

E ON AG
Form 20-F
March 07, 2007

Table of Contents

As filed with the Securities and Exchange Commission on March 7, 2007.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
 **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: **December 31, 2006**

- OR**
**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
OR
 **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _____.

For the transition period from ____ to ____

Commission file number: **1-14688**

E.ON AG
(Exact name of Registrant as specified in its charter)
E.ON AG
(Translation of Registrant's name into English)

Federal Republic of Germany

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, 2006, 659,597,269 outstanding Ordinary Shares with no par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

* Not for trading, but only in connection with the registration of American Depositary Shares.

Table of Contents

As used in this annual report,

E.ON, the Company, the E.ON Group or the Group refers to E.ON AG and its consolidated subsidiaries.

VEBA refers to VEBA AG and its consolidated subsidiaries prior to its merger with VIAG AG and the name change from VEBA AG to E.ON AG. VIAG or the VIAG Group refers to VIAG AG and its consolidated subsidiaries prior to its merger with VEBA.

PreussenElektra refers to PreussenElektra AG and its consolidated subsidiaries, which merged with Bayernwerk AG and its consolidated subsidiaries to form E.ON's German and continental European energy business in the Central Europe market unit consisting of E.ON Energie AG and its consolidated subsidiaries (E.ON Energie).

E.ON Ruhrgas refers to E.ON Ruhrgas AG (formerly Ruhrgas AG or Ruhrgas) and its consolidated subsidiaries, which collectively comprise E.ON's gas business in the Pan-European Gas market unit.

E.ON UK refers to E.ON UK plc (formerly Powergen UK plc or Powergen) and its consolidated subsidiaries, which collectively comprise E.ON's U.K. energy business in the U.K. market unit. Until December 31, 2003, Powergen and its consolidated subsidiaries, including LG&E Energy LLC (LG&E Energy), which was held by Powergen until its transfer to a direct subsidiary of E.ON AG in March 2003, formed E.ON's former Powergen division (Powergen Group).

E.ON Sverige refers to E.ON Sverige AB (formerly Sydkraft AB or Sydkraft) and its consolidated subsidiaries, and E.ON Finland refers to E.ON Finland Oyj (E.ON Finland) and its consolidated subsidiaries, which collectively comprised E.ON's Nordic energy business in the Nordic market unit until the disposal of E.ON Finland.

E.ON U.S. refers to E.ON U.S. LLC (formerly LG&E Energy) and its consolidated subsidiaries, which collectively comprise E.ON's U.S. energy business in the U.S. Midwest market unit. Until December 31, 2003, E.ON U.S. formed the U.S. business of the Powergen Group.

Viterra refers to Viterra AG and its consolidated subsidiaries, which collectively comprised E.ON's real estate business in the other activities segment.

Degussa refers to Degussa AG and its consolidated subsidiaries, which collectively comprised E.ON's chemicals business in the other activities segment.

VEBA Oel refers to VEBA Oel AG and its consolidated subsidiaries, which collectively comprised E.ON's former oil division.

VAW refers to VAW aluminium AG and its consolidated subsidiaries, which collectively comprised E.ON's former aluminum division.

Unless otherwise indicated, all amounts in this annual report are expressed in European Union euros (euros or EUR or), United States dollars (U.S. dollars or dollars or \$), British pounds (GBP), Swedish krona (SEK) or Swedish kronor (öre). Amounts stated in dollars, unless otherwise indicated, have been translated from euros at an assumed rate solely for convenience and should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. Unless otherwise stated, such dollar amounts have

been translated from euros at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 29, 2006, which was \$1.3197 per 1.00. Such rate may differ from the actual rates used in the preparation of the consolidated financial statements of E.ON as of December 31, 2006, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2006, included in Item 18 of this annual report (the Consolidated Financial Statements), which are expressed in euros, and, accordingly, dollar amounts appearing in this annual report may differ from the actual dollar amounts that were translated into euros in the preparation of such financial statements. For information regarding recent rates of exchange, see Item 3. Key Information Exchange Rates.

Beginning in 2000, E.ON has prepared its financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP). Formerly, the Company prepared its financial statements

Table of Contents

in accordance with generally accepted accounting principles in Germany as prescribed by the German Commercial Code (*Handelsgesetzbuch*, the Commercial Code) and the German Stock Corporation Act (*Aktiengesetz*, the Stock Corporation Act). Sales and adjusted EBIT presented in this annual report for each of E.ON's segments are based on the consolidated accounts of the E.ON Group as shown in Note 31 (Segment Information) of the Notes to Consolidated Financial Statements under the captions External sales and Adjusted EBIT and are presented prior to the elimination of intersegment transactions. Adjusted EBIT is the measure pursuant to which the Group has evaluated the performance of its segments and allocated resources to them since 2004. Adjusted EBIT is an adjusted figure derived from income/(loss) from continuing operations (before intra-Group eliminations when presented on a segment basis) before income taxes and minority interests, excluding interest income. Adjustments include net book gains resulting from disposals, as well as cost-management and restructuring expenses and other non-operating earnings of an exceptional nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions and nuclear waste management is allocated to adjusted interest income. E.ON uses adjusted EBIT as its segment reporting measure in accordance with Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). However, on a consolidated Group basis adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. For a reconciliation of Group adjusted EBIT to net income for each of 2006, 2005 and 2004, see Item 5. Operating and Financial Review and Prospects Results of Operations Business Segment Information. Adjusted EBIT should not be considered in isolation as a measure of E.ON's profitability and should be considered in addition to, rather than as a substitute for, the most directly comparable U.S. GAAP measures. In particular, there are material limitations associated with the use of adjusted EBIT as compared with such U.S. GAAP measures, including the limitations inherent in E.ON's determination of each of the adjustments noted above. E.ON seeks to compensate for those limitations by providing a detailed reconciliation of adjusted EBIT to income from continuing operations before income taxes and minority interests and net income, the most directly comparable U.S. GAAP measures, in the section of Item 5 noted above, as well as the more detailed textual analysis of year-on-year changes in the key components of each of the reconciling items appearing under the caption Reconciliation of Adjusted EBIT in Item 5. Operating and Financial Review and Prospects Results of Operations Business Segment Information, Year Ended December 31, 2006 Compared with Year Ended December 31, 2005 and Year Ended December 31, 2005 Compared with Year Ended December 31, 2004. As a result of these limitations and other factors, adjusted EBIT as used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

E.ON has calculated operating data for Group companies appearing in this annual report using actual amounts derived from Group books and records. The Company has obtained market-related data such as the market position of Group companies from publicly available sources such as industry publications. The Company has relied on the accuracy of information from publicly available sources without independent verification, and does not accept any responsibility for the accuracy or completeness of such information.

This annual report contains certain forward-looking statements and information relating to the E.ON Group that are based on beliefs of its management, as well as assumptions made by and information currently available to E.ON. When used in this document, the words anticipate, believe, estimate, expect, intend, plan and project and similar expressions, as they relate to the E.ON Group or its management, are intended to identify forward-looking statements. Such statements reflect the current views of E.ON with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the E.ON Group to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, introduction of competing products by other companies, lack of acceptance of new products or services by the Group's targeted customers, changes in business strategy, lack of successful completion of planned acquisitions and dispositions and/or the realization of expected benefits and various other factors, both referenced and not referenced in this annual report. Should one or more of

these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this annual report as anticipated, believed, estimated, expected, intended, planned or projected. E.ON does not intend, and does not assume any obligation, to update these forward-looking statements.

Table of Contents

(This page intentionally left blank)

Table of Contents**TABLE OF CONTENTS****PART I**

<u>Item 1.</u>	<u>Identity of Directors, Senior Management and Advisers</u>	1
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>	1
<u>Item 3.</u>	<u>Key Information</u>	1
	<u>SELECTED FINANCIAL DATA</u>	1
	<u>DIVIDENDS</u>	2
	<u>EXCHANGE RATES</u>	3
	<u>RISK FACTORS</u>	4
<u>Item 4.</u>	<u>Information on the Company</u>	14
	<u>HISTORY AND DEVELOPMENT OF THE COMPANY</u>	14
	<u>VEBA-VIAG MERGER</u>	15
	<u>POWERGEN GROUP ACQUISITION</u>	15
	<u>RUHRGAS ACQUISITION</u>	16
	<u>PROPOSED ENDESA ACQUISITION</u>	17
	<u>GROUP STRATEGY</u>	32
	<u>OTHER SIGNIFICANT EVENTS</u>	34
	<u>CAPITAL EXPENDITURES</u>	34
	<u>BUSINESS OVERVIEW</u>	34
	<u>INTRODUCTION</u>	34
	<u>CENTRAL EUROPE</u>	37
	<u>PAN-EUROPEAN GAS</u>	55
	<u>U.K.</u>	72
	<u>NORDIC</u>	81
	<u>U.S. MIDWEST</u>	93
	<u>DISCONTINUED OPERATIONS</u>	99
	<u>REGULATORY ENVIRONMENT</u>	101
	<u>ENVIRONMENTAL MATTERS</u>	120
	<u>OPERATING ENVIRONMENT</u>	126
	<u>ECONOMIC BACKGROUND</u>	127
	<u>RISK MANAGEMENT</u>	128
	<u>ORGANIZATIONAL STRUCTURE</u>	129
	<u>PROPERTY, PLANTS AND EQUIPMENT</u>	129
	<u>GENERAL</u>	129
	<u>PRODUCTION FACILITIES</u>	129
	<u>INTERNAL CONTROLS</u>	131
<u>Item 4A.</u>	<u>Unresolved Staff Comments</u>	131
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>	131
	<u>OVERVIEW</u>	131
	<u>ACQUISITIONS AND DISPOSITIONS</u>	132
	<u>CRITICAL ACCOUNTING POLICIES AND ESTIMATES</u>	138
	<u>NEW ACCOUNTING PRONOUNCEMENTS</u>	144
	<u>RESULTS OF OPERATIONS</u>	144

Table of Contents

	<u>BUSINESS SEGMENT INFORMATION</u>	144
	<u>YEAR ENDED DECEMBER 31, 2006 COMPARED WITH YEAR ENDED DECEMBER 31, 2005</u>	146
	<u>YEAR ENDED DECEMBER 31, 2005 COMPARED WITH YEAR ENDED DECEMBER 31, 2004</u>	159
	<u>INFLATION</u>	170
	<u>EXCHANGE RATE EXPOSURE AND CURRENCY RISK MANAGEMENT</u>	170
	<u>LIQUIDITY AND CAPITAL RESOURCES</u>	171
	<u>RESEARCH AND DEVELOPMENT</u>	178
	<u>TREND INFORMATION</u>	178
	<u>PROCESS OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS</u>	178
	<u>OFF-BALANCE SHEET ARRANGEMENTS</u>	179
	<u>CONTRACTUAL OBLIGATIONS</u>	181
<u>Item 6.</u>	<u>Directors, Senior Management and Employees</u>	182
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>	196
<u>Item 8.</u>	<u>Financial Information</u>	197
	<u>CONSOLIDATED FINANCIAL STATEMENTS</u>	197
	<u>LEGAL PROCEEDINGS</u>	197
	<u>DIVIDEND POLICY</u>	198
	<u>SIGNIFICANT CHANGES</u>	198
<u>Item 9.</u>	<u>The Offer and Listing</u>	198
<u>Item 10.</u>	<u>Additional Information</u>	201
	<u>MEMORANDUM AND ARTICLES OF ASSOCIATION</u>	201
	<u>MATERIAL CONTRACTS</u>	211
	<u>EXCHANGE CONTROLS</u>	212
	<u>TAXATION</u>	212
	<u>DOCUMENTS ON DISPLAY</u>	215
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	215
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	221
	<u>PART II</u>	
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	221
<u>Item 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	221
<u>Item 15.</u>	<u>Controls and Procedures</u>	221
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	222
<u>Item 16B.</u>	<u>Code of Ethics</u>	222
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	222
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	224
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	224
	<u>PART III</u>	
<u>Item 17.</u>	<u>Financial Statements</u>	225
<u>Item 18.</u>	<u>Financial Statements</u>	225
<u>Item 19.</u>	<u>Exhibits</u>	225
	<u>English Translation of the Articles of Association</u>	
	<u>Certification of CEO Pursuant to Section 302</u>	
	<u>Certification of CFO Pursuant to Section 302</u>	
	<u>Certification Pursuant to Section 906</u>	

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, 2006 have been excerpted from or are derived from the Consolidated Financial Statements of E.ON as of and for the period ended December 31, 2006, 2005, 2004, 2003 and 2002, respectively.

The selected financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Consolidated Financial Statements and the Notes to Consolidated Financial Statements.

	2006(1)	2006	Year Ended December 31, 2005 2004		2003	2002
			(in millions, except share amounts)			
Statement of Income Data:						
Sales	\$ 89,422	67,759	56,141	46,489	44,839	35,133
Sales excluding electricity and natural gas taxes(2)	84,721	64,197	51,616	42,150	39,953	34,200
Income/(Loss) from continuing operations before income taxes	6,774	5,133	7,152	6,332	5,204	(1,013)
Income/(Loss) from continuing operations after income taxes(3)	7,200	5,456	4,891	4,480	4,051	(324)
Income/(Loss) from continuing operations	6,506	4,930	4,355	4,011	3,602	(949)
Income/(Loss) from discontinued operations(4)	168	127	3,059	328	1,485	3,535
Net income	6,674	5,057	7,407	4,339	4,647	2,777
Basic earnings/(Loss) per share from continuing operations	9.87	7.48	6.61	6.11	5.51	(1.45)

Basic earnings (Loss) per share from discontinued operations, net(4)	0.25	0.19	4.64	0.50	2.27	5.42
Basic earnings per share from net income(5)	10.12	7.67	11.24	6.61	7.11	4.26
Balance Sheet Data:						
Total assets	\$ 167,908	127,232	126,562	114,062	111,850	113,503
Long-term financial liabilities	13,143	9,959	10,555	13,540	14,884	17,576
Stockholders' equity(6)	63,141	47,845	44,484	33,560	29,774	25,653
Number of authorized shares		692,000,000	692,000,000	692,000,000	692,000,000	692,000,000

(1) Amounts in this column are unaudited and have been translated solely for the convenience of the reader at an exchange rate of \$1.3197 = 1.00, the Noon Buying Rate on December 29, 2006.

Table of Contents

- (2) Laws in Germany and other European countries in which E.ON operates require the seller of electricity to collect electricity taxes and remit such amounts to tax authorities. Similar laws also require the seller of natural gas to collect and remit natural gas taxes to tax authorities.
- (3) Before minority interest of 526 million for 2006, as compared with 536 million, 469 million, 449 million and 625 million for 2005, 2004, 2003 and 2002, respectively.
- (4) For more details, see Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions Discontinued Operations and Note 4 of the Notes to Consolidated Financial Statements.
- (5) Includes earnings per share from the first-time application of new U.S. GAAP standards of 0.00, (0.01), 0.00, (0.67) and 0.29 for 2006, 2005, 2004, 2003 and 2002, respectively.
- (6) After minority interests.

DIVIDENDS

The following table sets forth the annual dividends paid per ordinary unit bearer share of E.ON AG (each, an Ordinary Share) in euros, and the dollar equivalent, for each of the years indicated. The table does not reflect the related tax credits available to German taxpayers who receive dividend payments. Owners of Ordinary Shares who are United States residents should be aware that they will be subject to German withholding tax on dividends received. See Item 10. Additional Information Taxation.

Year Ended December 31,	Dividends Paid per Ordinary Share with no par value \$(1)	
2002	1.75	1.96
2003	2.00	2.39
2004	2.35	3.04
2005(2)	2.75	3.50
2006(3)	3.35	4.42

- (1) Translated into dollars at the Noon Buying Rate on the dividend payment date, which typically occurred during the second quarter of the following year, except for the 2006 amount, which has been translated at the Noon Buying Rate on December 29, 2006.
- (2) An extra dividend for 2005 of 4.25 per Ordinary Share, resulting from the proceeds from the sale of E.ON's remaining 42.9 percent stake in Degussa, was paid together with the regular 2005 dividend amount. For details on this transaction, see Item 5. Operating and Financial Review and Prospects Overview.
- (3) The dividend amount for the year ended December 31, 2006 is the amount proposed by E.ON's Supervisory Board and Board of Management and has not yet been approved by its stockholders. Prior to the payment of the dividends, a resolution approving such amount must be passed by E.ON's stockholders at the annual general

meeting to be held on May 3, 2007.

See also Item 8. Financial Information Dividend Policy.

Table of Contents**EXCHANGE RATES**

Fluctuations in the exchange rate between the euro and the dollar will affect the dollar equivalent of the euro price of the Ordinary Shares traded on the German stock exchanges and, as a result, will affect the price of the Company's American Depositary Receipts (ADRs) traded in the United States. Such fluctuations will also affect the dollar amounts received by holders of ADRs on the conversion into dollars of cash dividends paid in euros on the Ordinary Shares represented by the ADRs.

The following table sets forth, for the periods indicated, the average, high, low and/or period-end Noon Buying Rates for euros expressed in \$ per 1.00.

Period	Average(1)	High	Low	Period-End
2002	0.9495			1.0485
2003	1.1411			1.2597
2004	1.2478			1.3538
2005	1.2400			1.1842
2006	1.2661			1.3197
September		1.2833	1.2648	
October		1.2773	1.2502	
November		1.3261	1.2705	
December		1.3327	1.3073	
2007				
January		1.3286	1.2904	
February		1.3246	1.2933	

(1) The average of the Noon Buying Rates for the relevant period, calculated using the average of the Noon Buying Rates on the last business day of each month during the period.

On March 2, 2007, the Noon Buying Rate was \$1.3182 per 1.00.

Table of Contents**RISK FACTORS**

On May 1, 1998, the German Control and Transparency in Business Act (*Gesetz zur Kontrolle und Transparenz im Unternehmensbereich*, or *KonTraG*), came into effect. The provisions of *KonTraG* include the requirement that the board of management of a German stock corporation establish a risk management system to identify material risks to the corporation at an early stage. As part of their audit, the auditors of a stock corporation assess whether the system meets the requirements of *KonTraG*. The audit requirement has been applicable to all fiscal years beginning after December 31, 1998, although the former VEBA underwent this audit voluntarily already in fiscal year 1998.

Even prior to the requirements introduced by *KonTraG*, the Company believes it had an effective risk management system which integrates risk management in its Group-wide business procedures. The system includes controlling processes, Group-wide guidelines, data processing systems and regular reports to the Board of Management and Supervisory Board. The reliability of the risk management system is reviewed regularly by the internal audit units of the Company as well as by the Company's external independent auditors, based on requirements set forth in the Stock Corporation Act. The documentation and evaluation of the Company's risks are updated quarterly throughout the Group in the following steps:

Standardized documentation of risks and countermeasures;

Evaluation of risks according to the degree of severity and the probability of occurrence, and an annual assessment of the effectiveness of existing countermeasures; and

Analysis of the results and structured disclosure in a risk report.

The following discussion groups risks according to the categories of external, operational and financial risks, as used by the Company in its risk management system.

External

The Company faces the general risks of economic downturns experienced by all businesses. The following are specific external risks the Company faces:

The Company's core energy operations face strong competition, which could depress margins.

Since 1998, liberalization of the electricity markets in the EU has greatly altered competition in the German electricity market, which was formerly characterized by numerous strong competitors. Following liberalization, significant consolidation has taken place in the German market, resulting in four major interregional utilities: E.ON, RWE AG (RWE), Vattenfall Europe AG (Vattenfall Europe) and EnBW Energie Baden-Württemberg AG (EnBW). In addition, the market for electricity trading has become more liquid and competitive, with a total trading volume of approximately 1,133 terawatt hours (TWh) at the European Energy Exchange (EEX) spot and futures market in 2006, and additional volumes being traded on the over-the-counter market. Liberalization of the German electricity market also caused prices to decrease beginning in 1998, although prices have increased since 2001. Retail prices now exceed 1998 levels, and prices for sales to distributors and industrial customers have also increased. These price increases have generally been driven by increases in the price of fuel, as well as regulatory and other costs, with the result that competitive pressure on margins continues to exist. Higher wholesale prices are also expected to lead to the construction of new generation facilities, thereby increasing competition and the pressure on margins when the first such facilities come into operation. Although the Company intends to compete vigorously in the changed German

electricity market, it cannot be certain that it will be able to develop its business as successfully as its competitors. For information about regulatory changes that are affecting the German electricity market, see the discussion on changes in laws and regulations below.

Outside Germany, the electricity markets in which the Company operates are also subject to strong competition. The Company has significant U.K. and Swedish operations in electricity generation, distribution and supply, on both the wholesale and retail levels. Increased competition from new market entrants and existing market participants could adversely affect the Company's U.K. or Swedish market share in both the retail and wholesale sectors. The Company cannot guarantee it will be able to compete successfully in the United Kingdom,

Table of Contents

the Nordic countries, Eastern Europe, Italy or other electricity markets where it is already present or in new electricity markets the Company may enter. E.ON Ruhrgas also faces risks associated with increased competition in the gas sector; see Item 4. Information on the Company Business Overview Pan-European Gas Competitive Environment and Regulatory Environment Germany: Gas.

Changes in applicable laws and regulations as well as the introduction of new laws and regulations could materially and adversely affect the Company's financial condition and results of operations.

In each of its operations, the Company must comply with a number of laws and government regulations. For more information on laws and regulations affecting the Company's core energy business, including additional details on each of the regulatory regimes discussed below, see Item 4. Information on the Company Regulatory Environment. From time to time, changes or new laws, including applicable tax laws, and regulations may be introduced which may negatively affect the Company's businesses, financial condition and results of operations.

For example, the EU adopted new electricity and gas directives in 2003 which required changes to the electricity and gas industries of some EU member states, including Germany. One of the requirements is that an independent regulatory authority be established in each member state to oversee access to the electricity and gas networks. According to the directives, this regulatory body should have the authority to set or approve network charges or, alternatively, the methodologies used for calculating them, as well as the power to control compliance with the charges or methodologies once they are set. In Germany, the relevant legislation came into force in July 2005 and the German legislature authorized the Federal Network Agency (*Bundesnetzagentur* or the BNetzA, previously called the Regulatory Authority of Telecommunications and Post) to act as the required independent regulatory body. The new German energy legislation and the appointment of the BNetzA to oversee access to German electricity and gas networks has changed the previous system of negotiated third party network access in the electricity and gas industries in Germany. Although the new legislation has already come into force, the Company cannot yet predict all of the consequences of the new system, as the exact interpretation of some of the new regulatory rules is still pending and not all ordinances are in force; in particular, the new incentive regulation system has not been established. However, the BNetzA has interpreted some of the new regulatory rules and ordinances to reach a conclusion that is different than that reached by, and in some cases less favorable to, the Company as well as other German utilities. For example, the new German energy law contains two phases of regulation, and in the starting phase, the BNetzA and the state level regulators have to approve the network charges that are calculated by the network operators using a cost-based rate-of-return model. Thus the BNetzA and the state level regulators effectively set the network charges for network operators ex-ante. In 2006, the BNetzA reduced the allowed network charges submitted for its approval by the Company's electricity and gas distribution network operators, as described below. In doing so, the BNetzA used a different interpretation of the new ordinance than that used by E.ON's network operators (and the majority of German network operators) to calculate their network charges. The BNetzA has also announced that the reduced charges will be applicable from earlier dates than those which the Company believes should apply, so that the Company (and other German network operators) would need to refund amounts to customers equal to the difference between the calculated network charges as submitted to the BNetzA and the allowed network charges approved by the BNetzA for the time period in dispute. Several German utility companies have challenged the BNetzA's decisions in third party legal proceedings; however, final decisions have not yet been made and E.ON intends to wait for the outcome of the pending legal proceedings before making any refunds to customers. For more information, see Item 4. Information on the Company Regulatory Environment.

In the gas market, the gas industry developed an industry-wide gas network access model in order to comply with the new legislation, and the agreed model, with two variants for gas transportation, was finalized in mid-2006. Shortly thereafter, one of the variants for gas transportation was challenged in legal proceedings and the BNetzA decided that the challenged variant for gas transportation, which was widely used in the gas industry, does not comply with the new energy law, thus necessitating changes to the existing gas network operators' cooperation agreement.

In addition, in November 2006 a new network connection ordinance came into force in Germany which increases potential liability for network operators for damages caused by energy supply disturbances.

Table of Contents

In Sweden, new legislation was also adopted in order to comply with the requirements of the EU's electricity and gas directives, and the Company cannot be certain that the new requirements will not have a negative effect on its Swedish operations. In addition, Sweden has also enacted new legislation concerning electricity distribution which requires customer compensation for power blackouts lasting more than 12 hours. As discussed below, in early 2007 a severe storm resulted in a power outage in Sweden that affected approximately 170,000 E.ON Sverige customers, and many of these customers are entitled to compensation under the new law.

The EU has also adopted a directive requiring member states to establish a greenhouse gas emissions allowance trading scheme, under which permits to emit a specified amount of carbon dioxide (CO₂ emission certificates) are to be allocated to affected power stations and other industrial installations. All member states have already passed the required legislation and allocated the necessary CO₂ emission certificates for the first phase of the scheme, mostly free of charge. Although the Company does not generally expect the introduction of the emissions trading scheme to have a negative impact on its operations, the fact that the directive has only recently been implemented makes it impossible for the Company to predict how the trading of CO₂ emission certificates will develop or what long-term impact, if any, the new regime will have on its financial condition and results of operations. However, in each of 2005 and 2006, companies of both the U.K. and Central Europe market units had to purchase additional CO₂ emission certificates on the market, with a resultant increase in operating costs. Further, member states are currently developing national allocation plans for the next phase of the greenhouse gas emissions allowance trading scheme, which will run from 2008-2012, and a reduced number of CO₂ emission certificates is expected to be issued for this phase, which could further impact the Company's operations. In Germany, the EU and the German government have already agreed on a reduced allocation of CO₂ emissions certificates. In a reflection of current international heightened awareness of climate change, the European Commission recently published a package of measures to establish a new EU energy policy with the aim of, *inter alia*, combating climate change. In the package, the European Commission proposed further ambitious targets for cutting greenhouse gas emissions. The Company is unable to predict if and when such targets might be passed into law. For more information, see Item 4. Information on the Company Regulatory Environment and Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2006 Compared with Year Ended December 31, 2005 and Year Ended December 31, 2005 Compared with Year Ended December 31, 2004.

In addition, in the summer of 2005 the Competition Directorate-General of the European Commission launched a sector inquiry concerning the electricity and gas markets in the EU. This investigation is based on Article 17 of Regulation 1/2003 and assesses the competition conditions in European gas and electricity markets. It cannot be excluded that this inquiry could result in individual antitrust proceedings against E.ON Group companies and/or legislative initiatives (at the EU or national level) that would seek to increase the current level of competition in the EU energy market. In its final report issued on January 10, 2007, the European Commission has identified the following barriers to a fully functioning internal energy market, which are market concentration, vertical foreclosure, lack of market integration and transparency and price formation.

The findings of the sector inquiry enable the European Commission to focus its enforcement action on the concerns identified in the report, such as: achieving adequate unbundling of network and supply activities, removing the regulatory gaps, in particular for cross border issues, addressing market concentration and barriers to entry, as well as increasing transparency in market operations.

One of the main suggestions arising from the sector inquiry report is ownership unbundling, *i.e.*, the separation of ownership between the electricity and gas networks and commercial activities elsewhere in the value chain. It is not clear yet whether the European Commission will decide to mandate ownership unbundling or choose to attempt to resolve the identified problems using other options, such as a fully independent system operator. On February 15, 2007, the EU Energy Council discussed the presented energy package in detail, including the results of the sector inquiry final report. The European Council will discuss the measures for an action plan at its meeting on March 8,

2007. The German Presidency has announced its intention not to support ownership unbundling but to analyze all possible options, including an independent system operator, and it is at this time impossible to predict the results of this inquiry, if any.

The European Commission also carried out investigations at the premises of several energy companies in Europe, including E.ON AG and some of its affiliates, in May and December 2006, followed by requests for

Table of Contents

information regarding different regulatory and energy market-related issues of E.ON Energie and E.ON Ruhrgas. The European Commission is currently analyzing the respective data and has recently issued additional requests for information. The European Commission is currently investigating the circumstances under which a seal installed by investigators at one of the Company's facilities failed.

In Germany, a draft bill has been introduced in the German parliament to tighten the provisions of Germany's law against restraints on competition. The draft bill stipulates that undertakings holding a dominant position in an energy market shall not charge or impose prices, price components or other commercial conditions that are less favorable than those of other undertakings in comparable markets (even if the deviation is slight) or charge prices that disproportionately exceed their costs. E.ON believes that, if implemented as currently drafted, these provisions would impede competition in Germany's energy markets, but is currently unable to quantify the effects that the implementation of the tightened provisions would have on E.ON.

Regulatory actions can also affect the prices the Company may charge customers. For example:

As noted above, in Germany the BNetzA has reduced the allowed network charges which were submitted for approval by the Company's electricity and gas distribution network operators. For electricity, approved network charges of E.ON's transmission system operator as well as its regional distribution network operators averaged a 13.7 percent reduction from the network charges E.ON originally filed for approval, while approved network charges for E.ON's regional gas distribution network operators averaged a 10.0 percent reduction from those initially proposed by the Company. The approved network charges were based on a different interpretation of Germany's new energy law by the BNetzA than that used by E.ON's network operators (and the majority of German network operators) to calculate their network charges.

In Germany, the state antitrust authorities as well as the German Federal Cartel Office (*Bundeskartellamt*) regularly examine gas tariffs of utilities for household customers to determine whether these prices constitute market abuse. The companies belonging to the E.ON Energie group have delivered the information required. No formal proceedings are pending.

The Federal Cartel Office has opened proceedings against E.ON Energie and RWE, alleging that these two companies are abusing their dominant position in the energy market by including the costs for CO₂ emission certificates in the calculation of energy prices for industrial customers. In this context, RWE has already received a statement of objections from the Federal Cartel Office. E.ON believes that the way the Group's businesses calculate their electricity prices is in accordance with accepted calculation methods and therefore there have been no illegal acts by the Group in this regard. Should the Federal Cartel Office qualify E.ON's calculation method as an abuse of a dominant position, E.ON would appeal against the decision. However, the outcome of such an appeal cannot be predicted.

Electricity and gas prices and sales practices have also been the subject of periodic challenges by the German antitrust authorities, although to date E.ON has prevailed in such cases, sometimes on appeal after a negative ruling by a court of first instance. Currently, 54 customers of E.ON Hanse AG (E.ON Hanse) have brought a claim asserting that recent price increases violate certain provisions of the German Civil Code (*Bürgerliches Gesetzbuch*). In order to support its case that the price increases were reasonable within the meaning of applicable law, E.ON Hanse has disclosed the basis on which it calculates prices for household customers to the District Court (*Landgericht*) in Hamburg. The court is currently examining E.ON Hanse's submissions in this respect. In an unrelated proceeding, E.ON Westfalen Weser AG (E.ON Westfalen Weser) has brought suit against a group of customers that have refused to pay the increased prices. No assurances can be given as to the outcome of either of these proceedings.

With effect from April 2005, regulators in the United Kingdom renewed a price control framework for electricity distribution customers that is in effect through the five year period ending March 2010.

In the United States, the rates for E.ON U.S.'s retail electric and gas customers in Kentucky, its principal area of operations, are set by state regulators and remain in effect until such time as an adjustment is sought and approved. E.ON U.S.'s affected utilities applied for and received increases in regulated tariffs effective as of July 1, 2004.

Table of Contents

For additional information on these developments, see Item 4. Information on the Company's 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's expenses are for purchases of natural gas under long-term take or pay contracts that link the gas prices to that of fuel oil and other competing fuels. The prices for such commodities have historically been volatile and there is no guarantee that prices will remain within projected levels. The price of oil in particular rose in 2006, although it declined somewhat in the second half of the year, while the recent fall in oil prices is not yet reflected in the average price of Germany's natural gas imports due to time lags in indexation. The Company's electricity operations do maintain some flexibility to shift power production among different types of fuel, and the Company is also partially hedged against rising fuel prices. However, increases in fuel costs could have an adverse effect on the Company's operating results or financial condition if it is not able (or not permitted by regulatory authorities) to shift production to lower-cost fuel or to adjust its rates to offset such increases in fuel prices on a timely or complete basis.

For more information about E.ON Ruhrgas's take or pay contracts, including a discussion of the so-called time lag effect, see the discussion on E.ON Ruhrgas's long-term gas supply contracts below. The Company could also incur losses if its hedging strategies are not effective. For more information about the Company's hedging policies and the instruments used, see Financial below, Item 5. Operating and Financial Review and Prospects Exchange Rate Exposure and Currency Risk Management and Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Recent events have heightened concerns about the reliability of Russian gas supplies, on which E.ON Ruhrgas depends.

E.ON Ruhrgas currently obtains nearly 30 percent of its total gas supply from Russia pursuant to long-term supply contracts it has entered into with OOO Gazexport (now Gazprom export), a subsidiary of OAO Gazprom (Gazprom) (in which E.ON Ruhrgas holds a 3.5 percent direct interest and an additional stake of 2.9 percent). Recent events in some countries of the former Soviet Union have heightened concerns in parts of Western Europe about the reliability of Russian gas supplies. Historically cold temperatures in Russia in the winter of 2005-2006 increased gas consumption, leading some Western European countries to report declines in pressure in gas pipelines and shortfalls in the volume of gas they received from Russia. In addition, a dispute between Russia and Ukraine over the imposition of significant price increases on Russian gas delivered to Ukraine at the beginning of 2006 led to interruptions in the supply of Russian gas to Ukraine (and through Ukraine to other countries) in the early days of January. In late 2006, a similar price dispute between Russia and Belarus led to Belarus blocking the transit of gas and oil through that country, while in early 2007 Poland attempted to raise transit fees charged to Gazprom for Russian gas and oil being shipped to Western Europe through Poland, leading to speculation that Gazprom might retaliate by halting gas and oil shipments. Economic or political instability or other disruptive events in any transit country through which Russian gas must pass before it reaches its final destination in Western Europe can have a material adverse effect on the supply of such gas, and all such events are completely outside the control of E.ON Ruhrgas. Although E.ON Ruhrgas has to date not experienced any interruptions in supply or declines in delivered gas volumes below those which are guaranteed to it under its long-term contracts, no assurance can be given that such interruptions or declines will not occur. The terms of E.ON Ruhrgas's long-term supply contracts for Russian gas require that the contracted volumes of gas be delivered to E.ON Ruhrgas at the German border, with the risk of ownership only passing to E.ON Ruhrgas at that point, but provide that such obligations can be suspended due to events of *force majeure*. Any prolonged

interruption or decline in the amount of gas delivered to E.ON Ruhrgas under its contracts with Gazprom, its subsidiaries or any other party would result in E.ON Ruhrgas having to use its storage reserves to make up the shortfall with respect to amounts it is contracted to deliver to customers, and could have a material adverse effect on E.ON's results of operations and financial condition.

Table of Contents

The Company's revenues and results of operations fluctuate by season and according to the weather, and management expects these fluctuations to continue.

The demand for electric power and natural gas is seasonal, with the Company's operations generally experiencing higher demand during the cold weather months of October through March and lower demand during the warm weather months of April through September. The exception to this is the Company's U.S. power business, where hot weather results in an increased demand for electricity to run air conditioning units. As a result of these seasonal patterns, the Company's revenues and results of operations are higher in the first and fourth quarters and lower in the second and third quarters, with the U.S. power business having its highest revenues in the third quarter and a secondary peak in the first and fourth quarters. Revenues and results of operations for all of the Company's energy operations can be negatively affected by periods of unseasonably warm weather during the autumn and winter months, as occurred at certain of E.ON's market units in 2006. The Company's Nordic operations could be negatively affected by a lack of precipitation (which would lead to a decline in hydroelectric generation, as occurred in 2006) and its European energy operations could also be negatively affected by a summer with higher than average temperatures to the extent its plants were required to reduce or shut down operations due to a lack of water needed for cooling the plants. Management expects seasonal and weather-related fluctuations in revenues and results of operations to continue. Particularly severe weather can also lead to power outages, as discussed in more detail below.

Operational

The Company's core energy businesses operate technologically complex production facilities and transmission systems. Operational failures or extended production downtimes could negatively impact the Company's financial condition and results of operations. The Company's businesses are also subject to risks in the ordinary course of business such as the loss of personnel or customers, and losses due to bad debts. The Company believes it has appropriate risk control measures in effect to counteract and address these types of risks. The following are additional operational risks the Company faces:

E.ON Ruhrgas' long-term gas supply contracts expose it to volume and price risks, and it has had to terminate certain of its long-term sales contracts due to a negative decision by the German Federal Cartel Office.

As is typical in the gas industry, E.ON Ruhrgas enters into long-term gas supply contracts with natural gas producers to secure the supply of almost all the gas E.ON Ruhrgas purchases for resale. These contracts, which generally have terms of around 20 to 25 years, require E.ON Ruhrgas to purchase minimum amounts of natural gas over the period of the contract or to pay for such amounts even if E.ON Ruhrgas does not take the gas, a standard industry practice known as "take or pay." The minimum amounts are generally about 80 percent of the firmly contracted quantities. Historically, E.ON Ruhrgas has also entered into long-term gas sales contracts with its customers, although these contracts are shorter than the gas supply contracts (for distributors and municipal utilities, which constitute the majority of E.ON Ruhrgas' customers, the contracts generally have longer terms, while contracts for industrial customers usually have terms between one and five years), and, as described in more detail below, have been challenged by the German Federal Cartel Office. In addition, the majority of these gas sales contracts do not include fixed take or pay provisions. Since E.ON Ruhrgas' gas supply contracts have longer terms than its gas sales contracts, and commit E.ON Ruhrgas to paying for a minimum amount of gas over a long period, E.ON Ruhrgas is exposed to the risk that it will have an excess supply of natural gas in the long term should it have fewer committed purchasers for its gas in the future and be unable to otherwise sell its gas on favorable terms. Such a shortfall could result if a significant number of E.ON Ruhrgas' customers (or their end customers) shifted from natural gas to other forms of energy or if E.ON Ruhrgas' customers began to acquire increased volumes of gas from other sources. The ministerial approval E.ON obtained for the acquisition of Ruhrgas required E.ON Ruhrgas to divest its stakes in two gas distributors, as well as granting these distributors the right to terminate their gas sales contracts with E.ON Ruhrgas. The ministerial approval also gave most of E.ON Ruhrgas' distribution customers the right to reduce the amounts of

natural gas purchased from E.ON Ruhrgas. To date, most customers have decided not to exercise these options. For additional information on these developments, see Item 4. Information on the Company Business Overview Pan-European Gas Sales.

Table of Contents

In January 2006, the German Federal Cartel Office (*Bundeskartellamt*) issued a decision prohibiting E.ON Ruhrgas from enforcing its existing long-term gas sales contracts with regional and local distribution companies after October 1, 2006 and from entering into new sales contracts with those customers that are identical or similar in nature. For details on this decision and the effect on E.ON Ruhrgas, see Item 4. Information on the Company Business Overview Pan-European Gas Sales. E.ON Ruhrgas believes that the Federal Cartel Office is overlooking the negative impact its decision would have on security of supply and that by excluding suppliers from competing to supply additional volume, the Federal Cartel Office inadmissibly interferes with freedom of contract. Therefore, E.ON Ruhrgas has appealed against the decision issued by the Federal Cartel Office and sought temporary relief in a summary proceeding in order to prevent the decision from taking immediate effect. In June 2006, the State Superior Court (*Oberlandesgericht*) in Düsseldorf decided in the summary proceeding that E.ON Ruhrgas will not be granted temporary relief. Consequently, E.ON Ruhrgas had to terminate the supply contracts with regional and local distribution companies that are covered by the Federal Cartel Office decision as of October 1, 2006. E.ON Ruhrgas is currently challenging the Federal Cartel Office decision in a full proceeding before the State Superior Court, which is expected to last through 2007. In the meantime, it has concluded new contracts having a duration of only 1 or 2 years with virtually all of the regional and local distribution companies whose prior contracts it had been required to cancel. Although the court's negative decision on E.ON Ruhrgas' application for an injunction is not determinative in the full proceeding, no assurance can be given that E.ON Ruhrgas will be successful in that proceeding or any subsequent appeals, or otherwise be allowed to conclude contracts that exceed the combination of supply share and duration set by the decision of the Federal Cartel Office and/or bid for the remaining volumes.

If these or other developments were to cause the volume of gas E.ON Ruhrgas is able to sell to fall below the volume it is required to purchase, the take or pay provisions of some of E.ON Ruhrgas' gas supply contracts may become applicable, which would negatively affect its results of operations. In addition, due to increasing competition linked to the liberalization of the gas market and the entry of new competitors, E.ON Ruhrgas may not be able to renew some of its existing gas sales contracts as they expire, or to gain new contracts. This may also have the effect of leaving E.ON Ruhrgas with an excess supply of natural gas and/or decrease in margins.

As is standard in the gas industry, the price E.ON Ruhrgas pays for gas under its long-term gas supply contracts is calculated on the basis of complex formulas incorporating variables based on current market prices for fuel oil, gas oil, coal and/or other competing fuels, with prices being automatically re-calculated periodically, usually quarterly, by reference to market prices of the relevant fuels during a prior period. Price terms in E.ON Ruhrgas' gas sales contracts are generally pegged to the price of competing fuels and provide for automatic quarterly price adjustments based on fluctuations in underlying fuel prices, again by reference to market prices during a prior period. Since E.ON Ruhrgas supply and sales contracts are generally indexed to different types of oil and related fuels, in different proportions and are adjusted according to different formulas, E.ON Ruhrgas' margins for natural gas may be significantly affected in the short term by variations in the price of oil or other fuels, which are generally reflected in prices payable under its supply contracts before they are reflected in prices paid under sales contracts, the so-called "time lag" effect. Although E.ON Ruhrgas seeks to manage this risk by matching the general terms of its portfolio of sales contracts with those of its supply contracts, there can be no assurance that it will always be successful in doing so, particularly in the short term. For more information on E.ON Ruhrgas' gas supply and sales contracts, see Item 4. Information on the Company Business Overview Pan-European Gas.

If the Company's plans to make selective acquisitions and investments to enhance its core energy business are unsuccessful, the Company's future earnings and share price could be materially and adversely affected.

The Company's business strategy involves selective acquisitions and investments in its core business area of energy. This strategy depends in part on the Company's ability to successfully identify and acquire companies that enhance its business on acceptable terms. In order to obtain the necessary approvals for acquisitions, the Company may be required to divest other parts of its business, or to make concessions or undertakings which materially affect its

operations. For example, the Company's efforts to obtain control of Ruhrgas through a series of purchases from the holders of Ruhrgas interests were initially blocked by the German Federal Cartel Office and then by a series of plaintiffs who succeeded in convincing the State Superior Court in Düsseldorf to issue a temporary injunction preventing the Company from completing the transaction. In order to receive the ministerial approval of the German

Table of Contents

Economics Ministry that overruled the initial decision of the Federal Cartel Office, the Company was required to make significant concessions, including committing to divest certain operations, to have E.ON Ruhrgas sell a significant quantity of natural gas at auction (with opening bids set at below-market prices) and to offer certain customers the option of reducing the volume of gas they had contracted for. In addition, in settling the claims of the plaintiffs who had received the temporary injunction, the Company agreed to divest certain of its operations, to provide certain of the plaintiffs with energy supply contracts and network access, and to make certain infrastructure improvements, as well as making financial payments. For more information, see Item 4. Information on the Company History and Development of the Company Ruhrgas Acquisition. Each of these matters delayed completion of the Ruhrgas acquisition and had the effect of increasing the cost of the transaction to the Company.

In February 2006, E.ON announced that it would launch an all cash tender offer for 100 percent of the share capital of Endesa, S.A. (Endesa), the largest electric utility in Spain and Portugal, which also has significant operations in Latin America and southern Europe. E.ON's original bid set an offer price of 27.50 per Endesa ordinary share and American Depositary Share (ADS). Over the course of the following twelve months, E.ON raised its offer price twice, first to 35.00 for each Endesa security and then to 38.75. The potential cost to E.ON for the acquisition of 100 percent of Endesa has therefore increased from approximately 29.1 billion to approximately 41 billion. E.ON intends to finance the acquisition through a combination of its own resources and new financing in the form of a committed line of credit provided by a syndicate of international banks that incorporates a number of conditions. The offer has also been subject to a series of legal challenges in Spain and the United States, a number of which remain pending. No assurance can be given that E.ON will be able to complete the transaction successfully on the proposed terms or at all. For additional information, see Item 4. Information on the Company History and Development of the Company Proposed Endesa Acquisition.

In addition, there can be no assurances that the Company will be able to achieve the benefits it expects from any acquisition or investment. For example, the Company may fail to retain key employees, may be unable to successfully integrate new businesses with its existing businesses, may incorrectly judge expected cost savings, operating profits or future market trends and regulatory changes, or may spend more on the acquisition, integration and operations of new businesses than anticipated. Legal challenges may also have an impact. Especially large acquisitions, such as that of Ruhrgas, the purchase of which was completed in March 2003, or the proposed acquisition of Endesa, present particularly difficult challenges. Investments and acquisitions in new geographic areas or lines of business require the Company to become familiar with new markets and competitors and expose the Company to commercial and other risks, as well as additional regulatory regimes relating to the acquired businesses that may be stricter than the ones the Company is currently subject to. Because of the risks and uncertainty associated with acquisitions and investments, any acquired businesses or investments may not achieve the profitability expected by the Company.

The Company could be subject to environmental liability associated with its nuclear and conventional power operations that could materially and adversely affect its business. In addition, new or amended environmental laws and regulations may result in significant increases in costs for the Company.

Under German law, the owner of an electric power generation facility is subject to liability provisions that guarantee comprehensive compensation to all injured parties in the event of environmental damages caused by the facility. In addition, there has been some relaxation in the evidence required under the German Environmental Liability Law (*Umwelthaftungsgesetz*) to establish, prove and quantify environmental claims. Under German law and in accordance with contractual indemnities, the Company may still be subject to future environmental claims with respect to alleged historical environmental damage arising from certain of its discontinued and disposed of operations, including, but not limited to, the VEBA Oel oil business, the VAW aluminum operations and the Klöckner & Co AG distribution and logistics businesses, as well as Degussa's operations. If claims were to be asserted against the Company in relation to environmental damages and plaintiffs were successful in proving their claims, such claims could result in material losses to the Company.

German law also provides that in the case of a nuclear accident in Germany, the owner of the reactor, the factory or the nuclear material storage facility is subject to liability provisions that guarantee comprehensive compensation to all injured parties. Under German nuclear power regulations, the owner is strictly liable, and the geographical scope of its liability is not limited to Germany. E.ON's Swedish nuclear power stations also expose the

Table of Contents

Company to liability under applicable Swedish law. In 2006 an inquiry opened by the Swedish government proposed both unlimited liability for nuclear plant operators and that such operators be obligated to purchase greater insurance coverage, although it is unclear what effect the inquiry's proposals of new legislation will have. The Company does not operate or have interests in nuclear power plants outside of Germany, Sweden and Switzerland, including in the United Kingdom, the United States or the countries in Eastern Europe in which it operates. The Company takes extensive safety and risk management measures in the operation of its nuclear power operations, and has mandatory insurance with respect to its nuclear operations as described in Item 4. Information on the Company Environmental Matters Germany: Electricity and Nordic. However, any claims against the Company arising in the case of a nuclear power accident could exceed the coverage of such insurance, and cause material losses to the Company.

The Company expects that it will incur costs associated with future environmental compliance, especially compliance with clean air laws. For example, the U.S. Environmental Protection Agency (EPA) has introduced regulations regarding the reduction of nitrogen oxide (NO_x) and sulphur dioxide (SO₂) emissions from electricity generating units. These regulations require E.ON U.S. to make significant additional capital expenditures in pollution control equipment. E.ON U.S. expects to incur total costs of \$1.1 billion in installing these pollution controls during the 2007 through 2009 time period. E.ON U.S. expects to recover a significant portion of these costs over time from customers of its regulated utility businesses. In the United Kingdom, legislation to implement the EU Large Combustion Plants Directive has been adopted which requires E.ON UK to make decisions as to whether it will invest in enhanced pollution control devices, reduce operating time at certain of its plants or consider closing certain plants in the future. Similarly, the German government has amended an ordinance of the German Federal Pollution Control Act (*Bundesimmissionsschutzgesetz*, or BImSchG) to introduce lower emission limits for air pollutants such as carbon monoxide and NO_x. This amendment requires both E.ON Energie and E.ON Ruhrgas to make investments in pollution control devices. Currently, none of E.ON's market units can predict the extent to which their respective operations will be affected by the new legislation and/or regulations. Revisions to existing environmental laws and regulations and the adoption of new environmental laws and regulations may result in significant increases in costs for the Company. Any such increase in costs that cannot be fully recovered from customers may adversely affect the Company's operating results or financial condition.

Although environmental laws and regulations have an increasing impact on the Company's activities in almost all the countries in which it operates, it is impossible to predict accurately the effect of future developments in such laws and regulations on the Company's future earnings and operations. For example, the EU has published a package of measures for a new energy policy which includes ambitious targets for cutting greenhouse gas emissions, but the Company cannot predict when or in what form these measures might be passed into law, or how the Company might be impacted. For detail, see the discussion on changes in laws and regulations above. Some risk of environmental costs and liabilities is inherent in particular operations and products of the Company, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred. For more information on environmental matters, see Item 4. Information on the Company Environmental Matters.

If power outages or shutdowns involving the Company's electricity operations occur, the Company's business and results of operations could be negatively affected.

Significant parts of Europe and the United States and Canada have experienced major power outages in recent years. The reasons for these blackouts vary, although generally they involved a locally or regionally inadequate balance between power production and consumption, with single failures triggering a cascade-like shutdown of lines and power plants following overload or voltage problems. The likelihood of this type of problem has increased in recent years following the liberalization of EU electricity markets, partly due to an emphasis on unrestricted cross-border physically-settled electricity trading that has resulted in a substantially higher load on the international network, which was originally designed mainly for purposes of mutual assistance and operations optimization. As a result, there are transmission bottlenecks at many locations in Europe, and the high load has resulted in lower levels of safety reserves

in the network. In Germany, where power plants are located in closer proximity to population centers than in many other countries, the risk of blackouts is lower due to shorter transmission paths and a strongly meshed network. In addition, the spread of a power failure is less likely in Germany due to the organization of the German power grid into four balancing zones. Nevertheless, the Company's German or international electricity

Table of Contents

operations could experience unanticipated operating or other problems leading to a power failure or shutdown. For example:

On January 8-9, 2005, a severe storm hit Sweden, destroying the electricity distribution grid in some areas in the south of the country. Approximately 250,000 E.ON Sverige customers were affected by the resulting power outage, and some customers were left without electricity for several weeks. In 2005, E.ON Sverige recorded related costs for rebuilding its distribution grid and compensating customers of approximately 140 million.

In July 2006, a transmission-related incident at the Forsmark nuclear power plant in Sweden (in which E.ON Sverige owns a minority interest) resulted in an emergency shutdown of the plant and subsequent modifications to the plant's transmission infrastructure. Reviews of similar infrastructure at other reactors following the Forsmark incident took a number of Swedish reactors out of service for a period of several weeks and revealed the need for a significant overhaul at the Oskarshamn I reactor operated by E.ON Sverige, which was only restarted in January 2007.

On November 4, 2006, an overload in the northwestern German power transmission grid occurred, leading to disturbances in other parts of the continental European power grid and an interruption of the power supply for more than 15 million European households located in parts of Germany, France, Belgium, the Netherlands, Italy and Spain. According to initial findings, the overload occurred after the E.ON Netz GmbH (E.ON Netz, a subsidiary of E.ON Energie) control center made an erroneous estimation in its planned interruption of a high voltage power line across the Ems river in Germany to allow the passage of a Norwegian cruise liner. Functioning safety mechanisms and close cooperation among European transmission system operators ensured that a full reconnection of the power grids and stabilization of the system occurred within 38 minutes after the grid separated into three islands, thus avoiding an uncontrolled blackout. A further investigation of the circumstances leading to the power blackout (including whether other factors played a role) will determine if consumers affected by the power interruption are entitled to compensation by E.ON Netz.

On January 14, 2007, another severe storm hit southern Sweden. Approximately 170,000 E.ON Sverige customers were affected by the resulting power outage, and some customers were left without electricity for up to ten days. Preliminary estimates of the costs to be incurred by E.ON Nordic for rebuilding its distribution grid and compensating affected customers are in the range of 95 million.

On January 18 and 19, 2007, a severe storm hit several European countries, damaging the electricity distribution grid of E.ON Energie in some areas of Germany, the Czech Republic, Hungary and Romania. In Germany, approximately 750,000 customers were disconnected from the grid (in the Czech Republic: approximately 500,000 customers; in Hungary: approximately 90,000 customers; and in Romania: approximately 5,000 customers). Approximately 80 percent of the affected customers were reconnected within one day, and nearly all customers were reconnected within three days. The costs of repairing the damages are not expected to be significant.

For more information on these events, see Item 4. Information on the Company Business Overview Central Europe and Nordic. The areas of the United States in which E.ON U.S. operates are also from time to time subject to severe weather, such as ice storms, which could cause power outages. In Germany, about 40 percent of the country's wind turbines are connected to the power grid of E.ON Energie, mostly in the north of Germany. In the case of a power grid failure, older wind power plants may switch off automatically; this possible separation of a number of wind power plants from the grid may in turn increase the impact of the original power failure in the grid. The Company can give no assurances that power failures or shutdowns involving its operations will not occur in the future, or that any such power failure or shutdown would not have a negative effect on the Company's business and results of operations.

Table of Contents**Financial**

The Company is exposed to financial risks that could have a material effect on its financial condition.

During the normal course of its business, the Company is exposed to the risk of energy price volatility, as well as interest rate, commodity price, currency and counterparty risks. These risks are partially hedged on a Group-wide (or market unit-wide) basis, but the Company may incur losses if any of the variety of instruments and strategies it uses to hedge exposures are not effective. For more information about these risks and the Company's hedging policies and instruments, see Item 5. Operating and Financial Review and Prospects Exchange Rate Exposure and Currency Risk Management and Item 11. Quantitative and Qualitative Disclosures about Market Risk. For more information about E.ON Ruhrgas take or pay contracts, see the discussion on E.ON Ruhrgas long-term gas contracts above.

The Company is also exposed to other financial risks. For example, it holds certain stock investments which may expose it to the risk of stock market declines. Financial markets have experienced volatility in recent years, and markets may decline again or become even more volatile. In addition, a significant portion of the Company's outstanding debt bears interest at floating rates; the Company's interest expense will therefore increase if the relevant base rates rise. The value of the Company's investments in fixed rate bonds will be adversely affected by a rise in market interest rates.

The Company also faces risks arising from its energy trading operations. In general, the Company seeks to hedge risks associated with volatile energy-related prices (including the prices of CO₂ emission certificates) by entering into fixed-price bilateral contracts, fuel-price indexed bilateral contracts, futures and options contracts traded on commodities exchanges, and swaps and options traded in over-the-counter financial markets. To the extent the Company is unable to hedge these risks, or enters into hedging contracts that fail to address its exposure or incorrectly anticipate market movements, it may suffer losses, some of which could be material. In addition to the risks associated with adverse price movements, credit risk is also a factor in the Company's energy marketing, trading and treasury activities, where loss may result from the non-performance of contractual obligations by a counterparty. The Company maintains credit policies and control procedures with respect to counterparties to protect it against losses associated with such types of credit risk, although there can be no assurance that these policies and procedures will fully protect the Company. The marking to market of many of E.ON's hedging instruments required by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), has also increased the volatility of the Company's results of operations, though it has not had a material effect on E.ON's overall risk exposure. For example, in 2006, unrealized losses from the marking to market of derivatives, principally at the U.K. market unit, reduced other non-operating expenses by approximately 2.7 billion. For more information about the Company's energy trading operations, its hedging policies and the instruments used, see Item 4. Information on the Company Business Overview Central Europe Trading, Pan-European Gas Trading, U.K. Energy Wholesale Energy Trading, Trading and U.S. Midwest Power Generation Asset-Based Energy Marketing, Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2006 Compared with Year Ended December 31, 2005, Year Ended December 31, 2005 Compared with Year Ended December 31, 2004 and Exchange Rate Exposure and Currency Risk Management and Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Item 4. Information on the Company.**HISTORY AND DEVELOPMENT OF THE COMPANY**

E.ON AG is a stock corporation organized under the laws of the Federal Republic of Germany. It is entered in the Commercial Register (*Handelsregister*) of the local court of Düsseldorf, Germany, under HRB 22315. E.ON's registered office is located at E.ON-Platz 1, D-40479 Düsseldorf, Germany, telephone +49-211-45 79-0. E.ON's agent

in the United States is E.ON North America, Inc., 405 Lexington Avenue, New York, NY 10174.

The State of Prussia established VEBA in 1929 when it consolidated state-owned coal mining and energy interests (hence the original name VEBA, Vereinigte Elektrizitäts- und Bergwerks-Aktiengesellschaft).

Table of Contents

Ownership of VEBA was transferred from the dissolved Prussian state to the Federal Republic of Germany. VEBA was partially privatized in 1965, leaving the German government with a 40.2 percent share. After several subsequent offerings, privatization was completed in 1987 when the German government offered its remaining 25.5 percent share to the public. During and since the privatization process, VEBA AG evolved into a management holding company, providing strategic leadership and resource allocation for the entire Group.

VEBA-VIAG MERGER

On June 16, 2000, VEBA AG merged with VIAG AG, one of the largest industrial groups in Germany. VEBA AG was subsequently renamed E.ON AG. The merger of VEBA and VIAG to form E.ON has created the largest industrial group in Germany, based on market capitalization at year-end 2006, with sales of 67.8 billion in 2006.

In order to effectuate the merger, VEBA and VIAG submitted an application to the Merger Task Force of the European Commission on December 14, 1999. The EU Commission examined the planned merger and, with its notification of June 13, 2000, declared it to be compatible with the common market. The EU Commission's approval required VEBA and VIAG to commit to make certain divestments in their combined electricity and chemical operations, and to give undertakings to 1) waive transfer charges for cross-zone deliveries of electricity within Germany, 2) purchase a certain minimum amount of electricity from Vattenfall Europe (formerly VEAG Vereinigte Energiewerke Aktiengesellschaft (VEAG)), a utility primarily active in the eastern part of Germany, at market rates during the period ending on December 31, 2007, and 3) provide additional interconnector capacity on the border between Germany and Denmark.

The merger of VEBA and VIAG was legally implemented by merging VIAG AG into VEBA AG, with VEBA AG continuing as the surviving entity. The newly-merged company then received the new name E.ON AG. On June 16, 2000, the merger was entered into the Commercial Register in Düsseldorf. Upon registration with the Commercial Register in Düsseldorf, the merger was completed and became effective for purposes of U.S. GAAP as of July 1, 2000. VIAG AG was dissolved and its assets and liabilities were transferred to VEBA AG. Simultaneously, each VIAG shareholder, with the exception of VEBA AG, received two shares of the new company in exchange for each five VIAG shares held. Pursuant to this exchange ratio, the former VIAG shareholders (with the exception of VEBA AG) therefore held 33.1 percent of the company immediately after the merger, while the former VEBA shareholders held 66.9 percent.

POWERGEN GROUP ACQUISITION

In 2002, E.ON acquired the London- and Coventry-based British utility Powergen. As agreed between E.ON and Powergen, upon satisfaction of all conditions E.ON implemented the transaction under an alternative U.K. legal procedure known as a scheme of arrangement instead of a tender offer. The scheme of arrangement provided for the acquisition of all outstanding Powergen shares by virtue of an order of the English courts following approval of the transaction at a meeting of Powergen shareholders convened by order of the court. Following the receipt of the necessary regulatory approvals, E.ON completed its acquisition of the Powergen Group, which is now wholly owned by E.ON, on July 1, 2002. In March 2003, E.ON transferred LG&E Energy (Powergen's former principal U.S. operating subsidiary; now named E.ON U.S.) and its direct parent holding company to a direct subsidiary of E.ON AG. In July 2004, Powergen was renamed E.ON UK.

The total purchase price amounted to 7.6 billion (net of 0.2 billion cash acquired), and the assumption of 7.4 billion of debt. Goodwill in the amount of 8.9 billion resulted from the purchase price allocation. A significant deterioration in the market environment for the Powergen Group's U.K. and U.S. operations triggered an impairment analysis as of the acquisition date that resulted in an impairment charge of 2.4 billion, thus reducing the amount of goodwill associated with the transaction to 6.5 billion.

For more information on E.ON UK and E.ON U.S., see [Business Overview U.K.](#) and [U.S. Midwest](#).

Table of Contents**RUHRGAS ACQUISITION**

E.ON Ruhrgas is one of the leading non-state-owned gas companies in Europe and the largest gas business in Germany in terms of gas sales. Prior to its acquisition by E.ON, Ruhrgas was owned by a number of holding companies, with indirect stakes dispersed among a number of major industrial and energy companies both within and outside Germany.

In 2001, E.ON concluded contracts for the purchase of significant shareholdings in Ruhrgas with BP p.l.c. (BP) and Vodafone Group Plc (Vodafone). E.ON also reached an agreement in principle with RAG Aktiengesellschaft (RAG) to acquire its Ruhrgas stake. In January and February 2002, the German Federal Cartel Office blocked the consummation of the transactions with the aforementioned parties on the grounds that the proposed purchase would have a negative effect on competition in the German gas and electricity markets. E.ON appealed the decision to the German Federal Ministry for Economics and Labor (now renamed the Federal Ministry for Economics and Technology) (*Bundesministerium für Wirtschaft und Technologie*), which has the power to overrule the Cartel Office if it determines a transaction would result in an overriding general benefit to the German economy.

Between May and July 2002, E.ON reached agreements with ThyssenKrupp AG, Esso Deutschland GmbH, Deutsche Shell GmbH and TUI AG with respect to E.ON's acquisition of each company's respective stake in Ruhrgas. E.ON also reached a definitive agreement with RAG to acquire RAG's more than 18 percent interest in Ruhrgas and to sell E.ON's majority interest in Degussa to RAG in a two-step transaction. The successful completion of each of these arrangements would make E.ON the sole owner of Ruhrgas.

In July 2002, E.ON was granted the ministerial approval it had requested for the acquisition of a majority shareholding in Ruhrgas. The ministerial approval was linked with stringent requirements designed to promote competition in the gas sector. Ruhrgas was required to auction a specified volume of natural gas to its competitors and to legally unbundle its transmission system from its other operations. In addition, E.ON and Ruhrgas were required to divest several shareholdings. E.ON immediately completed the acquisition of 38.5 percent of Ruhrgas from BP, Vodafone and ThyssenKrupp AG.

A number of companies with alleged interests in the German energy industry filed complaints against the ministerial approval with the State Superior Court (*Oberlandesgericht*) in Düsseldorf and petitioned the court to issue a temporary injunction blocking the transaction. The court subsequently issued a series of orders in July, August and September 2002 that temporarily enjoined the Company's acquisition of a majority stake in Ruhrgas and prohibited the Company from exercising its shareholders' rights with respect to the Ruhrgas stake it had already acquired.

In September 2002, Germany's Federal Minister of Economics confirmed the essential aspects of the July 5 ministerial approval for E.ON's acquisition of Ruhrgas. However, the ministry linked its decision to a tightening of the requirements. Ruhrgas was also required to sell its stakes in two regional gas companies, and each of the companies required to be disposed of was granted a special right to terminate its existing purchase agreements with E.ON and Ruhrgas on a staggered basis. In addition, customers purchasing a majority of their gas requirements from Ruhrgas were granted the right to unilaterally reduce the contracted volumes, and Ruhrgas was required to auction 200 billion kilowatt hours (kWh) of natural gas to its competitors, with the minimum bid in such auctions being lower than the average border-crossing price. The approval also provided that the ministry has the right to take further action in the event of any sale by E.ON of a controlling interest in E.ON Ruhrgas or a change in control over E.ON. On this basis, the ministry asked the State Superior Court to lift its temporary injunction. E.ON and E.ON Ruhrgas have complied with all of the conditions imposed by the ministerial approval.

In December 2002, the State Superior Court decided not to lift the temporary injunction, and formal proceedings (*Hauptverfahren*) regarding the injunction began in January 2003. On January 31, 2003, E.ON reached settlement agreements with all plaintiffs who had contested the validity of the ministerial approval. In accordance with these agreements, E.ON exchanged shareholdings with certain plaintiffs and agreed to enter into gas and/or electricity supply contracts, make certain infrastructure improvements (particularly with regard to gas distribution), and provide specified access to the gas and electricity supply grids, with others, as well as agreeing to

Table of Contents

make other financial payments to the plaintiffs. In addition, Ruhrgas reconfirmed to all the parties its commitment to open and fair competition in the gas market.

In March 2003, E.ON acquired the remaining shares of Ruhrgas. The total cost of the transaction to E.ON, including settlement costs and excluding dividends received on Ruhrgas shares owned by E.ON prior to its consolidation, amounted to 10.2 billion. Beginning as of February 1, 2003, E.ON fully consolidated Ruhrgas, which was renamed E.ON Ruhrgas on July 1, 2004.

Upon termination of the court proceedings, the Company completed the first step of the RAG/Degussa transaction, *i.e.*, the Company acquired RAG's Ruhrgas stake for total consideration of 2.0 billion, and E.ON tendered 37.2 million of its shares in Degussa to RAG at the price of 38 per share, receiving total proceeds of 1.4 billion. Following this transaction and the completion of the subsequent mandatory tender offer to the other Degussa shareholders, RAG and E.ON each held a 46.5 percent interest in Degussa, with the remainder being held by the public. In the second step of the transaction, E.ON sold a further 3.6 percent of Degussa's stock to RAG with effect from June 1, 2004, giving RAG a 50.1 percent interest in Degussa. Total proceeds from the sale of this 3.6 percent stake amounted to 283 million. In December 2005, E.ON and RAG signed a framework agreement on the sale of E.ON's remaining 42.9 percent stake in Degussa to RAG. As part of the implementation of that framework agreement, E.ON transferred its stake in Degussa to RAG Projektgesellschaft mbH (RAG Projektgesellschaft) in March 2006 and agreed on the forward sale of that entity to RAG for a purchase price of approximately 2.8 billion (equal to 31.50 per Degussa share). The transaction closed in July 2006. As a result, E.ON no longer holds any equity interest in Degussa.

In accordance with the obligations set out in the ministerial approvals mandating the auctioning of an aggregate amount of 200 billion kWh of baseload gas, on July 30, 2003, E.ON Ruhrgas offered approximately 33 billion kWh of natural gas from its portfolio of long-term supply contracts in the first of six internet-based annual auctions. Approximately 15 billion kWh of this gas were sold. On May 19, 2004, E.ON Ruhrgas offered approximately 39 billion kWh of gas under its long-term supply contracts in the second auction. The offered volume included one third of the volumes (approximately 6 billion kWh) left unsold in the first auction. In the 2004 auction, seven bidders purchased an aggregate volume of approximately 35 billion kWh of gas. On May 18, 2005, E.ON Ruhrgas offered approximately 39 billion kWh of gas under its long-term supply contracts in a third auction, which again included one-third of the volumes (approximately 6 billion kWh) not sold in the first auction. In the 2005 auction, seven bidders purchased the total volume of gas offered. In the fourth auction on May 17, 2006, E.ON Ruhrgas offered approximately 39 billion kWh of natural gas (including the remaining third of the volumes not sold in the first auction, *i.e.* approximately 6 billion kWh), and sold these volumes to seven bidders. The prices E.ON Ruhrgas obtained in the first two auctions were in line with the minimum prices set by the German Federal Ministry for Economics and Labor (now renamed the Federal Ministry for Economics and Technology) (*Bundesministerium für Wirtschaft und Technologie*). In the auctions conducted in 2005 and 2006, the quantities on offer were sold at a premium to the minimum price. E.ON Ruhrgas is required to hold two more annual gas auctions in 2007 and 2008, respectively.

For more information on E.ON Ruhrgas, see Business Overview Pan-European Gas.

PROPOSED ENDESA ACQUISITION***Overview***

On February 21, 2006, E.ON (acting through its wholly owned subsidiary E.ON Zwölfte Verwaltungs GmbH (E.ON 12)) announced its intent to make an offer to acquire all the outstanding ordinary shares, par value 1.20 per share (Endesa ordinary shares), and ADSs (Endesa ADSs , and together with the Endesa ordinary shares, the Endesa securities) of Endesa, S.A., a Spanish public limited company, for 27.50 in cash, without interest. As explained in more detail below, the offer consists of an offer to all holders of Endesa ordinary shares (the Spanish Offer) and a

separate, concurrent offer to all holders of Endesa ordinary shares who are resident in the United States and to all holders of Endesa ADSs, wherever located (the U.S. Offer , and together with the Spanish Offer, the Offers). The U.S. Offer is being made pursuant to the Offer to Purchase dated January 26, 2007, as amended and supplemented by the Supplement to the Offer to Purchase dated February 14, 2007 (as so amended and supplemented, the Offer to Purchase), which has been filed with the SEC as an exhibit to the tender offer

Table of Contents

statement on Schedule TO filed by E.ON and E.ON 12 on January 26, 2007 (file number 005-80961) (as amended and supplemented prior to the date hereof, the Schedule TO). This summary of the terms of the Offers and certain related matters does not purport to be complete, and is subject to, and is qualified in its entirety by reference to, the Schedule TO. The offer for Endesa was, at the time of the announcement, a competing offer to the one made by Gas Natural SDG, S.A. (Gas Natural) for 100 percent of the shares of Endesa on September 5, 2005, which was authorized by the Comisión Nacional del Mercado de Valores (the CNMV) on February 27, 2006. On February 1, 2007, Gas Natural announced that it terminated and withdrew its offer for Endesa.

The initial offer price of 27.50 was subsequently reduced by the amount of the special dividend paid by Endesa of 2.095 per Endesa ordinary share and Endesa ADS in July 2006, and the interim dividend paid by Endesa of 0.50 per Endesa ordinary share and Endesa ADS on January 2, 2007, in each case, pursuant to the terms of the originally announced offer price. As a result of an announcement made on September 26, 2006, E.ON committed to increase its offer price to at least 35.00 in cash for each Endesa ordinary share and each Endesa ADS. This commitment was reduced to at least 34.50 as a result of the interim dividend paid by Endesa of 0.50 per Endesa ordinary share and Endesa ADS on January 2, 2007. On February 2, 2007, pursuant to the Spanish sealed envelope procedure, E.ON 12 submitted proposed revised terms of the Spanish Offer to the CNMV for approval. The proposed revised terms, which provided for an increased offer price for the Spanish Offer of 38.75 in cash per Endesa ordinary share, were published by the CNMV later that day.

On February 6, 2007, the CNMV approved the proposed revised terms of the Spanish Offer, including the increased offer price of 38.75 in cash per Endesa ordinary share. The offer price under the U.S. Offer was increased by E.ON 12 to 38.75 in cash per Endesa ordinary share and Endesa ADS on February 8, 2007. As a matter of Spanish law, E.ON 12 is not permitted to further increase the offer price under the Offers. Given that Gas Natural announced the withdrawal of its offer on February 1, 2007, E.ON 12's offer is the only offer which is currently in force for the Endesa ordinary shares and Endesa ADSs. The new purchase price of 38.75 would result in an aggregate purchase price of approximately 41 billion if all Endesa securities were to be tendered.

On February 6, 2007, Endesa's board of directors unanimously determined that the offer price of 38.75 is fair from a financial point of view to Endesa's shareholders. However, no assurance can be given that E.ON will be able to complete the Offers successfully on the proposed terms or at all. See also Item 3. Key Information Risk Factors.

Acquisition of Endesa Ordinary Shares by Enel S.p.A. (Enel)

On February 27, 2007, Enel announced that it had purchased a 9.99 percent stake in Endesa. In the context of that announcement, Enel made a series of public disclosures on February 28, 2007 in response to questions raised by the CNMV. These disclosures, together with other public statements made by Enel since that date, are summarized below. E.ON takes no responsibility whatsoever for the accuracy of these statements by Enel, as it has no way of independently confirming their validity.

On February 27, 2007, Enel announced that a total of 105,800,000 Endesa ordinary shares were acquired by UBS, a bank acting pursuant to a mandate and purchase order from Enel, at a price of 39 per share. The purchase of the stake was finalized the following day by Enel Energy Europe S.r.l. (Enel Energy Europe), a wholly owned subsidiary of Enel. As of February 28, 2007, Enel had not entered into any contract for derivatives, futures, equity swaps or any other financial instrument linked to Endesa shares, though it reserves the right to do so in the future. Enel also does not rule out any intention to acquire additional Endesa securities so as to bring its stake up to 24.99 percent, subject to the authorization of the relevant Spanish authorities and favorable market conditions. As of February 28, 2007, Enel announced that it is maintaining all of its options open and that neither Enel nor its executives have had any relation, written or oral, or have coordinated actions or have defined any written or oral pact with any of the significant shareholders of Endesa. As of February 28, 2007, there is no decision on behalf of Enel about the Offers currently

underway by E.ON.

In the first days of March, 2007, Enel announced that Enel Energy Europe had entered into a series of share swap transactions with UBS Limited and Mediobanca, with the underlying securities being an aggregate of up to 127,101,597 additional Endesa ordinary shares (equal to 12.01 percent of Endesa's share capital). The swaps provide for cash settlement, with Enel Energy Europe having a conditional right to elect physical settlement (with

Table of Contents

the conditions including Enel's obtaining the required administrative authorizations needed to complete its acquisition of Endesa shares). Enel also reported that Enel Energy Europe had obtained collaterals or financing sources for a total of 127,101,597 Endesa ordinary shares in order to satisfy its obligations under the swaps, at an average price of \$39 per share.

E.ON will continue with its offer for Endesa.

Offer Structure, Conditions and Expected Timing

The U.S. Offer was initially subject to the following conditions:

receipt of valid tenders in the U.S. Offer and the Spanish Offer for at least an aggregate of 529,481,934 Endesa ordinary shares (including Endesa ordinary shares represented by Endesa ADSs), representing 50.01 percent of Endesa's share capital (the minimum tender condition);

certain modifications being made to Endesa's articles of association with regard to limitations on voting rights, qualifications for directors and other corporate governance matters; and

the completion of the Spanish Offer.

On March 6, 2007, E.ON, acting with the required consent of the Mandated Lead Arrangers (as defined below) for the financing for the Offers, withdrew the condition requiring Endesa's shareholders to approve the specified changes to the articles of association.

The Spanish Offer is subject to the same conditions as the U.S. Offer, except that while the U.S. Offer is conditioned on the completion of the Spanish Offer, the Spanish Offer is not conditioned on the U.S. Offer. Notwithstanding any other provision of the U.S. Offer and subject to applicable law, E.ON will have the right to withdraw the U.S. Offer and not accept, purchase or pay for, and shall have the right to extend the period of time during which the U.S. Offer is open and postpone acceptance and payment for any Endesa ordinary shares and Endesa ADSs deposited pursuant to the U.S. Offer, unless each of the above conditions are waived or satisfied by E.ON 12.

Whether the minimum tender condition has been satisfied will be determined as of the expiration of the acceptance period under the Offers. E.ON 12 has received relief from the SEC to permit E.ON 12, following the expiration of the acceptance period of the U.S. Offer, to reduce or waive the minimum tender condition in accordance with Spanish law and practice in the event that the minimum tender condition has not been satisfied, without extending the acceptance period of, or extending withdrawal rights under, the U.S. Offer. E.ON 12 may also waive the minimum tender condition at any time prior to the expiration of the acceptance period of the U.S. Offer. Pursuant to Spanish law, E.ON 12 is required to determine whether or not to reduce or waive the minimum tender condition no later than the day after the CNMV's notification to E.ON 12 of the anticipated number of acceptances of the Offers. This notification is expected to be made no later than three Spanish Exchange days after the expiration date of the Spanish Offer.

As of the date of this annual report, E.ON expects that the timetable for the Spanish Offer will be as follows, though (as noted above) E.ON may choose to withdraw the Offers at any time they are open or choose to extend the acceptance period of the Offers. Although the U.S. Offer is conditioned on the completion of the Spanish Offer, it is expected that the payment for the Endesa securities accepted for payment by E.ON in the U.S. Offer will occur simultaneously with or shortly after the payment with respect to the Spanish Offer. No assurance can be given that the Offers will in fact be completed in accordance with this expected timetable or at all.

Expected Date

Action

March 29, 2007

End of acceptance period of the Offers

April 3, 2007

CNMV informs E.ON about acceptance levels

April 5, 2007

Spanish stock exchanges publish results in official bulletins

April 12, 2007

Settlement of tendered shares

Table of Contents

Financing for the Proposed Offer

In order to finance the Offers, E.ON, as borrower, initially entered on February 20, 2006 into a euro syndicated term and guarantee facility agreement for a total amount of 32 billion.

As a result of the announcement by E.ON of the increase of the offer price on September 26, 2006, a new euro syndicated term and guarantee facility agreement dated October 16, 2006 (the Facility Agreement), was entered into by E.ON as borrower and HSBC Bank plc, Citigroup Global Markets Limited, J.P. Morgan plc, BNP Paribas, The Royal Bank of Scotland plc and Deutsche Bank AG, acting as mandated lead arrangers (the Mandated Lead Arrangers) for a total amount of up to 37.1 billion. In order to finance the Offers at the increased offer price of 38.75, E.ON entered into a new additional syndicated term loan and guarantee facility agreement with the same banks on February 2, 2007 (the Supplemental Facility Agreement). The total amount of financing made available under the Supplemental Facility Agreement was up to 5.3 billion in one tranche. On February 2, 2007, the supplemental facility was utilized in the sum of 3,926,644,534 to provide additional guarantees to the CNMV. Under the terms of the Supplemental Facility Agreement, the unutilized portion of the guarantee commitment was immediately cancelled and the size of the facility was reduced to 3,926,644,534. To date, the Facility Agreement and the Supplemental Facility Agreement have been used for the issuance of financial guarantees (Avales) required by the CNMV in connection with the Spanish Offer; no cash drawdowns have yet been made.

E.ON will provide to E.ON 12 the funds that are obtained under the Facility Agreement and the Supplemental Facility Agreement, as well as any other funds which may be used in the Offers, through intra-Group loan agreements or capital contribution. E.ON will ensure that E.ON 12 is duly financed and capitalized at all times.

Below is a description of the material terms and conditions of the Facility Agreement. The terms and conditions of the Supplemental Facility Agreement are materially similar to those contained in the Facility Agreement (which are described below) except for the following: The date of maturity under the Supplemental Facility Agreement is February 20, 2009. The rate of interest under the Supplemental Facility Agreement is linked to a ratings based margin ratchet. Based on an expected initial A rating from Standard & Poor's and an initial A2 rating from Moody's the interest rate will be EURIBOR plus 27.5 basis points per annum for the first three months and EURIBOR plus 32.5 basis points per annum for the periods thereafter. The mandatory prepayment arrangements relating to the Facility Agreement do not apply to the Supplemental Facility Agreement.

Amount and Maturity of the Facility

The amount of financing made available under the Facility Agreement is up to 37.1 billion. It is divided into two tranches:

Tranche A (2/3 of facility amount) with a maturity on February 18, 2008 and

Tranche B (1/3 of facility amount) with a maturity on February 20, 2009.

Interest

The rate of interest under the Facility Agreement is linked to a ratings based margin ratchet. Based on an expected initial A rating from Standard & Poor's and an initial A2 rating from Moody's the margin will be EURIBOR plus 22.5 basis points per annum for Tranche A and EURIBOR plus 27.5 basis points per annum on Tranche B.

Mandatory Prepayment

The Facility Agreement includes a mandatory prepayment clause which requires E.ON to prepay and cancel the facility:

upon a change of control if so requested by the majority of banks within 30 days of the occurrence of a change of control event;

out of the net proceeds of amounts raised pursuant to the refinancing strategy for the amounts borrowed that E.ON intends to carry out;

Table of Contents

out of the net proceeds of any disposal required by any applicable law, regulation or any decision taken by a competent antitrust or other authority in connection with the acquisition of Endesa and received by E.ON (or capable of being made available to E.ON by way of inter-company loan or dividend); and

out of the net proceeds of material disposals that are received by E.ON (or capable of being made available to E.ON by way of inter-company loan or dividend) in excess of 1 billion (either on its own or aggregated) as long as the total term loan commitments exceed 17 billion at the time of disposal.

Other Commitments

The Facility Agreement sets out, among others, general restrictions that will apply to E.ON and, after the settlement of the Offer, to Endesa and to its subsidiaries on the creation of new, or the maintenance of any existing, encumbrances, except those arising in the ordinary course of business and other exceptions to this general rule as set out in the Facility Agreement.

The Facility Agreement also contains restrictions on E.ON's ability to dispose of all or a substantial portion of its assets, which restrictions are subject to standard exceptions contained in financings of this type.

Furthermore, the Facility Agreement establishes general undertakings, including compliance with law and regulations, pari passu ranking, insurance and change of business restrictions which are in line with the Loan Market Association standard documentation.

The Facility Agreement does not contain any restriction on the dividend or investment policy of E.ON. Furthermore there is no restriction on the level of dividends paid or investments made by Endesa.

The Facility Agreement does not require E.ON to comply with any financial covenants, *i.e.*, it does not require the fulfillment of any financial ratios.

Events of Default

The Facility Agreement includes some events of default usually included in this kind of financing, including failure to pay, non-fulfillment of financial obligations, breach of representations and warranties and insolvency.

Security

The Facility Agreement does not require E.ON to provide any security in the form of pledges. Endesa is not a party to the Facility Agreement. E.ON does not foresee that it will pledge the ordinary shares of Endesa which it may purchase as a result of the Offers. The Facility Agreement does not require Endesa or the companies of its group to provide any security in the form of pledges or any other kind of guarantees as a result of the Offers.

Repayment Plans

Initially the whole settlement amount for the Offers will be funded with drawings under the Facility Agreement and, if necessary, the Supplemental Facility Agreement, but E.ON intends to repay the drawings as soon as possible (which could imply early repayment), and has four main sources of funds to do this, namely existing and future cash, equity or equity like issues, debt capital market issues and asset disposals. The timing and size of these funding sources will depend on prevailing market conditions and no decision in this regard has been made by E.ON at the date of this annual report, apart from what is indicated below.

Existing and Future Cash. Initially the entire settlement amount for the Offers will be funded with bank debt, but part of this will be refinanced with existing cash resources. At the date of this annual report, it is expected that between 4 and 6 billion of liquid funds will be available for the refinancing of part of the bank debt. Also, E.ON's business is highly cash generative, and it is foreseen that strong cash flows will be available that are sufficient to comply with the investment plans and also repayment plans.

Equity or Equity like Issues. Depending on the volume of acceptances of the Offers, E.ON may issue equity or equity like instruments to repay part of the bank debt and help to meet E.ON's rating objective. E.ON will consider issuing up to 10 percent of its equity capital.

Table of Contents

Debt Capital Market Issues. Subject to market conditions, E.ON intends to access the debt capital markets quickly, but in an orderly manner and will consider debt instruments in euros, sterling, U.S. dollars and possibly other currencies. E.ON has an existing 10 billion commercial paper program, and a 20 billion MTN program. Both programs have been already partially used but can be increased in size if required.

Asset Disposals. If necessary, E.ON may also consider asset disposals to repay part of the bank debt and help to meet its rating objective. The proceeds of such sales would be used to repay the bank debt in line with the mandatory prepayment clause.

Certain Information on Endesa

The following information concerning Endesa is based on publicly available information (including Endesa's SEC filings and filings made by Endesa with the CNMV). Publicly available information concerning Endesa may contain errors. E.ON cannot take responsibility for the accuracy or completeness of the information contained in such public information, or for any failure by Endesa to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to E.ON.

Endesa is a company (*sociedad anónima*) organized under the laws of the Kingdom of Spain with limited liability. The principal executive offices of Endesa are located in Madrid at Calle Ribera del Loira, 60, Spain. Endesa's telephone number is +34 91 213 10 00.

Endesa was incorporated by notarial deed on November 18, 1944 under the corporate name Empresa Nacional de Electricidad, S.A, and is registered with the Commercial Registry of Madrid in Book 323, Folio 1, Sheet number 6405. It changed its corporate name to Endesa, S.A. pursuant to a shareholders' resolution dated June 25, 1997.

Endesa is engaged in the electricity business, which is principally focused on Spain and Portugal, the Southern European region (including Italy and France) and Latin America. Endesa is also involved in other activities related to its core energy business, such as renewable energy, and the distribution and supply of natural gas. At December 31, 2005, Endesa had a total installed capacity of 45,908 megawatts (MW), and in 2005, generated 185,264 gigawatt hours (GWh) and sold 203,335 GWh, supplying electricity to approximately 23.2 million customers in 15 countries. At that date, Endesa had 27,204 employees, 53.2 percent of whom were located outside Spain and Portugal, and its total assets amounted to approximately 55 billion, 43.3 percent of which were located outside Spain and Portugal.

As of the date of this annual report, Endesa's share capital amounts to 1,270,502,540 and is represented by 1,058,752,117 issued shares of a single series, each with a nominal value of 1.20. All of the Endesa ordinary shares are fully subscribed, paid up and represented by account entries.

All of the Endesa ordinary shares are listed on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and are integrated in the Stock Markets Interconnection System. The Endesa ordinary shares are also listed on the Santiago Off Shore Stock Exchange in Chile. The Endesa ADSs, each representing one Endesa ordinary share, are listed on the NYSE and are evidenced by ADRs.

Strategic Considerations Supporting the Proposed Offer

The purpose of the Offers is to acquire all the outstanding Endesa ordinary shares and Endesa ADSs and obtain control of Endesa. E.ON's business purpose for the acquisition of Endesa is, among other things, to consolidate E.ON's business presence in the main countries of the European Union.

E.ON aims to operate the businesses of E.ON and Endesa as a complementary portfolio of assets, and execute them on a strategic business model designed to deliver value to both companies. Accordingly, E.ON has no plan to merge Endesa or any of the Endesa group of companies with E.ON 12 or any of the companies in the E.ON Group, dissolve Endesa or any of the Endesa group of companies or to effect any significant reorganization of the Endesa group. It is E.ON's intention for Endesa to be responsible for managing a new market unit of the E.ON Group based in Madrid that will be responsible for Southern Europe and Latin America. The Offers are not being made for the purpose of generating synergies. E.ON believes that the acquisition of Endesa will be profitable whether or not there are specific cost savings that are realized as a result of the acquisition of Endesa. As of the date of this annual report, E.ON expects that the acquisition of Endesa will generate additional value that will reach its full effect starting in 2010.

Table of Contents

E.ON has emphasized the importance of creating leading market positions as a key source of competitive advantage, both by creating economies of scale to reduce costs and by managing volatile commodity markets to reduce risks. E.ON believes that the Offers are fully in line with this strategy, as the acquisition of Endesa by E.ON would create a combined company with a competitive position (and sometimes a leading position) in Europe's principal regional power markets. In strategic terms, this transaction is a major step forward for E.ON in delivering its vision to create the world's leading power and gas company. The combination of E.ON and Endesa would:

broaden the dimensions of E.ON in Europe's gas and power markets, given the positions of Endesa in Southern Europe;

add Endesa's outstanding position in fast growing markets to E.ON's strong asset portfolio; and

bring together two companies with the same vision of creating a leading integrated power and gas business, with the aim of investing for the long term to create value for both investors and customers.

Taken together, E.ON and Endesa serve more than 50 million customers and operate in more than 30 countries with a staff of more than 107,000 employees in 2005. The aggregate sales for the two companies in 2005 amounted to 608,000 million kWh of power and 945,000 million kWh of gas. Total capacity of the combined company would be approximately 100,000 MW, and total energy production would exceed 520 terawatt hours.

E.ON plans to maintain Endesa's current business policy and strategy and to continue developing Endesa's main business areas. The following is a brief description of E.ON's plans with respect to Endesa, should E.ON obtain control over Endesa, with respect to the corporate and territorial organization of Endesa and Endesa's assets. These plans and the related commitments assumed by E.ON have been made in light of the current Spanish regulatory framework and may be altered in the event of a material change in that regulatory framework.

E.ON intends immediately to take full advantage of one of Endesa's key areas of expertise, Endesa's Centre for Excellence in Distribution based in Barcelona. E.ON intends to build this center into a Global Centre of Excellence which will serve as a key resource of the entire E.ON Group.

As of the date of this annual report, E.ON does not have any specific plans regarding the use or disposal of Endesa's assets outside of the ordinary course of its business. E.ON is not planning to sell Endesa's assets. To the contrary, Endesa may benefit from the transfer of additional assets from E.ON to Endesa. There is no material overlap in the activities of E.ON and Endesa (except in certain regions of Northern Italy) and there is no need to sell any assets of Endesa to finance the Offers. However, E.ON will ensure that Endesa's business will stay in line with major business trends and may decide to sell assets of Endesa in the future, depending on the circumstances that exist at the time.

Antitrust and Regulatory Approvals

In connection with the Offers, the approval of various domestic and foreign regulatory authorities having jurisdiction over E.ON or Endesa, and their respective subsidiaries and their respective businesses, is required. The principal approvals required are described below.

Antitrust Approvals

European Union

E.ON and Endesa each conduct business in the member states of the European Union. Council Regulation (EC) No. 139/2004 requires that certain mergers or acquisitions involving parties with aggregate worldwide sales and

individual European Union sales exceeding specified thresholds be notified to and approved by the European Commission before such mergers and acquisitions are consummated. This Regulation also gives the member states of the European Union the right to request that the European Commission refer jurisdiction to review a merger to their national competition authorities under the provisions of the relevant national merger law where it may have an effect on competition in a distinct national market. Such a request must be notified to the European Commission within 15 working days of the transaction's notification to the European Commission. There was no such referral in connection with the Offers.

Table of Contents

E.ON, as sole shareholder of E.ON 12, submitted its proposed acquisition of Endesa to the European Commission on March 16, 2006. The European Commission reviewed the acquisition of Endesa pursuant to the Offers to determine whether the acquisition is compatible with the common market. The European Commission concluded that the proposed transaction would not significantly impede effective competition in the European Economic Area or any substantial part of it and therefore, on April 25, 2006, decided not to oppose the acquisition.

Litigation of Iberdrola against the EU Approval

On July 25, 2006, Iberdrola filed an appeal with the EC Court of First Instance against the decision of the European Commission as of April 25, 2006. The appeal does not automatically suspend the execution of the European Commission's decision. If the appeal were totally or partially upheld and the EC Court of Justice subsequently would confirm such decision of the Court of First Instance, pursuant to Article 10(5) of Council Regulation (EC) No. 139/2004, the acquisition of Endesa by E.ON 12 would be re-examined by the European Commission in the light of current market conditions. If the re-examination of the transaction led the European Commission to declare it incompatible with the common market or to declare it compatible with the common market subject to conditions, E.ON 12 understands that the European Commission may require them to dispose of all the Endesa ordinary shares or assets acquired, in order to restore the situation prevailing prior to the implementation of the concentration. However, such a disposition would not affect the purchase of Endesa's securities pursuant to the Offers. E.ON's outside counsel has received telephonic notice from the Court of First Instance that Iberdrola has withdrawn its appeal. Neither E.ON nor its counsel have as yet received written confirmation of such withdrawal.

Spain

According to Council Regulation (EC) No. 139/2004 and article 14.1 of Spanish Law 16/1989, of July 17, on the Defense of Competition, the acquisition by E.ON 12 of Endesa has been notified to the European Commission and not to the Service for the Defense of Competition, the Spanish competition authority, since it represents a combination involving parties with aggregate worldwide sales and individual European Union sales exceeding specified thresholds.

Other Jurisdictions

E.ON 12 is not required to file any notification with the competition authorities of the European Union member states with respect to the acquisition of Endesa by E.ON 12.

Based on its review of publicly available information regarding the businesses in which Endesa and its respective subsidiaries are engaged, the acquisition by E.ON 12 of Endesa is subject to the following notification requirements and/or approvals in non-European Union countries:

Argentina. The antitrust authorization period is 45 days from the date notice is complete, unless it is suspended by the Commission for the Defense of Competition in order to request additional information from E.ON 12. Therefore, in practice, it may take several months to obtain the authorization from the Argentine antitrust authority. If the authorization period is not suspended and the 45-day period expires without the Commission for the Defense of Competition having taken any decision, the Offers shall be deemed to have been tacitly approved by the Commission for the Defense of Competition.

E.ON 12 notified the Argentine competition authorities on May 22, 2006. After submitting its notice, the Commission for the Defense of Competition requested that E.ON 12 provide additional information in order to complete such notification, which suspended the 45-day deadline for the authorization of the transaction, and requested the opinion of the Argentine gas regulator (ENARGAS) and of the Argentine electricity regulator (ENRE) on the transaction. ENARGAS issued its opinion on November 15, 2006, expressing no concerns about the transaction, but ENRE has

not yet started its review of the transaction. On November 22, 2006, the Commission for the Defense of Competition resumed its assessment of the transaction upon approval of E.ON 12's bid by the CNMV on November 16, 2006, but stated that it would not issue a final decision without the opinion of ENRE. The Offers do not need to be suspended pending the authorization. Nevertheless, should the authorization be denied after the completion of the Offers, E.ON 12 would be required to sell the assets and companies of Endesa in Argentina.

Table of Contents

E.ON 12 believes that no circumstances exist that would prevent the acquisition of Endesa from being authorized by the Argentine competition authorities.

Brazil. On March 15, 2006, E.ON 12 filed a request for authorization with the Brazilian competition authorities. The antitrust authorization period is generally between two and three months, unless it is suspended by the Brazilian competition authorities in order to request additional information from E.ON 12. On March 27, 2006, the investigation department of the Brazilian Electric Energy Agency issued an opinion recommending the approval of the Offers. Furthermore, the investigation department of the Brazilian Ministry of Justice has requested the Brazilian Electric Energy Agency (the ANEEL) to issue an opinion regarding the Offers. The Offers are currently under review by the ANEEL.

The Offers need not be suspended pending the authorization. Should the authorization be denied following the completion of the Offers, E.ON 12 would be required to sell the assets and companies of Endesa in Brazil. E.ON 12 believes that no circumstances exist that would prevent the acquisition of Endesa from being authorized by the Brazilian competition authorities.

Peru. Neither E.ON nor Endesa conduct business in Peru. Therefore, the acquisition of Endesa by E.ON 12 is not subject to any notification to the Peruvian competition authorities. E.ON 12 has received oral confirmation by the Peruvian competition authorities that it is not required to file a notification of the combination. Although not mandatory, E.ON 12 notified the Peruvian competition authorities on June 23, 2006, for information purposes only.

Based on its review of publicly available information regarding the businesses in which Endesa and its respective subsidiaries are engaged, E.ON 12 is not aware of any other authorization that would be necessary for E.ON 12 to obtain from other competition authorities in addition to the notifications and authorizations described above.

As of the date of this annual report, E.ON 12 is not able to accurately assess the financial and business impact that the failure to obtain any or all of the previous authorizations would have on the combined businesses of E.ON and Endesa. Notwithstanding this, it is not foreseeable that any such impact would be significant. In the event that the operation could be prohibited in some of the above countries, E.ON will sell the correspondent assets by means of a tender or by any other adequate procedure.

Other Regulatory Approvals

Spanish General Secretary of Energy

On March 8, 2006, E.ON 12 filed a notification of the Spanish Offer to the General Secretary of Energy (*Secretaría General de Energía*) of the Spanish Ministry of Industry, Tourism and Trade, in accordance with Article 3 and Transitory Provision Third of Law 5/1995, of March 23, on the applicable regime for the sale of government shareholdings in certain companies and golden shares (*Ley 5/1995, de 23 de marzo, de regimen jurídico de enajenación de participaciones públicas en determinadas empresas*).

On April 6, 2006, the General Secretary of Energy resolved, in light of the notification filed by E.ON 12, not to initiate the proceedings contemplated under article 4 of Spanish Law 5/1995.

The regime governing golden shares in Spanish Law 5/1995 was revoked by Spanish Law 13/2005, of May 26.

General Directorate for Energy of the Regional Government of the Balearic Islands

E.ON 12 filed an application to the General Directorate for Energy (*Dirección General de Energía*) of the Regional Government of the Balearic Islands on May 18, 2006, for the purposes of Decree 6/2006, of January 27, on the regulation of the procedure for the authorization of the transfer of electricity distribution facilities (*Decreto 6/2006, de 27 de enero, sobre la regulación del procedimiento de autorización de la transmisión de instalaciones de distribución de energía*). On November 15, 2006, the General Directorate for Energy granted the requested authorization.

Table of Contents

National Commission for Energy

On March 23, 2006, E.ON 12 filed with the Spanish National Commission for Energy (*Comisión Nacional de Energía*) (the CNE) an application requesting authorization to proceed with the Spanish Offer under the Royal Decree-Law 4/2006, of February 24, which amended the functions of the CNE.

On July 27, 2006, the CNE issued a resolution authorizing the Offers, subject to the fulfillment of 19 conditions.

On August 10, 2006, E.ON 12 filed an administrative appeal against the resolution of the CNE with the Spanish Ministry of Industry, Tourism and Trade (the Spanish Ministry of Industry), in which E.ON 12 argued that the conditions are excessive and unlawful.

On September 26, 2006, the European Commission declared that the conditions imposed on E.ON 12 by the CNE are incompatible with European Union law, and demanded their removal. On October 18, 2006, the European Commission initiated an infringement procedure against Spain for breach of European Union law by not complying with the order to remove the conditions.

On November 3, 2006, the Spanish Ministry of Industry confirmed the authorization of the Spanish Offer that had been granted by the CNE, removed some of the conditions and modified other conditions. The remaining conditions are outlined below:

E.ON 12 must keep Endesa as the parent company of its group and may not merge any of its subsidiaries with E.ON 12 for a period of five years after having obtained control of Endesa. Endesa must keep its brand, registered office and administrative body.

E.ON 12 must adequately fund Endesa in order to maintain a ratio of net financial debt to EBITDA of less than 5.25 for a period of three years after having obtained control of Endesa.

Until the year 2010, member companies of the combined E.ON and Endesa group carrying out regulated activities in Spain may only pay dividends if the resources generated by them are sufficient to meet their financial and investment commitments.

E.ON 12 must make all investments in regulated activities of gas and electricity as set out in the Endesa investment plans for the period 2006-2009 and certain other plans, and must furnish certain information and plans to the competent authorities.

In the period from 2010 to 2015, E.ON 12 must annually inform the CNE about its future investment plans regarding regulated activities and strategic assets of gas and electricity.

E.ON 12 must maintain Endesa's ordinary generation facilities for their remaining usable life as currently intended by Endesa.

Until the year 2009, E.ON 12 may not redirect any natural gas to markets other than the Spanish market, if the annual volume of gas as set out in the natural gas supply plans submitted by Endesa to the CNE is not met.

All nuclear facilities owned by Endesa must comply with the obligations and regulations regarding nuclear matters and all applicable law and agreements as to the management of such nuclear facilities regarding questions of security and supply of uranium.

For a period of five years after obtaining control of Endesa, E.ON 12 must maintain the current companies owning assets used for the generation, distribution or transmission of insular or extra-peninsular electricity systems.

For a period of five years after obtaining control of Endesa, E.ON 12 must guarantee that the aggregated annual consumption of each of Endesa's plants that currently consume Spanish coal is not less than the aggregated annual volume set out in the National Plan of Coal Mining 2006-2012.

Future acquisitions of shares in Endesa shall be governed by the same set of rules as in force.

Table of Contents

E.ON 12 must not adopt strategic decisions as to Endesa which will affect the security of supply contrary to the Spanish law.

Any violation of the conditions set out by the decision of the Spanish Ministry of Industry may lead to legal proceedings under the applicable Spanish energy regulations.

If, during a period of ten years after E.ON 12 obtained control of Endesa, any third party acquires or attempts to acquire, directly or indirectly, shares in E.ON amounting to more than 50 percent of the share capital or granting more than 50 percent of the voting rights, E.ON must notify CNE, which will be entitled to modify the decision of the Spanish Ministry of Industry set forth above. In this case, CNE may require E.ON to dispose of all the ordinary shares of Endesa.

The CNE may request the Spanish government to adopt measures based on the relevant Spanish regulations in order to guarantee the supply of energy in emergency situations.

E.ON 12 considers the conditions set forth in the decision of the Spanish Ministry of Industry acceptable and does not intend to challenge its decision in court.

However, on December 20, 2006, the European Commission ruled that the conditions set forth in the decision of the Spanish Ministry of Industry as of November 3, 2006 were incompatible with EU law and requested the Spanish government to withdraw the modified conditions by January 19, 2007. The Spanish government has not withdrawn the modified conditions. On January 31, 2007, according to Article 226 of the EC Treaty, the Commission sent a letter to Spain requesting it to comply with the Commission's Decisions of September 26 and December 20, 2006. If Spain does not comply with the Decisions, the Commission may issue a reasoned opinion against Spain. Finally, on January 25, 2007, the European Commission brought an action against Spain before the European Court of Justice regarding the approval of Royal Decree-Law 4/2006, of February 24, which amended the functions of the CNE.

Other Jurisdictions

Brazil. On July 3, 2006, E.ON 12 filed a request for authorization with the Brazilian energy regulatory agency (ANEEL) to acquire a controlling interest in Endesa's subsidiaries that hold public service concessions. In response to such request, the Secretary of Economic and Financial Control of ANEEL ruled by official letter dated August 14, 2006, that Endesa was required to request authorization, not E.ON 12. E.ON 12 has asked that Endesa undertake all necessary measures to enable the acquisition by E.ON 12 of Endesa's public service concessionaire subsidiaries in Brazil. On January 25, 2007, Endesa filed the new request for authorization with ANEEL. Although Brazilian law does not provide for a time limit for ANEEL to issue its authorization, this authorization may take approximately 45 business days to obtain.

If E.ON 12 does not obtain such authorization prior to the settlement of the Offers, E.ON 12 would be prevented from exercising control and, therefore, participating in the management of Endesa's subsidiaries. Furthermore, if the authorization is denied, E.ON 12 may be required to sell Endesa's public service concessionaire subsidiaries as well as the other subsidiaries operating under government authorization in Brazil. E.ON 12 would dispose of these assets by means of an auction or other efficient procedure. Finally, ANEEL may also decide to subject the grant of its authorization to certain conditions or restrictions. E.ON 12 is not able to estimate the impact of such restrictions.

Argentina. Authorization for the acquisition of indirect control over the subsidiaries of Endesa in Argentina is not required. However, each of the relevant subsidiaries of Endesa must communicate such event to the energy regulator in Argentina following the settlement of Offers. This reporting obligation is made for the purpose of updating the

corresponding registers in the Argentine energy sector. The deadline for notification is 10 days following the settlement of the Spanish Offer.

Colombia. Acquisition of indirect control of the subsidiaries of Endesa in Colombia must be communicated to the Colombian energy regulator. Such communication is an informational obligation following the settlement of the Spanish Offer, for which no specific deadline is stipulated under Colombian law. The Colombian energy regulator could impose conditions relating to the terms of the government authorizations under which the

Table of Contents

Colombian subsidiaries of Endesa operate. However, E.ON 12 believes that, in principle, there are no circumstances which might give rise to the imposition of conditions as a result of the acquisition of indirect control over the subsidiaries of Endesa in Colombia.

Turkey. Endesa has a 50 percent shareholding in a Turkish company, and accordingly, E.ON 12 has requested the compulsory authorization from the Turkish regulatory authorities in the energy sector prior to the acquisition of such shareholding.

E.ON 12 requested the corresponding authorization from the Turkish regulatory authorities in the energy sector on September 5, 2006. On September 13, 2006, the Turkish regulatory authorities stated that no decision can be made because the Offers are subject to conditions.

In the event that, after E.ON has obtained control of Endesa and authorization were denied, E.ON 12 would have to sell Endesa's holding in the Turkish company. However, E.ON 12 believes that the authorization will be obtained.

Poland. The acquisition of indirect control of the subsidiaries of Endesa in Poland is not subject to any authorization. However, E.ON 12 is required to provide notification of the transaction to the Polish energy regulator following the settlement of the Offers, although no specific deadline for doing so is specified under Polish law. This notification has the purpose of updating the registers in the Poland energy sector, and under no circumstances could it have an impact on the Offers or require E.ON 12 to proceed with the sale of Endesa's subsidiaries in Poland or of the assets of such subsidiaries.

Based on its review of publicly available information regarding the businesses in which Endesa and its respective subsidiaries are engaged, E.ON 12 is not aware of any other license or regulatory permits from the other regulatory authority within the energy sector that would be necessary for E.ON 12 to obtain in addition to the notification or authorization above described.

As of the date of this annual report, E.ON 12 is not able to accurately assess the financial and business impact that the failure to obtain any or all of the previous authorizations would have on the combined businesses of E.ON and Endesa. However, E.ON 12 does not estimate that there would be any significant impact. In any jurisdiction in which the transaction were not authorized, E.ON 12 would expect to dispose of the relevant assets by means of an auction or any other efficient procedure.

Other Legal Actions

Acciona Litigation

On October 12, 2006, E.ON and E.ON 12 filed a complaint against Acciona S.A. (Acciona) and Finanzas Dos, S.A. (Finanzas), a wholly owned subsidiary of Acciona, in the U.S. District Court for the Southern District of New York (the Court) alleging that a Schedule 13D filed by Acciona and Finanzas with the SEC on October 5, 2006, with respect to the acquisition of Endesa shares, was materially false and misleading. The complaint sought certain injunctive relief, including relief in the form of a declaration that the Schedule 13D violates Section 13(d) of the Exchange Act, an order requiring that Acciona and Finanzas correct by public means their material misstatements and omissions and be enjoined from purchasing or making any arrangement to purchase any Endesa ordinary shares until such time as they have filed an accurate Schedule 13D.

On October 13, 2006, E.ON and E.ON 12 filed a motion for a preliminary injunction as well as a motion for expedited scheduling and discovery, and the parties participated in an initial hearing with the Court to discuss the litigation. The Court scheduled a second hearing for October 20, 2006 to consider plaintiffs' motions and to schedule further

proceedings in connection with plaintiffs' application for a preliminary injunction. On October 19, 2006, Acciona and Finanzas amended their Schedule 13D and made public certain information previously omitted from their Schedule 13D, including the existence of fourteen total return swap agreements with Banco Santander Central Hispano, S.A. (Banco Santander) related to Endesa shares. Acciona and Finanzas also moved to dismiss the complaint asserting, among other things, that the amended Schedule 13D mooted E.ON's action. At the October 20, 2006 hearing, the Court requested that E.ON file an amended complaint addressing the amended Schedule 13D.

Table of Contents

On November 3, 2006, E.ON filed an amended complaint (in which a wholly owned subsidiary of E.ON AG, BKB AG, was added as a plaintiff), a brief in opposition to Acciona's and Finanzas' motion to dismiss, and a renewed application for preliminary injunctive relief. The amended complaint alleges that the initial Schedule 13D filed by Acciona and Finanzas, as well as the Schedule 13D as amended on October 19, 2006, and October 25, 2006, are materially false and misleading and seeks certain injunctive relief, including relief in the form of a declaration that the Schedule 13D, as amended, violates Section 13(d) of the Exchange Act, an order requiring that Acciona and Finanzas correct by public means their material misstatements and omissions and be enjoined from purchasing or making any arrangement to purchase any Endesa ordinary shares in connection with the settlement of the total return swaps it entered into with Banco Santander.

On November 16, 2006, the Court advised that it would deny Acciona's motion to dismiss, and it granted E.ON's motion for expedited scheduling and discovery. On November 20, 2006, the Court issued an Opinion and Order denying Acciona's motion to dismiss.

On November 17, 2006, E.ON supplemented its amended complaint to add allegations that Acciona's acquisition of 13.692 percent of Endesa's shares on September 25, 2006 (the initial 10 percent acquired directly by Acciona on September 25, 2006, plus an additional 3.692 percent acquired by Banco Santander and subjected to the first total return swap with Acciona) were acquired by means of an illegal tender offer in violation of Sections 14(d) and 14(e) of the Exchange Act. E.ON seeks an order that Acciona be required to offer withdrawal rights (through an offer of rescission) to all Endesa shareholders who sold shares to Acciona or Banco Santander in response to Acciona's illegal tender offer.

On December 11, 2006, Acciona filed a motion to dismiss E.ON's illegal tender offer claim. On January 9, 2007, the Court issued an Opinion and Order denying that motion to dismiss.

On February 5, 2007, the Court granted E.ON's and E.ON 12's motion for a preliminary injunction against Acciona and Finanzas prohibiting them from any further violation of Section 13(d) under the Exchange Act and any other disclosure provision of the U.S. securities laws. The Court denied all other preliminary injunctive relief sought by E.ON and E.ON 12. On February 7, 2007, the Court set the initial scheduling conference for May 11, 2007.

On February 7, 2007, E.ON and E.ON 12 appealed the February 5, 2007 opinion and order of the Court to the extent that it denied preliminary injunctive relief sought by E.ON and E.ON 12 to the U.S. Court of Appeals for the Second Circuit (the "Second Circuit"). Also on February 7, 2007, E.ON and E.ON 12 filed with the Second Circuit a motion to expedite the appeal. On February 14, 2007, E.ON's and E.ON 12's motion to expedite the appeal was denied.

Barcelona Litigation I

On July 28, 2006, Gas Natural filed a pre-trial proceeding request with the Court for Business Matters No. 1 in Barcelona (Juzgado de lo Mercantil nº 1 de Barcelona) based on the Spanish Unfair Competition Law requesting Endesa, E.ON, HSBC Bank plc, BNP Paribas, Citigroup Global Markets Limited, J.P. Morgan plc and Deutsche Bank AG (the "Requested Parties") to furnish certain information and documents on the contacts maintained amongst them in connection with the Spanish Offer, alleging possible unfair competition practices and the use of inside information. On October 25, 2006, the Court for Business Matters No. 1 in Barcelona ordered the Requested Parties to provide copies of certain documents relating to the Spanish Offer within 15 days as from the notification of such decision. The requested documents, relating to the Spanish Offer, include, but are not limited to, the confidentiality agreements entered into by the Requested Parties, Board minutes, minutes of meetings, the agreements and mandate letters among Endesa, E.ON and their respective advisors, due diligence reports, and copies of all mailings amongst the Requested Parties. After the requested documents are furnished, the Court for Business Matters No. 1 in Barcelona will decide which of such documents shall be provided to Gas Natural. This decision will depend on the eventual relevance of

such documents to serve as a basis for a possible future lawsuit.

The request for pre-trial proceedings does not imply the initiation of further jurisdictional proceedings against the Requested Parties. It is a pre-trial activity only, which purpose is to furnish the requesting party with sufficient information to decide whether or not to file a lawsuit. No request for precautionary measures has been filed. As of

Table of Contents

the date hereof, Endesa, Deutsche Bank, JP Morgan and HSBC have appeared in the pre-trial proceedings. E.ON has not yet been formally notified of the proceedings.

Because this is pre-trial activity only and, as mentioned above, Gas Natural has not filed a request for precautionary measures, the Offers should not be affected by these proceedings. However, Gas Natural could file a lawsuit on the basis of information obtained in these proceedings and possibly request that the Spanish Offer be suspended.

Barcelona Litigation II

Gas Natural filed a lawsuit against E.ON with the Court for Business Matters No. 5 in Barcelona. Gas Natural alleges that E.ON is abusing a dominant position in violation of article 82 of the EC Treaty, and requests a Court judgment declaring the Offers void. On January 25, 2007, E.ON was served in Germany with the German versions of the complaint and court order, but not the Spanish versions. E.ON voluntarily appeared before the court on January 26, 2007, requesting that the court provide the entire court records in Spanish. This request does not imply any waiver of rights or tacit submission to the court. On January 30, 2007, the court provided E.ON with the Spanish version of the complaint together with its exhibits. As the vast majority of the exhibits which were given were in German, E.ON has filed a writ requesting the Spanish translations of the exhibits and a suspension of the deadline to file the answer to the claim, until the Spanish versions of the exhibits have been provided. The Court has granted Gas Natural a 10-day deadline to furnish the translation of the exhibits requested by E.ON, and has ordered that the course of the proceedings be suspended until Gas Natural furnishes the Spanish version of the exhibits. At this stage, Gas Natural has not yet provided the requested translations. In addition, E.ON has filed an appeal for reversal requesting the Court to fix the amount of the claim so as to render a resolution whereby it determines the amount of the claim is 36,526,948,036. Gas Natural has thereafter filed an opposition to the appeal for reversal requesting that the Court order the dismissal of the said appeal, leaving the amount in dispute as undetermined. Gas Natural has further filed complementary allegations to its opposition to E.ON's appeal for reversal.

Gas Natural New York Litigation

On November 30, 2006, Gas Natural filed a complaint against E.ON and E.ON 12 in the U.S. District Court for the Southern District of New York alleging that on November 17, 2006, E.ON and E.ON 12 had filed a false and misleading Schedule TO-C with the SEC containing a preliminary offer document in connection with the proposed tender offer for Endesa. On December 4, 2006, Gas Natural moved for a preliminary injunction seeking, among other things, to require E.ON and E.ON 12 to make additional disclosures to correct allegedly false and misleading statements and to prevent E.ON and E.ON 12, until additional disclosures were made, from taking further steps to consummate a U.S. tender offer or purchasing Endesa ordinary shares from U.S. holders. On December 11, 2006, E.ON and E.ON 12 moved to dismiss the lawsuit. On December 19, 2006, the Court dismissed most of the claims. The remaining claim concerns Gas Natural's allegation that E.ON and E.ON 12 failed to disclose material agreements with Endesa; the Court expressed no view on the merits of that claim, but held only that it had been pleaded with sufficient specificity to survive a motion to dismiss. By stipulation entered by the Court on December 27, 2006, Gas Natural withdrew without prejudice its motion for a preliminary injunction and the case was stayed until the earlier of 45 days from entry of the stipulation or E.ON's or E.ON 12's commencement of a tender offer in the U.S. for Endesa ordinary shares or ADSs.

The stay expired on January 26, 2007, when E.ON 12 commenced its U.S. tender offer for Endesa. On February 7, 2007, the Court set the initial scheduling conference for May 11, 2007. Gas Natural's complaint and other papers filed in the course of this proceeding are publicly available for a fee from the website of the PACER Service Center (<http://pacer.psc.uscourts.gov>), the U.S. Federal Judiciary's centralized system for electronic access to court records, by selecting on the PACER website the U.S. District Court for the Southern District of New York and querying the party name E.ON. Material appearing on the website is not incorporated by reference in this annual report.

Table of Contents

E.ON s Complaint Filed against Acciona, Gas Natural and Other Natural or Legal Persons before the CNMV

On January 2, 2007, E.ON filed a complaint against Acciona with the CNMV alleging that Acciona and Gas Natural are acting in concert without launching a joint tender offer in Spain and therefore are violating Spanish law. In its complaint, E.ON requests that Acciona shall be enjoined from acquiring Endesa ordinary shares and prohibited from exercising the voting rights of the Endesa ordinary shares already held.

Complaint Filed by Acciona with the CNMV against E.ON 12

On January 16, 2007, the CNMV received a letter from Acciona, in which Acciona claimed that, according to reports published in the press, E.ON 12 held certain information concerning Endesa that was not known to Endesa s shareholders. Acciona further stated in its letter that E.ON 12 should be compelled to disclose this information, and any future plans of E.ON 12 based on this information, to the Endesa shareholders and, in particular, to Acciona, in accordance with the principles of equal treatment and the protection of investors and so that shareholders are able to form a reasoned judgment regarding the Offers.

Specifically, Acciona requested that the Spanish Prospectus authorized on November 16, 2006, by the CNMV be modified to include this information or that the CNMV take any other measure to ensure that the Endesa shareholders are furnished with this information.

Acciona s Request for Preliminary Inquiries in Madrid

Acciona filed a request for pre-trial proceedings against E.ON before the courts in Madrid alleging possible unfair competition practices and the use of inside information between Endesa and E.ON. On March 2, 2007, E.ON was served with a resolution from the Court for Commercial Business nº 2 of Madrid which rejected most of the preliminary inquiries sought by Acciona. Notwithstanding this, the resolution orders E.ON to furnish certain information referring to some currency exchange values in Latin America and to a joint venture contract entered into by Endesa and Medgaz. Additionally, E.ON is requested to furnish its confidentiality agreement with Endesa, as well as the due diligence reports and the list of insiders in connection with its bid for Endesa.

In any case, this request for pre-trial proceedings does not necessarily imply the initiation of further jurisdictional proceedings against E.ON. It is merely a pre-trial activity, which has the purpose of furnishing Acciona with sufficient information to decide whether or not to file a lawsuit.

Obligation to Make Tender Offers in Other Jurisdictions

If the Offers are successful, pursuant to local laws in the countries of some of Endesa s subsidiaries, E.ON 12 may be required to make tender offers for the outstanding shares of certain subsidiaries. The only offers which might be made for the stock of publicly traded subsidiaries of Endesa are the following:

Brazil

In accordance with Law 6404/76 on stock companies, and Brazilian Securities Commission (*Comissao de Valores Mobiliarios*) Instruction 361/2002, upon taking effective control of Endesa, E.ON 12 might be required to launch a tender offer for Ampla Energia e Servicos, S.A., Ampla Investimentos e Servicos, S.A. and Companhia Energetica do Ceara (COELCE), Endesa subsidiaries whose shares are listed on the Sao Paulo Stock Exchange. Pursuant to the applicable Brazilian laws, these offers must be made for the whole share capital of such subsidiaries within 30 days after E.ON 12 takes effective control of Endesa. Anyway, pursuant to a recent interpretation of the applicable laws by the Brazilian Securities Commission, it is likely that E.ON 12 will not be requested to make any of these tender offers.

Peru

Pursuant to sections 68° to 74° of the Unified Text of the Securities Market Law, approved by the Supreme Decree N° 093-2002-EF enacted on June 15, 2002, and the regulation enacted by the Peruvian Securities Exchange Commission (CONASEV) under the Resolution N° 009-2006-EF/94.10, in force since May 2006 and amended by Peruvian Securities Exchange Commission (CONASEV) under Resolution N° 020-2006-EF/94.10 enacted in April

Table of Contents

2006, if the Offers are successful, E.ON 12 would be required to launch a tender offer for Edegel S.A.A., Edelnor S.A.A., Generandes Perú S.A. and Empresa Eléctrica de Piura S.A., Endesa's subsidiaries which have at least one class of shares listed on the Lima Stock Exchange. Pursuant to the above regulations, these tender offers should be launched within four months after the settlement of the Offers and must be for the share capital of such subsidiaries not controlled by Endesa.

Chile

On December 7, 2005, the SVS confirmed, through *Oficio Ordinario n° 12.825*, that E.ON 12 is not required to launch a tender offer pursuant to Chilean Securities Law 18.045 or pursuant to the Chilean Stock Companies Law 18.046 for Enersis, S.A., Endesa Chile, S.A., Chilectra, S.A. and E.E. Pehuenche, S.A., Endesa subsidiaries which are listed on the Santiago de Chile Stock Exchange.

E.ON 12 estimates that the amount that would have to be spent for mandatory tender offers for minority interests in Brazil and Peru, as described above, would be approximately \$50 million.

GROUP STRATEGY*E.ON's Business Model*

E.ON's strategy is grounded in an integrated business model that is based on the following key points:

An Integrated Power and Gas Business. E.ON intends to follow a long-term strategy with a clear focus on integrated power and gas operations that enjoy leading positions in their respective markets. In doing so, it seeks to develop positions throughout the energy value chain, including positions in infrastructure where they are seen as enhancing E.ON's access to markets and customers.

A Clear Geographic Focus. E.ON seeks to strengthen its leading positions and performance in its existing markets (Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest), while taking focused steps in new markets such as Italy, Russia, Turkey and through the proposed acquisition of Endesa also Spain and Latin America.

Clear Strategic Priorities. E.ON's first priority is to strengthen and grow its position in European markets while maintaining a strong and diversified generation portfolio and enhancing its gas supply position through investments in equity gas produced from fields in which E.ON holds an interest, as well as the potential development of liquefied natural gas (LNG) as an alternative form of gas delivery. E.ON currently views the United States as an opportunity for more long-term growth.

Strict Investment Criteria. In following this model, E.ON applies strict strategic and financial criteria to each potential investment, focusing on those which management believes exhibit the potential for material value creation.

Strategy

Building on this model, E.ON's corporate strategy is to maximize the value of its portfolio of focused energy businesses through:

Creating value from the convergence of European energy markets (e.g., as the United Kingdom becomes a net importer of gas and can take advantage of greater pipeline capacity connecting it to continental Europe, E.ON

will be able to supply its retail gas business in the United Kingdom from its Pan-European Gas supply business);

Creating value from vertical integration (*i.e.*, establishing a presence in all parts of the value chains for both power and gas);

Creating value from the convergence of the electricity and gas value chains (*e.g.*, offering retail electricity and gas customers energy from a single source), thus providing E.ON with opportunities to realize economies of scale in servicing costs while increasing customer loyalty;

Table of Contents

Enhancing operational performance through identifying and transferring best practice for common activities throughout the Group's different market units (*e.g.*, effective programs for enhancing E.ON's electricity generation, distribution and retailing businesses);

Improving the Group's competitive position in its target markets, both through organic growth and through pursuing selective investments which contribute to these objectives or provide stand alone value creation opportunities, as described below;

Creation of a common corporate culture under the OneE.ON initiative, which seeks to enhance integration of all market units and their subsidiaries under the E.ON banner so as to help the E.ON Group realize its vision and strategic goals, while maintaining its commitment to corporate social responsibilities; and

Tapping value-enhancing growth potential in new markets such as Italy, Russia, Turkey and Spain and Latin America.

In addition, E.ON has set a number of specific objectives for its market units in implementing its corporate strategy within each of its target markets, namely:

Central Europe Fortifying strong market positions, enhancing the company's competitive activities in the mass market and developing new growth potential through:

consolidation of distribution and sales activities and capitalizing on opportunities from power-gas convergence;

significant investment in power generation to maintain the market position;

hedging exposure to price risks through vertical integration of generation and sales operations;

participating in the privatization of power and downstream gas companies in Eastern Europe, as well as significant investments in power generation; and

continued growth in the market of Italy, *i.e.* in power generation, trading and the retail business.

Pan-European Gas Strengthening and diversifying E.ON Ruhrgas' current position through:

selective equity investments in gas production in the North Sea and Russia;

pursuing LNG options (including upstream positions) to maintain long-term supply diversification;

securing security of supply through new (and renewed) long-term supply contracts with producers; and

participating in infrastructure projects to enhance gas supply position in Europe.

U.K. Enhancing profitability of the U.K. businesses through:

investing in flexible generation assets and low carbon intensive generating technologies, such as Combined Cycle Gas Turbine (CCGT), to maintain a low cost hedge for changes in retail electricity demand;

investing in the generation of power from renewable resources to capture value from the U.K. government's renewable obligation mandate; and

investing in gas storage assets to hedge against potentially volatile gas price movements as the United Kingdom starts to become a net importer of gas.

Nordic Strengthening E.ON's position through:

expanding its presence in power generation;

enhancing scale through synergistic acquisitions in distribution and district heating; and

continued participation in gas supply and infrastructure developments.

Table of Contents

U.S. Midwest Focusing on optimizing E.ON U.S.'s current operations in Kentucky and delivering additional performance improvements. This could include investments in generation capacity if the demand for electricity grows.

As it focuses on energy, E.ON will seek to maximize the value of its remaining non-core businesses by divesting them at an appropriate time and allocating the proceeds to strategic investments. As part of its strategy to focus on its core energy business, E.ON completed its disposal of Viterra and Ruhrgas Industries GmbH (Ruhrgas Industries) in 2005 and the disposal of its remaining minority interest in Degussa in 2006.

The transformation of the Company into a focused energy business has entailed further divestment and acquisition activities in recent years. For more detailed information on the principal activities in implementing the transformation, see Powergen Group Acquisition, Ruhrgas Acquisition and the respective market unit descriptions in Business Overview.

OTHER SIGNIFICANT EVENTS

In November 2004, E.ON Ruhrgas International AG (ERI) signed an agreement for the acquisition of 75.0 percent minus one share each of the gas trading and gas storage businesses of the Hungarian oil and gas company MOL RT. (MOL) and its 50.0 percent interest in the gas importer Panrusgáz Zrt. (Panrusgáz). In addition, MOL received a put option to sell to ERI up to 75.0 percent minus one share of its gas transmission business and put options to sell to ERI the remaining 25.0 percent plus one share in the MOL gas trading and gas storage businesses. As a condition of antitrust approval by the European Commission, MOL is obliged to sell the remaining 25.0 percent plus one share of the gas trading and storage businesses as well. As a result, ERI signed an agreement for the acquisition of the remaining 25.0 percent plus one share of each of these two companies. The acquisition of 100 percent of the gas trading and gas storage businesses was completed at the end of March 2006. The acquisition of MOL's 50.0 percent interest in Panrusgáz was completed at the end of October 2006.

In December 2005, E.ON AG and RAG signed a framework agreement on the sale of E.ON's remaining 42.9 percent stake in Degussa to RAG. The transaction was completed on July 3, 2006.

In February 2006, E.ON Nordic and Fortum Power and Heat Oy (Fortum) signed an agreement providing for Fortum's acquisition of E.ON Nordic's entire 65.6 percent stake in E.ON Finland. On June 26, 2006, E.ON Nordic and Fortum finalized the transfer of all of E.ON Nordic's shares in E.ON Finland to Fortum.

In February 2006, E.ON filed a takeover offer for 100 percent of the share capital of Endesa.

See also Proposed Endesa Acquisition, the respective market unit descriptions in Business Overview and the descriptions in Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions and Liquidity and Capital Resources.

CAPITAL EXPENDITURES

E.ON's aggregate capital expenditures for property, plant and equipment were 4.0 billion in 2006 (2005: 2.9 billion, 2004: 2.5 billion). For a detailed description of these capital expenditures, as well as E.ON's expected capital expenditures for the period beginning in 2007, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

BUSINESS OVERVIEW

INTRODUCTION

E.ON is the largest industrial group in Germany, measured on the basis of market capitalization at year-end 2006. In 2006, the Group's core energy business was organized into the following separate market units: Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest, as well as the Corporate Center.

Central Europe. E.ON Energie is the lead company of the Central Europe market unit. E.ON Energie is one of the largest non-state-owned European power companies in terms of electricity sales, with revenues of

Table of Contents

28.4 billion (which included 1.1 billion of energy taxes that were remitted to the tax authorities) in 2006. E.ON Energie's core business consists of the ownership and operation of power generation facilities and the transmission, distribution and sale of electric power, gas and heat in Germany and continental Europe. The Central Europe market unit owns interests in and operates power stations with a total installed capacity of approximately 36,800 MW, of which Central Europe's attributable share is approximately 28,200 MW (not including mothballed, shutdown and reduced power plants). Through its own operations, as well as through distribution companies, in most of which it owns a majority interest, E.ON Energie also distributes electricity, heat and gas to regional and municipal utilities, commercial and industrial customers and residential customers. In 2006, E.ON Energie supplied approximately 18 percent of the electricity consumed by end users in Germany. The Central Europe market unit contributed 41.9 percent of E.ON's revenues and recorded adjusted EBIT of 4.2 billion in 2006.

Pan-European Gas. E.ON Ruhrgas is the lead company of the Pan-European Gas market unit. E.ON Ruhrgas is one of the leading non-state-owned gas companies in Europe and the largest gas business in Germany in terms of gas sales, with 709.7 billion kWh of gas sold in 2006. E.ON Ruhrgas's principal business is the supply (including gas exploration and production), transmission, storage and sale of natural gas. E.ON Ruhrgas imports gas from Russia, Norway, the Netherlands, the United Kingdom and Denmark, and also purchases gas from domestic sources. E.ON Ruhrgas sells this gas to regional and supraregional distributors, municipal utilities and industrial customers in Germany and increasingly also delivers gas to customers in other European countries. In addition, E.ON Ruhrgas is active in gas transmission within Germany via a network of approximately 11,400 kilometers (km) of gas pipelines and operates a number of underground storage facilities in Germany. E.ON Ruhrgas also holds numerous stakes in German and other European gas transportation and distribution companies, as well as a small shareholding in Gazprom, Russia's main natural gas exploration, production, transportation and marketing company. In 2006, the Pan-European Gas market unit recorded revenues of 25.0 billion (which included 2.1 billion in natural gas and electricity taxes that were remitted, directly or indirectly, to the tax authorities) and adjusted EBIT of 2.1 billion. The Pan-European Gas market unit contributed 36.9 percent of E.ON's revenues in 2006.

U.K. E.ON UK is the lead company of the U.K. market unit. E.ON UK is an integrated energy company with its principal operations focused in the United Kingdom. E.ON UK and its associated companies are actively involved in the ownership and operation of power generation facilities, as well as in the distribution of electricity and supply of electric power and gas and in energy trading. E.ON UK owns interests in and operates power stations with a total installed capacity of approximately 10,800 MW, of which its attributable share is approximately 10,500 MW. E.ON UK served approximately 8.4 million electricity and gas customer accounts at December 31, 2006 and its Central Networks business served 4.9 million customer connections. In 2006, E.ON UK recorded revenues of 12.6 billion or 18.5 percent of E.ON's revenues, and adjusted EBIT of 1.2 billion.

Nordic. E.ON Nordic is the lead company of the Nordic market unit. It currently operates mainly through E.ON Sverige, an integrated energy company in which it holds a majority stake. E.ON Nordic and its associated companies are actively involved in the ownership and operation of power generation facilities, as well as the distribution and supply of electric power, gas and heat, primarily in Sweden but to a smaller extent also in Denmark and Finland. Through E.ON Sverige, E.ON Nordic owns interests in power stations with a total installed capacity of approximately 14,800 MW, of which its attributable share is approximately 7,300 MW (not including mothballed and shutdown power plants). In June 2006, E.ON Nordic and Fortum finalized the transfer of all of E.ON Nordic's 65.6 percent stake in E.ON Finland to Fortum pursuant to an agreement signed in February 2006. In 2006, E.ON Nordic recorded revenues of 3.2 billion (including 377 million of electricity and natural gas taxes that were remitted to the tax authorities) or 4.7 percent of E.ON's revenues, and adjusted EBIT of 619 million.

U.S. Midwest. E.ON U.S. is the lead company of the U.S. Midwest market unit. E.ON U.S. is a diversified energy services company with businesses in power generation, retail gas and electric utility services, as well as asset-based energy marketing. E.ON U.S.'s power generation and retail electricity and gas services are located principally in

Kentucky, with a small customer base in Virginia and Tennessee. E.ON U.S. owns interests in and operates power stations with a total installed capacity of approximately 7,600 MW, of which its attributable share is approximately 7,500 MW (not including mothballed and shutdown power plants). In 2006, the U.S. Midwest market unit recorded revenues of 1.9 billion or 2.9 percent of E.ON's revenues, and adjusted EBIT of 391 million.

Table of Contents

Corporate Center. The Corporate Center consists of E.ON AG itself, those interests owned directly and indirectly by E.ON AG that have not been allocated to any of the other segments, including its remaining telecommunications interests, and consolidation effects at the Group level, including the elimination of intersegment sales.

For information on E.ON's discontinued operations, including its former oil and aluminum divisions, as well as its real estate subsidiary Viterra and certain activities of the Pan-European Gas, Nordic and U.S. Midwest market units, see Discontinued Operations.

E.ON's financial reporting mirrors the E.ON group structure, with each of the five market units and the results of the Corporate Center (including consolidation effects) constituting a separate segment for financial reporting purposes. Until the sale of E.ON's remaining stake in Degussa in July 2006, the results of E.ON's minority interest in Degussa continued to be presented outside of the core energy business as part of E.ON's Other Activities, which was reported as a separate segment. The primary measure by which management evaluates the performance of each segment in accordance with SFAS 131 is adjusted EBIT. E.ON defines this measure as an adjusted figure derived from income/(loss) from continuing operations (before intra-Group eliminations when presented on a segment basis) before income taxes and minority interests, excluding interest income. Adjustments include net book gains resulting from disposals, as well as cost-management and restructuring expenses and other non-operating earnings of an exceptional nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions and nuclear waste management is allocated to adjusted interest income. Management believes that this measure is the most useful segment performance measure because it better depicts the performance of individual business units independent of changes in interest income and taxes. However, on a consolidated Group basis adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. For a reconciliation of Group adjusted EBIT to net income for each of 2006, 2005 and 2004, see Item 5. Operating and Financial Review and Prospects Results of Operations Business Segment Information. Adjusted EBIT should not be considered in isolation as a measure of E.ON's profitability and should be considered in addition to, rather than as a substitute for, the most directly comparable U.S. GAAP measures. In particular, there are material limitations associated with the use of adjusted EBIT as compared with such U.S. GAAP measures, including the limitations inherent in E.ON's determination of each of the adjustments noted above. E.ON seeks to compensate for those limitations by providing a detailed reconciliation of adjusted EBIT to income from continuing operations before income taxes and minority interests and net income, the most directly comparable U.S. GAAP measures, in the section of Item 5 noted above, as well as the more detailed textual analysis of year-on-year changes in the key components of each of the reconciling items appearing under the caption Reconciliation of Adjusted EBIT in Item 5. Operating and Financial Review and Prospects Results of Operations Business Segment Information, Year Ended December 31, 2006 Compared with Year Ended December 31, 2005 and Year Ended December 31, 2005 Compared with Year Ended December 31, 2004. As a result of these limitations and other factors, adjusted EBIT as used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

The following table sets forth the revenues of E.ON's market units as well as the Corporate Center for 2006, 2005 and 2004:

	2006		2005		2004	
	(in millions)	%	(in millions)	%	(in millions)	%
Central Europe(1)	28,380	41.9	24,295	43.3	20,752	44.6
Pan-European Gas(2)(3)	24,987	36.9	17,914	32.0	13,227	28.5
U.K.	12,569	18.5	10,176	18.1	8,490	18.3
Nordic(2)(4)	3,204	4.7	3,213	5.7	3,094	6.7

Edgar Filing: E ON AG - Form 20-F

U.S. Midwest(2)	1,947	2.9	2,045	3.6	1,718	3.7
Corporate Center(2)(5)	(3,328)	(4.9)	(1,502)	(2.7)	(792)	(1.8)
Total Revenues(6)	67,759	100.0	56,141	100.0	46,489	100.0

Table of Contents

- (1) Includes energy taxes of 1,124 million in 2006, 1,049 million in 2005 and 1,051 million in 2004.
- (2) Excludes the sales of certain activities now accounted for as discontinued operations. For more details, see Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions Discontinued Operations and Note 4 of the Notes to Consolidated Financial Statements.
- (3) Sales include natural gas and electricity taxes of 2,061 million in 2006, 3,110 million in 2005 and 2,923 million in 2004.
- (4) Sales include electricity and natural gas taxes of 377 million in 2006, 382 million in 2005 and 376 million in 2004.
- (5) Includes primarily the parent company and effects from consolidation, as well as the results of its remaining telecommunications interests, as noted above.
- (6) Excludes intercompany sales.

Most of E.ON's operations are in Germany. German operations produced 62.2 percent of E.ON's revenues (measured by location of operation) in 2006 (2005: 65.3 percent; 2004: 64.6 percent). E.ON also has a significant presence outside Germany representing 37.8 percent of revenues by location of operation for 2006 (2005: 34.7 percent; 2004: 35.4 percent). In 2006, approximately 56.1 percent (2005: 59.8 percent; 2004: 61.6 percent) of E.ON's revenues were derived from customers in Germany and 43.9 percent (2005: 40.2 percent; 2004: 38.4 percent) from customers outside Germany. For more details about the segmentation of E.ON's revenues by location of operation and customers for the years 2006, 2005 and 2004, see Note 31 of the Notes to Consolidated Financial Statements. At December 31, 2006, E.ON had 80,612 employees, approximately 42.2 percent of whom were employed in Germany. For more information about employees, see Item 6. Directors, Senior Management and Employees Employees.

E.ON believes that as of December 31, 2006, it had close to 478,000 shareholders worldwide. E.ON's shares, all of which are Ordinary Shares, are listed on all seven German stock exchanges. They are also actively traded over the counter in London. E.ON's ADSs are listed on the New York Stock Exchange (NYSE). Until March 28, 2005, one ADS represented one Ordinary Share. Since March 29, 2005, three ADSs represent one Ordinary Share.

CENTRAL EUROPE

Overview

The Central Europe market unit is led by E.ON Energie. E.ON Energie, which is wholly owned by E.ON, is one of the largest non-state-owned European power companies in terms of electricity sales. E.ON Energie had revenues of 28.4 billion (which included 1.1 billion of energy taxes that were remitted to the tax authorities), 23.6 billion of which in Germany, and adjusted EBIT of 4.2 billion in 2006. E.ON Energie, together with E.ON Ruhrgas and E.ON Nordic, is responsible for all of E.ON's energy activities in Germany and continental Europe and is one of the four interregional electric utilities in Germany that are interconnected in the western European power grid.

In order to further focus its energy business in Germany and in continental Europe, E.ON Energie entered into the following transactions in 2006:

In February 2006, E.ON Energie and RWE signed agreements to swap certain shareholdings in the Czech Republic and Hungary. These transactions were completed in August 2006.

In July 2006, E.ON Ruhrgas and OAO Gazprom signed a framework agreement memorializing the basic understanding of the parties regarding a swap of assets, including a 25.0 percent plus one share interest in E.ON Hungária Energetikai ZRt. (E.ON Hungária), currently wholly owned by E.ON Energie, which is to be transferred to OAO Gazprom. For details, see Pan-European Gas Overview.

In December 2006, E.ON Energie acquired 75.0 percent of the share capital of Dalmine Energie S.p.A. (Dalmine), an Italian company that focuses on electricity and gas wholesale.

For details, see Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions.

Table of Contents

E.ON Energie is also embarking on a significant program to build new generating capacity in many of the countries in which it operates:

Construction has already begun on new facilities at Irsching, Germany (a 530 MW advanced natural gas plant to be built in cooperation with Siemens AG, scheduled to begin operations in 2011), Datteln, Germany (a 1,100 MW hard coal plant, scheduled to begin operations in 2011) and Livorno Ferraris, Italy (an 800 MW natural gas plant, scheduled to begin operations in 2008).

E.ON Energie is also committed to building a new plant at Irsching, Germany (an 800 MW natural gas plant). In addition, E.ON Energie plans to build new plants at the location of Staudinger, Germany (a 1,100 MW hard coal plant) and Maasvlakte, the Netherlands (a 1,100 MW hard coal plant) if all requirements are met.

E.ON Energie plans to build various power plants in Eastern Europe.

For more information, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Expected Investment Activity.

E.ON Energie's company structure reflects its operations in western and eastern Europe and, in addition, reflects the individual segments of its electricity business: generation, transmission, distribution, sales and trading. The following chart shows the major subsidiaries of the Central Europe market unit as of December 31, 2006, their respective fields of operation and the percentage of each held by E.ON Energie as of that date.

Table of Contents

CENTRAL EUROPE MARKET UNIT

Holding Company

E.ON Energie AG

Leading entity for the management and coordination of the group activities.
Centralized strategic, controlling and service functions.

Western Europe

Conventional Power Plants

E.ON Kraftwerke GmbH (100%)

Power generation by conventional power plants.
Waste incineration.
Renewables.
District heating.
Industrial power plants.

Nuclear Power Plants

E.ON Kernkraft GmbH (100%)

Power generation by nuclear power plants.

Hydroelectric Power Plants

E.ON Wasserkraft GmbH (100%)

Power generation by hydroelectric power plants.

E.ON Benelux Holding B.V. (100%)

Power generation by conventional power plants in the Netherlands.
District heating in the Netherlands.
Sales of power and gas in the Netherlands.

Transmission

E.ON Netz GmbH (100%)

Operation of high voltage grids (380 kilovolt-110 kilovolt).
System operation, including provision of regulating and balancing power.

Distribution, Sales and Trading of Electricity, Gas and Heat

E.ON Sales & Trading GmbH (100%)

Supply of electricity and energy services to large industrial customers, as well as to regional and municipal distributors.
Centralized wholesale functions.
Optimization of energy procurement costs.
Physical energy trading and trading of energy-based financial instruments and related risk management.
Optimization of the value of the power plants' assets in the market place.

Emissions trading.

Seven regional energy companies across Germany (shareholding percentages range from 62.8 to 100.0 percent)

Distribution and sales of electricity, gas, heat and water to retail customers.

Ownership and operation of regional grid companies in compliance with the Energy Law of 2005.

Energy support services.

Waste incineration.

Ruhr Energie GmbH (100%)

Customer service and electricity and heat supply to utilities and industrial customers in the Ruhr region.

Eastern Europe

E.ON Hungária Energetikai ZRt. (100%) (1)

Generation, distribution and sales of electricity and gas in Hungary through its group companies.

E.ON Czech Holding AG (100%)

Generation, distribution and sales of electricity and gas in the Czech Republic through its group companies.

E.ON Moldova S.A. (51.0%)

Distribution and sales of electricity in Romania.

E.ON Bulgaria EAD (100%)

Distribution and sales of electricity in Bulgaria through its group companies.

Západoslovenská energetika a.s. (49.0% held at equity)

Distribution and sales of electricity in Slovakia.

Table of Contents

Consulting and Support Services

E.ON Engineering GmbH (57.0%) (2)

Provision of consulting and planning services in the energy sector to companies within the Group and third parties. Marketing of expertise in the area of conventional, renewable, cogeneration and nuclear power generation and pipeline business.

E.ON IS GmbH (60.0%) (3)

Provision of information technology services to companies within the Group and third parties.

E.ON Facility Management GmbH (100%)

Infrastructure services.

- (1) According to the framework agreement between E.ON Ruhrgas and OAO Gazprom regarding a swap of assets, including a 25.0 percent plus one share interest in E.ON Hungária, E.ON Energie's interest in E.ON Hungária will be reduced to 75.0 percent minus one share. For details, see [Pan-European Gas Overview](#).
- (2) The remaining 43.0 percent is held by E.ON Ruhrgas.
- (3) The remaining 40.0 percent is held by E.ON AG and E.ON Ruhrgas.

For financial reporting purposes, the Central Europe market unit comprises four business units: Central Europe West Power, Central Europe West Gas, Central Europe East and Other/Consolidation. The Central Europe West Power business unit reflects the results of the conventional (including waste incineration), nuclear and hydroelectric generation businesses, transmission of electricity, the regional distribution of power and the retail electricity business in Germany, as well as its trading business. In addition, Central Europe West Power also includes the results of E.ON Benelux Holding B.V. (E.ON Benelux), which operates power generation, district heating and gas and electricity retail businesses in the Netherlands. The Central Europe West Gas business unit reflects the results of the regional distribution of gas and the gas retail business in Germany. The Central Europe East business unit primarily includes the results of the regional distribution companies in Bulgaria, the Czech Republic, Hungary, Romania and Slovakia (with the Slovak activities being valued under the equity method given E.ON Energie's minority interest). Other/Consolidation primarily includes the results of E.ON Energie's retail business in Italy, other national and international shareholdings, service companies and E.ON Energie AG, as well as intrasegment consolidation effects.

Operations

Electricity generated at power stations is delivered to customers through an integrated transmission and distribution system. The principal segments of the electricity industry in the countries in which E.ON Energie operates are:

- | | |
|---------------|--|
| Generation: | the production of electricity at power stations; |
| Transmission: | the bulk transfer of electricity across an interregional power grid, which consists mainly of overhead transmission lines, substations and some underground cables (at this level there is a market for bulk trading of electricity, through which sales and purchases of electricity are made between generators, regional distributors, and other suppliers of electricity); |
| Distribution: | the transfer of electricity from the interregional power grid and its delivery, across local distribution systems, to customers; |

Sales: the sale of electricity to customers; and
Trading: the buying and selling of electricity and related products for purposes of portfolio optimization, arbitrage and risk management.

E.ON Energie and its associated companies are actively involved in all segments of the electricity industry. Its core business consists of the ownership and operation of power generation facilities and the transmission, distribution and sale of electricity and, to a lesser extent, gas and heat, to interregional, regional and municipal utilities, traders and industrial, commercial and residential customers. Furthermore, E.ON Energie operates waste incineration facilities.

Table of Contents

The following table sets forth the sources of E.ON Energie's electric power in kWh in 2006 and 2005:

Sources of Power	2006 million kWh	2005 million kWh	% Change
Own production	131,304	129,063	+1.7
Purchased power	149,867	142,215	+5.4
<i>from power stations in which E.ON Energie has an interest of 50 percent or less</i>	<i>12,287</i>	<i>12,019</i>	<i>+2.2</i>
<i>from other suppliers</i>	<i>137,580</i>	<i>130,196</i>	<i>+5.7</i>
Total power procured(1)	281,171	271,278	+3.6
Power used for operating purposes, network losses and pump storage	(12,951)	(12,735)	+1.7
Total	268,220	258,543	+3.7

(1) Excluding physically-settled electricity trading activities at E.ON Sales & Trading GmbH (EST). EST's physically-settled electricity trading activities amounted to 161,892 million kWh and 113,666 million kWh in 2006 and 2005, respectively.

In 2006, E.ON Energie procured a total of 281.2 billion kWh of electricity, including 13.0 billion kWh used for operating purposes, network losses and pumped storage. E.ON Energie purchased a total of 12.3 billion kWh of power from power stations in which it has an interest of 50 percent or less. In addition, E.ON Energie purchased 137.6 billion kWh of electricity from other utilities, 15.2 billion kWh of which were from Vattenfall Europe, the eastern German interregional utility, for redistribution by eastern German regional distributors. In addition, E.ON Energie purchased power from local generators in Hungary, the Czech Republic, Bulgaria and Romania totaling 39.7 billion kWh. The increase in purchased power compared to 2005 primarily reflects the first-time inclusion of a full year of results from operations acquired during 2005 (mainly in Bulgaria and Romania) as well as the purchase of significantly higher volumes of renewable source electricity, which is regulated under Germany's Renewable Energy Law (as defined in Regulatory Environment) (approximately 3.4 TWh). The increase in power used for operating purposes, network losses and pump storage is largely due to higher technical and non-technical network losses at the subsidiaries in Bulgaria and Romania, the results of which were included for an entire year for the first time in 2006.

E.ON Energie supplied approximately 18 percent of the electricity consumed by end users in Germany in 2006. Electricity accounted for 75.3 percent of E.ON Energie's 2006 sales (2005: 77.8 percent), gas revenues represented 17.6 percent (2005: 15.3 percent), district heating 2.2 percent (2005: 1.9 percent) and other activities 4.9 percent (2005: 5.0 percent).

The following table sets forth data on the sales of E.ON Energie's electric power in 2006 and 2005:

Sale of Power(1) to	Total 2006 million kWh	Total 2005 million kWh	% Change in Total
----------------------------	---	---	----------------------------------

Non-consolidated interregional, regional and municipal utilities	145,688	138,425	+5.2
Industrial and commercial customers	77,238	77,175	
Residential and small commercial customers	45,294	42,943	+5.5
Total	268,220	258,543	+3.7

(1) Excluding physically-settled electricity trading activities at EST. EST's physically-settled electricity trading activities amounted to 161,892 million kWh and 113,666 million kWh in 2006 and 2005, respectively.

The increase in the total sale of power primarily reflects the first-time inclusion of a full year of results from operations acquired during 2005 (mainly in Bulgaria and Romania as well as the Netherlands). For further information, see Item 5. Operating and Financial Review and Prospects Results of Operations.

Table of Contents

The following table sets forth data on the gas sales of E.ON Energie in 2006 and 2005:

Sale of Gas to	Total 2006 million kWh	Total 2005 million kWh	% Change in Total
Non-consolidated interregional, regional and municipal utilities	30,631	29,475	+3.9
Industrial and commercial customers	53,208	46,199	+15.2
Residential and small commercial customers	44,629	36,653	+21.8
Total	128,468	112,327	+14.4

E.ON Energie's total gas sales volume amounted to 128.5 billion kWh in 2006, a 14.4 percent increase from 112.3 billion kWh in 2005. The increase primarily reflects the first-time inclusion of a full year of results from Középdunántúli Gázszolgáltató ZRt. (KÖGÁZ) and Dél-dunántúli Gázszolgáltató ZRt. (DDGÁZ) in Hungary, NRE Energie b.v. (NRE) in the Netherlands and Gasversorgung Thüringen GmbH (GVT), which has since been merged into Thüringer Energie AG (TEAG). A slight increase also resulted from the Czech company Jihoceska plynárenská a.s. (JCP), in which E.ON Energie increased its interest during the year, as well as from the newly-acquired Italian company Dalmine (included as of September and December 2006, respectively).

Western Europe**Power Generation**

General. In Germany, E.ON Energie owns interests in and operates electric power generation facilities with a total installed capacity of approximately 34,500 MW, its attributable share of which is approximately 26,000 MW (not including mothballed, shutdown or reduced power plants). The German power generation business is subdivided into three units according to fuels used: E.ON Kraftwerke GmbH owns and operates the power stations using fossil fuel energy sources, as well as waste incineration plants and renewable generation facilities, E.ON Kernkraft GmbH (E.ON Kernkraft) owns and operates the nuclear power stations and E.ON Wasserkraft GmbH owns and operates the hydroelectric power plants.

In the Netherlands, E.ON Energie operates, through its subsidiary E.ON Benelux, hard coal and natural gas power plants for the supply of electricity and heat to bulk customers and utilities. In 2006, it had a total installed generation capacity of approximately 1,900 MW.

Based on the consolidation principles under U.S. GAAP, E.ON Energie reports 100 percent of revenues and expenses from majority-owned power plants in its consolidated accounts without any deduction for minority interests. Conversely, 50 percent and minority-owned power plants are accounted for by the equity method. Power generation capacity in jointly owned plants is generally reported based on E.ON's ownership percentage.

Table of Contents

The following table sets forth E.ON Energie's major electric power generation facilities (including cogeneration plants) in Germany and the Netherlands, the total capacity and the capacity attributable to E.ON Energie for each facility as of December 31, 2006, and their start-up dates.

E.ON ENERGIE'S ELECTRIC POWER STATIONS IN GERMANY AND THE NETHERLANDS

Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie		Start-up Date
		%(1)	MW	
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	352	100.0	352	1985
Lippendorf S	891	50.0	446	1999
Schkopau	900	55.6	500	1995
Others (< 100 MW)	33	n/a	17	