of representatives from management, trade unions and employees and fulfill a consultative, as well as a negotiating role. Since privatization, E.ON U.K. believes it has maintained constructive relationships with its recognized unions.

In Sweden, approximately 80 percent of E.ON Sverige's employees are members of various trade unions. E.ON Sverige adheres to two main central collective labor agreements at the national level, on the basis of which E.ON Sverige's corporate human resources department and representatives from the different trade unions have negotiated a framework for E.ON Sverige. Local human resources departments and local trade union representatives negotiate at the local level. Pursuant to Swedish law, representatives of the unions are members of E.ON Sverige's board of directors. According to Swedish law, all issues that have an impact on the employees' working conditions must be negotiated with the trade unions. Management believes its relations with the Swedish trade unions may be characterized as constructive and cooperative.

The level of trade union participation is very high in the eastern European countries in which the Company has operations. Almost all of the Company's employees in Romania, Hungary, Bulgaria and the Czech Republic are members of the trade unions in the energy and gas sector or at least participate in the collective bargaining agreements that are used in the energy and gas industries. These collective bargaining agreements, which are negotiated between the association of the companies within a particular industry or the individual employer and the respective unions, stipulate compensation levels and most other working conditions for employees. Management believes that its relations with the relevant trade unions may be characterized as constructive and cooperative, and that the continuation of a constructive und cooperative relationship is of great importance for the successful integration of the Company's recently-acquired operations in Eastern Europe.

The employees of E.ON U.S. who are members of labor unions belong to local units of the International Brotherhood of Electrical Workers ("IBEW") and The United Steelworkers of America. Most of these union employees are involved in operational and maintenance work in power generation and distribution operations. The majority of E.ON U.S.'s employees are not union members. In the United States, Collective Bargaining Agreements ("CBA") are negotiated between the local management (*i.e.*, LG&E and KU) and local union representatives. Each CBA generally has a term of three to four years and includes no strike or lock out clauses during the term of the agreement. While E.ON U.S. had an adversarial relationship in the past with the IBEW, its primary union, management believes relations have significantly improved and may now be characterized as cooperative.

Pursuant to EU requirements, E.ON also established a European works council in 1996 that is responsible for cross-border issues. The Company believes that it has satisfactory relations with its works councils and unions and therefore anticipates reaching new agreements with its labor unions on satisfactory terms as the existing agreements expire. There can be no assurance, however, that new agreements will be reached without a work stoppage or strike or on terms satisfactory to the Company. A prolonged work stoppage or strike at any of its major facilities could have a material adverse effect on the Company's results of operations. The Group has not experienced any material strikes during the last ten years.

Since 1984, E.ON has had an employee share purchase program under which employees in Germany may purchase Ordinary Shares at a discount to the extent provided under German tax laws (according to Section 19a of the German Income Tax Law, in 2006 employees were eligible for a total discount per employee of €135). Since 2005, E.ON provides an additional discount per employee of up to €320, which is subject to income tax and depends on the Company's performance. In 2006, this additional discount amounted to €320 per employee. In 2006, 19,955 employees purchased 443,290 Ordinary Shares under this program.

Under HM Revenue and Customs-approved share incentive plans, E.ON's employees in the United Kingdom can buy Ordinary Shares of E.ON AG out of their pre-tax salary ("partnership shares") and receive additional shares for every partnership share purchased ("matching shares"). As of December 31, 2006, 4,849 employees were participating in the plans. In 2006, participants purchased 86,352 partnership shares and received approximately 106,902 matching shares under the plans.

STOCK INCENTIVE PLANS

From 1999 through 2005, E.ON AG ran a SAR plan for key executives of the Group (including the members of the Board of Management) that was based on the performance of E.ON AG's Ordinary Shares. Approximately 3.3 million SARs granted in previous years remain outstanding under this program; such SARs may be exercised in the future in accordance with their respective terms. In 2006, E.ON adopted the E.ON Share Performance Plan, a new long-term incentive program for senior executives (including the members of the Board of Management) to replace the SAR program. The new program, the specific terms of which were set during 2006, is based on annual grants of "performance rights," with the grantee being entitled to receive a cash payment based on a formula linked to the price of E.ON Ordinary Shares and the performance of a benchmark index. E.ON AG granted approximately 0.5 million share performance rights to 396 senior executives worldwide in 2006. For more information about these plans, see "— Compensation" above and Note 9 of the Notes to Consolidated Financial Statements.

Item 7. Major Shareholders and Related Party Transactions.

MAJOR SHAREHOLDERS

As of December 31, 2006, E.ON AG had an aggregate number of 659,597,269 Ordinary Shares with no par value outstanding. Under the Articles of Association, each Ordinary Share represents one vote.

Based on information available to E.ON, including filings with the SEC, there were no shareholders who beneficially owned more than five percent of the Ordinary Shares as of December 31, 2006. Holders of voting securities of listed German corporations (including E.ON) whose shareholding reaches, passes or falls below certain thresholds are subject to certain notification requirements under German law. These thresholds are 5, 10, 25, 50 and 75 percent of a company's voting rights; as from the beginning of 2007, additional thresholds are 3, 15, 20 and 30 percent of a company's voting rights. For more information, see "Item 10. Additional Information — Memorandum and Articles of Association — Disclosure of Shareholdings" and Note 17 of the Notes to Consolidated Financial Statements.

In addition, as of December 31, 2006 E.ON directly and indirectly held a total of 32,402,731 of its own Ordinary Shares in treasury stock, representing 4.7 percent of its share capital. E.ON cannot vote these shares. For more information, see Note 17 of the Notes to Consolidated Financial Statements.

According to amendments to the German Securities Trading Act (*Wertpapierhandelsgesetz*, or "Securities Trading Act") which became effective as of January 20, 2007, listed German corporations have to publish the total number of voting rights at the end of each month in which the total number has either decreased or increased, and to notify BAFin. Further, a listed corporation acquiring or disposing of its own shares must publish, as well as notify BAFin of, the proportion of its own shares held by it promptly, but not later than within four trading days, following such acquisition or disposal if the proportion reaches, passes or falls below the thresholds of 3 percent, 5 percent or 10 percent of the voting rights. This applies to corporations acquiring or disposing of shares directly or through an entity acting in its own name but on behalf of the corporation.

Although E.ON is unable to determine the exact number of its Ordinary Shares held in the United States, it believes that as of December 31, 2006, approximately 20.1 percent of its outstanding share capital was held by shareholders in the United States, and approximately 2.3 percent was held in the form of ADSs. For more information, see "Item 9. The Offer and Listing — General."

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, E.ON enters into transactions with numerous businesses, including firms in which the Group holds ownership interests and those with which some of E.ON's Supervisory Board members hold positions of significant responsibility.

Allianz AG was a major shareholder of E.ON in 2002 and prior years. Allianz AG provides the Group with insurance coverage in the ordinary course of business for which it was paid reasonable and customary fees. E.ON also has ongoing banking relations with Deutsche Bank AG, previously a major shareholder, in the ordinary course of business.

E.ON directly and indirectly holds a 39.2 percent interest in RAG. In February 2003, E.ON sold 37.2 million of its shares in Degussa (approximately 18 percent of Degussa's outstanding shares) to RAG for €1.4 billion. Subsequent to this transaction, both E.ON and RAG held a 46.5 percent interest in Degussa. 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 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. For more information on these transactions, see "Item 4. Information on the Company — History and Development of the Company — Ruhrgas Acquisition" and "Item 5. Operating and Financial Review and Prospects — Overview" and "— Acquisitions and Dispositions."

From time to time E.ON may make loans to companies in which the Group holds ownership interests. At year-end 2006, E.ON had aggregate outstanding loans to companies in which the Group holds ownership interests amounting to €447 million, with one of the largest single such loans being to ONE (€122 million). For information, see Note 30 of the Notes to Consolidated Financial Statements.

For a discussion of off-balance sheet arrangements, see "Item 5. Operating and Financial Review and Prospects — Off-Balance Sheet Arrangements."

Item 8. Financial Information.

CONSOLIDATED FINANCIAL STATEMENTS

See "Item 18. Financial Statements" and pages F-1 to F-82.

LEGAL PROCEEDINGS

Various legal actions, including lawsuits for product liability or for alleged price fixing agreements, governmental investigations, proceedings and claims are pending or may be instituted or asserted in the future against the Company. These include lawsuits pending in the United States and Germany against E.ON and certain subsidiaries in connection with the sale of VEBA Electronics in 2000, as well as various arbitration proceedings in which E.ON Ruhrgas is involved in connection with the terms on which it buys or sells natural gas and the acquisition of shares in Europgas a.s. Since such litigation or claims are subject to numerous uncertainties, their outcome cannot be ascertained; however, in the opinion of management, the outcome of these matters and those discussed in this section will not have a material adverse effect upon the financial condition, results of operations or cash flows of the Company.

The U.S. Securities and Exchange Commission has requested that the Company provide them with information for an investigation focusing in particular on the preparation of its Annual Reports on Form 20-F and financial statements for the years from 2000 through 2003, including, with respect to all or a portion of such period, the accounting treatment and depreciation of its power plant assets, its accounting for and consolidation of certain former subsidiaries (Degussa and Viterra) and their shareholdings, the nature of the services performed by its auditors, disclosures with regard to its long-term commitments (including fuel procurement contracts), and the process of such documents' preparation and conformity with U.S. GAAP. The Company is in close contact with the SEC and has been cooperating fully with the investigation. A similar request that also covers additional items has been made to the Company's independent public accountants.

For information about the conditions and obligations imposed on E.ON in connection with the ministerial approval for E.ON's acquisition of E.ON Ruhrgas, see "Item 4. Information on the Company — History and Development of the Company — Ruhrgas Acquisition."

For information about proceedings instituted by German or European antitrust authorities affecting E.ON Ruhrgas, E.ON Energie and certain of their subsidiaries, see "Item 3. Key Information — Risk Factors."

For information about proceedings in connection with the proposed takeover of Endesa, see "Item 4. Information on the Company — History and Development of the Company — Proposed Endesa Acquisition."

E.ON maintains general liability insurance covering claims on a worldwide basis with coverage limits and retention amounts which management believes to be adequate and appropriate in light of E.ON's businesses and the risks to which they are subject. For a discussion of E.ON Energie's and E.ON Sverige's nuclear accident protection, see "Item 4. Information on the Company — Environmental Matters."

DIVIDEND POLICY

The Supervisory Board and the Board of Management jointly propose the Company's dividends based on E.ON AG's unconsolidated financial statements. The dividends are officially declared at the annual general meeting of shareholders which is usually convened during the second quarter of each year. The shareholders approve the dividends. Holders of E.ON's Ordinary Shares on the date of the annual general meeting of shareholders are entitled to receive the dividend, less any amounts required to be withheld on account of taxes or other governmental charges. See also "Item 10. Additional Information — Taxation." Cash dividends payable to holders of Ordinary Shares are distributed by HypoVereinsbank as paying agent. In Germany, the payment will be made to the holder's custodian bank or other institution holding the shares for the shareholder which will credit the payment to the shareholder's account. For purposes of distribution in the United States, the dividend will be paid to JPMorgan Chase Bank N.A. as U.S. transfer agent. For ADS holders in the United States, the payment will be converted from euros to U.S. dollars unless the ADS holder instructs otherwise. The U.S. dollar amounts of dividends may be affected by fluctuations in exchange rates. See "Item 3. Key Information — Exchange Rates."

E.ON AG expects to continue to pay dividends, although there can be no assurance as to the particular amounts that may be paid from year to year. The payment of future dividends will depend upon E.ON's earnings, financial condition (including its cash needs), future earnings prospects and other factors. In March 2005, E.ON AG announced that it is committed to achieving a payout ratio of between 50 and 60 percent of net income excluding exceptional items by 2007. For information about the annual dividends paid per Ordinary Share of E.ON AG, see "Item 3. Key Information — Dividends."

SIGNIFICANT CHANGES

For information about significant changes following December 31, 2006, see "Item 4. Information on the Company — History and Development of the Company."

Item 9. The Offer and Listing.

GENERAL

The principal trading market for the Ordinary Shares is the Frankfurt Stock Exchange together with XETRA, as described below. The Ordinary Shares are also traded on the other German stock exchanges in Berlin-Bremen, Düsseldorf, Hamburg, Hanover, Munich and Stuttgart. Options on Ordinary Shares are traded on the German derivatives exchange *(Eurex Deutschland)*. E.ON believes that as of December 31, 2006, it had approximately 480,000 stockholders worldwide.

E.ON shares are listed on the NYSE in the form of ADSs and are traded under the symbol "EON." In the past, the exchange ratio between E.ON ADSs and E.ON shares was 1:1. E.ON decided to change this ratio to 3:1 effective March 29, 2005. As of this date, three times as many ADSs are tradable on the NYSE, with three ADSs representing one Ordinary Share with a pro rata amount of the registered capital of E.ON AG calculated on a €2.60 share-equivalent basis. The depositary for the ADSs is JPMorgan Chase Bank N.A.

TRADING ON THE NEW YORK STOCK EXCHANGE

The table below sets forth, for the periods indicated, the high and low closing sales prices for the ADSs on the NYSE, as reported on the NYSE Composite Tape.

	Price per ADS ($)(1)	
	High	Low
2002	58.02	39.80
2003	65.44	38.52
2004	91.15	61.72
2005	35.01	27.67
First Quarter	31.01	28.21
Second Quarter	29.97	27.67
Third Quarter	33.73	29.14
Fourth Quarter	35.01	29.15
2006	45.36	34.30
First Quarter	38.39	35.60
Second Quarter	40.79	34.30
Third Quarter	42.92	36.10
Fourth Quarter	45.36	38.58
September	42.88	39.35
October	40.13	38.58
November	42.90	38.93
December	45.36	42.02
2007		
January	45.40	41.91
February	48.52	43.62

(1) One E.ON ADS equaled one Ordinary Share until March 28, 2005.

On March 2, 2007, the closing sale price per ADS on the NYSE as reported on the NYSE Composite Tape was $42.04.

TRADING ON THE FRANKFURT STOCK EXCHANGE

The Frankfurt Stock Exchange is by far the most significant of the seven German stock exchanges. By the end of December 2006, the Frankfurt Stock Exchange together with XETRA accounted for approximately 90 percent of the total securities orderbook turnover in Germany. As of the end of 2006, the equity securities of 8,032 corporations, including 7,054 foreign corporations, were traded on the Frankfurt Stock Exchange.

The structure of the Frankfurt Stock Exchange *(Frankfurter Wertpapierbörse)* consists of the Prime Standard segment and the General Standard segment. The Prime Standard segment is designed for companies that wish to target international investors. Accordingly, Prime Standard companies are required to meet transparency criteria over and above those required for General Standard companies. E.ON's Ordinary Shares have been admitted to the Prime Standard segment.

Prices are continuously quoted on the Frankfurt Stock Exchange floor each business day between 9:00 a.m. and 8:00 p.m. Central European Time ("CET") and on XETRA between 9:00 a.m. and 5:30 p.m. CET for E.ON Ordinary Shares, as well as for other actively traded shares. The Frankfurt Stock Exchange publishes a daily official list *(Orderbuchstatistik)* which includes the volume of recorded transactions in the shares comprising the *Deutsche Aktienindex* or DAX 30 Index (a performance index comprising the shares of the 30 largest German companies included in the Prime Standard, of which E.ON is one, and the key benchmark of trading on the Frankfurt Stock Exchange), together with the prices of the highest and lowest recorded trades of the day.

XETRA *(Exchange Electronic Trading System)* is a computerized trading platform that can be accessed by all market participants regardless of their geographical location. It is administered by Deutsche Börse AG and integrated into the Frankfurt Stock Exchange, and is subject to the Exchange's rules and regulations. Almost all of the equity securities listed on the Frankfurt Stock Exchange are traded on XETRA.

The table below sets forth, for the periods indicated, the high and low closing sales prices *(Schlusskurse)* for the Ordinary Shares on XETRA, as reported by the Frankfurt Stock Exchange, together with the highs and lows of the DAX 30 Index.

See the discussion under "Item 3. Key Information — Exchange Rates" for rates of exchange between the dollar and the euro applicable during the periods set forth below.

	Price Per Ordinary Share		DAX 30 Index(1)	
	High	**Low**	**High**	**Low**
	(€)		(€ in thousands)	
2002	59.97	38.16	5,462.55	2,597.88
2003	51.74	34.67	3,965.16	2,202.96
2004	67.06	49.27	4,261.79	3,646.99
2005	88.92	64.50	5,458.58	4,178.10
First Quarter	71.70	64.50	4,428.09	4,201.81
Second Quarter	73.68	69.60	4,627.48	4,178.10
Third Quarter	80.80	72.59	5,048.74	4,530.18
Fourth Quarter	88.92	72.25	5,458.58	4,806.05
2006	104.40	82.12	6,611.81	5,292.14
First Quarter	96.10	87.07	5,984.18	5,334.30
Second Quarter	100.35	82.12	6,140.72	5,292.14
Third Quarter	100.94	85.52	6,004.33	5,396.85
Fourth Quarter	104.40	91.50	6,611.81	5,992.22
September	100.94	92.65	6,004.33	5,773.72
October	94.96	91.50	6,284.19	5,992.22
November	98.25	91.73	6,476.13	6,223.33
December	104.40	94.52	6,611.81	6,241.13
2007				
January	104.24	96.59	6,789.11	6,566.56
February	111.65	99.14	7,027.59	6,715.44

(1) The DAX 30 Index is a continuously updated, capital-weighted performance index of 30 German blue chip companies. E.ON represented approximately 9.23 percent of the DAX 30 Index as of March 2, 2007. In principle, the shares included in the DAX 30 Index were selected on the basis of their stock exchange turnover and their market capitalization. Adjustments of the DAX 30 Index are made for capital changes, subscription rights and dividends.

On March 2, 2007, the closing sale price per Ordinary Share on XETRA, as reported by the Frankfurt Stock Exchange, was €96.40, equivalent to $126.87 per Ordinary Share, translated at the euro Foreign Exchange Rate as published on Reuters page EUROFX/1 on such date.

Item 10. Additional Information.

MEMORANDUM AND ARTICLES OF ASSOCIATION

Organization, Register and Entry Number

E.ON AG is a stock corporation organized under the laws of the Federal Republic of Germany. It is entered in the Commercial Register maintained by the local court of Düsseldorf, Germany, under the entry number HRB 22315.

Objects and Purposes

The purposes of the Company, described in Section 2 of E.ON AG's Articles of Association *(Satzung)*, are the supply of energy (primarily electricity and gas) and water as well as the provision of disposal services. The Company's activities may encompass generation and/or production, transmission and/or transport, purchasing, selling and trading. Plants of all kinds may be built, purchased and operated; services and cooperations of all kinds may be performed.

Furthermore, the Company is entitled to run businesses in the chemicals sector, primarily in the special and constructional chemistry areas, as well as in the real estate industry and telecommunications sector.

Further, its Articles of Association authorize E.ON AG to conduct business itself or through subsidiaries or associated companies in these or related areas. The Company is entitled to take all actions and measures related to its purpose or suited to serve its purpose, directly or indirectly.

E.ON may also establish and purchase other companies, and may acquire shareholdings in other companies, particularly companies active, in whole or in part, in the business areas set forth above. The Articles of Association further authorize E.ON to acquire interests in companies of all kinds with the primary objective of investing financial resources, regardless of whether the company operates within one of E.ON's stated business sectors.

Corporate Governance

German stock corporations are governed by three separate bodies: the annual general meeting of shareholders, the supervisory board and the board of management. Their roles are defined by German law and by the corporation's articles of association, and may be described generally as follows:

- *The annual general meeting of shareholders* ratifies the actions of the corporation's supervisory board and board of management. It decides, among other things, on the amount of the annual dividend, the appointment of an independent auditor and certain significant corporate transactions. In corporations with more than 2,000 employees, shareholders and employees elect or appoint an equal number of representatives to the supervisory board. The annual general meeting must be held within the first eight months of each fiscal year.
- *The supervisory board* appoints and removes the members of the board of management and oversees the management of the corporation. Although prior approval of the supervisory board may be required in connection with certain significant matters, the law prohibits the supervisory board from making management decisions.
- *The board of management* manages the corporation's business and represents it in dealings with third parties. The board of management submits regular reports to the supervisory board about the corporation's operations and business strategies, and prepares special reports upon request. A person may not serve on the board of management and the supervisory board of a corporation at the same time.

In February 2002, a government commission appointed by the German Minister of Justice presented the new German Corporate Governance Code, which is described in more detail below. A new Transparency and Publicity Act *(Transparenz- und Publizitätsgesetz)* came into effect in July 2002. A new Article 161 was also added to the Stock Corporation Act, stipulating that the board of management and supervisory board of German listed companies shall declare once a year that the recommendations of the Code have been and are being complied with, or identify which of the Code's recommendations have not been or are not being applied. E.ON has submitted this declaration each year since 2002 as required. For more information, see "— Significant Differences in Corporate Governance Practices for Purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual (the "NYSE Manual")" below.

E.ON has always welcomed the creation of uniform corporate governance standards. E.ON believes that the Code will make the German system of corporate governance more transparent and promote the trust of international and national investors and the general public in the management and supervision of German listed companies. Taking the Code as a basis, in 2002 E.ON reviewed its internal rules and procedures relating to shareholders' meetings, the interaction between the Board of Management and the Supervisory Board and the transparency of its financial reporting, as well as the Company's procedures for accounting and auditing. E.ON concluded from this review that the Company had already been following a majority of the Code's recommendations for some time before the Code was published, reflecting E.ON's value-oriented corporate governance principles and capital markets-oriented accounting and reporting policies. In order to promote the transparency and efficiency of the Supervisory Board's activities, rules of procedure for the Supervisory Board were adopted on December 19, 2002 and it was decided to set up an audit committee, as well as a finance and investment committee, in addition to the already existing committees.

Cooperation between the Board of Management and the Supervisory Board. The E.ON Board of Management manages the business of the Company, with all its members bearing joint responsibility for its decisions, in accordance with German law. The Board of Management establishes the Company's objectives, sets its fundamental strategic direction, and is responsible for corporate policy and group organization. This includes, in particular, the management of the Group and its financial resources, the development of its human resources strategy, the appointment of persons to management posts within the Group and the development of its managerial staff, as well as the presentation of the Group to the capital markets and to the public at large. In addition, the Board of Management is responsible for coordinating and supervising the Group's market units in accordance with the Group's established strategy.

The Board of Management regularly reports to the Supervisory Board on a timely and comprehensive basis on all issues of corporate planning, business development, risk assessment and risk management. It also submits the Group's investment, finance and personnel plan for the coming fiscal year (as well as the medium-term plan) to the Supervisory Board for its approval at the last meeting of each fiscal year.

The Chairperson of the Board of Management informs the Chairperson of the Supervisory Board of important events that are of fundamental significance in assessing the condition, development and management of the Company and of any defects that have arisen in the Company's monitoring systems without undue delay. Transactions and measures requiring the approval of the Supervisory Board are also submitted to the Supervisory Board without delay.

Conflicts of Interest. In order to ensure that the Supervisory Board's advice and oversight functions are conducted on an independent basis, no more than two former members of the Board of Management may be members of the Supervisory Board. Supervisory Board members may also not hold a corporate office or perform any advisory services for key competitors of the Company. Supervisory Board members are required to disclose any information concerning conflicts of interest to the full Supervisory Board, particularly if the conflict arises from their advising or holding a corporate office with one of E.ON's customers, suppliers, creditors or other business partners. The Supervisory Board is required to report any conflicts of interest to the annual shareholders' meeting and to describe how the conflicts have been handled. Any material conflict of interest of a non-temporary nature will result in the termination of the member's appointment to the Supervisory Board. No conflicts of interest involving any members of the Supervisory Board were reported during 2006. In addition, any consulting or other service agreements between the Company and a member of the Supervisory Board require the prior consent of the full Supervisory Board. No such agreements existed during 2006.

Members of the Board of Management are also required to promptly report conflicts of interest to the Executive Committee of the Supervisory Board and to the full Board of Management. Members of the Board of Management may only assume other corporate positions, particularly appointments to the supervisory boards of non-Group companies, with the consent of the Executive Committee. Any material transactions between the Company and members of the Board of Management, their relatives or entities with which they have close personal ties require the consent of the Executive Committee, and all transactions must be conducted on an arm's-length basis. No such transactions took place during 2006.

The Supervisory Board Committees. The Supervisory Board has 20 members and, in accordance with the German Co-determination Act *(Mitbestimmungsgesetz)*, is composed of an equal number of shareholder and employee representatives. It supervises the management of the Company and advises the Board of Management. The Supervisory Board has formed the following committees from among its members.

The Executive Committee consists of four members. It prepares meetings of the Supervisory Board and advises the Board of Management on matters of general policy relating to the strategic development of the Company. In urgent cases (*i.e.*, if waiting for the prior approval of the Supervisory Board would materially prejudice the Company), the Executive Committee decides on business transactions requiring prior approval by the Supervisory Board. The Executive Committee also performs the functions of a remuneration committee.

In particular, the Executive Committee prepares the Supervisory Board's personnel decisions and deals with issues of corporate governance. It reports to the Supervisory Board at least once a year on the status, effectiveness and possible ways of improving the Company's corporate governance and on new requirements and developments in this field.

The Audit Committee consists of four members who have special knowledge in the field of accounting or business administration. The Company believes that two of the Audit Committee's members — Dr. Karl-Hermann Baumann and Ulrich Hartmann — meet all of the requirements for being considered an "audit committee financial expert" within the meaning of Section 407 of Sarbanes-Oxley and the rules enacted thereunder, given their extensive experience in accounting and auditing matters, including the application of U.S. GAAP. E.ON relies on the exemption afforded by Rule 10A-3(b)(1)(iv)(C) under the Securities Exchange Act with respect to the independence of two of its members, Gabriele Gratz and Klaus-Dieter Raschke. The Company believes that such reliance does not materially adversely affect the ability of the Audit Committee to act independently or to satisfy the other requirements of Rule 10A-3.

The Audit Committee deals in particular with issues relating to the Company's accounting policies and risk management, issues regarding the independence of the Company's external auditors, the establishment of auditing priorities and agreements on auditors' fees, including E.ON's policy for the approval of all audit and permissible non-audit services performed by the Company's independent auditors. The Audit Committee also prepares the Supervisory Board's decision on the approval of the annual financial statements of E.ON AG and the acceptance of the annual consolidated financial statements. It also inspects the Company's Annual Report on Form 20-F and its quarterly reports and discusses the financial statements and the quarterly reports with the Company's independent auditors. For additional information, see "Item 16C. Principal Accountant Fees and Services."

The Audit Committee also prepares the proposal on the selection of the Company's external auditors for the annual general meeting of shareholders. In order to ensure the auditors' independence, the Audit Committee secures a statement from the auditors proposed detailing any facts that could lead to the firm being excluded for independence reasons or otherwise conflicted. As a condition of their appointment, the external auditors agree to promptly inform the chair of the Audit Committee should any such facts arise during the course of the audit. The auditors also agree to promptly inform the Supervisory Board of anything arising during the course of their audit that is of relevance to the Supervisory Board's duties, and to inform the chair of the Audit Committee of, or to note in their audit report, any facts determined during the audit that contradict statements submitted by the Board of Management or Supervisory Board in connection with the requirements of the Code.

The Finance and Investment Committee consists of four members. It advises the Board of Management on all issues of Group financing and investment planning. It decides on behalf of the Supervisory Board on the approval of the acquisition and disposition of companies, company participations and parts of companies, as well as on finance activities whose value exceeds 1 percent of the Group's equity, as listed in the latest consolidated balance sheet. If the value of any such transactions or activities exceeds 2.5 percent of this equity, the Finance and Investment Committee will prepare the Supervisory Board's decision on such matters.

Measures Relating to the Sarbanes-Oxley Act. As a company whose ADSs are listed on the NYSE, E.ON is subject to the U.S. federal securities laws and the jurisdiction of the U.S. securities regulator, the SEC. In particular, E.ON is subject to the provisions of Sarbanes-Oxley. The aim of Sarbanes-Oxley is to increase the monitoring, quality and transparency of financial reporting in light of corporate and accounting scandals in the United States, and its provisions generally apply to both U.S. and non-U.S. issuers with securities listed in the United States. E.ON has complied with all of the Sarbanes-Oxley requirements applicable to the Company, including for the first time Management's Report on Internal Control over Financial Reporting required by Section 404 of Sarbanes-Oxley. See "Item 15. Controls and Procedures" (which includes Management's Report on Internal Control over Financial Reporting), "Item 16A. Audit Committee Financial Expert," "Item 16B. Code of Ethics," "Item 16C. Principal Accountant Fees and Services," "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers" and the certifications appearing as exhibits at the end of this annual report. See "Item 18. Financial Statements" for the Report of the Independent Registered Public Accounting Firm on the Company's internal control over financial reporting.

E.ON has instituted the following measures to improve the transparency of its corporate governance and financial reporting:

- In addition to E.ON's general Code of Conduct for all employees, the Company has developed a special Code of Ethics for members of the Board of Management and senior financial officers and published the text on its corporate website at www.eon.com. Material appearing on the website is not incorporated by reference in this annual report. This code obliges these managers to make full, appropriate, accurate, timely and understandable disclosure of information both in the documents E.ON submits to the SEC and in its other corporate publications.

- In accordance with an SEC recommendation, E.ON has established a Disclosure Committee that is responsible for ensuring that effective procedures and control mechanisms for financial reporting are in place and for providing a correct and timely presentation of information to the financial markets. The committee is comprised of seven members from various sectors of E.ON AG who have a good overview of the Group and the processing of information relating to the quarterly reports and annual financial statements.

Certain Provisions with Respect to Board Members

As a member of the Supervisory Board or Board of Management, a person is not permitted to vote on resolutions relating to transactions between himself and the Company. Further, contracts between members of the Supervisory Board and the Company require consent of the entire Supervisory Board, unless the contract establishes an employment relationship or relates to the member's services on the Board. Members of both Boards are prohibited from voting on resolutions relating to the initiation or settlement of litigation between themselves and the Company. Compensation of Board of Management members is determined by the Supervisory Board while compensation for the Supervisory Board is stipulated in E.ON AG's Articles of Association. For more information about E.ON's Board of Management and Supervisory Board, see "Item 6. Directors, Senior Management and Employees."

Ordinary Shares

The share capital of E.ON AG consists of Ordinary Shares with no par value. Certain provisions with respect to the Ordinary Shares under German law and E.ON AG's Articles of Association may be summarized as follows:

Dividends. Dividends in respect of Ordinary Shares are declared once a year at the annual general meeting of shareholders. For each fiscal year, the Board of Management approves E.ON AG's unconsolidated financial statements and submits them together with a proposal regarding the distribution of profits to the Supervisory Board for its approval. After examining the financial statements and proposal for profit distribution, the Supervisory Board presents a report in writing at the annual general shareholders' meeting. On the basis of the Supervisory Board's report, the shareholders vote on the Board of Management's proposal regarding the disposition of all unappropriated profits, including the amount of net profits to be distributed as a dividend. E.ON's shareholders participate in the distribution of dividends of the Company in proportion to their ownership of the outstanding share capital. Prior to dissolution of E.ON AG, the only amounts that may be distributed to shareholders under the Stock Corporation Act are the distributable profits *(Bilanzgewinn).*

Notice of the dividends to be paid will be published in the electronic form of the German Federal Official Gazette *(elektronischer Bundesanzeiger)*. For further information regarding E.ON dividends, see "Item 3. Key Information — Dividends" and "Item 8. Financial Information — Dividend Policy."

Voting Rights. Each Ordinary Share entitles its holder to one vote. The members of the Supervisory Board are each elected for the same fixed term of approximately five years; they are not elected at staggered intervals. Cumulative voting is not permitted under German law. E.ON AG's Articles of Association require that resolutions of shareholders' meetings be adopted by a simple majority of votes and, in certain circumstances, by a simple majority of the share capital of the Company, unless a higher vote is required by German law. Under German law, certain corporate actions require approval by 75 percent of the shares represented at the shareholders' meeting at which the matter is proposed. Such actions include, among others:

- amending the articles of association to alter the objects and purposes of the company;
- increasing or reducing the share capital;
- excluding preemptive rights of shareholders to subscribe for new shares;
- dissolving the corporation;
- merging the corporation into, or consolidating the corporation with, another company;
- transferring all or virtually all of the corporation's assets; and
- changing corporate form.

Shareholder Rights in Liquidation. In accordance with German law, in the event of liquidation, the assets of E.ON remaining after discharge of its liabilities would be distributed to its shareholders in proportion to their shareholdings.

Redemption. Under German law, the share capital of E.ON AG may be reduced by a shareholder resolution amending the Articles of Association, passed by at least 75 percent of the share capital represented at the shareholders' meeting. See "— Changes in Capital" below.

Preemptive Rights. Pursuant to E.ON AG's Articles of Association, the preemptive right *(Bezugsrecht)* of shareholders to subscribe for any issue of additional shares in proportion to their shareholdings in the existing capital may be excluded under certain circumstances.

Due to the restrictions on the offer and sale of securities in the United States under U.S. securities laws and regulations, there can be no assurance that any offer of new shares to existing shareholders on the basis of their preemptive rights will be open to U.S. holders of ADSs or Ordinary Shares.

Changes in Rights of Shareholders

Under German law, the rights of holders of E.ON shares may only be changed by a shareholder resolution amending the Articles of Association. The resolution must be passed by at least 75 percent of the share capital represented at the shareholders' meeting at which the issue was voted upon.

Shareholders' Meetings

The annual general meeting of shareholders is convened by E.ON's Board of Management or, when required by law, by its Supervisory Board, and must be held during the first eight months of the fiscal year. In addition, an extraordinary meeting of the shareholders may be called by the Board of Management, the Supervisory Board or shareholders owning in the aggregate at least 5 percent of the Company's issued share capital. There is no minimum quorum requirement for shareholder meetings. Each shareholder may be represented by a proxy by means of a written or electronic power of attorney. In Germany, non-institutional shareholders typically deposit their shares with a German bank *(Depotbank)*. Such a bank may exercise the voting rights in relation to the deposited shares only if authorized to do so by a proxy of the shareholder. Such proxies are revocable at any time. If a shareholder giving a proxy does not give the bank instructions on how to exercise the voting rights, the bank will exercise the voting rights in accordance with its own proposals as previously communicated to the shareholder. Holders of ADSs may vote their shares by proxy by signing and returning the proxy card mailed to them by JPMorgan Chase Bank N.A. (the "Depositary") in advance of the meeting. The Depositary will, to the extent permitted by law, the Articles of Association and the provisions of the ADSs, vote or cause to be voted all ADSs for which it receives signed proxies by the applicable record date.

At the annual general meeting, shareholders are called upon to approve the distribution of Company profits, to ratify the actions of the Board of Management and the Supervisory Board taken during the prior year, and to appoint the Company's auditors. When necessary, other matters shall be resolved at shareholders' meetings in accordance with the relevant provisions of German law, including:

- election of members of the Supervisory Board (other than those elected by the employees);
- amendment of the Articles of Association;
- measures to increase or reduce share capital;
- mergers and similar transactions; and
- resolutions regarding the dissolution of the Company.

Notice of any shareholders' meeting, including an agenda describing items to be voted upon, shall be published in the electronic form of the German Federal Official Gazette *(elektronischer Bundesanzeiger)* and in one other major daily German newspaper no later than thirty days before the deadline for registration as described below. Holders of ADRs will be notified of any shareholders' meeting by the Depositary.

At the annual general meeting of shareholders in 2005, E.ON AG's Articles of Association were amended with respect to the requirements that shareholders must comply with in order to be eligible to participate in, and vote at, any E.ON shareholders' meeting. Specifically, shareholders are required to:

- register in text form in the German or English language no later than the end of the seventh day prior to the day of the shareholders' meeting; and
- prove their right to participate in the shareholders' meeting and to exercise the voting right. This must occur by the end of the seventh day prior to the day of the shareholders' meeting by presenting proof of the shareholding in text form in the German or English language issued by the institution where the shares are deposited. Such proof of shareholding must relate to the beginning of the twenty-first day prior to the shareholders' meeting.

The registration of the shareholder as well as the proof of the shareholding must be received by the Company at an address specified in the notice of the shareholders' meeting.

Pursuant to a shareholder resolution approved at the former VEBA extraordinary shareholders' meeting held on February 10, 2000, the Company excluded share certification in order to save the Company and its shareholders the high costs of printing and distributing share certificates. The shareholders' right to share certificates and profit-sharing coupons is thus excluded except as provided by the rules governing stock exchanges on which the shares are listed. E.ON has not issued share certificates.

Transparency and Corporate Reporting

The Board of Management and Supervisory Board of E.ON AG place a great deal of value on the transparency of corporate governance. E.ON's shareholders, capital markets participants, financial analysts, shareholder groups and the media are regularly and promptly informed of the condition of, and any material changes in, the Company's business. E.ON makes particular use of the Internet in communicating with its shareholders and the financial markets in general.

In particular, the Company produces the following financial reporting materials on a regular basis:

- quarterly reports;
- annual reports prepared in accordance with German law (in both German and English);

- the Annual Report on Form 20-F;
- a press conference at the time of release of the German annual report; and
- telephone conferences for analysts following the release of quarterly or annual results, as well as other investor relations presentations.

The expected dates of issue for the Company's financial reports are summarized in the financial calendar, which is available on the Internet at www.eon.com. Material appearing on the website is not incorporated by reference in this annual report.

In addition to its regularly scheduled financial reporting, announcements of material events are published by the Company through the German *ad hoc* disclosure system, released to the press and submitted to the SEC on Form 6-K.

According to amendments to the Securities Trading Act effective as of January 20, 2007, listed German corporations must disseminate public information relating to, *inter alia*, insider information, directors' dealings and notifications on shareholdings throughout the European Economic Area through several means of communication, including both electronic and print media. In addition, investors must have access to this information, as well as the corporations' financial statements, on the Internet at www.unternehmensregister.de. Material appearing on the website is not incorporated by reference in this annual report.

According to amendments to the German Commercial Code (*Handelsgesetzbuch*) that came into effect on January 20, 2007, representatives of issuers who prepare consolidated accounts for which Germany is the home member state pursuant to the Securities Trading Act have to affirm by written statements that, according to their best knowledge, the consolidated financial statements prepared in accordance with the applicable accounting standards give a true and fair view of the assets and liabilities, financial position and results (*Vermögens-, Finanz- und Ertragslage*) of the issuer and that the group management report (*Konzernlagebericht*) includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and important prospects the issuer faces. Annual and half-yearly financial reports for financial years beginning after December 31, 2006 are required to contain written statements to such effect.

Foreign Share Ownership

There are no limitations on the right to own Ordinary Shares, including the right of non-resident or foreign owners to hold or vote the Ordinary Shares, imposed by German law or the Articles of Association of E.ON AG.

Change of Control Provisions

There are no provisions in E.ON AG's Articles of Association that would have an effect of delaying, deferring or preventing a change in control of E.ON and that would only operate with respect to a merger, acquisition or corporate restructuring involving it or any of its subsidiaries. German law does not specifically regulate business combinations with interested shareholders. However, general principles of German law may restrict business combinations under certain circumstances.

Disclosure of Shareholdings

E.ON AG's Articles of Association do not require shareholders to disclose their shareholdings. The Securities Trading Act requires each investor whose investment in a German corporation (including E.ON AG) listed on organized markets of a German, European Union or European Economic Area stock exchange reaches, passes or falls below 5 percent, 10 percent, 25 percent, 50 percent or 75 percent of the voting rights of such corporation to notify such corporation and BAFin promptly in writing. According to amendments to the Securities Trading Act effective as of January 20, 2007, the time period for such notification has been shortened from seven to four trading days. In addition, the amended Securities Trading Act has additional notification thresholds of 3 percent, 15 percent, 20 percent and 30 percent of the voting rights. The corporation, upon receipt of such notification, is obliged to publish such notification promptly, but in any event within three trading days. The same obligations apply to financial instruments that result in an entitlement to acquire, upon the holder's own initiative, shares which are already issued and to which voting rights are attached, except that notifications are not required when reaching, passing or falling below the 3 percent threshold.

Failure of a shareholder to notify the company will, for so long as such failure continues, disqualify such shareholder from exercising the voting rights attached to his shares. In connection with this requirement, the Securities Trading Act contains various rules designed to ensure the attribution of shares to the person who has effective control over the shares.

Additionally, the German Takeover Act *(Wertpapiererwerbs- und Übernahmegesetz)* requires the publication of the acquisition of "control," which is defined as the holding of at least 30 percent of the voting rights in a target company, within seven days.

The Securities Trading Act also requires the reporting of certain directors' dealings. According to the Act, persons discharging managerial responsibilities within a publicly traded issuer have to notify both the issuer and BAFin about their transactions relating to the issuer's shares and derivatives or other financial instruments linked to those shares. Certain persons closely associated with these managers, for example spouses, dependent children, or other relatives sharing the same household, are under the same obligation. Similarly, the reporting obligation also applies to legal entities, trusts and partnerships that are managed or controlled by any such manager or associated person, or that are set up for the benefit of such a person, or whose economic interests are substantially equivalent to those of such person. There is no notification obligation until the total amount of transactions of a covered manager and all his or her associated persons is at least €5,000 during any calendar year. The issuer is obliged to publish all notifications it receives on its website; E.ON made available all such disclosure received during 2006 on its website. Material appearing on the website is not incorporated by reference in this annual report.

Changes in Capital

Under German law, share capital may be increased in consideration of contributions in cash or in kind. To prepare such capital increase, the company may establish authorized capital *(Genehmigtes Kapital)* or conditional capital *(Bedingtes Kapital)*. Authorized capital provides a company's board of management with the flexibility to issue new shares for a period of up to five years. Conditional capital allows the board of management to issue new shares for specified purposes, including employee stock option plans, mergers and the issuance of shares upon conversion of bonds with warrants and convertible bonds. Capital increases and the establishment of authorized or conditional capital require an amendment to the articles of association approved by 75 percent of the issued shares present at the shareholders' meeting at which the increase is proposed. The board of management must also obtain the approval of the supervisory board before issuing new shares. Likewise, the share capital may be reduced. This requires shareholders' authorization passed by at least 75 percent of the share capital represented at the shareholders' meeting. If those shares are to be canceled, an additional resolution of the board of management approved by the supervisory board to amend the articles of association to take into account the reduction in share capital is required. E.ON AG's Articles of Association do not contain conditions regarding changes in the share capital that are more stringent than German law requires.

Authorized and Conditional Capital. Subject to the approval of the Supervisory Board, the Board of Management is authorized to increase the Company's capital stock until April 27, 2010 by up to €540,000,000 through the one-time or repeated issuance of new Ordinary Shares in return for cash or in kind contributions. E.ON shareholders generally have pre-emptive rights with respect to the issuance of authorized shares issued in return for cash contributions, though their rights may be excluded by the Board of Management, subject to approval by the Supervisory Board, under certain circumstances set forth in the Articles of Association. Subject to the approval of the Supervisory Board, the Board of Management is authorized to exclude the shareholders' pre-emptive rights with respect to the issuance of authorized shares issued in return for contributions in kind.

Also pursuant to its Articles of Association, E.ON's capital stock has been conditionally increased by up to €175,000,000. This conditional increase may be implemented only to the extent that holders of conversion rights or obligations or option rights issued under a program authorized by the E.ON shareholders on April 30, 2003 exercise their conversion or option rights or to the extent that the increase is necessary for the fulfillment of conversion obligations and no own shares are used for servicing.

For more information regarding the Company's capital stock, see Note 17 of the Notes to Consolidated Financial Statements.

Share Buyback. Pursuant to shareholder resolutions approved at the annual general meeting of shareholders held on May 4, 2006, the Board of Management is authorized to buy back up to 10 percent of E.ON AG's outstanding share capital through November 4, 2007. For additional details on this share buyback plan and share repurchases in 2006, see "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers." See also Note 17 of the Notes to Consolidated Financial Statements for information on share repurchases in 2006, 2005 and 2004.

Significant Differences in Corporate Governance Practices for Purposes of Section 303A.11 of the New York Stock Exchange Listed Company Manual (the "NYSE Manual")

Corporate governance principles for German stock corporations *(Aktiengesellschaften)* are set forth in the Stock Corporation Act, the Co-Determination Act and the German Corporate Governance Code. E.ON believes the following to be the significant differences between German corporate governance practices, as E.ON has implemented them, and those applicable to U.S. companies under NYSE listing standards, as set forth in Section 303A of the NYSE Manual.

E.ON's Implementation of the German Corporate Governance Code. The German Corporate Governance Code was released in 2002 by a commission comprised of German corporate governance experts, including top managers of large German companies and representatives of institutional and retail investors, academia, the accounting profession and labor unions, that was appointed by the German Federal Ministry of Justice in 2001. The Code has been amended twice since its initial release, most recently in June 2005. As a general rule, the Code will be reviewed annually and amended if necessary to reflect international corporate governance developments. The Code describes and summarizes the basic mandatory statutory corporate governance principles found in the Stock Corporation Act and other provisions of German law. In addition, it contains supplemental recommendations and suggestions for standards on responsible corporate governance intended to reflect generally accepted best practice.

The Code addresses six core areas of corporate governance. These are (i) shareholders and shareholders' meetings, (ii) the interaction between the board of management *(Vorstand)* and the supervisory board *(Aufsichtsrat)*, (iii) the board of management, (iv) the supervisory board, (v) transparency and (vi) accounting and audits. Although these corporate governance issues are similar to those covered by the NYSE corporate governance guidelines and code of business conduct that a U.S. company subject to the NYSE listing standards must adopt and disclose, the Code's provisions as such are not legally binding.

The Code contains three types of provisions. First, the Code describes and summarizes the existing statutory, *i.e.*, legally binding, corporate governance framework set forth in the Stock Corporation Act and in other German laws. Those laws — and not the incomplete and abbreviated summaries of them reflected in the Code — must be complied with. The second type of provisions are "recommendations." While these are not legally binding, §161 of the Stock Corporation Act requires that a German stock corporation listed on a stock exchange in the European Union or European Economic Area must issue an annual compliance report stating which of these Code recommendations, if any, are not being applied. The third and final type of Code provisions comprises "suggestions" which issuers may choose not to adopt without making any related disclosure. The Code contains a significant number of such suggestions, covering almost all of the core areas of corporate governance it addresses.

E.ON issued its annual compliance report for 2006 on December 13, 2006. E.ON's report notes that it has complied with all of the legally binding provisions of the Code, as well as with all of its recommendations, other than those relating to directors' and officers' insurance (the Code recommends that such policies include a deductible, E.ON's includes such a deductible only since June 16, 2006). This point is not expressly addressed by the NYSE listing standards applicable to U.S. companies. A copy of the complete compliance report is available on E.ON's website at www.eon.com. Information appearing on the website is not incorporated by reference into this annual report.

A German Stock Corporation is Required to Have a Two-Tier Board System. A German stock corporation is required by the Stock Corporation Act to have both a supervisory board and a board of management. This contrasts with the unitary board of directors envisaged by the relevant laws of all U.S. states and the NYSE listing standards. Under the Stock Corporation Act, the two boards are separate and no individual may be a member of both boards. Both the members of the board of management and the members of the supervisory board owe a duty of loyalty and care to the stock corporation.

The board of management is responsible for managing the company and representing the company in its dealings with third parties. The board of management is also required to ensure appropriate risk management within the corporation and to establish an internal monitoring system. The members of the board of management, including its chairman or speaker, are regarded as equals and share collective responsibility for all management decisions.

The supervisory board appoints and removes the members of the board of management. Although it is not permitted to make management decisions, the supervisory board has comprehensive monitoring functions, including advising the company on a regular basis and participating in decisions of fundamental importance to the company. To ensure that these monitoring functions are carried out properly, the board of management must, among other things, regularly report to the supervisory board with regard to current business operations and business planning, including any deviation of actual developments from concrete and material targets previously presented to the supervisory board. Transactions of fundamental importance to the stock corporation, such as major strategic decisions or other actions that may have a fundamental impact on the company's assets and liabilities, financial condition or results of operations, are also subject to the consent of the supervisory board. The supervisory board may also request special reports from the board of management at any time.

The supervisory board of a large company like E.ON is subject to the German principle of employee "co-determination" of the company's fundamental business direction. Accordingly, under the German Co-determination Act, E.ON's Supervisory Board consists of representatives of the shareholders and representatives of the employees. E.ON's employees have the right to elect one-half of the total of 20 Supervisory Board members. In addition, the Chairman of E.ON's Supervisory Board is a shareholder representative who has the deciding vote in the event of a tie.

The Committees Required by the NYSE Manual are Not Required Under the Stock Corporation Act or the Code. The only supervisory board committee required under German law is a mediation committee, which is required in companies with more than two thousand employees in Germany that are subject to the principle of employee co-determination. This committee's function is to assist the supervisory board by making proposals for board of management member nominees in the event that the two-thirds majority of employee votes needed to appoint a board of management member is not met. However, the Code contains the recommendation that the supervisory board also establish one or more committees with sufficiently qualified members. In particular, it recommends establishing an "audit committee" to handle issues of accounting and risk management, auditor independence, the engagement and compensation of outside auditors appointed by the shareholders' meeting and the determination of auditing focal points. The Code suggests that the chairman of the audit committee should not be the current chair of the supervisory board or a former member of the board of management of the stock corporation. The Code also includes suggestions on other subjects that may be handled by committees, including corporate strategy, compensation of the members of the board of management, investments and financing. Under the Stock Corporation Act, any supervisory board committee must regularly report to the supervisory board.

E.ON has created a Finance and Investment Committee, an Audit Committee and an Executive Committee. As a result of its listing on the NYSE, E.ON's Audit Committee is required to comply with the provisions of Section 301 of Sarbanes-Oxley and Rule 10A-3 of the U.S. Securities Exchange Act of 1934 ("Rule 10A-3"), which are also applicable to U.S. companies. E.ON believes that its Audit Committee is in compliance with the provisions of Rule 10A-3 applicable to foreign private issuers. E.ON is also required to disclose information concerning any "audit committee financial expert" (as defined in the relevant SEC rules) serving on its Audit Committee, the fees E.ON pays to its auditors for various services and the policies E.ON has for approving engagements of these auditors, and has done so in Item 16 of this annual report.

E.ON's Audit Committee is Not Subject to All of the Requirements the NYSE Manual Applies to U.S. Companies. E.ON's Audit Committee is not subject to requirements similar to those applied to U.S. companies under Section 303A.02 or Section 303A.07 of the NYSE Manual. These requirements include an affirmative determination that audit committee members are "independent" according to stricter criteria than those set forth in

Rule 10A-3 as applicable to foreign private issuers, the adoption of an annual performance evaluation, and the review of an auditor's report describing internal quality-control issues and procedures and all relationships between the auditor and the corporation. The Code requires that the supervisory board and the audit committee monitor the work of the independent auditors and receive reports from the auditors on their activities. However, these reporting requirements are not as detailed as those set forth in Section 303A.07 of the NYSE Manual.

German corporate law does not require an affirmative independence determination, meaning that the supervisory board need not make affirmative findings that audit committee members are independent. Nevertheless, both the Stock Corporation Act and the Code contain several rules, recommendations and suggestions to ensure the supervisory board's independent advice and supervision of the board of management. Under the Stock Corporation Act, advisory, service and certain other contracts between a member of the supervisory board and the company require the supervisory board's approval. A similar requirement applies to loans granted by the stock corporation to a supervisory board member or other persons, such as certain members of the supervisory board member's family. In addition, the Code recommends that no more than two former members of the board of management be members of the supervisory board and that supervisory board members not exercise directorships or accept advisory tasks for important competitors of the stock corporation. Furthermore, the Code suggests that the chairman of the audit committee should not be the current chair of the supervisory board or a former member of the board of management of the stock corporation, and E.ON has complied with that suggestion.

The Code recommends that each member of the supervisory board inform the supervisory board of any conflicts of interest which may result from a consulting or directorship function with clients, suppliers, lenders or other business partners of the stock corporation. In the case of material conflicts of interest or ongoing conflicts, the Code recommends that the mandate of the supervisory board member be terminated. The Code further recommends that any conflicts of interest that have occurred be reported by the supervisory board at the annual shareholders' meeting, together with the action taken, and that potential conflicts of interest be also taken into account in the nomination process for the election of supervisory board members.

Section 303A.02 of the NYSE Manual also imposes independence requirements on members of audit committees of U.S. companies that are more stringent than those set forth in Rule 10A-3, requiring, for instance, that any director who is an employee of an issuer will not be considered independent until three years after the end of such employment relationship. E.ON's Audit Committee, in accordance with the requirements of the Co-Determination Act (and as permitted by Rule 10A-3, as applicable to foreign private issuers), includes two current employees, neither of whom is an executive officer, as well as the former chairman of E.ON's Board of Management, who retired from E.ON's Board of Management in May 2003.

MATERIAL CONTRACTS

In May 2002, in connection with E.ON's acquisition of Ruhrgas, E.ON 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. See also "Item 4. Information on the Company — History and Development of the Company — Ruhrgas Acquisition." An English translation of the Framework Agreement between RAG AG, RAG Beteiligungs-GmbH, RAG Projektgesellschaft mbH and EBV Aktiengesellschaft, and E.ON AG, Chemie Verwaltungs AG and E.ON Vermögensanlage GmbH has been incorporated by reference as an exhibit to this annual report.

In May 2005, E.ON sold Viterra to Deutsche Annington. The details of the transaction are described in more detail in "Item 4. Information on the Company — Business Overview — Discontinued Operations — Other Activities." A copy of the sale and purchase agreement has been incorporated by reference as an exhibit to this annual report.

In connection with financing the proposed acquisition of Endesa, E.ON has entered into the Facility Agreement and the Supplemental Facility Agreement. For more information, including the parties to and amounts and terms of these agreements, see "Item 4. Information on the Company — History and Development of the Company — Proposed Endesa Acquisition." Copies of the Facility Agreement and the Supplemental Facility Agreement have been incorporated by reference as exhibits to this annual report.

EXCHANGE CONTROLS

At the present time, Germany does not restrict the movement of capital between Germany and other countries or individuals except Iraq, certain persons and entities associated with Osama bin Laden, the Al-Qaida network and the Taliban and certain other countries and individuals subject to embargoes in accordance with German law and applicable resolutions adopted by the United Nations and the EU. However, for statistical purposes only, every individual or corporation residing in Germany (a "Resident") must report to the German Central Bank *(Deutsche Bundesbank)*, subject only to certain immaterial exceptions, any payment received from or made to or on account of an individual or a corporation resident outside of Germany (a "Non-resident") if such payment exceeds €12,500 (or the equivalent in a foreign currency). In addition, Residents must report any claims against or any liabilities payable to Non-residents if such claims or liabilities, in the aggregate, exceed €5 million (or the equivalent in a foreign currency) at the end of any month. Residents are also required to report annually any shareholdings of 10 percent or more held in non-resident corporations with total assets of more than €3 million, and resident corporations with assets in excess of €3 million must report annually any shareholdings of 10 percent or more in the company held by a Non-resident.

TAXATION

The following is a summary of material U.S. federal income tax and German tax considerations relating to the ownership of ADSs or Ordinary Shares. The discussion is based on tax laws of the United States and Germany as in effect on the date of this annual report, including the Convention between the United States of America and the Federal Republic of Germany for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income and Capital and to Certain Other Taxes (the "Income Tax Treaty"), and the Convention Between the United States of America and the Federal Republic of Germany for the Avoidance of Double Taxation with Respect to Taxes on Estates, Inheritances, and Gifts (the "Estate Tax Treaty"). Such laws are subject to change. In particular, changes to the Income Tax Treaty are expected to enter into effect in 2007.

The discussion is limited to a general description of certain U.S. federal income and German tax consequences with respect to ownership and disposition of ADSs or Ordinary Shares by a U.S. Holder. In general, a "U.S. Holder" is any beneficial owner of ADSs or Ordinary Shares (1) who is a resident of the United States for the purposes of the Income Tax Treaty, (2) who is not also a resident of the Federal Republic of Germany for the purposes of the Income Tax Treaty, (3) who owns the ADSs or Ordinary Shares as capital assets, (4) who does not hold ADSs or Ordinary Shares as part of the business property of a permanent establishment or a fixed base located in Germany and (5) who is entitled to benefits under the Income Tax Treaty with respect to income and gain derived in connection with the ADSs or Ordinary Shares. The discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to the ownership of ADSs or Ordinary Shares, and, in particular, it does not address U.S. federal taxes other than income tax or German taxes other than income tax, gift and inheritance taxes. Moreover, the discussion does not consider any specific facts or circumstances that may apply to a particular U.S. Holder, some of which (for example, tax-exempt entities, persons that own, directly or indirectly, 10 percent or more of any class of the Company's stock, holders subject to the alternative minimum tax, securities broker-dealers and certain other financial institutions, holders who hold the ADSs or Ordinary Shares in a hedging transaction or as part of a straddle or conversion transaction or holders whose functional currency is not the U.S. dollar) may be subject to special rules.

Owners of ADSs or Ordinary Shares are strongly urged to consult their tax advisers regarding the U.S. federal, state, local, German and other tax consequences of owning and disposing of ADSs or Ordinary Shares. In particular, owners of ADSs or Ordinary Shares are urged to consult their tax advisers to confirm their status as U.S. Holders and the consequence to them if they do not so qualify.

In general, for U.S. federal income tax purposes and for purposes of the Income Tax Treaty, holders of ADSs will be treated as the owners of the Ordinary Shares represented by those ADSs.

TAXATION OF GERMAN CORPORATIONS

Profits earned by a German resident corporation are subject to a uniform corporate income tax rate of 25 percent. German resident corporations are also subject to a solidarity surcharge equal to 5.5 percent of their corporate income tax liability. The aggregate corporate income tax and solidarity surcharge amount to 26.375 percent. In addition to these taxes, profits of a German resident corporation are subject to a municipal trade income tax. This tax is levied at rates set by each municipality in which the corporation maintains a business establishment. The municipal trade income tax is an allowable deduction for corporate income and municipal trade income tax purposes.

TAXATION OF DIVIDENDS

The Company is generally required to withhold tax on dividends in an amount equal to 20 percent of the gross amount paid to resident and non-resident stockholders. There is a 5.5 percent solidarity surcharge on the German withholding tax on dividend distributions paid by the Company. The surcharge amounts to 1.1 percent (5.5 percent × 20 percent) of the gross dividend amount. This results in an aggregate withholding rate of 21.1 percent. A full refund of this surcharge and partial refund of the withholding tax can be obtained by U.S. Holders under the Income Tax Treaty. In the case of any U.S. Holder, other than a U.S. corporation owning ADSs or Ordinary Shares representing at least 10 percent of the voting stock of the Company, the German withholding tax is refunded to reduce such tax to 15 percent of the gross amount of the dividend.

For U.S. federal income tax purposes, the gross amount of dividends paid on Ordinary Shares, without reduction for German withholding tax, generally will be subject to U.S. federal income taxation as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. Subject to certain exceptions for short-term and hedged positions, an individual U.S. Holder generally will be subject to U.S. taxation at a maximum rate of 15 percent in respect of dividends received before 2011 if the dividends are "qualified dividends." Dividends that the Company pays generally will be treated as qualified dividends if the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). Based on the Company's audited consolidated financial statements and relevant market and shareholder data, the Company believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2005 or 2006 taxable year. In addition, based on the Company's audited consolidated financial statements and current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market data, the Company does not anticipate becoming a PFIC for its 2007 taxable year.

German withholding tax, up to the 15 percent rate provided under the Income Tax Treaty, will be treated as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, generally is eligible for credit against a U.S. Holder's U.S. federal income tax liability or, at the holder's election, may be deducted in computing its taxable income. Thus, for a declared dividend of $100 with respect to which the Company withholds German tax at a rate of at least 15 percent, a U.S. Holder would be deemed to have paid German taxes of $15. Foreign tax credits may not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities. U.S. Holders should consult their own advisers concerning the implications of these rules in light of their particular circumstances.

Dividends paid in euros to a U.S. Holder of ADSs or Ordinary Shares will be included in income in a dollar amount calculated by reference to an exchange rate in effect on the date the dividends are received by such holder (or, in the case of the ADSs, by the Depositary). If dividends paid in euros are converted into dollars on the date the dividends are received or treated as received by a U.S. Holder, the holder generally should not be required to recognize foreign currency gain or loss in respect of its dividend income. However, a U.S. Holder may be required to recognize domestic-source foreign currency gain or loss on the receipt of a refund in respect of German withholding tax to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

REFUND PROCEDURES

Individual claims for refund are made on a special German form, which must be filed with the German tax authorities: *Bundeszentralamt für Steuern*, 53221 Bonn, Germany. Copies of the required form may be obtained from the German tax authorities at the same address, or from the Embassy of the Federal Republic of Germany, 4645 Reservoir Road N.W., Washington D.C. 20007-1998.

As part of the individual refund claim, a U.S. Holder must submit to the German tax authorities the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, and an official certification on IRS Form 6166 of its last filed United States federal income tax return. IRS Form 6166 generally may be obtained by filing a request (generally an IRS Form 8802) with the Internal Revenue Service Center in Philadelphia, Pennsylvania, U.S. Residency Certification Request, P.O. Box 16347, Philadelphia, PA 19114-0447. U.S. Holders should consult a tax adviser and the instructions to the IRS Form 8802 for further details regarding how to obtain this certification.

Claims must be filed within four years of the end of the calendar year in which the dividend was received.

Under a simplified refund procedure based on electronic data exchange *(Datenträgerverfahren)*, a broker which is registered as a participant in the electronic data exchange procedure with the *Bundeszentralamt für Steuern* may file a collective refund claim on behalf of all of the U.S. Holders for whom it holds ADSs or Ordinary Shares in custody.

The refund is assessed against and paid to the broker, which will then pay the refund to the U.S. Holders for whom it is acting. The *Bundeszentralamt für Steuern* is entitled to review the U.S. Holders' eligibility for a refund of withholding tax under the Income Tax Treaty. The data transmitted by the broker may be used by the German tax authorities for administrative exchange of information between Germany and the United States.

Another simplified refund procedure applies if ADSs of a U.S. Holder are registered with brokers participating in the Depository Trust Company ("DTC"). Pursuant to administrative procedures agreed between the German Federal Ministry of Finance and the DTC, claims for refunds payable under the Income Tax Treaty to such U.S. Holders may be submitted to the German tax authorities by the DTC (or a custodian as its designated agent) collectively on behalf of all such U.S. Holders. Details of the collective refund procedure will be available from the DTC.

The *Bundeszentralamt für Steuern* will issue refunds to the DTC, which will issue corresponding refund checks to the participating brokers. The *Bundeszentralamt für Steuern* is entitled to conduct eligibility reviews, generally within a period of four years.

Refunds under the Treaty are not available in respect of Ordinary Shares or ADSs held in connection with a permanent establishment or fixed base in Germany.

TAXATION OF CAPITAL GAINS

Under the Income Tax Treaty, a U.S. Holder will be protected against German tax on capital gains realized or accrued on the sale or other disposition of ADSs or Ordinary Shares provided the assets of the Company do not consist and have not consisted predominantly of immovable property situated in Germany.

Upon a sale or other disposition of ADSs or Ordinary Shares, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the U.S. Holder's U.S. dollar tax basis in the ADSs or Ordinary Shares. Such gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder's holding period for the ADSs or Ordinary Shares exceeds one year. The net amount of long-term capital gain recognized by an individual U.S. Holder generally is subject to taxation at a minimum rate of 15 percent for gains recognized prior to 2011. Deposits and withdrawals of Ordinary Shares in exchange for ADSs generally will not result in realization of gain or loss for U.S. federal income tax purposes.

GIFT AND INHERITANCE TAXES

The Estate Tax Treaty provides that an individual whose domicile is determined to be in the United States for purposes of such Treaty will not be subject to German inheritance and gift tax (the equivalent of the United States federal estate and gift tax) on the individual's death or making of a gift unless the ADSs or Ordinary Shares (1) are part of the business property of a permanent establishment located in Germany or (2) are part of the assets of a fixed base of an individual located in Germany and used for the performance of independent personal services. An individual's domicile in the United States, however, does not prevent imposition of German inheritance and gift tax with respect to an heir, donee, or other beneficiary who either is or is deemed to be resident in Germany at the time the individual died or the gift was made.

The Estate Tax Treaty also provides a credit against U.S. federal estate and gift tax liability for the amount of inheritance and gift tax paid to Germany, subject to certain limitations, in a case where the ADSs or Ordinary Shares are subject to German inheritance or gift tax and U.S. federal estate or gift tax.

OTHER GERMAN TAXES

There are no German transfer, stamp or other similar taxes that would apply to U.S. Holders who purchase or sell ADSs or Ordinary Shares.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Dividends on Ordinary Shares or ADSs, and payments of the proceeds of a sale of Ordinary Shares or ADSs, paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or through certain U.S.-related financial intermediaries.

DOCUMENTS ON DISPLAY

E.ON AG is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, E.ON files reports and other information with the Securities and Exchange Commission. These materials, including this annual report and its exhibits, may be inspected and copied at the SEC's Public Reference Room at 100 F Street N.E., Washington D.C. 20549. Copies of materials may be obtained from the Public Reference Room at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. E.ON's filings, including this annual report, are also available on the SEC's website at www.sec.gov. Material appearing on this website is not incorporated by reference into this annual report. In addition, material filed by E.ON with the SEC may be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

The following discussion should be read in conjunction with "Summary of Significant Accounting Policies" in Note 2 of the Notes to Consolidated Financial Statements and in conjunction with Notes 28 and 29 of the Notes to Consolidated Financial Statements, which provides a summarized comparison of nominal values and fair values of financial instruments used by the Company for risk management purposes and other information relating to those instruments.

Risk Identification and Analysis

In the normal course of business, the Company is exposed to foreign currency risk, interest rate risk, commodity price risk, share price risk, and counterparty risk. These risks create volatility in equity, earnings and cash flows from period to period. The Company makes use of derivative instruments generally in order to manage currency risk, interest rate risk, share price risk and commodity price risk. Foreign exchange, equity and interest rate derivatives held by the Company are used only for hedging purposes. The market units also engage in hedging and proprietary trading of energy-related commodity derivatives, subject to established guidelines for risk management. See "— Commodity Price Risk Management" below and the subsections on trading of the market units in "Item 4. Information on the Company — Business Overview." In its hedging and proprietary trading activities, the Company generally utilizes established and widely-used derivative instruments for which significant liquidity exists. The Company's comprehensive framework for risk management includes general risk management guidelines for the use and evaluation of derivative instruments that are in place throughout the Group.

As part of its risk management system, the Company utilizes instruments such as interest rate swaps, interest rate/cross currency swaps, foreign exchange forward contracts, cross currency swaps, foreign exchange options, equity forwards, commodity forwards, commodity swaps, commodity futures and commodity options, seeking to reduce its risk exposure by entering into offsetting market positions.

The following discussion of the Company's risk management activities and the estimated amounts generated from profit-at-risk, value-at-risk and sensitivity analyses are "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected due to actual developments in the global financial markets. The methods used by the Company to analyze risks, as discussed below, should not be considered projections of future events or losses. The Company also faces risks that are either non-financial or non-quantifiable. Such risks principally include country risk, operational risk and legal risk, which are not represented in the following analyses.

Foreign Exchange and Interest Rate Risk Management Principles

The Company's Corporate Treasury, which is primarily responsible for entering into derivative foreign exchange and interest rate contracts for the Group and its companies, acts as a service center for the Company and not as a profit center. With E.ON AG's approval, individual Group companies may also hedge their currency and interest rate risks directly with third parties in exceptional cases.

The Company uses a Group-wide treasury, risk management and reporting system which incorporates all relevant functions, including those of the Corporate Treasury, Back Office and Financial Controlling units. This system is a standard information technology solution and is both fully integrated and continuously updated. It is designed to provide for the systematic and consistent identification and analysis of the Company's overall financial and market risks with regard to liquidity, currencies and interest rates. The system is also used to determine, analyze and monitor the Company's short- and long-term financing and investment requirements as well as market and counterparty risks arising from short- and long-term deposits and hedging transactions.

The range of actions, responsibilities and financial reporting procedures to be followed by each Group company are outlined in detail in the Company's internal financial guidelines. The market units have enacted their own guidelines for financial risk management within the limits established by the Group's financial guidelines. To ensure efficient risk management at E.ON AG, the Corporate Treasury, Back Office and Financial Controlling departments are organized as strictly separate units. Standard software is employed in processing relevant business transactions. The Financial Controlling department performs continuous and independent risk controlling. The department prepares operational financial plans, calculates market price and counterparty risks, and evaluates financial transactions. The Financial Controlling department reports to management at regular intervals on the Group's liquidity, foreign exchange, interest rate and commodity price risks as well as counterparty risks. Those subsidiaries that make use of external hedging transactions with third parties have similar organizational and reporting arrangements in place.

Foreign Exchange Rate Risk Management

Due to the international nature of some of its business activities, the Company is exposed to exchange risk related to sales, assets, receivables and liabilities denominated in foreign currencies, net investments in foreign operations and anticipated foreign exchange payments. Of the Company's consolidated revenue in 2006, 2005 and 2004, approximately 38 percent, 35 percent and 34 percent, respectively, arose due to transactions with customers which were not located in member states of the EMU, and therefore exposed the Company to foreign exchange rate risk. The Company's exposure results mainly from transactions in U.S. dollars, British pounds, Hungarian forint and Swedish krona and from net investments in foreign operations whose functional currencies are U.S. dollars, British pounds and Swedish krona. As of December 31, 2006, the Company was using hedging transactions with respect to each of these currencies.

In accordance with E.ON's hedging policy, macro-hedging transactions relating to currency risks are generally completed for periods of up to 18 months. Under certain circumstances the hedging horizon is longer. Macro-hedging transactions comprise a number of individual underlying transactions that have been grouped together and hedged as an individual unit.

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 foreign exchange 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 volume of €0.3 billion and foreign exchange options with a nominal value of zero.

Market risks for foreign exchange derivatives consist of the positive and negative changes in net asset value that result from fluctuations of the relevant currencies on the respective financial markets. The market values of derivative financial instruments are calculated by comparing all relevant price components of a transaction at the time of the deal with those prevailing on the valuation date. The relevant parameters used to calculate the potential change in market value are the contract amount and the contractual forward-exchange rate. In line with international banking standards, market risk has been calculated using the value-at-risk method on the basis of historical market data. The "value-at-risk" is equal to the maximum potential loss (on the basis of a probability of 99 percent) from derivative positions that could be incurred within the following business day. The calculations take account of correlations between individual transactions; the risk of a portfolio is generally lower than the sum of its individual risks.

The market risk analysis of the Company's foreign exchange derivatives by transaction and maturity as of December 31, 2006 and December 31, 2005 is summarized in the following table.

Total Volume of Foreign Currency Derivatives as of December 31, 2006 and December 31, 2005

	December 31, 2006				December 31, 2005			
	Nominal Value	Fair Value	1-day Value-at-Risk	10-day Value-at-Risk	Nominal Value	Fair Value	1-day Value-at-Risk	10-day Value-at-Risk
	(€ in millions)							
FX forward transactions								
Buy	4,532.7	(27.1)	8.1	25.5	4,091.3	79.2	16.9	53.4
Sell	6,982.4	19.4	15.6	49.4	8,331.2	(81.7)	23.6	74.6
FX currency options								
Buy	7.4	0.1	0.0	0.0	227.7	32.8	0.2	0.6
Sell	—	—	—	—	139.6	(39.0)	0.4	1.3
Subtotal	**11,522.5**	**(7.6)**	**8.1**	**25.5**	**12,789.8**	**(8.7)**	**8.5**	**26.9**
(Remaining maturities)								
Cross currency swaps								
up to 1 year	1,457.8	9.7	4.4	14.0	1,734.7	34.7	1.9	6.0
1 year to 5 years	10,812.9	(22.8)	32.2	101.9	8,163.2	57.8	34.6	109.3
more than 5 years	6,228.6	20.5	6.9	21.8	6,358.4	66.6	8.7	27.5
Interest rate/cross currency swaps								
up to 1 year	—	—	—	—	125.0	13.1	0.5	1.6
1 year to 5 years	321.9	(17.0)	2.5	7.8	316.4	5.0	2.3	7.3
more than 5 years	—	—	—	—	—	—	—	—
Subtotal	**18,821.2**	**(9.6)**	**35.7**	**112.8**	**16,697.7**	**177.2**	**40.6**	**128.3**
Total	**30,343.7**	**(17.2)**	**39.5**	**124.7**	**29,487.5**	**168.5**	**48.0**	**151.7**

The market risk table shows the outstanding nominal values and market values of foreign exchange derivatives as of the balance sheet date without taking into account any economic hedging correlations between hedging contracts on the one hand, and recognized and pending underlying transactions or net foreign investments on the other hand. In fact, all of the Group's foreign currency derivatives are assigned to a balance sheet item, a pending purchase or sales contract or an anticipated transaction.

As an additional means of monitoring market risks, a 10-day value-at-risk is calculated on derivative positions at regular intervals. In doing so, the market risk, as calculated using the value-at-risk concept, is multiplied by a factor of 3.16 (the square root of ten), in line with the recommendation for the capital adequacy of banks issued by the Bank for International Settlements (BIS). The results of this calculation are included in the table above.

While the nominal value of foreign exchange currency derivatives at December 31, 2006 remained essentially unchanged compared with year-end 2005, the fair value has decreased, mainly due to foreign exchange rate changes in the major currency pairs. While the development of the foreign exchange rate between the euro and the U.S. dollar was positive during 2006, the other foreign exchange rates (especially the exchange rate between the euro and GBP) turned negative.

The value-at-risk amounts presented here are maximum potential daily losses. It is highly unlikely that the Company would experience continuous daily losses such as these over an extended period of time.

Interest Rate Risk Management

Several line items on the Group's balance sheet and associated financial derivatives bear fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. The Company also faces a similar risk with regard to balance sheet items and associated financial derivatives bearing floating rates, as changes in interest rates will affect the Company's cash flows. The Company seeks to maintain a desired mix of floating-rate and fixed rate debt in its overall debt portfolio. The Company uses interest rate swaps to allow it to diversify its sources of funding and to reduce the impact of interest rate volatility on its financial condition.

Financial derivatives are also used to realize time congruent hedging of interest rate risks. E.ON's policy provides that macro-hedging transactions can be concluded for periods of up to five years to cover interest rate risks. For micro-hedging purposes, any adequate term is allowed for individual hedges of foreign exchange and interest rates. However, where economically feasible, the Company applies hedge accounting under SFAS 133 to its interest rate derivatives.

The principal derivative financial instruments used by E.ON to cover interest rate risk exposures are interest rate swaps. As of December 31, 2006, the E.ON Group had entered into interest rate swaps with a nominal value of €8.4 billion.

Market risks for interest rate derivatives are calculated in the same manner as those for foreign exchange instruments, as discussed in detail under "— Foreign Exchange Rate Risk Management" above.

The market risk analysis of the Company's interest rate derivatives by transaction and maturity as of December 31, 2006 and December 31, 2005 is summarized in the following table.

Total Volume of Interest Rate Derivatives as of December 31, 2006 and December 31, 2005

	December 31, 2006				December 31, 2005			
	Nominal Value	Fair Value	1-day Value-at-Risk	10-day Value-at-Risk	Nominal Value	Fair Value	1-day Value-at-Risk	10-day Value-at-Risk
	(€ in millions) (Remaining maturities)							
Interest rate swaps								
fixed-rate payer								
up to 1 year	150.9	0.8	0.9	2.7	612.2	(11.8)	0.1	0.3
1 year to 5 years	1221.8	(3.1)	1.1	3.4	1,294.9	(44.1)	1.4	4.4
more than 5 years	919.8	(14.1)	8.3	26.2	1,033.5	(18.0)	4.0	12.6
fixed-rate receiver								
up to 1 year	55.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1 year to 5 years	5,263.9	(75.5)	5.8	18.5	5,364.4	64.3	7.7	24.3
more than 5 years	759.3	(14.3)	4.9	15.5	1,196.4	(20.7)	4.4	13.9
Total	**8,370.8**	**(106.2)**	**9.0**	**28.5**	**9,501.4**	**(30.3)**	**6.6**	**20.9**

The market risk table shows the outstanding nominal values and fair values of interest rate derivatives without taking into account any economic hedging correlations between hedging contracts and underlying transactions. In fact, all of the Group's interest rate derivatives are assigned to a balance sheet item.

The nominal values of interest rate derivatives at December 31, 2006 remained essentially stable compared with year-end 2005. The negative development of the fair values resulted from significantly rising euro interest rates in comparison to Czech krona, GBP and Swedish krona interest rates.

A sensitivity analysis was performed on the Group's interest-bearing short- and long-term capital investments and borrowings, including interest rate derivatives. The aggregate hypothetical loss in fair value on all financial instruments and derivative instruments that would have resulted from a 100 basis-point shift in the interest rate structure curve would change the interest rate portfolio's market value by €62 million (2005: €43 million) as of the balance sheet date. The market risk according to the value-at-risk calculation amounted to €49 million as of December 31, 2006 (2005: €60 million).

Commodity Price Risk Management

E.ON is also exposed to risks resulting from fluctuations in the prices of commodity derivatives and raw materials. Hedging transactions with respect to commodity-related risks of notable scope are conducted only by the market units.

The principal derivative instruments used by E.ON to cover commodity price risk exposures are electricity, gas, coal and oil swaps and forwards, electricity options, and exchange-traded electricity and coal future and option contracts, as well as emission-related derivatives.

Derivative instruments are used by the market units to hedge the impact of electricity, gas, coal, oil and CO_2 emission certificate price fluctuations and to enable the market units to make better use of their own power generating capacities as well as power and gas distribution and sales capabilities. To a limited extent, proprietary trading is conducted with the goal of improving operating results within defined limits in specified markets. The trading limits for proprietary trading as well as for other trading activities are established and monitored by a board independent from the trading operations. Limits used on hedging and proprietary trading activities mainly include value- and profit-at-risk numbers, as well as volume, book, credit and stop-loss limits. Additional key elements of the risk management system are a set of Group-wide commodity risk guidelines, the clear division of duties between scheduling, trading, settlement and control, as well as a risk reporting system independent of the trading operations.

As of December 31, 2006, the E.ON Group had entered into electricity, gas, coal, oil and emissions derivative instruments with a nominal value of €56 billion (2005: €44 billion). The increase in the nominal value of commodities derivatives at December 31, 2006 compared with year-end 2005 reflects an enlarged business volume as well as the effects of increased volatility.

The fair value of commodity trading transactions for which E.ON has not established economic hedging conditions involving recognized or contractually agreed upon or planned underlying transactions amounted to negative €70 million as of December 31, 2006 (2005: negative €133 million). A hypothetical 10 percent change in underlying commodity prices would cause the market value of these commodity trading transactions to change by €41 million (2005: €20 million).

Counterparty Risk From the Use of Derivative Financial Instruments

Counterparty risk consists of potential losses that may arise from the non-fulfillment of contractual obligations by individual counterparties. With respect to derivative transactions, counterparty risk is equivalent to the replacement cost incurred by covering the open position in the event of counterparty default. Only transactions with a positive market value for E.ON are exposed to this risk. The Company's counterparties for derivatives include financial institutions, commodity exchanges, energy distribution companies and broker-dealers, and other entities that satisfy E.ON's credit criteria. The creditworthiness of all counterparties that are involved in financial electricity-, gas-, coal-, oil- or emissions-related derivatives with E.ON are thoroughly checked and monitored on a regular basis. The Company receives and pledges collateral in connection with long-term interest and currency hedging derivatives in the banking sector and with some partners in the energy sector. Furthermore, collateral is required when entering into transactions in commodity derivatives with counterparties that have a low degree of creditworthiness. Derivative transactions are generally executed on the basis of standard agreements that allow for the netting of all outstanding transactions with individual contracting partners. For currency and interest-rate derivatives in the banking sector, this netting option is reflected in the accounting treatment. Exchange-traded electricity future and option contracts as well as emission-related derivatives with a nominal value of €8,198 million as of December 31, 2006 (2005: €5,059 million) are liquid instruments and do not bear individual counterparty risk. The Company's counterparty risk with respect to derivatives amounts to €4,095 million as of December 31, 2006 (2005: €7,149 million). The decrease in the counterparty risk at December 31, 2006 compared with year-end 2005 was mainly caused by the negative development in gas and electricity prices during 2006. Not all counterparties are rated by S&P and/or Moody's; for these unrated counterparties thorough credit limit checks and credit risk evaluation systems are installed and collateral is sometimes required. E.ON's Group-wide credit risk management system and credit risk management guidelines are designed to assure thorough and uniform creditworthiness analysis for all counterparties. Significant Group-wide limits and risks are identified and their credit risk exposures are regularly monitored and reported to the E.ON risk committee. The credit risk management system incorporates information on all counterparty risks resulting from commodity trading transactions and financial transactions in the area of deposits, interest rate and foreign exchange risks.

E.ON's contractual ability to net transactions with positive and negative market values with any defaulting counterparty for which a netting agreement is in place is not reflected in the figures presented in the prior paragraph, regardless of whether the counterparty is rated or unrated, causing the credit risk to appear greater than it is in actuality. In addition, the value of collateral posted by counterparties is not taken into account in calculating such figures.

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not applicable.

Item 15. Controls and Procedures.

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon the Company's evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There were no changes in the Company's internal control over financial reporting that occurred during 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

E.ON management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It can only provide reasonable assurance regarding financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with the polices or procedures may deteriorate.

Management assessed the effectiveness of its internal control over financial reporting as of December 31, 2006. The assessment was based on criteria established in the framework "Internal Controls — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the assessment, E.ON management has concluded that as of December 31, 2006, the Company's internal control over financial reporting was effective.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, an independent registered public accounting firm ("PwC"), as stated in their report which is included under "Item 18. Financial Statements."

Item 16A. Audit Committee Financial Expert.

E.ON's Supervisory Board has determined that the Company's Audit Committee currently includes two members who qualify as an "Audit Committee Financial Expert" within the meaning of this Item 16A: Dr. Karl-Hermann Baumann and Ulrich Hartmann. Dr. Karl-Hermann Baumann and Ulrich Hartmann are independent, as that term is defined in Rule 10A-3 under the Securities Exchange Act for purposes of the listing standards of the NYSE that are applicable to E.ON.

Item 16B. Code of Ethics.

E.ON has adopted a special Code of Ethics for the Chief Executive Officer, the Chief Financial Officer and its senior financial officers. The Company has published the text of this Code of Ethics on its corporate website at www.eon.com. Material appearing on this website is not incorporated by reference into this annual report. If E.ON amends the provisions of this Code of Ethics or grants any waiver of such provisions, it will disclose such amendment or waiver on its website at the same address.

Item 16C. Principal Accountant Fees and Services.

In January 2003, the SEC adopted rules requiring disclosure of fees billed by a public company's independent auditors in each of the company's two most recent fiscal years.

The following table sets forth the fees billed to the Company for professional services by its principal independent auditor, PwC, during the fiscal years 2006 and 2005:

Type of Fees	Year Ended December 31, 2006	Year Ended December 31, 2005
	(€ in millions)	
Audit Fees	53.4	39.8
Audit-Related Fees	4.6	9.7
Tax Fees	0.9	1.4
All Other Fees	1.9	1.1
Total	**60.8**	**52.0**

Audit Committee Pre-Approval Policies

In accordance with German law, E.ON's independent auditors are appointed by the annual general meeting of shareholders based on a recommendation of E.ON's Supervisory Board. The Audit Committee of the Supervisory Board prepares the board's recommendation on the selection of the independent auditors. Subsequent to the auditor's appointment, the Audit Committee awards the contract and in its sole authority approves the terms and scope of the audit and all audit engagement fees as well as monitors the auditors' independence. On May 4, 2006, the annual general meeting of shareholders appointed PwC to serve as the Company's independent auditors for the 2006 fiscal year.

In order to assure the integrity of independent audits, in May 2003 E.ON's Audit Committee established a policy to approve all audit and permissible non-audit services provided by E.ON's independent auditors prior to the auditors' engagement. As part of the approval process, the Audit Committee adopted pre-approval policies and procedures pursuant to which the Audit Committee annually pre-approves certain types of services to be performed by E.ON's independent auditors. Compliance with these policies is audited and monitored by the Audit Committee on a quarterly basis. Under the policies, the Company's independent auditors are not allowed to perform any non-audit services which may impair the auditors' independence under the SEC's rules. Furthermore, the Audit Committee has limited the aggregate amount of non-audit fees payable to PwC during a fiscal year to a maximum of 40 percent of all fees.

In 2006, the Audit Committee pre-approved the performance by PwC of material services, mainly including the following:

Audit Services

- Annual audit for E.ON's Consolidated Financial Statements;
- Quarterly review of E.ON's interim financial statements;
- Statutory audits of financial statements of E.ON AG and of its subsidiaries under the rules of their respective countries;
- Attestation of internal controls as part of the external audit; and
- Attestation of regulatory filing and other compliance requirements, including regulatory advice, such as carve-out reports and comfort letters.

Audit-Related Services

- Accounting advice relating to transactions or events;
- Due diligence relating to acquisitions, dispositions and contemplated transactions;
- Consultation in accounting and corporate reporting matters;
- Attestation of compliance with provisions or calculations required by agreements;
- Employee benefit plan audits;
- Agreed-upon procedures engagements; and
- Advisory services relating to internal controls and systems documentation.

Tax Services

- Tax compliance services, including return preparation and tax payment planning;
- Tax advice relating to transactions or events;
- Transfer pricing studies; and
- Tax services for employee benefit plans.

All Other Services

- Advisory services on corporate governance and risk management;
- Advisory services on corporate treasury processes and systems;
- Advisory services on information systems; and
- Educational and training services on accounting and industry matters.

Services that are not included in one of the categories listed above or in the Audit Committee's catalogue of pre-approved services require specific pre-approval of the Audit Committee. An approval may not be granted if the service falls into a category of services not permitted by current law or if it is inconsistent with maintaining auditor independence, as expressed in the rules promulgated by the SEC.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Information required by this Item is incorporated by reference to "Item 10. Additional Information — Memorandum and Articles of Association — Corporate Governance — The Supervisory Board Committees."

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following table provides information on Ordinary Shares purchased by the Company in 2006:

2006	Total Number of Shares Purchased (a)	Average Price Paid per Share in € (b)	Total Number of Shares Purchased as Part of the Share Buyback Plan (c)	Maximum Number of Shares that may yet be Purchased under the Share Buyback Plan (d)
Jan. 1-31	3,400	88.16	—	36,353,552
Feb. 1-28	—	—	—	36,353,552
Mar. 1-31	—	—	—	36,353,552
Apr. 1-30	3,666	91.06	—	36,353,552
May 1-31	—	—	—	36,353,574
Jun. 1-30	—	—	—	36,353,574
Jul. 1-31	—	—	—	36,353,574
Aug. 1-31	—	—	—	36,353,574
Sep. 1-30	—	—	—	36,353,574
Oct. 1-31	—	—	—	36,353,574
Nov. 1-30	—	—	—	36,797,269
Dec. 1-31	—	—	—	36,797,269
Total	7,066	89.66	—	

(a) 366 Ordinary Shares were purchased for the benefit of the Company's Group Works Council. 6,700 Ordinary Shares were purchased to compensate a minority shareholder in the context of the squeeze-out proceedings of E.ON Bayern. All of the purchases were made in the market.

(c)(d) Pursuant to shareholder resolutions approved at the annual general meeting of shareholders held on May 4, 2006, the Board of Management is authorized to buy back up to 10 percent of E.ON AG's outstanding share capital, or 692,000,000 Ordinary Shares, through November 4, 2007. Pursuant to the German Stock Corporation Act, the maximum number of shares the Company may purchase at any time equals 10 percent of 692,000,000 (or 69,200,000 Ordinary Shares) less the number of Ordinary Shares held in treasury stock at such time. Therefore, the maximum number of Ordinary Shares that may be purchased under the Company's share buyback plan, as reflected in column D, fluctuated over the course of 2006 due to changes in the number of Ordinary Shares held in treasury stock, rather than due to share repurchases. The Company did not buy back any Ordinary Shares pursuant to this share buyback plan in 2006, as the shares purchased for the benefit of the Company's Group Works Council and for compensation in the context of the E.ON Bayern squeeze-out were not purchased pursuant to such plan.

For information about E.ON's share repurchases in 2004 and 2005, see Note 17 of the Notes to Consolidated Financial Statements.

PART III

Item 17. Financial Statements.

Not applicable.

Item 18. Financial Statements.

See pages F-1 to F-82, incorporated by reference.

Item 19. Exhibits.

Exhibit No.	Exhibit Title
1.1	English translation of the Articles of Association *(Satzung)* of E.ON AG as amended to date.*
4.1	Unofficial English translation of Framework Agreement between RAG AG, RAG Beteiligungs-GmbH, RAG Projektgesellschaft mbH and EBV Aktiengesellschaft, and E.ON AG, Chemie Verwaltungs AG and E.ON Vermögensanlage GmbH, dated May 20, 2002.**
4.2	Amended and Restated Fiscal Agency Agreement between E.ON AG, E.ON International Finance B.V., E.ON UK PLC, and Citibank, N.A. as Fiscal Agent, and Banque du Luxembourg S.A. and Citibank AG as Paying Agents, relating to the Euro 20,000,000,000 Medium Term Note Programme, dated August 21, 2002.**
4.3	Sale and Purchase Agreement Regarding the Sale and Purchase of All Shares in Viterra AG between E.ON Viterra-Beteiligungsgesellschaft mbH, E.ON AG, Atrium Einhunderterste VV GmbH and Praetorium 40. VV GmbH, dated May 17, 2005.*** †
4.4	EUR 37,100,000,000 Syndicated Term and Guarantee Facility Agreement, dated October 16, 2006, between and among E.ON, as Original Borrower and Guarantor, HSBC Bank plc, Citigroup Global Markets Limited, J.P. Morgan plc, BNP Paribas, The Royal Bank of Scotland plc and Deutsche Bank AG, as mandated lead arrangers and the other parties thereto.****
4.5	EUR 5,300,000,000 Term Loan and Guarantee Facility Agreement, dated February 2, 2007, between and among E.ON, as Original Borrower and Guarantor, HSBC Bank plc, Citigroup Global Markets Limited, J.P. Morgan plc, BNP Paribas, The Royal Bank of Scotland plc and Deutsche Bank AG, as mandated lead arrangers and the other parties thereto.*****
8.1	Subsidiaries as of the end of the year covered by this annual report: see "Item 4. Information on the Company — Organizational Structure."
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
13.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

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* Filed herewith.

** Incorporated by reference to the Form 20-F filed by E.ON AG with the Securities and Exchange Commission on March 19, 2003, file number 1-14688.

*** Incorporated by reference to the Form 20-F filed by E.ON AG with the Securities and Exchange Commission on March 9, 2006, file number 1-14688.

**** Incorporated by reference to the Tender Offer Statement on Schedule TO filed by E.ON AG with the Securities and Exchange Commission on January 26, 2007, file number 005-80961.

***** Incorporated by reference to Amendment No. 2 to the Tender Offer Statement on Schedule TO filed by E.ON AG with the Securities and Exchange Commission on February 5, 2007, file number 005-80961.

† Confidential material appearing in this document has been omitted and filed separately with the Securities and Exchange Commission in accordance with the Securities Exchange Act of 1934, as amended, and Rule 24b-2 promulgated thereunder. Omitted information has been redacted and marked with an asterisk and appropriate legend to indicate redaction.

E.ON AG AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

We have completed an integrated audit of E.ON AG's 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its 2005 and 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board in the United States of America. Our opinions, based on our audits, are presented below.

Consolidated financial statements

We have audited the accompanying consolidated balance sheets of E.ON AG and its subsidiaries ("E.ON") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of E.ON at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the Consolidated Financial Statements, effective December 31, 2006, E.ON adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)".

Internal control over financial reporting

We have also audited management's assessment, included in the accompanying "Management's annual report on Internal Control over Financial Reporting" appearing under Item 15, that E.ON maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that E.ON maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, E.ON maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Düsseldorf,
March 6, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

/s/ DR. VOGELPOTH	/s/ LAUE
Dr. Vogelpoth Wirtschaftsprüfer (German Public Auditor)	Laue Wirtschaftsprüfer (German Public Auditor)

E.ON AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
($ / € in millions, except for per share amounts)

	Note	Year Ended December 31, 2006*	2006	2005	2004
Public utility sales		$ 60,838	€ 46,100	€ 39,729	€ 34,054
Gas sales		32,976	24,987	17,914	13,227
Other sales		(4,392)	(3,328)	(1,502)	(792)
Sales	(31)	**89,422**	**67,759**	**56,141**	**46,489**
Electricity and petroleum tax		(4,701)	(3,562)	(4,525)	(4,339)
Sales, net of electricity and petroleum tax		84,721	64,197	51,616	42,150
Cost of goods sold — Public utility		(45,723)	(34,646)	(28,482)	(23,019)
Cost of goods sold — Gas		(27,662)	(20,961)	(13,588)	(9,017)
Cost of goods sold and services provided — Other		4,359	3,303	1,467	766
Cost of goods sold and services provided		(69,026)	(52,304)	(40,603)	(31,270)
Gross profit on sales		**15,695**	**11,893**	**11,013**	**10,880**
Selling expenses		(5,729)	(4,341)	(3,845)	(4,226)
General and administrative expenses		(2,341)	(1,774)	(1,516)	(1,334)
Other operating income (expenses), net	(5)	(1,119)	(848)	1,674	1,378
Financial earnings, net	(6)	(835)	(633)	(607)	(1,014)
Income/(Loss) from companies accounted for under the equity method	(11c)	1,103	836	433	648
Income/(Loss) from continuing operations before income taxes and minority interests		6,774	5,133	7,152	6,332
Income taxes	(7)	426	323	(2,261)	(1,852)
Income/(Loss) from continuing operations after income taxes		7,200	5,456	4,891	4,480
Minority interests	(8)	(694)	(526)	(536)	(469)
Income/(Loss) from continuing operations		6,506	4,930	4,355	4,011
Income/(Loss) from discontinued operations net (less applicable income taxes of €42, €(35) and €95, respectively):	(4)	168	127	3,059	328
Income before cumulative effect of changes in accounting principles		6,674	5,057	7,414	4,339
Cumulative effect of changes in accounting principles, net (less applicable income taxes of €(0), €(3) and €0, respectively)		—	—	(7)	—
Net income		**6,674**	**5,057**	**7,407**	**4,339**
Basic earnings per share:	(10)				
Income/(Loss) from continuing operations		9.87	7.48	6.61	6.11
Income/(Loss) from discontinued operations, net		0.25	0.19	4.64	0.50
Cumulative effect of changes in accounting principles, net		—	—	(0.01)	—
Net income		10.12	7.67	11.24	6.61
Diluted earnings per share:	(10)				
Income/(Loss) from continuing operations		9.87	7.48	6.61	6.11
Income/(Loss) from discontinued operations, net		0.25	0.19	4.64	0.50
Cumulative effect of changes in accounting principles, net		—	—	(0.01)	—
Net income		10.12	7.67	11.24	6.61

* Note 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

E.ON AG AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(€ in millions)

	Note	December 31, 2006*	December 31, 2006	December 31, 2005
ASSETS				
Goodwill	(11a)	$ 19,959	€ 15,124	€ 15,363
Intangible assets	(11a)	4,948	3,749	4,125
Property, plant and equipment	(11b)	56,367	42,712	41,323
Companies accounted for under the equity method	(11c)	10,514	7,967	9,689
Other financial assets	(11c)	26,836	20,335	16,119
Financial receivables and other financial assets	(13)	1,839	1,394	2,059
Operating receivables, other operating assets and prepaid expenses	(13)	4,689	3,553	3,530
Deferred tax assets	(7)	1,993	1,510	1,706
Non-current assets		**127,145**	**96,344**	**93,914**
Inventories	(12)	5,266	3,990	2,457
Financial receivables and other financial assets	(13)	1,870	1,417	1,060
Operating receivables, other operating assets and prepaid expenses	(13)	24,199	18,337	18,180
Restricted cash	(14)	775	587	98
Securities and fixed-term deposits	(15)	5,870	4,448	5,453
Cash and cash equivalents	(16)	1,520	1,152	4,346
Assets of disposal groups	(4)	805	610	681
Deferred tax assets	(7)	458	347	373
Current assets		**40,763**	**30,888**	**32,648**
Total assets		**167,908**	**127,232**	**126,562**

	Note	December 31, 2006*	December 31, 2006	December 31, 2005
STOCKHOLDERS' EQUITY AND LIABILITIES				
Capital stock	(17)	$ 2,374	€ 1,799	€ 1,799
Additional paid-in capital	(18)	15,520	11,760	11,749
Retained earnings	(19)	34,713	26,304	25,861
Accumulated other comprehensive income	(20)	10,838	8,212	5,331
Treasury stock	(17)	(304)	(230)	(256)
Stockholders' equity		**63,141**	**47,845**	**44,484**
Minority interests	(21)	**6,489**	**4,917**	**4,734**
Financial liabilities	(24)	13,143	9,959	10,555
Operating liabilities and deferred income	(24)	7,715	5,846	6,365
Provisions for pensions	(22)	4,974	3,769	8,290
Other provisions	(23)	26,929	20,406	19,112
Deferred tax liabilities	(7)	9,626	7,294	7,929
Non-current liabilities		**62,387**	**47,274**	**52,251**
Financial liabilities	(24)	4,540	3,440	3,807
Operating liabilities and deferred income	(24)	19,273	14,604	13,504
Provisions for pensions	(22)	153	116	430
Other provisions	(23)	10,296	7,802	6,030
Liabilities of disposal groups	(4)	812	615	831
Deferred tax liabilities	(7)	817	619	491
Current liabilities		**35,891**	**27,196**	**25,093**
Total stockholders' equity and liabilities		**167,908**	**127,232**	**126,562**

* Note 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

E.ON AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(€ in millions)

	Year Ended December 31,			
	2006*	2006	2005	2004
Net income	**$ 6,674**	**€ 5,057**	**€ 7,407**	**€ 4,339**
Income applicable to minority interests	694	526	536	469
Adjustments to reconcile net income to net cash provided by operating activities				
Income from discontinued operations	(168)	(127)	(3,059)	(328)
Depreciation, amortization and impairment on intangible assets, property, plant, equipment and equity investments	4,950	3,751	3,030	3,014
Changes in provisions	2,376	1,800	(362)	68
Changes in deferred taxes	(1,090)	(826)	390	(570)
Other non-cash income and expenses	(494)	(374)	90	209
Gain/Loss on disposal:				
Equity investments	(974)	(738)	(44)	(397)
Intangible assets and property, plant and equipment	(120)	(91)	(36)	(31)
Securities (other than trading) (> 3 months)	(650)	(493)	(398)	(240)
Changes in current assets and other operating liabilities				
Inventories	(1,793)	(1,359)	(281)	(279)
Trade receivables	(1,918)	(1,453)	(1,502)	(195)
Other operating receivables	888	673	(3,828)	(21)
Trade payables	113	86	1,386	(119)
Other operating liabilities	1,006	762	3,215	(143)
Cash provided by operating activities	**9,494**	**7,194**	**6,544**	**5,776**
Proceeds from disposal of				
Equity investments	4,818	3,651	6,093	1,619
Intangible assets and property, plant and equipment	400	303	201	269
Purchase of				
Equity investments	(1,423)	(1,078)	(985)	(2,203)
Intangible assets and property, plant and equipment	(5,388)	(4,083)	(2,956)	(2,574)
Changes in securities (other than trading) (> 3 months)	(1,017)	(771)	(568)	(135)
Changes in financial receivables and fixed-term deposits	(3,127)	(2,369)	(1,339)	2,697
Changes in restricted cash	(203)	(154)	(4)	(32)
Cash provided by (used for) investing activities	**(5,940)**	**(4,501)**	**442**	**(359)**
Payments received from/(made for) capital including minority interests	1	1	(26)	3
Payments received from/(made for) treasury stock, net	37	28	(33)	—
Payment of cash dividends to				
Stockholders of E.ON AG	(6,089)	(4,614)	(1,549)	(1,312)
Minority stockholders	(319)	(242)	(239)	(278)
Proceeds from financial liabilities	14,313	10,846	3,013	3,522
Repayments of financial liabilities	(15,662)	(11,868)	(7,624)	(6,684)
Cash provided by (used for) financing activities	**(7,719)**	**(5,849)**	**(6,458)**	**(4,749)**
Net increase (decrease) in cash and cash equivalents	**(4,165)**	**(3,156)**	**528**	**668**
Cash provided by operating activities of discontinued operations	91	69	114	196
Cash used for investing activities of discontinued operations	(144)	(109)	(315)	(269)
Cash provided by financing activities of discontinued operations	3	2	(171)	288
Net increase in cash and cash equivalents from discontinued operations	**(50)**	**(38)**	**(372)**	**215**
Effect of foreign exchange rates on cash and cash equivalents	—	—	77	(60)
Cash and cash equivalents at the beginning of the period	5,735	4,346	4,113	3,290
Cash and cash equivalents from continuing operations at the end of the period	**1,520**	**1,152**	**4,346**	**4,113**

* Note 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

E.ON AG AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(€ in millions)

				Accumulated other comprehensive income						
	Capital stock	Additional paid-in capital	Retained earnings	Currency translation adjustments	Available-for-sale securities	Minimum pension liability	SFAS 158	Cash flow hedges	Treasury stock	Total
Balance as of January 1, 2004	**1,799**	**11,564**	**16,976**	**(1,021)**	**1,184**	**(492)**	**—**	**20**	**(256)**	**29,774**
Shares reacquired/sold		182								182
Dividends paid			(1,312)							(1,312)
Net income			4,339							4,339
Other comprehensive income				125	994	(598)		56		577
Total comprehensive income										4,916
Balance as of December 31, 2004	**1,799**	**11,746**	**20,003**	**(896)**	**2,178**	**(1,090)**	**—**	**76**	**(256)**	**33,560**
Shares reacquired/sold		3								3
Dividends paid			(1,549)							(1,549)
Net income			7,407							7,407
Other comprehensive income				620	4,698	(312)		57		5,063
Total comprehensive income										12,470
Balance as of December 31, 2005	**1,799**	**11,749**	**25,861**	**(276)**	**6,876**	**(1,402)**	**—**	**133**	**(256)**	**44,484**
Shares reacquired/sold		11							26	37
Dividends paid			(4,614)							(4,614)
Net income			5,057							5,057
Other comprehensive income				167	3,139	346	—	(221)		3,431
Total comprehensive income										8,488
SFAS 158						1,056	(1,606)			(550)
Balance as of December 31, 2006	**1,799**	**11,760**	**26,304**	**(109)**	**10,015**	**—**	**(1,606)**	**(88)**	**(230)**	**47,845**

The accompanying Notes are an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The Consolidated Financial Statements of E.ON AG and its consolidated companies ("E.ON," the "E.ON Group" or the "Company"), Düsseldorf, Germany, have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

The E.ON Group is an internationally active group of energy companies with integrated electricity and gas operations based in Germany. Effective January 1, 2004, the Group has been 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 that are not allocated to a particular segment, as well as E.ON AG itself.

These market units form the core energy business and are at the same time segments as defined in Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). The Corporate Center as part of the core energy business also contains the consolidation effects that take place at the Group level.

The other activities of the E.ON Group included the activities of Degussa AG ("Degussa"), Düsseldorf, Germany, which was accounted for under the equity method until the final disposal of E.ON's minority interest in the third quarter of 2006.

Note 31 provides additional information about the market units.

Pursuant to Article 57 Sentence 1 No. 2 of the Introductory Law to the German Commercial Code ("EGHGB"), E.ON is exempted from the requirement to prepare consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") and a management report in accordance with Article 315a of the German Commercial Code ("HGB") for the 2006 fiscal year. E.ON is preparing consolidated financial statements and a management report in accordance with internationally accepted accounting standards (U.S. GAAP), as provided for by Article 292a HGB, in combination with Article 58 (5) Sentence 2 EGHGB. For an assessment of the conformity of U.S. GAAP regulations with the Fourth and Seventh EU Accounting Directives, E.ON refers to German Accounting Standard ("DRS") No. 1, "Exempting Consolidated Financial Statements in accordance with Article 292a HGB," and DRS No. 1a, "Exempting Consolidated Financial Statements in accordance with Article 292a HGB — U.S. GAAP Consolidated Financial Statements: Goodwill and Other Intangible Assets," as well as to the transitional regulations of German Accounting Amendment Standard ("DRÄS") No. 2, Article 2.

Solely for the convenience of the reader, the December 31, 2006, financial statements (except the changes in stockholders' equity) have also been translated into United States dollars ("$") at the rate of €1 = $1.3197, the Noon Buying Rate of the Federal Reserve Bank of New York on December 29, 2006. Such translation is unaudited.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of E.ON AG and its consolidated subsidiaries. The subsidiaries, associated companies and other related companies have been included in the Consolidated Financial Statements in accordance with the following criteria:

- Majority-owned subsidiaries in which E.ON directly or indirectly exercises control through a majority of the stockholders' voting rights ("affiliated companies") are generally fully consolidated. However, certain subsidiaries controlled by E.ON that are inconsequential, both individually and in the aggregate, are accounted for at cost with no subsequent adjustment, unless impaired. Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46(R)"), requires E.ON to consolidate so-called variable interest entities in which it is the primary beneficiary for economic purposes, even if it does not have a controlling interest.

- Majority-owned companies in which E.ON does not exercise management control due to restrictions concerning the control of assets and management ("unconsolidated affiliates") are generally accounted for under the equity method. Companies in which E.ON has the ability to exercise significant influence on operations ("associated companies") are also accounted for under the equity method. These are mainly companies in which E.ON holds an interest of between 20 and 50 percent. However, certain associated companies controlled by E.ON that are inconsequential, both individually and in the aggregate, are accounted for at cost with no subsequent adjustment, unless impaired.

- All other share investments are accounted for under the cost method or, if marketable, at fair value.

A list of all E.ON shareholdings and other interests is published in a separate listing of shareholdings in the German Electronic Federal Gazette ("elektronischer Bundesanzeiger").

Intercompany results, sales, expenses and income, as well as receivables and liabilities between the consolidated companies are eliminated. If companies are accounted for under the equity method, intercompany results are eliminated in the consolidation process if and to the extent that these are material.

Business Combinations

In accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"), all business combinations are accounted for under the purchase method of accounting, whereby all assets acquired and liabilities assumed are recorded at their fair value. After adjustments to the fair values of assets acquired and liabilities assumed are made, any resulting positive differences are capitalized in the balance sheet as goodwill. Situations in which the fair value of net assets acquired is greater than the purchase price paid result in an excess that is first allocated as a pro rata reduction of certain acquired assets. Should any such excess remain, the remaining amount is recognized as a separate gain. Goodwill arising in companies for which the equity method is applied is calculated on the basis of the same principles that are applicable to fully consolidated companies.

Foreign Currency Translation

The Company's transactions denominated in currencies other than the euro are translated at the current exchange rate at the time of the transaction and 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 to hedge the value of its net investments in its foreign operations are recorded with no effect on net income as a component of stockholders' equity. 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 included 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.

The following chart depicts the movements in exchange rates for the periods indicated for major currencies of countries outside the European Monetary Union (1):

		€1, rate as of December 31,		€1, annual average rate		
	ISO Code	2006	2005	2006	2005	2004
British pound	GBP	0.67	0.69	0.68	0.68	0.69
Norwegian krone	NOK	8.24	7.99	8.05	8.01	8.00
Swedish krona	SEK	9.04	9.39	9.25	9.28	9.12
Hungarian forint	HUF	251.77	252.87	264.26	248.05	251.68
U.S. dollar	USD	1.32	1.18	1.26	1.24	1.13

(1) The countries within the European Monetary Union in 2006 were Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain.

Presentation of Sales and Cost of Goods Sold and Services Provided

"Public utility sales" and "Cost of goods sold — Public utility" are shown separately in the Consolidated Statements of Income and include the total sales and cost of goods sold of the reportable segments Central Europe, U.K., Nordic and U.S. Midwest.

"Gas sales" and "Cost of goods sold — Gas" reflect the supply, transmission, storage and sale of natural gas from the reportable segment Pan-European Gas.

"Other sales" and "Cost of goods sold and services provided — Other" are presented in the Consolidated Statements of Income and primarily include consolidation effects at the Group level.

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. The following is a description of E.ON's major revenue recognition policies in the various segments.

Core Energy Business

Sales in the Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest market units result mainly 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.

Revenue from the sale of electricity and gas to industrial and commercial customers and to retail customers is recognized when earned on the basis of a contractual arrangement with the customer; it reflects 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 year-end.

Net gains on derivative financial instruments used for proprietary trading are presented in the line item "Sales".

Other Activities

Sales at Viterra AG, Essen and subsidiaries ("Viterra"), which in 2005 and 2004 were included in "Income/ Loss from discontinued operations, net" and which were derived from the business of residential real estate and from the growing business of real estate development, were recognized net of discounts, sales incentives, customer bonuses and rebates granted when risk is transferred, remuneration is contractually fixed or determinable and satisfaction of the associated claims is probable. Sales attributable to services under long-term contracts (in particular property leases and service contracts) were recognized according to the terms of the contracts or at the point when the relevant services were rendered.

Electricity Tax

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.

Energy Taxes

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 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.

Taxes other than Income Taxes

Taxes other than income taxes totaled €190 million in 2006 (2005: €57 million; 2004: €78 million) and consisted principally of property taxes and higher taxes on installed nuclear and hydroelectric powercapacities in Sweden. In 2005 and 2004, taxes other than income taxes consisted primarily of property tax and real estate transfer taxes.

Cost of Goods Sold and Services Provided

Cost of goods sold and services provided primarily includes the cost of generation, procured electricity and gas, the cost of raw materials and supplies used to produce energy, depreciation of the equipment used to generate, store and transfer electricity and gas, personnel costs directly related to the generation and supply of energy, as well as costs incurred in the purchase of production-related services. Net losses on derivative financial instruments used for proprietary trading are presented in the line item "Cost of goods sold and services provided."

Selling Expenses

Selling expenses include all expenses incurred in connection with the sale of energy. These primarily include personnel costs and other sales-related expenses of the regional utilities in the Central Europe market unit.

Administrative Expenses

Administrative expenses primarily include the personnel costs for those employees who do not work in the areas of production and sales, as well as the depreciation of administration buildings.

Accounting for Sales of Stock of Subsidiaries or Associated Companies

If a subsidiary or associated company sells its stock to a third party, leading to a reduction in E.ON's ownership interest of the relevant company ("dilution"), in accordance with SEC Staff Accounting Bulletin ("SAB") No. 51, "Accounting for Sales of Stock of a Subsidiary" ("SAB 51"), gains and losses from these dilutive transactions are included in the income statement under "Other operating income (expenses), net".

Advertising Costs

Advertising costs are expensed as incurred and totaled €281 million in 2006 (2005: €156 million; 2004: €130 million).

Research and Development Costs

Research and development costs are expensed as incurred, and recorded as other operating expenses. They totaled €27 million in 2006 (2005: €24 million; 2004: €19 million).

Earnings per Share

Earnings per share ("EPS") are computed in accordance with SFAS No. 128, "Earnings per Share" ("SFAS 128"). Basic (undiluted) EPS is computed by dividing consolidated net income by the weighted average number of ordinary shares outstanding during the relevant period. The computation of diluted EPS is identical to basic EPS, as E.ON AG does not have any dilutive securities.

Goodwill and Intangible Assets

Goodwill

SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), requires that goodwill not be periodically amortized, but rather be tested for impairment at the reporting unit level on an annual basis. Goodwill must be evaluated for impairment between these annual tests if events or changes in circumstances indicate that goodwill might be impaired. The Company has identified its reporting units as the operating units one level below its reportable segments.

The testing of goodwill for impairment involves two steps:

- The first step is to compare each reporting unit's fair value with its carrying amount including goodwill. If a reporting unit's carrying amount exceeds its fair value, this indicates that its goodwill may be impaired and the second step is required.
- The second step is to compare the implied fair value of the reporting unit's goodwill with the carrying amount of its goodwill. The implied fair value is computed by allocating the reporting unit's fair value to all of its assets and liabilities in a manner that is similar to a purchase price allocation in a business combination in accordance with SFAS 141. The remainder after this allocation is the implied fair value of the reporting unit's goodwill. If the fair value of goodwill is less than its carrying value, the difference is recorded as an impairment.

The annual testing of goodwill for impairment at the reporting unit level, as required by SFAS 142, is carried out in the fourth quarter of each year.

Intangible Assets Not Subject to Amortization

SFAS 142 also requires that intangible assets other than goodwill 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 lives consists of a comparison of the fair value of the asset with its carrying value. Should the carrying value exceed the fair value, an impairment loss equal to the difference is recognized in other operating expenses.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are classified into marketing-related, customer-related, contract-based, and technology-based, all of which are valued 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.

Accounting for internally-developed software for internal use within the Company is governed by the guidelines of the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In accordance with this SOP, any costs incurred from the moment at which the decision on the implementation and on all functions, characteristics and specifications of the software was made, are capitalized and amortized over the probable useful life. Any costs incurred up to that point are immediately expensed.

Intangible assets with definite lives subject to amortization are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Please see Note 11(a) for additional information about goodwill and intangible assets.

Property, Plant and Equipment

Property, plant and equipment are valued at historical or production costs, including asset retirement costs to be capitalized and depreciated over their expected useful lives, generally using the straight-line method, as summarized in the following table.

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 reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is measured in accordance with SFAS 144 by comparison of the carrying amount of the asset and its expected undiscounted future cash flows. If such a long-lived asset's carrying amount exceeds its undiscounted future cash flows, the carrying value of such an asset is written down to its lower fair value. Unless quoted market prices in active markets are available, fair value is measured by discounted estimated future cash flows. If necessary, the remaining useful life of the asset is correspondingly revised.

Interest on debt apportioned to the construction period of qualifying assets is capitalized as a part of their cost of acquisition or construction. The additional cost is depreciated over the expected useful life of the related asset, commencing on the completion or commissioning date.

Repair and maintenance costs are expensed as incurred.

Leasing

Leasing transactions are classified according to the lease agreements which specify the benefits and risks associated with the leased property. E.ON concludes some agreements in which it is the lessor and other agreements in which it is the lessee.

Leasing transactions in which E.ON is the lessee are differentiated into capital leases and operating leases. In a capital lease, the Company receives the economic benefit of the leased property and recognizes the asset and associated liability on its balance sheet. 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 benefits and bears the risks of the leased property are classified as sales-type leases or direct financing leases. In these two types of leases, E.ON records the present value of the minimum lease payments as a receivable. The lessee's payments to E.ON are allocated between a reduction of the lease obligation 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 scheduled lease payments as income.

Financial Assets

Shares in associated companies are generally accounted for under the equity method. E.ON's accounting policies are also generally applied to its associated companies. Other share investments that are marketable, similar to securities, are valued in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). SFAS 115 requires that a security be accounted for according to its classification as trading, available-for-sale or held-to-maturity. Debt securities that the Company does not have the positive intent and ability to hold to maturity, as well as all marketable securities, are classified as available-for-sale securities. The Company does not hold any securities classified as trading or held-to-maturity.

Securities classified as available-for-sale are carried at fair value, with any resulting unrealized gains and losses net of related deferred taxes reported as a separate component of stockholders' equity until realized. Realized gains and losses are recorded based on the specific identification method. Unrealized losses on all marketable securities and investments that are other than temporary are recognized in the line item "Financial earnings, net" as "Write-down of financial assets and other share investments."

The residual value of debt securities is adjusted for premiums and discounts which remain to be amortized or accreted until maturity of the respective security. Such amortization and accretion is included in income. Realized gains and losses on such securities are respectively included in "Other operating income (expenses), net." Other share investments that are non-marketable are accounted for at acquisition cost.

Inventories

The Company values inventories at the lower of acquisition or production cost or market value. Raw materials, products and goods purchased for resale are primarily valued at average cost. Gas inventories are generally valued at LIFO. 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 by appropriate valuation allowances.

Receivables and Other Assets

Receivables and other assets are recorded at their nominal values. Valuation allowances are provided for identified individual risks. Further, if the recoverability of a certain portion of the receivables is not probable, valuation allowances are provided to cover the expected loss.

Emission Rights

Emission rights held under national and international emission-rights systems are reported as inventory. Emission rights are capitalized at their acquisition costs when issued for the respective reporting period as (partial) fulfillment of the notice of allocation from the responsible national authorities. Emission rights are subsequently valued at amortized cost. The consumption of emission rights is valued at average cost. Any shortfall in emission rights is accrued throughout the year within other provisions. The expenses incurred for the consumption of emission rights and the recognition of a corresponding provision are reported under cost of goods sold.

As part of operating activities, emission rights are also held for proprietary trading purposes. Emission rights held for proprietary trading are reported under "Operating receivables, other operating assets and prepaid expenses".

Discontinued Operations and Assets Held for Sale

Discontinued operations are 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. Assets and liabilities attributable to a component must be clearly distinguishable from the other consolidated entities in terms of their operations and cash flows. In addition, the reporting entity must not have any significant continuing involvement in the operations classified as a discontinued operation.

Also reported under assets and liabilities of discontinued operations are groups of long-lived assets held for disposal in one single transaction together with other assets and liabilities ("disposal groups"). SFAS 144 requires that certain defined criteria be met for an entity to be classified as a disposal group, and specifies the conditions under which a planned transaction becomes reportable separately as a discontinued operation.

Gains or losses from the disposal and income and expenses from the operations of a discontinued operation are reported under "Income/Loss from discontinued operations, net"; prior-year income statement figures are adjusted accordingly. Cash flows of discontinued operations are stated separately in the Consolidated Statement of Cash Flows. However, there is no reclassification of prior-year balance sheet line items attributable to discontinued operations, as such reclassification is not required by SFAS 144.

The income and expenses related to operations that will be disposed of but are not classified as discontinued operations are included in "Income/Loss from continuing operations" until they are sold.

Individual assets and disposal groups identified as held for sale are no longer depreciated once they are classified as assets held for sale or as disposal groups. Instead, they are reported at the lower of their book value or their fair value. If the fair value of such assets, less selling costs, is less than the carrying value of the assets at the time of their classification as held for sale, an impairment is recognized immediately. The fair value is determined based on discounted cash flows. The underlying interest rate that management deems reasonable for the calculation of such discounted cash flows is contingent on the type of property and prevailing market conditions. Appraisals and, if appropriate, current estimated net sales proceeds from pending offers are also considered.

Restricted Cash

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

Securities and Fixed-Term Deposits

Deposits at banking institutions and available-for-sale securities that management does not intend to hold long-term with original maturities greater than three months are classified as "Securities and fixed-term deposits". Unrealized gains and losses in these investments are reported net of related deferred taxes as a separate component of stockholders' equity. Realized gains and losses, as well as unrealized losses that are other than temporary, are recognized in "Other operating income (expenses), net."

Cash and Cash Equivalents

Cash and cash equivalents with an original maturity of three months or less include checks, cash on hand, balances in Bundesbank accounts and at other banking institutions. Included herein are also securities with an original maturity of three months or less unless they are restricted.

Stock-Based Compensation

Effective January 1, 2006, E.ON applies the accounting and measurement guidelines of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) requires that the virtual stock option program ("Stock Appreciation Rights," "SAR") used by the E.ON Group be recognized as an expense on the basis of their fair value. Previously, under SFAS 123 in conjunction with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN 28"), SAR were accounted for at their intrinsic value on the balance sheet date, with the corresponding expenses also recognized on the income statement. In accordance with SFAS 123(R), E.ON determines fair value using the Monte Carlo simulation technique. The cumulative effect of the initial application of the standard, which was effected using the modified prospective transitional method, did not exceed €1 million. Consequently, no separate presentation of pro forma information is provided.

U.S. Regulatory Assets and Liabilities

Accounting for E.ON's regulated utility businesses, Louisville Gas and Electric Company ("LG&E"), Louisville, Kentucky, U.S., and Kentucky Utilities Company ("Kentucky Utilities"), Lexington, Kentucky, U.S., of the U.S. Midwest market unit, conforms with U.S. generally accepted accounting 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 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 liabilities. The current or expected recovery by the entities of deferred costs and the expected return of deferred credits is generally based on specific ratemaking decisions or precedent for each item.

The U.S. Midwest market unit currently receives interest on most regulatory assets except for certain assets that have separate rate mechanisms providing for recovery within twelve months. No return is earned on the pension and postretirement regulatory asset, which represents the changes in the funded status of the plans. Additionally, no return is earned on the asset retirement obligation ("ARO") regulatory asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired.

U.S. regulatory assets and provisions are included in "Operating receivables, other operating assets and prepaid expenses" and "Other provisions," respectively.

Provisions for Pensions

The valuation of pension liabilities is based upon actuarial computations using the projected unit credit method in accordance with SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). The valuation is based on current pensions and pension entitlements and on economic assumptions that have been chosen in order to reflect realistic expectations. Cash balance pension plans are valued in accordance with the interpretation of the "Emerging Issues Task Force" (EITF) 03-4 (traditional unit credit method). The expanded disclosure requirements outlined in SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132(R)"), were followed by E.ON for all domestic and foreign pension plans.

The effective date for fixing the economic measurement parameters is December 31 of each year. Variations in measurement assumptions, differences between the estimated and actual number of beneficiaries and underlying assumptions can result in actuarial gains and losses. Together with unrecognized prior service cost or credit, these are recognized as income or expense on a delayed basis and amortized separately over periods determined for each individual pension plan.

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)" ("SFAS 158") was adopted at the end of the 2006 fiscal year. SFAS 158 requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefits. Unrecognized actuarial gains or losses and past service cost have been recognized net of tax in "Accumulated other comprehensive income" as part of the adoption of SFAS 158. See Note 22 for more information.

Other Provisions and Liabilities

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

SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), requires that the fair value of a liability arising from the retirement or disposal of an asset be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. When the liability is recorded, the Company must capitalize the costs of the liability by increasing the carrying amount of the long-lived asset. In subsequent periods, the liability is accreted to its present value and the carrying amount of the asset is depreciated over its useful life. Provisions for nuclear decommissioning costs are based on external studies and are continuously updated. Other provisions for the retirement or decommissioning of property, plant and equipment are based on estimates of the amount needed to fulfill the obligations.

Changes to these estimates arise pursuant to SFAS 143 particularly when there are deviations from original cost estimates or changes to the payment schedule or the level of relevant obligation. The liability must be adjusted in the case of both negative and positive changes to estimates (i.e., when the liability is less or greater than the accreted prior-year liability less utilization). Such an adjustment is usually effected through a corresponding adjustment to fixed assets and is not recognized in income. Provisions for liabilities are accreted annually at the same interest rate that was used to establish fair value. The interest rate for existing liabilities will not be changed in future years. For new liabilities, as well as for increases in fair value due to changes in estimates that are treated like new liabilities, the interest rate to be used for subsequent valuations will be the interest rate that was valid at the time the new liability was incurred or when the change in estimate occurred.

FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations — an Interpretation of FASB Statement No. 143" ("FIN 47"), clarifies that SFAS 143 also applies to asset retirement obligations even though uncertainty exists about the timing and/or method of settlement. A liability must be recognized for an obligation if its fair value can be reasonably estimated. For the E.ON Group, the adoption of FIN 47 in 2005 resulted in a charge against earnings of €7 million after taxes (€10 million before taxes). The net book values of long-lived assets increased by €13 million through the adoption of FIN 47, U.S. regulatory assets increased by €13 million, and additional provisions of €36 million were recognized.

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), requires the guarantor to recognize a liability for the fair value of an obligation assumed under certain guarantees. It also expands the scope of the disclosures made concerning such guarantees. Note 25 contains additional information on significant guarantees that have been entered into by E.ON.

Deferred Taxes

Under SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), deferred taxes are recognized for all temporary differences between the applicable tax balance sheets and the Consolidated Balance Sheet. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. SFAS 109 also requires the recognition of the future tax benefits of net operating loss carryforwards. A valuation allowance is established when the deferred tax assets are not expected to be realized within a reasonable period of time.

Deferred tax assets and liabilities are measured using the 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 a change in tax rates is recognized in income for the period that includes the enactment date. The deferred taxes for German companies during the reporting year were generally calculated using a tax rate of 39 percent (2005: 39 percent; 2004: 39 percent) on the basis of a federal statutory rate of 25 percent for corporate income tax, a solidarity surcharge of 5.5 percent on corporate tax, and the average trade tax rate applicable for E.ON. Foreign subsidiaries use applicable national tax rates.

Note 7 shows the major temporary differences as recorded.

Derivative Instruments and Hedging Activities

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133 — an amendment of FASB Statement No. 133" ("SFAS 137"), and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities — an amendment of FASB Statement No. 133" ("SFAS 138"), as well as the interpretations of the Derivatives Implementation Group ("DIG"), are applied as amended by SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 133 contains accounting and reporting standards for hedge accounting and for derivative financial instruments, including certain derivative financial instruments embedded in other contracts.

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 cash-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 derivative proprietary trading instruments are shown net in the Consolidated Statement of Income.

SFAS 133 requires that all derivatives be recognized as either assets or liabilities in the Consolidated Balance Sheet and measured at fair value. Depending on the documented designation of a derivative instrument, any change in fair value is recognized either in net income or stockholders' equity as a component of accumulated other comprehensive income.

SFAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing retrospective and prospective assessments of effectiveness in order to qualify for hedge accounting. The Company does not exclude any component of derivative gains and losses from the assessment 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 risks are recorded in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's gain or loss is reported 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 earnings. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recorded in current earnings. 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 in the cumulative translation adjustment within stockholders' equity as a currency translation adjustment in accumulated other comprehensive income.

Fair values of derivative instruments are classified as operating assets or 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 goods sold and services provided".

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 net income systematically over the term of the derivative. An exception to the accrual relates to unrealized gains and losses from the initial measurement that are verified by quoted market prices in an active market, observable prices of other current market transactions or other observable data supporting the valuation technique. In this case, the result of the initial measurement is recognized in income.

Option contracts relating to minority interests in fully consolidated companies and affiliates that do not fall within the scope of SFAS 133 are carried at fair value in accordance with SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"), EITF 00-6 "Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

Please see Note 28 for additional information regarding the Company's use of derivative instruments.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows is classified by operating, investing and financing activities pursuant to SFAS No. 95, "Statement of Cash Flows" ("SFAS 95"). Cash flows of discontinued operations are reported separately in the Consolidated Statement of Cash Flows. The separate line item, "Other non-cash income and expenses," is mainly comprised of undistributed income from companies accounted for under the equity method. Effects of changes in the scope of consolidation are shown in investing activities, but have been eliminated from operating and financing activities. This also applies to valuation changes due to exchange rate fluctuations, whose impact on cash and cash equivalents is separately disclosed.

Segment Information

The Company's segment reporting is prepared in accordance with SFAS 131. The management approach required by SFAS 131 designates that the internal reporting organization that is used by management for making operating decisions and assessing performance should be used as the basis for presenting the Company's reportable segments (see Note 31).

Use of Estimates

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent amounts as of the balance sheet date and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Presentation of the Consolidated Balance Sheet and Reclassifications

The Consolidated Balance Sheet as of December 31, 2006 has for the first time been prepared using a classified balance sheet structure, which improves the presentation of the financial condition. Assets that will be realized within twelve months of the reporting date are presented as current. Liabilities that are due to be settled within one year of the reporting date are classified as current. Prior-year information has been reclassified to conform to this presentation.

In addition, prior-year information has been reclassified in order to conform to the current-year presentation.

New Accounting Pronouncements

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), was published in July 2006. FIN 48 describes the treatment of uncertain tax positions in financial reporting. FIN 48 applies to fiscal years that begin after December 15, 2006. E.ON is currently evaluating the potential effects of applying FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides additional guidance for fair value measurements of assets and liabilities. It applies whenever other standards require assets or liabilities to be measured at fair value. It does not expand the use of fair value to any new circumstances. Under SFAS 157, fair value is the price in an orderly transaction between market participants to sell an asset or transfer a liability. A fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In accordance with this principle, SFAS 157 establishes a fair value hierarchy that gives highest priority to quoted prices on active markets. At the lowest rung of this hierarchy are unobservable data such as the reporting entity's own data. This statement is effective for fiscal years beginning after November 15, 2007. E.ON is currently evaluating the potential effects of applying SFAS 157.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. E.ON has initially applied the provisions of SAB 108 for the fiscal year ending December 31, 2006. The initial application had no effects on the Consolidated Financial Statements.

On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115" ("SFAS 159"), which provides the option to measure certain financial assets and liabilities at fair value. Entities may decide whether to elect the fair value option for financial instruments to which the new accounting standard applies. Measurement classifications generally may be different for different financial instruments of similar types. The election is irrevocable and is applied only to an entire instrument; an instrument may not be split up for measurement purposes. SFAS 159 also contains rules concerning the presentation of items measured at fair value and corresponding disclosures in the notes to the financial statements. The application of SFAS 159 is mandatory for fiscal years that begin after November 15, 2007. E.ON is currently evaluating the potential effects of applying SFAS 159.

(3) Scope of Consolidation

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

	Domestic	Foreign	Total
Consolidated companies as of December 31, 2005	**128**	**379**	**507**
Additions	15	18	33
Disposals/Mergers	5	35	40
Consolidated companies as of December 31, 2006	**138**	**362**	**500**

In 2006, a total of 109 domestic and 62 foreign associated companies were accounted for under the equity method (2005: 127 domestic and 63 foreign).

The mutual insurance fund Versorgungskasse Energie Versicherungsverein auf Gegenseitigkeit ("VKE"), Hanover, Germany, which reinsures part of the pension obligations toward E.ON Energie employees, was consolidated for the first time in 2006. A portion of the pension benefits received by these employees during retirement is covered by insurance contracts entered into with VKE. VKE also provides services with regard to the administration of pension payments for E.ON Group companies.

See Note 4 for additional information on acquisitions, disposals, discontinued operations and disposal groups.

The variable interest entities consolidated within the E.ON Group as of December 31, 2006, are two jointly managed electricity generation companies, one real estate leasing company and one company managing investments. During the second quarter of 2006, E.ON acquired additional interests in another real estate leasing company. E.ON now consolidates this company under the general consolidation rules as opposed to the variable interest criteria under FIN 46(R).

As of December 31, 2006, these variable interest entities included in the E.ON Group had total assets of €710 million (2005: €795 million) and recorded earnings of €27 million (2005: €17 million; 2004: €91 million) before consolidation. Total assets of €239 million and earnings of €3 million before consolidation were reported as of December 31, 2005, for the real estate leasing company in which E.ON obtained additional interests in the second quarter of 2006. As of December 31, 2004 earnings of €76 million before consolidation were reported for a variable interest entity disposed of during 2005 and no earnings before consolidation for the real estate leasing company in which E.ON obtained further interest in the second quarter 2006. Non-current assets of €132 million serve as collateral for liabilities relating to financial leases and bank loans.

The recourse of creditors of the consolidated variable interest entities to the assets of the primary beneficiary is generally limited. One variable interest entity has no such limitation of recourse. The primary beneficiary is liable for €75 million in respect of this entity.

In addition, the Company has had contractual relationships with another leasing company in the energy sector since July 1, 2000. The Company is not the primary beneficiary of this variable interest entity. The entity is currently in liquidation pursuant to a shareholder resolution. As of December 31, 2006, and December 31, 2005, the entity had no material assets and no liabilities. Neither the relationship to this entity nor its liquidation is expected to result in a realization of losses.

The extent of E.ON's interest in another variable interest entity, which has been in existence since 2001 and was expected to terminate in the fourth quarter of 2005, still cannot be assessed in accordance with the FIN 46(R) 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 earnings.

(4) Acquisitions, Disposals, Discontinued Operations and Disposal Groups

The presentation of E.ON's acquisitions, disposals, discontinued operations and disposal groups in this Note is based on SFAS 141 and 144. Pursuant to SFAS 141, acquisitions are classified as either "significant" or "other." Additional disclosures must be made for material transactions. No acquisition was classified as significant under these guidelines in 2006 and 2005.

All acquisitions and disposals are in principle consistent with E.ON's strategy for growth, which is to focus on its activities in the electricity and gas sectors.

Acquisitions in 2006

Central Europe

JCP/DDGáz

In the course of portfolio adjustments undertaken in the Czech Republic and Hungary, minority shareholdings in various companies were sold. In exchange, E.ON acquired, in addition to two other minority shareholdings, a further 46.7 percent of the company Jihočeská plynárenská, a.s. ("JCP"), České Budějovice, Czech Republic, in which E.ON previously held a 13.1 percent share. This company was fully consolidated as of September 1, 2006. An additional 39.2 percent interest was acquired in a separate transaction, which also took place in September. E.ON now holds 99.0 percent of JCP.

As part of the portfolio adjustment, an additional 49.9 interest percent was acquired in the fully consolidated company Déldunántúli Gázszolgáltató Rt. ("DDGáz"), Pécs, Hungary, in which E.ON previously held a 50.02 percent interest. As a result E.ON now holds 99.9 percent of DDGáz.

The exchange transaction resulted in total acquisition costs of €103 million, taking into account a cash component of €29 million. The acquisition of the share in DDGáz resulted in goodwill of €3 million; the purchase price allocation of JCP is still preliminary. Gains on disposals of minority interests totaled €31 million.

Pan-European Gas

E.ON Földgáz Storage/E.ON Földgáz Trade

Effective March 31, 2006, E.ON Ruhrgas acquired a 100 percent interest in the gas trading and storage business of the Hungarian oil and gas company MOL through the acquisition of interests in MOL Földgázellátó Rt. (now E.ON Földgáz Storage) and MOL Földgáztároló Rt. (now E.ON Földgáz Trade), both of Budapest, Hungary. The purchase price was approximately €400 million. It has been agreed that, contingent on regulatory developments in Hungary, compensatory payments may be required until the end of 2009 which could lead to a subsequent adjustment of the purchase price. The companies were fully consolidated as of March 31, 2006. As at December 31, 2006, the purchase price allocation resulted in goodwill of €119 million.

Disposals, Discontinued Operations and Disposal Groups in 2006

Discontinued Operations in 2006

Pursuant to SFAS 144, the following two companies are reported as discontinued operations in 2006: E.ON Finland, Espoo, Finland, within the Nordic market unit and the operations of Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, U.S., within the U.S. Midwest market unit. E.ON Finland was sold in June 2006. In addition, E.ON recorded a gain in 2006 of approximately €52 million (net of tax: €51 million) from a purchase price adjustment on the sale of Viterra.

Nordic

E.ON Finland

On June 26, 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 pursuant to an agreement signed on

February 2, 2006. 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:

€ in millions	2006	2005	2004
Sales	131	258	253
Gain on disposal, net	11	—	—
Other income/(expenses), net	(115)	(202)	(230)
Income from continuing operations before income taxes and minority interests	**27**	**56**	**23**
Income taxes	(7)	(15)	2
Minority interests	(9)	(17)	(9)
Income from discontinued operations	**11**	**24**	**16**

U.S. Midwest

WKE

Through WKE, 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 November 2005, E.ON U.S. entered into a letter of intent with BREC regarding a proposed transaction 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 and affiliates. The parties remain 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 by 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 therefore continues to be classified as a discontinued operation, just as in 2005.

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

€ in millions	2006	2005	2004
Sales	227	214	195
Other income/(expenses), net	(129)	(466)	(199)
Income from continuing operations before income taxes and minority interests	**98**	**(252)**	**(4)**
Income taxes	(34)	90	2
Income from discontinued operations	**64**	**(162)**	**(2)**

€ in millions	December 31, 2006	December 31, 2005
Property, plant and equipment	214	212
Other assets	396	469
Total assets	**610**	**681**
Total liabilities	615	831

In accordance with U.S. GAAP, the income and expenses of discontinued operations are reported separately under "Income/Loss from discontinued operations, net." The Consolidated Statements of Income, including the notes relating to them, for the period ended December 31, 2006, and for the prior reporting periods have been adjusted for all discontinued operations. The assets and liabilities of these discontinued operations are presented in the Consolidated Balance Sheet as of December 31, 2006, under "Assets of disposal groups" and "Liabilities of disposal groups." The balance sheet disclosures for the prior reporting periods were not adjusted, as SFAS 144 does not require such an adjustment. Cash flows to and from discontinued operations are reported separately in the Consolidated Statement of Cash Flows.

Other Disposals

In December 2005, E.ON AG and RAG AG ("RAG"), Essen, Germany, 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, on March 21, 2006, E.ON transferred its stake in Degussa into RAG Projektgesellschaft mbH, Essen, Germany. E.ON's stake in this entity was forward sold to RAG on the same date. On July 3, 2006, E.ON and RAG executed the forward sales agreement for E.ON's stake in RAG Projektgesellschaft mbH. E.ON has now sold its entire remaining, indirectly held stake in Degussa. RAG paid E.ON the roughly €2.8 billion purchase price on August 31, 2006. The transaction initially resulted in a gain of €618 million, which subsequently had to be adjusted for the intercompany gain attributable to E.ON's minority ownership interest in RAG (39.2 percent). A gain of €376 million was thus realized from the transfer and the subsequent sale.

Acquisitions in 2005

Central Europe

Gorna Oryahovitza/Varna

At the end of February 2005, E.ON Energie acquired 67 percent stakes in each of the regional utilities Elektrorazpredelenie Gorna Oryahovitza AD ("Gorna Oryahovitza"), Gorna Oryahovitza, Bulgaria, and Elektrorazpredelenie Varna AD ("Varna"), Varna, Bulgaria, for an aggregate purchase price of approximately €138 million. Total goodwill of €16 million resulted from the purchase price allocation. The companies were fully consolidated as of March 1, 2005.

ETE

In July 2005, E.ON Energie transferred its 51 percent interest (49 percent voting interest) in Gasversorgung Thüringen GmbH ("GVT"), Erfurt, Germany, and its 72.7 percent interest in Thüringer Energie AG ("TEAG"), Erfurt, Germany, to Thüringer Energie Beteiligungsgesellschaft mbH ("TEB"), Munich, Germany. Municipal shareholders also transferred interests in GVT totaling 43.9 percent to TEB. GVT was then merged into TEAG, and the merged entity was renamed E.ON Thüringer Energie AG ("ETE"), Erfurt, Germany. As a result of 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, undertaken at an acquisition cost of €168 million, resulted in goodwill of €58 million from the purchase price allocation. The transfer of the stake in TEAG resulted in a gain of €90 million, which is recognized under other operating income.

NRE

In September 2005, E.ON Energie completed the acquisition of 100 percent of the Dutch electric and gas utility NRE Energie b.v. ("NRE"), Eindhoven, The Netherlands. The purchase price amounted to €79 million, with €46 million in goodwill resulting from the purchase price allocation. NRE was fully consolidated as of September 1, 2005.

E.ON Moldova

At the end of September 2005, E.ON Energie completed the acquisition of the regional utility Electrica Moldova S.A. ("Moldova"), Bacău, Romania — now E.ON Moldova S.A. ("E.ON Moldova") — by acquiring a 24.6 percent stake in and then increasing its stake in the company to 51 percent through a capital increase. The purchase price for this 51 percent interest amounted to €101 million. E.ON Moldova was fully consolidated as of September 30, 2005. No goodwill resulted from the purchase price allocation.

Pan-European Gas

Distrigaz

Following approval by the relevant authorities, E.ON Ruhrgas in June 2005 purchased a 30 percent interest in the gas utility S.C. Distrigaz Nord S.A. ("Distrigaz"), Târgu Mureş, Romania, from the Romanian government for €127 million. Following a simultaneous increase in capital by €178 million, this holding increased to 51 percent. The company was fully consolidated as of June 30, 2005. Goodwill in the amount of €60 million resulted from the purchase price allocation. The entity was subsequently renamed E.ON Gaz România S.A.

Caledonia

E.ON Ruhrgas in November 2005 bought the British gas exploration company Caledonia Oil and Gas Limited ("Caledonia"), London, U.K., which has a stake in 15 gas fields in the British part of the southern North Sea. The purchase price including incidental acquisition expenses for the 100 percent interest in Caledonia totaled €602 million and was primarily paid through the issuance of loan notes. The company was fully consolidated on November 1, 2005. Goodwill in the amount of €390 million resulted from the final purchase price allocation. The company was subsequently renamed E.ON Ruhrgas UK North Sea Limited.

U.K.

Enfield

During the first half of 2005, E.ON UK bought 100 percent of the shares of Enfield Energy Centre Ltd. ("Enfield"), Coventry, U.K., in two phases. The purchase price was approximately €185 million (GBP 127 million). The company was fully consolidated as of April 1, 2005. No goodwill resulted from the purchase price allocation.

Holford

In July 2005, E.ON UK acquired Holford Gas Storage Ltd. ("Holford"), Edinburgh, U.K. The purchase price for the company was approximately €140 million (GBP 96 million). Full consolidation of the company took place on July 28, 2005. No goodwill resulted from the purchase price allocation.

Disposals, Discontinued Operations and Disposal Groups in 2005

Discontinued Operations in 2005

For the 2005 fiscal year, Viterra and Ruhrgas Industries, both of which were sold during the year, were reported as discontinued operations in accordance with SFAS 144. In the U.S. Midwest market unit, the activities of WKE were classified as a discontinued operation. In addition, there were gains in 2005 from the discontinued operations of the Company's former aluminum segment, which had already been sold in 2002, as well as from the discontinued operations of a company in the U.S. Midwest market unit that was sold in 2003. These gains totaled €11 million before taxes (after-tax gain: €11 million).

Pan-European Gas

Ruhrgas Industries

On June 15, 2005, E.ON Ruhrgas sold Ruhrgas Industries GmbH ("Ruhrgas Industries"), Essen, Germany, which operates in the gas measurement and control segments and in the construction of industrial blast furnaces, to the holding company CVC Capital Partners for a price of approximately €1.2 billion. The company was classified as a discontinued operation in June 2005 and deconsolidated as of August 31, 2005. The sale resulted in a gain of approximately €0.6 billion.

The table below provides details of selected financial information from the discontinued operations of the Pan-European Gas segment for the periods indicated:

€ in millions	2005	2004
Sales	847	1,188
Gain on disposal, net	606	—
Other income/(expenses), net	(803)	(1,123)
Income from continuing operations before income taxes and minority interests	**650**	**65**
Income taxes	(21)	(35)
Minority interests	(1)	(1)
Income from discontinued operations	**628**	**29**

Other Activities

Viterra

On May 17, 2005, E.ON sold 100 percent of Viterra, which is active in residential real estate and in the growing real estate development business, to Deutsche Annington GmbH, Düsseldorf, Germany. The price for the shares was approximately €4 billion. The company was classified as a discontinued operation in May 2005 and deconsolidated as of July 31, 2005. A book gain of €2.4 billion was recognized on the sale.

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

€ in millions	2005	2004
Sales	453	978
Gain on disposal, net	2,406	—
Other income/(expenses), net	(282)	(595)
Income from continuing operations before income taxes and minority interests	**2,577**	**383**
Income taxes	(19)	(64)
Minority interests	—	(25)
Income from discontinued operations	**2,558**	**294**

Acquisitions in 2004

Significant Acquisitions in 2004

U.K.

Midlands Electricity

On January 16, 2004, E.ON UK completed the acquisition of 100 percent of the British distributor of electricity Midlands Electricity plc ("Midlands Electricity"), Worcester, U.K. The purchase price, including incidental acquisition expenses, amounted to €1,706 million (GBP 1,180 million), of which €55 million was paid to stockholders and €881 million was paid to creditors. Moreover, financial debts amounting to an equivalent of €856 million were assumed. The payments to stockholders were offset by acquired liquid funds of €86 million. The company was thus fully consolidated as of January 16, 2004.

The table below contains a presentation of the major classes of assets and liabilities of Midlands Electricity as of the acquisition date:

€ in millions	January 16, 2004
Goodwill	473
Intangible assets	10
Property, plant and equipment	1,745
Financial assets	34
Other assets	217
Total assets	**2,479**
Provisions	(178)
Liabilities	(2,246)
Total liabilities	**(2,424)**
Net assets	**55**

Other Acquisitions in 2004

Central Europe

JME/JCE

In 2003, majority stakes in two Czech regional utilities, Jihomoravská energetika a.s. ("JME"), Brno, Czech Republic, and Jihočeská energetika a.s. ("JCE"), České Budějovice, Czech Republic, were acquired for a total of €207 million, and both companies were fully consolidated on October 1, 2003. In December 2004, additional interests in JME and JCE were acquired; these transactions increased the Company's respective interests in JME and JCE from 85.7 percent and 84.7 percent as of January 1, 2004, to 99.0 percent and 98.7 percent as of December 31, 2004. The total purchase price in 2004 amounted to €81 million.

Through the acquisition of all minority interests in 2005, E.ON's ownership interest in both companies was increased to 100 percent. The acquisition costs for the stakes acquired in 2005 amounted to €5 million. The businesses of JCE and JME were subsequently transferred to the Group companies E.ON Distribuce a.s., E.ON Česká Republika a.s. and E.ON Energie a.s., all registered in České Budějovice, Czech Republic. For the interests acquired in 2004 and 2005, no goodwill remained after purchase price allocation.

E.ON Bayern

In 2004, the acquisition of the remaining E.ON Bayern shares by means of a squeeze-out procedure resulted in acquisition costs of €189 million, of which €165 million were attributable to the transfer of E.ON AG shares. The goodwill resulting from this transaction was €148 million.

Following the conclusion of all legal challenges to the squeeze-out procedure, the squeeze-out was entered in the commercial register in July 2004. E.ON now holds 100 percent of E.ON Bayern.

Pan-European Gas

Thüga

In May 2004, the squeeze-out transaction for the outstanding Thüga shares (3.4 percent) was completed and entered in the commercial register, with the result that the total E.ON Group stake in Thüga amounted to 100 percent as of December 31, 2004. The remaining 2.9 million shares were acquired at a purchase price of €223 million (including ancillary costs related to the acquisition). The purchase price allocation for these shares resulted in goodwill amounting to €106 million.

Nordic

Graninge

In the first half of 2004, E.ON Sverige increased its stake in Graninge AB ("Graninge"), Sollefteå, Sweden, from 79.0 percent as of January 1, 2004, to 100 percent through the acquisition of the outstanding shares in three tranches for an aggregate price of €307 million (2.82 billion SEK). The purchase price allocation relating to these shares resulted in goodwill amounting to €76 million. As of December 31, 2004, the goodwill relating to the 100 percent interest in Graninge amounted to €233 million.

Disposals, Discontinued Operations and Disposal Groups in 2004

Disposal Groups in 2004

Nordic

Graninge

In 2004, E.ON reached an understanding in principle with the Norwegian utility Statkraft SF ("Statkraft SF"), Oslo, Norway, on the sale of part of the hydroelectric generation capacity that E.ON had acquired when it purchased Graninge.

E.ON Sverige and Statkraft AS ("Statkraft AS"), Oslo, Norway, signed an agreement to that effect on July 1, 2005. The sales price was approximately €480 million (SEK 4.46 billion). Statkraft AS took over the power plants in October 2005. Because assets and liabilities were recognized at fair values as part of the purchase price allocation following the acquisition of Graninge, the sale of the disposal group did not result in a significant effect on income.

The table below shows the major balance sheet line items affected by the transaction; they were presented in the Consolidated Balance Sheet as of December 31, 2004, under "Assets/Liabilities of disposal groups."

€ in millions	December 31, 2004
Fixed assets	553
Other assets	—
Total assets	**553**
Total liabilities	(54)
Net assets	**499**

(5) Other Operating Income and Expenses

The table below provides details of other operating income and expenses for the periods indicated:

€ in millions	2006	2005	2004
Gains from the disposal of investments, net	579	34	397
(Loss) Gain on derivative instruments, net	(2,748)	931	602
Exchange rate differences	44	138	(309)
SAB 51 Gain	7	31	—
Research and development costs	(27)	(24)	(19)
Miscellaneous	1,297	564	707
Total	**(848)**	**1,674**	**1,378**

Other operating expenses include costs that cannot be allocated to production, selling or administration activities.

In the reporting period, net gains on the disposal of investments include the proceeds from the sale of the interest in Degussa (€376 million; see also Note 4). The higher gains in 2004 compared to 2005 were mainly attributable to the sale of stakes in EWE Aktiengesellschaft and Verbundnetz Gas AG (total gain: €317 million) and the disposal of 3.6 percent of the shares of Degussa AG (€51 million).

"Loss (Gain) on derivative financial instruments, net" include the losses and gains recognized as a result of the required marking to market and realized gains from derivatives under SFAS 133. The net loss in 2006 compared to a net gain in 2005 consists primarily of expenses from the fulfillment of derivative gas supply contracts and from the marking to market of energy derivatives, primarily at the U.K. market unit. These derivatives are used to hedge against fluctuations in prices. As of the end of 2006, this marking to market resulted in a loss of approximately €2.7 billion. In 2005, gains on the marking to market of derivatives increased in comparison with 2004 by €329 million.

Realized gains from currency derivatives and the effects of positive exchange rate differences recognized in income are reported as income from exchange rate differences.

The issuance of shares of E.ON Avacon AG ("E.ON Avacon"), Helmstedt, Germany, resulted in SAB 51 gains of €7 million and €31 million in 2006 and 2005, respectively.

Miscellaneous other operating income in 2006 includes net gains realized on the sale of securities in the amount of €492 million (2005: €398 million; 2004: €231 million). Also included in this line item are gains from the disposal of institutional securities funds as part of the transfer to the Contractual Trust Arrangement ("CTA") in the amount of €159 million (see also Note 22) as well as income from the reversal of provisions (€146 million). The decrease in 2005 compared to 2004 of €143 million was mainly attributable to lower income from the reversal of provisions (€218 million) and an impairment loss recorded at cogeneration facilities in the U.K. market unit (€129 million) which was partly offset by higher gains realized on the sale of securities (€153 million) and the gain from the reduction of the Company's stake in TEAG in connection with the bundling of its electric and gas activities in the German state of Thuringia into ETE (€90 million).

(6) Financial earnings, net

The following table provides details of financial earnings, net for the periods indicated:

€ in millions	2006	2005	2004
Income from companies in which share investments are held; thereof from affiliated companies: €35 (2005: €33; 2004: €32)	223	203	185
Income from profit-and-loss-pooling agreements; thereof from affiliated companies: €4 (2005: €3; 2004: €5)	4	3	5
Losses from profit-and-loss-pooling agreements; thereof from affiliated companies: €(8) (2005: €(1); 2004: €(8))	(9)	(3)	(10)
Income from share investments	**218**	**203**	**180**
Income from other securities	37	45	36
Other interest and similar income; thereof from affiliated companies: €11 (2005: €6; 2004: €8)	1,213	1,001	576
Interest and similar expenses; thereof from affiliated companies: €(3) (2005: €(8); 2004: (5)) thereof SFAS 143 accretion expense: €(524) (2005: €(511); 2004: €(499))	(1,937)	(1,782)	(1,675)
Interest and similar expenses (net)	**(687)**	**(736)**	**(1,063)**
Write-down of financial assets and share investments	(164)	(74)	(131)
Financial earnings, net	**(633)**	**(607)**	**(1,014)**

Net interest and similar expenses improved in 2006 as a result of lower net financial indebtedness; additionally, increasing interest rates had a positive effect on interest income from cash investments. Moreover, the first-time inclusion of VKE had a positive effect. Interest expense was reduced by capitalized interest on debt totaling €27 million (2005: €24 million; 2004: €20 million).

Included in interest and similar expenses (net) is a balance of €31 million resulting from various loans (2005: €31 million; 2004: €43 million).

(7) Income Taxes

The following table provides details of income taxes, including deferred taxes, for the periods indicated:

€ in millions	2006	2005	2004
Current taxes			
Domestic corporate income tax	(406)	1,081	952
Domestic trade tax	351	416	446
Foreign income tax	553	374	387
Other income taxes	5	—	(1)
Total	**503**	**1,871**	**1,784**
Deferred taxes			
Domestic	(360)	(4)	92
Foreign	(466)	394	(24)
Total	**(826)**	**390**	**68**
Income taxes	**(323)**	**2,261**	**1,852**

The decrease in tax expenses of €2,584 million over the previous year primarily reflects the following effects: Current income taxes were reduced as a result of a higher proportion of tax-exempt earnings and the first-time recognition of €1,279 million in corporate tax credits (see below). In addition, deferred tax benefits of approximately €1,200 million were generated primarily as a result of losses recognized on the marking to market of commodity derivatives. The increase in tax expenses of €409 million in 2005 compared to 2004 reflected increases in operating income and reduced tax-exempt earnings, as well as higher foreign deferred tax expense due to marking to market of energy derivatives in the U.K. market unit.

The first-time recognition of corporate tax credits is based on new German legislation providing for fiscal measures to accompany the introduction of the European Company and amending other fiscal provisions ("SE-Steuergesetz", or "SEStEG"), which came into effect on December 13, 2006. The new legislation altered the regulations on corporate tax credits arising from the corporate imputation system ("Anrechnungsverfahren"), which had existed until 2001. The change de-links the corporate tax credit from distributions of dividends. Instead, after December 31, 2006, an unconditional claim for payment of the credit in ten equal annual installments from 2008 through 2017 has been established. The total amount of the credit is €1,599 million. After discounting, tax income for the financial year was €1,279 million. The elimination in 2006 of the exclusion of corporate tax credits for dividends distributed after April 11, 2003, and before January 1, 2006, resulted in a tax relief of approximately €76 million on the dividend distributions, including the special dividend, totaling €4,614 million that were carried out in 2006.

In 2005, a deferred tax liability of €436 million was recorded to take into account the difference between net assets and the tax bases of subsidiaries and associated companies. As of December 31, 2006, the deferred tax liability amounted to €526 million. No deferred taxes have been recognized for temporary differences between net assets and the tax bases of foreign subsidiaries held by companies in third countries, since no actual reversals of these differences are expected to occur, which in turn makes it impracticable to determine deferred taxes for them.

Changes in foreign tax rates resulted in a total deferred tax benefit of €20 million. This compares to a deferred tax expense of €4 million recorded in 2005 and a deferred benefit of €2 million for 2004.

Whereas prior to 2006 the reconciliation to effective income taxes and tax rate has been derived from the corporate tax rate, the reconciliation for 2006 for the first time uses the income tax rate applicable to E.ON in

Germany (consisting of corporate tax, trade tax and the solidarity surcharge) of 39 percent as a basis. The differences between the respective base income tax rate and the effective tax rate are reconciled as follows:

	2006		2005 (1)		2004	
	€ in millions	%	€ in millions	%	€ in millions	%
Corporate income tax	2,002	39.0	2,789	39.0	2,469	39.0
Credit for dividend distributions	(76)	(1.5)	—	—	—	—
Foreign tax rate differentials	(33)	(0.6)	(355)	(5.0)	(170)	(2.7)
Changes in valuation allowances	(41)	(0.8)	109	1.5	(202)	(3.2)
Changes in tax rate/tax law	(21)	(0.4)	4	0.1	149	2.4
Tax effects on						
Tax-free income	(634)	(12.4)	(315)	(4.4)	(501)	(7.9)
Equity accounting	(258)	(5.0)	(67)	(0.9)	(185)	(2.9)
Other (2)	(1,262)	(24.6)	96	1.3	292	4.6
Effective income taxes/tax rate	**(323)**	**(6.3)**	**2,261**	**31.6**	**1,852**	**29.3**

(1) Prior-year values have been adjusted accordingly to reflect the combined rate of 39 percent

(2) thereof in 2006 income from capitalization of corporate tax credits: € 1,279 million

As discussed in Note 4, the corporate income taxes relating to discontinued operations are reported in E.ON's Consolidated Statement of Income under "Income/Loss from discontinued operations, net," and are as follows:

€ in millions	2006	2005	2004
Viterra	1	19	64
Ruhrgas Industries	—	21	35
WKE	34	(90)	(2)
E.ON Finland	7	15	(2)
Income taxes from discontinued operations	**42**	**(35)**	**95**

Income from continuing operations before income taxes and minority interests was attributable to the following geographic locations in the periods indicated:

€ in millions	2006	2005	2004
Domestic	3,664	3,526	3,553
Foreign	1,469	3,626	2,779
Total	**5,133**	**7,152**	**6,332**

Deferred tax assets and liabilities are as follows as of December 31, 2006 and 2005:

€ in millions	December 31, 2006	December 31, 2005
Deferred tax assets		
Intangible assets	66	41
Property, plant and equipment	549	624
Financial assets	208	383
Inventories	12	7
Receivables	508	178
Provisions	4,227	4,753
Liabilities	2,315	2,421
Net operating loss carryforwards	613	891
Tax credits	38	33
Other	190	269
Subtotal	**8,726**	**9,600**
Valuation allowance	(434)	(573)
Total	**8,292**	**9,027**
Deferred tax liabilities		
Intangible assets	1,140	1,030
Property, plant and equipment	6,631	6,609
Financial assets	2,510	2,312
Inventories	122	94
Receivables	1,851	2,401
Provisions	443	1,167
Liabilities	107	911
Other	1,544	844
Total	**14,348**	**15,368**
Net deferred tax assets/liabilities (−)	**(6,056)**	**(6,341)**

Of the deferred tax liabilities on financial assets reported for 2006, €1,793 million (2005: €1,137 million) relate to the marking to market of other share investments. Of this amount, €1,777 million (2005: €1,120 million) were recorded in stockholders' equity (other comprehensive income), with no effect on income.

The adoption of SFAS 158 has led to an increase in deferred tax assets of €254 million. In addition, the reclassification of existing gross additional minimum pension liabilities totaling €1,374 million, €318 million in deferred taxes not recognized in income was reclassified as a component of accumulated other comprehensive income. The Consolidated Statement of Changes in Stockholders' Equity provides additional information.

Net deferred income taxes included in the Consolidated Balance Sheet are as follows:

€ in millions	December 31, 2006 current	December 31, 2006 non-current	December 31, 2005 current	December 31, 2005 non-current
Deferred tax assets	358	1,933	383	2,269
Valuation allowance	(11)	(423)	(10)	(563)
Net deferred tax assets	**347**	**1,510**	**373**	**1,706**
Deferred tax liabilities	(619)	(7,294)	(491)	(7,929)
Net deferred tax assets/liabilities (−)	**(272)**	**(5,784)**	**(118)**	**(6,223)**

The purchase price allocations of the acquisitions of DDGáz, E.ON Földgáz Trade, E.ON Földgáz Storage, Somet and E.ON Värme resulted in the recognition on December 31, 2006, of a total of €6 million in deferred tax assets and €27 million in deferred tax liabilities.

In the acquisition of E.ON Ruhrgas North Sea Limited, the purchase price allocation resulted in deferred tax assets of €112 million and deferred tax liabilities of €245 million as of December 31, 2005. The purchase price allocation of GVT resulted in a deferred tax liability of €36 million as of December 31, 2005.

The purchase price allocations of the acquisitions of E.ON Gaz România S.A., NRE Energie, Varna and Enfield resulted in a total deferred tax liability of €56 million as of December 31, 2005.

Based on subsidiaries' past performance and the expectation of similar performance in the future, it is expected that the future taxable income of these subsidiaries will more likely than not be sufficient to permit recognition of their deferred tax assets. A valuation allowance has been provided for that portion of the deferred tax assets for which this criterion is not expected to be met.

The tax loss carryforwards as of the dates indicated are as follows:

€ in millions	December 31, 2006	December 31, 2005
Domestic tax loss carryforwards	2,016	2,907
Foreign tax loss carryforwards	956	1,220
Total	**2,972**	**4,127**

Since January 1, 2004, a tax loss carryforward can only be offset against up to 60 percent of taxable income, subject to a full offset against the first €1 million. This minimum corporate taxation also applies to trade tax loss carryforwards. Despite the introduction of minimum taxation, the German tax loss carryforwards have no expiration date.

Foreign tax loss carryforwards expire as follows: €15 million in 2007, €34 million between 2008 and 2011, €388 million after 2011. €519 million do not have an expiration date.

Tax credits totaling €38 million are exclusively foreign. Of these, €24 million expire after 2011 and €14 million do not have an expiration date.

(8) Minority Interests in Net Income

Minority stockholders participate in the profits of the affiliated companies in the amount of €667 million (2005: €567 million; 2004: €524 million) and in the losses in the amount of €141 million (2005: €31 million; 2004: €55 million).

(9) Personnel-Related Information

Personnel Costs

The following table provides details of personnel costs for the periods indicated:

€ in millions	2006	2005	2004
Wages and salaries	3,470	3,218	2,916
Social security contributions	579	549	500
Pension costs and other employee benefits; thereof pension costs: €505 (2005: €415; 2004: €373)	524	465	394
Total	**4,573**	**4,232**	**3,810**

In 2006, E.ON utilized 443,290 of its own shares (0.06 percent of E.ON's outstanding shares) (2005: 308,555 shares; 0.04 percent) for resale to employees as part of an employee stock purchase program. These shares were sold to employees at preferential prices between €38.37 and €74.77 (2005: between €35.01 and €64.04). The costs arising from the granting of these preferential prices were charged to personnel costs as "wages and salaries." Further information about the changes in the number of its own shares held by E.ON AG can be found in Note 17.

Since the 2003 fiscal year, employees in the U.K. have the opportunity to purchase E.ON shares through an employee stock purchase program and to acquire additional bonus shares. The cost of issuing these bonus shares is also recorded under personnel costs as part of "Wages and salaries."

Share-Based Payment

Members of the Board of Management of E.ON AG and certain executives of E.ON AG and of the market units receive share-based payment as part of their long-term variable compensation. Share-based payment can only be granted if the qualified executive owns a certain minimum number of shares of E.ON stock, which must be held until maturity or full exercise. The purpose of such compensation is to reward their contribution to E.ON's growth and to further the long-term success of the Company. This variable compensation component, comprising a long-term incentive effect along with a certain element of risk, provides for a sensible linking of the interests of shareholders and management.

The following discussion includes a report on the E.ON AG Stock Appreciation Rights plan, which ended in 2005, and on the E.ON Share Performance Plan, newly introduced in 2006.

Stock Appreciation Rights of E.ON AG

From 1999 up to and including 2005, E.ON annually granted virtual stock options ("Stock Appreciation Rights" or "SAR") through the E.ON AG Stock Appreciation Rights program. The first tranche of SAR (from 1999) was exercised in full in 2002, and the second tranche (from 2000) was exercised in full in 2006. SAR from the third through seventh tranches may still be exercised after the end of the program, in accordance with the SAR terms and conditions.

	7th tranche	6th tranche	5th tranche	4th tranche	3rd tranche	2nd tranche
Date of issuance	Jan. 3, 2005	Jan. 2, 2004	Jan. 2, 2003	Jan. 2, 2002	Jan. 2, 2001	Jan. 3, 2000
Term	7 years	7 years	7 years	7 years	7 years	7 years
Blackout period	2 years	2 years	2 years	2 years	2 years	2 years
Price at issuance (in €)*	61.10	44.80	37.86	50.70	58.70	44.10
Level of the Dow Jones STOXX Utilities Index (Price EUR) at SAR issuance	268.66	211.58	202.14	262.44	300.18	285.77
Number of participants in year of issuance	357	357	344	186	231	155
Number of SAR issued (in millions)	2.9	2.7	2.6	1.7	1.8	1.5
Exercise hurdle (minimum percentage by which exercise price exceeds the price at issuance)	10	10	10	10	20	20
Exercise hurdle (minimum exercise price in €)*	67.21	49.28	41.65	55.77	70.44	52.92
Maximum exercise gain (in €)	65.35	49.05	—	—	—	—

* Adjusted for special dividend distribution

SAR can be exercised by eligible executives following the blackout period within predetermined exercise windows, provided that the E.ON AG share price outperforms the Dow Jones STOXX Utilities Index (Price EUR) on at least ten consecutive trading days during the period from issuance until exercise, and that the E.ON AG share price on exercise is at least 10.0 percent (for the second and third tranches: at least 20.0 percent) above the price at issuance. The term of the SAR is limited to a total of 7 years.

Starting with the fourth tranche, the original underlying share price is equal to the average of the XETRA closing quotations for E.ON stock during the December prior to issuance. For tranches two and three, the underlying share price is the E.ON share price at the actual time of issuance. Because of the distribution of the special dividend of €4.25 per E.ON AG share declared by resolution of the Annual Shareholders Meeting on May 4, 2006, the original price at issuance and the exercise hurdles were adjusted in accordance with the SAR terms and conditions.

The amount paid to executives when they exercise their SAR is paid out in cash, and is equal to the difference between the E.ON AG share price at the time of exercise and the underlying share price at issuance multiplied by the number of SAR exercised. Beginning with the sixth tranche, a cap on gains on SAR equal to 100 percent of the underlying price at the time of issuance was put in place in order to limit the effect of unforeseen extraordinary increases in the underlying share price. This cap on gains took effect for the first time in the 2006 fiscal year. The exercise gains from 651,016 SAR of the sixth tranche were limited to the cap of €49.05.

As part of U.S. GAAP measurement, in accordance with SFAS 123(R), the SAR were measured at fair value for the first time in 2006.

A recognized option pricing model is used for measuring the value of these options. This option pricing model simulates a large number of different possible developments of the E.ON share price and the benchmark Dow Jones STOXX Utilities Index (Price EUR) (Monte Carlo simulation).

A certain exercise behavior is assumed when determining fair value. Individual exercise rates are defined for each of the tranches, depending on the price performance of the E.ON share. There is no liquid options market for the benchmark index, so no use is made of implicit volatility for reasons of consistency. Historical volatility and correlations of the E.ON share price and of the benchmark index that reflect remaining maturities are used in the calculations. The reference interest rate is the zero-swap rate for the corresponding remaining maturity. The dividend yields of E.ON stock and of the benchmark index are also taken into account in this pricing model. They are established based on the ratio of the last dividend distributed and the share prices on the valuation day. Future dividend expectations thus correspond to the most recent dividends paid out.

The table above and the following overview contain the parameters used for measurement on the balance sheet date.

	7th tranche	6th tranche	5th tranche	4th tranche	3rd tranche
E.ON AG share price on December 31, 2006 (in €)	102.83	102.83	102.83	102.83	102.83
Level of the Dow Jones STOXX Utilities Index (Price EUR) on December 31, 2006	464.95	464.95	464.95	464.95	464.95
Intrinsic value as of December 31, 2006 (in €)	41.73	49.05	64.97	52.13	44.13
Fair value as of December 31, 2006 (in €)	41.87	47.38	61.43	48.52	43.72
Swap rate (in %)	4.03	4.03	4.04	4.04	3.98
Volatility of the E.ON share (in %)	25.81	26.22	26.29	25.46	22.57
Volatility of the Dow Jones STOXX Utilities Index (Price EUR) (in %)	14.66	14.85	14.96	14.74	13.62
Correlation between the E.ON share price and the Dow Jones STOXX Utilities Index (Price EUR)	0.6802	0.6896	0.7066	0.7382	0.7901
Most recent cash dividend paid on E.ON AG stock (in €)	2.75	2.75	2.75	2.75	2.75
Dividend yield of the E.ON share (in %)	2.67	2.67	2.67	2.67	2.67
Dividend yield of the Dow Jones STOXX Utilities Index (Price EUR) (in %)	4.36	4.36	4.36	4.36	4.36

In 2006, 2,948,702 SAR from tranches two through six were exercised on an ordinary basis. In addition, 64,890 SAR from tranches six and seven were exercised in accordance with the SAR terms and conditions on an extraordinary basis. The gain to the holders on exercise totaled €134.4 million (2005: €78.1 million). During 2006, 42,181 SAR from tranches five, six and seven expired. The provision for the SAR program was €143.1 million as of the balance sheet date (2005: €164.4 million). The expense for the 2006 fiscal year amounted to €113.0 million (2005: €137.7 million).

The number of SAR, provisions for and expenses arising from the E.ON SAR program have changed as shown in the following table:

	7th tranche	6th tranche	5th tranche	4th tranche	3rd tranche	2nd tranche
SAR outstanding as of January 1, 2005	**—**	**2,647,181**	**2,502,393**	**809,886**	**1,300,900**	**192,500**
SAR granted in 2005	2,904,949	17,297	—	—	—	—
SAR exercised in 2005	7,521	55,983	1,860,682	503,477	983,650	161,000
SAR expired in 2005	12,000	20,000	—	—	7,000	—
Change in scope of consolidation in 2005	—	(170,500)	(28,000)	(67,500)	(151,500)	(19,000)
SAR outstanding as of December 31, 2005	**2,885,428**	**2,417,995**	**613,711**	**238,909**	**158,750**	**12,500**
SAR granted in 2006	—	—	—	—	—	—
SAR exercised in 2006	49,511	2,349,731	346,358	169,742	85,750	12,500
SAR expired in 2006	26,041	13,717	2,423	—	—	—
Change in scope of consolidation in 2006	—	—	—	—	—	—
SAR outstanding as of December 31, 2006	**2,809,876**	**54,547**	**264,930**	**69,167**	**73,000**	**—**
Gains on excercise in 2006 (in millions of €)	2.0	106.8	16.9	5.7	2.3	0.7
Provision as of December 31, 2006 (in millions of €)	117.6	2.6	16.3	3.4	3.2	—
Expense in 2006 (in millions of €)	87.8	16.7	5.4	1.2	1.7	0.2
Average exercise gain per SAR (in €)	40.31	45.45	48.84	33.24	27.27	54.66

The SAR of tranches three through six were exercisable on December 31, 2006. The blackout period for the seventh tranche ended on December 31, 2006.

E.ON Share Performance Plan

In 2006, a new stock-based compensation system, the E.ON Share Performance Plan, was introduced, and virtual shares ("Performance Rights") from the first tranche were granted for the first time. The amount of compensation from the E.ON Share Performance Plan depends both on the development of the E.ON share price and explicitly on the relative performance of E.ON stock in comparison to a sector index.

	1st tranche
Date of issuance	Jan. 2, 2006
Term	3 years
Target value at issuance (in €)	79.22
Number of participants in year of issuance	396
Number of Performance Rights issued	458,641
Maximum cash amount (in €)	237.66

At the beginning of the three-year term of each tranche, plan participants are granted Performance Rights. At the end of the term, each Performance Right is entitled to a cash payment linked to the final E.ON share price established at that time. The amount of the payment is also linked to the relative performance of the E.ON share price in comparison with the benchmark, the Dow Jones STOXX Utilities Index (Total Return EUR). The amount paid out is equal to the target value of this compensation component if the E.ON share price at the end of the term is equal to the initial price at the beginning of the term and the performance matches that of the benchmark. The maximum amount to be paid out to each participant per Performance Right is limited to three times the original target value on the grant date.

60-day average prices are used to determine the initial price, the final price and the relative performance, in order to mitigate the effects of incidental, short-lived price movements. The target value of the first tranche is equal to the initial price of €79.22.

The calculation of the payment amount takes place at the same time for all plan participants with effect on the last day of the term of the tranche. If the performance of the E.ON share matches that of the index, the amount paid out is not adjusted; the final share price is paid out. However, if the E.ON share outperforms the index, the amount paid out is increased proportionally by one percent for each one percent of outperformance. If, on the other hand, the E.ON share should underperform the index, disproportionate deductions of five percent are made for each one percent of underperformance, and in the case of underperformance by 20 percent or more, no payment at all takes place.

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporate actions. Accordingly, to compensate for the economic effects of the special dividend payment of May 5, 2006, capital adjustment factors were established for the first tranche.

At the end of the first year of the three-year term, the intrinsic value of one Performance Right dropped from €79.22 to €42.00. The decline is primarily due to the fact that the E.ON share could not match the positive performance of the benchmark index to the same degree. The performance during the 60-day review period established lagged far behind the original performance targets set. Whereas the absolute price performance since plan inception is very strong, this performance only partially compensates for the losses resulting from the relative performance. The two value-driving factors, the share price and the relative performance, are thus both reflected in the change in intrinsic value of the Performance Rights, and both receive the desired consideration as a result.

Instead of reporting the target value or the intrinsic value on the financial statements, the fair value is determined for the Performance Rights in accordance with SFAS 123(R) using a recognized option pricing model. Similar to the option pricing model used for the SAR program, this model involves the simulation of a large number of different possible development tracks for the E.ON share price (taking into account the effects of reinvested dividends and capital adjustment factors) and the benchmark index (Monte Carlo simulation). However, unlike the SAR program, the benchmark for this plan is the Dow Jones STOXX Utilities Index (Total Return EUR). Since payments to all plan participants take place on a specified date, no assumptions concerning exercise behavior are made in this plan structure, and such assumptions are therefore not considered in this option pricing model. Dividend payments and corporate actions are taken into account through corresponding factors that are analogous to those employed by the index provider.

	1st tranche
E.ON AG share price on December 31, 2006 (in €)	102,83
Level of the Dow Jones STOXX Utilities Index (Total Return EUR) on December 31, 2006	796.53
Intrinsic value as of December 31, 2006 (in €)	42.00
Fair value as of December 31, 2006 (in €)	58.54
Swap rate (in %)	4.04
Volatility of the E.ON share (in %)	19.65
Volatility of the Dow Jones STOXX Utilities Index (Total Return EUR) (in %)	12.40
Correlation between the E.ON share price and the Dow Jones STOXX Utilities Index (Total Return EUR)	0.8273
Most recent cash dividend paid on E.ON AG stock (in €)	2.75
Dividend yield of the E.ON share (in %)	2.67

458,641 first-tranche Performance Rights were granted in 2006. As of December 31, 2006, the cash amount from 2,020 Performance Rights was paid out on an extraordinary basis in accordance with the terms and conditions. Total payments amounted to €0.1 million (2005: €0.0 million). 2,020 Performance Rights expired during the term. The provision was €8.9 million at year-end (2005: €0.0 million). The provision was prorated for the first year of the total three-year term. The total expense for the E.ON Share Performance Plan amounted to €9.0 million in 2006 (2005: €0.0 million 2004: €0.0 million). As of the balance sheet date, a total expense from the first tranche of €26.7 million on a fair-value basis is expected upon expiration of the three-year term.

	1st tranche
Performance Rights granted in 2006	458,641
Settled Performance Rights in 2006	2,020
Performance Rights expired in 2006	2,020
Change in scope of consolidation in 2006	—
Performance Rights outstanding as of December 31, 2006	454,601
Cash amount paid in 2006 (in millions of €)	0.1
Provision as of December 31, 2006 (in millions of €)	8.9
Expense in 2006 (in millions of €)	9.0
Average cash amount per Performance Right (in €)	42.00

The first tranche was not yet payable on an ordinary basis on the balance sheet date.

The issue of a second tranche of the E.ON AG Share Performance Plan is planned for 2007.

Employees

During 2006, the Company employed an average of 80,453 people (2005: 74,788), not including 2,280 apprentices (2005: 2,174). The breakdown by segments is shown below:

	2006	2005
Central Europe	44,148	42,835
Pan-European Gas	12,653	11,025
U.K.	14,599	12,106
Nordic	5,697	5,381
U.S. Midwest	2,919	3,007
Corporate Center	437	434
Total	**80,453**	**74,788**

(10) Earnings per Share

The computation of basic and diluted earnings per share for the periods indicated is shown below.

€ in millions	2006	2005	2004
Income/Loss from continuing operations	4,930	4,355	4,011
Income/Loss from discontinued operations	127	3,059	328
Income/Loss from cumulative effect of changes in accounting principles, net	—	(7)	—
Net income	**5,057**	**7,407**	**4,339**
Weighted-average number of shares outstanding (in millions)	659	659	657
Earnings per share (in €)			
from continuing operations	7.48	6.61	6.11
from discontinued operations	0.19	4.64	0.50
from cumulative effect of changes in accounting principles, net	0.00	(0.01)	—
from net income	**7.67**	**11.24**	**6.61**

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

(11) Goodwill and Intangible Assets; Property, Plant and Equipment; Financial Assets

€ in millions	Acquisition and production costs							
	January 1, 2006	Exchange rate differences	Change in scope of consolidation	Additions	Disposals	Transfers	Impairment	December 31, 2006
Goodwill	15,662	(242)	73	52	(12)	(126)	—	15,407
Intangible assets	6,056	53	(58)	145	(98)	(21)	(45)	6,032
Advance payments on intangible assets	26	—	—	11	—	(23)	—	14
Goodwill and intangible assets	**21,744**	**(189)**	**15**	**208**	**(110)**	**(170)**	**(45)**	**21,453**
Real estate and leasehold rights	4,011	85	(11)	55	(48)	(139)	(5)	3,948
Buildings	7,761	7	(59)	98	(21)	274	(25)	8,035
Technical equipment, plant and machinery	77,391	90	182	1,989	(1,294)	885	(379)	78,864
Other equipment, fixtures, furniture and office equipment	3,348	26	(78)	244	(180)	7	—	3,367
Advance payments and construction in progress	1,331	(28)	42	1,800	(32)	(1,039)	—	2,074
Property, plant and equipment	**93,842**	**180**	**76**	**4,186**	**(1,575)**	**(12)**	**(409)**	**96,288**
Shares in unconsolidated affiliates	676	(2)	(34)	263	(144)	(82)	(12)	665
Shares in associated companies	10,248	200	(47)	1,216	(3,247)	325	(243)	8,452
Other share investments	2,230	3	(62)	100	(50)	(246)	(112)	1,863
Non-current securities	5,652	3	(60)	3,070	(1,527)	(115)	—	7,023
Financial assets	**18,806**	**204**	**(203)**	**4,649**	**(4,968)**	**(118)**	**(367)**	**18,003**
Total	**134,392**	**195**	**(112)**	**9,043**	**(6,653)**	**(300)**	**(821)**	**135,744**

	Accumulated depreciation								Net book values	
	January 1, 2006	Exchange rate differences	Change in scope of consolidation	Additions	Disposals	Transfers	Fair value OCI adjustments	December 31, 2006	December 31, 2006	December 31, 2005
Goodwill	299	(1)	(15)	—	—	—	—	283	15,124	15,363
Intangible assets	1,957	23	(18)	374	(39)	—	—	2,297	3,735	4,099
Advance payments on intangible assets	—	—	—	—	—	—	—	—	14	26
Goodwill and intangible assets	2,256	22	(33)	374	(39)	—	—	2,580	18,873	19,488
Real estate and leasehold rights	303	1	—	12	(1)	(96)	—	219	3,729	3,708
Buildings	3,823	5	(36)	222	(2)	93	—	4,105	3,930	3,938
Technical equipment, plant and machinery	46,012	50	(387)	2,121	(905)	(15)	—	46,876	31,988	31,379
Other equipment, fixtures, furniture and office equipment	2,373	18	(39)	201	(174)	(6)	—	2,373	994	975
Advance payments and construction in progress	8	—	—	—	(5)	—	—	3	2,071	1,323
Property, plant and equipment	52,519	74	(462)	2,556	(1,087)	(24)	—	53,576	42,712	41,323
Shares in unconsolidated affiliates	9	—	(3)	—	—	—	—	6	659	667
Shares in associated companies	494	(1)	—	—	(1)	15	(309)	198	8,254	9,754
Other share investments	(6,775)	—	—	—	—	(31)	(3,776)	(10,582)	12,445	9,005
Non-current securities	(730)	—	—	—	—	703	106	79	6,944	6,382
Financial assets	(7,002)	(1)	(3)	—	(1)	687	(3,979)	(10,299)	28,302	25,808
Total	47,773	95	(498)	2,930	(1,127)	663	(3,979)	45,857	89,887	86,619

a) Goodwill and Other Intangible Assets

Goodwill

During the 2006 and 2005 fiscal years, the carrying amount of goodwill changed as follows in each of E.ON's segments:

€ in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Corporate Center	Core energy business	Other activities	Total
Book value as of January 1, 2005	**2,305**	**3,920**	**4,779**	**359**	**3,080**	**1**	**14,444**	**10**	**14,454**
Goodwill additions/disposals	115	481	21	7	—	(1)	623	—	623
Other changes (1)	(1)	(332)	155	2	472	—	296	(10)	286
Book value as of December 31, 2005	**2,419**	**4,069**	**4,955**	**368**	**3,552**	**—**	**15,363**	**—**	**15,363**
Goodwill additions/disposals	65	142	—	3	—	—	210	—	210
Other changes (1)	(19)	53	1	(73)	(411)	—	(449)	—	(449)
Book value as of December 31, 2006	**2,465**	**4,264**	**4,956**	**298**	**3,141**	**—**	**15,124**	**—**	**15,124**

(1) Other changes include transfers and exchange rate differences from the respective reporting year as well as reclassifications to discontinued operations (2006, Nordic segment: €(83) million; 2005, Pan-European Gas segment: €(326) million; other activities: €(10) million).

To perform the annual impairment test, the Company determines the fair value of its reporting units based on a valuation model that draws on medium-term planning data that the Company uses for internal reporting purposes. The model uses the discounted cash flow method and market comparables. Goodwill must also be evaluated at the reporting unit level for impairment between these annual tests if events or changes in circumstances indicate that goodwill might be impaired.

As the fair value of each reporting unit exceeded the carrying amount, no charges were recognized in 2006, 2005 or 2004, respectively, in connection with the testing of goodwill for impairment.

Intangible Assets

As of December 31, 2006, the Company's other intangible assets, including advance payments, consisted of the following:

€ in millions	December 31, 2006 Acquisition costs	December 31, 2006 Accumulated amortization	December 31, 2006 Net book value	December 31, 2005 Acquisition costs	December 31, 2005 Accumulated amortization	December 31, 2005 Net book value
Intangible assets subject to amortization						
Marketing-related intangible assets	**186**	**176**	**10**	**223**	**123**	**100**
thereof brand names	186	176	10	223	123	100
Customer-related intangible assets	**2,457**	**962**	**1,495**	**2,419**	**765**	**1,654**
thereof customer lists and customer relationships	2,292	885	1,407	2,305	704	1,601
Contract-based intangible assets	**1,678**	**629**	**1,049**	**1,674**	**593**	**1,081**
thereof concessions	1,080	327	753	1,223	392	831
Technology-based intangible assets	**733**	**530**	**203**	**662**	**476**	**186**
thereof computer software	666	477	189	563	408	155
Intangible assets not subject to amortization	**992**	**—**	**992**	**1,104**	**—**	**1,104**
thereof easements	725	—	725	818	—	818
Total	**6,046**	**2,297**	**3,749**	**6,082**	**1,957**	**4,125**

The table below includes all intangible assets added in 2006. Also included are the intangible assets that were acquired as part of business combinations.

	Acquisition costs (€ in millions)	Weighted average amortization period (in years)
Intangible assets subject to amortization		
Marketing-related intangible assets	**—**	
Customer-related intangible assets	**38**	**7**
thereof customer lists and customer relationships	29	4
Contract-based intangible assets	**31**	**10**
Technology-based intangible assets	**102**	**3**
thereof computer software	92	3
Intangible assets not subject to amortization	**24**	
thereof licenses for exploration and production	22	
Total	**195**	

In 2006, the Company recorded an aggregate amortization expense of €374 million (2005: €361 million; 2004: €365 million). Impairment charges of €45 million on intangible assets were recognized in 2006 (2005: €0 million; 2004: €9 million).

Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the five succeeding fiscal years is as follows:

€ in millions	
2007	333
2008	292
2009	231
2010	168
2011	156
Total	**1,180**

As acquisitions and disposals occur in the future, actual amounts may vary.

b) Property, Plant and Equipment

Property, plant and equipment includes capitalized interest on debt apportioned to the construction period of qualifying assets as part of their cost of acquisition and production in the amount of €27 million (2005: €24 million; 2004: €20 million). Impairment charges on property, plant and equipment were €409 million (2005: €163 million; 2004: €156 million). This amount in 2006 included €227 million in impairment charges (recorded under cost of goods sold) for gas distribution network operations in Germany that resulted from the regulation of network charges.

In 2006, the Company recorded depreciation of property, plant and equipment in the amount of €2,556 million (2005: €2,459 million; 2004: €2,254 million).

Restrictions on disposals of the Company's property, plant and equipment exist in the amount of €4,236 million (2005: €4,191 million) mainly with regard to land, buildings and technical equipment. For additional information on collateralized property, plant and equipment, see Note 24.

Jointly Owned Power Plants

E.ON holds joint ownership and similar contractual rights in certain power plants that are all independently financed by each respective participant. These jointly owned power plants were formed under ownership agreements or arrangements that did not create legal entities for which separate financial statements are prepared. They are therefore included in the financial statements of their owners. E.ON's share of the operating expenses for these facilities is included in the Consolidated Financial Statements.

The following table provides additional details about these plants, which are located in Germany unless otherwise indicated:

Name of plants by type	E.ON's Ownership interest in %	E.ON's Total acquisition cost (€ in millions)	E.ON's Accumulated depreciation & amortization (€ in millions)	E.ON's Construction work in progress (€ in millions)
Nuclear				
Isar 2	75.00	1,968	1,842	7
Gundremmingen B	25.00	100	83	—
Gundremmingen C	25.00	112	95	—
Lignite				
Lippendorf S	50.00	533	399	—
Hard Coal				
Bexbach 1	8.33	64	60	—
Trimble County 1 (U.S.)	75.00	459	176	7
Trimble County 2 (U.S.)	75.00	—	—	90
Rostock	50.38	317	292	—
Hydroelectric/Wind				
Nymølle Havspark/Rødsand (DK)	20.00	44	7	—
Nußdorf	53.00	55	41	—
Ering	50.00	31	28	—
Egglfing	50.00	47	43	—

c) Financial Assets

Impairment charges on financial assets during 2006 amounted to €367 million (2005: €47 million; 2004: €230 million). €335 million of this amount relates to interests in minority shareholdings with network operations in Germany, and resulted from the regulation of network charges.

Shares in Affiliated and Associated Companies Accounted for Under the Equity Method

The financial information below summarizes income statement and balance sheet data for the investments of the Company's affiliated and associated companies that are accounted for under the equity method. Separate summarized income statement data is presented for RAG, as this investment was considered a significant investment in 2004 under applicable rules of the U.S. Securities and Exchange Commission.

€ in millions	2006	thereof RAG	2005	thereof RAG	2004	thereof RAG
Sales	49,475	18,177	59,533	21,670	55,790	18,240
Net income	3,763	726	1,782	91	2,415	—
E.ON's share of net income/loss	1,332	284	550	36	881	—
Other (1)	(496)	(284)	(117)	(36)	(233)	—
Income from companies accounted for under the equity method	**836**	**—**	**433**	**—**	**648**	**—**

(1) 'Other' primarily includes adjustments to conform with E.ON accounting policies, amortization of fair value adjustments due to purchase price allocations and intercompany eliminations.

The increase in 2005 in income from companies accounted for under the equity method primarily related to the following one-time charges from the preceding year that did not recur. The equity-method accounting for E.ON's directly held 42.9 percent share of Degussa resulted in a net loss to E.ON of €215 million, mainly caused by the impairment of Degussa's Fine Chemicals division. In 2004, income from companies accounted for under the equity method included a gain of €107 million from the equity-method treatment of Degussa. The equity-method accounting of RAG Aktiengesellschaft ("RAG"), Essen, Germany, whose consolidated financial statements include Degussa, did not result in additional losses, as the carrying amount of E.ON's investment in RAG had already been written down to zero in 2003. Furthermore, included in the 2005 amounts are valuation adjustments of deferred tax assets at another at-equity holding of the Corporate Center of €96 million.

In 2006, the losses from companies accounted for under the equity method also included €81 million (2005: €1 million; 2004: €86 million) in impairment charges on goodwill of companies accounted for under the equity method. These impairment charges primarily related to companies with network operations, and they arose in connection with network regulation in Germany. Included in the 2006 amounts are €190 million in impairment charges recorded for minority shareholdings accounted for under the equity method in Germany as a result of the regulation of network charges.

Dividends received from affiliated and associated companies accounted for under the equity method were €912 million in 2006 (2005: €824 million; 2004: €834 million).

	December 31,	
€ in millions	**2006**	**2005**
Fixed assets	43,469	47,547
Non-fixed assets and prepaid expenses	27,348	32,165
Provisions	24,333	28,611
Liabilities and deferred income	26,863	30,307
Minority interests	736	2,152
Net assets	**18,885**	**18,642**
E.ON's share in equity	5,934	6,788
Other (1)	2,033	2,901
Investment in companies accounted for under the equity method	**7,967**	**9,689**

(1) 'Other' primarily includes adjustments to conform to E.ON accounting policies, goodwill, fair value adjustments due to purchase price allocations, intercompany eliminations and impairments.

The decrease in investments in companies accounted for under the equity method is due primarily to the sale of the interest in Degussa in 2006 (see also Note 4).

The book value of affiliated and associated companies accounted for under the equity method whose shares are marketable amounts to a total of €850 million (2005: €2,536 million). The fair value of E.ON's share in these companies is €2,401 million (2005: €5,493 million).

Additions of investments in associated and affiliated companies accounted for under the equity method resulted in a total goodwill of €57 million in 2006 (2005: €44 million).

Investments in associated companies totaling €76 million (2005: €71 million) were restricted because they were pledged as collateral for financing as of the balance sheet date.

Other Share Investments and Non-Current Available-for-Sale Securities

The amortized costs, fair values and gross unrealized gains and losses for other share investments and non-current available-for-sale securities, as well as the maturities of fixed-term securities as of December 31, 2006 and 2005, are summarized below:

	December 31, 2006				December 31, 2005			
€ in millions	Amortized cost	Fair value	Gross unrealized loss	Gross unrealized gain	Amortized cost	Fair value	Gross unrealized loss	Gross unrealized gain
Fixed-term securities								
Between 1 and 5 years	2,962	2,941	25	4	2,472	2,490	5	23
More than 5 years	3,310	3,241	72	3	2,747	2,865	3	121
Subtotal	**6,272**	**6,182**	**97**	**7**	**5,219**	**5,355**	**8**	**144**
Non-fixed-term securities	**2,600**	**13,207**	**—**	**10,607**	**2,624**	**10,032**	**1**	**7,409**
Total	**8,872**	**19,389**	**97**	**10,614**	**7,843**	**15,387**	**9**	**7,553**

The gross unrealized losses for these share investments and non-current available-for-sale securities are as follows:

	December 31, 2006					
	less than 12 months		12 months or greater		Total	
€ in millions	Fair value	Gross unrealized loss	Fair Value	Gross unrealized loss	Fair value	Gross unrealized loss
Fixed-term securities						
Between 1 and 5 years	2,265	25	3	—	2,268	25
More than 5 years	2,499	72	—	—	2,499	72
Subtotal	**4,764**	**97**	**3**	**—**	**4,767**	**97**
Non-fixed-term securities	**—**	**—**	**3**	**—**	**3**	**—**
Total	**4,764**	**97**	**6**	**—**	**4,770**	**97**

In 2006, amortized costs were written down in the amount of €112 million (2005: €15 million; 2004: €36 million).

The disposal of other share investments as well as non-current and current available-for-sale securities generated proceeds of €5,521 million in 2006 (2005: €5,350 million; 2004: €4,949 million) and capital gains of €651 million (2005: €398 million; 2004: €231 million). Included in this item are the gains from the derecognition of institutional securities funds as part of the transfer to the CTA in the amount of €159 million. The Company uses the specific identification method as a basis for determining these amounts.

Non-fixed-term securities include non-marketable investments or securities of €803 million (2005: €767 million).

For the other share investments that are marketable, gross unrealized gains of €10,582 million were recorded as of December 31, 2006 (2005: €6,814 million). The increase in fair value of other share investments that are marketable in 2006 was primarily attributable to the marking to market of the investment in OAO Gazprom ("Gazprom"), Moscow, Russia.

€1,169 million in non-current available-for-sale securities is restricted for the fulfillment of legal insurance obligations of VKE toward companies of the E.ON Group.

(12) Inventories

The following table provides details of inventories as of the dates indicated:

€ in millions	December 31, 2006	December 31, 2005
Raw materials and supplies by segment		
Central Europe	1,165	904
Pan-European Gas	25	28
U.K.	646	326
Nordic	257	223
U.S. Midwest	189	237
Total	**2,282**	**1,718**
Work in progress	**67**	**58**
Finished products	**1**	**10**
Goods purchased for resale	**1,640**	**671**
Inventories	**3,990**	**2,457**

Raw materials, finished products and goods purchased for resale are generally valued at average cost. Where this is not the case, the LIFO method is used, particularly for the valuation of natural gas inventories. In 2006, inventories valued according to the LIFO method amounted to €1,478 million (2005: €502 million). The increase in LIFO-method inventories is primarily due to the gas storage business of E.ON Földgáz Trade purchased in 2006.

Raw materials and supplies contain various emission rights that have a book value of €136 million (2005: €3 million).

The difference between valuation according to LIFO and higher replacement costs is €524 million (2005: €332 million).

(13) Receivables, Other Assets and Prepaid Expenses

The following table provides details of receivables, other assets and prepaid expenses:

€ in millions	December 31, 2006		December 31, 2005	
	With a remaining term up to 1 year	With a remaining term of more than 1 year	With a remaining term up to 1 year	With a remaining term of more than 1 year
Financial receivables from affiliated companies	287	159	115	251
Financial receivables from associated companies and other share investments	164	435	87	452
Other financial assets	966	800	858	1,356
Financial receivables and other financial assets	**1,417**	**1,394**	**1,060**	**2,059**
Trade receivables	9,756	—	8,179	90
Operating receivables from affiliated companies	70	—	62	—
Operating receivables from associated companies and other share investments	970	6	748	—
Reinsurance claim due from the mutual insurance fund Versorgungskasse Energie VVaG	—	—	80	1,495
U.S. regulatory assets	47	232	52	69
Other operating assets	7,065	3,105	8,832	1,747
Operating receivables and other operating assets	**17,908**	**3,343**	**17,953**	**3,401**
Prepaid expenses	429	210	227	129
Receivables, other assets and prepaid expenses	**19,754**	**4,947**	**19,240**	**5,589**

In 2006, other financial assets include receivables from owners of minority interests in jointly owned power plants of €609 million (2005: €688 million) and margin account deposits receivable of €135 million (2005: €30 million). In addition, in connection with the application of SFAS 143, other financial assets include a claim for a refund from the Swedish nuclear fund in the amount of €427 million (2005: €394 million) in connection with the decommissioning of nuclear power plants. Since this asset is designated for a particular purpose, E.ON's access to it is restricted.

As part of the elimination of intra-group balances, reinsurance claims within the E.ON Group with VKE were eliminated in consolidation.

In accordance with SFAS 71, assets that are subject to U.S. regulation are disclosed separately. For further information, please see Note 2.

Other operating assets include the positive fair values of derivative financial instruments in the amount of €4,450 million (2005: €7,349 million). The decrease in the positive fair values of the derivatives is primarily due to a decline in market prices. Also included here are tax refund claims of €2,983 million (2005: €553 million). Of this, €1,279 million consists of the initial capitalization of corporate tax credits under the SEStEG (see also Note 7). This line item further includes receivables related to E.ON Benelux's cross-border lease transactions for power plants amounting to €883 million (2005: €1,011 million) and accrued interest receivables of €555 million (2005: €544 million).

In 2005, other operating assets also included the excess of €309 million in the plan assets of the E.ON UK pension plans over the benefit obligations. Following the adoption of SFAS 158 effective December 31, 2006, plan assets in the Group exceeded benefit obligations by a total of €2 million. See Note 22 for additional information.

Valuation Allowances for Doubtful Accounts

The valuation allowances for doubtful accounts comprise the following for the periods indicated:

€ in millions	2006	2005
Balance as of January 1	**550**	**456**
Changes affecting income	139	37
Changes not affecting income	(64)	57
Balance as of December 31	**625**	**550**

Changes not affecting income are related to changes in the scope of consolidation, utilization and currency translation adjustments.

(14) Restricted Cash

Restricted cash, of which €18 million (2005: €31 million) has a maturity greater than three months, includes €74 million (2005: €54 million) in collateral deposited at banks, the purpose of which is to prevent the exhaustion of credit lines in connection with the marking to market of derivative transactions. The increase in restricted cash in 2006 was due primarily to the full consolidation of VKE, which contributed €458 million.

(15) Current Securities and Fixed-Term Deposits

The following table provides details of investments in securities and fixed-term deposits as of the dates indicated:

	December 31,	
€ in millions	2006	2005
Current securities with an original maturity greater than 3 months	4,399	3,996
Fixed-term deposits with an original maturity greater than 3 months	49	1,457
Current securities and fixed-term deposits	**4,448**	**5,453**

The amortized costs, fair values, gross unrealized gains and losses, as well as the maturities of the current available-for-sale securities as of the dates indicated, break down as follows:

	December 31, 2006				December 31, 2005			
€ in millions	Amortized cost	Fair value	Gross unrealized loss	Gross unrealized gain	Amortized cost	Fair value	Gross unrealized loss	Gross unrealized gain
Fixed-term securities								
Less than 1 year	259	257	2	—	406	433	1	28
Between 1 and 5 years	10	10	—	—	—	—	—	—
Subtotal	**269**	**267**	**2**	**—**	**406**	**433**	**1**	**28**
Non-fixed-term securities	**2,604**	**4,172**	**22**	**1,590**	**2,823**	**3,605**	**23**	**805**
Total	**2,873**	**4,439**	**24**	**1,590**	**3,229**	**4,038**	**24**	**833**

The gross unrealized losses attributable to these current available-for-sale securities break down as follows:

€ in millions	December 31, 2006					
	less than 12 months		12 months or greater		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Fixed-term securities						
Less than 1 year	221	2	—	—	221	2
Between 1 and 5 years	10	—	—	—	10	—
Subtotal	**231**	**2**	—	—	**231**	**2**
Non-fixed-term securities	**137**	**22**	—	—	**137**	**22**
Total	**368**	**24**	—	—	**368**	**24**

In 2006, amortized costs were written down in the amount of €7 million (2005: €32 million).

Non-fixed-term securities classified as current include €35 million in non-marketable securities (2005: €39 million).

The proceeds and gains from the disposal of available-for-sale securities are described in Note 11(c).

Current securities with an original maturity greater than three months include €566 million in securities held by VKE that are restricted for the fulfillment of legal insurance obligations toward companies of the E.ON Group.

(16) Cash and Cash Equivalents

Cash and cash equivalents include checks, cash on hand and balances in Bundesbank accounts and at other banking institutions with an original maturity of less than three months. Also included here are €40 million (2005: €42 million) in securities with an original maturity of less than three months.

(17) Capital Stock

The Company's authorized capital stock of €1,799,200,000 remains unchanged and consists of 692,000,000 ordinary shares issued without nominal value. The number of outstanding shares as of December 31, 2006, totaled 659,597,269 (2005: 659,153,552; 2004: 659,153,403).

Pursuant to a shareholder resolution approved at the Annual Shareholders Meeting held on May 4, 2006, the Board of Management is authorized to buy back outstanding shares up to an amount of 10 percent of E.ON AG's capital stock through November 4, 2007.

During 2006, E.ON AG purchased a total of 366 shares on the open market (2005: 344,304). These shares were distributed to employees. A further 443,717 own shares held by E.ON (2005: 308,704) were also distributed to employees. Of these, 443,290 went into the employee stock program. As of December 31, 2006, E.ON AG thus held a total of 3,930,537 treasury shares (2005: 4,374,254) having a book value of €230 million (equivalent to 0.57 percent or €10,219,396 of the capital stock). See Note 9 for further information on the employee stock purchase plan.

E.ON Energie AG acquired a total of 6,700 E.ON AG shares on the open market that were immediately tendered in lieu of payments to third parties.

An additional 28,472,194 shares of E.ON AG are held by one of its subsidiaries as of December 31, 2006 (2005: 28,472,194). These shares held by subsidiaries were acquired at the time of the VEBA/VIAG merger and considered treasury shares with no purchase price allocated to them.

Authorized Capital

At the Annual Shareholders Meeting on April 27, 2005, the Board of Management was authorized, subject to the Supervisory Board's approval, to increase the Company's capital stock by up to €540 million ("Article 202 ff. AktG Authorized Capital") through one or more issuances of new ordinary shares without nominal value in return for contributions in cash and/or in kind (with the option to exclude shareholders' subscription rights). This capital increase is authorized until April 27, 2010. Subject to the Supervisory Board's approval, the Board of Management is authorized to exclude shareholders' subscription rights.

At the Annual Shareholders Meeting of April 30, 2003, conditional capital (with the option to exclude shareholders' subscription rights) in the amount of €175.0 million ("Conditional Capital") was authorized until April 30, 2008. This Conditional Capital may be used to issue bonds with conversion or option rights and to fulfill conversion obligations towards creditors of bonds containing conversion obligations. The securities underlying these rights and obligations are either E.ON AG shares or those of companies in which E.ON AG directly or indirectly holds a majority stake.

(18) Additional Paid-in Capital

Additional paid-in capital results exclusively from share issuance premiums. As of December 31, 2006, additional paid-in capital amounts to €11,760 million (2005: €11,749 million). This represents an increase of €11 million since December 31, 2005. This increase is due to the issuance of 443,290 E.ON AG shares to employees.

The €3 million increase in 2005 resulted from the execution of the exchange offer for minority shareholders of Contigas.

(19) Retained Earnings

The following table provides details of the E.ON Group's retained earnings as of the dates indicated:

€ in millions	December 31, 2006	2005	2004
Legal reserves	45	45	45
Other retained earnings	26,259	25,816	19,958
Total	**26,304**	**25,861**	**20,003**

According to German securities law, E.ON AG shareholders can only receive distributions from the retained earnings of E.ON AG as defined by German GAAP, which are included in the Group's retained earnings under U.S. GAAP. As of December 31, 2006, these German-GAAP retained earnings amount to €4,593 million (2005: €4,231 million). Of these, legal reserves of €45 million (2005: €45 million) pursuant to Article 150 (3) and (4) AktG and reserves for own shares of €230 million (2005: €256 million) pursuant to Article 272 (4) HGB were not distributable on December 31, 2006. Accordingly, an amount of €4,318 million (2005: €3,930 million) is in principle available for dividend payments.

The Group's retained earnings as of December 31, 2006, include accumulated undistributed earnings of €910 million (2005: €617 million) from companies that have been accounted for under the equity method.

(20) Other Comprehensive Income

The components of other comprehensive income and the related tax effects as of the dates indicated are as follows:

€ in millions	December 31, 2006 Before tax	December 31, 2006 Tax effect	December 31, 2006 Net of tax	December 31, 2005 Before tax	December 31, 2005 Tax effect	December 31, 2005 Net of tax	December 31, 2004 Before tax	December 31, 2004 Tax effect	December 31, 2004 Net of tax
Foreign currency translation adjustments	55	(20)	35	536	78	614	139	(25)	114
Reclassification adjustments affecting income	132	—	132	6	—	6	11	—	11
Subtotal	**187**	**(20)**	**167**	**542**	**78**	**620**	**150**	**(25)**	**125**
Unrealized holding gains/(losses) from available-for-sale securities	4,161	(642)	3,519	5,709	(851)	4,858	1,349	(243)	1,106
Reclassification adjustments affecting income	(394)	14	(380)	(169)	9	(160)	(107)	(5)	(112)
Subtotal	**3,767**	**(628)**	**3,139**	**5,540**	**(842)**	**4,698**	**1,242**	**(248)**	**994**
Additional minimum pension liability	922	(576)	346	(580)	268	(312)	(935)	337	(598)
Cash flow hedges	(329)	108	(221)	65	(8)	57	89	(33)	56
Total	**4,547**	**(1,116)**	**3,431**	**5,567**	**(504)**	**5,063**	**546**	**31**	**577**

The change in unrealized gains from available-for-sale securities was primarily attributable to a €3,776 million (before tax) increase in the fair value of the investment in Gazprom.

Included in the 2006 reclassification adjustment recognized in income are gains totaling €159 million from the disposal of institutional securities funds carried out as part of the funding of the CTA (see also Note 22).

(21) Minority Interests

Minority interests as of the dates indicated are attributable to the following segments:

€ in millions	December 31, 2006	December 31, 2005
Central Europe	2,722	2,618
Pan-European Gas	289	255
U.K.	63	81
Nordic	1,698	1,659
U.S. Midwest	78	85
Corporate Center	67	36
Total	**4,917**	**4,734**

(22) Provisions for Pensions

E.ON and its subsidiaries maintain both defined benefit pension plans and defined contribution plans. Some of the latter are part of a multi-employer pension plan under EITF 90-3, "Accounting for Employers' Obligations for Future Contributions to a Multi-employer Pension Plan," for approximately 6,000 beneficiaries at the Nordic market unit.

Pension benefits are primarily based on compensation levels and years of service. Most Germany-based employees who joined the Company prior to 1999 participate in a final-pay arrangement, under which their retirement benefits depend in principle on their final salary (averaged over the last years of employment) and on years of service, but years of service beyond 2004 are now often no longer considered in these plans. Employees who joined the Company in or after 1999 and years of service beyond 2004 are mostly covered by a cash balance pension plan, under which regular payroll deductions are actuarially converted into pension units. For employees in defined contribution pension plans, under which the Company pays fixed contributions to an outside insurer or pension fund, the amount of the benefit depends on the value of each employee's individual pension claim at the time of retirement from the Company.

SFAS 158, which was adopted at the end of 2006, requires recognition of the overfunded or underfunded status of a defined benefit pension plan, measured as the difference between the fair value of plan assets and the benefit obligation. In adopting SFAS 158, as illustrated in the following table, unrecognized actuarial gains or losses that have not been recognized to date and prior unrecognized service costs were recognized, net of tax, as a component of accumulated other comprehensive income. This resulted in an increase in deferred tax assets of €254 million.

€ in millions	December 31, 2006 Before adjustment of minimum liability and adoption of SFAS 158	Adjustment of minimum liability	Adoption of SFAS 158	December 31, 2006 After adjustment of minimum liability and adoption of SFAS 158
Intangible assets	10	—	(10)	—
Other operating assets	405	—	(403)	2
Provisions for pensions	3,920	(529)	494	3,885
Accumulated other comprehensive income	(1,402)	346	(550)	(1,606)

€2,372 million of the amounts recognized as accumulated other comprehensive income before tax effects is attributable to actuarial losses, while €19 million is the result of prior service cost. Of these amounts, it is expected that actuarial losses of €73 million and prior service cost in the amount of €5 million in total net pension costs will be recorded in income through amortization in 2007.

The following table illustrates the change in the benefit obligation, as measured by the projected benefit obligation, for the periods indicated.

	2006			2005		
€ in millions	Total	Domestic	Foreign	Total	Domestic	Foreign
Projected benefit obligation as of January 1	**17,712**	**9,144**	**8,568**	**15,918**	**8,255**	**7,663**
Employer service cost	288	173	115	232	144	88
Interest cost	767	361	406	777	372	405
Change in scope of consolidation	1	8	(7)	(375)	(197)	(178)
Prior service cost	9	—	9	32	15	17
Actuarial gains (−)/losses	(739)	(433)	(306)	1,618	958	660
Exchange rate differences	51	—	51	352	—	352
Other	5	3	2	—	—	—
Pensions paid	(847)	(416)	(431)	(842)	(403)	(439)
Projected benefit obligation as of December 31	**17,247**	**8,840**	**8,407**	**17,712**	**9,144**	**8,568**

The disposals of Viterra (€228 million) and Ruhrgas Industries (€179 million) were mainly responsible for the change shown as "Change in scope of consolidation" in 2005.

Actuarial gains in 2006 resulted primarily from the increase of the discount rate. This led to a relative decrease of the projected benefit obligation.

The amount disclosed for 2005 was not adjusted for discontinued operations in order to maintain comparability. Accordingly, this gives rise to differences in the presentation of net periodic pension costs for 2005.

Of the entire benefit obligation, €164 million (2005: €187 million) is related to health care benefits.

The changes in plan assets are shown in the following table:

€ in millions	2006 Total	2006 Domestic	2006 Foreign	2005 Total	2005 Domestic	2005 Foreign
Fair value of plan assets as of January 1	**8,097**	**307**	**7,790**	**6,399**	**316**	**6,083**
Actual return on plan assets	489	80	409	1,198	15	1,183
Company contributions	5,241	5,126	115	733	—	733
Employee contributions	21	—	21	17	—	17
Change in scope of consolidation	(3)	—	(3)	(58)	(11)	(47)
Exchange rate differences	86	—	86	262	—	262
Pensions paid	(575)	(146)	(429)	(451)	(13)	(438)
Other	8	—	8	(3)	—	(3)
Fair value of plan assets as of December 31	**13,364**	**5,367**	**7,997**	**8,097**	**307**	**7,790**
Funded status	**3,883**	**3,473**	**410**	**9,615**	**8,837**	**778**

Foreign plan assets are primarily attributable to the E.ON UK pension plans (€7,423 million; 2005: €7,197 million).

In 2005, E.ON Pension Trust e.V. and Pensionsabwicklungstrust e.V., both registered in Grünwald, Germany, were formed in order to establish a so-called Contractual Trust Arrangement (CTA) for German subsidiaries. The purpose of these trusts is the fiduciary administration of funds to provide for future retirement benefits to employees of certain German Group companies, as well as former employees and their beneficiaries. During 2006, assets in the form of fixed-term deposits and existing institutional securities funds ("Spezialfonds") with a total value of €5.1 billion were contributed into the CTA.

Company contributions for 2005 include payments of €629 million to the E.ON Holding Group of the Electricity Supply Pension Scheme (ESPS) as part of the merger of four previously autonomous pension plans of E.ON UK. The payment covered a significant portion of the actuarial deficit and improved financing across the pension plan.

For 2007, it is expected that the overall Company contribution to plan assets will include €76 million (2005: €47 million) to guarantee the minimum plan asset values stipulated by law or by-laws, as well as €310 million in voluntary contributions (2005: €40 million), of which €234 million represents planned subsequent funding of the CTA.

The deconsolidation of Viterra (€13 million) and Ruhrgas Industries (€40 million) were mainly responsible for the change shown as "Change in scope of consolidation" in 2005.

The investment objective for the pension plan assets is to provide full coverage of benefit obligations at all times for the corresponding pension plans. Plan assets do not include any shares in E.ON Group companies.

In particular in the United Kingdom and in Germany, a liability-driven investments (LDI) approach is used, that is, the majority of plan assets is invested in long-term interest-bearing investments for purposes of hedging interest-rate risks arising from pension liabilities. In addition, appropriate instruments (inflation-indexed bonds, inflation swaps) may be used to hedge inflation risks. The long-term investment strategy and the associated expected rate of return on plan assets for the various pension plans takes into consideration, among other things, the duration (maturity structure), the benefit obligations, the minimum capital reserve requirements and, if applicable, other relevant factors. In the future, in order to improve the funded status, i.e., the difference between the projected benefit obligations for all pension plans and the fair value of plan assets, a portion of the funds will be invested in asset classes that provide for returns in excess of those of fixed-income investments.

The following returns were achieved on the different plan assets in 2006:

in %	
Germany	3.0
United Kingdom	4.9
United States	11.0

The determination of the target portfolio structure is based on regular asset-liability studies. In these studies, the target portfolio structure is reviewed under consideration of market and obligation developments and is adjusted as necessary.

The current allocation of plan assets to asset categories and the target portfolio structure are as follows:

	Target portfolio		December 31, 2006		December 31, 2005	
in %	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Equity securities	11	23	1	29	13	46
Debt securities	69	68	3	63	76	47
Real estate	10	9	4	5	3	5
Fixed-term deposits	—	—	91	—	—	2
Other	10	—	1	3	8	—

Investments in debt securities are undertaken either in the form of bonds or synthetically, by combining money-market investments and interest-rate swaps.

As of December 31, 2006, the fair value of plan assets equaled 77 percent of the projected benefit obligation (2005: 46 percent).

The funded status is reconciled with the provisions shown on the balance sheet as follows:

	December 31,	
€ in millions	2006	2005
Funded status (represents in 2006 net amount recognized)	3,883	9,615
Unrecognized actuarial loss	—	(3,192)
Unrecognized prior service cost	—	(27)
Net amount recognized	**3,883**	**6,396**

The amounts recognized on the balance sheet are as follows:

	December 31,	
€ in millions	2006	2005
Provisions for pensions	3,885	8,720
thereof current	116	430
thereof non-current	3,769	8,290
Intangible assets	—	(29)
Accumulated other comprehensive income	—	(1,986)
Other operating assets	(2)	(309)
Net amount recognized	**3,883**	**6,396**

Because under SFAS 158 the funded status is reported on the balance sheet, the obligation to recognize a minimum pension liability no longer applies; in the past, if an intangible asset was not to be capitalized, it was recognized as accumulated other comprehensive income.

The accumulated benefit obligation for all defined benefit pension plans amounted to €16,126 million (2005: €16,475 million) on December 31, 2006.

Provisions for pensions shown on the balance sheet as of December 31, 2006, include obligations from postretirement health care benefits in the amount of €145 million (2005: €153 million), mainly for Market Unit U.S. companies. Allowances are made for increases in the costs of health care benefits amounting to 10.0 percent in the short term and 5.0 percent in the long term.

The total net periodic defined benefit pension cost is detailed in the table below. Amounts for 2005 are adjusted to reflect effects of discontinued operations.

€ in millions	2006	2005	2004
Employer service cost	268	214	189
Interest cost	767	777	783
Expected return on plan assets	(536)	(448)	(422)
Prior service cost	16	33	25
Net amortization of actuarial gains (−)/losses	125	85	40
Total	**640**	**661**	**615**

The net periodic pension cost shown includes an amount of €14 million in 2006 (2005: €13 million; 2004: €17 million) for retiree health care benefits. A one-percentage-point increase or decrease in the assumed health care cost trend rate would affect the interest and service components and result in a change in net periodic pension cost of +€0.7 million or −€0.7 million, respectively. The resulting accumulated post retirement benefit obligation would change by +€7.4 million or −€6.6 million, respectively.

In addition to total net periodic pension cost, an amount of €54 million in 2006 (2005: €54 million; 2004: €52 million) was incurred for defined contribution pension plans and other retirement provisions, under which the Company pays fixed contributions to external insurers or similar institutions.

Prospective undiscounted pension payments for the next ten years are shown in the following table:

€ in millions	
2007	883
2008	909
2009	938
2010	958
2011	985
2012-2016	5,117
Total	**9,790**

The Company uses the 2005 revisions of the Klaus Heubeck biometric tables ("Richttafeln"), the industry standard for calculating company pension obligations in Germany, for the valuation of domestic pension liabilities.

The discount rate assumptions used by E.ON reflect the rates available for high-quality fixed-income investments during the period to maturity of the pension benefits in the respective market units at the end of the respective fiscal year.

Actuarial values of the pension obligations of the principal German, U.K. and U.S. subsidiaries were computed based on the following average assumptions for each region:

	December 31, 2006				December 31, 2005			
	Germany		United Kingdom	United States	Germany		United Kingdom	United States
in %	CTA plans	Other			CTA plans	Other		
Discount rate	4.50	4.50	5.10	5.95	—	4.00	4.80	5.50
Salary increase rate	2.75	2.75	4.00	5.25	—	2.75	4.00	5.25
Expected return on plan assets	4.90	4.50	5.90	8.25	—	4.00	5.50	8.25
Pension increase rate	1.50	1.50	3.00	—	—	1.50	2.80	—

The expected return on plan assets is based on external asset liability management studies, which are updated on a regular basis. Returns are estimated using the "building block method" for each asset category.

The calculation of the expected return on assets for the CTA plans takes into account the gradual implementation of the investment process in 2007; the long-term objective is a return on plan assets of 5.4 percent.

(23) Other Provisions

Immediately below is a brief description of the asset retirement obligations in accordance with SFAS 143. The subsequent sections contain more detailed information about the other provisions as a whole.

Description of Asset Retirement Obligations

As of December 31, 2006, E.ON's asset retirement obligations included:

- retirement costs shown in sub-items 1ab) and 1ba) for decommissioning of nuclear power plants in Germany in the amount of €8,515 million (2005: €8,400 million) and in Sweden in the amount of €473 million (2005: €403 million),
- reclamation measures reported under sub-item 8) related to the sites of non-nuclear power plants, including removal of electricity transmission and distribution equipment in the amount of €390 million (2005: €388 million), and
- reclamation at gas storage facilities in the amount of €157 million (2005: €90 million) and at opencast mining facilities in the amount of €59 million (2005: €61 million) as well as the decommissioning of oil and gas field infrastructure in the amount of €354 million (2005: €319 million). These obligations are also reported under sub-item 8).

€ in millions	2006	2005
Balance as of January 1	**9,661**	**9,348**
Liabilities incurred in the current period	68	37
Liabilities settled in the current period	(161)	(181)
Changes in scope of consolidation	24	33
Accretion	524	511
Revision in estimated cash flows	(187)	(126)
Other changes	19	39
Balance as of December 31	**9,948**	**9,661**

Interest resulting from the accretion of asset retirement obligations is shown in financial earnings, net (see Note 6).

Other Provisions

The following table lists other provisions as of the dates indicated:

€ in millions	December 31, 2006 current	December 31, 2006 non-current	December 31, 2005 current	December 31, 2005 non-current
Provisions for nuclear waste management (1)	375	13,271	431	12,931
Disposal of nuclear fuel rods	*202*	*4,883*	*279*	*4,724*
Asset retirement obligation (SFAS 143)	*165*	*8,823*	*143*	*8,660*
Waste disposal	*8*	*459*	*9*	*416*
less advance payments	—	*(894)*	—	*(869)*
Provisions for taxes (2)	1,721	2,330	1,948	1,052
Provisions for personnel costs (3)	726	637	729	811
Provisions for supplier-related contracts (4)	2,802	268	1,949	201
Provisions for customer-related contracts (5)	229	43	254	52
U.S. regulatory liabilities (6)	27	467	—	505
Provisions for environmental remediation (7)	14	516	16	293
Provisions for environmental improvements, including land reclamation (8)	310	1,462	47	1,678
Miscellaneous (9)	1,598	1,412	656	1,589
Total	**7,802**	**20,406**	**6,030**	**19,112**

Of these other provisions, €14,833 million (2005: €14,457 million) bear interest.

1) Provisions for Nuclear Waste Management

a) Germany

Provisions for nuclear waste management comprise costs for the disposal of spent nuclear fuel rods, the retirement and decommissioning of nuclear and non-nuclear power plant components and the disposal of low-level nuclear waste.

The provisions for nuclear waste management stated above are net of advance payments of €894 million in 2006 (2005: €869 million). The advance payments are prepayments to nuclear fuel reprocessors and to other waste management companies, as well as to governmental authorities, relating to reprocessing of spent fuel rods and the construction of permanent storage facilities. Provisions for the costs of nuclear fuel rod disposal, of nuclear power plant decommissioning, and of the disposal of low-level nuclear waste also include the costs for the permanent storage of radioactive waste.

Permanent storage costs include investment, operating and financing costs for the planned permanent storage facilities Gorleben and Konrad and are based on Germany's ordinance on advance payments for the establishment of federal facilities for the safe custody and final storage of radioactive wastes ("Endlagervorausleistungs-verordnung") and on data from the German Federal Office for Radiation Protection ("Bundesamt für Strahlenschutz"). Advance payments are made each year in the amount spent by the Bundesamt für Strahlenschutz.

In calculating the provisions for nuclear waste management, the Company has also taken into account the effects of the nuclear energy agreement reached by the German government and the country's major energy utilities on June 14, 2000, and the related agreement signed on June 11, 2001.

aa) Management of Spent Nuclear Fuel Rods

The requirement for spent nuclear fuel reprocessing and disposal/storage is based on the German Nuclear Power Regulations Act ("Atomgesetz"). Operators may, in general, either reprocess or permanently store nuclear waste. The option to ship material for reprocessing ended on June 30, 2005; since then, spent nuclear fuel rods have been disposed of exclusively through permanent storage.

There are contracts in place between E.ON Energie and two large European fuel reprocessing firms, British Nuclear Group Sellafield Ltd, Daresbury, Warrington, United Kingdom, and AREVA NC S.A. (formerly Cogema), Vélizy, France, for the reprocessing of spent nuclear fuel from its German nuclear plants. The radioactive waste that results from reprocessing will be returned to Germany to be temporarily stored in an authorized storage facility. Permanent storage is also expected to occur in Germany.

The provision for the unsettled costs of reprocessing nuclear fuel rods transported through June 30, 2005, includes the costs for all components of the reprocessing requirements, particularly

- the costs of fuel reprocessing and
- the costs of outbound transportation and the intermediate storage of nuclear waste.

The cost estimates are based primarily on existing contracts.

Provisions for the costs of permanent storage of used fuel rods 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 provision for the management of used fuel rods is provided over the period in which the fuel is consumed to generate electricity.

ab) Nuclear Plant Decommissioning

The obligation with regard to the nuclear portion of nuclear plant decommissioning is based on the aforementioned Atomgesetz, while the obligation for the non-nuclear portion depends upon legally binding civil agreements and public regulations, as well as other agreements.

The provision for the costs of nuclear plant decommissioning includes the expected costs for run-out operation, closure and maintenance of the facility, dismantling and removal of both the nuclear and non-nuclear components of the plant, conditioning, and temporary and final storage of contaminated waste. The expected decommissioning and storage costs are based upon studies performed by external specialists and are updated regularly.

ac) Waste from Plant Operations

The provision for the costs of the disposal of low-level nuclear waste covers all expected costs for the conditioning of low-level waste that is generated in the operation of the facilities.

b) Sweden

Under Swedish law, E.ON Sverige is required to pay fees to the country's national fund for nuclear waste management. Each year, the Swedish Nuclear Power Inspectorate calculates the fees for the disposal of high-level radioactive waste and nuclear power plant decommissioning based on the amount of electricity produced at the particular nuclear power plant. The proposed fees are then submitted to government offices for approval. Upon approval, E.ON Sverige makes the corresponding payments.

ba) Decommissioning

Due to the adoption of SFAS 143 on January 1, 2003, an asset retirement obligation for decommissioning was recognized. Since in the past, fees have been paid to the national fund for nuclear waste management, a compensating receivable relating to these decommissioning costs was recorded under "Other assets" on January 1, 2003.

bb) Nuclear Fuel Rods and Nuclear Waste in Sweden

The required fees for high-level radioactive waste paid to the national fund for nuclear waste management are shown as an expense.

In the case of low-level and medium-level radioactive waste, a joint venture owned by Swedish nuclear power plant operators charges annual fees based on actual waste management costs. The Company records the corresponding payments to this venture as an expense.

c) United Kingdom and United States

Neither the U.K. nor the U.S. Midwest Market Unit operates any nuclear power plants. They are therefore not required to make payments or record liabilities similar to those described above with respect to Germany.

2) Taxes

Provisions for taxes relate primarily to domestic and foreign corporate income taxes due in the current year, and also to any tax obligations that might arise from preceding years. Tax obligations from preceding years consist of provisions for audit periods that are still open and relate primarily to the tax recognition of provisions for the disposal of radioactive waste in Germany. Tax provisions are generally calculated on the basis of the respective tax legislation of the countries in which the Company operates, and due consideration is given to all known circumstances.

3) Personnel Liabilities

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

4) Supplier-Related Liabilities

Provisions for supplier-related liabilities consist primarily of provisions for goods and services received but not yet invoiced and for potential losses from purchase obligations. Provisions for goods and services received but not yet invoiced represent obligations related to the purchase of goods that have been received and services that have been rendered, but for which an invoice has not yet been received.

5) Customer-Related Liabilities

Provisions for customer-related liabilities consist primarily of potential losses on open sales contracts. Also included are provisions for warranties, as well as for rebates, bonuses and discounts.

6) U.S. Regulatory Liabilities

Pursuant to SFAS 71 (see Note 2), liabilities that result from U.S. regulation are reported separately.

7) Environmental Remediation

Provisions for environmental remediation refer primarily to redevelopment and water protection measures and to the rehabilitation of contaminated sites.

8) Environmental Improvements and Similar Liabilities, including Land Reclamation

Provisions for environmental improvements and similar liabilities primarily include asset retirement obligations pursuant to SFAS 143 in the amount of €960 million (2005: €858 million). Also included are provisions for reversion of title, other environmental improvements and reclamation liabilities.

In addition, there are certain conditional asset retirement obligations. The type, scope, timing and associated probabilities cannot be estimated reasonably, meaning that even the application of an expected present value technique would not produce reasonable estimates of fair values. Under FIN 47, no provisions are recognized for such circumstances.

9) Miscellaneous

Miscellaneous other provisions primarily include provisions arising from the electricity and gas business, of which €551 million relates to the risk of retroactive application of lower network charges resulting from the regulation of network charges in Germany. They further include provisions for obligations arising from the acquisition and disposal of businesses, provisions from emissions trading systems and provisions for tax-related interest expenses.

(24) Liabilities and Deferred Income

€ in millions	December 31, 2006 current	December 31, 2006 non-current	December 31, 2005 current	December 31, 2005 non-current
Financial liabilities	3,440	9,959	3,807	10,555
Operating liabilities	14,287	4,927	13,302	5,750
Deferred income	317	919	202	615
Total	**18,044**	**15,805**	**17,311**	**16,920**

The following table provides details of liabilities as of the dates indicated:

€ in millions	December 31, 2006 Total	2006 With a remaining term of up to 1 Year	2006 1 to 5 Years	2006 over 5 Years	2006 Average interest rate up to 1 Year (in %)	December 31, 2005 Total	2005 With a remaining term of up to 1 Year	2005 1 to 5 Years	2005 over 5 Years	2005 Average interest rate up to 1 Year (in %)
Bonds (including Medium Term Note programs)	9,003	540	5,005	3,458	6,1	9,538	732	5,195	3,611	5,7
Commercial paper	366	366	—	—	3,9	—	—	—	—	—
Bank loans/Liabilities to banks	1,237	353	691	193	4,6	1,530	424	729	377	5,0
Bills payable	35	33	2	—	4,8	42	—	42	—	—
Other financial liabilities	751	177	144	430	4,7	1,306	742	165	399	2,7
Financial liabilities to banks and third parties	**11,392**	**1,469**	**5,842**	**4,081**		**12,416**	**1,898**	**6,131**	**4,387**	
Financial liabilities to affiliated companies	154	147	1	6	4.3	134	128	—	6	3.1
Financial liabilities to associated companies and other share investments	1,853	1,824	12	17	5.0	1,812	1,781	12	19	4.4
Financial liabilities to group companies	**2,007**	**1,971**	**13**	**23**		**1,946**	**1,909**	**12**	**25**	
Financial liabilities	**13,399**	**3,440**	**5,855**	**4,104**		**14,362**	**3,807**	**6,143**	**4,412**	
Accounts payable	5,305	5,305	—	—		5,288	5,272	16	—	
Operating liabilities to affiliated companies	123	75	3	45		105	59	3	43	
Operating liabilities to associated companies and other share investments	222	201	13	8		188	98	70	20	
Capital expenditure grants	267	23	83	161		270	19	96	155	
Construction grants from energy consumers	3,471	361	1,279	1,831		3,674	420	736	2,518	
Advance payments	409	400	1	8		488	488	—	—	
Other operating liabilities	9,417	7,922	1,256	239		9,039	6,946	668	1,425	
thereof taxes	871	871				614	614			
thereof social security contributions	108	108				63	63			
Operating liabilities	**19,214**	**14,287**	**2,635**	**2,292**		**19,052**	**13,302**	**1,589**	**4,161**	
Liabilities	**32,613**	**17,727**	**8,490**	**6,396**		**33,414**	**17,109**	**7,732**	**8,573**	

Financial Liabilities

The following is a description of the E.ON Group's significant credit arrangements and debt issuance programs. Outstanding amounts under credit lines and bank loans are disclosed in the table above as "Bank loans/ Liabilities to banks". Issuances under a Medium Term Note program ("MTN program") and issuances of commercial paper are disclosed in the corresponding line item.

These 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. 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.

In addition, E.ON has numerous additional financing arrangements that are not individually significant and that are summarized below grouped by segment and type of arrangement. These other arrangements also include covenants and provide for various events of default that are generally in line with industry standard terms for similar borrowings. 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.

Corporate Center

€20 billion Medium Term Note Program

The existing €20 billion MTN program allows E.ON AG and certain wholly owned subsidiaries, under the unconditional guarantee of E.ON AG, to periodically issue debt instruments through public and private placements to investors. Notes issued under the program are listed on the Luxembourg Stock Exchange. At year-end 2006, the following bonds were outstanding:

- €4.25 billion issued by E.ON International Finance with a coupon of 5.75 percent and a maturity in May 2009
- €0.9 billion issued by E.ON International Finance with a coupon of 6.375 percent and a maturity in May 2017
- GBP 500 million or €746 million issued by E.ON International Finance with a coupon of 6.375 percent and a maturity in May 2012
- GBP 0.975 billion or €1.455 billion issued by E.ON International Finance with a coupon of 6.375 percent and a maturity in June 2032

The MTN documentation and the documentation of the outstanding bonds are customary for such financing programs and instruments.

€10 billion Commercial Paper Program

The existing €10 billion commercial paper program allows E.ON AG and certain wholly owned subsidiaries, under the unconditional guarantee of E.ON AG, to periodically issue commercial paper with maturities of up to 729 days to investors. As of December 31, 2006, €123 million in commercial paper was outstanding under the program (2005: €0 million).

€10 billion Syndicated Multi-Currency Revolving Credit Facility Agreement

Under the existing €10 billion revolving credit facility, E.ON AG and certain subsidiaries, each under the unconditional guarantee of E.ON AG, may make borrowings in various currencies in an aggregate amount of up to €10 billion. The facility is divided into Tranche A, a revolving credit facility in the amount of €5 billion, and Tranche B, a revolving credit facility also in the amount of €5 billion. Tranche A has a maturity date of November 29, 2007. Tranche B was extended to December 2, 2011 (with an amount of €4.847 billion maturing in 2011 and an amount of €0.153 billion maturing in 2010). Drawings under Tranche A bear interest equal to EURIBOR or LIBOR for the respective currency plus a margin of 12.5 basis points and drawings under Tranche B bear interest equal to EURIBOR or LIBOR for the respective currency plus a margin of 15 basis points. As of December 31, 2006, there were no borrowings outstanding under this facility (2005: €0 million).

€37.1 billion Syndicated Term and Guarantee Facility Agreement

In order to finance the offer for Endesa, E.ON entered into a Euro syndicated term and guarantee facility agreement on February 20, 2006, for a total amount of €32 billion. Following the announcement by E.ON that it intends to increase its offer, a new Euro syndicated term and guarantee facility agreement for a total amount of €37.1 billion was entered into by E.ON as borrower on October 16, 2006. Advances under the facility agreement may only be used for the settlement of the offer for Endesa and related costs, as well as for the repayment of Endesa's indebtedness. The initial purpose of the facility is the issue of guarantees ("Avales"). Spanish law requires that public bids be supported by unconditional financial guarantees issued in favor of the Spanish stock market regulator CNMV for the full amount of the cash offer. For further information please refer to Note 33.

The facility is divided into two tranches: Tranche A (2/3 of the facility amount or €24.7 billion) with a maturity date of February 18, 2008, and Tranche B (1/3 of the facility amount or €12.4 billion) with a maturity date of February 20, 2009. In respect of utilization for Avales, the guarantee commission is equal to EURIBOR plus a margin of 22.5 basis points. The rate of interest for advances will be determined based on a rating ratchet. As of December 31, 2006, the facility was used for Avales with an outstanding amount of €26.9 billion.

Bilateral Credit Lines

At year-end 2006, E.ON AG had committed short-term credit lines of €180 million (2005: €180 million) with maturities of up to one year and variable interest rates of up to 25 basis points above EURIBOR. In addition, E.ON AG had several uncommitted short-term credit lines. E.ON AG had no outstanding balances under these lines at the end of 2006 and 2005.

As of December 31, 2006, E.ON North America Inc., New York, U.S., a wholly-owned subsidiary of E.ON AG, had a USD 50 million credit facility. This is an overdraft loan facility to be used for short-term overnight general corporate use. The rate charged on the daily loan balance is 8 basis points over the Federal Funds Rate. There was no outstanding balance under this line at the end of 2006 and 2005.

Central Europe

Bank Loans, Credit Facilities

As of December 31, 2006, the Central Europe market unit had committed credit lines of €201.7 million (2005: €348 million). The credit lines may be used for general corporate purposes. In particular, they serve as back-up facilities for letters of credit and bank guarantees. In addition, Central Europe had uncommitted short-term credit lines with various banks. Under the credit lines, €1.2 million was outstanding at year-end 2006 (2005: €180 million). Most of the credit lines do not have a specific maturity. Interest rates for unanticipated drawdowns of facilities reach up to 8 percent. Planned use of the facilities is subject to interest at variable money-market rates plus a margin of up to 175 basis points.

Bank loans have been used by the Central Europe market unit primarily to finance specific projects or investment programs and include subsidized credit facilities from national and international financing institutions. Bank loans (including short-term credit lines) amounted to €1,039 million as of December 31, 2006 (2005: €1,109 million).

Pan-European Gas

Long-Term Loans

In the period from 1997 to 2003, Pan-European Gas subsidiary Ferngas Nordbayern GmbH obtained long-term loans from banks totaling €84 million. The loans each have a maturity of up to 10 years with annual or quarterly repayments. The outstanding amount as of December 31, 2006, was approximately €11.6 million (2005: €15 million). The interest rates for these loans vary between 4.1 and 5.98 percent (on average, about 5.1 percent).

In addition, E.ON Ruhrgas obtained four long-term bilateral loans from banks since 1999 in the aggregate amount of €280 million with original maturities of 5 to 15 years and repayable at maturity. The entire amount of €140 million outstanding under the loans as of January 1, 2005, was repaid prior to maturity during 2005. The corresponding loss on extinguishment in 2005 totaled €18 million.

U.K.

Bonds

As of December 31, 2006, the U.K. market unit had several outstanding bonds. Only a portion of the bonds still outstanding was held by investors external to the E.ON Group, as detailed below:

- GBP 250 million or €373 million bond issued by E.ON UK plc with a coupon of 6.25 percent maturing in April 2024, of which GBP 8 million or €12 million was held by external investors
- GBP 150 million or €224 million issued by Central Networks plc (previously Midlands Electricity plc, a wholly-owned subsidiary of E.ON UK plc) with a coupon of 7.375 percent maturing in November 2007, of which GBP 0.4 million or approximately €0.6 million was held by external investors
- €500 million Eurobond issued by E.ON UK plc with a coupon of 5.0 percent maturing in July 2009, of which €264 million was held by external investors
- USD 410 million or €311 million Yankee Bond issued by Powergen (East Midlands) Investments, London, U.K., with a coupon of 7.45 percent maturing in May 2007, of which USD 173 million or €131 million was held by external investors

Nordic

E.ON Sverige Medium Term Note Program

A domestic MTN program was established by Sydkraft, now E.ON Sverige, in 1999 and was increased in 2003 to a maximum allowed outstanding amount of SEK 13 billion. The facility is renewed every year and allows for borrowings in various currencies with a maturity of up to 15 years with various interest rate structures. The outstanding amount as of December 31, 2006, was SEK 5,707 million or €631 million (2005: SEK 6,601 million or €703 million).

E.ON Sverige Commercial Paper Programs

Established in 1990, the domestic commercial paper program of Sydkraft, now E.ON Sverige, was increased in 1999 to a maximum allowed outstanding amount of SEK 3 billion and again in 2006 increased to a maximum outstanding amount of SEK 5 billion. Borrowings can be made for terms of up to 360 days. The outstanding amount as of December 31, 2006, was SEK 1,691 million or €187 million (2005: SEK 0 million or €0 million).

A Euro commercial paper program was established by Sydkraft, now E.ON Sverige, in 1990 with a maximum allowed outstanding amount of USD 200 million. Borrowings can be made in various currencies for terms of up to 360 days. The outstanding amount as of December 31, 2006, was €56 million (2005: €0 million).

Bank Loans, Credit Facilities

E.ON Sverige has obtained bilateral loans from credit institutions at variable money-market rates, with a floating rate spread of 21.5 and 42.5 basis points over the Stockholm Interbank Offered Rate (STIBOR), respectively, and maturities of up to ten years. As of December 31, 2006, the aggregate amount outstanding was SEK 489 million or €54 million (2005: SEK 1,349 million or €144 million). These loans have mainly been used to finance specific investments.

U.S. Midwest

Bonds and Medium Term Note Programs

E.ON U.S. Capital Corp. ("E.ON U.S. Capital"), Louisville, Kentucky, U.S., has an MTN program under which it was authorized to issue initially up to USD 1.05 billion in bonds. Amounts repaid may not be reborrowed. As of December 31, 2006, the amount outstanding under the program was USD 26 million or €20 million (2005: USD 300 million or €254 million), leaving USD 400 million available for future issuance. The average interest rate for issues under this program for 2006 was 7.00 percent, and maturities range from 2008 to 2011. In July 2006 E.ON U.S. Capital completed a tender offer and consent in which USD 274 million of the notes were repurchased. As part of this process, virtually all covenants of the MTN program were eliminated.

In addition, as of December 31, 2006, bonds in the amount of USD 574 million or €436 million (2005: USD 574 million or €486 million) were outstanding at LG&E and bonds in the amount of USD 359 million or €273 million (2005: USD 362 million or €307 million) were outstanding at Kentucky Utilities, with fixed interest rates as well as with variable interest rates. The one remaining fixed rate bond has an interest rate of 7.92 percent, while the average interest rate on the variable rate bonds was less than 3.50 percent in 2006. On the LG&E bonds, maturities range from 2013 to 2035, and on the Kentucky Utilities bonds, maturities range from 2007 to 2036. The LG&E and Kentucky Utilities bonds are collateralized by a lien on substantially all of the assets of the respective companies.

Bilateral Credit Lines, Bank Loans

LG&E has five revolving lines of credit with banks totaling USD 185 million or €140 million. These credit facilities expire in June 2007, and there was no outstanding balance under any of these facilities on December 31, 2006 (2005: €0 million).

As of December 31, 2006, E.ON's financial liabilities to banks and third parties had the following maturities:

€ in millions	Repayment in 2007	Repayment in 2008	Repayment in 2009	Repayment in 2010	Repayment in 2011	Repayment after 2011	Total
Bonds (including MTN programs)	540	184	4,512	307	2	3,458	9,003
Commercial paper	366	—	—	—	—	—	366
Bank loans/Liabilities due to banks	353	80	62	45	504	193	1,237
Bills payable	33	2	—	—	—	—	35
Other financial liabilities	177	100	22	12	10	430	751
Financial liabilities to banks and third parties	**1,469**	**366**	**4,596**	**364**	**516**	**4,081**	**11,392**
Used credit lines	125	—	—	—	—	1	126
Unused credit lines	5,964	1	1	153	4,848	2	10,969
Used and unused credit lines (1)	**6,089**	**1**	**1**	**153**	**4,848**	**3**	**11,095**

(1) Amount does not include the €37.1 billion syndicated term and guarantee facility agreement, which is described on page F-61.

The following table shows the interest rates for the Company's financial liabilities to banks and third parties:

	December 31, 2006				
€ in millions	**0 - 3%**	**3.1 - 7%**	**7.1 - 10%**	**more than 10%**	**Total**
Bonds (including MTN programs)	—	8,869	134	—	9,003
Commercial paper	132	234	—	—	366
Bank loans/Liabilities due to banks	149	1,087	1	—	1,237
Bills payable	—	35	—	—	35
Other financial liabilities	138	584	14	15	751
Financial liabilities to banks and third parties	**419**	**10,809**	**149**	**15**	**11,392**

The following table provides details of the Company's liabilities due to banks as of the dates indicated:

	December 31,	
€ in millions	**2006**	**2005**
Bank loans collateralized by mortgages on real estate	94	141
Other collateralized bank loans	37	51
Uncollateralized bank loans, drawings on credit lines, current loans	1,106	1,338
Total	**1,237**	**1,530**

In November 2005, E.ON Ruhrgas issued loan notes in connection with the acquisition of E.ON Ruhrgas UK North Sea for an amount of approximately GBP 402 million, equivalent to €595 million at that date, with a contractual term of eighteen months. A large portion of these loan notes was converted into USD loan notes in 2005. In November 2006, E.ON Ruhrgas made use of the possibility to redeem 90 percent of the issued loan notes after one year. As of December 31, 2006, the remaining amount outstanding was €54 million (GBP 3.7 million and USD 63.6 million; 2005: €545 million). The coupon is based on LIBOR.

Operating Liabilities

Capital expenditure grants of €267 million (2005: €270 million) are paid primarily by customers in the core energy business for capital expenditures made on their behalf, while E.ON retains the assets. The grants are non-refundable and are recognized in other operating income over the period of the depreciable lives of the related assets.

Construction grants of €3,471 million (2005: €3,674 million) are paid by customers of the core energy business for costs of connections according to the generally binding linkup terms. These grants are customary in the industry, generally non-refundable and recognized as revenue according to the useful lives of the related assets.

Other operating liabilities primarily include the negative fair values of derivative financial instruments of €5,938 million (2005: €5,761 million), E.ON Benelux's cross-border lease transactions for power plants amounting to €883 million (2005: €1,011 million) and accrued interest payable of €672 million (2005: €638 million).

(25) Contingencies and Commitments

E.ON is subject to contingencies and commitments involving a variety of matters, including different types of guarantees, litigation and claims (as discussed in Note 26), long-term contractual and legal obligations and other commitments.

Financial Guarantees

Financial guarantees include both direct and indirect obligations (indirect guarantees of indebtedness of others). These require the guarantor to make contingent payments based on 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.

The Company's financial guarantees include nuclear-energy related items. Obligations also include direct financial guarantees to creditors of related parties and third parties. Direct financial guarantees with specified terms extend as far as 2023. Maximum potential undiscounted future payments could total up to €370 million (2005:

€427 million). €284 million of this amount involves guarantees issued on behalf of related parties (2005: €304 million). Alongside obligations in connection with cross-border lease transactions, indirect guarantees consist primarily of obligations to provide financial support mainly to related parties. Indirect guarantees have specified terms up to 2030. Maximum potential undiscounted future payments could total up to €582 million (2005: €431 million). €262 million of this amount involves guarantees issued on behalf of related parties (2005: €67 million). The Company has recorded provisions of €5 million (2005: €25 million) as of December 31, 2006, with respect to financial guarantees. In addition, E.ON has commitments under which it assumes joint and several liability arising from its stakes in the civil-law companies ("GbR"), non-corporate commercial partnerships and consortia in which it participates.

With the entry into force on April 27, 2002, of the Atomgesetz, as amended, and of the ordinance regulating the provision for coverage under the Atomgesetz ("Atomrechtliche Deckungsvorsorge-Verordnung" or "AtDeckV"), as amended, German nuclear power plant operators are required to provide nuclear accident liability coverage of up to €2.5 billion per incident.

The coverage requirement is satisfied in part by a standardized insurance facility in the amount of €255.6 million. The institution Nuklear Haftpflicht Gesellschaft bürgerlichen Rechts ("Nuklear Haftpflicht GbR") now only covers costs between €0.5 million and €15 million for claims related to officially ordered evacuation measures. Group companies have agreed to place their subsidiaries operating nuclear power plants in a position to maintain a level of liquidity that will enable them at all times to meet their obligations as members of the Nuklear Haftpflicht GbR, in proportion to their shareholdings in nuclear power plants.

To provide liability coverage for the additional €2,244.4 million per incident required by the above-mentioned amendments, E.ON Energie AG and the other parent companies of German nuclear power plant operators reached a Solidarity Agreement ("Solidarvereinbarung") on July 11, July 27, August 21, and August 28, 2001. If an accident occurs, the Solidarity Agreement calls for the nuclear power plant operator liable for the damages to receive — after the operator's own resources and those of its parent company are exhausted — financing sufficient for the operator to meet its financial obligations. Under the Solidarity Agreement, E.ON Energie's share of the liability coverage currently stands at 42.0 percent (2005: 43.0 percent), with an additional 5.0 percent charge for the administrative costs of processing damage claims.

In accordance with Swedish law, the Nordic market unit has issued guarantees to governmental authorities. The guarantees, which are also included in the aforementioned direct financial guarantees, were issued to cover possible additional costs related to the disposal of high-level radioactive waste and to nuclear power plant decommissioning. These costs could arise if actual costs exceed accumulated funds. In addition, Nordic is also responsible for any costs related to the disposal of low-level radioactive waste. In Sweden, owners of nuclear facilities are liable for damages resulting from accidents occurring in those nuclear facilities and for accidents involving any radioactive substances connected to the operation of those facilities. The liability per incident as of December 31, 2006, was limited to SEK 3,102 million or €343 million (2005: SEK 3,401 million or €362 million), which amount must be insured according to the Law Concerning Nuclear Liability. The Nordic market unit has purchased the necessary insurance for its nuclear power plants. The Swedish government is currently in the process of reviewing the regulatory framework for nuclear obligations. The extent to which this review will result in changes to the Swedish regulations on the limitation of nuclear liabilities is still unclear at present.

Neither the U.K., nor the Pan-European Gas nor the U.S. Midwest market units operate nuclear power plants; they therefore do not have comparable contingent liabilities.

Indemnification Agreements

Contracts in connection with the disposal of shareholdings concluded throughout the Group include indemnification agreements and other guarantees with terms up to 2041 in accordance with contractual arrangements and local legal requirements, unless shorter terms were contractually agreed. The maximum undiscounted amounts potentially payable in respect of the circumstances expressly set forth in these agreements could total up to €6,865 million (2005: €6,623 million). The indemnities ("Freistellungen") typically relate to customary representations and warranties, environmental damages and taxes. In some cases the buyer is required to either share costs or cover a certain amount of costs before the Company is required to make any payments. Some obligations are to be covered first by insurance contracts or provisions of the disposed companies. The Company has recorded provisions of €270 million (2005: €296 million) as of December 31, 2006, with respect to all indemnities and other guarantees included in sales agreements. Guarantees issued by companies that were later sold by E.ON AG (or VEBA AG and VIAG AG before their merger) are included in the final sales contracts in the form of indemnities.

Other Guarantees

Other guarantees with an effective period through 2021 consist primarily of market value guarantees and warranties that could result in maximum potential undiscounted future payments of €104 million (2005: €130 million).

Long-Term Obligations

As of December 31, 2006, the principal long-term contractual obligations in place relate to the purchase of fossil fuels such as gas, lignite and hard coal.

Gas is usually procured on the basis of long-term purchase contracts with large international producers of natural gas. Such contracts are generally of a "take-or-pay" nature. The prices paid for natural gas are normally tied to the prices of competing energy sources, as dictated by market conditions. The conditions of these long-term contracts are reviewed at certain specific intervals (usually every 3 years) as part of contract negotiations and may thus change accordingly. In the absence of an agreement on a pricing review, a neutral board of arbitration makes a final binding decision. Financial obligations arising from these contracts are calculated based on the same principles that govern internal budgeting. Furthermore, the take-or-pay conditions in the individual contracts are also considered in the calculations.

The increase in contractual obligations in place for the purchase of gas is mainly due to the higher purchasing costs of gas in 2006, which led to an adjustment of planning assumptions, to the extension of existing contracts and the conclusion of new purchase contracts.

The contractual obligations in place for the purchase of electricity relate especially to purchases from jointly operated power plants. The purchase price of electricity from jointly operated power plants is determined by the supplier's production cost plus a profit margin that is generally calculated on the basis of an agreed return on capital.

Long-term contractual obligations have also been entered into by the Central Europe market unit for the procurement of services in the area of reprocessing and storage of spent fuel elements delivered through June 30, 2005.

Other purchase commitments/obligations include primarily obligations for investments not yet implemented in connection with new power plant construction projects as well as modernizations of existing power plant installations.

Other financial obligations amount to €3,631 million (2005: €4,299 million). They consist primarily of obligations arising from the acquisition of investments.

There is a put option agreement in place since October 2001 allowing a minority shareholder of E.ON Sverige to exercise its right to sell its remaining stake for approximately €2 billion. In 2003, the term of this option was extended to the end of 2007.

The Central Europe market unit has entered into put option agreements related to various acquisitions that allow other shareholders to exercise rights to sell their remaining stakes for an aggregate total of approximately €0.6 billion.

In addition, there is a conditional obligation to acquire up to 100 percent of the shares of Endesa. For further information, see Note 33.

Expected payments arising from long-term obligations totaled €245,331 million on December 31, 2006, and break down as follows:

€ in millions	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
Long-term purchase commitments/obligations					
Fossil fuel purchase obligations					
Natural gas	221,358	21,309	37,383	38,883	123,783
Oil	75	10	27	25	13
Coal	3,280	1,203	1,378	687	12
Lignite and other fossil fuels	1,089	33	66	66	924
Subtotal, fossil fuels	**225,802**	**22,555**	**38,854**	**39,661**	**124,732**
Electricity purchase obligations	7,915	3,209	2,137	661	1,908
Other purchase obligations	2,462	485	439	254	1,284
Subtotal, long-term purchase commitments/obligations	**236,179**	**26,249**	**41,430**	**40,576**	**127,924**
Other purchase commitments/obligations					
Major repairs	82	64	18	—	—
Environmental protection measures	—	—	—	—	—
Other (e.g., capital expenditure commitments)	5,182	2,160	2,127	638	257
Subtotal	**5,264**	**2,224**	**2,145**	**638**	**257**
Other financial obligations	**3,631**	**2,477**	**991**	**1**	**162**
Loan commitments	**257**	**249**	**1**	**4**	**3**
Total	**245,331**	**31,199**	**44,567**	**41,219**	**128,346**

Rental, Tenancy and Lease Agreements

Nominal values of other commitments arising from rental, tenancy and lease agreements are due as follows:

€ in millions	
2007	205
2008	142
2009	89
2010	84
2011	63
Thereafter	237
Total	**820**

Expenses arising from such contracts reflected in the Consolidated Statements of Income amounted to €223 million in 2006 (2005: €102 million; 2004: €71 million).

(26) Litigation and Claims

A number of different court actions (including product liability lawsuits), governmental investigations and proceedings, and other claims are currently pending or may be instituted or asserted in the future against companies of the E.ON Group. This in particular includes legal actions and proceedings concerning alleged price-fixing agreements and anti-competitive practices. In addition, there are lawsuits pending against E.ON AG and U.S.

subsidiaries in connection with the disposal of VEBA Electronics in 2000. E.ON Ruhrgas is a party to a number of different arbitration proceedings in connection with the acquisition of Europgas a.s. and in connection with gas delivery contracts entered into with Norsk Hydro Produksjon AS and Gas Terra B.V. Lastly, E.ON AG and one E.ON subsidiary are parties to or participants in various court and regulatory proceedings in Spain and in the United States, among other venues, in connection with the offer for Endesa S.A. Since litigation or claims are subject to numerous uncertainties, their outcome cannot be ascertained; however, in the opinion of management, any potential obligations arising from these matters will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

The U.S. Securities and Exchange Commission ("SEC") has requested that E.ON provide it with information for an investigation focusing in particular on the preparation of its financial statements for the fiscal years 2000 through 2003, including the accounting treatment and depreciation of its power plant assets, its accounting for and consolidation of former subsidiaries (Degussa and Viterra) and their shareholdings, the nature of the services performed by the independent public accountants appointed by E.ON, disclosures with regard to the Company's long-term fuel procurement contracts, and its 2002 Annual Report on Form 20-F, in particular the process of its preparation and its conformity with U.S. GAAP. E.ON is in close contact with the SEC and will cooperate fully. A similar request that also covers additional items, including aspects of E.ON's 2003 Annual Report on Form 20-F, has been made to the independent public accountants appointed by E.ON.

(27) Supplemental Disclosure of Cash Flow Information

The following table indicates supplemental disclosures of cash flow information:

€ in millions	2006	2005	2004
Cash paid during the year for			
Interest, net of amounts capitalized	1,029	965	1,100
Income taxes, net of refunds	837	1,052	1,352
Non-cash investing and financing activities			
Exchanges and contributions of assets as part of acquisitions	138	171	—
Funding of external fund assets for pension obligations through transfer of fixed-term deposits and securities	5,126	—	—
Loan notes issued in lieu of cash purchase price payments for E.ON Ruhrgas U.K. North Sea	—	595	—
Increase of stakes in subsidiaries in exchange for distribution of E.ON AG shares to minority shareholders	—	35	182

The deconsolidation of shareholdings and activities resulting from divestments led to reductions of €1,523 million (2005: €7,160 million; 2004: €231 million) related to assets and €589 million (2005: €4,510 million; 2004: €186 million) related to provisions and liabilities. Cash and cash equivalents divested herewith amounted to €550 million (2005: €45 million; 2004: €19 million).

Purchase prices for acquisitions of subsidiaries totaled €550 million (2005: €1,336 million, including €595 million in non-cash purchase price components for E.ON Ruhrgas UK North Sea Ltd.; 2004: €1,004 million). Cash and cash equivalents acquired in connection with the acquisitions amounted to €57 million (2005: €275 million; 2004: €110 million). These purchases resulted in assets amounting to €1,929 million (2005: €3,892 million; 2004: €2,680 million) and in provisions and liabilities totaling €1,350 million (2005: €1,922 million; 2004: €2,569 million).

Cash provided by operating activities was higher in 2006 than in the preceding year. The increase was generated primarily by the Central Europe and U.K. market units, where improved operations and one-time effects such as the full consolidation of VKE made positive contributions in 2006, while the negative influences of the prior year, e.g. the effect of pension fund contributions, did not recur. An additional positive contribution came from the reduction of receivables at the U.S. Midwest market unit. Negative effects in 2006 were generated at the Pan-European Gas market unit as a result of the full consolidation of E.ON Földgáz Trade, payments for gas storage capacity at E.ON Ruhrgas AG and payment extensions. In 2005, cash provided by operating activities increased significantly over the preceding year. The increase was due primarily to changes in tax payments, and in particular to the change in the VAT treatment of gas transactions in the Pan-European Gas market unit. Other positive influences were provided by higher prepayments by customers in December at the Pan-European Gas market unit, the increase in gross margin at the Central Europe market unit and by effects resulting from the elimination of currency swaps in the Corporate Center. These improvements were partly offset by pension fund contributions at the U.K. market unit, increased contributions to the VKE fund at the Central Europe market unit, and storm damage payments at the Nordic market unit.

Cash flows from investing activities was negative in 2006. With declining proceeds from sales of shareholdings, cash used for investment activities rose significantly over the previous year. Moreover, more funds were used for fixed-term deposits and securities purchases than in 2005. Some of these financial investments were transferred during the course of the year to external fund assets for pension obligations.

The additional reduction of financial debts and the distribution of the special dividend for the 2005 fiscal year are reflected in the negative cash flow from financing activities.

(28) Derivative Financial Instruments and Hedging Transactions

Strategy and Objectives

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 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 Profit at Risk and 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.

Hedge Accounting in accordance with SFAS 133 is used primarily for interest rate derivatives regarding hedges of long-term debts, for foreign currency derivatives regarding hedges of net investments in foreign operations and long-term receivables and debts denominated in foreign currencies. For commodities, potentially volatile future cash flows resulting primarily from planned purchases and sales of electricity and from gas supply requirements are hedged. Forward transactions are used to hedge price risks on equities.

Fair Value Hedges

Fair value hedges are used to protect against the risk from changes in market values. The Company uses fair value hedge accounting specifically in the exchange of fixed-rate commitments in long-term receivables and liabilities denominated in foreign currencies and Euro for variable rates. The hedging instruments used for such exchanges are interest rate and cross-currency interest rate swaps. Gains and losses on these hedges are generally reported in that line item of the income statement which also includes the respective hedged transactions. The loss from the ineffective portion of all fair value hedges as of December 31, 2006, was €1 million (2005: €1 million gain; 2004: €2 million gain) and is included in other operating income. Interest rate fair value hedges are reported under "Interest and similar expenses (net)."

Cash Flow Hedges

Cash flow hedges are used to protect against the risk arising from variable cash flows. Interest rate and cross-currency interest rate swaps are the principal instruments used to limit interest rate and currency risks. The purpose of these swaps is to maintain the level of payments arising from long-term interest-bearing receivables and liabilities denominated in foreign currencies and euro by using cash flow hedge accounting in the functional currency of the respective E.ON company.

To reduce cash flow fluctuations arising from electricity and gas transactions effected at variable spot prices, futures and forward contracts are concluded and also accounted for using cash flow hedge accounting.

As of December 31, 2006, the hedged transactions in place included foreign currency cash flow hedges with maturities of up to eleven years (2005: up to twelve years) and up to 26 years (2005: up to 27 years) for interest rate cash flow hedges. Share price risk is hedged up to one year. Planned commodity cash flow hedges have maturities of up to four years (2005: up to three years).

The amount of ineffectiveness for cash flow hedges recorded for the year ended December 31, 2006, was a loss of €3 million (2005: €1 million gain; 2004: €1 million gain). For the year ended December 31, 2006, reclassifications from accumulated other comprehensive income for cash flow hedges resulted in a gain of €26 million (2005: €208 million loss; 2004: €117 million gain). The Company estimates that reclassifications from accumulated other comprehensive income for cash flow hedges in the next twelve months will result in a gain of €227 million. Gains and losses from reclassification are generally reported in that line item of the income statement which also includes the respective hedged transaction. Gains and losses from the ineffective portion of cash flow hedges are classified as other operating income or other operating expenses. Interest rate cash flow hedges are reported under "Interest and similar expenses (net)."

Net Investment Hedges

The Company uses foreign currency loans, foreign currency forwards, FX swaps and cross-currency swaps to protect the value of its net investments in its foreign operations denominated in foreign currencies. For the year ended December 31, 2006, the Company recorded an amount of €989 million (2005: €825 million) in accumulated other comprehensive income within stockholders' equity due to changes in fair value of derivative and foreign currency transaction results of non-derivative hedging instruments.

Valuation of Derivative Instruments

The fair value of derivative instruments is sensitive to movements in underlying market rates and other relevant variables. The Company assesses and monitors the fair value of derivative instruments on a periodic basis. Fair values for each derivative financial instrument are determined as being equal to the price at which one party would assume the rights and duties of another party, and calculated using common market valuation methods with reference to available market data as of the balance sheet date.

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

- Currency, electricity, gas, oil and coal forward contracts, swaps, and emissions-related derivatives are valued separately at their forward rates and prices as of the balance sheet date. Forward rates and prices are based on spot rates and prices, with forward premiums and discounts taken into consideration.

- Market prices for currency, electricity and gas options are valued 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 exchange amounts are 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 futures and option contracts are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses. Paid initial margins are disclosed under other assets. Variation margins received or paid during the term of such contracts are stated under other liabilities or other assets, respectively.
- Certain long-term energy contracts are valued by the use of valuation models that use internal data.

Losses of €49 million (2005: €39 million; 2004: €0 million) and gains of €96 million (2005: €0 million; 2004: €0 million) from the initial measurement of derivative financial instruments at the inception of the contract were deferred and will be recognized in income during subsequent periods as the contracts are fulfilled.

The following two tables include both derivatives that qualify for SFAS 133 hedge accounting treatment and those that do not qualify.

Total Volume of Foreign Currency, Interest Rate and Equity-Based Derivatives Remaining maturities € in millions	**Total volume of derivative financial instruments**			
	December 31, 2006		**December 31, 2005**	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
FX forward transactions				
Buy	4,532.7	(27.1)	4,091.3	79.2
Sell	6,982.4	19.4	8,331.2	(81.7)
FX currency options				
Buy	7.4	0.1	227.7	32.8
Sell	—	—	139.6	(39.0)
Subtotal	**11,522.5**	**(7.6)**	**12,789.8**	**(8.7)**
Cross-currency swaps				
up to 1 year	1,457.8	9.7	1,734.7	34.7
1 year to 5 years	10,812.9	(22.8)	8,163.2	57.8
more than 5 years	6,228.6	20.5	6,358.4	66.6
Cross-currency interest rate swaps				
up to 1 year	—	—	125.0	13.1
1 year to 5 years	321.9	(17.0)	316.4	5.0
more than 5 years	—	—	—	—
Subtotal	**18,821.2**	**(9.6)**	**16,697.7**	**177.2**
Interest rate swaps				
Fixed-rate payer				
up to 1 year	150.9	0.8	612.2	(11.8)
1 year to 5 years	1,221.8	(3.1)	1,294.9	(44.1)
more than 5 years	919.8	(14.1)	1,033.5	(18.0)
Fixed-rate receiver				
up to 1 year	55.1	—	—	—
1 year to 5 years	5,263.9	(75.5)	5,364.4	64.3
more than 5 years	759.3	(14.3)	1,196.4	(20.7)
Subtotal	**8,370.8**	**(106.2)**	**9,501.4**	**(30.3)**
Other derivatives	636.7	31.0	—	—
Subtotal	**636.7**	**31.0**	—	—
Total	**39,351.2**	**(92.4)**	**38,988.9**	**138.2**

Total Volume of Electricity, Gas, Coal, Oil and Emissions-Related Financial Derivatives Remaining maturities € in millions	December 31, 2006		Thereof Trading December 31, 2006		December 31, 2005	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Electricity forwards						
up to 1 year	15,336.4	(401.5)	12,961.9	0.1	15,379.4	24.0
1 year to 3 years	6,334.4	(401.9)	4,743.5	(34.5)	4,722.5	(116.1)
4 years to 5 years	675.6	(36.0)	85.1	0.3	54.4	(5.0)
more than 5 years	6,703.3	(14.6)	—	—	9.6	0.8
Subtotal	**29,049.7**	**(854.0)**	**17,790.5**	**(34.1)**	**20,165.9**	**(96.3)**
Exchange-traded electricity forwards						
up to 1 year	4,965.9	(244.5)	3,464.2	(102.4)	3,316.7	(103.6)
1 year to 3 years	3,028.9	(28.4)	1,725.0	16.1	1,621.4	(18.1)
4 years to 5 years	94.7	(2.1)	51.7	(0.9)	17.6	(1.4)
more than 5 years	—	—	—	—	1.9	0.1
Subtotal	**8,089.5**	**(275.0)**	**5,240.9**	**(87.2)**	**4,957.6**	**(123.0)**
Electricity swaps						
up to 1 year	15.1	0.5	—	—	88.3	(21.6)
1 year to 3 years	—	—	—	—	—	—
4 years to 5 years	—	—	—	—	—	—
more than 5 years	—	—	—	—	—	—
Subtotal	**15.1**	**0.5**	**—**	**—**	**88.3**	**(21.6)**
Exchange-traded electricity options						
up to 1 year	0.2	(0.3)	0.2	(0.3)	12.1	(0.7)
1 year to 3 years	0.1	0.5	0.1	0.5	71.7	(0.2)
4 years to 5 years	—	—	—	—	—	—
more than 5 years	—	—	—	—	—	—
Subtotal	**0.3**	**0.2**	**0.3**	**0.2**	**83.8**	**(0.9)**
Coal forwards and swaps						
up to 1 year	938.5	22.4	474.4	1.5	839.4	(46.0)
1 year to 3 years	316.6	6.5	141.8	(0.6)	439.9	(3.0)
4 years to 5 years	33.8	0.8	15.6	(0.2)	31.9	(1.4)
more than 5 years	31.3	(0.5)	31.3	(0.5)	—	—
Subtotal	**1,320.2**	**29.2**	**663.1**	**0.2**	**1,311.2**	**(50.4)**
Exchange-traded coal forwards						
up to 1 year	26.7	(1.5)	—	—	—	—
1 year to 3 years	32.2	0.4	—	—	—	—
4 years to 5 years	—	—	—	—	—	—
more than 5 years	—	—	—	—	—	—
Subtotal	**58.9**	**(1.1)**	**—**	**—**	**—**	**—**
Oil derivatives						
up to 1 year	1,036.7	(24.4)	277.2	0.1	845.0	106.1
1 year to 3 years	176.7	(6.2)	53.3	0.2	341.7	59.1
4 years to 5 years	—	—	—	—	—	—
more than 5 years	—	—	—	—	—	—
Subtotal	**1,213.4**	**(30.6)**	**330.5**	**0.3**	**1,186.7**	**165.2**
Carryover	**39,747.1**	**(1,130.8)**	**24,025.3**	**(120.6)**	**27,793.5**	**(127.0)**

Total Volume of Electricity, Gas, Coal, Oil and Emissions-Related Financial Derivatives Remaining maturities € in millions	December 31, 2006 Nominal value	December 31, 2006 Fair value	Thereof Trading December 31, 2006 Nominal value	Thereof Trading December 31, 2006 Fair value	December 31, 2005 Nominal value	December 31, 2005 Fair value
Carryover	**39,747.1**	**(1,130.8)**	**24,025.3**	**(120.6)**	**27,793.5**	**(127.0)**
Gas forwards						
up to 1 year	8,571.6	(474.2)	2,953.8	23.5	4,628.7	380.8
1 year to 3 years	5,861.0	85.6	1,215.9	20.3	4,226.9	541.4
4 years to 5 years	887.9	91.6	37.3	(0.2)	763.7	27.4
more than 5 years	476.2	40.0	—	—	92.6	(17.7)
Subtotal	**15,796.7**	**(257.0)**	**4,207.0**	**43.6**	**9,711.9**	**931.9**
Gas swaps						
up to 1 year	142.7	(16.8)	—	—	1,987.3	277.4
1 year to 3 years	9.5	(0.6)	—	—	1,645.0	306.8
4 years to 5 years	1.2	—	—	—	737.0	86.9
more than 5 years	—	—	—	—	1,892.3	7.9
Subtotal	**153.4**	**(17.4)**	**—**	**—**	**6,261.6**	**679.0**
Gas options						
up to 1 year	5.3	2.8	—	—	43.3	(16.7)
1 year to 3 years	—	—	—	—	—	—
4 years to 5 years	—	—	—	—	—	—
more than 5 years	—	—	—	—	—	—
Subtotal	**5.3**	**2.8**	**—**	**—**	**43.3**	**(16.7)**
Emissions-related derivatives						
up to 1 year	284.8	2.3	264.2	6.5	98.4	4.9
1 year to 3 years	176.2	0.5	172.0	0.3	24.3	1.6
4 years to 5 years	—	—	—	—	—	—
more than 5 years	—	—	—	—	—	—
Subtotal	**461.0**	**2.8**	**436.2**	**6.8**	**122.7**	**6.5**
Exchange-traded emissions-related derivatives						
up to 1 year	20.0	4.1	13.7	0.3	11.4	0.3
1 year to 3 years	13.9	(0.3)	12.6	(0.3)	5.6	0.3
4 years to 5 years	—	—	—	—	—	—
more than 5 years	—	—	—	—	—	—
Subtotal	**33.9**	**3.8**	**26.3**	**—**	**17.0**	**0.6**
Total	**56,197.4**	**(1,395.8)**	**28,694.8**	**(70.2)**	**43,950.0**	**1,474.3**

Counterparty Risk from the Use of Derivative Financial Instruments

The Company is exposed to credit (or repayment) risk and market risk through the use of derivative financial instruments. If the counterparty fails to fulfill its performance obligations under a derivative contract, the Company's counterparty risk will equal the positive market value of the derivative. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, assumes no repayment risk.

In order to minimize the credit risk in derivative financial instruments, the Company enters into transactions only with counterparties such as financial institutions, commodities exchanges, energy distributors and broker-dealers that satisfy the Company's internally-established minimum requirements for the creditworthiness of counterparties.

The credit-risk management policy that has been established throughout the Group entails the systematic monitoring of the creditworthiness of counterparties and a regular assessment of credit risk. The credit ratings of all counterparties to derivative financial instruments are reviewed using the Company's established credit approval criteria. The subsidiaries involved in electricity, gas, coal, oil and emissions-related derivatives also perform thorough credit checks on their counterparties and monitor creditworthiness on a regular basis. The Company receives and pledges collateral in connection with long-term interest and currency hedging derivatives in the banking sector. Furthermore, collateral is required when entering into transactions in commodity derivatives with counterparties of a low degree of creditworthiness. Derivative transactions are generally executed on the basis of standard agreements that allow for the netting of all outstanding transactions with individual counterparties. For currency and interest rate derivatives in the banking sector, this netting option is reflected in the accounting treatment. Exchange-traded electricity forward and option contracts and emission rights having an aggregate nominal value of €8,198 million as of December 31, 2006, bear no counterparty risk.

The continuing netting of outstanding transactions with positive and negative market values is not shown in the table below, even though the greater part of the transactions was completed on the basis of contracts that do allow netting. The counterparty risk is the sum of the positive fair values.

In summary, as of December 31, 2006, the Company's derivative financial instruments had the following credit structure and lifetime:

	December 31, 2006							
	Total		Up to 1 year		1 to 5 years		More than 5 years	
Rating of Counterparties Standard & Poor's and/or Moody's € in millions	**Nominal value**	**Counter-party risk**	**Nominal value**	**Counter-party risk**	**Nominal value**	**Counter-party risk**	**Nominal value**	**Counter-party risk**
AAA and Aaa through AA− and Aa3	34,301.2	1,910.2	13,508.4	918.1	14,971.5	608.8	5,821.3	383.3
AA− and A1 or A+ and Aa3 through A− and A3	22,051.6	1,359.9	9,062.5	873.9	11,085.7	436.0	1,903.4	50.0
A− and Baa1 or BBB+ and A3 through BBB− or Baa3	3,511.6	279.8	2,181.4	218.1	1,084.5	61.7	245.7	—
BBB− and Ba1 or BB+ and Baa3 through BB− and Ba3	2,005.1	148.9	1,179.2	106.3	817.6	42.6	8.3	—
Other (1)	25,481.4	395.9	11,124.3	200.3	6,332.5	93.2	8,024.6	102.4
Total	**87,350.9**	**4,094.7**	**37,055.8**	**2,316.7**	**34,291.8**	**1,242.3**	**16,003.3**	**535.7**

(1) This position consists primarily of parties to contracts with respect to which E.ON has received collateral from counterparties with ratings of the above categories or with an equivalent internal rating.

(29) Non-Derivative Financial Instruments

The Company estimates the fair value of its non-derivative financial instruments using available market information and appropriate valuation methodologies. Fair values have been calculated for these financial instruments using valuation methodologies customary in the market and are based on market information that was available on the balance sheet date. Accordingly, the fair values shown are not necessarily indicative of the amounts E.ON could realize on its non-derivative financial instruments under current market conditions.

The estimated book values and fair values of non-derivative financial instruments as of December 31, 2006 and 2005, are summarized in the following table:

€ in millions	December 31, 2006 Book value	December 31, 2006 Fair value	December 31, 2005 Book value	December 31, 2005 Fair value
Assets				
At-cost investments	1,450	1,848	1,503	1,880
Marketable investments	11,941	11,941	8,243	8,243
Securities	11,383	11,383	10,420	10,420
Financial receivables and other financial assets	2,811	2,676	3,119	3,131
Cash and deposits at banking institutions	1,748	1,748	5,859	5,859
Total	**29,333**	**29,596**	**29,144**	**29,533**
Liabilities				
Financial liabilities	13,399	13,099	14,362	15,421

The Company used the following methods and assumptions to estimate the fair value of each class of financial instruments whose value it is practicable to estimate:

The carrying amounts of cash and cash equivalents are reasonable estimates of their fair values. The Company calculates the fair value of loans and other financial instruments by discounting the future cash flows by the current interest rate for comparable instruments. The fair values of funds and of marketable securities and investments are based on their quoted market prices or on other appropriate valuation techniques.

Fair values for financial liabilities are estimated by discounting expected cash flows for payments on principal and interest payments, using market interest rates currently available for debt with similar terms and remaining maturities. The carrying amount of commercial paper and borrowings under revolving short-term credit facilities is assumed as the fair value due to the short maturities of these instruments.

The Company believes that the overall credit risk related to its non-derivative financial instruments is insignificant. The counterparties with whom agreements on non-derivative financial instruments are entered into are also subjected to regular credit checks as part of the Group's credit risk management policy. There is also regular reporting on counterparty risks in the E.ON Group.

(30) Transactions with Related Parties

E.ON exchanges goods and services with a large number of companies as part of its continuing operations. Some of these companies are related companies accounted for under the equity method or reported at cost. Transactions with related parties are summarized as follows:

€ in millions	2006	2005
Income	7,467	5,408
Expenses	3,804	2,913
Receivables	1,892	2,263
Liabilities	2,440	2,161

Income from transactions with related companies is generated mainly through the delivery of gas and electricity to distributors and municipal entities, especially municipal utilities. The relationships with these entities do not generally differ from those that exist with municipal entities in which E.ON does not have an interest.

Expenses from transactions with related companies are generated mainly through the procurement of gas, coal and electricity.

Accounts receivable from related companies consist mainly of trade receivables and of a subordinated loan to ONE GmbH ("ONE"), Vienna, Austria, in the amount of €122 million (2005: €162 million). Interest income recognized on this loan amounted to €5 million in 2006 (2005: €11 million). In 2006, ONE repaid €45 million in shareholder loans to E.ON.

Liabilities of E.ON payable to related companies include €286 million (2005: €241 million) in trade payables to operators of jointly-owned nuclear power plants. These payables bear interest at 1.0 percent per annum (2005: 1.0 percent) and have no fixed maturity. E.ON procures electricity from these power plants both under a cost-transfer agreement and under a cost-plus-fee agreement. The settlement of such liabilities occurs mainly through clearing accounts. In addition, E.ON reported financial liabilities in 2006 of €1,255 million (2005: €1,253 million) resulting from fixed-term deposits undertaken by the jointly-owned nuclear power plants at E.ON.

The transfer of E.ON's minority stake in Degussa into RAG Projektgesellschaft mbH and the subsequent forward sale of that company to RAG produced a gain of €376 million. For additional information, see Note 4.

(31) Segment Information

The reportable segments of the E.ON Group are presented in line with the Company's internal organizational and reporting structure. E.ON's business is subdivided into energy business and other activities. The core energy business includes the market units Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest, as well as the Corporate Center. The 42.9 percent interest in Degussa accounted for at equity was reported under other activities until its disposal in July 2006 (see also Note 4).

- The Central Europe market unit, led by E.ON Energie AG, Munich, Germany, focuses on 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. Additionally, this market unit holds a number of minority shareholdings in the downstream gas business. The lead company of this market unit is E.ON Ruhrgas AG, 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, Coventry, U.K.

- The Nordic market unit, which is led by E.ON Nordic AB, Malmö, Sweden, focuses on the integrated energy business in Northern Europe. It operates through the integrated energy company E.ON Sverige AB, Malmö, Sweden, primarily in Sweden.

- The U.S. Midwest market unit, led by E.ON U.S. LLC, 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 managed directly by E.ON AG that have not been allocated to any of the other segments, E.ON AG itself, and consolidation effects at the Group level.

In accordance with U.S. GAAP requirements, E.ON reports segments or material business units to be disposed of as discontinued operations.

In 2006, this primarily includes E.ON Finland, which was sold in June, and WKE, which has not yet been sold. The corresponding figures as of December 31, 2006, as well as those for the preceding period, have been adjusted for all components of the discontinued operations.

Adjusted EBIT is used as the key figure at E.ON for purposes of internal management control and as an indicator of a business's long-term earnings power. Adjusted EBIT is derived from income/loss before interest and taxes 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. Due to the adjustments accounted for under non-operating earnings, the key figures by segment may differ from the corresponding U.S. GAAP figures reported in the Consolidated Financial Statements.

Below is the reconciliation of adjusted EBIT to "Income/(Loss) from continuing operations before income taxes and minority interests" as shown in the Consolidated Financial Statements:

€ in millions	2006	2005	2004
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 earnings	(3,141)	424	128
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	(526)	(536)	(469)
Income/(Loss) from continuing operations	**4,930**	**4,355**	**4,011**
Income/(Loss) from discontinued operations, net	127	3,059	328
Cumulative effect of changes in accounting principles, net	—	(7)	—
Net income	**5,057**	**7,407**	**4,339**

Net book gains in 2006 were generated primarily from the sale of institutional securities funds (€619 million) and in connection with the sale of the remaining interest in Degussa (€376 million). In 2005, net book gains resulted primarily from the sale of securities (€371 million) and from the merger of Gasversorgung Thüringen and TEAG (€90 million). The 2004 amounts primarily reflect gains from the sale of E.ON's interests in EWE and VNG (€317 million), the sale of securities (€221 million) and the sale of Degussa shares (€51 million).

There were no cost management and restructuring expenses in 2006. In 2005, cost management and restructuring expenses totaled €29 million. As in 2004 they arose primarily in the U.K. market unit as a result of the integration of Midlands Electricity.

Other non-operating earnings consist primarily of expenses from the fulfillment of derivative gas supply contracts and from the marking to market of energy derivatives, primarily at the U.K. market unit. These derivatives are used to hedge against fluctuations in prices. As of the end of 2006, this marking to market resulted in a loss of approximately €2.7 billion. The regulation of network charges enforced by the German Federal Network Agency ("Bundesnetzagentur") necessitated the performance of impairment tests at the Central Europe and Pan-European Gas market units for the network infrastructure and certain shareholdings. The tests resulted in impairment charges totaling €374 million in the area of gas distribution networks and in minority shareholdings with activities in the area of networks. No impairments were necessary for the electricity grids. Additional impairments were recorded in the area of generation, specifically cogeneration facilities at the U.K. market unit (€35 million), as well as for intangible assets and property, plant and equipment at the Pan-European Gas, U.K. and Nordic market units (€139 million in total).

In 2005, the marking to market of derivatives resulted in a gain of approximately €1.2 billion. This gain was almost completely offset by the costs associated with the severe storm in Sweden at the beginning of 2005, and by an impairment charge recorded by Degussa at its Fine Chemicals division. The 2004 value primarily reflected the positive effects from the marking to market of derivatives (approximately €290 million). This gain was offset by impairment charges on real estate and securities at the Central Europe market unit and by non-recurring charges on investments at the Central Europe and U.K. market units, among others.

€ in millions	Central Europe 2006	Central Europe 2005	Central Europe 2004	Pan-European Gas 2006	Pan-European Gas 2005	Pan-European Gas 2004	U.K. 2006	U.K. 2005	U.K. 2004	Nordic 2006	Nordic 2005 (1)	Nordic 2004 (1)
External sales	27,694	24,047	20,540	22,594	16,835	12,671	12,406	10,102	8,480	3,118	3,111	3,028
Intersegment sales	686	248	212	2,393	1,079	556	163	74	10	86	102	66
Total sales	**28,380**	**24,295**	**20,752**	**24,987**	**17,914**	**13,227**	**12,569**	**10,176**	**8,490**	**3,204**	**3,213**	**3,094**
Depreciation and amortization	(1,297)	(1,298)	(1,121)	(491)	(387)	(334)	(561)	(586)	(575)	(373)	(341)	(383)
Impairments (3)	(19)	(56)	(185)	(242)	(16)	(94)	—	(1)	—	—	(8)	—
Adjusted EBIT	**4,168**	**3,930**	**3,602**	**2,106**	**1,536**	**1,344**	**1,229**	**963**	**1,017**	**619**	**766**	**661**
Thereof: earnings from companies accounted for at equity (4)	335	189	143	557	509	419	6	17	43	1	9	10
Intangible assets and property, plant and equipment	1,883	1,519	1,388	374	263	105	860	565	511	581	373	312
Share investments	533	462	885	506	260	505	3	361	(8)	50	21	354
Investments (5)	**2,416**	**1,981**	**2,273**	**880**	**523**	**610**	**863**	**926**	**503**	**631**	**394**	**666**
Total assets	**60,202**	**60,531**	**55,537**	**36,538**	**30,746**	**22,720**	**19,571**	**19,177**	**14,986**	**12,386**	**11,193**	**11,289**

€ in millions	U.S. Midwest 2006	U.S. Midwest 2005	U.S. Midwest 2004	Corporate Center 2006	Corporate Center 2005	Corporate Center 2004	Core Energy Business 2006	Core Energy Business 2005 (1)	Core Energy Business 2004 (1)	Other Activities (2) 2006	Other Activities (2) 2005	Other Activities (2) 2004
External sales	1,947	2,045	1,718	—	1	52	67,759	56,141	46,489	—	—	—
Intersegment sales	—	—	—	(3,328)	(1,503)	(844)	—	—	—	—	—	—
Total sales	**1,947**	**2,045**	**1,718**	**(3,328)**	**(1,502)**	**(792)**	**67,759**	**56,141**	**46,489**	—	—	—
Depreciation and amortization	(193)	(195)	(185)	(15)	(13)	(22)	(2,930)	(2,820)	(2,620)	—	—	—
Impairments (3)	(6)	—	—	(6)	—	(18)	(273)	(81)	—	—	—	—
Adjusted EBIT	**391**	**365**	**354**	**(416)**	**(399)**	**(338)**	**8,097**	**7,161**	**6,640**	**53**	**132**	**107**
Thereof: earnings from companies accounted for at equity (4)	21	17	17	(16)	9	(42)	904	750	590	53	132	107
Intangible assets and property, plant and equipment	398	227	247	(13)	9	11	4,083	2,956	2,574	—	—	—
Share investments	—	—	—	(14)	(119)	467	1,078	985	2,203	—	—	—
Investments (5)	**398**	**227**	**247**	**(27)**	**(110)**	**478**	**5,161**	**3,941**	**4,777**	—	—	—
Total assets	**8,591**	**9,296**	**7,643**	**(10,056)**	**(4,381)**	**(5,794)**	**127,232**	**126,562**	**106,381**	—	—	**7,681**

€ in millions	E.ON Group 2006	E.ON Group 2005 (1)	E.ON Group 2004 (1)
External sales	67,759	56,141	46,489
Intersegment sales	—	—	—
Total sales	**67,759**	**56,141**	**46,489**
Depreciation and amortization	(2,930)	(2,820)	(2,620)
Impairments (3)	(273)	(81)	—
Adjusted EBIT	**8,150**	**7,293**	**6,747**
Thereof: earnings from companies accounted for at equity (4)	957	882	697
Intangible assets and property, plant and equipment	4,083	2,956	2,574
Share investments	1,078	985	2,203
Investments (5)	**5,161**	**3,941**	**4,777**
Total assets	**127,232**	**126,562**	**114,062**

(1) Adjusted for discontinued operations, except for total assets.

(2) Included among the other activities was the 42.9 percent interest in Degussa accounted for at equity until its disposal in July 2006.

(3) In 2006 and 2005, the impairment charges recognized in adjusted EBIT differed from the impairment charges recorded in accordance with U.S. GAAP. In 2006, non-operating earnings can be traced to regulatory impairments on property, plant and equipment and on shareholdings at the Central Europe and Pan-European Gas market units. In addition, impairments have again been recorded in the area of generation, specifically

cogeneration facilities at the U.K. market unit. Additional impairments concern intangible assets and property, plant and equipment at the Pan-European Gas, U.K. and Nordic market units. In 2005, the difference was the result of impairments recorded in the area of generation, specifically cogeneration facilities at the U.K. market unit.

(4) In 2006 and 2005, the earnings contributing to adjusted EBIT from companies accounted for under the equity method differed from the at-equity results recorded in accordance with U.S. GAAP. In 2006, this was the result of impairment charges included in non-operating earnings. The impairments related to property, plant and equipment and to shareholdings at the Central Europe and Pan-European Gas market units. In 2005, the impairments related to the Fine Chemicals division of Degussa and to deferred tax assets of an at-equity company in the Corporate Center.

(5) Excluding other financial assets

An additional adjustment in the internal profit analysis relates to interest income, which is adjusted on an economic basis. In particular, the interest component of expenses resulting from increases in provisions to pensions is reclassified from personnel costs to interest income. The interest components of allocations to other long-term provisions are treated in the same way to the extent that, in accordance with U.S. GAAP, these provisions are reported on different lines in the income statement.

Net interest income experienced a decline of €54 million from 2005. The primary factor behind this decline was the increased interest expense resulting from provisions related to nuclear power. This was partially offset by reduced interest expense from provisions for pensions at the Central Europe and Pan-European Gas market units and at the Corporate Center.

€ in millions	2006	2005	2004
Interest and similar expenses (net) as shown in Note 6	**(687)**	**(736)**	**(1,063)**
(+) Non-operating interest income (net) (1)	(5)	(39)	151
(−) Interest portion of long-term provisions	389	252	120
Adjusted interest income (net)	**(1,081)**	**(1,027)**	**(1,032)**

(1) This figure is calculated by adding interest expenses and subtracting interest income. In 2005, non-operating interest income primarily related to an eliminated provision for interest that had been recognized in previous years.

Transactions within the E.ON Group are generally effected at market prices.

Geographic Segmentation

The following table details external sales (by location of customers and by location of the company making the sale) and property, plant and equipment information by geographic area:

	Germany			Europe (Eurozone excluding Germany)			Europe (other)			United States			Other			Total		
€ in millions	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
External sales																		
by location of customer	38,043	33,557	28,621	3,796	2,772	1,926	23,389	17,743	14,110	1,901	1,990	1,770	630	79	62	67,759	56,141	46,489
by location of company	42,129	36,635	30,028	2,053	1,218	1,209	21,630	16,243	13,482	1,897	1,980	1,711	50	65	59	67,759	56,141	46,489
Property, plant and equipment	18,674	19,010	23,171	1,104	1,339	1,283	18,965	16,819	15,327	3,896	4,072	3,693	73	83	89	42,712	41,323	43,563

Information on Major Customers and Suppliers

E.ON's customer structure in 2006 and 2005 did not result in any major concentration in any given geographical region or business area. Due to the large number of customers the Company serves and the variety of its business activities, there are no individual customers whose business volume is material compared with the Company's total business volume.

Gas is procured primarily from Russia, Norway, the United Kingdom, the Netherlands and Germany.

(32) Compensation of Supervisory Board and Board of Management

Supervisory Board

Provided that E.ON's shareholders approve the proposed dividend at the Annual Shareholders Meeting on May 3, 2007, total remuneration to members of the Supervisory Board will be €4.1 million (2005: €3.8 million).

There were no loans to members of the Supervisory Board in 2006.

The Supervisory Board's compensation structure and the amounts for each member of the Supervisory Board are presented in "Item 6: Directors, Senior Management and Employees."

Board of Management

Total remuneration to members of the Board of Management in 2006 amounted to €21.7 million (2005: €22.5 million). This consisted of base salary, bonuses, other compensation elements and share based payments.

Total payments to former members of the Board of Management and their beneficiaries amounted to €11.7 million (2005: €5.4 million). Provisions of €99.9 million (2005: €89.0 million) have been established for the pension obligations to former members of the Board of Management and their beneficiaries.

There were no loans to members of the Board of Management in the 2006 fiscal year.

The Board of Management's compensation structure and the amounts for each member of the Board of Management are presented in "Item 6: Directors, Senior Management and Employees."

(33) Subsequent Events

At the end of 2006, Thüga agreed with EnBW Energie Baden-Württemberg AG ("EnBW") to sell the shares it owns in GSW Gasversorgung Sachsen Ost Wärmeservice GmbH & Co. KG (76.5 percent), GSW Gasversorgung Sachsen Ost Wärmeservice Verwaltungsgesellschaft mbH (76.5 percent), EnSO Energie Sachsen Ost GmbH (14.5 percent) and Erdgas Südwest GmbH (28.0 percent) to EnBW Group companies. The transfer of the shares is to take place in the first quarter of 2007.

On January 14, 2007, a storm in southern Sweden caused substantial damage to the electricity distribution grid in some areas. Approximately 170,000 E.ON customers ended up without power, some for extended periods. The costs of repair work and compensation of customers is currently estimated at €95 million. The costs resulting from the storm will not affect adjusted EBIT as this event was exceptional in nature.

On February 2, 2007, E.ON submitted to the Spanish stock market regulator CNMV as part of the "sealed envelope" process its final offer price of €38.75 per ordinary share and ADR for the announced acquisition of Endesa S.A. This corresponds to a total consideration of €41 billion for 100 percent of Endesa. In this connection, E.ON has established an additional credit facility to finance the higher offer, which in combination with the existing €37.1 billion facility amounts to a total credit volume of €41 billion. The new offer price per share represents a premium of 109 percent over the price of Endesa's shares on September 2, 2005, the last trading day before the announcement of the former competing Gas Natural offer. If Endesa S.A. distributes any dividends to its shareholders prior to completion of the transaction, the offer price of €38.75 per share will be reduced accordingly. The E.ON tender offer was initially subject to the following conditions:

a) E.ON acquires at least 529,481,934 shares of Endesa, representing 50.01 percent of its capital stock, through the tender offer.

b) The shareholders of Endesa vote in favor of the following amendments of the by-laws at Endesa's Extraordinary General Shareholders' Meeting: amendment of Article 32 of the by-laws in order to eliminate the limitation of voting rights; amendment of further articles of the by-laws in order to remove the requirements concerning the composition of the Board of Directors and the qualifications on the appointment of a director or a chief executive officer.

On February 6, 2007, the CNMV officially authorized this final E.ON offer, and the Board of Directors of Endesa has stated its position in favor of the offer. The Endesa board further resolved to convene an Extraordinary General Shareholders' Meeting to be held on March 20, 2007, at which the removal of the aforementioned by-law provisions will be voted on. The CNMV has set March 29, 2007, as the end date of the offer period.

On March 6, 2007, E.ON withdrew condition b) requiring Endesa's shareholders to approve the specified changes to the articles of association.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: March 7, 2007

E.ON AG

By: /s/ DR. MARCUS SCHENCK

Dr. Marcus Schenck
Member of the Board of Management and
Chief Financial Officer

/s/ MICHAEL C. WILHELM

Michael C. Wilhelm
Senior Vice President Accounting

SEC FORM 6-K – NOVEMBER 2006

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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 November 2006

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_X_ Form 40-F

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_X_

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

January 1 – September 30, 2006

Interim Report III/2006

2006

- Adjusted EBIT up 10 percent
- Spain's Industry Ministry amends CNE conditions
- Russian natural gas secured for long term
- Increase in adjusted EBIT continues to be expected for full year 2006

OCT

NOV

DEC

E.ON Group Financial Highlights

E.ON Group Key Figures at a Glance January 1 – September 30 € in millions	2006	2005[1]	+/- %
Power sales (in billion kWh)[2]	295.6	298.5	-1
Gas sales (in billion kWh)[2]	695.9	642.0	+8
Sales	49,451	39,520	+25
Adjusted EBITDA[3]	8,441	7,629	+11
Adjusted EBIT[4]	6,064	5,504	+10
Income/Loss (-) from continuing operations before income taxes and minority interests	3,497	5,133	-32
Income/Loss (-) from continuing operations	2,497	3,138	-20
Income/Loss (-) from discontinued operations, net	132	3,261	-96
Net income	2,629	6,399	-59
Adjusted net income[5]	3,386	2,688	+26
Investments	3,891	3,039	+28
Cash provided by operating activities	4,492	4,742	-5
Free cash flow[6]	1,934	2,878	-33
Net financial position[7] (at September 30 and December 31)	1,039	3,863	-73
Employees (at September 30 and December 31)	80,296	79,570	+1
Earnings per share (in €)	3.99	9.71	-59

[1]Adjusted for discontinued operations.
[2]Unconsolidated figures.
[3]Non-GAAP financial measure; see reconciliation to net income on page 9.
[4]Non-GAAP financial measure; see reconciliation to net income on page 9 and commentary on pages 38–39.
[5]Non-GAAP financial measure; see reconciliation to net income on page 10.
[6]Non-GAAP financial measure; see reconciliation to cash provided by operating activities on page 11.
[7]Non-GAAP financial measure; see reconciliation on page 12.

Non-GAAP financial measures: This report contains certain non-GAAP financial measures. 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 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. Additional information with respect to each of the non-GAAP financial measures used in this report is included together with the reconciliations described below.

E.ON prepares its financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP). As noted above, this report contains certain consolidated financial measures (adjusted EBIT, adjusted EBITDA, adjusted net income, net financial position, net interest expense, and free cash flow) that are not calculated in accordance with U.S. GAAP and are therefore considered "non-GAAP financial measures" within the meaning of the U.S. federal securities laws. In accordance with applicable rules and regulations, E.ON has presented in this report a reconciliation of each non-GAAP financial measure to the most directly comparable U.S. GAAP measure for historical measures and an equivalent U.S. GAAP target for forward-looking measures. The footnotes presented with the relevant historical non-GAAP financial measures indicate the page of this report on which the relevant reconciliation appears. The non-GAAP financial measures used in this report 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 U.S. GAAP presented in this report and the relevant reconciliations. The non-GAAP financial measures used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

Contents

Dear Shareholders,

The E.ON Group's positive performance continued into the third quarter of 2006. For the first nine months of the year, we increased sales by 25 percent from €39.5 billion to €49.5 billion and adjusted EBIT by 10 percent from €5.5 billion to €6.1 billion. A key contributing factor was the solid earnings performance of our Central Europe and Pan-European Gas market units. Net income (after taxes and minority interests) of €2.6 billion was 59 percent below the exceptionally high prior-year figure. We continue to expect full-year adjusted EBIT to surpass the high prior-year level. As anticipated, we will not repeat the extraordinarily high net income figure posted in 2005.

Our most important strategic initiative is currently our planned acquisition of Endesa, a Spanish energy utility. In late September, we underscored our continued interest by announcing that we were raising our original offer to €35 per share. Our increased offer also meets our stringent investment criteria. Spain's Industry Ministry recently amended several critical aspects of the conditions set by the National Energy Commission (CNE) relating to our proposed acquisition of Endesa. Most importantly, the revised conditions no longer contain any requirement to dispose of any assets. On this basis, we have accepted the Industry Ministry's decision and now expect the Spanish stock-market regulator (CNMV) to proceed with the final approval of our offer. We remain confident that we will bring the transaction to a successful conclusion.

The new regulatory regime for Germany's power and natural gas networks has had far-reaching consequences for the country's energy industry. We have now received rulings from the Federal Network Agency (known by its German abbreviation, BNetzA) for our electricity network operators and for nearly all of our natural gas distribution network operators. On average, our electricity network charges were cut by more than 13 percent and, so far, our gas network charges by 10 to 12 percent compared with the costs we had filed. We will pass these reductions on to our customers and accept the rulings, although the reductions are based on an interpretation of the Network Charges Ordinances that is unfavorable to us. Despite the considerable reductions in our network charges, we will stand by our investment commitments, including our network investments.

In Germany's current energy policy debate, there are calls for additional, in some cases nonsensical regulatory intervention, for example in the power generation business. Instead of more regulation, Germany needs an energy policy that is systematically European in scope and for its energy markets and companies to be even more competition oriented. For this reason, we have launched an initiative to introduce more competition in power and gas markets and have put together a comprehensive package of measures to help achieve this goal. We are also setting standards in energy technology R&D. Our plans include the construction of the world's most modern coal-fired power plant, a pilot clean-coal generating unit, and further development of renewable energy technologies.

To help secure Europe's long-term natural gas supply, in late August we concluded agreements with Gazprom for the supply of a total of approximately 400 billion cubic meters of natural gas through 2036. The annual supply volume of roughly 24 billion cubic meters is equal to one third of E.ON Ruhrgas's current procurement. In an environment of keen global competition for natural gas supplies, these agreements enable us to procure Russian natural gas for the European energy market for the long term at competitive prices. In the wake of our participation in the NEGP project, these contracts represent another important contribution towards strengthening our position on the European gas market for the long term.

In summary, we will continue to push for energy market competition in Germany and Europe, foster advances in energy technology, and work hard to achieve our strategic objectives. In addition, the new structure of our Board of Management, which takes effect on April 1, 2007, will lay the groundwork for your company to be even more market oriented and to achieve further growth.

Sincerely yours,

W. Bernotat

Dr. Wulf H. Bernotat

E.ON Stock

Including the dividend and special dividend, E.ON stock finished the first nine months of 2006 up 14 percent. E.ON stock thus outperformed other European blue chips as measured by the EURO STOXX 50, which advanced by 11 percent over the same period, and performed more weakly than its peer index, the STOXX Utilities, which rose by 27 percent.

The trading volume of E.ON stock climbed by more than 60 percent year on year to €73.5 billion, making E.ON the fifth most-traded stock in the DAX index of Germany's top 30 blue chips. As of September 30, 2006, E.ON was the 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

	Sept. 30, 2006	Dec. 31, 2005
Shares outstanding (in millions)[1]	659	659
Closing price (in €)	93.48	87.39
Market capitalization (€ in billions)[2]	64.7	60.5

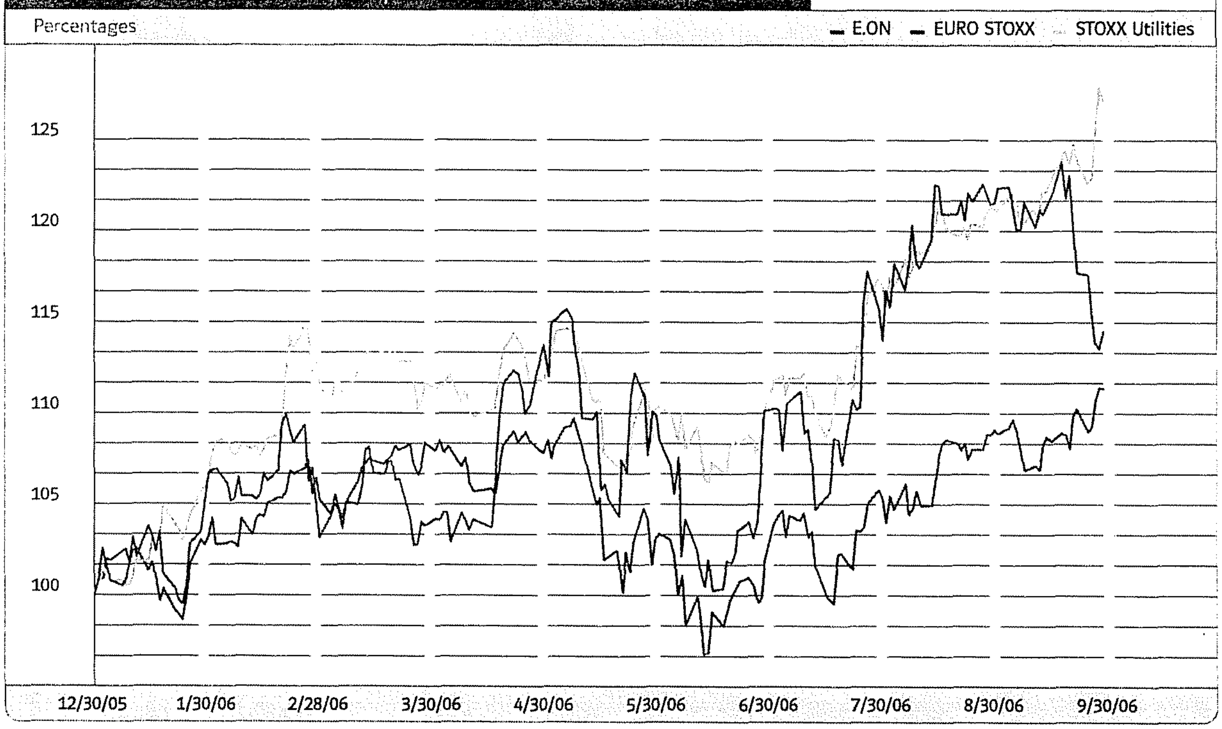
[1]Excludes treasury stock.
[2]Based on E.ON's entire capital stock (692,000,000 shares).

Performance and Trading Volume

January 1 - September 30	2006	2005
High (in €)[1]	100.94	80.80
Low (in €)[1]	82.12	64.50
Trading volume[2]		
- Millions of shares	779.0	640.2
- € in billions	73.5	45.7

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

E.ON Stock Performance versus European Stock Indices



6 Results of Operations

Energy Price Developments

Throughout the first nine months of 2006, European power and natural gas markets were mainly governed by international oil, coal, and CO_2 prices, the natural gas supply and storage situation in the United Kingdom, and hydrological levels in the Nordic region. After a long period of high and volatile prices, U.K. natural gas prices and, subsequently, power prices started to decrease in mid-August 2006. Compared with historical levels, however, prices remain high.

The price of Brent crude oil reached a new high of over $78 per barrel at the beginning of August. It then fell by 20 percent, finishing the third quarter at $62 per barrel, about the same price as at the beginning of 2006. Market analysts cite concerns about U.S. economic growth and reduced tensions in the Near and Middle East as the main reasons for the decline.

Coal prices also declined in late August and September 2006, falling as a result of an improved supply situation and less demand in Europe. Prices recovered at the end of the quarter due to new supply concerns in Russia and remained 15 percent above the level at the beginning of the year. The market appears to be well supported by substantial buying interest in coal derivatives and the overall supply situation.

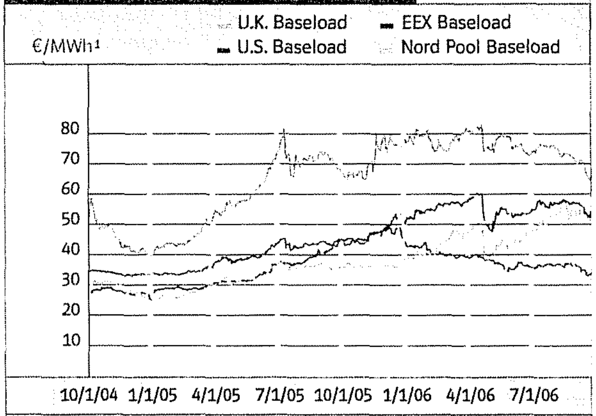
Germany's natural gas import prices are contractually indexed to oil prices, which they track with a time lag. Because oil prices have risen continually, the average price of Germany's natural gas imports was 40 percent higher in the first nine months of 2006 compared with the first nine months of 2005. The recent fall in oil prices is not yet reflected in the average price of Germany's natural gas imports due to lags in indexation. Natural gas prices in the United Kingdom have declined since mid-August reflecting more optimistic expectations regarding the commissioning of the new U.K. import infrastructure and decreasing oil prices. In early October, a short-term oversupply sent U.K. prompt gas prices as low as -5 pence per therm. However, as this dramatic price decline was mainly a result of testing new infrastructure, it has not lead to a collapse of U.K. gas contracts for annual forward delivery. At the end of September 2006, natural gas prices in the United Kingdom were about 16 percent lower than at the beginning of the year.

CO_2 prices have been very volatile throughout 2006. Following increases at the beginning of the year, CO_2 prices dropped by 27 percent in a single day on the publication of EU member states' emissions data for 2005. Prices stabilized at about €16 per metric ton during the summer, but fell back to about €13 per metric ton in late September 2006.

Wholesale power prices across Europe are heavily influenced by fuel and CO_2 prices. As a result of the drop in CO_2 prices in late April 2006, U.K., Nordic, and German power prices decreased significantly. Since then, German wholesale power prices have been mainly driven by oil, coal, and CO_2 price developments. U.K. wholesale power prices have declined due to lower natural gas prices. In the Nordic market, reduced hydropower availability and uncertainty on Swedish nuclear power plant outages following the incident at Forsmark pushed wholesale power prices higher in summer. With the expected restart of several Swedish nuclear power units and lower fuel and CO_2 prices, Nordic power prices have recently started to decline.

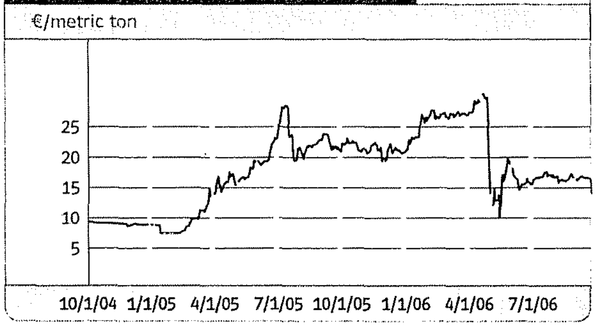
Natural gas prices in the United States have decreased significantly since the beginning of 2006 due to mild weather and record natural gas storage levels. Electricity prices have followed the lower natural gas prices. SO_2 prices have also decreased by over 50 percent since the beginning of 2006.

Electricity Price Movements in E.ON's Core Markets

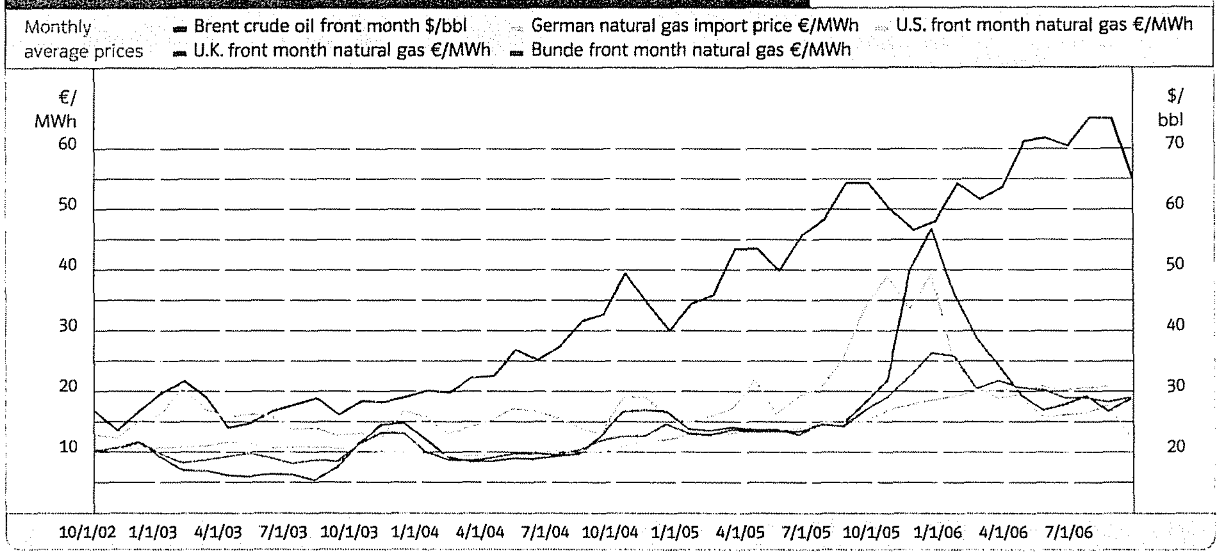


[1]Next-year delivery.

CO_2 Certificate (2005–2007) Price Movements in Europe



Crude Oil and Natural Gas Price Movements in E.ON's Core Markets



Regulation of Network Charges in Germany

This year, Germany's electricity and natural gas network operators were for the first time required to submit their network charges for approval. The Federal Network Agency (BNetzA) was supposed to have been ruled on network charges within six months of submission: by May 1, 2006, for electricity network charges and by August 1, 2006, for gas network charges. However, the BNetzA has not yet completed the review process in the majority of cases.

E.ON Energie is an exception. The BNetzA has issued rulings on most of E.ON Energie's gas distribution network operators and all of its electricity network operators (including its transmission system operator E.ON Netz as well as its electric distribution system operators). The agency reduced the charges filed by E.ON Netz by about 16 percent, the charges filed by E.ON Energie's electricity distributors by between 11 and 15 percent (just over 13 percent on average), and the charges filed by its gas distributors by between 9 and 14 percent (preliminarily 10 to 12 percent on average). These reductions are roughly similar to the reductions thus far announced for our competitors.

On the whole, the reductions are in line with our expectations which were adjusted in the course of the year.

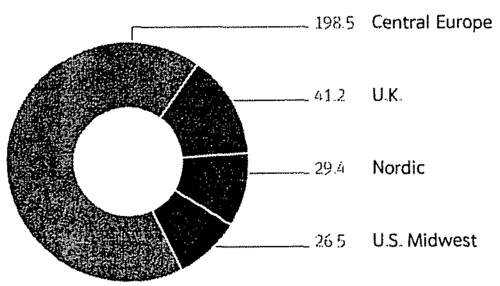
Although the reductions were often based on a one-sided interpretation of the Network Charges Ordinances in a manner prejudicial to network operators, E.ON Energie has decided not to take legal action but to respond by taking commercial action.

The BNetzA also 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 (for electricity), and February 1, 2006 (for natural gas), and the date operators' charges are approved. No network charges will be refunded until the legality of the refunds is decided in the suit filed by Vattenfall Europe Transmission, a transmission system operator, against the ruling on its network charges. We recorded a provision in our Consolidated Financial Statements for the period ended September 30, 2006, to reflect the risk associated with the retroactive application of lower network charges.

8 Results of Operations

Power Sales[1]

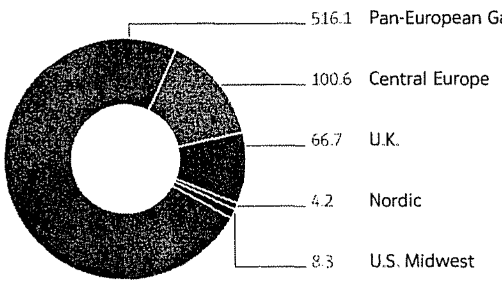
January 1 - September 30, 2006
Billion kWh — Total: 295.6



[1]Unconsolidated figures.

Gas Sales[1]

January 1 - September 30, 2006
Billion kWh — Total: 695.9



[1]Unconsolidated figures.
[2]Sales of E.ON Ruhrgas AG.

Power and Gas Sales

Overall, the E.ON Group sold nearly the same amount of electricity in the first nine months of 2006 as in the prior-year period. The Central Europe market unit sold 3 percent more electricity, mainly due to the inclusion of newly consolidated regional electricity distributors in Bulgaria, Romania, and the Netherlands. By contrast, our U.K., Nordic, and U.S. Midwest market units sold less electricity than last year. We sold 8 percent more natural gas thanks primarily to colder first-quarter weather, Pan-European Gas's continuing volume growth outside Germany, and Central Europe's inclusion of newly consolidated subsidiaries in Hungary, the Czech Republic, the Netherlands, and Germany.

Sales up Significantly

With the exception of Nordic, all market units contributed to the significant increase in sales, which was mainly due to the following factors: the global increase in raw-material and energy prices which led to higher average power and gas prices, the inclusion of newly consolidated regional utilities particularly in Bulgaria, Hungary, Romania, and the United Kingdom, and weather-driven volume increases, particularly of natural gas. Nordic's sales were slightly below the prior-year figure due to lower hydropower generation.

Sales

January 1 - September 30 € in millions	2006	2005[1]	+/- %
Central Europe	20,997	17,726	+18
Pan-European Gas	17,750	11,940	+49
U.K.	8,735	6,916	+26
Nordic	2,254	2,335	-3
U.S. Midwest	1,482	1,465	+1
Corporate Center	-1,767	-862	-
Sales	**49,451**	**39,520**	**+25**

[1]Adjusted for discontinued operations.

Adjusted EBIT up 10 Percent

The improvement in adjusted EBIT at Central Europe and Pan-European Gas is also attributable to power and gas price developments, the inclusion of newly consolidated companies in Central Europe East, and higher power and gas sales volumes. However, Central Europe's adjusted EBIT was negatively impacted by provisions created to address the expected consequences of the government regulation of network charges in Germany. Thanks to the U.K. market unit's positive performance in the second and third quarters, its adjusted EBIT was nearly at the prior-year level despite the sharp decline in adjusted EBIT U.K. recorded in the first quarter. By contrast, Nordic's adjusted EBIT fell due to lower hydropower generation and to increased taxes on nuclear and hydro assets.

Adjusted EBIT

January 1 - September 30 € in millions	2006	2005[1]	+/- %
Central Europe	3,243	2,945	+10
Pan-European Gas	1,596	1,125	+42
U.K.	710	715	-1
Nordic	437	581	-25
U.S. Midwest	285	277	+3
Corporate Center	-260	-260	-
Core Energy Business	**6,011**	**5,383**	**+12**
Other Activities[2]	**53**	**121**	**-56**
Adjusted EBIT[3]	**6,064**	**5,504**	**+10**

[1]Adjusted for discontinued operations.
[2]This segment consists of Degussa, which is accounted for using the equity method.
[3]Non-GAAP financial measure; see the following table for a reconciliation to net income.

Net Income 59 Percent below High Prior-Year Level

Net income (after income taxes and minority interests) of €2.6 billion and earnings per share of €3.99 were both 59 percent below the high prior-year level.

Net Income

January 1 – September 30 € in millions	2006	2005[1]	+/– %
Adjusted EBITDA[2]	**8,441**	**7,629**	**+11**
Depreciation, amortization, and impairments affecting adjusted EBIT[3]	-2,377	-2,125	-
Adjusted EBIT[2]	**6,064**	**5,504**	**+10**
Adjusted interest income (net)[4]	-848	-791	-
Net book gains	819	403	-
Restructuring expenses	-	-14	-
Other nonoperating earnings	-2,538	31	-
Income/Loss (-) from continuing operations before income taxes and minority interests	**3,497**	**5,133**	**-32**
Income taxes	-730	-1,625	-
Minority interests	-270	-370	-
Income/Loss (-) from continuing operations	**2,497**	**3,138**	**-20**
Income/Loss (-) from discontinued operations, net	132	3,261	-96
Net income	**2,629**	**6,399**	**-59**

[1]Adjusted for discontinued operations.
[2]Non-GAAP financial measure.
[3]For commentary see footnote 2 in the table on page 38.
[4]See reconciliation on page 39.

Adjusted interest income (net) was €57 million below the prior-year figure. The negative effect of provisions for nuclear waste management was the key factor.

Net book gains in the first nine months of 2006 were significantly above the prior-year figure and resulted from the sale of securities (€351 million) and the Degussa transaction (€376 million; see commentary on page 32). In the prior-year period, net book gains resulted mainly from the sale of securities (€260 million) and from the merger of Gasversorgung Thüringen and TEAG (€112 million).

We did not record restructuring expenses in the first nine months of 2006.

Other nonoperating earnings primarily reflect the fulfillment of derivative gas procurement contracts and the marking to market of derivatives (-€1,954 million), particularly at the U.K. market unit. For the period ended September 30, 2005, the marking to market of derivatives resulted in a positive effect of €582 million. In addition, we recorded impairment charges totaling €359 million due to the regulation of networks in Germany. In the previous year, the positive effect of the marking to market of derivatives was nearly offset by costs relating to the severe storm in Sweden in early 2005 and the impairment charges taken at Degussa's Fine Chemicals division.

Despite our positive operating performance, income/loss (-) from continuing operations before income taxes and minority interests is considerably below the prior-year figure. The main factors were the effects of the marking to market of derivatives and impairment charges totaling €547 million at our natural gas distribution network operations resulting from the new regulation of network charges in Germany. In addition, we recorded provisions of €533 million to address the expected consequences of the retroactive application of lower network charges.

Our continuing operations recorded a tax expense of €730 million in the first nine months of 2006. The decline in our tax expense primarily reflects a higher share of tax-free income.

Minority interests' share of net income declined due to lower earnings contributions at the companies in question.

Income/Loss (-) from discontinued operations, net, mainly includes the results of E.ON Finland, which was sold in June 2006, and Western Kentucky Energy, which is held for sale. Pursuant to U.S. GAAP, their results are reported separately in the Consolidated Statements of Income (see commentary on page 32). In the prior-year period, this item also contained the results of Viterra and Ruhrgas Industries, which were sold in 2005.

Despite our positive operating performance, net income for the third quarter of 2006 of -€198 million was considerably below the high prior-year figure of €3.4 billion, primarily due to the high book gains recorded in the third quarter of 2005 on the Viterra and Ruhrgas Industries disposals. Negative factors include the marking to market of derivatives (-€674 million) relative to the prior-year quarter, impairment charges at our gas distribution network operations (-€547 million), and the increase in provisions to address anticipated regulation risks associated with the retroactive application of lower network charges (-€208 million).

Results of Operations

Adjusted Net Income 26 Percent above Prior-Year Figure

In addition to reflecting our operating performance, net income also reflects special items 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 items. The adjustments include book gains and losses on disposals, restructuring expenses, and other nonoperating income and expenses of a nonrecurring or rare nature (after taxes and minority interests). Adjusted net income also excludes income/loss (-) from discontinued operations, net.

Adjusted Net Income

January 1 - September 30 € in millions	2006	2005	+/- %
Net income	**2,629**	**6,399**	**-59**
Nonoperating earnings after income taxes and minority interests	889	-450	-
Income/Loss (-) from discontinued operations, net	-132	-3,261	-
Adjusted net income[1]	**3,386**	**2,688**	**+26**

[1]Non-GAAP financial measure

Investments Significantly Higher

In the period under review, the E.ON Group invested €3.9 billion, a 28 percent increase year on year. We invested €2.6 billion in intangible assets and property, plant, and equipment compared with €1.9 billion in the prior year. Investments in financial assets totaled €1.3 billion versus €1.2 billion in the prior year.

Investments

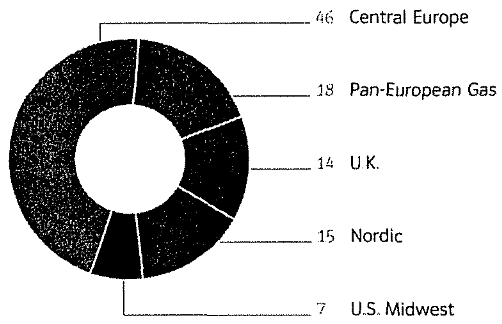
January 1 - September 30 € in millions	2006	2005[1]	+/- %
Central Europe	1,769	1,430	+24
Pan-European Gas	717	431	+66
U.K.	555	728	-24
Nordic	599	379	+58
U.S. Midwest	276	139	+99
Corporate Center	-25	-68	-
Total	**3,891**	**3,039**	**+28**

[1]Adjusted for discontinued operations

Investments

January 1 - September 30, 2006
Percentages

Total: €3,891 million



In the first nine months of 2006, Central Europe invested about €340 million, or 24 percent, more than in the same period last year. Investments in intangible assets and property, plant, and equipment totaled €1,138 million (prior year: €963 million) and were aimed predominantly at generation and distribution assets. Investments in financial assets increased significantly to €631 million (prior year: €467 million), primarily due to the acquisition of shareholdings in the Czech Republic and small municipal utilities in Germany and to capital increases at subsidiaries and investments in new solid-waste incineration plants.

Pan-European Gas invested €717 million, of which €247 million (prior year: €175 million) went towards intangible assets and property, plant, and equipment. Investments in financial assets of €470 million (prior year: €256 million) mainly reflect the acquisition of the gas trading and storage business of Hungary's MOL (now E.ON Földgaz Trade and E.ON Földgaz Storage). This transaction closed in late March 2006.

The U.K. market unit invested €555 million in 2006, primarily on capital expenditure for additions to property, plant, and equipment. The decrease compared to the prior year is due to higher capital expenditure in 2005 on the acquisition of the Enfield CCGT asset, Holford Gas Storage, and Economy Power's retail small and medium sized enterprise customers. This is partially offset by additional capital expenditure in 2006 (allowances under the five-year regulation review) in the regulated business and by higher expenditure on the generation portfolio, particularly to develop new renewables capacity at Lockerbie.

Nordic invested €354 million (prior year: €225 million) in intangible assets and property, plant, and equipment to maintain existing production plants and to upgrade and extend its distribution network. The increase was mainly related to efficiency-enhancing investments in Nordic's nuclear power plants, as well as investments in its distribution network being realized earlier as a result of the severe storm in January 2005. Investments in financial assets totaled €245 million compared with €154 million in 2005.

U.S. Midwest's investments of €276 million were 99 percent above the prior-year figure, primarily due to increased spending for SO_2 emissions equipment and the new 750 MW base-load unit at the Trimble County 2 plant.

Financial Condition

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

Cash Provided by Operating Activities

January 1 - September 30 € in millions	2006	2005[1]	+/-
Central Europe	2,484	2,516	-32
Pan-European Gas	291	1,266	-975
U.K.	493	-55	+548
Nordic	554	490	+64
U.S. Midwest	367	226	+141
Corporate Center	303	299	+4
Cash provided by operating activities	**4,492**	**4,742**	**-250**
Investments in intangible assets and property, plant, and equipment	2,558	1,864	+694
Free cash flow[2]	**1,934**	**2,878**	**-944**

[1]Adjusted for discontinued operations.
[2]Non-GAAP financial measure.

The E.ON Group's cash provided by operating activities in the first nine months of 2006 was 5 percent below the prior-year level.

The decline in Central Europe's cash provided by operating activities is mainly attributable to an increase in working capital and in contributions to VKE, a German energy industry pension fund. A positive factor was the increase in gross profit on sales in the electricity business. Furthermore, cash provided by operating activities had been adversely affected in the prior year by nonrecurring payments relating to nuclear energy operations. The significant negative impact of the new regulation of network charges in Germany will be reflected in cash provided by operations in future periods.

Pan-European Gas's positive business performance in the first nine months of 2006 is not yet reflected in its cash provided by operating activities. The main reasons are the buildup of working gas in storage at E.ON Földgaz Trade, which became a consolidated E.ON company on March 31, 2006, and price-driven increases in expenditures for natural gas in storage at E.ON Ruhrgas AG. Other negative factors include the later payment of supplier invoices from the prior year, lower payments from customers due to higher advance payments at the end of the prior year, and price-driven increases in payments for gas procurements.

The U.K. market unit's cash provided by operating activities was significantly higher year on year. The improvement was mainly due to one-off pension fund payments made in 2005. Higher gas procurement costs were recovered through higher sales prices and efficiency-enhancing initiatives.

Results of Operations

Nordic's cash provided by operating activities increased because the prior-year figure had been negatively affected by a number of nonrecurring items including high cash outflows relating to the severe storm in January 2005 and higher tax payments compared with the current year. This was, however, partially counteracted by the lower adjusted EBIT performance, primarily due to lower hydropower generation.

Cash provided by operating activities at U.S. Midwest was higher mainly due to increased collections of accounts receivable in the first quarter of 2006 which resulted from higher natural gas prices in the fourth quarter of 2005. Cash increases were partly offset by pension contributions in 2006.

The Corporate Center's cash provided by operating activities was at the prior-year level. Positive tax effects in the current year made up for the absence of income recorded in the prior year on the unwinding of currency swaps.

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 and for gas tax prepayments in the fourth quarter. A major portion of the market units' capital expenditures for intangible assets and property, plant, and equipment is paid in the fourth quarter.

Due to the increase in investments in property, plant, and equipment and in intangible assets, free cash flow was 33 percent below the prior-year number.

Net Financial Position

€ in millions	Sept. 30, 2006	Dec. 31, 2005	Sept. 30, 2005
Bank deposits	2,869	5,859	6,126
Securities and funds (current assets)	9,613	9,260	9,181
Total liquid funds	**12,482**	**15,119**	**15,307**
Securities and funds (fixed assets)	1,525	1,160	1,040
Total financial assets	**14,007**	**16,279**	**16,347**
Financial liabilities to banks	-1,570	-1,572	-2,002
Bonds (including MTN)	-8,961	-9,538	-9,498
Commercial paper	-1,214	-	-1,061
Other financial liabilities	-1,223	-1,306	-636
Total financial liabilities	**-12,968**	**-12,416**	**-13,197**
Net financial position[1]	**1,039**	**3,863**	**3,150**

[1]Non-GAAP financial measure; see reconciliation in the next table.

Net financial position, a non-GAAP financial measure, is derived from a number of figures which are reconciled to the most directly comparable U.S. GAAP measure in the next table.

Reconciliation of Net Financial Position

€ in millions	Sept. 30, 2006	Dec. 31, 2005	Sept. 30, 2005
Liquid funds shown in the Consolidated Financial Statements	12,482	15,119	15,307
Financial assets shown in the Consolidated Financial Statements	23,434	21,686	20,434
- Thereof loans	-851	-1,100	-1,246
- Thereof equity investments	-20,374	-18,759	-17,407
- Thereof shares in affiliated companies	-684	-667	-741
= Total financial assets	**14,007**	**16,279**	**16,347**
Financial liabilities shown in the Consolidated Financial Statements	-15,125	-14,362	-15,181
- Thereof to affiliated companies	153	134	107
- Thereof to associated companies	2,004	1,812	1,877
= Total financial liabilities	**-12,968**	**-12,416**	**-13,197**
Net financial position	**1,039**	**3,863**	**3,150**

Our net financial position of €1,039 million was €2,824 million below the figure reported as of December 31, 2005 (€3,863 million). This is mainly attributable to financial outlays for investments in property, plant, and equipment, the acquisition of the natural gas business of Hungary's MOL, and the €2.6 billion payment under our contractual trust arrangement. In addition, the dividend payout (including the special dividend) and the related tax payment resulted in substantial cash outflows. Our net financial position was positively affected by proceeds from the disposal of Degussa and E.ON Finland and, in particular, by our strong cash provided by operating activities.

Financial Key Figures

January 1 – September 30 € in millions	2006	2005
Net interest expense[1]	**–151**	**–224**
Adjusted EBITDA[2]	**8,441**	**7,629**
Adjusted EBITDA ÷ net interest expense	**55.9x**	**34.1x**

[1]Non-GAAP financial measure; see reconciliation to interest income shown in the Consolidated Statements of Income on page 39.
[2]Non-GAAP financial measure; see reconciliation to net income on page 9.

Net interest expense declined by €73 million from the year-earlier figure, mainly due to our, on average, better net financial position compared with the first nine months of 2005. Net interest expense only includes the interest income of those items that are also part of net financial position.

On February 21, 2006, Standard & Poor's (S&P) put its AA- long-term rating for E.ON bonds and its A-1+ short-term rating on credit watch with negative implications following E.ON's announcement that E.ON had made an offer to acquire 100 percent of Endesa's stock. On February 22, 2006, Moody's announced that it was reviewing its Aa3 long-term rating for E.ON bonds for a possible downgrade, as well.

Following E.ON's announcement that it was increasing its offer for Endesa, Moody's announced on September 28, 2006, that it was also reviewing its P-1 short-term rating for a possible downgrade. On September 27, 2006, S&P confirmed that E.ON's long-term and short-term ratings remained on credit watch with negative implications. Following the closing of the Endesa transaction, E.ON aims to have a single-A rating (A/A2).

On February 21, 2006, E.ON made an offer of €29.1 billion for 100 percent of Endesa's stock. Pursuant to the terms of this offer, E.ON adjusted the offer to €26.9 billion following Endesa's dividend payout in July 2006. On September 26, 2006, E.ON announced that it was increasing the existing offer to €37.1 billion. In this context, E.ON agreed to a new credit facility to finance the higher offer.

Employees

On September 30, 2006, the E.ON Group had 80,296 employees worldwide, as well as 2,577 apprentices and 233 board members and managing directors. Our workforce was essentially unchanged from year end 2005.

At the end of the third quarter, 46,168 employees, or 57.5 percent of all staff, were working outside Germany, also essentially unchanged from year end 2005.

Employees[1]

	Sept. 30, 2006	Dec. 31, 2005	+/- %
Central Europe	43,866	44,476	-1
Pan-European Gas	12,464	13,366	-7
U.K.	14,982	12,891	+16
Nordic	5,659	5,424	+4
U.S. Midwest	2,889	3,002	-4
Corporate Center	436	411	+6
Total	**80,296**	**79,570**	**+1**
Discontinued operations[2]	468	840	-44

[1]Figures do not include apprentices, managing directors, or board members.
[2]Includes WKE and, effective December 31, 2005, E.ON Finland.

The number of employees at Pan-European Gas declined by about 7 percent to 12,464 relative to year end 2005, mainly due to efficiency-enhancement measures at E.ON Gaz Romania.

Results of Operations

At the end of the third quarter of 2006, U.K. had 14,982 employees, roughly 16 percent more than at year end 2005. The increase is mainly attributable to the further additions in customer service staff and increased hiring of technical personnel at the electric distribution and metering businesses.

At the end of the first nine months of 2006, Nordic had 5,659 employees, about 4 percent more than at year end 2005. The increase is mainly due to additions in retail sales staff and personnel at the network business.

The 4 percent decline in U.S. Midwest's workforce compared with year end 2005 is due mainly to the sale of operating contracts of a service company in the non-regulated business.

During the reporting period, wages and salaries including social security contributions and retirement payments totaled €3.5 billion, compared with €3.3 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.

Technologically complex facilities are involved in the production and distribution of energy. Operational failures or extended production stoppages of facilities or components of facilities could adversely impact our earnings situation. We seek to minimize these risks through ongoing employee training and qualification programs and regular maintenance and enhancement of our facilities.

In the normal course of business, E.ON is exposed to interest rate, currency, commodity price, and counterparty risks which we address 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 derivative financial instruments to limit the price and sales 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 active and informed role in shaping our business environment. We pursue this goal by engaging in a systematic and constructive dialogue with political leaders and representatives of government agencies. Currently, the following issues are of particular relevance:

- The German Federal Ministry of Economics intends to intensify its antitrust oversight of the country's electricity, natural gas, and heating markets. It has been discussed that companies that individually or jointly have a dominant position on these markets should, in the future, no longer be able to charge fees or portions of fees or demand other terms of business that are less favorable than those charged or demanded by companies on comparable markets (even if the deviation is slight) or to charge fees that unfairly exceed their costs. We believe that, if implemented, these proposals would substantially impede competition on Germany's energy market. At this time, however, we are unable to quantify the effects the implementation of these proposals would have on E.ON.

- Germany's Federal Cartel Office (FCO) issued an order prohibiting E.ON Ruhrgas from implementing existing long-term gas supply contracts. E.ON Ruhrgas appealed the order by filing an emergency appeal with the State Superior Court in Düsseldorf to prevent the order from taking immediate effect. The emergency appeal was not successful. We are now concentrating our efforts on the main case before the State Superior Court whose decision can be appealed to the German Federal Appeals Court. We expect that the main case will provide our customers and us with a thorough legal clarification and therefore the necessary legal assurance, in particular about the permissibility of the competitive injunction issued against us by the FCO. In accordance with the terms of the FCO's order, we have concluded new gas supply contracts (for the period after October 1, 2006) with our reseller customers affected by the order.

- The FCO is carrying out an investigation into the use of CO_2 certificates to calculate electricity prices. A fundamental principle of emissions trading is that factoring the cost of certificates into the price of electricity will serve to reduce CO_2 emissions. The FCO is currently investigating whether the factoring in of CO_2 certificates, which were allocated at no cost, is an abusive market practice.

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 2005.

Outlook

The E.ON Group's positive operating performance continued in the third quarter. We continue to expect our adjusted EBIT for 2006 to surpass the high prior-year level. However, we will not repeat the extraordinarily high net income figure posted in 2005, which resulted in particular from the book gains on our successful Viterra and Ruhrgas Industries disposals.

The earnings forecast by market unit is as follows:

For 2006, we expect Central Europe's adjusted EBIT to be above the prior-year level. We continue to expect to offset the adverse effects of regulatory measures affecting the operations of our network business through operating improvements in other areas and through nonrecurring effects relating to earnings from shareholdings already recorded in the course of the year.

We expect Pan-European Gas's full-year adjusted EBIT to markedly exceed the figure for 2005, mainly due to positive earnings effects from the first half of this year. On balance, the up/midstream business will benefit from temperature-driven volume increases recorded in the first quarter. Moreover, oil price developments were a significant negative factor in the prior year. We expect the downstream business to deliver a lower adjusted EBIT due to the new regulatory regime in Germany.

The expected improvement in the U.K. market unit's figures following the first quarter materialized during the second and third quarters. This improvement supports our expectation that full-year 2006 adjusted EBIT will be significantly above the 2005 figure. Important factors include the impact of retail price increases, increased value from U.K.'s generation fleet, and profit and cost initiatives partially counteracted by future commodity cost increases.

We anticipate that Nordic's adjusted EBIT for 2006 will be significantly below the strong figure posted in 2005. Earnings development is affected by significantly higher nuclear and hydro taxes and by the absence of earnings streams from divested hydropower assets. In addition, Nordic's electricity generation was negatively affected by the hydrological situation during the third quarter and by the unplanned outages in several Swedish nuclear units after the Forsmark incident. These effects will be partially counteracted by higher average achieved electricity prices.

We expect U.S. Midwest's 2006 adjusted EBIT to slightly exceed the prior-year level due to lower costs following the exit from the organized MISO market in September.

16 Market Units

Central Europe

Central Europe January 1 – September 30 € in millions	2006	2005	+/- %
Sales	20,997	17,726	+18
- Thereof energy taxes	789	778	+1
Adjusted EBITDA	4,165	3,931	+6
Adjusted EBIT	3,243	2,945	+10

Market Development

German baseload electricity prices for 2007 delivery closed the quarter more than 5 percent higher than at the start of the year. However, the Federal Network Agency's first rulings on network charges will serve to reduce electricity and natural gas prices for end-customers.

Power and Gas Sales

The Central Europe market unit increased its power sales by 6.2 billion kWh to 198.5 billion kWh. The increase is nearly entirely attributable to the inclusion of newly consolidated regional electricity distributors, particularly in Bulgaria, Romania, and the Netherlands.

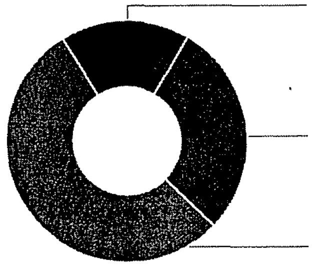
Central Europe's regional distribution companies sold about 20 billion kWh more natural gas than in the prior-year period. More than three quarters of the increase resulted from consolidation effects. In the prior-year period, our Hungarian gas utilities contributed only six months of results, Gasversorgung Thüringen (GVT) three months, and NRE of the Netherlands two months. Also included in the current year is JCP of the Czech Republic, which became a consolidated E.ON company in September 2006. The remainder of the increase is primarily weather driven.

Power Generation and Procurement

Central Europe utilized its flexible mix of generation assets to meet about 47 percent of its electricity requirements, compared with 48 percent in the prior year. It procured around 4.5 billion kWh more electricity from outside sources than in the year-earlier period. This increase results mainly from the inclusion of newly consolidated subsidiaries in Bulgaria and Romania.

Power Sales by Customer Segment[1]

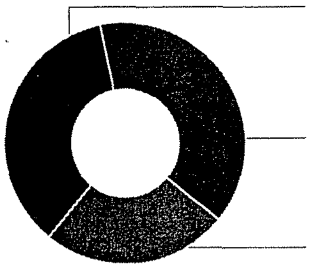
January 1 – September 30, 2006 Total: 198.5
Billion kWh (January 1 – September 30, 2005: 192.3)



[1]Excludes trading activities.

Gas Sales by Customer Segment[1]

January 1 – September 30, 2006 Total: 100.6
Billion kWh (January 1 – September 30, 2005: 80.7)



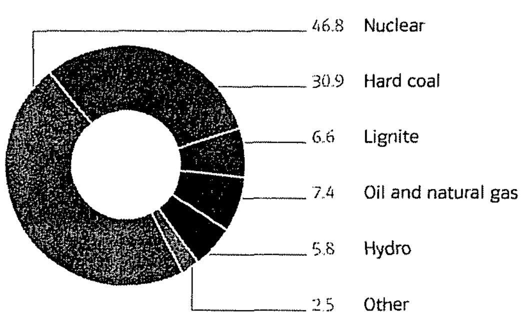
[1]Excludes trading activities.

Power Generation and Procurement[1] January 1 – September 30 Billion kWh	2006	2005	+/- %
Owned generation	98.3	96.4	+2
Purchases	109.8	105.2	+4
- Jointly owned power plants	9.2	9.1	+1
- Outside sources	100.6	96.1	+5
Power procured	**208.1**	**201.6**	**+3**
Station use, line loss, pumped-storage hydro	-9.6	-9.3	+3
Power sales	**198.5**	**192.3**	**+3**

[1]Excludes trading activities.

Sources of Owned Generation

January 1 - September 30, 2006
Percentages



Sales and Adjusted EBIT

Central Europe grew sales by €3.3 billion relative to the prior-year period. The expansion of our operations, particularly in Central Europe East, is responsible for about one third of the increase. The increase is mainly also attributable to adjustments to our power and gas prices resulting from the global rise in raw-material and energy prices and to weather-driven volume increases, particularly of natural gas.

Adjusted EBIT rose by €298 million year on year, with Central Europe's business units developing as follows:

With an increase of €75 million, Central Europe West Power's adjusted EBIT was only slightly above the prior-year figure. At the end of the second quarter, adjusted EBIT was €136 million below the prior-year figure. This modest development is mainly attributable to negative effects totaling €473 million relating to the new regulation of network charges in Germany (see commentary on page 7). These effects could not be fully offset by further operating improvements in other areas. The passthrough of higher wholesale electricity prices to end-customers was offset by higher conventional fuel costs and higher power procurement costs. Adjusted EBIT was also negatively affected by increased charges stemming from earlier reporting periods. Positive effects included significant nonrecurring earnings from shareholdings and the absence of provisions for nuclear operations taken in the prior year.

Adjusted EBIT at Central Europe West Gas was €39 million above the prior-year figure, particularly due to the fact that GVT was not a consolidated E.ON company in the prior-year period and to volume increases resulting from cold weather in the first half of the year. The regulation of network charges in Germany reduced adjusted EBIT by €46 million.

Central Europe East's adjusted EBIT rose by €71 million compared with the same period last year. This largely reflects the inclusion, for the entire period under review, of earnings from regional distributors in Bulgaria, Hungary, and Romania acquired in 2005. The increase also results from price-driven effects at our operations in Bulgaria and the Czech Republic.

Adjusted EBIT recorded under Other/Consolidation increased by €113 million, mainly due to higher income from realized hedging transactions and high earnings from shareholdings.

Financial Highlights by Business Unit

January 1 - September 30	Central Europe West				Central Europe East		Other/ Consolidation		Central Europe	
	Power		Gas							
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales[1]	13,836	12,457	3,573	2,548	2,480	1,772	319	171	20,208	16,948
Adjusted EBITDA	3,173	3,189	424	376	393	306	175	60	4,165	3,931
Adjusted EBIT	2,643	2,568	257	218	243	172	100	-13	3,243	2,945

[1]Excludes energy taxes; trading activities are recognized net.

Market Units

Pan-European Gas

Pan-European Gas January 1 - September 30 € in millions	2006	2005	+/- %
Sales	17,750	11,940	+49
- Thereof energy taxes	1,990	2,192	-9
Adjusted EBITDA	2,198	1,412	+56
Adjusted EBIT	1,596	1,125	+42

Market Development

Germany consumed about 5.5 percent more natural gas in the first nine months of 2006 than in the prior-year period, mainly due to cooler weather in the first four months of the year and increased use of natural gas for electric generation. Between July and September, natural gas consumption declined by 3 percent due to temperatures that averaged about 0.5 degrees Centigrade higher than in the previous year.

Gas Sales

Through September 30, Pan-European Gas sold slightly more than 8 percent more natural gas than in the prior-year period. It sold 111.2 billion kWh of natural gas in the third quarter, 2 percent less than last year.

Gas Sales by Period[1] January 1 - September 30 Billion kWh	2006	2005	+/- %
First quarter	**266.3**	**225.6**	**+18**
Second quarter	**138.6**	**137.5**	**+1**
July	34.1	38.9	-12
August	38.2	36.4	+5
September	38.9	38.5	+1
Third quarter	**111.2**	**113.8**	**-2**
Gas sales	**516.1**	**476.9**	**+8**

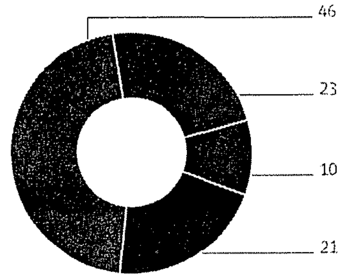
[1]Gas sales of E.ON Ruhrgas AG.

Sales outside Germany, which rose by 29 percent to 110 billion kWh, were a significant factor in the increase and accounted for more than one fifth of total sales volume. In Denmark, France, Italy, and the Netherlands we concluded new supply contracts and contract extensions with a term of one year or more and a total volume of approximately 10 billion kWh.

In the first nine months of 2006, sales volume in Germany rose by 4 percent year on year to 406 billion kWh. Third-quarter sales volume of 83 billion kWh was 10 percent below the prior-year figure. Sales by segment reflect the higher share of sales outside Germany, which increased from 18 to 21 percent of total sales volume. Regional gas companies accounted for 46 percent of total sales volume, municipal utilities for 23 percent, and industrial customers for 10 percent compared with 48 percent, 23 percent, and 11 percent, respectively, in the prior-year period.

Gas Sales by Customer Segment[1]

January 1 - September 30, 2006
Percentages



[1]Gas sales of E.ON Ruhrgas AG.

Supply Agreements Concluded with Gazprom

In August, we concluded agreements with Gazprom for contractual commitments to new volume and contract extensions for additional volume totaling about 400 billion cubic meters of natural gas. The agreements extend existing contracts by 15 years through 2035, and, from 2010/2011 through 2036, involve the supply of additional natural gas to be transported via the Nord Stream pipeline to Germany's Baltic Sea coast. Nord Stream, a joint project of Gazprom, E.ON Ruhrgas, and Wintershall, is important for Europe's natural gas supply. E.ON Ruhrgas is also participating in the construction of two new pipelines linking Nord Stream to Germany's natural gas network. The annual supply amount of roughly 24 billion cubic meters is one third of E.ON Ruhrgas's current procurement.

Gas Production Higher

Pan-European Gas produced about 80 percent more natural gas and just over 20 percent more oil and condensates than in the previous year. The sharp increase results from the expansion of the upstream business and in particular from the inclusion of E.ON Ruhrgas UK North Sea for the first time.

In September, E.ON Ruhrgas UK North Sea successfully completed test-drilling in Babbage gas field, in which the company owns a 47 percent share.

In order to further expand the upstream business in Norway as well, E.ON Ruhrgas Norge has applied for an operator's permit in Norway and will bid for licenses in the upcoming round of license allocations.

Sales and Adjusted EBIT

In the first nine months of 2006, Pan-European Gas increased sales (excluding energy taxes) by 62 percent year on year to €15.8 billion.

Sales growth in the midstream business resulted primarily from higher sales volumes in conjunction with higher average sales prices. Sales rose at the upstream business due in particular to the inclusion of E.ON Ruhrgas UK North Sea along with higher sales prices driven by oil prices. This company was acquired in 2005 and only contributed to consolidated sales in November and December of the prior year. In September 2005, Pan-European Gas increased its stake in Njord Field from 15 percent to 30 percent, which also had a positive effect on sales in the current-year period.

Consolidation effects were also responsible for a significant increase in sales at Downstream Shareholdings. First, E.ON Földgaz Trade and E.ON Földgaz Storage became consolidated E.ON subsidiaries on March 31, 2006. Second, the sales of E.ON Gaz Romania are included from the beginning of 2006, whereas in 2005 they were not consolidated until the third quarter.

Pan-European Gas's adjusted EBIT for the first three quarters of 2006 increased significantly year on year, from €1,125 million to €1,596 million.

Continued high oil and natural gas price levels constituted the key factor in the upstream business's adjusted EBIT performance. Temperature-driven volume increases in the first quarter and sales growth outside Germany resulted in a significant increase in adjusted EBIT at the midstream business. In addition, the continual rise in oil prices had had a considerable negative impact on adjusted EBIT in the prior-year period. Furthermore, nonrecurring income from the final clearing of trading transactions contributed to the increase in adjusted EBIT; the negative effects of these transactions had had a negative impact on the prior-year figure.

In the third quarter, the new regulation of network charges in Germany had a significant negative impact on adjusted EBIT at Downstream Shareholdings. In some cases, the new regulation of network charges led to significant impairment charges on our shareholdings in municipal utilities. By contrast, higher equity earnings from associated companies constituted a key positive effect on adjusted EBIT. Another was the inclusion of E.ON Gaz Romania for the entire period under review, whereas E.ON Földgaz Trade, which operates in Hungary's regulated gas market, recorded a negative adjusted EBIT due to the delay in passing through higher procurement costs.

Financial Highlights by Business Unit

January 1 – September 30	Up-/Midstream		Downstream-Shareholdings		Other/ Consolidation		Pan-European Gas	
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005
Sales[1]	13,209	8,767	3,041	1,261	-490	-280	15,760	9,748
Adjusted EBITDA	1,530	936	660	468	8	8	2,198	1,412
Adjusted EBIT	1,222	712	367	405	7	8	1,596	1,125

[1]Excludes energy taxes.

U.K.

U.K. January 1 - September 30 € in millions	2006	2005	+/- %
Sales	8,735	6,916	+26
Adjusted EBITDA	1,125	1,156	-3
Adjusted EBIT	710	715	-1

Market Development

U.K. market electricity and natural gas consumption at 258 billion kWh and 751 billion kWh, respectively, for the first nine months of 2006 was broadly in line with 2005.

On August 17, E.ON UK announced a consumer price rise of 9.7 percent for electricity and 18.4 percent for gas effective from August 21. E.ON UK provides practical solutions to improve the energy efficiency and income of households in, or at risk of, fuel poverty through its CaringEnergy scheme. E.ON UK has committed £100 million to CaringEnergy over the next three years.

E.ON UK's retail business has moved from sixth position to second position in the Energywatch league table reflecting the focus on customer service.

Power and Gas Sales

The decrease in Industrial and Commercial (I&C) power and gas volumes reflected E.ON UK's focus on margin rather than volume. Residential and SME power sales volumes increased despite a 2 percent reduction in the number of customer accounts; the volume increase is primarily due to colder weather in the first quarter.

Sales by Customer Segment[1] January 1 - September 30 Billion kWh	2006	2005	+/- %
Power—Residential and SME	27.5	26.3	+5
Power—I&C	13.7	17.1	-20
Total power sales	**41.2**	**43.4**	**-5**
Gas—Residential and SME	45.5	45.5	-
Gas—I&C	21.2	23.7	-11
Total gas sales	**66.7**	**69.2**	**-4**

[1]Excludes wholesale and energy trading activities.

Power Generation and Procurement

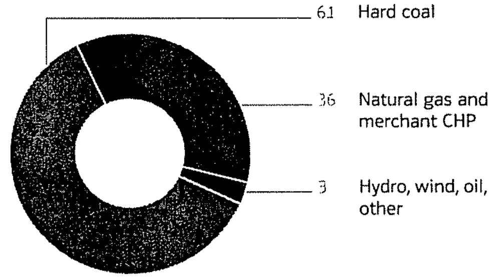
The slight year-on-year decrease in owned generation is due to lower gas generation (lower spark spreads) which is almost offset by increased coal generation (higher dark spreads). Coal generation was higher despite a long outage at Ratcliffe in the third quarter of 2006. Purchases from outside sources declined due to lower retail I&C sales volumes.

Power Generation and Procurement January 1 - September 30 Billion kWh	2006	2005	+/- %
Owned generation	25.1	25.3	-1
Purchases	16.8	19.4	-13
- Jointly owned power plants	0.4	1.6	-75
- Outside sources	16.4	17.8	-8
Power procured	**41.9**	**44.7**	**-6**
Station use, line loss, pumped-storage hydro	-0.7	-1.3	-
Power sales	**41.2**	**43.4**	**-5**

U.K.'s attributable generation capacity is 10,547 MW, an increase of 640 MW from September 2005. This was mainly due to the return of an oil-fired unit at Grain.

Sources of Owned Generation

January 1 - September 30, 2006
Percentages



In response to the Renewable Obligation, E.ON UK continues to grow a balanced portfolio of renewable power purchase agreements and physical assets. In the first nine months of 2006, E.ON UK co-fired biomass materials at Kingsnorth and Ironbridge, generating a total of 205 million kWh. Work has also commenced on the construction of a 44 MW wood-burning plant in Lockerbie in southwest Scotland, which when built will be the United Kingdom's largest dedicated biomass plant. In addition, construction of an 18 MW onshore wind project at Stags Holt has started in October 2006 and will be operational in the fourth quarter of 2007.

Sales and Adjusted EBIT

The U.K. market unit increased its sales in the first nine months of 2006 compared with the prior year primarily due to price increases in the retail business. This was driven by higher natural gas and power prices in the wholesale market. U.K. delivered an adjusted EBIT of €710 million in the first nine months of 2006, of which €347 million was in the regulated business and €443 million in the non-regulated business.

Adjusted EBIT at the non-regulated business increased by €50 million. The increase is primarily due to retail price rises, and cost and profit initiatives offset by the impact of higher natural gas costs in the first quarter 2006 and the one-off prior year benefit relating to the integration of previously outsourced customer service activities. Despite adjusted EBIT being slightly below prior year, the performance in the second and third quarter of €263 million versus the prior year has almost reversed the underperformance in the first quarter of -€213 million versus the prior year. This improvement is in line with our expectation that the increase in retail prices along with cost and profit initiatives would restore business margins.

The regulated business shows steady year-on-year growth with the €20 million adjusted EBIT increase being mainly due to a tariff change allowed by the regulator following a distribution price control review.

Other/Consolidation is €75 million below the prior year due to higher service costs from a growing business, higher pension costs, and foreign-exchange costs.

Financial Highlights by Business Unit

January 1 – September 30	Regulated business		Non-regulated business[1]		Other/ Consolidation		U.K.	
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005
Sales	621	604	8,171	6,449	-57	-137	8,735	6,916
Adjusted EBITDA	457	441	747	709	-79	6	1,125	1,156
Adjusted EBIT	347	327	443	393	-80	-5	710	715

[1]The non-regulated business now includes the new Energy Services business, a material part of which was previously reported at the regulated business. The non-regulated business also includes a recharge from Business Services (facilities, IT, and other shared services); 2005 has been rebased to ensure that comparisons are valid. The regulated business already included the recharge due to regulatory reasons.

Market Units

Nordic

Nordic January 1 - September 30 € in millions	2006	2005	+/- %
Sales	2,254	2,335	-3
- Thereof energy taxes	288	295	-2
Adjusted EBITDA	708	837	-15
Adjusted EBIT	437	581	-25

Market Development

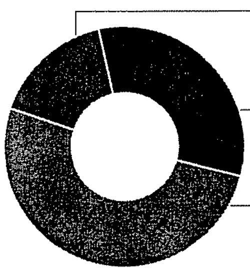
The Nordic region consumed 2.2 percent more electricity than in the prior-year period, mainly due to higher consumption resulting from considerably colder weather at the beginning of the year. Autumn has been warmer than normal.

Imports to Nordic from surrounding countries increased to over 9 billion kWh during the first nine months of 2006 compared with a net export of 1 billion kWh in the prior-year period. Net exports to Germany were less than 1 billion kWh compared with 9 billion kWh during the same period last year and are decreasing.

Power Sales

Power Sales

January 1 - September 30, 2006 Total: 29.4
Billion kWh (January 1 - September 30, 2005: 34.2)



E.ON Nordic sold 4.8 billion kWh less electricity than in the corresponding period of 2005 due to lower sales at the Nord Pool, Northern Europe's energy exchange. This was a consequence of both the sale of hydropower assets to Statkraft in late 2005, which reduced Nordic's owned generation capacity, and lower hydropower production due to the prevailing hydropower situation. Sales to residential customers decreased compared with the previous year, while sales to commercial customers increased slightly.

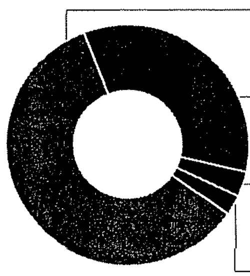
Power Generation and Procurement

E.ON Nordic covered 69 percent of its electricity sales with power from its own generation assets. E.ON Nordic's owned generation decreased by 4.5 billion kWh relative to the prior-year period. Hydropower production decreased due to the sale of hydropower assets to Statkraft in October 2005, but primarily due to significantly lower reservoir inflow. In addition, several Swedish nuclear units were taken offline as a consequence of an incident at Vattenfall's Forsmark nuclear power station in late July. The overall decrease in hydro and nuclear production in the third quarter was somewhat counteracted by increased CHP production and higher availability of nuclear assets in the first half of the year.

Power Generation and Procurement January 1 - September 30 Billion kWh	2006	2005	+/- %
Owned generation	20.3	24.8	-18
Purchases	10.7	10.6	+1
- Jointly owned power plants	7.5	7.5	-
- Outside sources	3.2	3.1	+3
Power procured	**31.0**	**35.4**	**-12**
Station use, line loss	-1.6	-1.2	-
Power sales	**29.4**	**34.2**	**-14**

Sources of Owned Generation

January 1 - September 30, 2006
Percentages



Gas and Heat Sales

Heat sales increased as a consequence of colder weather at the beginning of the year and the acquisition of heat operations in Denmark. Natural gas sales declined despite the colder weather, primarily due to lower sales to distributors and increased competition.

Gas and Heat Sales

January 1 – September 30 Billion kWh	2006	2005	+/- %
Gas sales	**4.2**	**5.1**	**-18**
Heat sales	**5.7**	**5.2**	**+10**

Sales and Adjusted EBIT

E.ON Nordic's sales, excluding energy taxes, decreased by 4 percent compared with the first nine months of 2005. The decrease was primarily due to lower hydropower generation, which was partially offset by higher average sales prices.

E.ON Nordic's adjusted EBIT decreased by €144 million year on year to €437 million. Compared with the prior year, adjusted EBIT for the first nine months was negatively impacted by increased taxes on hydro and nuclear assets. Significantly lower reservoir inflow resulted in lower hydropower generation. In addition, the hydropower assets sold to Statkraft contributed to prior-year adjusted EBIT. Adjusted EBIT was positively impacted by rising spot electricity prices and successful hedging activities, which enabled Nordic to secure higher average sales prices for its production portfolio.

Financial Highlights by Business Unit[1]

January 1 – September 30	Regulated business		Non-regulated business		Other/ Consolidation		Nordic	
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005
Sales[2]	535	605	1,376	1,623	55	-188	1,966	2,040
Adjusted EBITDA	245	275	469	543	-6	19	708	837
Adjusted EBIT	163	189	291	392	-17	-	437	581

[1]Effective mid-January 2006, E.ON Finland is recorded under discontinued operations. On June 26, 2006, E.ON Nordic and Fortum finalized the transfer to Fortum of all of E.ON Nordic's shares in E.ON Finland pursuant to an agreement signed on February 2, 2006. As a consequence of the sale, the Nordic market unit's segmentation has changed. The previous geographical segmentation (Sweden and Finland) has been replaced by a segmentation based on the operating environments of the different lines of business (Regulated, Non-Regulated, Consolidation/Other).
[2]Excludes energy taxes.

U.S. Midwest

U.S. Midwest January 1 - September 30 € in millions	2006	2005	+/- %
Sales	1,482	1,465	+1
Adjusted EBITDA	436	422	+3
Adjusted EBIT	285	277	+3

MISO Exit Effective September

E.ON U.S. has completed the exit from the Midwest Independent System Operator (MISO) and entered into alternative arrangements with the Tennessee Valley Authority and Southwest Power Pool effective early September 2006.

Power and Gas Sales

Sales by Customer Segment January 1 - September 30 Billion kWh	2006	2005	+/- %
Regulated utility business			
- Retail customers	24.8	25.4	-2
- Off-system sales	1.7	3.2	-47
Power sales	**26.5**	**28.6**	**-7**
Retail customers	8.3	9.3	-11
Off-system sales	-	0.8	-100
Gas sales	**8.3**	**10.1**	**-18**

Regulated utility retail power sales volumes decreased slightly in 2006 compared with 2005, primarily due to milder weather in 2006. Off-system sales volumes were lower compared with 2005 as a result of an increased use of E.ON U.S.'s generation for native load to replace the lost volumes from a purchase contract with Electric Energy Inc. (EEI). EEI is a 1,000 MW power station in which E.ON U.S. has a 20 percent stake. In the past, E.ON U.S. could buy its share of the output at cost and utilize this to meet native load. Since January 1, 2006, EEI sells its power at market prices. E.ON U.S. can no longer utilize this power to meet native load and now supplies this power from its own generation. Retail natural gas sales volumes declined due largely to milder winter weather compared with 2005 and reduced consumption due to higher prices. Off-system sales of natural gas decreased due to high market prices in the first quarter and correspondingly lower availability of excess gas for sale.

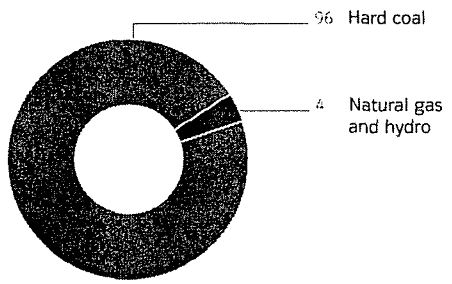
Power Generation and Procurement

Coal-fired power plants accounted for 96 percent of U.S. Midwest's electric generation in 2006, while gas-fired and hydro generating assets accounted for the remaining 4 percent.

Power Generation and Procurement January 1 - September 30 Billion kWh	2006	2005	+/- %
Proprietary generation			
- Owned power stations	26.3	26.9	-2
Purchases	2.6	3.9	-33
Power procured	**28.9**	**30.8**	**-6**
Station use, line loss	-2.4	-2.2	-
Power sales	**26.5**	**28.6**	**-7**

Sources of Owned Generation

January 1 - September 30, 2006
Percentages



Sales and Adjusted EBIT

U.S. Midwest's sales were in line with last year. Lower volumes due to milder weather were offset by higher gas prices recoverable from retail customers.

U.S. Midwest's adjusted EBIT increased by 3 percent, mainly due to favorable exchange-rate variances. Lower retail volumes in the regulated business, mainly due to significantly milder weather in 2006, were offset by cost savings due to the exit from MISO in the third quarter of 2006 and lower operating expenses as a result of the completion of the amortization of prior restructuring costs. In addition, the regulated business benefited from higher earnings on environmental capital spending.

In the non-regulated business, lower earnings as a result of the sale of an interest in a coal-fired facility in North Carolina in mid-2006 were partly offset by better performance in the Argentine business.

Financial Highlights by Business Unit

January 1 – September 30	Regulated business		Non-regulated business/other		U.S. Midwest	
€ in millions	2006	2005	2006	2005	2006	2005
Sales	1,432	1,405	50	60	1,482	1,465
Adjusted EBITDA	426	411	10	11	436	422
Adjusted EBIT	283	269	2	8	285	277

Interim Financial Statements (Unaudited)

E.ON AG and Subsidiaries Consolidated Statements of Income

€ in millions	July 1 - September 30 2006	July 1 - September 30 2005	January 1 - September 30 2006	January 1 - September 30 2005
Sales	**12,536**	**11,346**	**49,451**	**39,520**
Energy taxes	-458	-810	-3,067	-3,254
Sales, net of energy taxes	**12,078**	**10,536**	**46,384**	**36,266**
Cost of goods sold and services provided	-9,988	-8,384	-37,791	-28,221
Gross profit on sales	**2,090**	**2,152**	**8,593**	**8,045**
Selling expenses	-1,125	-933	-3,309	-2,833
General and administrative expenses	-357	-355	-1,265	-1,032
Other operating income	2,480	1,185	5,738	5,378
Other operating expenses	-3,249	-1,206	-6,438	-4,252
Financial earnings	-145	-342	178	-173
Income/Loss (-) from continuing operations before income taxes and minority interests	**-306**	**501**	**3,497**	**5,133**
Income taxes	36	-128	-730	-1,625
Minority interests	35	-105	-270	-370
Income/Loss (-) from continuing operations	**-235**	**268**	**2,497**	**3,138**
Income/Loss (-) from discontinued operations, net	37	3,105	132	3,261
Net income	**-198**	**3,373**	**2,629**	**6,399**
Earnings per share in €, basic and diluted				
- from continuing operations	-0.36	0.41	3.79	4.76
- from discontinued operations	0.06	4.71	0.20	4.95
- from net income	**-0.30**	**5.12**	**3.99**	**9.71**

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	Sept. 30, 2006	Dec. 31, 2005
Assets		
Goodwill	15,295	15,363
Intangible assets	3,821	4,125
Property, plant, and equipment	41,655	41,323
Financial assets	23,434	21,686
Fixed assets	**84,205**	**82,497**
Inventories	3,850	2,457
Financial receivables and other financial assets	2,066	2,019
Operating receivables and other operating assets	19,309	21,354
Liquid funds (thereof cash and cash equivalents < 3 months 2006: 2,627; 2005: 4,413)	12,482	15,119
Nonfixed assets	**37,707**	**40,949**
Deferred taxes	1,505	2,079
Prepaid expenses	475	356
Assets of disposal groups	647	681
Total assets	**124,539**	**126,562**

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	Sept. 30, 2006	Dec. 31, 2005
Stockholders' equity and liabilities		
Stockholders' equity	**44,871**	**44,484**
Minority interests	**4,872**	**4,734**
Provisions for pensions	6,417	8,720
Other provisions	26,588	25,142
Accrued liabilities	**33,005**	**33,862**
Financial liabilities	15,125	14,362
Operating liabilities	17,011	19,052
Liabilities	**32,136**	**33,414**
Liabilities of disposal groups	634	831
Deferred tax liabilities	7,822	8,420
Deferred income	1,199	817
Total stockholders' equity and liabilities	**124,539**	**126,562**

 Interim Financial Statements (Unaudited)

E.ON AG and Subsidiaries Consolidated Statements of Cash Flow

January 1 – September 30 € in millions	2006	2005
Net income	2,629	6,399
Income applicable to minority interests	270	370
Adjustments to reconcile net income to net cash provided by operating activities		
Income from discontinued operations, net	-132	-3,261
Depreciation, amortization, impairment	2,875	2,125
Changes in provisions	1,136	68
Changes in deferred taxes	-413	-57
Other noncash income and expenses	-566	-107
Gain/Loss on disposal of fixed assets	-574	-196
Changes in nonfixed assets and other operating liabilities	-733	-599
Cash provided by operating activities	**4,492**	**4,742**
Proceeds from disposal of		
equity investments and other financial assets	3,853	5,762
intangible assets and property, plant, and equipment	125	130
Purchase of		
equity investments and other financial assets	-1,333	-1,175
intangible assets and property, plant, and equipment	-2,558	-1,864
Changes in other liquid funds	-2,262	-388
Cash provided by (used for) investing activities of continuing operations	**-2,175**	**2,465**
Payments received/made from changes in capital, including minority interests	1	-
Payments for treasury stock, net	-	-44
Payment of cash dividends to		
stockholders of E.ON AG	-4,614	-1,549
minority stockholders	-232	-233
Changes in financial liabilities	796	-3,192
Cash provided by (used for) financing activities of continuing operations	**-4,049**	**-5,018**
Net increase (decrease) in cash and cash equivalents maturing (< 3 months) from continuing operations	**-1,732**	**2,189**
Cash provided by operating activities of discontinued operations	65	134
Cash provided by (used for) investing activities of discontinued operations	-105	-347
Cash provided by (used for) financing activities of discontinued operations	2	-172
Net increase (decrease) in cash and cash equivalents maturing (< 3 months) from discontinued operations	**-38**	**-385**
Effect of foreign exchange rates on cash and cash equivalents (< 3 months)	-16	80
Cash and cash equivalents (< 3 months) at the beginning of the period	4,413	4,176
Cash and cash equivalents (< 3 months) from discontinued operations at the end of the period	-	-
Cash and cash equivalents (< 3 months) as shown on the balance sheet	**2,627**	**6,060**
Available-for-sale securities (> 3 months) from continuing operations at the end of the period	9,855	9,247
Liquid funds as shown on the balance sheet	**12,482**	**15,307**

Consolidated Statements of Changes in Stockholders' Equity

				Accumulated other comprehensive income					
€ in millions	Capital Stock	Additional paid-in capital	Retained earnings	Currency translation adjust-ments	Available-for-sale securities	Minimum pension liability	Cash flow hedges	Treasury stock	Total
Balance as of January 1, 2005	**1,799**	**11,746**	**20,003**	**–896**	**2,178**	**–1,090**	**76**	**–256**	**33,560**
Shares repurchased/sold		3						-12	-9
Dividends paid			-1,549						-1,549
Net income			6,399						6,399
Other comprehensive income				436	3,736	55	38		4,265
Total comprehensive income									**10,664**
Balance as of September 30, 2005	**1,799**	**11,749**	**24,853**	**–460**	**5,914**	**–1,035**	**114**	**–268**	**42,666**
Balance as of January 1, 2006	**1,799**	**11,749**	**25,861**	**–276**	**6,876**	**–1,402**	**133**	**–256**	**44,484**
Shares repurchased/sold									
Dividends paid			-4,614						-4,614
Net income			2,629						2,629
Other comprehensive income				-383	2,808	196	-249		2,372
Total comprehensive income									**5,001**
Balance as of September 30, 2006	**1,799**	**11,749**	**23,876**	**–659**	**9,684**	**–1,206**	**–116**	**-256**	**44,871**

Accounting Policies

The accounting policies used to prepare the Interim Financial Statements for the nine months ended September 30, 2006, correspond to those used in the Consolidated Financial Statements for the year ended December 31, 2005, with the following exceptions.

On January 1, 2006, E.ON adopted Statement of Financial Accounting Standard (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires us to account for our stock appreciation rights (SAR) on the basis of their fair values and to recognize the corresponding expenses in our Statements of Income. Prior to adopting SFAS 123R, we accounted for SAR on the basis of intrinsic values and recognized the corresponding expenses in our Statements of Income, as provided by SFAS 123 in conjunction with FASB Interpretation 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.* Pursuant to SFAS 123R we use a Monte Carlo simulation technique to calculate the fair value of SAR. The cumulative effect of initially applying SFAS 123R by using the modified version of prospective application as the transition method had no material effect on our results of operations. As a result, no further disclosure is provided.

New Accounting Pronouncement

FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*, was published in July 2006. FIN 48 applies to fiscal years that begin after December 15, 2006. We are currently evaluating the potential effects of applying FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This statement provides additional guidance for fair value measurements of assets and liabilities. It applies whenever other standards require assets or liabilities to be measured at fair value. It does not expand the use of fair value in any new circumstances. Under SFAS 157, fair value is the price in an orderly transaction between market participants to sell an asset or transfer a liability. A fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In accordance with this principle, this statement establishes a fair value hierarchy that gives highest priority to quoted prices on active markets. At the lowest rung of this hierarchy are unobservable data such as the reporting entity's own data. This statement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effects of applying SFAS 157.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 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). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost. SFAS 158 is effective for fiscal years ending after December 15, 2006. Based on our unfunded obligation as of December 31, 2005, the adoption of SFAS 158 would decrease total assets (excluding deferred taxes) by €337 million, increase provisions for pensions by €895 million, and reduce total shareowners' equity by €822 million. It would also result in a net increase of approximately €410 million in deferred taxes recorded in the Consolidated Balance Sheets. At this time, we anticipate that there will be at most very minimal additional valuation allowances on deferred tax assets at individual subsidiaries that will record higher deferred tax assets as a result of implementing the new standard. In this case, a valuation allowance of deferred tax assets would be offset against shareholders' equity and would not affect net income. The adoption of SFAS 158 will not affect our results of operations. We cannot rule out the possibility that changed actuarial assumptions and actual plan performance could have a significant impact on the actual amounts recorded.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. We will initially apply the provisions of SAB 108 for the year ending December 31, 2006, and are currently evaluating the possible effects.

Variable Interest Entities

As of September 30, 2006, we consolidated the following variable interest entities (VIEs): two jointly managed electric generation companies, one real estate leasing company, and a company that manages shareholdings. Effective the second quarter of 2006, FIN 46R no longer applies to a real estate leasing company following our acquisition of more shares in this company.

As of September 30, 2006, we consolidated VIEs that had total assets of approximately €742 million and recorded earnings of €3 million prior to consolidation. Fixed assets and other assets in the amount of €158 million serve as collateral for liabilities relating to financial leases and bank loans.

With the exception of one VIE, the creditors of our consolidated VIEs have limited recourse to the primary beneficiary's assets. In the case of this one VIE, the primary beneficiary is liable for €75 million.

In addition, since July 1, 2000, we have had a contractual relationship with a VIE, a leasing company operating in the energy sector, for which we are not the primary beneficiary. This entity is currently being liquidated pursuant to a decision made by its owners. This entity had no significant assets and no liabilities at year end 2005. We do not expect E.ON to realize a loss from either its relations with this entity or from the entity's liquidation.

Due to a lack of information, we continue to be unable to compute, pursuant to FIN 46R, the financial situation of another special-purpose entity, which has existed since 2001 and whose activities were expected to terminate in the fourth quarter of 2005. The main transactions between this entity and the E.ON Group were completed in the fourth quarter of 2005. However, this entity has not yet been liquidated. Its activities consisted of liquidating the assets of divested operations. Originally, its total assets amounted to €127 million. We do not expect E.ON's results of operations to be materially affected by this entity.

Acquisitions, Discontinued Operations, and Disposals

Acquisitions in 2006

Effective March 31, 2006, E.ON Ruhrgas acquired 100 percent of the natural gas trading and storage operations of MOL, a Hungarian oil and gas company, by acquiring ownership interests in Budapest-based MOL Földgázellátó Rt. and Budapest-based MOL Földgáztároló Rt. (now E.ON Földgaz Storage and E.ON Földgaz Trade). The purchase price was approximately €450 million. It was further agreed that, depending on regulatory developments, compensatory payments would be made through the end of 2009 if this should become necessary for a subsequent adjustment of the purchase price. The entities became consolidated E.ON companies on March 31, 2006.

Discontinued Operations

Pursuant to SFAS 144, we report two companies as discontinued operations in the first nine months of 2006: E.ON Finland, Espoo, Finland, at our Nordic market unit and the operations of Western Kentucky Energy Corp. (WKE), Henderson, Kentucky, USA, at our U.S. Midwest market unit. E.ON Finland was sold in June 2006. In addition, E.ON recorded a gain of initially about €26 million in the third quarter of 2006 relating to a purchase price adjustment on the sale of Viterra.

Through WKE, E.ON U.S. operates the generating facilities of a power generation cooperative in western Kentucky and a coal-fired facility owned by the city of Henderson, Kentucky, under a leasing arrangement. In November 2005, the parties involved entered into a letter of intent to terminate the lease and operational agreements between the parties and other related matters. The closing of the transaction is subject to review and approval by various regulatory agencies and other interested parties. We classified WKE as a discontinued operation in late December 2005.

On June 26, 2006, E.ON Nordic and Fortum Power and Heat Oy (Fortum) finalized the transfer to Fortum of all of E.ON Nordic's shares in E.ON Finland pursuant to an agreement signed on February 2, 2006. The purchase price for 65.56 percent of E.ON Finland's shares totaled about €390 million. In mid-January 2006, we classified E.ON Finland as a discontinued operation.

Pursuant to U.S. GAAP, the income and expenses of discontinued operations are reported separately under "Income/Loss (-) from discontinued operations, net." The Consolidated Statements of Income and the Consolidated Statements of Cash Flows, including the notes relating to them, for the period ended September 30, 2006, and for the prior period have been adjusted for these discontinued operations. The assets and liabilities of these discontinued operations are shown in the Consolidated Balance Sheet for the period ended September 30, 2006, under "Assets of disposal groups" and "Liabilities of disposal groups." We did not reclassify prior-year balance-sheet line items attributable to discontinued operations because such reclassification is not required by SFAS 144.

Other Disposals

Continuing the implementation of its framework agreement with RAG, on March 21, 2006, E.ON transferred its stake in Degussa (42.9 percent) into RAG Projektgesellschaft mbH, Essen. E.ON's Degussa stake was forward sold to RAG on the same date. The transaction initially resulted in a gain of €618 million. However, because E.ON holds a 39.2 percent stake in RAG, the share of the gain recorded in our Consolidated Statement of Income was €376 million. On July 3, 2006, E.ON and RAG executed the forward sales agreement for E.ON's stake in RAG Projektgesellschaft mbH. E.ON has now sold all of its remaining, indirectly held stake in Degussa. RAG paid E.ON the roughly €2.8 billion purchase price on August 31, 2006.

The following table shows the major line items of the statements of income of the above-named discontinued operations.

Major Income Statement Line Items of Discontinued Operations (Summary)

January 1 - September 30	E.ON Finland		WKE		Viterra		Ruhrgas Industries		Other		Total	
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales	131	181	176	159	-	453	-	847	-	-	307	1,640
Net income from disposal	11	-	-	-	26	2,450	-	613	-	10	37	3,073
Other operating income/expenses, net	-115	-144	-23	-157	-	-284	-	-803	-	-	-138	-1,388
Income/Loss (-) before income taxes and minority interests	**27**	37	**153**	2	**26**	2,619	**-**	657	**-**	10	**206**	3,325
Income taxes	-7	-10	-58	-4	-	-12	-	-22	-	-4	-65	-52
Minority interests	-9	-11	-	-	-	-	-	-1	-	-	-9	-12
Income/Loss (-) from discontinued operations, net	**11**	16	**95**	-2	**26**	2,607	**-**	634	**-**	6	**132**	3,261

The following table shows major line items of the balance sheets of WKE, which is classified as a discontinued operation.

Major Balance Sheet Line Items of the Discontinued Operation WKE (Summary)	
€ in millions	Sept. 30, 2006
Fixed assets	220
Nonfixed and other assets	427
Total assets	**647**
Liabilities (including minority interests)	634
Net assets	**13**

Acquisitions and discontinued operations from 2005 are described in detail in our 2005 Annual Report.

Research and Development

The E.ON Group's research and development expense totaled €12 million in the first nine months of 2006 and €15 million in the prior-year period.

Earnings per Share

Earnings per share were computed as follows:

Earnings per Share	July 1 – September 30		January 1 – September 30	
	2006	2005	2006	2005
Income/Loss (-) from continuing operations (€ in millions)	-235	268	2,497	3,138
Income/Loss (-) from discontinued operations, net (€ in millions)	37	3,105	132	3,261
Net income (€ in millions)	-198	3,373	2,629	6,399
Weighted average number of shares outstanding (in 1,000)	659,154	659,042	659,154	659,042
Earnings per share (in €)				
-from continuing operations	-0.36	0.41	3.79	4.76
-from discontinued operations	0.06	4.71	0.20	4.95
-from net income	**-0.30**	**5.12**	**3.99**	**9.71**

Notes

Financial Earnings

The table below provides details of financial earnings for the periods indicated.

Financial Earnings

January 1 - September 30 € in millions	2006	2005	+/- %
Income from companies accounted for using the equity method	687	292	+135
Other income from companies in which share investments are held	179	170	+5
Income from share investments	**866**	**462**	**+87**
Income from other long-term securities	27	27	-
Income from long-term loans	25	29	-14
Other interest and similar income	807	710	+14
Interest and similar expenses	-1,408	-1,350	-
- thereof SFAS 143 accretion expense	-392	-375	-
- thereof from financial liabilities to affiliated companies and to companies in which share investments are held	-31	-14	-
Interest and similar expenses (net)	**-549**	**-584**	-
Writedown of securities, share investments, and long-term loans	-139	-51	-
Financial earnings	**178**	**-173**	-

Goodwill and Intangible Assets

The table below shows the changes in the carrying amount of goodwill in the first nine months of 2006 by segment.

Goodwill[1]

€ in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Corporate Center	Other Activities	Total
Book value as of December 31, 2005	**2,419**	**4,069**	**4,955**	**368**	**3,552**	**-**	**-**	**15,363**
Goodwill additions/disposals	40	117	0	3	0	-	-	160
Goodwill impairment	0	0	0	0	0	-	-	0
Other changes[2]	0	39	55	-80	-242	-	-	-228
Book value as of September 30, 2006	**2,459**	**4,225**	**5,010**	**291**	**3,310**	**-**	**-**	**15,295**

[1]Excludes goodwill of companies accounted for using the equity method.
[2]Other changes include transfers and exchange-rate differences.

Intangible Assets

As of September 30, 2006, and December 31, 2005, E.ON's intangible assets, including advance payments on intangible assets, consist of the following:

Intangible Assets € in millions	Sept. 30, 2006	Dec. 31, 2005
Intangible assets subject to amortization		
Acquisition costs	5,013	4,978
Accumulated amortization	2,202	1,957
Net book value	**2,811**	**3,021**
Intangible assets not subject to amortization	**1,010**	**1,104**
Total	**3,821**	**4,125**

In the first nine months of 2006, E.ON recorded an amortization expense of €273 million (prior year: €259 million) on intangible assets and an impairment charge of €40 million (prior year: €0 million) on intangible assets. E.ON did not record goodwill impairment charges in the first nine months of 2006 or in the prior-year period.

Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for the rest of 2006 and each of the five succeeding fiscal years is as follows: 2006 (remaining three months): €80 million, 2007: €262 million, 2008: €220 million, 2009: €188 million, 2010: €163 million, and 2011: €153 million. As acquisitions and dispositions occur in the future, actual amounts could vary.

Impairment Charges Stemming from the Regulation of Network Charges in Germany

In the third quarter of 2006, Germany's Federal Network Agency issued rulings on the network charges of natural gas distribution network operators. In this context, we carried out impairment tests on our gas distribution activities. At September 30, 2006, the impairment tests resulted in impairment charges of €227 million on property, plant, and equipment and of €320 million on minority shareholdings.

We already carried out impairment tests in the second quarter of 2006 for our electricity network operations. Even after considering the rulings on our electricity operations issued in the third quarter, no impairment charges resulted from these impairment tests.

Treasury Shares Outstanding

The number of treasury shares as of September 30, 2006, was almost unchanged from the figure as of December 31, 2005. E.ON AG held 4,374,232 treasury shares. E.ON subsidiaries held another 28,472,194 shares of E.ON stock. E.ON thus holds 4.7 percent of its capital stock as treasury shares.

Dividends Paid

On May 4, 2006, the Annual Shareholders Meeting voted to distribute a dividend of €2.75 per share of common stock, a €0.40 increase from the previous dividend, plus a special dividend of €4.25 per share of common stock for a total dividend payout of €4,614 million.

Provisions for Pensions

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

Net Periodic Benefit Cost for Defined Benefit Plans	July 1 - September 30		January 1 - September 30	
€ in millions	2006	2005	2006	2005
Employer service cost	58	51	189	152
Interest cost	190	194	569	577
Expected return on plan assets	-135	-110	-385	-329
Prior service cost	3	8	10	24
Net amortization of gains (-)/losses	35	30	91	79
Total	**151**	**173**	**474**	**503**

Contribution to Plan Assets

In 2005 we created, through a contractual trust arrangement, the framework for the external financing of pension obligations of E.ON companies in Germany. In the first quarter of 2006, E.ON made the first contribution into the trusts in the amount of €2.6 billion by transferring money market investments with a term of more than three months.

Asset Retirement Obligations

E.ON's asset retirement obligations at September 30, 2006, relate to the decommissioning of nuclear power stations in Germany (€8,449 million) and Sweden (€431 million), environmental remediation at conventional power station sites, including the removal of electric transmission and distribution equipment (€372 million), environmental remediation at gas storage facilities (€119 million) and opencast mining facilities (€62 million), and the decommissioning of oil and gas infrastructure (€335 million). The fair value of nuclear decommissioning obligations is based on third-party valuations.

An accretion expense of €392 million pertaining to the updating of provisions for the first nine months of 2006 is included in financial earnings (prior year: €375 million).

Contingent Liabilities Arising from Guarantees

Financial Guarantees

Financial guarantees include both direct and indirect obligations (indirect guarantees of indebtedness of others). These require the guarantor to make contingent payments to the guaranteed party based on the occurrence of certain events and/or changes in an underlying instrument that is related to an asset, a liability, or an equity security of the guaranteed party.

Our financial guarantees include nuclear-energy-related items which are described in detail in our 2005 Annual Report. Obligations also include direct financial guarantees to creditors of related parties and third parties. Direct financial guarantees with specified terms extend as far as 2022. Maximum potential undiscounted future payments amount to €514 million (year end 2005: €427 million). Of this amount, €430 million (year end 2005: €304 million) consists of guarantees issued on behalf of related parties.

Indirect guarantees primarily include additional obligations in connection with cross-border leasing transactions and obligations to provide financial support, primarily to related parties. Indirect guarantees with specified terms extend as far as 2023. Maximum potential undiscounted future payments amount to €412 million (year end 2005: €431 million). Of this amount, €141 million (year end 2005: €67 million) involves guarantees issued on behalf of related parties. As of September 30, 2006, we recorded provisions of €9 million (year end 2005: €25 million) with respect to financial guarantees.

In addition, E.ON has commitments under which it assumes joint and several liability arising from its ownership interests in civil-law companies *(Gesellschaften bürgerlichen Rechts)*, noncorporate commercial partnerships, and consortia in which it participates.

Furthermore, certain E.ON Group companies have obligations by virtue of their membership in VKE, a German energy industry pension fund, in accordance with VKE's articles of incorporation. We do not expect these companies to have to perform on their obligations.

Indemnification Agreements

Contracts in connection with the disposal of shareholdings concluded by E.ON Group companies include indemnification agreements and other guarantees with terms up to 2041 in accordance with local legal requirements, unless shorter terms were contractually agreed to. Maximum undiscounted amounts potentially payable pursuant to the circumstances expressly stipulated in these agreements could total up to €6,805 million (year end 2005: €6,623 million). These amounts mainly relate to customary representations and warranties, potential environmental liabilities, and potential claims for tax-related guarantees. In some cases, the buyer is either required to share costs or to cover certain costs before we are required to make any payments. Some obligations are covered first by insurance contracts or provisions of the divested companies. As of September 30, 2006, we recorded provisions of €290 million (year end 2005: €296 million) for indemnities and other guarantees included in sales agreements. Guarantees issued by companies that were later sold by E.ON AG (or by VEBA AG or VIAG AG before their merger) are included in the final sales contracts in the form of indemnities *(Freistellungserklärungen)*.

Other Guarantees

Other guarantees with an effective period through 2021 mainly include market-value guarantees and warranties (maximum potential undiscounted future payments at September 30, 2006: €119 million; year end 2005: €130 million). Other guarantees no longer include product warranties (or corresponding provisions) due to the disposal of Viterra and Ruhrgas Industries.

Subsequent Events

The Spanish Industry Ministry amended several critical aspects of the conditions set by the National Energy Commission (CNE) relating to our proposed acquisition of Endesa. Most importantly, the revised conditions no longer contain any requirement to dispose of any assets. On this basis, we have accepted the Industry Ministry's decision and now expect the Spanish stock-market regulator (CNMV) to proceed with the final approval of our offer.

Business Segments

Our reportable segments are presented in line with our internal organizational and reporting structure. E.ON's business is subdivided into energy and other activities. Our core energy business consists of the following market units: Central Europe, Pan-European Gas, U.K., Nordic, U.S. Midwest, and Corporate Center.

Central Europe operates an integrated electricity business and downstream gas business in Central Europe.

Pan-European Gas focuses on the upstream and midstream gas business in Europe. This market unit also holds a number of mostly minority shareholdings in the downstream gas business.

U.K. operates an integrated energy business in the United Kingdom.

Nordic is principally engaged in the integrated energy business in Northern Europe.

U.S. Midwest primarily operates a regulated utility business in Kentucky, USA.

Adjustments for Discontinued Operations

€ in millions	Figures disclosed for Jan. 1 - Sept. 30, 2005	Adjustments	Adjusted figures for Jan. 1 - Sept. 30, 2005	Jan. 1 - Sept. 30, 2006
Central Europe	2,945	-	2,945	3,243
Pan-European Gas	1,125	-	1,125	1,596
U.K.	715	-	715	710
Nordic	600	-19	581	437
U.S. Midwest	278	-1	277	285
Corporate Center	-260	-	-260	-260
Core Energy Business	**5,403**	**-20**	**5,383**	**6,011**
Other Activities	**121**	**-**	**121**	**53**
Adjusted EBIT	**5,524**	**-20**	**5,504**	**6,064**
Adjusted interest income (net)	-791	-	-791	-848
Other nonoperating earnings	439	-19	420	-1,719
Income/Loss (-) from continuing operations before income taxes and minority interests	**5,172**	**-39**	**5,133**	**3,497**
Net income	**6,399**	**-**	**6,399**	**2,629**

Financial Information by Business Segment

January 1 - September 30	Central Europe		Pan-European Gas		U.K.		Nordic	
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005
External sales	20,618	17,566	16,503	11,333	8,649	6,884	2,198	2,270
Intersegment sales	379	160	1,247	607	86	32	56	65
Total sales	**20,997**	**17,726**	**17,750**	**11,940**	**8,735**	**6,916**	**2,254**	**2,335**
Adjusted EBITDA	**4,165**	**3,931**	**2,198**	**1,412**	**1,125**	**1,156**	**708**	**837**
Depreciation, amortization, and write-downs affecting adjusted EBIT[2]	-922	-986	-602	-287	-415	-441	-271	-256
Adjusted EBIT	**3,243**	**2,945**	**1,596**	**1,125**	**710**	**715**	**437**	**581**
- Thereof earnings from companies accounted for using the equity method[2]	280	134	452	353	4	12	-	6
Cash provided by operating activities	**2,484**	**2,516**	**291**	**1,266**	**493**	**-55**	**554**	**490**
Investments	**1,769**	**1,430**	**717**	**431**	**555**	**728**	**599**	**379**
Intangible assets and property, plant, and equipment	1,138	963	247	175	552	359	354	225
Financial assets	631	467	470	256	3	369	245	154

[1]Other activities consist of our Degussa shareholding, which we accounted for using the equity method in line with our 42.9 percent shareholding in the company.
[2]Depreciation, amortization, and writedowns impacting adjusted EBIT and earnings from companies accounted for using the equity method deviate from the corresponding figures calculated pursuant to U.S. GAAP. Impairment charges taken on property, plant, and equipment and on shareholdings at our Central Europe and Pan-European Gas market units constitute the main factor for the differences in 2006.

The Corporate Center consists of equity interests managed directly by E.ON AG, E.ON AG itself, and consolidation effects at the group level.

Under U.S. GAAP, 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 nine months of 2006, this applied mainly to WKE, which is held for sale, and E.ON Finland, which was sold in late June 2006. For the purposes of our business segment reporting, our results for the period ended September 30, 2006, and for the prior-year period do not include the results of our discontinued operations (see the table on page 38 and the commentary on page 32).

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 nonoperating income and expenses of a nonrecurring or rare nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions resulting from personnel expenses is allocated to interest income. The interest portions of the allocations of other long-term provisions are treated analogously to the degree that, in accordance with U.S. GAAP, they are reported on different lines of the Consolidated Statements of Income.

Adjusted Interest Income (Net)

January 1 - September 30 € in millions	2006	2005
Net interest expense	**-151**	**-224**
- Net interest expense relating to liabilities of affiliated and associated companies as well as other share investments	-31	-14
- Accretion expense related to the adoption of SFAS 143	-392	-375
+ Income from long-term loans	25	29
Interest and similar expenses (net) shown in Consolidated Statements of Income	**-549**	**-584**
+ Nonoperating interest income (net)[1]	-3	-3
- Interest portion of long-term provisions	-296	-204
Adjusted interest income (net)	**-848**	**-791**

[1]This figure is the sum of nonoperating interest expense and nonoperating interest income.

Page 9 of this 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 U.S. GAAP figures.

U.S. Midwest		Corporate Center		Core Energy Business		Other Activities[1]		E.ON Group	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
1,482	1,465	1	2	49,451	39,520	-	-	49,451	39,520
-	-	-1,768	-864	-	-	-	-	-	-
1,482	**1,465**	**-1,767**	**-862**	**49,451**	**39,520**	-	-	**49,451**	**39,520**
436	**422**	**-244**	**-250**	**8,388**	**7,508**	**53**	**121**	**8,441**	**7,629**
-151	-145	-16	-10	-2,377	-2,125	-	-	-2,377	-2,125
285	**277**	**-260**	**-260**	**6,011**	**5,383**	**53**	**121**	**6,064**	**5,504**
17	12	2	10	755	527	53	121	808	648
367	**226**	**303**	**299**	**4,492**	**4,742**	-	-	**4,492**	**4,742**
276	**139**	**-25**	**-68**	**3,891**	**3,039**	-	-	**3,891**	**3,039**
276	139	-9	3	2,558	1,864	-	-	2,558	1,864
-	-	-16	-71	1,333	1,175	-	-	1,333	1,175

Financial Calendar

March 7, 2007	Publication of the 2006 Annual Report
May 3, 2007	2007 Annual Shareholders Meeting
May 4, 2007	Dividend Payout
May 9, 2007	Interim Report: January – March 2007
August 15, 2007	Interim Report: January – June 2007
November 13, 2007	Interim Report: January – September 2007

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

SEC FORM 6-K – AUGUST 2006

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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, 2006

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 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):

January 1 – June 30, 2006

Interim Report II/2006

2006

- Adjusted EBIT up 13 percent

- Spain's energy regulatory agency CNE approves Endesa acquisition but attaches far-reaching conditions

- Outlook for full year 2006 revised upwards: increase in adjusted EBIT expected

JUL

AUG

SEP

OCT

NOV

DEC

e·on

E.ON Group Financial Highlights

E.ON Group Key Figures at a Glance January 1 - June 30 € in millions	2006	2005[1]	+/- %
Power sales (in billion kWh)[2]	205.8	205.1	-
Gas sales (in billion kWh)[2]	559.4	499.7	+12
Sales	36,915	28,174	+31
Adjusted EBITDA[3]	6,296	5,628	+12
Adjusted EBIT[4]	4,836	4,271	+13
Income/Loss (-) from continuing operations before income taxes and minority interests	3,803	4,632	-18
Income/Loss (-) from continuing operations	2,732	2,870	-5
Income/Loss (-) from discontinued operations, net	95	156	-39
Net income	2,827	3,026	-7
Adjusted net income[5]	2,847	2,163	+32
Investments	2,457	1,775	+38
Cash provided by operating activities	2,773	2,796	-1
Free cash flow[6]	1,279	1,790	-29
Net financial position[7] (at June 30 and December 31)	-2,596	3,863	-
Employees (at June 30 and December 31)	80,549	79,570	+1
Earnings per share (in €)	4.29	4.59	-7

[1]Adjusted for discontinued operations.
[2]Unconsolidated figures.
[3]Non-GAAP financial measure; see reconciliation to net income on page 9.
[4]Non-GAAP financial measure; see reconciliation to net income on page 9 and commentary on pages 34-35.
[5]Non-GAAP financial measure; see reconciliation to net income on page 10.
[6]Non-GAAP financial measure; see reconciliation to cash provided by operating activities on page 11.
[7]Non-GAAP financial measure; see reconciliation on page 12.

Non-GAAP financial measures: This report contains certain non-GAAP financial measures 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 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. Additional information with respect to each of the non-GAAP financial measures used in this report is included together with the reconciliations described below.

E.ON prepares its financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP). As noted above, this report contains certain consolidated financial measures (Group adjusted EBIT, adjusted EBITDA, adjusted net income, net financial position, net interest expense, and free cash flow) that are not calculated in accordance with U.S. GAAP and are therefore considered "non-GAAP financial measures" within the meaning of the U.S. federal securities laws In accordance with applicable rules and regulations, E.ON has presented in this report a reconciliation of each non-GAAP financial measure to the most directly comparable U.S. GAAP measure for historical measures and an equivalent U.S. GAAP target for forward-looking measures The footnotes presented with the relevant historical non-GAAP financial measures indicate the page of this report on which the relevant reconciliation appears. The non-GAAP financial measures used in this report 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 U.S. GAAP presented in this report and the relevant reconciliations The non-GAAP financial measures used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies

Contents

Dear Shareholders,

In the first half of 2006, the E.ON Group continued its positive performance. We increased sales by 31 percent from €28.2 billion to €36.9 billion and adjusted EBIT by 13 percent from €4.3 billion to €4.8 billion. A key contributing factor was the solid earnings performance of our Central Europe and Pan-European Gas market units. The U.K. market unit posted an earnings increase in the second quarter, which, as anticipated, significantly reduced the considerable earnings decline it had posted in the first quarter. For the E.ON Group, we now expect full-year adjusted EBIT to surpass the high prior-year level. In the first half of 2006, we recorded net income (after taxes and minority interests) of €2.8 billion, 7 percent below the high prior-year figure. As anticipated, we will not repeat the extraordinarily high net income of full year 2005.

The most important energy policy issue in Germany is currently the new regulatory regime for the country's power and gas networks. The Federal Network Agency (known by its German abbreviation, BNetzA) has ruled on the network charges of a number of network operators. The reduction the BNetzA made to the charges filed by one of our network operators is in line with our expectations which were adjusted in the course of the year. In late June, the BNetzA presented its proposed incentive plan for network regulation. The plan, however, does not create incentives for network operators to achieve lasting efficiency improvements. Despite our difference of opinion with the BNetzA, we support the rapid introduction of a workable incentive plan and will continue to play a constructive role in this process. As a network operator, we need a stable regulatory environment in order to make long-term investments in security of supply.

Our planned acquisition of Endesa, a Spanish energy utility, would strengthen our market position and further expand it in Southern Europe and South America. The EU Commission issued an unconditional antitrust approval of the transaction in late April. On July 27, 2006, the CNE, Spain's energy regulatory agency approved the transaction but attached far-reaching conditions. We see no justification for these conditions. On August 10, we filed an appeal against the CNE's conditions with Spain's Ministry of Industry, which has up to three months to decide on our appeal. We'll continue to do everything we can to ensure that Endesa shareholders can make their decision as soon as possible. We believe that this transaction will benefit all stakeholders: customers, employees, and shareholders as well as the wider Spanish economy.

At the same time, we're not losing sight of our other strategic objectives. On July 12, 2006, we signed a framework agreement with Gazprom to exchange assets in gas production and in gas trading, gas sales, and the electricity business. Under the agreement, E.ON is to acquire a stake in Yushno Russkoye in Siberia, one of the world's largest natural gas fields. In return, Gazprom is to acquire minority stakes in our two Hungarian gas companies and in E.ON Hungária, a regional power and gas distributor, plus additional compensation. Production at Yushno Russkoye is expected to begin next year. In view of the increasing demand for natural gas, E.ON and Gazprom are making an important contribution towards enhancing Europe's security of supply for the long term. As you can see, we continue to work hard to achieve our growth objectives and further enhance the value of your company.

Sincerely yours

Dr. Wulf H. Bernotat

E.ON Stock

Including the dividend and special dividend, E.ON stock finished the first six months of 2006 up 10 percent. E.ON stock thus significantly outperformed other European blue chips as measured by the EURO STOXX 50, which advanced by 2 percent over the same period, and was on par with its peer index, the STOXX Utilities, which also rose by 10 percent.

The trading volume of E.ON stock climbed by more than 80 percent year on year to €50.5 billion, making E.ON the fifth most-traded stock in the DAX index of Germany's top 30 blue chips. As of June 30, 2006, E.ON was the 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.

For the latest information about E.ON Stock, visit www.eon.com.

E.ON Stock

	June 30, 2006	Dec. 31, 2005
Shares outstanding (in millions)[1]	659	659
Closing price (in €)	90.02	87.39
Market capitalization (€ in billions)[2]	62.3	60.5

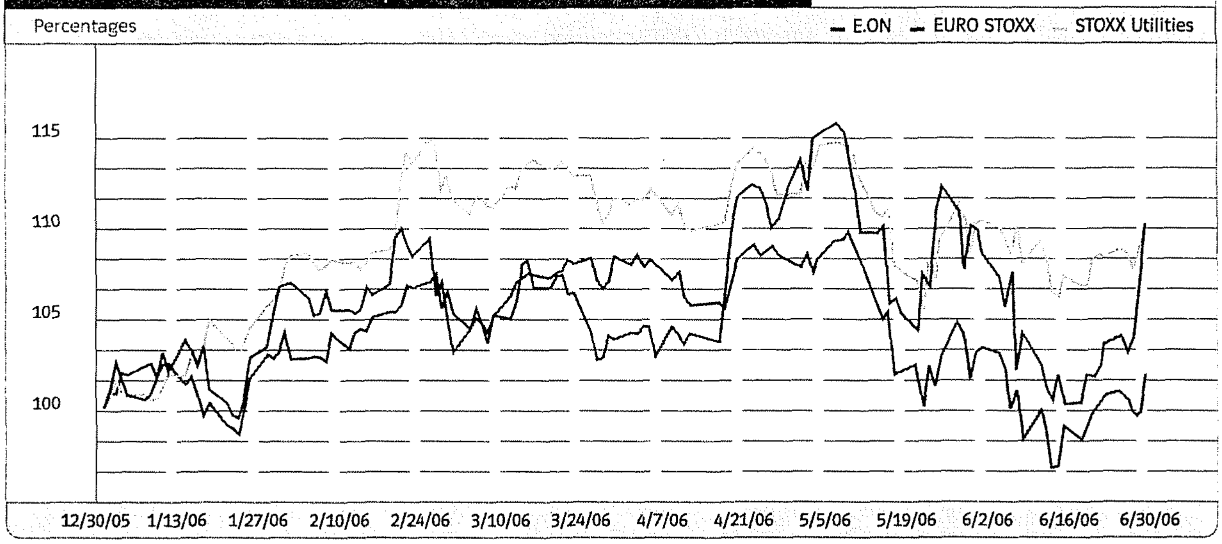
[1]Excludes treasury stock.
[2]Based on the entire capital stock (692,000,000 shares).

Performance and Trading Volume

January 1 - June 30	2006	2005
High (in €)[1]	100.35	73.68
Low (in €)[1]	82.12	64.50
Trading volume[2]		
- Millions of shares	537.1	407.1
- € in billions	50.5	27.9

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

E.ON Stock Performance versus European Stock Indices



6 Results of Operations

Energy Price Developments

European power and natural gas markets saw sustained high prices and volatility in the first half of 2006. The main drivers were international oil, coal, and CO_2 prices as well as the natural gas supply and storage situation in the United Kingdom.

Sustained growth in oil demand along with ongoing political risks in major oil producing countries like Iran, Iraq, and Nigeria have led to high, volatile oil prices. The price of Brent crude oil rose to about $72 per barrel by the end of June 2006, a 16 percent increase from the beginning of the year.

Coal prices increased at a similar rate but were less volatile. Since the beginning of 2006, coal prices have risen by more than 11 percent to $68 per metric ton. Market observers attribute the increase to supply problems, particularly in South Africa, and to greater buying interest in coal derivatives.

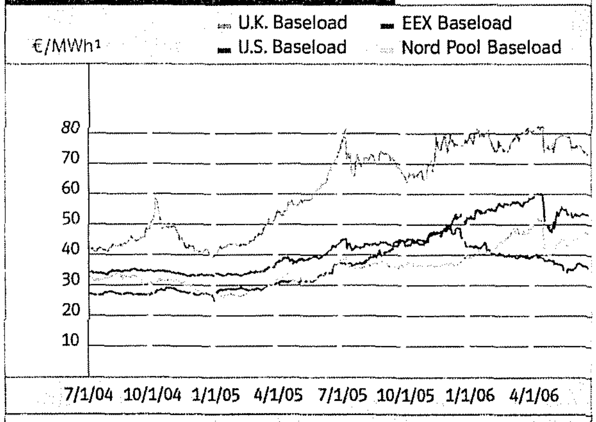
Germany's natural gas import prices are contractually indexed to heating oil prices, which they track with a time lag. Because heating oil prices have risen continually, the average price of Germany's natural gas imports was 43 percent higher in the first half of 2006 than in the first half of 2005. Natural gas prices in the United Kingdom also remain high and volatile, primarily due to supply concerns and a fire at the U.K.'s largest gas storage facility. The expectation that this facility will be operational by winter led to a decline in U.K. forward natural gas prices, although forward prices remain near the levels seen in the fourth quarter of 2005.

CO_2 prices were extremely volatile in the second quarter of 2006. Following increases in the beginning of 2006, CO_2 prices dropped by 27 percent in a single day on the publication of EU member states' emissions data for 2005, which were significantly below market expectations. Since May 2006, CO_2 prices have stabilized at about €16 per metric ton.

Wholesale power prices across Europe, which were heavily influenced by the sharp decline in CO_2 prices, fell by approximately 10 to 20 percent in the U.K., Nordic, and German markets. Since May 2006, German wholesale power prices have stabilized at a higher level of about €54 per MWh on the back of oil and coal price developments. Reduced hydropower availability pushed wholesale power prices higher in the Nordic market, while U.K. wholesale power prices continued to decline through late June due to lower natural gas prices.

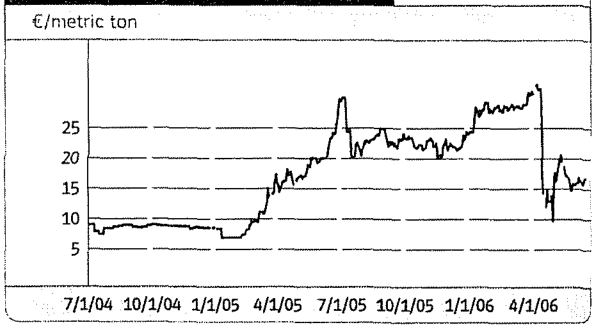
Through June, U.S. natural gas prices for 2007 delivery fell by about 10 percent compared with the beginning of 2006. The main reasons cited for decline are record gas storage levels and the expectation of higher supplies due to the absence of significant hurricane activity along the U.S. Gulf coast so far in 2006. Electricity prices moved lower, mainly influenced by the decline in gas prices and, to a smaller extent, by the development of SO_2 prices, which fell by more than half since the beginning of the year.

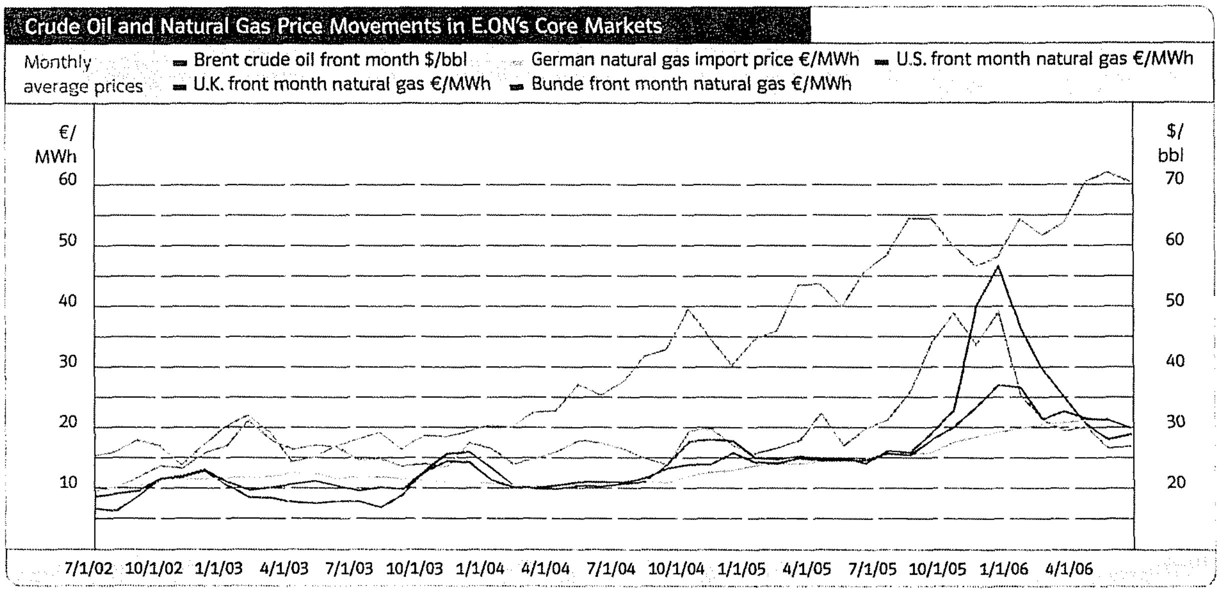
Electricity Price Movements in E.ON's Core Markets



¹Next-year delivery.

CO_2 Certificate (2005–2007) Price Movements in Europe





Regulation of Network Charges in Germany

The new regulation of Germany's electricity and gas networks requires that network charges be approved in advance. The approvals process is currently under way.

Electricity network charges were supposed to have been approved by May 1, 2006, and gas network charges by August 1, 2006. Due to the Federal Network Agency's (BNetzA) lengthy review process, rulings on electricity and gas network charges are considerably delayed. To date, the BNetzA has ruled on only a small number of electricity network charges. The BNetzA issued its first ruling for an E.ON network operator when it ruled on the charges of E.ON Thüringer Energie's distribution network operator. Effective August 1, 2006, the BNetzA reduced by about 14 percent the network charges filed by our subsidiary.

As part of the network charge approval process, the BNetzA is also dealing with the refund of overcharges. The BNetzA will require electricity network operators to refund to network customers the difference between operators' actual network charges and their approved network charges for the period between November 1, 2005, and the date operators' charges are approved. This is reflected in our Consolidated Financial Statements for the period ended June 30, 2006. The BNetzA has not yet issued a ruling on gas network charges.

Germany's Energy Law of 2005 required the BNetzA to design an incentive plan for the regulation of network charges. The BNetzA submitted its plan in late June 2006. The German federal government may now, with the Bundesrat's approval, issue an ordinance on an incentive plan for network regulation. The BNetzA's report calls for the incentive plan to begin on January 1, 2008. Furthermore, it proposes that, within six to eight years, all income from network charges should be reduced to the level of the most efficient network operator and that all network operators reduce their costs by 1.5 to 2 percent annually.

The energy industry is in agreement that the efficiency enhancements and cost reductions proposed by the BNetzA are neither technically achievable nor economically reasonable. Moreover, the proposed transition periods are too short. It will be important to ensure that the legislation codifying the incentive plan contains mechanisms to reflect the structural differences between network operators and maintains incentives for investment in network infrastructure.

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Adjusted EBIT January 1 - June 30 € in millions	2006	2005[1]	+/- %
Central Europe	2,454	2,337	+5
Pan-European Gas	1,458	803	+82
U.K.	451	613	-26
Nordic	428	428	-
U.S. Midwest	165	173	-5
Corporate Center	-173	-150	-
Core Energy Business	**4,783**	**4,204**	**+14**
Other Activities[2]	**53**	**67**	**-21**
Adjusted EBIT[3]	**4,836**	**4,271**	**+13**

[1]Adjusted for discontinued operations.
[2]This segment consists of Degussa, which is accounted for using the equity method.
[3]Non-GAAP financial measure; see the table below for a reconciliation to net income.

Net Income 7 Percent below High Prior-Year Level

Net income (after income taxes and minority interests) of €2.8 billion and earnings per share of €4.29 were both 7 percent below the high prior-year level.

Net Income January 1 - June 30 € in millions	2006	2005[1]	+/- %
Adjusted EBITDA[2]	**6,296**	**5,628**	**+12**
Depreciation, amortization, and impairments affecting adjusted EBIT[3]	-1,460	-1,357	-
Adjusted EBIT[2]	**4,836**	**4,271**	**+13**
Adjusted interest income (net)[4]	-533	-537	-
Net book gains	606	188	-
Restructuring expenses	-	-13	-
Other nonoperating earnings	-1,106	723	-
Income/Loss (-) from continuing operations before income taxes and minority interests	**3,803**	**4,632**	**-18**
Income taxes	-766	-1,497	-
Minority interests	-305	-265	-
Income/Loss (-) from continuing operations	**2,732**	**2,870**	**-5**
Income/Loss (-) from discontinued operations, net	95	156	-39
Net income	**2,827**	**3,026**	**-7**

[1]Adjusted for discontinued operations.
[2]Non-GAAP financial measure.
[3]For commentary see footnote 2 in the table on page 34.
[4]See reconciliation on page 35.

At -€533 million, adjusted interest income (net) was almost unchanged from the prior-year figure of -€537 million.

Net book gains in the first half of 2006 were significantly above the prior-year figure and resulted from the sale of securities (€230 million) and the Degussa transaction (€376 million; see commentary on page 29). In the prior-year period, net book gains resulted from the sale of securities.

We did not record restructuring expenses in the first half of 2006.

Other nonoperating earnings primarily reflect the fulfilment of derivative gas procurement contracts and from the marking to market of derivatives (-€952 million). For the period ended June 30, 2005, the marking to market of derivatives resulted in a positive effect of €910 million.

Our continuing operations recorded a tax expense of €766 million in the first half of 2006. The decline in our tax expense primarily reflects a higher share of tax-free income.

Minority interests' share of net income increased due to higher earnings contributions at the companies in question and consolidation effects.

Income/Loss (-) from discontinued operations, net, includes the results of E.ON Finland, which was sold in June 2006, and Western Kentucky Energy, which is held for sale. Pursuant to U.S. GAAP, their results are reported separately in the Consolidated Statements of Income (see commentary on pages 28-29). In the prior-year period, this item also contained the results of Viterra and Ruhrgas Industries, which were sold in 2005.

Results of Operations

Adjusted net income 32 percent above prior-year figure

In addition to reflecting our operating performance, net income also reflects extraordinary effects such as the marking to market of derivatives. For the first time, we are disclosing adjusted net income, an earnings figure after interest income, incomes taxes, and minority interests that has been adjusted to exclude certain extraordinary effects. The adjustments include book gains and losses on disposals, restructuring expenses, and other nonoperating income and expenses of a nonrecurring or rare nature (after taxes and minority interests). Adjusted net income also excludes Income/Loss (-) from discontinued operations, net.

Adjusted Net Income[1]

January 1 - June 30 € in millions	2006	2005	+/- %
Net income	**2,827**	**3,026**	**-7**
Nonoperating earnings after income taxes and minority interests	115	-707	-
Income/Loss (-) from discontinued operations, net	-95	-156	-
Adjusted net income	**2,847**	**2,163**	**+32**

[1]Non-GAAP financial measure

Investments Significantly Higher

In the period under review, the E.ON Group invested €2.5 billion, a 38 percent increase year on year. We invested €1.5 billion in intangible assets and property, plant, and equipment compared with €1 billion in the prior year. Investments in financial assets totaled €963 million versus €769 million in the prior year.

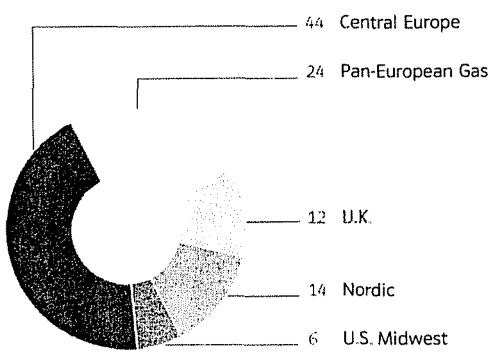
Investments

January 1 - June 30 € in millions	2006	2005[1]	+/- %
Central Europe	1,090	728	+50
Pan-European Gas	582	224	+160
U.K.	308	412	-25
Nordic	335	234	+43
U.S. Midwest	154	76	+103
Corporate Center	-12	101	-
Total	**2,457**	**1,775**	**+38**

[1]Adjusted for discontinued operations.

Investments

January 1 - June 30, 2006
Percentages
Total: €2,457 million



Central Europe invested €1,090 million in the first half of 2006, 50 percent more than in the same period last year. Investments in intangible assets and property, plant, and equipment totaled €668 million (prior year: €527 million) and were aimed predominantly at generation and distribution assets. Investments in financial assets increased significantly to €422 million (prior year: €201 million), primarily due to capital increases at subsidiaries, the acquisition of ownership interests in small regional distribution companies in eastern Germany, and investments in new solid-waste incineration plants.

Pan-European Gas invested €582 million, of which €151 million (prior year: €61 million) went towards intangible assets and property, plant, and equipment. Investments in financial assets of €431 million (prior year: €163 million) mainly reflect the acquisition of the gas trading and storage business of Hungary's MOL (now E.ON Földgaz Trade and E.ON Földgaz Storage). This transaction closed in late March 2006.

U.K. invested €308 million in 2006 primarily on capital expenditure for additions to property, plant, and equipment. The decrease compared with 2005 is due to the acquisitions of the Enfield CCGT asset and of Economy Power's retail small and medium sized enterprise customers in 2005 partially offset by additional capital expenditure allowances in the regulated business due to the five-year regulation review and by higher expenditure on the generation portfolio, particularly to develop new renewables capacity at Lockerbie.

Nordic invested €222 million (prior year: €136 million) in intangible assets and property, plant, and equipment to maintain existing production plants and to upgrade and extend its distribution network. The increase was mainly related to efficiency-enhancing investments in Nordic's nuclear power plants, as well as investments in its distribution network being realized earlier as a result of the severe storm in January 2005. Investments in financial assets totaled €113 million compared with €98 million in 2005.

U.S. Midwest's investments of €154 million were 103 percent above the prior-year figure, primarily due to increased spending for SO_2 emissions equipment and the Trimble County 2 plant construction, higher spending in generation and distribution, and currency translation effects.

Financial Condition

Management's analysis of E.ON's financial condition uses, among other financial measures, cash provided by operating activities, free cash flow, and net financial position. Free cash flow is defined as cash provided by operating activities less investments in intangible assets and property, plant, and equipment. We use free cash flow primarily to make growth-creating investments, pay out cash dividends, repay debts, and make short-term financial investments. Net financial position equals the difference between our total financial assets and total financial liabilities. Management believes that these financial measures enhance the understanding of the E.ON Group's financial condition and, in particular, its liquidity.

The E.ON Group's cash provided by operating activities in the first half of 2006 was slightly below the prior-year level.

Cash Provided by Operating Activities

January 1 – June 30 € in millions	2006	2005[1]	+/-
Central Europe	1,100	1,289	-189
Pan-European Gas	842	1,327	-485
U.K.	-72	-330	+258
Nordic	546	272	+274
U.S. Midwest	270	120	+150
Corporate Center	87	118	-31
Cash provided by operating activities	**2,773**	**2,796**	**-23**
Investments in intangible assets and property, plant, and equipment	1,494	1,006	+488
Free cash flow[2]	**1,279**	**1,790**	**-511**

[1]Adjusted for discontinued operations.
[2]Non-GAAP financial measure.

The decline in Central Europe's cash provided by operating activities is mainly attributable to an increase in working capital and in contributions to VKE, a German energy industry pension fund. The main positive factors were the significant increase in gross profit on sales in the electricity business and lower payments for nuclear fuel reprocessing.

Pan-European Gas's positive business performance in the first half of the year was not reflected in its cash provided by operating activities. The reasons are the later payment of supplier invoices from the prior year, lower payments from customers due to higher advance payments at the end of the prior year, and price-driven increases in payments for gas procurements. Other negative factors were the buildup of working gas in storage at E.ON Földgaz Trade, which became a consolidated E.ON company on March 31, 2006, and the price-driven increases in expenditures for natural gas in storage at E.ON Ruhrgas AG.

Cash provided by operating activities at the U.K. market unit was significantly higher year on year. The improvement was mainly due to the absence of one-off pension-fund payments made in 2005. Higher gas procurement costs, which were only partially recovered through higher sales prices, were a countervailing factor. U.K.'s negative cash provided by operating activities in the first half of 2006 resulted mainly from higher gas costs that impacted the first quarter of 2006 and the last quarter of 2005 partially offset by retail price rises.

Nordic's cash provided by operating activities increased significantly because the prior-year figure was negatively affected by a number of nonrecurring items including high cash outflows relating to the severe storm in January 2005 and higher tax payments compared with the current year. Improved electricity margins in the first half of 2006 constituted another positive factor.

Cash provided by operating activities at U.S. Midwest was higher year on year mainly due to increased collections of accounts receivable which resulted from higher natural gas prices in the fourth quarter of 2005. Cash increases were partly offset by pension contributions in 2006.

The Corporate Center's cash provided by operating activities was below the prior-year level. Positive tax effects in the current year almost entirely made up for the absence of income recorded in the prior year on the unwinding of currency swaps.

Results of Operations

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 and for gas tax prepayments in the fourth quarter. A major portion of the market units' capital expenditures for intangible assets and property, plant, and equipment is paid in the fourth quarter.

Due to the increase in investments in intangible assets and property, plant, and equipment, free cash flow was 29 percent below the prior-year number.

Net Financial Position

€ in millions	June 30, 2006	Dec. 31, 2005	June 30, 2005
Bank deposits	2,182	5,859	3,369
Securities and funds (current assets)	9,274	9,260	8,708
Total liquid funds	**11,456**	**15,119**	**12,077**
Securities and funds (fixed assets)	1,387	1,160	1,155
Total financial assets	**12,843**	**16,279**	**13,232**
Financial liabilities to banks	-1,673	-1,572	-2.328
Bonds (including MTN)	-9,113	-9,538	-9,572
Commercial paper	-3,388	-	-4,073
Other financial liabilities	-1,265	-1,306	-617
Total financial liabilities	**-15,439**	**-12,416**	**-16,590**
Net financial position[1]	**-2,596**	**3,863**	**-3,358**

[1]Non-GAAP financial measure; see reconciliation in the next table

Net financial position, a non-GAAP financial measure, is derived from a number of figures which are reconciled to the most directly comparable U.S. GAAP measure in the next table.

Reconciliation of Net Financial Position

€ in millions	June 30, 2006	Dec. 31, 2005	June 30, 2005
Liquid funds shown in the Consolidated Financial Statements	11,456	15,119	12,077
Financial assets shown in the Consolidated Financial Statements	25,829	21,686	17,616
- Thereof loans	-889	-1,100	-1,212
- Thereof equity investments	-22,865	-18,759	-14,551
- Thereof shares in affiliated companies	-688	-667	-698
= Total financial assets	**12,843**	**16,279**	**13,232**
Financial liabilities shown in the Consolidated Financial Statements	-17,589	-14,362	-18,593
- Thereof to affiliated companies	141	134	110
- Thereof to associated companies	2,009	1,812	1,893
= Total financial liabilities	**-15,439**	**-12,416**	**-16,590**
Net financial position	**-2,596**	**3,863**	**-3,358**

Our net financial position of -€2,596 million was €6,459 million below the figure reported as of December 31, 2005 (€3,863 million). This is mainly attributable to financial outlays for investments in property, plant, and equipment, the acquisition of the natural gas business of Hungary's MOL, and the €2.6 billion payment under our contractual trust arrangement. In addition, the dividend payout (including the special dividend) and the related tax payment resulted in substantial cash outflow. Our net financial position was positively affected by proceeds from the disposal of E.ON Finland and, in particular, by our strong cash provided by operating activities.

Financial Key Figures

January 1 - June 30 € in millions	2006	2005
Net interest expense[1]	**-60**	**-100**
Adjusted EBITDA[2]	**6,296**	**5,628**
Adjusted EBITDA ÷ net interest expense	**104.9x**	**56.3x**

[1]Non-GAAP financial measure; see page 35 for a reconciliation to interest income shown in the Consolidated Statements of Income.
[2]Non-GAAP financial measure; see reconciliation to net income on page 9.

Net interest expense declined by €40 million from the year-earlier figure, mainly due to the positive development of our net financial position. Net interest expense only includes the interest income of those items that are also part of the net financial position.

On February 21, 2006, Standard & Poor's put its AA- long-term rating for E.ON bonds and its A-1+ short-term rating on credit watch with negative implications following E.ON's offer to acquire Endesa. On February 22, 2006, Moody's announced that it was reviewing its Aa3 long-term rating for E.ON bonds for a possible downgrade. Following the closing of the Endesa transaction, E.ON aims to have a single-A flat rating (A/A2). Commercial paper issued by E.ON has a short-term rating of A-1+ and P-1 by Standard & Poor's and Moody's, respectively.

On February 21, 2006, E.ON made an offer of €29.1 billion for 100 percent of Endesa's stock. In conjunction with this offer, E.ON concluded a €32 billion credit facility. Pursuant to the terms of its offer, E.ON adjusted its offer to €26.9 billion following Endesa's dividend payout in July 2006.

Employees

On June 30, 2006, the E.ON Group had 80,549 employees worldwide, as well as 1,919 apprentices and 229 board members and managing directors. Our workforce was essentially unchanged from year end 2005.

At the end of the current period, 46,269 employees, or 57.4 percent of all staff, were working outside Germany, also essentially unchanged from year end 2005.

Employees[1]

	June 30, 2006	Dec. 31, 2005	+/- %
Central Europe	44,141	44,476	-1
Pan-European Gas	12,755	13,366	-5
U.K.	14,411	12,891	+12
Nordic	5,912	5,424	+9
U.S. Midwest	2,898	3,002	-3
Corporate Center	432	411	+5
Total	**80,549**	**79,570**	**+1**
Discontinued operations[2]	456	840	-46
Degussa[3]	33,690	33,882	-1

[1]Figures do not include apprentices, managing directors, or board members.
[2]Includes WKE and, effective December 31, 2005, E.ON Finland.
[3]At June 30, 2006, Degussa had 1,400 apprentices.

The number of employees at Pan-European Gas declined by about 5 percent to 12,755 relative to year end 2005, mainly due to efficiency-enhancement measures at E.ON Gaz Romania.

At the end of the first half of 2006, U.K. had 14,411 employees, roughly 12 percent more than at year end 2005. The increase is chiefly attributable to the further additions in customer service staff and increased hiring of technical personnel at the power distribution and metering businesses.

At the end of the first half of 2006, Nordic had 5,912 employees, 9 percent more than at year end 2005. The increase is due in particular to the hiring of seasonal staff in the summer months.

At the end of the first half of 2006, U.S. Midwest had 2,898 employees, 3 percent less than at year end 2005. The decrease is due mainly to the sale of operating contracts of a service company in the non-regulated business.

During the reporting period, wages and salaries including social security contributions and retirement payments totaled €2.3 billion, compared with €2.2 billion a year ago.

Results of Operations

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.

Technologically complex facilities are involved in the production and distribution of energy. Operational failures or extended production stoppages of facilities or components of facilities could adversely impact our earnings situation. We seek to minimize these risks through ongoing employee training and qualification programs and regular maintenance and enhancement of our facilities.

In the normal course of business, E.ON is exposed to interest rate, currency, commodity price, and counterparty risks which we address 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 derivative financial instruments to limit the price and sales 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 active and informed role in shaping our business environment. We pursue this goal by engaging in a systematic and constructive dialog with political leaders and representatives of government agencies. Currently, the following issues are of particular relevance:

- The regulation of electricity and gas networks codified in Germany's Energy Law 2005 requires that network charges be approved in advance. This poses a risk to our earnings situation, since it is becoming apparent that Germany's Federal Network Agency is interpreting the law in a one-sided manner prejudicial to network operators.
- Germany's Federal Cartel Office (FCO) issued an order prohibiting E.ON Ruhrgas from implementing existing long-term gas supply contracts. E.ON Ruhrgas filed an emergency appeal with the State Superior Court in Düsseldorf to prevent the order from taking immediate effect. The appeal was not successful. We are now concentrating our efforts on the main case before the State Superior Court whose decision can be appealed to the German Federal Appeals Court. We expect that the main case will provide our customers and us with a thorough legal clarification and therefore the necessary legal assurance, in particular about the permissibility of the competitive injunction issued against us by the FCO. In accordance with the terms of the FCO's order, we are in the meantime offering our resellers affected by the order new gas supply contracts for the period after October 1, 2006. The offer has been well received.

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 2005.

Outlook

The E.ON Group's positive earnings performance continued in the second quarter. We now expect our adjusted EBIT for 2006 to surpass the high prior-year level. However, we will not repeat the extraordinarily high net income figure posted in 2005, which resulted in particular from the book gains on our successful Viterra and Ruhrgas Industries disposals.

The earnings forecast by market unit is as follows:
For 2006, we expect Central Europe's adjusted EBIT to be slightly above the prior-year level. We expect to offset the adverse affects of regulatory measures affecting our network business by achieving operating improvements in other areas.

Pan-European Gas's upward earnings trend from the start of the year continued in the second quarter. We now expect Pan-European Gas's adjusted EBIT to markedly exceed the figure for 2005. Assuming temperatures are normal and oil price forecasts are correct, the sharp rate of earnings growth recorded in the first half of the year cannot be extrapolated to the year as a whole because certain effects primarily impacted the first half. The Up-/Midstream business will benefit from earnings streams from E.ON Ruhrgas UK North Sea Limited, which was acquired last year, and from temperature-driven volume increases recorded in the first quarter. Moreover, oil price developments were a significant negative factor in the prior year. On balance, we expect higher equity earnings in the downstream business.

As expected, the U.K. market unit's adjusted EBIT performance in the second quarter was significantly better than in the first quarter. This improvement supports our expectation that full-year 2006 adjusted EBIT will be significantly above the 2005 figure. Important factors include the impact of retail price increases, increased value from E.ON UK's generation fleet, and profit and cost initiatives partially counteracted by future commodity cost increases.

We anticipate that Nordic's adjusted EBIT for 2006 will be below the strong figure posted in 2005. Earnings development will be affected by significantly higher nuclear and hydro taxes and by the absence of earnings streams from the divested hydropower plants. These effects will be partially counteracted by higher average electricity prices.

We expect U.S. Midwest's 2006 adjusted EBIT to slightly exceed the prior-year level due to lower costs following the approvals of the responsible commissions that allow us to exit the organized MISO market in September.

16 Market Units

Central Europe

Central Europe January 1 - June 30 € in millions	2006	2005	+/- %
Sales	15,112	12,505	+21
- Thereof energy taxes	544	543	-
Adjusted EBITDA	3,069	2,948	+4
Adjusted EBIT	2,454	2,337	+5

Market Development

With the exception of a small number of regions, electricity prices in Germany's residential segment did not change in the second quarter, since there is typically a delay before changes in wholesale prices are passed on to residential customers. In a number of cities, there has been a stronger presence of new energy suppliers offering electricity and gas to residential customers.

Power and Gas Sales

The Central Europe market unit increased its power sales by 3.9 billion kWh to 137.4 billion kWh. The increase is almost entirely attributable to the inclusion of newly consolidated regional electricity distributors in Bulgaria, Romania, and the Netherlands.

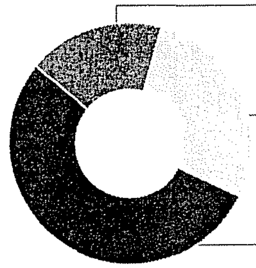
Central Europe's regional distribution companies sold about 20 billion kWh more natural gas than in the prior-year period. More than two thirds of the increase resulted from consolidation effects. In the first half of the previous year, NRE of the Netherlands and Gasversorgung Thüringen (GVT) were not yet consolidated E.ON companies; our Hungarian gas utilities were not included until April 2005. The remainder of the increase is primarily weather-driven.

Power Generation and Procurement

Central Europe utilized its flexible mix of generation assets to meet about 47 percent of its electricity requirements, compared with 48 percent in the prior year. It procured around 4.1 billion kWh more electricity from outside sources than in the year-earlier period. This increase results mainly from the inclusion of newly consolidated subsidiaries in Bulgaria and Romania.

Power Sales by Customer Segment[1]

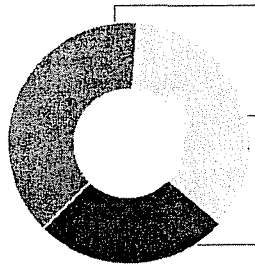
January 1 - June 30, 2006 Billion kWh — Total: 137.4 (January 1 - June 30, 2005: 133.5)



[1]Excludes trading activities.

Gas Sales by Customer Segment[1]

January 1 - June 30, 2006 Billion kWh — Total: 86.5 (January 1 - June 30, 2005: 66.1)



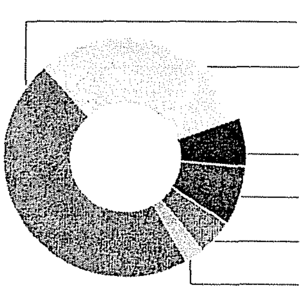
[1]Excludes trading activities.

Power Generation and Procurement[1] January 1 - June 30 Billion kWh	2006	2005	+/- %
Owned generation	67.9	66.5	+2
Purchases	76.9	73.1	+5
- Jointly owned power plants	6.4	6.7	-4
- Outside sources	70.5	66.4	+6
Power procured	**144.8**	**139.6**	**+4**
Station use, line loss, pumped-storage hydro	-7.4	-6.1	-
Power sales	**137.4**	**133.5**	**+3**

[1]Excludes trading activities.

Sources of Owned Generation

January 1 – June 30, 2006
Percentages



Sales and Adjusted EBIT

Central Europe grew sales by €2.6 billion relative to the prior-year period. The expansion of our operations, particularly in Central Europe East, is responsible for about one third of the increase. The remaining increase is mainly attributable to adjustments to our power and gas prices resulting from the global rise in raw-material and energy prices and to weather-driven volume increases, particularly of natural gas.

Adjusted EBIT rose by €117 million year on year, with Central Europe's business units developing as follows:

Adjusted EBIT at Central Europe West Power was €136 million below the prior-year figure. This follows an increase of €18 million in the first quarter of 2006. The decrease is mainly attributable to provisions of €325 million created for the expected consequences of the new regulation of network charges in Germany (see commentary on page 7). In addition, the passthrough of higher wholesale electricity prices to end customers was moderated by significantly higher conventional fuel costs and higher power procurement costs. Adjusted EBIT was also negatively affected by increased charges stemming from earlier reporting periods.

Adjusted EBIT at Central Europe West Gas was €81 million above the prior-year figure, mainly due to volume increases resulting from cold weather in the period under review and to the fact that GVT was not a consolidated E.ON company in the prior-year period.

Central Europe East's adjusted EBIT rose by €60 million compared with the same period last year. About two thirds of the increase reflects the inclusion of earnings from companies in Bulgaria, Hungary, and Romania acquired in 2005. The remaining increase results from our operations in Bulgaria and the Czech Republic and is primarily price-driven.

Adjusted EBIT recorded under Other/Consolidation increased by €112 million, mainly due to higher income from realized hedging transactions.

Financial Highlights by Business Unit

January 1 – June 30	Central Europe West				Central Europe East		Other/ Consolidation		Central Europe	
	Power		Gas							
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales[1]	9,525	8,580	3,097	2,086	1,727	1,201	219	95	14,568	11,962
Adjusted EBITDA	2,181	2,336	471	379	298	222	119	11	3,069	2,948
Adjusted EBIT	1,827	1,963	358	277	195	135	74	-38	2,454	2,337

[1]Excludes energy taxes; trading activities are recognized net.

Pan-European Gas

Pan-European Gas January 1 - June 30 € in millions	2006	2005	+/- %
Sales	14,016	8,860	+58
-Thereof *energy taxes*	1,847	1,682	+10
Adjusted EBITDA	1,717	978	+76
Adjusted EBIT	1,458	803	+82

Market Development

Germany consumed about 9 percent more natural gas in first half of 2006 than in the prior-year period, mainly due to cooler weather in January and March. Temperatures in the second quarter were comparable to those of the prior year. In this period, Germany consumed 3 percent more natural gas than in the same quarter a year ago.

Gas Release Program

On May 17, 2006, E.ON Ruhrgas held the fourth auction of a portion of the natural gas it procures under long-term supply contracts. Seven bidders were awarded a total of about 39 billion kWh of gas in the seventh round of the Internet-based auction. Demand was thus higher than in the previous years.

Gas Sales

Pan-European Gas's midstream business sold 404.9 billion kWh of natural gas in the first half of 2006, surpassing the prior-year figure by nearly 12 percent. It sold 138.6 billion kWh of natural gas in the second quarter, about 1 percent more than last year.

Gas Sales by Period[1] January 1 - June 30 Billion kWh	2006	2005	+/- %
First quarter	**266.3**	**225.6**	**+18**
April	56.6	57.7	-2
May	43.3	44.5	-3
June	38.7	35.3	+10
Second quarter	**138.6**	**137.5**	**+1**
Gas sales	**404.9**	**363.1**	**+12**

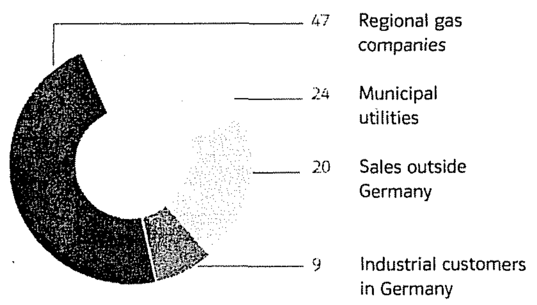
[1]Gas sales of E.ON Ruhrgas AG.

In the first half of 2006, E.ON Ruhrgas AG increased its sales volume outside Germany by 28 percent to 81.7 billion kWh. Sales outside Germany thus accounted for one fifth of total sales volume. Additional gas volumes were sold in Italy in the second quarter. In addition, we acquired new customers in France and Denmark.

In the first six months of 2006, sales volume in Germany rose by 8 percent year on year to 323.1 billion kWh. Sales volume declined by 3 percent in the second quarter following a significant 15 percent increase in the first quarter. Overall, sales by segment changed only slightly. In the first half of 2006, regional gas companies accounted for 47 percent of total sales volume, municipal utilities for 24 percent, and industrial customers for 9 percent compared with 49 percent, 24 percent, and 9 percent, respectively, in the prior-year period.

Gas Sales by Customer Segment[1]

January 1 - June 30, 2006
Percentages



[1]Gas sales of E.ON Ruhrgas AG.

Sales and Adjusted EBIT

Pan-European Gas increased sales by 58 percent year on year to €14 billion.

Sales growth in the midstream business resulted mainly from higher average sales prices in the wake of oil price movements along with higher sales volumes in the first half. The upstream business includes the revenue streams of E.ON Ruhrgas UK North Sea Limited. This company was acquired in 2005 and only contributed to consolidated sales in November and December. In September 2005, Pan-European Gas increased its stake in Njord Field from 15 percent to 30 percent, which also had a positive effect on sales in the current-year period. Sales at Downstream Shareholdings were about €1.3 billion higher, due primarily to consolidation effects. The sales of E.ON Gaz Romania are included from the beginning of 2006, whereas in 2005 they were not consolidated until the second half following our acquisition of majority stake. E.ON Földgaz Trade and E.ON Földgaz Storage became consolidated E.ON subsidiaries on March 31, 2006, after we acquired 100 percent of the two companies from MOL, a Hungarian oil and gas company.

Pan-European Gas recorded an adjusted EBIT of €1,458 million, a considerable increase from the prior-year period. All business units contributed to the advance.

The Up-/Midstream business unit benefited in the first half of 2006 from high oil and natural gas price levels and consolidation effects. Temperature-driven volume increases in the first quarter and sales growth outside Germany served to increase adjusted EBIT at the midstream business. In addition, the continual rise in oil prices had a significant negative impact on adjusted EBIT in the prior-year period. Moreover, adjusted EBIT in the second quarter was positively affected by payments of invoices from the cold winter. Furthermore, nonrecurring income from the final clearing of trading transactions contributed to the increase in adjusted EBIT; the negative effects of these transactions had had a negative impact on the prior-year figure.

Higher equity earnings from associated companies constituted a key positive effect on adjusted EBIT at Downstream Shareholdings. Another was the inclusion of E.ON Gaz Romania. By contrast, E.ON Földgaz Trade, which operates in Hungary's regulated gas market, recorded a negative adjusted EBIT due to the delay in passing through higher procurement costs.

Financial Highlights by Business Unit

January 1 - June 30 € in millions	Up-/Midstream		Downstream-Shareholdings		Other/ Consolidation		Pan-European Gas	
	2006	2005	2006	2005	2006	2005	2006	2005
Sales[1]	10,287	6,438	2,239	956	-357	-216	12,169	7,178
Adjusted EBITDA	1,197	595	512	384	8	-1	1,717	978
Adjusted EBIT	1,002	457	448	347	8	-1	1,458	803

[1]Excludes energy taxes.

U.K.

U.K.

January 1 - June 30 € in millions	2006	2005	+/- %
Sales	6,395	4,876	+31
Adjusted EBITDA	732	908	-19
Adjusted EBIT	451	613	-26

Market Development

U.K. market electricity and gas consumption at 180 billion kWh and 553 billion kWh, respectively, for the first half of 2006 was broadly in line with 2005.

E.ON UK's residential retail prices were increased by 18.4 percent for electricity and 24.4 percent for gas, effective March 10, 2006. In an environment of rising wholesale energy costs, the pricing strategy is under constant watch.

Power and Gas Sales

The decrease in Industrial and Commercial (I&C) power and gas volumes reflected E.ON UK's focus on margin rather than volume. Residential and SME power and gas sales volumes increased despite a 2 percent reduction in the number of customer accounts; the volume increase is primarily due to colder weather in the first quarter.

Sales by Customer Segment[1]

January 1 - June 30 Billion kWh	2006	2005	+/- %
Power—Residential and SME	19.9	18.9	+5
Power—I&C	9.2	11.6	-21
Total power sales	**29.1**	**30.5**	**-5**
Gas—Residential and SME	40.7	39.7	+3
Gas—I&C	16.7	18.1	-8
Total gas sales	**57.4**	**57.8**	**-1**

[1]Excludes wholesale and energy trading activities.

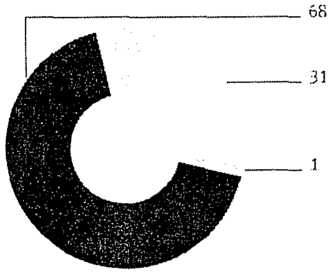
Power Generation and Procurement

Power Generation and Procurement

January 1 – June 30 Billion kWh	2006	2005	+/- %
Owned generation[1]	18.5	17.7	+5
Purchases	11.3	13.8	-18
- Jointly owned power plants	0.3	0.9	-67
- Outside sources	11.0	12.9	-15
Power procured	**29.8**	**31.5**	**-5**
Station use, line loss, pumped-storage hydro	-0.7	-1.0	-
Power sales	**29.1**	**30.5**	**-5**

Sources of Owned Generation

January 1 – June 30, 2006
Percentages



Purchases from outside sources declined due to higher owned generation and lower retail I&C sales volumes. The year-on-year increase in owned generation is mainly due to higher coal-fired generation driven by the improved economics and improved power-plant availability.

U.K.'s attributable generation capacity increased by 1,740 MW from June 2005. This is mainly due to the return of two oil-fired units at Grain (1,300 MW) and the return to service of the second module at Killingholme (450 MW).

In response to the Renewable Obligation, E.ON UK continues to grow a balanced portfolio of renewable power purchase agreements and physical assets. In the first six months of 2006, E.ON UK co-fired biomass materials at Kingsnorth and Ironbridge, generating a total of 155 million kWh. Work has also commenced on the construction of a 44 MW wood-burning plant in Lockerbie in southwest Scotland. When built, Lockerbie will be the United Kingdom's largest dedicated biomass plant.

Sales and Adjusted EBIT

E.ON UK increased its sales in the first half of 2006 compared with the prior year primarily due to price increases in the retail business and higher gas and power prices in the wholesale market. E.ON UK delivered an adjusted EBIT of €451 million in the first half of 2006, of which €231 million was in the regulated business and €270 million in the non-regulated business.

Adjusted EBIT at the non-regulated business declined by €122 million. The decrease is primarily due to the impact of higher gas costs in quarter one 2006 offset by price rises in the residential segment and cost and profit initiatives. Furthermore, one-off benefits in the prior year relating to the integration of previously outsourced customer service activities and higher carbon costs in 2006 adversely affected the results compared to 2005. Adjusted EBIT in the first quarter of 2006 was €213 million below the prior-year figure, meaning that the second-quarter performance improved by €91 million. This improvement is in line with our expectation that the increase in residential prices along with cost and profit initiatives would restore margins.

Adjusted EBIT at Other/Consolidation decreased by €48 million due to lower profits from overseas assets partly due to disposals, higher pensions costs, and foreign-exchange differences.

Financial Highlights by Business Unit

January 1 – June 30 € in millions	Regulated business		Non-regulated business[1]		Other/ Consolidation		U.K.	
	2006	2005	2006	2005	2006	2005	2006	2005
Sales	415	413	6,079	4,562	-99	-99	6,395	4,876
Adjusted EBITDA	308	297	475	605	-51	6	732	908
Adjusted EBIT	231	223	270	392	-50	-2	451	613

[1]The non-regulated business now includes the new Energy Services business, a material part of which was previously reported under the regulated business. The non-regulated business also includes a recharge from Business Services (facilities, IT, and other shared services); 2005 has been rebased to ensure that comparisons are valid. The regulated business already included the recharge due to regulatory reasons.

Nordic

Nordic January 1 - June 30 € in millions	2006	2005	+/- %
Sales	1,779	1,663	+7
- Thereof energy taxes	217	227	-4
Adjusted EBITDA	616	602	+2
Adjusted EBIT	428	428	-

Market Development

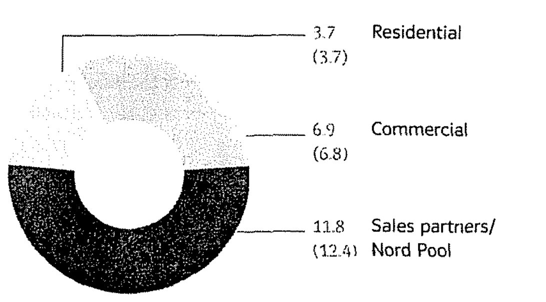
The Nordic region consumed 4.5 percent more electricity than in the prior-year period, mainly due to higher consumption in Sweden and Norway resulting from considerably colder weather.

In the first quarter of 2006, the Nordic region was a net exporter of electricity to Germany. On balance, however, it imported more than 4 billion kWh from surrounding countries during the first six months of 2006.

Power Sales

Power Sales

January 1 - June 30, 2006 Billion kWh — Total: 22.4 (January 1 - June 30, 2005: 22.9)



E.ON Nordic sold 0.5 billion kWh less electricity compared with the corresponding period of 2005 due to lower sales at the Nord Pool, Northern Europe's energy exchange. This was primarily a consequence of the sale of hydropower assets to Statkraft in late 2005, which reduced Nordic's owned generation capacity. Sales to residential customers were on par with the previous year, while sales to commercial customers increased slightly.

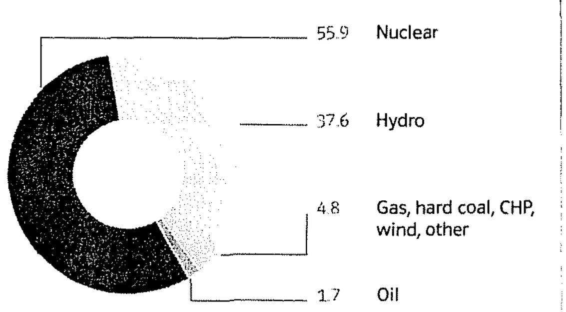
Power Generation and Procurement

E.ON Nordic covered 72 percent of its electricity sales with power from its own generation assets. E.ON Nordic's owned generation decreased by 0.4 billion kWh relative to the prior-year period. Hydropower production decreased due to the sale of hydropower assets to Statkraft in October 2005 and lower reservoir inflow. This decrease was partially counteracted by high availability of nuclear power stations. In addition, CHP production increased due to the relatively cold weather at the beginning of the year.

Power Generation and Procurement January 1 - June 30 Billion kWh	2006	2005	+/- %
Owned generation	16.2	16.6	-2
Purchases	7.4	7.2	+3
- Jointly owned power plants	5.5	3.9	+41
- Outside sources	1.9	3.3	-42
Power procured	**23.6**	**23.8**	**-1**
Station use, line loss	-1.2	-0.9	-
Power sales	**22.4**	**22.9**	**-2**

Sources of Owned Generation

January 1 - June 30, 2006 Percentages



Market Units

Gas and Heat Sales

Gas and Heat Sales

January 1 - June 30 Billion kWh	2006	2005	+/- %
Gas sales	**3.7**	3.9	**-5**
Heat sales	**5.0**	4.5	**+11**

Heat sales increased as a consequence of colder weather at the beginning of the year and the acquisition of heat operations in Denmark. Natural gas sales declined despite the colder weather, primarily due to lower sales to distributors.

Sales and Adjusted EBIT

E.ON Nordic's sales, excluding energy taxes, increased by 9 percent compared with the first six months of 2005, primarily due to higher average sales prices.

E.ON Nordic's adjusted EBIT of €428 million was virtually unchanged year on year. Rising spot electricity prices and successful hedging activities enabled Nordic to secure a higher effective sales value for its production portfolio. Compared with the prior year, earnings for the first six months were negatively impacted by increased taxes on hydro and nuclear assets. In addition, the hydropower plants sold to Statkraft contributed to prior-year adjusted EBIT. The decline in the Swedish krona also negatively affected Nordic's adjusted EBIT in reporting currency.

Financial Highlights by Business Unit

January 1 - June 30 € in millions	Sweden		Finland[2]		Nordic	
	2006	2005	2006	2005	2006	2005
Sales[1]	1,562	1,436	-	-	1,562	1,436
Adjusted EBITDA	616	602	-	-	616	602
Adjusted EBIT	428	428	-	-	428	428

[1]Excludes energy taxes.
[2]Effective mid-January 2006, E.ON Finland is recorded under discontinued operations.

U.S. Midwest

U.S. Midwest

January 1 - June 30 € in millions	2006	2005	+/- %
Sales	994	928	+7
Adjusted EBITDA	268	268	-
Adjusted EBIT	165	173	-5

MISO Exit Approved Effective September

E.ON U.S. has received all Federal Energy Regulatory Commission and Kentucky Public Service Commission decisions (with the last occurring in early July 2006) which allow E.ON U.S. to move forward to withdraw from the Midwest Independent System Operator (MISO). E.ON U.S. is on track to complete the exit and enter into alternative arrangements with the Tennessee Valley Authority and Southwest Power Pool effective September 2006.

Power and Gas Sales

Sales by Customer Segment

January 1 - June 30 Billion kWh	2006	2005	+/- %
Regulated utility business			
- Retail customers	15.7	15.8	-1
- Off-system sales	1.2	2.4	-50
Power sales	**16.9**	**18.2**	**-7**
Retail customers	6.9	8.0	-14
Off-system sales	-	0.8	-100
Gas sales	**6.9**	**8.8**	**-22**

Regulated utility retail power sales volumes decreased slightly in 2006 compared with 2005, primarily due to milder weather in 2006. Off-system sales volumes were lower compared with 2005 as a result of an increased use of E.ON U.S.'s generation for native load to replace the lost volumes from a purchase contract with Electric Energy Inc. (EEI). EEI is a 1,000 MW power station in which E.ON U.S. has a 20 percent stake. In the past, E.ON U.S. could buy its share of the output at cost and utilize this to meet native load. Since

January 1, 2006, EEI sells its power at market prices. E.ON U.S. can no longer utilize this power to meet native load and now supplies this power from its own generation. Retail natural gas sales volumes declined due largely to milder winter weather compared with 2005 and reduced consumption due to higher prices. Off-system sales of natural gas decreased due to high market prices in the first quarter and correspondingly lower availability of excess gas for sale.

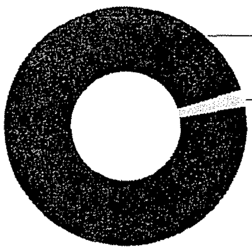
Power Generation and Procurement

Power Generation and Procurement

January 1 - June 30 Billion kWh	2006	2005	+/- %
Proprietary generation			
- Owned power stations	16.7	17.2	-3
Purchases	1.8	2.4	-25
Power procurement	**18.5**	**19.6**	**-6**
Station use, line loss	-1.6	-1.4	-
Power sales	**16.9**	**18.2**	**-7**

Sources of Owned Generation

January 1 - June 30, 2006
Percentages



Coal-fired power plants accounted for 98 percent of U.S. Midwest's electric generation in 2006, while gas-fired and hydro generating assets accounted for the remaining 2 percent.

Sales and Adjusted EBIT

U.S. Midwest's sales increased by 7 percent. The main drivers were favorable exchange-rate variances and higher gas prices recoverable from retail customers.

U.S. Midwest's adjusted EBIT decreased by 5 percent. The main factors in the regulated business were lower retail volumes, mainly due to significantly milder weather in 2006, as well as higher costs associated with participation in the new MISO market, introduced on April 1, 2005, partly offset by favorable exchange-rate variances.

Financial Highlights by Business Unit

January 1 - June 30 € in millions	Regulated business		Non-regulated business/Other		U.S. Midwest	
	2006	2005	2006	2005	2006	2005
Sales	959	888	35	40	994	928
Adjusted EBITDA	260	263	8	5	268	268
Adjusted EBIT	164	169	1	4	165	173

Interim Financial Statements (Unaudited)

E.ON AG and Subsidiaries Consolidated Statements of Income

	April 1 - June 30		January 1 - June 30	
€ in millions	2006	2005	2006	2005
Sales	**15,383**	**12,405**	**36,915**	**28,174**
Energy taxes	-959	-1,013	-2,609	-2,444
Sales, net of energy taxes	**14,424**	**11,392**	**34,306**	**25,730**
Cost of goods sold and services provided	-11,239	-8,767	-27,803	-19,837
Gross profit on sales	**3,185**	**2,625**	**6,503**	**5,893**
Selling expenses	-1,014	-883	-2,184	-1,900
General and administrative expenses	-479	-353	-908	-677
Other operating income	1,194	2,170	3,258	4,193
Other operating expenses	-1,738	-1,412	-3,189	-3,046
Financial earnings	286	183	323	169
Income/Loss (-) from continuing operations before income taxes and minority interests	**1,434**	**2,330**	**3,803**	**4,632**
Income taxes	-239	-759	-766	-1,497
Minority interests	-93	-95	-305	-265
Income/Loss (-) from continuing operations	**1,102**	**1,476**	**2,732**	**2,870**
Income/Loss (-) from discontinued operations, net	7	91	95	156
Net income	**1,109**	**1,567**	**2,827**	**3,026**
Earnings per share in €, basic and diluted				
- from continuing operations	1.67	2.23	4.15	4.35
- from discontinued operations	0.01	0.14	0.14	0.24
- from net income	**1.68**	**2.37**	**4.29**	**4.59**

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	June 30, 2006	Dec. 31, 2005
Assets		
Goodwill	15,122	15,363
Intangible assets	3,844	4,125
Property, plant, and equipment	41,351	41,323
Financial assets	25,829	21,686
Fixed assets	**86,146**	**82,497**
Inventories	2,745	2,457
Financial receivables and other financial assets	2,006	2,019
Operating receivables and other operating assets	21,105	21,354
Liquid funds (thereof cash and cash equivalents < 3 months 2006: 1,923; 2005: 4,413)	11,456	15,119
Nonfixed assets	**37,312**	**40,949**
Deferred taxes	2,117	2,079
Prepaid expenses	446	356
Assets of disposal groups	652	681
Total assets	**126,673**	**126,562**

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	June 30, 2006	Dec. 31, 2005
Stockholders' equity and liabilities		
Stockholders' equity	**44,389**	**44,484**
Minority interests	**4,919**	**4,734**
Provisions for pensions	6,376	8,720
Other provisions	26,551	25,142
Accrued liabilities	**32,927**	**33,862**
Financial liabilities	17,589	14,362
Operating liabilities	16,479	19,052
Liabilities	**34,068**	**33,414**
Liabilities of disposal groups	645	831
Deferred tax liabilities	8,553	8,420
Deferred income	1,172	817
Total stockholders' equity and liabilities	**126,673**	**126,562**

E.ON AG and Subsidiaries Consolidated Statements of Cash Flow

January 1 – June 30 € in millions	2006	2005
Net income	2,827	3,026
Income applicable to minority interests	305	265
Adjustments to reconcile net income to net cash provided by operating activities		
Income from discontinued operations, net	-95	-156
Depreciation, amortization, impairment	1,530	1,357
Changes in provisions	1,056	-485
Changes in deferred taxes	-194	226
Other noncash income and expenses	-352	-395
Gain/Loss on disposal of fixed assets	-461	-60
Changes in nonfixed assets and other operating liabilities	-1,843	-982
Cash provided by operating activities	**2,773**	**2,796**
Proceeds from disposal of		
equity investments and other financial assets	669	279
intangible assets and property, plant, and equipment	102	72
Purchase of		
equity investments and other financial assets	-963	-769
intangible assets and property, plant, and equipment	-1,494	-1,006
Changes in other liquid funds	-2,138	-404
Cash provided by (used for) investing activities of continuing operations	**-3,824**	**-1,828**
Payments received/made from changes in capital, including minority interests	-	2
Payments for treasury stock, net	-	-30
Payment of cash dividends to		
stockholders of E.ON AG	-4,614	-1,549
minority stockholders	-227	-219
Changes in financial liabilities	3,454	275
Cash provided by (used for) financing activities of continuing operations	**-1,387**	**-1,521**
Net increase (decrease) in cash and cash equivalents maturing (< 3 months) from continuing operations	**-2,438**	**-553**
Cash provided by operating activities of discontinued operations	83	91
Cash provided by (used for) investing activities of discontinued operations	-123	237
Cash provided by (used for) financing activities of discontinued operations	2	-166
Net increase (decrease) in cash and cash equivalents maturing (< 3 months) from discontinued operations	**-38**	**162**
Effect of foreign exchange rates on cash and cash equivalents (< 3 months)	-14	94
Cash and cash equivalents (< 3 months) at the beginning of the period	4,413	4,176
Cash and cash equivalents (< 3 months) from discontinued operations at the end of the period	-	-543
Cash and cash equivalents (< 3 months) as shown on the balance sheet	**1,923**	**3,336**
Available-for-sale securities (> 3 months) from continuing operations at the end of the period	9,533	8,741
Liquid funds as shown on the balance sheet	**11,456**	**12,077**

Consolidated Statements of Changes in Stockholders' Equity

€ in millions	Capital Stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Currency translation adjust-ments	Available-for-sale securities	Minimum pension liability	Cash flow hedges	Treasury stock	Total
Balance as of January 1, 2005	**1,799**	**11,746**	**20,003**	**-896**	**2,178**	**-1,090**	**76**	**-256**	**33,560**
Shares repurchased/sold								-30	-30
Dividends paid			-1,549						-1,549
Net income			3,026						3,026
Other comprehensive income				426	831	14	89		1,360
Total comprehensive income									**4,386**
Balance as of June 30, 2005	**1,799**	**11,746**	**21,480**	**-470**	**3,009**	**-1,076**	**165**	**-286**	**36,367**
Balance as of January 1, 2006	**1,799**	**11,749**	**25,861**	**-276**	**6,876**	**-1,402**	**133**	**-256**	**44,484**
Shares repurchased/sold									
Dividends paid			-4,614						-4,614
Net income			2,827						2,827
Other comprehensive income				-565	2,251	195	-189		1,692
Total comprehensive income									**4,519**
Balance as of June 30, 2006	**1,799**	**11,749**	**24,074**	**-841**	**9,127**	**-1,207**	**-56**	**-256**	**44,389**

Accounting Policies

The accounting policies used to prepare the Interim Financial Statements for the six months ended June 30, 2006, correspond to those used in the Consolidated Financial Statements for the year ended December 31, 2005, with the following exceptions.

On January 1, 2006, E.ON adopted Statement of Financial Accounting Standard (SFAS) 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires us to account for our stock appreciation rights (SAR) on the basis of their fair values and to recognize the corresponding expenses in our Statements of Income. Prior to adopting SFAS 123R, we accounted for SAR on the basis of intrinsic values and recognized the corresponding expenses in our Statements of Income, as provided by SFAS 123 in conjunction with FASB Interpretation 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Pursuant to SFAS 123R we use a Monte Carlo simulation technique to calculate the fair value of SAR. The cumulative effect of initially applying SFAS 123R by using the modified version of prospective application as the transition method had no material effect on our results of operations. As a result, no further disclosure is provided.

New Accounting Pronouncement

FASB Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes* was published in July 2006. FIN 48 applies to fiscal years that begin after December 15, 2006. We are currently evaluating the potential effects of applying FIN 48.

Variable Interest Entities

As of June 30, 2006, we consolidated the following variable interest entities (VIEs): two jointly managed electric generation companies, one real estate leasing company, and a company that manages shareholdings. FIN 46R no longer applies to a real estate leasing company following our acquisition of more shares in this company.

As of June 30, 2006, we consolidated VIEs that had total assets of approximately €718 million and recorded earnings of €8 million prior to consolidation. Fixed assets and other assets in the amount of €148 million serve as collateral for liabilities relating to financial leases and bank loans.

With the exception of one VIE, the creditors of our consolidated VIEs have limited recourse to the primary beneficiary's assets. In the case of this one VIE, the primary beneficiary is liable for €75 million.

In addition, since July 1, 2000, we have had a contractual relationship with a VIE, a leasing company operating in the energy sector, for which we are not the primary beneficiary. This entity is currently being liquidated pursuant to a decision made by its owners. This entity had no significant assets and no liabilities at year end 2005. We do not expect E.ON to realize a loss from either its relations with this entity or from the entity's liquidation.

Due to a lack of information, we continue to be unable to compute, pursuant to FIN 46R, the financial situation of another special-purpose entity, which has existed since 2001 and whose activities were expected to terminate in the fourth quarter of 2005. The main transactions between this entity and the E.ON Group were completed in the fourth quarter of 2005. However, this entity has not yet been liquidated. Its activities consisted of liquidating the assets of divested operations. Originally, its total assets amount to €127 million. We do not expect E.ON's results of operations to be adversely affected by this entity.

Acquisitions, Discontinued Operations, and Disposals

Acquisitions in 2006

Effective March 31, 2006, E.ON Ruhrgas acquired 100 percent of the natural gas trading and storage operations of MOL, a Hungarian oil and gas company, by acquiring ownership interests in Budapest-based MOL Földgázellátó Rt. and Budapest-based MOL Földgáztároló Rt. (now E.ON Földgaz Storage and E.ON Földgaz Trade). The purchase price was approximately €450 million. It was further agreed that, depending on regulatory developments, compensatory payments would be made through the end of 2009 if this should become necessary for a subsequent adjustment of the purchase price. The entities became consolidated E.ON companies on March 31, 2006.

Discontinued Operations

Pursuant to SFAS 144, we report two companies as discontinued operations in the first half of 2006: E.ON Finland, Espoo, Finland, at our Nordic market unit and the operations of Western Kentucky Energy Corp. (WKE), Henderson, Kentucky, USA, at our U.S. Midwest market unit. E.ON Finland was sold in June 2006.

Through WKE, E.ON U.S. operates the generating facilities of a power generation cooperative in western Kentucky and a coal-fired facility owned by the city of Henderson, Kentucky, under a leasing arrangement. In November 2005, the parties involved entered into a letter of intent to terminate the lease and operational agreements between the parties and other related matters. The closing of the transaction is subject to review and approval by various regulatory agencies and other interested parties. We classified WKE as a discontinued operation in late December 2005.

On June 26, 2006, E.ON Nordic and Fortum Power and Heat Oy (Fortum) finalized the transfer to Fortum of all of E.ON Nordic's shares in E.ON Finland pursuant to an agreement signed on February 2, 2006. The purchase price for 65.56 percent of E.ON Finland's shares totaled about €390 million. In mid-January 2006, we classified E.ON Finland as a discontinued operation.

Other Disposals

Continuing the implementation of its framework agreement with RAG, on March 21, 2006, E.ON transferred its stake in Degussa (42.9 percent) into RAG Projektgesellschaft mbH, Essen. E.ON's Degussa stake was forward sold to RAG on the same date. The transaction initially resulted in a gain of €618 million. However, because E.ON holds a 39.2 percent stake in RAG, the share of the gain recorded in our Consolidated Statement of Income was €376 million. On July 3, 2006, E.ON and RAG executed the forward sales agreement for E.ON's stake in RAG Projektgesellschaft mbH. E.ON has now sold all of its remaining, indirectly held stake in Degussa. The roughly €2.8 billion purchase price is due on August 31, 2006, and is underwritten by bank guarantees.

Pursuant to U.S. GAAP, the income and expenses of discontinued operations are reported separately under "Income/Loss (-) from discontinued operations, net." The Consolidated Statements of Income and the Consolidated Statements of Cash Flows, including the notes relating to them, for the period ended June 30, 2006, and for the prior period have been adjusted for these discontinued operations. The assets and liabilities of these discontinued operations are shown in the Consolidated Balance Sheets for the period ended June 30, 2006, under "Assets of disposal groups" and "Liabilities of disposal groups." We did not reclassify prior-year balance-sheet line items attributable to discontinued operations because such reclassification is not required by SFAS 144.

The following table shows the major line items of the statements of income of the above-named operations.

Major Income Statement Line Items of Discontinued Operations (Summary)

January 1 - June 30	E.ON Finland		WKE		Viterra		Ruhrgas Industries		Other		Total	
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales	131	133	114	101	-	439	-	629	-	-	245	1,302
Net income from disposal	11	-	-	-	-	-	-	-	-	10	11	10
Other operating income/expenses, net	-115	-97	22	-92	-	-311	-	-610	-	-	-93	-1,110
Income/Loss (-) before income taxes and minority interests	**27**	**36**	**136**	**9**	**-**	**128**	**-**	**19**	**-**	**10**	**163**	**202**
Income taxes	-7	-9	-52	-8	-	-8	-	-6	-	-4	-59	-35
Minority interests	-9	-11	-	-	-	-	-	-	-	-	-9	-11
Income/Loss (-) from discontinued operations, net	**11**	**16**	**84**	**1**	**-**	**120**	**-**	**13**	**-**	**6**	**95**	**156**

The following table shows major line items of the balance sheets of WKE, which is classified as a discontinued operation.

Major Balance Sheet Line Items of the Discontinued Operation WKE (Summary)	
€ in millions	June 30, 2006
Fixed assets	205
Nonfixed and other assets	447
Total assets	**652**
Liabilities (including minority interests)	645
Net assets	**7**

Acquisitions and discontinued operations from 2005 are described in detail in our 2005 Annual Report.

Research and Development

The E.ON Group's research and development expense totaled €7 million in the first six months of 2006 and €9 million in the prior-year period.

Earnings per Share

Earnings per share were computed as follows:

Earnings per Share	April 1 - June 30		January 1 - June 30	
	2006	2005	2006	2005
Income/Loss (-) from continuing operations (€ in millions)	1,102	1,476	2,732	2,870
Income/Loss (-) from discontinued operations, net (€ in millions)	7	91	95	156
Net income (€ in millions)	1,109	1,567	2,827	3,026
Weighted average number of shares outstanding (in 1,000)	659,154	658,015	659,154	659,036
Earnings per share (in €)				
-from continuing operations	1.67	2.23	4.15	4.35
-from discontinued operations	0.01	0.14	0.14	0.24
-from net income	**1.68**	**2.37**	**4.29**	**4.59**

Financial Earnings

The table below provides details of financial earnings for the periods indicated.

Financial Earnings January 1 - June 30 € in millions	2006	2005	+/- %
Income from companies accounted for using the equity method	516	420	+23
Other income from companies in which share investments are held	137	130	+5
Income from share investments	**653**	**550**	**+19**
Income from other long-term securities	22	24	-8
Income from long-term loans	22	25	-12
Other interest and similar income	593	554	+7
Interest and similar expenses	-956	-948	-
- thereof SFAS 143 accretion expense	-261	-250	-
- thereof from financial liabilities to affiliated companies and to companies in which share investments are held	-20	-20	-
Interest and similar expenses (net)	**-319**	**-345**	-
Writedown of securities, share investments, and long-term loans	-11	-36	-
Financial earnings	**323**	**169**	**+91**

Goodwill and Intangible Assets

The table below shows the changes in the carrying amount of goodwill in the first six months of 2006 by segment.

Goodwill[1]

€ in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Corporate Center	Other Activities	Total
Book value as of December 31, 2005	**2,419**	**4,069**	**4,955**	**368**	**3,552**	**-**	**-**	**15,363**
Goodwill additions/disposals	-	112	-	2	-	-	-	114
Goodwill impairment	-	-	-	-	-	-	-	-
Other changes[2]	-	28	-48	-79	-256	-	-	-355
Book value as of June 30, 2006	**2,419**	**4,209**	**4,907**	**291**	**3,296**	**-**	**-**	**15,122**

[1]Excludes goodwill of companies accounted for using the equity method.
[2]Other changes include transfers and exchange-rate differences.

Intangible Assets

As of June 30, 2006, and December 31, 2005, E.ON's intangible assets, including advance payments on intangible assets, consist of the following:

Intangible Assets

€ in millions	June 30, 2006	Dec. 31, 2005
Intangible assets subject to amortization		
Acquisition costs	4,941	4,978
Accumulated amortization	2,097	1,957
Net book value	**2,844**	**3,021**
Intangible assets not subject to amortization	**1,000**	**1,104**
Total	**3,844**	**4,125**

In the first six months of 2006, E.ON recorded an amortization expense of €182 million (prior year: €172 million) on intangible assets and an impairment charge of €40 million (prior year: €0 million) on intangible assets. E.ON did not record goodwill impairment charges in the first six months of 2006 or in the prior-year period.

Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for the rest of 2006 and each of the five succeeding fiscal years is as follows: 2006 (remaining six months): €184 million, 2007: €298 million, 2008: €257 million, 2009: €209 million, 2010: €159 million, and 2011: €154 million. As acquisitions and dispositions occur in the future, actual amounts could vary.

Treasury Shares Outstanding

The number of treasury shares as of June 30, 2006, was almost unchanged from the figure as of December 31, 2005. E.ON AG held 4,374,232 treasury shares. E.ON subsidiaries held another 28,472,194 shares of E.ON stock. E.ON thus holds 4.7 percent of its capital stock as treasury shares.

Dividends Paid

On May 4, 2006, the Annual Shareholders Meeting voted to distribute a dividend of €2.75 per share of common stock, a €0.40 increase from the previous dividend, plus a special dividend of €4.25 per share of common stock for a total dividend payout of €4,614 million.

Provisions for Pensions

The changes in the projected benefit obligation are shown below.

Changes in Projected Benefit Obligations	April 1 – June 30		January 1 – June 30	
€ in millions	2006	2005	2006	2005
Employer service cost	66	52	131	101
Interest cost	190	193	379	383
Expected return on plan assets	135	111	250	219
Prior service cost	3	8	7	16
Net amortization of gains (-)/losses	28	15	56	49
Total	**152**	**157**	**323**	**330**

Contribution to Plan Assets

In 2005 we created, through a contractual trust arrangement, the framework for the external financing of pension obligations of E.ON companies in Germany. In the first quarter of 2006, E.ON made the first contribution into the trusts in the amount of €2.6 billion by transferring money market investments with a term of more than three months.

Asset Retirement Obligations

E.ON's asset retirement obligations at June 30, 2006, relate to the decommissioning of nuclear power stations in Germany (€8,428 million) and Sweden (€432 million), environmental remediation at conventional power station sites, including the removal of electric transmission and distribution equipment (€371 million), environmental remediation at gas storage facilities (€117 million) and opencast mining facilities (€61 million), and the decommissioning of oil and gas infrastructure (€332 million). The fair value of nuclear decommissioning obligations was based on third-party valuations.

An accretion expense of €261 million pertaining to the updating of provisions for the first six months of 2006 is included in financial earnings (prior year: €250 million).

Contingent Liabilities Arising from Guarantees

Financial Guarantees

Financial guarantees include both direct and indirect obligations (indirect guarantees of indebtedness of others). These require the guarantor to make contingent payments to the guaranteed party based on the occurrence of certain events and/or changes in an underlying instrument that is related to an asset, a liability, or an equity security of the guaranteed party.

Our financial guarantees include nuclear-energy-related items that are described in detail in our 2005 Annual Report. Obligations also include direct financial guarantees to creditors of related parties and third parties. Direct financial guarantees with specified terms extend as far as 2022. Maximum potential undiscounted future payments amount to €550 million (year end 2005: €427 million). Of this amount, €440 million (year end 2005: €304 million) consists of guarantees issued on behalf of related parties.

Indirect guarantees primarily include additional obligations in connection with cross-border leasing transactions and obligations to provide financial support, primarily to related parties. Indirect guarantees with specified terms extend as far as 2023. Maximum potential undiscounted future payments amount to €418 million (year end 2005: €431 million). Of this amount, €130 million (year end 2005: €67 million) involves guarantees issued on behalf of related parties. As of June 30, 2006, we recorded provisions of €12 million (year end 2005: €25 million) with respect to financial guarantees.

In addition, E.ON has commitments under which it assumes joint and several liability arising from its ownership interests in civil-law companies *(Gesellschaften bürgerlichen Rechts)*, noncorporate commercial partnerships, and consortia in which it participates.

Furthermore, certain E.ON Group companies have obligations by virtue of their membership in VKE, a German energy industry pension fund, in accordance with VKE's articles of incorporation. We do not expect these companies to have to perform on their obligations.

Indemnification Agreements

Contracts in connection with the disposal of shareholdings concluded by the E.ON Group companies include indemnification agreements and other guarantees with terms up to 2041 in accordance with local legal requirements, unless shorter terms were contractually agreed to. Maximum undiscounted amounts potentially payable pursuant to the circumstances expressly stipulated in these agreements could total up to €6,721 million (year end 2005: €6,623 million). These mainly relate to customary representations and warranties, potential environmental liabilities, and potential claims for tax-related guarantees. In some cases, the buyer is either required to share costs or to cover certain costs before we are required to make any payments. Some obligations are covered first by insurance contracts or provisions of the divested companies. As of June 30, 2006, we recorded provisions of €291 million (year end 2005: €296 million) for indemnities and other guarantees included in sales agreements. Guarantees issued by companies that were later sold by E.ON AG (or by VEBA AG or VIAG AG before their merger) are included in the final sales contracts in the form of indemnities *(Freistellungserklärungen)*.

Other Guarantees

Other guarantees with an effective period through 2021 mainly include market-value guarantees and warranties (maximum potential undiscounted future payments at June 30, 2006: €128 million; year end 2005: €130 million). Other guarantees no longer include product warranties (or corresponding provisions) due to the disposal of Viterra and Ruhrgas Industries.

Subsequent Events

On July 12, 2006, E.ON and Gazprom signed a framework agreement to exchange assets in gas production and in gas trading, gas sales, and the electricity business. Under the agreement, E.ON is to acquire a 25 percent stake (minus one share) in Yushno Russkoye in Siberia, one of the world's largest natural gas fields. Together, our share of Yushno Russkoye's production and of our existing gas fields in the North Sea would amount to about 15 percent of E.ON Ruhrgas's gas procurement. In return for the stake in Yushno Russkoye, Gazprom will acquire minority stakes in three E.ON companies in Hungary: 50 percent (minus one share) in E.ON Földgáz Storage, 50 percent (minus one share) in E.ON Földgáz Trade, and 25 percent (plus one share) in E.ON Hungária, a regional power and gas distributor. Gazprom will also receive other compensation yet to be determined. In addition, E.ON and Gazprom have agreed to work together on certain gas-fired power station projects in Europe. E.ON and Gazprom intend to conclude a detailed asset-swap agreement by the end of the year. Gazprom shareholdings in Hungary are subject to approval by the EU Commission and Hungarian authorities.

On July 27, 2006, Spain's Comisión Nacional de Energía (CNE) approved E.ON's acquisition of Endesa subject to a number of conditions. These include the requirement that we divest about 7,400 megawatts of Endesa's generating capacity in Spain. We see no justification for these conditions and filed an appeal of the CNE decision with Spain's Ministry of Industry on August 10. The ministry has up to three months to decide on our appeal. We are also considering whether to take further legal action. We remain strongly committed to this acquisition and believe that it will benefit all stakeholders: customers, employees, and shareholders as well as the wider Spanish economy.

Business Segments

Our reportable segments are presented in line with our internal organizational and reporting structure. E.ON's business is subdivided into energy and other activities. Our core energy business consists of the following market units: Central Europe, Pan-European Gas, U.K., Nordic, U.S. Midwest, and Corporate Center.

Central Europe operates an integrated electricity business and downstream gas business in Central Europe.

Pan-European Gas focuses on the upstream and midstream gas business in Europe. This market unit also holds a number of mostly minority shareholdings in the downstream gas business.

U.K. operates an integrated energy business in the United Kingdom.

Nordic is principally engaged in the integrated energy business in Northern Europe.

U.S. Midwest primarily operates a regulated utility business in Kentucky, USA.

The Corporate Center consists of equity interests managed directly by E.ON AG, E.ON AG itself, and consolidation effects at the group level.

Adjustments for Discontinued Operations

€ in millions	Figures disclosed for Jan. 1 - June 30, 2005	Adjustments	Adjusted figures for Jan. 1 - June 30, 2005	Jan. 1 - June 30, 2006
Central Europe	2,337	-	2,337	2,454
Pan-European Gas	803	-	803	1,458
U.K.	613	-	613	451
Nordic	447	-19	428	428
U.S. Midwest	180	-7	173	165
Corporate Center	-150	-	-150	-173
Core Energy Business	**4,230**	**-26**	**4,204**	**4,783**
Other Activities	**67**	**-**	**67**	**53**
Adjusted EBIT	**4,297**	**-26**	**4,271**	**4,836**
Adjusted interest income (net)	-536	-1	-537	-533
Other nonoperating earnings	916	-18	898	-500
Income/Loss (-) from continuing operations before income taxes and minority interests	**4,677**	**-45**	**4,632**	**3,803**
Net income	**3,026**	**-**	**3,026**	**2,827**

Financial Information by Business Segment

January 1 - June 30	Central Europe		Pan-European Gas		U.K.		Nordic	
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005
External sales	14,845	12,392	13,009	8,382	6,325	4,849	1,741	1,622
Intersegment sales	267	113	1,007	478	70	27	38	41
Total sales	**15,112**	**12,505**	**14,016**	**8,860**	**6,395**	**4,876**	**1,779**	**1,663**
Adjusted EBITDA	**3,069**	**2,948**	**1,717**	**978**	**732**	**908**	**616**	**602**
Depreciation, amortization, and write-downs affecting adjusted EBIT[2]	-615	-611	-259	-175	-281	-295	-188	-174
Adjusted EBIT	**2,454**	**2,337**	**1,458**	**803**	**451**	**613**	**428**	**428**
- Thereof earnings from companies accounted for using the equity method	113	85	333	238	2	9	23	5
Cash provided by operating activities	**1,100**	**1,289**	**842**	**1,327**	**-72**	**-330**	**546**	**272**
Investments	**1,090**	**728**	**582**	**224**	**308**	**412**	**335**	**234**
Intangible assets and property, plant, and equipment	668	527	151	61	305	204	222	136
Financial assets	422	201	431	163	3	208	113	98

[1]Other activities consist of our Degussa shareholding, which we accounted for using the equity method in line with our 42.9 percent shareholding in the company.
[2]In 2006, depreciation, amortization, and writedowns impacting adjusted EBIT deviate from the corresponding figures recorded in the Consolidated Statements of Cash Flows calculated pursuant to U.S. GAAP. Impairment charges taken on intangible assets and property, plant, and equipment in our Pan-European Gas and U.K. market units constitute the main factor.

Under U.S. GAAP, 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 half of 2006, this applied mainly to WKE, which is held for sale, and E.ON Finland, which was sold in late June 2006. For the purposes of our business segment reporting, our results for the period ended June 30, 2006, and for the prior-year period do not include the results of our discontinued operations (see the table on page 34 and the commentary on page 29).

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 extraordinary items. The adjustments include book gains and losses on disposals, restructuring expenses, and other nonoperating income and expenses of a nonrecurring or rare nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions resulting from personnel expenses is allocated to interest income. The interest portions of the allocations of other long-term provisions are treated analogously to the degree that, in accordance with U.S. GAAP, they are reported on different lines of the Consolidated Statements of Income.

Adjusted Interest Income (Net)

January 1 - June 30 € in millions	2006	2005
Net interest expense	**-60**	**-100**
- Net interest expense relating to liabilities of affiliated and associated companies as well as other share investments	-20	-20
- Accretion expense related to the adoption of SFAS 143	-261	-250
+ Income from long-term loans	22	25
Interest and similar expenses (net) shown in Consolidated Statements of Income	**-319**	**-345**
+ Nonoperating interest income (net)[1]	-3	-
- Interest portion of long-term provisions	-211	-192
Adjusted interest income (net)	**-533**	**-537**

[1]This figure is the sum of nonoperating interest expense and nonoperating interest income.

Page 9 of this 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 U.S. GAAP figures.

U.S. Midwest		Corporate Center		Core Energy Business		Other Activities[1]		E.ON Group	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
994	928	1	1	36,915	28,174	-	-	36,915	28,174
-	-	-1,382	-659	-	-	-	-	-	-
994	**928**	**-1,381**	**-658**	**36,915**	**28,174**	**-**	**-**	**36,915**	**28,174**
268	**268**	**-159**	**-143**	**6,243**	**5,561**	**53**	**67**	**6,296**	**5,628**
-103	-95	-14	-7	-1,460	-1,357	-	-	-1,460	-1,357
165	**173**	**-173**	**-150**	**4,783**	**4,204**	**53**	**67**	**4,836**	**4,271**
8	8	-16	8	463	353	53	67	516	420
270	**120**	**87**	**118**	**2,773**	**2,796**	**-**	**-**	**2,773**	**2,796**
154	**76**	**-12**	**101**	**2,457**	**1,775**	**-**	**-**	**2,457**	**1,775**
154	76	-6	2	1,494	1,006	-	-	1,494	1,006
-	-	-6	99	963	769	-	-	963	769

Financial Calendar

November 8, 2006	Interim Report: January – September 2006
March 7, 2007	Publication of the 2006 Annual Report
May 3, 2007	2007 Annual Shareholders Meeting
May 4, 2007	Dividend Payout
May 9, 2007	Interim Report: January – March 2007
August 15, 2007	Interim Report: January – June 2007
November 13, 2007	Interim Report: January – September 2007

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

Information on results: 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 2005 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 2006

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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, 2006

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 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):

January 1 - March 31, 2006

Interim Report I/2006

2006

- Adjusted EBIT up 6 percent
- EU approval for acquisition of Spain's Endesa
- Continue to expect slight increase in adjusted EBIT for full year 2006

APR

MAY

JUN

JUL

AUG

SEP

OCT

NOV

DEC

2 E.ON Group Financial Highlights

E.ON Group Key Figures at a Glance

January 1 - March 31 € in millions	2006	2005[1]	+/- %
Power sales (in billion kWh)[2]	110.3	109.0	+1
Gas sales (in billion kWh)[2]	367.4	311.8	+18
Sales	21,532	15,769	+37
Adjusted EBITDA[3]	3,252	3,061	+6
Adjusted EBIT[4]	2,534	2,390	+6
Income/Loss (-) from continuing operations before income taxes and minority interests	2,369	2,302	+3
Income/Loss (-) from continuing operations	1,630	1,394	+17
Income/Loss (-) from discontinued operations, net	88	65	+35
Net income	1,718	1,459	+18
Investments	1,298	578	+125
Cash provided by operating activities	1,942	1,661	+17
Free cash flow[5]	1,320	1,251	+6
Net financial position[6] (at March 31 and December 31)	1,707	3,863	-56
Employees (at March 31 and December 31)	79,783	79,570	-
Earnings per share (in €)	2.61	2.22	+18

[1]Adjusted for discontinued operations
[2]Unconsolidated figures.
[3]Non-GAAP financial measure; see reconciliation to net income on page 8.
[4]Non-GAAP financial measure; see reconciliation to net income on page 8 and commentary on pages 32-33.
[5]Non-GAAP financial measure; see reconciliation to cash provided by operating activities on page 10.
[6]Non-GAAP financial measure; see reconciliation on page 11.

Non-GAAP financial measures: This report contains certain non-GAAP financial measures 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 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. Additional information with respect to each of the non-GAAP financial measures used in this report is included together with the reconciliations described below

E.ON prepares its financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP). As noted above, this report contains certain consolidated financial measures (adjusted EBIT, adjusted EBITDA, net financial position, net interest expense, and free cash flow) that are not calculated in accordance with U.S. GAAP and are therefore considered "non-GAAP financial measures" within the meaning of the U.S. federal securities laws. In accordance with applicable rules and regulations, E.ON has presented in this report a reconciliation of each non-GAAP financial measure to the most directly comparable U.S. GAAP measure for historical measures and an equivalent U.S. GAAP target for forward-looking measures. The footnotes presented with the relevant historical non-GAAP financial measures indicate the page of this report on which the relevant reconciliation appears The non-GAAP financial measures used in this report 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 U.S. GAAP presented in this report and the relevant reconciliations The non-GAAP financial measures used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies

Contents

Dear Shareholders,

In the first quarter of 2006, E.ON again performed solidly. We grew sales by 37 percent, from €15.8 billion in the first quarter of 2005 to €21.5 billion this year. Our adjusted EBIT was up 6 percent, from €2.4 billion to €2.5 billion. Our Central Europe and Pan-European Gas market units were the main contributors to the increase, whereas U.K. posted a significant decline in adjusted EBIT due to sharply higher natural gas procurement costs. We continue to expect our adjusted EBIT for 2006 to slightly surpass the high prior-year level.

Net income (after income taxes and minority interests) exceeded the high prior-year figure, advancing by 18 percent, from €1.5 billion to €1.7 billion. For the year as a whole, however, we do not expect to repeat the extraordinarily high net income figure posted in 2005, which included the substantial book gains on our successful Viterra and Ruhrgas Industries disposals. In the current year, we will record book gains primarily on the sale of Degussa stock to RAG. We expect this transaction to close on schedule by the middle of the year. It will mark the completion of the process of focusing on our core power and gas business.

We're committed to achieving value-enhancing growth in our core business. We further strengthened our position in the dynamic energy markets of Central and Eastern Europe by completing, in late March 2006, the acquisition of the natural gas trading and storage business of Hungary's MOL. The transaction had a total value of €1 billion. In line with our intention to tap new markets in Southern Europe and South America, in February 2006 we made an all-cash offer of €29.1 billion for 100 percent of the stock of Endesa, a Spanish energy utility. Since then, we've been working diligently to bring this transaction to a successful conclusion. The Spanish government favors a competing offer made by Gas Natural, a Spanish utility. A few days after the announcement of our offer, the Spanish government issued an emergency order requiring an additional approval process conducted by the CNE, Spain's energy regulatory agency. There is ample reason to believe that this order violates EU law. Consequently, the European Commission initiated an infringement proceeding against Spain. Because the proceeding would have no direct legal consequences for us, we continue to pursue the filing we made to the CNE, which includes comprehensive documentation in support of our offer. We're firmly convinced that we meet all reasonable requirements the CNE could have for our acquisition of Endesa. On April 25, the EU Commission issued an unconditional antitrust approval for the transaction. This is one of the reasons we expect that the CNE will also approve our offer. We believe that E.ON and Endesa, their employees, and their power and gas customers will all benefit from the transaction, which would create a company with a strong presence in all key European countries.

Despite the considerable exertions this transaction requires, we're not losing sight of our other strategic objectives. We continue to negotiate with Gazprom about acquiring a stake in Yushno Russkoye, a natural gas field in western Siberia, in order to enlarge our position in natural gas production for the long term. We continue to move forward systematically with our investments in power generation and power and gas network infrastructure. In sum, we're working hard to achieve our growth objectives and further enhance the value of your company.

Sincerely yours,

W. Bernotat

Dr. Wulf H. Bernotat

E.ON Stock

E.ON stock continued to move higher in the first three months of 2006, finishing the quarter up 4 percent. E.ON underperformed other European blue chips as measured by the EURO STOXX 50, which advanced by 8 percent over the same period, and its peer index, the STOXX Utilities, which rose by 12 percent.

The trading volume of E.ON stock climbed by nearly 65 percent year-on-year to €21.2 billion, making E.ON the sixth most-traded stock in the DAX index of Germany's top 30 blue chips. As of March 31, 2006, E.ON was the second-largest DAX issue 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.

For the latest information about E.ON stock, visit www.eon.com.

E.ON Stock

	March 31, 2006	Dec. 31, 2005
Shares outstanding (in millions)[1]	659	659
Closing price (in €)	90.81	87.39
Market capitalization (€ in billions)[2]	62.8	60.5

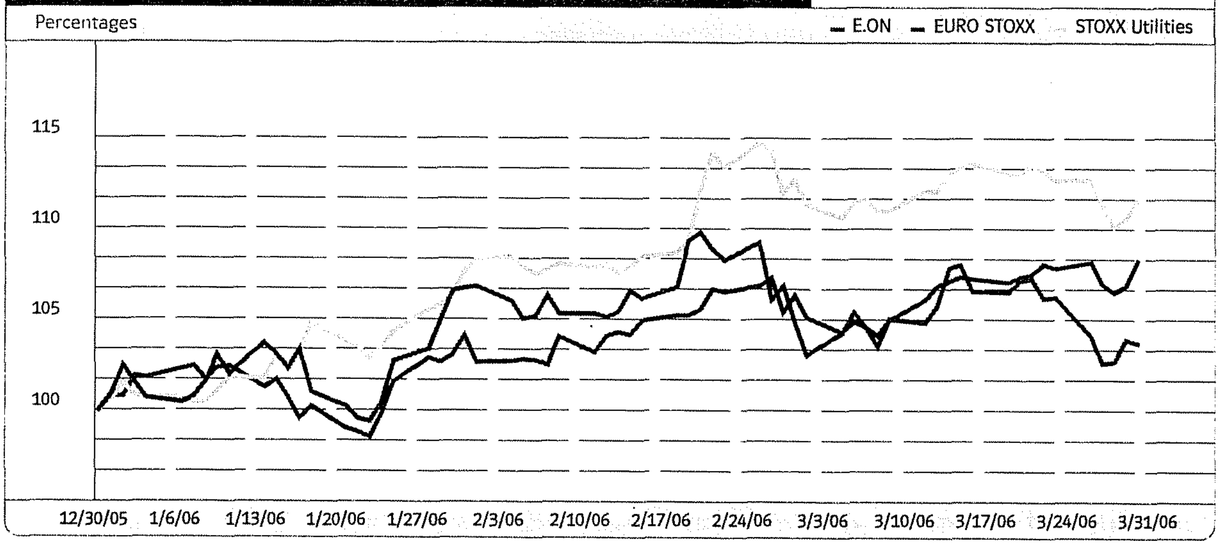
[1]Excludes treasury stock.
[2]Based on the entire capital stock (692,000,000 shares).

Performance and Trading Volume

January 1 - March 31	2006	2005
High (in €)[1]	96.10	71.70
Low (in €)[1]	87.07	64.50
Trading volume[2]		
- Millions of shares	231.6	191.1
- € in billions	21.2	12.9

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

E.ON Stock Performance versus European Stock Indices



6 Results of Operations

Energy Price Developments

In the first three months of 2006, power and natural gas markets in Europe were influenced by high and volatile international oil, coal, and CO_2 prices together with security of supply concerns in the U.K. and U.S. natural gas markets.

Tight supply fundamentals and political risks in major oil producing countries like Nigeria, Iran, and Iraq led to volatile crude oil prices with high risk premiums. High U.S. stockpiles early in the year provided only temporary relief. The price of Brent crude oil, which rose above $66 per barrel during March, returned to the high levels of last autumn.

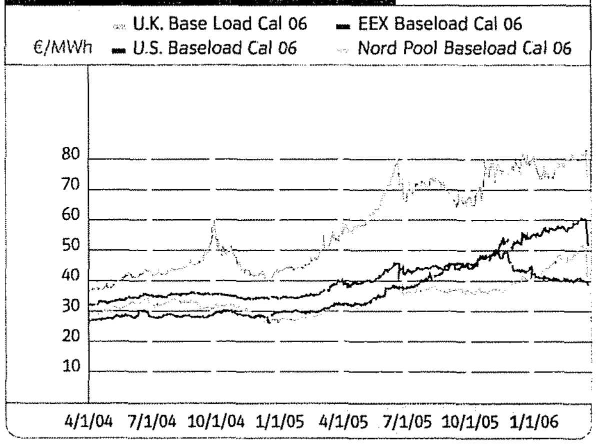
Coal prices rose again following an increase in November 2005. The latest upward movement was due to limited South African exports, higher demand in Europe, and greater buying interest in coal derivatives.

Germany's natural gas import prices are contractually indexed to oil prices, which they track with a time lag. The average price of Germany's natural gas imports in February 2006 was about 40 percent higher than the average price of the prior-year period. Due to a tight supply and demand situation, U.K. gas prices remained high and volatile. In mid-March 2006, colder-than-normal weather coupled with supply problems led National Grid Transco, the U.K. gas transport system operator, to issue its first-ever gas balancing alert, indicating that there was a high risk of supply interruptions. U.K. gas prices rose sharply in response. In the United States, high storage levels led to a slight decrease in natural gas prices. However, high oil prices along with supply uncertainties regarding the upcoming hurricane season moderated this effect, with natural gas prices stabilizing at high levels.

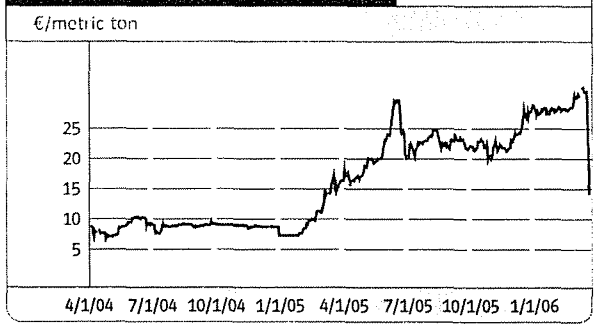
CO_2 prices increased during January 2006 to more than €28 per metric ton. The economics of coal-fired versus gas-fired power generation in the United Kingdom along with cold and dry winter weather in Europe caused the market to expect increased demand for emission allowances, resulting in higher CO_2 prices. In late April, however, CO_2 prices fell by more than half. The publication of the first emission data for 2005 by some EU member states caused the market to expect some companies to sell unneeded CO_2 certificates, thereby increasing supply.

Wholesale power prices in Germany rose during the first quarter of 2006 due to higher fuel and CO_2 prices and lower hydroelectric production across Central Europe. U.K. power prices remained volatile and were mainly driven by U.K. natural gas prices. Reduced hydropower availability and high CO_2 prices pushed up power prices in Northern Europe. In late April, European wholesale power prices fell by as much as €12 per MWh within just a few days due to the sharp decline in CO_2 prices. U.S. power prices declined in the first quarter of 2006, but remained higher than a year ago in response to higher natural gas prices.

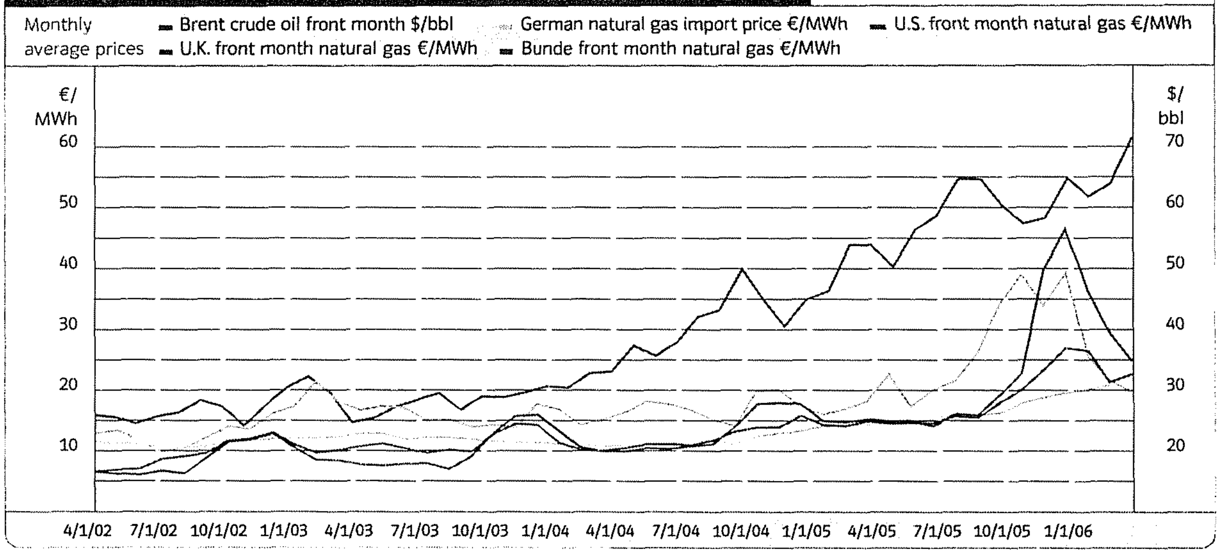
Electricity Price Movements in E.ON's Core Markets



CO_2 Certificate Price Movements in Europe

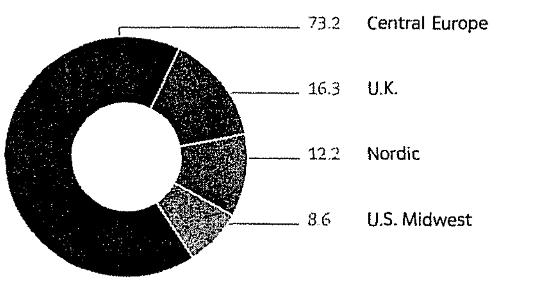


Crude Oil and Natural Gas Price Movements in E.ON's Core Markets



Power Sales[1]

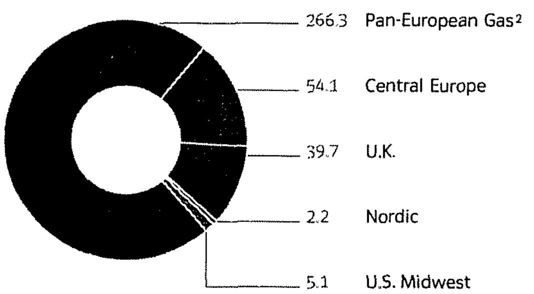
January 1 – March 31, 2006
Billion kWh Total: 110.3



[1]Unconsolidated figures.

Gas Sales[1]

January 1 – March 31, 2006
Billion kWh Total: 367.4



[1]Unconsolidated figures.
[2]Sales of E.ON Ruhrgas AG.

Power and Gas Sales Higher

We sold 1 percent more electricity in the first quarter of 2006 than in the prior-year quarter due to the inclusion of newly consolidated regional electricity distributors in Bulgaria, Romania, and the Netherlands. We sold 18 percent more natural gas thanks primarily to colder winter weather, Pan-European Gas's continuing volume growth outside Germany, and the inclusion of newly consolidated subsidiaries in Hungary, the Netherlands, and Germany.

Results of Operations

Sales up Substantially

All market units contributed to the substantial 37 percent increase in sales, which was mainly due to the following factors: the global increase in raw materials and energy prices which led to higher average power and gas prices, the inclusion of newly consolidated regional utilities particularly in Bulgaria, Hungary, and Romania, and weather-driven volume increases, particularly in the natural gas business.

Sales

January 1 - March 31 € in millions	2006	2005[1]	+/- %
Central Europe	8,283	6,669	+24
Pan-European Gas	8,768	5,347	+64
U.K.	3,768	2,724	+38
Nordic	1,005	955	+5
U.S. Midwest	570	501	+14
Corporate Center	-862	-427	-
Sales	**21,532**	**15,769**	**+37**

[1]Adjusted for discontinued operations.

Adjusted EBIT up 6 Percent

The improvement in adjusted EBIT at our Central Europe, Pan-European Gas, and Nordic market units is also attributable to power and gas price movements, the inclusion of newly consolidated companies in Central Europe East and the United Kingdom, and higher power and gas sales volumes. Natural gas supply issues in the United Kingdom led to substantially higher procurement prices, which adversely affected the U.K. market unit's adjusted EBIT performance. The costs associated with participation in the new MISO market, introduced on April 1, 2005, constituted the main factor in the decline in U.S. Midwest's adjusted EBIT.

Adjusted EBIT

January 1 - March 31 € in millions	2006	2005[1]	+/- %
Central Europe	1,413	1,281	+10
Pan-European Gas	733	467	+57
U.K.	38	268	-86
Nordic	300	287	+5
U.S. Midwest	92	100	-8
Corporate Center	-95	-41	-
Core Energy Business	**2,481**	**2,362**	**+5**
Other Activities[2]	**53**	**28**	**+89**
Adjusted EBIT[3]	**2,534**	**2,390**	**+6**

[1]Adjusted for discontinued operations.
[2]This segment consists of Degussa, which is accounted for using the equity method.
[3]Non-GAAP financial measure; see the table at right for a reconciliation to net income.

Net Income Significantly above High Prior-Year Level

Net income (after income taxes and minority interests) exceeded the high prior-year level. Earnings per share of €2.61 were up 18 percent year-on-year.

Adjusted interest income (net) was -€328 million (prior year: -€297 million). The higher interest expense results from provisions for waste management at the Central Europe market unit.

Net book gains in the first quarter of 2006 were significantly above the prior-year figure and resulted from the sale of securities (€143 million) and of Degussa stock to RAG (€376 million; see commentary on page 27). In the prior-year period net book gains resulted from the sale of securities.

We did not record restructuring expenses in the first quarter of 2006.

Net Income

January 1 - March 31 € in millions	2006	2005[1]	+/- %
Adjusted EBITDA[2]	**3,252**	**3,061**	**+6**
Depreciation, amortization, and impairments affecting adjusted EBIT[3]	-718	-671	-
Adjusted EBIT[2]	**2,534**	**2,390**	**+6**
Adjusted interest income (net)[4]	-328	-297	-
Net book gains	519	94	-
Restructuring expenses	-	-10	-
Other nonoperating earnings	-356	125	-
Income/Loss (-) from continuing operations before income taxes and minority interests	**2,369**	**2,302**	**+3**
Income taxes	-527	-738	-
Minority interests	-212	-170	-
Income/Loss (-) from continuing operations	**1,630**	**1,394**	**+17**
Income/Loss (-) from discontinued operations, net	88	65	+35
Net income	**1,718**	**1,459**	**+18**

[1]Adjusted for discontinued operations.
[2]Non-GAAP financial measure.
[3]For commentary see footnote 2 in the table on page 32.
[4]See reconciliation on page 33.

Other nonoperating earnings primarily reflect effects from the marking to market of derivatives (-€186 million). In addition, Pan-European Gas and U.K. took impairment charges totaling €70 million on intangible assets and property, plant, and equipment. The prior-year figure mainly includes positive effects from the marking to market of derivatives. These effects were partially counteracted by the costs relating to the severe storm in Sweden in early 2005.

Our continuing operations recorded a tax expense of €527 million in the first quarter of 2006. The decline in our tax expense primarily reflects a higher share of tax-free income.

Minority interests' share of net income increased due to higher earnings contributions at the companies in question and consolidation effects.

Income/Loss (-) from discontinued operations, net, includes the results of Western Kentucky Energy and E.ON Finland which are held for sale in 2006. Pursuant to U.S. GAAP, their results are reported separately in the Consolidated Statements of Income (see commentary on pages 26-27). In the prior-year period, this item contained the results of Viterra and Ruhrgas Industries, which were sold in 2005.

Investments

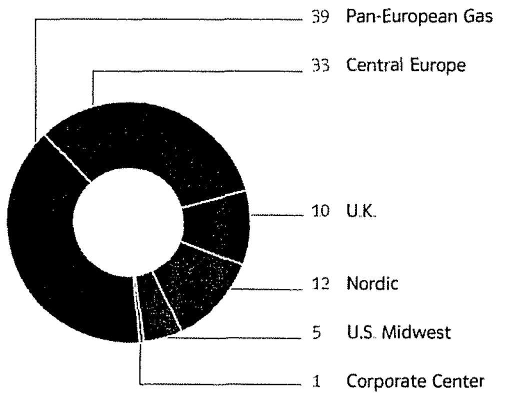
January 1 - March 31 € in millions	2006	2005[1]	+/- %
Central Europe	425	295	+44
Pan-European Gas	511	57	+796
U.K.	130	81	+60
Nordic	158	112	+41
U.S. Midwest	66	29	+128
Corporate Center	8	4	+100
Total	**1,298**	**578**	**+125**

[1]Adjusted for discontinued operations.

Investments

January 1 - March 31, 2006
Percentages

Total: €1,298 million



Investments Significantly Higher

In the period under review, the E.ON Group invested €1.3 billion, a 125 percent increase year-on-year. We invested €622 million (prior year: €410 million) in intangible assets and property, plant, and equipment. Investments in financial assets totaled €676 million versus €168 million in the prior year.

Central Europe invested €425 million, 44 percent more than in the prior-year period. Investments in intangible assets and property, plant, and equipment totaled €283 million (prior year: €211 million) and were aimed predominantly at electric generation and distribution assets. Investments in financial assets increased significantly to €142 million (prior year: €84 million), primarily due to capital increases at subsidiaries and the acquisition of an interest in a small regional distribution company in eastern Germany.

Pan-European Gas invested €511 million, of which €57 million (prior year: €25 million) went towards intangible assets and property, plant, and equipment. Investments in financial assets of €454 million (prior year: €32 million) mainly reflect

Results of Operations

the acquisition of certain natural gas businesses of Hungary's MOL. This transaction closed in late March 2005. The purchase price was approximately €450 million.

U.K. invested €130 million, primarily on capital expenditure for additions to property, plant, and equipment. The increase results from additional capital expenditure allowances within the regulated sector due to the five-year regulation review and from higher expenditure on the generation portfolio.

Nordic invested €93 million (prior year: €63 million) in intangible assets and property, plant, and equipment in order to maintain existing production plants and to upgrade and extend its distribution network. As a consequence of the severe storm in January 2005, investments in Nordic's electric distribution network have increased significantly. Investments in financial assets totaled €65 million compared with €49 million in the year-earlier period.

U.S. Midwest's investments of €66 million were 128 percent above the prior-year figure, primarily due to increased spending for SO_2 emissions equipment, higher spending in generation and distribution, and currency translation effects.

Financial Condition

Management's analysis of E.ON's financial condition uses, among other financial measures, cash provided by operating activities, free cash flow, and net financial position. Free cash flow is defined as cash provided by operating activities less investments in intangible assets and property, plant, and equipment. We use free cash flow primarily to make growth-creating investments, pay out cash dividends, repay debts, and make short-term financial investments. Net financial position equals the difference between our total financial assets and total financial liabilities. Management believes that these financial measures enhance the understanding of the E.ON Group's financial condition and, in particular, its liquidity.

The E.ON Group's cash provided by operating activities in the first quarter of 2006 was significantly above the prior-year level.

The slight decline in Central Europe's cash provided by operating activities is mainly attributable to an increase in working capital and in contributions to VKE, a German energy industry pension fund. The main positive factors were the significant increase in gross profit on sales, the inclusion of newly consolidated subsidiaries, and lower payments for nuclear fuel reprocessing compared with the prior-year period.

Cash Provided by Operating Activities

January 1 – March 31 € in millions	2006	2005[1]	+/–
Central Europe	399	438	-39
Pan-European Gas	1,559	1,213	+346
U.K.	-277	10	-287
Nordic	286	29	+257
U.S. Midwest	164	128	+36
Corporate Center	-189	-157	-32
Cash provided by operating activities	**1,942**	**1,661**	**+281**
Investments in intangible assets and property, plant, and equipment	622	410	+212
Free cash flow[2]	**1,320**	**1,251**	**+69**

[1]Adjusted for discontinued operations
[2]Non-GAAP financial measure.

Pan-European Gas's cash provided by operating activities improved significantly, chiefly due to the positive development of the upstream and midstream business.

Cash provided by operating activities at U.K. declined significantly year-on-year. This was mainly due to an increase in gas input costs which was only partly offset by higher retail prices.

Nordic's cash provided by operating activities increased significantly because the prior-year figure was negatively affected by a number of nonrecurring items including high cash outflows relating to the severe storm in January 2005 and higher tax payments compared with the current year. Improved electricity margins in the first quarter of 2006 constituted another positive factor.

Cash provided by operating activities at U.S. Midwest was higher year-on-year due to a decrease in gas purchases compared with the prior year, increased collections of accounts receivable which resulted from higher natural gas prices in the fourth quarter of 2005, and a favorable dollar-euro exchange rate. Cash increases were partly offset by pension contributions.

The main factor in the decline in the Corporate Center's cash provided by operating activities was the absence of income recorded in the prior year on the unwinding of currency swaps. This was partially counteracted by positive tax effects.

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, particularly in the second and third quarters, there is typically a corresponding reduction in working capital, resulting in significant 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 and for gas tax prepayments in the fourth quarter. A major portion of the market units' capital expenditures for intangible assets and property, plant, and equipment is paid in the fourth quarter.

Despite the increase in investments in intangible assets and property, plant, and equipment, free cash flow was 6 percent above the prior-year number.

Net Financial Position

€ in millions	March 31, 2006	Dec. 31, 2005	March 31, 2005
Bank deposits	5,141	5,859	6,490
Securities and funds (current assets)	9,542	9,260	8,089
Total liquid funds	**14,683**	**15,119**	**14,579**
Securities and funds (fixed assets)	1,284	1,160	934
Total financial assets	**15,967**	**16,279**	**15,513**
Financial liabilities to banks	-1,648	-1,572	-3,768
Bonds (including MTN)	-9,081	-9,538	-9,221
Commercial paper	-2,091	-	-4,799
Other financial liabilities	-1,440	-1,306	-1,515
Total financial liabilities	**-14,260**	**-12,416**	**-19,303**
Net financial position[1]	**1,707**	**3,863**	**-3,790**

[1]Non-GAAP financial measure; see reconciliation in the top table at right.

Net financial position, a non-GAAP financial measure, is derived from a number of figures which are reconciled to the most directly comparable U.S. GAAP measure in the top table at right.

Our net financial position of €1,707 million was €2,156 million below the figure reported as of December 31, 2005 (€3,863 million). This is mainly attributable to the €2.6 billion payment under our contractual trust arrangement, the acquisition of natural gas businesses from Hungary's MOL, and financial outlays for investments in property, plant, and equipment. Our net financial position was positively affected by strong cash provided by operating activities.

Reconciliation of Net Financial Position

€ in millions	March 31, 2006	Dec. 31, 2005	March 31, 2005
Liquid funds shown in the Consolidated Financial Statements	14,683	15,119	14,579
Financial assets shown in the Consolidated Financial Statements	24,774	21,686	17,599
- Thereof loans	-980	-1,100	-1,447
- Thereof equity investments	-21,802	-18,759	-14,674
- Thereof shares in affiliated companies	-708	-667	-544
= Total financial assets	**15,967**	**16,279**	**15,513**
Financial liabilities shown in the Consolidated Financial Statements	-16,337	-14,362	-21,331
- Thereof to affiliated companies	142	134	127
- Thereof to associated companies	1,935	1,812	1,901
= Total financial liabilities	**-14,260**	**-12,416**	**-19,303**
Net financial position	**1,707**	**3,863**	**-3,790**

Net interest expense mainly results from the interest income of those items that are also part of the net financial position. Net interest expense was nearly unchanged from the figure recorded at year end 2005. The positive development of net interest expense was counteracted primarily by a higher interest expense on financial liabilities with a variable interest rate and a higher tax-related interest expense.

Financial Key Figures

January 1 - March 31 € in millions	2006	2005
Net interest expense[1]	**-86**	**-82**
Adjusted EBITDA[2]	**3,252**	**3,061**
Adjusted EBITDA ÷ net interest expense	**37.8x**	**37.3x**

[1]Non-GAAP financial measure; see page 33 for a reconciliation to interest income shown in the Consolidated Statements of Income.
[2]Non-GAAP financial measure; see reconciliation to net income on page 8.

On February 21, 2006, Standard & Poor's put its AA- long-term rating for E.ON bonds and its A-1+ short-term on a credit watch with negative implications following the announcement of our offer for 100 percent of the stock of Endesa. On February 22, 2006, Moody's announced that it was reviewing its Aa3 long-term rating for E.ON bonds for a possible downgrade. Following the closing of the Endesa transaction, E.ON aims to have a single-A flat long-term rating (A/A2). Commercial paper issued by E.ON has a short-term rating of A-1+ and P-1 by Standard & Poor's and Moody's, respectively.

On February 21, 2006, E.ON made a €29.1 billion offer to acquire 100 percent of the stock of Endesa. In connection with this offer E.ON obtained a €32 billion credit line.

Results of Operations

Employees

On March 31, 2006, the E.ON Group had 79,783 employees worldwide, as well as 2,039 apprentices and 229 board members and managing directors. The size of our workforce was thus essentially unchanged from year end 2005.

At the end of the current period, 45,268 employees, or 56.7 percent of all staff, were working outside Germany, also essentially unchanged from year end 2005.

Employees[1]

	March 31, 2006	Dec. 31, 2005	+/- %
Central Europe	44,471	44,476	-
Pan-European Gas	12,975	13,366	-3
U.K.	13,381	12,891	+4
Nordic	5,525	5,424	+2
U.S. Midwest	2,998	3,002	-
Corporate Center	433	411	+5
Total	**79,783**	**79,570**	-
Discontinued operations[2]	830	840	-1
Degussa[3]	33,878	33,882	-

[1]Figures do not include apprentices, managing directors, or board members.
[2]Includes E.ON Finland and WKE.
[3]At March 31, 2006, Degussa had 1,540 apprentices

The number of employees at Pan European Gas declined by about 3 percent to 12,975 relative to year end 2005, mainly due to efficiency enhancement measures at E.ON Gaz Romania.

At the end of the first quarter of 2006, U.K. had 13,381 employees, roughly 4 percent more than at year end 2005. The increase is chiefly attributable to the further additions in customer service staff and increased hiring of technical personnel at the electric distribution and metering businesses.

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

Technologically complex facilities are involved in the production and distribution of energy. Operational failures or extended production stoppages of facilities or components of facilities could adversely impact our earnings situation. We seek to minimize these risks through ongoing employee training and qualification programs and regular maintenance and enhancement of our facilities.

During the normal course of business, E.ON is exposed to interest rate, currency, commodity price, and counterparty risks which we address 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 derivative financial instruments to limit the price and sales 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 active and informed role in shaping our business environment. We pursue this goal by engaging in a systematic and constructive dialog with political leaders and representatives of government agencies. Currently, the following issues are of particular relevance:

- The regulation of electricity and natural gas networks codified in Germany's Energy Law of 2005 requires that network charges be approved in advance. This poses a risk to our earnings situation, since it is becoming apparent that the Federal Network Agency is interpreting the applicable regulations in a one-sided manner prejudicial to network operators.

- Germany's Federal Cartel Office issued an order prohibiting E.ON Ruhrgas from implementing existing long-term gas supply contracts. E.ON Ruhrgas filed an emergency petition with the State Superior Court in Düsseldorf to prevent the order from taking immediate effect. Oral arguments in the case took place on April 26, 2006. After a preliminary examination of the case, the court is leaning towards rejecting E.ON Ruhrgas's petition. The court announced that it will issue a ruling in early June 2006. The German Federal Appeals Court has final appellate jurisdiction of the petition. At the present time, we are unable to predict the effect the order could have on E.ON Ruhrgas, since it involves competitive processes whose outcome is by their nature uncertain. This issue could pose a risk to our earnings situation.

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 2005.

Outlook

We continue to expect our adjusted EBIT for 2006 to slightly surpass the high prior-year level. However, we will not repeat the extraordinarily high net income figure posted in 2005, which resulted in particular from the book gains on our successful Viterra and Ruhrgas Industries disposals.

The earnings forecast by market unit is as follows:

For 2006, we expect Central Europe's adjusted EBIT to be slightly above the prior-year level. We expect to offset the adverse affects of regulatory measures affecting the operations of our energy transmission and distribution systems by achieving operating improvements in other areas.

We expect Pan-European Gas's adjusted EBIT to exceed the figure for 2005. The Up-/Midstream business will benefit from the integration of E.ON Ruhrgas UK North Sea Limited (formerly Caledonia Oil and Gas Limited) and the temperature-driven volume increases recorded in the first quarter. Moreover, oil price developments were a significant negative factor in the prior year. However, the rate of increase achieved in the first quarter will flatten distinctly in the remainder of the year. The acquisition of the natural gas storage and trading operations of Hungary's MOL will adversely affect the development of the downstream business.

Despite underperforming in the first quarter, U.K.'s adjusted EBIT is still expected to be significantly higher than the 2005 level. Significant features include the impact of increased retail prices, increased value from U.K.'s generation fleet, and profit and cost initiatives, partially offset by future commodity cost increases.

We anticipate that Nordic's adjusted EBIT for 2006 will be below the figure posted in 2005. Earnings development will be affected by significantly higher nuclear and hydro taxes and by the absence of earnings streams from hydroelectric plants divested last year. These effects will be partially counteracted by higher average electricity prices.

We expect U.S. Midwest's adjusted EBIT for 2006 to be on par with 2005.

Market Units

Central Europe

Market Development

Wholesale electricity prices continued to trend higher in Europe in the first quarter of 2006. Driven by high and volatile fuel and CO_2 certificate prices, baseload electricity for 2007 delivery traded above €57 per MWh on Germany's energy exchange, a more than 10 percent increase from the start of the year.

Electricity prices paid by industrial customers in Germany who concluded new supply agreements rose at a similar rate during the first quarter, while electricity prices in the residential segment increased by about 4.3 percent on average at the start of the year. The regulatory agencies responsible for approving residential price increases issued widely divergent rulings, resulting in significant regional variance in this segment.

Power and Gas Sales

The Central Europe market unit sold 3.4 billion kWh more electricity than in the prior-year period. Two thirds of the increase is attributable to the inclusion of newly consolidated regional electricity distributors in Bulgaria, Romania, and the Netherlands. The remainder resulted from an increase in trading volumes. These positive effects were partially counteracted by the loss of some business to competitors.

Central Europe's regional distribution companies sold about 15 billion kWh more natural gas than in the prior-year period. Just under three fourths of the increase resulted from consolidation effects. In the first quarter of the previous year, our Hungarian natural gas utilities, NRE in the Netherlands, and Gasversorgung Thüringen (GVT), which was subsequently merged with E.ON Thüringer Energie, were not yet consolidated E.ON companies. The remainder of the increase is primarily attributable to harsh winter weather.

Power Procurement

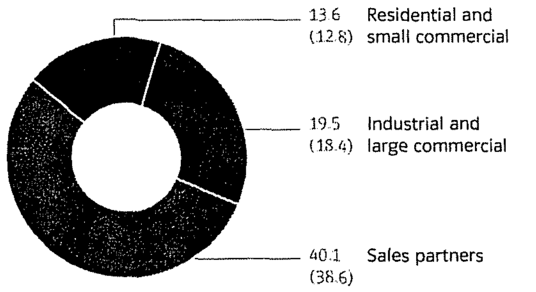
Central Europe utilized its flexible mix of generation assets to meet about 47 percent (prior year: 48 percent) of its electricity requirements. It procured around 2.7 billion kWh more electricity from outside sources than in the year-earlier period. This increase results mainly from the inclusion of newly consolidated subsidiaries in Bulgaria and Romania.

Central Europe

January 1 - March 31 € in millions	2006	2005	+/- %
Sales	8,283	6,669	+24
- Thereof energy taxes	285	285	-
Adjusted EBITDA	1,722	1,572	+10
Adjusted EBIT	1,413	1,281	+10

Power Sales by Customer Segment[1]

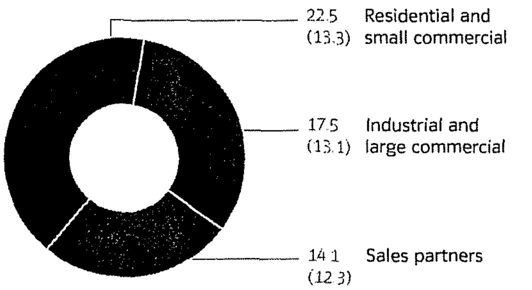
January 1 - March 31, 2006 Total: 73.2
Billion kWh (January 1 - March 31, 2005: 69.8)



[1]Excludes trading activities

Gas Sales by Customer Segment[1]

January 1 - March 31, 2006 Total: 54.1
Billion kWh (January 1 - March 31, 2005: 38.7)



[1]Excludes trading activities.

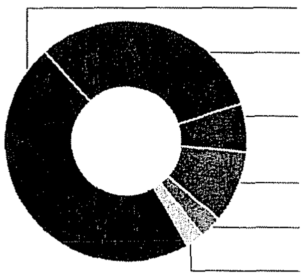
Power Procurement[1]

January 1 - March 31 Billion kWh	2006	2005	+/- %
Owned generation	36.7	34.7	+6
Purchases	40.8	38.1	+7
- from jointly owned power plants	3.3	3.3	-
- from outside sources	37.5	34.8	+8
Power procured	**77.5**	**72.8**	**+6**
Plant-use, line loss, pumped-storage hydro	-4.3	-3.0	-
Power sales	**73.2**	**69.8**	**+5**

[1]Excludes trading activities.

Sources of Owned Generation

January 1 - March 31, 2006
Percentages



Sales and Adjusted EBIT

Central Europe grew sales by €1,614 million relative to the prior-year period, mainly due to the following factors: the global increase in raw materials and energy prices which led to successive increases in our power and gas prices, the consolidation effects mentioned above (primarily in Central Europe East), and weather-driven volume increases, particularly of natural gas.

Adjusted EBIT rose by €132 million year-on-year, with Central Europe's business units developing as follows.

Adjusted EBIT at Central Europe West Power was slightly above the prior-year figure. The positive effect of the passthrough of higher wholesale electricity prices to end customers was moderated by significantly higher conventional fuel costs, higher power procurement costs, and higher burdens resulting from expenses for additional CO_2 certificates. Adjusted EBIT was also negatively impacted by effects relating to earlier reporting periods.

Adjusted EBIT at Central Europe West Gas was €51 million above the prior-year figure, mainly due to the inclusion of GVT, which was not a consolidated E.ON company in the prior-year period, and to volume increases resulting from cold weather.

Central Europe East's adjusted EBIT rose by €15 million year-on-year. The increase primarily reflects the inclusion of companies in Bulgaria, Hungary, and Romania acquired in 2005. It was moderated by the absence of the gain on the disposal of minority stakes in the Czech Republic recorded in the prior-year period.

Adjusted EBIT recorded under Other/Consolidation increased by €48 million, mainly due to higher financial earnings.

Financial Highlights by Business Unit

	Central Europe West				Central Europe East		Other/ Consolidation		Central Europe	
	Power		Gas							
January 1 - March 31 € in millions	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales[1]	5,057	4,516	1,844	1,247	987	578	110	43	7,998	6,384
Adjusted EBITDA	1,204	1,193	313	255	145	118	60	6	1,722	1,572
Adjusted EBIT	1,027	1,009	256	205	95	80	35	-13	1,413	1,281

[1]Excludes energy taxes; trading activities are recognized net.

Pan-European Gas

Pan-European Gas January 1 - March 31 € in millions	2006	2005	+/- %
Sales	8,768	5,347	+64
-Thereof energy taxes	1,245	1,029	+21
Adjusted EBITDA	856	554	+55
Adjusted EBIT	733	467	+57

Market Development
Germany consumed about 13 percent more natural gas than in the prior-year quarter, mainly due to considerably colder weather, particularly in January and March.

Gas Sales
Pan-European Gas's midstream business sold 266 billion kWh of natural gas in the first quarter of 2006, about 18 percent more than in the prior-year period. The increase resulted from colder temperatures in Germany compared with the previous year and further volume growth outside Germany. The average temperature in E.ON Ruhrgas's sales territory in Germany was 1° C, which is 2° C below the prior-year figure.

Gas Sales by Period[1] January 1 - March 31 Billion kWh	2006	2005	+/- %
January	95.4	79.7	+20
February	86.5	77.3	+12
March	84.4	68.6	+23
Gas sales	**266.3**	**225.6**	**+18**

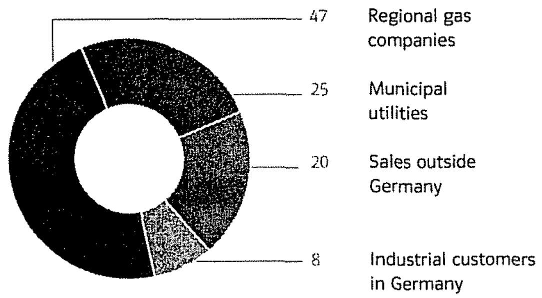
[1]Gas sales of E.ON Ruhrgas AG.

In the first quarter of 2006, E.ON Ruhrgas AG increased its sales volume outside Germany by roughly 34 percent to 52 billion kWh. Sales outside Germany thus accounted for about one fifth of total sales volume. The increase is in part attributable to deliveries to E.ON Nordic, which began in October 2005, and to higher deliveries to E.ON Vendita in Italy. Deliveries to new industrial customers in France and the Netherlands also contributed to the increase.

Sales volume in Germany rose by about 15 percent year-on-year to 214 billion kWh. The disproportionate volume growth outside Germany meant that domestic customer segments accounted for a smaller share of total sales volume. As in the past, regional gas companies constituted the largest customer segment, although their share of total sales volume declined from 49 percent in the prior-year period to 47 percent in the current-year period. Deliveries to municipal utilities, which accounted for roughly 25 percent of total sales volume, were stable, as were deliveries to industrial customers, which again accounted for 8 percent of total sales volume.

Gas Sales by Customer Segment[1]

January 1 - March 31, 2006
Percentages



[1]Gas sales of E.ON Ruhrgas AG.

Sales and Adjusted EBIT
Pan-European Gas increased sales by 64 percent year-on-year to €8.8 billion.

The increase in sales is attributable to a number of factors. Sales were higher in the midstream business thanks to higher volumes and higher average sales prices in the wake of oil price developments The upstream business includes the first-quarter results of E.ON Ruhrgas UK North Sea Limited. This company was acquired in 2005 and did not begin contributing to consolidated sales until November 2005. In September 2005, Pan-European Gas increased its stake in Njord Field from 15 percent to 30 percent, which also had a positive effect on sales in the current-year period. At Downstream Shareholdings, Distrigaz Nord is included from the beginning of the year, whereas in the prior year its results were not consolidated until the second half. Distrigaz Nord changed its name to E.ON Gaz Romania on April 1, 2006.

Pan-European Gas recorded an adjusted EBIT of €733 million, 57 percent more than in the prior-year period. All business units contributed to the advance.

The upstream business improved its adjusted EBIT performance due to the inclusion of newly consolidated E.ON Ruhrgas UK North Sea Limited, the increase in ownership in Njord Field, and high oil and natural gas price levels. The midstream business benefited from temperature-driven volume increases and sales growth outside Germany. Adjusted EBIT in the first quarter of 2006 was again adversely affected by increases in light heating oil prices, since procurement prices respond to changes in light heating oil prices faster than sales prices. However, this effect was less marked than in the prior-year period.

Consolidation effects, particularly the inclusion of E.ON Gaz Romania, likewise served to increase Downstream Shareholdings' adjusted EBIT, which also benefited from price and volume effects in its gas business.

Financial Highlights by Business Unit

January 1 – March 31 € in millions	Up-/Midstream		Downstream Shareholdings		Other/ Consolidation		Pan-European Gas	
	2006	2005	2006	2005	2006	2005	2006	2005
Sales[1]	6,604	3,844	1,118	612	-199	-138	7,523	4,318
Adjusted EBITDA	609	344	242	212	5	-2	856	554
Adjusted EBIT	511	274	217	193	5	-	733	467

[1]Excludes energy taxes.

U.K.

U.K.

January 1 – March 31 € in millions	2006	2005	+/- %
Sales	3,768	2,724	+38
Adjusted EBITDA	182	419	-57
Adjusted EBIT	38	268	-86

Market Development

Market electricity and gas consumption at 99 billion kWh and 326 billion kWh, respectively, for the first quarter of 2006 were broadly in line with the prior-year quarter.

Gas price volatility has continued into 2006. On March 13, the first-ever gas balancing alert was called due to significantly colder-than-normal weather, reduced storage capacity as a result of a fire at the Rough Storage Facility (which accounts for about 70 percent of U.K. storage capacity), and low inflow from the gas inter-connector. These factors pushed within-day gas prices to a peak of 255 pence per therm.

Annual gas prices for year ahead delivery increased from 36 pence per therm in the first quarter of 2005 to 61 pence per therm in the first quarter of 2006. This represents an increase of roughly 70 percent year-on-year.

Power prices in the United Kingdom continued to be driven by rising gas prices and increasingly by the influence of CO_2 prices. Annual prices for year ahead delivery increased from £31 per MWh in March 2005 to £53 per MWh in the first quarter of 2006. This represents an increase of roughly 70 percent year-on-year.

Power and Gas Sales

Sales by Customer Segment[1]

January 1 – March 31 Billion kWh	2006	2005	+/- %
Power—Residential and SME	11.5	11.0	+5
Power—I&C	4.8	5.9	-19
Total power sales	**16.3**	**16.9**	**-4**
Gas—Residential and SME	29.3	27.5	+7
Gas—I&C	10.4	10.8	-4
Total gas sales	**39.7**	**38.3**	**+4**

[1]Excludes wholesale and energy trading activities.

The decrease in Industrial and Commercial (I&C) power and gas volumes reflected E.ON UK's focus on margin rather than volume during 2006. Residential and SME power and gas sales increased despite a marginal reduction in customer numbers; the volume increase is primarily weather related.

Market Units

Power Generation and Procurement

Power Generation and Procurement

January 1 - March 31 Billion kWh	2006	2005	+/- %
Owned generation[1]	12.2	9.6	+27
Purchases	4.8	7.9	-39
- Jointly owned power plants	0.2	0.3	-33
- Outside sources	4.6	7.6	-39
Power procured	**17.0**	**17.5**	**-3**
Plant-use, transmission losses, pumped-storage hydro	-0.7	-0.6	-
Power sales	**16.3**	**16.9**	**-4**

[1]Excludes CHP and renewable generation.

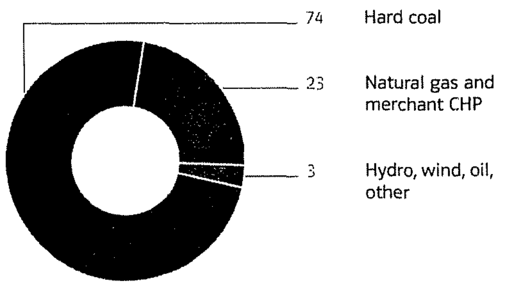
The increase in owned generation in the first quarter of 2006 was driven mainly by higher coal generation due to the improved economics versus gas generation, the acquisition of Enfield power station, and the return to service of Killingholme module 2 in April 2005 and module 1 in August 2005.

Purchases from outside sources declined due to higher owned generation and lower retail I&C sales.

E.ON UK's attributable generation portfolio was 10,547 MW at March 31, 2006, an increase of 2,582 MW from March 31, 2005. This is mainly due to the return to service of Killingholme power plant (900 MW), the acquisition of Enfield (392 MW), and the return of two oil-fired units at Grain (1,300 MW) for winter use.

Sources of Owned Generation

January 1 - March 31, 2006
Percentages



During the first quarter of 2006, E.ON UK co-fired biomass materials at the Kingsnorth, Ironbridge, and Ratcliffe power plants, generating a total of 97 GWh. Work has also commenced on the construction of a 44 MW wood-burning plant in Lockerbie, in southwest Scotland.

Sales and Adjusted EBIT

E.ON UK increased its sales in the first quarter of 2006 compared with the prior year, primarily due to price increases in the retail business and higher gas and power prices in the wholesale market. E.ON UK delivered an adjusted EBIT of €38 million in the first quarter of 2006, of which €124 million was in the regulated business and -€65 million in the non-regulated business.

Adjusted EBIT at the non-regulated business declined by €213 million. Significant increases in gas input costs during the winter caused by gas supply issues and cold weather reduced business margins in the first quarter. The residential price rise of 18.4 percent for power and 24.4 percent for gas effective from March 10, 2006, together with cost and profit initiatives will restore business margins.

Financial Highlights by Business Unit

January 1 - March 31 € in millions	Regulated business		Non-regulated business[1]		Other/ Consolidation		U.K.	
	2006	2005	2006	2005	2006	2005	2006	2005
Sales	212	219	3,606	2,560	-50	-55	3,768	2,724
Adjusted EBITDA	161	161	41	260	-20	-2	182	419
Adjusted EBIT	124	124	-65	148	-21	-4	38	268

[1]The non-regulated business now includes the new Energy Services business, a material part of which was previously reported under the regulated business. The non-regulated business also includes a recharge from Business Services (facilities, IT, and other shared services); 2005 has been rebased to ensure that comparisons are valid. The regulated business already included the recharge due to regulatory reasons.

Nordic

Nordic			
January 1 - March 31 € in millions	2006	2005	+/- %
Sales	1,005	955	+5
- Thereof energy taxes	120	123	-2
Adjusted EBITDA	384	379	+1
Adjusted EBIT	300	287	+5

Market Development

The hydrological situation in Norway and Sweden deteriorated continually in the first quarter of 2006. On April 1, water levels were about 25 billion kWh lower than normal, or 30 billion kWh lower than a year ago. Reservoir levels were slightly below normal, while snow and soil moisture were well below normal. Despite these factors, total hydroelectric production in Norway and Sweden was higher year-on-year due to the cold winter and high electricity prices in Continental Europe. Together, Norway and Sweden generated 209 billion kWh of hydroelectricity between April 1, 2005, and March 31, 2006.

Electricity exchanges between Northern Europe and surrounding markets were in balance for the year to date.

Electricity consumption in Finland was, on an annualized basis, about 1 billion kWh higher at the end of March 2006 than the level recorded in the first quarter of 2005. Industrial consumption in Norway was down slightly year-on-year. Adjusted for weather effects, total electricity consumption in Sweden and Norway was unchanged from the prior year.

Sale of E.ON Finland

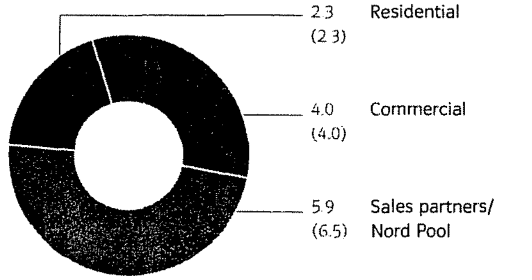
On February 2, 2006, E.ON Nordic and Fortum Power and Heat Oy (Fortum) signed an agreement under which Fortum will acquire E.ON Nordic's entire interest in E.ON Finland. The transaction is subject to the approval of the Finnish competition authority, which will issue its final decision by June 5, 2006, at the latest. The agreement with Fortum fulfills E.ON Nordic's obligations under a call option concluded in 2002 for all its shares in E.ON Finland. In mid-January 2006, E.ON Finland was classified as a discontinued operation. Prior-year figures were adjusted accordingly.

Power Sales

Power Sales

January 1 - March 31, 2006 Billion kWh

Total: 12.2 (January 1 - March 31, 2005: 12.8)



E.ON Nordic sold 0.6 billion kWh less electricity compared with the corresponding period of 2005 due to lower sales on the Nord Pool, Northern Europe's energy exchange. This was primarily a consequence of the sale of hydropower assets to Statkraft in late 2005, which reduced Nordic's owned generation capacity. Sales to residential and commercial customers were on par with the previous year.

Power Generation and Procurement

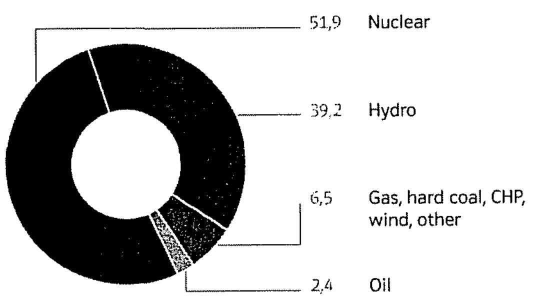
Power Generation and Procurement			
January 1 - March 31 Billion kWh	2006	2005	+/- %
Owned generation	9.2	9.6	-4
Purchases	3.8	3.8	-
- Jointly owned power plants	2.9	2.8	+4
- Outside sources	0.9	1.0	-10
Power procured	**13.0**	**13.4**	**-3**
Plant-use, line loss	-0.8	-0.6	-
Power sales	**12.2**	**12.8**	**-5**

E.ON Nordic covered 75 percent of its electricity sales with power from its own generation assets. E.ON Nordic's owned generation decreased by 0.4 billion kWh relative to the prior-year period. Hydropower production decreased, primarily as a result of the sale of hydro assets to Statkraft in October 2005. The decrease was partly compensated by higher CHP production due to the relatively cold weather conditions during the first quarter. Nuclear generation was virtually unchanged year-on-year.

Market Units

Sources of Owned Generation

January 1 - March 31, 2006
Percentages



Gas and Heat Sales

Gas and Heat Sales January 1 - March 31 Billion kWh	2006	2005	+/- %
Gas sales	**2.2**	**2.5**	**-12**
Heat sales	**3.4**	**3.1**	**+10**

Heat sales increased as a consequence of colder weather conditions and the acquisition of heat operations in Denmark. Natural gas sales declined despite the colder weather, primarily due to lower to sales to distributors.

Sales and Adjusted EBIT

E.ON Nordic's sales increased by 5 percent compared with the first quarter 2005, primarily due to higher average sales prices.

E.ON Nordic increased its adjusted EBIT by €13 million year-on-year to €300 million. The improvement was primarily a result of rising spot electricity prices and successful hedging activities, which enabled Nordic to secure higher effective sales value for its production portfolio. Compared to the prior-year, earnings for the first quarter were negatively impacted by increased taxes on hydro and nuclear production assets. In addition, the hydroelectric plants sold to Statkraft in October 2005 contributed to prior-year adjusted EBIT. Furthermore, the decline in the Swedish krona negatively affected Nordic's adjusted EBIT in reporting currency.

Financial Highlights by Business Unit

January 1 - March 31 € in millions	Sweden 2006	Sweden 2005	Finland[2] 2006	Finland[2] 2005	Nordic 2006	Nordic 2005
Sales[1]	885	832	-	-	885	832
Adjusted EBITDA	384	379	-	-	384	379
Adjusted EBIT	300	287	-	-	300	287

[1]Excludes energy taxes.
[2]Effective mid-January 2006, E.ON Finland is recorded under discontinued operations.

U.S. Midwest

U.S. Midwest January 1 - March 31 € in millions	2006	2005	+/- %
Sales	570	501	+14
Adjusted EBITDA	148	146	+1
Adjusted EBIT	92	100	-8

Market Development

In the first quarter of 2006, wholesale electricity prices in the Midwest, driven by a combination of higher natural gas prices but warmer-than-normal weather in January, were comparable to the same period in 2005. Wholesale electricity prices averaged $49 per MWh during the first quarter of 2006 and $50 per MWh for the same period in 2005, while natural gas prices averaged $7.67 per MMBtu and $6.44 per MMBtu, respectively. Lingering production shutdowns following fall 2005 hurricanes in the Gulf of Mexico kept natural gas price levels elevated through much of the first quarter.

E.ON U.S. received FERC approval to withdraw from Midwest Independent Transmission System Operator (MISO). E.ON U.S. is still awaiting a KPSC decision on this matter for a planned MISO exit by the middle of the year.

Power and Gas Sales

Sales by Customer Segment

January 1 - March 31 Billion kWh	2006	2005	+/- %
Regulated utility business			
- Retail customers	8.0	8.0	-
- Off-system sales	0.6	1.5	-60
Power sales	**8.6**	**9.5**	**-9**
Retail customers	5.1	6.1	-16
Off-system sales	-	0.6	-
Gas sales	**5.1**	**6.7**	**-24**

Regulated utility retail power sales volumes were roughly the same in 2006 as in 2005. Higher retail demand in February and March 2006 offset the warm weather in January 2006. Off-system sales volumes were lower compared with 2005 as a result of higher outages and increased use of E.ON U.S.'s generation for native load to replace the lost volumes from a purchase contract from Electric Energy Inc (EEI). EEI is a 1,000 MW power station in which E.ON U.S. has a 20 percent stake. In the past, E.ON U.S. could buy its share of the output at cost and utilize this to meet native load. Since January 1, 2006, EEI sells its power at market prices. E.ON U.S. can no longer utilize this power to meet native load and now supplies this power from its own generation. Retail natural gas sales volumes declined due largely to milder winter weather compared with 2005 and reduced consumption due to higher prices. Off-system sales of natural gas decreased due to high market prices and correspondingly lower availability of excess gas for sale.

Power Generation and Procurement

Power Generation and Procurement

January 1 - March 31 Billion kWh	2006	2005	+/- %
Proprietary generation			
- Owned power stations	8.5	9.0	-6
Purchases	1.0	1.2	-17
Power procurement	**9.5**	**10.2**	**-7**
Plant-use, line loss	-0.9	-0.7	-
Power sales	**8.6**	**9.5**	**-9**

Coal-fired power plants accounted for 98 percent of U.S. Midwest's electric generation in 2006, while gas-fired, hydro, and other generating assets accounted for the remaining 2 percent.

Sales and adjusted EBIT

U.S. Midwest's sales increased by 14 percent. The main drivers were favorable exchange-rate variances and higher gas prices recoverable from retail customers.

U.S. Midwest's adjusted EBIT decreased by 8 percent. The main factors in the regulated business were the costs associated with participation in the new MISO market, introduced on April 1, 2005, and a lower off-system sales contribution as a result of an increase in outages. The loss from the off-system sales contribution from the change in the EEI contract is earnings neutral as E.ON U.S. now receives the benefits from this contract through equity earnings instead of through low-cost power as in the past.

Financial Highlights by Business Unit

January 1 - March 31 € in millions	Regulated business		Non-regulated business/Other		U.S. Midwest	
	2006	2005	2006	2005	2006	2005
Sales	553	483	17	18	570	501
Adjusted EBITDA	141	144	7	2	148	146
Adjusted EBIT	92	99	-	1	92	100

Interim Financial Statements (Unaudited)

E.ON AG and Subsidiaries Consolidated Statements of Income

January 1 - March 31 € in millions	2006	2005
Sales	**21,532**	**15,769**
Energy taxes	-1,650	-1,431
Sales, net of energy taxes	**19,882**	**14,338**
Cost of goods sold and services provided	-16,564	-11,070
Gross profit on sales	**3,318**	**3,268**
Selling expenses	-1,170	-1,017
General and administrative expenses	-429	-324
Other operating income	2,064	2,023
Other operating expenses	-1,451	-1,634
Financial earnings	37	-14
Income/Loss (-) from continuing operations before income taxes and minority interests	**2,369**	**2,302**
Income taxes	-527	-738
Minority interests	-212	-170
Income/Loss (-) from continuing operations	**1,630**	**1,394**
Income/Loss (-) from discontinued operations, net	88	65
Net income	**1,718**	**1,459**
Earnings per share in €, basic and diluted		
- from continuing operations	2.48	2.12
- from discontinued operations	0.13	0.10
- from net income	**2.61**	**2.22**

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	March 31, 2006	Dec. 31, 2005
Assets		
Goodwill	15,312	15,363
Intangible assets	3,890	4,125
Property, plant, and equipment	41,353	41,323
Financial assets	24,774	21,686
Fixed assets	**85,329**	**82,497**
Inventories	2,021	2,457
Financial receivables and other financial assets	2,262	2,019
Operating receivables and other operating assets	25,115	21,354
Liquid funds (thereof cash and cash equivalents < 3 months 2006: 4,889; 2005: 4,413)	14,683	15,119
Nonfixed assets	**44,081**	**40,949**
Deferred taxes	2,329	2,079
Prepaid expenses	412	356
Assets of disposal groups	1,503	681
Total assets	**133,654**	**126,562**

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	March 31, 2006	Dec. 31, 2005
Stockholders' equity and liabilities		
Stockholders' equity	**47,781**	**44,484**
Minority interests	**4,792**	**4,734**
Provisions for pensions	6,309	8,720
Other provisions	26,986	25,142
Accrued liabilities	**33,295**	**33,862**
Financial liabilities	16,337	14,362
Operating liabilities	20,675	19,052
Liabilities	**37,012**	**33,414**
Liabilities of disposal groups	1,152	831
Deferred tax liabilities	8,457	8,420
Deferred income	1,165	817
Total stockholders' equity and liabilities	**133,654**	**126,562**

Interim Financial Statements (Unaudited)

E.ON AG and Subsidiaries Consolidated Statements of Cash Flow

January 1 - March 31 € in millions	2006	2005
Net income	1,718	1,459
Income applicable to minority interests	212	170
Adjustments to reconcile net income to net cash provided by operating activities		
Income from discontinued operations, net	-88	-65
Depreciation, amortization, impairment	788	671
Changes in provisions	1,267	239
Changes in deferred taxes	-221	82
Other noncash income and expenses	-378	-490
Gain/Loss (-) on disposal of fixed assets	-414	-32
Changes in nonfixed assets and other operating liabilities	-942	-373
Cash provided by operating activities	**1,942**	**1,661**
Proceeds from disposal of		
equity investments and other financial assets	76	142
intangible assets and property, plant, and equipment	50	41
Purchase of		
equity investments and other financial assets	-676	-168
intangible assets and property, plant, and equipment	-622	-410
Changes in other liquid funds	-2,259	-85
Cash provided by (used for) investing activities of continuing operations	**-3,431**	**-480**
Payments received/made from changes in capital, including minority interests	-	-
Payments for treasury stock, net	-	-
Payment of cash dividends to		
stockholders of E.ON AG	-	-
minority stockholders	-29	-27
Changes in financial liabilities	2,002	871
Cash provided by (used for) financing activities of continuing operations	**1,973**	**844**
Net increase (decrease) in cash and cash equivalents maturing (< 3 months) from continuing operations	**484**	**2,025**
Cash provided by operating activities of discontinued operations	42	63
Cash provided by (used for) investing activities of discontinued operations	-29	144
Cash provided by (used for) financing activities of discontinued operations	1	-40
Net increase (decrease) in cash and cash equivalents maturing (< 3 months) from discontinued operations	**14**	**167**
Effect of foreign exchange rates on cash and cash equivalents (< 3 months)	30	68
Cash and cash equivalents (< 3 months) at the beginning of the period	4,413	4,176
Cash and cash equivalents (< 3 months) from discontinued operations at the end of the period	-52	-
Cash and cash equivalents (< 3 months) as shown on the balance sheet	**4,889**	**6,436**
Available-for-sale securities (> 3 months) from continuing operations at the end of the period	9,794	8,143
Liquid funds as shown on the balance sheet	**14,683**	**14,579**

Consolidated Statements of Changes in Stockholders' Equity

€ in millions	Capital Stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Currency translation adjust-ments	Available-for-sale securities	Minimum pension liability	Cash flow hedges	Treasury stock	Total
Balance as of January 1, 2005	**1,799**	**11,746**	**20,003**	**–896**	**2,178**	**–1,090**	**76**	**–256**	**33,560**
Shares repurchased/sold									
Dividends paid									
Net income			1,459						1,459
Other comprehensive income				214	200	14	45		473
Total comprehensive income									**1,932**
Balance as of March 31, 2005	**1,799**	**11,746**	**21,462**	**–682**	**2,378**	**–1,076**	**121**	**–256**	**35,492**
Balance as of January 1, 2006	**1,799**	**11,749**	**25,861**	**–276**	**6,876**	**–1,402**	**133**	**–256**	**44,484**
Shares repurchased/sold									-
Dividends paid									-
Net income			1,718						1,718
Other comprehensive income				–154	1,715	195	-177		1,579
Total comprehensive income									**3,297**
Balance as of March 31, 2006	**1,799**	**11,749**	**27,579**	**–430**	**8,591**	**–1,207**	**–44**	**–256**	**47,781**

Accounting Policies

The accounting policies used to prepare the Interim Financial Statements for the three months ended March 31, 2006, correspond to those used in the Consolidated Financial Statements for the year ended December 31, 2005, with the following exception.

Share-Based Payment

On January 1, 2006, E.ON adopted Statement of Financial Accounting Standard (SFAS) 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires us to account for our stock appreciation rights (SAR) on the basis of their fair values and recognize the corresponding expenses in our Statements of Income. Prior to adopting SFAS 123R we accounted for SAR on the basis of intrinsic values and recognized the corresponding expenses in our Statements of Income, as provided by SFAS 123 in conjunction with FASB Interpretation 28, *Accounting for Stock Appreciation Rights* and *Other Variable Stock Option or Award Plans*. Pursuant to SFAS 123R, we use a Monte Carlo simulation technique to calculate the fair value of SAR. The cumulative effect of initially applying SFAS 123R by using the modified version of prospective application as the transition method had no material effect on our results of operations. As a result, no further disclosure is provided.

Variable Interest Entities

As of March 31, 2006, we consolidated the following variable interest entities (VIEs): two real estate leasing companies, two jointly managed electric generation companies, and a company that manages shareholdings.

As of March 31, 2006, we consolidated VIEs that had total assets of approximately €924 million and recorded earnings of €15 million prior to consolidation. Fixed assets and other assets in the amount of €149 million serve as collateral for liabilities relating to financial leases and bank loans.

With the exception of two VIEs, the creditors of our consolidated VIEs have limited recourse to the primary beneficiary's assets. In the case of these two VIEs, the primary beneficiary is liable for €83 million.

In addition, since July 1, 2000, we have had a contractual relationship with a VIE, a leasing company operating in the energy sector, for which we are not the primary beneficiary. This entity is currently being liquidated pursuant to a decision made by its owners. This entity had no significant assets and no liabilities at year end 2005. We do not expect E.ON to realize a loss from either its relations with this entity or from the entity's liquidation.

Due to a lack of information, we continue to be unable to compute, pursuant to FIN 46R, the financial situation of another special-purpose entity, which has existed since 2001 and whose activities were expected to terminate in the fourth quarter of 2005. The main transactions between this entity and the E.ON Group were completed in the fourth quarter of 2005. However, this entity has not yet been liquidated. Its activities consisted of liquidating the assets of divested operations. Originally, its total assets amounted to €127 million. We do not expect E.ON's results of operations to be adversely affected by this entity.

Acquisitions, Discontinued Operations, and Disposals

Acquisitions in 2006

Effective March 31, 2006, E.ON Ruhrgas acquired 100 percent of the natural gas trading and storage operations of MOL, a Hungarian oil and gas company, by acquiring ownership interests in Budapest-based MOL Földgázellátó Rt. and Budapest-based MOL Földgáztároló Rt. The purchase price was approximately €450 million. It was further agreed that, depending on regulatory developments, compensatory payments would be made through the end of 2009 if this should become necessary for a subsequent adjustment of the purchase price. The two entities became consolidated E.ON companies on March 31, 2006.

Discontinued Operations

Pursuant to SFAS 144, we have reported two companies as discontinued operations in the first quarter of 2006: E.ON Finland, Espoo, Finland, at our Nordic market unit and the operations of Western Kentucky Energy Corp. (WKE), Henderson, Kentucky, USA, at our U.S. Midwest market unit.

On February 2, 2006, E.ON Nordic and Fortum Power and Heat Oy (Fortum) signed an agreement under which Fortum will acquire E.ON Nordic's entire interest in E.ON Finland. The transaction is subject to the approval of the Finnish competition authority. E.ON Finland was classified as a discontinued operation in mid-January 2006.

Through WKE, E.ON U.S. operates the generating facilities of a power generation cooperative in western Kentucky and a coal-fired facility owned by the city of Henderson, Kentucky, under a long-term leasing arrangement. In November 2005, the parties involved entered into a letter of intent to terminate the lease and operational agreements between the parties and other related matters. The closing of the intended transaction is subject to review and approval by various regulatory agencies and other interested parties. At the end of December 2005, WKE was classified as a discontinued operation.

Other Disposals

Continuing the implementation of its framework agreement with RAG, on March 21, 2006, E.ON transferred its stake in Degussa (42.9 percent) into RAG Projektgesellschaft mbH, Essen. At the same time, E.ON forward sold its share in RAG Projektgesellschaft to RAG effective July 3, 2006. The purchase price is approximately €2.8 billion. The transfer at fair value initially resulted in a gain of approximately €618 million. However, because E.ON holds a 39.2 percent stake in RAG, the share of the gain recorded in our Consolidated Statement of Income was €376 million.

Pursuant to U.S. GAAP, the income and expenses of discontinued operations are reported separately under Income/Loss (-) from discontinued operations, net." The Consolidated Statements of Income and the Consolidated Statements of Cash Flows, including the notes relating to them, for the period ended March 31, 2006, and for the prior-year period have been adjusted for these discontinued operations. The assets and liabilities of these discontinued operations are shown in the Consolidated Balance Sheets for the period ended March 31, 2006, under "Assets of disposal groups" and "Liabilities of disposal groups." We did not reclassify prior-year balance-sheet line items attributable to discontinued operations because SFAS 144 does not permit such reclassification.

The following table shows the major line items of the statements of income of the above-named operations.

Major Income Statement Line Items of Discontinued Operations (Summary)

January 1 – March 31 € in millions	E.ON Finland		WKE		Viterra		Ruhrgas Industries		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Sales	85	82	59	50	-	219	-	299	144	650
Other operating income/expenses, net	-71	-62	80	-49	-	-164	-	-285	9	-560
Income/Loss (-) before income taxes and minority interests	**14**	**20**	**139**	**1**	**-**	**55**	**-**	**14**	**153**	**90**
Income taxes	-6	-5	-53	-5	-	-5	-	-4	-59	-19
Minority interests	-6	-6	-	-	-	-	-	-	-6	-6
Income/Loss (-) from discontinued operations, net	**2**	**9**	**86**	**-4**	**-**	**50**	**-**	**10**	**88**	**65**

The following table shows major line items of the balance sheets of E.ON Finland and WKE, the two companies classified as discontinued operations.

Major Balance Sheet Line Items of Discontinued Operations (Summary)

€ in millions	March 31, 2006 E.ON Finland	WKE	Total
Fixed assets	583	213	796
Nonfixed and other assets	251	456	707
Total assets	**834**	**669**	**1,503**
Liabilities (including minority interests)	473	679	1,152
Net assets	**361**	**-10**	**351**

Acquisitions and discontinued operations sold in 2005 are described in detail in our 2005 Annual Report.

Research and Development

The E.ON Group's research and development expense totaled €4 million in the first three months of 2006 and in the prior-year period.

Notes

Earnings per Share

Earnings per share were computed as follows:

Earnings per Share January 1 - March 31	2006	2005
Income/Loss (-) from continuing operations (€ in millions)	1,630	1,394
Income/Loss (-) from discontinued operations, net (€ in millions)	88	65
Net income (€ in millions)	1,718	1,459
Weighted average number of shares outstanding (in 1,000)	659,154	658,240
Earnings per share (in €)		
- from continuing operations	2.48	2.12
- from discontinued operations	0.13	0.10
- from net income	**2.61**	**2.22**

Financial Earnings

The table below provides details of financial earnings for the periods indicated.

Financial Earnings January 1 - March 31 € in millions	2006	2005	+/- %
Income from companies accounted for using the equity method	239	198	+21
Other income from companies in which share investments are held	18	24	-25
Income from share investments	**257**	**222**	**+16**
Income from other long-term securities	2	4	-50
Income from long-term loans	3	6	-50
Other interest and similar income	320	180	+78
Interest and similar expenses	-538	-398	-
- thereof SFAS 143 accretion expense	-130	-125	-
- thereof from financial liabilities to affiliated companies and to companies in which share investments are held	-	-7	-
Interest and similar expenses (net)	**-213**	**-208**	**-**
Writedown of securities, share investments, and long-term loans	-7	-28	-
Financial earnings	**37**	**-14**	**-**

Goodwill and Intangible Assets

The table below shows the changes in the carrying amount of goodwill in the first three months of 2006 by segment.

Goodwill[1]

January 1 - March 31 € in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Corporate Center	Other Activities	Total
Book value as of December 31, 2005	**2,419**	**4,069**	**4,955**	**368**	**3,552**	**-**	**-**	**15,363**
Goodwill additions/disposals	-	206	-1	-	-	-	-	205
Goodwill impairment	-	-	-	-	-	-	-	-
Other changes[2]	-	-3	-78	-85[3]	-90	-	-	-256
Book value as of March 31, 2006	**2,419**	**4,272**	**4,876**	**283**	**3,462**	**-**	**-**	**15,312**

[1]Excludes goodwill of companies accounted for using the equity method.
[2]Other changes include transfers and exchange-rate differences.
[3]Includes €83 million resulting from reclassifications as discontinued operations.

Intangible Assets

As of March 31, 2006, and December 31, 2005, E.ON's intangible assets, including advance payments on intangible assets, consist of the following:

Intangible Assets

€ in millions	March 31, 2006	Dec. 31, 2005
Intangible assets subject to amortization		
Acquisition costs	4,901	4,978
Accumulated amortization	2,007	1,957
Net book value	**2,894**	**3,021**
Intangible assets not subject to amortization	**996**	**1,104**
Total	**3,890**	**4,125**

In the first three months of 2006, E.ON recorded an amortization expense of €90 million (prior year: €90 million) on intangible assets and an impairment charge of €40 million (prior year: €0 million) on intangible assets. E.ON did not record goodwill impairment charges in the first three months of 2006 or in the prior-year period.

Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for the rest of 2006 and each of the five succeeding fiscal years is as follows: 2006 (remaining nine months): €248 million, 2007: €283 million, 2008: €243 million, 2009: €196 million, 2010: €156 million, and 2011: €149 million. As acquisitions and dispositions occur in the future, actual amounts could vary.

Treasury Shares Outstanding

The number of treasury shares as of March 31, 2006, did not change from the figure as of December 31, 2005. E.ON AG held 4,374,254 treasury shares. E.ON subsidiaries held another 28,472,194 shares of E.ON stock. E.ON thus holds 4.7 percent of its capital stock as treasury shares.

Dividends Paid

On May 4, 2006, the Annual Shareholders Meeting voted to distribute a dividend of €2.75 per share of common stock, a €0.40 increase from the previous dividend, plus a special dividend of €4.25 per share of common stock for a total dividend payout of €4,614 million.

Provisions for Pensions
The changes in the projected benefit obligation are shown below.

Changes in Projected Benefit Obligations January 1 - March 31 € in millions	2006	2005
Employer service cost	65	49
Interest cost	189	190
Expected return on plan assets	115	108
Prior service cost	4	8
Net amortization of gains (-)/losses	28	34
Total	**171**	**173**

Contribution to Plan Assets
In 2005 E.ON formed E.ON Pension Trust e.V. and Pensionsabwicklungstrust e.V. as part of a contractual trust arrangement. The trust's purpose is to improve the external financing of pension obligations of group companies in Germany. In the first quarter of 2006 we made the first contribution, in the amount €2.6 billion, into the trust by transferring money market investments with a term of more than three months.

Asset Retirement Obligations
E.ON's asset retirement obligations at March 31, 2006, relate to the decommissioning of nuclear power stations in Germany (€8,416 million) and Sweden (€403 million), environmental remediation at conventional power station sites, including the removal of electric transmission and distribution equipment (€376 million), environmental remediation at gas storage facilities (€116 million) and opencast mining facilities (€61 million), and the decommissioning of oil and gas infrastructure (€331 million). The fair value of nuclear decommissioning obligations was determined using third-party valuations.

An accretion expense pertaining to continued provisions of €130 million for the current period is included in financial earnings (prior year: €125 million).

Contingent Liabilities Arising from Guarantees

Financial Guarantees
Financial guarantees include both direct and indirect obligations (indirect guarantees of indebtedness of others). These require the guarantor to make contingent payments to the guaranteed party based on the occurrence of certain events and/or changes in an underlying instrument that is related to an asset, a liability, or an equity security of the guaranteed party.

Our financial guarantees include nuclear-energy-related items that are described in detail in our 2005 Annual Report. Obligations also include direct financial guarantees to creditors of related parties and third parties. Direct financial guarantees with specified terms extend as far as 2022. Maximum potential undiscounted future payments amount to €418 million (year end 2005: €427 million). Of this amount, €298 million (year end 2005: €304 million) consists of guarantees issued on behalf of related parties.

Indirect guarantees primarily include additional obligations in connection with cross-border leasing transactions and obligations to provide financial support, primarily to related parties. Indirect guarantees with specified terms extend as far as 2023. Maximum potential undiscounted future payments amount to €426 million (year end 2005: €431 million). Of this amount, €130 million (year end 2005: €67 million) involves guarantees issued on behalf of related parties. As of March 31, 2006, we recorded provisions of €24 million (year end 2005: €25 million) with respect to financial guarantees.

In addition, E.ON has commitments under which it assumes joint and several liability arising from its ownership interests in civil-law companies *(Gesellschaften bürgerlichen Rechts)*, noncorporate commercial partnerships, and consortia in which it participates.

Furthermore, certain E.ON Group companies have obligations by virtue of their membership in VKE, a German energy industry pension fund, in accordance with VKE's articles of incorporation. We do not expect these companies to have to perform on their obligations.

Indemnification Agreements

Contracts in connection with the disposal of shareholdings concluded by the E.ON Group companies include indemnification agreements and other guarantees with terms up to 2041 in accordance with contractual agreements and local legal requirements, unless shorter terms were contractually agreed to. Maximum undiscounted amounts potentially payable pursuant to the circumstances expressly stipulated in these agreements could total up to €6,633 million (year end 2005: €6,623 million). These mainly relate to customary representations and warranties, potential environmental liabilities, and potential claims for tax-related guarantees. In some cases, the buyer is either required to share costs or to cover certain costs before we are required to make any payments. Some obligations are covered first by insurance contracts or provisions of the divested companies. As of March 31, 2006, we recorded provisions of €294 million (year end 2005: €296 million) for indemnities and other guarantees included in sales agreements. Guarantees issued by companies that were later sold by E.ON AG (or by VEBA AG or VIAG AG before their merger) are included in the final sales contracts in the form of indemnities *(Freistellungserklärungen)*.

Other Guarantees

Other guarantees with an effective period through 2020 mainly include market-value guarantees and warranties (maximum potential undiscounted future payments at March 31, 2006: €126 million; year end 2005: €130 million). Other guarantees no longer include product warranties (or corresponding provisions) due to the disposal of Viterra and Ruhrgas Industries.

Business Segments

Our reportable segments are presented in line with our internal organizational and reporting structure. E.ON's business is subdivided into energy and other activities. Our core energy business consists of the following market units: Central Europe, Pan-European Gas, U.K., Nordic, U.S. Midwest, and Corporate Center.

Central Europe operates an integrated electricity business and downstream gas business in Central Europe.

Pan-European Gas focuses on the upstream and midstream gas business in Europe. This market unit also holds a number of mostly minority shareholdings in the downstream gas business.

U.K. operates an integrated energy business in the United Kingdom.

Nordic is principally engaged in the integrated energy business in Northern Europe.

U.S. Midwest primarily operates a regulated utility business in Kentucky, USA.

Adjustments for Discontinued Operations (January 1 – March 31, 2005)

€ in millions	Figures disclosed for Jan. 1 - March 31, 2005	Adjustments	Adjusted figures for Jan. 1 - March 31, 2005	Jan. 1 - March 31, 2006
Central Europe	1,281	-	1,281	1,413
Pan-European Gas	486	-19	467	733
U.K.	268	-	268	38
Nordic	301	-14	287	300
U.S. Midwest	101	-1	100	92
Corporate Center	-41	-	-41	-95
Core Energy Business	**2,396**	-34	**2,362**	**2,481**
Other Activities	**119**	-91	**28**	**53**
Adjusted EBIT	**2,515**	-125	**2,390**	**2,534**
Adjusted interest income (net)	-333	+36	-297	-328
Other nonoperating earnings	210	-1	209	163
Income/Loss (-) from continuing operations before income taxes and minority interests	**2,392**	-90	**2,302**	**2,369**
Net income	**1,459**	-	**1,459**	**1,718**

Financial Information by Business Segment

January 1 - March 31	Central Europe		Pan-European Gas		U.K.		Nordic	
€ in millions	2006	2005	2006	2005	2006	2005	2006	2005
External sales	8,154	6,609	8,098	5,007	3,727	2,713	982	937
Intersegment sales	129	60	670	340	41	11	23	18
Total sales	**8,283**	**6,669**	**8,768**	**5,347**	**3,768**	**2,724**	**1,005**	**955**
Adjusted EBITDA	**1,722**	**1,572**	**856**	**554**	**182**	**419**	**384**	**379**
Depreciation, amortization, and write-downs affecting adjusted EBIT[2]	-309	-291	-123	-87	-144	-151	-84	-92
Adjusted EBIT	**1,413**	**1,281**	**733**	**467**	**38**	**268**	**300**	**287**
- Thereof earnings from companies accounted for using the equity method	57	36	117	117	6	3	8	3
Cash provided by operating activities	**399**	**438**	**1,559**	**1,213**	**-277**	**10**	**286**	**29**
Investments	**425**	**295**	**511**	**57**	**130**	**81**	**158**	**112**
Intangible assets and property, plant, and equipment	283	211	57	25	127	81	93	63
Financial assets	142	84	454	32	3	-	65	49

[1] *Other activities consist of our Degussa shareholding, which we account for using the equity method in line with our 42.9 percent shareholding in the company.*
[2] In 2006, depreciation, amortization, and writedowns impacting adjusted EBIT deviate from the corresponding figures recorded in the Consolidated Statements of Cash Flows calculated pursuant to U.S. GAAP. Impairment charges taken on intangible assets and property, plant, and equipment at our Pan-European Gas and U.K. market units constituted the main factor.

The Corporate Center consists of equity interests managed directly by E.ON AG, E.ON AG itself, and consolidation effects at the group level.

Under U.S. GAAP, 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 2006, this applies to WKE and E.ON Finland which are held for sale. In the first three months of 2005, this applied mainly Viterra and Ruhrgas Industries, which were sold in 2005. For the purposes of our business segment reporting, our results for the period ended March 31, 2006, and for the prior-year period do not include the results of our discontinued operations (see the table on page 32 and the commentary on pages 26-27).

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 extraordinary items. The adjustments include book gains and losses on disposals, restructuring expenses, and other nonoperating income and expenses of a nonrecurring or rare nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions resulting from personnel expenses is allocated to interest income. The interest portions of the allocations of other long-term provisions are treated analogously to the degree that, in accordance with U.S. GAAP, they are reported on different lines of the Consolidated Statements of Income.

Adjusted Interest Income (Net)

January 1 – March 31 € in millions	2006	2005
Net interest expense	**-86**	**-82**
- Net interest expense relating to liabilities of affiliated and associated companies as well as other share investments	-	-7
- Accretion expense related to the adoption of SFAS 143	-130	-125
+ Income from long-term loans	3	6
Interest and similar expenses (net) shown in Consolidated Statements of Income	**-213**	**-208**
+ Nonoperating interest income (net)[1]	-1	-
- Interest portion of long-term provisions	-114	-89
Adjusted interest income (net)	**-328**	**-297**

[1]This figure is the sum of nonoperating interest expense and nonoperating interest income.

Page 8 of this 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 U.S. GAAP figures

	U.S. Midwest		Corporate Center		Core Energy Business		Other Activities[1]		E.ON Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	570	501	1	2	21,532	15,769	-	-	21,532	15,769
	-	-	-863	-429	-	-	-	-	-	-
	570	**501**	**-862**	**-427**	**21,532**	**15,769**	**-**	**-**	**21,532**	**15,769**
	148	**146**	**-93**	**-37**	**3,199**	**3,033**	**53**	**28**	**3,252**	**3,061**
	-56	-46	-2	-4	-718	-671	-	-	-718	-671
	92	**100**	**-95**	**-41**	**2,481**	**2,362**	**53**	**28**	**2,534**	**2,390**
	3	4	-5	7	186	170	53	28	239	198
	164	**128**	**-189**	**-157**	**1,942**	**1,661**	**-**	**-**	**1,942**	**1,661**
	66	**29**	**8**	**4**	**1,298**	**578**	**-**	**-**	**1,298**	**578**
	66	29	-4	1	622	410	-	-	622	410
	-	-	12	3	676	168	-	-	676	168

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

Information on results: 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 2005 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."

Financial Calendar

August 15, 2006	Interim Report: January - June 2006
November 8, 2006	Interim Report: January - September 2006
March 7, 2007	Release of 2006 Annual Report
May 3, 2007	2006 Annual Shareholders Meeting
May 4, 2007	Dividend Payout
May 9, 2007	Interim Report: January - March 2007
August 15, 2007	Interim Report: January - June 2007
November 13, 2007	Interim Report: January - September 2007

SEC FORM 20-F – DECEMBER 31, 2005

As filed with the Securities and Exchange Commission on March 9, 2006.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 2005

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	**E.ON-Platz 1, D-40479 Düsseldorf, GERMANY**
(Jurisdiction of Incorporation or Organization)	(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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, 2005, 659,153,552 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, 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 LLC ("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, in which E.ON now owns a minority interest, and which collectively comprised E.ON's former Degussa division.
- "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.
- "MEMC" refers to MEMC Electronic Materials, Inc. and its consolidated subsidiaries, which collectively comprised E.ON's former silicon wafers 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"). Beginning in 1999, the reporting currency is the euro. Amounts formerly stated in German marks ("marks" or "DM") have been translated into euro using the fixed rate of DM 1.95583 per €1.00. 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 30, 2005, which was $1.1842 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, 2005, 2004 and 2003, and for each of the years in the three-year period ended December 31, 2005, 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 2005, 2004 and 2003, see "Item 5. Operating and Financial Review and Prospects — Results of Operations — Business Segment Information."

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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TABLE OF CONTENTS

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, 2005 have been excerpted from or are derived from the Consolidated Financial Statements of E.ON as of and for the period ended December 31, 2005, 2004, 2003, 2002 and 2001, 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,					
	2005(1)	2005	2004	2003	2002	2001
	(in millions, except share amounts)					
Statement of Income Data:						
Sales	$ 66,788	€56,399	€46,742	€44,109	€35,300	€36,041
Sales excluding electricity and natural gas taxes(2)	61,406	51,854	42,384	40,223	34,367	35,347
Income/(Loss) from continuing operations before income taxes	8,536	7,208	6,355	5,165	(947)	2,502
Income/(Loss) from continuing operations after income taxes(3)	5,841	4,932	4,505	4,020	(276)	2,403
Income/(Loss) from continuing operations	5,186	4,379	4,027	3,575	(901)	1,950
Income/(Loss) from discontinued operations(4)	3,594	3,035	312	1,512	3,487	124
Net income	8,771	7,407	4,339	4,647	2,777	2,048
Basic earnings/(Loss) per share from continuing operations	7.87	6.64	6.13	5.47	(1.38)	2.89
Basic earnings (Loss) per share from discontinued operations, net(4)	5.45	4.61	0.48	2.31	5.35	0.18
Basic earnings per share from net income(5)	13.31	11.24	6.61	7.11	4.26	3.03
Balance Sheet Data:						
Total assets	$149,875	€126,562	€114,062	€111,850	€113,503	€101,659
Long-term financial liabilities	12,499	10,555	13,540	14,884	17,576	9,308
Stockholders' equity(6)	52,678	44,484	33,560	29,774	25,653	24,462
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 $1.1842 = €1.00, the Noon Buying Rate on December 30, 2005.

(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 €553 million for 2005, as compared with €478 million, €445 million, €625 million and €453 million for 2004, 2003, 2002 and 2001, 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 €(0.01), €0.00, €(0.67), €0.29 and €(0.04) for 2005, 2004, 2003, 2002 and 2001, 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. Prior to the introduction of the euro in 2002, dividends were declared and paid in marks. For convenience, the dividend amount for 2001 has been translated from marks into euros at the fixed rate of 1.95583. 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."

Year Ended December 31,	Dividends Paid per Ordinary Share with no par value	
	€	$(1)
2001	1.60	1.49
2002	1.75	1.96
2003	2.00	2.39
2004	2.35	3.04
2005(2)(3)	2.75	3.26

(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 2005 amount, which has been translated at the Noon Buying Rate on December 30, 2005.

(2) The dividend amount for the year ended December 31, 2005 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 4, 2006.

(3) E.ON's Supervisory Board and Board of Management have also proposed 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. For details on this transaction, see "Item 5. Operating and Financial Review and Prospects — Overview." The extra dividend has not yet been approved by E.ON's stockholders. Prior to the payment of this dividend, which will be made together with the regular dividend amount for the year ended December 31, 2005, a resolution approving such amount must be passed by E.ON's stockholders at the annual general meeting to be held on May 4, 2006.

See also "Item 8. Financial Information — Dividend Policy."

EXCHANGE RATES

Until December 31, 1998, the mark took part in the European Monetary System ("EMS") exchange rate mechanism. Within the EMS, exchange rates could fluctuate within permitted margins, fixed by central bank intervention. Against currencies outside the EMS, the mark had, in theory, free floating exchange rates, although central banks sometimes tried to confine short-term exchange rate fluctuations by intervening in foreign exchange markets. As of December 31, 1998, the mark had a fixed value relative to the euro of 1.95583, and therefore was no longer traded on currency markets as an independent currency. As of January 1, 2002, the euro replaced the mark as legal tender in Germany.

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 and dates indicated, the average, high, low and/or period-end Noon Buying Rates for euros expressed in $ per €1.00.

Period	Average(1)	High	Low	Period-End
2001	0.8909			0.8901
2002	0.9495			1.0485
2003	1.1411			1.2597
2004	1.2478			1.3538
2005	1.2400			1.1842
September		1.2538	1.2011	
October		1.2148	1.1914	
November		1.2067	1.1667	
December		1.2041	1.1699	
2006				
January		1.2287	1.1980	
February		1.2100	1.1860	

(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 6, 2006, the Noon Buying Rate was $1.2002 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 602 terawatt hours ("TWh") at the European Energy Exchange (EEX) spot and futures market in 2005. 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 new regulatory changes that will affect 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. In the United States, E.ON U.S., the Company's primary U.S. subsidiary, is exposed to wholesale price and fuel cost risks with respect to its non-regulated operations, whose rates are not set by governmental regulators, and which represent a minority of E.ON U.S.'s business. The Company cannot guarantee it will be able to compete successfully in the United Kingdom, the Nordic countries, the United States, 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 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 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 access 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. The Company cannot be certain that the appointment of a regulator and changes to the current system of network access, as well as other changes introduced as part of the new regime, will not have a negative effect on its electricity and gas businesses in Germany, including the network charges E.ON Energie and E.ON Ruhrgas may charge for network access. 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.

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 ("CO_2 emission certificates") are to be allocated to affected power stations and other industrial installations. Most member states, including Germany, the Netherlands and Sweden, have already passed the required legislation and allocated the necessary CO_2 emission certificates free of charge, and the United Kingdom has also made an initial allocation of certificates (with a possibility that the U.K. government may appeal its CO_2 emissions allocation to try to claim additional allowances). 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 in some EU member states and not yet implemented in others makes it impossible for the Company to predict how the trading of CO_2 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 2005, companies of both the U.K. and Central Europe market units had to purchase additional CO_2 emission certificates on the market, with a resultant increase in operating costs. 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, 2005 Compared with Year Ended December 31, 2004."

In Germany, the Company's nuclear power plants are among its cheapest source of power, and, along with hydroelectric and lignite-based power plants, are used primarily to cover the Company's base load power requirements. In June 2001, E.ON, together with the other German operators of nuclear power stations, reached an agreement with the German federal government to phase out the generation of nuclear power in Germany; this agreement was reflected in an amendment of Germany's nuclear energy law in April 2002. For more information about the planned phase-out of nuclear power stations in Germany, see "Item 4. Information on the Company — Business Overview — Central Europe." The amended law provides that the delivery of spent nuclear fuel rods for reprocessing was allowed until June 30, 2005. Following this deadline, nuclear plant operators are required to store spent fuel elements on the premises of their nuclear plants. The Company is currently constructing five interim on-site storage facilities, of which two are expected to go into operation in the first quarter of 2006, with the remaining three scheduled to be ready between November 2006 and February 2007. In the interim, the relevant facilities are storing spent fuel elements in existing storage pools. The construction costs of these storage facilities are expected to be significant, and the Company may incur higher than anticipated costs in phasing out its nuclear energy operations.

In addition, in the summer of 2005 the Competition Directorate-General of the EU Commission launched a sector inquiry concerning the electricity and gas markets in the EU. It is possible that antitrust inspections of individual companies may be conducted in the context of this inquiry, and any such inspections could potentially result in the affected companies being required to make material changes to their operations. It also cannot be excluded that this inquiry could encourage or result in legislative initiatives (at the EU or national level) that would seek to increase the current level of competition in the EU energy market.

Regulatory actions can also affect the prices the Company may charge customers. For example,

- As described above, EU directives provide that the regulatory authority which was appointed in Germany should have the power to set or approve network access charges or, alternatively, the methodologies used for calculating them. This could lead to lower network fees for E.ON's electricity and gas transportation and distribution businesses in Germany.

- In Germany, the state antitrust authorities in Bavaria, Thuringia, Schleswig-Holstein, Baden-Wuerttemberg and Lower Saxony, as well as the Federal Cartel Office, have launched investigations of certain utilities with allegedly high gas tariffs to determine whether these gas prices constitute market abuse. These investigations affect some utilities in which Thüga and E.ON Energie hold interests. As a result of ongoing discussions with the Federal Cartel Office, E.ON's regional sales companies have agreed to enable their residential customers to switch gas suppliers as from April 1, 2006. Although a similar investigation by the Federal Cartel Office against subsidiaries of E.ON Energie has been closed without any charges being brought, that office has since opened an investigation of E.ON Energie and its competitor RWE with regard to possible abuses in the markets for electricity and/or CO_2 emission certificates. The Company cannot currently predict the outcome of any of the pending investigations.

- 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 and is expected to make an initial pronouncement in the spring of 2006. 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 that 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, although such increases remain the subject of continuing regulatory review and governmental inquiry.

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 significantly in 2005 as a result of geopolitical factors, including, but not limited to, an increase in demand in China and India, the war and post-war insurgency in Iraq, increased instability in other parts of the Middle East and a further deterioration of the economic and political situation in Venezuela and Nigeria. 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, 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, 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. 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. Although a political settlement was reached, the Ukrainian parliament has since rejected that settlement. In addition, historically cold temperatures in Russia have increased gas consumption, leading some Western European countries to report declines in pressure in gas pipelines and shortfalls in the volume of gas they receive from Russia, with some of those countries having announced plans to impose suggested or mandatory reductions on consumption. 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 OOO Gazexport deliver the contracted volumes of gas 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 OOO Gazexport 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 would be negatively affected by periods of unseasonably warm weather during the autumn and winter months. The Company's Nordic operations could be negatively affected by a lack of precipitation (which would lead to a decline in hydroelectric generation) 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 contracts expose it to volume and price risks, and the validity of its longer-term supply contracts has been challenged by the German antitrust authorities.

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 alleged to be unenforceable 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 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 80 percent of the contractually agreed amount over the period of the applicable gas sales contract, and E.ON Ruhrgas has recently voluntarily offered a similar volume reduction option to other customers, as described in more detail below. 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." 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.

On January 13, 2006, the German Federal Cartel Office issued an order prohibiting E.ON Ruhrgas from enforcing its existing gas supply contracts with regional and local gas distributors and from entering into any new contracts that are identical or similar in nature. Such contracts have been customary in the German gas market since the industry's inception, and E.ON Ruhrgas believes that the position of the Federal Cartel Office violates basic principles of German law (including those of freedom of contract and free competition), as well as threatening the long-term security of gas supplies in Germany. Given that such questions can only be definitively resolved by the courts, E.ON Ruhrgas has filed an emergency petition with the State Superior Court *(Oberlandesgericht)* in Düsseldorf in order to prevent the order from taking effect. In the context of negotiations with the Federal Cartel Office prior to the January 13 order, E.ON Ruhrgas had already voluntarily offered those of its German distribution customers and municipal utilities that are supplied with more than 50 percent of their total gas requirements by E.ON Ruhrgas the termination of their existing contracts by October 1, 2008 in conjunction with a right to reduce their contractual amounts to 50 percent of their total gas purchases by either October 1, 2006 or October 1, 2007. No assurance can be provided as to the outcome of E.ON Ruhrgas' petition or any related proceedings, or as to any impact of these matters on E.ON's results of operation and financial condition.

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 — Sales."

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 American and Southern Europe. 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. The offer will be subject to a number of conditions, including that E.ON acquire at least 50.01 percent of Endesa's capital stock and that Endesa's shareholders enact several changes to Endesa's Articles of Association removing corporate governance-related obstacles to E.ON's acquisition of control. The offer will also be subject to the approval of the Spanish government, which holds a "golden share" in Endesa, as well as antitrust and other regulatory approvals. Endesa's board of directors has not taken a formal position with regard to E.ON's proposed offer (though it has indicated that it believes that Endesa is worth more than the €27.50 per share offer price currently being proposed), nor has the Spanish government issued any formal statement as to its position on the offer. 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.

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. The Company may also be subject to environmental claims with respect to 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. 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") emissions from electricity generating units. These regulations require E.ON U.S. to make significant additional capital expenditures in NO_x control equipment, which are currently estimated to total approximately $407 million through 2006, of which nearly all ($405 million) has been incurred through 2005. E.ON U.S. also expects to make additional capital expenditures to reduce sulphur dioxide ("SO_2") emissions from generation units totaling $743 million through 2009. 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 is currently being discussed. The legislation is expected to require 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 recently 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. In addition, in the United States, E.ON U.S. is also affected by a number of regional and industry-wide transmission market structure changes that have recently been introduced by the relevant authorities. Currently, none of E.ON's market units can predict the extent to which their respective operations will be affected by the new or proposed 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. 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 involving the Company's electricity operations occur, the Company's business and results of operations could be negatively affected.

Each of Italy, Denmark, Sweden, London and large parts of the United States and Canada experienced major power outages during 2003. The reasons for these blackouts vary, although with the exception of London 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. For example, in the case of the blackout which occurred in Denmark and southern Sweden on September 23, 2003, one of the causes was an unexpected power failure at the Oskarshamn power plant (which is 54.5 percent owned by the Company's majority-owned subsidiary E.ON Sverige), that occurred as the plant was being reconnected to the grid following regularly scheduled maintenance. In addition, 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. 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 involving its operations will not occur in the future, or that any such power failure 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 CO_2 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 2005, unrealized gains from the marking to market of derivatives, principally at the U.K. market unit, contributed other non-operating earnings of approximately €1.2 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, 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 second-largest industrial group in Germany, based on market capitalization at year-end 2005, with sales of €56.4 billion in 2005.

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. For information about certain claims brought by former VIAG shareholders regarding the share exchange ratio used in the VEBA-VIAG merger, see "Item 8. Financial Information — Legal Proceedings."

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. See "— Business Overview — U.S. Midwest." 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 stakes. 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 Economics Ministry, 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. In March 2002, E.ON agreed to acquire ThyssenKrupp AG's interest in Ruhrgas.

In May 2002, E.ON 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. Under the arrangement, RAG acquired a majority shareholding in Degussa in two steps. In the first step, in June 2002, RAG made a cash tender offer to Degussa's shareholders at a price of €38 per share. The parties' definitive agreement provided that after completion of the tender offer RAG and E.ON would hold equal shareholdings of Degussa and would manage Degussa jointly. In the second step, E.ON sold 3.6 percent of Degussa's shares to RAG at the above price to give RAG a 50.1 percent interest in Degussa effective June 1, 2004.

On July 3, 2002, E.ON reached agreements to acquire the 40 percent interest in Ruhrgas held indirectly by Esso Deutschland GmbH, Deutsche Shell GmbH, and TUI AG, which would make E.ON the sole owner of Ruhrgas.

On July 5, 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 75 billion kilowatt hours ("kWh") 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. On the same day, E.ON 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. In addition, the court prohibited the Company from exercising its shareholders' rights with respect to the Ruhrgas stake it had acquired from BP, Vodafone and ThyssenKrupp AG until the takeover was approved. E.ON continued to maintain that the reasons given by the court in the summary proceedings leading to these orders did not justify its decision.

Following the issuance of the temporary injunction, on September 18, 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 Bayerngas GmbH ("Bayerngas") and swb AG ("swb"), and all of the companies required to be disposed of were granted special rights to terminate their existing purchase agreements with E.ON and Ruhrgas on a staggered basis. In addition, customers purchasing more than 50 percent of their gas requirements from Ruhrgas were granted the right, as of October 2003, to reduce the volume of gas purchased from Ruhrgas to 80 percent of the contracted amount. Finally, Ruhrgas was required to auction 200 billion 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.

On December 17, 2002, the State Superior Court decided not to lift the temporary injunction, and formal proceedings *(Hauptverfahren)* regarding the injunction started 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 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. With effect from June 1, 2004, E.ON sold a further 3.6 percent of Degussa stock to RAG, 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. The purchase price is expected to total approximately €2.8 billion, equal to €31.50 per Degussa share. The transaction is expected to be completed by July 1, 2006.

In accordance with the obligations set out in the ministerial approvals mandating the sale 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. 15 billion kWh of this gas was 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. 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 auction conducted in 2005, the quantities on offer were sold at a premium to the minimum price. E.ON Ruhrgas is required to hold three more annual gas auctions. The remaining third of the volumes not sold in the first auction (approximately 6 billion kWh) will be offered in 2006.

In connection with its acquisition of Ruhrgas, E.ON seeks to achieve the following potential synergies in its market units:

- In the Pan-European Gas market unit, E.ON intends to leverage its increased gas operations to improve its negotiating position with producers of natural gas, and to take advantage of pan-European gas arbitrage opportunities. For information about E.ON's planned capital investment in E.ON Ruhrgas, see "Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources."

- In the Central Europe market unit, E.ON expects to benefit from joint market management with regional energy companies, the integration of continental European gas trading activities and the sharing of technical expertise among the power and gas businesses. In order to integrate the Company's continental European gas trading activities conducted by D-Gas B.V. ("D-Gas"), E.ON Energie transferred their gas trading operations to E.ON Ruhrgas in 2004.

- In the U.K. market unit, E.ON intends to use the Pan-European Gas market unit to enhance E.ON UK's gas supply and gas storage options, as well as support its trading activities. An important first step was the conclusion of a 10-year gas supply contract between E.ON Ruhrgas and E.ON UK. E.ON Ruhrgas started supplying E.ON UK with gas in October 2004.

- In the Nordic market unit, E.ON also intends to use the Pan-European Gas market unit to enhance E.ON Sverige's gas supply options and expects to be able to use a joint approach for future gas infrastructure development. E.ON Ruhrgas and E.ON Sverige have also entered into a gas supply contract, pursuant to which E.ON Ruhrgas started to supply E.ON Sverige with natural gas in autumn 2005.

In addition, E.ON has identified a number of areas in which it expects to achieve cost savings through the integration of E.ON Ruhrgas and other E.ON Group companies. Major areas of potential cost savings include the reduction of procurement costs through process optimization and joint purchasing power, the integration of gas trading activities in central Europe and savings in overhead costs.

For more information on E.ON Ruhrgas, see "— Business Overview — Pan-European Gas." For more information on the impact of this transaction on E.ON's financial condition, see "Item 5. Operating and Financial Review and Prospects — Overview." In addition, in connection with E.ON's on.top project, E.ON Energie transferred a number of shareholdings to E.ON Ruhrgas or to E.ON AG, and E.ON Ruhrgas transferred a number of shareholdings to E.ON Energie. These transfers, which generally took place in December 2003, or in 2004 or 2005, are described in more detail in "— On.top Project."

PROPOSED ENDESA ACQUISITION

On February 21, 2006, E.ON announced that it had filed a takeover offer for 100 percent of the share capital of Endesa with the Spanish Securities Commission CNMV ("CNMV"). According to the documents Endesa has filed with the SEC, including its Annual Report on Form 20-F for the fiscal year ending December 31, 2004 and its Form 6-K dated January 19, 2006 reporting its audited financial results for 2005 (collectively, the "Endesa SEC Filings"), Endesa is a limited liability company organized under the laws of the Kingdom of Spain; its ordinary shares are traded on the Madrid, Barcelona, Bilbao and Valencia stock exchanges in Spain and the Santiago Off Shore Stock Exchange in Chile, and its American Depositary Shares ("ADSs") are listed on the New York Stock Exchange.

E.ON's proposed offer price is €27.50 per Endesa share and per Endesa ADS in an all cash offer, which would result in an aggregate purchase price of approximately €29.1 billion if all shares and ADSs were to be tendered. Should the offer be successful, E.ON would also expect to include Endesa's net financial liabilities, provisions and minority interests equal to approximately €26.1 billion as of December 31, 2005 (according to the Endesa SEC Filings) in its financial statements, thus bringing the aggregate transaction value to approximately €55.2 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. If Endesa shareholders are paid a dividend prior to the completion of the transaction, the offer price of €27.50 per share will be reduced by the amount of the per-share dividend.

The offer document is subject to prior review and approval of the CNMV before the offer will commence. E.ON expects to file a Schedule TO relating to the offer with the SEC once the CNMV has approved the Spanish offer document.

E.ON's offer will be subject to a number of conditions, including that E.ON acquire at least 529,481,934 Endesa shares, equal to 50.01 percent of Endesa's capital stock, and that Endesa's shareholders must enact several changes to Endesa's Articles of Association removing corporate governance-related obstacles to E.ON's acquisition of control. The takeover will also be subject to the approval of the Spanish government, which holds a "golden share" in Endesa, to the approval of the Spanish Energy Commission (CNE), and to EU antitrust approval. Endesa's board of directors has not taken a formal position with regard to E.ON's proposed offer, though it has indicated that it believes that Endesa is worth more than the €27.50 per share offer price currently being proposed, nor has the Spanish government issued any formal statement as to its position on the offer. No assurance can be given that E.ON will be able to complete the transaction successfully on the proposed terms or at all. See also "Item 3. Key Information — Risk Factors."

The following information about Endesa is taken from the Endesa SEC Filings. E.ON has not independently verified such information and therefore does not accept any responsibility for its accuracy or completeness. Endesa is the largest electricity company in Spain and Portugal in terms of installed capacity and market share in generation and distribution, with a significant presence in the Southern European electricity market, in particular in Italy, and one of the largest private-sector multinational electricity companies in Latin America. The company's core business is energy. It is also involved in other activities related to its core energy business such as renewable energies and co-generation and the distribution and supply of natural gas. In addition, Endesa holds interests in other businesses such as telecommunications.

At December 31, 2004, Endesa had a total installed capacity of 46,439 MW, and in 2004, the company generated 184,951 gigawatt hours ("GWh") of electricity and sold 192,519 GWh, supplying electricity to approximately 22.2 million customers in 12 countries. At that date, Endesa had 27,918 employees, 51 percent of whom were located outside Spain.

Based on Endesa's financial results for the year ended December 31, 2005, Endesa recorded net sales of €17,508 million and net income of €3,182 million in accordance with International Financial Reporting Standards ("IFRS"), which differ from U.S. GAAP, the basis on which E.ON prepares its consolidated financial statements.

GROUP STRATEGY

E.ON's Business Model After On.top

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 and — through the proposed acquisition of Endesa — also Spain.

- *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 portions 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, thus reducing its customer "churn rate";
- 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 project, 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 and Spain.

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 and developing new growth potential through:
  - consolidation of distribution and sales activities and capitalizing on opportunities from power-gas convergence;
  - re-investing in power generation to maintain the strong 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 Central Europe, as well as selective investments in power generation; and
  - continued growth in the new market of Italy, *i.e.* in power generation.
- Pan-European Gas — Strengthening and diversifying E.ON Ruhrgas' current position through:
  - selective equity investments in gas production in the North Sea and Russia;
  - evaluation of LNG options (including upstream positions) to ensure long-term supply diversification;
  - participation in infrastructure projects to enhance gas supply position in Europe; and
  - selective acquisitions of mid- and downstream companies 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 and the U.S. regulatory authorities enable the Company to earn a return on investment that meets its stringent criteria.

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 is actively pursuing the disposal of its remaining minority interest in Degussa, which is expected to be completed during 2006. For information on Degussa, see "— Business Overview — Other Activities."

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."

ON.TOP PROJECT

Started in 2003, the "on.top" project resulted in a reorganization of E.ON's core energy business into five new market units. These market units, each focusing on a region in which management believes E.ON has a strong competitive position, are:

- Central Europe, led by E.ON Energie AG;
- Pan-European Gas, led by E.ON Ruhrgas AG;
- U.K., led by E.ON UK plc;
- Nordic, led by E.ON Nordic AB; and
- U.S. Midwest, led by E.ON U.S. LLC (formerly LG&E Energy).

The activities of the Central Europe, Nordic, U.K. and U.S. Midwest market units include the generation, transmission, distribution and sale of energy to customers in each regional market. While focusing on electricity, these activities also include or will include distribution and sales of natural gas to retail customers. The Pan-European Gas unit focuses on the supply, transmission, storage and sale of natural gas to distributors and industrial customers in Europe, and also engages in trading and gas exploration and production activities. In addition, the market unit has primarily minority interests in a large number of German and other European municipal and regional energy distribution companies.

The lead companies of each market unit report directly to E.ON AG. E.ON AG serves as the Group's corporate center and 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.

E.ON's financial reporting mirrors the E.ON group 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. The results of E.ON's minority interest in Degussa continue to be presented outside of the core energy business as part of E.ON's "Other Activities," which is 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.

As part of the implementation of the new structure, E.ON completed intra-Group transfers of shareholdings in a number of its companies in December 2003, in 2004 and in 2005. These transactions include:

- The transfer by E.ON Energie to E.ON Ruhrgas of its:
  - 67.7 percent interest in Thüga;
  - 29.95 percent interest of its 40.0 percent interest in the Austrian company RAG Beteiligungs-Aktiengesellschaft, which owns a 75.0 percent share in the Austrian exploration and production company Rohöl-Aufsuchungs Aktiengesellschaft; the remaining 10.05 percent interest was swapped with the Austrian company EVN AG for its 31.23 percent shareholding in the Hungarian gas distribution company Közép-dunántúli Gázszolgáltató Rt. ("KÖGÁZ") in April 2005;
  - 18.8 percent interest in the Latvian gas supplier JSC Latvijas Gaze;
  - 14.3 percent interest in the Lithuanian gas distributor AB Lietuvos Dujos; and its
  - gas trading company D-Gas.
- The transfer by E.ON Ruhrgas to E.ON Energie of its downstream gas activities in the Czech Republic and Hungary, including its:
  - 4.45 percent interest in the Czech gas distribution company Jihomoravská plynárenská a.s. ("JMP");
  - 27.6 percent interest in the Czech gas distribution company Západoceská plynárenská a.s. ("ZCP");
  - 24.0 percent interest in the Czech gas distribution company Prazská plynárenská Holding a.s. ("PPH");
  - 0.05 percent interest in the Czech gas distribution company Prazská plynárenská a.s. ("PP");
  - 14.3 percent interest in the Czech gas distribution company Stredoceska plynárenská a.s. ("STP");
  - 9.57 percent interest in the Czech gas distribution company Severomoravská plynárenská a.s. ("SMP");
  - 16.52 percent interest in the Czech gas distribution company Východoceská plynárenská a.s. ("VCP");
  - 49.8 percent interest in the Hungarian gas distribution company Déldunántuli Gázszolgáltató Részvenytársaság ("DDGÁZ"); and its

  - 16.3 percent interest in the Hungarian gas distribution company Fövárosi Gázmüvek Részvénytársaság ("FÖGÁZ").

- The transfer by E.ON Energie to E.ON AG of its 100 percent interest in E.ON Scandinavia (which has since been renamed E.ON Nordic), including its:

  - 55.2 percent interest in Sydkraft (which has since been renamed E.ON Sverige), including its interest in Graninge AB ("Graninge") and its interest in the Baltic Cable; and a

  - 65.6 percent interest in E.ON Finland.

The on.top project also included the definition of mid-term performance targets for the Group. Management's principal goal in guiding strategic and investment decisions is to realize a significant improvement in E.ON's return on capital while growing earnings through 2006.

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 Rt. ("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 EU Commission, MOL is obliged to sell the remaining 25.0 percent plus one share of the gas trading and storage business 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. These transactions are expected to be completed at the end of March 2006.

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").

In May 2005, E.ON disposed of Viterra to Deutsche Annington GmbH ("Deutsche Annington"). The transaction received antitrust approval in early August 2005. Under U.S. GAAP, Viterra was accounted for as discontinued operations since its disposal.

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 transaction received antitrust approval and was closed in September 2005. Under U.S. GAAP, Ruhrgas Industries was accounted for as discontinued operations since June 2005.

In June 2005, E.ON Ruhrgas acquired a 51.0 percent stake in the Romanian gas supplier S.C. Distrigaz Nord S.A. ("Distrigaz Nord").

In September 2005, Sydkraft was renamed E.ON Sverige.

In September 2005, E.ON Energie acquired a 24.6 percent stake in the Romanian electricity distribution company Electrica Moldova S.A. ("Electrica Moldova") — now 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 September 2005, Gazprom, BASF AG ("BASF") and E.ON AG signed a basic agreement on the construction of the North European Gas Pipeline ("NEGP") through the Baltic Sea from Vyborg on Russia's Baltic coast to Germany's Baltic coast. The parties to the agreement intend to set up the North European Gas Pipeline Company as a joint German-Russian venture, with Gazprom holding 51.0 percent and BASF's subsidiary Wintershall Aktiengesellschaft ("Wintershall") and E.ON Ruhrgas each holding 24.5 percent.

In October 2005, E.ON sold a portion (1.6 TWh) of the generation capacity that E.ON Sverige had acquired as part of the Graninge acquisition to E.ON Sverige's minority shareholder, the Norwegian energy company Statkraft ("Statkraft" refers to Statkraft SF and its consolidated subsidiaries).

In November 2005, E.ON Ruhrgas acquired 100 percent of the U.K. gas production company Caledonia Oil and Gas Ltd. ("Caledonia").

In December 2005, LG&E Energy was renamed E.ON U.S.

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 is expected to be completed by July 1, 2006.

In February 2006, E.ON Nordic and Fortum Power and Heat Oy ("Fortum") signed an agreement, whereby Fortum will acquire E.ON Nordic's 65.6 percent stake in E.ON Finland. The sale is subject to the approval of the Finnish competition authorities.

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 €2.9 billion in 2005 (2004: €2.5 billion, 2003: €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 2006, see "Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources."

BUSINESS OVERVIEW

INTRODUCTION

E.ON is the second-largest industrial group in Germany, measured on the basis of market capitalization at year-end 2005. In 2005, 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. Outside its core energy business, E.ON holds a 42.9 percent interest in Degussa, which is not consolidated, but rather accounted for using the equity method.

Core Energy Business

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 €24.3 billion (which included €1.0 billion of electricity taxes that were remitted to the tax authorities) in 2005. 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 36,400 megawatts ("MW"), of which Central Europe's attributable share is approximately 27,800 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 2005, E.ON Energie supplied approximately 18 percent of the electricity consumed by end users in Germany. The Central Europe market unit contributed 43.1 percent of E.ON's revenues and recorded adjusted EBIT of €3.9 billion in 2005.

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 690.2 billion kWh of gas sold in 2005. E.ON Ruhrgas' principal business is the supply, 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 11,000 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 2005, the Pan-European Gas market unit recorded revenues of €17.9 billion (which included €3.1 billion in natural gas and electricity taxes that were remitted, directly or indirectly, to the tax authorities) and adjusted EBIT of €1.5 billion. The Pan-European Gas market unit contributed 31.8 percent of E.ON's revenues in 2005.

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 10,762 MW, of which its attributable share is approximately 10,547 MW. E.ON UK served approximately 8.6 million electricity and gas customer accounts at December 31, 2005 and its Central Networks business served 4.9 million customer connections. In 2005, E.ON UK recorded revenues of €10.2 billion or 18.0 percent of E.ON's revenues, and adjusted EBIT of €963 million.

Nordic. E.ON Nordic is the lead company of the Nordic market unit. It currently operates through the two integrated energy companies in which it holds majority stakes, E.ON Sverige and E.ON Finland. 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 and Finland. Through E.ON Sverige and E.ON Finland, E.ON Nordic owns interests in power stations with a total installed capacity of approximately 14,982 MW, of which its attributable share is approximately 7,570 MW (not including mothballed and shutdown power plants). In February 2006, E.ON Nordic and Fortum signed an agreement, whereby Fortum will acquire E.ON Nordic's 65.6 percent stake in E.ON Finland. The sale is subject to the approval of the Finnish competition authorities. In 2005, E.ON Nordic recorded revenues of €3.5 billion (including €402 million of electricity and natural gas taxes that were remitted to the tax authorities) or 6.2 percent of E.ON's revenues, and adjusted EBIT of €806 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 off-system sales. 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 8,300 MW, of which its attributable share is approximately 7,700 MW (not including mothballed and shutdown power plants). In 2005, the U.S. Midwest market unit recorded revenues of €2.0 billion or 3.6 percent of E.ON's revenues, and adjusted EBIT of €365 million.

Corporate Center. The Corporate Center consists of E.ON AG itself, equity interests managed directly by E.ON AG, including its remaining telecommunications interests, and consolidation effects at the Group level, including the elimination of intersegment sales.

Other Activities

Degussa. Degussa is one of the major specialty chemical companies in the world. As of February 2003, following the first step of the RAG/Degussa transaction described in "— History and Development of the Company — Ruhrgas Acquisition," E.ON held a 46.5 percent interest in Degussa and operated Degussa under joint control with RAG, which also held a 46.5 percent interest. E.ON has accounted for Degussa using the equity method since February 1, 2003. Effective June 1, 2004, E.ON sold a further 3.6 percent of Degussa stock to RAG. For all periods from February 1, 2003 until May 31, 2004, E.ON recorded 46.5 percent of Degussa's after-tax earnings in its financial earnings. From June 1, 2004, E.ON has recorded 42.9 percent of Degussa's after-tax earnings in its financial earnings. 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. In 2005, Degussa contributed adjusted EBIT of €132 million.

For information on E.ON's discontinued operations, including its former oil, aluminum and silicon wafer divisions, as well as its real estate subsidiary Viterra and certain activities of the Central Europe, Pan-European Gas and U.S. Midwest market units, see "— Discontinued Operations."

As a result of E.ON's on.top strategic review launched in 2003, the core energy business has been reorganized into five new regional market units, plus the Corporate Center. Beginning in 2004, E.ON's financial reporting mirrors the new 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. The results of E.ON's minority interest in Degussa continue to be presented outside of the core energy business as part of E.ON's "Other Activities," which is reported as a separate segment. As part of the implementation of the new structure, E.ON completed intra-Group transfers of shareholdings in a number of its companies in December 2003, in 2004 and in 2005. None of these transfers had any impact on E.ON's financial results on a consolidated basis. To facilitate comparison, the table below includes reclassified revenues for 2003 according to the new market unit structure. For information about the transfer of shareholdings in connection with E.ON's on.top project, see "— History and Development of the Company — On.top Project." For additional information on the presentation of segment information for 2005, 2004 and 2003, see "Item 5. Operating and Financial Review and Prospects — Business Segment Information."

The following table sets forth the revenues of E.ON by market unit for 2005, 2004 and 2003:

	2005		2004		2003	
	(€ in millions)	%	(€ in millions)	%	(€ in millions)	%
Central Europe(1)(2)	24,295	43.1	20,752	44.4	19,253	43.6
Pan-European Gas(2)(3)	17,914	31.8	13,227	28.3	11,919	27.0
U.K.	10,176	18.0	8,490	18.2	7,923	18.0
Nordic(4)	3,471	6.2	3,347	7.1	2,824	6.4
U.S. Midwest(2)	2,045	3.6	1,718	3.7	1,771	4.0
Corporate Center(2)(5)	(1,502)	(2.7)	(792)	(1.7)	(575)	(1.3)
Core Energy Business	*56,399*	*100.0*	*46,742*	*100.0*	*43,115*	*97.7*
Other Activities(2)(6)	*0*	*0*	*0*	*0*	*994*	2.3
Total Revenues(7)	56,399	100.0	46,742	100.0	44,109	100.0

(1) Includes electricity taxes of €1,049 million in 2005, €1,051 million in 2004 and €1,015 million in 2003.

(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) Includes the sales of the former Ruhrgas activities from the date of consolidation on February 1, 2003. Sales include natural gas and electricity taxes of €3,110 million in 2005, €2,923 million in 2004 and €2,555 million in 2003.

(4) Sales include electricity and natural gas taxes of €402 million in 2005, €395 million in 2004 and €324 million in 2003.

(5) Includes primarily the parent company and effects from consolidation, as well as the results of its remaining telecommunications interests, as explained above.

(6) Includes sales of Degussa until January 2003, prior to its deconsolidation. For more details, see "— Other Activities — Degussa," "Item 5. Operating and Financial Review and Prospects — Overview" and Note 4 of the Notes to Consolidated Financial Statements.

(7) Excludes intercompany sales.

Most of E.ON's operations are in Germany. German operations produced 65.0 percent of E.ON's revenues (measured by location of operation) in 2005 (2004: 64.2 percent; 2003: 64.6 percent). E.ON also has a significant presence outside Germany representing 35.0 percent of revenues by location of operation for 2005 (2004: 35.8 percent; 2003: 35.4 percent). In 2005, approximately 59.5 percent (2004: 61.2 percent; 2003: 61.5 percent) of E.ON's revenues were derived from customers in Germany and 40.5 percent (2004: 38.8 percent; 2003: 38.5 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 2005, 2004 and 2003, see Note 31 of the Notes to Consolidated Financial Statements. At December 31, 2005, E.ON had 79,947 employees, approximately 43 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, 2005, 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 €24.3 billion (which included €1.0 billion of electricity taxes that were remitted to the tax authorities), €20.7 billion of which in Germany, and adjusted EBIT of €3.9 billion in 2005. 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 connection with E.ON's acquisition of E.ON Ruhrgas, E.ON Energie was required to divest certain shareholdings. For more information about the required divestments, see "Item 5. Operating and Financial Review and Prospects — Acquisitions and Dispositions."

In order to further focus its energy business in Germany and in continental Europe, E.ON Energie entered into the following transactions in 2005 and the beginning of 2006:

- 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. In 2005, the company sold an aggregate of approximately 8.3 TWh of gas to 0.3 million customers.

- 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 companies operate in northeastern Bulgaria. In 2005, the companies sold an aggregate of approximately 4.9 TWh of electricity to 1.1 million customers.

- In July 2005, E.ON Energie transferred its 51.0 percent interest (49.0 percent voting interest) in Gasversorgung Thüringen GmbH ("GVT") and its 72.7 percent interest in Thüringer Energie AG ("TEAG") to Thüringer Energie Beteiligungsgesellschaft mbH ("TEB"). Municipal shareholders also transferred interests in GVT totaling 43.9 percent to TEB. Consequently, GVT was merged into TEAG and the merged entity was renamed E.ON Thüringer Energie AG ("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.

- In July 2005, E.ON Energie acquired an additional 0.9 percent interest in Contigas Deutsche Energie AG ("Contigas") through a public offer. In June 2005, the general meeting of Contigas passed a resolution authorizing E.ON Energie to use a squeeze-out procedure to acquire the remaining Contigas stock held by minority shareholders. Following the completion of the squeeze-out in November 2005, E.ON Energie acquired the remaining 0.2 percent and now owns 100 percent of Contigas.

- In September 2005, E.ON Energie acquired a 24.6 percent stake in the Romanian electricity distribution company Electrica Moldova — now renamed E.ON Moldova — and simultaneously increased its stake in the company to 51.0 percent by subscribing to a capital increase. In 2004, the company sold approximately 4.3 TWh of electricity to 1.3 million customers.

- In September 2005, E.ON Benelux acquired 100.0 percent of the Dutch power and gas company NRE Energie b.v. ("NRE"). In 2004, the company supplied approximately 1.6 TWh of electricity and approximately 4.8 TWh of gas to approximately 0.3 million electricity and gas customers in the Netherlands.

- In 2005, E.ON Energie decided to invest in new power plants in Germany in Irsching (530 MW natural gas) and Datteln (1,100 MW hard coal). Additionally, E.ON Energie plans to build a new Italian power plant at Livorno Ferraris (800 MW natural gas). For more information, see "Item 5. Operating and Financial Review and Prospects — Liquidity and Capital Resources — Expected Investment Activity."

- In February 2006, E.ON Energie and RWE signed agreements to swap certain shareholdings in the Czech Republic and Hungary. These transactions are subject to regulatory and corporate approvals and are expected to be completed in 2006.

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 and sale and trading. The following chart shows the major subsidiaries of the Central Europe market unit as of December 31, 2005, 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, Sale 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 distributors across Germany (shareholding percentages range from 62.8 to 100.0 percent)

- Distribution and sale of electricity, gas, heat and water to retail customers.
- 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%)

- Generation, distribution and sale of electricity and gas in Hungary through its group companies.

E.ON Czech Holding AG (100%)

- Generation, distribution and sale of electricity in the Czech Republic through its group companies.

E.ON Moldova S.A. (51%)

- Distribution and sale of electricity in Romania.

E.ON Bulgaria EAD (100%)

- Distribution and sale of electricity in Bulgaria through its group companies.

Západoslovenská energetika a.s. (49.0% held at equity)

- Distribution and sale of electricity in Slovakia.

Consulting and Support Services

E.ON Engineering GmbH (57.0%) (1)

- 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%) (2)

- Provision of information technology services to companies within the Group and third parties.

E.ON Facility Management GmbH (100%)

- Infrastructure services.

(1) The remaining 43.0 percent is held by E.ON Ruhrgas.

(2) 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, 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 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 other 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 and Sale:	the transfer and sale of electricity from the interregional power grid and its delivery, across local distribution systems, 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.

The following table sets forth the sources of E.ON Energie's electric power in kWh in 2005 and 2004:

Sources of Power	2005 million kWh	2004 million kWh	% Change
Own production	129,063	131,278	-1.7
Purchased power	142,215	123,035	+15.6
from power stations in which E.ON Energie has an interest of 50 percent or less	*12,019*	*11,223*	*+7.1*
from other suppliers	*130,196*	*111,812*	*+16.4*
Total power procured(1)	271,278	254,313	+6.7
Power used for operating purposes, network losses and pump storage	(12,735)	(10,239)	+24.4
Total	258,543	244,074	+5.9

(1) Excluding physically-settled electricity trading activities at E.ON Sales & Trading GmbH ("EST"). EST's physically-settled electricity trading activities amounted to 113,666 million kWh and 110,914 million kWh in 2005 and 2004, respectively.

In 2005, E.ON Energie procured a total of 271.3 billion kWh of electricity, including 12.7 billion kWh used for operating purposes, network losses and pumped storage. E.ON Energie purchased a total of 12.0 billion kWh of power from power stations in which it has an interest of 50 percent or less. In addition, E.ON Energie purchased 130.2 billion kWh of electricity from other utilities, 23.5 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 32.7 billion kWh. The increase in purchased power compared to 2004 primarily reflects the purchase of significantly higher volumes of renewable source electricity which is regulated under Germany's Renewable Energy Law as well as first-time consolidation effects (mainly in Bulgaria and Romania). Furthermore, short- and mid-term trading volumes increased. 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 newly included subsidiaries in Bulgaria and Romania.

Following the abolition of separate geographic operating areas for utilities under the Energy Law (as defined in "— Regulatory Environment") in 1998, E.ON Energie began to supply power nationwide and to broaden its activities in neighboring countries. E.ON Energie has thus significantly expanded beyond its traditional home markets, which include parts or all of the German states of Schleswig-Holstein, Lower Saxony, Hesse, North Rhine-Westphalia, Mecklenburg-Western Pomerania, Brandenburg, Saxony-Anhalt, Thuringia and Bavaria. E.ON Energie supplied approximately 18 percent of the electricity consumed by end users in Germany in 2005. Electricity accounted for 77.8 percent of E.ON Energie's 2005 sales (2004: 78.8 percent), gas revenues represented 15.3 percent (2004: 14.4 percent), district heating 1.9 percent (2004: 2.0 percent) and other activities 5.0 percent (2004: 4.8 percent).

The following table sets forth data on the sales of E.ON Energie's electric power in 2005 and 2004:

Sale of Power(1) to	Total 2005 million kWh	Total 2004 million kWh	% Change in Total
Non-consolidated interregional, regional and municipal utilities	138,425	130,862	+5.8
Industrial and commercial customers	77,175	72,077	+7.1
Residential and small commercial customers	42,943	41,135	+4.4
Total	258,543	244,074	+5.9

(1) Excluding physically-settled electricity trading activities at EST. EST's physically-settled electricity trading activities amounted to 113,666 million KWh and 110,914 million kWh in 2005 and 2004, respectively.

The increase in the total sale of power primarily reflects higher sales of renewable source electricity which is regulated under Germany's Renewable Energy Law as well as first time consolidation effects (mainly in Bulgaria and Romania). For further information, see "Item 5. Operating and Financial Review and Prospects — Results of Operations." E.ON Energie's total gas sales volume amounted to 112.3 billion kWh in 2005, a 9.1 percent increase from 102.9 billion kWh in 2004. The increase primarily reflects the first time consolidation of KÖGÁZ and DDGÁZ in Hungary and of NRE in the Netherlands. Additionally, the merger of TEAG and GVT resulted in higher sales volumes. Excluding the sales volumes from the newly included companies, gas sales decreased by 7.2 TWh. The decrease in sales volume was primarily weather-related (reflecting higher temperatures in winter 2005), as well as a result of increased competition in the business customer and the non-consolidated interregional, regional and municipal utilities segment.

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 34,000 MW, its attributable share of which is approximately 25,600 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 2005, it had a total installed generation capacity of approximately 1,870 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, 2005, and their start-up dates.

E.ON ENERGIE'S ELECTRIC POWER STATIONS IN GERMANY AND THE NETHERLANDS

Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie %(1)	Capacity Attributable to E.ON Energie MW	Start-up Date
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
Krümmel	1,260	50.0	630	1983
Unterweser	1,345	100.0	1,345	1978
Total	13,560		8,473	
Lignite				
Buschhaus	350	100.0	350	1985
Kassel	33	50.0	17	1988
Lippendorf S	891	50.0	446	1999
Schkopau	900	55.6	500	1995
Total	2,174		1,313	
Hard Coal				
Bexbach 1	714	8.3	59	1983
Buer (CHP)	70	100.0	70	1985
Datteln 1	95	100.0	95	1964
Datteln 2	95	100.0	95	1964
Datteln 3	113	100.0	113	1969
Farge	345	100.0	345	1969
GKW Weser/Veltheim 2	93	67.0	62	1965
GKW Weser/Veltheim 3	303	67.0	203	1970
Heyden	865	100.0	865	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

Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie		Start-up Date
		%(1)	MW	
Hard Coal (continued)				
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
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
Total	10,047		8,503	
Natural Gas				
Burghausen	120	100.0	120	2001
Emden GT	52	100.0	52	1972
Erfurt	80	27.8	22	—
Franken I/1	383	100.0	383	1973
Franken I/2	440	100.0	440	1976
Galileistraat (NL)	209	100.0	209	1988
Gendorf	40	50.0	20	2002
GKW Weser/Veltheim 4 GT	400	74.0	296	1975
Grenzach-Wyhlen	40	69.9	28	2004
GT Ummeln	55	74.0	41	1973
Huntorf	290	100.0	290	1977
Irsching 3	415	100.0	415	1974
Jena-Süd	199	62.6	125	1996
Kirchlengern	180	62.9	113	1980
Kirchmöser	178	100.0	178	1994
Leiden (NL)	83	100.0	83	1986
Maasvlakte UCML (NL)	78	100.0	78	2004
Obernburg	100	50.0	50	1995
Robert Frank 4	487	100.0	487	1973
RoCa 3 (NL)(2)	220	100.0	220	1996
Staudinger 4	622	100.0	622	1977
The Hague (NL)	78	100.0	78	1982
Other (<40 MW installed capacity)	283	n/a	253	n/a
Total	5,032		4,603	
Fuel Oil				
Audorf	87	100.0	87	1973
Hausham GT 1	25	100.0	25	1982
Hausham GT 2	25	100.0	25	1982

Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie %(1)	MW	Start-up Date
Fuel Oil (continued)				
Hausham GT 3	25	100.0	25	1982
Hausham GT 4	25	100.0	25	1982
Ingolstadt 3	386	100.0	386	1973
Ingolstadt 4	386	100.0	386	1974
Itzehoe	88	100.0	88	1972
Wilhelmshaven	56	100.0	56	1973
Zolling GT 1	25	100.0	25	1976
Zolling GT 2	25	100.0	25	1976
Total	1,153		1,153	
Hydroelectric				
Aufkirchen	27	100.0	27	1924
Bittenbrunn	20	100.0	20	1969
Bergheim	24	100.0	24	1970
Braunau-Simbach	100	50.0	50	1953
Egglfing	81	100.0	81	1944
Eitting	26	100.0	26	1925
Ering	73	100.0	73	1942
Erzhausen	220	100.0	220	1964
Feldkirchen	38	100.0	38	1970
Gars	25	100.0	25	1938
Geisling	25	100.0	25	1985
Happurg	160	100.0	160	1958
Hemfurth	20	100.0	20	1915
Jochenstein	132	50.0	66	1955
Kachlet	54	100.0	54	1927
Langenprozelten	164	100.0	164	1975
Neuötting	26	100.0	26	1951
Nußdorf	48	76.5	37	1982
Oberaudorf-Ebbs	60	50.0	30	1992
Passau-Ingling	86	50.0	43	1965
Pfrombach	22	100.0	22	1929
Reisach	105	100.0	105	1955
Rosenheim	35	100.0	35	1960
Roßhaupten	46	100.0	46	1954
Schärding-Neuhaus	96	50.0	48	1961
Stammham	23	100.0	23	1955
Straubing	22	100.0	22	1994
Tanzmühle	28	100.0	28	1959
Teufelsbruck	25	100.0	25	1938
Töging	85	100.0	85	1924
Vohburg	23	100.0	23	1992

Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie %(1)	Capacity Attributable to E.ON Energie MW	Start-up Date
Hydroelectric (continued)				
Walchensee	124	100.0	124	1924
Waldeck 1	120	100.0	120	1931
Waldeck 2	440	100.0	440	1975
Wasserburg	24	100.0	24	1938
Other run-of-river, pump storage and storage	781	n/a	734	n/a
Total	3,408		3,113	
Others	537		333	
Total	**35,911**		**27.491**	
Mothballed/Shutdown/Reduced				
Arzberg 5(3)	104	100.0	104	1966
Arzberg 6(3)	252	100.0	252	1974
Arzberg 7(3)	121	100.0	121	1979
Aschaffenburg 21(3)	150	100.0	150	1963
Aschaffenburg 31(3)	143	100.0	143	1971
Emden 4(4)	433	100.0	433	1972
Franken II/1(3)	206	100.0	206	1966
Franken II/2(3)	206	100.0	206	1967
Irsching 1	151	100.0	151	1969
Irsching 2	312	100.0	312	1972
Offleben(3)	280	100.0	280	1988
Pleinting 1	292	100.0	292	1968
Pleinting 2	402	100.0	402	1976
Rauxel 2(3)	164	100.0	164	1967
Scholven G(3)	672	50.0	336	1974
Scholven H(3)	672	50.0	336	1975
Schwandorf B(3)	99	100.0	99	1959
Schwandorf C(3)	99	100.0	99	1961
Schwandorf D(3)	292	100.0	292	1972
Stade(3)	640	66.7	417	1972
Staudinger 2	249	100.0	249	1965
Westerholt 1(3)	138	100.0	138	1959
Westerholt 2(3)	138	100.0	138	1961
Total	6,215		5,320	

(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) Dismantling in process or finished, respectively.

(4) Recommissioned in January 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 Cogema SA ("Cogema") in France and British Nuclear Group Sellafield Ltd ("BNGS," formerly British Nuclear Fuels plc. ("BNFL")) 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 2005, E.ON Energie had a total of approximately €13.0 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, €0.4 billion for disposal of operational waste and €8.4 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 2005, on such a pro rata basis, E.ON Energie's provisions for these purposes totaled €13.5 billion, as compared to €13.6 billion at year-end 2004.

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 actual usage of the storage facilities. Overall, this lowers E.ON's share of the costs and has led to a reduction of the Company's provisions for nuclear waste management. 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 approximately 10 to 12 years. E.ON Energie has established a provision of €1.9 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 allotted kWh among themselves. This means that if one nuclear plant closes before it has produced the allotted 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 currently constructing five interim on-site storage facilities, of which two are expected to go into operation in the first quarter of 2006, with the remaining three scheduled to be ready between November 2006 and February 2007. For the period from July 2005 until storage can begin in the interim storage facilities, the Company is storing the spent fuel elements at the plants in so-called in-plant fuel pools. The Company expects the capacity of these fuel pools to be sufficient to store the spent fuel elements until the storage facilities go into operation. E.ON has delivered all spent fuel elements under its reprocessing contracts with Cogema and BNGS.

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 March 1999, the German parliament passed the Tax Relief Act 1999/2000/2002 (*Steuerentlastungsgesetz 1999/2000/2002*, the "Tax Relief Act"). The Tax Relief Act contains new rules for the tax treatment of nuclear provisions. Furthermore, the German tax authorities have adopted a more stringent interpretation of the previous law with respect to the years before 1999. The changes to the tax status of the provisions include the following:

- The accrual period for decommissioning costs has been extended from 19 to 25 years. This requires E.ON Energie to release a portion of the provisions it had previously established for tax purposes based on the shorter accrual period.

- Certain parts of the provisions concerning MOX fuel elements have to be reversed. The costs must be capitalized as incurred instead.

- Those portions of the provisions that have been established in past years relating to the financing and operational costs for final storage of nuclear waste have been disallowed. The costs of these items will now be tax-deductible when they are actually expensed.

- In accordance with the new general rule for long-term provisions, all types of provisions for nuclear power must now be discounted. The Tax Relief Act sets the discount rate at 5.5 percent. This also applies to provisions that have previously been established, which must be released to the extent they do not reflect this discounting.

The Tax Relief Act provides that the tax payments resulting from the reversal of provisions necessitated by the extension of the accrual period, the disallowance of portions of the provisions related to costs of final storage of waste and the discounting of the provisions are spread over a period of ten years beginning in 1999.

In 2002, the Company concluded its general discussions with the tax authorities regarding the treatment of the years prior to 1999, and the tax calculations for these years have been agreed in principle. All of the resulting tax has already been paid and the Company has established a provision to cover the remaining amounts. The years from 1999 onwards are still under review.

None of the changes to the tax treatment of nuclear provisions described above cause any changes to the financial statements the Company prepares for other purposes. Due to the recognition of a related deferred tax asset generated by temporary differences between the balance sheet prepared for financial reporting purposes and the balance sheet for tax purposes, the changes in the tax status of the provisions for nuclear waste disposal had no material adverse effect on the Company's consolidated net income in 1999. However, the Tax Reduction Act *(Steuersenkungsgesetz)*, which was enacted in October 2000, included a lowering of the corporate income tax from 40 percent to 25 percent, which has resulted in a reduction of the deferred tax asset relating to the provisions.

Hard Coal. In 2005, approximately 40 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. In 2005, incinerated waste volumes totaled approximately 2.1 million tons. The power plants have a total capacity of 193 MW of electricity, of which 133 MW is attributable to E.ON Energie.

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). In addition, the summer heat wave in Europe in 2003 reduced the availability of electric generating facilities dependent on using river water for cooling purposes. 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 42,000 km and a coverage area of nearly 200,000 km^2. 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 GmbH ("E.ON Netz"). The network of E.ON Netz allows long-distance power transport at low transmission losses and covers more than 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.

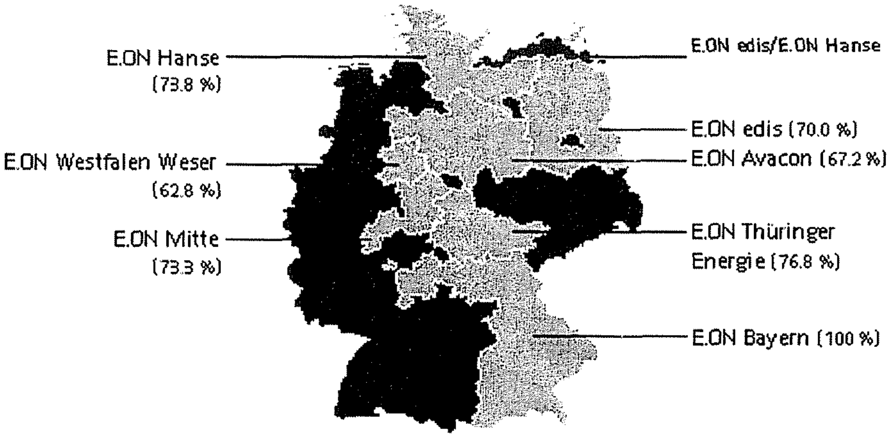
Access to E.ON Energie's power transmission grid is open to all potential users. The Company believes its usage fees and conditions comply with existing German regulations governing grid access. For further information, see "— Regulatory Environment — Germany: Electricity."

The Baltic Cable links the transmission grid of E.ON Energie to Scandinavia. For details, see "— Nordic — Electricity Distribution."

Distribution and Sale

In Germany E.ON Energie supplies electricity, gas and heat, mainly through the regional electricity distribution companies in which it holds majority interests. In addition to the trading business described below, EST supplies electricity to these regional electricity distribution companies as well as to large municipal distributors and very large national and international industrial customers.

Electricity. The German utilities historically established defined supply areas which were coextensive with their distribution grids. See "— Operations." The following map shows E.ON Energie's current supply area in Germany through its majority shareholdings in regional electricity distribution companies:



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 above map. E.ON Energie supplied approximately 18 percent of the electricity consumed by end users in Germany in 2005. In compliance with the EU Commission's conditions upon approving the VEBA-VIAG merger, E.ON Energie's majority-owned regional distributors E.ON EDIS and ETE in eastern Germany purchase power from E.ON Energie's competitor Vattenfall Europe. E.ON Energie's majority-owned distributor 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 E.ON Energie's electric power (excluding that used in physically settling its trading activities) in Germany in 2005 and 2004:

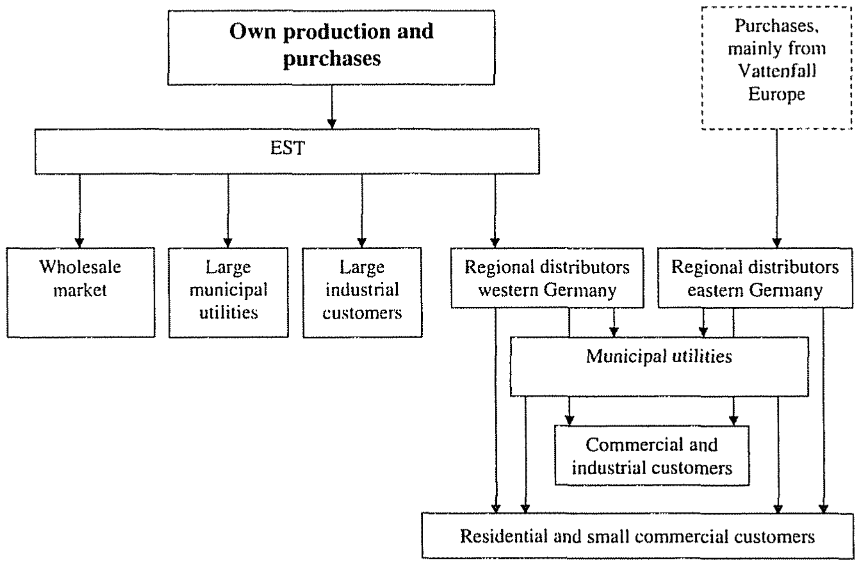
Sale of Power to	Germany 2005 million kWh	Germany 2004 million kWh	% Change in Total
Non-consolidated interregional, regional and municipal utilities(1)	116,654	112,575	+3.6
Industrial and commercial customers(2)(3)	59,134	56,274	+5.1
Residential and small commercial customers	29,978	30,352	–1.2
Total(3)	205,766	199,201	+3.3

(1) The sale of power to non-consolidated interregional, regional and municipal utilities increased in 2005 compared with 2004, reflecting increased sales of electricity produced from renewable resources.

(2) The sale of power to industrial and commercial customers increased in 2005 compared with 2004, primarily due to additional customers acquired.

(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 distribution 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. The following chart sets forth the principal supply structure of E.ON Energie's electricity sales.



The supply contracts under which E.ON Energie's regional distributors (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 distribution subsidiaries supply natural gas to households, small businesses and industrial customers in many parts of Germany. E.ON Energie's gas sales volume in Germany in 2005 amounted to 100.5 billion kWh compared with 102.9 billion kWh in 2004. Due to the acquisition of NRE, E.ON Energie also had a gas sales volume of 1.7 billion kWh in the Netherlands in 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 distributors are also involved in district heat and steam delivery. E.ON Energie's total district heat deliveries in Western Europe in 2005 remained essentially stable at 13.0 billion kWh, of which 10.4 billion kWh were supplied in Germany. The remaining amount is mainly supplied through E.ON Benelux.

Water. Following the sale of its interest in Gelsenwasser AG ("Gelsenwasser") in 2003, E.ON's remaining regional water business is conducted through certain of its distribution companies, particularly E.ON Hanse, E.ON Avacon AG and E.ON Westfalen Weser.

Customers. Through its subsidiaries and companies in which it has shareholdings, E.ON Energie serves approximately 9.4 million electricity customers in Germany. E.ON Energie's German operations also supply approximately 1.8 million customers with gas and more than 0.4 million customers with water.

In the Netherlands, E.ON Benelux acquired the Dutch power and gas company NRE in 2005. In 2004, the company supplied approximately 1.6 TWh of electricity and approximately 4.8 TWh of gas to approximately 0.3 million electricity and gas customers in the Netherlands.

In Italy, the sales activities of E.ON Energie are operated by its subsidiary E.ON Italia. E.ON Italia focuses on industrial customers and local utilities. Its sales volume amounted to approximately 995 million kWh in 2005.

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 the following European power exchanges: European Energy Exchange in Leipzig, the Amsterdam Power Exchange in the Netherlands, Powernext in France, Energy Exchange Austria, the Italian Power Exchange and Operátor trhu s elektrinou (OTE) in the Czech Republic. 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 sole procurer for E.ON Energie's operations in Italy. As the central trading desk of the E.ON Energie group, EST began CO_2 emissions trading activities in 2005. For information on CO_2 emissions trading, see "— Regulatory Environment — EU/Germany: General Aspects (Electricity and Gas) — Greenhouse Gas Emissions Trading." The volume of CO_2 emission certificates traded by EST amounted to 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 Supervisory Office for Banking, including the minimum requirements for trading activities of credit institutions. 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 2005, reflecting higher price volatility in the power markets. See "Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2005 Compared with Year Ended December 31, 2004 — Central Europe." The following table sets forth the total volume of EST's traded electric power in 2005 and 2004.

Trading of Power	**2005 million kWh**	**2004 million kWh**	**% Change in Total**
Power sold	164,109	146,755	+11.8
Power purchased	168,734	162,671	+3.7
Total	332,843	309,426	+7.6

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 CO_2-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 November 2005, E.ON Energie acquired an additional 49.0 percent stake in E.ON Facility Management, which is now wholly-owned, from HSG Technischer Service GmbH. 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. The E.ON Group acquired the remaining 25.2 percent shareholding as of January 1, 2005. Since then, E.ON IS has been consolidated in the 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. National holding companies such as E.ON Hungária Energetikai ZRt. ("E.ON Hungária"), E.ON Czech Holding AG and E.ON Bulgaria EAD coordinate E.ON Energie's activities.

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 Rt., E.ON Észak-dunántúli Áramszolgáltató Rt. ("ÉDÁSZ") and E.ON Tiszántúli Áramszolgáltató Rt. In 2005, these companies provided 2.4 million customers with approximately 14.4 TWh of electricity. In January 2003, E.ON Hungária founded E.ON Energiakereskedö Kft., an electricity and gas sales company, to serve the liberalized Hungarian electricity market. E.ON Energie also holds a 100.0 percent stake in the natural gas power generation company Debreceni Kombinált Ciklusú Erömü Kft. (95 MW). In the gas sector, E.ON Energie holds a 98.1 percent stake in the gas distribution and supply company KÖGÁZ, a 50.01 percent stake in the gas distributor DDGÁZ and a 16.3 percent stake in the gas company FÖGÁZ. KÖGÁZ and DDGÁZ have been fully consolidated since April 2005. In 2005, the two companies provided approximately 0.6 million customers with approximately 17.3 TWh of gas. In February 2006, E.ON Energie and RWE signed an agreement to swap certain of their respective shareholdings in Hungary and the Czech Republic, subject to antitrust and other regulatory approvals. Under the proposed swap, E.ON Energie would acquire almost all of the remaining shares of DDGÁZ and RWE would acquire E.ON Energie's interest in FÖGÁZ.

In the Czech Republic, E.ON Energie controls significant participations in the energy sector. As of January 1, 2005, E.ON Energie re-organized its former subsidiaries Jihomoravská energetika a.s. ("JME") and Jihoceská energetika a.s ("JCE") and fulfilled legal unbundling requirements by creating three new wholly-owned subsidiaries, E.ON Ceská republika, a.s., E.ON Distribuce, a.s. and E.ON Energie, a.s., and transferring the businesses of JME and JCE to these subsidiaries. On a combined basis, these companies provided approximately 1.4 million customers with approximately 12.2 TWh of electricity in 2005. In the gas sector, E.ON Energie owns minority shareholdings in the distributors JMP, Jihoceska plynárenska a.s. ("JCP"), PP, STP, SMP, ZCP and VCP. Under the proposed swap of shareholdings with RWE noted above, E.ON Energie would increase its interest in JCP to 59.8 percent and acquire additional shares in PP. RWE would acquire E.ON Energie's interests in STP, SMP, ZCP and VCP.

In February 2005, E.ON Energie acquired 67.0 percent stakes in each of the two northeastern Bulgarian electricity distribution companies Varna and Gorna Oryahovitza. The companies had combined sales of approximately 4.9 TWh and served approximately 1.1 million customers in 2005.

In September 2005, E.ON Energie acquired a 24.6 percent stake in the Romanian electricity distribution company Electrica Moldova — now renamed E.ON Moldova — and simultaneously increased its stake in the company to 51.0 percent by subscribing to a capital increase. In 2004, the company sold approximately 4.3 TWh of electricity to approximately 1.3 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. ("ZSE"), which provided approximately 1.0 million customers with approximately 7.1 TWh of electricity in 2004.

In the Baltic region, following the re-organization of the Lithuanian energy industry, E.ON Energie now owns a 20.3 percent interest in Rytu Skirstomieji Tinklai ("RST"), the eastern Lithuanian electricity distribution company. E.ON Energie has an agreement with the Lithuanian government to sell its interest in RST to the new majority shareholder should RST be completely privatized.

In addition, as of December 31, 2005 E.ON Energie held a number of shareholdings in small generation assets, primarily in Hungary and the Czech Republic.

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 2005, 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 2005 (602 TWh at the European Energy Exchange's Spot and Futures Market compared with 397 TWh in 2004). 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 2005 prices paid by household customers were about 9 percent higher than in the liberalization year 1998, while prices (including electricity tax) paid by industrial customers were still about 5 percent lower than in 1998. In 2005, wholesale electricity prices in Germany rose sharply due to rising CO_2 emission certificate prices and a dry and hot summer. 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 increase did not affect the industrial customer segment to the same degree as household customers.

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 2005, 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 21 percent in 2005. In view of recent developments in the commodity and fuel markets, E.ON Energie expects electricity prices in Germany to further increase in 2006. E.ON Energie cannot exclude further price hikes for end customers in 2006, 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 — External."

High environmental and nuclear safety standards, as well as high investments in new lignite 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. 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. E.ON Energie cannot guarantee it will be able to compete successfully in electricity markets where it already is present or in new electricity 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 2005, the Pan-European Gas market unit recorded revenues of €17.9 billion (which included €3.1 billion in natural gas and electricity taxes that were remitted, directly or indirectly, to the German tax authorities) and adjusted EBIT of €1.5 billion. €14.2 billion of the Pan-European Gas market unit's 2005 revenues were generated in Germany and €3.7 billion was generated abroad (measured by location of customer).

In 2005, E.ON Ruhrgas entered into the following significant transactions:

- In November 2004, 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 and its 50.0 percent interest in the gas import subsidiary 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 EU 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 the two companies. These transactions are expected to be completed at the end of March 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. Distrigaz Nord is active in gas distribution and supply in northern Romania.

- In June 2005, E.ON Ruhrgas signed an agreement for the sale of Ruhrgas Industries to CVC Capital Partners.

- In September 2005, E.ON Ruhrgas Norge AS ("E.ON Ruhrgas Norge") acquired an additional 15.0 percent stake in the Njord oil and gas field from the British oil and gas company Paladin Resources plc. and now owns a 30.0 percent stake in this field.

- In September 2005, Gazprom, BASF and E.ON signed a "basic agreement" on the construction of the NEGP.

- In November 2005, E.ON Ruhrgas acquired Caledonia, a U.K. gas production company with interests in a total of 15 gas fields in the U.K. southern North Sea, from First Reserve, CSFB Private Equity Funds and others. Apart from its stakes in gas fields, Caledonia wholly owns Caledonia Energy Trading Limited ("CETL") and has interests in two pipeline systems near the gas fields for transporting gas to the United Kingdom.

- In the course of 2005, E.ON Ruhrgas UK Exploration and Production Limited ("E.ON Ruhrgas UK") acquired a further 13.59 percent stake in Interconnector (U.K.) Limited ("Interconnector") from BP plc. ("BP") (4.0 percent), International Power plc ("International Power") (3.38 percent) and Amerada Hess Corporation ("Amerada Hess") (6.21 percent). E.ON Ruhrgas UK now holds a total interest of 23.59 percent in this company.

For information about additional transactions in the downstream business, see "— Downstream Shareholdings."

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 11,000 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 regional and supraregional 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 primarily minority shareholdings in European integrated and regional gas distribution companies and in German regional gas distribution companies, while Thüga holds primarily minority shareholdings in about 100 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 and one Italian municipal utility.

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 2005 and 2004. The difference between gas supplies and gas sales in any given period is due to storage and metering differences and occurs routinely.

Purchases	Total 2005 billion kWh	%	Total 2004 billion kWh	%
Imports	580.0	84.5	537.4	83.2
German sources	106.1	15.5	108.6	16.8
Total	686.1	100.0	646.0	100.0
Sales				
Domestic distributors	323.7	46.9	328.7	51.2
Domestic municipal utilities	160.9	23.3	156.1	24.3
Domestic industrial customers	70.4	10.2	69.0	10.8
Sales abroad	135.2	19.6	87.6	13.7
Total	690.2	100.0	641.4	100.0

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 2005 is mainly attributable to an increase in sales abroad, especially to customers in the United Kingdom (including E.ON UK); the sales increase was reflected in an increase in imports. For more information on E.ON Ruhrgas' gas supply contract with E.ON UK, see "— History and Development of the Company — Ruhrgas Acquisition" and "— U.K. — Energy Wholesale — Energy Trading."

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 2005, E.ON Ruhrgas purchased a total of 686.1 billion kWh of gas, of which approximately 84.5 percent was imported and approximately 15.5 percent was purchased from German producers. E.ON Ruhrgas was the largest gas purchaser in Germany in 2005, acquiring more than half of the total volume of gas purchased for the German market. Of the 686.1 billion kWh of gas purchased in 2005, E.ON Ruhrgas bought approximately 28.2 percent from Russia and approximately 27.5 percent from Norway, 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 2005 and 2004:

Sources of Gas	Total 2005 billion kWh	%	Total 2004 billion kWh	%
Germany	106.1	15.5	108.6	16.8
Russia	193.5	28.2	201.3	31.2
Norway	188.4	27.5	169.6	26.3
The Netherlands	139.0	20.2	124.1	19.2
United Kingdom	34.1	5.0	22.8	3.5
Denmark	23.7	3.4	19.3	3.0
Others(1)	1.3	0.2	0.3	0.0
Total	686.1	100.0	646.0	100.0

(1) Italy and France.

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 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 2005; 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 2006 to 2029 (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 10 trillion kWh of natural gas over the period to 2029. 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 2005. 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 EU 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 2005, E.ON Ruhrgas purchased 193.5 billion kWh of gas, or 28.2 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, 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 5.6 trillion kWh of gas in 2005. 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. E.ON Ruhrgas and Gazprom may enter into new gas supply contracts in the future which will provide a contractual basis for this arrangement. 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 signed a basic agreement on the construction of the NEGP in September 2005. For details, see "— Transmission and Storage — Pipelines."

In addition, E.ON Ruhrgas is a member of a consortium that holds a minority interest in Slovenský plynárenský priemysel a.s. ("SPP"), the operator of the gas transmission system in Slovakia through which most Russian gas bound for western Europe is transported.

Norway. In 2005, E.ON Ruhrgas purchased 188.4 billion kWh, or 27.5 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 2005, E.ON Ruhrgas purchased 139.0 billion kWh, or 20.2 percent of its total gas purchased, pursuant to a single long-term supply contract with N.V. Nederlandse Gasunie. 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 2005, E.ON Ruhrgas purchased 106.1 billion kWh, or 15.5 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 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 2005, E.ON Ruhrgas purchased 34.1 billion kWh, or 5.0 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, which has interests in U.K. gas fields and infrastructure. See "— Trading — 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 partly at Zeebrugge in Belgium. Gas from the U.K. gas fields is transported to Belgium through the undersea gas pipeline run by the project company Interconnector. During 2005, E.ON Ruhrgas UK acquired a further 13.59 percent stake in Interconnector and now holds a total interest of 23.59 percent. In order to transport the gas to Germany, E.ON Ruhrgas has long-term transportation contracts for the transmission of the gas through the Belgian pipeline system to the gas import point at Raeren near Aachen on the German-Belgian border.

Denmark. In 2005, E.ON Ruhrgas purchased 23.7 billion kWh, or 3.4 percent of its total gas purchased, from the Danish supplier DONG Naturgas 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 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 2005 was 5.9 percent of total E.ON Ruhrgas sales, as compared with 4.9 percent in 2004, 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 holds mainly minority interests in a number of gas production fields, exploration blocks and pipelines in the British North Sea. In November 2005, E.ON Ruhrgas completed the acquisition of Caledonia, which owns interests in 15 gas fields and two pipeline systems (as well as a trading business). Caledonia was renamed E.ON Ruhrgas UK North Sea Limited ("E.ON Ruhrgas North Sea") in November 2005.

In 2005, E.ON Ruhrgas UK produced 4.5 billion kWh (406 million cubic meters ("m^3")) of gas, compared with 4.0 billion kWh (353 million m^3) of gas in 2004. In 2005, this gas came from the Elgin/Franklin fields, in which E.ON Ruhrgas UK holds a 5.2 percent interest, and from the Scoter field, in which E.ON Ruhrgas UK holds a 12.0 percent interest and which had its first year of full production in 2005. In addition, E.ON Ruhrgas UK produced 2.5 million barrels of liquids (oil and condensate) in 2005, which were sold on the market. Start of production from the Elgin/Franklin satellite fields Glenelg and West Franklin (in which E.ON Ruhrgas UK holds interests of 18.57 percent and 5.2 percent, respectively) has been deferred to 2006 and 2007, respectively. In the last two months of 2005, E.ON Ruhrgas North Sea produced an aggregate of 0.8 billion kWh of gas (73 million m^3) from the former Caledonia gas fields Johnston (interest 50.107 percent), Ravenspurn North (interest 28.75 percent), Caister (interest 40.0 percent) and Schooner (interest 4.83 percent).

Norway. E.ON Ruhrgas operates in Norway through its subsidiary E.ON Ruhrgas Norge. E.ON Ruhrgas Norge completed the acquisition of a further 15.0 percent stake in the Njord oil and gas field in the Norwegian Shelf area of the North Sea in September 2005 and now owns 30.0 percent of this field. Currently, gas from this field is being re-injected to increase the rate of oil recovery. E.ON Ruhrgas Norge obtained 2.3 million barrels of oil as a result of its stake in 2005 which were sold on the market. The field is currently expected to begin producing gas for sale in 2007.

Russia. In July 2004, E.ON and Gazprom signed a Memorandum of Understanding for a deepened strategic cooperation between the parties, including gas production in Russia.

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 is currently conducting a feasibility 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 m^3 of natural gas per year and would have the flexibility to handle another 5 billion m^3 if required. According to initial calculations, the investments required would total approximately €500 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.

Transmission and Storage

E.ON Ruhrgas' technical infrastructure 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, those co-owned directly by E.ON Ruhrgas and other gas companies, and those owned by project companies in which E.ON Ruhrgas holds an interest.

Project companies are entities E.ON Ruhrgas 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 share in each of its German project companies as of December 31, 2005:

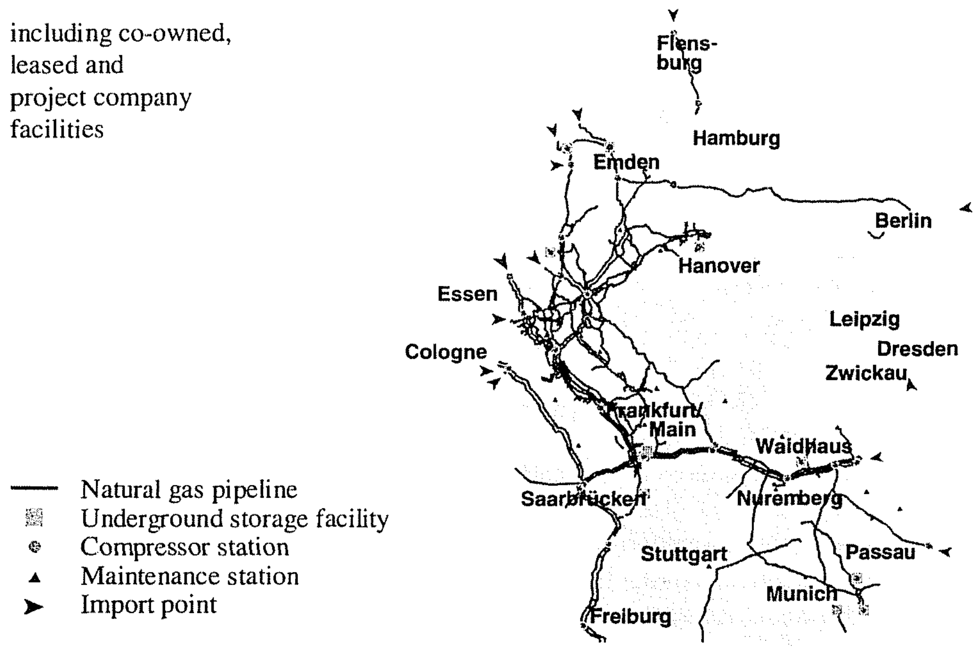
Project Company	E.ON Ruhrgas Share %
DEUDAN (DEUDAN — Deutsch/Dänische Erdgastransport-Gesellschaft mbH & Co. KG)	25.0
EGL (Etzel Gas-Lager GmbH & Co. KG)	74.8
GHG (GHG-Gasspeicher Hannover Gesellschaft mbH)	13.2
MEGAL (MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG)	51.0
METG (Mittelrheinische 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 Gesellschaft mbH & Co. KG)	51.0

The E.ON Ruhrgas underground storage facilities are operated by E.ON Ruhrgas as storage system operator. The E.ON Ruhrgas transmission system is operated by E.ON Ruhrgas Transport, a wholly-owned subsidiary of E.ON Ruhrgas, as transmission system operator. The underground storage facilities and the transmission system are monitored and maintained largely by E.ON Ruhrgas. 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 fulfillment of one of the requirements of the ministerial approval authorizing E.ON's acquisition of Ruhrgas and in accordance with Germany's new energy law, the transmission system has been leased out to E.ON Ruhrgas Transport together with all transmission rights and rights of beneficial use that E.ON Ruhrgas 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 Ruhrgas Transport, see "— E.ON Ruhrgas Transport" 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' technical infrastructure:

E.ON Ruhrgas Technical Infrastructure



As shown in the map above, the E.ON Ruhrgas 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 2005, E.ON Ruhrgas owned gas pipelines totaling 6,449 km and co-owned gas pipelines totaling 1,550 km with other companies. In addition, German project companies in which E.ON Ruhrgas holds an interest owned gas pipelines totaling 3,274 km at the end of 2005.

The following table provides more information on E.ON Ruhrgas' pipelines in Germany as of December 31, 2005:

Pipelines	Total km	Maintained by E.ON Ruhrgas km
Owned by E.ON Ruhrgas	6,449	6,177
Co-owned pipelines	1,550	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)	966	966
Companies in which E.ON Ruhrgas holds a stake through its subsidiaries ERI and Thüga	—	2,046
Owned by third parties	—	1,075
Total in Germany	11,273	12,690

(PC) project company

E.ON Ruhrgas' 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' interest in the pipeline. E.ON Ruhrgas' 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 2,021 km of pipelines with a diameter of less than or equal to 300 millimeters, 3,030 km of pipelines with a diameter of more than 300 and less than or equal to 600 millimeters, 2,917 km of pipelines with a diameter of more than 600 and less than or equal to 900 millimeters, and 3,305 km of pipelines with a diameter of more than 900 and less than or equal to 1,200 millimeters.

In 2005, E.ON Ruhrgas maintained 6,177 km of its own pipelines, 604 km of co-owned pipelines, 1,075 km of pipelines owned by third parties and 2,046 km of pipelines owned by companies in which E.ON Ruhrgas holds a stake through its subsidiaries ERI and Thüga, as well as 2,788 km of pipelines owned by project companies in which E.ON Ruhrgas holds an interest. In total, E.ON Ruhrgas maintained (including providing local monitoring) 12,690 km of pipelines in 2005. For information on pipeline monitoring and maintenance, see "— Monitoring and Maintenance" below.

In addition to its 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 112 MW) and a compressor station at Zeebrugge (two units with a total installed capacity of approximately 70 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 is building a second undersea transmission system between continental Europe and the United Kingdom. Construction on this transmission system, which is expected to link Balgzand in the Netherlands to Bacton in the United Kingdom, began in December 2004.

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 September 2005, E.ON, Gazprom and BASF signed a "basic agreement" on the construction of the NEGP, which is currently planned to connect Vyborg on Russia's Baltic coast with Germany's Baltic coast, thereby providing an alternative undersea route for the supply of Russian natural gas to Germany, as compared with the current land routes through Ukraine and Poland. As a first step, the three joint venture partners have formed a Swiss company, in which Gazprom holds a 51.0 percent interest and E.ON Ruhrgas and BASF's subsidiary Wintershall each hold 24.5 percent stakes. Although work has started on connecting the current Russian gas infrastructure to the proposed landing site in Vyborg, no decision to build the pipeline has been taken and it is not expected that the pipeline could be completed before 2010 at the earliest. Gazprom is expected to decide to build the pipeline. E.ON Ruhrgas and Wintershall have only committed to join the feasibility study and have a right to step back and not join the construction depending on the result of the feasibility study. E.ON Ruhrgas' initial investment in the joint-venture company was only CHF 245,000 (€158,900). However, current estimates put E.ON Ruhrgas's share of the expected cost of the complete project, if built, at approximately €1 billion.

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 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 holds an interest own an additional 17 transport compressor stations with a total installed capacity of 537 MW and two storage compressor stations with a total installed capacity of 17 MW. In 2005, E.ON Ruhrgas provided monitoring and maintenance services under service contracts for the nine transport compressor stations leased out to E.ON Ruhrgas Transport and 13 transport compressor stations of the project companies. E.ON Ruhrgas 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 totals 853 MW.

The following table provides more information about E.ON Ruhrgas' and its project companies' gas compressor stations in Germany as of December 31, 2005:

Owned by	Compressor Stations	Compressor Units	Total Installed Capacity MW	Compressor Units Monitored and Maintained by E.ON Ruhrgas	Installed Capacity of Compressor Units Monitored and Maintained by E.ON Ruhrgas MW
E.ON Ruhrgas (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	17	179	17	179
METG (PC) (transportation)	2	9	99	9	99
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	34	104	938	90	853

(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 had sufficient pipeline capacity in prior years and booked sufficient pipeline capacity in 2005. E.ON Ruhrgas 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 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 injects gas into storage facilities during warm weather periods and withdraws it in cold weather periods to cope with peak demand. E.ON Ruhrgas 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 2005, E.ON Ruhrgas 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 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 5.1 billion m^3 was available to E.ON Ruhrgas in 2005. Due to the number and complexity of factors influencing storage utilization, particularly temperature and the terms of supply and delivery contracts, E.ON Ruhrgàs does not consider data on the utilization of gas storage capacity to be meaningful. E.ON Ruhrgas had sufficient storage capacity available both in 2005 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' gas supply and delivery situation and further gas sales potential in the United Kingdom, E.ON Ruhrgas 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' underground gas storage facilities, all of which are situated in Germany, as of December 31, 2005:

Underground Storage Facilities	E.ON Ruhrgas' Share in Working Capacity (million m^3)	E.ON Ruhrgas' Share in Maximum Withdrawal Rate (thousand m^3/hour)	Owned by	E.ON Ruhrgas' Share in Storage Facility or in the Project Company %	Operated by E.ON Ruhrgas
Bierwang(P)	1,300	1,200	E.ON Ruhrgas	100.0	Yes
Empelde(C)	18	39	GHG-Gasspeicher Hannover Gesellschaft mbH(PC)	13.2	—
Epe(C)	1,657	2,450	E.ON Ruhrgas	100.0	Yes
Eschenfelden(P)	48	87	E.ON Ruhrgas/N-ERGIE AG	66.7	Yes
Etzel(C)	383	987	Etzel Gas-Lager GmbH & Co. KG(PC)	74.8	—
Hähnlein(P)	80	100	E.ON Ruhrgas	100.0	Yes
Krummhörn(C)(1)	0	0	E.ON Ruhrgas	100.0	Yes
Sandhausen(P)	15	23	E.ON Ruhrgas/Gasversorgung Süddeutschland GmbH	50.0	Yes
Stockstadt(P)	135	135	E.ON Ruhrgas	100.0	Yes
Breitbrunn(P)	970(2)	520	RWE Dea AG/ExxonMobil Gasspeicher Deutschland GmbH(3)/ E.ON Ruhrgas (4)	Leased(3)	Yes(4)
Inzenham-West(P)	500	300	RWE Dea AG	Leased	—
Total	5,106	5,841			

(C) salt cavern

(P) porous rock

(PC) project company

(1) Currently out of service for repairs/adjustments.

(2) 965 million m^3 was contractually guaranteed in 2004/05; 970 million m^3 is the current working gas capacity available to E.ON Ruhrgas.

(3) Underground section.

(4) Above ground part, particularly the storage compressor station.

Monitoring and Maintenance. In 2005, E.ON Ruhrgas carried out for itself and under service contracts for E.ON Ruhrgas Transport and some of the project companies E.ON Ruhrgas holds an interest in, monitoring and maintenance services for almost all of the E.ON Ruhrgas transmission system and its underground storage facilities.

Transmission system and underground storage monitoring operations are centered at E.ON Ruhrgas' dispatching facility 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 2005, E.ON Ruhrgas performed this kind of system monitoring for about 12,600 km of pipelines, 22 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 field stations and facilities located along the network. E.ON Ruhrgas 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' 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 Ruhrgas Transport. On January 1, 2004, in fulfillment of one of the requirements of the ministerial approval authorizing E.ON's acquisition of Ruhrgas, E.ON Ruhrgas transferred its gas transmission business to a new subsidiary, E.ON Ruhrgas Transport. E.ON Ruhrgas Transport has sole responsibility for the gas transmission business, including technical responsibility for the transmission system, and functions independently of E.ON Ruhrgas' sales business, which is a customer of E.ON Ruhrgas Transport. As the transmission system operator, E.ON Ruhrgas Transport operates and controls the E.ON Ruhrgas transmission system and handles all major functions needed for an independent gas transmission business: transmission management, transportation contracts (including access fees), shipper relations, planning, controlling and billing. E.ON Ruhrgas Transport obtains certain support services from E.ON Ruhrgas AG under service agreements. In connection with the Energy Law of 2005, the scope of support services was reduced as follows during 2005: (1) as from September 1, 2005, E.ON Ruhrgas Transport's employees handled all capacity planning and capacity allocation and (2) as from December 1, 2005, they handled the commercial transport operations.

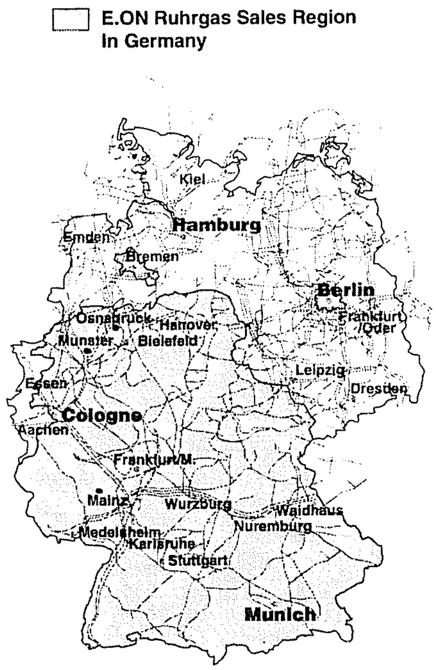
On November 1, 2004, E.ON Ruhrgas Transport introduced an entry/exit system called ENTRIX for access to the E.ON Ruhrgas gas transmission system as a result of an agreement reached with the Competition Directorate-General of the European Commission (the "Competition Directorate") with respect to a matter 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 Ruhrgas Transport. The fee structure is simple and applies to five zones into which the transmission system of E.ON Ruhrgas 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. According to the agreement reached with the Competition Directorate, E.ON Ruhrgas has to reduce the number of fee zones to four in 2006, unless the company is able to demonstrate that technical, qualitative, economic or other reasons make such reduction of zones impossible.

In order to comply with requirements of the Energy Law of 2005 (described in "— Regulatory Environment"), further improvements of the E.ON Ruhrgas Transport 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 five zones of the E.ON Ruhrgas 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 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.

Sales

Germany. E.ON Ruhrgas was the largest distributor of natural gas in Germany in 2005, selling a total volume of 555 billion kWh of gas. E.ON Ruhrgas also sold 135.2 billion kWh of gas outside of Germany in 2005. The following map illustrates the sales area of E.ON Ruhrgas in Germany:



E.ON Ruhrgas sells gas to regional and supraregional distributors, municipal utilities and industrial customers. The following table sets forth information on the sale of gas by E.ON Ruhrgas' sales business in Germany for the periods presented:

Sale of Gas to:	Total 2005 billion kWh	%	Total 2004 billion kWh	%
Distributors	323.7	58.3	328.7	59.3
Municipal utilities	160.9	29.0	156.1	28.2
Industrial customers	70.4	12.7	69.0	12.5
Total	555.0	100.0	553.8	100.0

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.

E.ON Ruhrgas' sales contracts vary depending on the type of customer. The majority of E.ON Ruhrgas' customers are distributors and municipal utilities. Most of these contracts are long-term contracts. In many cases, especially concerning municipal utilities, E.ON Ruhrgas has offered rights to reduce the contractual amounts by October 1, 2006 or 2007 combined with an early termination by October 1, 2008 (see "— Competitive Environment"). Price terms in all types of supply 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.

Two requirements of the ministerial approval approving E.ON's acquisition of E.ON Ruhrgas related to gas sales contracts. The option of reducing the volume of gas that was granted to most distributors and municipal utilities for the remaining term of the relevant contract was in most cases not exercised for the gas years ending September 30, 2005 or 2006. Exercising this option will remain possible until these contracts end. The second requirement of the ministerial approval, obliging E.ON Ruhrgas to grant two larger regional distributor customers in which E.ON Ruhrgas previously held an interest the right to a staged termination of their contracts, has become obsolete as these companies have signed new contracts with E.ON Ruhrgas.

In 2005, gas prices in Germany continued to rise, due primarily to the rise in the price of oil. E.ON Ruhrgas has in certain cases responded to competitive pressure by re-negotiating the terms of sales contracts with major customers. See also "— Competitive Environment."

International. In 2005, E.ON Ruhrgas delivered 135.2 billion kWh of gas to customers in other European countries, or 19.6 percent of the total volume of gas sold by E.ON Ruhrgas, compared with 87.6 billion kWh or 13.7 percent in the period from January to December 2004. The destinations for E.ON Ruhrgas' external sales are the United Kingdom, Switzerland, the Benelux countries, Austria, Hungary, Luxembourg, Italy, France, Denmark, Sweden, Poland and Liechtenstein. The 54.3 percent increase in international sales in 2005 was largely attributable to long-term supply contracts with E.ON UK (starting in October 2004) and E.ON Sverige (starting in October 2005). However, E.ON Ruhrgas' sales to other international customers are increasingly made on the basis of short-term contracts. Limitations on available gas transportation capacity across the relevant borders may restrict E.ON Ruhrgas' ability to expand its external sales business to certain countries. See also "— U.K. — Energy Wholesale — Energy Trading" and "— Nordic — Gas Distribution."

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 primarily minority shareholdings in European integrated and regional gas distribution companies and in German regional gas distribution companies, while Thüga holds primarily minority shareholdings in about 100 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"), are its majority shareholdings in five Italian gas distribution companies and one sales company, as well as two minority shareholdings in other Italian energy companies, including one municipal utility.

ERI: As of December 31, 2005, ERI's portfolio of shareholdings included primarily minority stakes in three domestic and 17 foreign companies. In 2005, ERI (including its fully consolidated shareholdings) contributed sales of €891.9 million (approximately 6.0 percent of E.ON Ruhrgas' total sales, excluding natural gas and electricity taxes) and had sales volumes of 46.5 billion kWh in 2005 (2004: 30.1 billion kWh).

In March 2006, ERI expects to acquire shareholdings in certain businesses of the Hungarian gas company MOL. For details, see "— Overview."

Germany. As of December 31, 2005, ERI held interests in the following regional gas distribution companies:

Shareholding	Share held by ERI %
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, 2005, ERI held interests in the following operating companies in countries outside of Germany, primarily in central Europe and the Nordic region:

Shareholding	Share held by ERI %
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
therminvest Sp.z o.o., Poland(1)	100.00
Inwestycyjna Spolka Energetyczna Sp.z o.o. (IRB), Poland	50.00
Szczencinska Energetyka Cieplna Sp.z o.o. (SECS), Poland(1)	32.13
EUROPGAS a.s., Czech Republic(2)	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	40.27
S.C. Congaz S.A., Romania	28.59
Ekopur d.o.o., Slovenia(4)	100.00
SOTEG — Société de Transport de Gaz S.A., Luxembourg	20.00
Holdigaz SA, Switzerland	2.21

(1) The shareholdings in these companies are expected to be transferred to E.DIS energia sp.z o.o. of the Central Europe market unit in 2006.

(2) EUROPGAS a.s. holds 50.0 percent of SPP Bohemia a.s. and 48.18 percent of Moravské naftové 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.

Thüga: Thüga holds primarily minority shareholdings in about 100 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, are its majority shareholdings in five Italian gas distribution companies and one sales company, as well as two minority shareholdings in other Italian energy companies, including one municipal utility. Through its majority and minority shareholdings in Italian gas distribution and sales companies, Thüga supplied natural gas to approximately 750,000 end customers in Italy in 2005, primarily in the regions of Lombardy, Emilia Romagna, Veneto, Friuli Venezia-Giulia and Piedmont. With respect to its minority shareholdings, Thüga is an active shareholder, offering operational competence as well as other services. In 2005, Thüga contributed sales of €956.1 million (approximately 6.5 percent of E.ON Ruhrgas' total sales, excluding natural gas and electricity taxes). Thüga increased its gas sales volumes by 7.7 percent to 22.5 billion kWh in 2005 from 20.9 billion kWh in 2004, primarily as a result of changes in the scope of consolidation of the Italian business.

As of December 31, 2005, E.ON Ruhrgas Thüga Holding GmbH held 81.1 percent of Thüga and E.ON Energie, through its subsidiary Contigas, held the remaining 18.9 percent.

Among other acquisitions in 2005, in July Thüga acquired an additional 21.2 percent of HEAG Südhessische Energie AG (HSE) from ERI.

Germany. As of December 31, 2005, 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:

Shareholding	Share held by Thüga %
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, 2005, Thüga held mainly the following shareholdings in privately owned gas distribution and sales companies as well as in one municipal utility in Italy:

Shareholding	Share held by Thüga %
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 20 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 to a more limited extent, 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 2005, approximately 48 percent of German homes were heated using gas, making gas the leading energy source for this market. In 2005, gas was chosen as the heating method for approximately 75 percent of new homes under construction.

The German gas market has always been characterized by competition. Approximately 15 independent companies are active in the regional and supraregional distribution of gas. Competition has increased since the early 1990s, when Wingas entered the gas transmission market by building its own pipeline infrastructure. Wingas' pipeline network currently has a length of more than 2,000 km, compared with the E.ON Ruhrgas pipeline network length of over 11,000 km. The market entry of Wingas has led to increased price competition not only in areas close to the Wingas system, but all over Germany. Since 2000, when the first association agreement was signed, third party access has developed dynamically. Since July 2005, access to German gas networks has been governed by a new legal framework which is set forth in the Energy Law of 2005. For information on this new legal framework, see "— Regulatory Environment."

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, Shell and ExxonMobil as successors of the former BEB sales division, Verbundnetz Gas AG ("VNG") and Wingas, while foreign competitors include Gaz de France, BP Energie, Econgas, Ecoswitch, Essent and Nuon. E.ON Ruhrgas currently enjoys a strong market position, supplying approximately 56 percent of all gas consumed in Germany in 2005. 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 2005 by remaining flexible in its contract and price negotiations and by offering attractive terms and services to its established and potential customers. Due to likely increasing competition in the transmission business in Germany, however, E.ON Ruhrgas Transport may not be able to renew some of its existing transportation contracts when they expire, or to gain new contracts. This may have the effect of leaving E.ON Ruhrgas Transport with excess transmission capacity.

Gas prices in gas supply contracts are mostly linked to the price of competing fuels, primarily gas oil or heavy fuel oil. The prices for end consumers fluctuate according to oil price developments as well, thereby maintaining competitive prices compared to oil products independent of oil price level. 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. In 2005, global energy prices rose significantly, though natural gas prices rose less steeply than oil prices. Like other gas companies, E.ON Ruhrgas adjusted its sales prices in 2005 to reflect the higher price levels. In addition, rising oil prices led to further gas price increases as of the beginning of 2006, and more increases are expected in 2006 due to the price linkage between oil and gas. Recently there have been massive consumer complaints on rising gas prices. For information on investigations of gas prices charged by some German utilities, including utilities in which E.ON Ruhrgas and E.ON Energie hold interests, see "Item 3. Key Information — Risk Factors."

In the context of the debate on long-term contracts, which the Federal Cartel Office (*Bundeskartellamt*) considers to be an obstacle to competition, E.ON Ruhrgas has offered those of its German distribution customers and municipal utilities that are supplied with more than 50 percent of their total gas requirements by E.ON Ruhrgas the termination of the existing contracts by October 1, 2008 in conjunction with a right to reduce their contractual amounts to 50 percent of their total gas purchases by either October 1, 2006 or October 1, 2007. Currently there is no indication as to how many customers will accept this offer. Sales contracts with distribution companies, where E.ON Ruhrgas supplies less than 50 percent of their total gas purchases, and with industrial customers are not affected. In connection with an agreement reached with the Competition Directorate-General of the European Commission, E.ON Ruhrgas also introduced an entry/exit system for third party access to its gas transmission system in November 2004. For details, see "— Transmission and Storage — E.ON Ruhrgas Transport." In E.ON Ruhrgas' opinion, these actions have had a considerable influence on the competitive environment in Germany. In addition, the Second Gas Directive and the Energy Law of 2005 are expected to further change competition in the gas industry. See "— Regulatory Environment." E.ON Ruhrgas cannot currently predict the form and extent of such changes, or whether these changes will have a negative effect on E.ON Ruhrgas' ability to compete and results of operations. See also "Item 3. Key Information — Risk Factors."

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, 2005, E.ON UK owned or through joint ventures had an attributable interest in 10,547 MW of generation capacity, including 577 MW of CHP plants and 233 MW of operational wind and hydroelectric generation capacity. E.ON UK served approximately 8.6 million electricity and gas customer accounts at December 31, 2005 and its Central Networks business served 4.9 million customer connections. The U.K. market unit recorded sales of €10.2 billion in 2005 and adjusted EBIT of €963 million.

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 businesses and engages in gas trading. The company served approximately 8.6 million customer accounts at December 31, 2005, including approximately 5.6 million electricity customer accounts, 2.8 million gas customer accounts and 0.1 million industrial and commercial electricity and gas customer accounts. With effect from July 2006, 0.1 million fixed line telephone customer accounts previously serviced by Powergen are expected to be sold to Telstra, which already manages these accounts. E.ON UK's Central Networks distribution business served 4.9 million customer connections as of the end of 2005.

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. Enfield operates a gas-fired power station near London. With an installed capacity of 392 MW, the power station can generate enough electricity for 300,000 homes. In July 2005, E.ON UK acquired Holford Gas Storage Limited ("HGSL") from Scottish Power Energy Management Limited. HGSL was formed to develop one of the U.K.'s largest underground gas storage facilities in Cheshire in northwest England, a project for which it has already received planning approval.

The U.K. market unit comprises the non-regulated business, including energy wholesale (generation and energy trading) and retail, the regulated distribution business, and other activities, such as certain non-distribution assets and the E.ON UK corporate center. In 2005, electricity accounted for approximately 68 percent of E.ON UK's sales, gas revenues accounted for approximately 32 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 2005 and 2004:

Sources of Power	Total 2005 million kWh	Total 2004 million kWh	% Change
Own production(1)	37,255	34,916	+6.7
Purchased power from power stations in which E.ON UK has an interest of 50 percent or less	627	2,047	–69.4
Power purchased from other suppliers(2)	39,224	47,087	–16.7
Power used for operating purposes, network losses and pump storage	(2,114)	(1,976)	+7.0
Net power supplied(3)	74,992	82,074	–8.6
Sales of Power			
Mass market sales (residential customers and small and medium sized enterprises)	37,314	36,189	+3.1
Industrial and commercial sales(4)	22,301	26,528	–15.9
Market sales(2)	15,377	19,357	–20.6
Net power sold(3)	74,992	82,074	–8.6

(1) The increase in own production in 2005 was primarily attributable to the fact that the Killingholme power plant was returned to service and the Enfield power station was acquired in 2005.

(2) Power purchased from other suppliers and market sales decreased in 2005 compared with 2004 primarily due to lower sales to industrial and commercial customers and optimization decisions associated with E.ON UK's hedging strategy.

(3) Excluding proprietary trading volumes. For information on proprietary trading volumes, see "— Energy Wholesale — Energy Trading."

(4) During 2005, the industrial and commercial sales business continued to focus on securing profitable customers, which resulted in lower sales volumes in 2005 compared with 2004.

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 2005 million kWh	Total 2004 million kWh	% Change
Long-term gas supply contracts	48,431	49,494	–2.1
Market purchases	134,041	126,400	+6.0
Total gas supplied(1)	182,472	175,894	+3.7
Sale and Use of Gas			
Gas used for own generation	40,318	39,023	+3.3
Sales to industrial and commercial customers(2)	32,590	35,946	–9.3
Sales to retail mass market customers	67,671	66,221	+2.2
Market sales	41,893	34,704	+20.7
Total gas used and sold(1)	182,472	175,894	+3.7

(1) Excluding proprietary trading volumes. For information on proprietary trading volumes, see "— Energy Wholesale — Energy Trading."

(2) During 2005, the industrial and commercial sales business continued to focus on securing profitable customers, which resulted in lower sales volumes in 2005 compared with 2004.

Market Environment

E.ON UK primarily operates in the electricity generation, gas shipping, 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 between 1 to 2 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.

However, since April 2003, increasing generation fuel costs, security of supply concerns and expected future environmental costs (including the introduction of CO_2 emission certificates) have combined to push up wholesale electricity prices for forward delivery substantially. Baseload prices for 2006 delivery increased from approximately GBP29 per MWh in January 2005 up to GBP52 per MWh in December 2005. Short-term electricity prices exhibited significant volatility during 2005 due mainly to volatile fuel input prices. 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 2005, as explained in more detail in "Retail" below.

Natural Gas. Wholesale gas prices in the United Kingdom increased in absolute terms and were more volatile during 2005, driven by higher oil prices and supply and demand imbalances in the United Kingdom and continental Europe. Annual prices for 2006 delivery increased from approximately 32 pence per therm in January 2005 to 62 pence per therm in December 2005. 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 2005, 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 either increased or announced increases in retail customer prices during 2005.

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 17.8 million customer accounts. E.ON UK is the second largest energy retailer with approximately 8.6 million accounts, followed by Scottish and Southern Electricity with approximately 6.4 million accounts. The market is characterized by substantial levels of customers switching suppliers in any given year; approximately half of the customers in the United Kingdom have now switched either their gas or electricity supplier since market liberalization. However, churn levels, which measure the percentage of customers switching suppliers, have fallen since 2002 as the market has matured. E.ON UK reduced its annual churn rate from 15.4 percent in 2004 to 14.7 percent in 2005.

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, 2005 until March 31, 2006, the renewables obligation is equal to 5.5 percent, rising to a figure of 15.4 percent by 2015/2016, at which point it is to remain stable until 2026/27. 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 CO_2 emission certificates in an amount equal to the CO_2 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 had to buy 4.7 million tons of additional allowances in 2005.
- The application in the United Kingdom of the EU Large Combustion Plant Directive may prevent coal- and oil-powered generation facilities that have not been fitted with specified sulphur oxide and nitrous oxide 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, 2005, 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 577 MW of CHP plants and 50 MW of hydroelectric plant, while its attributable portfolio of operational wind capacity stood at 183 MW. The increase in E.ON UK's generation capacity during the year reflected the return to service of the Killingholme plant and the purchase of the Enfield plant, offset in part by the return of the Speke CHP plant to the former client at the end of the contract as described below. Despite the increase, E.ON UK's share of the generation market in Great Britain remained relatively stable in 2005, at approximately 10 percent.

E.ON UK generates electricity from a diverse portfolio of fuel sources. In 2005, approximately 56 percent of E.ON UK's electricity output was fuelled by coal and approximately 42 percent by gas, of which approximately eight 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. This flexibility was demonstrated during 2005, when E.ON UK shut down two oil-fired units at Grain for the summer, and then returned these two units for winter use later in the year. Both CCGT modules at Killingholme were also returned to service at full capacity during 2005, the first time a CCGT plant had been returned to service after being mothballed in the U.K. Both actions were in response to increasing market prices which made the resumed operation of both plants economically attractive.

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, 2005, as well as their start-up dates:

E.ON UK ELECTRIC POWER STATIONS

Power Plants	Total Capacity Net MW	E.ON UK's Share %	E.ON UK's Share Attributable Capacity MW	Start-up Date
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	4,910		4,910	
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
Total	3,473		3,272	
Oil				
Grain U1	650	100.0	650	1982
Grain U4	650	100.0	650	1984
Total	1,300		1,300	

Power Plants	Total Capacity Net MW	E.ON UK's Share %	E.ON UK's Share Attributable Capacity MW	Start-up Date
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	502		488	
CHP schemes	577	100.0	577	various
Total Capacity	**10,762**		**10,547**	

(1) Biomass material co-fired during 2005.

(2) In June 2005, Ratcliffe-on-Soar power station successfully completed an 18-month trial to co-fire petcoke, a mixture of coal and gas. The trial was required by the U.K. Environmental Agency before permission could be given to move to commercial scale co-firing. A report on the trial has been submitted to the Environmental Agency, together with an application to move to commercial scale co-firing, and a decision is expected in 2006.

In addition, E.ON UK owns Edenderry Power Limited ("Edenderry"), which operates a 120 MW peat-fired plant in the Republic of Ireland. 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).

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 Renewables"). 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 1,100 MW are now in the development phase (compared with 770 MW in the development phase in 2004).

In addition to the planned expansion of its wind farm portfolio, E.ON UK increased its generation from biomass in 2005 by co-firing with coal at the Kingsnorth, Ironbridge and Ratcliffe power stations, generating a total of 230 GWh of renewable energy by this method during the year. Work has also commenced on the construction of a 44 MW wood-burning plant in Lockerbie, in southwest Scotland, which when built will be the United Kingdom's largest dedicated biomass plant. The start of commercial operation of the plant is planned for December 2007.

During 2006, E.ON UK expects 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, 2004 to March 31, 2005, E.ON UK achieved the 4.9 percent target under the renewables obligation scheme described above.

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, 2005 was 577 MW. Clients range across a number of sectors, including pharmaceuticals, chemicals, paper and oil refining. CHP capacity declined by 10 MW in 2005 due to the scheduled termination of the 10 year contract for the Speke CHP plant with Eli Lilly and Company Limited in November 2005. Under the terms of the contract, the asset was transferred back to the owner upon termination.

Energy Trading

E.ON UK's energy trading unit engages in asset-based energy marketing 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 CO_2 emission certificates and other environmental products, including Levy Exempt Certificates (issued in relation to the U.K. Climate Change Levy);
- Trading of weather derivatives, which assist in hedging volume variability in E.ON UK's retail business; 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 CO_2 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 2005 and 2004:

Proprietary Trading Volumes	2005 Electricity billion kWh(1)	2004 Electricity billion kWh	2005 Gas billion kWh(1)	2004 Gas billion kWh
Energy bought	10.4	20.9	36.2	86.55
Energy sold	10.4	20.9	36.2	86.55
Gross volume	20.8	41.8	72.4	173.1

(1) The reduction in traded gas and electricity volumes in 2005 was primarily attributable to higher market prices, which reduced the volume of trading E.ON UK could conduct within the risk limits established by the Corporate Center.

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, 2005, E.ON UK supplied approximately 8.6 million customer accounts, of which 7.9 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 7.9 million customer accounts as of December 31, 2005. Approximately 66 percent of E.ON UK's residential customer accounts are electricity customers and 34 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 28.4 TWh of electricity and 54.1 TWh of gas in 2005, as compared with 29.2 TWh of electricity and 51.5 TWh of gas in 2004.

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 brand. E.ON UK also seeks to continue to exploit the high level of national awareness of its Powergen brand and has taken steps to enhance the strength of its brand, including the sponsorship of high profile, national sports competitions such as the Powergen Cups in Rugby Union and Rugby League. 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 2005 and the first quarter of 2006, though the precise level of increases varied by supplier. E.ON UK's increases in 2005 amounted to 7.2 percent for electricity and 11.9 percent for gas, while those in the first quarter of 2006 amounted to 18.4 percent for electricity and 24.4 percent for gas. At the same time, E.ON UK has also implemented a package of measures to limit the effects of rising wholesale costs on its most vulnerable customers, including free cavity wall insulation for customers aged 60 or over and offering free energy saving light bulbs to all its residential customers in 2005. These initiatives contribute to the requirements placed on suppliers in relation to the Energy Efficiency Obligations described in "— Regulatory Environment."

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 2005. In this sector, E.ON UK sold 31.3 TWh of electricity and 46.1 TWh of gas in 2005, as compared with 33.5 TWh of electricity and 50.6 TWh of gas in 2004. E.ON UK's focus in this area remains on acquiring and retaining the most profitable contracts available.

In June 2005, E.ON UK acquired 100 percent of Economy Power Ltd., which supplies 45,000 small and medium-sized business customers with electricity.

Other

E.ON UK brought together three separate businesses, metering, new connections and home installation, during November 2005 to form E.ON Energy Services, 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. E.ON Energy Services employs more than 2,300 people and manages over 2,000 contractors. Each year, E.ON Energy Services staff is expected to visit more than 12 million households and carry out work in 600,000 homes. The new energy services business was a part of both Central Networks and Retail during 2005. This business will be reported within the non-regulated segment beginning in 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. 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 areas (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:

Distribution of Power to	Total 2005 million kWh	Total 2004 million kWh	% Change
Large non-domestic customers	26,129	26,610	−1.8
Domestic and small non-domestic customers	31,287	30,583	+2.3
Total	57,416	57,193	+0.4

Distribution customers 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 stake is a 31.0 percent interest in Trakya Electric Uretin 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 is the generation, distribution, marketing, sale and trading of electricity, gas and heat, mainly in Sweden and Finland. In 2005, it operated through the two integrated energy companies in which it held majority stakes, E.ON Sverige (formerly Sydkraft), the second-largest Swedish utility (on the basis of electricity sales and production capacity), and E.ON Finland. E.ON Nordic and its associated companies are actively involved in the ownership and operation of power generation facilities. As of December 31, 2005, E.ON Nordic owned, through E.ON Sverige and E.ON Finland, interests in power stations with a total installed capacity of approximately 14,982 MW, of which its attributable share was approximately 7,570 MW (not including mothballed and shutdown power plants). On February 2, 2006, E.ON agreed to sell its entire interest in E.ON Finland to the Finnish utility Fortum. See "E.ON Finland" below.

In 2005, electricity accounted for approximately 70 percent of E.ON Nordic's sales, heat revenues accounted for approximately 15 percent, gas revenues accounted for approximately 7 percent and other activities accounted for approximately 8 percent. In 2005, E.ON Nordic had total sales of €3.5 billion (including €402 million of energy taxes) and adjusted EBIT of €806 million. E.ON Sverige accounted for €3.2 billion or approximately 92 percent of this sales total, while E.ON Finland accounted for the remaining €269 million or approximately 8 percent of E.ON Nordic's sales.

E.ON Sverige. E.ON Nordic is the largest shareholder in E.ON Sverige with a 55.3 percent equity and a 56.7 percent voting interest. Statkraft, the other shareholder in E.ON Sverige, has a put option allowing it to sell any or all of its 44.6 percent equity interest in E.ON Sverige to E.ON Energie at any time through December 15, 2007.

E.ON Sverige is active in the generation, distribution, marketing and sale of electricity. In 2005, it had a total installed generation capacity of 7,374 MW and generated 33,272 million kWh of electricity. E.ON Sverige generated about 50 percent of its electric power at nuclear power plants and about 46 percent at hydroelectric plants in 2005. The remaining 4 percent was generated using fuel oil, biomass, natural gas, wind power and waste. E.ON Sverige also supplies gas, is active in the heat and waste business and conducts electricity trading activities. In 2005, E.ON Sverige had sales of €3.2 billion. Electricity contributed approximately 71 percent, heat 14 percent, gas 8 percent and other 7 percent of 2005 sales. Other sales are mainly attributable to the waste business, as well as the company's other activities ElektroSandberg AB and E.ON Sverige Bredband AB. E.ON Sverige traded a total of approximately 73 TWh of electricity in 2005 (including both purchases and sales). E.ON Sverige is primarily active in Sweden. The company also operates to a minor degree in Finland, Denmark and Poland. In 2005, E.ON Sverige estimated that it supplied about 14 percent of the electricity consumed by end users in Sweden.

In 2003, E.ON Sverige acquired a majority stake in the Swedish utility Graninge. The stake was gradually increased to a 100 percent shareholding in the first half of 2004. As of the end of 2005, all of Graninge's Swedish activities had been fully integrated into E.ON Sverige's operations and are now carried out under the E.ON Sverige brand. This has resulted in cost savings net of integration costs in 2005. 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 Graninge acquisition to its minority shareholder Statkraft. This corresponds to approximately 5 percent of E.ON Sverige's annual electricity production, and approximately 50 percent of the capacity it acquired with the majority stake in Graninge. 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 Sverige customers, were affected by power outages. Some customers, including E.ON Sverige customers, were left without electricity for several weeks. E.ON Sverige recorded related costs for rebuilding its distribution grid and compensating customers of approximately €140 million in 2005.

Sydkraft changed its legal name to E.ON Sverige on September 16, 2005. The Company believes that the rebranding to E.ON Sverige positively affects E.ON Nordic's retail operations and that rebranding allows for more efficient Group brand management.

E.ON Finland. E.ON Nordic also holds a majority shareholding in E.ON Finland (formerly Espoon Sähkö Oyj). In 2005, E.ON Nordic was the largest shareholder in E.ON Finland with a 65.6 percent stake. The city of Espoo, the former majority shareholder in E.ON Finland, retains a 34.2 percent stake and the remaining 0.2 percent of E.ON Finland, which is listed on the Helsinki Stock Exchange, is held by other shareholders. In September 2001, when E.ON Nordic acquired its shareholding in E.ON Finland, E.ON Nordic and the city of Espoo entered into a shareholders' agreement, which contains restrictions regarding the transfer of shares in E.ON Finland. In April 2002, E.ON Nordic entered into a call option agreement, in which Fortum was granted a call option in relation to E.ON Nordic's entire shareholding in E.ON Finland; the call option was eligible for exercise in the first quarter of 2005, but any sale remained subject to certain legal restrictions pursuant to the shareholders' agreement with the city of Espoo. In January 2005, E.ON Nordic received notice from Fortum that Fortum wished to exercise its call option. E.ON Nordic then notified Fortum that E.ON Nordic was not in a position to transfer its shares to Fortum due to statements of the city of Espoo based on the restrictions as contained in the shareholders' agreement. In February 2005, Fortum filed a request for arbitration seeking to enforce its call option. On January 16, 2006, the city of Espoo decided to sell its shares in E.ON Finland to Fortum and to approve E.ON Nordic transferring its shares in E.ON Finland to Fortum. On February 2, 2006, E.ON Nordic and Fortum signed an agreement, whereby Fortum will acquire E.ON Nordic's entire 65.6 percent stake in E.ON Finland for a price of €37.12 per share, corresponding to a total of approximately €380 million. E.ON Nordic currently expects to record an estimated book gain of approximately €25 million on the sale, which is subject to the approval of the Finnish competition authorities. When the transaction is formally completed, the companies will simultaneously terminate the arbitration proceedings related to the transfer of E.ON Finland shares. In conjunction with the acquisition, E.ON and Fortum agreed that Fortum will pay an additional amount of €16 million to E.ON.

E.ON Finland is active in the generation, distribution, marketing and sale of electricity and heat, as well as the supply of gas in Finland, primarily in the Espoo region near Helsinki and in the Joensuu region. In 2005, it had a total installed generation capacity of 196 MW and generated 981 million kWh of electricity. E.ON Finland generated about 36 percent of its electric power at coal-fired power plants and about 35 percent at gas-fired plants in 2005. The remaining 29 percent was generated using biomass and hydroelectric plants. In 2005, E.ON Finland had sales of €269 million. Electricity contributed approximately 62 percent, heat 36 percent, and other 2 percent of 2005 sales. E.ON Finland also has an electricity trading business and traded a total of approximately 36 TWh of electricity in 2005 (including both purchases and sales).

In 2005, E.ON Finland estimated that it supplied about 7 percent of the electricity consumed by end users in Finland.

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.

The following table sets forth the sources and sales channels of electric power in E.ON Nordic's operations during each of 2005 and 2004:

Sources of Power	Total 2005 million kWh	Total 2004 million kWh	% Change
Own generation	34,253	33,110	+3.5
Purchased power from jointly owned power stations	10,398	11,030	–5.7
Power purchased from outside sources	5,921	7,376	–19.7
Total power procured(1)	50,572	51,516	–1.8
Power used for operating purposes, network losses and pump storage	(2,001)	(2,054)	–2.6
Total	48,571	49,462	–1.8
Sales of Power			
Residential customers	8,500	9,132	–6.9
Commercial customers	13,830	14,454	–4.3
Sales partners(2)/Nordpool	26,241	25,876	+1.4
Total(1)	48,571	49,462	–1.8

(1) Excluding physically-settled electricity trading activities. Nordic's physically-settled electricity trading activities (including both purchases and sales) amounted to approximately 44 million kWh in each of 2005 and 2004.

(2) 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 2005, E.ON Nordic procured a total of 50,572 kWh of electricity, including 2,001 kWh used for operating purposes, network losses and pumped storage. E.ON Nordic purchased a total of 10,398 kWh of power from power stations in which it has an interest of 50 percent or less. In addition, E.ON Nordic purchased 5,921 kWh of electricity from other sources, mainly from the Nordpool power exchange. In 2005, own generation volumes increased by approximately 2.1 billion kWh in existing operations, primarily as a result of the higher levels of rainfall during the year. This was partially offset by a decline in nuclear power production of approximately 0.9 billion kWh due to the very high availability in 2004. Sales to residential and commercial customers decreased by approximately 1.3 billon kWh in 2005, mainly due to the January storm and continued strong competition. These negative effects were offset in part by the increase in hydroelectric production, which allowed E.ON Nordic to sell additional power on the Nordpool energy exchange. See "Item 5. Operating and Financial Review and Prospects — Results of Operations — Year Ended December 31, 2005 Compared with Year Ended December 31, 2004 — Nordic."

In 2005, E.ON Nordic supplied approximately 6 percent of the electricity consumed by end users in the Nordic countries.

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 2005 and 2004:

Sources of Gas	Total 2005 million kWh	Total 2004 million kWh	% Change
Long-term gas supply contracts	9,310	9,252	+0.6
Market purchases	281	402	–30.1
Total gas supplied	9,591	9,654	–0.7
Sale and Use of Gas			
Gas used for own generation	2,624	2,539	+3.4
Sales to industrial and distribution customers	6,729	6,963	–3.4
Sales to residential customers	238	152	+56.6
Market sales	0	0	—
Total gas used and sold	9,591	9,654	–0.7

E.ON Sverige purchases gas under long-term gas supply contracts with natural gas importers. Up to November 1, 2004, E.ON Sverige had a long-term contract with Nova Naturgas AB ("Nova Naturgas") for the supply of natural gas. As of November 1, 2004, the contract was transferred to DONG, as a consequence of DONG's acquisition of the supply business of Nova Naturgas. The contract with DONG terminated at the end of September 2005, at which time E.ON Ruhrgas became the sole supplier of natural gas to E.ON Sverige 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 Sverige 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 markets in Sweden and Finland have undergone major and far-reaching changes since the mid-1990s. Electricity market reforms have been instituted in both countries with the goal of increasing efficiency and keeping electricity prices low. 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 Swedish main transmission network, started operating in 1992. The networks were gradually opened to new participants, and legislation providing for competition became effective January 1, 1996. Finland instituted market competition beginning June 1, 1995. In 1997, Finland merged the grid operations of its two companies into a single national grid company, Fingrid.

Today, the key feature of the Swedish and Finnish electricity markets 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. In order to make competition in generation and retail sales possible, 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 Sweden, Finland, Norway and Denmark (the "Nordic countries") is a liquid and transparent commodity market with trading taking place through the Nordic electricity exchange Nordpool. The market participants at Nordpool include power generators, distributors, industrial companies, other end users and portfolio managers. The electricity exchange markets consist of a spot market (delivery in the next 24-hour period), a financial market (contracts of up to four years for longer term hedging) and clearing operations. The current volume of electricity traded at the Nordpool spot market exchange is equal to more than 40 percent of underlying consumption in the Nordic countries. As a result, pricing in the Nordic market has become increasingly efficient, with reduced 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 basis for sales contracts with end customers.

The electricity supply system in the Nordic countries is highly dependent on the hydro power systems in Norway and Sweden. The inflow of water in the two countries is generally well correlated, *i.e.* low inflow in Norway usually coincides with a low inflow in Sweden. On a region-wide basis, this means that hydro power generation varies widely between dry and rainy years. In a normal year, total hydro power generation in the Nordic countries amounts to approximately 190-200 TWh. Hydro power has relatively low variable costs and is therefore the generation source that is the first to be put to use (base load). When the water level of hydro power reservoirs decreases, other sources of power generation have to be put into operation at increasing marginal cost. 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 Nordpool 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, CO_2 emission certificates have had a significant impact on electricity prices also in the Nordic countries. The price of certificates is correlated to fuel prices and to some degree to the hydrology in the Nordic countries as well as in the rest of the EU. In dry years, the demand for CO_2 emission certificates will potentially increase, while a decrease in demand can be expected in wet years. This can markedly increase the volatility of electricity prices.

In 2003, which was a dry year, the total volume of electrical energy generated by hydro power in the Nordic countries was 168 TWh. The system price, *i.e.* the traded price on Nordpool, reached levels of over 120 öre/kWh in the beginning of 2003 and did not drop below 30 öre/kWh until the end of March. Compared to this, prices in earlier years exceeded 30 öre/kWh only on a few occasions. During the summer of 2003, the price decreased to 20 öre/kWh, and then rose to levels between 25 and 30 öre/kWh during the autumn and winter.

In 2004, the total volume of electrical energy generated by hydro power was 183 TWh. In the beginning of 2004, electricity prices in Sweden remained at levels between 25 and 30 öre/kWh. 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 almost 40 öre/kWh. 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 quoted at levels of 22 öre/kWh.

In 2005, which was a wet year, the total volume of electrical energy generated by hydro power in the Nordic countries was 221 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 27 öre/kWh.

Electricity consumption in the Nordic countries decreased during 2002 and 2003, before recovering in 2004. In 2001 there was a demand of 393 TWh, which fell in 2002 to 388 TWh and in 2003 to 380 TWh, with the decrease in demand being due to high electricity prices following the extremely dry autumn of 2002. In 2004 and 2005, electricity consumption recovered to around 390 TWh and 393 TWh, respectively.

In May 2003, the Swedish government introduced an electricity certificate system to support renewable electrical energy. This is a market-based support system in which the price of the electricity certificates is the result of the relationship 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 10 TWh by 2010 as compared with the 2002 level. Electricity certificates are granted by the Swedish government to generators of electricity from 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 customers) to purchase a certain number of certificates in proportion to their consumption. This is known as the quota obligation. During 2004, the average quota obligation amounted to 8.1 percent of electricity consumed. In 2005, the average quota obligation amounted to 10.4 percent. The quota obligation is scheduled to gradually increase up to 16.9 percent in 2010. Any applicable end user who fails to meet this quota obligation must instead pay a quota obligation charge to the Swedish government. The electricity certificate scheme is currently under revision. In July 2005, the government proposed a number of amendments to the relevant law, including an increased level from 10 TWh renewable generation sources to 15 TWh by 2016, a prolongation of the overall support system until 2030 and the creation of a common certificate market with Norway. A new law proposal is expected in spring 2006 and parliament approval in mid-2006. E.ON Nordic believes that the proposed changes will positively affect its existing renewable energy generation sources and significantly reduce the uncertainty for future investments.

E.ON Nordic's main competitors in the Nordic generation market are the Swedish energy company Vattenfall AB ("Vattenfall"), the Finnish utility Fortum and the Norwegian energy company Statkraft. Vattenfall and Fortum are also the main competitors of E.ON Sverige in the Swedish retail market.

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 2005, 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 ten competitors active in the Swedish market, with E.ON Sverige accounting for the distribution and sale of approximately half of all gas distributed and sold in Sweden in 2005. The major competitors in the end customer market are municipally owned companies with customers mainly in the geographic area of their municipality. The most important of those are Göteborgs Energi, Öresundskraft and Lunds Energi. In addition, the Danish gas company DONG competes in the Swedish gas market. See also "— Regulatory Environment."

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 Sverige 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. Similar to Sweden, Finland does not regulate district heating prices or revenues.

Power Generation

General. E.ON Nordic owns interests in electric power generation facilities in Sweden and Finland with a total installed capacity of approximately 14,982 MW, its attributable share of which is approximately 7,570 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 2005, approximately 48 percent of E.ON Nordic's electric output was fuelled by nuclear, 45 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 Sverige or E.ON Finland and the capacity attributable to E.ON Sverige or E.ON Finland for each facility as of December 31, 2005, and their start-up dates.

E.ON NORDIC ELECTRIC POWER STATIONS

Power Plants	Total Capacity Net MW	E.ON Sverige's/E.ON Finland's Share %	E.ON Sverige's/E.ON Finland's Share Attributable Capacity MW	Start-up Date
Nuclear				
Forsmark 1(S)	1,018	9.3	95	1980
Forsmark 2(S)	951	9.3	88	1981
Forsmark 3(S)	1,190	10.8	129	1985
Oskarshamn I(S)	467	54.5	255	1972
Oskarshamn II(S)	602	54.5	328	1974
Oskarshamn III(S)	1,160	54.5	632	1985
Ringhals 1(S)	873	29.6	258	1976
Ringhals 2(S)	870	29.6	258	1975
Ringhals 3(S)	920	29.6	272	1981
Ringhals 4(S)	910	29.6	269	1983
Total	8,961		2,584	
Hydroelectric				
Balforsen(S)	88	100.0	88	1958
Bergeforsen(S)	160	44.0	70	1955
Bjurfors nedre(S)	78	100.0	78	1959
Blasjön(S)	60	50.0	30	1957
Degerforsen(S)	63	100.0	63	1965
Edensforsen(S)	67	96.5	65	1956
Edsele(S)	60	100.0	60	1965
Forsse(S)	52	100.0	52	1968
Gulsele(S)	64	65.0	42	1955
Hällby(S)	84	65.0	55	1970
Hammarforsen(S)	79	100.0	79	1928
Harrsele(S)	223	50.6	113	1957
Hjälta(S)	178	100.0	178	1949
Järnvägsforsen(S)	100	94.9	95	1975
Korselbränna(S)	130	100.0	130	1961
Moforsen(S)	135	100.0	135	1968
Olden (Langan)(S)	112	100.0	112	1974
Pengfors(S)	52	65.0	34	1954
Ramsele(S)	157	100.0	157	1958
Rätan(S)	60	100.0	60	1968
Sollefteaforsen(S)	61	50.0	31	Tba
Stensjön (Harkan)(S)	95	50.0	48	1968
Storfinnforsen(S)	112	100.0	112	1953

Power Plants	Total Capacity Net MW	E.ON Sverige's/E.ON Finland's Share %	Attributable Capacity MW	Start-up Date
Hydroelectric (continued)				
Trangfors(S)	73	100.0	73	1975
Other (<50 MW installed capacity)	874	n/a	811	n/a
Total	3,217		2,771	
Fuel Oil				
Barsebäck GT(S)	84	100.0	84	1974
Bråvalla(S)	240	100.0	240	1972
Halmstad G11(S)	78	100.0	78	1973
Halmstad G12(S)	172	100.0	172	1993
Karlshamn G1(S)	332	70.0	232	1971
Karlshamn G2(S)	332	70.0	232	1971
Karlshamn G3(S)	326	70.0	228	1973
Karskär G4(S)	125	50.0	63	1968
Öresundsverket GT(S)	126	100.0	126	1971
Oskarshamn GT(S)	80	54.5	44	1973
Other (<50 MW installed capacity)	100	n/a	64	n/a
Total	1,995		1,563	
Natural Gas				
Heleneholm G11, G12(S)(CHP)	130	100.0	130	1966+1970
Suomenoja GT(1)(FIN)	50	100.0	50	1989
Total	180		180	
Hard Coal				
Suomenoja(1)(FIN)	80	100.0	80	1977
Wind Power				
Sweden	19	n/a	19	n/a
Denmark	166	n/a	33	n/a
Total	185		52	
Other Power Plants				
Abyverket G1, G2, G3(S)(CHP)	151	100.0	151	1962-1974
Händelö (Norrköping)(S)(CHP)	100	100.0	100	1983
Joensuu Bio(1)(FIN)	65	100.0	65	1986
Karskär G3(S)	48	50.0	24	1968
Total	364		340	
Shutdown				
Barsebäck 1(S)(Nuclear)	—	25.8	—	1975
Barsebäck 2(S)(Nuclear)	—	25.8	—	1977
Total	**14,982**		**7,570**	

(1) Power plant of E.ON Finland.

(FIN) Located in Finland.

(S) Located in Sweden.

(CHP) Combined Heat and Power Generation.

E.ON Nordic's total attributable capacity decreased by 401 MW compared with 2004 mostly due to the sale of hydroelectric power plants to Statkraft (see "— Overview — E.ON Sverige" above).

Following receipt of the necessary approvals, E.ON Sverige plans to build a new gas-fired CHP plant in the Swedish city of Malmö. 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 has started in 2005. Pending receipt of thenecessary approvals, E.ON Sverige expects that all major efficiency improvements will have been carried out by 2010.

Nuclear Power. In Sweden, E.ON Sverige operates three nuclear power plants (Oskarshamn I — III), which provided 50 percent of its total power output in 2005 (48 percent of E.ON Nordic's total power output in 2005). In addition, E.ON Sverige holds minority participations in all other Swedish nuclear power reactors. E.ON Sverige 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 production cost. E.ON Finland does not own an interest in or operate any nuclear power plants.

E.ON Sverige'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 controlled 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 Sverige expects that a decision will be taken on where the deep repository is to be built by 2010, with the first nuclear waste expected to be stored there by 2017.

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 Sverige has one nuclear reactor, Barsebäck 1, which was closed under this law in 1999 and for which E.ON Sverige received compensation. Beginning in 2002, the Swedish government appointed a special negotiator whose task was to negotiate with the Swedish energy industry on behalf of the government, with the aim of reaching an agreement about a sustainable policy for the energy system.

In September 2004, these negotiations were unilaterally abandoned by the Swedish government. At the same time, the government has opted for the phase-out of the nuclear reactor block Barsebäck 2, which was subsequently shut down in May 2005. The effect of a possible phase-out of Barsebäck 2 on E.ON Sverige had already been taken into account in the agreement when Barsebäck 1 was shut down in 1999. Based on this, a final agreement concerning the compensation for the closure of Barsebäck 2 was entered into in November 2005 between E.ON Sverige, the Swedish government and the state-owned Swedish utility Vattenfall. The main component of the agreement is that E.ON Sverige gets an increased shareholding in the Swedish nuclear power generator Ringhals AB. This will give E.ON Sverige approximately the same production capacity as before the closure of Barsebäck 2.

Overall, there is deemed to be no effect on the balance sheet or profits of E.ON Sverige due to the premature closure of Barsebäck 1 or 2. As of today, E.ON Sverige 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 E.ON Sverige will need to shut down other nuclear power plants 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 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. Expenses for other low and intermediate-level operational nuclear waste have to be directly covered by the nuclear operators. For this purpose, E.ON Sverige has made provisions totaling €7.1 million as of December 31, 2005.

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. E.ON Sverige expects that the change will increase its related tax expense by €47 million in 2006.

E.ON Sverige purchases fuel elements for nuclear power plants from international suppliers. E.ON Sverige considers the supply of uranium and fuel elements on the world market to be adequate.

Hydroelectric. In Sweden, E.ON Sverige operates 115 hydroelectric power plants, which provided 46 percent of its total power output in 2005 (45 percent of E.ON Nordic's total power output in 2005). In addition, E.ON Finland operates one minor hydroelectric plant. 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. In periods of severe water shortages, such as occurred in late 2002 and early 2003 E.ON Sverige must purchase electricity which cannot be generated at these plants from the market in order to meet contractual commitments. Conversely, following periods of high precipitation E.ON Sverige is able to generate more electricity than it needs to meet its commitments, and is therefore able to sell excess electricity to its sales partners or on the market. 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."

Hydroelectric power plants in Sweden are subject to real estate taxes, which were increased in 2005. E.ON Sverige expects that its related tax expense will increase by €28 million in 2006 and rise further in 2007 due to a revaluation of the 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 2005. 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. E.ON Nordic believes it has adequate sources of power to meet foreseeable increases in demand, whether seasonal or otherwise.

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. In September 2003, a blackout in parts of Sweden and Denmark was caused by a combination of a fault in the transmission grid and a failure at the power plant Oskarshamn (which is 54.5 percent owned by E.ON Sverige) that occurred when the plant was being returned to service following routine maintenance. The power plant restarted in November 2003 following a comprehensive investigation and analysis. No serious consequences arose from the shutdown. 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 the market. 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.

Electricity Distribution

E.ON Nordic and its associated companies are actively involved in electricity distribution activities in both Sweden and Finland.

In Sweden, the high voltage electricity grid is managed by Svenska Kraftnät, a company owned by the Swedish government. Mid-voltage electricity is transmitted through a regional distribution network with a length of around 40,000 km, of which E.ON Sverige 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 Sverige. The length of the total local network for Sweden is about 550,000 km, of which E.ON Sverige 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 Sverige's distribution grid, which in some areas was destroyed. For details, including the cost incurred by E.ON Sverige, see "— Overview." Following this storm, E.ON Sverige 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 will be on cabling insulated overhead lines in the local networks and securing broader "right of way" corridors in the regional networks. E.ON Sverige expects that this will markedly reduce its exposure to weather-related damage in the future.

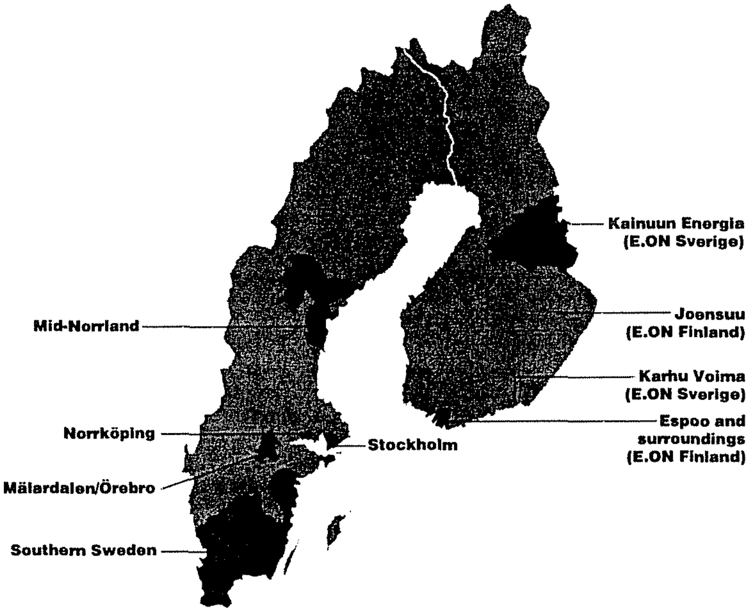
The electricity grid in Sweden is linked to the power transmission grids in Norway, Finland and Denmark. In addition, the Baltic Cable links the Swedish transmission grid to the grid of E.ON Energie in Germany. The Baltic Cable is one of the longest (250 km) direct current submarine cables in the world, with a designed capacity of 600 MW. E.ON Sverige owns one-third of the cable, with the remaining two-thirds owned by the Norwegian utility Statkraft.

In 2005, E.ON Sverige'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 Sverige also owns and operates local power distribution grids in Finland through Kainuun Energia Oyj (54,300 customers in western Finland), with a length of 12,470 km, and Karhu Voima Oyj (16 industrial customers in southwest Finland), with a length of 68 km.

The power distribution grid of E.ON Finland is located in the areas of Espoo and Joensuu. The grid has a system length of approximately 7,000 km. In 2005, E.ON Finland's distribution grid served approximately 162,000 customers.

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 Sverige and E.ON Finland may choose other retail suppliers and E.ON Sverige and E.ON Finland may sell electricity to customers not covered by their own power transmission grids. For information on grid access, see "— Regulatory Environment — Nordic."

Gas Distribution

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 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, a consortium in which E.ON Ruhrgas holds a 29.6 percent interest. E.ON Sverige 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 Sverige has an underground gas storage facility in Getinge with a working capacity of 8.5 million m^3 and a maximum withdrawal rate of 40 thousand m^3/hour. In 2005, E.ON Sverige transported a total of 6.9 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. E.ON Nordic is participating in the Baltic Gas Interconnector project promoting the construction of a pipeline between Germany, Sweden and Denmark. During 2004, E.ON Sverige was granted the Swedish concession for this project. The authorization processes in Germany and Denmark are ongoing.

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 and in Finland. In addition, E.ON Nordic sells electricity, heat and natural gas in Denmark.

Electricity. As of December 31, 2005, E.ON Sverige supplied electricity to approximately 850,000 electricity customer accounts in Sweden and to a minor degree in Denmark. Through its subsidiaries Kainuun Energia Oyj and Karhu Voima Oyj, E.ON Sverige supplied approximately 71,000 customers in Finland. Although the majority of E.ON Sverige's customer accounts are with residential customers, the majority of its sales are made to commercial customers. E.ON Sverige sold a total of 19.7 TWh of electricity in 2005, of which 7.0 TWh was delivered to residential customers and 12.7 TWh was delivered to commercial customers (including municipal distributors). E.ON Sverige's electricity customers are concentrated in the south of Sweden, the areas of Stockholm, Örebro and Norrköping, as well as in the Mid-Norrland region, although E.ON Sverige potentially serves customers throughout Sweden.

E.ON Finland's electricity sales operations cover all of Finland, although its customers are mainly located in the Espoo region. As of December 31, 2005, E.ON Finland supplied electricity to approximately 165,000 electricity customer accounts. In 2005, E.ON Finland sold electricity totaling 2.7 TWh, of which 1.5 TWh was sold to residential customers and 1.2 TWh was sold to commercial customers. E.ON Finland does not sell electricity to distributors.

Gas. In the Swedish gas market, E.ON Sverige supplied approximately 25,000 customers with gas in 2005. 6.1 TWh were delivered to large industrial and (mostly municipal) distribution customers, and 0.2 TWh were delivered to residential customers. E.ON Sverige also supplied a small amount of gas in Denmark in 2005.

E.ON Sverige also supplied 0.6 TWh of gas to eight industrial customers in Finland.

E.ON Finland sold 45 GWh of gas to 166 industrial customers in 2005. Overall, natural gas consumption in Finland is very limited in the residential customer sector. The main users of gas in Finland are power plants and the paper and pulp industry.

Heat & Waste. E.ON Sverige sells heating, including district heating, to approximately 18,000 customers in Sweden and Denmark. In 2005, sales of district heating in Sweden amounted to 6.2 TWh. In Denmark, 2005 sales amounted to 1.4 TWh. In addition, in 2005 E.ON Sverige sold a *de minimis* amount of heat in Poland. E.ON Finland's district heating operations are concentrated in the area of Espoo. E.ON Finland served a total of approximately 7,600 customers in 2005, delivering 2.5 TWh of heat.

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 2005, E.ON Sverige's waste activities had combined sales of €52 million. Waste volumes handled amounted to approximately 453,000 tons.

Other Activities. E.ON Nordic provides distribution network and other services primarily in Sweden through E.ON Sverige's subsidiary ElektroSandberg AB. E.ON Sverige Bredband AB is active in the broadband communications business.

Trading

E.ON Nordic conducts its energy trading activities through E.ON Sverige and E.ON Finland. The focus is on electricity trading on the Nordpool exchange but does to a lesser extent include other commodities such as oil, natural gas, CO_2 emission certificates and propane.

E.ON Sverige and E.ON Finland use energy trading to optimize the value of and manage risks associated with their energy portfolios. E.ON Sverige 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 2005 and 2004.

Trading of Power	2005 million kWh	2004 million kWh	% Change
Power sold	53,503	56,758	–5.7
Power purchased	56,225	48,764	+15.3
Total	109,728	105,522	+4.0

The major part of realized trading volumes is usually contracted in the year prior to realization. Trading volumes increased compared to 2004, which was affected by the extremely high spot and forward prices in the beginning of 2003.

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 pursuant to bilateral contracts with wholesale customers on negotiated terms. 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, 2005, E.ON U.S. owned or controlled aggregate generating capacity of approximately 7,700 MW, including E.ON U.S.'s interest in independent power plants of 105 MW in North Carolina, which is the subject of a pending sale agreement. See "— Non-regulated Businesses." E.ON U.S.'s 50 percent interest in a 550 MW Texas plant was sold in January 2005. In 2005, E.ON U.S. served more than one million customers. The U.S. Midwest market unit recorded sales of €2,045 million in 2005 and adjusted EBIT of €365 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 2005, 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 96 percent of E.ON U.S.'s revenues in 2005 (82 percent electricity, 18 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 4 percent of E.ON U.S.'s sales in 2005, is primarily comprised of the operations of E.ON U.S. Capital Corp. (formerly LG&E Capital Corp.) ("ECC") and LG&E Energy Marketing Inc. ("LEM").

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 begun discussing re-regulation. To better support a competitive industry, federal regulators are transforming the manner in which the electric transmission grid is operated. Transmission owning entities are being strongly 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 62 percent of E.ON U.S.'s total revenues in 2005. 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 2005, 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 total revenues in each of 2005 and 2004.

Over the past decade, E.ON U.S. has taken steps to keep its rates low while maintaining 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 394,000 customers and supplies natural gas to approximately 321,000 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 SO_2 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, 2005, LG&E owned steam and combustion turbine generating facilities with an attributable capacity of 3,105 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 495,000 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 fewer than 10 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- and oil-fired combustion turbines (approximately 3 percent) and a hydroelectric facility. As of December 31, 2005, KU owned steam and combustion turbine generating facilities with an attributable capacity of 4,433 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, 2005, and their start-up dates.

LG&E'S AND KU'S ELECTRIC POWER STATIONS

Power Plants	Total Capacity Net MW	E.ON U.S.'s Share %	E.ON U.S.'s Share Attributable Capacity MW	Start-up Date
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
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)	511	75.0	383	1990
Tyrone 3(2)	71	100.0	71	1953
Total	5,422		5,294	
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

Power Plants	Total Capacity Net MW	E.ON U.S.'s Share %	E.ON U.S.'s Share Attributable Capacity MW	Start-up Date
Natural Gas (continued)				
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 12(1)	23	100.0	23	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
Waterside 7(1)	11	100.0	11	1964
Waterside 8(1)	11	100.0	11	1964
Zorn 1(1)	14	100.0	14	1969
Total	2,186		2,186	
Oil				
Tyrone Unit 1(2)	27	100.0	27	1947
Tyrone Unit 2(2)	31	100.0	31	1948
Total	58		58	
Hydroelectric				
Dix Dam(2)	24	100.0	24	1925
Ohio Falls(1)	48	100.0	48	1928
Total	72		72	
E.ON U.S. Regulated Business Total	**7,738**		**7,610**	
Shutdown				
Green River 1(2)	22	100.0	22	1950
Green River 2(2)	22	100.0	22	1950
Total	44		44	

(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 2005. The remainder of 2005 net generation was produced by natural gas- and oil-fueled combustion turbine peaking units (approximately 2 percent) and hydroelectric plants. E.ON

U.S. has no nuclear generating units and coal will 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 2006 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 2000.

LG&E purchases natural gas transportation services from Texas Gas Transmission, LLC and Tennessee Gas Pipeline Company. 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 4.4 TWh in 2005. Although the companies do not conduct proprietary or speculative trading, certain energy trading activities are accounted for on a mark-to-market basis in accordance with SFAS No. 133. Wholesale sales of excess asset capacity in the MISO day-ahead and real-time markets (as defined below) are treated as normal sales under SFAS No. 133 and are not marked-to-market.

Transmission

E.ON U.S.'s utility subsidiaries LG&E and KU operate 4,930 miles of transmission line. They participate as transmission owning members of the Midwest Independent Transmission System Operator, Inc. ("MISO"), which commenced commercial operations in February 2002. The MISO implemented a day-ahead and real-time market ("MISO Day 2"), including a congestion management system, in April 2005. The Federal Energy Regulatory Commission ("FERC") and the United States Courts of Appeals have generally affirmed the MISO's imposition of certain of its administrative, congestion management and other regional market-related costs on market participants and users of the system, including native load customers, resulting in increased costs for LG&E and KU. LG&E and KU continue to participate in proceedings before the FERC, the federal courts in Washington D.C. and the KPSC, challenging the imposition of various costs on native load customers and seeking authorizations to exit the MISO regime, as described below under "— Regulatory Environment — U.S. Midwest."

For additional information about transmission developments, including additional proceedings, see "— Regulatory Environment — U.S. Midwest."

At this time, LG&E and KU cannot predict the outcome or effects of the various KPSC and FERC proceedings described above, including whether such proceedings will have a material impact on their financial condition or results of operations. Further, the ultimate financial consequences for E.ON U.S. (primarily changes in transmission revenues and costs) associated with the April 2005 implementation of day-ahead and real-time market tariff charges are subject to varying assumptions and calculations and are therefore difficult to estimate.

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 less than 10 customers in Tennessee. In 2005, LG&E's total electric retail sales to residential, commercial and industrial customers were 11.0 billion kWh and its total aggregate electric sales, including off-system sales, were 16.1 billion kWh. In 2005, KU's total electric retail sales to residential, commercial and industrial customers were 16.5 billion kWh and its total aggregate electric sales were 21.6 billion kWh.

The following table sets forth LG&E's and KU's sale of electric power for the periods presented:

Sales of Electric Power to	Total 2005 million kWh	Total 2004 million kWh
Residential	10,864	10,084
Commercial and industrial customers	16,684	16,276
Municipals	2,014	1,959
Other retail	3,720	3,576
Off-system sales	4,434	4,199
Total	37,716	36,094

The gas retail activities of LG&E are limited to its service territory in Kentucky. In 2005, LG&E's total retail gas sales were 10.8 billion kWh (2004: 10.2 billion kWh) and its total aggregate gas sales (including gas transportation volumes and wholesale sales) were 14.6 billion kWh (2004: 14.7 billion kWh).

On June 30, 2004, the KPSC approved electric and gas base rate changes at LG&E and KU that increased these rates by an aggregate of approximately $100 million per year. The new rates became effective on July 1, 2004. For details, including pending regulatory challenges, see "— Regulatory Environment — U.S. Midwest."

Non-regulated Businesses

ECC. ECC is the primary holding company for E.ON U.S.'s non-regulated businesses discussed below. Its businesses include domestic power generation and wholesale sales, international operations, and pipeline services.

Argentine Gas Distribution Operations. ECC owns 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.

LPI. LG&E Power Inc. ("LPI"), a wholly-owned subsidiary of ECC, and its affiliates own, operate and maintain interests in U.S. independent power generation facilities. LG&E Power Services LLC ("LPS"), an affiliate of LPI, operates four facilities in the United States under medium-term operating contracts with independent third parties. LPI also has a 50 percent ownership interest in a 209 MW coal-fired facility in North Carolina and operates that facility under a medium-term operating contract with a utility. 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. LPI has also entered into a contract to sell its share of the facility in North Carolina, which sale process has been in litigation concerning third party consent or first refusal rights. Negotiations seeking to resolve the litigation and agreeing on a revised sale contract for the North Carolina facility, which would also include the sale of all of the assets of LPS, are progressing and it is possible that the transaction may be completed in the first half of 2006. However, no assurance can be given that the sale or the disposal of LPI's or LPS's remaining assets will be completed as planned.

LEM. Effective June 30, 1998, LEM discontinued its merchant energy trading and sales business. This business consisted primarily of a portfolio of energy marketing contracts entered into in 1996 and early 1997, including a long-term contract with Oglethorpe Power Corporation which terminated at the end of 2004, nationwide deal origination and some level of proprietary trading activities, which were not directly supported by E.ON U.S.'s physical assets. E.ON U.S.'s decision to discontinue these operations was primarily based on the impact that volatility and rising prices in the power market had on its portfolio of energy marketing contracts. As of December 31, 2005, E.ON U.S. has completed settlement of all commitments entered into during this period.

OTHER ACTIVITIES

Degussa

Overview

Degussa is one of the major specialty chemical companies in the world. In May 2002, E.ON reached a definitive agreement with RAG to sell a portion of E.ON's majority interest in Degussa to RAG and to acquire RAG's more than 18 percent interest in E.ON Ruhrgas in a two step transaction. In late January 2003, E.ON completed the first step of the RAG/Degussa transaction by acquiring RAG's Ruhrgas stake and tendering 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 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. The shares of Degussa AG are listed on the Frankfurt Stock Exchange and are part of the MDAX, the performance index of 50 German mid-cap companies. In the second step, E.ON sold a further 3.6 percent of Degussa stock to RAG as of May 31, 2004. Effective June 1, 2004, E.ON owns 42.9 percent of Degussa. 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 at the price of €31.50 per share, which would result in total proceeds of €2.8 billion. The transaction, which is subject to the approval of the German federal government and the state of North-Rhine Westphalia, is expected to be completed by July 1, 2006. Until completion of this transaction, E.ON and RAG operate Degussa under joint control.

Since the first step of the RAG/Degussa transaction was completed, E.ON accounts for Degussa using the equity method. For all periods from February 1, 2003 until May 31, 2004, E.ON recorded 46.5 percent of Degussa's after-tax earnings in its financial earnings. From June 1, 2004, E.ON records 42.9 percent of Degussa's after-tax earnings in its financial earnings. For 2005, Degussa contributed adjusted EBIT of €132 million.

Operations

Degussa's strategic management responsibilities lie with its board of management, while responsibility for management at the operational level rests with Degussa's decentralized business units, each of which is grouped into one of Degussa's core divisions. The following chart sets forth Degussa's divisions divided into business units:

DEGUSSA

Technology Specialists	Construction Chemicals	Consumer Solutions	Specialty Materials
Building Blocks	Admixture Systems Europe	Superabsorber	Coatings & Colorants
Exclusive Synthesis & Catalysts	Admixture Systems North America	Care & Surface Specialties	High Performance Polymers
C_4-Chemistry	Admixture Systems Asia/Pacific	Feed Additives	Methacrylates
Aerosil & Silanes	Construction Systems Europe		Specialty Acrylics
Advanced Fillers & Pigments	Construction Systems Americas		

In March 2006, Degussa announced that it had reached an agreement to sell the activities of its Construction Chemicals division to BASF. The transaction, which is subject to regulatory approvals, is expected to close before the end of the year. All other activities are grouped as non-core businesses or services/development units and are not shown in the table above.

DISCONTINUED OPERATIONS

In 2002 and 2001, the Company discontinued the operations of its former oil segment and of its former aluminum and silicon wafer segments, 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 Central Europe and U.S. Midwest market units, 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. 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. The disposal of VEBA Oel resulted in a loss from discontinued operations net of income taxes of €37 million in 2003. 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.

Silicon Wafers

On September 30, 2001, E.ON agreed to sell its 71.8 percent interest in MEMC (then a worldwide manufacturer of silicon wafers for the semiconductor device industry) to Texas Pacific Group, a San Francisco-based financial investor, for a symbolic price, which included the assumption of shareholder loans made by E.ON. The transaction was completed on November 13, 2001. In September 2003, the purchase price was adjusted, as provided for in the purchase agreement, because MEMC had substantially improved its earnings performance in 2002. This purchase price adjustment resulted in income from discontinued operations net of income taxes and minority interests for E.ON of €14 million.

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 Mabanaft GmbH ("Mabanaft"). 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 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to €681 million. For the portion of 2003 prior to their disposition, Viterra Energy Services and Viterra Contracting had combined revenues of €202 million. In 2004, the release of previously recorded provisions resulted in income in the amount of €10 million, which is recorded in the same line item.

On May 17, 2005, E.ON sold Viterra (then one of Germany's largest private owners of residential property) to 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.

Other

As a legal condition for E.ON's acquisition of Ruhrgas, E.ON Energie was required to dispose of its 80.5 percent shareholding in Gelsenwasser, which then provided drinking water, industrial water, natural gas and other utility services in Germany. In September 2003, a joint venture company owned by the municipal utilities of the German cities of Dortmund and Bochum purchased the Gelsenwasser interest for €835 million. The portion of Gelsenwasser's 2003 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to €479 million. In 2003, Gelsenwasser had revenues of €295 million. E.ON realized a gain on disposal of €418 million.

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 each of 2005 and 2003. E.ON realized no gain or loss on the disposal. In 2003, CRC-Evans had revenues of €73 million.

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.

In November 2005, E.ON U.S. entered into a letter of intent with Big Rivers Electric Corporation ("BREC"), a power generation cooperative in western Kentucky, regarding a proposed transaction to terminate the lease and operational agreements for nine coal-fired and one oil-fired electricity generation units in western

Kentucky among the parties, which were held through its wholly-owned subsidiary Western Kentucky Energy Corp. and affiliates ("WKE"). The parties are in the process of negotiating definitive agreements regarding the transaction, the closing of which would be subject to 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 by the end of 2006. WKE was classified as a discontinued operation at the end of December 2005. The portion of WKE's 2005 and 2004 results included in "Income (Loss) from discontinued operations, net" in E.ON's Consolidated Statements of Income amounted to a loss of €162 million and €2 million, respectively.

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

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 CO_2 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 became 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,