON Ruhrgas AG | 100.0 | Yes |
| Krummhörn(C)(1) | 0 | 0 | E.ON Ruhrgas AG | 100.0 | Yes |
| Sandhausen(P) | 15 | 23 | E.ON Ruhrgas AG/Gasversorgung Süddeutschland GmbH | 50.0 | Yes |
| Stockstadt(P) | 135 | 135 | E.ON Ruhrgas AG | 100.0 | Yes |
| Breitbrunn(P) | 992(2) | 520 | RWE Dea AG/ExxonMobil Gasspeicher Deutschland GmbH(3)/ E.ON Ruhrgas AG(4) | Leased(3) | Yes(4) |
| Inzenham-West(P) | <u>500</u> | <u>300</u> | RWE Dea AG | Leased | — |
| Total | <u>5,164</u> | <u>5,849</u> | | | |

(C) salt cavern

(P) porous rock

(PC) project company

(1) Currently out of service for repairs/adjustments.

(2) 970 million m³ was contractually guaranteed in 2005/06; 992 million m³ is the current working gas capacity available to E.ON Ruhrgas AG.

(3) Underground section.

(4) Above ground part, particularly the storage compressor station.

In addition, the Hungarian company E.ON Földgáz Storage owns five underground gas storage facilities in Hungary with a total working gas storage capacity of about 3,500 million m³.

Monitoring and Maintenance. In 2006, E.ON Ruhrgas AG carried out for itself and under service contracts for E.ON Gastransport and some of the project companies E.ON Ruhrgas AG holds an interest in, monitoring and maintenance services for almost all of E.ON Ruhrgas AG's transmission system and its underground storage facilities.

Transmission system and underground storage monitoring operations are centered at E.ON Ruhrgas AG's and E.ON Gastransport's dispatching facilities in Essen. Among other tasks, the center keeps the technical infrastructure under continual surveillance, handles all reports of disturbances in the system and arranges for the necessary response to any disturbance report. In 2006, E.ON Ruhrgas AG performed this kind of system monitoring for about 12,700 km of pipelines, 23 transport compressor stations, one storage compressor station and seven underground storage facilities. Management of operations, general maintenance (including local monitoring) and troubleshooting are handled by the E.ON Ruhrgas AG field stations and facilities located along the network. E.ON Ruhrgas AG also deploys mobile units from these stations and facilities to carry out maintenance and repair work. For certain sections of pipelines, primarily those where no field station or facility is located nearby, maintenance (including local monitoring) is performed by third parties under service contracts. E.ON Ruhrgas AG's dispatching, monitoring and maintenance processes are regularly certified under International Standards Organization ("ISO") 9001:2000 (quality management), ISO 14001 (environmental management), OHSAS 18001, an Occupational Health and Safety Assessment Series for health and safety management systems (work safety management), and TSM, the Technical Safety Management rules of DVGW (The German Technical and Scientific Association for Gas and Water). DVGW is a self-regulatory body for the gas and water industries, its technical rules serving as a basis for ensuring safety and reliability of German gas and water supplies.

E.ON Gastransport. On January 1, 2004, E.ON Ruhrgas transferred its gas transmission business to a new subsidiary, E.ON Ruhrgas Transport, which in mid-2006 was rebranded as E.ON Gastransport. E.ON Gastransport has sole responsibility for the gas transmission business and functions independently of E.ON Ruhrgas' sales business, which is a customer of E.ON Gastransport. As the transmission system operator, E.ON Gastransport operates, maintains and develops the E.ON Ruhrgas AG transmission system. It handles all major functions needed for an independent gas transmission business: transmission management (including commercial transport and hub operations), transportation contracts (including access fees), shipper relations, capacity planning and allocation, controlling and billing. E.ON Gastransport obtains certain support services from E.ON Ruhrgas AG under service agreements. On November 1, 2004, E.ON Ruhrgas Transport introduced an entry/exit system called ENTRIX for access to the E.ON Ruhrgas AG gas transmission system as a result of an agreement reached with the Competition Directorate-General of the European Commission with respect to a matter that had been pending before the Competition Directorate. ENTRIX enables customers to book entry and exit capacities for the transmission of gas separately, in different amounts and at different times. Booked capacities can be transferred at short notice and combined with capacities of other customers of E.ON Gastransport. The fee structure is simple and applies to four market areas into which the transmission system of E.ON Ruhrgas AG has been divided. The level of transmission fees is determined by reference to European markets and pipeline and transport competition in Germany. Customers also benefit from the introduction of local exit zones within which they can use capacities flexibly.

In order to comply with requirements of the Energy Law of 2005 (described in “— Regulatory Environment”), further improvements of the E.ON Gastransport entry/exit system (now called ENTRIX 2) were launched in February 2006, giving customers more flexible services and making it possible to book freely allocable capacities online. The refined, web-based user interface of ENTRIX 2 contains all customer-relevant information on network access. Screen-based communication has been extended and simplified, serving as a user-friendly interface for all requests. A major refinement of ENTRIX 2 is the possibility to freely allocate entry and exit capacities to each other within the four market areas of the E.ON Ruhrgas AG transmission network, so that capacities that are separately booked can be interlinked without any further case-by-case examination. An additional significant improvement is the replacement of cubic meters per hour as booking unit with kWh per hour, which makes transmission handling easier for customers.

In order to comply with the new gas network access requirements of Germany’s Energy Law of 2005, the gas industry negotiated and signed an agreement regarding cooperation between operators of gas supply networks located in Germany which contains principles for the cooperation of the network operators and standard terms and conditions for access to networks. The agreement uses one network access model with different market areas. Within each market area, which each include a number of network subsections, shippers are entitled to choose the following contractual alternatives for gas transportation: 1) transmission over different networks from an entry point to an exit point at the end consumer or 2) transmission from an entry point to an exit point within a network subsection (the so-called “city gate” alternative). E.ON Gastransport adjusted its entry/exit system in view of the cooperation agreement in October 2006, the date that the new network access model took effect.

Following the development of the gas industry cooperation agreement, a single gas trader and a German energy association filed claims against three network operators (including E.ON Hanse) which challenged the use of the city gate alternative. In November 2006, the German energy regulator decided that this contractual alternative does not comply with the Energy Law of 2005, thus necessitating changes to the existing gas network operators’ cooperation agreement as well as amendments of E.ON Gastransport’s existing transmission contracts. E.ON Gastransport has already implemented all necessary changes ahead of the October 1, 2007 deadline. For more information, see “— Regulatory Environment — Germany: Gas.”

From October 2007, E.ON Gastransport will only have two market areas: one for high-calorific gas (H-gas) and one for low-calorific gas (L-gas). By taking this step, E.ON Gastransport is seeking to improve its competitive position on the gas market by trying to create a nationwide market area uniting large quantities of gas from all of Germany’s major international sources. E.ON Gastransport expects its nationwide market area to be highly liquid and particularly attractive for shippers and gas traders.

In September 2005, E.ON Ruhrgas Transport received certification for all of its operations under ISO 9001:2000, ISO 14001 and OHSAS 18001, and in December 2005 received certification under TSM, all of which were confirmed by a reaudit in 2006.

Sales

Germany. E.ON Ruhrgas was the largest distributor of natural gas in Germany in 2006, selling a total volume of 549 billion kWh of gas. E.ON Ruhrgas also sold 160.3 billion kWh of gas outside of Germany in 2006.

E.ON Ruhrgas sells gas to supraregional and regional distributors, municipal utilities and industrial customers. Customers are concentrated in the western and southern parts of Germany and the areas around Berlin and Bremen, although E.ON Ruhrgas potentially serves customers throughout Germany. The following table sets forth information on the sale of gas by E.ON Ruhrgas’ sales business in Germany for the periods presented:

| <u>Sale of Gas to:</u> | <u>Total 2006 billion kWh</u> | <u>%</u> | <u>Total 2005 billion kWh</u> | <u>%</u> |
|--------------------------------|-----------------------------------|--------------|-----------------------------------|--------------|
| Distributors | 318.7 | 58.0 | 323.7 | 58.3 |
| Municipal utilities | 163.1 | 29.7 | 160.9 | 29.0 |
| Industrial customers | 67.6 | 12.3 | 70.4 | 12.7 |
| Total | <u>549.4</u> | <u>100.0</u> | <u>555.0</u> | <u>100.0</u> |

In the table above, sales volumes are presented for all periods excluding relatively minimal amounts of gas that E.ON Ruhrgas does not consider part of its primary sales business, including volumes handled for third parties. In addition, these gas volumes do not include gas volumes attributable to ERI or Thüga.

In January 2006, the German Federal Cartel Office issued a decision prohibiting E.ON Ruhrgas from enforcing its existing long-term gas sales contracts with municipal utilities after October 1, 2006 and from entering into new sales contracts with those customers that are identical or similar in nature. In justifying its decision, the Federal Cartel Office contended that the longer-term sales contracts violate German and European competition law and lead to market foreclosure as they involve long-term customer commitment and typically account for a large share of municipal utilities' gas requirements. Accordingly, the Federal Cartel Office ruled that sales contracts that account for more than 80 percent of any such customer's requirements may have a maximum duration of two years, contracts that account for more than 50 percent and up to 80 percent of any such customer's requirements may have a maximum duration of four years and contracts that account for up to 50 percent of any such customer's requirements may have longer durations. In addition, the so-called ban on participation in competition is to apply: if it already meets part of any such customer's requirements, E.ON Ruhrgas is excluded from supplying any additional volume if it would exceed the percentage and duration criteria described above, even temporarily.

E.ON Ruhrgas unsuccessfully sought temporary relief in a summary proceeding in order to prevent the decision from taking immediate effect. Consequently, E.ON Ruhrgas has had to terminate, as of September 30, 2006, the contracts with municipal utilities that are covered by the Federal Cartel Office decision. E.ON Ruhrgas is currently challenging the Federal Cartel Office's decision in a full proceeding before the State Superior Court in Düsseldorf, which is expected to last through 2007. In the mean time, E.ON Ruhrgas has concluded new contracts having a duration of only 1 or 2 years with virtually all of the municipal utilities whose prior contracts it has been required to cancel. See also "Item 3. Key Information — Risk Factors."

As described in "E.ON Gastransport" above, Germany's energy regulator has decided that a form of gas network access contract widely used by the gas industry does not comply with Germany's Energy Law of 2005, and E.ON Gastransport has therefore amended its existing gas transmission contracts accordingly. This decision also requires that E.ON Ruhrgas amend its gas sales contracts, and E.ON Ruhrgas has also made all necessary changes ahead of the October 1, 2007 deadline.

Price terms in all types of sales contracts are generally pegged to the price of competing fuels, primarily gas oil or heavy fuel oil, and provide for automatic quarterly price adjustments based on fluctuations in underlying fuel prices. In addition, medium- and long-term contracts, with terms of over two years, usually contain clauses which enable the parties to review prices and price formulas at regular intervals (usually every one to four years) and to negotiate adjustments in accordance with changed market conditions. Contracts for industrial customers generally provide for some form of take or pay obligation, usually in an amount of 50 to 90 percent of the overall annual contract volume. Contracts with distributors and municipal utilities generally do not include fixed take or pay provisions.

In 2006, the selling prices of E.ON Ruhrgas generally tracked the higher level of heating oil prices with a time lag. In the course of the year, heating oil prices initially rose, but then dropped from September onwards. Due to the time lag, those decreases will not be reflected in the selling prices of E.ON Ruhrgas until 2007.

Gas prices in Germany are also affected by applicable taxes on fossil fuels. In Germany, customers in the commercial/residential sector pay gas prices that include at least 0.67 ¢cent/kWh in duties and taxes, while industrial customers pay up to 0.47 ¢cent/kWh in duties and taxes.

International. In 2006, E.ON Ruhrgas delivered 160.3 billion kWh of gas to customers in other European countries, or 22.6 percent of the total volume of gas sold by E.ON Ruhrgas, compared with 135.2 billion kWh or 19.6 percent in 2005. The destinations for E.ON Ruhrgas' external sales are the United Kingdom, Switzerland, the Benelux countries, Austria, France, Hungary, Italy, Sweden, Denmark, Poland and Liechtenstein. The 18.6 percent increase in international sales in 2006 was largely attributable to short-term trading transactions in the United Kingdom, increased sales in France and Denmark and a long-term supply contract with E.ON Sverige (which started in October 2005). Limitations on available gas transportation capacity due to the obligation imposed on E.ON Ruhrgas by Germany's energy regulator to keep transport and export capacity available at all times for

customers of E.ON Ruhrgas' gas release program (described in "— History and Development of the Company — Ruhrgas Acquisition") restricted E.ON Ruhrgas' ability to expand its international sales business to certain countries in 2006.

Downstream Shareholdings

E.ON Ruhrgas owns numerous shareholdings in integrated gas companies, gas distribution companies and municipal utilities through its subsidiaries ERI and Thüga.

ERI holds both majority and minority shareholdings in European and German energy companies, while Thüga holds primarily minority shareholdings in 93 regional and municipal utilities in Germany. In addition, Thüga's main international shareholdings, most of which are held through its wholly-owned Italian subsidiary Thüga Italia S.r.l. ("Thüga Italia"), consist of interests in a number of Italian energy companies.

ERI: As of December 31, 2006, ERI's portfolio of shareholdings included stakes in three domestic and 22 foreign companies. In 2006, ERI (including its fully consolidated shareholdings) contributed sales of €3.7 billion (approximately 16.1 percent of E.ON Ruhrgas' total sales, excluding natural gas and electricity taxes) and had sales volumes of 152.0 billion kWh in 2006 (2005: 46.5 billion kWh).

In March 2006, ERI acquired 100 percent of the gas trading and gas storage businesses of the Hungarian oil and gas company MOL. In June, the gas trading company was renamed E.ON Földgáz Trade and the storage company was renamed E.ON Földgáz Storage. At the end of October, ERI acquired MOL's 50.0 percent interest in the gas importer Panrusgáz. For details, see "— Overview."

Germany. As of December 31, 2006, ERI held interests in the following regional gas distribution companies in Germany:

| <u>Shareholding</u> | <u>Share held by ERI %</u> |
|--------------------------------------|------------------------------------|
| Ferngas Nordbayern GmbH(1) | 53.10 |
| Gas-Union GmbH(1) | 25.93 |
| Saar Ferngas AG(1) | 20.00 |

(1) Interest held via ERI's wholly-owned subsidiary RGE Holding GmbH.

These companies are also customers of E.ON Ruhrgas. Other German gas companies also hold interests in certain of these companies.

International. As of December 31, 2006, ERI held interests in the following companies in countries outside of Germany, primarily in central Europe and the Nordic region:

| <u>Shareholding</u> | <u>Share held by ERI %</u> |
|---|------------------------------------|
| Gasnor AS, Norway | 14.00 |
| Nova Naturgas AB, Sweden | 29.59 |
| Gasum Oy, Finland | 20.00 |
| AS Eesti Gaas, Estonia | 33.66 |
| JSC Latvijas Gaze, Latvia | 47.23 |
| AB Lietuvos Dujos, Lithuania | 38.91 |
| Rytu Skirstomieje Tinklai, Lithuania | 20.28 |
| Mazeikiu Elektrine, Lithuania | 10.90 |
| Inwestycyjna Spółka Energetyczna Sp.z o.o. (IRB), Poland | 50.00 |
| Szczecińska Energetyka Ciepła Sp.z o.o. (SECS), Poland(1) | 32.92 |
| EUROPGAS a.s., Czech Republic(2) | 50.00 |
| E.ON Földgáz Trade ZRT, Hungary | 100.00 |
| E.ON Földgáz Storage ZRT, Hungary | 100.00 |
| Panrusgáz Zrt., Hungary | 50.00 |
| Colonia-Cluj-Napoca-Energie S.R.L. (CCNE), Romania | 33.33 |
| E.ON Ruhrgas Mittel- und Osteuropa GmbH(3) | 100.00 |
| Nafta a.s., Slovakia | 40.45 |
| S.C. Congaz S.A., Romania | 28.59 |
| E.ON Servicii Romania S.R.L., Romania | 50.00 |
| Ekopur d.o.o., Slovenia(4) | 100.00 |
| SOTEG — Soci t  de Transport de Gaz S.A., Luxembourg | 20.00 |
| Holdigaz SA, Switzerland | 2.21 |

(1) The shareholding in this company is expected to be transferred to E.DIS energia sp.z o.o. of the Central Europe market unit in 2007.

(2) EUROPGAS a.s. holds 50.0 percent of SPP Bohemia a.s. and 48.18 percent of Moravsk  naftov  doly a.s. (MND) in the Czech Republic.

(3) E.ON Ruhrgas Mittel- und Osteuropa GmbH has an indirect interest of 24.50 percent in SPP, Slovakia.

(4) Ekopur d.o.o. holds 6.52 percent of Geoplin d.o.o. in Slovenia.

As with its German shareholdings, ERI holds some stakes in companies which are customers of E.ON Ruhrgas.

Th ga: Th ga holds primarily minority shareholdings in 93 regional and municipal utilities in Germany. In addition, Th ga's main international shareholdings, most of which are held through its wholly-owned Italian subsidiary Th ga Italia, consist of interests in a number of Italian energy companies. In 2006, Th ga Italia acquired through its subsidiaries mainly majority interests in seven additional Italian energy companies that are primarily active in gas sales. Through its majority and minority shareholdings in Italian gas distribution and sales companies, Th ga supplied natural gas to approximately 880,000 end customers in Italy by the end of 2006, primarily in the regions of Lombardy, Emilia Romagna, Veneto, Friuli-Venezia Giulia and Piedmont.

With respect to its minority shareholdings, Th ga is an active shareholder, offering operational competence as well as other services. In 2006, Th ga contributed sales of €1.1 billion (approximately 4.7 percent of E.ON Ruhrgas' total sales, excluding natural gas and electricity taxes). Th ga increased its gas sales volumes by

2.3 percent to 23.1 billion kWh in 2006 from 22.5 billion kWh in 2005, primarily as a result of first consolidation effects by Thüga Italia.

In December 2006, Thüga agreed with EnBW to sell its 76.5 percent shareholding in GSW Gasversorgung Sachsen Ost Wärmeservice GmbH & Co. KG (“GSW Wärmeservice”), its 76.5 percent shareholding in GSW Gasversorgung Sachsen Ost Wärmeservice Verwaltungsgesellschaft mbH (“GSW Verwaltungsgesellschaft”), its 14.5 percent shareholding in EnSO Energie Sachsen Ost GmbH (“EnSO”) and its 28.0 percent shareholding in Erdgas Südwest GmbH (“Erdgas Südwest”) to EnBW group companies. The transfer of the shareholdings is expected to take place in the first half of 2007.

As of December 31, 2006, E.ON Ruhrgas Thüga Holding GmbH held 81.1 percent of Thüga and E.ON Energie, through its subsidiary CONTIGAS Deutsche Energie-Aktiengesellschaft (“Contigas”), held the remaining 18.9 percent. In January 2007, E.ON Energie transferred the remaining 18.9 percent to E.ON Ruhrgas Thüga Holding GmbH.

Germany. As of December 31, 2006, Thüga held interests in operating companies which are primarily municipal utilities. The top ten shareholdings in terms of total sales in 2005 are as follows:

| <u>Shareholding</u> | <u>Share held by Thüga %</u> |
|--|--------------------------------------|
| Stadtwerke Hannover Aktiengesellschaft | 24.00 |
| N-ERGIE Aktiengesellschaft | 39.80 |
| Mainova Aktiengesellschaft | 24.44 |
| Gasag Berliner Gaswerke Aktiengesellschaft | 36.85 |
| badenova AG & Co. KG | 47.30 |
| HEAG Südhessische Energie AG (HSE) | 40.01 |
| DREWAG-Stadtwerke Dresden GmbH | 10.00 |
| Erdgas Südbayern GmbH | 50.00 |
| Stadtwerke Duisburg AG | 20.00 |
| Stadtwerke Karlsruhe GmbH | 10.00 |

International. As of December 31, 2006, Thüga held, through its subsidiary Thüga Italia, mainly the following shareholdings in privately owned gas distribution and sales companies as well as in one municipal utility in Italy:

| <u>Shareholding</u> | <u>Share held by Thüga %</u> |
|---|--------------------------------------|
| E.ON Vendita S.r.l | 100.00 |
| Thüga Laghi S.r.l | 100.00 |
| Thüga Mediterranea S.r.l | 100.00 |
| Thüga Orobica S.r.l | 100.00 |
| Thüga Padana S.r.l | 100.00 |
| Thüga Triveneto S.r.l | 100.00 |
| G.E.I. S.p.A. | 48.94 |
| AMGA Azienda Multiservizi S.p.A | 21.60 |

Competitive Environment

Along with oil and lignite/hard coal, natural gas is one of the three primary sources of energy used in Germany. Gas is currently used for a little more than 23 percent of Germany’s energy consumption, and satisfies about a third of the energy demand of the German industrial and commercial/residential sectors. Competing sources of energy include electricity and coal in all sectors, gas oil and district heating in the commercial/residential sector and gas oil and heavy fuel oil in the industrial sector. Natural gas is also used, but on a limited basis, as an energy source for

power stations. Since the 1970s, natural gas has made particular gains in the residential space heating market, where it is marketed as a modern and environmentally-friendly energy source for heating homes. At year-end 2006, approximately 48 percent of German homes were heated using gas, making gas the leading energy source for this market. In 2006, gas was chosen as the heating method for approximately 67 percent of new homes under construction. Although renewable energies are increasingly popular, natural gas was able to defend its leading position in the heating market.

Within the German gas market, E.ON Ruhrgas competes with domestic and foreign gas companies, the gas subsidiaries of oil producers and pure trading companies. Major domestic competitors include RWE Energy, Verbundnetz Gas AG ("VNG") and Wingas. Foreign competitors include Gaz de France, Econgaz, Essent and Nuon. E.ON Ruhrgas currently enjoys a strong market position, supplying approximately 49 percent of all gas consumed in Germany in 2006. Nevertheless, E.ON Ruhrgas considers competition in the German gas market to be vigorous, with both new and established competitors vying for the business of E.ON Ruhrgas' direct and indirect customers. E.ON Ruhrgas believes it was able to successfully compete in 2006 by remaining flexible in its contract and price negotiations and by offering attractive terms and services to its established and potential customers. In the future it is expected that the new network access model described above in "— Transmission and Storage — E.ON Gastransport" will lead to further intensification of competition.

For information about the debate on long-term gas sales contracts, which the Federal Cartel Office considers to be an obstacle to competition, as well as information about gas price trends in 2006, see "— Sales" above. For information about regulatory developments which are affecting or may affect competition in the German gas market, see "— Regulatory Environment" and "Item 3. Key Information — Risk Factors," which also includes information on investigations of gas prices charged by some German utilities, including utilities in which E.ON Ruhrgas and E.ON Energie hold interests.

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

U.K.

Overview

E.ON UK is one of the leading integrated electricity and gas companies in the United Kingdom. It was formed as one of the four successor companies to the former Central Electricity Generating Board as part of the privatization of the electricity industry in the United Kingdom in 1989. E.ON UK and its associated companies are actively involved in electricity generation, distribution, retail and trading. As of December 31, 2006, E.ON UK owned or through joint ventures had an attributable interest in 10,547 MW of generation capacity, including 359 MW of CHP plants and 233 MW of operational wind and hydroelectric generation capacity. E.ON UK served approximately 8.4 million electricity and gas customer accounts at December 31, 2006 and its Central Networks business served 4.9 million customer connections. The U.K. market unit recorded sales of €12.6 billion in 2006 and adjusted EBIT of €1.2 billion.

Operations

In the United Kingdom, electricity generated at power stations is delivered to consumers through an integrated transmission and distribution system. For information about the principal segments of the electricity industry, see "— Central Europe — Operations." All electricity transmission in Great Britain is operated by National Grid Transco plc ("National Grid").

E.ON UK operates significant wholesale and retail gas and electricity businesses and engages in gas and electricity trading. The company served approximately 8.4 million customer accounts at December 31, 2006, including approximately 5.5 million electricity customer accounts and 2.8 million gas customer accounts. With effect from March 2007, E.ON UK plans to exit the telecommunications business, which currently has 0.1 million fixed line telephone customer accounts. E.ON UK's Central Networks distribution business served 4.9 million customer connections as of the end of 2006.

The U.K. market unit comprises the non-regulated business, including energy wholesale (generation and energy trading), retail and energy services, the regulated distribution business, and other activities, such as certain non-distribution assets and the E.ON UK corporate center. In 2006, electricity accounted for approximately 64 percent of E.ON UK's sales, gas revenues accounted for approximately 36 percent and other activities accounted for less than 1 percent.

The following table sets forth the sources and sales channels of electric power in E.ON UK's operations during each of 2006 and 2005:

| Sources of Power | Total 2006 million kWh | Total 2005 million kWh | % Change |
|--|------------------------------|------------------------------|-------------|
| Own production(1) | 35,866 | 37,255 | -3.7 |
| Purchased power from power stations in which E.ON UK has an interest of 50 percent or less | 731 | 627 | +16.6 |
| Power purchased from other suppliers(2) | 38,131 | 39,224 | -2.8 |
| Power used for operating purposes, network losses and pump storage | (971) | (2,114) | -54.1 |
| Net power supplied(3) | <u>73,757</u> | <u>74,992</u> | -1.6 |
| Sales of Power | | | |
| Mass market sales (residential customers and small and medium sized enterprises) | 37,893 | 37,314 | +1.6 |
| Industrial and commercial sales(4) | 18,371 | 22,301 | -17.6 |
| Market sales(2) | <u>17,493</u> | <u>15,377</u> | +13.8 |
| Net power sold(3) | <u>73,757</u> | <u>74,992</u> | -1.6 |

- (1) The decrease in own production in 2006 was primarily attributable to an unplanned outage at Ratcliffe power station following an industrial accident.
- (2) The decline in power purchased from other suppliers and increase in market sales in 2006 compared with 2005 primarily reflected lower sales to industrial and commercial customers.
- (3) Excluding proprietary trading volumes. For information on proprietary trading volumes, see "Non-regulated Business — Energy Wholesale — Energy Trading."
- (4) During 2006, the industrial and commercial sales business continued to focus on securing profitable customers, which resulted in lower sales volumes compared with 2005.

The following table sets forth the sources and sales channels of gas in E.ON UK's operations during each of the periods presented:

| Sources of Gas | Total 2006 million kWh | Total 2005 million kWh | % Change |
|---|------------------------------|------------------------------|-------------|
| Long-term gas supply contracts(1) | 42,918 | 48,431 | -11.4 |
| Market purchases(2) | <u>151,064</u> | <u>134,041</u> | +12.7 |
| Total gas supplied(3) | <u>193,982</u> | <u>182,472</u> | +6.3 |
| Sales and Use of Gas | | | |
| Gas used for own generation(4) | 38,632 | 40,318 | -4.2 |
| Sales to industrial and commercial customers(5) | 28,663 | 32,590 | -12.0 |
| Sales to retail mass market customers(6) | 63,888 | 67,671 | -5.6 |
| Market sales(7) | <u>62,799</u> | <u>41,893</u> | +49.9 |
| Total gas used and sold(3) | <u>193,982</u> | <u>182,472</u> | +6.3 |

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- (1) The reduction in the volume of gas purchased under long-term gas supply contracts in 2006 was primarily the result of the unavailability of gas due to be delivered under certain contracts.
 - (2) The increase in the volume of market gas purchases was attributable to the decline in supply contract volumes as well as an increase in activities to optimize E.ON UK's gas position.
 - (3) Excluding proprietary trading volumes. For information on proprietary trading volumes, see "Non-regulated Business — Energy Wholesale — Energy Trading."
 - (4) Differences in relative margins made gas-fired generation less attractive compared to coal-fired generation, with a resulting reduction in gas used for own generation.
 - (5) During 2006, the industrial and commercial sales business continued to focus on securing profitable customers, which resulted in lower sales volume in 2006 compared with 2005.
 - (6) Mass market sales were lower in 2006 due to slightly warmer weather and changes in consumer behaviour.
 - (7) Market sales in 2006 were higher than in 2005, reflecting both the decline in demand by retail customers (which freed volumes for market sales) and increased product optimization.

Market Environment

E.ON UK primarily operates in the electricity generation, electricity and gas trading and the electricity and gas retail energy markets in Great Britain (England, Wales and Scotland) and in the market for electricity distribution in England.

Electricity. Demand for electricity in the United Kingdom has been relatively stable in recent years. In the near term, E.ON UK expects electricity demand in the United Kingdom to grow by an average of approximately 1 percent per annum under normal weather conditions.

The principal commercial features of the electricity industry in the United Kingdom in recent years have been increasing competition in supply through a principle of open access to the transmission and distribution systems. Suppliers are free to compete with each other in supplying electricity to consumers anywhere within England, Wales and Scotland. All electricity supply (retail) and distribution activities were separated in Great Britain in 2001, splitting the market into a liberalized supply sector and a regulated network distribution sector.

On April 1, 2005, a new set of rules known as the British Electricity Trading and Transmission Arrangements (BETTA) was introduced in England, Wales and Scotland. This extended the existing NETA arrangements in force in England and Wales to Scotland, providing a market-based framework for electricity trading and wholesale sales, as well as a method of settling trading imbalances and a mechanism for maintaining the stability of the network. Trading activities are characterized by bilateral contracts for the purchase and sale of bulk power and are carried out both on exchanges and over the counter. The Office of Gas and Electricity Markets ("Ofgem") is responsible for regulatory oversight of BETTA.

E.ON UK believes that it is able to compete more effectively in Scotland following BETTA's introduction which represents approximately 10 percent of the electricity market in Great Britain as a whole.

The combined pressure of overcapacity, an increasingly fragmented generation market and the introduction of NETA led to significant downward pressure on wholesale electricity prices in the period from 1999 through 2002, creating difficult trading conditions for many companies. The largest electricity generator in the United Kingdom, British Energy, required a government loan to continue operating and a number of generators were placed into administration.

Since April 2003, increasing generation fuel costs, security of supply concerns and expected future environmental costs (including the introduction of CO₂ emission certificates) have combined to push up wholesale electricity prices for forward delivery substantially. In response to these increases in wholesale prices, U.K. suppliers, including E.ON UK, increased their retail electricity prices a number of times during 2006, as explained in more detail in "Retail" below. However, the fourth quarter of 2006 was marked by significant declines in wholesale power prices on the back of falling gas prices. Baseload prices on forward markets for 2007 delivery decreased from approximately GBP53 per MWh in January 2006 to GBP35 per MWh in December 2006. Short-term electricity prices again exhibited significant volatility during 2006 due mainly to volatile fuel input prices.

Natural Gas. Wholesale gas prices in the United Kingdom continued to be volatile during 2006, driven by higher oil prices and supply and demand imbalances in the United Kingdom and continental Europe. Within day prices spiked up to 255 pence per therm in March 2006. However, prices in the fourth quarter of 2006 decreased significantly, mainly due to warm weather and the successful commissioning of two new gas pipelines, Langed and BBL pipeline. Annual prices on forward markets for 2007 delivery decreased from approximately 62 pence per therm in January 2006 to 33 pence per therm in December 2006. Although E.ON UK purchases gas on both U.K. and international trading markets, management partially mitigated these price increases by secured forward purchases to cover most of its requirements in 2006, switched fuel sources used by certain of its generating assets and increased retail prices. As noted above, E.ON UK and all of its main competitors increased retail customer prices during 2006.

Competition. E.ON UK's exposure to wholesale electricity prices in the United Kingdom is partially hedged by the balance provided by its retail business. The retail energy market in the United Kingdom has consolidated over the last few years into six major competitors. Based on data from Datamonitor, Centrica, previously the monopoly gas supplier branded as British Gas, is currently the market leader in terms of size in both gas and electricity with approximately 16.7 million customer accounts. E.ON UK is the second largest energy retailer with approximately 8.4 million accounts, followed by Scottish and Southern Electricity with approximately 7.5 million accounts. The market is characterized by substantial levels of customers switching suppliers in any given year; approximately half of the customers in Great Britain have now switched either their gas or electricity supplier since market liberalization. Churn levels, which measure the percentage of customers switching suppliers, fell generally from 2002 through 2005 as the market matured, before increasing in 2006 in the context of significant price increases. This resulted in E.ON UK's annual churn rate increasing from 14.7 percent in 2005 to 15.4 percent in 2006.

In February 2007, E.ON UK announced that retail energy prices would be reduced as a result of decreasing wholesale energy prices, confirming E.ON UK's stated intent to provide value to its customers.

Impact of Environmental Measures. The ongoing implementation of environmental legislation is expected to have a significant impact on the energy market in the United Kingdom in coming years. In response, E.ON UK is increasing its production of electricity from renewable sources, as described in more detail below. Environmental measures of particular importance include:

- The U.K.'s renewables obligation required electricity retailers to source an increasing amount of the electricity they supply to retail customers from renewable sources. Under the current regime, for the period from April 1, 2006 until March 31, 2007, the renewables obligation is equal to 6.7 percent, rising to a figure of 15.4 percent by 2015/2016. The U.K. government is currently consulting on options to potentially extend targets to a maximum of 20 percent by 2020. The requirement applies to all retail sales over a twelve-month period beginning on April 1 of each year, and Renewables Obligation Certificates ("ROCs") are issued to generators as evidence of qualified sourcing. ROCs are tradeable, and retailers who fail to present Ofgem with ROCs representing the full amount of their renewables obligation are required to make a balancing payment in the amount of any shortfall into a buy-out fund. Receipts from the buy-out fund are re-distributed to holders of ROCs.
- The United Kingdom implemented the EU Emissions Trading Directive at the beginning of 2005. The scheme requires companies to have CO₂ emission certificates in an amount equal to the CO₂ emissions made by their fossil fuel-fired power plants with a thermal input of more than 20 MW. During 2005, the U.K. government made an initial allocation of certificates for the first phase of the scheme (2005 to 2007) to owners of generating facilities, with the total number of certificates being issued equal to less than 90 percent of emissions levels in recent years. As a result, E.ON UK bought 9.7 million tons of additional CO₂ emission certificates in 2006, of which 4.7 million tons were utilized in 2006.
- The application in the United Kingdom of the EU Large Combustion Plant Directive prevents coal- and oil-powered generation facilities that have not been fitted with specified sulphur oxide and oxides of nitrogen and particulate matter reduction measures from operating for more than a total of 20,000 hours starting in 2008.

Further information on the emissions allowance trading scheme and the Large Combustion Plant Directive is given in “— Regulatory Environment” and “— Environmental Matters.”

Non-regulated Business

Energy Wholesale

During 2004, E.ON UK’s power generation and energy trading businesses were merged into a single business called “Energy Wholesale.” This change was designed to provide a greater strategic focus in the management of E.ON UK’s generation and trading activities and reinforce the close operational ties between the two businesses. For example, the energy trading business is responsible for purchasing the fuel burned in power stations that are managed by the generation business. The energy trading business also decides whether E.ON UK should generate or purchase electricity to cover its retail obligations, depending upon the prevailing market price of electricity. However, for the purpose of describing the business activities of E.ON UK the two businesses are described separately since they each cover distinct areas of activity.

Power Generation

E.ON UK focuses on maintaining a low cost, efficient and flexible electricity generation business in order to compete effectively in the wholesale electricity market. As of December 31, 2006, E.ON UK owned either wholly, or through joint ventures, power stations in the United Kingdom with an attributable registered generating capacity of 10,547 MW, including 359 MW of CHP plants and 50 MW of hydroelectric plant, while its attributable portfolio of operational wind capacity stood at 183 MW. E.ON UK’s share of the generation market in Great Britain remained relatively stable in 2006, at approximately 10 percent.

E.ON UK generates electricity from a diverse portfolio of fuel sources. In 2006, approximately 61 percent of E.ON UK’s electricity output was fuelled by coal and approximately 37 percent by gas, of which approximately two percent was from CHP schemes, with the remaining two percent being generated from hydroelectric, wind and oil-fired plants. E.ON UK is continuing its effort to secure a balanced and diverse portfolio of fuel sources, giving it the flexibility to respond to market conditions and to minimize costs. E.ON UK also regularly monitors the economic status of its plant in order to respond to changes in market conditions.

The following table sets forth details about E.ON UK’s electric power generation facilities in the United Kingdom, including their total capacity, the stake held by E.ON UK and the capacity attributable to E.ON UK for each facility as of December 31, 2006, as well as their start-up dates:

E.ON UK ELECTRIC POWER STATIONS

| <u>Power Plants</u> | <u>Total Capacity Net MW</u> | <u>E.ON UK’s Share</u> | | <u>Start-up Date</u> |
|--------------------------|------------------------------|------------------------|---------------------------------|----------------------|
| | | <u>%</u> | <u>Attributable Capacity MW</u> | |
| Hard Coal | | | | |
| Ironbridge U1(1) | 485 | 100.0 | 485 | 1970 |
| Ironbridge U2(1) | 485 | 100.0 | 485 | 1970 |
| Kingsnorth U1(1) | 485 | 100.0 | 485 | 1970 |
| Kingsnorth U2(1) | 485 | 100.0 | 485 | 1971 |
| Kingsnorth U3(1) | 485 | 100.0 | 485 | 1972 |
| Kingsnorth U4(1) | 485 | 100.0 | 485 | 1973 |
| Ratcliffe U1(1)(2) | 500 | 100.0 | 500 | 1968 |
| Ratcliffe U2(1)(2) | 500 | 100.0 | 500 | 1969 |
| Ratcliffe U3(1)(2) | 500 | 100.0 | 500 | 1969 |
| Ratcliffe U4(1)(2) | 500 | 100.0 | 500 | 1970 |
| Total | <u>4,910</u> | | <u>4,910</u> | |

| <u>Power Plants</u> | <u>Total Capacity Net MW</u> | <u>E.ON UK's Share</u> | | <u>Start-up Date</u> |
|---|------------------------------|------------------------|---------------------------------|----------------------|
| | | <u>%</u> | <u>Attributable Capacity MW</u> | |
| Natural Gas | | | | |
| Cottam Development Centre (CDC) Module | 400 | 100.0 | 400 | 1999 |
| Connahs Quay U1 | 345 | 100.0 | 345 | 1996 |
| Connahs Quay U2 | 345 | 100.0 | 345 | 1996 |
| Connahs Quay U3 | 345 | 100.0 | 345 | 1996 |
| Connahs Quay U4 | 345 | 100.0 | 345 | 1996 |
| Corby Module | 401 | 50.0 | 200 | 1993 |
| Enfield | 392 | 100.0 | 392 | 2002 |
| Killingholme Mod 1 | 450 | 100.0 | 450 | 1992 |
| Killingholme Mod 2 | 450 | 100.0 | 450 | 1993 |
| Merchant CHP(3) | 218 | 100.0 | 218 | various |
| Total | <u>3,691</u> | | <u>3,490</u> | |
| Oil | | | | |
| Grain U1 | 650 | 100.0 | 650 | 1982 |
| Grain U4 | 650 | 100.0 | 650 | 1984 |
| Total | <u>1,300</u> | | <u>1,300</u> | |
| Other (including hydroelectric and wind farms) | | | | |
| Grain Aux GT1 | 28 | 100.0 | 28 | 1979 |
| Grain Aux GT4 | 27 | 100.0 | 27 | 1980 |
| Kingsnorth Aux GT1 | 17 | 100.0 | 17 | 1967 |
| Kingsnorth Aux GT4 | 17 | 100.0 | 17 | 1968 |
| Ratcliffe Aux GT2 | 17 | 100.0 | 17 | 1967 |
| Ratcliffe Aux GT4 | 17 | 100.0 | 17 | 1968 |
| Taylors Lane GT2 | 68 | 100.0 | 68 | 1981 |
| Taylors Lane GT3 | 64 | 100.0 | 64 | 1979 |
| Hydroelectric | 50 | 100.0 | 50 | 1962 |
| Wind farms | 197 | various | 183 | various |
| Total | <u>502</u> | | <u>488</u> | |
| CHP schemes(3) | <u>359</u> | 100.0 | <u>359</u> | various |
| Total Capacity | <u>10,762</u> | | <u>10,547</u> | |

(1) Biomass material co-fired during 2006.

(2) In May 2006, after a successful 18-month trial, Ratcliffe-on-Soar power station was granted the necessary authorization to allow the co-firing of petroleum coke with coal at all four units.

(3) The decrease in CHP capacity from 577 MW in 2005 to 359 MW in 2006 reflects the reclassification of merchant CHP plants as natural gas plants, as merchant CHP plants have no agreements with associated clients whereby the client agrees to take the power and steam.

E.ON UK divested Edenderry Power Limited and Edenderry Power Operations Ltd. (together, "Edenderry"), which operates a 120 MW peat-fired plant in the Republic of Ireland, to Bord na Mona plc in December 2006. E.ON UK also owns a minority interest in a company that operates a gas-fired power plant in Turkey (see "— Midlands Electricity Non-Distribution Assets" below).

E.ON UK is planning significant investments to improve its generation capacity. This is partly to replace capacity which will be taken out of production in coming years due to applicable environmental regulations. In particular, in 2007 E.ON UK plans to commence construction of a 1,200 MW gas-fired station at its Isle of Grain site in Kent. The existing oil-fired station will be retained, while the new technology is expected to create one of the most efficient power stations in the United Kingdom. A planning application has also been submitted for the construction of two new highly efficient coal units at the Kingsnorth power station site in Kent, with the commencement of construction targeted for 2008 and production by 2013.

Nuclear. E.ON UK does not operate any nuclear power plants.

Renewable Energy. E.ON UK plans to grow its renewable electricity generation business in response to the U.K. regulatory initiatives summarized above. E.ON UK's wind generation projects are developed by E.ON UK Renewables Holdings Limited. E.ON UK is already one of the leading developers and owner/operators of wind farms in the United Kingdom, with interests in 20 operational onshore and offshore wind farms with total capacity of 197 MW, of which 183 MW is attributable to E.ON UK.

During 2004, E.ON UK completed construction of a large offshore wind farm site with a capacity of approximately 60 MW at Scroby Sands off the coast of East Anglia. The Scroby Sands project builds on E.ON UK's success in commissioning the U.K.'s first offshore wind farm at Blyth during 2001. Potential onshore and offshore projects with an aggregate capacity of approximately 1,139 MW are now in the development phase (compared with 1,100 MW in the development phase in 2005). E.ON UK started construction in the fourth quarter of 2006 of an 18 MW onshore wind farm in Cambridgeshire called Stags Holt, which is expected to become operational by the third quarter of 2007.

In December 2006, E.ON UK received final approval for the construction of the Robin Rigg offshore wind farm in the Solway Firth on the northeast coast of England. Due for completion in spring 2009, the 180 MW wind farm is expected to be the United Kingdom's largest offshore wind farm to date, with plans for 60 turbines, each with a capacity of 3 MW. In terms of generating capacity, Robin Rigg is expected to be twice the size of the United Kingdom's current largest offshore wind power scheme, and three times the size of E.ON UK's existing Scroby Sands wind farm.

In addition to the planned expansion of its wind farm portfolio, E.ON UK increased its generation from biomass in 2006 by co-firing with coal at the Kingsnorth, Ironbridge and Ratcliffe power stations, generating a total of 286 GWh of renewable energy by this method during the year. During 2006 work also continued on the construction of a 44 MW wood-burning plant at Steven's Croft, near Lockerbie in southwest Scotland, which when built is expected to be the United Kingdom's largest dedicated biomass plant. Commercial operation of the plant is scheduled to commence in December 2007.

During 2007, E.ON UK expects to continue to develop its capability in marine generation (using tidal power) to position itself to capture future opportunities in this area.

As a part of its balanced approach, E.ON UK seeks to fulfill its renewables obligation through a combination of its own generation, renewable energy purchased from other generators under tradeable ROC contracts, and direct payment of any residual obligation into the buy-out fund. For the period from April 1, 2005 to March 31, 2006, E.ON UK achieved 95 percent of its renewables obligation through own generation and purchases.

CHP. E.ON UK also operates large scale CHP schemes. CHP is an energy efficient technology which recovers heat from the power generation process and uses it for industrial processes such as steam generation, product drying, fermentation, sterilizing and heating. E.ON UK's total operational CHP electricity capacity at December 31, 2006 was 359 MW. Clients range across a number of sectors, including pharmaceuticals, chemicals, paper and oil refining.

Energy Trading

E.ON UK's energy trading unit engages in asset-based energy trading in gas and electricity markets to assist E.ON UK in commercial risk management and the optimization of its U.K. gross margin. The energy trading unit plays a key role in E.ON UK's integrated electricity and gas business in the United Kingdom by acting as the

“commercial hub” for all energy transactions. It manages price and volume risks and seeks to maximize the integrated value from E.ON UK’s generation and customer assets.

Energy trading activities include:

- Purchasing of coal, gas and oil for power stations;
- Dispatching generation and selling the electrical output and ancillary services provided by E.ON UK’s power stations;
- Purchasing gas and electricity as required for E.ON UK’s retail portfolio;
- Managing the net position and risks of E.ON UK’s generation and retail portfolio;
- Managing renewable obligations for the retail portfolio through long-term purchases and trading of ROCs;
- Purchasing and/or trading of CO₂ emission certificates and other environmental products, including Levy Exempt Certificates (issued in relation to the U.K. Climate Change Levy); and
- Achieving portfolio optimization and risk management.

E.ON UK also engages in a controlled amount of proprietary trading in gas, power, coal, oil and CO₂ emission certificates markets in order to take advantage of market opportunities and maintain the highest levels of market understanding required to support its optimization and risk management activities. The following table sets forth E.ON UK’s electricity and gas proprietary trading volumes for 2006 and 2005:

| Proprietary Trading Volumes | 2006 Electricity billion kWh(1) | 2005 Electricity billion kWh | 2006 Gas billion kWh(1) | 2005 Gas billion kWh |
|------------------------------------|--|---|--|-------------------------------------|
| Energy bought | 14.0 | 10.4 | 57.7 | 36.2 |
| Energy sold | <u>14.0</u> | <u>10.4</u> | <u>57.7</u> | <u>36.2</u> |
| Gross volume | <u>28.0</u> | <u>20.8</u> | <u>115.4</u> | <u>72.4</u> |

(1) The increase in traded gas and electricity volumes in 2006 was primarily attributable to higher volatility in market prices and the greater market opportunities this provided.

In its energy trading operations, E.ON UK uses a combination of bilateral contracts, forwards, futures, options contracts and swaps traded over-the-counter or on commodity exchanges. E.ON UK also undertakes relatively low levels of trading in other commodities, including ROCs, environmental products and weather derivatives. All of E.ON UK’s energy trading operations, including its limited proprietary trading, are subject to E.ON’s risk management policies for energy trading. For additional information on these policies and related exposures, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk.”

E.ON UK has in place a portfolio of fuel contracts of varying volume, duration and price, reflecting market conditions at the time of commitment. Coal contracts with a variety of suppliers within the United Kingdom and overseas ensure that supplies are secured for E.ON UK’s coal-fired plants, while maintaining enough flexibility to minimize the cost of generation across the total generation portfolio. E.ON UK’s coal import facilities at Kingsnorth power station and Gladstone Dock, Liverpool, provide secure access to international coal supplies.

The supply of gas for E.ON UK’s CCGT and CHP plants is sourced through non-interruptible long-term gas supply contracts with gas producers (certain of which contain take or pay provisions), and through purchases on the forward and spot markets. Since October 2004, E.ON Ruhrgas has been a significant supplier of natural gas to E.ON UK pursuant to a long-term supply contract between the parties. The agreed framework for the E.ON Ruhrgas contract is essentially that of a “take or pay” arrangement. Risk management arrangements in respect of the volume and price risks associated with E.ON UK’s gas supply contracts are conducted through trading on the spot, over-the-counter and bilateral markets. For additional details on these contractual commitments, see “Item 5. Operating and Financial Review and Prospects — Contractual Obligations” and Notes 24 and 25 of the Notes to Consolidated Financial Statements.

Retail

E.ON UK sells electricity, gas and other energy-related products to residential, business and industrial customers throughout Great Britain. As of December 31, 2006, E.ON UK supplied approximately 8.4 million customer accounts, of which 7.7 million were residential customer accounts and 0.7 million were small and medium-sized business and industrial customer accounts. During the year, there was a net decrease in the total number of customer accounts of approximately 0.2 million as some customers switched suppliers in the wake of retail price increases described below. E.ON UK continues to focus on reducing the costs of its retail business, through efficiency improvements, more economical procurement of services and the utilization of lower cost sales channels.

Residential Customers. The residential business had approximately 7.7 million customer accounts as of December 31, 2006. Approximately 65 percent of E.ON UK's residential customer accounts are electricity customers and 35 percent are gas customers. Individual retail customers who buy more than one product (*i.e.*, electricity, gas or other energy-related products) are counted as having a separate account for each product, although they may choose to receive a single bill for all E.ON UK-provided services. In the residential customers sector, E.ON UK sold 26.5 TWh of electricity and 52.4 TWh of gas in 2006, as compared with 28.4 TWh of electricity and 54.1 TWh of gas in 2005.

E.ON UK targets residential customers through national marketing activities such as media advertising (including print, television and radio), targeted direct mail, public relations and online campaigns under its Powergen (a company of E.ON) brand. E.ON UK also seeks to create significant national brand awareness through high profile sponsorships under its E.ON brand. This includes the sponsorship of the FA Cup, England's most historic soccer competition, which commenced in August 2006. E.ON UK is also the main sponsor for Ipswich Town, a soccer team playing in the English Championship league.

In an environment of rising wholesale energy prices and increasing environmental costs, E.ON UK, like other suppliers, implemented a number of electricity and gas price increases affecting residential users in 2006, though the precise level of increases varied by supplier. E.ON UK's increases in 2006 amounted to 30 percent for electricity and 47 percent for gas at national average prices for an Ofgem average consuming customer. E.ON UK has also implemented a package of measures to limit the effects of rising wholesale costs by offering subsidized energy efficient products including cavity wall and loft insulation to a significant proportion of its customers. These initiatives contribute to the requirements placed on suppliers in relation to the Energy Efficiency Commitment, which is described in "— Regulatory Environment — U.K."

Small and Medium-Sized Business and Industrial and Commercial Customers. The number of accounts in this sector totaled approximately 0.7 million at year-end 2006. In this sector, E.ON UK sold 29.7 TWh of electricity and 40.1 TWh of gas in 2006, as compared with 31.3 TWh of electricity and 46.1 TWh of gas in 2005. E.ON UK's focus in this area remains on acquiring and retaining the most profitable contracts available.

E.ON Energy Services

The E.ON Energy Services business was created in July 2005, bringing together the new connections and metering businesses from Central Networks and the home installation activities from Retail with the vision of providing E.ON UK customers with all the services they need to get connected to energy supplies, heat their homes and understand their energy use. As well as establishing a profitable growth business, E.ON Energy Services has three further aims in the medium term: (1) to deliver products and services for the Retail and Central Networks businesses; (2) to improve the level of customer service E.ON UK provides; and (3) to demonstrate the E.ON brand values of 'Performance and Expertise' through an E.ON-branded workforce. E.ON Energy Services employs more than 3,500 people and staff is expected to undertake more than 50 million meter readings and carry out work in around 400,000 homes per year, playing a key part in E.ON UK's low carbon agenda by delivering energy efficiency measures such as loft and cavity wall insulation services. The results of this business have been reported within the non-regulated business unit since 2006.

Regulated Business

Distribution

The electricity distribution business in the United Kingdom is effectively a natural monopoly within the area covered by the existing network due to the cost of providing an alternative distribution network. Accordingly, it is highly regulated. However, new distribution licenses are available for network developments, including for those areas already covered by an existing distribution license, and electricity distribution could also face indirect competition from alternative energy sources such as gas. For details on the license system, see “— Regulatory Environment — U.K.”

E.ON UK’s Central Networks business manages the distribution businesses formerly operated by East Midlands Electricity Distribution plc (“EME”) and Midlands Electricity plc (“Midlands Electricity”). The combined service area covers approximately 11,312 square miles extending from the Welsh border in the West to the Lincolnshire coast in the East and from Chesterfield in the North to the northern outskirts of Bristol in the South and contains a resident population of about 10 million people. The networks distribute electricity to approximately 4.9 million homes and businesses in the combined service area and transport virtually all electricity supplied to consumers in the service area (whether by E.ON UK’s retail business or by other suppliers). Separate distribution licenses are issued for the operation of the two networks but the combined business is managed by a centralized management team and uses the same methodology and staff to operate both networks.

The following table sets forth the total distribution of electric power by E.ON U.K.’s Central Networks business for each of the periods presented:

| <u>Distribution of Power to</u> | <u>Total 2006 million kWh</u> | <u>Total 2005 million kWh</u> | <u>% Change</u> |
|---|---------------------------------------|---------------------------------------|---------------------|
| Large non-domestic customers | 25,915 | 26,129 | −0.8 |
| Domestic and small non-domestic customers | <u>31,238</u> | <u>31,287</u> | −0.2 |
| Total | <u>57,153</u> | <u>57,416</u> | −0.5 |

Distribution charges are billed on the basis of published tariffs, which are set by the company and adhere to Ofgem’s price control formulas. New price controls that run from April 2005 until March 2010 were agreed with Ofgem in December 2004. The price controls incorporate an allowed rate of return for investing in and operating the network, as well as a five year performance target.

Other

Midlands Electricity Non-Distribution Assets

E.ON UK also acquired a number of non-distribution businesses in the Midlands Electricity transaction, including an electrical contracting operation and an electricity and gas metering business in the United Kingdom, as well as minority equity stakes in companies operating electricity generation plants in England, Pakistan and Turkey. Following disposals in 2004 and 2005, the only remaining generation stake is a 31.0 percent interest in Trakya Electric Uretim ve Ticaret A.S., which owns and operates a 478 MW CCGT plant in Turkey. E.ON UK has decided to retain the electricity and gas metering services business and core parts of the contracting business (including street lighting) within the newly-formed E.ON Energy Services business, but has closed or sold the non-core parts of the contracting business.

NORDIC

Overview

E.ON Nordic’s principal business, carried out mainly through E.ON Sverige, is the generation, distribution, marketing, sale and trading of electricity, gas and heat, mainly in Sweden. E.ON Sverige is the second-largest Swedish utility (on the basis of electricity sales and production capacity). E.ON Nordic is the largest shareholder in E.ON Sverige, currently holding 55.3 percent of the share capital and a 56.6 percent voting interest. Statkraft (“Statkraft” refers to Statkraft SF and its consolidated subsidiaries), the other shareholder in E.ON Sverige, has a put

option allowing it to sell any or all of its 44.6 percent interest in E.ON Sverige's share capital to E.ON Energie at any time through December 15, 2007.

For the first half of 2006, E.ON Nordic also held a majority shareholding in E.ON Finland. On June 26, 2006, E.ON Nordic and Fortum finalized the transfer of this interest pursuant to an agreement signed on February 2, 2006. In total, 10,246,565 shares, equivalent to 65.56 percent of the share capital and voting interest of E.ON Finland, were transferred to Fortum for total consideration of approximately €390 million. For additional information, see "— Discontinued Operations."

E.ON Nordic and its associated companies are actively involved in the ownership and operation of power generation facilities. As of December 31, 2006, E.ON Nordic owned, through E.ON Sverige, interests in power stations with a total installed capacity of approximately 14,800 MW, of which its attributable share was approximately 7,300 MW (not including mothballed and shutdown power plants).

In 2006, about 56 percent of the electric power generated by E.ON Nordic through E.ON Sverige was generated at nuclear facilities and about 37 percent at hydroelectric plants. The remaining approximately 7 percent was generated using fuel oil, biomass, natural gas, wind power and waste. E.ON Nordic also supplies gas, is active in the heat and waste business and conducts electricity trading activities. In 2006, E.ON Nordic had sales of €3.2 billion (including €377 million of energy taxes) and adjusted EBIT of €619 million. Electricity contributed approximately 68 percent, heat 15 percent, gas 8 percent and other 9 percent of 2006 sales, net of energy taxes. Other sales are mainly attributable to the waste business, as well as contracting activities. E.ON Nordic traded a total of approximately 56.6 TWh of electricity in 2006 (including both purchases and sales). E.ON Nordic is primarily active in Sweden, but also operates to a minor degree in Finland, Denmark and Poland. In 2006, E.ON Nordic estimates that it supplied about 20 percent of the electricity consumed by end users in Sweden.

In 2003, E.ON Sverige acquired a majority stake in the Swedish utility Grange AB ("Grange"). The stake was gradually increased to a 100 percent shareholding in the first half of 2004. As of the end of 2005, all of Grange's Swedish activities had been fully integrated into E.ON Nordic's operations and are now carried out under the E.ON brand. In September 2004, E.ON agreed further details regarding its agreement in principle with the Norwegian energy company Statkraft to sell a portion (1.6 TWh) of the generation capacity that E.ON Sverige had acquired as part of the Grange acquisition to its minority shareholder Statkraft. This corresponds to approximately 5 percent of E.ON Nordic's annual electricity production, and approximately 50 percent of the capacity it acquired with the majority stake in Grange. In July 2005, E.ON Sverige and Statkraft signed the corresponding agreement, whereby Statkraft would acquire a total of 24 hydroelectric power plants. In accordance with the agreement, Statkraft took ownership of the plants in October 2005.

On January 8 and 9, 2005, a severe storm hit Sweden and devastated large areas of forest in southern Sweden. This had a serious effect on the distribution grid, which in some areas was destroyed. Approximately 420,000 households in Sweden, including approximately 250,000 E.ON Nordic customers, were affected by power outages, some of which lasted several weeks. E.ON Nordic recorded related costs for rebuilding its distribution grid and compensating customers of approximately €140 million in 2005. Another severe storm hit Sweden in January 2007, cutting power to approximately 300,000 households, including approximately 170,000 E.ON Nordic customers. Preliminary estimates of the costs to be incurred by E.ON Nordic for providing mandatory compensation to affected customers in accordance with newly-enacted Swedish legislation, as well as rebuilding infrastructure, are in the range of €95 million.

2006 was characterized by highly volatile spot prices for electricity in the Nordic region, especially during the summer and early autumn. This was mainly a consequence of substantially less precipitation than normal during the summer and early autumn (which had a negative impact on hydroelectric generation, as described in more detail below), as well as unplanned outages at E.ON Nordic's nuclear reactors following an incident at the Forsmark power plant. For additional information, see "Market Environment" and "Power Generation" below.

Operations

In the Nordic region, electricity generated at power stations is delivered to consumers through an integrated transmission and distribution system. For information about the principal segments of the electricity industry, see

“— Central Europe — Operations.” E.ON Nordic and its associated companies are actively involved in electricity generation, distribution, retail and trading.

As a consequence of the disposal of all of its interest in E.ON Finland on June 26, 2006, the business segmentation of E.ON Nordic has changed. The previous geographical segmentation (Sweden and Finland) has been replaced by a segmentation based on the different lines of business (Regulated, Non-Regulated, Other/Consolidation). E.ON Nordic has separated its Regulated operations comprising electricity distribution and gas distribution, both of which are seen as natural monopolies, from the Non-Regulated operations comprising generation, trading, retail and other competitive parts of the business. Other/Consolidation includes consolidation effects, as well as results of the parent companies (E.ON Nordic and E.ON Sverige) and of the two Finnish distribution network operators (described in “— Electricity Distribution”).

The following table sets forth the sources and sales channels of electric power in E.ON Nordic’s operations during each of 2006 and 2005:

| <u>Sources of Power</u> | <u>Total 2006 million kWh</u> | <u>Total 2005 million kWh</u> | <u>% Change</u> |
|--|-----------------------------------|-----------------------------------|---------------------|
| Own generation | 27,901 | 33,272 | -16.1 |
| Purchased power from jointly owned power stations | 10,173 | 10,398 | -2.2 |
| Power purchased from outside sources | <u>4,646</u> | <u>4,153</u> | +11.9 |
| Total power procured | 14,819 | 14,551 | +1.8 |
| Power used for operating purposes and network losses | <u>(2,154)</u> | <u>(1,905)</u> | +13.1 |
| Total | <u>40,566</u> | <u>45,918</u> | -11.7 |
| <u>Sales of Power</u> | | | |
| Residential customers | 6,618 | 6,999 | -5.4 |
| Commercial customers | 12,845 | 12,678 | +1.3 |
| Sales partners(1)/Nord Pool | <u>21,103</u> | <u>26,241</u> | -19.6 |
| Total | <u>40,566</u> | <u>45,918</u> | -11.7 |

(1) Sales partners are co-owners in E.ON Nordic’s majority-owned power plants, primarily nuclear power plants, to which E.ON Nordic sells electricity at prices equal to the cost of production.

In 2006, E.ON Nordic procured a total of 40.6 billion kWh of electricity, including 2.2 billion kWh used for operating purposes and network losses. E.ON Nordic purchased a total of 10.2 billion kWh of power from power stations in which it has an interest of 50 percent or less. In addition, E.ON Nordic purchased 4.6 billion kWh of electricity from other sources, mainly from the Nord Pool power exchange. In 2006, E.ON Nordic’s own generation volumes decreased by approximately 5.4 billion kWh, primarily as a result of the lower levels of rainfall during the year and the sale of generation assets to Statkraft in late 2005. Nuclear power production declined by approximately 0.8 billion kWh due to the fact that several Swedish nuclear units were taken offline as a consequence of an incident at Vattenfall AB’s (“Vattenfall”) Forsmark nuclear power station in late July 2006. As a result of lower power production volumes from its own sources, E.ON Nordic purchased slightly more power from outside sources (0.5 billion kWh). Sales to residential and commercial customers decreased by approximately 0.1 billion kWh in 2006, mainly due to the unseasonably warm weather in the fourth quarter. Sales to sales partners and Nord Pool decreased by approximately 5.1 billion kWh in 2006, primarily reflecting lower own generation. See “Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2006 Compared with Year Ended December 31, 2005 — Nordic.”

E.ON Nordic also operates wholesale and retail gas businesses in Sweden, Denmark and Finland. The following table sets forth the sources and sales channels of gas in E.ON Nordic's operations during each of 2006 and 2005:

| <u>Sources of Gas</u> | <u>Total 2006 million kWh</u> | <u>Total 2005 million kWh</u> | <u>% Change</u> |
|--|-----------------------------------|-----------------------------------|---------------------|
| Long-term gas supply contracts | 7,156 | 7,901 | -9.4 |
| Market purchases | <u>400</u> | <u>256</u> | +56.3 |
| Total gas supplied | <u>7,556</u> | <u>8,157</u> | -7.4 |
| <u>Sale and Use of Gas</u> | | | |
| Gas used for own generation | 1,775 | 1,235 | +43.7 |
| Sales to industrial and distribution customers | 5,006 | 6,684 | -25.1 |
| Sales to residential customers | 257 | 238 | +8.0 |
| Market sales | <u>518</u> | <u>0</u> | — |
| Total gas used and sold | <u>7,556</u> | <u>8,157</u> | -7.4 |

Since September 2005, E.ON Ruhrgas has been the sole supplier of natural gas to E.ON Nordic pursuant to a long-term supply contract between the parties. The agreed framework for the E.ON Ruhrgas contract is essentially that of a "take or pay" arrangement, though it will provide E.ON Nordic with a certain amount of flexibility in relation to the purchase of additional quantities and the deferral of quantities not taken.

Market Environment

Electricity. The electricity market in the Nordic countries has undergone major and far-reaching changes since the mid-1990s. Electricity market reforms have been instituted with the goal of increasing efficiency. Market integration and increased competition were seen as means to attain this objective. Privatization has not been an objective, and consequently the degree of public ownership in the electricity supply industry is essentially unaffected by the electricity market reforms.

The first major step in Swedish market reform was taken in 1991, with the decision to separate transmission from generation. Svenska Kraftnät, established to manage the main Swedish 200-400 kV transmission network, started operating in 1992. The networks were opened to new participants, and legislation providing for competition became effective January 1, 1996.

Today, the key feature of the Nordic electricity market is that there is a strict separation between the natural monopoly and the competitive parts of the industry. Thus, transmission and distribution, which are seen as natural monopolies, are separated from generation, retail sales and trading. The transmission network is therefore owned and managed by Svenska Kraftnät, a state agency controlled by the Swedish state, while distribution activities must be carried out by a legal entity separate from those engaged in retail sales (though common ownership is allowed). In order to make competition in generation and retail sales possible in the Nordic area, third party access to transmission and distribution networks is guaranteed. The prices and quality of transmission and distribution services are subject to regulation by a sector-specific regulator in each country. Moreover, in each country a central transmission system operator is responsible for the stability of the system. Thus, although there is a common spot market and free trade across the national borders, system control remains a national responsibility.

Following deregulation, the electricity trading market in the Nordic countries is a liquid and transparent commodity market with trading taking place through the Nordic electricity exchange Nord Pool. The market participants at Nord Pool include power generators, retail companies, end users, traders and portfolio managers. The electricity exchange markets consist of a physical market (day-ahead for delivery in the next 24-hour period and an intra-day market) and a financial market (contracts of up to six years for hedging and trading). Nord Pool also has clearing operations where all financial contracts traded at Nord Pool and most OTC contracts for Nordic power, contracts for differences between price areas, and emissions allowances are cleared. The current volume of electricity traded at the Nord Pool spot market exchange is equal to more than 60 percent of underlying consumption in the Nordic countries and the volume traded at the financial market is about 6 times the underlying physical

consumption in the Nordic countries. The pricing in the Nordic market is therefore efficient, with low transaction costs and high transparency. In addition, the exchange price is used as a reference price for a large part of bilateral trading contracts. The prices on the spot and forward markets are generally used as the price basis in sales contracts with end customers.

The electricity supply system in the Nordic countries is highly dependent on the hydroelectric power systems in Norway and Sweden. In a normal year, total hydroelectric power generation in the Nordic countries amounts to approximately 190-200 TWh. Hydroelectric power has low variable costs and is highly flexible due to the possibility to regulate the flow of water from the reservoirs. Weak hydrologic balance, meaning less hydroelectric power being produced, entails that more thermal production units with considerable higher marginal costs will have to be put into operation, implying increasing wholesale prices. Although long-term precipitation is relatively stable in the region, wide variations occur in the short term both within individual years and between years. As a result, the price on the Nord Pool electricity spot market can vary widely both within a given year and between years.

Since the introduction of the EU emissions trading scheme on January 1, 2005, CO₂ emission certificates have had a significant impact on electricity prices in the Nordic countries. The price of CO₂ emission certificates is set on the European emissions market, through trading on marketplaces such as ECX and Nord Pool and on the European OTC market for CO₂ emission certificates. The price of CO₂ emission certificates for 2006 was very volatile, varying between 6.5 and 32 €/ton during 2006. This has increased the volatility of electricity prices since it affects the marginal costs of thermal power plants.

In 2004, the total volume of electrical energy generated by hydroelectric power was 184 TWh, slightly below normal volumes. In the beginning of 2004, electricity prices in the Nordic market remained at levels between 29 and 35 €/MWh. Prices on the spot market as well as on the forward markets had a peak during summer and early autumn, with the spot price reaching levels of about 48 €/MWh. By the fourth quarter, more normal levels of rainfall during the course of the year allowed reservoir levels to recover and at year-end reservoirs were near normal levels. At year-end, electricity spot prices were traded at levels of 25 €/MWh.

In 2005, which was a wet year, the total volume of electrical energy generated by hydroelectric power in the Nordic countries was 222 TWh. The year started with warm weather in January and February and after a cold March the rest of the year was a bit warmer than normal. The hydrological balance started at a level above normal and reached a peak of 16 TWh above normal in the beginning of the year. Reservoir levels decreased to normal at the end of the year. The introduction of the EU emissions trading scheme in January resulted in generally higher prices for electricity. The average electricity spot price in 2005 amounted to 29 €/MWh.

In 2006, which had a dry start of the year and a wet autumn, the total volume of electrical energy generated by hydroelectric power in the Nordic countries was 191 TWh. The hydrological balance started at a level slightly below normal and reached its lowest level at more than 30 TWh below normal at the end of the summer before increasing to levels near normal at the end of the year. The development of the hydrological situation and the impact of the EU emissions trading scheme resulted in generally high and volatile prices for electricity. The daily average Nordic spot price peaked in August above 80 €/MWh when four nuclear reactors had to be shut down due to the Forsmark incident described below. The monthly average spot price was 40 €/MWh in January, reached its highest value of 66 €/MWh in August and ended up with its lowest value, 33 €/MWh, in December. The volatile spot prices during the year caused an increase in the average electricity spot price in 2006, which reached 49 €/MWh compared with only 29 €/MWh in 2005.

Since 2001, electricity consumption in the Nordic countries has been relatively stable with a slight increase from 393 TWh in 2001 to 397 TWh in 2006. A temporary decrease occurred during 2002 and 2003, mainly due to an extremely dry autumn 2002 followed by high electricity prices and weaker economies in the Nordic area.

In 2006, the Swedish parliament decided to prolong the electricity certificate system until 2030 in order to support renewable electrical energy. This system, which was introduced in 2003, is a market-based support system in which the price of electricity certificates is the result of the relation between supply and demand on the electricity certificate market. The aim of the system is to increase the volume of electricity produced from renewable sources by 17 TWh by 2016 as compared with the 2002 level. Electricity certificates are granted by the Swedish government to generators of electricity from certain types of renewable sources. For every MWh of electricity produced from

such sources the generator is given one certificate that it can sell in addition to the electricity generated. In order to create a demand for electricity certificates, it is mandatory for most electricity end users (including residential end users) to purchase a certain number of certificates in proportion to their consumption. This is known as the quota obligation. During 2004, the quota obligation amounted to 8.1 percent of electricity consumed. In 2005, the quota obligation amounted to 10.4 percent and in 2006 12.6 percent. The quota obligation is scheduled to peak at 17.9 percent in 2010-2012 and thereafter decline to 8.9 percent in 2013 due to the phase out of some production units from the system. Any applicable end user who fails to meet this quota obligation must instead pay a quota obligation charge to the Swedish government. E.ON Nordic generally has earned a sufficient number of electricity certificates through its own wind power and biomass production, and also has purchasing agreements with a number of small renewable electricity producers.

E.ON Nordic's main competitors in the Nordic wholesale market are the Swedish energy company Vattenfall, the Finnish utility Fortum and the Norwegian energy company Statkraft. Vattenfall and Fortum are also the main competitors of E.ON Nordic in the Swedish retail market, which is completely deregulated.

Natural Gas. The Swedish gas pipeline system is constructed along the western coast of Sweden, starting in Dragör, Denmark and ending in Gothenburg, Sweden. Gas represents 20 percent of the total energy supply in this region, while at the national level, it comprises somewhat less than 2 percent of Sweden's total energy supply. In 2006, gas consumption in Sweden amounted to approximately 10 TWh. The Swedish gas market is characterized by a small number of companies and a high degree of vertical integration. There are currently about five competitors active in the Swedish market, with E.ON Nordic accounting for the distribution and sale of approximately half of all gas distributed and sold in Sweden in 2006. The major competitor in the end customer market is the Danish gas company DONG and to a smaller extent municipally owned companies with customers mainly in the geographic area of their municipality.

District Heating. District heating supplies residential buildings, commercial premises and industries with heat for space heating and residential hot water production.

In Sweden, most district heating companies are still owned by municipalities, although the current trend is for large energy groups to acquire municipal companies. E.ON Nordic is actively participating in this privatization process. District heating is not price-controlled. The price of competing alternatives serves, however, as a ceiling for the prices that district heating companies can charge. E.ON Nordic also conducts some heating operations in Denmark.

Non-regulated Business

Power Generation

General. E.ON Nordic owns interests in electric power generation facilities, mainly in Sweden, with a total installed capacity of approximately 14,800 MW, of which its attributable share is approximately 7,300 MW (not including mothballed, shutdown or reduced power plants).

E.ON Nordic generates electricity primarily at nuclear and hydroelectric power plants, with a small percentage generated at other types of power plants. In 2006, approximately 56 percent of E.ON Nordic's electric output was generated by nuclear, 37 percent by hydroelectric, and the remaining 7 percent by other fuels including oil, hard coal, biomass, natural gas, wind and waste.

Based on the consolidation principles under U.S. GAAP, E.ON Nordic reports 100 percent of revenues and expenses from majority-owned power plants in its consolidated accounts without any deduction for minority interests. Conversely, 50 percent and minority-owned power plants are accounted for by the equity method. Power generation in jointly owned plants is generally reported based on E.ON's ownership percentage.

The following table sets forth E.ON Nordic's major electric power generation facilities (including cogeneration plants), the total capacity, the stake held by E.ON Nordic and the capacity attributable to E.ON Nordic for each facility as of December 31, 2006, and their start-up dates.

E.ON NORDIC ELECTRIC POWER STATIONS

| <u>Power Plants</u> | <u>Total Capacity Net MW</u> | <u>E.ON Nordic's Share</u> | | <u>Start-up Date</u> |
|-----------------------------|--------------------------------------|----------------------------|---|--------------------------|
| | | <u>%</u> | <u>Attributable Capacity MW</u> | |
| Nuclear | | | | |
| Forsmark 1 | 996 | 9.3 | 93 | 1980 |
| Forsmark 2 | 1,006 | 9.3 | 94 | 1981 |
| Forsmark 3 | 1,190 | 10.8 | 128 | 1985 |
| Oskarshamn I | 467 | 54.5 | 255 | 1972 |
| Oskarshamn II | 602 | 54.5 | 328 | 1974 |
| Oskarshamn III | 1,153 | 54.5 | 628 | 1985 |
| Ringhals 1 | 843 | 29.6 | 249 | 1976 |
| Ringhals 2 | 867 | 29.6 | 256 | 1975 |
| Ringhals 3 | 957 | 29.6 | 283 | 1981 |
| Ringhals 4 | <u>908</u> | 29.6 | <u>268</u> | 1983 |
| Total | <u>8,989</u> | | <u>2,582</u> | |
| Hydroelectric | | | | |
| Bålforsen | 88 | 100.0 | 88 | 1958 |
| Bergeforsen | 160 | 44.0 | 70 | 1955 |
| Bjurfors nedre | 78 | 100.0 | 78 | 1959 |
| Blåsjön | 60 | 50.0 | 30 | 1957 |
| Degerforsen | 63 | 100.0 | 63 | 1965 |
| Edensforsen | 67 | 96.5 | 65 | 1956 |
| Edsele | 60 | 100.0 | 60 | 1965 |
| Forsse | 52 | 100.0 | 52 | 1968 |
| Gulsele | 64 | 65.0 | 42 | 1955 |
| Hällby | 84 | 65.0 | 55 | 1970 |
| Hammarforsen | 79 | 100.0 | 79 | 1928 |
| Harrsele | 223 | 50.6 | 113 | 1957 |
| Hjälta | 178 | 100.0 | 178 | 1949 |
| Järnvägsforsen | 100 | 94.9 | 95 | 1975 |
| Korselbränna | 130 | 100.0 | 130 | 1961 |
| Moforsen | 135 | 100.0 | 135 | 1968 |
| Olden (Langan) | 112 | 100.0 | 112 | 1974 |
| Pengfors | 52 | 65.0 | 34 | 1954 |
| Ramsele | 157 | 100.0 | 157 | 1958 |
| Rätan | 60 | 100.0 | 60 | 1968 |
| Sollefteåforsen | 61 | 50.0 | 31 | 1966 |
| Stensjön (Hårkan) | 95 | 50.0 | 48 | 1968 |

| Power Plants | Total Capacity Net MW | E.ON Nordic's Share | | Start-up Date |
|---|--------------------------------------|----------------------------|---|--------------------------|
| | | % | Attributable Capacity MW | |
| Hydroelectric (continued) | | | | |
| Storfinnforsen | 112 | 100.0 | 112 | 1953 |
| Trångfors | 73 | 100.0 | 73 | 1975 |
| Other (<50 MW installed capacity) | 835 | n/a | 778 | n/a |
| Total | 3,178 | | 2,738 | |
| Fuel Oil | | | | |
| Barsebäck GT | 84 | 100.0 | 84 | 1974 |
| Bråvalla | 240 | 100.0 | 240 | 1972 |
| Halmstad G11 | 78 | 100.0 | 78 | 1973 |
| Halmstad G12 | 172 | 100.0 | 172 | 1993 |
| Karlshamn G1 | 332 | 70.0 | 232 | 1971 |
| Karlshamn G2 | 332 | 70.0 | 232 | 1971 |
| Karlshamn G3 | 326 | 70.0 | 228 | 1973 |
| Karskär G4 | 125 | 50.0 | 63 | 1968 |
| Öresundsverket GT | 126 | 100.0 | 126 | 1971 |
| Oskarshamn GT | 80 | 54.5 | 44 | 1973 |
| Other (<50 MW installed capacity) | 77 | n/a | 41 | n/a |
| Total | 1,972 | | 1,540 | |
| Natural Gas | | | | |
| Heleneholm G11, G12(CHP) | 130 | 100.0 | 130 | 1966+1970 |
| Wind Power | | | | |
| Sweden | 18 | n/a | 18 | n/a |
| Denmark | 165 | n/a | 33 | n/a |
| Total | 184 | | 51 | |
| Other Power Plants | | | | |
| Abyverket G1, G2, G3(CHP) | 151 | 100.0 | 151 | 1962-1974 |
| Händelö (Norrköping)(CHP) | 100 | 100.0 | 100 | 1983 |
| Karskär G3 | 48 | 50.0 | 24 | 1968 |
| Total | 299 | | 275 | |
| Shutdown | | | | |
| Barsebäck 1(Nuclear) | — | 25.8 | — | 1975 |
| Barsebäck 2(Nuclear) | — | 25.8 | — | 1977 |
| Total | 14,751 | | 7,316 | |

(CHP) Combined Heat and Power Generation.

E.ON Nordic's total attributable capacity decreased by 58 MW compared with 2005 mostly due to the disposal of some minor hydroelectric power plants.

The construction of a new gas-fired CHP facility in the Swedish city of Malmö was initiated by E.ON Nordic during 2006. The new plant is expected to be fully operational in late 2008 or early 2009 and to contribute a total capacity of 440 MW of electricity and 250 MW of heat. In addition, efficiency improvements, which are aimed at

increasing generation capacity, are planned for the nuclear reactors in Forsmark, Ringhals and Oskarshamn. The implementation of these efficiency measures was started in 2005. Pending receipt of the necessary approvals, E.ON Nordic expects that all major efficiency improvements will be completed by 2011.

Nuclear Power. E.ON Nordic operates three Swedish nuclear power plants (Oskarshamn I — III), which provided 56 percent of E.ON Nordic's total power output in 2006. In addition, E.ON Nordic holds minority participations in all other Swedish nuclear power reactors. E.ON Nordic receives a share of the electrical power produced at these plants according to its respective shareholding. The purchase price for this electricity is determined on the basis of the total costs for each facility and is paid according to the shareholding in each reactor.

In 2006, production at Oskarshamn was negatively affected following a country-wide review of nuclear power plants following a transmission-related incident at the Forsmark plant in late July that resulted in an emergency shutdown of the plant and subsequent modifications to the plant's transmission infrastructure. Notably, the Forsmark incident (in which a power surge resulted in the failure of two out of four emergency power supply systems) did not result in any nuclear accident, release of radioactivity or equipment damage. Reviews of similar infrastructure at other reactors following the Forsmark incident took a number of Swedish reactors out of service for a period of several weeks and revealed the need for a significant overhaul at the Oskarshamn I reactor operated by E.ON Nordic, which was only restarted in January 2007. Although investigations into responsibility for the Forsmark incident are ongoing, it is expected that primary responsibility for the Forsmark incident will primarily be vested with Forsmark Kraft AB, the company owning the reactors at Forsmark. Vattenfall is the majority shareholder of Forsmark Kraft AB and operates the reactor, though E.ON Nordic has a minority stake in the company in line with Swedish national policy. The Swedish nuclear power plants in which E.ON Nordic holds an interest operated at approximately 84 percent of available capacity in 2006.

E.ON Nordic's nuclear power plants are required to meet applicable Swedish safety standards, which are described in "— Environmental Matters — Nordic." In Sweden, nuclear waste is handled by Svensk Kärnbränslehantering AB ("SKB"), which is owned by the domestic nuclear power producers and supervised by various state institutions. Sweden's low and intermediate-level nuclear waste is deposited in the Repository for Radioactive Operational Waste, located at the Forsmark nuclear power plants. Spent nuclear fuel and other high-level nuclear waste are placed in temporary storage at the Central Interim Storage Facility for Spent Nuclear Fuel, situated near the Oskarshamn nuclear power plants. No long-term repository has yet been constructed for spent nuclear fuel, but SKB is planning to build a deep repository for the long-term storage of all spent nuclear fuel. E.ON Nordic expects that a decision will be taken on where the deep repository is to be built at the earliest by 2012, with the first nuclear waste expected to be stored there after 2020.

In 1997, a law concerning the phase out of nuclear power was passed pursuant to which the government can decide to revoke a license to conduct nuclear operations, but must compensate the owner of the nuclear plants that are phased out. E.ON Nordic's Barsebäck 1 reactor was closed under this law in 1999, while Barsebäck 2 was closed in 2005, with E.ON Nordic receiving compensation in each case. During 2006, the compensation agreement concerning the closure of Barsebäck 2 was fully and finally implemented, with E.ON Sverige's interest in Ringhals AB being increased to 29.56 percent at no cost to E.ON Nordic.

E.ON Nordic currently has no other nuclear power plants that have been explicitly targeted for early phase-out by the Swedish government. However, it is unclear if and to what extent such shutdowns may be required in the future.

In Sweden, the financing system for the handling of high-level nuclear waste as well as the dismantling of nuclear facilities is currently based on a fee charged per generated kWh of electricity. The exact amount is regularly calculated based on assumptions about the expected period of operation for each reactor by the Swedish Nuclear Power Inspectorate and ultimately determined by the Swedish government. Nuclear power operators include this fee in the price of electricity and transfer it to the national Nuclear Waste Fund. The purpose of this fund is to cover all expenses incurred for the safe handling and final disposal of spent nuclear fuel, as well as for dismantling nuclear facilities and disposing of decommissioning waste. For changes to this financing system, see "— Environmental Matters — Nordic." Expenses for other low and intermediate-level operational nuclear waste have to be directly covered by the nuclear operators. For this purpose, E.ON Nordic has made provisions totaling €8.3 million as of December 31, 2006.

In Sweden, taxes are levied on the production of nuclear power based on the installed nuclear power capacity. This tax amounted to approximately €7,230 per MW of thermal power in 2005. In December 2005, the Swedish parliament approved an 85 percent increase in the nuclear tax effective as of January 2006, at which time the tax increased to approximately €13,400 per MW of thermal power. As a consequence, E.ON Nordic's related tax expense increased by €36 million in 2006. No further changes of the nuclear tax are expected during 2007.

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

Hydroelectric. E.ON Nordic operates 115 Swedish hydroelectric power plants, which provided 37 percent of E.ON Nordic's total power output in 2006. Due to the presence of mountains and rivers, hydroelectric plants are generally located in northern Sweden. Due to natural variances in annual water inflow to the hydro reservoirs, hydroelectric plants can be subject to reduced operations during periods of low precipitation. Notably, during periods of low precipitation market prices for electricity increase, while during periods with high precipitation market prices decrease. Thus, variances in rainfall in the region can have a significant positive or negative effect on the Nordic market unit's financial and operating results. See also "Item 3. Key Information — Risk Factors." In 2006, the inflow to E.ON Nordic's hydro reservoirs was about 93 percent of normal inflow and therefore production from hydroelectric assets was lower. However, since autumn 2006 was warm in Sweden, rain and snow have contributed to reservoir levels above normal at year-end.

Hydroelectric power plants in Sweden are subject to real estate taxes. In 2006, the Swedish parliament approved an increase of the real estate tax rate from 0.5 percent to 1.7 percent. As a consequence, E.ON Nordic's real estate tax expense increased by €27 million in 2006. Further increases in real estate tax expenses are expected during 2007 due to an anticipated revaluation of E.ON Nordic's tax base.

Other Power Plants. Power plants fuelled by fuel oil, hard coal, biomass, natural gas, wind power and waste provided the remaining 7 percent of E.ON Nordic's total power output in 2006. Hard coal and wind power plants are usually used for electricity base load operations. Oil- and gas-fired plants are only used for peak load operations, when market prices cover the operational cost. The production planning of CHP plants is to a large degree dependent on temperature conditions. Fuel oil, natural gas, hard coal and biomass are generally available from multiple sources, though prices are determined on international commodities markets and are therefore subject to fluctuations. Waste is purchased under supply contracts with local providers.

Demand for power tends to be seasonal, rising in the winter months and typically resulting in additional electricity sales by E.ON Nordic in the first and fourth quarters.

Although E.ON Nordic's power plants are maintained on a regular basis, there is a certain risk of failure for power plants of every fuel type. Depending on the associated generation capacity, the length of the outage and the cost of the required repair measures, the economic damage due to such failure can vary significantly. Thus, as with water shortages, power plant outages can negatively affect the market unit's financial and operating results. No significant unplanned outage occurred in 2004 or 2005, while a number of Swedish nuclear plants suffered unplanned outages in the second half of 2006 following the incident at Forsmark described above.

Nuclear generated electricity in the Nordic market decreased significantly in 2006 compared with 2005 as a consequence of the Forsmark incident and the related unplanned outages at other reactors, including the Oskarshamn I reactor operated by E.ON Sverige. The impact of lost production for E.ON Nordic as compared with 2005 was, however, limited to 0.5 TWh, as there was high availability of the plants in the first half of the year.

Retail

E.ON Nordic and its associated companies sell electricity, gas and district heating, as well as other energy-related services, to residential and commercial customers, mainly in the southern parts of Sweden. In addition, E.ON Nordic sells minor amounts of electricity, gas and district heating to end customers in Denmark, Finland and Poland.

Electricity. As of December 31, 2006, E.ON Nordic supplied electricity to approximately 840,000 electricity customer accounts in Sweden and to a minor degree in Denmark. Through its subsidiaries Kainuun Energia Oy and

Karhu Voima Oy, E.ON Nordic supplied approximately 70,000 customers in Finland. Although the majority of E.ON Nordic's customer accounts are with residential customers, the majority of its sales volumes are made to commercial customers. E.ON Nordic sold a total of 19.5 TWh of electricity in 2006, of which 6.6 TWh was delivered to residential customers and 12.9 TWh was delivered to commercial customers (including municipal distributors). E.ON Nordic's electricity customers are concentrated in the south of Sweden, the areas of Stockholm, Örebro and Norrköping, the Mid-Norrland region, as well as in the eastern parts of Finland, although E.ON Nordic potentially serves customers throughout the Nordic region.

Gas. In the Swedish gas market, E.ON Nordic supplied approximately 14,000 customers with gas in 2006. 3.3 TWh were delivered to large industrial and (mostly municipal) distribution customers, and 0.3 TWh were delivered to residential customers. E.ON Nordic also supplied a small amount of gas in Denmark (0.5 TWh) and Finland (0.6 TWh) in 2006.

Heat & Waste. E.ON Nordic sells heating, primarily district heating, to approximately 30,000 customers in Sweden and Denmark. In 2006, sales of district heating amounted to 5.3 TWh in Sweden and 0.1 TWh in Denmark. In addition, in 2006 E.ON Nordic sold a *de minimis* amount of heat in Poland.

E.ON Nordic is also active in the Swedish waste business, mainly through E.ON Sverige SAKAB AB ("E.ON Sverige SAKAB"). E.ON Sverige SAKAB's operations focus on recycling and destroying hazardous waste. In addition, E.ON Sverige SAKAB treats a small portion of household waste and industrial refuse for heat-recovery purposes. In 2006, E.ON Nordic's waste activities had combined sales of €49 million. Waste volumes handled amounted to approximately 444,000 tons.

Other Activities. E.ON Nordic provides services for distribution networks and other services primarily in Sweden through E.ON Sverige's subsidiary ElektroSandberg AB. In August 2006, E.ON Sverige sold a 75.1 percent interest in the broadband communication business E.ON Sverige Bredband AB ("E.ON Sverige Bredband") to Tele2 Sverige AB ("Tele2"). In addition, E.ON Sverige has a put option allowing it to sell the remaining shares within 24 months and Tele2 has a call option to acquire E.ON Sverige's remaining shares in E.ON Sverige Bredband in the event that E.ON Sverige does not exercise the put option.

Trading

E.ON Nordic's energy trading activities focus on electricity trading on the Nord Pool exchange, but also to a lesser extent include other commodities such as oil, natural gas, CO₂ emission certificates and propane.

E.ON Nordic uses energy trading to optimize the value of and manage risks associated with its energy portfolio. E.ON Nordic also performs a limited amount of proprietary trading, as well as providing portfolio management services for external clients, including access to energy exchanges, advice and risk management for their portfolios. Since 1999, E.ON Trading Nordic AB has been fully authorized by the Swedish Financial Supervisory Authority to advise and conduct trading on behalf of portfolio management clients.

All of E.ON Nordic's energy trading operations, including its limited proprietary trading, are subject to E.ON's risk management policies for energy trading. For additional information on these policies and related exposures, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

The following table sets forth the total volume of E.ON Nordic's traded electric power in 2006 and 2005.

| <u>Trading of Power</u> | <u>2006 million kWh</u> | <u>2005 million kWh</u> | <u>% Change</u> |
|---------------------------|---------------------------------|---------------------------------|-----------------|
| Power sold | 28,281 | 36,580 | -22.7 |
| Power purchased | <u>28,304</u> | <u>36,842</u> | -23.2 |
| Total | <u>56,585</u> | <u>73,422</u> | -22.9 |

The major part of realized trading volumes is usually contracted in the year prior to realization. Trading volumes decreased in 2006 compared with 2005 due to a lower volume of trades made during the 4-5 year period preceding the settlement year.

Regulated Business

Electricity Distribution

E.ON Nordic and its associated companies are actively involved in electricity distribution activities in both Sweden and Finland.

In Sweden, the 200-400 kV electricity grid is owned and managed by Svenska Kraftnät, a state agency controlled by the Swedish state. 30-130 kV electricity is transmitted through a regional distribution network with a length of around 40,000 km, of which E.ON Nordic owns and manages 8,000 km, located in southern Sweden and around Sundsvall in the north of Sweden. The local distribution networks are managed by about 180 different grid companies, including E.ON Nordic. The length of the total local network for Sweden is about 550,000 km, of which E.ON Nordic owns 117,000 km. Balance control for the whole system is managed by Svenska Kraftnät.

In January 2005, a severe storm hit Sweden and devastated large areas of forest in southern Sweden. This had a serious effect on parts of E.ON Nordic's distribution grid, which in some areas was destroyed. Following this storm, E.ON Nordic has launched a major reinvestment program in order to secure and increase the reliability of its local and regional distribution grids. The focus of reinvestment activity is on cabling insulated overhead lines in the local networks and securing broader "right of way" corridors in the regional networks.

As a result of the storm in 2005, the Swedish government passed new legislation concerning electricity distribution in December 2005. Under the new law, which came into force on January 1, 2006, a customer shall be compensated for power outages that last more than 12 hours, with the compensation payment being equal to at least 12.5 percent and up to 300 percent of the customer's annual network charges, with compensation being based on the length of the outage. With effect of new legislation from January 1, 2011, the maximum allowable period of time for a power outage will be 24 hours. Following this new legislation, E.ON Nordic has set the timetable for a major part of the ongoing reinvestments in the electricity network to be completed by 2010. E.ON Nordic expects that this will to a large extent reduce its exposure to weather-related damage in the future.

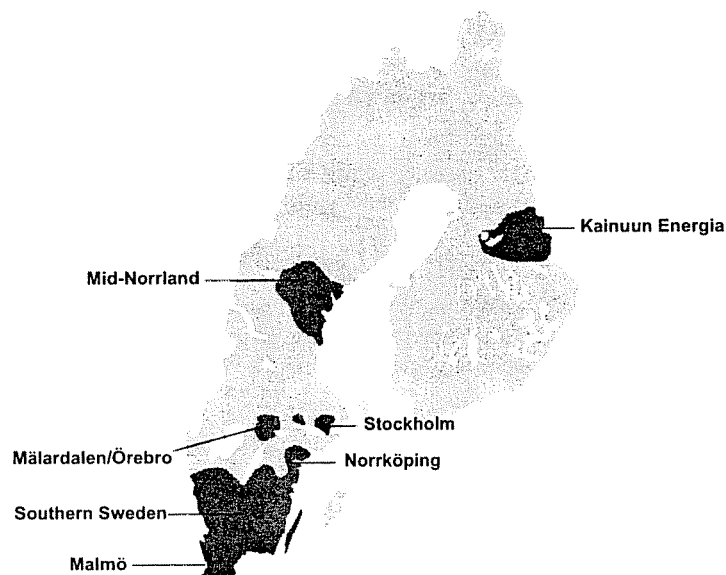
On January 14, 2007, another severe storm hit southern Sweden, with serious effect on the distribution grid. Approximately 300,000 households in Sweden, including approximately 170,000 of E.ON Sverige's customers, were affected by power outages. Some customers, including E.ON Sverige customers, were left without electricity for up to ten days. Estimated costs to be incurred by E.ON Nordic for rebuilding its distribution grid and compensating customers are in the range of €95 million. Due to the ongoing reinvestment activities described above, the number of affected customers was reduced and the restoration of power distribution has been efficient.

The electricity grid in Sweden is linked to the power transmission grids in Norway, Finland and Denmark. In addition, the Baltic Cable links the Swedish transmission grid to the grid of E.ON Netz in Germany. The Baltic Cable is one of the longest (250 km) direct current submarine cables in the world, with a capacity of 600 MW. E.ON Nordic owns one-third of the cable through E.ON Sverige, with the remaining two-thirds owned by the Norwegian company Statkraft.

In 2006, E.ON Nordic's distribution network served approximately one million customers, including approximately 590,000 customers in southern Sweden, 325,000 customers in the metropolitan areas of Stockholm/Örebro/Norrköping and 85,000 customers in the Mid-Norrland region. The areas around the cities of Malmö (in southern Sweden), Stockholm, Örebro and Norrköping belong to the more densely populated areas of Sweden, but parts of southern Sweden and Norrland are more rural areas with a lower density.

E.ON Nordic also owns and operates local power distribution grids in Finland through Kainuun Energia Oy (approximately 54,800 customers in eastern Finland), with a length of 12,663 km, and Karhu Voima Oy (16 industrial customers in southwest Finland), with a length of 68 km.

The following map shows E.ON Nordic's current distribution areas.



In Sweden and Finland, electricity customers have separate contracts with a retail supplier and an electricity distributor. For this reason, distribution customers of E.ON Nordic may choose other retail suppliers and E.ON Nordic may sell electricity to customers not covered by its own distribution grids. For information on grid access, see “— Regulatory Environment — Nordic.”

Gas Transmission, Distribution and Storage

The Swedish gas pipeline system is constructed along the western coast of Sweden, starting in Dragör, Denmark and ending in Gothenburg, Sweden. Gas represents approximately 20 percent of total energy supply in the Nordic region, while at the national level, it comprises somewhat less than 2 percent of Sweden's total energy supply. The 320 km national gas transmission pipeline is owned by Nova Naturgas AB, a consortium in which E.ON Ruhrgas International AG holds a 29.6 percent interest. E.ON Nordic owns, operates and maintains a regional high-pressure gas pipeline with a length of 202 km and a low-pressure gas distribution pipeline with a length of 1,700 km. In addition, E.ON Nordic has an underground gas storage facility in Getinge with a working capacity of 8.5 million m³ and a maximum withdrawal rate of 40 thousand m³/hour. In 2006, E.ON Nordic transported a total of 6.5 TWh of gas through its gas pipeline system.

The Swedish natural gas market is currently connected to the Danish natural gas market through one supply route. Sweden's strategic location between two of the largest producers, Russia and Norway, has led to the initiation of several studies and projects with the aim of increasing supplies to or via Sweden.

U.S. MIDWEST

Overview

E.ON U.S. is a diversified energy services company with businesses in power generation, retail gas and electric utility services, as well as asset-based energy marketing. Asset-based energy marketing involves the off-system sale of excess power generated by physical assets owned or controlled by E.ON U.S. and its affiliates. E.ON U.S.'s power generation and retail electricity and gas services are located principally in Kentucky, with a small customer base in Virginia and Tennessee. As of December 31, 2006, E.ON U.S. owned or controlled aggregate generating capacity of approximately 7,500 MW. In 2006, E.ON U.S. served more than one million customers. The U.S. Midwest market unit recorded sales of €1,947 million in 2006 and adjusted EBIT of €391 million.

Operations

In the areas of the United States in which E.ON U.S. operates, electricity generated at power stations is delivered to consumers through an integrated transmission and distribution system. For information about the principal segments of the electricity industry, see “— Central Europe — Operations.” In 2006, E.ON U.S. was actively involved in generation, transmission, distribution, retail and trading in the states in which it had utility operations.

E.ON U.S. divides its operations into regulated utility and non-regulated businesses. Utility operations are subject to state regulation that sets rates charged to retail customers.

In the regulated utility business, which accounted for approximately 97 percent of E.ON U.S.’s revenues in 2006 (83 percent electricity, 17 percent gas), E.ON U.S. operates two wholly-owned utility subsidiaries: Louisville Gas and Electric Company (“LG&E”), an electricity and natural gas utility based in Louisville, Kentucky, which serves customers in Louisville and 17 surrounding counties, and Kentucky Utilities Company (“KU”), an electric utility based in Lexington, Kentucky, which serves customers in 77 Kentucky counties, five counties in Virginia and one county in Tennessee.

E.ON U.S.’s non-regulated business, which accounted for approximately 3 percent of E.ON U.S.’s sales in 2006, is comprised of the operations of E.ON U.S. Capital Corp. (“ECC”).

Market Environment

In the United States, the market environment for electricity companies varies from state to state, depending on the level of deregulation enacted in each jurisdiction.

The electric power industry remains highly regulated at the retail level in much of the U.S., including Kentucky, although in some parts of the country, including Virginia, it has become more competitive as a result of price and supply deregulation and other regulatory changes. In approximately one-third of the United States, retail electricity customers can now choose their electricity supplier; however, some states have taken steps to halt deregulation or consider re-regulation, including Virginia. To better support a competitive industry, federal regulators are transforming the manner in which the electric transmission grid is operated. Transmission owning entities are generally encouraged by federal regulators to transfer individual control over the operation of their transmission systems to regional transmission organizations (“RTOs”). These RTOs are intended to ensure non-discriminatory and open access to the nation’s electric transmission system. Depending on the specifics of deregulation in the states in which they operate, U.S. electric utilities have adopted different strategies and structures, sometimes divesting one or more of the generation, transmission, distribution or supply components of their businesses.

E.ON U.S.’s electric service territories are located in Kentucky, Virginia and Tennessee. At present, due to the absence of customer choice or competitive market requirements in Kentucky and Tennessee and the passage of legislation in Virginia exempting KU from the provisions of that state’s liberalization measures, none of E.ON U.S.’s retail utility operations are subject to customer choice or competitive market conditions. E.ON U.S.’s customers are therefore generally required to purchase their electric service from E.ON U.S.’s utility subsidiaries at prices approved by state governmental regulators.

E.ON U.S.’s primary retail electric service territories are located in Kentucky, which accounted for approximately 68 percent of E.ON U.S.’s total revenues in 2006. To date, neither the Kentucky General Assembly nor the Kentucky Public Service Commission (“KPSC”) have adopted or announced a plan or timetable for retail electric industry competition in Kentucky. However, the nature or timing of any new legislative or regulatory actions regarding industry restructuring or the introduction of competition and their impact on LG&E and KU cannot currently be predicted.

Although retail choice became available for many customers in Virginia in January 2002 pursuant to the Virginia Electric Restructuring Act (the “Restructuring Act”), KU remains exempt from the provisions of the Restructuring Act until such time as KU provides competitive electric service to retail customers in any other state. During 2006, KU’s Virginia operations accounted for approximately 5 percent of KU’s total revenues and

approximately 2 percent of E.ON U.S.'s total revenues. E.ON U.S.'s very limited Tennessee operations accounted for less than 1 percent of its total revenues in each of 2006 and 2005.

Over the past decade, E.ON U.S. has taken steps to maintain efficient rate structures while achieving high levels of customer satisfaction, including a reduction in the number of employees; aggressive cost reduction activities; an increase in focus on commercial, industrial and residential customers; an increase in employee involvement and training; and continuous modifications of its organizational structure. E.ON U.S. also strives to control costs through competitive bidding and process improvements. The company's performance in national customer satisfaction surveys continues to be high.

Seasonal variations in U.S. demand for electricity reflect the summer cooling period as the time of peak load requirements, with a lesser peak during the winter heating period, the latter primarily in regions which do not have extensive gas distribution networks. The peak period of retail gas demand is the winter heating period.

Regulated Business

LG&E. LG&E is a regulated public utility that generates and distributes electricity to approximately 398,000 customers and supplies natural gas to approximately 324,000 customers in Louisville and adjacent areas of Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties. LG&E's coal-fired electric generating plants, most of which are equipped with systems to reduce SO₂ emissions, produce a significant amount (97 percent) of LG&E's electricity; the remainder is generated by gas-fired combustion turbines (approximately 2 percent) and by a hydroelectric power plant. *Underground natural gas storage fields assist LG&E in providing economical and reliable gas service to customers.* As of December 31, 2006, LG&E owned steam and combustion turbine generating facilities with an attributable capacity of 3,060 MW and a 48 MW hydroelectric facility on the Ohio River.

KU. KU is a regulated public utility engaged in producing, transmitting, distributing and selling electric energy. KU provides electric service to approximately 501,000 customers in 77 counties in central, southeastern and western Kentucky and approximately 30,000 customers in five counties in southwestern Virginia. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities and five customers in Tennessee. KU's coal-fired electric generating plants produce a significant amount (97 percent) of KU's electricity; the remainder is generated by gas-fired combustion turbines (approximately 3 percent) and a hydroelectric facility. As of December 31, 2006, KU owned steam and combustion turbine generating facilities with an attributable capacity of 4,375 MW and a 24 MW hydroelectric facility.

Power Generation

The following table sets forth details of LG&E's and KU's electric power generation facilities, including their total capacity, the stake held by E.ON U.S. and the capacity attributable to E.ON U.S. for each facility as of December 31, 2006, and their start-up dates.

LG&E'S AND KU'S ELECTRIC POWER STATIONS

| <u>Power Plants</u> | <u>Total Capacity Net MW</u> | <u>E.ON U.S.'s Share</u> | | <u>Start-up Date</u> |
|----------------------------|-------------------------------------|---------------------------------|--|-----------------------------|
| | | <u>%</u> | <u>Attributable Capacity MW</u> | |
| Hard Coal | | | | |
| Cane Run 4(1) | 155 | 100.0 | 155 | 1962 |
| Cane Run 5(1) | 168 | 100.0 | 168 | 1966 |
| Cane Run 6(1) | 240 | 100.0 | 240 | 1969 |
| E.W. Brown 1(2)..... | 101 | 100.0 | 101 | 1957 |
| E.W. Brown 2(2)..... | 167 | 100.0 | 167 | 1963 |
| E.W. Brown 3(2)..... | 429 | 100.0 | 429 | 1971 |
| Ghent 1(2) | 475 | 100.0 | 475 | 1974 |

| Power Plants | Total Capacity Net MW | E.ON U.S.'s Share | | Start-up Date |
|------------------------------|-----------------------------|-------------------|--------------------------------|------------------|
| | | % | Attributable Capacity MW | |
| Hard Coal (continued) | | | | |
| Ghent 2(2) | 484 | 100.0 | 484 | 1977 |
| Ghent 3(2) | 493 | 100.0 | 493 | 1981 |
| Ghent 4(2) | 493 | 100.0 | 493 | 1984 |
| Green River 3(2) | 68 | 100.0 | 68 | 1954 |
| Green River 4(2) | 95 | 100.0 | 95 | 1959 |
| Mill Creek 1(1) | 303 | 100.0 | 303 | 1972 |
| Mill Creek 2(1) | 301 | 100.0 | 301 | 1974 |
| Mill Creek 3(1) | 391 | 100.0 | 391 | 1978 |
| Mill Creek 4(1) | 477 | 100.0 | 477 | 1982 |
| Trimble County 1(1) | 511 | 75.0 | 383 | 1990 |
| Tyrone 3(2) | 71 | 100.0 | 71 | 1953 |
| Total | <u>5,422</u> | | <u>5,294</u> | |
| Natural Gas | | | | |
| Cane Run 11(1) | 14 | 100.0 | 14 | 1968 |
| E.W. Brown 5(3) | 117 | 100.0 | 117 | 2001 |
| E.W. Brown 6(3) | 154 | 100.0 | 154 | 1999 |
| E.W. Brown 7(3) | 154 | 100.0 | 154 | 1999 |
| E.W. Brown 8(2) | 106 | 100.0 | 106 | 1995 |
| E.W. Brown 9(2) | 106 | 100.0 | 106 | 1994 |
| E.W. Brown 10(2) | 106 | 100.0 | 106 | 1995 |
| E.W. Brown 11(2) | 106 | 100.0 | 106 | 1996 |
| E.W. Brown IAC(3) | 98 | 100.0 | 98 | 2000 |
| Haefling 1(2) | 12 | 100.0 | 12 | 1970 |
| Haefling 2(2) | 12 | 100.0 | 12 | 1970 |
| Haefling 3(2) | 12 | 100.0 | 12 | 1970 |
| Paddy's Run 11(1) | 12 | 100.0 | 12 | 1968 |
| Paddy's Run 13(3) | 158 | 100.0 | 158 | 2001 |
| Trimble County 5(3) | 160 | 100.0 | 160 | 2002 |
| Trimble County 6(3) | 160 | 100.0 | 160 | 2002 |
| Trimble County 7(3) | 160 | 100.0 | 160 | 2004 |
| Trimble County 8(3) | 160 | 100.0 | 160 | 2004 |
| Trimble County 9(3) | 160 | 100.0 | 160 | 2004 |
| Trimble County 10(3) | 160 | 100.0 | 160 | 2004 |
| Zorn 1(1) | 14 | 100.0 | 14 | 1969 |
| Total | <u>2,141</u> | | <u>2,141</u> | |
| Hydroelectric | | | | |
| Dix Dam(2) | 24 | 100.0 | 24 | 1925 |

| <u>Power Plants</u> | <u>Total Capacity Net MW</u> | <u>E.ON U.S.'s Share</u> | | <u>Start-up Date</u> |
|------------------------------------|------------------------------|--------------------------|---------------------------------|----------------------|
| | | <u>%</u> | <u>Attributable Capacity MW</u> | |
| Hydroelectric (continued) | | | | |
| Ohio Falls(1) | <u>48</u> | 100.0 | <u>48</u> | 1928 |
| Total | <u>72</u> | | <u>72</u> | |
| Total | <u>7,635</u> | | <u>7,507</u> | |
| Mothballed/Shutdown/Reduced | | | | |
| Green River 1(2)..... | 22 | 100.0 | 22 | 1950 |
| Green River 2(2)..... | 22 | 100.0 | 22 | 1950 |
| Paddy's Run 12(1) | 23 | 100.0 | 23 | 1968 |
| Tyrone Unit 1(2)..... | 27 | 100.0 | 27 | 1947 |
| Tyrone Unit 2(2)..... | 31 | 100.0 | 31 | 1948 |
| Waterside 7(1) | 11 | 100.0 | 11 | 1964 |
| Waterside 8(1) | <u>11</u> | 100.0 | <u>11</u> | 1964 |
| Total | <u>147</u> | | <u>147</u> | |

- (1) Power stations owned by LG&E.
- (2) Power stations owned by KU.
- (3) Power stations jointly owned by LG&E and KU.

Fuel. Coal-fired steam and combustion turbine generating units provided approximately 97 percent of LG&E's and KU's net kWh generation for 2006. The remainder of 2006 net generation was produced by natural gas-fueled combustion turbine peaking units (approximately 2 percent) and hydroelectric plants. E.ON U.S. is currently building a second coal-fired (750 MW) unit at Trimble County which is expected to come on line in 2010. E.ON U.S.'s interest will be 75.0 percent. E.ON U.S. has no nuclear generating units and coal will continue to be the predominant fuel used by E.ON U.S.'s subsidiaries for the foreseeable future. LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries for 2007 and beyond and normally augment their coal supply agreements with spot market purchases. The companies have coal inventory policies which they believe provide adequate protection under most contingencies. Reliability of coal deliveries can be affected from time to time by a number of factors, including fluctuations in demand, coal mine labor issues and other supplier or transporter operating or contractual difficulties.

Each of LG&E and KU expect to continue purchasing much of their coal, which has varying sulphur content ranges, from western Kentucky, southern Indiana and West Virginia, with additional KU purchases from eastern Kentucky, Wyoming and Colorado. In general, the delivered cost of coal has been rising since late 2002.

LG&E purchases natural gas transportation services from both of the major, trans-continental natural gas transmission pipeline companies operating in the southern Midwest region. LG&E also has a portfolio of gas supply arrangements with a number of suppliers in order to meet its firm sales obligations. These gas supply arrangements have various terms and include pricing provisions that are market-responsive. LG&E believes these firm supplies, in tandem with the pipeline transportation services, provide the reliability and flexibility necessary to serve LG&E's gas customers. LG&E operates five underground gas storage fields with a current working gas capacity of 15.1 billion cubic feet. Gas is purchased and injected into storage during the summer season and is then withdrawn to supplement pipeline supplies to meet the gas-system load requirements during the winter heating season. LG&E and KU primarily buy natural gas and oil fuel used for generation on the spot market.

LG&E and KU have limited exposure to market price volatility in prices of coal and natural gas, as long as cost pass-through mechanisms, including the fuel adjustment clause and gas supply clause, exist for retail customers. For a more detailed explanation of these mechanisms, see "— Regulatory Environment — U.S. Midwest."

Asset-Based Energy Marketing. LG&E and KU conduct energy trading and risk management activities to maximize the value of power sales from physical assets they own, in addition to the wholesale sale of excess asset capacity. These off-system sales accounted for 2.7 TWh in 2006. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133. Prior to MISO establishing its energy market in April 2005, wholesale sales of excess asset capacity were treated as normal sales under SFAS No. 133 and were not marked-to-market.

Transmission

E.ON U.S.'s utility subsidiaries LG&E and KU operate 4,925 miles of transmission line. In September 2006, these entities withdrew from the Midwest Independent Transmission System Operator, Inc. ("MISO"), in which they had participated as transmission owning members since 1998 and which commenced commercial operations in February 2002. In connection with their withdrawal from MISO, LG&E and KU paid an exit fee of approximately \$33 million, which remains subject to certain adjustments. Following exit from MISO, LG&E and KU have contractually engaged two independent third parties to perform certain of oversight and function control activities formerly performed by MISO relating to their transmission systems, in accordance with applicable Federal Energy Regulatory Commission ("FERC") regulations. The Southeastern Power Pool ("SPP") will now function as the transmission system operator and the Tennessee Valley Authority ("TVA") will now function as the reliability coordinator, respectively, for LG&E and KU.

For additional information about transmission developments, see "— Regulatory Environment — U.S. Midwest."

Distribution/Retail

The electric retail activities of LG&E and KU are limited to their respective service territories in Kentucky, with a small KU service region in Virginia and service to five customers in Tennessee. In 2006, LG&E's total electric retail sales to residential, commercial and industrial customers were 10.7 billion kWh and its total aggregate electric sales, including off-system sales, were 14.4 billion kWh. In 2006, KU's total electric retail sales to residential, commercial and industrial customers were 16.3 billion kWh and its total aggregate electric sales were 20.9 billion kWh.

The following table sets forth LG&E's and KU's sale of electric power for the periods presented:

| <u>Sales of Electric Power to</u> | <u>Total 2006 million kWh</u> | <u>Total 2005 million kWh</u> |
|--|-----------------------------------|-----------------------------------|
| Residential | 10,330 | 10,864 |
| Commercial and industrial customers. | 16,628 | 16,684 |
| Municipals | 1,978 | 2,014 |
| Other retail | 3,703 | 3,720 |
| Off-system sales | <u>2,650</u> | <u>4,434</u> |
| Total | <u>35,289</u> | <u>37,716</u> |

The gas retail activities of LG&E are limited to its service territory in Kentucky. In 2006, LG&E's total retail gas sales were 8.7 billion kWh (2005: 10.8 billion kWh) and its total aggregate gas sales (including gas transportation volumes and wholesale sales) were 12.4 billion kWh (2005: 14.6 billion kWh).

Non-regulated Businesses

ECC. ECC is the primary holding company for E.ON U.S.'s non-regulated businesses, which now consist only of interests in Argentine gas distribution operations which provide natural gas to approximately two million customers in Argentina through three distributors (Gas Natural BAN S.A. ("Ban"), Distribuidora de Gas del Centro S.A. ("Centro") and Distribuidora de Gas Cuyana S.A. ("Cuyana")). ECC owns 19.6 percent of Ban, 45.9 percent of Centro, and 14.4 percent of Cuyana. These operations continue to be subject to economic and political risks typical of emerging markets.

LG&E Power Inc. ("LPI"), a wholly-owned subsidiary of ECC, and its affiliates, including LG&E Power Services LLC ("LPS"), formerly owned, operated and maintained interests in U.S. independent power generation facilities. Following management's decision in September 2003 to dispose of all of LPI's assets, LPI and ECC sold their interests in wind power generation facilities in Texas and Spain in 2004. In January 2005, LPI sold its 50 percent ownership interest in a 550 MW gas-fired power generation facility in Texas. In June 2006, LPI sold its 50 percent ownership interest in a 209 MW coal-fired facility in North Carolina and LPS sold its remaining operations and maintenance contracts relating to the North Carolina plant along with four independent power generation facilities.

DISCONTINUED OPERATIONS

In 2002 and 2001, the Company discontinued the operations of its former oil segment and its former aluminum segment, respectively. These former segments are accounted for as discontinued operations in accordance with U.S. GAAP. In addition, in 2003, E.ON discontinued and disposed of certain operations in the U.S. Midwest market unit, as well as certain activities of Viterra in the Other Activities business segment. In 2005, E.ON discontinued and either disposed of certain operations or classified certain businesses as held for sale in the Pan-European Gas and U.S. Midwest market units, as well as Viterra in the Other Activities business segment. E.ON therefore also considers these businesses to be discontinued operations. Finally, in 2006, the Nordic market unit disposed of its entire stake in E.ON Finland. Under U.S. GAAP, results of all such discontinued operations must be shown separately, net of taxes and minority interests, under "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income. For details, see Note 4 of the Notes to Consolidated Financial Statements.

Oil

In July 2001, E.ON and BP entered into an agreement pursuant to which BP agreed to acquire a 51.0 percent stake in VEBA Oel by way of a capital increase. VEBA Oel was then active in the oil and gas exploration and production, oil processing and marketing and petrochemicals businesses. The agreement also provided E.ON with a put option that allowed it to sell the remaining 49.0 percent interest in VEBA Oel to BP at any time from April 1, 2002 for €2.8 billion, subject to certain purchase price adjustments. In December 2001, the German Federal Cartel Office cleared the transaction. The capital increase took place in February 2002, giving BP majority control of VEBA Oel as of February 1, 2002. The aggregate consideration paid by BP for the capital increase was approximately €2.9 billion. In addition, €1.9 billion in shareholder loans from the E.ON Group to VEBA Oel were repaid. As of June 30, 2002, E.ON exercised the put option. E.ON has received €2.8 billion for its VEBA Oel shares plus the aforementioned repayment of the shareholder loans. In April 2003, E.ON and BP reached an agreement setting the final purchase price for VEBA Oel (without prejudice to the standard indemnities in the contract) at approximately €2.9 billion. E.ON recognized a loss on disposal of €35 million in 2003 related to the final purchase price settlement and a gain of €1.4 billion in 2002. In 2004, E.ON recognized a loss of €19 million resulting from claims under standard contractual indemnities. These effects were recorded under "Income (Loss) from discontinued operations, net" in the income statement for the relevant period.

Aluminum

In March 2002, E.ON sold VAW (then one of Europe's major aluminum companies) to the Norwegian company Norsk Hydro ASA for the aggregate price of €3.1 billion, including financial liabilities and pension provisions totaling €1.2 billion. E.ON realized a gain on disposal of €893 million, which does not include the reversal of VAW's negative goodwill of €191 million, as this amount was required to be recognized as income due to a change in accounting principles upon adoption of SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), on January 1, 2002. In 2005, E.ON recognized a gain of €10 million before income taxes resulting from the release of a related provision. This effect was recorded under "Income (Loss) from discontinued operations, net" in the Consolidated Statements of Income.

Other Activities

In June 2003, Viterra disposed of Viterra Energy Services AG ("Viterra Energy Services"), which then provided heat and water submetering services for administrators and owners of residential and commercial

property, to CVC Capital Partners. In March 2003, Viterra sold its Viterra Contracting GmbH ("Viterra Contracting") subsidiary, which then provided heat contracting services to apartment buildings, to Mabanaf GmbH ("Mabanaf"). The aggregate consideration for both transactions totaled €961 million, including approximately €112 million of assumed liabilities, with Viterra realizing a gain of €641 million. In 2004, the release of previously recorded provisions resulted in income in the amount of €10 million, which is recorded in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income.

On May 17, 2005, E.ON sold Viterra (then one of Germany's largest private owners of residential property) to Deutsche Annington GmbH ("Deutsche Annington"). The purchase price for 100 percent of Viterra's equity was approximately €4 billion. The transaction closed in August 2005. The company was classified as a discontinued operation in May 2005 and deconsolidated as of July 31, 2005. The portion of Viterra's 2005 and 2004 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to €2.6 billion and €294 million, respectively. In 2005, Viterra had revenues of €453 million. E.ON recorded a gain on disposal of €2.4 billion. In 2006, E.ON recognized gains of €52 million resulting from adjustments of the purchase price and the partial release of a related provision.

Other

As a part of the regulatory approval of the former Powergen's acquisition of LG&E Energy (now E.ON U.S.), the SEC had required that LG&E Energy sell CRC-Evans International Inc. ("CRC-Evans"), then a provider of specialized equipment and services used in the construction and rehabilitation of gas and oil transmission pipelines. Effective October 31, 2003, LG&E Energy sold CRC-Evans to an affiliate of Natural Gas Partners for €37 million. The portion of CRC-Evans' results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to approximately €1 million in 2005. E.ON realized no gain or loss on the disposal.

On June 15, 2005, E.ON Ruhrgas signed an agreement regarding the sale of Ruhrgas Industries (then an industrial business, which focused on metering and industrial furnaces) to CVC Capital Partners. The purchase price for 100 percent of Ruhrgas Industries' equity was approximately €1.2 billion, with the purchaser's assumption of Ruhrgas Industries' debt and provisions bringing the total value of the transaction to approximately €1.5 billion. The transaction received antitrust approval in July and early September and closed on September 12, 2005. The company was classified as a discontinued operation in June 2005 and deconsolidated as of August 31, 2005. The portion of Ruhrgas Industries' 2005 and 2004 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to €628 million and €29 million, respectively. In 2005, Ruhrgas Industries had revenues of €847 million. E.ON recorded a gain on disposal of €0.6 billion.

E.ON U.S.'s wholly-owned subsidiary, Western Kentucky Energy Corp. and affiliates ("WKE") operates the generating facilities of Big Rivers Electric Corporation ("BREC"), a power generation cooperative in western Kentucky, and a coal-fired facility owned by the city of Henderson, Kentucky, under a 25-year lease. In November 2005, E.ON U.S. entered into a letter of intent with BREC regarding a proposed transaction to terminate the lease and operational agreements among the parties and other related matters. The parties are in the process of negotiating definitive agreements regarding the transaction, the closing of which would be subject to a number of conditions, including review and approval of various regulatory agencies and acquisition of certain consents by other interested parties. Subject to such contingencies, the parties are working on completing the proposed termination transaction during 2007. WKE was classified as discontinued operations at the end of December 2005. The portion of WKE's 2006, 2005 and 2004 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to income of €64 million and losses of €162 million and €2 million, respectively.

In February 2006, E.ON Nordic and Fortum signed an agreement providing for Fortum's acquisition of E.ON Nordic's entire 65.6 percent stake in E.ON Finland for a total of approximately €390 million. In June 2006, E.ON Nordic and Fortum finalized the transfer of all of E.ON Nordic's shares in E.ON Finland to Fortum. The company was classified as a discontinued operation in mid-January 2006. The portion of E.ON Finland's 2006 and 2005 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to €11 million and €24 million, respectively. In 2006, E.ON Finland had revenues of €131 million.

For further information, see Note 4 of the Notes to Consolidated Financial Statements.

REGULATORY ENVIRONMENT

EU/GERMANY: GENERAL ASPECTS (ELECTRICITY AND GAS)

Overview

In order to promote competition in the EU energy market, the EU adopted electricity and gas directives (Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity, or the “First Electricity Directive” and Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas, or the “First Gas Directive”).

The First Electricity Directive was adopted in December 1996 and was intended to open access to the internal electricity markets of EU member states. Germany implemented the First Electricity Directive by enacting an Energy Law (*Energiewirtschaftsgesetz*, or the “Energy Law”) that entered into force on April 29, 1998. The Energy Law of 1998 modified the old Energy Law, the German legal framework governing utilities that sets forth the general obligations required of electricity and gas companies and defines which segments of the industry are subject to regulation.

The First Gas Directive was adopted in 1998 and was intended to open access to the internal gas markets of EU member states. The Energy Law of 1998 already included elements of the First Gas Directive, while an amendment to the Energy Law, which came into effect on May 24, 2003, completed the implementation of the First Gas Directive into German law.

In June 2003, the EU Energy Council amended the First Electricity Directive and replaced it with a new electricity directive (Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity, or the “Second Electricity Directive”), and also adopted a second gas directive (Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas and Repealing Directive 98/30/EC, or the “Second Gas Directive”), which replaced the First Gas Directive. Germany implemented these directives by enacting the new Energy Law of 2005 (*Zweites Gesetz zur Neuregelung des Energiewirtschaftsrechts*, or the “Energy Law of 2005”), which came into force on July 13, 2005. Corresponding network access and network charges ordinances for electricity and gas came into force on July 29, 2005.

The following paragraphs outline relevant aspects of the First Electricity and Gas Directives, the Energy Law, the Second Electricity and Gas Directives, and amendments of the Energy Law, as well as other EU proposed and adopted directives and regulations that affect the German energy industry.

E.ON's operations outside of Germany are subject to the different national and local regulations in the relevant countries.

The First Electricity and Gas Directives

The First Electricity Directive established common rules for the internal EU electricity market. Under the First Electricity Directive, the EU electricity market was expected to be opened gradually to competition. Member states could choose to have either a so-called “single-buyer system” or a system permitting negotiated or regulated third party access to electricity networks (“nTPA” or “rTPA”). Member states that elected the nTPA system were required to publish frameworks for network charges. The Directive also required integrated utilities to keep separate accounts for their transmission and distribution activities, as well as for other activities not relating to transmission and distribution, in their internal accounting.

The First Gas Directive provided for a gradual opening of EU member states' natural gas markets to competition. It allowed each member state to opt for nTPA or rTPA systems, similar to the provisions of the First Electricity Directive. Under the First Gas Directive, natural gas companies were allowed to apply for a temporary derogation from the rules for third party access in case of serious economic and financial difficulties created by existing take-or-pay commitments. The First Gas Directive also required integrated utilities to keep separate accounts for their transmission and distribution activities, as well as for other activities not relating to transmission and distribution, in their internal accounting.

The German Energy Law of 1998

Germany's Energy Law of 1998 implemented the First Electricity Directive. The Energy Law abolished exclusive supply contracts, thereby introducing competition in the supply of electricity to all consumers, and provided (in addition to the so-called "single-buyer" system) for non-discriminatory nTPA for all utilities. The German market was opened for all customers in one step, going far beyond the requirements of the First Electricity Directive and also beyond the steps taken by Germany's neighboring countries. Specifically, in assessing a request for energy transmission, the Energy Law requires a transmission company to take into account the extent to which such transmission displaces electricity generated from CHP plants, renewable energy sources and, in eastern Germany, lignite-based power plants, and the extent to which it impedes the commercial operation of such power plants. Furthermore, the Energy Law introduced a provision for third party access into the Law Against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*, or "GWB"). In 1998, the first electricity association agreement provided the main basis for an nTPA network access system for electricity in Germany. See "— Germany: Electricity — Electricity Network Access" below.

The Energy Law of 1998 also included — prior to the adoption of the First Gas Directive — certain parts of the First Gas Directive. The Energy Law of 1998 enhanced competition in gas supply to consumers and provided for non-discriminatory nTPA for all utilities. The German gas market was opened for all customers in one step in the year 1998, in this respect going far beyond the requirements of the First Gas Directive and also beyond the steps taken by Germany's neighboring countries. In 2000, the first gas association agreement provided the main basis for an nTPA network access system for gas in Germany. Technical access rules for household and small commercial customers were introduced in September 2002.

The Second Electricity and Gas Directives

Completion of the Internal Electricity Market/The Second Electricity Directive. On June 26, 2003, the EU Energy Council adopted the Second Electricity Directive, which replaced the First Electricity Directive. The Second Electricity Directive requires full market opening to competition in each member state by July 1, 2004 for commercial customers and by July 1, 2007 for household customers. The Directive also sets forth general rules for the organization of the EU electricity market, such as the option of the member states to impose certain public service obligations, customer protection measures and provisions for monitoring the security of the EU's electricity supply. The previous framework of negotiated third party access in Germany is no longer allowed under the Second Electricity Directive. Instead, the Directive requires that at least a methodology for calculating network charges be fixed by law or approved by an independent regulatory body which is required to be established. In addition, the Second Electricity Directive contains provisions requiring the organizational and legal unbundling of transmission and distribution system operators, as well as mandatory electricity labeling for fuel mix, emissions and waste data.

The following paragraphs provide more detail on the independent regulatory authority, legal unbundling, electricity labeling and certain of the public service requirements.

The Second Electricity Directive (as well as the Second Gas Directive, see below) requires the establishment of a regulatory body that is independent of the interests of the electricity and gas industries. According to the Directive, the independent regulator shall be responsible for ensuring non-discriminatory network access, monitoring effective competition and ensuring the efficient functioning of the market. Further, the regulator shall be responsible for fixing or approving the terms and conditions for connection and access to national transmission and distribution networks (or at least the methodologies to calculate such terms), including transmission and distribution charges, and for the provision of balancing services, and shall also have the authority to require transmission and distribution system operators, if necessary, to modify their terms and conditions in order to ensure that they are proportionate and applied in a non-discriminatory manner.

In addition, the Second Electricity Directive requires that each transmission and distribution system operator be independent, at least in terms of legal form, organization and decision-making, from other activities not relating to transmission or distribution ("legal unbundling"). This requirement does not imply or result in the requirement to separate the ownership of assets of the transmission network from the vertically integrated undertaking. The Second Electricity Directive enables member states to postpone the implementation of provisions for legal unbundling of distribution system operations until July 1, 2007 at the latest. Derogations from legal unbundling may also be

granted to distribution companies serving less than 100,000 connected customers or small isolated networks. Member states can request an exemption from legal unbundling if they can prove that total and non-discriminatory access to the distribution networks can be achieved by other means.

The Second Electricity Directive requires electricity suppliers to specify in or with bills, as well as in promotional materials for end user customers, the following information:

- The contribution of each energy source to the overall fuel mix of the supplier over the preceding year; and
- A reference to where information is publicly available on the environmental impact of the supplier's activities, including the amount of CO₂ and radioactive waste produced.

Finally, the Second Electricity Directive requires that household customers and — where member states deem it appropriate — small companies must be provided with “universal service,” *i.e.*, the right to be supplied with electricity of a specified quality at reasonable prices.

Completion of the Internal Gas Market/The Second Gas Directive. On June 26, 2003, the EU also adopted the Second Gas Directive, which replaced the First Gas Directive. Similar to the Second Electricity Directive, the Second Gas Directive requires full opening of each member state's gas market to competition by July 1, 2004 for all non-household customers and by July 1, 2007 for all customers. The Directive also sets forth similar general rules for the organization of the EU gas market. The previous framework of negotiated third party gas network access in Germany is no longer allowed under the Second Gas Directive. Instead, as in the Second Electricity Directive, the Second Gas Directive requires that at least a methodology for calculating network charges be fixed by law or approved by an independent regulatory authority which is required to be established. The Directive also requires integrated gas companies to legally unbundle their transmission and distribution system operators from other operations.

The Second Electricity and Gas Directives were required to be implemented by each member state by July 1, 2004.

Revisions of the German Energy Law

Prior to the adoption of the Second Gas Directive, the German government amended the Energy Law in May 2003. The amended Energy Law (*Erstes Gesetz zur Änderung des Gesetzes zur Neuregelung des Energiewirtschaftsrechts*) fully completed the implementation of the First Gas Directive into national law. Apart from provisions to facilitate the opening of the gas market, a new section determined the legal basis for non-discriminatory access to gas networks. In addition, the amended Energy Law formally recognized the relevant electricity and gas association agreements (*Verbändevereinbarung Strom II+* and *Verbändevereinbarung Gas II*) as good commercial practice until December 31, 2003. Furthermore, this amendment modified the provisions of the GWB concerning the suspensive effect of appeals made against decisions of the Federal Cartel Office, so that decisions issued pursuant to the third party access provision of the GWB become immediately applicable.

In order to implement the Second Electricity and Gas Directives, the German legislature passed the Energy Law of 2005 (*Zweites Gesetz zur Neuregelung des Energiewirtschaftsrechts*), which came into force on July 13, 2005. Corresponding network access and network charge ordinances for electricity and gas came into force on July 29, 2005.

Under this new legal framework, the German legislature has authorized the Federal Network Agency (*Bundesnetzagentur*, or the BNetzA, previously called the Regulatory Authority of Telecommunications and Post) to act as the independent regulatory body required by the Second Electricity and Gas Directives, initially with ex-ante supervisory powers. The BNetzA is responsible for fixing or approving and controlling the terms and conditions for connection and access to national transmission and distribution networks, including transmission and distribution charges. The BNetzA (and the state-level regulators) also have the authority to require transmission and distribution system operators, if necessary, to modify their conduct in order to ensure that they act in a non-discriminatory manner.

The following paragraphs provide more detail on the most significant elements of the Energy Law of 2005 for German utilities:

Network access and network charge regulation: The Energy Law of 2005 contains two phases of regulation. In the starting phase of regulation, the BNetzA and the state level regulators have to approve the network charges which are calculated by the utilities using a cost-based rate-of-return model. Thus the BNetzA and the state level regulators effectively set the network charges for network operators ex-ante. The allowed capital costs for existing investments are derived from a regulated asset base that is partly valued at current cost. For new investments, the allowed capital costs are derived from a regulated asset base valued at historic cost. See also “— Germany: Electricity — Electricity Network Charges” and “— Germany: Gas — Gas Network Charges” below. A second phase of regulation envisages a new incentive-based regulation system which will replace the current cost-based rate-of-return model. According to law, the BNetzA presented a proposal in summer 2006 to the Ministry of Economics. The Ministry now has to draft a regulation containing the main points of an incentive-based regulation system. At this time it is expected that a second cost-based ex-ante approval of network charges will be used for 2008; the allowed network charges for 2008 are expected to be the starting point for the incentive regulation system in 2009. The energy industry is in favor of starting an incentive-based system in 2008. At this time, E.ON is unable to predict the detailed form of the forthcoming incentive regulation, or its effects on the Company and on the German energy industry generally.

The Energy Law of 2005 contains an exemption from cost calculations for gas transmission networks if actual or potential pipeline competition can be proved. The law also provides for the development of a special entry/exit system for gas network access, whereby network operators have to offer entry and exit capacities for the transmission of gas separately to system users in order to ensure that system users only need one contract for entry capacities and one contract for exit capacities. The gas network operators together with the Association of the German Gas Industry (*Bundesverband der deutschen Gas- und Wasserwirtschaft* or “BGW”) developed an entry/exit model in 2006, offering two variants for gas transportation. Following proceedings instituted by a gas trader and a German energy association, however, the BNetzA decided in November 2006 that one of the variants for gas transportation does not comply with the Energy Law of 2005 and that the gas network operators must change their contracts to comply by October 1, 2007. For more information, see “— Germany: Gas — Gas Network Access” below.

Unbundling of network operators: The Energy Law of 2005 requires legal as well as operational (organizational), information and accounting unbundling of each transmission and distribution system operator from the other activities of the utilities. Network operators serving less than 100,000 connected customers are exempt from the legal and operational unbundling obligations.

The Company’s German transmission and distribution system operations already comply with the legal, operational (organizational), informational and accounting unbundling requirements contained in the Energy Law of 2005.

New Ordinances. The exact interpretation of some of the new regulatory rules is still pending. Therefore, the Company cannot predict all consequences of the new legal framework for its operations or the overall effect of the new law on its future earnings and financial condition. However, the BNetzA has already interpreted some of the new regulatory rules and ordinances to reach a conclusion that is different than that reached by, and in some cases less favorable to, the Company as well as other German network operators. For more information, see “— Germany: Electricity — Electricity Network Charges” and “— Germany: Gas” below. In 2006, the following ordinance came into effect under the Energy Law of 2005:

Network Connection Ordinance: In November 2006 the network connection ordinance came into force. This ordinance increases potential liability for network operators for damages caused by energy supply disturbances by lowering the negligence threshold required for customers to collect damages. Under the ordinance, simple rather than gross negligence is the required threshold, while damages are capped at a maximum of €5,000 per customer.

In addition, the following ordinance has been discussed and may come into effect in 2007:

Power Station Grid Connection Ordinance: The German Ministry of Economics expects to issue a power station grid connection ordinance in the same package with its incentive regulation ordinance. The draft power

station ordinance addresses regulatory aspects of power station connection to the electricity grid, and gives certain preferential treatment to the grid connection of new power stations with respect to capacity bottlenecks.

For the ordinance which has replaced the Federal Electricity Charge Regulation (*Bundestarifordnung Elektrizität*, or “BTOElt”), see “— Germany: Electricity — Electricity Rate Regulation” below.

Further German Legislation

Law on the Acceleration of Planning Procedures for Infrastructure. The Law on the Acceleration of Planning Procedures for Infrastructure (*Infrastrukturplanungsbeschleunigungsgesetz*) came into force in December 2006. Pursuant to this law the costs for the connection of offshore wind power plants will not be paid by the plant operator, but will be borne by all grid users via an apportionment of indirect costs. The additional costs through 2020 are initially distributed among all four transmission system operators in Germany (including E.ON) and will lead to increased grid fees for all grid users.

Energy Tax Act. On August 1, 2006, the Energy Tax Act (*Energiesteuergesetz*) came into force. The Energy Tax Act, which is based on and incorporates the old Oil Taxation Law (*Mineralölsteuergesetz*), is the national implementation of the EU energy taxation directive from October 27, 2003 that requires certain minimal tax rates for different forms of energy. Furthermore, the former taxation of gas as an input in electricity generation has been abolished in order to comply with the EU directive, which stipulates that there be no taxation for inputs for electricity production. Since all proposed tax rates in the EU directive are below the actual German tax rates that apply to E.ON, there is currently no risk for the Company of a higher tax burden.

Revisions of the German Competition Law. In 2006 the German Ministry of Economics began an initiative to intensify its antitrust oversight of the country’s electricity, natural gas and heating markets. In November 2006, a draft bill was introduced in Parliament to tighten the provisions of the Law Against Restraints of Competition (GWB) regarding the abuse of a dominant position in the energy markets. The draft bill stipulates that undertakings holding a dominant position in an energy market shall not charge or impose prices, price components or other commercial conditions that are less favorable than those of other undertakings in comparable markets (even if the deviation is slight) or charge prices that disproportionately exceed their costs. The Federal Cartel Office would have broad powers to penalize a market dominating electric utility for infractions by imposing sanctions under the GWB. E.ON believes that these changes would impede competition in Germany’s energy markets, but is currently unable to quantify the effects that the implementation of the tightened provisions would have on E.ON. The bill is expected to be passed into law in the first half of 2007.

European Regulation on Cross-Border Trading

The Second Electricity Directive was accompanied by a new EU regulation on cross-border electricity trading (Regulation (EC) No. 1228/2003 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity, or the “Regulation on Cross-Border Electricity Trading”). This regulation required the establishment of a committee of national experts chaired by the European Commission. The committee will adopt guidelines on inter-transmission system operator compensation for electricity transit flows, on the harmonization of national transmission charges and on network congestion management. The applicable guidelines have already been drafted; the congestion management guidelines entered into force at the beginning of December 2006 and the other guidelines are expected to enter into force sometime in 2007.

At the EU level, a provisional charge system for cross-border electricity trading came into effect in March 2002. The system provides a fund mechanism to cover costs resulting from cross-border trades. Until 2003, money for the fund was raised from two sources: a charge on exports and socialized costs charged to all electricity customers. As of January 1, 2004, a modified cross-border charge system has taken effect. Instead of charging export fees for international electricity flows, transmission system operators must now pay into a fund according to their net physical import and export flows. As before, the distribution of the funds depends on transit volume, so as a large transit country Germany continues to be a net receiver of funds. This transitional charge system will remain in effect until the guidelines outlined in the EU’s Regulation on Cross-Border Electricity Trading are applicable, *i.e.* sometime in 2007.

Greenhouse Gas Emissions Trading

In order to reach the greenhouse gas emissions reduction targets set by the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol"), the EU adopted a directive on emissions trading (Directive 2003/87/EC Establishing a Scheme for Greenhouse Gas Emission Allowance Trading Within the Community, or the "Emissions Trading Directive") on October 13, 2003. The Emissions Trading Directive establishes a greenhouse gas emissions allowance trading scheme for member states which started in 2005. The trading scheme is currently limited to the trading of CO₂ emission certificates. The first obligatory commitment period under the Kyoto Protocol will follow from 2008 to 2012. Under the emissions allowance trading scheme, operators of identified types of industrial installations within the EU (including fossil fuel-fired combustion installations and gas turbines with a thermal input exceeding 20 MW) are obliged to acquire one or more CO₂ emission certificates that entitle the installation to emit a specified quantity of CO₂. If an installation exceeds the level of emissions covered by its certificates (which were initially allocated free of charge), it is obliged to buy additional certificates on the market. If it fails to do so in the period 2005-2007, it must pay a penalty fee of €40 per ton of CO₂ emitted and the missing certificates additionally have to be bought on the market. For the period 2008-2012, the penalty is €100 per ton of CO₂. If the emissions of an installation fall below the level of allocated emission certificates, the certificates can be sold on the market.

All EU member states have already transposed the Emissions Trading Directive into national law for 2005-2007. The two new member states Bulgaria and Romania are obliged to develop an allocation plan for the year 2007; these two drafts have so far not been approved by the EU. In Germany, in July 2004 the German Parliament passed the so-called Greenhouse Gas Emissions Trade Act (*Treibhausgas-Emissionshandelsgesetz* or "TEHG") and in August 2004 the Allocation Act 2007 (*Zuteilungsgesetz 2007* or "ZuG 2007"), which consists of methods of permit allocation and application procedures, came into force. Most of E.ON Energie's gas-, oil- and coal-powered generating facilities are covered by the new legislation. In addition, E.ON Ruhrgas operates several compressor stations with a thermal capacity exceeding 20 MW which are covered by the legislation. Pursuant to ZuG 2007, E.ON Energie and E.ON Ruhrgas applied for the necessary CO₂ emission certificates by year-end 2004. The results of the allocation of CO₂ emission certificates for E.ON Energie's covered facilities by the competent authority (*Deutsche Emissionshandelsstelle* or "DEHSt") are generally acceptable to E.ON. However, E.ON Energie has filed lawsuits against the DEHSt with respect to the allocation of CO₂ emission certificates at certain installations. The lawsuits are still pending subject to approval of the Federal Ministry of Environment. Most lawsuits concerning minor issues have been settled in favor of the DEHSt; a major lawsuit has been settled in favor of E.ON (pending approval of the Federal Ministry of Environment). Currently, the number of certificates granted to E.ON Energie's covered facilities nearly covers its emissions, with a slight shortfall. The actual shortfall at any time, however, depends on a number of influence parameters, e.g., availability of plants, weather conditions, electricity demand, electricity exports and fuel prices. E.ON considers the results of the allocation of CO₂ emission certificates for E.ON Ruhrgas' covered facilities to be generally acceptable. Outside Germany, CO₂ emission certificates have also been allocated in all other EU member states where the Company has generation assets. Although the Company is generally satisfied with the allocations, E.ON Benelux has filed an objection for a single installation.

In 2006, the relevant German ministries developed a national allocation plan ("NAP"), which allocates CO₂ emission certificates to covered installations for the period 2008-2012, and submitted it to the European Commission. Certain other member states, such as the United Kingdom, Sweden and the Netherlands, have also submitted draft NAPs to the European Commission, which has already commented on some draft NAPs. For Germany, the proposed allocation amount was cut by the EU, and an agreement between Germany and the EU has been reached whereby Germany accepts the EU cut. The *Zuteilungsgesetz 2012* ("ZuG 2012"), which is the corresponding law, is expected to be finalized by the end of 2007.

The implementation of the Emissions Trading Directive took effect in 2005. Since the CO₂ emissions trading market is still a developing market, the Company cannot currently predict how the trading of CO₂ emission certificates will develop or what long-term impact, if any, the new regime may have on the Company's financial condition and results of operations. The market developed fairly well in 2005 and 2006 with increasing trading turnover, although the market for the period 2008-2012 is less developed than the market for 2005-2007 allowances. By the end of 2006, CO₂ emissions trading was possible in all EU member states. In general, prices have been rather volatile, and depend to a large extent on factors such as the gas to coal price differential, weather situation and plant

outages. In April 2006, a massive one-day price drop took place when it became clear that the emissions market was better allocated than expected. One reason for this dramatic price drop was that the information was released to the market without any prior notice. The EU has since stated that further publications to the market will follow stricter rules similar to rules of the financial markets. Currently, the Company does not generally expect the emissions trading scheme to have a significant negative impact on its operations. However, in each of 2005 and 2006, companies of both the U.K. and Central Europe market units had to purchase additional CO₂ emission certificates on the market, with a resultant increase in operating costs. For more information, see “Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2005 Compared with Year Ended December 31, 2004.” The German Federal Cartel Office has opened proceedings against E.ON Energie and RWE, alleging that these two companies are abusing their dominant position in the German energy market by including costs for CO₂ emission certificates in the calculation of energy prices for industrial customers. For more information, see “Item 3. Key Information — Risk Factors.” For more information about the Company’s trading operations, see “— Business Overview — Central Europe — Trading,” “— U.K. — Energy Wholesale — Energy Trading” and “— Nordic — Trading.”

Energy Infrastructure and Security of Supply

In December 2003, the European Commission proposed a legislative package on energy infrastructure and security of supply. In January 2006, the EU adopted Directive 2005/89/EC Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment (the “Security of Supply Directive”), which requires EU member states to ensure a high level of security of electricity supply by taking necessary measures to facilitate a stable investment climate. The Security of Supply Directive stipulates that transmission system operators set minimum operational rules and obligations for network security, which then may require approval by the relevant authority. Member states must also prepare, in close cooperation with the transmission system operators, a system adequacy report according to EU reporting requirements. Member states must transpose the Security of Supply Directive into national law by February 24, 2008.

In addition, in November 2005 the EU adopted a regulation on conditions for access to gas transmission networks, which covers access to all gas transmission networks in the EU and addresses a number of issues such as access charges (which must reflect the actual costs incurred), third party access services, capacity allocation mechanisms, congestion management, transparency requirements, balancing and imbalance charges, secondary markets (introducing a “use-it-or-lose-it” principle), and information and confidentiality provisions. The regulation also requires the establishment of a committee of national experts chaired by the European Commission, which has the authority to revise the rules annexed to the regulation. The regulation came into effect July 1, 2006, except for provisions concerning amendment of the rules in the regulation annex, which came into effect January 1, 2007. The regulation directly affects E.ON Gastransport, which has to comply with these binding rules in its function as transmission system operator.

The EU directive on energy end-use efficiency and energy services (Directive 2006/32/EC of the European Parliament and of the Council of April 5, 2006 on Energy End-Use Efficiency and Energy Services Repealing Council Directive 93/76/EEC) was adopted in February 2006 and must be implemented into national law by May 2008. It provides for indicative targets for member states to reduce overall end energy consumption by nine percent over a nine year period (ending in 2016), which would be achieved by boosting energy efficiency measures in the EU. Member states must propose national action plans on end user energy efficiency by July 2007, which have to be approved by the European Commission.

Security of Energy Supply (Gas)

On April 26, 2004, the EU adopted a directive establishing measures to safeguard the security of the EU’s gas supply (Directive 2004/67/EC Concerning Measures to Safeguard Security of Natural Gas Supply, or the “Gas Supply Directive”). The Gas Supply Directive establishes a common framework within which member states must define general, transparent and non-discriminatory security of supply policies compatible with the requirements of a

competitive internal gas market, and focuses on measures to be taken if severe difficulties arise in the supply of natural gas. The key elements of the Gas Supply Directive are:

- Member states must adopt adequate minimum security of supply standards, and
- A “three step procedure” will take effect in the event of a major supply disruption for a significant period of time. Under the “three step procedure,” the gas industry should take measures as a first response to such a disruption, followed by national measures taken by member states. In the event of inadequate measures at the national level, the Gas Coordination Group, consisting of representatives of member states, the gas industry and relevant consumers under the chairmanship of the European Commission, would then decide on necessary measures.

The Gas Supply Directive was required to be implemented by each member state by May 19, 2006. This directive has been implemented into German law through the Energy Law of 2005.

Markets in Financial Instruments Directive

The Markets in Financial Instruments Directive (“MiFID”), which substantially revises the existing Investment Services Directive, was adopted by the EU in April 2004. The original implementation deadline has been postponed and member states are now required to implement the directive to be effective by November 1, 2007.

MiFID establishes high level organizational and conduct of business standards that apply to all investment firms, including the application of EU capital adequacy standards. The extension of regulation to include commodity derivatives and investment advice are two notable features of the directive which could affect energy firms with energy trading activities. There are, however, a number of exemptions which could apply to energy firms, depending on how MiFID is eventually implemented in each of the EU member states. At this time the Company cannot predict precisely how the implementation of MiFID may affect its operations, but has set up an intra-Group implementation project in order to ensure that it can comply with any MiFID requirements that may apply to it on a timely basis.

Regional Markets

Electricity. In June 2005, the European Regulator Gas and Electricity Group (“EREGG”) published a consultation paper on the creation of regional electricity markets and initiated a consultation procedure. The paper identified four action areas: availability of transmission capacity, availability in control of information, cooperation between network operators and incompatibility of wholesale market arrangements. In its conclusion paper dated February 8, 2006, EREGG confirmed its intention to pursue the action areas and has therefore set up for each of seven identified European regions a regional coordination committee for each “Mini Forum” that was set up for the identified regions in September 2004. The MiniFora address congestion management in the EU electricity transmission network on a regional basis and aim to provide a plan and detailed timetable for the introduction of day-ahead coordinated market-based mechanisms, such as auctions of cross-border capacity. Participants in these MiniFora include regulators, transmission system operators, power exchanges and the European Commission.

In 2006, market integration was therefore pursued in regional market initiatives, thereby achieving considerable progress in consolidating the rules for the EU internal electricity market. The most prominent example of this is the adoption of the congestion management guidelines that were adopted by the European Commission in November 2006. According to Article 9 of EU Regulation 1228/03, these guidelines are mandatory and it is the responsibility of national regulators to ensure that they are applied fully.

Gas. After publishing a “roadmap” for the development of EU gas markets, the EREGG drafted a detailed program in summer 2006 which will be discussed in a consultation process in 2007. The roadmap contains the following measures for the improvement of the current EU gas markets:

- closer cooperation between national regulatory authorities;
- strict control of unbundling fulfillment, especially in the case of activities in several member states;

- ad hoc and transparent publication of non-confidential information;
- improvement of third party access at access points;
- improved environment for cross-border trading; and
- creation of regional gas markets.

New European Energy Policy

In the summer of 2005, the Competition Directorate-General of the European Commission launched a sector inquiry concerning the electricity and gas markets in the EU. This investigation, based on Article 17 of EU Regulation 1/2003, assessed the competitive conditions in EU electricity and gas markets. For more information, see “Item 3. Key Information — Risk Factors.” As part of its final report issued on January 10, 2007, the European Commission tabled a package of measures to establish a new energy policy for the EU to combat climate change and boost the EU’s energy security and competitiveness. The package of proposals includes a series of ambitious targets on:

- *A true internal energy market:* The European Commission recommends a clearer separation of energy production from energy transmission and distribution, where the EU has a strong preference for ownership unbundling, *i.e.* the separation of ownership of the electricity and gas networks and the other commercial activities of the utilities. Another alternative that does not require ownership unbundling is the use of an independent system operator to operate the electricity and gas networks. The European Commission also calls for stronger independent regulatory control, in particular for cross border issues. To facilitate European-wide energy trading, the European Commission considers it necessary to establish a new single regulatory body at the EU level or, at a minimum, a European network of independent regulators that would take European interests into account and have the appropriate involvement of the Commission.
- *Greenhouse gas emissions:* The European Commission believes that when international agreement on greenhouse gas emissions for the post-2012 timeframe is reached, the EU should aim to achieve a 20 percent cut in greenhouse gas emissions compared to 1990 levels by 2020 at the latest. Should other countries initiate similar plans to combat climate change, the European Commission has expressed the possibility of a 30 percent abatement target.
- *Energy efficiency:* The European Commission’s objective is to save 20 percent of total primary energy consumption by 2020 compared to 1990 levels. Potential methods include an efficient use of fuels in vehicles for transport, tougher standards and better labeling for appliances, improved energy performance of the EU’s existing buildings, and improved efficiency of heat and electricity generation, transmission and distribution.

In February 2007, the Energy Council of the European Commission discussed this package, including the results of the sector inquiry report. The European Council is expected to discuss measures for an action plan at its March 2007 meeting. The German government has announced its intention not to support ownership unbundling, but to analyze all possible options for independent system operation.

GERMANY: ELECTRICITY

The Electricity Feed-in Law and the Renewable Energy Law

Under the amended German *Stromeinspeisungsgesetz* (law governing renewable electricity fed into the power network, or “Electricity Feed-In Law”), which came into effect in 1991, all regional utilities with standard rate customers were required to pay for energy produced from renewable resources, including wind-generated electricity, fed into the network. The price paid by the regional utility to the generator of renewable energy, determined by the average electricity price to the end user nationwide, typically exceeded the regional utilities’ procurement costs, thereby forcing regional utilities to pay part of the costs of renewable sources of energy. Regional utilities in whose supply area the feeding plants are located had to bear these costs.

As this led to distortions in competition, the German Parliament passed another change in the Electricity Feed-in Law, which came into effect April 1, 2000. Important aspects of the changed law, which is called the Renewable Energy Law, include:

- **Fixed charges for renewable energies:** Charges for renewable energies are fixed. For wind turbines coming online in 2006, the charge is fixed at 8.36 ¢cent/kWh. This charge is limited in time, with a general term of five years that may be extended up to 20 years depending upon the actual production volume of the installation. After five years, the charge is reduced to 5.28 ¢cent/kWh if 150 percent or more of a reference production, which is the potential production of the installed wind turbine operating with a constant wind speed of five meters per second over five years, has been produced. In addition, the fixed charge is reduced by two percent for new wind turbines every year. For wind turbines coming online in 2007, this means a reduction to 8.19 ¢cent/kWh and 5.17 ¢cent/kWh, respectively.
- **National burden sharing:** The Renewable Energy Law assumes that the subsidy obligation would be passed on in full to the supplying companies. At the transmission company level, there is an equalization process covering the whole country. Each transmission company first determines how much electricity it takes up under the Renewable Energy Law and how much electricity in total flows in its region to end users. An equalization will then be effected among all transmission companies so that all transmission companies take on and subsidize proportionally equivalent amounts of renewable electricity under the statute. The transmission company will then pass these quantities of electricity and the corresponding costs on to the suppliers delivering electricity to end users in its region in proportion to their respective sales.

The Renewable Energy Law abolished regional differences in electricity costs for consumers and the related competitive disadvantages for E.ON Energie. However, the growing production of energy from wind turbines has led to growing costs for balancing power, network extensions and back-up power for power stations that have to be kept in reserve. This became a growing burden for E.ON Energie, since almost half of Germany's wind turbines are situated in the network control area of E.ON Energie AG, an area that meets approximately 30 percent of German electricity demand.

In August 2004, an amendment of the Renewable Energy Law came into force which partially addressed this burden by introducing an obligation for the transmission system operators to share the effort of balancing power by equally distributing the feed-in of electricity from wind power according to the electricity consumption in the area of each transmission system operator. As a result of this burden sharing mechanism, E.ON Energie is able to pass a certain amount of balancing costs on to other network operators. Other costs caused by renewable energy (network extension and back-up power) are, however, currently not part of the national burden sharing mechanism.

A further amendment in October 2006 reduces the additional payment for renewable energy support for companies with an electricity consumption higher than 10 GWh per year and with electricity costs higher than 15 percent of their total turnover to an amount of 0.05 ¢cent/kWh. As a result, non-energy-intensive end consumers have to pay a higher share of the subsidies for renewable energy under the Renewable Energy Law. In 2006, the additional payment for renewable energy that non-energy-intensive customers made amounted to 0.76 ¢cent/kWh.

E.ON Energie believes that the charges for renewable energies are still too high and that competition which would bring down the cost of renewable energy generation has not developed.

In two court rulings dated December 22, 2003, the German Federal Court of Justice found that contractual provisions used by E.ON's competitor RWE to impose taxes and levies upon the customer (so-called "*Steuer- und Abgabeklauseln*") also apply to the additional burdens placed on electric power companies by the Renewable Energy Law, despite the fact that those burdens are neither taxes nor levies in a legal sense. Although E.ON was not a party to the proceedings that resulted in these rulings, it believes these rulings could be a legal base for all German electric power companies to pass the costs imposed by the Renewable Energy Law on to their customers.

Co-Generation Protection Law

In order to protect existing CHP plants and give incentives to improve them, the German Parliament passed a new Co-Generation Protection Law (*Kraft-Wärme-Kopplung-Gesetz*) on March 1, 2002, which came into effect on April 1, 2002 and replaced the former Co-Generation Protection Law of May 2000. The law, which will expire at the

end of 2010, requires local network operators to pay CHP plants the following bonus payments for electricity that is produced in combination with heat and fed into the public network:

- CHP plants that were commissioned before 1990 received 1.53 ¢cent/kWh in 2002 and 2003, 1.38 ¢cent/kWh in 2004 and 2005, and 0.97 ¢cent/kWh in 2006;
- CHP plants that were commissioned after 1990 received 1.53 ¢cent/kWh in 2002 and 2003, 1.38 ¢cent/kWh in 2004 and 2005, and 1.23 ¢cent/kWh in 2006, and will receive 1.23 ¢cent/kWh in 2007, 0.82 ¢cent/kWh in 2008, and 0.56 ¢cent/kWh in 2009;
- CHP plants that are modernized received 1.74 ¢cent/kWh in 2002, 2003 and 2004, 1.69 ¢cent/kWh in 2005, and 1.69 ¢cent/kWh in 2006, and will receive 1.64 ¢cent/kWh in 2007 and 2008 and 1.59 ¢cent/kWh in 2009 and 2010; and
- Small CHP plants with an installed capacity of less than two MW received 2.56 ¢cent/kWh in 2002 and 2003, 2.4 ¢cent/kWh in 2004 and 2005, and 2.25 ¢cent/kWh in 2006, and will receive 2.25 ¢cent/kWh in 2007, 2.1 ¢cent/kWh in 2008 and 2009, and 1.94 ¢cent/kWh in 2010.

The local network operators are in turn allowed to pass on the costs of the bonus payments to the network operators, which may pass on the costs of the bonus system to their customers. A nationwide equalization process among the utilities was implemented in order to ensure the equal distribution of the costs of the bonus system across utilities. In 2006, every consumer had to pay an additional approximately 0.341 ¢cent/kWh (excluding VAT). Customers with an electricity consumption of more than 100,000 kWh had to pay only 0.05 ¢cent/kWh for that portion of their electricity consumption exceeding 100,000 kWh per year. For those customers whose electricity costs are higher than 4 percent of their total turnover, this fee for electricity consumption exceeding 100,000 kWh per year is limited to 0.025 ¢cent/kWh. In 2004, the government together with the utilities started a monitoring process to evaluate the extent to which CO₂ emissions have been reduced as a result of this law and whether the current bonus payments are adequate. While acknowledging that a substantial reduction in CO₂ emissions has been achieved, the German Federal Ministries of Environment and of Economics have recognized that the reduction targets for 2010 cannot be entirely reached. The German government is therefore expected to make a proposal for changes to the Co-Generation Protection Law, probably in 2007.

The European Union has passed a co-generation directive in order to promote the use of co-generation and thereby increase energy efficiency and reduce CO₂ emissions. The directive corresponds largely to the German national CHP legislation and will not require a change in current German law.

Electricity Network Access

The First Electricity Directive was implemented in Germany with a framework for negotiated third party access to high-, medium- and low-voltage networks agreed by the associations of all German utilities and of industrial customers (*Verbändevereinbarung*, amended as *Verbändevereinbarung II* and *Verbändevereinbarung II+*). *Verbändevereinbarung II+* was valid until December 2003 and subsequently utilities still acted according to its rules until the Energy Law of 2005 came into force. As of July 13, 2005, electricity network access is regulated according to the Energy Law of 2005, as described in “— Revisions of the German Energy Law” above.

Electricity Network Charges

As described in “— Revisions of the German Energy Law” above, the regulation of electricity network charges started in July 2005, with network charges calculated according to a cost-based rate-of-return model. To obtain approval for network charges to be used starting sometime in 2006, network operators had to calculate their network charges using the cost-based rate-of-return model and submit the calculated charges to the BNetzA by the end of October 2005.

Approval of the network charges by the BNetzA was originally due by May 1, 2006. Due to the complex check of companies' cost calculations, approval was delayed by several months and received by E.ON Energie's network operators between July and October, 2006. Approved network charges averaged a 13.7 percent reduction from E.ON Energie's filed network charges. The approved network charges were applied by the network operators

immediately after receipt of the relevant approval. The BNetzA has announced that it will require network operators to refund to network customers the difference between operators' actual network charges and their approved charges for the period between November 1, 2005 (the day after applications for network charges approval were due) and the relevant approval date. Several German utilities have challenged the BNetzA's decisions in third party legal proceedings; however, final decisions have not yet been made and E.ON intends to wait for the outcome of the pending legal proceedings before making any refunds to customers. Network charges will be valid until December 31, 2007.

Electricity Rate Regulation

In 2006, prices at which local and regional distributors sold electricity to standard-rate and smaller industrial customers were regulated by the economics ministries of each of the German states (as provided in the BTOEIt). The rates were set at a level to assure an adequate return on investment on the basis of the costs and earnings of the electricity company. However, these governmentally-set ceiling rates do not completely represent the actual market situation, with numerous rates offered which are designed to meet different customers' special needs. The average price charged by utilities for an average standard-rate customer in Germany with an assumed annual consumption of 3,500 kWh was, according to the VDEW, 19.46 ¢cent per kWh in 2006 (all taxes included), while E.ON Energie charged an average of 19.51 ¢cent per kWh. The average price quoted by the German Association for Energy Consumption ("VEA") for industrial customers was 10.51 ¢cent per kWh, while the average price per kWh charged by E.ON Energie was 10.82 ¢cent per kWh, as quoted by VEA as of July 1, 2006 (net of tax). Pursuant to the Energy Law of 2005, electricity rate regulation should be abandoned in mid-July 2007. A new ordinance with respect to the tariffs for household customers (including some transitional arrangements) largely replaced the BTOEIt in November 2006. A general tariff is again provided, but not yet legally well defined.

Prices for sales of electricity by E.ON Energie to regional electricity companies, municipal utilities and large industrial customers are not regulated by the BTOEIt; however, they are governed by the GWB, which requires that no patently unreasonable rates are set.

GERMANY: GAS

Gas Network Access

Until the Energy Law of 2005 took effect, E.ON Ruhrgas used the framework for third party gas network access contained in an agreement between E.ON Ruhrgas and the Competition Directorate-General of the European Commission with respect to a matter that had been pending before the Competition Directorate. The agreement contained, among other commitments by E.ON Ruhrgas with respect to its transmission business such as greater transparency and improved congestion management, an agreement to use an entry/exit system for gas network access. The agreed entry/exit system was introduced by E.ON Gastransport on November 1, 2004. For more information, see "— Business Overview — Pan-European Gas — Transmission and Storage." As of July 13, 2005, gas network access is regulated according to the Energy Law of 2005, as described in "— Revisions of the German Energy Law" above. Under the Energy Law of 2005, gas network operators have to offer entry and exit capacities for the transmission of gas separately to system users (entry/exit system). Network access has to be granted without fixing transport routes, which are dependent on the specific transaction. All network operators are obliged to cooperate, in order to ensure that system users need only one contract for entry capacities and one contract for exit capacities, including when gas transportation is carried out via several conducted networks. In order to comply with this requirement, E.ON Gastransport adjusted its entry/exit system with the introduction of the "ENTRIX 2" system on February 1, 2006.

In order to comply with this statutory obligation, the gas industry started to implement a network access model at the end of 2005 in consultation with the BNetzA. The Association of the German Gas Industry (BGW) and the Association of the Municipalities (*Verband der Kommunalen Unternehmen*, or "VKU") drafted an agreement regarding cooperation between operators of gas supply networks located in Germany which contains principles for the cooperation of the network operators and standard terms and conditions for access to networks. The agreement uses one network access model with different market areas. Within each market area, which each include a number of network subsections, shippers are entitled to choose the following variants for gas transportation: 1) transmission

over different networks from an entry point to an exit point at the end consumer or 2) transmission from an entry point to an exit point within a network subsection (e.g. to exit via a “city gate”). E.ON Gastransport adjusted its entry/exit system in view of the cooperation agreement in October 2006, the date that the new network access model took effect.

Following the development of the gas industry cooperation agreement, a single gas trader (Nuon) and a German energy association (*Bundesverband Neuer Energieanbieter*, or “BNE”) filed claims against three network operators (including E.ON Hanse) which challenged the use of the second variant for gas transportation. In November 2006, the BNetzA decided that this variant does not comply with the Energy Law of 2005, thus necessitating changes to the existing gas network operators’ cooperation agreement. The E.ON Group decided to accept this decision after a detailed analysis of the regulator’s decision and to implement the necessary changes into the existing cooperation agreement. BGW and VKU have prepared a revised draft of the cooperation agreement with the necessary changes, which is currently still under discussion with the BNetzA. E.ON Gastransport has already implemented all changes that are necessary in order to comply with the BNetzA’s decision and the revised cooperation agreement.

Gas Network Charges

As described in “— Revisions of the German Energy Law” above, the regulation of gas network charges started in July 2005, with network charges calculated according to a cost-based rate-of-return model. To obtain approval for network charges to be used in 2006, distribution network operators had to submit the calculated charges to the BNetzA by the end of January 2006, with approval to be granted by August 1, 2006. Since the BNetzA examined the application documents in detail, approval was delayed and granted to E.ON Energie’s distribution network operators between September and November 2006. Approved network charges of E.ON Energie’s regional distribution network operators were reduced by approximately ten percent on average, based on a different interpretation of the new law by the BNetzA. In addition, the filed network charges of *Ferngas Nordbayern GmbH* (“*Ferngas Nordbayern*”) and *Thüga* in the Pan-European Gas market unit were reduced by 19.0 and 17.2 percent, respectively. As in the case of electricity network charges described above, the BNetzA has announced that the lower charges should be economically effective from the day after applications were due, in this case February 1, 2006. A preliminary ruling of the competent court in a third party suit brought by *Vattenfall Europe Transmission* has denied the BNetzA’s decisions to require refunds; a decision on the merits of the case is, however, still pending and E.ON will wait until the legality of the refunds is decided before refunding any network charges. Network charges will be valid until March 31, 2008.

The Energy Law of 2005 provides an exemption from cost calculations for gas transmission networks if actual or potential pipeline competition can be proved. In January 2006, E.ON Gastransport gave notice to the BNetzA that it would calculate its network costs on a market-oriented basis (rather than submitting the charges for BNetzA approval). As the BNetzA has not yet determined whether actual or potential pipeline competition exists, E.ON Gastransport is not yet required to submit calculated gas network transmission charges to the BNetzA as described above.

Gas Rates

Gas and heat rates are not regulated in Germany, but the GWB does apply.

For information about proceedings regarding gas price calculations, e.g. against E.ON Hanse, see “Item 3. Key Information — Risk Factors.”

U.K.

Liberalization of the electricity and gas industries in the United Kingdom largely pre-dated the requirements of the First and Second Electricity and Gas Directives described under “— EU/Germany: General Aspects (Electricity and Gas)” above, but the U.K. regulatory regime is basically consistent with the terms of such directives. E.ON UK is also subject to U.K. and EU legislation on competition.

The gas and electricity markets in England, Wales and Scotland are regulated by a single energy regulator, the Gas and Electricity Markets Authority (the "Authority"), established in November 2000. The Authority is assisted by Ofgem, which is governed by the Authority. The principal objective of the Authority is to protect the interests of consumers of gas and electricity, wherever appropriate, by the promotion of effective competition in the electricity and gas industries. The Authority may grant licenses authorizing the generation, transmission, distribution or supply of electricity and the transportation, shipping or supply of gas. The Energy Act 2004 also gives the Authority power to license the operation of gas and electricity interconnectors. Any such license will incorporate by reference as appropriate the standard conditions determined for that type of license, which may be modified by the Authority. The license may also include other conditions that the Authority considers appropriate. License conditions may be modified in accordance with their terms or under the provisions of the Electricity Act 1989 (as amended) or Gas Act 1986 (as amended), as appropriate. The Authority has power to impose financial penalties on licensees and/or make enforcement orders for breach of license conditions and other relevant requirements.

The Authority also has within its designated areas of responsibility many of the powers of the Office of Fair Trading to apply and enforce the prohibitions in the Competition Act 1998 in relation to anti-competitive agreements or abuse of market dominance, including imposing financial penalties for breach. Since May 1, 2004, following reform of the EC competition law regime, the Authority also has the power to apply Articles 81 and 82 of the EC Treaty, which deal with control of anti-competitive agreements and abuse of market dominance. Within its designated areas, the Authority also exercises concurrently with the Office of Fair Trading certain functions under the Enterprise Act 2002 relating to the power to make market investigation references to the Competition Commission.

Electricity

Unless covered by a license exemption, all electricity generators operating a power station in England, Wales or Scotland are required to have a generation license. The principal generation license within the E.ON U.K. business is held by E.ON UK. Although generation licenses do not contain direct price controls, they contain conditions which regulate various aspects of generators' economic behavior.

The distribution licenses held by Central Networks East and Central Networks West (the two companies operating under the brand Central Networks) authorize the licensee to distribute electricity for the purpose of giving a supply to any premises in Great Britain. They provide for a distribution services area, equating to the former authorized area of the former public electricity suppliers in the East Midlands and West Midlands areas, respectively, in which the licensee has certain specific distribution services obligations. Under the Electricity Act 1989 (as amended), an electricity distributor has a duty, except in certain circumstances, to make a connection between its distribution system and any premises for the purpose of enabling electricity to be conveyed to or from the premises and to make a connection between its distribution system and any distribution system of another authorized distributor, for the purpose of enabling electricity to be conveyed to or from that other system.

The license obligations extend to not distorting the competitive market for the provision of those connections either through the distribution business' own connection activities, through an affiliate or through an unrelated third party. Presently a number of U.K. distributors, including both Central Networks companies, are under investigation by Ofgem over concerns that they may have breached this aspect of their licenses.

The distribution licenses place price controls on distribution. The current distribution price controls are in effect for a five year period ending March 2010, and are expected to provide for overall stable prices for the distribution of electricity over that period. The price controls are intended to provide companies with sufficient revenues to allow them to finance their operating costs and capital investment. In addition to caps on revenue, the price controls also include targets for network losses and overall quality of network performance based upon the average number and duration of supply outages experienced by consumers. Companies can be either rewarded or penalized for exceeding or failing these targets.

The supply license held by Powergen Retail Limited authorizes the licensee to supply electricity to any premises in Great Britain. It provides for a supply services area, equating to the former authorized area of Powergen Energy plc, as the former public electricity supplier in the East Midlands, in which the licensee has certain specific supply services obligations. The supply license used to place price controls on supply; however, these price controls

lapsed after March 31, 2002. Following the end of the price controls, Ofgem relies on monitoring competition and, where necessary, using its powers under the Competition Act 1998 to tackle abuse. In addition, Ofgem is pursuing a range of measures under its Social Action Plan to help vulnerable and low income customers. It is also continuing to work with the industry to improve the process for customers when they switch suppliers.

A separate supply license is held by E.ON UK, trading as E.ON Energy, which does not extend to supply to domestic premises. E.ON UK also continues to hold a second-tier supply license for Northern Ireland (to which the Utilities Act 2000 generally does not extend).

Following the acquisition of the U.K. retail energy business of the TXU Group in October 2002, E.ON UK also holds a number of additional electricity and gas supply licenses through certain of the companies that were acquired as part of that deal. Customers supplied under these licenses have been migrated to the supply licenses held by Powergen Retail Limited and E.ON UK.

In June 2005, E.ON UK acquired the electricity supply company of Economy Power. Migration of former Economy Power customers, which were supplied under a separate electricity supply license, to the supply licenses held by Powergen Retail Limited and E.ON UK was completed in June 2006.

Under section 33BC of the Gas Act 1986, section 41A of the Electricity Act 1989 and section 103 of the Utilities Act 2000, electricity and gas suppliers are subject to a statutory obligation (known as the Energy Efficiency Commitment (EEC)) which requires them to achieve targets for installing energy efficiency measures in the household sector. The current obligation (known as the Electricity and Gas (Energy Efficiency Obligations) Order 2004) covers the period from April 1, 2005 to March 31, 2008. A range of energy efficiency measures qualify for the obligation, with E.ON UK anticipating that about 60 percent of its expenditures will be on home insulation. The U.K. government estimates that the cost to suppliers of this requirement will be about GBP9 per year for each of their gas and electricity customers, although the actual cost will depend on the cost to suppliers of contracting for energy efficiency measures, which is to some extent uncertain.

Gas

Licenses to ship gas and to supply gas are held by a number of companies in the U.K. market unit.

E.ON UK operates gas pipelines that are subject to the Pipelines Act 1962 (as amended), including pipelines at Killingholme, Cottam, Connah's Quay, Enfield and Winnington. This legislation gives third parties rights to apply to the Secretary of State for a direction requiring the pipeline owner to make spare capacity available to the third party.

NORDIC

The description under “— EU/Germany: General Aspects (Electricity and Gas)” above is applicable for E.ON Sverige AB and its two Finnish subsidiaries and these companies are also subject to EU and national legislation on competition.

Electricity. The primary legislation applicable to the electricity industry in Sweden is the Swedish Electricity Act (*Ellag (1997:857)*), or the “Electricity Act”) that came into force on January 1, 1998, and the statutes and provisions issued pursuant to the Electricity Act.

The Electricity Act promotes competition by creating opportunity for customers to enter into agreements with the supplier of the customer's choice. In order to further ensure competition in sales of electricity, the Electricity Act also requires functional unbundling of the generation/sales and the transmission and distribution businesses, as well as legal unbundling of these businesses so that transmission and distribution operations are carried out by a separate legal entity. As a consequence, electricity customers in Sweden have separate contracts with a retail supplier and an electricity distributor. In Sweden, retail prices are not regulated.

Transmission and distribution of electricity are considered to be natural monopolies and are subject to regulation. The Energy Markets Inspectorate (“EMI”), which is part of the Swedish Energy Agency, grants licenses to erect power lines and carry on distribution operations. As the regulator for the Swedish electricity and gas markets, EMI has the authority to supervise the monopoly transmission and distribution businesses in order to

protect the interests of the customers. EMI also oversees third party access to the networks. It monitors network charges and other terms for the transmission and distribution of electricity and is responsible for setting certain standards with respect to transmission and distribution.

In Sweden, the high-voltage transmission grid is owned and operated by Svenska Kraftnät, the state-owned national grid company. The mid- and low-voltage distribution networks are owned and operated by a large number of both privately and publicly owned companies. A tariff, consisting of an annual connection fee and an hourly transmission charge, applies for access to the national transmission as well as the regional and local distribution networks. Market participants pay for the right to feed in or take out electricity at just one point, which gives the participant access to the entire grid system and enables it to trade with any of the other market participants in the Nordic grid system. EMI also monitors quality of supply data for statistical reasons.

Changes in the Electricity Act regarding distribution regulation came into force in July 2002. The amendments provide that network charges have to be reasonable compared to the distribution companies' performance. The concept of performance has initially been defined by EMI, which annually constructs a fictitious network for each utility in order to calculate the resources needed in the local network business. The resulting value of the network is then compared to the utility's actual revenues in order to assess the reasonableness of the network charges. For this purpose EMI has created a regulation model called the "Network Performance Assessment Model" ("NPAM"). At present, EMI is only assessing the performance of the local networks but intends to include the regional networks in the near future.

The NPAM was used for the first time to evaluate network charges for 2003. Swedish electricity distribution companies reported the required information to EMI, which examined the operation of the companies. EMI decided in December 2004 to prolong its inspection of a number of Swedish electricity distribution companies. Within E.ON Sverige, 14 distribution areas were initially subject to the additional inspection, with inspection satisfactorily concluded for 13 of these areas. For the remaining area, EMI initially decided that E.ON Sverige must reduce the network charges for 2003 by SEK 19.7 million, by repaying customers a portion of the network charges. E.ON Sverige has appealed the decision to the relevant administrative court. So far, EMI has admitted an increase of the weighted average cost of capital (WACC) from 4.8 percent interest pre tax to 6.2 percent, which has reduced the obligation of repayment to SEK 16.2 million. A judgment in the court case is expected at the beginning of 2008 at the earliest. With respect to 2004 network charges, EMI decided in October 2005 to prolong its inspection of 4 distribution areas within E.ON Sverige. EMI has not issued a final decision regarding 2004 network charges. With respect to 2005 network charges, EMI decided in December 2006 not to prolong its inspection of any distribution areas within E.ON Sverige, which means that the 2005 network charges cannot be subject to any further actions by EMI.

In July 2005, several sections of the Electricity Act were amended in order to comply with the Second Electricity Directive. Among other changes, the amendments require more detailed regulation concerning the calculation of network charges; more information on the invoice and in advertising about the composition of energy sources used in producing the delivered electricity; that distribution companies procure the electricity required to cover their net losses in an open, non-discriminatory and market-oriented manner; and that distribution companies establish a supervision plan which states what kind of actions will be taken in order to prevent discriminatory behavior towards other operators in the market.

As a result of a severe storm that hit Sweden in January 2005, the Swedish government passed new legislation concerning electricity distribution in December 2005. Under the new law (*SFS 2005: 1110*), which was incorporated into the Electricity Act and which came into force on January 1, 2006, a customer shall be compensated for power outages that last more than 12 hours, with the compensation payment being equal to at least 12.5 percent and up to 300 percent of the customer's annual network charges, with compensation being based on the length of the outage. With effect of new legislation from January 1, 2011, the maximum allowable period of time for a power outage will be 24 hours. If this time period is exceeded the provisions concerning compensation payment will still be applied and if this occurs frequently, the network operator will risk losing its license to operate the grid area.

Gas. In order to comply with the requirements of the Second Gas Directive, a new Swedish Natural Gas Act (*Naturgaslag (2005:403)* or the "Natural Gas Act") was implemented on July 1, 2005. From this date, all non-

household customers may choose their gas supplier. Household customers will be eligible as of July 1, 2007. In addition, the Natural Gas Act stipulates legal and functional unbundling of the transmission, distribution, storage and regasification (LNG) businesses from the supply business and requires separate accounting for the transmission, distribution, storage and regasification (LNG) businesses. The law also requires non-discriminatory third party access to the gas networks based on published charges for eligible customers. Further, distribution and transmission companies must also establish a supervision plan which states what kind of actions will be taken in order to prevent discriminatory behavior towards other operators in the market. As in the former Natural Gas Act, the new Natural Gas Act contains rules regarding the granting of licenses to build and use natural gas pipelines and natural gas storage, as well as new rules regarding the granting of licenses for LNG facilities.

The Natural Gas Act also requires EMI to pre-approve the criteria used by network operators to establish network charges valid from 2006. EMI approved the model (the criteria for network charges) used by E.ON Sverige in November 2005. In addition, the Natural Gas Act requires that the revenues from network charges be reasonable compared to costs for capital and operations, and stipulates that the reasonableness of network charges remains subject to examination by EMI ex-post. The first examination will take place in 2007 regarding revenues for 2006. If EMI finds that revenues from network charges are not reasonable, it can obligate the operator to reduce network charges.

Security of Energy Supply (Gas). The Gas Supply Directive has been implemented into the Swedish Natural Gas Act. The amendments entered into force July 1, 2006 and impose a general obligation on the operators in the natural gas market to plan and take necessary measures to ensure the supply of natural gas. The Natural Gas Act does not give any detailed regulation on how the operators shall perform their obligation. Instead, the Swedish government has authorized the Swedish Independent System Operator (*Affärsverket svenska kraftnät*) to determine in more detail which measures shall be taken in this respect. At this time it is unclear which obligations can be imposed on the operators in Sweden.

Renewable Energy and Electricity Certificates. The Swedish energy policy is based on the assumption that Sweden will obtain all its energy from renewable energy sources in the long term. The most important policy instrument in promoting renewable electricity production is the electricity certificate system. The Swedish electricity certificate system has been in operation since May 2003. The objective of the system, which is based on the Swedish Act on Electricity Certificates (*SFS 2003:113*), was initially to increase the volume of electricity produced from renewable energy sources by 10 TWh by 2010 as compared with the 2002 level.

During 2004 EMI gave the Ministry of Sustainable Development recommendations on the electricity certificate system based on an analysis of the system. EMI recommended that the electricity certificate system be made permanent and that long-term quota levels be set if necessary investments in renewable energy are to take place. Due in part to this analysis, the Swedish government delivered proposals on an amendment of the Act on Electricity Certificates to the Swedish parliament. The proposed amendment contained suggestions that the Swedish electricity certificate system be extended until 2030 and that the objective of the system be revised to increase the volume of electricity produced from renewable energy sources by 17 TWh by 2016 as compared with the 2002 level. The proposals were adopted by the Swedish parliament in June 2006 and the amendments entered into force on January 1, 2007. For more information about the current system, see “— Business Overview — Nordic — Market Environment.”

U.S. MIDWEST

Retail Electric Rate Regulation

The KPSC has regulatory jurisdiction over the rates and service of LG&E and KU and over the issuance of certain of their securities. The Virginia State Corporation Commission also has parallel regulatory jurisdiction with respect to certain of KU's operations. The KPSC, in the case of LG&E and KU, and the Virginia State Corporation Commission, in the case of KU, regulate the retail rates and services of LG&E or KU and, via periodic public rate cases and other proceedings, establish tariffs governing the rates LG&E and KU may charge customers. Because KU owns and operates a small amount of electric utility property in Tennessee and serves five customers there, KU is also subject to the jurisdiction of the Tennessee Regulatory Authority.

LG&E and KU are each a "public utility" as defined in the Federal Power Act. Each is subject to the jurisdiction of the Department of Energy and the FERC with respect to the matters covered in the Federal Power Act, including the wholesale sale of electric energy in interstate commerce. In addition, the FERC and certain states share jurisdiction over the issuance by public utilities of short-term securities.

In June 2004, the KPSC issued an order approving increases in the base electric and gas rates of LG&E and the base electric rates of KU. In the KPSC's order, LG&E was granted increases in annual base electric rates of approximately \$43.4 million or 7.7 percent and in annual base gas rates of approximately \$11.9 million or 3.4 percent. KU was granted an increase in annual base electric rates of approximately \$46.1 million or 6.8 percent. The rate increases took effect in July 2004. During 2004 and 2005, the Attorney General of Kentucky ("Kentucky Attorney General") requested a rehearing on these rate increases and conducted an investigation into the communications between the companies and the KPSC during the rate proceedings. The KPSC also opened an investigation into the communications involved in the rate cases. In December 2005, the KPSC issued an order noting completion of its inquiry, including review of the Kentucky Attorney General's investigative report, and concluded no improper communications occurred during the rate proceedings. Final proceedings on the sole remaining issue on rehearing concerning state tax rates used in calculating the rate increases occurred during the first quarter of 2006. In March 2006, the KPSC issued a final order in the rate case proceedings which resolved this remaining calculational issue in LG&E's and KU's favor consistent with the original July 2004 rate increase order.

The electric rates of LG&E and KU in Kentucky contain fuel adjustment clauses whereby increases and decreases in the cost of fuel for electric generation are reflected in the rates charged to all retail electric customers. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer the then-current fuel adjustment charge or credit to the base charges. At present, the KPSC also requires that electric utilities, including LG&E and KU, publicly file certain documents relating to fuel procurement and the purchase of power and energy from other utilities.

In 1992, the Kentucky General Assembly enacted a statute which provides an alternative procedure to increasing base rates by allowing utilities to recover the costs of environmental compliance by means of a surcharge rather than by opening a general rate case. Pursuant to this statute, LG&E's and KU's electric rates in Kentucky contain an environmental cost recovery surcharge which recovers costs incurred by LG&E or KU that are required to comply with the U.S. Clean Air Act Amendments of 1990 and other environmental regulations which apply to coal combustion wastes and by-products from facilities utilized for the production of energy from coal. The magnitude of the surcharge fluctuates with the amount of approved environmental compliance costs incurred during each period. At six-month intervals, the KPSC reviews the operation of each utility's environmental surcharge, and, after review, may disallow any surcharge amounts found not to be just and reasonable. In addition, every two years the KPSC reviews and evaluates the past operation of the surcharge, and, after review, may disallow improper expenses and, to the extent appropriate, incorporate surcharge amounts found to be just and reasonable into the utility's existing base rates.

Retail Gas Rate Regulation

LG&E's gas rates in Kentucky contain a gas supply charge, whereby increases or decreases in the cost of gas supply are reflected in LG&E's rates, subject to approval of the KPSC. The gas supply charge procedure prescribed by order of the KPSC provides for quarterly rate adjustments to reflect the expected cost of gas supply in that quarter. In addition, the gas supply charge contains a mechanism whereby any over- or under-recoveries of gas supply cost from prior quarters will be refunded to or recovered from customers through the adjustment factor.

Transmission Developments

In September 2006, LG&E and KU withdrew from the MISO transmission organization. Regulatory proceedings regarding the costs and benefits of MISO participation and analyzing exit matters had been underway since July 2003 at the KPSC and October 2005 at the FERC. Primary regulatory orders authorizing the withdrawal from MISO were received in July 2006 from the KPSC and in March 2006 from the FERC. In LG&E's and KU's view, the costs of MISO membership outweighed the benefits, particularly in light of the financial impact of MISO's implementation of new day-ahead and real-time energy markets in April 2005. In October 2006, LG&E and KU

paid MISO approximately \$33 million in satisfaction of the aggregate exit fee. Pursuant to agreement, LG&E and KU have commenced proceedings to confirm or adjust certain components of this calculated amount; these proceedings are ongoing. LG&E and KU estimate that the exit fee will be more than offset by savings resulting from withdrawal from MISO. Orders of the KPSC approving the exit from MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO charges. Historically, LG&E and KU have received approval to recover regulatory assets and liabilities in future rate proceedings, although this cannot be assured. Pursuant to FERC requirements, LG&E and KU have contracted with independent third parties to manage applicable operational aspects of their transmission systems following the MISO exit, including functions relating to reliability coordinator and independent transmission system operator roles. The SPP will now function as the transmission system operator and the TVA will now function as the reliability coordinator, respectively, for LG&E and KU.

LG&E, KU and other E.ON U.S. subsidiaries sell excess power pursuant to FERC-granted market-based rate authority. In connection with recent FERC market-based rate and market power regulatory developments, the E.ON U.S. entities operate under an approved tariff whereby they may make applicable wholesale power sales within their own control areas (and one adjacent control area) subject to a price cap set at a relevant MISO power pool index price. The tariff further allows for sales at market-based rates at the boundary of such control areas, subject to certain restrictions. Industry-wide FERC proceedings continue with respect to market-based rate matters, and E.ON U.S.'s market-based rate authority is subject to such future developments. It is noted that FERC decisions in certain other market-based rulings have involved cost-based, rather than market index price caps, when there is a deemed need to mitigate market power issues.

The charges relating to transmission and wholesale power market structures and prices following LG&E's and KU's exit from MISO are not completely estimable and may have variable effects on energy and transmission purchases and sales and on related costs and revenues. Additional changes may have an effect on LG&E's and KU's ability to access the transmission system for wholesale or native load power activities. LG&E and KU believe that, over time, the benefits and savings from their exit of MISO will outweigh the costs and expenses. However, until post-MISO market conditions and operations have matured, the effects on financial condition, liquidity and results of operations will remain difficult to fully predict.

A number of regional or industry-wide general FERC proceedings regarding transmission market structure changes are in varying stages of development. In the ordinary course of business, LG&E and KU, either directly or via industry groups, participate in many of these proceedings.

Energy Policy Act of 2005 and Repeal of PUHCA

The Energy Policy Act of 2005 ("EPAAct 2005") was enacted in August 2005. Among other matters, the comprehensive legislation contains provisions mandating improved electric reliability standards and performance; providing certain economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing PUHCA; and establishing a new Public Utility Holding Company Act of 2005 ("PUHCA 2005"). PUHCA 2005 reduces or eliminates many prior federal regulatory constraints applicable to public utility holding companies in such areas as mergers and acquisitions, non-energy-related investments, financial and capital structures, utility system integration, affiliate services, and reporting and record-keeping requirements.

The FERC was directed by the EPAAct 2005 to adopt rules to address many areas previously regulated by other agencies under other statutes, including PUHCA. The FERC continues to be in final stages of rulemaking on certain issues and E.ON U.S. is monitoring these rulemaking activities and actively participating in applicable proceedings. In general, where FERC rules have been finalized, such rules similarly liberalize federal regulation or oversight in these areas. E.ON U.S. continues to evaluate the potential impacts of EPAAct 2005, PUHCA 2005 and the associated rulemakings and cannot predict what impact the legislation and such rulemakings will have on its operations or financial position.

Other Regulations

Integrated resource planning regulations in Kentucky require LG&E, KU and other major utilities to make triennial filings with the KPSC of historical and forecasted information relating to forecasted load, capacity margins and demand-side management techniques. The two utilities filed such integrated resource plans in April 2005 and the Kentucky Attorney General and representatives of an industrial customer group were granted intervenor status. In February 2006, the KPSC issued a staff report noting no substantive issues and closed the integrated resource planning proceedings.

Pursuant to Kentucky law, the KPSC has established the service boundaries for LG&E, KU and other utility companies, other than municipal corporations, within which each such supplier has the exclusive right to render retail electric service.

ENVIRONMENTAL MATTERS

GENERAL

E.ON is subject to numerous national and local environmental laws and regulations concerning its operations, products and other activities in the various jurisdictions in which it operates. Although E.ON believes that its domestic and international production facilities and operations are currently in material compliance with the laws and regulations with respect to environmental matters, such laws and regulations could require E.ON to take future action to remediate the effects on the environment of prior disposal or release of substances or waste. Such laws and regulations could apply to various sites, including power plants, pipelines and gas storage facilities, and waste disposal sites. Such laws and regulations could also require E.ON to install additional controls for certain of its emission sources or undertake changes in its operations in future years. For greater detail on the application of environmental laws and regulations to E.ON's operations, see below. E.ON has established and continues to establish accruals for environmental liabilities where it is probable that a liability will be incurred and the amount of the liability can be reasonably estimated. The provisions made are considered to be sufficient for known requirements. E.ON adjusts accruals as new remediation commitments are made and as information becomes available which changes estimates previously made.

The extent and cost of future environmental restoration and remediation programs are inherently difficult to estimate. They depend on the magnitude of any possible contamination, the timing and extent of corrective actions required and E.ON's share of liability relative to that of other responsible parties.

Any failure to comply with present or future environmental laws or regulations could result in the imposition of fines, suspension of operations or production or alteration of production processes. Such laws or regulations could also require acquisition of expensive remediation equipment or other expenditures to comply with environmental regulation.

GERMANY: ELECTRICITY

Air Pollution. All of E.ON Energie's plants are subject to EU and/or national regulations, and are equipped where necessary with pollution removal devices. The most important pollution law applicable to E.ON Energie's German plants is the German Federal Pollution Control Act (*Bundesimmissionsschutzgesetz*, or "BImSchG") and its implementing ordinances. One of such ordinances, the Ordinance on Large Combustion Plants (*Verordnung über Großfeuerungsanlagen*, or "13. BImSchV"), sets stringent emission limits for power stations for all known air pollutants, such as sulphur oxides ("SO_x"), NO_x and dust. The relevant emissions of E.ON Energie's power plants are continuously measured and reported. Due to the extensive installation of scrubbers, catalysts, electrostatic precipitators and other pollution control devices, E.ON Energie's power plants comply with all current requirements. In order to implement the EU environmental guideline 2001/80/EU, the German government amended 13. BImSchV in 2004 to introduce lower emission limits. Because of the reduction in emission limits, especially for particulate emissions, some of E.ON Energie's power plants require retrofitting of their instrumentation and/or electrostatic precipitators in order to comply with the amended ordinance. E.ON Energie expects to implement most of these retrofits between 2008 and 2011. The total cost of compliance is currently

expected to be approximately €10 million, primarily for efficiency improvements in some electrostatic precipitators.

Emission trading for carbon dioxide started in the EU on January 1, 2005. For details on the Emissions Trading Directive, applicable German legislation and effects on E.ON Energie, see “— Regulatory Environment.”

Nuclear Energy. Details of E.ON Energie’s nuclear power operations in Germany and those of its 21 percent minority investee BKW in Switzerland can be found under “— Business Overview — Central Europe — Power Generation” and “— Other — Other Minority Shareholdings” above. E.ON Energie does not own interests in or operate any nuclear power facilities in any other country. German safety standards for nuclear power stations are among the most stringent in the world. German nuclear power regulations are found in the AtG and a number of national regulations, guidelines and technical rules. The German regulatory framework regarding nuclear power regulations is also governed by international agreements, including the Euratom Agreement, dated March 23, 1957 (*Euratomvertrag*), the Paris Liability Agreement, dated July 29, 1960 (*Pariser Haftungsübereinkommen*), and the Non-Proliferation Treaty, dated July 1, 1968 (*Nichtverbreitungsvertrag*).

Under the AtG, the import, export, transportation or storage of nuclear materials (*Kernbrennstoff*) requires the approval and supervision of regulatory authorities. The building, operating, owning or materially altering by any entity of any plants or installations that produce, fission or otherwise process or reprocess nuclear materials (“Nuclear Plants”) also requires approvals of, and is supervised by, regulatory authorities. Approvals can be subject to limitations or conditions, including conditions subsequent, and may also be subsequently revoked if they are not complied with or one of their preconditions has ceased to exist. The regulatory authorities may also give orders to obtain information from, enter and inspect any Nuclear Plants.

According to the AtG, radioactive wastes and dismantled radioactive parts must either be recycled or permanently disposed of by any entity handling or otherwise using nuclear power. The AtG follows the so-called “polluter pays” principle, which requires such entity to pay for the recycling or permanent disposal of nuclear waste.

Liability. In case of environmental damages, the owner of a German facility is subject to liability provisions that guarantee comprehensive compensation to all injured parties. Because of achievements in pollution control, the issue of environmental damage due to air pollutants from electric utilities has not recently been a subject of public debate in Germany. In general, subjects such as acid rain, as well as high concentrations of ground level ozone have been linked to accumulated deposits from many emission sources or, in the case of the ozone, predominantly from traffic emissions. There has been some relaxation in the evidence required under the German Environmental Liability Law (*Umwelthaftungsgesetz*) to establish and quantify environmental claims. If claims were to arise in relation to environmental damages and plaintiffs were successful in overcoming problems of proof and other issues, such claims could result in costs to E.ON Energie that might be material. So far as E.ON Energie is aware, no material environmental claims have been made against it and, under current circumstances, E.ON Energie does not believe that there is a significant risk of material liability in respect of any potential claims.

In case of a nuclear accident in Germany, the owner of the reactor, the factory or the nuclear materials storage facility (the “Proprietor”) is subject to liability provisions that guarantee comprehensive compensation to all injured parties. Under German nuclear power regulations, the Proprietor is strictly liable, and the geographical scope of its liability is not limited to Germany or the contractual territory of the Paris Liability Agreement. The Proprietor is in principle subject to unlimited liability. The AtG and the Regulation regarding the Provision for Coverage pursuant to the AtG (*Atomrechtliche Deckungsvorsorge-Verordnung*, or “AtDeckV”) require every Proprietor to provide liability coverage by either insurance or financial security. The amount of coverage required is reevaluated every five years. In February 2002, the AtG was amended and the required liability coverage was increased from €256 million to €2.5 billion. E.ON Energie has insurance covering the first €256 million of damages. To provide liability coverage for the additional amounts required by the AtG amendment, the German nuclear power plant operators entered into a solidarity agreement to cover the increase, which provides that the costs of liability exceeding the operator’s own resources and those of its parent company in the event of a nuclear accident will be covered by a pool, with the nuclear facility operators having a mutual responsibility to cover each other’s damages. For details, see Note 25 of the Notes to Consolidated Financial Statements. For this reason, the AtG amendment has resulted in only a slight cost increase for liability coverage.

In 2006, the European Commission issued a recommendation on the management of financial resources for the decommissioning of nuclear installations, spent fuel and radioactive waste. The European Commission recommends that financial resources be identified as decommissioning funds if they are identifiable and traceable at any given time and if they have a secure risk profile that ensures a positive return over any period of time. However, it is not clear at present whether member states will follow this recommendation by implementing the provisions into national law.

GERMANY: GAS

Air Pollution. The construction and operation of E.ON Ruhrgas' gas pipeline system is subject to EU and national law, rules and regulations. The most important pollution law applicable to E.ON Ruhrgas' gas transport and storage facilities is the BImSchG and its implementing ordinances. E.ON Ruhrgas' facilities comply with all of the current requirements. One of such ordinances, 13. BImSchV, was amended in 2004 to require reduced emission limits also for existing gas turbines for air pollutants such as NO_x and carbon monoxide (by 2015). For more information, see “— Germany: Electricity.” E.ON Ruhrgas uses gas turbines to drive compressors for gas transportation and storage. If the turbines do not comply with the new emission limits, E.ON Ruhrgas will have to take measures to retrofit the non-complying turbines. E.ON Ruhrgas cannot currently quantify the measures that will be required by the amendment of 13. BImSchV. Any other amendments to or new environmental legislation that creates new or more stringent environmental standards could also affect the future operation of E.ON Ruhrgas' facilities and related costs.

Emission trading for carbon dioxide started in the EU on January 1, 2005. For details on the Emissions Trading Directive, applicable German legislation and effects on E.ON Ruhrgas, see “— Regulatory Environment.”

Gas Storage. Natural gas underground storage facilities in Germany are subject to the 12th Ordinance on the Implementation of the German Federal Pollution Control Act (*12. Verordnung zur Durchführung des Bundesimmissionsschutzgesetzes*, or *Störfallverordnung*), which came into force in May 2000. Since then, all facilities operated by E.ON Ruhrgas have complied with all relevant requirements. Further compliance is continuously measured and reported by public authorities.

For information on E.ON Ruhrgas' environmental management system, see “— Business Overview — Pan-European Gas — Transmission and Storage.” For information on the German Environmental Liability Law, see “— Germany: Electricity” above.

U.K.

While E.ON UK in the United Kingdom is subject to the same EU environmental legislation as is E.ON Energie (described above under “— Germany: Electricity”), details of the implementation of that legislation as adopted in the United Kingdom differ from those implemented by the German government. E.ON UK is also subject to national legislation which includes the obligations of the United Kingdom and international conventions to which the United Kingdom adheres. These obligations relate principally to emissions from generating facilities to air, notably of SO₂, NO_x and dust. Although historically such legislation has primarily affected coal-fired plants, all fossil-fuelled generation may be impacted in the future. E.ON UK is currently in compliance with all applicable emissions regulations.

As an alternative to setting rigid emission limit values, the EU Large Combustion Plants Directive allows each member state to include its existing large combustion plants within a single National Emissions Reduction Plan. The European Commission has agreed to the United Kingdom using a “combined approach” scheme which would allow individual plants to elect to either to be subject to emission limit values, to be part of the National Emissions Reduction Plan or to opt out of the scheme (in which case the plant must shut by the end of 2015 and is limited to 20,000 hours of operation in the period from 2008 to 2015). E.ON UK has decided to opt out the Grain, Kingsnorth and Ironbridge power stations (which it must therefore close by 2015) and to use the emission limit value option for the Ratcliffe power station. The scheme is scheduled to take effect as of January 1, 2008.

The U.K. government has implemented a greenhouse gas emissions allowance trading scheme, as required by the EU's Emissions Trading Directive. For more information on the Emissions Trading Directive, see

“— Regulatory Environment.” The trading scheme requires that each participating plant be covered by one or more CO₂ emission certificates, which initially were issued free of charge. E.ON UK has obtained the necessary certificates and is currently participating in the trading scheme. The draft regulations for implementing the trading scheme were initially published in January 2004, releasing for consultation a draft National Allocation Plan which includes the proposed allocation of CO₂ emissions certificates for E.ON UK’s plants and for other power stations in the United Kingdom. Following this, the U.K. government recalculated and increased the size of its requested allowance for CO₂ emission certificates, but the European Commission chose not to increase the allowance. The matter has been referred to the EU Court of First Instance, which asked the European Commission to reconsider its position. The European Commission has announced that it is not prepared to change its position, and the U.K. government has decided that it will not pursue further court action.

Each of E.ON UK’s fossil-fuelled power stations in the United Kingdom is required to have an Integrated Pollution Control Authorization, issued by a government agency, which regulates releases into the environment and seeks to minimize their impact. The current system of authorizations is to be expanded via a new permit system to cover a wider range of matters such as noise, waste minimization and energy conservation, reflecting extended requirements now applicable to all new installations. Applications were made for the necessary permits to bring existing power stations into compliance with the newly-expanded Integrated Pollution Prevention and Control regime during 2006. The permits are expected to be issued during 2007.

Using the flexibility available to it, E.ON UK has responded to the requirements imposed by emission controls with a combination of actions, notably the increased use of gas-fired CCGT plants, the use of low sulphur content fuels, the installation of emission abatement equipment and the development of renewable energy systems.

E.ON UK has operated its own environmental management system since 1991. On January 1, 1999, E.ON UK achieved corporate certification to ISO 14001, the international standard for environmental management, for its electricity production, gas operations and associated services. The certificate was updated to the revised standard ISO 14001:2004 on November 13, 2006 and is valid for a further three years.

E.ON UK is also subject to further environmental regulations affecting its business, including packaging waste regulations and oil storage regulations. In order to comply with the applicable packaging waste regulations, E.ON UK has joined an appropriate recycling scheme. The majority of the waste involved is paper. The oil storage regulations require E.ON UK to ensure that oil is appropriately stored and managed.

NORDIC

Air Pollution. The power and heat production plants of E.ON Nordic’s subsidiaries are subject to EU, international and/or national regulations, and are equipped where necessary with pollution removal devices. The production plants are subject to emission limits for air pollutants such as SO_x, NO_x and dust, and relevant emissions are continuously measured and reported. In Sweden, there are taxes attached to emitting SO_x (for coal, oil and peat) and CO₂ (applicable primarily to heat production from coal, oil, natural gas and liquified petroleum gas). There is also a fee for emitting NO_x (applicable to large combustion plants).

Emissions trading for carbon dioxide started in the EU on January 1, 2005. For details on the Emissions Trading Directive, as well as information on the Swedish electricity certificate system, see “— Regulatory Environment.”

The major subsidiaries within E.ON Nordic are operated according to certified environmental management systems (ISO 14001).

Nuclear Energy. In Sweden, the regulatory framework regarding nuclear power regulations is also governed by the international agreements discussed in “— Germany: Electricity” above. In addition, Swedish nuclear power regulations are governed by Swedish law, mainly the Act on Nuclear Activities (*SFS 1984:3*), the Nuclear Liability Act (*SFS 1968:45*) and the Act on Financing of Future Charges for Spent Nuclear Fuel (*SFS 1992:1537*), which is being replaced by the Financing Act (see below). Under Swedish law, the owner of a nuclear power station is obliged to conduct operations in such a manner that the required safety standards are maintained and is responsible for nuclear waste management and decommissioning of nuclear facilities. A license is required in order to own or

operate a nuclear facility, which is granted by the Swedish government on recommendation by the Swedish Nuclear Power Inspectorate, which supervises all nuclear facilities in Sweden.

According to the Act on Financing of Future Charges for Spent Nuclear Fuel, the owner of a nuclear facility in Sweden is under the obligation to pay an amount determined by the Swedish government for each kWh produced in the facility to the Swedish Nuclear Waste Fund. The amounts thus paid, together with any capital gains on the amounts, are to cover the costs for nuclear waste management and the decommissioning of nuclear facilities. In accordance with Swedish law, E.ON Nordic has also given guarantees to governmental authorities to cover possible additional costs related to the disposal of high-level radioactive waste and nuclear power plant decommissioning. See also Note 25 of the Notes to Consolidated Financial Statements.

On May 16, 2006, a new Financing Act (*SFS 2006:647*) was approved by the Swedish government. The new Financing Act will replace the Act on Financing of Future Charges for Spent Nuclear Fuel and will enter into force at various dates, beginning March 1, 2007. The main change is that the licensed owner and operator of a nuclear reactor will be required to pay an annual fee until the final disposal of nuclear waste, instead of paying fees based on the amount of electricity generated. The annual fee will be payable from 2008; the amount of such fee has not yet been determined.

For more information about E.ON Nordic's nuclear power operations, see "— Business Overview — Nordic — Power Generation." E.ON Nordic does not own interests in or operate any nuclear power facilities in any country other than Sweden.

Liability. In Sweden, the owner of a nuclear facility is liable for damages caused by accidents in the nuclear facility and accidents caused by nuclear substances to and from the facility. As of December 31, 2006, the liability is limited to an amount equal to SEK3,102 million (€343 million) per accident, which must be insured according to the Nuclear Liability Act. E.ON Nordic has the necessary insurance for its nuclear power plants.

In November 2004, the Swedish government began an inquiry on Swedish nuclear liability. In April 2006, a final report issued by the inquiry proposed unlimited liability for the Proprietor and that Proprietors should be obligated to purchase insurance covering an amount of €700 million per nuclear facility, with an upper limit on obligations to finance the unlimited liability set at €1.2 billion per nuclear facility. If at any given facility one reactor fails, it is not possible to run the remaining reactors. The inquiry has also proposed that the Swedish government — within the model of state guarantees — enter into a reinsurance agreement with the Nordic Nuclear Insurers as direct insurer to cover any remaining liability. It is still unclear whether the inquiry's report will lead to a legislative proposal from the government.

U.S. MIDWEST

E.ON U.S.'s operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act ("CAA") establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the U.S. EPA. The key CAA programs relevant to E.ON U.S.'s business operations are described below.

Ambient Air Quality. The CAA requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as national ambient air quality standards ("NAAQS"). Each state must identify "non-attainment areas" within its boundaries that fail to comply with the NAAQS and develop a state implementation plan ("SIP") to bring such non-attainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may

change, thereby triggering additional emission reduction obligations under revised SIPs aimed at achieving attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO₂ and NO_x emissions from power plants. In 1998, the EPA issued its final “NO_x SIP Call” rule requiring reductions in NO_x emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern United States to the northeastern United States. To implement the new federal requirements, in 2002 Kentucky amended its SIP to require electric generating units to reduce their NO_x emissions to 0.15 pounds weight per million British thermal units (“lb./mmBtu”) on a company-wide basis. In 2005, the EPA issued the Clean Air Interstate Rule (“CAIR”), which requires additional SO₂ emission reductions of 70 percent and NO_x emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NO_x and SO₂ emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently being challenged in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local non-attainment areas into compliance with the new ozone and fine particulate standards, E.ON U.S.’s power plants are potentially subject to additional reductions in SO₂ and NO_x emissions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the CAA, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the Clean Air Mercury Rule (“CAMR”), establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70 percent from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a “co-benefit” of the controls installed for purposes of compliance with the CAIR. The CAMR is also currently being challenged in the federal courts. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In addition, in 2005 and 2006 state and local air agencies in Kentucky have proposed or adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. To the extent those rules are final, they are not expected to have a material impact on E.ON U.S.’s power plant operations.

Acid Rain Program. The 1990 amendments to the CAA imposed a two-phase cap and trade program to reduce SO₂ emissions from power plants that were thought to contribute to “acid rain” conditions in the northeastern United States. The 1990 amendments also contained requirements for power plants to reduce NO_x emissions through the use of available combustion controls.

Regional Haze. The CAA also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its Clean Air Visibility Rule (“CAVR”), detailing how the CAA’s best available retrofit technology (“BART”) requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, since the CAIR will result in more visibility improvement than BART, states are allowed to substitute the CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The CAVR is also currently being challenged in the federal courts.

Installation of Pollution Controls. Many of the programs under the CAA utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulphurization equipment on all of its generating units prior to the effective date of the acid rain program, while KU met its acid rain Phase I SO₂ requirements primarily through installation of flue gas desulphurization equipment on Ghent Unit 1. E.ON U.S.’s combined strategy for its acid rain Phase II SO₂ requirements, which commenced in 2000, uses accumulated emissions allowances to defer additional capital

expenditures and also includes fuel switching or the installation of additional flue gas desulphurization equipment. In order to achieve the NO_x emission reductions mandated by the NO_x SIP Call, E.ON U.S. installed additional NO_x controls, including selective catalytic reduction technology, during the 2000 to 2006 time period at a cost of \$409 million, including \$7 million of costs to remove equipment. In 2001, the KPSC granted recovery in principal of these costs incurred by LG&E and KU under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, E.ON U.S. expects to incur additional capital expenditures for pollution controls including flue gas desulphurization and selective catalytic reduction and to incur additional operating and maintenance costs in operating such controls. E.ON U.S. expects to incur total costs of \$1.1 billion in installing these pollution controls during the 2007 through 2009 time period. In 2005, the KPSC granted recovery in principal of these costs incurred by LG&E and KU under its periodic environmental surcharge review mechanisms. E.ON U.S. believes its costs in reducing SO₂, NO_x and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. E.ON U.S.'s compliance plans are subject to many factors including developments in the emissions allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. E.ON U.S. will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential Greenhouse Gas Controls. In 2005, the Kyoto Protocol for reducing greenhouse gas emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in greenhouse gas emissions. For details, see “— Regulatory Environment — EU/Germany: General Aspects (Electricity and Gas) — Greenhouse Gas Emissions Trading.” The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory greenhouse gas emissions reduction requirements at the federal level. Legislation mandating greenhouse gas reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own greenhouse gas emissions reduction programs, including 11 northeastern states under the Regional Greenhouse Gas Initiative program as well as California. Substantial efforts to pass federal greenhouse gas legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate greenhouse gas emissions under existing law. E.ON U.S. is monitoring ongoing efforts to enact greenhouse gas reduction requirements at the state and federal level. E.ON U.S. is unable to predict whether mandatory greenhouse gas reduction requirements will ultimately be enacted or to determine the reduction targets and deadlines that would be applicable under such programs. As a company with significant coal-fired generating assets, E.ON U.S. could be substantially impacted by programs requiring mandatory reductions in greenhouse gas emissions, although the precise impact on the operations of E.ON U.S. cannot be determined prior to the enactment of such programs.

General Environmental Proceedings. From time to time, E.ON U.S. appears before the EPA, various state or local regulatory agencies, and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include notices of violation for alleged noncompliance with the new source review provisions of the CAA and permit requirements at KU's Brown station; remediation obligations for former manufactured gas plant sites; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; ongoing claims regarding alleged particulate emissions from LG&E's Cane Run station; and ongoing claims regarding greenhouse gas emissions from E.ON U.S. generating stations. Based on analysis to date, the resolution of such matters is not expected to have a material impact on the operations of E.ON U.S.

OPERATING ENVIRONMENT

As Germany's largest industrial group on the basis of market capitalization, all social, political and economic developments and conditions in Germany affect E.ON. Labor costs, corporate taxes and employee benefit expenses in Germany are high and weekly working hours are shorter compared with most other EU member states, the United States and Japan. Nonetheless, many factors, including monetary and political stability, high environmental protection and standards and a well-educated, highly qualified workforce continue to positively affect Germany's competitive position in world trade.

By virtue of its operations outside the European Monetary Union (“EMU”), the Group is also subject to the risks normally associated with cross-border business transactions and business activities, particularly those relating to exchange rate fluctuations. In addition, because most of the Group’s operations are based in Europe, both the development of the European market and the entry of new members into the EU will continue to create new opportunities and challenges for E.ON.

ECONOMIC BACKGROUND

Germany

During 2006, the general economic situation improved worldwide. German export performance was good as a consequence of improved worldwide economic conditions and despite the surge in oil prices and the appreciation of the euro. Domestic demand also stimulated Germany’s economic performance compared with 2005. Despite this upswing, in 2006 the German economy performed slightly worse than the Eurozone as well as compared with all 27 EU member states. The 2006 real gross domestic product rose by 2.7 percent according to the German Federal Statistical Office, compared with an increase of 0.9 percent in 2005. Capital spending by businesses increased by 5.3 percent, mainly due to investment in machinery and equipment and a positive contribution by the construction industry. Other investment grew by 5.9 percent in 2006. The German Council of Economic Experts forecasts ongoing global economic growth in 2007, with a German growth rate of 1.8 percent in 2007.

Germany’s competitive position in world trade continues to benefit from many factors, including monetary stability, a reputation for quality and recent productivity gains. In 2006, Germany achieved a surplus in exports and services in nominal terms of €114.1 billion. Despite a good economic performance, unemployment remained high in Germany in 2006. The reasons for unemployment are predominantly of a structural nature and include, among other factors, extensive regulation of the labor market and high labor costs (compared with the rest of the EU and the United States).

For information on the tax regime applicable to German corporations, see “Item 10. Additional Information — Taxation — Taxation of German Corporations.” For information on changes in German tax regulation that have a material impact on the Company, see Note 7 of the Notes to Consolidated Financial Statements.

Europe

In 1992, the twelve original members of the former European Economic Community signed the Treaty on European Union (the “Treaty”), a significant step toward creating a single integrated market. The Treaty provided a working program for European integration, including the coordination of economic policies of the EU countries and preparations for the introduction of a single currency. On January 1, 1999, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland (the “participating countries”) adopted the euro as their single currency through the EMU, with fixed exchange rates for the participating currencies (the “legacy currencies”) against the euro. In the beginning of 2001, Greece also joined the EMU, becoming a participating country. On January 1, 2002, the euro became the official legal tender for cash transactions in all participating countries. The legacy currencies have been withdrawn from circulation. Not all EU member states participate in the EMU. The United Kingdom, Sweden and Denmark chose not to be initial participants in the euro.

Since the ratification of the Treaty, the EU has been enlarged from 12 to 25 member states, with the entry of Austria, Finland and Sweden in January 1995 and Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia as of May 1, 2004. On January 1, 2007, the euro became the official currency in Slovenia. In all the other new member states, the national currencies are still valid. As new countries join the EU, significant institutional reform within the existing EU member states will be necessary to enable the EU to integrate the new members. As a first step, an EU convention drafted a treaty establishing a European Constitution. The new Constitution, which includes significant institutional reforms of the European Commission and the EU policy-making process, was defeated in national referendums in France and the Netherlands in 2005. Currently, the ratification process is at a standstill.

In addition to the countries which joined in May 2004, Bulgaria and Romania joined the EU in January 2007. Negotiations with Croatia to join the EU began in 2005, although further institutional reforms must be implemented

in Croatia before it also may join the EU. In October 2005, the EU also started negotiations with Turkey to join the EU. Since these negotiations may take years, there is no fixed date for Turkey to join the EU.

Long-term interest rates in the Eurozone increased by 0.49 percentage points by December 2006 compared to December 2005. In December 2006, the European Central Bank raised its deposit facility and margin lending rates to 2.5 percent and 4.5 percent, respectively.

United Kingdom

The U.K. economy performed slightly worse in 2006 than many other EU economies, although household demand and public and private expenditures were stronger than in 2005. Monetary and fiscal policy provided a stable macroeconomic environment, so that prospects for 2007 are quite good. The U.K. economy is estimated to have grown at a rate of 2.6 percent in 2006 in real terms, according to the German Council of Economic Experts. It is expected to remain unchanged with a growth rate of 2.6 percent again in 2007. Inflation in 2006 is estimated to have been at 2.4 percent.

Sweden

In 2006, the Swedish economy again performed well above average compared with other EU member states, driven by a robust investment performance. The Swedish economy is estimated to have grown at a rate of 4.5 percent in real terms, according to data from the German Council of Economic Experts. This is expected to slow down to a growth rate of 3.2 percent in 2007. Inflation is estimated to have remained low with an annual rate of 1.5 percent for 2006.

United States

Since 2003, the United States' economic growth has increased, stimulated by expansive fiscal and monetary policies. In 2006, private consumption and business investment were weaker than in 2005, but still at a high level. Despite tighter monetary policy, interest rates remained relatively low in 2006, supporting growth. The United States is estimated to have grown at a rate of 3.3 percent in 2006, with a decrease to 2.5 percent expected in 2007, according to the German Council of Economic Experts. Inflation is expected to have grown, with an annual rate of 3.5 percent for 2006.

RISK MANAGEMENT

While E.ON's market units have varying exposures to fluctuations in exchange rates, on an overall basis E.ON has certain exposures mainly to fluctuations between the euro and the U.S. dollar, the British pound, the Swedish krona and the Hungarian forint, respectively, that it seeks to manage through hedging activities. Foreign exchange rate risk management, along with liquidity management and interest rate risk management, is generally centralized on a Group-wide basis and is the responsibility of the Group treasury. The currency and interest rate risks of Group companies are hedged with Group treasury in conformity with E.ON's financial guidelines, or, in certain cases, with external counterparties with E.ON AG's approval. E.ON uses interest rate and currency derivatives only to hedge its risk positions deriving from underlying business transactions, and E.ON continually assesses its exposure to these risks resulting from the underlying exposures and the results of hedging transactions. Moreover, E.ON is exposed to risks from fluctuations in the prices of commodities and raw materials which are subject to commodity risk hedging activities. The market units also engage in the trading of energy-related commodity derivatives, which is also subject to guidelines for risk management. For a more detailed discussion of the current exchange rate, interest rate and commodity price risk exposures and risk management policies of the Group, see "Item 5. Operating and Financial Review and Prospects — Exchange Rate Exposure and Currency Risk Management," "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and Notes 28 and 29 of the Notes to Consolidated Financial Statements.

ORGANIZATIONAL STRUCTURE

E.ON AG is the Group's Düsseldorf-based management holding company. E.ON AG provides strategic management for Group companies and coordinates Group activities. E.ON AG also serves as the Group's corporate center, providing centralized controlling, treasury, risk management (including hedging) and service functions to Group members, as well as communications, capital markets and investor relations functions. E.ON AG is responsible for the design and implementation of strategies and policies with the goal of optimizing the Group's results across the energy markets in which it is active, the pursuit of operational excellence at each of the market units through the transfer of best practice, as well as a strong role in regulatory affairs that may affect several market units at the same time. E.ON AG also has direct responsibility for strategic acquisitions throughout the Group. Human resources management and career development for 200 top executives currently working across the Group have also been centralized at the Corporate Center. The Group's operating activities are organized into market units, each of which is responsible for managing its own day-to-day business. The parent companies of each market unit report directly to E.ON AG.

The following table sets forth certain information about each of the entities which served as a parent company of an E.ON market unit as of December 31, 2006:

| <u>Name of Subsidiary</u> | <u>Country of Incorporation</u> | <u>Percentage Ownership Interest held by E.ON</u> | <u>Percentage Voting Interest held by E.ON</u> |
|------------------------------------|---------------------------------|---|--|
| E.ON Energie AG (energy) | Germany | 100.0% | 100.0% |
| E.ON Ruhrgas AG (energy) | Germany | 100.0% | 100.0% |
| E.ON UK plc (energy) | U.K. | 100.0% | 100.0% |
| E.ON Nordic AB (energy) | Sweden | 100.0% | 100.0% |
| E.ON U.S. LLC (energy) | U.S.A. | 100.0% | 100.0% |

PROPERTY, PLANTS AND EQUIPMENT

GENERAL

The Company owns most of its production facilities and other properties. Some of E.ON's facilities are subject to mortgages and other security interests granted to secure indebtedness to certain financial institutions. As of December 31, 2006, the total amount of indebtedness collateralized by these facilities was approximately €0.9 billion. E.ON believes that the Group's principal production facilities and other significant properties are in good condition and that they are adequate to meet the needs of the E.ON Group. E.ON's headquarters are located at E.ON-Platz 1, D-40479 Düsseldorf, Germany. E.ON owns its headquarters.

PRODUCTION FACILITIES

Central Europe

E.ON Energie produces electricity at jointly and wholly-owned power plants. Its power generation facilities have a total installed capacity of approximately 36,800 MW, E.ON Energie's attributable share of which is approximately 28,200 MW (not including mothballed, shutdown and reduced power plants). Electricity is transmitted to purchasers by means of high-voltage transmission lines and underground cables owned by E.ON Energie. For further details, see "— Business Overview — Central Europe." E.ON Energie believes that its power plants are in good operating condition and that its machinery and equipment have been well maintained. E.ON Energie's German base load nuclear power plants operated at approximately 92.5 percent of available capacity in 2006. E.ON Energie believes that average utilization data calculated on the basis of all of its international and German power stations would not reflect differences between base load and peak load requirements or differential costs of generation and would therefore dilute the significance of such a measure.

Pan-European Gas

E.ON Ruhrgas AG owns, co-owns or has interests through project companies in gas pipelines in Germany totaling 11,405 km. In addition, E.ON Ruhrgas AG owns, co-owns or has interests through project companies in 34 compressor stations in Germany. The current installed capacity of these compressor stations totals 992 MW. E.ON Ruhrgas AG also owns, co-owns, leases or has interests through project companies in 11 underground gas storage facilities in Germany; E.ON Ruhrgas AG's share in the usable working gas storage capacity of these facilities is approximately 5.2 billion m³. Due to the number and complexity of factors influencing gas pipeline and storage utilization, E.ON Ruhrgas AG does not consider data on the utilization of the transmission system and gas storage capacity to be meaningful. E.ON Ruhrgas AG also owns interests in three project companies operating gas transmission systems and in one project company developing a gas transmission system outside of Germany. For further details, see "— Business Overview — Pan-European Gas — Transmission and Storage."

E.ON Ruhrgas AG believes that its transmission system (including transport compressor stations) and gas storage facilities (including storage compressor stations) are in good operating condition and that its machinery and equipment have been well maintained.

U.K.

E.ON UK produces electricity at jointly and wholly-owned power plants. Its power generation facilities have a total installed capacity of approximately 10,800 MW, E.ON UK's attributable share of which is approximately 10,500 MW. Electricity is transmitted to purchasers by means of the National Grid transmission network in the United Kingdom. For further details, see "— Business Overview — U.K." E.ON UK believes that its power plants are in good operating condition and that its machinery and equipment have been well maintained. In 2006, E.ON UK's power plants operated at approximately 41 percent of theoretical capacity. This average utilization is calculated for all U.K. power stations and does not reflect differences between base load and peak load power stations.

Nordic

E.ON Nordic produces electricity at jointly and wholly-owned power plants. Its power generation facilities have a total installed capacity of approximately 14,800 MW, its attributable share of which is approximately 7,300 MW (not including mothballed and shutdown power plants). In Sweden and Finland, electricity is transmitted to purchasers via 200-400 kV electricity grids, which are operated by state-owned companies, and through regional and local distribution networks. E.ON Nordic owns and operates regional and local electricity distribution networks in Sweden and Finland through E.ON Sverige. Through E.ON Sverige, E.ON Nordic also owns one-third of the Baltic Cable, an undersea electricity cable linking the Swedish electricity grid to the grid of E.ON Energie in Germany. In Sweden, E.ON Nordic also owns and operates high- and low-pressure gas pipelines through E.ON Sverige. For more information, see "— Business Overview — Nordic." E.ON Nordic believes that its power plants, electricity distribution networks and gas pipelines are in good operating condition and that its machinery and equipment have been well maintained. The Swedish base load nuclear power plants in which E.ON Nordic holds an interest operated at approximately 84 percent of available capacity in 2006. E.ON Nordic believes that average utilization data calculated on the basis of all of its power stations would not reflect differences between base load and peak load requirements or differential costs of generation and would therefore dilute the significance of such a measure.

U.S. Midwest

E.ON U.S. produces electricity at jointly and wholly-owned power plants. Its power generation facilities have a total installed capacity of approximately 7,600 MW, E.ON U.S.'s attributable share of which is approximately 7,500 MW (not including mothballed and shutdown power plants). Electricity is transmitted to purchasers by means of E.ON U.S.'s transmission network (for which certain functional control is provided by third parties pursuant to FERC regulation) in the United States. For further details, see "— Business Overview — U.S. Midwest." E.ON U.S. believes that its power plants and transmission networks are in good operating condition and that its machinery and equipment have been well maintained. In 2006, E.ON U.S.'s power plants operated at approximately 54 percent

of theoretical capacity. This average utilization is calculated for all U.S. power stations and does not reflect differences between base load and peak load power stations.

INTERNAL CONTROLS

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

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

E.ON believes that appropriate internal controls are in place to achieve effective and efficient operations as well as reliable internal and external reporting, and to ensure compliance with applicable laws and regulations as well as internal policies and procedures. In addition, E.ON believes that its internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable law and generally accepted accounting principles.

As a result of the listing of its ADRs on the NYSE, E.ON is also subject to the listing requirements of the NYSE and the U.S. federal securities laws, including the U.S. Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and the rules and regulations thereunder. For more information on E.ON's compliance with these requirements, see "Item 10. Additional Information — Memorandum and Articles of Association," "Item 15. Controls and Procedures," "Item 16A. Audit Committee Financial Expert," "Item 16B. Code of Ethics," "Item 16C. Principal Accountant Fees and Services," "Item 16D. Exemptions from the Listing Standards for Audit Committees" and "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers," as well as the certifications included as exhibits to this annual report.

Item 4A. Unresolved Staff Comments.

Not applicable.

Item 5. Operating and Financial Review and Prospects.

OVERVIEW

On June 16, 2000, the Company completed the merger between VEBA and VIAG. The VEBA-VIAG merger was accounted for under the purchase method of accounting. The operations of VIAG have been included in E.ON's financial data since July 1, 2000. For more information on the VEBA-VIAG merger, see "Item 4. Information on the Company — History and Development of the Company — VEBA-VIAG Merger."

In March 2003, E.ON completed the acquisition of all of the outstanding shares of the former Ruhrgas and has fully consolidated Ruhrgas' results since February 2003. The total cost of the transaction to E.ON, including settlement costs and excluding dividends acquired, amounted to €10.2 billion. Goodwill in the amount of €2.9 billion resulted from the purchase price allocation. The acquisition had initially been blocked by the German Federal Cartel Office and then by a temporary injunction imposed by the courts following lawsuits brought by a number of plaintiffs who had challenged the validity of the ministerial approval that had overturned the Federal Cartel Office's decision. In January 2003, E.ON reached settlement agreements with all of the plaintiffs, allowing the transaction to proceed. For further information, see "Item 4. Information on the Company — History and Development of the Company — Ruhrgas Acquisition."

Upon termination of the Ruhrgas court proceedings in late January 2003, E.ON completed the first step of the two-step RAG/Degussa transaction. In the first step, E.ON acquired RAG's Ruhrgas stake and tendered 37.2 million of its shares in Degussa to RAG at the price of €38 per share, receiving total proceeds of €1.4 billion. A gain of €168 million was realized from the sale. Following this transaction and the completion of the tender offer to the other Degussa shareholders, RAG and E.ON each held a 46.5 percent interest in Degussa, with the remainder being held by the public. In the second step, E.ON sold a further 3.6 percent of Degussa to RAG on May 31, 2004, reducing its stake to 42.9 percent of Degussa. Total proceeds from this transaction amounted to €283 million, resulting in a gain of €51 million. In December 2005, E.ON AG and RAG signed a framework agreement on the sale of E.ON's 42.9 percent stake in Degussa to RAG. As part of the implementation of that framework agreement, E.ON transferred its stake in Degussa to RAG Projektgesellschaft in March 2006 and agreed on the forward sale of that entity to RAG for a purchase price of approximately €2.8 billion (equal to €31.50 per Degussa share). The transaction closed in July 2006, with E.ON recording a book gain of approximately €376 million on the forward sale. Until the completion of this transaction, E.ON and RAG operated Degussa under joint control, and E.ON accounted for its 42.9 percent interest in Degussa under the equity method. E.ON owns a 39.2 percent interest in RAG.

E.ON participates in a number of different businesses. E.ON operates in the continental European energy business through E.ON Energie, E.ON Ruhrgas and E.ON Nordic, in the U.K. energy business through E.ON UK and in the U.S. energy business through E.ON U.S. Outside its core energy business, E.ON disposed of its real estate business Viterra in 2005, and completed the sale of its minority equity interest in the chemicals company Degussa in 2006. The E.ON Group also has minority participations in numerous companies, particularly in the Central Europe and Pan-European Gas market units, which are classified as associated companies. Income from these participations is reflected in the income statement as income from equity interests and is generally included in adjusted EBIT. Management views these associated companies as an integral part of the operations of E.ON. In line with its objective to focus on energy as its core business, E.ON has sold or classified as discontinued the operations of its former aluminum and oil segments and chemicals and real estate businesses, as well as certain components of its Pan-European Gas, Nordic and U.S. Midwest market units. For additional information, see "Item 4. Information on the Company — Business Overview — Discontinued Operations" and "— Acquisitions and Dispositions — Discontinued Operations."

2006 Highlights. E.ON's sales in 2006 increased 24.4 percent to €64,197 million from €51,616 million in 2005 (in each case net of electricity and natural gas taxes). The increase was primarily attributable to higher average electricity and gas sales prices at the Central Europe and Pan-European Gas market units, and consolidation effects, including the first-time full-year consolidation of Distrigaz Nord (renamed E.ON Gaz România) and E.ON Moldova (consolidated in September 2005). Net income decreased by 31.7 percent to €5,057 million in 2006 from €7,407 million in 2005, primarily reflecting lower income from discontinued operations, partially offset by higher income from continuing operations, each as described in more detail below. Cash provided by operating activities increased 9.9 percent to €7,194 million in 2006 from €6,544 million in 2005, with the increase being primarily attributable to increases at the Central Europe and U.K. market units, which were offset in part by a decline in the cash generated by Pan-European Gas.

ACQUISITIONS AND DISPOSITIONS

The following discussion summarizes each of the principal acquisitions and dispositions made by E.ON since January 1, 2004, and is organized by business segment according to E.ON's market unit structure, which was adopted in January 2004. In particular, transactions with respect to E.ON Nordic, E.ON Sverige, Graining and Thüga are described according to the market unit each entity currently belongs to, rather than the former segment it belonged to at the time of the relevant transaction. For information on the accounting treatment of the most significant of these transactions, see Note 4 of the Notes to Consolidated Financial Statements. For information on E.ON AG's acquisition of the Powergen Group in 2002 and the former Ruhrgas in 2003, see "Item 4. Information on the Company — History and Development of the Company — Powergen Group Acquisition" and "— Ruhrgas Acquisition."

Central Europe. In September 2003, E.ON Energie acquired majority stakes in the Czech regional electricity utilities Jihomoravská energetika a.s. (“JME”) and Jihoceská energetika a.s (“JCE”) through a series of transactions. As of December 31, 2003, E.ON’s interest in JME and JCE was 85.7 percent and 84.7 percent, respectively. The total aggregate purchase price amounted to €207 million. Goodwill in the amount of €48 million resulted from the final purchase price allocation for these stakes (at December 31, 2003, goodwill of €152 million had been recorded according to the preliminary purchase price allocation). The acquisition process also involved the sale of E.ON Energie’s minority stakes in the regional power distributors Západočeská energetika a.s. and Vychodočeská energetika a.s. to the Czech state-owned company CEZ for €206 million, resulting in a gain of €2 million. In December 2004, E.ON Energie acquired additional stakes in JME and JCE, increasing its interests in the two companies to 99.0 percent and 98.7 percent, respectively. The aggregate acquisition costs for the 2004 transactions amounted to €81 million. In 2005, E.ON Energie acquired all remaining interests in the two companies for a total of €5 million. As of January 1, 2005, E.ON Energie re-organized the entities and fulfilled legal unbundling requirements by transferring the businesses of JME and JCE to three new subsidiaries. E.ON Energie now holds 100.0 percent of each of E.ON Česká republika, a.s., E.ON Distribuce, a.s. and E.ON Energie, a.s. No goodwill resulted from the purchase price allocation for the acquisitions in 2004 and 2005.

In January 2004, E.ON Energie sold its 4.99 percent shareholding in the Spanish utility Union Fenosa S.A. (“Union Fenosa”) on the market for approximately €217 million, realizing a gain on the sale of approximately €26 million.

In July 2004, E.ON Energie completed the statutory squeeze-out procedure to obtain the remaining 1.1 percent of E.ON Bayern AG (“E.ON Bayern”) held by minority shareholders. The aggregate purchase price amounted to €189 million (€165 million of which was paid in E.ON shares), with goodwill of €148 million resulting from the purchase price allocation.

In December 2004, E.ON Energie increased its stake in the German regional electricity distribution company Avacon (since renamed E.ON Avacon) by 13.1 percent to 69.6 percent in a multistage process involving the acquisition of the intermediate holding companies Ferngas Salzgitter GmbH (“Ferngas Salzgitter”) and FSG Holding GmbH (“FSG Holding”). E.ON Energie increased its stake in FSG Holding to 100 percent by acquiring a 10.0 percent interest from Bayerische Landesbank and the remaining 90.0 percent from three companies in the Pan-European Gas market unit (RGE Holding GmbH (45.0 percent), Thüga-Konsortium Beteiligungs GmbH (35.0 percent) and Thüga (10.0 percent)). In addition, E.ON Energie purchased direct shareholdings in Ferngas Salzgitter from BEB (13.0 percent), Erdgas-Verkaufs-Gesellschaft Münster (“EGM”) (13.0 percent) and RGE Holding GmbH (39.0 percent). Following these acquisitions, FSG Holding was merged into E.ON Energie and Ferngas Salzgitter into Avacon. The aggregate purchase price paid to Bayerische Landesbank, BEB and EGM was €133 million, with €38 million in goodwill resulting from the purchase price allocation.

In February 2005, E.ON Energie acquired 67.0 percent stakes in each of the two Bulgarian electricity distribution companies Varna and Gorna Oryahovitza. The aggregate purchase price of €141 million, which was subsequently reduced to €138 million, had already been paid in 2004. Goodwill of €16 million resulted from the purchase price allocation. The companies were fully consolidated as of March 1, 2005.

In 2005, E.ON Energie increased its stake in the Hungarian gas distribution and supply company KÖGÁZ from 31.2 percent to 98.1 percent in several steps for aggregate consideration of €27 million. No goodwill resulted from the purchase price allocation. KÖGÁZ was consolidated as of April 1, 2005.

In July 2005, E.ON Energie transferred its 51.0 percent interest (49.0 percent voting interest) in GVT and its 72.7 percent interest in TEAG to Thüringer Energie Beteiligungsgesellschaft mbH (“TEB”). Municipal shareholders also transferred to TEB interests in GVT totaling 43.9 percent. Consequently, GVT was merged into TEAG and the merged entity was renamed ETE. Following this reorganization, E.ON Energie holds an 81.5 percent interest in TEB and TEB holds a 76.8 percent interest in ETE. The consolidation of GVT as of July 1, 2005, with an acquisition cost of €168 million, led to goodwill of €58 million as a result of the purchase price allocation. The transfer of the stakeholding in TEAG resulted in a gain of €90 million.

In September 2005, E.ON Energie completed the acquisition of 100.0 percent of the Dutch electricity and gas distributor NRE. The purchase price amounted to €79 million, with €46 million in goodwill resulting from the purchase price allocation. NRE was consolidated as of September 1, 2005.

In September 2005, E.ON Energie acquired a 24.6 percent stake in the Romanian electricity distribution company Electrica Moldova — now E.ON Moldova — and simultaneously increased its stake in the company to 51.0 percent by subscribing to a capital increase. The aggregate purchase price for the 51.0 percent interest amounted to €101 million, with no goodwill resulting from the purchase price allocation. E.ON Moldova was consolidated as of September 30, 2005.

In June 2005, the general meeting of Contigas passed a resolution authorizing E.ON Energie to use a squeeze-out procedure to acquire any remaining Contigas stock still held by minority shareholders. In July 2005, E.ON Energie acquired an additional 0.9 percent interest in Contigas through a public offer. Following the completion of the squeeze-out in November 2005, E.ON Energie acquired the remaining 0.2 percent and now owns 100.0 percent of Contigas. Total consideration was €45 million (of which €35 million was attributable to the transfer of E.ON shares), resulting in goodwill from the purchase price allocation of €36 million.

In August 2006, E.ON Energie and RWE swapped certain of their respective shareholdings in Hungary and the Czech Republic. In Hungary, E.ON Energie acquired — in addition to its existing interest of 50.02 percent — 49.9 percent of the shares of DDGÁZ, a gas distribution company (fully consolidated in 2005). RWE acquired E.ON Energie's interest of 16.3 percent in FÖGÁZ. In the Czech Republic, E.ON Energie gave up certain minority shareholdings and increased its interest in JCP (a gas distribution company) in two steps, first acquiring additional shares from RWE to increase its existing interest of 13.1 percent to 59.8 percent, and then in September 2006 acquiring an additional 39.2 percent interest in JCP from Oberösterreichische Ferngas and other minority shareholders. As of December 31, 2006, E.ON Energie held a 99.0 percent interest in JCP, which was consolidated as of September 1, 2006. The purchase price (for JCP and DDGÁZ) including the fair value of the swapped E.ON interest amounted to €103 million, of which €29 million was paid in cash, with €3 million in goodwill resulting from the purchase price allocation for DDGÁZ (the preliminary allocation for JCP resulted in no goodwill). As part of the asset swap, E.ON Energie acquired in the Czech Republic a 25.0 percent interest in PPH and a 49.3 percent interest in PP for €63 million. In January 2007, E.ON Energie received the remaining 1.0 percent in JCP in a squeeze-out proceeding and now holds 100 percent of JCP.

In December 2006, E.ON Energie acquired a 49.9 percent minority interest in the waste incineration company SOTEC. The purchase price amounted to €60 million. For the remaining shares the parties agreed on a put/call option which is exercisable if certain conditions are met.

In December 2006, E.ON Energie acquired 75.0 percent of the share capital of Dalmine, an Italian company that focuses on the wholesale of electricity and gas, primarily to industrial customers. The purchase price amounted to €47 million, with €30 million in goodwill resulting from the preliminary purchase price allocation. Dalmine has been consolidated since December 1, 2006.

Pan-European Gas. In May 2004, E.ON AG completed a squeeze-out procedure to obtain the remaining 3.4 percent of Thüga. The total purchase price for the 2.9 million shares amounted to €223 million. Goodwill of €106 million resulted from the purchase price allocation.

In November 2004, ERI signed an agreement with the Hungarian oil and gas company MOL for the acquisition of interests of 75.0 percent minus one share in each of MOL's gas trading and gas storage units and its 50.0 percent interest in the gas importer Panrusgáz. The agreement also included put options allowing MOL to sell its remaining interests in the gas trading and gas storage units, as well as an interest of up to 75.0 percent minus one share of its gas transmission business, to ERI for a period of 5 years from the closing date and through July 1, 2007, respectively. In December 2005, the European Commission approved the acquisitions of the gas trading and storage businesses subject to certain conditions. One of these conditions is that MOL must fully divest its gas storage and trading businesses. As a result, ERI signed an agreement providing for its acquisition of the remaining 25.0 percent plus one share of the two businesses. The initial purchase price was set at approximately €450 million. In addition, ERI assumed debt amounting to approximately €600 million. ERI and MOL also agreed upon a purchase price adjustment mechanism designed to reflect developments in the relevant regulatory framework through 2009. The

acquisition of the gas trading and gas storage units was completed by the end of March 2006, and the purchase price was subsequently adjusted to approximately €400 million. The initial goodwill of €205 million was reduced to €119 million after a purchase price adjustment and the purchase price allocation. The acquisition of MOL's 50.0 percent interest in Panrusgáz was completed at the end of October 2006.

In June 2005, after clearance was obtained from the relevant authorities, E.ON Ruhrgas acquired a 51.0 percent stake in the Romanian gas supplier Distrigaz Nord from the Romanian government in a two-step transaction. In the first step, E.ON Ruhrgas acquired a 30.0 percent share in Distrigaz Nord. In the second step, which immediately followed the first, this stake was increased to 51.0 percent through a capital increase. E.ON Ruhrgas paid an aggregate of approximately €305 million for the 51.0 percent stake; €127 million for the 30.0 percent interest and €178 million in the capital increase. Goodwill of €60 million resulted from the purchase price allocation. Distrigaz Nord was consolidated as of June 30, 2005 and has since been renamed E.ON Gaz România.

In November 2005, E.ON Ruhrgas acquired Caledonia Oil and Gas Ltd. ("Caledonia"), a U.K. gas production company with interests in a number of producing gas fields and development projects in the British North Sea, two field pipelines and 100 percent of a gas trading company. The seller was a group of investors led by the private equity firm First Reserve. Caledonia was subsequently renamed E.ON Ruhrgas North Sea. The total purchase price for the 100 percent interest in Caledonia amounted to €602 million and was primarily paid through the issuance of loan notes. For more information on these loan notes, see Note 24 of the Notes to Consolidated Financial Statements. Goodwill of €390 million resulted from the final purchase price allocation. Caledonia was fully consolidated as of November 1, 2005.

U.K. In November 2002, in accordance with E.ON UK's strategy to focus on the core U.K. market, E.ON UK reached agreements to sell its share in certain joint venture companies holding interests in independent power projects in India, Australia and Thailand. The sale of these interests in 2003 generated aggregate proceeds of €112 million and a gain of €29 million. In January 2004, E.ON UK reached an agreement to sell its only remaining Asian interests, a 35.0 percent stake in PT Jawa Power, owner of a 1,220 MW plant in Indonesia, and 100 percent of the associated operations and maintenance company, PT Jawa Power Timur, to Keppel Energy Pte Ltd ("Keppel Energy") and Electric Power Development Co Ltd ("J-Power"). In April 2004, an existing shareholder, PT Bumipertiwi Tatapradipta ("Bumipertiwi"), exercised its pre-emption rights over this sale. In July 2004, E.ON UK terminated the agreement with Keppel Energy and J-Power and in August 2004, E.ON UK entered into agreements with Bumipertiwi and YTL Power International ("YTL PI") reflecting Bumipertiwi's exercise of its pre-emption rights and subsequent sale of its interests to YTL PI. On December 7, 2004, E.ON UK completed the disposal of its investment in PT Jawa Power and PT Jawa Power Timur. The sale of these interests in 2004 generated aggregate proceeds of €120 million and a loss of €6 million.

In January 2004, E.ON UK completed the acquisition of Midlands Electricity from Aquila Energy Inc. and FirstEnergy Corp. for €1.7 billion (GBP1,180 million), net of €0.1 billion cash acquired. The acquisition price comprised €55 million paid to stockholders, €881 million paid to creditors and €856 million of debt assumed. Cash acquired amounted to €86 million. In the transaction, E.ON UK also acquired a number of other businesses, including an electrical contracting operation and an electricity and gas metering business in the United Kingdom, as well as minority equity stakes in companies operating three generation plants in the United Kingdom, Turkey and Pakistan. Goodwill in the amount of €473 million resulted from the purchase price allocation. Midlands Electricity was fully consolidated as of January 16, 2004.

In the first half of 2005, E.ON UK acquired, in two tranches, 100 percent of the equity of Enfield Energy Centre Ltd. ("Enfield") from NRG, El Paso and Indeck. The purchase price amounted to approximately €185 million (GBP127 million), with no goodwill resulting from the purchase price allocation. Enfield was fully consolidated as of April 1, 2005.

In July 2005, E.ON UK acquired 100 percent of Holford Gas Storage Limited ("HGSL") from Scottish Power Energy Management Limited. The purchase price amounted to €140 million (GBP96 million), with no goodwill resulting from the purchase price allocation. HGSL was consolidated as of July 28, 2005.

In December 2006, E.ON UK sold its shareholding in Edenderry to Bord na Mona plc for approximately €80 million, realizing a gain on the sale of approximately €20 million.

Nordic. In October 2001, the Company concluded a put option agreement, which allows a minority shareholder of E.ON Sverige to sell any or all of its shares of E.ON Sverige to E.ON Energie at any time through December 15, 2007. The consideration payable by E.ON Energie upon the exercise of this option in full is approximately €2.0 billion.

Beginning in November 2003, following its receipt of the required approvals from the relevant antitrust authorities, E.ON Sverige increased its stake in the Swedish utility Granninge from 36.3 percent to 79.0 percent by acquiring shares from Electricité de France and other shareholders. Swedish law required E.ON Sverige to make a public tender for all outstanding Granninge shares following the acquisition of a majority stake. At the close of this mandatory offer in January 2004, E.ON Sverige's indirect stake in Granninge had increased to 97.5 percent and Granninge was delisted. By June 2004, E.ON Sverige had acquired the remaining outstanding shares and controlled 100 percent of Granninge. Total acquisition costs to E.ON Sverige in 2003 (therefore not including those relating to the tender offer) amounted to €628 million. The purchase price for the Granninge shares acquired in 2004 was approximately €307 million, with €76 million in goodwill resulting from the purchase price allocation. As of December 31, 2004, the goodwill relating to E.ON Sverige's 100 percent interest in Granninge amounted to €233 million.

In September 2004, E.ON agreed further details regarding its agreement in principle with Statkraft to sell a portion (1.6 TWh) of the generating capacity that E.ON Sverige had acquired as part of the Granninge acquisition to Statkraft. In July 2005, Sydkraft and Statkraft signed the corresponding agreement, whereby Statkraft would acquire a total of 24 hydroelectric power plants. In accordance with the agreement, Statkraft took ownership of the plants in October 2005. The purchase price amounted to approximately €480 million, corresponding to the assets' book value. Because assets and liabilities were recognized at fair values as part of the purchase price allocation following the acquisition of Granninge, the sale of the disposal group did not result in a significant effect on income. The major balance sheet line items affected by the transaction were presented in the Consolidated Balance Sheet as of December 31, 2004 under "Assets/Liabilities of disposal groups."

In August 2006, E.ON Sverige sold a 75.1 percent interest in the broadband communication business E.ON Sverige Bredband to Tele2 for consideration of approximately €44 million. The sale agreement also provides E.ON Sverige with the option to put its remaining 24.9 percent interest to Tele2 within 24 months and Tele2 with the call option to acquire E.ON Sverige's remaining shares in E.ON Sverige Bredband in the event that E.ON Sverige does not exercise the put option. E.ON recorded a gain of approximately €28 million on the disposal.

U.S. Midwest. In June 2006, LPI sold its 50.0 percent ownership interest in a 209 MW coal-fired facility in North Carolina and LPS sold its remaining operations and maintenance contracts relating to the North Carolina plant along with four independent power generation facilities contracts for total consideration of €21 million.

Corporate Center. In December 2005, E.ON AG and RAG signed a framework agreement on the sale of E.ON's 42.9 percent participation in Degussa to RAG. As part of the implementation of that framework agreement, E.ON transferred its stake in Degussa to RAG Projektgesellschaft in March 2006 and agreed on the forward sale of that entity to RAG for a purchase price of approximately €2.8 billion (equal to €31.50 per Degussa share). The transaction closed in July 2006, with E.ON recording a book gain of approximately €376 million on the forward sale. Until the completion of this transaction, E.ON and RAG operated Degussa under joint control, and E.ON accounted for its 42.9 percent interest in Degussa under the equity method. E.ON owns a 39.2 percent interest in RAG.

Discontinued Operations. Consistent with its plans to focus on its core energy business, E.ON has disposed of a number of its non-core divisions and businesses in recent years. As a result of divestitures in 2001, the Company's former aluminum business segment was accounted for as discontinued operations in accordance with Accounting Principles Bulletin No. 30, Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ("APB 30"). On January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"), which requires it to account for disposals of a component of a segment as discontinued operations, thereby reducing the threshold needed for a particular divestiture to result in discontinued operations treatment. In 2002, E.ON discontinued the operations of its former oil business segment, following its disposal of VEBA Oel. In 2003, E.ON discontinued and disposed of certain operations in the U.S. Midwest market

unit, as well as certain activities of Viterra in the Other Activities business segment. In 2005, E.ON discontinued and either disposed of certain operations or classified certain businesses as held for sale in the Pan-European Gas and U.S. Midwest market units, as well as Viterra in the Other Activities business segment. Finally, in 2006, the Nordic market unit disposed of its entire stake in E.ON Finland. These transactions are summarized below.

On January 6, 2002, E.ON entered into an agreement to sell its 100 percent stake in its former aluminum division VAW to Norsk Hydro ASA for €3.1 billion. The results of the ongoing operations of VAW up to the date of disposal and the €893 million gain realized by E.ON on its disposal were reported in “Income (Loss) from discontinued operations, net” in the income statement for the relevant period. The net gain on disposal of €893 million does not include the reversal of VAW’s negative goodwill of €191 million, as this amount was required to be recognized as income from a change in accounting principles upon the adoption of SFAS 142 on January 1, 2002. In 2005, E.ON recognized a gain of €10 million before income taxes resulting from the release of a related provision. This effect was recorded under “Income (Loss) from discontinued operations, net” in the Consolidated Statements of Income. For further information, see “Item 4. Information on the Company — Business Overview — Discontinued Operations — Aluminum.”

In July 2001, E.ON and BP entered into an agreement pursuant to which BP agreed to acquire a 51.0 percent stake in VEBA Oel by way of a capital increase. The agreement also provided E.ON with a put option that allowed it to sell its remaining 49.0 percent interest in VEBA Oel to BP at any time from April 1, 2002 for an exercise price of €2.8 billion, subject to certain purchase price adjustments. The capital increase took place in February 2002, giving BP majority control of VEBA Oel as of February 1, 2002. E.ON exercised its put option effective June 30, 2002. E.ON received proceeds of €2.8 billion for its VEBA Oel shares. In addition, €1.9 billion in shareholder loans made previously by the E.ON Group to VEBA Oel were repaid. In April 2003, E.ON and BP reached an agreement setting the final purchase price for VEBA Oel (without prejudice to the standard indemnities in the contract) at approximately €2.9 billion. The disposal of VEBA Oel resulted in a loss from discontinued operations net of income taxes of €37 million in 2003, and income from discontinued operations net of income tax of €1,784 million in 2002. E.ON recognized a loss on disposal of €35 million in 2003 and a gain of €1,367 million in 2002. In 2004, E.ON recognized a loss of €19 million resulting from claims under standard contractual indemnities. These effects were each recorded under “Income (Loss) from discontinued operations, net” in the income statement for the relevant period. For further information, see “Item 4. Information on the Company — Business Overview — Discontinued Operations — Oil.”

As a condition to its approval of the former Powergen’s acquisition of LG&E Energy (now E.ON U.S.), the SEC had required that LG&E Energy sell CRC-Evans. Effective October 31, 2003, LG&E Energy sold CRC-Evans to an affiliate of Natural Gas Partners for €37 million. Approximately €1 million in income from discontinued operations net of income taxes and minority interests was recorded in 2005. E.ON realized no gain or loss on the disposal. For further information, see “Item 4. Information on the Company — Business Overview — Discontinued Operations — Other.”

Viterra Energy Services was accounted for as a discontinued operation in the Consolidated Financial Statements for 2002. In June 2003, Viterra sold this wholly-owned subsidiary to CVC Capital Partners. In March 2003, Viterra sold its Viterra Contracting subsidiary to Mabanaf. The aggregate consideration for both transactions totaled €961 million, including approximately €112 million of assumed liabilities, with Viterra realizing a gain of €641 million. The portion of 2003 and 2002 results included in “Income (Loss) from discontinued operations, net” in the income statements for the relevant periods amounted to €681 million and €52 million, respectively. In 2004, the release of previously recorded provisions resulted in income in the amount of €10 million, which is recorded in “Income (Loss) from discontinued operations, net.” For further information, see “Item 4. Information on the Company — Business Overview — Discontinued Operations — Other Activities.”

In May 2005, E.ON sold Viterra to Deutsche Annington. The purchase price for 100 percent of Viterra’s equity was approximately €4 billion. The company was classified as a discontinued operation in May 2005 and deconsolidated as of July 31, 2005. E.ON recorded a gain of just over €2.4 billion on the sale, which closed in August. The portion of Viterra’s 2005 and 2004 results included in “Income (Loss) from discontinued operations, net” in E.ON’s Consolidated Statements of Income amounted to €2,558 million and €294 million, respectively. In 2005, Viterra had revenues of €453 million. In 2006, E.ON recognized gains of €52 million resulting from

adjustments of the purchase price and the partial release of a related provision. For further information, see "Item 4. Information on the Company — Business Overview — Discontinued Operations — Other Activities."

In June 2005, E.ON Ruhrgas signed an agreement for the sale of Ruhrgas Industries to CVC Capital Partners, a European private equity firm. The purchase price for 100 percent of Ruhrgas Industries was approximately €1.2 billion, with the purchasers' assumption of Ruhrgas Industries' debt and provisions bringing the total value of the transaction to approximately €1.5 billion. The transaction received antitrust approvals in July and September and was closed on September 12, 2005. The company was classified as a discontinued operation in June 2005, and deconsolidated as of August 31, 2005. The portion of Ruhrgas Industries' 2005 and 2004 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to €628 million and €29 million, respectively. In 2005, Ruhrgas Industries had revenues of €847 million. E.ON recorded a gain on the disposal of roughly €0.6 billion. For further information, see "Item 4. Information on the Company — Business Overview — Discontinued Operations — Other."

WKE operates the generating facilities of BREC, a power generation cooperative in western Kentucky, and a coal-fired facility owned by the city of Henderson, Kentucky, under a 25-year lease. In November 2005, E.ON U.S. entered into a letter of intent with BREC regarding a proposed transaction to terminate the lease and operational agreements among the parties and other related matters. The parties are in the process of negotiating definitive agreements regarding the transaction, the closing of which would be subject to the review and approval of various regulatory agencies and other interested parties. Subject to such contingencies, the parties are working on completing the proposed termination transaction during 2007. WKE's results are classified as discontinued operations resulting in income from discontinued operations, net of income taxes of €64 million in 2006, and net losses of €162 million and €2 million in 2005 and 2004, respectively. For further information, see "Item 4. Information on the Company — Business Overview — Discontinued Operations — Other."

In February 2006, E.ON Nordic and Fortum signed an agreement providing for Fortum's acquisition of E.ON Nordic's entire 65.6 percent stake in E.ON Finland for a total of approximately €390 million. The transaction closed in June 2006, and E.ON Nordic recorded a gain of approximately €11 million on the sale. E.ON Finland was accounted for as discontinued operations from January 16, 2006 (the date on which a legal impediment to E.ON Nordic's sale of the stake was removed) through the date of its disposal. The portion of E.ON Finland's 2006 and 2005 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to €11 million and €24 million, respectively. In 2006, E.ON Finland had revenues of €131 million. For further information, see "Item 4. Information on the Company — Business Overview — Discontinued Operations — Other."

The Consolidated Financial Statements and related notes thereto for the years ending December 31, 2006, 2005 and 2004, as well as the related notes thereto, have been reclassified to reflect the discontinued operations treatment outlined above. Operating results for discontinued operations through the disposal date, as well as the gains or losses from ultimate sale, are reported in "Income (Loss) from discontinued operations, net" in the Consolidated Statements of Income. The assets and liabilities of the business units which were classified as held for sale as of December 31, 2006 and 2005, but which were not yet sold as of the respective balance sheet date, are reported as "Assets of disposal groups" and "Liabilities of disposal groups," respectively, in the respective Consolidated Balance Sheets. Cash flows from discontinued operations have been presented separately from the Consolidated Statements of Cash Flows for all periods presented.

For more information on the discontinued operations, including certain selected financial information, see Note 4 of the Notes to Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of E.ON's financial condition and results of operations are based on its Consolidated Financial Statements, which are prepared in accordance with U.S. GAAP and included in Item 18. The reported financial condition and results of operations of E.ON are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. Certain of the Company's significant accounting policies (as described in Note 2 of the Notes to Consolidated Financial Statements) require

critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be inherently uncertain and susceptible to change. Application of those policies and estimates and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered in reviewing E.ON's Consolidated Financial Statements and the discussions below in "— Results of Operations."

Business Combinations

E.ON's group strategy is to maximize the value of its portfolio of businesses through creating value from the convergence of European energy markets and of the electricity and gas value chains. Another element of that strategy is the improvement of the Group's position in target markets through pursuing selective market investments. This strategy has resulted in E.ON completing a significant number of acquisitions in recent years, and E.ON can be expected to continue to make acquisitions in the future. E.ON's acquisitions have been, and, as required, will continue to be, accounted for under the purchase method of accounting (the "purchase method"). Under the purchase method, an acquired company is recorded on E.ON's balance sheet using the fair values of the acquired assets (tangible and intangible) and liabilities assumed as of the acquisition date.

The application of the purchase method requires a company to make certain estimates and judgments. One of the most significant estimates relates to the determination of the fair value of assets and liabilities acquired. E.ON determines the fair value based on the nature of the asset, generally consulting with an independent valuation expert in significant purchase price allocations. For example, marketable securities are valued at the market rate on the date of acquisition, while an independent appraisal is often obtained for inventory, land, buildings and equipment. The Company also assesses whether any significant intangible assets arise from contractual or other legal rights of the acquired entity or are separable from the acquired entity (*i.e.* capable of being sold). If any intangible assets are identified, the Company determines the value of these intangibles on the basis of estimated fair value, which is defined as the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Thus, quoted market prices in active markets are the most reliable measure of fair value. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the results of other valuation techniques. The determination of the useful lives of intangible assets and other long-lived assets are based upon the nature of the intangible, as well as the characteristics of the acquired business and the industry in which it operates. Any residual amount remaining after allocation of the purchase price to the fair value of all assets and liabilities acquired is goodwill.

Management utilizes certain assumptions and estimates believed to be reasonable in fair valuing assets and liabilities assumed in a business combination. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates used in valuing certain assets include, but are not limited to, future expected cash flows, discount rates, the useful life over which cash flows will occur, the acquired company's market position and regulatory environment. Any changes in these underlying factors and assumptions may materially affect the Company's financial position and net income.

Impairment of Assets

Goodwill and Intangible Assets not Subject to Amortization. In accordance with SFAS 142, E.ON performs impairment tests for goodwill and indefinite-lived intangible assets at least on an annual basis, or more frequently if events or changes in circumstances indicate that these assets might be impaired. The first step to test goodwill for impairment requires E.ON to identify potential impairment situations by comparing the fair value of a reporting unit with its carrying value including goodwill. When determining the fair value of its reporting units, E.ON utilizes appropriate valuation techniques. Unless quoted market prices in active markets or prices for similar groups of net assets (such as a reporting unit) are available, the input data for the valuation is in principle based on the Company's mid-term plan. In such cases, E.ON determines fair value of each reporting unit using estimated future cash flows for the reporting unit discounted by a weighted average cost of capital specific to that unit. Estimated cash flows are based on E.ON's medium-term planning data for the next three years, and projections for the following years based on an expected growth rate based on industry and internal projections. The discount rates reflect any inflation in local cash flows and risks inherent to each reporting unit. Additionally, market comparables are analyzed to

support the fair value determination as described above. Changes in the aforementioned assumptions and factors may materially affect the Company's financial position and net income.

If the carrying value exceeds the fair value of a reporting unit, thus indicating a possible impairment, E.ON performs the second step of the impairment test, which requires E.ON to allocate the fair value to the assets and liabilities of the reporting unit using a methodology consistent with the application of the purchase method. Any excess of fair value of the reporting unit over the fair value of net assets is compared to the allocated goodwill as recorded. If the allocated goodwill exceeds the residual fair value, an impairment charge equal to the difference is recognized.

The impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the asset with its carrying value. The fair value is determined using a valuation technique consistent with the technique used to allocate value to assets when they are acquired in a business combination.

E.ON has designated the fourth quarter of its fiscal year for its annual impairment test for goodwill in order to coincide with its medium-term planning process. E.ON believes that this schedule ensures that the most current information available is used and provides consistency in methodology. In 2006, no impairment charges on goodwill and indefinite-lived intangible assets resulted from these impairment tests.

E.ON has goodwill totalling €15,124 million as of December 31, 2006, resulting from various significant acquisitions in recent years. Intangible assets not subject to amortization amounted to €992 million as of December 31, 2006. Future adverse changes in a reporting unit's economic and regulatory environment could adversely affect both estimated future cash flows and discount rates and could result in impairment charges to goodwill and intangible assets not subject to amortization which could materially and adversely affect E.ON's future financial position and net income.

Property, Plant and Equipment and Intangible Assets Subject to Amortization. E.ON tests long-lived assets (including intangible assets subject to amortization) in accordance with SFAS 144 for impairment whenever events or changes in circumstances (triggering events) indicate that the carrying amount of the asset may not be recoverable, *i.e.* if the carrying amount exceeds the sum of undiscounted cash flows expected to result from the use and eventual disposition of the asset. If such evaluation indicates a potential impairment and neither quoted market prices in active markets nor prices for similar assets are available, E.ON uses discounted cash flows to measure fair value in determining the amount of these assets to be impaired. In 2006, E.ON recorded impairment charges totalling €409 million on property, plant and equipment and €45 million on intangible assets subject to amortization. A significant portion of the impairment on property, plant and equipment relates to the triggering event identified in connection with the ruling by the Federal Network Agency (BNetzA) on electricity and gas distribution network charges in Germany. This resulted in impairment charges totaling €227 million on long-lived assets within E.ON's gas distribution activities. No impairment charges resulted from the impairment tests E.ON carried out for its electricity distribution operations. For additional information regarding the regulatory developments in 2006, see "Item 4. Information on the Company — Regulatory Environment."

The assumptions and conditions used to determine recoverability reflect the Company's best estimates and assumptions utilizing data currently available and are consistent with internal planning, but these items involve inherent uncertainties. As a result, the accounting for such items could result in different amounts if management used different assumptions or if different conditions occur in future periods.

Equity Method Investments, Other Share Investments and Available-for-Sale Securities. Equity method investments and other share investments, as well as debt and equity securities that are within the scope of SFAS 115 are also subject to impairment review. E.ON records impairment charges in income when management believes such investment has experienced an other-than-temporary decline in fair value. The assessment of timing of when such declines become other than temporary and/or the amount of such impairment is a matter of significant judgment. Such judgment includes determining whether or not the Company has the ability and intent to hold an investment for a reasonable period of time sufficient for a forecasted recovery of fair value equal to (or exceeding) the cost of the investment. The regulatory, economic and technological environment of an investee and the general market condition of either the geographic area or the industry in which the investee operates are significant factors and areas of judgment used in making these determinations. Because the estimate for other-than-temporary

impairment could change from period to period based upon future events that may or may not occur, E.ON considers this to be a critical accounting estimate.

In 2006, E.ON's impairment reviews for equity method investments, other share investments and available-for-sale securities resulted in impairment charges amounting to €374 million, including €335 million in impairment charges on minority shareholdings with network operations due to the new regulation of network charges in Germany. Please also see Notes 11c, "Financial Assets", and 15, "Current Securities and Fixed-Term Deposits", of the Notes to Consolidated Financial Statements for additional information on unrealized losses attributable to available-for-sale securities.

Fair Value of Derivatives

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

- Currency, electricity, gas, oil and coal forward contracts, swaps and emission rights derivatives are valued separately at future rates or market prices as of the balance sheet date. The fair values of spot and forward contracts are based on spot prices that consider forward premiums or discounts from quoted prices in the relevant markets.
- Market prices for currency, electricity and gas options are obtained using standard option pricing models commonly used in the market. The fair values of caps, floors and collars are determined on the basis of quoted market prices or on calculations based on option pricing models.
- The fair values of existing instruments to hedge interest rate risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument. Discounted cash values are determined for interest rate, cross-currency and cross-currency/interest rate swaps for each individual transaction as of the balance sheet date. Interest income is considered with an effect on current results at the date of payment or accrual.
- Equity forwards are valued on the basis of the stock prices of the underlying equities, taking into consideration any financing components.
- Exchange-traded energy future and option contracts are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses. Initial margins paid are disclosed under other assets. Variation margins received or paid during the term of such contracts are stated under other liabilities or other assets, respectively, and are accounted for with an impact on earnings at settlement or realization.
- Certain long-term commodity contracts are valued by the use of internal models that use fundamental data and take into account individual contract details and variables.

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

The objective of E.ON's financial and commodity risk management is to limit the risk of significant volatility in earnings and cash flows from the underlying operational business. Through internal guidelines (*i.e.*, Group finance guidelines and Group commodity risk guidelines), the Company ensures that derivatives used for risk management purposes, rather than proprietary trading, are only utilized to hedge booked, contracted or planned

underlying transactions. E.ON's proprietary trading is limited to commodity derivatives and takes place in specified markets within defined limits designed to limit any significant impact of trading activities on earnings. The open positions from the operational business and the hedging and proprietary trading activities are reported and monitored regularly. The Company, in line with international banking standards, calculates and assesses market risks in accordance with the policies outlined in "Item 11. Quantitative and Qualitative Disclosures about Market Risk." For additional details on the Group's use of derivative financial instruments, see Note 28 of the Notes to Consolidated Financial Statements.

Electricity Contracts

Certain electricity contracts that E.ON has entered into in the ordinary course of business meet all of the required criteria for a derivative as defined under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"), and are marked to market. However, due to the normal purchase normal sales exemption for electricity companies as specified by SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities ("SFAS 149"), some of these contracts are not accounted for as derivatives under SFAS 133 and therefore are not being marked to market. As a result, any price volatility inherent in these contracts is not reflected in the operating results of E.ON. If this exemption is disallowed through future interpretations or actions of the Financial Accounting Standards Board ("FASB"), the impact on future operating results could be significant.

Gas Contracts

The market units enter into gas purchase and sale contracts in connection with their distribution, sale and retail activities, as well as long-term gas purchase contracts for E.ON Ruhrgas' gas supplies and for certain subsidiaries of E.ON Energie, E.ON Sverige and the operation of E.ON UK's generation plants. Contracts providing for physical delivery in Germany or Sweden are currently accounted for as contracts outside the scope of SFAS 133, as no functioning natural gas market mechanism or spot market exists in Germany and Sweden which would allow the Company to classify gas as readily convertible to cash. In the future, it is possible that a functioning market mechanism or spot market for natural gas could emerge, resulting in a need to reassess the German and Swedish contracts for derivatives under SFAS 133. If any such reassessment resulted in contracts being accounted for as derivatives under SFAS 133, the impact on future operating results could be significant. Within the U.K. market, a number of non-standard gas contracts at E.ON UK have been marked to market since 2003 following the implementation of Derivatives Implementation Group Issue C-20.

Deferred Taxes

E.ON has significant deferred tax assets and liabilities totalling €1,857 million and €7,913 million as of December 31, 2006, respectively, which are expected to be realized through the statement of income over extended periods of time in the future. Based on the Company's past performance and the expectations of similar performance in the future, it is expected that the future taxable income will more likely than not be sufficient to permit recognition of their deferred tax assets. As of December 31, 2006, a valuation allowance has been established totalling €434 million for that portion of the deferred tax assets for which this criterion is not expected to be met. Determining the valuation allowance requires significant management judgments and assumptions. In determining the valuation allowance, E.ON uses historical and forecasted future operating results, based upon approved mid-term plans, including a review of the eligible carryforward periods, tax planning opportunities and other relevant considerations. Each quarter, E.ON reevaluates E.ON's estimate related to the valuation allowance, including E.ON's assumptions about future profitability. In calculating the deferred tax items, E.ON is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the Consolidated Financial Statements and their tax basis. Significant assumptions made include the expectation that: (1) future operating performance for subsidiaries will be consistent with historical operating results; (2) recoverability periods for tax credits and net operating loss carryforwards will not change; (3) undistributed earnings of foreign investments have been permanently reinvested; (4) net operating losses for which E.ON has not provided a valuation allowance will more likely than not be recovered through future taxable income; and (5) existing tax laws and rates to which E.ON is subject in various tax

jurisdictions will remain unchanged into the foreseeable future. E.ON believes that it has used prudent assumptions and feasible tax planning strategies in developing its deferred tax balances; however, any changes to the facts and circumstances underlying its assumptions could cause significant changes in the deferred tax balances and resulting volatility in its net income.

Nuclear Waste Management

Germany. German law requires nuclear power plant operators to establish sufficient provisions for financial obligations that arise from the use of nuclear power. The provisions established by E.ON for its German nuclear power plants have been determined based on industry-wide used data prepared by German governmental authorities and qualified parties. Actual results may differ from the assumptions utilized by E.ON to estimate the fair value of the obligation for nuclear waste management if the relevant regulatory requirements or underlying assumptions were to change.

Provisions for nuclear waste management for E.ON's operations in Germany totalling €13,162 million as of December 31, 2006 comprise costs for the decommissioning of nuclear and non-nuclear plant components as well as for the disposal of spent nuclear fuel rods and operating waste.

The provisions are presented net of advance payments of €894 million in 2006. The advance payments are amounts prepaid to nuclear fuel reprocessors and other waste management companies, as well as to governmental authorities relating to the exploration/construction of final storage facilities.

The costs for nuclear plant decommissioning comprise expected costs for run-out operation, dismantling and removal of both the nuclear and non-nuclear portions of the plant and the storage of contaminated decommissioning waste. The expected decommissioning and storage costs are based on studies performed by external specialists and are updated regularly. As of December 31, 2006, E.ON Energie has a provision totalling €8,494 million for nuclear plant decommissioning.

For spent nuclear fuel rods, the provision totalling €4,211 million as of December 31, 2006 covers primarily:

- on the one hand, the cost of return transportation and temporary storage of nuclear waste from the reprocessing (including interim storage containers, central temporary storage, conditioning and procurement of final storage containers) based primarily on existing contracts, and
- on the other hand, costs of so-called "permanent storage" of used fuel rods which primarily include:
 - contractual costs for procuring intermediate containers and intermediate on-site storage on the plant premises, and
 - costs of transporting spent fuel rods to conditioning facilities, conditioning costs and costs for procuring permanent storage containers as determined by external studies.

The provisions for both nuclear plant decommissioning and for management of spent nuclear fuel rods also comprise the cost of final storage.

Management utilizes certain assumptions and estimates to calculate the fair value of the obligation for nuclear plant decommissioning and nuclear waste management. Any changes in the underlying data, the timing in the future that the corresponding costs will be incurred, as well as changes in regulatory requirements, may adversely affect the Company's financial position and net income.

Sweden. In Sweden, nuclear power plant operators are obliged to contribute cash to a fund managed by the governmental authorities. The amount of the contributions, as determined annually by governmental authorities, is based on the volume of electricity produced using nuclear power. Despite these contributions to the fund, nuclear power plant operators in Sweden will still be obligated to make additional contributions if actual costs for nuclear waste management and decommissioning exceed the government's estimates and the amount available in the fund.

E.ON adopted SFAS No. 143, Accounting for Asset Retirement Obligations ("SFAS 143") as of January 1, 2003. SFAS 143 requires that asset retirement obligations be recorded at fair value on a company's balance sheet. SFAS 143 changed the methodology for calculating the nuclear decommissioning accrual; however, the underlying

data and key assumptions used as a basis for establishing the total costs of decommissioning remained consistent with that used in prior years.

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board issued the following accounting pronouncements in 2006 and 2007, which became applicable or will become applicable to E.ON in 2006, 2007 and 2008:

- SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115;
- SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R);
- FIN No. 48, Accounting for Uncertainty in Income Taxes;
- SFAS No. 157, Fair Value Measurements; and
- Staff Accounting Bulletin ("SAB") No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.

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

RESULTS OF OPERATIONS

E.ON's sales in 2006 increased 24.4 percent to €64,197 million from €51,616 million in 2005 (in each case net of electricity and natural gas taxes). The increase was primarily attributable to €9,232 million higher electricity and gas sales at the Pan-European Gas and Central Europe market units and consolidation effects of €2,900 million. Net income decreased by 31.7 percent to €5,057 million in 2006 from €7,407 million in 2005, primarily reflecting lower income from discontinued operations partially offset by higher income from continuing operations, as described in more detail below. Cash provided by operating activities increased 9.9 percent to €7,194 million in 2006 from €6,544 million in 2005, with the increase being primarily attributable to increases at the Central Europe and U.K. market units, which were offset in part by a decline in the cash generated by Pan-European Gas.

In 2006, 56.1 percent of the Group's total sales were to customers in Germany and 43.9 percent were to customers in other parts of the world, as compared with 59.8 percent and 40.2 percent in 2005, respectively.

E.ON's sales and earnings are influenced by a number of differing economic and other external factors. The energy business is generally not subject to severe fluctuations in its results, but is to some extent affected by seasonality in demand related to weather patterns. Typically, demand is higher for the Central Europe, Pan-European Gas and U.K. market units during the winter months and for the U.S. Midwest market unit during the summer. For a discussion of trends and factors affecting E.ON's businesses, see the market unit descriptions in "Item 4. Information on the Company — Business Overview" and "— Operating Environment," as well as "Item 3. Key Information — Risk Factors."

BUSINESS SEGMENT INFORMATION

E.ON's core energy business is divided into five regional market units (Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest), plus the Corporate Center. The lead company of each market unit reports directly to E.ON AG. E.ON's financial reporting mirrors this structure, with each of the five market units and the results of the enhanced Corporate Center (including consolidation effects) constituting a separate segment for financial reporting purposes. E.ON also reports its only remaining telecommunications interest, a 50.1 percent stake in the Austrian mobile telecommunications network operator ONE GmbH ("ONE"), which is accounted for at equity in E.ON's Consolidated Financial Statements, under Corporate Center. For the period between Degussa's deconsolidation and E.ON's disposal of its interest in July 2006, E.ON's proportionate share of Degussa's

after-tax earnings continued to be presented outside of the core energy business as part of E.ON's "Other Activities," which is reported as a separate segment.

E.ON uses "adjusted EBIT" as the measure pursuant to which the Group evaluates the performance of its segments and allocates resources to them. Adjusted EBIT is an adjusted figure derived from income/(loss) from continuing operations (before intra-Group eliminations when presented on a segment basis) before income taxes and minority interests, excluding interest income. Adjustments include *net book gains resulting from disposals*, as well as cost-management and restructuring expenses and other non-operating earnings of an exceptional nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions and nuclear waste management is allocated to adjusted interest income. Management believes that adjusted EBIT is the most useful segment performance measure because it better depicts the performance of individual business units independent of changes in interest income and taxes. During the relevant periods, E.ON has used adjusted EBIT as its segment reporting measure in accordance with SFAS 131. However, on a consolidated Group basis, adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. For a reconciliation of Group adjusted EBIT to net income for each of 2006, 2005 and 2004, see the table on page 146 below and the accompanying analyses on pages 148 to 150 and pages 161 to 162. For a reconciliation of adjusted EBIT to income (loss) from continuing operations before income taxes and minority interests for each of the three years, see Note 31 of the Notes to Consolidated Financial Statements. Adjusted EBIT should not be considered in isolation as a measure of E.ON's profitability and should be considered in addition to, rather than as a substitute for the most directly comparable U.S. GAAP measures. In particular, there are material limitations associated with the use of Adjusted EBIT as compared with such U.S. GAAP measures, including the limitations inherent in E.ON's determination of each of the adjustments noted above. E.ON seeks to compensate for those limitations by providing below a detailed reconciliation of adjusted EBIT to income from continuing operations before income taxes and minority interests and net income, the most directly comparable U.S. GAAP measures, as well as the more detailed textual analysis of year-on-year changes in the key components of each of the reconciling items appearing under the caption "E.ON Group — Reconciliation of Adjusted EBIT" for each of the relevant periods. As a result of these limitations and other factors, adjusted EBIT as used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

The following table sets forth sales and adjusted EBIT for each of E.ON's business segments for 2006, 2005 and 2004 (in each case excluding the results of discontinued operations):

E.ON BUSINESS SEGMENT SALES AND ADJUSTED EBIT

| | 2006 | | 2005 | | 2004 | |
|---|-----------------|------------------|----------------|------------------|---------------|------------------|
| | Sales | Adjusted EBIT | Sales | Adjusted EBIT | Sales | Adjusted EBIT |
| | (€ in millions) | | | | | |
| Central Europe(1) | 28,380 | 4,168 | 24,295 | 3,930 | 20,752 | 3,602 |
| Pan-European Gas(2)(3) | 24,987 | 2,106 | 17,914 | 1,536 | 13,227 | 1,344 |
| U.K. | 12,569 | 1,229 | 10,176 | 963 | 8,490 | 1,017 |
| Nordic(2)(4) | 3,204 | 619 | 3,213 | 766 | 3,094 | 661 |
| U.S. Midwest(2) | 1,947 | 391 | 2,045 | 365 | 1,718 | 354 |
| Corporate Center(2)(5) | <u>(3,328)</u> | <u>(416)</u> | <u>(1,502)</u> | <u>(399)</u> | <u>(792)</u> | <u>(338)</u> |
| <i>Core Energy Business</i> | 67,759 | 8,097 | 56,141 | 7,161 | 46,489 | 6,640 |
| <i>Other Activities(2)(6)</i> | — | 53 | — | 132 | — | 107 |
| Total | <u>67,759</u> | <u>8,150</u> | <u>56,141</u> | <u>7,293</u> | <u>46,489</u> | <u>6,747</u> |

- (1) Sales include energy taxes of €1,124 million in 2006, €1,049 million in 2005 and €1,051 million in 2004.
- (2) Excludes the sales and adjusted EBIT of certain activities now accounted for as discontinued operations. For more details, see “— Acquisitions and Dispositions — Discontinued Operations” and Note 4 of the Notes to Consolidated Financial Statements.
- (3) Sales include natural gas and electricity taxes of €2,061 million in 2006, €3,110 million in 2005 and €2,923 million in 2004.
- (4) Sales include electricity and natural gas taxes of €377 million in 2006, €382 million in 2005 and €376 million in 2004.
- (5) Includes primarily the parent company and effects from consolidation (including the elimination of intersegment sales), as well as the results of its remaining telecommunications interests, as explained above. Sales between companies in the same market unit are eliminated in calculating sales on the market unit level.
- (6) Includes adjusted EBIT of Degussa.

Reconciliation of Adjusted EBIT. As noted above, E.ON uses adjusted EBIT as its segment reporting measure in accordance with SFAS 131. On a consolidated Group basis, adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. A reconciliation of Group adjusted EBIT to net income for each of 2006, 2005 and 2004 appears in the table below. The analysis below discusses changes in the principal components of each of the reconciling items to income (loss) from continuing operations before income taxes and minority interests. For additional details, see Note 31 of the Notes to Consolidated Financial Statements and the analyses on pages 148 to 150 and 161 to 162.

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|---------------------|
| | (€ in millions) | | |
| Adjusted EBIT | 8,150 | 7,293 | 6,747 |
| Adjusted interest income, net | (1,081) | (1,027) | (1,032) |
| Net book gains | 1,205 | 491 | 589 |
| Cost-management and restructuring expenses | — | (29) | (100) |
| Other non-operating results | <u>(3,141)</u> | <u>424</u> | <u>128</u> |
| Income/(loss) from continuing operations before income taxes and minority interests | 5,133 | 7,152 | 6,332 |
| Income taxes | 323 | (2,261) | (1,852) |
| Minority interests | <u>(526)</u> | <u>(536)</u> | <u>(469)</u> |
| Income/(loss) from continuing operations | 4,930 | 4,355 | 4,011 |
| Income/(loss) from discontinued operations | 127 | 3,059 | 328 |
| Cumulative effect of change in accounting principles | — | (7) | — |
| Net income | <u>5,057</u> | <u>7,407</u> | <u>4,339</u> |

YEAR ENDED DECEMBER 31, 2006 COMPARED WITH YEAR ENDED DECEMBER 31, 2005

E.ON Group

E.ON's sales in 2006 increased 24.4 percent to €64,197 million from €51,616 million in 2005 (in each case net of electricity and natural gas taxes). As noted above, the increase was primarily attributable to higher electricity and gas sales at the Pan-European Gas and Central Europe market units. As illustrated in the table on the previous page, the overall increase in the Group's sales also reflected an increase in sales at the Central Europe, Pan-European Gas and U.K. market units, which more than offset decreases at the Nordic and U.S. Midwest market units and the Corporate Center.

Sales of the Central Europe market unit increased 16.8 percent in 2006 to €28,380 million (including €1,124 million of electricity taxes) from €24,295 million (including €1,049 million of electricity taxes) in 2005.

Pan-European Gas' sales increased by 39.5 percent to €24,987 million (including €2,061 million of natural gas and electricity taxes) in 2006 from €17,914 million (including €3,110 million of natural gas and electricity taxes) in 2005. Sales of the U.K. market unit increased by 23.5 percent, amounting to €12,569 million in 2006 as compared to €10,176 million in 2005. Nordic's sales decreased by 0.3 percent to €3,204 million (including €377 million of electricity and natural gas taxes) from €3,213 million (including €382 million of electricity and natural gas taxes) in 2005. Sales of the U.S. Midwest market unit decreased by 4.8 percent in 2006 to €1,947 million compared with €2,045 million in 2005. The elimination of intersegment sales at the Corporate Center resulted in the segment reporting negative sales of €1,502 million in 2005 and negative sales of €3,328 million in 2006. The sales of each of these segments are discussed in more detail below.

Total cost of goods sold and services provided in 2006 increased 28.8 percent or €11,701 million to €52,304 million compared with €40,603 million in 2005, with increases at the Pan-European Gas market unit (€7,373 million), primarily reflecting the effect of higher gas prices, and at the Central Europe market unit (€4,379 million). Purchases of electricity from third parties and the purchase of significantly higher volumes of electricity generated from renewable resources, as well as price-related increased procurement costs for gas increased costs of goods sold at the Central Europe market unit by approximately €2,480 million, while consolidation effects were responsible for approximately €880 million of the increase. The overall increase also reflected higher costs at the U.K. market unit (€1,766 million). These effects were partially offset by lower cost of goods sold and services provided at the Corporate Center (€1,836 million), reflecting consolidation effects recorded at the Corporate Center level mainly as a result of higher intergroup sales from the Pan-European Gas market unit to the U.K. market unit. Cost of goods sold as a percentage of revenues (net of electricity and natural gas taxes) increased to 81.5 percent in 2006 from 78.7 percent in 2005, as the rate of increase of cost of goods sold and services provided was greater than that of sales. Gross profit nonetheless increased, rising by 8.0 percent to €11,893 million in 2006 from €11,013 million in 2005.

Selling expenses increased 12.9 percent or €496 million to €4,341 million in 2006, compared with €3,845 million in 2005. The increase reflected an overall increase of €299 million in selling expenses at the U.K. market unit as a result of the expansion of the sales force and impairments of intangible assets due to the rebranding of Powergen, at the Central Europe market unit (€135 million), primarily attributable to the consolidation effects involving Arena One, E.ON Moldova and the Bulgarian companies Varna and Gorna (€100 million) and IT-related expenses (€40 million), as well as at the Pan-European market unit (€83 million), primarily resulting from the first-time full-year consolidation of E.ON Gaz România.

General and administrative expenses increased by €258 million, amounting to €1,774 million in 2006 compared with €1,516 million in 2005. The 17.0 percent increase reflected increases at the U.K. market unit (€190 million), primarily due to higher headcount, at the Central Europe market unit (€126 million) mainly resulting from consolidation effects (approximately €60 million) and an increase in purchased services from third parties (about €20 million), and at the Pan-European Gas market unit (€80 million), also reflecting the first full year consolidation of several new shareholdings. These effects were partially offset by lower general and administrative expenses at the Corporate Center (€128 million), reflecting consolidation effects.

Other operating income (expenses), net equalled expenses of €848 million in 2006 as compared to income of €1,674 million in 2005. The significant change in this line item was primarily attributable to net gains/losses on derivative instruments, which generated expenses of €2,748 million in 2006, compared to income of €931 million in 2005, in part reflecting a decrease in the market value of derivatives at E.ON UK. In addition, net income arising from exchange rate differences of €44 million in 2006 was lower than the corresponding net income of €138 million in 2005. These negative effects were partially offset by higher net book gains on the disposal of investments and increased miscellaneous other net operating income. Net book gains on the disposal of investments increased by €545 million year on year, amounting to €579 million in 2006, compared with €34 million in 2005. The 2006 figure primarily included the gain from the forward sale of the stake in Degussa (€376 million). Miscellaneous other operating income (expenses), net rose by €733 million, amounting to net income of €1,297 million in 2006, as compared with net income of €564 million in 2005. For 2006, this line item also reflects gains from the derecognition of institutional securities funds as part of the transfer to the Contractual Trust Arrangement ("CTA") in the amount of €159 million. In 2006, a SAB 51 gain of €7 million related to the sale of shares of E.ON Avacon, compared with €31 million in 2005.

Financial earnings increased by €377 million, resulting in a gain of €203 million in 2006 compared with a loss of €174 million in 2005. The increase was primarily attributable to higher income from companies accounted for under the equity method of €403 million and lower interest expenses of €49 million, which were partly offset by higher depreciation on securities and share investments (€90 million). For additional information, see Note 6 of the Notes to Consolidated Financial Statements.

As a result of the factors described above, income (loss) from continuing operations before income taxes and minority interests decreased by 28.2 percent or €2,019 million to €5,133 million in 2006, as compared with €7,152 million in 2005.

In 2006, E.ON recorded an income tax benefit of €323 million, as compared to a tax expense of €2,261 million in 2005. This change was primarily attributable to the change in the German corporate income tax act with regard to corporate tax credits arising from the former corporate imputation system which led to a tax credit of €1.3 billion. In addition, deferred tax income in the amount of approximately €1.2 billion resulted primarily from losses in the market valuation of energy derivatives. For additional information, see Note 7 of the Notes to Consolidated Financial Statements.

Income attributable to minority interests, and therefore deducted in the calculation of net income, was €526 million in 2006, as compared to €536 million in 2005.

Results from discontinued operations increased net income by €127 million in 2006, as compared to a contribution to net income of €3,059 million in 2005. The significant decrease reflected the very significant gains on the disposal of Viterra and Ruhrgas Industries recorded in 2005. For details, see Note 4 of the Notes to Consolidated Financial Statements. The Group's net income decreased 31.7 percent, totaling €5,057 million in 2006, compared with €7,407 million in 2005. Excluding the results of discontinued operations, E.ON would have recorded net income of €4,930 million in 2006, as compared to net income of €4,355 million in 2005.

Reconciliation of Adjusted EBIT. As noted above, E.ON uses adjusted EBIT as its segment reporting measure in accordance with SFAS 131. On a consolidated Group basis, adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. A reconciliation of Group adjusted EBIT to net income for each of 2006, 2005 and 2004 appears in the table on page 146. The following paragraphs discuss changes in the principal components of each of the reconciling items to income (loss) from continuing operations before income taxes and minority interests. For additional details, see Note 31 of the Notes to Consolidated Financial Statements.

On a consolidated Group basis, adjusted EBIT increased by 12.0 percent to €8,150 million in 2006, as compared with €7,293 million in 2005.

As detailed in the table below, adjusted interest income, net, amounted to an expense of €1,081 million in 2006 as compared to an expense of €1,027 million in 2005. The interest portion of long-term provisions deducted in the calculation was €389 million, as compared to €252 million in 2005, reflecting higher interest expenses for nuclear waste management (€220 million) that were partially offset by lower interest expenses for pensions at the Central Europe and Pan-European Gas market units, as well as the Corporate Center. Non-operating interest income, net, amounted to income of €5 million in 2006 as compared with income of €39 million in 2005. In 2006, non-operating interest income primarily reflected higher interest charges related to derivatives in the U.K. market unit that were partially offset by higher interest income at the Central Europe market unit and the Corporate Center. In 2005, non-operating interest income primarily reflected the termination of an interest provision (€32 million).

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------|-----------------------|
| | (€ in millions) | |
| Interest income and similar expenses (net) as shown in Note 6 of the Notes to Consolidated Financial Statements | (687) | (736) |
| (+) Non-operating interest income, net(1) | (5) | (39) |
| (-) Interest portion of long-term provisions | <u>389</u> | <u>252</u> |
| Adjusted interest income, net | <u>(1,081)</u> | <u>(1,027)</u> |

(1) This net figure is calculated by adding in non-operating interest expense and subtracting non-operating interest income.

Net book gains as used in the reconciliation of adjusted EBIT more than doubled in 2006, increasing by €714 million from €491 million in 2005 to €1,205 million. In 2006, net book gains primarily resulted from the sale of funds invested in securities held by the Central Europe market unit (€619 million) and the Degussa transaction (€376 million). In 2005, net book gains primarily resulted from the sale of other securities held by the Central Europe market unit (€371 million). In addition, the Central Europe market unit realized a gain on disposal of €90 million from the transfer of shares in TEAG. These book gains are calculated on a more inclusive basis than those discussed above in the analysis of other operating income (expenses), net. These gains generally include all gains and losses from the disposal of financial assets and results of deconsolidation, both net of expenses directly linked with the relevant disposal. They also include book gains and losses realized by equity investees, which are included in the income statement as a component of financial earnings.

Cost-management and restructuring expenses did not occur in 2006, compared with €29 million in 2005. In 2005, the principal expenses contributing to this item were restructuring costs of €18 million at the U.K. market unit, mainly attributable to the integration of Midlands Electricity, and restructuring costs of €11 million at the Central Europe market unit, primarily due to the merger of GVT and TEAG into ETE.

The amount reported as other non-operating results amounted to an expense of €3,141 million in 2006, as compared to income of €424 million in 2005. The total of 2006 primarily reflected the fulfilment of derivative gas procurement contracts and the marking to market of derivatives (€2,729 million), particularly at the U.K. market unit. The 2006 result also reflected a total of €548 million in impairment charges. Following the BNetzA's reduction of allowable network charges, E.ON conducted impairment tests on E.ON's network assets and shareholdings in municipal distribution network operators. As a result, E.ON recorded impairment charges totaling €374 million in its gas distribution businesses. Of this total, €266 million relate to the Central Europe market unit, with €227 million relating to its own gas distribution networks and the remaining €39 million to minority shareholdings. The remaining impairment loss of €108 million was recorded on other shareholdings at the Pan-European Gas market unit. Impairment tests on E.ON Energie's electricity transmission and distribution networks did not lead to any impairment losses. Further impairments relate to CHP generation assets at the U.K. market unit (€35 million), as well as intangible and tangible assets at the Pan-European Gas, U.K. and Nordic market units (totaling €139 million). The impact of these impairments was partially offset by effects from the first-time consolidation of VKE at the Central Europe market unit, which add up to €83 million. In 2005, other non-operating earnings positively reflected unrealized gains from the required marking to market of derivatives under SFAS 133 (€1.2 billion), primarily at the U.K. market unit. This positive effect on this item was partially offset by the impact of an impairment charge that Degussa took as of December 31, 2005. Degussa recorded an impairment

charge of approximately €836 million (before taxes) in its Fine Chemicals business unit due to significant changes in market conditions. As a result of this impairment, E.ON recorded a loss of approximately €347 million attributable to its direct 42.9 percent shareholding in Degussa. Additional offsetting effects on other non-operating earnings were storm-related costs for rebuilding of the distribution grid and compensating customers of approximately €140 million at the Nordic market unit, impairments recorded at cogeneration facilities in the U.K. market unit (€129 million), and an adjustment of deferred taxes (€96 million) made at an equity holding of the Corporate Center.

Central Europe

For financial reporting purposes, the Central Europe market unit comprises four business units: Central Europe West Power, Central Europe West Gas, Central Europe East and Other/Consolidation. The Central Europe West Power business unit reflects the results of the conventional (including waste incineration), nuclear and hydroelectric generation businesses, transmission of electricity, the regional distribution of power and the retail electricity business in Germany, as well as its trading business. In addition, Central Europe West Power also includes the results of E.ON Benelux, which operates power generation, district heating and gas and electricity retail businesses in the Netherlands. The Central Europe West Gas business unit reflects the results of the regional distribution of gas and the gas retail business in Germany. The Central Europe East business unit primarily includes the results of the regional distribution companies in Bulgaria, the Czech Republic, Hungary, Romania and Slovakia (with the Slovak activities being valued under the equity method given E.ON Energie's minority interest). Other/Consolidation primarily includes the results of E.ON Energie's business in Italy, other national and international shareholdings, service companies and E.ON Energie AG, as well as intrasegment consolidation effects.

Total sales of the Central Europe market unit increased by 16.8 percent to €28,380 million (including €1,124 million of energy taxes and €686 million in intersegment sales) in 2006, compared with a total of €24,295 million (including €1,049 million of energy taxes and €248 million in intersegment sales) in 2005. The overall increase of €4,085 million reflected higher sales at each of Central Europe's business units, as described in more detail below.

The following table sets forth the sales of each business unit in the Central Europe market unit in each of the last two years, in each case excluding energy taxes:

SALES OF CENTRAL EUROPE MARKET UNIT

| | <u>2006</u> | <u>2005</u> | <u>Percent</u> |
|-------------------------------------|----------------------|----------------------|----------------|
| | (€ in millions) | | <u>Change</u> |
| Central Europe West Power | 18,885 | 16,945 | +11.4 |
| Central Europe West Gas | 4,371 | 3,463 | +26.2 |
| Central Europe East | 3,469 | 2,618 | +32.5 |
| Other/Consolidation | <u>531</u> | <u>220</u> | +141.4 |
| Total | <u>27,256</u> | <u>23,246</u> | +17.3 |

Sales of the Central Europe West Power business unit increased by €1,940 million or 11.4 percent from €16,945 million in 2005 to €18,885 million in 2006. The rise was primarily attributable to higher electricity prices resulting from the global rise in raw material and energy prices (approximately €1,280 million) as well as to an increase in the sale of electricity produced from renewable resources (approximately €670 million), as the volume of such energy, which E.ON Energie is required to purchase under regulatory requirements, increased in 2006. An increase in the volume of electricity sold (€400 million) also contributed to the increase in sales. These positive impacts were offset in part by the negative effect of the new regulations applicable to network charges in Germany (approximately €580 million).

Sales of the Central Europe West Gas business unit rose by 26.2 percent from €3,463 million in 2005 to €4,371 million in 2006, with the increase of €908 million primarily reflecting higher gas prices (approximately

€720 million) as well as the first-time full-year consolidation of GVT (approximately €205 million). These positive factors were offset in part by the negative effect of the new regulation applicable to network charges in Germany (approximately €60 million).

Sales of the Central Europe East business unit increased by 32.5 percent or €851 million, from €2,618 million in 2005 to €3,469 million in 2006, with the increase primarily due to the first-time inclusion of full-year results from Hungarian gas companies which were consolidated as of April 2005, the Bulgarian companies Varna and Gorna Oryahovitza (consolidated as of March 2005), and the Romanian company E.ON Moldova (consolidated as of September 2005), as well as the first-time inclusion of two companies in the Czech Republic and one Hungarian company in 2006 (all of which increased revenues by an aggregate of approximately €560 million). The remainder mainly resulted from higher electricity prices in Hungary and the Czech Republic (approximately €190 million).

Sales of the Other/Consolidation business unit more than doubled, increasing by €311 million to €531 million in 2006, with the increase being primarily attributable to the consolidation effects involving E.ON IS UK (an IT services company), Arena One and Dalmine (an aggregate effect of €240 million).

Total power procured by the Central Europe market unit (excluding physically-settled trading activities) rose 3.6 percent to 281.2 billion kWh in 2006, compared with 271.3 billion kWh in 2005. The increase was primarily attributable to an increase in power procured from third parties and the own production of power. E.ON Energie's own production of power increased by 1.7 percent from 129.1 billion kWh in 2005 to 131.3 billion kWh in 2006. E.ON Energie produced approximately 47 percent of its power requirements in 2006, compared with approximately 48 percent in 2005. Compared with 2005, electricity purchased from jointly operated power stations increased by 2.2 percent from 12.0 billion kWh to 12.3 billion kWh. Purchases of electricity from third parties increased by 5.7 percent, from 130.2 billion kWh in 2005 to 137.6 billion kWh in 2006, largely due to the first-time inclusion of a full year of results from the electricity distribution companies in Bulgaria and Romania (approximately 3.6 TWh), as well as the purchase of significantly higher volumes of electricity generated from renewable resources pursuant to Germany's Renewable Energy Law (approximately 3.4 TWh).

In 2006, the Central Europe market unit contributed adjusted EBIT of €4,168 million, a 6.1 percent increase from a total of €3,930 million in 2005. The following table sets forth the adjusted EBIT of each business unit in the Central Europe market unit in each of the last two years:

ADJUSTED EBIT OF CENTRAL EUROPE MARKET UNIT

| | 2006 | 2005 | Percent Change |
|-------------------------------------|---------------------|---------------------|-------------------|
| | (€ in millions) | | |
| Central Europe West Power | 3,550 | 3,389 | +4.8 |
| Central Europe West Gas | 272 | 307 | -11.4 |
| Central Europe East | 269 | 237 | +13.5 |
| Other/Consolidation | 77 | (3) | — |
| Total | <u>4,168</u> | <u>3,930</u> | +6.1 |

Adjusted EBIT at the Central Europe West Power business unit increased by €161 million from €3,389 million in 2005 to €3,550 million in 2006. This 4.8 percent increase was primarily attributable to higher wholesale electricity prices which could be passed on to customers (approximately €1,280 million), higher earnings from sale of shareholdings (approximately €130 million) and lower expenses for nuclear fuel management, primarily due to the absence of expenditures for nuclear operations taken in the prior year (€85 million). The positive effects of these factors on the business unit's adjusted EBIT were partly offset by negative effects from the new regulation of network charges in Germany (approximately €580 million). Higher fuel costs (approximately €160 million), primarily reflecting significantly higher prices for hard coal and higher procurement costs (approximately €400 million) also reduced overall adjusted EBIT. Adjusted EBIT was also negatively affected by increased charges relating to earlier periods (approximately €170 million).

Adjusted EBIT of the Central Europe West Gas business unit decreased by 11.4 percent to €272 million in 2006, compared with €307 million in 2005. The lower result was a consequence of the impact of new regulation of network charges in Germany (approximately €60 million). The negative impact of the regulation could only partially be offset by the effect of the first-time inclusion of a full year of results from GVT (approximately €30 million).

The Central Europe East business unit contributed adjusted EBIT of €269 million in 2006, a 13.5 percent increase from €237 million in 2005, largely reflecting the inclusion of a full year of earnings from the regional distributors in Bulgaria, Hungary, and Romania acquired in 2005, as well as a positive contribution from the two newly acquired companies in the Czech Republic (together approximately €46 million). Higher procurement costs and weather related lower sales volumes in the Hungarian gas business reduced adjusted EBIT by approximately €10 million.

Central Europe's Other/Consolidation business unit recorded an adjusted EBIT of €77 million in 2006 compared with an adjusted EBIT of negative €3 million in 2005. This positive change primarily resulted from higher income from realized hedging transactions (€106 million) and increased earnings from shareholdings (€37 million). Mainly intrasegment consolidation effects, re-evaluation of stock options owing to an increase in E.ON's stock price, reduction of the interest rate for pensions and changes in the basis of consolidation reduced adjusted EBIT by an aggregate of €63 million.

Pan-European Gas

For financial reporting purposes, the Pan-European Gas market unit is divided into three business units: Up-/Midstream, Downstream Shareholdings and Other/Consolidation. The Up-/Midstream business unit reflects the results of the supply, transmission system, storage and sales businesses, with the midstream operations essentially including all of the supply and sales business other than exploration and production activities. The Downstream Shareholdings business unit reflects the results of ERI and Thüga. Other/Consolidation includes consolidation effects.

The results of the Downstream Shareholdings business unit have included the results of E.ON Gaz România since July 1, 2005 and the results of MOL's gas trading and storage units (now E.ON Földgaz Trade and E.ON Földgaz Storage) since April 1, 2006. The results of the Up-/Midstream business unit include those of Caledonia (now E.ON Ruhrgas North Sea), which has been consolidated since November 1, 2005.

Total sales of the Pan-European Gas market unit increased by 39.5 percent to €24,987 million (including €2,061 million of natural gas and electricity taxes and €2,393 million in intersegment sales) in 2006, compared with a total of €17,914 million (including €3,110 million of natural gas and electricity taxes and €1,079 million in intersegment sales) in 2005. The increase was mainly attributable to higher average sales prices, higher sales volumes outside of Germany and consolidation effects. The decline in natural gas and electricity taxes is related to the new German energy taxation law which came into effect in August 2006 and provides that the tax is paid by distributors of gas rather than the importer.

The following table sets forth the sales of each business unit in the Pan-European Gas market unit (excluding natural gas and electricity taxes) in each of the last two years:

SALES OF PAN-EUROPEAN GAS MARKET UNIT

| | <u>2006</u> | <u>2005</u> | <u>Percent Change</u> |
|-------------------------------|----------------------|----------------------|---------------------------|
| | (€ in millions) | | |
| Up-/Midstream | 18,868 | 13,380 | +41.0 |
| Downstream | 4,773 | 1,848 | +158.3 |
| Other/Consolidation | (715) | (424) | -68.6 |
| Total | <u>22,926</u> | <u>14,804</u> | +54.9 |

Sales in the Up-/Midstream business unit increased in 2006 by €5,488 million or 41.0 percent from €13,380 million to €18,868 million, with the increase being primarily attributable to the increase in average sales prices (approximately €4.6 billion) and higher sales volumes (from 690.2 billion kWh to 709.7 billion kWh) in the midstream activities. In the upstream business, sales increased in particular as a result of the first time full year inclusion of E.ON Ruhrgas North Sea (€163 million), which was acquired in November 2005, and the increase of sales prices at E.ON Ruhrgas Norge and E.ON Ruhrgas UK (€43 million).

In the Downstream Shareholdings business unit, sales more than doubled, increasing by €2,925 million to €4,773 million in 2006 compared with €1,848 million in 2005. The main reason for the change was an increase in sales in ERI's downstream operations (€2,801 million), particularly the impact of the first-time consolidation of E.ON Földgaz Trade and E.ON Földgaz Storage following their consolidation in April (€1,943 million) and the first time inclusion of a full year of results from E.ON Gaz România (€585 million). The overall figure also reflected an increase in sales of €125 million at Thüga's downstream operations, mainly reflecting a rise in gas sales as a consequence of higher average gas prices (€161 million), the impact of which was partially offset by the impact of regulatory changes in Italy and Germany (€46 million).

The total volume of gas sold by E.ON Ruhrgas' midstream operations increased by 2.8 percent to 709.7 billion kWh in 2006 from 690.2 billion kWh in 2005. Sales to domestic distributors decreased by 1.5 percent from 323.7 billion kWh to 318.7 billion kWh. Sales to domestic municipal utilities increased by 1.4 percent from 160.9 billion kWh to 163.1 billion kWh. E.ON Ruhrgas sold 67.6 billion kWh of gas to domestic industrial customers, a decrease of 4.0 percent from 70.4 billion kWh in 2005. Exports reached 160.3 billion kWh in 2006, a 18.6 percent increase from 135.2 billion kWh in 2005, primarily resulting from increased trading activities in the U.K. E.ON Ruhrgas purchased approximately 84.4 percent of its gas supplies from outside Germany and approximately 15.6 percent from German producers in 2006, compared with 84.5 percent and 15.5 percent, respectively, in 2005. In the Downstream Shareholdings business unit, total gas sales volumes more than doubled, rising from 69.0 billion kWh in 2005 to 175.1 billion kWh in 2006. Thüga increased its sales volumes by 2.7 percent to 23.1 billion kWh from 22.5 billion kWh. Sales volumes at ERI more than tripled to 152.0 billion kWh from 46.5 billion kWh in 2005, largely due to the first time inclusion of a full year of results from E.ON Gaz România and the inclusion of E.ON Földgaz since April 2006.

Adjusted EBIT of the Pan-European Gas market unit increased by 37.1 percent to €2,106 million in 2006 from €1,536 million in 2005. The rise in adjusted EBIT reflected positive results in the Up-/Midstream business unit, which were only partly offset by lower results in the Downstream Shareholdings business unit, as described in more detail below.

The following table sets forth the adjusted EBIT of each business unit in the Pan-European Gas market unit in each of the last two years:

ADJUSTED EBIT OF PAN-EUROPEAN GAS MARKET UNIT

| | <u>2006</u> | <u>2005</u> | <u>Percent</u> |
|--------------------------------|---------------------|---------------------|----------------|
| | (€ in millions) | | Change |
| Up-/Midstream | 1,684 | 988 | +70.4 |
| Downstream Shareholdings | 431 | 551 | -21.8 |
| Other/Consolidation | (9) | (3) | -200.0 |
| Total | <u>2,106</u> | <u>1,536</u> | +37.1 |

Adjusted EBIT in the Up-/Midstream business unit increased by €696 million or 70.4 percent from €988 million in 2005 to €1,684 million in 2006. The €25 million increase in adjusted EBIT at the upstream activities primarily reflected continued high oil and natural gas prices. These higher oil and gas prices led to improvements in adjusted EBIT of E.ON Ruhrgas UK and E.ON Ruhrgas Norge, whereas the positive effect of the first time inclusion of a full year of results from E.ON Ruhrgas North Sea was more than offset by the impact of reductions in expected production from certain gas fields. Adjusted EBIT in the midstream activities increased by €671 million, primarily due to the positive impact of the time lag effect in adjusting purchase prices, which had a

negative impact last year (€699 million). Furthermore, the settlement of proprietary trading transactions at maturity contributed €195 million to the increase. The positive impact of these factors on the adjusted EBIT of the midstream activities was partially offset by a lower contribution from commodity derivatives (€66 million) as well as the combination of higher transportation fees and the fact that the 2005 result had benefited from the recalculation of fees for the usage of gas pipes (€87 million).

In the Downstream Shareholdings business unit, adjusted EBIT decreased by €120 million or 21.8 percent to €431 million in 2006 from €551 million in 2005. The decrease in adjusted EBIT was primarily attributable to the new regulation of network charges in Germany which led to impairments of certain Thüga shareholdings totaling €188 million, as well as to the establishment of provisions for the obligation to refund to network customers the difference between network charges originally assessed and those finally approved (€34 million). Furthermore, E.ON Földgaz Trade, which operates in Hungary's regulated gas market, negatively impacted the Downstream Shareholding's adjusted EBIT due to a delay in the approval of tariffs allowing it to recoup higher procurement costs (€78 million). These negative effects were partially offset by higher net earnings at other equity investments (€94 million), the inclusion of the results of E.ON Gaz România for the entire year of 2006 as compared to only six months in 2005 (€41 million) and the first-time inclusion of the results of E.ON Földgaz Storage (€31 million).

U.K.

From the beginning of 2006, E.ON UK re-allocated costs relating to the business services unit (facilities, IT and other shared services), which had been recorded under Other/Consolidation, to the Non-regulated Business to reflect this unit's use of such services. The Regulated Business already incurred a charge for these services. The 2005 results included below have been recalculated on the same basis to facilitate a comparison. In addition, the Energy Services business, most of which was included in the Regulated Business in prior years, has been included in the Non-regulated Business since the beginning of 2006, reflecting the unit's revised strategic objectives.

Total sales of the U.K. market unit in 2006 increased by 23.5 percent to €12,569 million (including €163 million in intersegment sales) from €10,176 million (including €74 million in intersegment sales) in 2005, primarily as a result of increased sales in the Non-regulated Business, as explained in more detail below.

The following table sets forth the sales of each business unit in the U.K. market unit in each of the last two years:

SALES OF U.K. MARKET UNIT

| | <u>2006</u> | <u>2005</u> | <u>Percent</u> |
|----------------------------------|----------------------|----------------------|----------------|
| | (€ in millions) | | <u>Change</u> |
| Non-regulated Business | 12,081 | 9,553 | +26.5 |
| Regulated Business | 856 | 813 | +5.3 |
| Other/Consolidation | <u>(368)</u> | <u>(190)</u> | -93.7 |
| Total | <u>12,569</u> | <u>10,176</u> | +23.5 |

Sales in the Non-regulated Business, which is primarily comprised of the energy wholesale (generation and trading), retail and the energy services businesses in the U.K., increased by €2,528 million from €9,553 million in 2005 to €12,081 million in 2006. This 26.5 percent increase was primarily attributable to higher retail prices driven by higher energy prices, the effects of which were partially offset by lower volumes resulting from warmer weather and changes in consumer behavior (€1,271 million) and higher sales in the wholesale market reflecting both higher energy prices and increased market sales volumes (€986 million).

Sales in the Regulated Business, which is primarily comprised of the U.K. distribution operations, increased to €856 million in 2006 from €813 million in 2005. The sales increase of €43 million, or 5.3 percent, was principally attributable to tariff changes.

Sales attributed to the Other/Consolidation business unit consist almost entirely of the elimination of intrasegment sales and had a negative impact on sales of €368 million in 2006, as compared to a negative impact of €190 million in 2005.

The volume of electricity sold by the U.K. market unit decreased by 1.2 billion kWh or 1.6 percent to 73.8 billion kWh, as compared with 75.0 billion kWh in 2005. Market sales associated with trading operations increased by 2.1 billion kWh or 13.8 percent to 17.5 billion kWh and mass market sales increased by 0.6 billion kWh or 1.6 percent to 37.9 billion kWh, while those to industrial and commercial customers decreased by 3.9 billion kWh or 17.6 percent to 18.4 billion kWh, reflecting the market unit's focus in this segment on securing margins rather than volume. The decrease in sales was reflected in the volume of own production and power purchased from outside sources. Own production decreased by 1.4 billion kWh or 3.7 percent from 37.3 billion kWh in 2005 to 35.9 billion kWh in 2006, primarily due to the unplanned outage at Ratcliffe power station. Power purchased from other suppliers decreased by 1.1 billion kWh or 2.8 percent to 38.1 billion kWh from 39.2 billion kWh, reflecting lower sales to industrial and commercial customers. The volume of power purchased from power stations in which E.ON UK has an interest of 50 percent or less increased by 0.1 billion kWh or 16.6 percent. Gas sales increased by 11.5 billion kWh or 6.3 percent from 182.5 billion kWh in 2005 to 194.0 billion kWh in 2006, with the increase reflecting higher market sales (20.9 billion kWh), offset in part by lower sales to industrial and commercial customers (3.9 billion kWh), lower sales to retail mass market customers (3.8 billion kWh), as well as a decrease in gas used for the market unit's own generation (1.7 billion kWh). E.ON UK satisfied its increased need for gas through an increase of 17.0 billion kWh or 12.7 percent in market purchases, while the volume of gas being sourced under long-term gas supply contracts decreased by 5.5 billion kWh or 11.4 percent from 48.4 billion kWh in 2005 to 42.9 billion kWh in 2006.

Adjusted EBIT at the U.K. market unit increased by €266 million or 27.6 percent from €963 million in 2005 to €1,229 million in 2006, reflecting an increase at each of the Non-regulated Business and the Regulated Business, partially offset by lower results at Other/Consolidation, as described in more detail below.

The following table sets forth the adjusted EBIT of each business unit in the U.K. market unit in each of the last two years:

ADJUSTED EBIT OF U.K. MARKET UNIT

| | 2006 | 2005 | Percent Change |
|----------------------------------|---------------------|-------------------|-------------------|
| | (€ in millions) | | |
| Non-regulated Business | 869 | 540 | +60.9 |
| Regulated Business | 488 | 452 | +8.0 |
| Other/Consolidation | <u>(128)</u> | <u>(29)</u> | -341.4 |
| Total | <u>1,229</u> | <u>963</u> | +27.6 |

The Non-regulated Business contributed adjusted EBIT of €869 million in 2006. This €329 million or 60.9 percent increase from €540 million in 2005 mainly resulted from the combination of higher margins at the coal fired power stations, higher retail prices and profit and cost saving initiatives implemented after the disappointing results of the first quarter (€1,627 million), which were partially offset by higher commodity costs in 2006 (€1,127 million) as well as the fact that the 2005 results reflected a benefit of €45 million relating to the integration of previously outsourced customer service activities.

The Regulated Business increased its adjusted EBIT from €452 million in 2005 to €488 million in 2006. The 8.0 percent or €36 million increase was almost entirely attributable to tariff changes and cost improvements.

The contribution of the Other/Consolidation business unit to adjusted EBIT, which is structurally negative due to the combination of intercompany eliminations and costs of the E.ON UK corporate center, was negative €128 million in 2006, as compared with negative €29 million in 2005. The change was primarily attributable to foreign exchange hedging impacts (€19 million), higher pension costs (€18 million) and central costs to support a growing business (€9 million).

Nordic

Total sales of the Nordic market unit remained essentially stable in 2006, amounting to €3,204 million (including €377 million of electricity and natural gas taxes and €86 million in intersegment sales) compared to €3,213 million (including €382 million of electricity and natural gas taxes and €102 million in intersegment sales) in 2005. Sales decreased in both the Non-regulated Business and the Regulated Business units. This was offset by a positive development in Other/Consolidation, as described in more detail below.

As noted above, the Nordic market unit adopted a new business unit structure following the disposition of E.ON Finland, with its operating units split between the Non-regulated Business and the Regulated Business. In addition, the gas business has been undergoing structural changes since 2005. Following the deregulation of the Swedish gas market, the gas trading and retail businesses were moved from the distribution company to the respective trading and retail companies in the E.ON Sverige group. Since January 2006, the trading and retail businesses are included in the business unit "Non-regulated Business", whereas the gas distribution business remains in the business unit "Regulated". This re-allocation affects the year-on-year comparison of sales and adjusted EBIT for both the Regulated Business unit and the Non-regulated Business unit.

The following table sets forth the sales of each business unit in the Nordic market unit in each of the last two years, in each case excluding electricity and natural gas taxes:

SALES OF NORDIC MARKET UNIT

| | <u>2006</u> | <u>2005</u> | <u>Percent</u> <u>Change</u> |
|----------------------------------|---------------------|---------------------|---------------------------------|
| | (€ in millions) | | |
| Non-regulated Business | 2,119 | 2,247 | -5.7 |
| Regulated Business | 725 | 850 | -14.7 |
| Other/Consolidation | <u>(17)</u> | <u>(266)</u> | +93.6 |
| Total | <u>2,827</u> | <u>2,831</u> | — |

Sales in the Non-regulated Business unit, which includes power generation, retail, trading, heat and services operations decreased by €128 million or 5.7 percent from €2,247 million to €2,119 million, driven by lower volumes in hydro and nuclear power generation following significantly lower hydro reservoir inflow in the first three quarters of 2006 and the temporary shutdown of several nuclear plants.

Sales in the Regulated Business unit, which includes electricity distribution, as well as gas transmission, distribution and storage, decreased from €850 million to €725 million. This €125 million or 14.7 percent decrease was mainly attributable to the reorganization of gas trading activities from the Regulated Business unit to the Non-regulated Business unit in 2006 noted above.

Sales attributed to the Other/Consolidation business unit consists almost entirely of the elimination of intrasegment sales and had a negative impact on sales of €17 million in 2006, as compared to a negative impact of €266 million in 2005. The significant decrease of intersegment sales in 2006 compared to 2005 primarily reflects the impact of the re-allocation of the gas trading and retail businesses to the Non-regulated Business and the fact that the 2005 results had included a higher volume of maintenance services provided to the Non-regulated Business following the severe storm in January 2005. Notably, the hydropower assets sold to Statkraft in October 2005 were included in the Other/Consolidation business unit and contributed to the results until their disposal. This partly offset the negative impact on sales coming from the Other/Consolidation business unit in 2005.

Total power supplied by E.ON Nordic (excluding physically settled trading activities) decreased by 11.5 percent to 40.6 billion kWh in 2006, compared with 45.9 billion kWh in 2005. The decrease of 5.3 billion kWh reflected a reduction in the volume of power sold to sales partners/Nord Pool by 19.6 percent from 26.2 billion kWh in 2005 to 21.1 billion kWh in 2006, primarily reflecting lower hydropower production due to the prevailing hydropower situation, the sale of hydropower assets to Statkraft in late 2005, and the unplanned outages of nuclear reactors. Sales to residential customers decreased by 0.4 billion kWh or 5.7 percent from 7.0 billion kWh in 2005 to 6.6 billion kWh in 2006, as a result of unseasonably warm weather in the fourth quarter 2006. Sales to commercial

customers increased by 1.6 percent to 12.7 billion kWh in 2006 compared with 12.6 billion kWh in 2005, reflecting the impact of new customers. E.ON Nordic's own production decreased by 16.2 percent from 33.3 billion kWh in 2005 to 27.9 billion kWh in 2006, mainly resulting from lower hydropower generation (5.1 billion kWh) and lower nuclear generation (0.8 billion kWh). As a result of lower production volumes from its own sources, E.ON Nordic purchased slightly more power from outside sources (0.5 billion kWh). Purchases from jointly owned power stations remained stable with 10.2 billion kWh. The total volume of gas sold to third parties decreased in 2006 to 5.8 billion kWh from 6.9 billion kWh in 2005, mainly resulting from lower sales to industrial and distribution customers (1.7 billion kWh).

Adjusted EBIT at the Nordic market unit decreased by €147 million or 19.2 percent, from €766 million to €619 million, primarily reflecting lower generation volumes, the disposition of hydropower assets to Statkraft, and increased taxation on hydroelectric assets and nuclear generation, as described in more detail below.

The following table sets forth the adjusted EBIT of each business unit in the Nordic market unit in each of the last two years:

ADJUSTED EBIT OF NORDIC MARKET UNIT

| | <u>2006</u> | <u>2005</u> | <u>Percent</u> |
|----------------------------------|------------------------|-------------------|----------------|
| | <u>(€ in millions)</u> | | <u>Change</u> |
| Non-regulated Business | 448 | 541 | -17.2 |
| Regulated Business | 200 | 244 | -18.0 |
| Other/Consolidation | <u>(29)</u> | <u>(19)</u> | -52.6 |
| Total | <u>619</u> | <u>766</u> | -19.2 |

Adjusted EBIT in the Non-regulated Business unit decreased by €93 million from €541 million in 2005 to €448 million in 2006. This 17.2 percent decrease primarily reflected increased taxation on hydroelectric assets and nuclear generation (€63 million), and lower hydro and nuclear generation volumes resulting from the strained hydrological situation during summer and autumn and the unplanned nuclear outages (€146 million). These effects were partially offset by a positive effect from rising spot electricity prices and successful hedging activities, which enabled Nordic to secure higher average sales prices for its production portfolio (€174 million).

In the Regulated Business, adjusted EBIT decreased by €44 million from €244 million in 2005 to €200 million in 2006. This 18.0 percent decrease mainly resulted from the re-allocation of gas trading activities from the Regulated Business unit to the Non-regulated Business unit (€22 million), and increased costs for power losses in the transmission and distribution grid (€13 million) driven by higher electricity prices during 2006.

The contribution of the Other/Consolidation business unit to adjusted EBIT, which is structurally negative due to the combination of intercompany eliminations and costs of the E.ON Nordic corporate center, decreased from negative €19 million in 2005 to negative €29 million in 2006. The decrease primarily reflects the loss of the contribution from hydropower assets sold to Statkraft in 2005 (€30 million).

U.S. Midwest

Total sales of the U.S. Midwest market unit amounted to €1,947 million in 2006, a decrease of 4.8 percent from €2,045 million in 2005. The decrease was primarily due to lower off-system sales volumes and milder weather in 2006, the impact of which was partially offset by higher recoveries of coal price increases from retail customers and recoveries of environmental capital spending.

The following table sets forth the sales of each business unit in the U.S. Midwest market unit in each of the last two years:

SALES OF U.S. MIDWEST MARKET UNIT

| | <u>2006</u> | <u>2005</u> | <u>Percent</u> <u>Change</u> |
|----------------------------------|---------------------|---------------------|---------------------------------|
| | (€ in millions) | | |
| Regulated Business | 1,887 | 1,965 | -4.0 |
| Non-regulated Business | <u>60</u> | <u>80</u> | -25.0 |
| Total | <u>1,947</u> | <u>2,045</u> | -4.8 |

Sales of the Regulated Business, which is comprised of the utility operations of LG&E and KU, decreased by €78 million to €1,887 million in 2006, from €1,965 million in 2005. The 4.0 percent decrease was primarily attributable to lower revenues from off-system electric sales (€80 million), as well as lower retail electric and gas volumes resulting from milder weather (and associated lower passed-through costs of gas supply) (€63 million), and lower wholesale gas sales volumes (€14 million). These negative effects were partially offset by the higher recovery from customers of passed-through costs for fuel (primarily coal) used for generation (€61 million), and higher recoveries on environmental capital spending (€17 million).

Sales of the Non-regulated Business, which primarily consists of ECC and its subsidiaries, decreased by €20 million or 25.0 percent from €80 million in 2005 to €60 million in 2006, with the decrease being primarily attributable to new regulations that allowed Argentine industrial customers to purchase gas directly from producers.

Adjusted EBIT at the U.S. Midwest market unit increased by 7.1 percent from €365 million in 2005 to €391 million in 2006.

The following table sets forth the adjusted EBIT of each business unit in the U.S. Midwest market unit in each of the last two years:

ADJUSTED EBIT OF U.S. MIDWEST MARKET UNIT

| | <u>2006</u> | <u>2005</u> | <u>Percent</u> <u>Change</u> |
|----------------------------------|-------------------|-------------------|---------------------------------|
| | (€ in millions) | | |
| Regulated Business | 387 | 351 | +10.3 |
| Non-regulated Business | <u>4</u> | <u>14</u> | -71.4 |
| Total | <u>391</u> | <u>365</u> | +7.1 |

Adjusted EBIT at the Regulated Business increased by €36 million or 10.3 percent from €351 million in 2005 to €387 million in 2006. The increase was primarily attributable to net cost savings resulting from the exit from MISO in the third quarter of 2006 (€24 million) and lower amortization expenses reflecting the completion of certain restructuring activities (€25 million), as well as recoveries on environmental capital spending (€17 million) and higher prices realized on off-system electric sales (€13 million). The impact of these positive effects was partially offset by lower retail electric and gas volumes due to significantly milder weather in 2006 (€33 million) and higher labor costs (€15 million).

Adjusted EBIT at E.ON U.S.'s Non-regulated Business decreased from €14 million in 2005 to €4 million in 2006. This 71.4 percent or €10 million decrease primarily reflected the loss of earnings from LPI following its sale in 2006 (€17 million), partially offset by the improved performance of the Argentine operations (€5 million).

Corporate Center

The Corporate Center reduced Group sales by €3,328 million in 2006, compared with reducing sales by €1,502 million in 2005. The reduction in adjusted EBIT attributable to the segment was €416 million in 2006, compared with €399 million in 2005. The contribution of the Corporate Center to both sales and adjusted EBIT is

structurally negative due to the elimination of intersegment results and administrative costs that are not matched by revenues.

Other Activities

For the period between Degussa's deconsolidation and E.ON's disposal of its interest in July 2006, E.ON's proportionate share of Degussa's after-tax earnings continued to be presented outside of the core energy business as part of E.ON's "Other Activities," which is reported as a separate segment. Degussa contributed €53 million to adjusted EBIT in 2006, compared with €132 million in 2005. For information regarding the disposal of E.ON's remaining interest in Degussa, see "— Overview."

YEAR ENDED DECEMBER 31, 2005 COMPARED WITH YEAR ENDED DECEMBER 31, 2004

E.ON Group

E.ON's sales in 2005 increased 22.5 percent to €51,616 million from €42,150 million in 2004 (in each case net of electricity and natural gas taxes). As noted above, the increase was primarily attributable to higher average prices in the electricity and gas business, higher electricity and gas sales volumes, an increase in sales of electricity generated from renewable resources reflecting regulatory requirements and consolidation effects. As illustrated in the table on page 145, the overall increase in the Group's sales reflected an increase in sales at each of its market units other than the Corporate Center.

Sales of the Central Europe market unit increased 17.1 percent in 2005 to €24,295 million (including €1,049 million of electricity taxes) from €20,752 million (including €1,051 million of electricity taxes) in 2004. Pan-European Gas' sales increased by 35.4 percent to €17,914 million (including €3,110 million of natural gas and electricity taxes) in 2005 from €13,227 million (including €2,923 million of natural gas and electricity taxes) in 2004. Sales of the U.K. market unit increased by 19.9 percent, amounting to €10,176 million in 2005 as compared to €8,490 million in 2004. The Nordic market unit grew its 2005 sales by 3.8 percent to €3,213 million (including €382 million of electricity and natural gas taxes) from €3,094 million (including €376 million of electricity and natural gas taxes) in 2004. Sales of the U.S. Midwest market unit increased by 19.0 percent in 2005 to €2,045 million compared with €1,718 million in 2004. The elimination of intersegment sales at the Corporate Center resulted in the segment reporting negative sales of €792 million in 2004 and negative sales of €1,502 million in 2005. The sales of each of these segments are discussed in more detail below.

Total cost of goods sold and services provided in 2005 increased 29.8 percent or €9,333 million to €40,603 million compared with €31,270 million in 2004, with increases at the Pan-European Gas market unit (€4,571 million), primarily reflecting the effect of higher procurement costs at the gas operations due to increased oil prices, at the Central Europe market unit (€3,120 million), reflecting higher electricity and gas procurement costs (approximately €1,000 million), higher purchases of energy produced from renewable resources under the Renewable Energy Law (approximately €800 million) and effects from first-time consolidation (approximately €800 million), and at the U.K. market unit (€1,801 million), primarily attributable to higher gas purchase costs (€629 million) and increased prices for power purchased (€566 million). Cost of goods sold as a percentage of revenues (net of electricity and natural gas taxes) increased to 78.7 percent in 2005 from 74.2 percent in 2004, as the rate of increase of cost of goods sold and services provided was greater than that of sales. Gross profit nonetheless increased, rising by 1.2 percent to €11,013 million in 2005 from €10,880 million in 2004.

Selling expenses decreased 9.0 percent or €381 million to €3,845 million in 2005, compared with €4,226 million in 2004. The decline reflected an overall reduction of €180 million in selling expenses at the U.K. market unit, including €62 million in reduced operating costs at Central Networks following the restructuring in 2004 and approximately €60 million from the release of a provision, as well as declines at the U.S. Midwest market unit (€114 million), primarily resulting from the reclassification of selling expenses to cost of goods sold and services provided, and at the Central Europe market unit (€59 million), reflecting effects from the first-time consolidation of E.ON IS totaling €190 million, which were partially offset by increased other expenses, in particular those resulting from first-time consolidations.

General and administrative expenses increased by €182 million, amounting to €1,516 million in 2005 compared with €1,334 million in 2004. The 13.6 percent increase reflected increases at all market units. At the U.K. market unit such costs increased by €70 million, primarily due to additional shared service costs as a result of acquisitions and project costs, and at the Pan-European Gas market unit by €36 million, primarily due to higher project costs and changes in the basis of consolidation. At the U.S. Midwest market unit general and administrative expenses increased by €29 million as a result of the reclassification of cost of goods sold and services provided to such expenses, while at the Corporate Center such costs increased by €26 million.

Other operating income (expenses), net increased to €1,674 million in 2005 from €1,378 million in 2004. This increase of €296 million, or 21.5 percent, reflected higher income from exchange rate differences and higher gains on derivative financial instruments. Net income (expenses) arising from exchange rate differences was equal to income of €138 million in 2005, as compared to expenses of €309 million in 2004, reflecting the results from the recognition of exchange rate movements on foreign currency transactions and net realized losses on foreign currency derivatives. Gains/losses on derivative financial instruments, net amounted to €931 million in 2005, compared with €602 million in 2004. This increase in income of €329 million or 54.7 percent was primarily attributable to the U.K. market unit. These effects were partially offset by lower net book gains on the disposal of investments and decreased miscellaneous other operating income (expenses), net. Net book gains decreased by €363 million year on year, amounting to €34 million in 2005, compared with €397 million in 2004. The 2004 figure primarily included gains from the sale of stakes in EWE Aktiengesellschaft ("EWE") and VNG (€317 million), the sale of an additional 3.6 percent of Degussa's share capital to RAG (€51 million), the sale of shares in Union Fenosa (€26 million) and the sale of certain shareholdings at the Central Europe market unit (€57 million). In 2005, a SAB 51 gain of €31 million related to the sale of shares of E.ON Avacon. Miscellaneous other operating income (expenses), net decreased by €143 million, amounting to income of €564 million in 2005, as compared with income of €707 million in 2004. This decrease was primarily attributable to lower income from the reversal of provisions (€218 million) and the impairment loss recorded at cogeneration facilities at the U.K. market unit (€129 million). These effects were partially offset by higher gains realized on the sale of securities (approximately €153 million) and the gain from the transfer of the Company's stake in TEAG (€90 million). For further information, see Note 5 of the Notes to Consolidated Financial Statements.

Financial earnings increased by €192 million, or 52.5 percent, resulting in a loss of €174 million in 2005 compared with a loss of €366 million in 2004. The increase was primarily attributable to a decrease of €327 million in interest and similar expenses, net, a decline of €215 million in income from companies accounted for under the equity method and a decrease of €57 million in write-downs of financial assets and share investments. For additional information, see Note 6 of the Notes to Consolidated Financial Statements.

As a result of the factors described above, income (loss) from continuing operations before income taxes and minority interests increased by 13.0 percent or €820 million to €7,152 million in 2005, as compared with €6,332 million in 2004.

In 2005, E.ON recorded income tax expenses of €2,261 million, as compared to a tax expense of €1,852 million in 2004. This increase of €409 million or 22.1 percent was primarily attributable to an increase of foreign deferred taxes, due in particular to the marking to market of energy derivatives in the U.K. market unit. For additional information, see Note 7 of the Notes to Consolidated Financial Statements.

Income attributable to minority interests, and therefore deducted in the calculation of net income, was €536 million in 2005, as compared to €469 million in 2004, with the increase of €67 million, or 14.3 percent, reflecting improved results at a number of the entities in which the Group holds a minority interest.

Results from discontinued operations increased net income by €3,059 million in 2005, as compared to a contribution to net income of €328 million in 2004. The significant increase reflected the gains on the disposal of Viterra and Ruhrgas Industries. For details, see Note 4 of the Notes to the Consolidated Financial Statements. The Group's net income increased 70.7 percent, totaling €7,407 million in 2005, compared with €4,339 million in 2004. Excluding the results of discontinued operations, E.ON would have recorded net income of €4,355 million in 2005, as compared to net income of €4,011 million in 2004.

Reconciliation of Adjusted EBIT. As noted above, E.ON uses adjusted EBIT as its segment reporting measure in accordance with SFAS 131. On a consolidated Group basis, adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. A reconciliation of Group adjusted EBIT to net income for each of 2006, 2005 and 2004 appears in the table on page 146. The following paragraphs discuss changes in the principal components of each of the reconciling items to income (loss) from continuing operations before income taxes and minority interests. For additional details, see Note 31 of the Notes to Consolidated Financial Statements.

On a consolidated Group basis, adjusted EBIT increased by 8.1 percent to €7,293 million in 2005, as compared with €6,747 million in 2004.

As detailed in the table below, adjusted interest income, net, remained essentially stable, amounting to an expense of €1,027 million in 2005 as compared to €1,032 million in 2004. The interest portion of long-term provisions deducted in the calculation was €252 million, as compared to €120 million in 2004, reflecting the fact that the 2004 result included a one-off effect related to amendments to Germany's Ordinance on Advance Payments for the Establishment of Federal Facilities for Safe Custody and Final Storage for Radioactive Wastes (*Endlager-Vorausleistungsverordnung*). Non-operating interest income, net, amounted to income of €39 million in 2005 as compared with an expense of €151 million in 2004. In 2005, non-operating interest income primarily reflected the termination of an interest provision (€32 million), while in 2004 the largest portion of this item resulted from accruals for interest payments due on taxes for audit periods which are still under review.

| | <u>2005</u> | <u>2004</u> |
|--|-----------------|----------------|
| | (€ in millions) | |
| Interest income and similar expenses (net) as shown in Note 6 of the Notes to Consolidated Financial Statements | (736) | (1,063) |
| (+) Non-operating interest income, net(1) | (39) | 151 |
| (-) Interest portion of long-term provisions | <u>252</u> | <u>120</u> |
| Adjusted interest income, net | <u>(1,027)</u> | <u>(1,032)</u> |

(1) This net figure is calculated by adding in non-operating interest expense and subtracting non-operating interest income.

Net book gains as used in the reconciliation of adjusted EBIT decreased by €98 million or 16.6 percent in 2005 from €589 million in 2004 to €491 million. In 2005, net book gains primarily resulted from the sale of other securities held by the Central Europe market unit (€371 million). In addition, the Central Europe market unit realized a gain on disposal of €90 million from the transfer of shares in TEAG. In 2004, net book gains resulted from the sale of equity interests in EWE and VNG (€317 million), the sale of shares of Union Fenosa and other securities held by the Central Europe market unit (€221 million) and the sale of an additional 3.6 percent of Degussa's share capital to RAG (€51 million). These book gains are calculated on a more inclusive basis than those discussed above in the analysis of other operating income (expenses), net. These gains generally include all gains and losses from the disposal of financial assets and results of deconsolidation, both net of expenses directly linked with the relevant disposal. They also include book gains and losses realized by equity investees, which are included in the income statement as a component of financial earnings.

Cost-management and restructuring expenses decreased by 71.0 percent to €29 million in 2005, compared with €100 million in 2004. In 2005, the principal expenses contributing to this item were restructuring costs of €18 million at the U.K. market unit, mainly attributable to the integration of Midlands Electricity, and restructuring costs of €11 million at the Central Europe market unit, primarily due to the merger of GVT and TEAG into ETE. In 2004, the principal expenses contributing to this item were restructuring costs of €63 million at the U.K. market unit, mainly attributable to the integration of Midlands Electricity, and restructuring costs of €37 million at the Central Europe market unit that were primarily attributable to the merger of a number of its regional distribution companies into E.ON Hanse and E.ON Westfalen Weser.

The income reported as other non-operating results amounted to €424 million in 2005, compared with €128 million in 2004. In 2005, other non-operating earnings positively reflected unrealized gains from the required

marking to market of derivatives under SFAS 133 (€1.2 billion), primarily at the U.K. market unit. This positive effect on this item was partially offset by the impact of an impairment charge that Degussa took as of December 31, 2005. Degussa recorded an impairment charge of approximately €836 million (before taxes) in its Fine Chemicals business unit due to significant changes in market conditions. As a result of this impairment, E.ON recorded a loss of approximately €347 million attributable to its direct 42.9 percent shareholding in Degussa. Additional offsetting effects on other non-operating earnings were storm-related costs for rebuilding of the distribution grid and compensating customers of approximately €140 million at the Nordic market unit, impairments recorded at cogeneration facilities in the U.K. market unit (€129 million), and an adjustment of deferred taxes (€96 million) made at an equity holding of the Corporate Center. In 2004, positive other non-operating results in the amount of approximately €304 million were attributable to unrealized gains from the required marking to market of derivatives under SFAS 133, primarily at the U.K. market unit, which were partially offset by unusual charges on investments at the Central Europe and U.K. market units (€110 million) and by impairment charges on real estate and short-term securities at the Central Europe market unit (€84 million).

Central Europe

For financial reporting purposes, the Central Europe market unit comprises four business units: Central Europe West Power, Central Europe West Gas, Central Europe East and Other/Consolidation. The Central Europe West Power business unit reflects the results of the conventional, nuclear and hydroelectric generation businesses, transmission, the regional distribution of power and the retail electricity business in Germany, as well as its trading business. In addition, Central Europe West Power also includes the results of E.ON Benelux, which operates power generation, district heating and gas and electricity retail businesses in the Netherlands. The Central Europe West Gas business unit reflects the results of the regional distribution of gas and the gas retail business in Germany. The Central Europe East business unit primarily includes the results of the regional distribution companies in Bulgaria, the Czech Republic, Hungary, Romania and Slovakia (with the Slovak activities being valued under the equity method given E.ON Energie's minority interest). Other/Consolidation primarily includes the results of other international shareholdings, service companies and E.ON Energie AG, as well as intrasegment consolidation effects.

Total sales of the Central Europe market unit increased by 17.1 percent to €24,295 million (including €1,049 million of electricity taxes and €248 million in intersegment sales) in 2005, compared with a total of €20,752 million (including €1,051 million of electricity taxes and €212 million in intersegment sales) in 2004. The overall increase of €3,543 million reflected higher sales at each of Central Europe's business units other than its Other/Consolidation business unit, as described in more detail below.

The following table sets forth the sales of each business unit in the Central Europe market unit in each of the last two years, in each case excluding electricity taxes:

SALES OF CENTRAL EUROPE MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> |
|-------------------------------------|----------------------|----------------------|----------------|
| | (€ in millions) | | <u>Change</u> |
| Central Europe West Power | 16,945 | 14,597 | +16.1 |
| Central Europe West Gas | 3,463 | 2,979 | +16.2 |
| Central Europe East | 2,618 | 1,877 | +39.5 |
| Other/Consolidation | <u>220</u> | <u>248</u> | -11.3 |
| Total | <u>23,246</u> | <u>19,701</u> | +18.0 |

Sales of the Central Europe West Power business unit increased by €2.348 million or 16.1 percent from €14,597 million in 2004 to €16,945 million in 2005. The increase was primarily attributable to higher electricity prices and higher grid access fees (approximately €750 million) as well as to an increase in the sale of electricity produced from renewable resources (approximately €570 million), as the volume of such energy, which E.ON Energie is required to purchase under regulatory requirements, increased in 2005. Increased trading revenues

contributed approximately €480 million to the overall increase, with the remainder reflecting increases in sales volumes and in other revenues.

Sales of the Central Europe West Gas business unit increased by 16.2 percent from €2,979 million in 2004 to €3,463 million in 2005, with the increase of €484 million primarily reflecting higher gas prices (approximately €425 million) as well as the first-time consolidation of two gas companies at E.ON Bayern and of GVT (approximately €205 million). These positive factors were partly offset by lower sales volumes, with the decrease reflecting weather-related effects as well as increased competition.

Sales of the Central Europe East business unit increased by 39.5 percent or €741 million, from €1,877 million in 2004 to €2,618 million in 2005, with the increase primarily due to the first-time inclusion of results from the Hungarian gas companies which were consolidated as of April 2005, the Bulgarian companies Varna and Gorna Oryahovitza, (consolidated as of March 2005) and the Romanian E.ON Moldova (consolidated as of September 2005) (together approximately €530 million). Higher electricity prices in Hungary and the Czech Republic also contributed to the increase.

Total power procured by the Central Europe market unit (excluding physically-settled trading activities) rose 6.7 percent to 271.3 billion kWh in 2005, compared with 254.3 billion kWh in 2004, primarily reflecting an increase in power procured from third parties. E.ON Energie's own production of power declined by 1.7 percent from 131.3 billion kWh in 2004 to 129.1 billion kWh in 2005. E.ON Energie produced approximately 48 percent of its power requirements in 2005, compared with approximately 52 percent in 2004. Compared with 2004, electricity purchased from jointly operated power stations increased by 7.1 percent from 11.2 billion kWh to 12.0 billion kWh. Purchases of electricity from third parties increased by 16.4 percent, from 111.8 billion kWh in 2004 to 130.2 billion kWh in 2005, largely due to the first-time consolidation of the electricity distribution companies in Bulgaria and Romania (approximately 6 TWh), as well as the purchase of significant higher volumes of renewable source electricity produced from renewable resources, which is regulated under Germany's Renewable Energy Law (approximately 6 TWh). The residual rise was mainly related to an increase in short- and midterm trading volumes.

In 2005, the Central Europe market unit contributed adjusted EBIT of €3,930 million, a 9.1 percent increase from a total of €3,602 million in 2004. The following table sets forth the adjusted EBIT of each business unit in the Central Europe market unit in each of the last two years:

ADJUSTED EBIT OF CENTRAL EUROPE MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> |
|-------------------------------------|------------------------|---------------------|----------------|
| | <u>(€ in millions)</u> | | <u>Change</u> |
| Central Europe West Power | 3,389 | 2,996 | +13.1 |
| Central Europe West Gas | 307 | 315 | -2.5 |
| Central Europe East | 237 | 235 | +0.9 |
| Other/Consolidation | <u>(3)</u> | <u>56</u> | — |
| Total | <u>3,930</u> | <u>3,602</u> | +9.1 |

Adjusted EBIT at the Central Europe West Power business unit increased by €393 million from €2,996 million in 2004 to €3,389 million in 2005. This 13.1 percent increase was primarily attributable to higher wholesale electricity prices which could be passed on to customers (approximately €610 million) as well as operational improvements (approximately €80 million). The positive effects of these factors on the business unit's adjusted EBIT were partly offset by higher fuel costs (approximately €210 million), primarily reflecting significantly higher prices for hard coal. Costs for the purchase of electricity from jointly owned power plants and from third parties increased by approximately €90 million. Procurement of CO₂ emission certificates also reduced overall adjusted EBIT at Central Europe West Power by a net amount of €46 million.

Adjusted EBIT of the Central Europe West Gas business unit declined by 2.5 percent to €307 million in 2005, compared with €315 million in 2004. The decrease of €8 million was primarily the result of lower sales volumes due to weather related effects as well as increased competition (approximately €30 million). This effect was partially

offset by the first time consolidation effect of two gas companies at E.ON Bayern and of GVT (€15 million), as well as increased gas transport revenues.

The Central Europe East business unit contributed adjusted EBIT of €237 million in 2005, a 0.9 percent increase from €235 million in 2004. As expected, the first time consolidation of the Bulgarian, Romanian and Hungarian companies did not have a material impact on the business unit's adjusted EBIT in 2005.

Central Europe's Other/Consolidation business unit recorded a €59 million decline in adjusted EBIT, from adjusted EBIT of €56 million in 2004 to adjusted EBIT of negative €3 million in 2005. The 2004 result had reflected the release of provisions relating to E.ON Energie in 2004.

Pan-European Gas

For financial reporting purposes, the Pan-European Gas market unit is divided into three business units: Up-/Midstream, Downstream Shareholdings and Other/Consolidation. The Up-/Midstream business unit reflects the results of the supply, transmission system, storage and sales businesses, with the midstream operations essentially including all of the supply and sales business other than exploration and production activities. The Downstream Shareholdings business unit reflects the results of ERI and Thüga. Other/Consolidation includes consolidation effects.

The results of the Downstream Shareholdings business unit have included the results of Distrigaz Nord since July 1, 2005. The results of the Up-/Midstream business unit included those of Caledonia (now E.ON Ruhrgas North Sea), which has been consolidated since November 1, 2005.

Total sales of the Pan-European Gas market unit increased by 35.4 percent to €17,914 million (including €3,110 million of natural gas and electricity taxes and €1,079 million in intersegment sales) in 2005, compared with a total of €13,227 million (including €2,923 million of natural gas and electricity taxes and €556 million in intersegment sales) in 2004. The increase was mainly attributable to higher sales volumes, as well as higher average sales prices.

The following table sets forth the sales of each business unit in the Pan-European Gas market unit (excluding natural gas and electricity taxes) in each of the last two years:

SALES OF PAN-EUROPEAN GAS MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> |
|-------------------------------|----------------------|----------------------|----------------|
| | (€ in millions) | | <u>Change</u> |
| Up-/Midstream | 13,380 | 9,274 | +44.3 |
| Downstream | 1,848 | 1,358 | +36.1 |
| Other/Consolidation | <u>(424)</u> | <u>(328)</u> | -29.3 |
| Total | <u>14,804</u> | <u>10,304</u> | +43.7 |

Sales in the Up-/Midstream business unit increased in 2005 by €4,106 million or 44.3 percent from €9,274 million to €13,380 million, with the increase being primarily attributable to the increase of average sales prices in the midstream activities (approximately €2.4 billion) as well as a rise in sales volumes (from 641.4 billion kWh to 690.2 billion kWh). The business unit's overall sales figure also benefited from the increase of sales prices (€102 million) and higher sales volumes (€31 million), primarily resulting from higher production of the Njord oil and gas field and of the Scoter gas field, as well as the first-time inclusion of E.ON Ruhrgas North Sea (€35 million) within the exploration and production activities.

In the Downstream Shareholdings business unit, sales increased by €490 million or 36.1 percent to €1,848 million in 2005 compared with €1,358 million in 2004. The main reason for the change was an increase in sales in ERI's downstream operations (€347 million), particularly Distrigaz Nord (€199 million) and Ferngas Nordbayern (€144 million). The overall figure also reflected an increase in sales of €143 million at Thüga's

downstream operations, reflecting changes in the basis of consolidation at Thüga Italia (€50 million) and higher average gas prices at Thüga in Germany (€45 million).

The total volume of gas sold by E.ON Ruhrgas' midstream operations increased by 7.6 percent to 690.2 billion kWh in 2005 from 641.4 billion kWh in 2004. Sales to domestic distributors decreased by 1.5 percent from 328.7 billion kWh to 323.7 billion kWh. Sales to domestic municipal utilities increased by 3.1 percent from 156.1 billion kWh to 160.9 billion kWh. E.ON Ruhrgas sold 70.4 billion kWh of gas to domestic industrial customers, an increase of 2.0 percent from 69.0 billion kWh in 2004. Exports reached 135.2 billion kWh in 2005, a 54.3 percent increase from 87.6 billion kWh in 2004. E.ON Ruhrgas purchased approximately 84.5 percent of its gas supplies from outside Germany and approximately 15.5 percent from German producers in 2005, compared with 83.2 percent and 16.8 percent, respectively, in 2004. In the Downstream Shareholdings business unit, total gas sales volumes increased by 35.3 percent from 51.0 billion kWh in 2004 to 69.0 billion kWh in 2005. Thüga increased its sales volumes by 7.7 percent to 22.5 billion kWh from 20.9 billion kWh, primarily due to changes in the basis of consolidation at Thüga Italia. Sales volumes at ERI rose by 54.5 percent to 46.5 billion kWh, largely due to the first time inclusion of Distrigaz Nord in the second half of 2005.

Adjusted EBIT of the Pan-European Gas market unit increased by 14.3 percent to €1,536 million in 2005 from €1,344 million in 2004. The rise in adjusted EBIT reflected positive results in the Up-/Midstream business unit as well as in the Downstream Shareholdings business unit, as described in more detail below.

The following table sets forth the adjusted EBIT of each business unit in the Pan-European Gas market unit in each of the last two years:

ADJUSTED EBIT OF PAN-EUROPEAN GAS MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> |
|------------------------------------|---------------------|---------------------|----------------|
| | (€ in millions) | | <u>Change</u> |
| Up-/Midstream | 988 | 862 | +14.6 |
| Downstream Shareholdings | 551 | 486 | +13.4 |
| Other/Consolidation | <u>(3)</u> | <u>(4)</u> | +25.0 |
| Total | <u>1,536</u> | <u>1,344</u> | +14.3 |

Adjusted EBIT in the Up-/Midstream business unit increased by €126 million or 14.6 percent from €862 million in 2004 to €988 million in 2005. The €104 million increase in adjusted EBIT at the upstream activities primarily reflected higher production volumes, as well as higher average sales prices. Adjusted EBIT in the midstream activities increased by €22 million. Contributing to the increase were positive effects from hedging activities (€103 million), the recalculation of fees for the use of natural gas pipelines (€61 million), higher income from share investments (€44 million), the impact of increased sales volumes as well as changes in the sales portfolio structure (€44 million), higher results from capacity charges mainly due to the impact of higher temperature spikes (€35 million) and higher transportation volumes (€31 million). These positive effects were partially offset by negative impacts derived from price effects (€255 million) (e.g., reflecting higher procurement costs attributable to the sharp increase in heating oil prices and the underlying linkage between these prices and natural gas prices), as well as negative results from trading derivatives (€39 million).

In the Downstream Shareholdings business unit, adjusted EBIT increased by €65 million or 13.4 percent to €551 million in 2005 from €486 million in 2004. This increase reflected positive developments at Thüga (€95 million), that were attributable to changes in the basis of consolidation at Thüga Italia, higher equity earnings and lower writedowns. ERI's adjusted EBIT decreased by €30 million, largely due to the inclusion of the results of Distrigaz Nord for the second half of the year 2005.

U.K.

Total sales of the U.K. market unit in 2005 increased by 19.9 percent to €10,176 million (including €74 million in intersegment sales) from €8,490 million (including €10 million in intersegment sales) in 2004, primarily as a

result of significantly increased sales in the Non-regulated Business business unit, as explained in more detail below.

The following table sets forth the sales of each business unit in the U.K. market unit in each of the last two years:

SALES OF U.K. MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent Change</u> |
|----------------------------------|----------------------|---------------------|---------------------------|
| | (€ in millions) | | |
| Non-regulated Business | 9,553 | 7,788 | +22.7 |
| Regulated Business | 813 | 941 | -13.6 |
| Other/Consolidation | <u>(190)</u> | <u>(239)</u> | +20.5 |
| Total | <u>10,176</u> | <u>8,490</u> | +19.9 |

Sales in the Non-regulated Business, which is primarily comprised of the energy wholesale (generation and trading) and retail businesses in the U.K., increased by €1,765 million from €7,788 million in 2004 to €9,553 million in 2005. This 22.7 percent increase was primarily attributable to higher retail prices (€1,222 million) and higher market commodity gas and power sales (approximately €752 million), the effects of which were offset in part by a reduction in retail sales volumes (€209 million) primarily arising in the industrial and commercial business.

Sales in the Regulated Business, which is primarily comprised of the U.K. distribution operations, decreased to €813 million in 2005 from €941 million in 2004. The sales decrease of €128 million, or 13.6 percent, was attributable to the reallocation of new business income from turnover to below gross margin (€72 million), the disposal of non-core businesses acquired in the Midlands acquisition and other items (€38 million) and tariff changes (€18 million).

Sales attributed to the Other/Consolidation business unit consist almost entirely of the elimination of intrasegment sales and had a negative impact on sales of €190 million in 2005, as compared to a negative impact of €239 million in 2004.

The volume of electricity sold by the U.K. market unit decreased by 7.1 billion kWh or 8.6 percent to 75.0 billion kWh, as compared with 82.1 billion kWh in 2004. Mass market sales increased by 1.1 billion kWh or 3.1 percent to 37.3 billion kWh, while those to industrial and commercial customers decreased by 4.2 billion kWh or 15.9 percent to 22.3 billion kWh, reflecting the market unit's focus in this segment on securing margins rather than volume. The decrease in sales was reflected in the volume of power purchased from outside sources. Own production increased by 2.4 billion kWh or 7.0 percent from 34.9 billion kWh in 2004 to 37.3 billion kWh in 2005. Power purchased from other suppliers decreased by 7.9 billion kWh or 17.0 percent to 39.2 billion kWh from 47.1 billion kWh. In addition, the volume of power purchased from power stations in which E.ON UK has an interest of 50 percent or less decreased by 1.4 billion kWh or 69.4 percent as a result of the acquisition of remaining shares in the CDC power station. Gas sales increased by 6.6 billion kWh or 3.7 percent from 175.9 billion kWh in 2004 to 182.5 billion kWh in 2005, with the increase reflecting higher market sales (7.2 billion kWh), offset in part by lower sales to industrial and commercial customers (3.4 billion kWh), as well as an increase in gas used for the market unit's own generation (1.3 billion kWh). E.ON UK satisfied its increased need for gas mainly through an increase of 7.6 billion kWh or 6.0 percent in market purchases, while the volume of gas being sourced under long-term gas supply contracts decreased by 1.1 billion kWh or 2.1 percent from 49.5 billion kWh in 2004 to 48.4 billion kWh in 2005.

Adjusted EBIT at the U.K. market unit decreased by €54 million or 5.3 percent from €1,017 million in 2004 to €963 million in 2005, reflecting a decrease at Other/Consolidation, which more than offset higher results of the Non-regulated Business and the Regulated Business, as described in more detail below.

The following table sets forth the adjusted EBIT of each business unit in the U.K. market unit in each of the last two years:

ADJUSTED EBIT OF U.K. MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> |
|----------------------------------|-------------------|---------------------|----------------|
| | (€ in millions) | | <u>Change</u> |
| Non-regulated Business | 661 | 626 | +5.6 |
| Regulated Business | 452 | 446 | +1.4 |
| Other/Consolidation | (150) | (55) | -172.7 |
| Total | <u>963</u> | <u>1,017</u> | -5.3 |

The Non-regulated Business contributed adjusted EBIT of €661 million in 2005. This €35 million or 5.6 percent increase from €626 million in 2004 mainly resulted from higher retail prices and the realization of additional cost savings from the integration of the former TXU retail business (€1,282 million), which were partially offset by increased commodity input costs which include the new CO₂ emission certificates and other items (€1,247 million).

The Regulated Business increased its adjusted EBIT from €446 million in 2004 to €452 million in 2005. The 1.4 percent increase was almost entirely attributable to the first-time full-year inclusion of Midlands Electricity, which was acquired on January 16, 2004.

The contribution of the Other/Consolidation business unit to adjusted EBIT, which is structurally negative due to the combination of intercompany eliminations and costs of the E.ON UK corporate center, was negative €150 million in 2005, as compared with negative €55 million in 2004. The change was primarily attributable to additional project expenditure and service costs associated with acquisitions (€40 million), the absence of earnings from Asian Asset Management activities following the divestment of that business (€32 million) and an expiry of deferred warranty income from previous asset sales (€18 million).

Nordic

Total sales of the Nordic market unit increased from €3,094 million in 2004 (including €376 million of electricity and natural gas taxes and €66 million in intersegment sales) to €3,213 million (including €382 million of electricity and natural gas taxes and €102 million in intersegment sales) in 2005. This 3.8 percent increase was primarily attributable to higher average spot prices in conjunction with successful hedging activities.

The following table sets forth the sales of each business unit in the Nordic market unit in each of the last two years, in each case excluding electricity and natural gas taxes:

SALES OF NORDIC MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> |
|----------------------------------|---------------------|---------------------|----------------|
| | (€ in millions) | | <u>Change</u> |
| Non-regulated Business | 2,247 | 2,107 | +6.6 |
| Regulated Business | 850 | 828 | +2.7 |
| Other/Consolidation | (266) | (217) | -22.6 |
| Total | <u>2,831</u> | <u>2,718</u> | +4.2 |

Sales in the Non-regulated Business unit increased by €140 million or 6.6 percent from €2,107 million in 2004 to €2,247 million in 2005, primarily due to higher average spot prices in conjunction with successful hedging activities.

Sales in the Regulated Business unit increased from €828 million in 2004 to €850 million in 2005. This €22 million, or 2.7 percent, increase mainly reflects increased sales volumes via the Baltic Cable. This positive effect was partially offset by lower sales due to the severe storm that hit southern Sweden in January 2005, causing extensive damage to electricity distribution networks.

Sales attributable to the Other/Consolidation business unit, almost entirely consisting of the elimination of intrasegment sales, had a negative impact on sales of €266 million in 2005, as compared to a negative impact of €217 million in 2004.

Total power supplied by E.ON Nordic (excluding physically settled trading activities) decreased by 2.1 percent to 45.9 billion kWh in 2005, compared with 46.9 billion kWh in 2004. The decrease of one billion kWh reflected a reduction in the volume of power sold to residential customers by 4.1 percent from 7.3 billion kWh in 2004 to 7.0 billion kWh in 2005, primarily reflecting the effects of the January storm. Sales to commercial customers decreased by 7.3 percent to 12.7 billion kWh in 2005 compared with 13.7 billion kWh in 2004, also reflecting the impact of the January storm. Sales to sales partners and Nord Pool increased slightly by 1.2 percent from 25.9 billion kWh in 2004 to 26.2 billion kWh in 2005, primarily resulting from increased generation in owned power plants. E.ON Nordic's own production rose by 3.7 percent from 32.1 billion kWh in 2004 to 33.3 billion kWh in 2005, mainly resulting from increased hydropower generation (2.1 billion kWh). This was partially offset by a decline in nuclear power production (0.9 billion kWh) that primarily reflected the fact that the availability of Swedish nuclear power plants in 2004 had been unusually high. E.ON Nordic purchased less power, primarily from outside sources (1.6 billion kWh) mostly reflecting lower imports from Germany. Purchases from jointly owned power stations declined (0.6 billion kWh) due to a lower availability in these plants. The total volume of gas sold to third parties decreased slightly in 2005 to 6.9 billion kWh from 7.1 billion kWh in 2004, mainly resulting from slightly lower sales to industrial customers (0.2 billion kWh).

Adjusted EBIT at the Nordic market unit increased by €105 million or 15.9 percent from €661 million to €766 million, primarily reflecting higher effective prices from its electricity production portfolio, as described in more detail below.

The following table sets forth the adjusted EBIT of each business unit in the Nordic market unit in each of the last two years:

ADJUSTED EBIT OF NORDIC MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> <u>Change</u> |
|----------------------------------|-------------------|-------------------|---------------------------------|
| | (€ in millions) | | |
| Non-regulated Business | 541 | 444 | +21.8 |
| Regulated Business | 244 | 215 | +13.5 |
| Other/Consolidation | <u>(19)</u> | <u>2</u> | — |
| Total | <u>766</u> | <u>661</u> | +15.9 |

Adjusted EBIT in the Non-regulated Business unit increased by €97 million from €444 million in 2004 to €541 million in 2005. This 21.8 percent increase reflected the rising electricity wholesale prices in conjunction with successful hedging activities, which enabled E.ON Nordic to record higher effective prices per unit for energy generated from its electricity production portfolio (€96 million), as well as increased electricity generation volumes (€27 million) primarily resulting from higher hydropower production availability. These positive effects were partially offset by rebranding costs (€15 million) and losses on currency derivatives (€13 million).

In the Regulated Business, adjusted EBIT increased by €29 million from €215 million in 2004 to €244 million in 2005. This 13.5 percent increase mainly resulted from improvements at the gas operations, due to a favorable spread between gas oil and fuel oil prices (€10 million).

U.S. Midwest

Total sales of the U.S. Midwest market unit amounted to €2,045 million in 2005, an increase of 19.0 percent from €1,718 million in 2004. The increase primarily reflected higher retail sales due to higher electric and gas rates effective July 1, 2004, higher off-system sales due to both higher volumes and higher prices, as well as higher retail electric volumes resulting from warmer summer and fall weather.

The following table sets forth the sales of each business unit in the U.S. Midwest market unit in each of the last two years:

SALES OF U.S. MIDWEST MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> |
|----------------------------------|------------------------|---------------------|----------------|
| | <u>(€ in millions)</u> | | <u>Change</u> |
| Regulated Business | 1,965 | 1,643 | +19.6 |
| Non-regulated Business | <u>80</u> | <u>75</u> | +6.7 |
| Total | <u>2,045</u> | <u>1,718</u> | +19.0 |

Sales of the Regulated Business, which is comprised of the utility operations of LG&E and KU, increased by €322 million to €1,965 million in 2005, from €1,643 million in 2004. The 19.6 percent increase was attributable to higher recovery from customers of passed-through costs of fuel used for generation (€91 million) and of gas supply costs (€54 million), higher revenues from off-system electric sales reflecting higher wholesale electric prices driven by higher gas prices and higher volumes (€49 million), an increase in retail volumes resulting from warmer summer and fall weather (€49 million), higher retail prices following the rate increases that took effect in mid-2004 (€43 million), MISO revenue sufficiency guarantee payments (€35 million), higher wholesale natural gas sales (€10 million) and higher environmental cost recoveries (€9 million). These positive effects were partially offset by the impact of the expiration of the ESM (€11 million).

Sales of the Non-regulated Business, which primarily consists of ECC and its subsidiaries, increased by €5 million or 6.7 percent from €75 million in 2004 to €80 million in 2005, with the increase being primarily due to higher revenues in the Argentina operations due to higher summer gas volumes.

Adjusted EBIT at the U.S. Midwest market unit increased by 3.1 percent from €354 million in 2004 to €365 million in 2005.

The following table sets forth the adjusted EBIT of each business unit in the U.S. Midwest market unit in each of the last two years:

ADJUSTED EBIT OF U.S. MIDWEST MARKET UNIT

| | <u>2005</u> | <u>2004</u> | <u>Percent</u> |
|----------------------------------|------------------------|-------------------|----------------|
| | <u>(€ in millions)</u> | | <u>Change</u> |
| Regulated Business | 351 | 339 | +3.5 |
| Non-regulated Business | <u>14</u> | <u>15</u> | -6.7 |
| Total | <u>365</u> | <u>354</u> | +3.1 |

Adjusted EBIT at the Regulated Business increased by €12 million or 3.5 percent from €339 million in 2004 to €351 million in 2005. The increase was primarily attributable to the increase in sales resulting from increased retail electric and gas rates that went into effect July 1, 2004 (€43 million), higher retail electric volumes due to warmer summer and fall weather (€38 million) and the contribution from off-system sales (€38 million), reflecting higher wholesale electric prices driven by higher gas prices and higher volumes. These positive effects were partially offset by costs associated with participation in MISO (€49 million), higher purchased power costs due to unit outages (€31 million), higher operating expenses (€14 million), the impact of the expiration of the ESM (€11 million) and higher depreciation on newly installed assets (€11 million).

Adjusted EBIT at E.ON U.S.'s Non-regulated Business was generally consistent with 2004, decreasing by €1 million or 6.7 percent, from €15 million in 2004 to €14 million in 2005.

Corporate Center

The Corporate Center reduced Group sales by €1,502 million in 2005, compared with reducing sales by €792 million in 2004. The reduction in adjusted EBIT attributable to the segment was €399 million in 2005, compared with €338 million in 2004. The contribution of the Corporate Center to both sales and adjusted EBIT is structurally negative, due to the elimination of intersegment results and administrative costs that are not matched by revenues.

Other Activities

Effective February 1, 2004, Degussa has been accounted for using the equity method in line with E.ON's minority shareholding in the company. Under the equity method, Degussa's sales are not included in E.ON's consolidated sales. From February 1, 2004, a percentage of Degussa's earnings after taxes and minority interests equal to E.ON's proportionate interest is recorded in E.ON's financial earnings. After selling a further 3.6 percent interest, E.ON has owned 42.9 percent of Degussa since June 1, 2005 and 42.9 percent of Degussa's earnings after taxes and minority interests are recorded in E.ON's financial earnings. Degussa contributed €132 million to adjusted EBIT in 2005, compared with €107 million in 2004. For information of the framework agreement regarding the disposal of E.ON's remaining interest in Degussa, see "— Overview."

As of December 31, 2005, Degussa took an impairment charge of €836 million (before taxes) in its Fine Chemicals business unit due to significant changes in market conditions. For more information on the impact on E.ON, see the discussion of other non-operating results in the reconciliation of adjusted EBIT for the E.ON Group above.

INFLATION

The rates of inflation in Germany during 2006, 2005 and 2004 were 1.7 percent, 2.0 percent and 1.6 percent, respectively on chained prices base. The effects of inflation on E.ON's operations have not been significant in recent years.

EXCHANGE RATE EXPOSURE AND CURRENCY RISK MANAGEMENT

Certain business activities within the E.ON Group result in foreign exchange rate exposures. Of the Group's consolidated revenues in 2006, 2005 and 2004, 38 percent, 35 percent and 34 percent, respectively, were attributable to customers located outside of member states participating in the EMU.

To manage the Group's exposure to exchange rate fluctuations, E.ON continually monitors its exposures to currency risks and pursues a systematic and Group-wide foreign exchange risk management policy. At the end of 2006, the Group's consolidated foreign exchange rate exposure, which is calculated as its netted transaction risk exposure derived from booked and forecasted transactions excluding any foreign exchange translation exposure from net investments in entities with a functional currency other than the euro, was approximately €2.0 billion, compared with approximately €2.2 billion at year-end 2005. The Group's foreign exchange rate exposure is principally attributable to the Central Europe and U.K. market units (which have short positions in U.S. dollars) and Pan-European Gas (which has a short position in U.S. dollars and long positions in British pounds and Hungarian forint). Due to the acquisition of the Powergen Group and E.ON Sverige, the E.ON Group also has a net investment in assets denominated in British pounds, U.S. dollars and Swedish krona, which is continually monitored and partly hedged with foreign exchange instruments in accordance with the financial guidelines of the E.ON Group.

The principal derivative financial instruments used by E.ON to cover foreign currency exposures are foreign exchange forward contracts, cross currency swaps, interest rate cross currency swaps and currency options. As of December 31, 2006, the E.ON Group had entered into foreign exchange forward contracts with a nominal value of €11.5 billion, cross currency swaps with a nominal value of €18.5 billion, interest rate cross currency swaps with a

nominal value of €0.3 billion and currency options with a nominal value of zero. The currencies in which the Group's derivative financial instruments are denominated reflect the currencies in which it is subject to transaction and translation risks. For further information, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and Note 28 of the Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The major source of liquidity for E.ON in 2006 was again cash provided by operating activities. Cash provided by operating activities amounted to €7,194 million in 2006, €6,544 million in 2005 and €5,776 million in 2004. The 9.9 percent increase in cash provided by operating activities in 2006 was primarily attributable to operational improvements and the first-time consolidation of the VKE German energy industry pension fund at the Central Europe market unit, as well as the fact that the 2005 result had been reduced by payments to the pension funds at the U.K. market unit. Other positive effects were a decrease in accounts receivable at the U.S. Midwest market unit and tax effects at the Corporate Center. These improvements were partially offset by the seasonally negative cash flow effects related to gas storage due to the first-time inclusion of results from E.ON Földgáz Trade. Time shifts in payments and higher prices for gas storage also reduced cash flow.

Proceeds from divestments, which are reported in the Consolidated Statements of Cash Flows as the sum of payments received on the disposition of equity investments and intangible and fixed assets, amounted to €3,954 million in 2006, €6,294 million in 2005 and €1,888 million in 2004. In 2006, divestment proceeds were primarily attributable to the sales of interests in Degussa (€2,776 million) and E.ON Finland (€393 million).

E.ON's major liquidity requirement in recent years has been for purchases of financial assets (including equity investments) and other fixed assets. Capital expenditures in 2006, 2005 and 2004 amounted to €5,161 million, €3,941 million and €4,777 million, respectively, and are reported in the Consolidated Statements of Cash Flows as the sum of purchases of equity investments, and intangible and fixed assets. In 2006, in 2005 and in 2004, investments in fixed and intangible assets exceeded purchases of equity investments. The relative decrease in capital expenditures in 2006 and 2005 reflected the relative absence of major acquisitions. For additional information on these acquisitions, see "— Acquisitions and Dispositions" above and Note 4 of the Notes to Consolidated Financial Statements. As described in more detail in the segment analysis below, the most significant capital expenditures in 2006 were for fixed and intangible assets at a number of the market units, particularly Central Europe and U.K., as well as for payments related to the acquisition of MOL at the Pan-European Gas market unit. Funds used for the above-mentioned acquisitions and contributions to the CTA model in 2006 were the primary reasons for the change in E.ON's cash flow used for investing activities, which totaled €442 million cash provided in 2005 and €4,501 million cash used in 2006 (€359 million cash used in 2004).

Cash used for financing activities totaled €5,849 million, with the decrease from €6,458 million in 2005 primarily reflecting the smaller net reduction of financial liabilities, partly offset by higher dividend distributions. In 2004, cash used for financing activities had totaled €4,749 million.

As of December 31, 2006, the Group had cash and cash equivalents from continuing operations of €1,152 million, as compared with €4,346 million at December 31, 2005 (€4,113 million at year-end 2004).

The following table shows the cash provided by operating activities and used for capital expenditures for each of the Group's segments in 2006, 2005 and 2004 (in each case excluding the cash flows of discontinued operations, see "— Results of Operations — Business Segment Information" above).

E.ON BUSINESS SEGMENT CASH FLOW AND CAPITAL EXPENDITURES(1)(2)

| | 2006 | | 2005 | | 2004 | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Cash from Operations | Capital Expenditures | Cash from Operations | Capital Expenditures | Cash from Operations | Capital Expenditures |
| | (€ in millions) | | | | | |
| Central Europe | 3,825 | 2,416 | 3,020 | 1,981 | 2,938 | 2,273 |
| Pan-European Gas(3) | 589 | 880 | 1,999 | 523 | 903 | 610 |
| U.K. | 749 | 863 | 101 | 926 | 633 | 503 |
| Nordic(3) | 715 | 631 | 689 | 394 | 893 | 666 |
| U.S. Midwest(3) | 381 | 398 | 214 | 227 | 152 | 247 |
| Corporate Center(3) | 935 | (27) | 521 | (110) | 257 | 478 |
| Total | <u>7,194</u> | <u>5,161</u> | <u>6,544</u> | <u>3,941</u> | <u>5,776</u> | <u>4,777</u> |

- (1) For a detailed description of capital expenditures by purchases of financial assets and purchases of other fixed assets, see Note 27 of the Notes to Consolidated Financial Statements.
- (2) Excludes investments in other financial assets.
- (3) Excludes the cash from operations and capital expenditures of certain activities now accounted for as discontinued operations. For more details, see "— Acquisitions and Dispositions — Discontinued Operations" and Note 4 of the Notes to Consolidated Financial Statements.

Capital Expenditures

The Central Europe market unit continued to account for the largest portion of the Group's capital expenditures over the most recent three-year period, primarily as a result of acquisitions of equity interests in energy companies and other share investments, as well as additions to property, plant and equipment and intangible assets. Capital expenditures at the Central Europe market unit increased by 22.0 percent from €1,981 million in 2005 to €2,416 million in 2006. Investments in property, plant and equipment and intangible assets amounted to €1,883 million, mainly consisting of assets used in conventional and renewable power generation, waste incineration and the distribution of energy. The Central Europe market unit invested €533 million in share investments, of which €100 million were due to the acquisitions of JCP and Teplárna Otrokovice in the Czech Republic and Dalmine in Italy. Furthermore, investments in companies which are constructing conventional generation and waste incineration plants and the investment in the waste incineration company SOTEC amounted to €130 million. Investments in real estate funds amounted to approximately €135 million. In 2005, investments in property, plant and equipment and intangible assets amounted to €1,519 million, mainly consisting of assets used in conventional, waste disposal and renewable power generation and in distribution. The Central Europe market unit invested €462 million in share investments, of which €126 million were due to the acquisitions of interests in the Dutch NRE (€67 million) and the Romanian Electrica Moldova (now E.ON Moldova) (€59 million). Capital expenditures of the Central Europe market unit amounted to €2,273 million in 2004, with €1,388 million invested in property, plant and equipment and intangible assets primarily used in power generation and distribution. Investments in share investments amounted to €885 million, with the largest single category being intra-Group acquisitions from the Pan-European Gas market unit in connection with the new market unit structure (€404 million), the largest of which was the acquisition of additional interests in Ferngas Salzgitter (€230 million). The investment in share investments also included advance payments in connection with the acquisition of interests in Varna and Gorna Oryahovitz (€141 million), and the purchase of additional shares in Ferngas Salzgitter from third parties (€133 million) and increased stakes in a number of companies in the Czech Republic and Hungary (€106 million).

The Pan-European Gas market unit's level of capital expenditures increased by 68.3 percent from €523 million in 2005 compared with €880 million in 2006. In 2006, the Pan-European Gas market unit invested €506 million in share investments with the largest single investment being the approximately €400 million spent acquiring the MOL activities. Investments in property, plant and equipment and intangible assets, mainly in the transmission system and the upstream activities, amounted to €374 million. In 2005, the Pan-European Gas market unit invested €523 million, of which €263 million was spent on property, plant and equipment and intangible assets, primarily in the transmission system and upstream activities. The remaining €260 million in capital expenditures was used for share investments, with the largest single item being the €90 million spent acquiring the 51.0 percent stake in the Romanian gas distribution company Distrigaz Nord (now E.ON Gaz România). In 2004, the Pan-European Gas market unit invested €610 million, of which €105 million was spent on property, plant and equipment and intangible assets, primarily in the transmission system. The majority of the remaining €505 million in capital expenditures was for share investments, with the largest single item being the €223 million spent acquiring the remaining 3.4 percent stake in Thüga in the squeeze-out process.

Investments in the U.K. market unit decreased by 6.8 percent to €863 million in 2006 compared with €926 million in 2005. In 2006, the U.K. market unit invested €860 million in property, plant and equipment and intangible assets, primarily for generation assets, including the development of new renewables capacity at Lockerbie, Scotland, and in existing conventional power plants, as well as investments in the regulated distribution business. Investments in share investments amounted to €3 million. In 2005, investments in property, plant and equipment and intangible assets amounted to €565 million, mainly in renewable generation, conventional power stations, and the regulated distribution business. The U.K. market unit invested €361 million in share investments, primarily due to the acquisitions of Enfield and HGSL. In 2004, the U.K. market unit spent €511 million on fixed and intangible assets and negative €8 million was attributable to share investments. The majority of the investments in fixed assets was attributable to expenditures in the distribution business (€320 million), and the maintenance of the generation portfolio (€185 million).

The Nordic market unit invested €631 million in 2006, an increase of 60.2 percent, with €581 million dedicated to property, plant and equipment and intangible assets, mainly to maintain existing production plants, particularly nuclear power plants, and to upgrade and extend E.ON Nordic's distribution network. Investments in share investments amounted to €50 million. In 2005, investments at the Nordic market unit amounted to €394 million, with €373 million dedicated to property, plant and equipment and intangible assets primarily used to maintain production plants and to upgrade and expand its distribution network. Investments in share investments amounted to €21 million with the largest single investment being the acquisition of district heating activities from the Danish utility Nesa A/S. In 2004, the Nordic market unit's capital expenditures amounted to €666 million. Of this amount, €354 million was attributable to investments in share investments. The largest equity investment was the acquisition of additional Granninge shares (€307 million). The Nordic market unit also invested €312 million in property, plant and equipment and intangible assets in order to maintain its existing production facilities, as well as to upgrade and enhance the distribution network.

Capital expenditures in the U.S. Midwest market unit increased by 75.3 percent to €398 million in 2006. The total amount was invested in property, plant and equipment and intangible assets, primarily reflecting increased spending for SO₂ emissions equipment and the construction of a new 750 MW baseload unit at the Trimble County 2 plant. In 2005, investments amounted to €227 million, all of which was invested in property, plant and equipment and intangible assets. In 2004, the total amount of €247 million was invested in property, plant and equipment and intangible assets, primarily in the regulated business.

In the Corporate Center, capital expenditures amounted to negative €27 million in 2006, with investments of negative €14 million in share investments and negative €13 million in property, plant and equipment and intangible assets. In 2005, capital expenditure at the Corporate Center amounted to negative €110 million. The Corporate Center invested negative €119 million in share investments. The Corporate Center segment's level of capital expenditures in 2004 amounted to €478 million. The majority of this amount was invested in share investments, primarily payments to holders of outstanding bonds of Midlands Electricity as part of its acquisition (€881 million) and in the Thüga squeeze-out (€223 million), with the impact of these investments on the segment's total partially offset by the elimination of intersegment transactions.

Financial Liabilities. The financial liabilities of E.ON decreased to €13,399 million at year-end 2006 from €14,362 million at year-end 2005. The decrease of €963 million or 6.7 percent primarily resulted from reductions in other financial liabilities (€555 million), bonds outstanding (€535 million) and the outstanding amount of bank loans (€293 million), the overall effects of which were partially offset by an increase in commercial paper outstanding (€366 million). Bank loans decreased from €1,530 million at year-end 2005 to €1,237 million at year-end 2006. Of the amounts payable under bank loans at year-end 2006, €353 million (28.5 percent) are due in 2007, €80 million (6.5 percent) due in 2008, €62 million (5.0 percent) due in 2009, €45 million (3.6 percent) due in 2010, €504 million (40.8 percent) due in 2011 and €193 million (15.6 percent) due after 2011. Up to December 31, 2004, non-interest-bearing and low-interest liabilities of Viterra were reported net of the interest portion in the Consolidated Balance Sheet. Due to the disposal of Viterra in 2005, no deduction of the interest portion was reported as of December 31, 2006.

E.ON follows a centralized financing policy. Most of the financing transactions of E.ON's market units have been centralized and netted at the Group level to reduce the Group's overall debt and interest expense. As a general rule, external financings will be undertaken at the E.ON AG level (or via finance subsidiaries under its guarantee) and on-lent as needed within the Group. In certain limited circumstances, future financings may also take place at the subsidiary level, *e.g.* for reasons of tax efficiency or regulatory compliance.

To support E.ON's centralized financing policy, E.ON AG has a Commercial Paper program and a Medium Term Note program with aggregate authorized amounts of €10 billion and €20 billion, respectively. E.ON also has a Syndicated Multi-Currency Revolving Credit Facility that permits borrowings in various currencies in an aggregate amount of up to €10 billion. For additional information on these programs, including amounts outstanding and available as of year end 2006, see Note 24 of the Notes to Consolidated Financial Statements.

E.ON's financing arrangements contain affirmative and negative covenants and provide for various events of default that are generally in line with industry standard terms for similar borrowings. In general, E.ON's most significant financial arrangements do not include financial covenants such as ratio compliance tests, though a number do include restrictions on certain types of transactions and negative pledges. E.ON and its subsidiaries were in compliance with all such covenants as of December 31, 2006 and 2005, and no cross-default clauses had been triggered as of such dates.

Neither E.ON AG's Medium Term Note program nor any of the bonds outstanding under the program contain any financial covenants. Documentation is customary and both the program and the bonds contain the same cross-default language, under which a cross default would be triggered if the issuer or the guarantor fails to pay indebtedness for borrowed money in an amount above a specified threshold or any amount payable under any guarantee in respect of such indebtedness or if a creditor is entitled to declare that any such indebtedness is payable before its stated maturity by reason of an event of default.

E.ON AG's Commercial Paper program does not contain any financial covenants. The cross default language is in line with the above-mentioned language for the Medium Term Note program and bonds.

E.ON AG's syndicated credit facility contains no financial covenants, nor does it provide for a rating trigger. A cross default would be triggered by the declaration of financial indebtedness (with the exception of guarantees and indemnities) of any material subsidiary or any of the borrowers in an aggregate amount of more than €500 million to be due and payable prior to its specified maturity pursuant to the occurrence of an event of default (cross acceleration default) or by non-payment of any financial indebtedness of any material subsidiary or any of the borrowers in an aggregate amount of more than €100 million within five business days after having fallen due or after any applicable grace period (cross payment default).

In the context of the offer for Endesa, E.ON entered into a syndicated term loan and guarantee facility agreement for a total amount of up to €37.1 billion on October 16, 2006 (Facility Agreement), and a supplemental term and guarantee facility of up to €5.3 billion (immediately reduced to €3.9 billion) on February 2, 2007 (Supplemental Facility Agreement). The Facility Agreement and the Supplemental Facility Agreement do not require the borrower to comply with any financial covenants. The cross default provision is identical to the provision in the €10 billion syndicated credit facility. For additional details on these facilities, see "Item 4. Information on the Company — History and Development of the Company — Proposed Endesa Acquisition."

In addition to these centralized financing arrangements described above, there are numerous additional financing arrangements in the E.ON Group that are not individually significant. These other arrangements also include affirmative and negative covenants and provide for various events of default that are generally in line with industry standard terms for similar borrowings. Certain of these arrangements also include financial covenants, including requirements to maintain certain ratios. Certain arrangements also include material adverse change clauses, as well as restrictions on certain types of transactions and negative pledges. E.ON and its subsidiaries were in compliance with all such covenants as of December 31, 2006 and 2005, and no cross-default clauses had been triggered as of such dates.

Bonds outstanding at the U.K. market unit totaling €408 million as of December 31, 2006, include covenants providing for a negative pledge and restrictions on sale and lease-back transactions. Each also includes a cross-default clause that would be triggered by a non-payment of principal, premium or interest on any obligation of the issuer, E.ON UK plc or any of its subsidiaries, with the threshold amounts ranging from GBP10 million to GBP50 million. In addition, the E.ON Sverige Medium Term Note Program with an outstanding amount of €631 million as of December 31, 2006, does not include any financial covenants but does contain a cross-default clause which would be triggered by a default of E.ON Sverige or any of its subsidiaries on financial indebtedness in the amount of SEK 10 million or more. Also, LG&E has five revolving lines of credit with banks totaling €140 million at year-end 2006. These revolving lines of credit include financial covenants, in particular that LG&E's debt/total capitalization ratio must be less than 70 percent and that E.ON AG must own at least two thirds of voting stock of LG&E directly or indirectly. Furthermore, the corporate credit rating of LG&E must be at or above BBB- and Baa3 and LG&E may not dispose of assets aggregating more than 15 percent of its total assets. Each of the credit lines contains a cross-default provision that causes the LG&E bilateral line of credit to be in default if LG&E is in default on other debt in excess of \$25 million.

For more detailed information on interest rates, maturities and other details of the Group's financial liabilities, including the credit facilities and Commercial Paper and Medium Term Note programs, see Note 24 of the Notes to Consolidated Financial Statements.

The failure of E.ON or the relevant borrower to comply with any of the identified covenants or the triggering of any cross-default clauses could result in any and all of the following:

- the repayment of the affected financing arrangement
- the declaration that a liability becomes due and payable before its stated maturity
- the triggering of cross defaults in other financing arrangements
- E.ON's access to additional financing on favorable terms being severely curtailed or even eliminated.

At year-end 2006, Standard & Poor's Ratings Group ("S&P") and Moody's Investors Service ("Moody's") rated E.ON's Commercial Paper program with a short-term rating of "A-1+" and "Prime-1," respectively. On February 22, 2006, Moody's placed its "Aa3" long-term rating for E.ON bonds on review for a possible downgrade, following the announcement by E.ON that it has made an offer to acquire 100 percent of the shares of Endesa. On September 28, 2006, Moody's commented that E.ON's long-term rating remains on review for a possible downgrade and that it has also decided to place the short-term "P-1" rating on review for a possible downgrade. On February 21, 2006, S&P placed its "AA-" long-term rating and its "A-1+" short-term rating for E.ON on creditwatch with negative implications, following the announcement by E.ON that it has made an offer to acquire 100 percent of the shares of Endesa. On August 21, 2006, S&P confirmed E.ON's long-term and short-term credit ratings. On September 27, 2006, S&P said that its long-term and short-term credit ratings for E.ON remain on creditwatch with negative implications following E.ON's announcement that it intended to increase its bid for Endesa to €35 per share.

Expected Investment Activity. E.ON currently plans to invest a total of approximately €25.3 billion over the three years from 2007 to 2009. This total, and the more detailed description of E.ON's expected investments below, excludes any amounts relating to E.ON's proposed acquisition of Endesa or any investments that may be undertaken with respect to any of the activities that may be acquired from Endesa. For more information on the proposed

transaction, see “Item 4. Information on the Company — History and Development of the Company — Proposed Endesa Acquisition.”

These capital expenditures are targeted, above all, at reinforcing the security of supply in E.ON’s existing markets, as well as developing E.ON’s position in new markets. A majority of these capital expenditures (approximately €22.4 billion) is earmarked for property, plant and equipment, with approximately €12.3 billion intended for the maintenance, renewal or replacement of existing power stations and grids, and €10.1 billion being budgeted for investments in new capacity, mainly in power generation. Of this €10.1 billion, investments in energy production from renewable sources are expected to account for approximately €0.9 billion. The remaining approximately €2.9 billion of the overall total is expected to consist of financial investments, particularly the planned expansion of E.ON’s shareholdings in the upstream gas business, as well as that of E.ON’s shareholdings in Eastern Europe and Turkey.

The Central Europe market unit expects to make a total of approximately €11.5 billion in capital expenditures between 2007 and 2009. Of this amount, approximately 88 percent is budgeted for property, plant and equipment, primarily for the modernization of existing generation facilities and power and gas networks, as well as for the construction of new facilities (most of which are expected to come on-line after 2009). As described in more detail in the description of the market unit’s activities in Item 4, the construction of new power stations at Datteln and Irsching has already begun, while E.ON is committed to building a new coal-fired power station at Staudinger if and when the necessary regulatory approvals are obtained. The market unit’s plans also call for the construction of a coal-fired test facility capable of operating with an efficiency of more than 50 percent. Outside of Germany, E.ON has started to build a modern gas-fired power station at Livorno Ferraris in Italy, and plans to build a coal-fired power station at Maasvlakte in the Netherlands and various power stations in Eastern Europe. A total of approximately €3.6 billion has been budgeted for investments in power and gas networks in Central Europe, of which approximately €2.4 billion is intended for the maintenance of existing networks. The market unit’s budgeted financial investments of approximately €1.4 billion are mainly earmarked for the development of E.ON’s market position in Eastern Europe and Turkey.

The Pan-European Gas market unit plans to invest approximately €4.7 billion during the three-year period, of which €3.4 billion is budgeted for investments in property, plant and equipment. These investments are mainly targeted towards enhancing the security and flexibility of gas supplies by improving and expanding the gas transmission pipelines and storage facilities, as well as the construction of a new LNG terminal at Wilhelmshaven that is currently scheduled to begin operation in 2010. In addition, approximately €0.8 billion is budgeted for investments in the development of upstream facilities, while the market unit’s budgeted financial investments of approximately €1.3 billion essentially relate to its planned acquisition of a minority interest in the Severneftegazprom joint venture, which holds the exploration and production license for the Yushno Russkoje gas field in Russia. For additional information on this venture, see “Item 4. Information on the Company — Business Overview — Pan-European Gas — Supply — Exploration and Production.”

Investments at the U.K. market unit are expected to total approximately €4.3 billion through 2009 and are almost entirely focused on property, plant and equipment, primarily the modernization of generation facilities and network infrastructure. The market unit’s plans include the replacement of some of its existing generation capacity with a new gas-fired power station and a new coal-fired facility that are currently scheduled to begin operation in 2009 and 2012/13, respectively. Of this €4.3 billion, approximately €0.2 billion has been budgeted for financial investments in companies operating wind power facilities.

The Nordic market unit is expected to invest approximately €2.7 billion in property, plant and equipment over the three-year period, while not having budgeted any amounts for financial investments. Nordic’s investments are mainly earmarked for the improvement of power distribution networks and the modernization and upgrade of existing generation facilities, as well as the construction of a new CHP power station and the development of wind power projects.

Capital expenditures totalling approximately €2.1 billion through 2009 are budgeted at the U.S. Midwest market unit. All of these investments are earmarked for property, plant and equipment. The market unit’s most important investment project is the construction of Trimble County 2, a 750 MW coal-fired power station, while

investments will also be made in environmental measures at existing power stations and the improvement of power and gas networks.

The investment plan summarized above only contains projects that E.ON believes are sufficiently probable from today's perspective.

The proposed offer for Endesa is the only material transaction expected to have a significant impact on E.ON's cash flows in 2007.

Upon approval of the Supervisory Board on August 10, 2005, E.ON Pension Trust e.V. and Pensionsabwicklungstrust e.V. were formed, each with registered offices in Grünwald, Germany. The purpose of these trusts is the fiduciary administration of funds to provide for future pension benefit payments to employees of German group companies (the so-called "CTA model"). The board resolution allows for a maximum contribution of €5.4 billion. In 2006, E.ON made a contribution of €5.2 billion.

In January 2005, E.ON AG agreed to make a payment of GBP431 million (approximately €629 million) into the pension schemes for existing employees of the U.K. market unit. The payment, which was made in April 2005, improved the funding level of the plans (which had a funding deficit of GBP728 million (€1.1 billion) at the time of the last actuarial valuation in March 2004) and allowed for the merger of four previously autonomous sections covering Powergen, EME, Midlands Electricity and TXU into a single pool.

E.ON expects that cash flow from operations will continue to be the primary source of funds for capital expenditures in its ongoing business (*i.e.*, excluding Endesa) and working capital requirements in 2007. E.ON believes that its cash flow and available liquid funds and credit lines will be sufficient to meet the anticipated cash needs of its ongoing business operations. In addition, various means of raising share capital (see "Item 10. Additional Information — Memorandum and Articles of Association — Changes in Capital" and Note 17 of the Notes to Consolidated Financial Statements) and debt are available to E.ON.

Fair Value of Derivatives. E.ON has established risk management policies that allow the use of foreign currency, interest rate, equity, and commodity derivative instruments and other instruments and agreements to manage its exposure to market, currency, interest rate, commodity price, share price and counterparty risk. E.ON uses derivatives for both trading and non-trading purposes. Proprietary trading is conducted with the goal of improving operating results within defined limits in specified markets.

The estimated fair value of commodity contracts used in the Group's trading activities for the year ended December 31, 2006 is presented below:

FAIR VALUE RECONCILIATION TABLE
(€ in millions)

| | |
|--|------------------|
| Fair value of contracts outstanding at the beginning of the period | 1,474.3 |
| Change to scope of consolidation | (8.4) |
| Contracts realized or otherwise settled during the period | (609.7) |
| Fair value of new contracts entered into during the period | (646.8) |
| Changes in fair values attributable to changes in valuation techniques and assumptions . . . | — |
| Other changes in fair values | <u>(1,605.2)</u> |
| Fair value of contracts outstanding at the end of the period | <u>(1,395.8)</u> |

For information regarding E.ON's trading activities, risk management and market factors impacting the fair values of contracts, see the respective market unit descriptions in "Item 4. Information on the Company — Business Overview," "— Risk Management," "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and Notes 28 and 29 of the Notes to Consolidated Financial Statements.

E.ON estimated the gross mark-to-market value of its commodity contracts as of December 31, 2006 using quoted market values where available and other valuation techniques where market data is not available. In such

instances, E.ON uses alternative pricing methodologies, including, but not limited to, fundamental data models, spot prices adjusted for forward premiums/discounts and option pricing models. Fair value contemplates the effects of credit risk, liquidity risk and the time value of money on gross mark-to-market positions.

The following table shows the sources of prices used to calculate the fair value of commodity contracts at December 31, 2006. In many cases these prices are fed into option models that calculate a gross mark-to-market value from which fair value is derived after considering reserves for liquidity, credit, time value and model confidence.

SOURCE OF FAIR VALUE TABLE

| Source of Fair Value | Fair Value of Contracts at Period-End | | | | Total Fair Value |
|--|---------------------------------------|--------------------|--------------------|-------------------------------|------------------|
| | Maturity less than 1 Year | Maturity 1-3 Years | Maturity 4-5 Years | Maturity in Excess of 5 Years | |
| Prices actively quoted | (786.7) | (148.0) | (16.5) | 12.7 | (938.5) |
| Prices provided by other external sources | (1.2) | (0.1) | — | — | (1.3) |
| Prices based on models and other valuation methods | (341.2) | (195.8) | 70.5 | 10.5 | (456.0) |

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

RESEARCH AND DEVELOPMENT

E.ON only performs minimal research and development ("R&D") activities. In 2006, E.ON spent approximately €27 million on R&D, compared with €24 million in 2005 and €19 million in 2004. In each of 2006, 2005 and 2004, E.ON's R&D expenditures as a percentage of sales were below one percent. E.ON does not anticipate any significant changes in its R&D expenditures in the near term. The 2006 expenditures were attributable to the Nordic, Pan-European and U.K. market units. The E.ON Group employs 175 R&D employees.

TREND INFORMATION

For information on the principal trends and uncertainties affecting the Company's results of operations and financial condition, see "Item 3. Key Information — Risk Factors," the respective market unit descriptions in "Item 4. Information on the Company — Business Overview" and "— Operating Environment," and "— Results of Operations" and "— Liquidity and Capital Resources" above.

PROCESS OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In July 2002, the European Parliament and Council passed Regulation No. 1606/2002 on the adoption of International Financial Reporting Standards ("IFRS") by European companies. In accordance with the Regulation, companies whose securities are publicly traded on a regulated market in an EU country are generally required to prepare their consolidated financial statements in accordance with IFRS, as adopted by the EU, for fiscal years commencing on or after January 1, 2005. The Regulation allowed individual EU member states to defer the deadline for adopting IFRS until 2007 in certain circumstances, particularly with respect to those companies that apply internationally accepted standards other than IFRS due to the fact that their securities are listed on a market outside of the EU. Germany adopted this deferral option in implementing the regulation. E.ON currently prepares its consolidated financial statements in accordance with U.S. GAAP. Accordingly, it qualifies for the German deferral option and is therefore required to prepare its consolidated financial statements for the fiscal year ending December 31, 2007 in accordance with IFRS as adopted by the EU. E.ON expects to meet this statutory deadline and to prepare an opening balance sheet in accordance with IFRS as of January 1, 2006 as part of its transition

process. Even after E.ON has adopted IFRS as its primary accounting principles, it will be required to present a reconciliation of net income and stockholders' equity in accordance with U.S. GAAP in its Annual Report on Form 20-F.

In order to prepare for the transition, E.ON has undertaken a project to determine the relevant differences between IFRS and U.S. GAAP and to evaluate the impact on the Company's financial reporting. However, it is currently not possible to determine exactly the impact on the Company's financial reporting of the conversion to IFRS. In addition to the fact that the transition project has yet to be completed, the IFRS principles that E.ON will adopt for the fiscal year ending December 31, 2007 will be those then in effect. As a result, new pronouncements from the International Accounting Standards Board ("IASB") and the required endorsement process by the EU prior to such date could have an impact on E.ON's consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

E.ON uses certain off-balance sheet arrangements in the ordinary course of business, including financial guarantees, lines of credit, indemnification agreements and other guarantees. E.ON's arrangements in each of these categories are described in more detail below. For additional information, see Notes 24 and 25 of the Notes to Consolidated Financial Statements.

Financial Guarantees. E.ON's financial guarantees require the guarantor to make contingent payments upon the occurrence of certain events or changes in an underlying instrument that is related to an asset, a liability, or the equity of the guaranteed party. These guarantees include arrangements that are characterized as direct and indirect obligations under FASB Interpretation No. ("FIN") 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Direct obligations are those that give the party receiving the guarantee a direct claim against E.ON; indirect obligations are those under which E.ON has agreed to provide the funds necessary for another party to satisfy an obligation, such as pursuant to a keepwell arrangement.

The Company's financial guarantees as of December 31, 2006 included certain direct obligations relating to E.ON's generation of electricity from nuclear power plants in Germany and Sweden, primarily those arising from solidarity agreements in connection with the requirement that German nuclear power plant operators provide nuclear accident liability coverage of up to €2.5 billion per accident. These obligations are described in more detail in "Item 4. Information on the Company — Environmental Matters — Germany: Electricity" and Note 25 of the Notes to Consolidated Financial Statements. E.ON's direct obligations also include direct financial guarantees issued in favor of the creditors of related parties and third parties. The Company's obligations under these direct financial guarantees with specified terms extend as far as 2023, and the maximum undiscounted amounts potentially payable in the future under these direct guarantees totaled €370 million at December 31, 2006, compared with €427 million at year-end 2005. Of these amounts, €284 million and €304 million, respectively, involved guarantees issued on behalf of related parties (including financing arrangements for the Interconnector undersea gas pipeline). E.ON's indirect financial guarantees include, *inter alia*, obligations in connection with cross-border leasing transactions entered into by E.ON Benelux, mainly obligations to provide financial support, primarily to related parties. E.ON's obligations under indirect financial guarantees with specified terms extend as far as 2030. The maximum undiscounted amounts potentially payable in the future under these indirect guarantees totaled €582 million at year-end 2006, compared with €431 million at December 31, 2005. Of these amounts, €262 million and €67 million, respectively, involved guarantees issued on behalf of related parties. As of December 31, 2006 and 2005, the Company had recorded provisions in accordance with U.S. GAAP of €5 million and €25 million, respectively, with respect to its obligations under all of these non-nuclear financial guarantees.

Indemnification Agreements. A number of the agreements governing E.ON's divestiture of former subsidiaries and operations include indemnification clauses (*Freistellungen*) and other guarantees, certain of which are required by applicable local law. These arrangements generally comprise customary guarantees relating to the accuracy of representations and warranties, as well as indemnification provisions relating to contingent future environmental and tax liabilities. The Company's obligations under these arrangements with specified terms extend as far as 2041 in accordance with contractual arrangements and local legal requirements, unless shorter terms were contractually agreed. The maximum undiscounted amount potentially payable in respect of the circumstances

expressly set forth in these agreements was €6,865 million as of December 31, 2006, as compared with €6,623 million at year-end 2005. In a number of cases, it is not possible to reliably estimate a maximum obligation because there is no maximum liability specified in the contract. A number of the contracts also require the buyer to either share costs or cover a certain amount of costs before the Company is required to make any payments. Certain of E.ON's obligations under these arrangements are also covered by insurance and/or provisions established at the relevant divested companies. As of December 31, 2006 and 2005, the Company had recorded provisions in accordance with U.S. GAAP of €270 million and €296 million, respectively, with respect to all indemnities and other guarantees included in the relevant agreements. Guarantees issued by companies that were later sold by E.ON AG (or VEBA AG and VIAG AG before their merger) have generally been assumed by the buyers of the relevant businesses in the final sales contracts in the form of indemnities, and are therefore no longer obligations of E.ON.

Other Guarantees. E.ON's obligations under "other guarantees" primarily include those relating to market value guarantees and warranties. These warranty obligations primarily relate to E.ON Energie's business, while those for market value guarantees primarily arise from assurances as to the future value of securities pledged in connection with cross-border leasing transactions. As of December 31, 2006, the maximum potential undiscounted future payments potentially payable in respect of these warranties and market value guarantees amounted to €104 million, as compared with €130 million at year-end 2005.

Variable Interest Entities. The Company holds variable interests in various Variable Interest Entities ("VIEs"), which are not significant either individually or in the aggregate. As of December 31, 2004, the VIEs consolidated in the Consolidated Financial Statements comprised two jointly managed electricity companies, two real estate leasing companies, one company for the management and disposal of real estate and one company managing investments. Following the termination of all contractual relationships with the VIE for the management and disposal of real estate in August 2005, which was presented as a discontinued operation as of December 31, 2005, FIN 46R no longer applies to this company. During the second quarter of 2006, E.ON acquired additional interests in one of the two real estate leasing companies. This company is now consolidated under the general consolidation rules as opposed to under the rules of FIN 46R. As of December 31, 2006, the VIEs consolidated within the E.ON Group had total assets of €710 million and recorded earnings for 2006 of €27 million before consolidation. At December 31, 2006, €132 million in non-current assets of these entities served as collateral for financial leasing and bank credits. The recourse of creditors of the consolidated VIEs to the assets of the primary beneficiary is generally limited. One VIE has no such limitation of recourse. The primary beneficiary was liable for €75 million in respect of this entity as of December 31, 2006.

In addition, E.ON has had contractual relationships with one leasing company in the energy sector since July 1, 2000. The Company is not the primary beneficiary of this VIE. The entity is currently in liquidation pursuant to a shareholder resolution. This entity had no significant assets and no liabilities at year end 2005 and 2006. Neither the relationship to this entity nor its liquidation is expected to result in the realization of losses by E.ON.

The extent of E.ON's interest in another VIE, which has been in existence since 2001 and was expected to terminate in 2005, cannot be assessed in accordance with the FIN 46R criteria due to insufficient information. The significant transactions between this entity and the E.ON Group took place in the fourth quarter of 2005, with no activities thereafter. However, the entity's liquidation remains outstanding. The entity handled the liquidation of assets from operations that had already been sold. Originally, its total assets amounted to €127 million. The termination of the relationship with this entity is not expected to result in any significant effects on E.ON's earnings.

For additional information, see Note 3 of the Notes to Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS

The following table summarizes E.ON's contractual obligations as of December 31, 2006 and the related amounts falling due in each of the periods presented:

| <u>Contractual Obligations</u> | <u>Payments Due by Period</u> | | | | |
|--|-------------------------------|-----------------------------|----------------------|----------------------|------------------------------|
| | <u>Total</u> | <u>Less than 1 Year</u> | <u>1-3 Years</u> | <u>3-5 Years</u> | <u>More than 5 Years</u> |
| | | | (€ in millions) | | |
| Financial Liabilities(1)(2) | 17,753 | 3,978 | 5,446 | 1,862 | 6,467 |
| Capital Lease Obligations | 175 | 46 | 56 | 20 | 53 |
| Operating Leases | 645 | 159 | 175 | 127 | 184 |
| Purchase Obligations | 241,443 | 28,473 | 43,575 | 41,214 | 128,181 |
| Asset Retirement Obligations | 9,948 | 460 | 312 | 253 | 8,923 |
| Pension Payments | 9,790 | 883 | 1,847 | 1,943 | 5,117 |
| Other Long-Term Obligations | 3,888 | 2,726 | 992 | 5 | 165 |
| Total Contractual Obligations | <u>283,642</u> | <u>36,725</u> | <u>52,403</u> | <u>45,424</u> | <u>149,090</u> |

(1) Excludes capital lease obligations.

(2) Includes estimated interest payment obligations for these liabilities.

As of December 31, 2006, the majority of the Company's contractual obligations arose under long-term purchase contracts in its core energy business, primarily for natural gas and electricity. For additional details on E.ON's financial liabilities and lease obligations, see Notes 24 and 25 of the Notes to Consolidated Financial Statements. For information on pension obligations, see Note 22 of the Notes to Consolidated Financial Statements.

Purchase Obligations. E.ON's purchase obligations primarily relate to the procurement of gas (€221 billion) and electricity (€8 billion). E.ON Ruhrgas purchases nearly all of its natural gas under long-term supply contracts with international and German gas producers. For more detailed information, see "Item 4. Information on the Company — Business Overview — Pan-European Gas." As is standard in the industry, the price E.ON Ruhrgas pays for gas under these contracts is calculated on the basis of complex formulas incorporating variables based upon current market prices for fuel oil, gas oil, coal and/or other competing fuels, with prices being automatically recalculated periodically. The contracts also generally provide for formal revisions and adjustments of the price and other business terms to reflect changes in the market environment (in many cases expressly including changes in the retail market for natural gas and competing fuels), generally providing that such revisions may only be made once every few years unless the parties agree otherwise. Claims for revision are subject to binding arbitration in the event the parties cannot agree on the necessary adjustments. The contracts also require E.ON Ruhrgas to pay for specified minimum quantities of gas even if it does not take delivery of such quantities, a standard gas industry practice known as "take or pay." Certain of the Company's other energy businesses also procure gas under similar arrangements. E.ON calculates the financial obligations arising from these contracts using the same principles that govern its internal budgeting process, as well as taking into account the specific take-or-pay obligations in the individual contracts.

Contractual obligations for the purchase of electricity primarily arise in connection with E.ON Energie's interest in jointly operated power plants. The price E.ON pays for electricity generated by these jointly operated power plants is determined on the basis of production cost plus a profit margin that is generally calculated on the basis of an agreed return on capital.

E.ON Energie has also entered into long-term contractual obligations for the procurement of services in the area of reprocessing and storage of spent nuclear fuel elements delivered through June 30, 2005. For additional details on these obligations, see "Item 4. Information on the Company — Business Overview — Central Europe — Power Generation."

Asset Retirement Obligations. In accordance with SFAS 143, E.ON's asset retirement obligations are reported at the fair value of both legal and contractual obligations. These obligations primarily relate to retirement costs for decommissioning of nuclear power plants in Germany and Sweden, environmental remediation related to

non-nuclear power plants, including removal of electricity transmission and distribution equipment, environmental remediation at gas storage and opencast mining facilities and the decommissioning of oil and gas field infrastructure. For additional details on E.ON's asset retirement obligations, see Note 23 of the Notes to Consolidated Financial Statements.

Other Long-Term Obligations. E.ON's Other Long-Term Obligations consist primarily of obligations arising out of option agreements that would require the Company to purchase shares from third parties.

As of December 31, 2006, E.ON is a party to put option agreements related to certain of its acquisitions, including one that allows the minority shareholder in E.ON Sverige to sell its remaining stake in that company to E.ON at any time through December 15, 2007 at an agreed price, and others that allow minority shareholders in other companies controlled by E.ON Energie to exercise similar rights. As of December 31, 2006, the total amount potentially payable in connection with such obligations was approximately €2.6 billion.

Other Long-Term Obligations in the table above do not include E.ON's contingent obligation to acquire up to 100.0 percent of shares in Endesa pursuant to the terms of its proposed tender offer. For more information with regard to the offer and this contingent obligation, see "Item 4. Information on the Company — History and Development of the Company — Proposed Endesa Acquisition" and Note 33 of the Notes to Consolidated Financial Statements.

For more information with regard to E.ON's contractual obligations, see Notes 24 and 25 of the Notes to Consolidated Financial Statements.

Item 6. Directors, Senior Management and Employees.

DIRECTORS AND SENIOR MANAGEMENT

GENERAL

In accordance with the Stock Corporation Act, E.ON has a Supervisory Board and a Board of Management. The two Boards are separate and no individual may simultaneously be a member of both Boards.

The Board of Management is responsible for managing the day-to-day business of E.ON in accordance with the Stock Corporation Act and E.ON's Articles of Association. The Board of Management is authorized to represent E.ON and to enter into binding agreements with third parties on behalf of it.

The principal function of the Supervisory Board is to supervise the Board of Management. It is also responsible for appointing and removing the members of the Board of Management. The Supervisory Board may not make management decisions, but may determine that certain types of transactions require its prior consent.

In carrying out their duties, the individual Board members must exercise the standard of care of a diligent and prudent businessperson. In complying with such standard of care, the Boards must take into account a broad range of considerations including the interests of E.ON and its shareholders, employees and creditors. In addition, the members of the Board of Management are personally liable for certain violations of the Stock Corporation Act by the Company. For information on differences between E.ON's corporate governance standards and those applicable to U.S. companies listed on the NYSE, see "Item 10. Additional Information — Memorandum and Articles of Association — Significant Differences in Corporate Governance Practices for Purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual (the "NYSE Manual")."

SUPERVISORY BOARD (AUFSICHTSRAT)

The present Supervisory Board of E.ON consists of twenty members, ten of whom were elected by the shareholders by a simple majority of the votes cast at a shareholder meeting in accordance with the provisions of the Stock Corporation Act, and ten of whom were elected by the employees in accordance with the German Co-determination Act (*Mitbestimmungsgesetz*).

A member of the Supervisory Board elected by the shareholders may be removed by the shareholders by a majority of the votes cast at a meeting of shareholders. A member of the Supervisory Board elected by the

employees may be removed by three-quarters of the votes cast by the relevant class of employees. The Supervisory Board appoints a Chairman and a Deputy Chairman of the Supervisory Board from amongst its members. At least half the total required number of members of the Supervisory Board must be present or participate in the decision making to constitute a quorum. Unless otherwise provided for by law, resolutions are passed by a simple majority of the votes cast. In the event of a tie, another vote is held and the Chairman (who is, in practice, a representative of the shareholders because the representatives of the shareholders have the right to elect the Chairman if two-thirds of the total required number of members of the Supervisory Board fail to agree on a candidate) then casts the tie-breaking vote.

The members of the Supervisory Board are each elected for the same fixed term of approximately five years. The term expires at the end of the annual general shareholders' meeting after the fourth fiscal year following the year in which the Supervisory Board was elected. Reelection is possible. The remuneration of the members of the Supervisory Board is determined by E.ON's Articles of Association.

Because all members of the Supervisory Board are elected at the same time, their terms expire simultaneously. The term of a substitute member of the Supervisory Board elected or appointed by a court to fill a vacancy ends at the time when the term of the original member would have ended. The incumbent members of E.ON's Supervisory Board, their respective ages and their principal occupation and experience, each as of December 31, 2006, as well as the year in which they were first elected or appointed to the Supervisory Board are as follows:

| <u>Name and Position Held</u> | <u>Age</u> | <u>Principal Occupation</u> | <u>Year First Elected</u> |
|---|------------|--|---------------------------|
| Ulrich Hartmann(1)(2)*(3)* Chairman of the Supervisory Board | 68 | Retired Co-Chief Executive Officer of E.ON AG; formerly Chairman of the Board of Management and Chief Executive Officer of VEBA AG <u>Supervisory Board Memberships/Directorships:</u> Deutsche Bank AG, Deutsche Lufthansa AG, Hochtief AG, IKB Deutsche Industriebank AG (Chairman), Münchener Rückversicherungs-Gesellschaft AG, Henkel KGaA(4) | 2003 |
| Hubertus Schmoltdt(2)(3)(5) Deputy Chairman of the Supervisory Board | 61 | Chairman of the Board of Management of Industriegewerkschaft Bergbau, Chemie, Energie <u>Supervisory Board Memberships/Directorships:</u> Bayer AG, DOW Olefinverbund GmbH, Deutsche BP AG, RAG Aktiengesellschaft, RAG Beteiligungs-AG | 1996 |
| Dr. Karl-Hermann Baumann(1)* Member of the Supervisory Board | 71 | Formerly Chairman of the Supervisory Board of Siemens AG; formerly member of the Board of Management of Siemens AG <u>Supervisory Board Memberships/Directorships:</u> Linde AG, Schering AG | 2000 |
| Dr. Rolf-E. Breuer Member of the Supervisory Board | 69 | Formerly Chairman of the Supervisory Board of Deutsche Bank AG; formerly Spokesman of the Board of Management of Deutsche Bank AG <u>Supervisory Board Memberships/Directorships:</u> Landwirtschaftliche Rentenbank(4) | 1997 |
| Dr. Gerhard Cromme(3) Member of the Supervisory Board | 63 | Chairman of the Supervisory Board of ThyssenKrupp AG <u>Supervisory Board Memberships/Directorships:</u> Allianz SE, Axel Springer AG, Deutsche Lufthansa AG, Siemens AG, Suez S.A.(4), BNP Paribas S.A.(4), Compagnie de Saint-Gobain(4) | 1993 |

| <u>Name and Position Held</u> | <u>Age</u> | <u>Principal Occupation</u> | <u>Year First Elected</u> |
|---|------------|--|---------------------------|
| Gabriele Gratz(5)(6) Member of the Supervisory Board | 58 | Chairwoman of the Works Council of E.ON Ruhrgas AG <u>Supervisory Board Memberships/Directorships:</u> E.ON Ruhrgas AG | 2005 |
| Wolf-Rüdiger Hinrichsen(2)(3)(5) Member of the Supervisory Board | 51 | Vice-Chairman of the Group Workers' Council of E.ON AG | 1998 |
| Ulrich Hocker Member of the Supervisory Board | 56 | General Manager of the German Investor Protection Association <u>Supervisory Board Memberships/Directorships:</u> Feri Finance AG, Karstadt Quelle AG, ThyssenKrupp Stainless AG, Gartmore SICAV(4), Phoenix Mecano AG(4) (Chairman) | 1998 |
| Eva Kirchhof(5) Member of the Supervisory Board | 49 | Diploma-Physicist, E.ON Sales and Trading GmbH | 2002 |
| Seppel Kraus(5) Member of the Supervisory Board | 53 | Secretary of Labor Union <u>Supervisory Board Memberships/Directorships:</u> Wacker-Chemie AG, Novartis Deutschland GmbH, Hexal AG | 2003 |
| Prof. Dr. Ulrich Lehner Member of the Supervisory Board | 60 | President and Chief Executive Officer, Henkel KGaA <u>Supervisory Board Memberships/Directorships:</u> HSBC Trinkaus & Burkhardt KGaA, Ecolab Inc.(4), Novartis AG(4), The DIAL Corporation(4) (Chairman) | 2003 |
| Dr. Klaus Liesen Member of the Supervisory Board | 75 | Honorary Chairman of the Supervisory Board of E.ON Ruhrgas AG and of Volkswagen AG; formerly Chairman of the Supervisory Board of E.ON Ruhrgas AG | 1991 |
| Erhard Ott(5) Member of the Supervisory Board | 53 | Member of the Board of Management, Unified Services Sector Union (ver.di) | 2005 |
| Ulrich Otte(1)(5)(6) Member of the Supervisory Board | 57 | Chairman of the Central Works Council, E.ON Energie AG | 2001 |
| Hans Prüfer(5)(7) Member of the Supervisory Board | 57 | Chairman of the Group Works Council, E.ON AG <u>Supervisory Board Memberships/Directorships:</u> E.ON Energie AG | 2006 |
| Klaus-Dieter Raschke(1)(5) Member of the Supervisory Board | 53 | Chairman of the Combined Works Council, E.ON Energie AG <u>Supervisory Board Memberships/Directorships:</u> E.ON Energie AG, E.ON Kernkraft GmbH | 2002 |
| Dr. Henning Schulte-Noelle(2) Member of the Supervisory Board | 64 | Chairman of the Supervisory Board of Allianz SE; formerly Chairman of the Board of Management of Allianz SE <u>Supervisory Board Memberships/Directorships:</u> Siemens AG, ThyssenKrupp AG | 1993 |

| <u>Name and Position Held</u> | <u>Age</u> | <u>Principal Occupation</u> | <u>Year First Elected</u> |
|--|------------|---|---------------------------|
| Prof. Dr. Wilhelm Simson Member of the Supervisory Board | 68 | Retired Co-Chief Executive Officer of E.ON AG; formerly Chairman of the Board of Management and Chief Executive Officer of VIAG AG <u>Supervisory Board Memberships/Directorships:</u> Frankfurter Allgemeine Zeitung GmbH, Merck KGaA(4) (Chairman), Freudenberg KG (4), Jungbunzlauer Holding AG(4), E. Merck OHG(4), Hochtief AG | 2003 |
| Gerhard Skupke(5) Member of the Supervisory Board | 57 | Chairman of the Central Works Council, E.ON edis AG <u>Supervisory Board Memberships/Directorships:</u> E.ON edis AG | 2003 |
| Dr. Georg Freiherr von Waldenfels Member of the Supervisory Board | 62 | Former Minister of Finance of the State of Bavaria; Attorney <u>Supervisory Board Memberships/Directorships:</u> Georgsmarienhütte Holding GmbH, GI Ventures AG (Chairman) | 2003 |

* Chairman of the respective Supervisory Board committee.

- (1) Member of E.ON AG's Audit Committee. For more information, see "Item 10. Additional Information — Memorandum and Articles of Association — Corporate Governance — The Supervisory Board Committees."
- (2) Member of E.ON AG's Executive Committee, which covers the functions of a remuneration committee. For more information, see "Item 10. Additional Information — Memorandum and Articles of Association — Corporate Governance — The Supervisory Board Committees."
- (3) Member of E.ON AG's Finance and Investment Committee. For more information, see "Item 10. Additional Information — Memorandum and Articles of Association — Corporate Governance — The Supervisory Board Committees."
- (4) Membership in comparable domestic or foreign supervisory body of a commercial enterprise.
- (5) Elected by the employees.
- (6) Ulrich Otte was a member of E.ON AG's Supervisory Board until December 31, 2006. He was elected by the employees and a member of E.ON AG's Audit Committee. On January 4, 2007, Hans Wollitzer, Chairman of the Central Works Council of E.ON Energie AG, was publicly appointed as his successor. On March 6, 2007, Gabriele Gratz was elected as a new member of E.ON AG's Audit Committee, replacing Ulrich Otte.
- (7) Member since July 25, 2006. Hans Prüfer was elected to the position held prior to that date by Günter Adam.

The current members of the Supervisory Board are subject to reelection in 2008.

BOARD OF MANAGEMENT (VORSTAND)

As of December 31, 2006, the Board of Management of E.ON consisted of seven members (the total number is determined by the Supervisory Board) who are appointed by the Supervisory Board in accordance with the Stock Corporation Act.

Pursuant to E.ON's Articles of Association, any two members of the Board of Management, or one member of the Board of Management and the holder of a special power of attorney (*Prokura*), may bind E.ON. According to E.ON's Articles of Association, *Prokura* is granted by the Board of Management.

The Board of Management must report regularly to the Supervisory Board, in particular on proposed business policy and strategy, on profitability, on the current business of E.ON and on business transactions that may affect the profitability or liquidity of E.ON, as well as on any exceptional matters which may arise from time to time. The

Supervisory Board is also entitled to request special reports at any time. For more information, see “Item 10. Additional Information — Memorandum and Articles of Association — Corporate Governance.”

The members of the Board of Management are appointed by the Supervisory Board for a maximum term of five years. They may be re-appointed or have their term extended for additional five-year terms, subject to certain limitations depending upon the age of the member. Under certain circumstances, such as a serious breach of duty or a bona fide vote of no confidence by the shareholders at a shareholders’ meeting, a member of the Board of Management may be removed by the Supervisory Board prior to the expiration of such term.

In 2006, E.ON introduced a new Board structure to prepare for an even stronger market focus and for the Group’s future growth. In October 2006, the Supervisory Board of E.ON AG decided that the future Board of Management will include not only the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Human Resources Officer but also a Chief Operating Officer (COO) and a Board member in charge of Corporate Development/New Markets. The new Board of Management structure will be effective as of April 1, 2007.

The members of the Board of Management, their respective ages and their positions and experience, each as of December 31, 2006, as well as the year in which they were first appointed to the Board and the years in which their terms expire, respectively, are as follows:

| <u>Name and Title</u> | <u>Age</u> | <u>Business Activities and Experience</u> | <u>Year First Appointed</u> | <u>Year Current Term Expires</u> |
|--|------------|--|-----------------------------|----------------------------------|
| Dr. Wulf H. Bernotat Chairman of the Board of Management | 58 | Chief Executive Officer; Corporate Communications, Corporate and Public Affairs, Investor Relations, Supervisory Board Relations, Strategy, Executive Development, Audit; formerly Chairman of the Board of Management of Stinnes AG <u>Supervisory Board Memberships/Directorships:</u> E.ON Energie AG(1) (Chairman), E.ON Ruhrgas AG(1) (Chairman), Allianz SE, Metro AG, Bertelsmann AG, RAG Aktiengesellschaft (Chairman), RAG Beteiligungs-AG (Chairman), E.ON Nordic AB(2)(3) (Chairman), E.ON UK plc(2)(3) (Chairman), E.ON US Investments Corp.(2)(3) (Chairman), E.ON Sverige AB(2)(3) (Chairman) | 2003 | 2008 |
| Dr. Burkhard Bergmann Member of the Board of Management | 63 | Upstream Business, Market Management, Group Regulatory Management; Chairman of the Board of Management and Chief Executive Officer of E.ON Ruhrgas AG <u>Supervisory Board Memberships/Directorships:</u> Thüga AG(1) (Chairman), Allianz Lebensversicherungs-AG, MAN Ferrostaal AG, Jaeger Akustik GmbH & Co.(2) (Chairman), Accumulatorenwerke Hoppecke Carl Zoellner & Sohn GmbH(2), OAO Gazprom(2), E.ON Ruhrgas E & P GmbH(2)(3) (Chairman), Nord Stream AG(2), E.ON Gastransport AG & Co. KG(2)(3) (Chairman), E.ON UK plc(2)(3), ZAO Gerosgaz(2)(3) (Chairman; in alternation with a representative of the foreign partner) | 2003 | 2008 |
| Christoph Dänzer-Vanotti(4) Member of the Board of Management | 51 | Chief Human Resources Officer; Labor Relations, Personnel, Infrastructure and Services, Procurement, Organization; formerly Member of the Board of Management of E.ON Ruhrgas AG | 2006 | 2009 |

| <u>Name and Title</u> | <u>Age</u> | <u>Business Activities and Experience</u> | <u>Year First Appointed</u> | <u>Year Current Term Expires</u> |
|--------------------------------------|------------|---|-----------------------------|----------------------------------|
| Lutz Feldmann(5) | 49 | Corporate Development/New Markets; formerly Group Vice President Marketing of BP p.l.c. | 2006 | 2009 |
| Member of the Board of Management | | | | |
| Dr. Hans Michael Gaul(6) | 64 | Controlling/Corporate Planning, M&A, Legal Affairs; formerly Member of the Board of Management of VEBA AG | 1990 | 2007 |
| Member of the Board of Management | | | | |
| | | <u>Supervisory Board Memberships/Directorships:</u> | | |
| | | Degussa AG, E.ON Energie AG(1), E.ON Ruhrgas AG(1), Allianz Versicherungs-AG, DKV AG, RAG Aktiengesellschaft, STEAG AG, RAG Beteiligungs-AG, Volkswagen AG, E.ON Nordic AB(2)(3), E.ON Sverige AB(2)(3) | | |
| Dr. Marcus Schenck(4) | 41 | Chief Financial Officer; Finance, Accounting, Taxes, IT; formerly Managing Director and Partner of Goldman Sachs & Co. oHG | 2006 | 2009 |
| Member of the Board of Management | | | | |
| Dr. Johannes Teyssen | 47 | Downstream Business, Market Management, Group Regulatory Management; Chairman of the Board of Management and Chief Executive Officer of E.ON Energie AG | 2004 | 2008 |
| Member of the Board of Management(7) | | | | |
| | | <u>Supervisory Board Memberships/Directorships:</u> | | |
| | | E.ON Bayern AG(1) (Chairman), E.ON Hanse AG(1) (Chairman), Salzgitter AG, E.ON Nordic AB(2)(3), E.ON Sverige AB(2)(3) | | |

- (1) Group mandate.
- (2) Membership in comparable domestic or foreign supervisory body of a commercial enterprise.
- (3) Other Group mandate (membership in comparable domestic or foreign supervisory body of a commercial enterprise).
- (4) Member since December 1, 2006. Dr. Marcus Schenck was appointed to the position held prior to that date by Dr. Erhard Schipporeit; Christoph Dänzer-Vanotti was appointed to that formerly held by Dr. Manfred Krüper.
- (5) Member since December 1, 2006. Lutz Feldmann was appointed to the new position.
- (6) On April 1, 2007, Dr. Hans Michael Gaul will retire from the Board.
- (7) Dr. Johannes Teyssen will become Chief Operating Officer as of April 1, 2007.

The members of the Supervisory Board and Board of Management hold, in aggregate, less than 1 percent of E.ON's outstanding Ordinary Shares.

COMPENSATION

SUPERVISORY BOARD

Compensation System for Members of the Supervisory Board

The compensation of Supervisory Board members is governed by E.ON AG's Articles of Association. In accordance with German law and the recommendations set forth in the German Corporate Governance Code (*Deutscher Corporate Governance Kodex*, the "Code"), the current compensation system, which has been in effect since 2005, takes into consideration the responsibility and the scope of duties of the members of the Supervisory Board as well as the Company's financial situation and business performance. In accordance with the Code, Supervisory Board members receive fixed annual compensation as well as two variable, performance-based

compensation components: a short-term component linked to dividends and a long-term component linked to the three-year average of the E.ON Group's consolidated net income per share. More specifically:

Fixed compensation: in addition to being reimbursed for their expenses (including the value-added tax due on their compensation), Supervisory Board members receive a fixed amount of €55,000 for each fiscal year.

Short-term variable compensation: in addition, members of the Supervisory Board receive variable compensation of €115.00 for each €0.01 of the per share annual dividend paid out to shareholders with respect to the prior fiscal year, to the extent such dividend is in excess of €0.10 per Ordinary Share.

Long-term variable compensation: furthermore, members of the Supervisory Board receive variable compensation of €70.00 for each €0.01 of any positive difference between the three-year average of the E.ON Group's consolidated net income per share and €2.30.

Individuals who were members of the Supervisory Board or any of its committees for less than the entire fiscal year receive pro rata compensation for each full or partial month of membership. Fixed compensation is payable after the end of the financial year. Variable compensation components are payable after the annual general meeting of shareholders, which votes to formally approve the acts of the members of the Supervisory Board in the previous financial year.

The Chairman of the Supervisory Board receives a total of three times the above-mentioned compensation; the Deputy Chairman and every chairman of a Supervisory Board committee receive a total of twice the above-mentioned amount; and each committee member receives a total of one-and-a-half times the above-mentioned compensation. For more information about the Supervisory Board committees, see "Item 10. Additional Information — Memorandum and Articles of Association — Corporate Governance — The Supervisory Board Committees."

Supervisory Board members are paid an attendance fee of €1,000 per day for meetings of the Supervisory Board or its committees. Finally, the Company has taken out liability insurance for the benefit of Supervisory Board members to cover the statutory liability related to their Supervisory Board duties. If an insurance claim is granted, this insurance includes a deductible equal to 50 percent of a Supervisory Board member's annual fixed compensation.

The fixed annual compensation of €55,000 is intended to take into account the independence of the Supervisory Board required to fulfill the supervisory function. In addition, there are a number of duties that Supervisory Board members need to perform irrespective of the Company's financial performance. For this reason, the Company believes that a minimum level of compensation should be guaranteed even during times that are difficult for the Company, when the work of the Supervisory Board is usually particularly challenging. On the other hand, dividend-based compensation is designed to ensure that the Supervisory Board's compensation interests are, to some extent, aligned with shareholders' return expectations. Finally, since another part of variable compensation is linked to the three-year average of consolidated net income, the Supervisory Board's compensation also contains a component that is related to the Company's long-term performance.

Compensation of the Members of the Supervisory Board

Provided that E.ON's annual shareholders' meeting on May 3, 2007 approves the proposed dividend, the total compensation of the members of the Supervisory Board for 2006 will amount to €4.1 million (2005: €3.8 million).

The following table sets forth details of the compensation of each member of E.ON's Supervisory Board (in the capacities indicated) in 2006, presented in accordance with the recommendations of the German Corporate Governance Code:

| Name | Fixed Compensation for Service on E.ON's Supervisory Board | Variable Short-Term Compensation for Service on E.ON's Supervisory Board | Variable Long-Term Compensation for Service on E.ON's Supervisory Board (€) | Compensation for Supervisory Board Memberships at Affiliated Companies | Total |
|---|---|--|--|---|------------------|
| Ulrich Hartmann | 165,000 | 112,125 | 130,410 | 0 | 407,535 |
| Hubertus Schmoldt | 110,000 | 74,750 | 86,940 | 0 | 271,690 |
| Günter Adam (until June 30, 2006) | 27,500 | 18,687 | 21,735 | 0 | 67,922 |
| Dr. Karl-Hermann Baumann | 110,000 | 74,750 | 86,940 | 0 | 271,690 |
| Dr. Rolf-E. Breuer | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Dr. Gerhard Cromme | 82,500 | 56,063 | 65,205 | 33,288 | 237,056 |
| Gabriele Gratz | 55,000 | 37,375 | 43,470 | 102,000 | 237,845 |
| Wolf-Rüdiger Hinrichsen | 82,500 | 56,063 | 65,205 | 0 | 203,768 |
| Ulrich Hocker | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Eva Kirchhof | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Seppel Kraus | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Prof. Dr. Ulrich Lehner | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Dr. Klaus Liesen | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Erhard Ott | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Ulrich Otte | 82,500 | 56,063 | 65,205 | 57,074 | 260,842 |
| Hans Prüfer (from July 25, 2006) | 27,500 | 18,687 | 21,735 | 18,000 | 85,922 |
| Klaus-Dieter Raschke | 82,500 | 56,063 | 65,205 | 53,230 | 256,998 |
| Dr. Henning Schulte-Noelle | 82,500 | 56,063 | 65,205 | 0 | 203,768 |
| Prof. Dr. Wilhelm Simson | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Gerhard Skupke | 55,000 | 37,375 | 43,470 | 16,300 | 152,145 |
| Dr. Georg Freiherr von Waldenfels | 55,000 | 37,375 | 43,470 | 0 | 135,845 |
| Subtotal | 1,457,500 | 990,439 | 1,151,955 | 279,892 | 3,879,786 |
| Attendance fees and meeting- related reimbursements(1) | | | | | 172,768 |
| Total | 1,457,500 | 990,439 | 1,151,955 | 279,892 | 4,052,554 |

(1) Attendance fees and meeting-related reimbursements are given as an aggregate for all Supervisory Board members.

No loans were outstanding or granted to members of the Supervisory Board in 2006. For details of the members of the Supervisory Board, see the table under “— Directors and Senior Management — Supervisory Board (Aufsichtsrat)” above.

BOARD OF MANAGEMENT

Compensation System for Members of the Board of Management

The compensation of the members of the Board of Management is currently composed of a fixed annual base salary, an annual bonus, and a long-term variable component.

The base salary is paid on a monthly basis and is reviewed regularly to determine whether it is in line with market salaries and whether it is fair and reasonable. The last date on which salaries were adjusted was July 1, 2006.

The amount of the bonus is determined by the degree to which certain corporate and personal performance targets are achieved under a target-setting system, 70 percent of which is related to corporate performance targets and 30 percent to personal targets. The corporate performance targets reflect, in equal shares, operating performance (as measured by adjusted EBIT) and return on capital employed ("ROCE"). Board of Management members who fully achieve their performance target receive the target bonus agreed to in their contracts. The maximum bonus that can be achieved is 200 percent of the target bonus. Any compensation incentives for work done in the Company's interest (other directorships at Group companies) is set off against the bonus or transferred to the Company.

The long-term variable compensation component that Board of Management members receive is stock-based compensation. This compensation is designed to reward Board of Management members (and other key executives) for their contributions to increasing the Company's shareholder value and to promote E.ON's long-term business performance. The Company believes that this variable pay component, which combines incentives for long-term growth with a risk component, effectively aligns management's and shareholders' interests.

In 2006, the E.ON Share Performance Plan, a new uniform Group-wide stock-based compensation system, was introduced. The amount of compensation beneficiaries receive from the E.ON Share Performance Plan depends on the performance of E.ON's stock price, both in absolute terms and relative to an industry index.

Through the end of 2005, E.ON awarded annual stock appreciation rights (each, a "SAR") as part of its stock option program. SARs already granted may still be exercised in accordance with the program's terms and conditions. Both programs are described in Note 9 of the Notes to Consolidated Financial Statements.

In line with the Code's recommendations, the total compensation paid to Board of Management members therefore includes both fixed and variable components. Criteria applied to determine the amount of compensation include in particular a Board of Management member's duties, his or her personal performance and the performance of the Board of Management as a whole, as well as the Company's financial situation, its business performance, and its future prospects, each relative to a market-based benchmark.

The variable compensation components contain an element of risk and consequently are not guaranteed compensation. The stock-based compensation program is based on demanding, relevant benchmark parameters. Under the program's terms, performance targets or benchmark parameters cannot be changed at a later stage.

The Supervisory Board's Executive Committee is responsible for decisions on compensation. The Supervisory Board last discussed the compensation system for the Board of Management at its meeting on December 13, 2006.

In the event of a premature loss of a Board of Management position due to a change-in-control event, the service agreements of Board of Management members entitle them to severance and settlement payments.

With the exception of those members who joined the Board of Management in 2006, during the reporting year change-in-control agreements existed with all members of the Board of Management which reflect the hitherto standard terms and conditions of such agreements for members of the E.ON AG Board of Management. Under these agreements, a change-in-control occurs if a single shareholder acquires 25 percent or more of the voting rights in the Company; if a third party acquires a share of the Company's voting rights that has led or would lead to this party having a share of the voting rights of at least half of the Company's share capital with voting rights at an annual shareholders' meeting; or if the Company, as a dependent entity, concludes a corporate agreement, becomes part of another company through subordination, takes on a different legal form, or is merged with another company. If, within 12 months of any such change-in-control, the service agreement of a Board of Management member is terminated by mutual consent, expires, or is terminated by the member of the Board of Management because his or her position on the Board is materially altered by the change-in-control, he or she is entitled to severance pay equal to the capitalized amount of his or her total annual compensation (annual base salary, annual target bonus, and other compensation) for the remaining term of the service agreement. If the remaining term of the service agreement exceeds three years, severance pay for the period beyond three years will be reduced by 25 percent to reflect discounting and a set off for services rendered to other companies or organizations. In addition, he or she will

receive a settlement payment equal to at least three times his or her total annual compensation or, if he or she has been a Board of Management member for more than ten years, four times such compensation. Together, severance and settlement payments may not exceed five times the Board of Management member's total annual compensation.

On December 13, 2006, the Executive Committee of the Supervisory Board made changes to the terms of the change-in-control agreements. In February 2007, change-in-control agreements that incorporate these new terms were concluded with the members who joined the Board of Management in 2006: Mr. Dänzer-Vanotti, Dr. Schenck and Mr. Feldmann. Under the new agreements, a change-in-control only occurs upon the occurrence of one of the following three events: if a third party acquires at least 30 percent of the Company's voting rights, thus triggering the automatic requirement to make an offer for the Company pursuant to Germany's Stock Corporation Takeover Law; if the Company, as a dependent entity, concludes a corporate agreement; or if the Company is merged with another company. The severance and settlement payments based on such a change-in-control have also been modified for those members of the Board that joined in 2006. Board of Management members now are entitled to severance pay equal to the capitalized amount of their total annual compensation (annual base salary, annual target bonus, and other compensation) for the remaining term of their service agreement or for at least three years. They are not entitled to any settlement payments beyond this. To reflect discounting and a set off for services rendered to other companies or organizations, payments will be reduced by 20 percent. If a Board of Management member is above the age of 53, this 20 percent reduction is diminished according to an age-related schedule.

Following the end of their service for the Company, Board of Management members are entitled to receive pension payments in any of three cases: if they reach the standard retirement age (currently 60 years), if they are permanently incapacitated, or if their service agreement is terminated prematurely or not extended. Depending on the length of their service, Board of Management members are generally entitled to annual pension payments equal to between 50 percent and 75 percent of their last annual base salary. The annual pension of one member of the Board of Management is a fixed amount. If Board of Management members are entitled to pension payments stemming from earlier employment, these payments will be set off against their pension payments from the Company. If their service agreement is terminated prematurely or not extended, and if such termination or non-extension is not due to misconduct or rejection of an offer of extension that is at least on a par with the existing service agreement, Board of Management members who have been in a "Top Management" position in the E.ON Group for more than five years will receive a reduced pension as a bridge payment until they reach the age of 60. The amount of the bridge payment will be calculated based on the ratio between the actual and potential length of service to the Company until the age of 60 is reached. The pension arrangements granted by the Company to Board of Management members prior to 2006 do not include limitations on pension entitlements relating to premature termination or non-extension of service agreements.

The following table shows the current pension obligations to persons who served on the Board of Management in 2006. In line with the Code's recommendations, the table also includes for each member the additions to provisions for pensions for each member calculated according to U.S. GAAP.

| Name | Current pension entitlement at December 31, 2006 | | Additions to provisions for pensions in 2006 | |
|---|--|---------|--|-----------------------|
| | As a percentage of annual base salary | | | Thereof interest cost |
| | (%) | (€) | (€) | (€) |
| Dr. Wulf H. Bernotat | 70 | 868,000 | 1,462,762 | 381,956 |
| Dr. Burckhard Bergmann | — | 728,500 | 918,961 | 539,536 |
| Christoph Dänzer-Vanotti (from December 1, 2006)(1) . . . | 50 | 300,000 | 69,563 | 231 |
| Lutz Feldmann (from December 1, 2006)(1) | 50 | 300,000 | 20,846 | 69 |
| Dr. Hans Michael Gaul | 75 | 562,500 | 669,008 | 397,514 |
| Dr. Manfred Krüper (until November 30, 2006)(2) | — | — | 691,085 | 355,312 |
| Dr. Marcus Schenck (from December 1, 2006)(1) | 50 | 300,000 | 34,245 | 114 |
| Dr. Erhard Schipporeit (until November 30, 2006)(3) | 75 | 562,500 | 1,042,739 | 332,170 |
| Dr. Johannes Teyssen | 70 | 525,000 | 617,863 | 245,552 |

- (1) Pension entitlement not yet vested.
- (2) Entered retirement on December 1, 2006.
- (3) Will enter retirement in February 2009.

Pension payments are adjusted on an annual basis to reflect changes in the German consumer price index. In the case of pensions granted before 2003, the Executive Committee of the Supervisory Board may, under certain circumstances, make additional adjustments that it deems appropriate. The annual pension of one member of the Board of Management is a fixed amount that is also adjusted on an annual basis to reflect changes in the consumer price index plus an additional 0.7 percent per year.

Following the death of an active or former member of the Board of Management, a reduced amount of his or her pension is paid as a survivor's pension to the family. Widows and widowers are entitled to lifelong payment of 60 percent of the pension the Board of Management member received on the date of his or her death or would have received had he or she entered retirement on this date. This payment is terminated if a widow or widower remarries. The survivor's pensions for the widows of two Board of Management members deviate from this model and are equal to 75 percent and 49.5 percent of the members' respective pensions. The children or dependents of a Board of Management member who have not reached the age of 18 are entitled, for the duration of their education or professional training until they reach a maximum age of 25, to an annual payment equal to 20 percent of the pension the member of the Board of Management received or would have received on the date of his or her death. Surviving children benefits granted before 2006 deviate from this model and are equal to 15 percent of a Board of Management member's pension. If, taken together, the survivor's pensions of the widow or widower and children exceed 100 percent of a Board of Management member's pension, the pensions paid to the children are reduced proportionally so as to eliminate the excess amount.

Compensation of the Members of the Board of Management

The composition of the Board of Management changed in 2006. Dr. Manfred Krüper and Dr. Erhard Schipporeit ended their service on the Board of Management effective November 30, 2006. Christoph Dänzer-Vanotti, Lutz Feldmann and Dr. Marcus Schenck were appointed to the Board of Management effective December 1, 2006.

The total compensation of the members of the Board of Management in 2006 amounted to €21.7 million (2005: €22.5 million). The following table sets forth the details of the compensation of each member of E.ON's Board of Management in 2006, presented in accordance with the regulations of the German Commercial Code, as amended to reflect the Management Board Compensation Disclosure Law, as well as the recommendations of the German Corporate Governance Code:

| <u>Name</u> | <u>Fixed Annual Compensation</u> (€) | <u>Annual Bonus</u> (€) | <u>Other Compensation(1)</u> (€) | <u>Fair Value of Performance Rights granted in 1st Tranche in 2006</u> (€) | <u>Total</u> (€) | <u>Performance Rights Granted in 1st Tranche in 2006</u> (No. of Performance Rights) |
|--|---|----------------------------|-------------------------------------|---|--------------------------|---|
| Dr. Wulf H. Bernotat | 1,195,000 | 2,400,000 | 63,913 | 1,273,133 | 4,932,046 | 17,041 |
| Dr. Burckhard Bergmann | 725,000 | 1,500,000 | 27,325 | 754,422 | 3,006,747 | 10,098 |
| Christoph Dänzer-Vanotti (from December 1, 2006) | 50,000 | 100,000 | 1,273 | 50,280 | 201,553 | 673 |
| Lutz Feldmann (from December 1, 2006) | 50,000 | 100,000 | 3,371 | 50,280 | 203,651 | 673 |
| Dr. Hans Michael Gaul | 725,000 | 1,500,000 | 28,708 | 754,422 | 3,008,130 | 10,098 |
| Dr. Manfred Krüper (until November 30, 2006) | 662,500 | 1,375,000 | 27,245 | 754,422 | 2,819,167 | 10,098 |
| Dr. Marcus Schenck (from December 1, 2006) | 50,000 | 100,000 | 1,500,000 | 50,280 | 1,700,280 | 673 |
| Dr. Erhard Schipporeit (until November 30, 2006) | 662,500 | 1,375,000 | 38,423 | 754,422 | 2,830,345 | 10,098 |
| Dr. Johannes Teysen | <u>725,000</u> | <u>1,500,000</u> | <u>54,098</u> | <u>754,422</u> | <u>3,033,520</u> | <u>10,098</u> |
| Total | <u>4,845,000</u> | <u>9,950,000</u> | <u>1,744,356</u> | <u>5,196,083</u> | <u>21,735,439</u> | <u>69,550</u> |

(1) Dr. Schenck received other compensation of €1.5 million as a one-time reimbursement for parts of his long-term compensation from his previous employer that he forfeited when he joined E.ON. The remaining other compensation of the members of the Board of Management consists primarily of benefits in kind from the personal use of company cars.

The performance rights granted in 2006 as the first tranche of the E.ON Share Performance Plan were granted on the basis of their fair value of €74.71 per right on the date of their issuance and were included in the total compensation of the members of the Board of Management.

The fair value of performance rights under the new plan is determined by means of a recognized option pricing model. The model, called a Monte Carlo simulation, simulates a large number of different scenarios for E.ON Ordinary Shares and its benchmark index, the Dow Jones STOXX Utilities Index (Return EUR). According to the terms and conditions of the E.ON Share Performance Plan, the intrinsic value of the performance rights is determined for each scenario based on E.ON's stock outperformance or underperformance of its benchmark index and the stock's corresponding payout value. The fair value is equal to the discounted average of these intrinsic values.

Instead of the fair value, the target value is used in internal communications between the Supervisory Board and the Board of Management. The target value is equal to the cash payout amount of each performance right if at the end of the maturity period E.ON's stock maintains its price and its performance equals the performance of the benchmark index. The target value for the first tranche is €79.22 per right and equals the average E.ON stock price during the 60 trading days prior to the issuance of the rights on January 2, 2006. The Executive Committee of the Supervisory Board used the target value to determine the number of rights to be issued. These correspond to a target value of €1.35 million for the Chairman of the Board of Management, €0.8 million for members of the Board of Management and 80 percent of this amount on a pro rata basis for newly-appointed members of the Board of Management.

During 2006, members of the Board of Management exercised SARs granted to them in previous years under the terms of the former program. Additional detailed information about E.ON AG's stock-based compensation programs can be found in Note 9 of the Notes to Consolidated Financial Statements.

No loans were outstanding or granted to members of the Board of Management in 2006.

For additional information about the members of the Board of Management, see the table under "— Directors and Senior Management — Board of Management (Vorstand)" above.

Payments Made to Former Members of the Board of Management

Total payments made to former Board of Management members and to their beneficiaries amounted to €11.7 million in 2006 (2005: €5.4 million).

Provisions of €99.9 million (2005: €89.0 million) have been provided for pension obligations to former Board of Management members and their beneficiaries.

EMPLOYEES

As of December 31, 2006, E.ON had 80,612 employees. This increase of 1.3 percent from year-end 2005 is mainly due to further additions in customer service staff and increased hiring of technical personnel at the electricity distribution and metering businesses at the U.K. market unit. Of the total number of employees, 42.2 percent were based in Germany. The following table sets forth information about the number of employees of E.ON as of December 31, 2006, 2005 and 2004, not including apprentices and managing directors or board members:

| | Employees at December 31, 2006 | | | Employees at December 31, 2005 | | | Employees at December 31, 2004 | | |
|----------------------------|-----------------------------------|---------------|---------------|-----------------------------------|---------------|---------------|-----------------------------------|---------------|---------------|
| | Total | Germany | Foreign | Total | Germany | Foreign | Total | Germany | Foreign |
| Central Europe | 43,546 | 30,199 | 13,347 | 44,476 | 30,307 | 14,169 | 36,811 | 29,208 | 7,603 |
| Pan-European Gas | 12,417 | 3,371 | 9,046 | 13,366 | 3,411 | 9,955 | 4,001 | 3,432 | 569 |
| U.K. | 15,621 | 13 | 15,608 | 12,891 | 10 | 12,881 | 10,397 | 6 | 10,391 |
| Nordic | 5,693 | 3 | 5,690 | 5,424 | 2 | 5,422 | 5,106 | 2 | 5,104 |
| U.S. Midwest | 2,890 | 2 | 2,888 | 3,002 | 2 | 3,000 | 2,997 | 1 | 2,996 |
| Corporate Center | 445 | 426 | 19 | 411 | 395 | 16 | 420 | 403 | 17 |
| Total | <u>80,612</u> | <u>34,014</u> | <u>46,598</u> | <u>79,570</u> | <u>34,127</u> | <u>45,443</u> | <u>59,732</u> | <u>33,052</u> | <u>26,680</u> |

In addition, E.ON employed 2,574, 2,471 and 2,289 apprentices with limited contracts in Germany at year-end 2006, 2005 and 2004, respectively.

Personnel expenses totaled €4.6 billion in 2006 compared with €4.2 billion in 2005.

Many of the Group's employees are members of labor unions. Almost all of the union members in Germany belong to the national chemicals/mining/energy and the united services unions. None of E.ON's facilities in Germany is operated on a "closed shop" basis. In Germany, employment agreements for blue collar workers and for white collar employees below management level are generally collectively negotiated between the association of the companies within a particular industry and the respective unions. In addition, under German law, works councils comprised of both blue collar and white collar employees participate in determining company policy with regard to certain compensation matters, work hours and hiring policy. Management believes its relations with the German trade unions may be characterized as constructive and cooperative.

E.ON U.K.'s organizational structure comprises a number of businesses which are supported by a common services business and central functional teams, including finance, legal and human resources services. E.ON U.K. has in place a company level framework for collective bargaining that has been jointly agreed with the five recognized trade unions. This framework provides for arrangements for negotiation and consultation at the company level and the individual business level. At company level, a range of common standards is negotiated with the trade unions for company-wide application. At the individual business level, detailed negotiation of pay and other business-specific terms and conditions is negotiated by business level employee forums. These forums consist