2005 Annual Report

OneE.ON

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E.ON Group Financial Highlights

€ in millions	2005	2004[1]	+/– %
Electricity sales (in billion kWh)[2]	404.3	392.4	+3
Gas sales (in billion kWh)[2]	924.4	868.2	+6
Sales	56,399	46,742	+21
Adjusted EBITDA[3]	10,272	9,741	+5
Adjusted EBIT[4]	7,333	6,787	+8
Income/Loss (–) from continuing operations before income taxes and minority interests	7,208	6,355	+13
Income/Loss (–) from continuing operations	4,379	4,027	+9
Income from discontinued operations, net	3,035	312	–
Net income	7,407	4,339	+71
Investments	4,337	5,109	–15
Cash provided by operating activities	6,601	5,840	+13
Free cash flow[5]	3,611	3,228	+12
Net financial position[6] (at year end)	3,863	–5,483	–
Stockholders' equity	44,484	33,560	+33
Total assets	126,562	114,062	+11
ROCE[7] (in %)	12.1	11.5	+0.6[8]
Cost of capital (in %)	9.0	9.0	–
Value added[7]	1,872	1,477	+27
Return on equity after taxes[9] (in %)	19.0	13.7	+5.3[8]
Employees (at year end)	79,947	60,156	+33
Earnings per share from continuing operations (in €)	6.64	6.13	+8
Earnings per share from discontinued operations (in €)	4.61	0.48	–
Earnings per share from cumulative effect of changes in accounting principles, net (in €)	–0.01	–	–
Earnings per share from net income (in €)	11.24	6.61	+70
Stockholders' equity per share[10] (in €)	67.50	50.93	+33
Dividend per share (in €)	2.75	2.35	+17
Special dividend per share (in €)	4.25	–	–
Dividend payout	4,614[11]	1,549	+198
Market capitalization[12] (€ in billions)	57.6	44.2	+30

[1]Adjusted for discontinued operations. [2]Unconsolidated figures. [3]Non-GAAP financial measure; see reconciliation to net income on page 37. [4]Non-GAAP financial measure; see reconciliation to net income on page 37 and commentary on pages 172–173. [5]Non-GAAP financial measure; see reconciliation to cash provided by operating activities on page 45. [6]Non-GAAP financial measure; see reconciliation on page 47. [7]Non-GAAP financial measure; see derivation on pages 38–41. [8]Change in percentage points. [9]Net income excluding minority interests ÷ annual average stockholders' equity excluding minority interests. [10]Excludes minority interests. [11]Includes special dividend of €4.25 per share. [12]Market capitalization based on ordinary shares outstanding.

E.ON Group 2005 Financial Highlights by Business Segment

€ in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Corporate Center	Core Energy Business	Other Activities[1]	Total
Sales	24,295	17,914	10,176	3,471	2,045	–1,502	56,399	–	56,399
Adjusted EBITDA	5,284	1,939	1,550	1,193	560	–386	10,140	132	10,272
Adjusted EBIT	3,930	1,536	963	806	365	–399	7,201	132	7,333
ROCE (in %)	21.9	11.5	7.6	11.4	5.5	–	–	–	12.1
Cost of capital (in %)	9.0	8.2	9.2	9.0	8.0	–	–	–	9.0
Value added	2,318	440	–202	170	–166	–	–	–	1,872
Cash provided by operating activities	3,020	1,999	101	746	214	521	6,601	–	6,601
Investments	2,177	531	926	538	227	–62	4,337	–	4,337
Employees (at year end)	44,476	13,366	12,891	5,801	3,002	411	79,947	–	79,947

[1]This segment consists of Degussa, which is accounted for using the equity method.

Non-GAAP financial measures: This report contains certain non-GAAP financial measures. Management believes that the non-GAAP financial measures used by E.ON, when considered in conjunction with (but not in lieu of) other measures that are computed in U.S. GAAP, enhance an understanding of E.ON's results of operations. A number of these non-GAAP financial measures are also commonly used by securities analysts, credit rating agencies, and investors to evaluate and compare the periodic and future operating performance and value of E.ON and other companies with which E.ON competes. Additional information with respect to each of the non-GAAP financial measures used in this report is included together with the reconciliations described below.

E.ON prepares its financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). As noted above, this report contains certain financial measures (adjusted EBIT, adjusted EBITDA, ROCE, valued added, net financial position, net interest expense, and free cash flow) that are not calculated in accordance with U.S. GAAP and are therefore considered "non-GAAP financial measures" within the meaning of the U.S. federal securities laws. In accordance with applicable rules and regulations, E.ON has presented in this report a reconciliation of each non-GAAP financial measure to the most directly comparable U.S. GAAP measure for historical measures and an equivalent U.S. GAAP target for forward-looking measures. The footnotes presented with the relevant historical non-GAAP financial measures indicate the page of this report on which the relevant reconciliation appears. The non-GAAP financial measures used in this report should not be considered in isolation as a measure of E.ON's profitability or liquidity, and should be considered in addition to, rather than as a substitute for, net income, cash provided by operating activities, and the other income or cash flow data prepared in accordance with U.S. GAAP presented in this report and the relevant reconciliations. The non-GAAP financial measures used by E.ON may differ from, and not be comparable to, similarly titled measures used by other companies.

Corporate Center E.ON AG Düsseldorf	**Central Europe market unit**	**E.ON Energie AG, Munich, Germany**	**100%**
		E.ON Energie ranks among Central Europe's largest energy service providers and has operations in 12 European countries, including Germany, the Netherlands, Hungary, Slovakia, the Czech Republic, Romania, Bulgaria, Switzerland, Austria, and Italy.	
	Pan-European Gas market unit	**E.ON Ruhrgas AG, Essen, Germany**	**100%**
		With sales of more than 650 billion kilowatt-hours of natural gas, E.ON Ruhrgas is one of Europe's premier gas companies and among the world's biggest natural gas importers. Its customers include regional and municipal energy utilities as well as industrial enterprises.	
	U.K. market unit	**E.ON UK plc, Coventry, United Kingdom**	**100%**
		Headquartered in Coventry, E.ON UK is one of the United Kingdom's leading integrated energy utilities, providing power and gas service to approximately 8.6 million customer accounts.	
	Nordic market unit	**E.ON Nordic AB, Malmö, Sweden**	**100%**
		E.ON Nordic manages our energy operations in Northern Europe. Through its more than 30 operating companies, E.ON Nordic generates, distributes, markets, and delivers electricity, heat, and natural gas.	
	U.S. Midwest market unit	**E.ON U.S. LLC, Louisville, USA**	**100%**
		Louisville-based E.ON U.S. is a diversified energy service provider. Its operations are focused primarily on the regulated electric and gas utility sector in Kentucky.	

E.ON Kraftwerke GmbH, Hanover	100%	E.ON Hungária Energetikai Rt., Budapest/Hungary	100%
E.ON Kernkraft GmbH, Hanover	100%	E.ON Dél-dunántúli Áramszolgáltató Rt. (EDE), Pécs/Hungary	100%
E.ON Wasserkraft GmbH, Landshut	100%	E.ON Tiszántúli Áramszolgáltató Rt. (ETI), Debrecen/Hungary	100%
E.ON Netz GmbH, Bayreuth	100%	E.ON Észak-dunántúli Áramszolgáltató Rt. (EED), Györ/Hungary	100%
E.ON Sales & Trading GmbH, Munich	100%	Dél-dunántúli Gázszolgáltató Rt. (DDGáz), Pécs/Hungary	50%
E.ON Bayern AG, Regensburg	100%	Közép-dunántúli Gázszolgáltató Rt. (Kögáz), Nagykanizsa/Hungary	98.1%
E.ON Avacon AG, Helmstedt	67.2%	E.ON Czech Holding AG, Munich	100%
E.ON Hanse AG, Quickborn	73.8%	E.ON Energie, a.s., České Budějovice/Czech Republic	100%
E.ON Mitte AG, Kassel	73.3%	E.ON Distribuce, a.s., České Budějovice/Czech Republic	100%
E.ON edis AG, Fürstenwalde an der Spree	70%	E.ON Česká republika, a.s., České Budějovice/Czech Republic	100%
E.ON Thüringer Energie AG, Erfurt	76.8%	E.ON Moldova S.A., Bacău/Romania	51%
E.ON Westfalen Weser AG, Paderborn	62.8%	E.ON Bulgaria EAD, Varna/Bulgaria	100%
E.ON IS GmbH, Hanover	60%	Elektrorazpredelenie Varna AD, Varna/Bulgaria	67%
E.ON Facility Management GmbH, Würzburg	100%	Elektrorazpredelenie Gorna Oryahovitza AD, Gorna/Bulgaria	67%
E.ON Benelux Holding b.v., The Hague/Netherlands	100%	BKW FMB Energie AG, Bern/Switzerland	21%*
NRE Energie b.v., Eindhoven/Netherlands	100%	Západoslovenská energetika a.s. (ZSE), Bratislava/Slovakia	49%
		*20% share of voting stock	

Thüga AG, Munich	81.1%	E.ON Ruhrgas E & P GmbH, Essen	100%
E.ON Ruhrgas International AG, Essen	100%	E.ON Ruhrgas UK North Sea Limited, Aberdeen/United Kingdom	100%
Ferngas Nordbayern GmbH, Nuremburg	53.1%	E.ON Ruhrgas Norge AS, Stavanger/Norway	100%
Saar Ferngas AG, Saarbrücken	20%	Interconnector (UK) Limited, London/United Kingdom	23.6%
Gas-Union GmbH, Frankfurt am Main	25.9%	S.C. Distrigaz Nord S.A., Târgu Mureş/Romania	51%
Erdgasversorgungsgesellschaft Thüringen-Sachsen mbH (EVG), Erfurt	50%	Gasum Oy, Espoo/Finland	20%
E.ON Ruhrgas Transport AG & Co. KG, Essen	100%	A/s Latvijas Gāze, Riga/Latvia	47.2%
NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG, Emstek	40.6%	AB Lietuvos Dujos, Vilnius/Lithuania	38.9%
Etzel Gas-Lager GmbH & Co. KG, Friedeburg-Etzel	74.8%	Slovenský Plynárenský Priemysel a.s. (SPP), Bratislava/Slovakia	24.5%
MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG, Essen	51%	OAO Gazprom, Moscow/Russia	6.4%

Powergen Retail Ltd., Coventry/United Kingdom	100%	Central Networks West plc, Coventry/United Kingdom	100%
E.ON UK CHP Ltd., Coventry/United Kingdom	100%	E.ON UK Cogeneration Ltd., Coventry/United Kingdom	100%
E.ON UK Renewables Holdings Ltd., Coventry/United Kingdom	100%	Economy Power Ltd., Coventry/United Kingdom	100%
Corby Power Ltd., Corby/United Kingdom	50%	Enfield Energy Centre Ltd., Coventry/United Kingdom	100%
Central Networks East plc, Coventry/United Kingdom	100%	Edenderry Power Ltd., Dublin/Ireland	100%

E.ON Sverige AB, Malmö, Sweden	55.2%

Louisville Gas and Electric Company (LG&E), Louisville, USA	100%	LG&E Power Inc., Louisville, USA	100%
Kentucky Utilities Company (KU), Lexington, USA	100%	LG&E Energy Marketing Inc., Louisville, USA	100%
E.ON U.S. Capital Corp., Louisville, USA	100%		

As of February 2006

OneE.ON: This was our motto in 2005 as we cultivated a shared corporate identity and continued to integrate our company.

We share a vision: to make E.ON the world's leading power and gas company. And we share the guiding principles that will help us realize our vision:

- Mission
- Values
- Behaviors

OneE.ON brings our people together. And if we work together more closely—as one team, as one company—we'll continue our success into the future.


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E.ON WESTFALEN WESER


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COURAGE
OPENNESS
INTEGRITY
SOCIAL RESPONSIBILITY
TRUST AND MUTUAL RESPECT


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E.ON people working as a team and playing as a team: whether at the office, at a power plant, or after hours, in our first groupwide photo contest our employees demonstrated their team spirit, creativity, and dedication.

Although we can publish just some of the more than 3,000 photos submitted by E.ON staff from more than 20 countries, this selection will give you an idea of what OneE.ON means to our employees in everyday situations. Rich in their diversity, these images have one thing in common: they all show how much our people identify with E.ON.

Contents

Dear Shareholders,

For your company and its employees, 2005 was characterized by acclaim and criticism, both to an unprecedented degree. E.ON had another financially successful year. E.ON stock rose far above previous record highs. And E.ON again posted improvements in all our key financial figures. But we also faced considerable public opposition, especially in Germany. Price increases, which were unavoidable due to the global rise in raw material and energy prices, were the main source of discontent. These increases drew outspoken criticism and strong opposition from some of our customers. We played an active role in this difficult public debate. By focusing on the facts, I believe we were successful in communicating our point of view, although we certainly didn't convince everyone.

This confrontation is a powerful reminder that as an energy company we're subject to special scrutiny by our customers, politicians, and the general public. That's why it's all the more important that we act like one company and speak with one voice. With almost 80,000 employees, we can only achieve this by cultivating a shared understanding of what E.ON stands for and how E.ON acts.

This is precisely what we worked on in 2005 under the slogan OneE.ON. This program systematically continues the groupwide integration process we began in 2003 with on•top. In on•top we analyzed and improved our company's structure and business processes. The purpose of this initial phase was to bring our organization closer together. The primary purpose of OneE.ON is to cultivate a common corporate identity based on our vision of making E.ON the world's leading company in our industry. All our employees are united in working to achieve this central objective. The other core elements of OneE.ON—our mission, values, and behaviors—define what it will take for us to realize our vision.

OneE.ON is already a demonstrable success. Our people are working together more closely and more enthusiastically than ever before. Moreover, their identification with E.ON has increased still further, as shown by the results of the second groupwide employee opinion survey which we conducted last fall. Moreover, we now bear the E.ON name in all our markets: Sydkraft was rebranded to E.ON Sverige in September and LG&E Energy to E.ON U.S. in December.

Groupwide integration wasn't the only area in which we made further headway. We also continued to make progress strengthening our market positions, particularly in Central and Eastern Europe. We acquired our first ownership interests in Bulgarian and Romanian power and gas companies. The EU Commission has given us a conditional go-ahead to buy the gas trading and storage operations of Hungary's MOL. We also strengthened our market position in the Netherlands: through the acquisition of NRE Energie, a power and gas company, we now supply energy directly to end customers in the Netherlands, as well. We're building a state-of-the-art, environmentally friendly gas-fired power plant near Turin, which will give us access to Italy's electricity market. E.ON Ruhrgas will supply the plant with natural gas, another example of how the E.ON Group leverages the synergies of horizontal integration.

To strengthen our position in natural gas procurement, we acquired Caledonia Oil and Gas Limited, a U.K. natural gas production company. This acquisition brings us a good deal closer to our long-term goal of sourcing 15 to 20 percent of our natural gas needs from our own production assets. With the demand for natural gas rising sharply in Europe and around the world, competition for natural gas supplies is becoming more intense. That's why we intend to diversify our procurement options. Together with Gazprom and BASF, we're building a new pipeline across the floor of the Baltic Sea, creating a direct link—one that bypasses transit countries—to Russia's natural gas reserves. In addition, we plan to build Germany's first liquefied natural gas terminal in Wilhelmshaven on the North Sea coast, which would give us the ability to import liquefied natural gas from the Middle East and from West and North Africa.

Natural gas procurement isn't the only area in which we're making an important contribution to improving Europe's security of supply. Through year end 2008, we'll invest about €18.6 billion, in particular to expand and modernize our power plants and networks. Of this figure, €5.2 billion will be invested in Germany alone. Our investment focus demonstrates clearly the high priority we place on security of supply.

But when it comes to the future of energy supply, we're also looking beyond the medium term. At the beginning of this year we launched a groupwide research initiative. Over the next ten years, E.ON will invest €100 million in energy research to develop scientific solutions for increasing energy efficiency and improving climate protection. A key component of the initiative is a long-term partnership with RWTH Aachen University, a recognized leader in energy research, with whom we have founded the E.ON Energy Research Institute.

Our energy research initiative exemplifies the high priority we place on corporate social responsibility, a responsibility that's an integral part of the OneE.ON initiative and one of the five core values that underlie our company's actions.

This commitment, however, doesn't cause us to lose sight of our commercial responsibilities. Quite the opposite: financial success and an appropriate return on capital employed remain primary objectives, objectives we're committed to achieving for you, our shareholders. Social and commercial responsibility are by no means mutually exclusive, since only financially successful companies have the strength to be solid corporate citizens for the long term.

E.ON fully meets this requirement. Our 2005 adjusted EBIT of €7.3 billion surpassed the prior year's record figure by 8 percent—an impressive testament to our earnings power. Net income rose a substantial 71 percent to €7.4 billion. Along with our improved adjusted EBIT performance, the key driver was the significant book gains we recorded on the divestment of Viterra and Ruhrgas Industries as part of our focus on our core power and gas business.

Our solid operating performance also served to further increase the value of your company. At 12.1 percent, our ROCE performance in 2005 was well above our pretax cost of capital of 9 percent. This raised our value added to €1.9 billion.

The value of E.ON stock also increased significantly, closing the year more than 30 percent higher. In a year in which equity markets were, overall, very strong, E.ON stock still outperformed the major European stock indices. By comparison, the DAX index gained 27 percent, and the EURO STOXX 50 24 percent, on the year. E.ON stock has continued this solid performance into 2006, by gaining 5 percent in January.

We believe that E.ON stock is attractive to investors and that this is enhanced by our investor-friendly dividend policy. At the Annual Shareholders Meeting on May 4, 2006, we will propose that the dividend be raised to €2.75 per share, an increase of 17 percent—and more than twice as high as the dividend paid for the 2000 financial year.

In addition to our regular dividend, in 2006 we will also recommend that the Annual Shareholders Meeting approve a special dividend of €4.25 per share of ordinary stock. This will give you, our shareholders, the value of our Degussa stake and will complete the process of focusing on our energy business. Our dividend payout of €4.6 billion would again make us one of the DAX's top dividend performers.

We believe that as a focused energy company we're superbly positioned to add new chapters to the E.ON success story. We're confident that in the current year our adjusted EBIT will slightly surpass the high prior-year level.

The sustained success of our operations wouldn't be possible without the outstanding performance and exemplary dedication of our employees. In 2005 their efforts were again considerable and commendable, particularly in an atmosphere in which our company was subject to unfair criticism and at times even harsh rhetoric and groundless accusations. I'd like to take this opportunity to thank each one of them for their excellent work.

We're right on course to achieve our vision of becoming the world's leading power and gas company. OneE.ON, in which we're all working together enthusiastically to achieve a common objective, will play a key role in helping us to get there. This kind of team spirit will, we believe, best equip us to continue to meet challenges and seize opportunities.

Sincerely yours,

Dr. Wulf H. Bernotat

This letter to shareholders contains certain financial measures (adjusted EBIT, ROCE, and value added) that are not calculated in accordance with U.S. GAAP and are therefore considered "non-GAAP financial measures" within the meaning of the U.S. federal securities laws. In accordance with applicable rules and regulations, E.ON has presented in this report a reconciliation or derivation of each non-GAAP financial measure to the most directly comparable U.S. GAAP measure for historical measures and an equivalent U.S. GAAP target for forward-looking measures (please see the commentary on non-GAAP financial measures on the inside front cover of this report).

OneE.ON
E.ON employees share a vision: to make E.ON the world's leading power and gas company. We have a shared understanding of what it will take for us to get there: our mission. For us to successfully achieve our mission, we've defined the principles that guide our actions: our values and behaviors.

Vision
E.ON will be the world's leading power and gas company.

Mission
For this to happen, we must be valued by our customers for bringing competitive solutions, reliability, comfort and convenience to their lives and businesses.
We win by being an integrated power and gas company, combining international strength with local focus and applying the best ideas from across our group and beyond. If we do this, we create superior value for our shareholders and excellent opportunities for our employees.

Values
To get where we intend to go, we recognize the importance of our employees, our communities and our environment and share these values:
- Integrity: We do what we say.
- Openness: We say what we think.
- Trust and Mutual Respect: We treat others as we would like to be treated.
- Courage: We do and say what we believe is right.
- Social Responsibility: We act for the long-term interest of society.

Behaviors
Guided by our values, these key behaviors are essential to achieve our mission:
- Customer Orientation
- Drive for Excellent Performance
- Change Initiation
- Teamwork
- Leadership
- Diversity and Development

Executive Vice Presidents
Kiran Bhojani, Dr. Peter Blau, Gert von der Groeben, Heinrich Montag, Dr. Rolf Pohlig

Dr. Krüper Dr. Schipporeit Dr. Bergmann Dr. Bernotat Dr. Teyssen Dr. Gaul

Dr. Wulf H. Bernotat
Born 1948 in Göttingen
Member of the Board of Management since 2003
Chairman and CEO, Düsseldorf

Dr. Hans Michael Gaul
Born 1942 in Düsseldorf
Member of the Board of Management since 1990
Controlling/Corporate Planning, M&A, Legal Affairs, Düsseldorf

Dr. Erhard Schipporeit
Born 1949 in Bitterfeld
Member of the Board of Management since 2000
Finance, Accounting, Taxes, IT, Düsseldorf

Dr. Burckhard Bergmann
Born 1943 in Sendenhorst/Beckum
Member of the Board of Management since 2003
Upstream Business, Market Management, Group Regulatory Management, Düsseldorf

Dr. Manfred Krüper
Born 1941 in Gelsenkirchen
Member of the Board of Management since 1996
Human Resources, Infrastructure Services, Procurement, Organization, Düsseldorf

Dr. Johannes Teyssen
Born 1959 in Hildesheim
Member of the Board of Management since 2004
Downstream Business, Market Management, Group Regulatory Management, Düsseldorf

In the year under review, the Supervisory Board thoroughly examined E.ON's situation. The E.ON AG Board of Management regularly provided us with timely and comprehensive reports. We monitored and advised management continually.

At the Supervisory Board's four regular meetings and one extraordinary meeting in 2005, we discussed in depth all issues relating to planning, the progress of business, and risk management that are relevant to E.ON. Between meetings, the Board of Management provided the Supervisory Board with written reports on business transactions of key importance to E.ON. Furthermore, the Chairman of the Supervisory Board was informed on an ongoing basis about all significant business transactions as well as the development of key financial figures.

At the forefront of our discussions were acquisitions, disposals, upcoming investments in E.ON's generation fleet, the refinement of E.ON's corporate strategy, its energy policy and regulatory environment, the public debate about electricity and gas prices, the financial situation of the major group companies, the E.ON Group's medium-term plan, and its capital structure.

Acquisitions, Disposals, and Renewing the Generation Fleet

The key topics of our discussions regarding these issues were:

- the sale of Viterra and Ruhrgas Industries
- the framework agreement to sell E.ON's Degussa stock to RAG
- the acquisition of power and gas companies to strengthen our integrated positions in Eastern Europe
- plans to construct state-of-the-art power plants in Germany and Italy.

Refinement of Corporate Strategy

Our consultations dealt extensively with the E.ON Group's future growth strategy, which was adjusted to encompass medium-sized and large growth initiatives after E.ON had achieved all its financial and performance targets ahead of schedule. In this context we also discussed the reasons why E.ON broke off talks with Scottish Power.

Another key topic of our discussions was the E.ON Group's natural gas procurement strategy including possible liquefied natural gas projects. In addition, the Board of Management provided us with comprehensive information about the status of the negotiations with Gazprom which have already led to the conclusion of an agreement to build the North European Gas Pipeline.

Energy Policy and Regulatory Environment

The Board of Management provided us with detailed information to keep us up to date about developments in the policy and regulatory environment of the electricity and gas industries. We dealt extensively with the relevant legislative and regulatory processes and their effects on our markets. Key topics were the development of the EU-wide emissions trading scheme, the German Energy Law of 2005, and the resulting consequences.

In this context, we also discussed the public debate about power and gas price movements, the measures E.ON took to communicate the market mechanisms responsible for the price movements, and E.ON's efforts to make transparent the way it calculates natural gas prices for its residential customers in Germany.

Financial Situation and Medium-Term Plan

Finally, the Supervisory Board dealt in detail with the financial situation of the major group companies (particularly in relation to energy price movements) and with the group's long-term program to renew its asset base. We also discussed thoroughly the E.ON Group's medium-term plan for the period 2006 through 2008. Furthermore, the Board of Management regularly informed us about the scope of E.ON's use of derivative financial instruments.

Corporate Governance

We also regularly discussed the fine-tuning of E.ON's corporate governance policies. We assured ourselves that in the 2005 financial year E.ON AG complied with the corporate governance principles contained in the Declaration of Compliance it had issued on December 16, 2004. The Declaration of Compliance with the German Corporate Governance Code pursuant to Article 161 of the German Stock Corporation Act is printed in full on page 189 of this report and is also available at www.eon.com.

Committee Meetings

The Supervisory Board's Executive Committee received reports from the Board of Management and discussed them in detail at four meetings. It dealt in particular with personnel matters relating to the Board of Management and the structure and amounts of Board of Management compensation and this compensation's stock-based components. In addition, the Finance and Investment Committee met twice to discuss reports from the Board of Management concerning transactions requiring the Committee's approval and concerning corporate strategy. Between its meetings, the Finance and Investment Committee formulated and/or prepared resolutions on significant transactions. At its five meetings the Audit Committee devoted particular attention to the Annual Report, the Interim Reports, accounting issues, risk management, and E.ON's dealings with its independent auditors. The Audit Committee also thoroughly discussed the implementation of internal controls pursuant to Section 404 of the Sarbanes-Oxley Act ("SOA") and the rules stipulated by SOA for the approval of nonauditing services performed by the independent auditors.

Approval of Financial Statements

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Düsseldorf, the independent auditors chosen by the Annual Shareholders Meeting and appointed by the Supervisory Board, audited and submitted an unqualified opinion on the Financial Statements of E.ON AG and the Consolidated Financial Statements for the year ended December 31, 2005, as well as the Combined Review of Operations. The same applies to the Consolidated Financial Statements prepared in accordance with U.S. GAAP. The Consolidated Financial Statements are supplemented by the requisite commentary in compliance with Germany's Commercial Code. The Consolidated Financial Statements prepared in accordance with U.S. GAAP exempt E.ON AG from the requirement to publish Consolidated Financial Statements in accordance with German GAAP. Furthermore, the auditors examined E.ON AG's risk detection system. This examination revealed that the system is fulfilling its tasks. After being subject to a thorough review by the Audit Committee, the Financial Statements, the Combined Review of Operations, and the Auditors' Reports were given to all the members of the Supervisory Board. The Audit Committee and the Supervisory Board, at its meeting to approve the Financial Statements, also reviewed these documents in detail, with the independent auditors present on both occasions.

We examined the Financial Statements of E.ON AG, the Consolidated Financial Statements, the Combined Review of Operations, and the Board of Management's proposal regarding the appropriation of net income available for distribution and agreed to these without any objections. We approved the Independent Auditor's Report.

We approved the Financial Statements of E.ON AG prepared by the Board of Management and the Consolidated Financial Statements. The Financial Statements are thus adopted. We agree with the Combined Review of Operations and, in particular, with its statements concerning E.ON's future development.

We agree with the Board of Management's proposal for appropriating income available for distribution, which includes a cash dividend of €2.75 per ordinary share and a special dividend of €4.25 per ordinary share.

Personnel Changes on the Supervisory Board and its Committees

Effective June 30, 2005, Ralf Blauth and Peter Obramski ended their service on the Supervisory Board. We would like to take this opportunity to again thank both of them for their dedication and for the constructive way they approached their Supervisory Board duties. Effective July 1, 2005, they were succeeded by Gabriele Gratz and Erhard Ott as employee representatives in accordance with an order issued by the commercial court.

In its meeting on August 10, 2005, the Supervisory Board elected Wolf-Rüdiger Hinrichsen to succeed Ralf Blauth on the Executive Committee and Ulrich Otte to succeed him on the Audit Committee.

The Supervisory Board wishes to thank the Board of Management, the Works Councils, and all the employees of E.ON AG and its affiliated companies for their dedication and hard work.

Düsseldorf
March 8, 2006
The Supervisory Board

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Supervisory Board

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Chairman of the Central Works Council, E.ON edis AG, Fürstenwalde an der Spree

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Hanse


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January

An uncommonly severe storm does considerable damage to the electricity system in parts of southern Sweden. Some 250,000 customers are left without electricity. Sydkraft, now called E.ON Sverige, works around the clock to restore service.

February

E.ON Energie acquires 67 percent ownership interests in Gorna Oryahovitza and Varna, two Bulgarian regional distribution companies. E.ON's entry into the Bulgarian market serves to enlarge its position in Eastern Europe, a region characterized by robust economic growth.

April

E.ON UK acquires Enfield Energy Centre Ltd., which operates a modern and efficient gas-fired power plant located near London. The acquisition expands E.ON UK's leading position in power generation.

Employees at all market units take part in OneE.ON Day, which initiates a new phase of the E.ON Group's ongoing integration.

June

E.ON Ruhrgas acquires a 51 percent ownership interest in Distrigaz Nord, a Romanian gas distribution company. Romania is the biggest natural gas market in Central and Eastern Europe.

July

E.ON UK acquires Holford Gas Storage Ltd., a company formed to develop one of the U.K.'s largest underground natural gas storage facilities.

E.ON Energie merges Gasversorgung Thüringen with TEAG, a regional distributor that was already a consolidated E.ON company, to form E.ON Thüringer Energie. E.ON Energie owns 76.8 percent of the merged entity.

August

E.ON sells Viterra to Deutsche Annington, recording a book gain of roughly €2.4 billion on the disposal.

E.ON announces that it is taking advantage of the group's strong liquidity and financial position to fund up to €5.4 billion of the provisions for pensions of its employees in Germany by means of a contractual trust arrangement.

September

As part of an effort to strenghten its presence in Eastern Europe, E.ON Energie acquires 51 percent of Electrica Moldova, a Romanian regional distribution company. which now operates as E.ON Moldova.

E.ON Energie completes the acquisition of NRE Energie, a Dutch power and gas company, giving it access to end customers in the Netherlands, as well. NRE Energie complements E.ON's existing power production and gas trading operations in the Netherlands.

E.ON Ruhrgas sells Ruhrgas Industries to CVC Capital Partners, a European private equity firm. E.ON records a book gain of about €0.6 billion on the disposal.

October

Statkraft acquires ownership interests in 24 hydroelectric plants from E.ON Sverige, which together generate 1.6 billion kWh of electricity in a typical year.

E.ON Kraftwerke announces that it plans to build a state-of-the art, environmentally friendly combined heat and power plant near Turin, Italy. The 800 MW facility is expected to become operational in late 2007. Italy's electricity market is Europe's fourth largest and growing rapidly.

November

E.ON Ruhrgas strengthens its position in gas production by acquiring Caledonia Oil and Gas Limited, a U.K. natural gas production company with interests in 15 gas fields in the U.K. Southern North Sea. The company is renamed E.ON Ruhrgas UK North Sea.

A number of customers file complaints against natural gas price increases announced by two of E.ON Energie's regional distribution companies in Germany: E.ON Hanse and E.ON Westfalen-Weser. In response, E.ON announces that it will be the first company in the German natural gas sector to publish how it calculates prices for residential customers. The new measure is implemented in November 2005 at E.ON Hanse and by January 2006 at all of E.ON Energie's other regional distribution companies in Germany.

E.ON completes its second groupwide employee opinion survey. Of the almost 62,000 employees eligible to take the survey, 84.1 percent participate, significantly surpassing the 74.4 percent participation rate of the previous year's survey.

December

Gazprom begins work on the link-up to the North European Gas Pipeline ("NEGP"). The partners in the NEGP, Gazprom, E.ON, and BASF, will all take part in the construction of the pipeline, which will transport natural gas from Siberia to Germany via the Baltic Sea beginning in 2010. The new pipeline will help meet the increasing import requirements of Germany and other European countries.

E.ON and RAG sign a framework agreement under which E.ON will sell its remaining approximately 43 percent interest in Degussa to RAG. The two companies agree on a purchase price of about €2.8 billion, which corresponds to €31.50 per share of Degussa stock. The transaction is expected to close on July 1, 2006. E.ON expects to record a book gain of approximately €400 million on the disposal.

Group Management Report:

Combined Review of Operations

- Adjusted EBIT above prior-year figure
- Cash provided by operating activities significantly above prior-year level
- Management to propose raising dividend to €2.75
- 2006 adjusted EBIT expected to slightly surpass high prior-year level

E.ON Group[1]			
€ in millions	2005	2004[2]	+/– %
Sales	56,399	46,742	+21
Adjusted EBITDA[3]	10,272	9,741	+5
Adjusted EBIT[3]	7,333	6,787	+8
Net income	7,407	4,339	+71
ROCE[4] (in %)	12.1	11.5	+0.6[5]
Value added[4]	1,872	1,477	+27
Cash provided by operating activities	6,601	5,840	+13
Net financial position[6] (at year end)	3,863	–5,483	–
Investments	4,337	5,109	–15
Employees (at year end)	79,947	60,156	+33

[1]All subsequent commentary for the E.ON Group applies equally to E.ON AG.
[2]Adjusted for discontinued operations.
[3]Non-GAAP financial measure; see reconciliation to net income on page 37.
[4]Non-GAAP financial measure; see derivation on pages 38–41.
[5]Change in percentage points.
[6]Non-GAAP financial measure; see reconciliation on page 47.

Operating Environment

Corporate Profile and Operations

E.ON is the world's largest investor-owned power and gas company. Our roughly 80,000 employees generated more than €56 billion in sales in 2005. We are clearly focused on our core power and gas business and our target markets: Central Europe, the United Kingdom, Northern Europe, and the Midwestern United States. Our corporate structure reflects our focus on these markets.

The Corporate Center reporting segment consists of ownership interests managed directly by Düsseldorf-based E.ON AG, E.ON AG itself, and consolidation effects at the group level. The Corporate Center's main tasks are to manage E.ON as an integrated energy company, chart E.ON's strategic course, manage and secure necessary financing, manage business issues that transcend individual markets, and continually optimize the group's business portfolio. We take a value-oriented management approach aimed at improving our competitiveness and delivering profitable growth.

The lead companies of the Central Europe, Pan-European Gas, U.K., Nordic, and U.S. Midwest market units are responsible for the integrated management of our target markets. Our business units manage day-to-day operations.

Based in Munich, Germany, E.ON Energie is the lead company of the Central Europe market unit, which is responsible for our integrated electricity business and downstream gas business in Central Europe.

With operations mainly in Germany, the Netherlands, and Italy, the Central Europe West Power and Gas business unit engages in:

- conventional, nuclear, and renewable-source generation
- electric transmission via its high-voltage and ultra-high-voltage wires network
- regional distribution of electricity, gas, and district heating
- electricity trading and electricity, gas, and district heating sales.

Central Europe East consists of our shareholdings in regional electric and gas distributors in the Czech Republic, Slovakia, Hungary, Bulgaria, and Romania.

In 2005 E.ON Energie supplied power and gas to about 15 million customers, divided roughly equally between Central Europe West and Central Europe East. This figure includes customers served by key minority shareholdings.

Essen-based E.ON Ruhrgas is the lead company of the Pan-European Gas market unit and responsible for managing our natural gas business in Europe, which is vertically integrated along the value chain. E.ON Ruhrgas E&P operates upstream in gas exploration and production. The midstream business unit combines gas procurement, sales, and storage and manages and optimizes the entire technical system. E.ON Ruhrgas Transport provides gas transport services via our transport pipeline system. E.ON Ruhrgas International and Thüga are responsible for managing downstream shareholdings. Thüga's portfolio consists primarily of minority stakes in regional utilities in Germany and majority stakes in regional utilities in Italy. E.ON Ruhrgas International has ownership interests in energy utilities in other European countries.

Coventry-based E.ON UK is the lead company of our U.K. market unit. It runs our integrated energy business in England, Wales, and Scotland. The regulated business consists of Central Networks, which operates an electricity distribution business. The non-regulated business includes the Energy Wholesale and the Retail businesses. The Energy Wholesale business covers activities including power generation, integrated energy trading, operation and maintenance of combined heat and power plants, development and operation of renewable energy sites, and power station operation. The Retail business includes sales of electricity and gas services to residential, business, and industrial customers. As of December 31, 2005, E.ON UK supplied approximately 8.6 million customer accounts, of which 7.9 million were residential and 0.7 million were business customer accounts.

Three separate businesses—Metering, New Connections, and Home Installation—came together during November 2005 to form Energy Services, which provides E.ON UK customers with all the services they need to get connected to energy supplies, heat their homes, and understand their energy use.

Based in Malmö, Sweden, E.ON Nordic is the lead company of our Nordic market unit. It operates an integrated energy business in Northern Europe, mainly in Sweden, Denmark and Finland. Day-to-day operations, which are managed by E.ON Sverige, consist of:

- power generation
- heat production
- power and gas distribution
- power, gas, and heat retail sales
- energy trading.

At year end 2005 E.ON Nordic supplied roughly 1 million customer accounts.

Our U.S. Midwest market unit primarily operates our regulated utility business in Kentucky, USA. The regulated utility business is composed of two companies, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), which are owned and managed by E.ON U.S. LG&E and KU both operate vertically integrated businesses where customers benefit from combined electric generation, transmission, distribution, and retail services. In addition, LG&E provides natural gas distribution services within its customer territory.

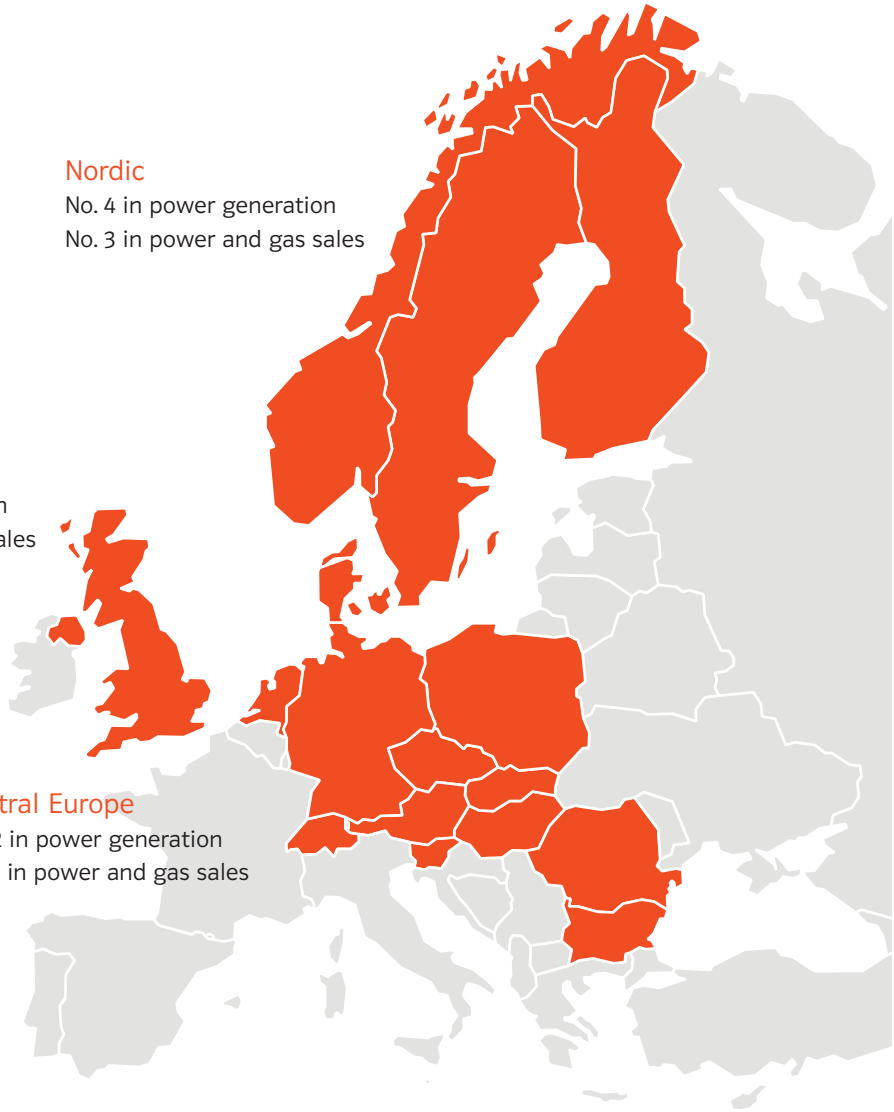
Together, LG&E and KU distribute electricity to approximately 920,000 customers, predominantly in Kentucky. They serve several classes of customers including residential, commercial and industrial, and municipalities. LG&E distributes natural gas to approximately 320,000 customers in Kentucky.

The non-regulated business consists primarily of the Argentine gas distribution operations, in which E.ON U.S. owns minority interests in three companies, and LG&E Power Inc., which owns and operates independent power facilities.

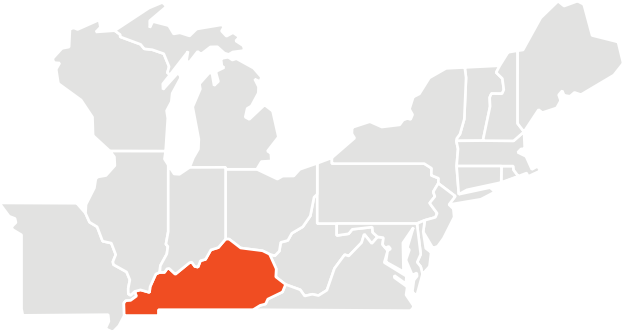
E.ON Group				
Corporate Center E.ON AG, Düsseldorf				
Market Units				
Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest
Lead Companies				
E.ON Energie AG	E.ON Ruhrgas AG	E.ON UK plc	E.ON Nordic AB	E.ON U.S. LLC
Munich, 100%	Essen, 100%	Coventry, 100%	Malmö, 100%	Louisville, 100%
Business Units				
Central Europe West ("CEW")	Up-/Midstream	Regulated business	Sweden	Regulated business
CEW Power	Downstream Shareholdings	Non-regulated business	Finland	Non-regulated business
CEW Gas				
Central Europe East				
Other/Consolidation	Other/Consolidation	Other/Consolidation		
Main Facilities				
Munich/DE	Essen/DE	Coventry/UK	Malmö/SE	Louisville/USA
Hanover/DE	Munich/DE	Nottingham/UK	Espoo/FI[1]	Lexington/USA
Landshut/DE	Nuremberg/DE			
Bayreuth/DE	Erfurt/DE			
Regensburg/DE	Târgu Mureş/RO			
Helmstedt/DE	London/UK			
Quickborn/DE	Stavanger/NO			
Kassel/DE				
Fürstenwalde/Spree/DE				
Erfurt/DE				
Paderborn/DE				
The Hague/NL				
Budapest/HU				
Prague/CZ				
Bratislava/SL				
Bacău/RO				
Varna/BG				
Gorna/BG				

[1]Effective January 2006, E.ON Finland is reported under discontinued operations.

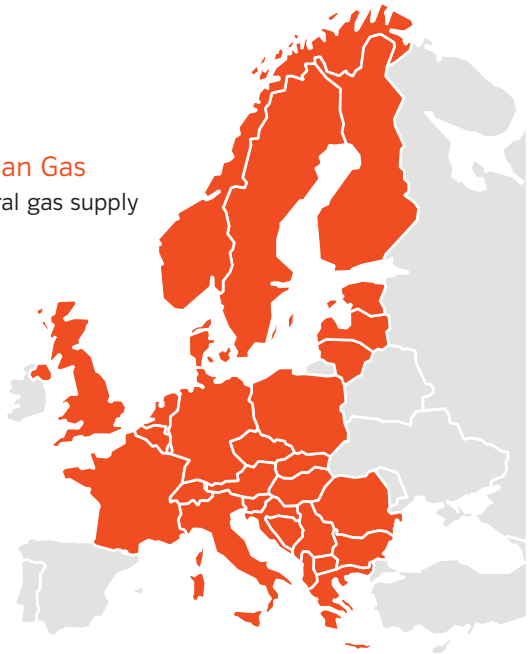
Sales Markets and Market Positions



U.S. Midwest, Kentucky
No. 1 in power generation
No. 1 in power and gas sales



Pan-European Gas
No. 3 in natural gas supply



Energy Policy and Regulatory Environment

In 2005 lawmakers at the national and EU level again initiated and enacted energy policy legislation that has a significant impact on our business.

Europe

Energy efficiency, security of supply, and the completion of a single EU market for energy were the main topics on the EU's energy policy agenda in 2005.

Emissions Trading

EU25 trading in carbon dioxide ("CO_2") emission certificates began on January 1, 2005. Its purpose is to achieve climate-protection targets in a cost-efficient manner and to stimulate investment in low-emission technologies.

The first year of trading saw the creation of the necessary infrastructure. Most EU member states have completed the allocation of emission certificates, and in most cases the registers are available to market participants. These two conditions lay the foundation for EU-wide trading. It is important to note that emission trading had a successful launch and that the secondary market works. A number of emission trading marketplaces are already operating successfully. Trading volume has reached a respectable level, and many participants from affected industries across the EU25 are actively engaged in trading.

The unexpectedly high prices of CO_2 certificates was also a topic of discussion in 2005. There were two main drivers of emission prices. First, the EU reduced the national allocation plans ("NAPs") submitted by member states by an aggregate 290 million metric tons, or 4 percent, which tightened supply. Second, increased requirements, particularly in the United Kingdom and Southern Europe, led to a high demand for CO_2 certificates.

The debate about the second NAP for the second trading period (2008-2012) is currently under way. Member states must submit their NAP to the EU by mid-2006. As a company that operates throughout Europe, E.ON supports efforts to simplify and harmonize allocation policies EU-wide.

Progress Report by EU Directorate-General for Energy

The EU Commission closely observed the developments on Europe's electricity and gas markets in 2005. The Directorate-General for Energy and Transport issued a report on the progress in creating the internal gas and electricity market. The report criticizes the national scope of energy markets and the dominant market position of large incumbents. It also calls for more vigorous implementation of the directives on completing the internal energy market. The EU Commission's Directorate-General for Competition carried out an energy sector inquiry to assess the competition conditions on European gas and electricity markets. Published on February 16, 2006, the inquiry's preliminary report criticizes the high degree of market concentration, the lack of liquidity on traded markets, and insufficient unbundling. The preliminary report is followed by a consultation period in which the Commission solicits comments, after which the Commission may propose remedies. The final report is expected at the end of 2006.

EU Directive on Energy End-Use Efficiency and Energy Services

The EU reached agreement on a directive on energy end-use efficiency and energy services. The directive is expected to take effect in March 2006 and must be transposed into national law within two years. It requires member states to save an annual target quantity of energy supplied to end users and to achieve an aggregate 9 percent reduction between 2008 and 2017. To this end, energy companies will be required to offer services designed to help customers save energy. The EU sets a particularly high priority on stimulating markets for investment in energy-saving technology. We intend to draw on our international experience in providing energy-saving services as we contribute to the discussions about how to transpose this directive into national law.

Germany

Energy Law of 2005

The German Energy Law was amended in 2005 to transpose into national law EU directives on completing the internal market for electricity and gas. It took effect on July 13, 2005; supplementary regulations on electricity and gas network access and network charges took effect on July 29, 2005. Other regulations are still to come. Key amendments relate to the requirement that energy utilities unbundle (that is, create organizationally and legally separate entities for their operations along the value chain) and to the regulation of network connection and access. The law also creates substantial new reporting requirements for utilities. At the same time, Germany's Bonn-based Federal Network Agency for Electricity, Gas, Telecommunications, Post, and Railways (which used to be the federal agency responsible for regulating Germany's telecommunications, postal, and parcel delivery sectors) took responsibility for regulatory oversight of the country's electricity and gas networks. In addition, 10 of Germany's 16 states decided to establish state-level agencies to regulate small network operators whose business is completely within their jurisdiction and who have fewer than 100,000 connected customers.

Under the Energy Law 2005, network charges during the first phase of regulation will largely be cost-based. Cost-based charges must be approved in advance. Our electricity and gas network operators submitted the necessary applications on time in late October 2005 and late January 2006, respectively. An exception was made for gas transport pipeline operators, who may set market-based network charges if they can demonstrate a sufficient degree of competition on their network. E.ON Ruhrgas Transport submitted the necessary documentation to the Federal Network Agency in January 2006.

Plans call for cost-based regulation to be succeeded by incentive regulation as soon as possible. The Federal Network Agency has been tasked with developing a workable incentive plan by mid-2006. It will develop this plan by working with academics, the states, and affected industries. The plan will serve as the basis for new regulations that would create an incentive for network operators to enhance productivity. There will be a maximum charge that network operators can provide for transmission and distribution services or maximum total revenues (typically over a five-year period) operators can record for providing such services. We have sought to play a constructive role in the policymaking process. In the summer of 2005 we released our own incentive plan called the Pro+Model, which incorporates the experience of our subsidiaries outside Germany that already operate in an incentive-based regulatory environment. The Pro+Model contains different incentive mechanisms for operating and capital costs. It creates incentives for boosting productivity, while stimulating the investment in network infrastructure necessary to ensure security of supply and system reliability.

While Germany's regulations for electricity network access are largely unchanged, there have been a range of changes in the regulations for gas network access. Their primary purpose is to simplify third-party access and enable residential customers to switch suppliers. To implement these regulations, network operators are obliged by law work together and develop uniform network access terms.

Litigation over Long-term Gas Supply Contracts

Under an order dated January 13, 2006, the German Federal Cartel Office ("FCO") prohibited E.ON Ruhrgas from implementing existing long-term gas supply contracts with regional and local gas distributors and from entering into new contracts identical or similar in nature. The FCO contends that long-term gas supply contracts, which typically account for a large share of distributors' gas requirements, violate German antitrust law and lead to market foreclosure. Under the FCO's order:

- contracts that account for more than 80 percent of a distributor's requirements may have a maximum duration of two years
- contracts that account for more than 50 and up to 80 percent of a distributor's requirements may have a maximum duration of four years
- contracts that account for up to 50 percent of a distributor's requirements may have longer durations.

Regardless of their actual duration, existing contracts that do not meet these criteria must be terminated by September 30, 2006. In addition, the FCO ordered that suppliers who already meet part of a distributor's requirements may not compete to supply additional volume if, even temporarily, this would exceed the percentage and duration criteria described above.

Although E.ON Ruhrgas had been working to reach an agreement with the FCO, this became impossible once the above criteria were announced. E.ON Ruhrgas contends that the FCO's view is incorrect and that the German gas market is not foreclosed. Gas suppliers compete with a large number of new market entrants, a number that will increase significantly in the near future. In view of Germany's high import dependency, E.ON Ruhrgas also believes that the FCO is overlooking the negative impact its plan would have on the security and affordability of the country's natural gas supply. With an oligopoly of gas producers gaining increasing market power, the FCO's plan to fragment demand will not enhance Germany's security of supply. Moreover, the FCO's plan stifles competition—and interferes with freedom of contract—by excluding primary suppliers from competing to supply additional volume even when they are the cheapest supplier.

Nevertheless, prior to the FCO's order E.ON Ruhrgas had voluntarily offered to take a flexible approach with distributors with whom it has long-term contracts. Unlike the FCO's approach, this would maintain freedom of contract. For new contracts, E.ON Ruhrgas offered to comply with the FCO's restrictions regarding contract duration and percentage of total requirements. However, E.ON Ruhrgas was unwilling to be excluded from competing to supply additional volume to its current customers. E.ON Ruhrgas offered to institute a transitional model for existing contracts, a model that appropriately considers good-faith efforts between contractual parties. Although E.ON Ruhrgas believes that under German law new regulations do not apply to existing contracts, it is prepared to be flexible. Distributor customers in Germany

who receive more than 50 percent of their total gas requirements from E.ON Ruhrgas may terminate their contracts beginning in fall 2006 or fall 2007 and reduce their supply volume to under 50 percent of their total requirements. All of E.ON Ruhrgas's existing supply contracts are scheduled to expire on or before October 1, 2008.

Despite the voluntary restrictions E.ON Ruhrgas was willing to observe, the FCO issued its order. In response, E.ON Ruhrgas filed an emergency petition with the State Superior Court in Düsseldorf to prevent the order from taking immediate effect.

United Kingdom

U.K. energy policy has the objective of maintaining secure and affordable energy supplies while making radical cuts in carbon emissions.

In 2005 energy and environmental policy rose up the U.K. government's agenda. Under its G8 presidency, the United Kingdom aimed to make progress towards achieving an international consensus on climate change supported by E.ON together with the World Economic Forum and 24 other companies. This culminated in the agreement reached at the Gleneagles summit in which all G8 members agree on the necessity to act now to achieve the shared goals of cutting greenhouse gas emissions, improving security of supply, and reducing poverty.

The government also initiated a review of domestic energy policy in the light of the United Kingdom's increasing reliance on imported natural gas and the effects this could have on its security of supply and its objective of making substantial reductions in carbon emissions. This review will also consider the cases for and against new nuclear power plant construction and other low-carbon technologies, such as carbon capture and storage, which can help increase fuel diversity and lower carbon emissions. EON UK will play a full part in this review, which is expected to be completed in 2006.

Sweden

Barsebäck 2 nuclear reactor was shut down permanently on May 31, 2005. In the fall of 2005 E.ON Sverige and Vattenfall reached an agreement with the Swedish government about compensation based on the parties' agreement in conjunction with the closure of Barsebäck 1 in 1999. In return for the shutdown of Barsebäck 2, our ownership interest in Ringhals nuclear power station increased by 3.76 percent to 29.56 percent.

Several significant tax increases took effect on January 1, 2006. The capacity tax on nuclear power stations was increased by 85 percent. E.ON Sverige estimates that this will increase its 2006 tax payments by €47 million. Property taxes on hydroelectric plants were also raised, which will result in €28 million in additional taxes in 2006.

Sweden's parliament passed the government's Dependable Electricity Networks legislation. Effective January 1, 2006, electricity system operators must pay compensation to customers for power outages that exceed 12 hours. The longer the outage, the higher the compensation. System operators must also provide customers with better information about system reliability. Beginning on January 1, 2011, unplanned power outages may not exceed 24 hours. The legislation also calls for measures to protect network infrastructure from damage from falling trees.

Kentucky, United States

The President of the United States signed the Energy Policy Act of 2005 ("Act") into law on August 8, 2005, the first comprehensive U.S. energy legislation for 13 years. The over 1,700-page Act will require regulations to implement its statutory provisions; these will be promulgated over the next year or so. Using tax and other financial incentives, the Act is meant to spur investment and infrastructure modernization, stimulate fuel diversity in power generation, encourage higher end-use efficiency, remove barriers to utility mergers and acquisitions, and encourage the consideration of new nuclear plant construction. It also repeals the Public Utilities Holding Company Act. In March 2005 the Environmental Protection Agency finalized the Clean Air Interstate Rule and the Clean Air Mercury Rule which require further SO_2, NO_X, and mercury emissions reductions for nearly half of the United States, including Kentucky, beginning in 2009.

Economic Environment

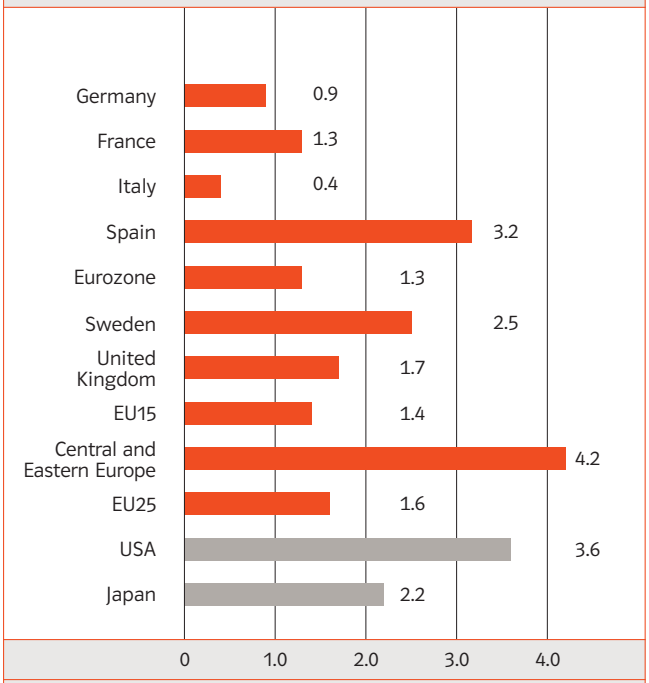
The global economy lost momentum in 2005 but continued to expand at a healthy rate. According to an estimate by the German Council of Economic Advisers ("GCEA"), global gross domestic product ("GDP") increased by 4.3 percent in real terms, slightly behind the 2004 growth rate of 5.1 percent. In the most important economic regions—the United States, the eurozone, and Japan—growth continued to be driven by monetary policy. The high price of crude oil was the main restraint on economic growth. In nominal terms, oil prices reached all-time highs, resulting in a massive loss of purchasing power in oil-importing countries. Nevertheless, the damping effect of high oil prices was actually relatively minor. This is because oil revenues flowed back into industrial countries in the form of investments and consumer goods spending and because inflation did not drive up wages, which would have led to tighter monetary policies.

The vitality of economic activity continued to vary by region. The very robust economies of the United States and China served as the main engine driving global economic growth. True to recent form, Europe showed weaker growth. The U.S. economy continued to expand—despite tighter monetary policy—and was driven by private consumption and investment. The GCEA estimates that U.S. real GDP grew by 3.6 percent. China's impressive economic expansion continued. Despite doubts about the accuracy of Chinese statistics, it is likely that the Chinese economy grew by about 9 percent in 2005 without showing signs of overheating.

Eurozone economic expansion was feeble in 2005, with GDP growing an estimated 1.3 percent. The reasons were high crude oil prices in conjunction with weak consumer demand and limited investment demand. In this economic environment, public finances remained under pressure. Almost half of the eurozone countries did not keep their government deficits below the reference value of 3 percent of GDP defined in the EU's Stability and Growth Pact. Eurozone consumer prices rose 2.2 percent, about the same rate as in 2004.

2005 GDP Growth in Real Terms

Annual change in percent

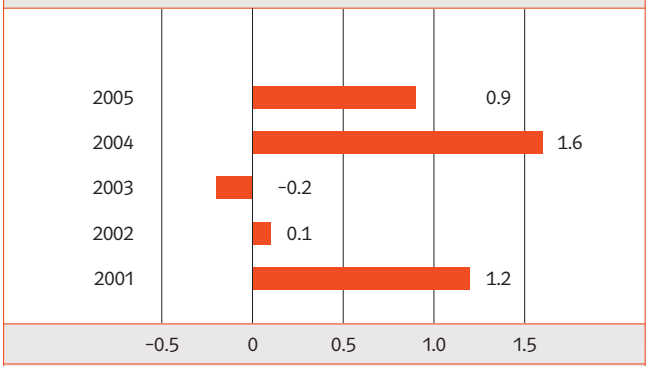


Sources: German Council of Economic Experts (November 2005), German Federal Office of Statistics.

Economic growth varied considerably across the EU25. The U.K. economy grew at a significantly slower rate in 2005 than in 2004, although even this slower rate was slightly ahead of the EU15 average. Weaker growth in consumer demand was the reason for the United Kingdom's lower GDP growth.

German GDP Growth in Real Terms

Annual change in percent



Source: German Federal Office of Statistics.

Driven by robust domestic demand, economic growth in the Scandinavian countries outpaced the EU average. Economic growth among new EU member states was less dynamic than in 2004, particularly in Poland, Hungary, and Slovenia. The GCEA estimates that Russia's GDP grew at an annual rate of 5.8 percent in 2005, driven primarily by energy prices. Russia's oil and gas industries account for an estimated 25 percent of its GDP.

In 2005 Germany again lacked a solid foundation for economic recovery. The sharp increase in crude oil prices stifled economic growth, since in 2005 there was no countervailing effect from a stronger euro. Domestic demand remained at the prior-year level, so that Germany's growth was completely export-driven. Although demand for machinery and equipment was slightly higher, construction spending was again sharply lower. Public and private consumption both declined, and no impetus came from the labor market. Consumer prices rose by 2 percent in 2005, slightly more than the prior-year rate of 1.6 percent.

Energy Industry

In an enviroment of high energy prices and weak economic growth, Germany's consumption of primary energy shrank by 1.3 percent year-on-year to roughly 340 million tons of oil equivalent ("MTOE"). The decline was primarily in consumption of petroleum, hard coal, and lignite.

2005 Primary Energy Consumption in Germany by Energy Source

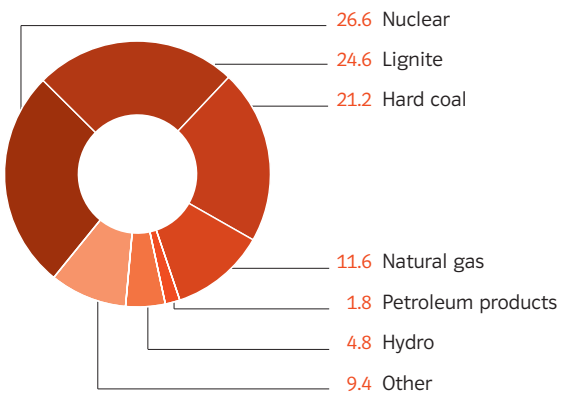
Percentages	2005	2004
Petroleum	36.0	36.2
Natural gas	22.7	22.4
Hard coal	12.9	13.4
Lignite	11.2	11.4
Nuclear	12.5	12.6
Hydro, wind	1.2	1.1
Net power imports/exports	-0.2	-0.2
Other	3.7	3.1
Total	100.0	100.0

Source: AG Energiebilanzen (preliminary figures).

Total net generation in Germany was 581.3 billion kilowatt-hours ("kWh") versus 577.8 billion kWh in the prior year. The greatest share was generated at nuclear and coal-fired power plants.

2005 Net Generation in Germany by Energy Source

Percentages — Total: 581.3 billion kWh



Source: VDEW (preliminary figures).

Germany consumed 77.3 MTOE, or some 995 billion kWh, of natural gas in 2005, about 0.3 percent more than in 2004. This modest increase was temperature-driven. Natural gas's share of primary energy consumption increased slightly to 22.7 percent.

Eastern European countries have enjoyed an extended period of vigorous economic growth. Bulgaria, for example, was a significant trading partner for Germany in 2005. In anticipation of EU accession in 2007, Bulgaria has already begun liberalizing and restructuring its electricity market. Romania, which is also scheduled to join the EU in 2007, has experienced robust economic growth and increased electricity consumption.

Electricity consumption in England, Wales, and Scotland reported through the British Electricity Trading and Transmission Arrangements was 250 billion kWh for the nine months ended December 31, 2005. Gas consumption at 1,100 billion kWh was broadly in line with 2004 consumption.

Overall, electricity consumption in the Nordic countries rose by 1 percent from 2004. In 2005 reservoir levels in Sweden and Norway were high compared with 2004 but in line with the long-term average. Hydroelectric production increased by 40 billion kWh, or 22 percent, compared with 2004, which was a relatively dry year. Sweden's nuclear generation of almost 70 billion kWh was below the previous year's 75 billion kWh.

Electricity consumption in the Midwestern United States increased by approximately 4 percent in 2005, up from 1,040 billion kWh in 2004, due to increased demand across all sectors and a warm summer. Natural gas consumption increased by approximately 1 percent in 2005, from 1,067 billion kWh in 2004, due to increased industrial use, offset by lower retail volumes resulting from extremely high prices.

Energy Price Developments

During 2005 power and gas markets in the United States and the European Union saw unprecedented high prices and volatility. High and volatile international oil and coal prices, the start of the Emissions Trading Scheme in the EU, and security of supply concerns in the U.K. gas market were cited as the main underlying factors.

World oil markets are being driven by concerns over supply margins and political risks in major oil producing countries like Iran and Iraq. This has led to volatile crude oil markets with high risk premiums, a situation intensified by uncertainty about the long-term effects of the hurricanes in the Gulf of Mexico. The price for Brent oil peaked at more than $67 per barrel (bbl) in September 2005, more than 60 percent higher than at the beginning of the year. By year end prices had decreased to almost $60 per bbl.

Forward prices for coal deliveries in Europe rose to more than $70 per metric ton during the first months of 2005. By year end they had fallen to approximately $60 per metric ton. U.S. coal prices also remained high.

Natural gas prices in our core markets were closely linked to oil price developments, as gas and oil are largely substitutable products in both industrial and residential markets and are closely related in production. U.K. and U.S. natural gas prices doubled during 2005. German gas import prices increased by less than 40 percent, due to the contractual oil indexation widely used in European long-term supply contracts. U.K. gas prices increased on concerns of tightening indigenous supply. U.S. gas prices rose due to tightening supply margins and the impact of supply interruptions resulting from the hurricanes in the Gulf of Mexico.

European cap and trade schemes for CO_2 emissions are playing an increasingly important role in our business. Trading in CO_2 emission certificates started in 2005 and has become an important driver of wholesale electricity prices. EU CO_2 emission certificates began 2005 trading at €8 per metric ton, peaked during the first half of the year at almost €30 per metric ton, and ended the year at €22 per metric ton.

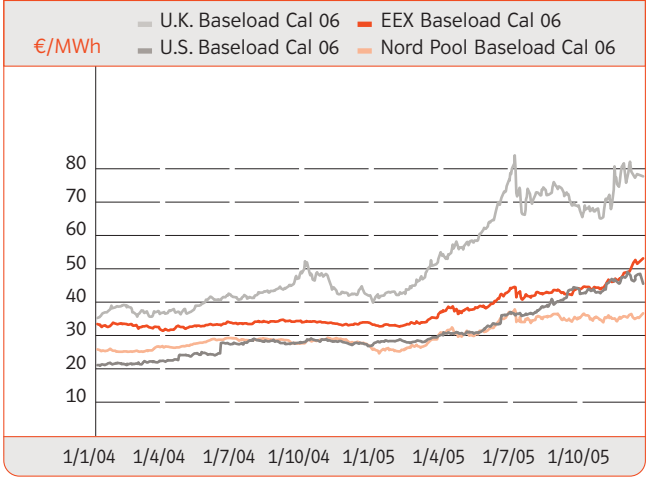
The relative economics of coal and gas power generation were seen as an important driver of CO_2 certificate prices. The improved economics of coal versus gas generation in the United Kingdom led the market to expect increased demand for certificates, resulting in higher prices. Weather conditions (a dry summer in Spain) and political uncertainty (the EU Commission has challenged some member states' NAPs for CO_2 certificates) also contributed to increased CO_2 prices.

Power markets cannot be isolated from international fuel and emission markets. Compared with prices at the beginning of 2005, forward prices for baseload deliveries in 2006 peaked at levels that were 100 percent higher in the United Kingdom (over £58 per megawatt-hour, "MWh"), almost 60 percent higher in Germany (over €53 per MWh), more than 50 percent higher in the United States (over $58 per MWh), and more than 40 percent higher in Northern Europe (over €38 per MWh). Market observers viewed CO_2 prices as the most important influence on power prices in Northern Europe and Germany, whereas U.K. and U.S. power prices were mainly driven by high natural gas prices.

In addition, an unusually cold winter and a dry, hot summer in southwestern Europe in conjunction with unplanned plant outages led to price spikes in Central Europe and the United Kingdom. For example, baseload spot prices at the EEX, Germany's power exchange, traded at levels above €100 per MWh in November 2005 and at times reached peaks of €500 per MWh. Spot price volatility increased forward risk premiums which added to the upward pressure on forward power prices.

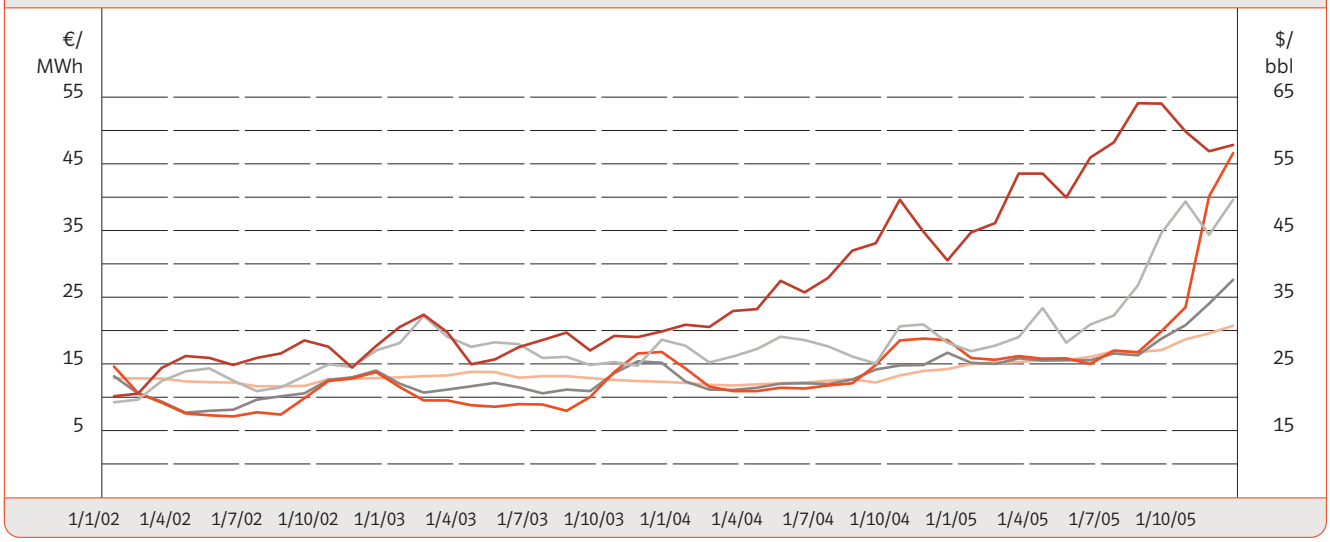
Our retail energy markets in Europe are not immune from wholesale price developments, since our retail prices are derived from wholesale prices. It has therefore been necessary to raise gas and electricity prices across Europe to reflect the development of wholesale prices.

Electricity Price Movements in E.ON's Core Markets



CO_2 Certificate Price Movements in Europe

Crude Oil and Natural Gas Price Movements in E.ON's Core Markets

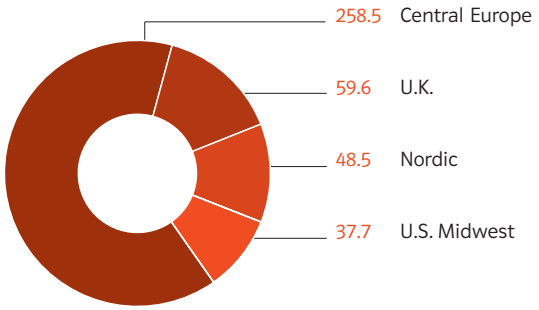


Power and Gas Sales

On balance, the E.ON Group's power and gas sales developed somewhat better than sales generally in our core markets. We sold 3 percent more electricity than in 2004. There are two main reasons for the increase. The national burden-sharing agreement for renewable-source electricity in Germany served to increase our sales volume, as did the inclusion of Gorna Oryahovitza and Varna, newly consolidated regional electric distribution companies in Bulgaria. Higher sales volumes outside Germany at our Pan-European Gas market unit constituted the main factor in the 6 percent increase in gas sales.

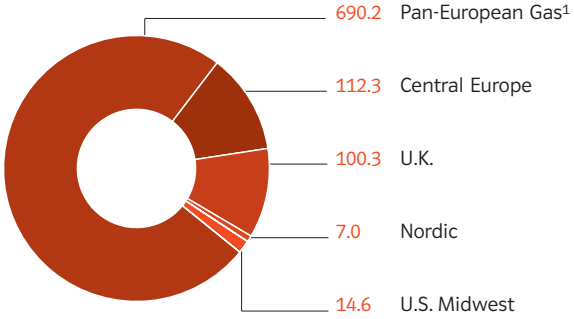
2005 Power Sales

Billion kWh — Total: 404.3



2005 Gas Sales

Billion kWh — Total: 924.4



[1]Gas sales of E.ON Ruhrgas AG.

Power and Gas Procurement

The Central Europe market unit met 129.1 billion kWh, or about 48 percent, of its power requirements with electricity from its own generating facilities. Central Europe purchased 142.2 billion kWh of electricity from jointly owned power plants and outside sources, about 16 percent more than in the prior year. Overall, power procurements rose by 7 percent to 271.3 billion kWh.

As in the past, in 2005 Pan-European Gas purchased natural gas from German producers and five export countries, which accounted for the following percentages of its total procurements of 686.1 billion kWh:

- Germany: 15.5 percent
- Russia: 28.2 percent
- Norway: 27.5 percent
- Netherlands: 20.2 percent
- Denmark: 3.4 percent
- United Kingdom: 5.0 percent
- Other: 0.2 percent

The U.K. market unit backed 37.3 billion kWh, or more than half, of its power requirements of 61.8 billion kWh with electricity from its own power plants. U.K. purchased 24.5 billion kWh of electricity from jointly owned power plants and third parties.

Nordic covered about two thirds of its power requirements of 50.6 billion kWh with power from its own generating facilities. Nordic purchased 16.3 billion kWh of electricity from jointly owned power plants and outside sources.

U.S. Midwest generated 35.6 billion kWh of electricity in its own facilities and purchased 5.1 billion kWh from outside sources.

In an environment of restrained economic growth, particularly in the eurozone, on the whole our business developed well. We increased adjusted EBIT more than we had anticipated at year end 2004. Three of our market units—U.K., Nordic, and U.S. Midwest—operate outside the eurozone. The respective foreign exchange rates did not have a significant impact on our earnings situation in 2005. The transactions listed below influenced our earnings situation in 2005.

Transactions in 2005

Significant acquisitions:

- E.ON Energie acquired 67 percent ownership interests in Gorna Oryahovitza and Varna, Bulgarian regional electric distributors which become consolidated E.ON companies on March 1, 2005.
- In March the Hungarian antitrust agency approved E.ON Energie's acquisition of majority interests in two gas distribution companies, DDGáz (50.01 percent) and Kögáz (98.1 percent).
- E.ON UK acquired a 100 percent stake in Enfield Energy Centre Ltd., which operates a gas-fired power plant. It became a consolidated E.ON company on April 1, 2005.
- E.ON Ruhrgas acquired a 30 percent stake in Distrigaz Nord from the Romanian government and enlarged this stake to 51 percent through an immediate capital increase. The gas distributor became a consolidated E.ON company on June 30, 2005.
- In July E.ON Energie merged Gasversorgung Thüringen and TEAG, a regional distribution company that was already a consolidated E.ON subsidiary, to form E.ON Thüringer Energie.
- E.ON UK acquired Holford Gas Storage Ltd. ("HGSL") from Scottish Power. HGSL was formed to develop one of the U.K.'s largest underground natural gas storage facilities. It became a consolidated E.ON company on July 28, 2005.
- In September E.ON Benelux acquired a 100 percent stake in NRE Energie, a Dutch power and gas utility.
- E.ON Energie acquired 24.6 percent of Electrica Moldova S.A., a Romanian electric distribution company, and simultaneously increased its ownership to 51 percent through a capital increase. The company, renamed E.ON Moldova, became a consolidated E.ON subsidiary on September 30, 2005.
- E.ON Ruhrgas acquired Caledonia Oil and Gas Limited ("COGL") of the United Kingdom. COGL is a natural gas production company with interests in 15 gas fields in the U.K. Southern North Sea. It became a consolidated E.ON company on November 1, 2005.

Significant disposals:

- E.ON sold Viterra to Deutsche Annington, recording a book gain of roughly €2.4 billion on the disposal, which was completed in August 2005. Viterra was deconsolidated effective July 31, 2005.
- E.ON Ruhrgas sold Ruhrgas Industries ("RGI") to CVC Capital Partners, a European private equity firm. E.ON recorded a book gain of about €0.6 billion on the disposal, which was completed in September 2005. RGI was deconsolidated effective August 31, 2005.
- In early October Statkraft acquired 24 hydroelectric plants from E.ON Sverige.

Furthermore, on December 19, 2005, E.ON and RAG signed a framework agreement on the sale of E.ON's remaining roughly 43 percent Degussa stake to RAG for approximately €2.8 billion or €31.50 per share of Degussa stock. The E.ON and RAG Supervisory Boards approved the agreement. The transaction is expected to be completed on July 1, 2006. E.ON expects to report a book gain of approximately €400 million on the disposal. In early 2006 E.ON and RAG combined their Degussa stakes into a single company and will continue to operate Degussa under joint control until the transaction is completed. After a public tender offer and subsequent squeeze-out, it is expected that the joint company will own 100 percent of Degussa. RAG's acquisition of our Degussa stake is subject to the approval of the German federal government and the state of North-Rhine Westphalia.

In November 2005, E.ON U.S. entered into a letter of intent with Big Rivers Electric Corporation ("BREC") to sell Western Kentucky Energy ("WKE") to BREC by the end of 2006. Consequently, WKE's results are recorded under discontinued operations in E.ON's Consolidated Financial Statements.

Sales

The increase in sales resulted primarily from the following factors: the passthrough of the costs of procuring electricity under Germany's Renewable Energy Law, higher average prices in our power and gas business, higher sales volumes, and consolidation effects.

Sales

€ in millions	2005	2004[1]	+/– %
Central Europe	24,295	20,752	+17
Pan-European Gas	17,914	13,227	+35
U.K.	10,176	8,490	+20
Nordic	3,471	3,347	+4
U.S. Midwest	2,045	1,718	+19
Corporate Center	–1,502	–792	–
Sales	**56,399**	**46,742**	**+21**

[1]Adjusted for discontinued operations.

Central Europe grew sales significantly in 2005 relative to the prior year. The contributing factors were the global increase in raw material and energy prices which ultimately led to increases in our power and gas prices, the passthrough of the costs of procuring electricity under Germany's Renewable Energy Law, and the inclusion of newly consolidated regional distributors at Central Europe West and East.

Sales at Pan-European Gas rose substantially. The increase resulted mainly from higher sales volumes in conjunction with higher average sales prices, increased production in the upstream business compared with the prior year, and consolidation effects at Thüga Italia and the inclusion of the newly consolidated Distrigaz Nord.

U.K.'s sales were 20 percent higher year-on-year primarily due to price increases in the retail business.

Nordic's sales increased by 4 percent relative to the previous year thanks to higher average sales prices.

U.S. Midwest's sales increased by 19 percent. The main drivers were higher off-system revenues due to higher prices and volumes, the increase in retail electric and gas rates effective July 1, 2004, as approved by the Kentucky Public Service Commission, and higher retail electric volumes resulting from warmer summer and fall weather.

Adjusted EBIT

Earnings before interest and taxes and adjusted to exclude certain extraordinary items ("adjusted EBIT") is our key figure for purposes of internal management control and as an indicator of a business's long-term earnings power. Adjusted EBIT enables us to measure the operating performance of our individual market units.

Adjusted EBIT is derived from income/loss (–) from continuing operations before income taxes and interest income and adjusted to exclude certain extraordinary items. The adjustments include book gains and losses on disposals, restructuring expenses, and other nonoperating income and expenses of a nonrecurring or rare nature. In addition, interest income is adjusted using certain economic criteria. In particular, the interest portion of additions to provisions for pensions resulting from personnel expenses is allocated to interest income. The interest portions of the allocations of other long-term provisions are treated analogously to the degree that, in accordance with U.S. GAAP, they are reported on different lines of the Consolidated Statements of Income.

Adjusted EBIT

€ in millions	2005	2004[1]	+/– %
Central Europe	3,930	3,602	+9
Pan-European Gas	1,536	1,344	+14
U.K.	963	1,017	–5
Nordic	806	701	+15
U.S. Midwest	365	354	+3
Corporate Center	–399	–338	–
Core Energy Business	**7,201**	**6,680**	**+8**
Other Activities[2]	**132**	**107**	**+23**
Adjusted EBIT[3]	**7,333**	**6,787**	**+8**

[1]Adjusted for discontinued operations.
[2]This segment consists of Degussa, which is accounted for using the equity method.
[3]Non-GAAP financial measure; see the table on page 37 for a reconciliation to net income.

The positive earnings trend of the first three quarters of 2005 continued in the fourth. Adjusted EBIT rose by 8 percent year-on-year to €7.3 billion. We benefited in particular from higher wholesale electricity prices. Increased hydroelectric generation at Nordic also served to improve adjusted EBIT.

The increase in adjusted EBIT at Central Europe is chiefly attributable to additional operating improvements and the passthrough of higher wholesale electricity prices to end customers. Adjusted EBIT was adversely affected by three main factors: significantly higher costs for conventional fuel, higher power procurement costs, and higher burdens resulting from expenses for additional CO_2 certificates.

Oil price movements constituted the main influence on Pan-European Gas's adjusted EBIT. Heating oil prices, to which natural gas prices are indexed, rose continually during 2005, resulting in substantially higher procurement costs. The delay in the adjustment of sales prices to reflect procurement prices had a substantial adverse effect on adjusted EBIT. This negative effect was more than offset by significantly higher adjusted EBIT in the upstream business and higher equity earnings from associated companies.

U.K.'s adjusted EBIT was 5 percent below the prior-year figure. Significant increases in commodity input costs, which include the new carbon cost, were offset by higher retail prices and benefits from the integration of customer service activities of the former TXU business. The comparison was also affected by one-off items including the negative impact of lower earnings from international assets due to divestment and the cessation of deferred warranty income from previous asset sales.

Nordic's adjusted EBIT surpassed the high prior-year figure by 15 percent thanks primarily to increased hydroelectric production and successful hedging activities, which enabled Nordic to secure higher effective sales value for its production portfolio.

U.S. Midwest's adjusted EBIT was 3 percent above the prior-year figure. The positive factors were the increased retail electric and gas rates, higher retail electric volumes, and higher off-system sales due to higher prices and volumes in the off-system electric market. These were partially counteracted by costs associated with participation in Midwest Independent Transmission System Operator, higher depreciation on newly installed assets, and higher operating expenses.

Net Income

Net income (after income taxes and minority interests) considerably surpassed the high prior-year figure thanks to the book gains on the Viterra and Ruhrgas Industries disposals.

Adjusted interest income (net) was nearly at the prior-year level. The significant improvement in our net financial position was counteracted by the absence of the one-off gain of approximately €270 million we recorded in 2004 resulting from amendments to Germany's Ordinance on Advance Payments for the Establishment of Federal Facilities for Safe Custody and Final Storage for Radioactive Wastes.

Net book gains in the 2005 resulted in particular from the sale of securities (€371 million). In addition, the reduction of our ownership interest in TEAG resulted in a gain of €90 million. Book gains recorded in the prior year primarily reflect the sale of equity interests in EWE and VNG (€317 million), of securities (€221 million), and of Degussa stock (€51 million).

Restructuring expenses declined year-on-year to €29 million and resulted principally from the integration of Midlands Electricity at U.K.

Other nonoperating earnings primarily reflect positive effects from the marking to market of energy derivatives at U.K. We use derivatives to protect our operations from the effects of price fluctuations. Between September 30 and December 31, 2005, the market value of derivatives transacted by the E.ON Group increased by more than €600 million due to sharply higher natural gas prices. Marking to market at year end 2005 served to increase other nonoperating earnings by approximately €1.2 billion. By contrast, an impairment charge in Degussa's Fine Chemicals segment reduced other nonoperating earnings by €347 million resulting from our direct ownership interest. The costs caused by the severe storm in Sweden at the beginning of 2005 reduced other nonoperating earnings by about €140 million. Other negative effects include an impairment charge of €129 million at U.K.'s generation business and an impairment charge of €103 million on deferred tax liabilities at a company accounted for using the equity method in the Corporate Center reporting segment. The prior-year figure mainly includes positive effects from the marking to market of energy derivatives of about €290 million offset by impairment charges on real estate and short-term securities at Central Europe and nonrecurring charges on investments at Central Europe and U.K.

Our continuing operations recorded a tax expense of €2,276 million in 2005. Our tax rate increased from 29 percent in 2004 to 32 percent in 2005, mainly due to our improved adjusted EBIT and a lower share of tax-free income.

Minority interests's share of net income increased due to higher earnings contributions at the companies in question and consolidation effects.

Income/Loss (–) from discontinued operations, net, mainly reflects the aggregate book gain of approximately €3 billion on the Viterra and Ruhrgas Industries disposals. Under U.S. GAAP, this gain is reported separately in the Consolidated Statements of Income (see commentary in the Notes on pages 121–122). It also includes the earnings of WKE, which we plan to divest in 2006.

Income/Loss (–) from the cumulative effect of changes in accounting principles was primarily attributable to the adoption, in March 2005, of *Interpretation 47, Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143*. Commentary can be found in Note 2 to the Consolidated Financial Statements on pages 114-115.

Net Income

€ in millions	2005	2004[1]	+/– %
Adjusted EBITDA[2]	**10,272**	**9,741**	**+5**
Depreciation, amortization, and impairments affecting adjusted EBIT[3]	–2,939	–2,954	–
Adjusted EBIT[2]	**7,333**	**6,787**	**+8**
Adjusted interest income (net)[4]	–1,027	–1,031	–
Net book gains	491	589	–
Restructuring expenses	–29	–100	–
Other nonoperating earnings	440	110	–
Income/Loss (–) from continuing operations before income taxes and minority interests	**7,208**	**6,355**	**+13**
Income taxes	–2,276	–1,850	–
Minority interests	–553	–478	–
Income/Loss (–) from continuing operations	**4,379**	**4,027**	**+9**
Income/Loss (–) from discontinued operations, net	3,035	312	–
Income/Loss (–) from cumulative effect of changes in accounting principles, net	–7	–	–
Net income	**7,407**	**4,339**	**+71**

[1]Adjusted for discontinued operations.
[2]Non-GAAP financial measure.
[3]See commentary in Note 32 to the Consolidated Financial Statements on page 174.
[4]See the reconciliation on page 174.

ROCE and Value Added

Groupwide Value-Oriented Management Approach

Our corporate strategy is aimed at delivering sustainable growth in shareholder value. We have put in place a groupwide planning and controlling system to assist us in planning and managing E.ON as a whole and our individual businesses with an eye to increasing their value. This system ensures that our financial resources are allocated efficiently.

E.ON's key performance metrics are return on capital employed ("ROCE") and value added. To monitor the periodic performance of our business segments, we compare each segment's ROCE with its business-specific cost of capital. In addition to ROCE, which is a relative performance metric, we also measure performance using valued added, which is an absolute performance metric.

Cost of Capital

The cost of capital employed is determined by calculating the weighted-average cost of equity and debt. This average represents the market-rate returns expected by stockholders and creditors. The cost of equity is the return expected by an investor in E.ON stock. The cost of debt equals the long-term financing terms (after taxes) that apply in the E.ON Group.

The table at right illustrates the derivation of cost of capital before and after taxes. The E.ON Group's average cost of capital was unchanged at 5.9 percent after taxes and 9 percent before taxes.

The cost of capital for each of E.ON's market units is calculated in the same way as the figure for the E.ON Group as a whole. The individual market units' pretax cost of capital varies between 8 percent and 9.2 percent.

Cost of Capital

Risk-free interest rate	5.1%
Market premium[1]	5.0%
Beta factor[2]	0.7
Cost of equity after taxes	**8.6%**
Cost of debt before taxes	5.6%
Tax shield (tax rate: 35%)[3]	–2.0%
Cost of debt after taxes	**3.6%**
Share of equity	45%
Share of debt	55%
Cost of capital after taxes	**5.9%**
Tax rate	35%
Cost of capital before taxes	**9.0%**

[1]The market premium reflects the higher long-term returns of the stock market compared with German treasury notes.
[2]The beta factor is used as an indicator of a stock's relative risk. A beta of more than one signals a higher risk than the risk level of the overall market; a beta factor of less than one signals a lower risk.
[3]The tax shield takes into consideration that the interest on corporate debt reduces a company's tax burden.

Analyzing Value Creation by Means of ROCE and Value Added

ROCE is a pretax total return on capital. It measures the sustainable return on invested capital generated by operating a business. ROCE is defined as the ratio of adjusted EBIT to capital employed. We use adjusted EBIT as our earnings metric because it is net of the effects of taxes and financial transactions. Moreover, adjusted EBIT does not include one-off and infrequent effects, such as book gains and restructuring expenses.

Capital employed represents the interest-bearing capital tied up in the group. Capital employed is equal to a segment's operating assets less the amount of noninterest-bearing available capital. Goodwill from acquisitions is included at acquisition cost, as long as this reflects its fair value.

This year we changed the method we use to calculate capital employed. In the Consolidated Balance Sheets, other share investments are included at their mark-to-market valuation. Changes in their market value do not affect adjusted EBIT but are recorded under stockholders' equity, resulting in neither profit nor loss. To provide us with a more consistent picture of our ROCE performance, capital employed no longer includes the mark-to-market valuation of other shareholdings but rather their purchase cost. This applies primarily to our shares in Gazprom, which considerably increased in value in the second half of 2005. The prior-year figure was adjusted accordingly.

Value added measures the return that exceeds the cost of capital employed. It is calculated as follows:

Value added = (ROCE – cost of capital) x capital employed

The table at right shows the E.ON Group's ROCE, value added, and their derivation.

E.ON Group ROCE and Value Added

€ in millions	2005	2004
Adjusted EBIT[1]	**7,333**	**6,787**
Goodwill, intangible assets, and property, plant, and equipment	60,811	62,263
+ Shares in affiliated and associated companies and other share investments	19,426	14,991
– Adjustment for mark-to-market valuation[2]	5,677	1,657
+ Inventories	2,457	2,647
+ Accounts receivable	8,269	6,534
+ Other noninterest-bearing current assets, including prepaid expenses and deferred taxes	15,520	11,572
– Noninterest-bearing provisions[3]	10,685	11,141
– Noninterest-bearing liabilities, including deferred income and deferred taxes	28,289	21,706
Capital employed (at year end)	**61,832**	**63,503**
Capital employed (annual average)[4]	**60,398**	**63,436**
Capital employed (discontinued operations)[5]	**–**	**–4,373**
Capital employed (continuing operations, annual average)	**60,398**	**59,063**
ROCE[6]	**12.1%**	**11.5%**
Cost of capital	**9.0%**	**9.0%**
Value added[6]	**1,872**	**1,477**

[1]Non-GAAP financial measure; see reconciliation to net income on page 37.
[2]Capital employed no longer includes the mark-to-market valuation of other shareholdings or related deferred-tax effects. The prior-year figure was adjusted accordingly. Without this methodological change, capital employed (continuing operations, annual average) would have been €63,588 million in 2005 and €60,614 million in 2004. and ROCE 11.5 percent in 2005 and 11.2 percent in 2004.
[3]Noninterest-bearing provisions mainly include short-term provisions. They do not include provisions for pensions and nuclear waste management (see Notes 23 and 24 to the Consolidated Financial Statements on pages 147–153).
[4]In order to better depict intraperiod fluctuations in capital employed, annual average capital employed is calculated as the arithmetic average of the amounts at the beginning of the year, the end of the year, and the balance-sheet dates of the three interim reports. Capital employed amounted to €59,303 million, €61,086 million, and €60,550 million at March 31, June 30, and September 30, 2005, respectively.
[5]In 2004 the annual average capital employed of Viterra, RGI, and WKE was €3,649 million, €741 million, and –€17 million, respectively.
[6]Non-GAAP financial measure.

ROCE and Value Added Perfomance

Our integration and growth strategy is reflected in a further improvement in the E.ON Group's ROCE performance. Our ROCE and value added were again higher year-on-year. Our ROCE of 12.1 percent substantially exceeded our cost of capital. In 2004 we already reached our on-top target of a ROCE of at least 10.5 percent by 2006, and in 2005 we significantly surpassed it.

Central Europe

Central Europe further improved both its ROCE and value added in 2005. The Central Europe West Power business segment benefited from operating improvements and higher wholesale electricity prices. Adverse effects included significantly higher conventional fuel costs, higher power procurement costs, and the necessary procurement of additional CO_2 certificates. The high returns posted by Central Europe are also attributable to its highly depreciated asset base. The implementation of our medium-term investment plan will result in an increase in Central Europe's capital employed, particularly for its operations in Germany.

Pan-European Gas

Pan-European Gas's ROCE for 2005 rose to 11.5 percent, significantly above its cost of capital. Key factors were the oil-price-driven earnings increase in the upstream business and improved earnings in the downstream business.

U.K.

U.K.'s ROCE declined to 7.6 percent in 2005 after nearly reaching its cost of capital in 2004. This was mainly attributable to an increase in capital employed due to the high mark-to-market value of derivatives. ROCE was also adversely affected by the slight decline in operating earnings.

Nordic

Nordic again increased both its ROCE and value added in 2005. Nordic's ROCE of 11.4 percent markedly exceeded its cost of capital. Nordic's business benefited primarily from increased hydroelectric production and successful hedging activities, which enabled Nordic to secure higher effective wholesale prices for its production portfolio.

U.S. Midwest

ROCE at our U.S. business was unchanged at 5.5 percent. Operating improvements in the regulated business were counteracted by a partially exchange-rate-driven increase in capital employed.

ROCE and Value Added by Segment

	Central Europe		Pan-European Gas[1]	
€ in millions	2005	2004	2005	2004
Adjusted EBIT	**3,930**	**3,602**	**1,536**	**1,344**
÷ **Capital employed**	**17,969**	**16,938**	**13,355**	**12,962**
= **ROCE**	**21.9%**	**21.3%**	**11.5%**	**10.4%**
Cost of capital	**9.0%**	**9.0%**	**8.2%**	**8.2%**
Value added	**2,318**	**2,083**	**441**	**285**

[1]Capital employed no longer includes the mark-to-market valuation of other shareholdings. This applies primarily to our Gazprom shareholding. The prior-year figure was adjusted accordingly.
[2]Effective February 1, 2003, E.ON accounts for Degussa using the equity method. Capital employed therefore decreased to E.ON's 46.5 percent interest and, effective June 1, 2004, E.ON's 42.9 percent interest, in Degussa's book value. The income generated on capital equals E.ON's share in Degussa's net income (after taxes). The change in the consolidation method also affects the cost of capital. Effective 2003, Degussa's cost of capital equals the cost of equity after taxes.

	U.K.		Nordic		U.S. Midwest		Degussa[2]		Corporate Center		E.ON Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	963	1,017	806	701	365	354	132	107	–399	–338	7,333	6,787
	12,642	11,445	7,066	7,331	6,625	6,458	1,959	2,229	782	1,700	60,398	59,063
	7.6%	8.9%	11.4%	9.6%	5.5%	5.5%	6.7%	4.8%	–	–	12.1%	11.5%
	9.2%	9.2%	9.0%	9.0%	8.0%	8.0%	9.6%	9.6%	–	–	9.0%	9.0%
	–202	–34	170	44	–166	–161	–57	–107	–	–	1,872	1,477

Foreign Exchange, Interest Rate, Commodity Price Risk Management

The E.ON Group's business operations and related financial activities are exposed to exchange rate, interest rate, and commodity price fluctuations. In order to limit our exposure to these risks, we pursue systematic financial and risk management, the core elements of which are binding groupwide guidelines, the use of quantitative key figures, the limitation of risk, a groupwide reporting system, and the separation of departmental functions. To limit price risks, we utilize derivative financial instruments that are commonly used in the marketplace. These instruments are transacted with financial institutions, brokers, power exchanges, and third parties whose creditworthiness we monitor on an ongoing basis. We use fair value hedge accounting primarily when trading fixed for variable interest rates. We use cash flow hedge accounting primarily to limit interest rate and foreign exchange risks. In addition, we use net investment hedges to protect the value of our net investments in our operations outside the eurozone. We calculate the value of our derivative financial instrument transactions using common market valuation methods with reference to available market data.

For more information about derivative financial instruments, please consult Note 29 to the Consolidated Financial Statements on pages 165–170.

As of December 31, 2005, the nominal value of interest rate and foreign currency hedging transactions was €38,989 million. Their market value was €138 million.

We also use derivative financial instruments to limit exposure to risks from changes in commodity and product prices. Our energy business mainly uses electricity, gas, coal, carbon emission, and oil price hedging transactions to limit its exposure to risks resulting from price fluctuations, to optimize its systems and power generating capacities as well as power and gas distribution and sales capabilities, and to lock in margins. Our energy business also engages in proprietary commodity trading in accordance with detailed trading guidelines and within narrow limits. The face value of energy derivatives amounted to €43,950 million as of December 31, 2005. Their market value was €1,474 million. The sharp increase in market value results primarily from the high volatility of commodity prices in 2005, particularly electricity and gas prices, and to a lesser degree from additions to the scope of consolidation.

We have a groupwide system in place to monitor and manage the credit risks associated with derivative financial instruments.

Financial Policy

Our financial policy is designed to give E.ON substantial flexibility and instant access to short-term and long-term financial resources. As a rule, external financing is carried out by E.ON AG (or via finance subsidiaries under guarantee of E.ON AG) and the funds are on-lent as needed within the group. This approach is designed to ensure that financing arrangements are consistent and that we obtain the best-possible terms.

In August 2005 E.ON announced that it plans to take advantage of the group's strong liquidity and financial position to fund up to €5.4 billion of the provisions for pensions of its employees at group companies in Germany by means of a contractual trust arrangement ("CTA"). In 2005 E.ON began preparations to implement the CTA and expects to complete the process in 2006. The CTA will increase the transparency of E.ON's balance sheet and further strengthen the financial security of employee pensions.

E.ON AG has a €10 billion syndicated credit facility. In November 2005 we took advantage of the further improved conditions on the credit markets and concluded an agreement that reduced the facility's margins and commitment fees. At year end 2005 E.ON AG also had in place agreements for short-term bilateral credit lines with individual banks (€0.2 billion). We also have a Commercial Paper program (€10 billion) and the Medium Term Note program (€20 billion) in place. At year end 2005 E.ON had not utilized the Commercial Paper program, while approximately €5.2 billion and £1.5 billion of bonds were outstanding under the Medium Term Note program.

Notes 25 and 26 to the Consolidated Financial Statements on pages 154 seq. contain detailed commentary about liabilities, contingencies, and commitments.

Since March 14, 2005, Standard & Poor's long-term rating for E.ON bonds is AA- with a negative outlook. Since April 30, 2004, Moody's long-term rating for E.ON bonds is Aa3 with a stable outlook. Commercial paper issued by E.ON has a short-term rating of A-1+ and P-1 by Standard & Poor's and Moody's, respectively.

A strong rating ensures that E.ON always has access to the capital markets at the best-possible conditions. A general change in credit conditions would not have a noteworthy effect on the E.ON Group. A general increase in interest rates would make refinancing more expensive. However, due to our low net debt and our diversified financing structure, the impact on group results would not be significant.

Investments

The E.ON Group invested €4.3 billion in 2005, a 15 percent decline relative to the previous year. We invested €3 billion (2004: €2.6 billion) in intangible assets and property, plant, and equipment. Investments in financial assets totaled €1.3 billion versus €2.5 billion in the prior year. The decline is in particular attributable to the Corporate Center and Central Europe. The high prior-year figure for the Corporate Center reflects payments for bonds repurchased in conjunction with the acquisition of Midlands Electricity.

Investments

€ in millions	2005	2004[1]	+/– %
Central Europe	2,177	2,527	–14
Pan-European Gas	531	614	–14
U.K.	926	503	+84
Nordic	538	740	–27
U.S. Midwest	227	247	–8
Corporate Center	–62	478	–
Investments	**4,337**	**5,109**	**–15**
thereof outside Germany	2,628	3,225	–19

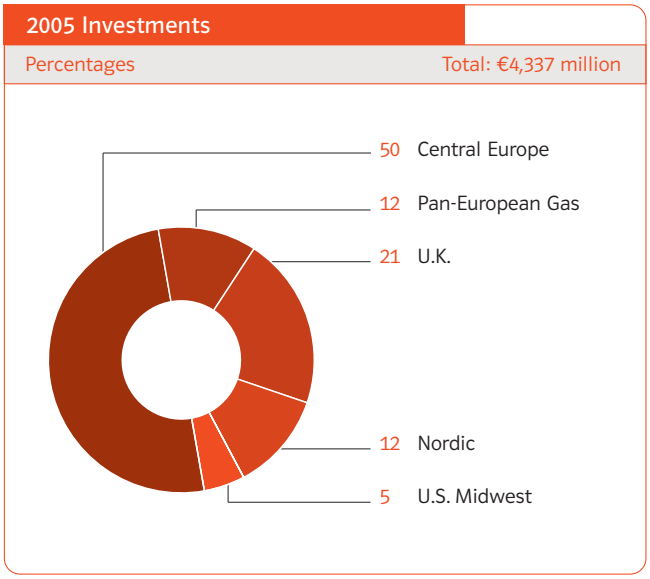
[1]Adjusted for discontinued operations.

Central Europe invested €2.2 billion in 2005, about €0.3 billion less than in 2004. Capital expenditures for intangible assets and property, plant, and equipment totaled €1.5 billion, about 7 percent more than the prior-year figure of €1.4 billion. The increase results from higher investments in conventional power plants, waste-incineration generating capacity, and electric distribution infrastructure in order to enhance security of supply.

Investments in financial assets totaled €0.7 billion (2004: €1.1 billion), of which the acquisition of shares in Romania's E.ON Moldova and shares in NRE by E.ON Benelux are noteworthy. The prior-year figure reflects the acquisition of an ownership interest in Ferngas Salzgitter, payments for acquisition of Bulgarian electric distribution companies, and increases in our existing stakes in operations in the Czech Republic.

Pan-European Gas invested approximately €531 million. The acquisition of a majority interest in Distrigaz Nord, a Romanian gas utility, was the largest transaction of the year. Pan-European Gas also increased its stake in Njord Field, a natural gas and oil reservoir in the Norwegian Sea, from 15 percent to 30 percent and its stake in Interconnector (UK) Limited from 10 percent to 23.6 percent.

Pan-European Gas also invested in infrastructure expansion projects. Of these investments, €263 million went towards intangible assets and property, plant, and equipment, while €268 million went towards financial assets.



U.K. invested €361 million in financial assets, which mainly reflects investments in the Enfield CCGT asset and Holford gas storage. Capital expenditure for intangible assets and property, plant, and equipment was €565 million, €54 million higher than the prior year, largely due to higher expenditure on U.K.'s power stations and distribution network.

Nordic invested €407 million (2004: €350 million) in intangible assets and property, plant, and equipment in order to maintain existing production plants and to upgrade and extend its distribution network. Investments in financial assets totaled €131 million compared with €390 million in 2004. Total investments in 2004 were significantly higher, since they included €307 million for the acquisition of the additional shares in Graninge.

U.S. Midwest's investments of €227 million were 8 percent below the prior-year figure, primarily due to decreased spending on emission control equipment.

Cash Flow and Financial Situation

Management's analysis of E.ON's financial condition uses, among other financial measures, cash provided by operating activities, free cash flow, and net financial position. Free cash flow is defined as cash provided by operating activities less investments in intangible assets and property, plant, and equipment. We use free cash flow primarily to make growth-creating investments, pay out cash dividends, repay debts, and make short-term financial investments. Net financial position equals the difference between our total financial assets and total financial liabilities. Management believes that these financial measures enhance the understanding of the E.ON Group's financial condition and, in particular, its liquidity.

Consolidated Statements of Cash Flows (Summary)

€ in millions	2005	2004
Cash provided by operating activities	6,601	5,840
Cash provided by (used for) investing activities	399	–382
Cash provided by (used for) financing activities	–6,465	–4,766
Net increase (decrease) in cash and cash equivalents maturing	**535**	**692**
Liquid funds as shown on December 31	**15,119**	**12,016**

Cash provided by investing activities was positive in 2005. In particular, the sale of Viterra and Ruhrgas Industries generated large positive cash flows. A marked reduction of financial debt and higher dividend distributions are reflected in the negative cash flow from financing activities. Note 28 to the Consolidated Financial Statements on page 164 contains further information about the Statements of Cash Flows.

Cash Provided by Operating Activities			
€ in millions	2005	2004[1]	+/–
Central Europe	3,020	2,938	+82
Pan-European Gas	1,999	903	+1,096
U.K.	101	633	–532
Nordic	746	957	–211
U.S. Midwest	214	152	+62
Corporate Center	521	257	+264
Cash provided by operating activities	**6,601**	**5,840**	**+761**
Investments in intangible assets and in property, plant, and equipment	2,990	2,612	+378
Free cash flow[2]	**3,611**	**3,228**	**+383**

[1]Adjusted for discontinued operations.
[2]Non-GAAP financial measure.

In 2005 E.ON's cash provided by operating activities increased significantly versus the preceding year.

Cash provided by operating activities at Central Europe increased year-on-year due to higher gross margins, lower payments for nuclear fuel reprocessing, and the inclusion of newly consolidated companies. Cash provided by operating activities was negatively affected by increased contributions to VKE, a German energy industry pension fund.

Pan-European Gas recorded a marked improvement in cash provided by operating activities, primarily due to a change in the VAT treatment of gas transactions. Higher prepayments by customers in December constituted another positive factor.

Cash provided by operating activities at U.K. declined significantly year-on-year. This was mainly due to a one-off payment of €629 million in the second quarter to fund the majority of the actuarial deficit of U.K.'s pension plans.

The significant decline in Nordic's cash provided by operating activities resulted primarily from the high cash outflows relating to the severe storm in January and higher tax payments. Cash provided by operating activities benefited from improved electricity margins, which resulted mainly from higher wholesale prices and increased power production at hydroelectric facilities.

Cash provided by operating activities at U.S. Midwest was higher year-on-year due to the absence of certain nonrecurring charges, including pension plan contributions and the phase-out of an asset-backed securities program, that negatively affected the prior year. Cash flow also improved due to the expiration of a non-regulated long-term energy marketing contract at the end of 2004. These effects were partially offset by an increase in fuel and gas inventory resulting from higher volumes and prices.

The Corporate Center's cash provided by operating activities was significantly higher year-on-year mainly due to positive effects from the unwinding of currency swaps.

Despite the increase in investments in intangible assets and property, plant, and equipment, free cash flow was 12 percent above the prior-year number.

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

Net financial position, a non-GAAP financial measure, is derived from a number of figures which are reconciled to the most directly comparable U.S. GAAP measure in the table on page 47.

We significantly improved our net financial position from the figure reported as of December 31, 2004 (-€5,483 million). This was caused mainly by strong cash provided by operating activities and by the disposal of Viterra and Ruhrgas Industries. Our net financial position was adversely affected by financial outlays for investments in property, plant, and equipment and in shareholdings and for the dividend payout including the related tax payment.

Net interest expense declined by a substantial €354 million year-on-year, mainly reflecting our improved net financial position in 2005. A higher share of financial liabilities with a variable interest rate was another positive factor. In addition, the prior-year figure includes a nonrecurring adverse effect relating to bond repurchases at U.K. Net interest expense only includes the interest income of those items that are also part of the net financial position.

Net Financial Position

€ in millions	December 31, 2005	December 31, 2004
Bank deposits	5,859	4,233
Securities and funds (current assets)	9,260	7,783
Total liquid funds	**15,119**	**12,016**
Securities and funds (fixed assets)	1,160	834
Total financial assets	**16,279**	**12,850**
Financial liabilities to banks	-1,572	-4,050
Bonds	-9,538	-9,148
Commercial paper	-	-3,631
Other financial liabilities	-1,306	-1,504
Total financial liabilities	**-12,416**	**-18,333**
Net financial position[1]	**3,863**	**-5,483**

[1]Non-GAAP financial measure; see the next table for a reconciliation to the relevant GAAP measures.

Reconciliation of Net Financial Position

€ in millions	December 31, 2005	December 31, 2004
Liquid funds shown in the Consolidated Financial Statements	**15,119**	**12,016**
Financial assets shown in the Consolidated Financial Statements	**21,686**	**17,263**
Thereof loans	–1,100	–1,438
Thereof equity investments	–18,759	–14,420
Thereof shares in affiliated companies	–667	–571
= Total financial assets	**16,279**	**12,850**
Financial liabilities shown in the Consolidated Financial Statements	–14,362	–20,301
Thereof to affiliated companies	134	134
Thereof to associated companies	1,812	1,834
= Total financial liabilities	**–12,416**	**–18,333**
Net financial position	**3,863**	**–5,483**

Adjusted EBITDA ÷ net interest expense improved substantially due to higher adjusted EBITDA and lower net interest expense.

Financial Key Figures

€ in millions	2005	2004
Net interest expense[1]	**224**	**578**
Adjusted EBITDA[2]	**10,272**	**9,741**
Cash provided by operating activities	**6,601**	**5,840**
Adjusted EBITDA ÷ net financial position	**–**	**178%**
Adjusted EBITDA ÷ net interest expense	**45.9 x**	**16.9 x**
Net financial position ÷ cash provided by operating activities	**–**	**0.9 x**

[1]Non-GAAP financial measure; see reconciliation to interest income as shown in the Consolidated Statements of Income on page 174.
[2]Non-GAAP financial measure; see reconciliation to net income on page 37.

The following key figures underscore that the E.ON Group continued to have a very solid asset and capital structure through the end of 2005:

- Long-term assets are covered by stockholders' equity at 47.4 percent (2004: 38.1 percent).
- Long-term assets are covered by long-term capital at 108.1 percent (2004: 102.4 percent).

Notes 13 to 25 on pages 136 seq. contain detailed information about our asset situation and capital structure, including, for example, off-balance-sheet finance instruments.

Our positive earnings situation, solid increase in value, and further improved financial key figures are indicative of the E.ON Group's superb excellent financial condition at year end 2005.

The sharp increase in the fair value of our Gazprom stake was the main factor in the €5.6 billion increase in long-term assets in 2005. Short-term assets rose by €6.9 billion, largely due to positive effects from the marking to market of energy derivatives and higher liquid funds. As a result, total assets increased by €12.5 billion to €126.6 billion. Our equity ratio increased from 29 percent at year end 2004 to 35 percent at year end 2005. Long-term liabilities decreased by €0.4 billion to €52.3 billion.

Consolidated Assets, Liabilities, and Stockholders' Equity

€ in millions	December 31, 2005	%	December 31, 2004	%
Long-term assets	93.9	74	88.3	77
Short-term assets	32.7	26	25.8	23
Total assets	**126.6**	**100**	**114.1**	**100**
Stockholders' equity	44.5	35	33.6	29
Minority interests	4.7	4	4.1	4
Long-term liabilities	52.3	41	52.7	46
Short-term liabilities	25.1	20	23.7	21
Total stockholders' equity and liabilities	**126.6**	**100**	**114.1**	**100**

Supplemental Information

Financial Statements of E.ON AG

E.ON AG prepares its Financial Statements in accordance with German commercial law and the German Stock Corporation Act. E.ON AG's net income for 2005 amounts to €4,993 million (2004: €2,923 million). After transferring €379 million to retained earnings, net income available for distribution totals €4,614 million.

Balances Sheets of E.ON AG (Summary)

€ in millions	December 31, 2005	December 31, 2004
Property, plant, and equipment	180	185
Financial assets	22,193	22,129
Fixed assets	**22,373**	**22,314**
Receivables from affiliated companies	8,380	5,140
Other receivables and assets	872	2,133
Liquid funds	521	384
Nonfixed assets	**9,773**	**7,657**
Total assets	**32,146**	**29,971**
Stockholders' equity	16,712	13,268
Special items with provision component	358	342
Provisions	1,844	1,517
Liabilities to affiliated companies	12,819	10,686
Other liabilities	413	4,158
Total stockholders' equity and liabilities	**32,146**	**29,971**

E.ON AG's income from equity interests improved by €3,223 million to €6,745 million. This figure mainly includes income transferred under profit- and loss-pooling agreements with E.ON Energie AG (€2,746 million) and E.ON Ruhrgas Holding GmbH (€2,463 million). The income transferred under the profit- and loss-pooling agreement with E.ON UK Holding GmbH (€1,676 million) results primarily from a write-up on the 100 percent stake held by E.ON UK Ltd. This write-up was necessary following the annual impairment test because the reasons for the impairment charge that had been taken on this equity interest in 2002 no longer existed.

In accordance with international accounting standards, effective January 1, 2005, we no longer record the interest portion of allocations to provisions for pensions under other expenditures and income (net), but rather under interest income (net). We adjusted the prior-year figures accordingly.

Interest income (net) improved by €203 million to –€512 million, primarily due to the repayment of a loan granted to an affiliated company. The comparison was also affected by high interest expenses in the prior year relating to early loan repayments. Other expenditures and income (net) improved by €154 million year-on-year to –€226 million because we wrote down the book value of our 39.2 percent stake in RAG Aktiengesellschaft ("RAG AG") to €1. The writedown was taken due to the deterioration of the coal policy and regulatory environment in which RAG AG operates. In addition, we now believe that the production of hard coal in Germany under acceptable commercial and technological conditions will be possible for a much shorter period of time than we had previously anticipated.

Income taxes stated for 2005 and 2004 include corporate income tax and taxes for prior years. Nonrecurring income from tax refunds for past assessment periods had a positive impact on income taxes in 2004.

Income Statement of E.ON AG (Summary)

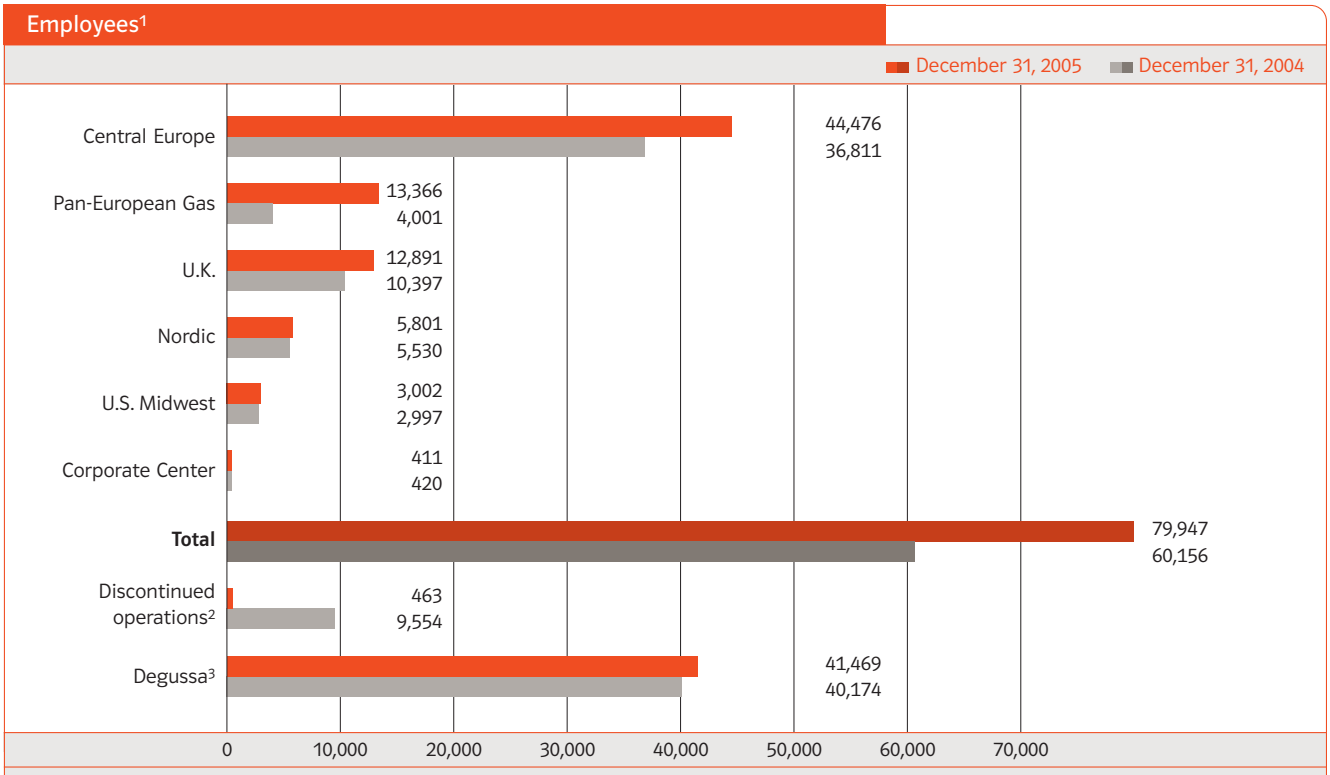
€ in millions	2005	2004
Income from equity interests	6,745	3,522
Interest income (net)	–512	–715
Other expenditures and income (net)	–226	–72
Income from continuing operations before income taxes and minority interests	**6,007**	**2,735**
Income taxes	–1,014	188
Net income	**4,993**	**2,923**
Net income transferred to retained earnings	–379	–1,374
Net income available for distribution	**4,614**	**1,549**

At the Annual Shareholders Meeting on May 4, 2006, management will propose that net income available for distribution be used to pay a cash dividend of €2.75 per share, a 17 percent increase. Our dividend performance therefore surpasses the target we set in our on·top project. Our solid earnings development enables us to pay out a higher dividend for the seventh year in a row. We believe this makes E.ON stock even more attractive to investors.

In the spring of 2005 we announced our intention of letting our shareholders participate in the gain on disposal of our Degussa stake. Thanks to the disposal agreement, we can propose to the Annual Shareholders Meeting the payment of a special dividend of €4.25 per share.

The complete Financial Statements of E.ON AG, with the unqualified opinion issued by the auditors, PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Düsseldorf, will be published in the *Bundesanzeiger* and filed in the Commercial Register of the Düsseldorf District Court, HRB 22 315. Copies are available on request from E.ON AG and at www.eon.com.

Employees



[1]Figures do not include apprentices, managing directors, or board members.
[2]At year end 2005, consists of WKE; at year end 2004, WKE, Viterra, and Ruhrgas Industries.
[3]Accounted for using the equity method. At December 31, 2005, Degussa had 1,972 apprentices.

At year end 2005 the E.ON Group had 79,947 employees worldwide, as well as 2,471 apprentices and 229 board members and managing directors. E.ON's workforce increased by 19,791 employees, or 33 percent, since year end 2004. At year end 2005 the E.ON Group employed 45,820 people, or 57 percent of its workforce, outside Germany, 12 percent more than at year end 2004.

The increase in the size of our workforce is mainly attributable to consolidation effects at Central Europe and Pan-European Gas. Central Europe acquired Gorna Oryahovitza und Varna, regional electric distribution companies in Bulgaria (about 3,700 employees in total), and the Romanian electric distribution company E.ON Moldova (about 2,800 employees).

Other newly consolidated companies include our IT service provider E.ON IS (formerly is:energy, 1,300 employees) and DDGáz and Kögáz, Hungarian gas distribution companies (a total of about 900 employees). In the second quarter of 2005 Pan-European Gas acquired Distrigaz Nord, a Romanian natural gas distribution company (more than 9,300 employees).

Wages and salaries including social security contributions totaled about €4.6 billion in 2005 compared with €4.2 billion in 2004.

Overview of the Compensation Systems for the Board of Management and Supervisory Board

For the 2005 financial year, we are publishing, for the first time, a Compensation Report which provides an overview of the Compensation Systems for the Board of Management and Supervisory Board and the compensation paid to each board member. The report follows the recommendations of the German Corporate Government Code. It can be found on pages 185–188 and is therefore not included in the Combined Review of Operations.

Research and Development

The E.ON Group's expenditures for research and development ("R&D") totaled €24 million in 2005 against €19 million in the prior year. Overall, 1,185 employees work in R&D at the E.ON Group: 1,117 at Central Europe, 30 at Pan-European Gas, 22 at U.K., and 16 at Nordic. The market units are actively involved in numerous R&D projects.

E.ON Energie works closely with manufacturers and research institutes to develop new energy technologies. These efforts focus on enhancing efficiency along the entire energy value chain. Along with reducing greenhouse gas emissions, enhancing the efficiency of generating technology also reduces fuel consumption. The rise in fossil fuel prices over recent years has demonstrated that resource conservation is an issue for today, not just for the future.

Examples of E.ON Energie's R&D efforts in these areas:

- At Irsching power station, tests are under way to develop the world's most efficient gas turbine. The prototype is a state-of-the-art 340 MW_{el} unit designed by Siemens. When the test phase is completed, E.ON Energie plans to acquire the prototype and modify it to create a 530 MW_{el} combined cycle gas turbine that is 60 percent energy efficient.
- Unit F of Scholven power station is the world's largest test facility for new high-temperature materials. The goal is to raise operating temperatures to above 700 degrees Celsius as part of the effort to design a coal-fired power plant with a thermal efficiency of 50 percent.
- Dorsten power station has a 1 MW_{th} pulverized-coal-fired test unit. Using innovative processes and plasma-physics, in 2005 this unit's exhaust gas from hard-coal combustion was clean enough to meet purity standards for operating a turbine.
- E.ON Energie participates in COORETEC, an initiative launched by the German Federal Ministry for Economics to develop technologies to capture and store CO_2.

E.ON Energie is also pursuing a variety of projects in the areas of small-scale generating units and renewable-source generation. These include:

- new combined-cycle technologies such as fuel cells, Stirling engines, and micro gas turbines.
- plans for offshore wind farms in the North Sea and Baltic Sea.
- construction of new small-scale hydroelectric plants
- realization of several different biogas generating units
- an EU-sponsored feasibility study for the development of highly efficient energy-storage technology that uses compressed air.

To boost productivity while maintaining system reliability and safety, E.ON Ruhrgas continually develops and utilizes new technologies.

- E.ON Ruhrgas made further operational refinements to CHARM, a helicopter-mounted, laser-equipped system for detecting gas pipeline leaks. It also further developed mobile work technology and PIMS and IMMeR, systems for monitoring pipelines and gas pressure regulating and metering stations.
- Gas heat pumps use heat from the earth or air to generate heat. Bosch Buderus Thermotechnik has developed a gas heat pump that uses the diffusion absorption principle. After extensive testing at E.ON Ruhrgas, preparations are under way to do field tests at customer premises.
- E.ON is one of Europe's biggest biopower generators. We typically co-fire biomass with conventional fuels. In some countries we also produce and process biogas and inject it into gas pipeline systems. A number of German trade associations have joined forces to study whether it makes business sense to inject biogas into Germany's pipeline system. E.ON Ruhrgas plans to take part in a pilot project to evaluate, under realistic conditions, the technical and commercial aspects of injecting treated biogas into pipelines.

Substantial R&D activities are led by Power Technology, U.K's center of energy industry engineering and scientific expertise. Power Technology provides the focus for innovation and energy services at U.K. and energy consultancy services for external clients. One focus of U.K.'s R&D is technologies that help reduce climate change impact. Projects cover cleaner fossil-fuel generation, carbon capture and storage, renewables including marine technologies, transmission-loss savings, and helping customers manage their energy needs. These projects involve collaboration with a range of U.K. and international partners including government, EU scientific organizations, universities, and an extensive network of research institutions worldwide.

In January 2006, RWTH Aachen University and E.ON signed an agreement to found and operate the E.ON Energy Research Institute. Together with the RWTH, we want to contribute to international research into increasing energy efficiency and improving climate protection. The new institute will be located on the RWTH campus in a new building that meets that latest standards for energy efficiency and conservation. Groundbreaking is set for late 2006, with the state-of-the-art building scheduled for completion in late 2007. E.ON has committed at least €40 million to funding the institute's research effort over the next ten years.

Corporate Social Responsibility ("CSR")

Our products and services enhance quality of life and drive economic growth, but they can also have a negative impact on the environment and people. That's why social responsibility is one of our five core values. At E.ON, we are responsible to our colleagues, customers and suppliers, the environment, and the communities where we live and work. We talk with our stakeholders and listen to what they have to say. We share their interest in sustainable development, which we believe creates win-win situations for them and for us. We seek to improve lives everywhere we operate, earn our stakeholders' trust, and detect risks early in order to prevent mishaps that could have long-term financial effects.

As part of a groupwide project on corporate responsibility, we defined three key areas for the years ahead and invite our stakeholders to monitor our progress.

- We intend to step up our investments in energy efficiency and climate protection. One example of this is increasing our renewable-source generating capacity. Another is the E.ON international research initiative, which encompasses our partnership with RWTH Aachen University to found the E.ON Energy Research Institute.
- We have a tradition of helping people in need in the regions and communities where we operate. We already give substantial support to programs that help children and young people and plan to expand this effort groupwide.
- We have begun to significantly enhance the transparency of the environmental and social impact of our operations and of our CSR efforts. This applies not only to the environment and our regional commitments, but also to areas such as security of supply, energy prices, customer service, and occupational health and safety.

More information about our commitment to social responsibility in our markets, in the workplace, towards the environment, and in the regions and communities where we operate is contained in a report entitled, *Energy. Efficiency. Engagement—Corporate Responsibility*. The report and other information about our CSR efforts are available at www.eon.com.

E.ON Ruhrgas will acquire full ownership of the gas trading and storage business of MOL, a Hungarian oil and gas company. The two companies had first agreed in November 2004 that E.ON would acquire 75 percent (less one share) of the gas trading and storage business and 50 percent of the gas import business Panrusgáz. The EU Commission approved the acquisition in December 2005, subject to certain conditions. Under these conditions, MOL must divest itself entirely from the gas storage and gas trading business. Accordingly, it was agreed on January 12, 2006, that E.ON Ruhrgas would also acquire the remaining 25 percent (plus one share) of both companies. The aggregate purchase price is now approximately €450 million. In addition, E.ON will assume financial debts of approximately €600 million. It was further agreed that, depending on regulatory developments, compensatory payments would be made through the end of 2009 if that should become necessary for a subsequent adjustment of the purchase price. The transaction will be completed by the end of March 2006.

Under an order dated January 13, 2006, the German Federal Cartel Office prohibited E.ON Ruhrgas from implementing existing long-term gas supply contracts with regional and local gas distributors and from entering into new contracts identical or similar in nature. This dispute relates to the enforceability of long-term gas supply contracts, which have been customary in the German natural gas market for delivery to distributors since the inception of the natural gas industry. The differing legal opinions, which touch on basic principles like freedom of contract and competition, as well as on the security of the energy supply, can only be resolved definitively by the courts. E.ON Ruhrgas therefore filed an emergency petition against the order with the State Superior Court in Düsseldorf in order to prevent it from taking immediate effect.

E.ON Nordic and the Finnish energy group Fortum Power and Heat Oyj ("Fortum") signed an agreement on February 2, 2006, under which Fortum will acquire E.ON Nordic's entire interest in E.ON Finland. These 10,246,565 shares constitute 65.56 percent of the capital stock and voting rights of E.ON Finland. The total purchase price is approximately €380 million (€37.12 per share). The transaction is subject to the approval of the Finnish competition authority. E.ON Finland is listed on the Helsinki Stock Exchange. Moreover, the City of Espoo, which at 34.24 percent is the second largest shareholder of E.ON Finland, entered into an agreement with Fortum on January 18, 2006, whereby it will also sell and transfer its entire shareholding in E.ON Finland once E.ON Nordic has transferred its E.ON Finland shares to Fortum. Through this agreement, E.ON Nordic satisfies its obligations under a call option for all shares of E.ON Finland owned by E.ON Nordic, which it had entered into with Fortum in 2002. Fortum exercised the option in January 2005. In response to Fortum exercising its option, E.ON Nordic had replied that, in view of the position held by the City of Espoo concerning restrictions on share transfers based on the shareholders' agreement between E.ON Nordic and the City of Espoo, E.ON Nordic was not in a position to deliver the E.ON Finland shares. In response, Fortum filed a Request for Arbitration against E.ON Nordic with the International Chamber of Commerce in February 2005. The Espoo City Council consented on January 16, 2006, that both the city itself and E.ON Nordic sell their respective interests in E.ON Finland to Fortum. This decision was declared enforceable with immediate effect by the leadership of the city. When the transaction between E.ON Nordic and Fortum is completed, the companies will simultaneously terminate the arbitration proceedings related to the transfer of the E.ON Finland shares. In connection with the acquisition, E.ON and Fortum reached agreement on a settlement of all related remaining open matters. This agreement involves an additional €16 million payment by Fortum to E.ON. E.ON Finland has 377 employees and recorded adjusted EBIT of €41 million in 2005, thereby accounting for roughly 5 percent of our Nordic market unit's total adjusted EBIT.

In February 2006 E.ON Energie and RWE signed an agreement concerning the exchange of holdings in the Czech Republic and Hungary. Its implementation, which is planned for 2006, is subject to supervisory board and antitrust approval.

On February 21, 2006, E.ON made an offer to acquire 100 percent of the shares and American depositary shares of Endesa S.A. ("Endesa"), Madrid, Spain, for a price of €27.50 per share in cash. Endesa is Spain's largest electric utility and also has significant operations in Latin America and Italy. The total consideration offered for Endesa is approximately €29.1 billion. The completion of the offer is conditional on E.ON acquiring at least 50.01 percent of the share capital of Endesa and on Endesa's annual shareholders meeting resolving to make certain amendments to Endesa's articles of association. E.ON will file notice of its intended acquisition with Spain's General Secretariat of Energy (Secretario General de Energía) and with the European Commission. The relevant approvals are not conditions of the offer. E.ON expects to complete the transaction by mid-2006.

On January 27, 2006, RAG made public its previously issued stock purchase offer to Degussa's minority shareholders, thereby continuing the implementation of its framework agreement concerning the disposal of E.ON's 42.9 percent stake in Degussa. The acceptance period ended on February 27, 2006. RAG has announced that it and E.ON now hold at least 95 percent of Degussa stock, the figure named in the stock purchase offer.

In the normal course of business, we are subject to a number of risks that are inseparably linked to the operation of our businesses. To manage these risks, we use a comprehensive risk management system that is embedded in our business and decision-making processes. Key components of the system include our standardized, groupwide planning and controlling processes, groupwide guidelines and reporting systems, and a groupwide risk reporting system. Our risk management system is designed to enable us to recognize risks early and to take the necessary countermeasures. Furthermore, we continually refine our groupwide planning, controlling, and reporting processes to ensure they remain effective and efficient.

As required by law, the reliability of our risk management system is checked regularly by the E.ON AG Internal Audit and Controlling departments and by our independent auditors.

The E.ON Group, and thus E.ON AG, is exposed to the following categories of risk:

Operational Risks

Technologically complex production facilities are involved in the production and distribution of energy. Operational failures or extended production stoppages of facilities or components of facilities could negatively impact our earnings. The following are among the comprehensive measures we take to address these risks:

- systematic employee training and qualification programs
- further refinement of our production procedures and technologies
- regular facility and network maintenance.

Should an accident occur despite the measures we take, we have a reasonable level of insurance coverage.

Financial Risks

During the normal course of business, E.ON is exposed to interest rate, currency, commodity price, and counterparty risks. The instruments used to hedge these risks are described in detail in the Notes to the Consolidated Financial Statements. Furthermore, there are potential currency fluctuation risks from short-term securities. These risks are controlled and monitored by appropriate fund management. We carry out both short-term and long-term financial planning to monitor and manage liquidity risks.

External Risks

Our market units operate in an international market environment that is characterized by general risks related to the business cycle and by more intense competition. The liberalization of the European energy market exposes our power and gas businesses to price and sales risks. Our comprehensive sales monitoring system and intensive customer management help to minimize these risks. We also counter market price fluctuations in our energy operations through the use of electricity, gas, coal, and oil derivatives. Our use of derivative financial instruments is monitored in accordance with detailed guidelines.

The political, legal, and regulatory environment in which the E.ON Group does business is a source of additional external risks. Changes to this environment can lead to considerable uncertainty with regard to planning.

The transposition of the EU directives on power and gas market liberalization into German law in the amended Energy Law of 2005 establishes regulations for network access and charges. At the time of this writing, we cannot fully predict how Germany's regulation of grid access and charges will affect our operations. Initial regulatory decisions indicate that these regulations will serve to reduce network charges.

EU-wide emission certificate trading went live on January 1, 2005, in line with the EU directive establishing a scheme for greenhouse gas emission allowance trading issued on October 13, 2003. The directive affects all generating facilities with a capacity of 20 MW and above and consequently the greater part of our generating fleet in Europe. In 2006 the German federal government will allocate emission certificates for the period 2008 to 2012. We cannot rule out the possibility that there will be a reduction in the number of certificates allocated for power generation and that we will need to buy more in the secondary market.

Uncertainty also exists regarding the following issues:

- Debate on nuclear waste management fund: The debate surrounding the European Commission's plans for a nuclear energy directive ended without the Commission actually adopting such a directive. Nevertheless, we cannot rule out the possibility that the political debate about the treatment of provisions for nuclear waste management may be taken up again in the future.
- Surcharges that raise electricity and gas prices and the resulting passthrough risk: Various government initiatives, such as energy taxes and subsidies for renewable energy, increase our procurement costs for electricity and gas. If these costs rise further, we may not be able to pass them through to our customers or may only be able to do so after time has elapsed.
- In the summer of 2005 the EU Commission's Directorate-General for Competition carried out an energy sector inquiry to assess the competition conditions on European gas and electricity markets. We cannot rule out the possibility that the inquiry will lead to legislation designed to further increase energy market competition. In addition, it is possible the inquiry will lead to antitrust investigations resulting in conditions being imposed on individual energy companies.
- The German Federal Cartel Office ("FCO") issued an order forbidding, due to antitrust concerns, certain types of gas supply contracts between supra-regional gas companies (long-distance distributors) and municipal and local utilities. This poses a potential risk to our earnings situation, since new contracts would have to be concluded. It is impossible to predict the effects this might have, since it is a competitive process whose outcome is by its nature uncertain. However, we are optimistic that, as in the past, we will be the most attractive supplier for a large majority of our customers.
- In 2005 the FCO initiated an investigation of E.ON Energie and other companies based on the suspicion of abuse of a dominant market position regarding CO_2 emission certificate trading and the formation of electricity prices. E.ON Energie responded by providing the FCO with comprehensive information about how the electricity market functions and the factors that influence the market price for electricity. The FCO is currently evaluating this information. The investigation poses a potential risk to our earnings, since it threatens what we believe is the sound business practice of factoring the price of CO_2 emission certificates into the price of electricity.

Our goal is to play an active and informed role in shaping our business environment. We pursue this goal by engaging in intensive and constructive dialog with government agencies and political leaders.

IT Risks

The operational and strategic management of the E.ON Group relies heavily on complex information technology. Our IT systems are maintained and optimized by qualified E.ON Group experts, outside experts, and certain technological security measures. In addition, the E.ON Group has in place a range of technological and organizational measures to counter the risk of unauthorized access to data, the misuse of data, and data loss.

In 2005 the E.ON Group's risk situation did not change substantially from 2004. We do not currently perceive any risks that would threaten the existence of the E.ON Group or individual market units.

Economic Environment

The German Council of Economic Advisers ("GCEA") predicts that the global economy will expand at a slightly slower pace in 2006 due to higher oil prices. Growth will be driven by a somewhat less robust U.S. economy and an increasingly healthier eurozone. The main risks, according to the GCEA, are a correction of the U.S. current account balance and a sharp decline in real estate values which have been appreciating significantly in a number of countries.

The GCEA predicts that economic growth in the eurozone will slowly gather momentum as it is propelled by increasing investment activity. There will be little or no improvement, however, in private consumption, and expansion will again be driven by exports. The United Kingdom is expected to bounce back from last year's lower growth rate and, led by consumer spending, expand at a rate above the EU average. The GCEA forecasts that the Scandinavian economies will also grow faster than the EU average. New EU member states are expected to benefit from this recovery and achieve slightly higher growth rates. Due to the lack of inflationary pressure, the European Central Bank is not expected to tighten monetary policy.

A modestly faster growth rate is forecast for the German economy. Exports will continue to be the main driver, with no meaningful recovery of domestic demand in sight. Rising energy costs and low wage growth are the main constraints on private consumption. Unlike in previous years, however, in 2006 these factors will not be counteracted by income tax cuts. The GCEA expects Germany's economy to grow by 1 percent in real terms in 2006.

Energy Industry

Going forward, the energy industry will continue to be dominated by three considerations: security of supply, environmental protection, and energy prices. Last year Russia and Ukraine and Russia quarreled over natural gas prices. The United Kingdom's gas supply became tight due a decline in domestic production in conjunction with a temperature-drive increase in demand, raising fears of gas shortages. Events like these have drawn greater public attention to security of energy supply.

Industry observers predict that energy prices will remain at high levels for the foreseeable future. Continental Europe's natural gas import prices will continue to track crude oil prices. Europe's International Energy Agency and the U.S. Energy Information Administration both raised their long-term oil price projections. Although the supply and demand situation is expected to improve over the medium term, the reference case analyses of both agencies point to the likelihood of continued high oil prices.

The price of hard coal is largely determined by the forces of supply and demand, although the world market is showing signs of increasing consolidation. Following the volatile demand situation of 2003-2004 and bottlenecks along the entire coal value chain (mines, transport infrastructure, port loading facilities), there is currently a noticeable easing on the coal market resulting from lower freight rates and lower forward prices.

Considerable uncertainty surrounds forecasts of CO_2 emission certificate prices and whether there will be a short supply of certificates towards the end of the first trading period in 2007, which would affect electricity prices. Forward prices on the EEX, Germany's power exchange, suggest that electricity prices will remain high.

The world's uranium supply is relatively abundant and geographically diverse. Moreover, it takes comparatively little nuclear fuel to generate electricity. These two characteristics make nuclear power an important pillar of security of supply. Furthermore, as an emission-free energy source, nuclear power is a significant factor in Europe's ability to achieve its emission reduction targets under the Kyoto Protocol. In the United Kingdom and a number of other EU member states, these aspects are receiving considerable attention in the policymaking debate about nuclear energy.

Offer for 100 Percent of Endesa

On February 21, 2006, we made an offer to acquire 100 percent of the shares and American depositary shares of Endesa. The possible effects of this offer were not factored into the following forecast for 2006.

Employees

The size of the E.ON Group's workforce is expected to remain fairly constant through year end 2006.

Earnings

We expect our adjusted EBIT for 2006 to slightly surpass the high prior-year level. However, we will not repeat the extraordinarily high net income figure posted in 2005, which resulted in particular from the book gains on our successful Viterra and Ruhrgas Industries disposals. We expect to meet our net income target of €3.4 billion for 2006.

The earnings forecast by market unit is as follows:

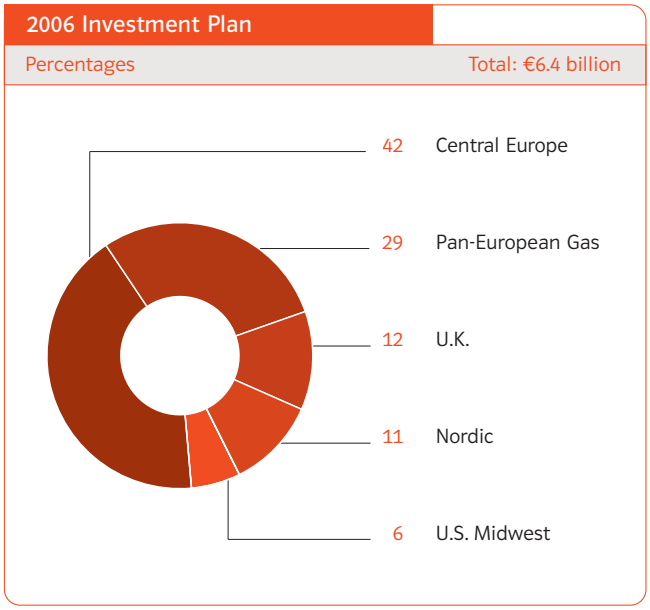
For 2006, we expect Central Europe's adjusted EBIT to be slightly above the prior-year level. We expect to offset the adverse affects of regulatory measures affecting the operations of our energy transmission and distribution systems by achieving operating improvements in other areas.

We expect Pan-European Gas's adjusted EBIT to exceed the figure for 2005. The Up-/Midstream business will benefit from the integration of E.ON Ruhrgas UK North Sea Limited (formerly COGL), which was acquired in 2005. The acquisition of the storage and trading operations of Hungary's MOL will be the main factor in the development of the downstream business.

U.K.'s adjusted EBIT is expected to be significantly higher than the 2005 level. Significant features include the full-year impact of increased retail prices and increased value from E.ON UK's generation fleet partially offset by higher commodity costs.

We anticipate that Nordic's adjusted EBIT will be below the 2005 figure due to higher taxes on installed nuclear and hydroelectric assets and by the absence of earnings streams from divested hydroelectric plants. These effects will be partially counteracted by higher average electricity prices.

We expect U.S. Midwest's adjusted EBIT to be on par with 2005.



Financial Condition

We expect cash provided by operating activities to increase significantly in 2006 due to the absence of nonrecurring adverse effects such as the pension fund payment at U.K. and the storm in Sweden.

We plan to invest about €6.4 billion in 2006, in particular to enhance security of supply in our markets. Roughly €4.9 billion, or 77 percent of total investments, is earmarked for property, plant, and equipment. Most of our fixed-asset investments will go towards the modernization and new construction of power plants and networks. We plan to invest €1.5 billion in financial assets. Among these projects are the acquisition of Hungary's MOL and the increase of our ownership interest in Slovakia's ZSE.

Opportunities

Positive developments in prime interest rates, foreign currency rates, and market prices can create opportunities for our operations. In addition, continued positive development of market prices can create opportunities relating to the securities we own.

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

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

Overall, we expect the E.ON Group to have another solid financial year in 2006. From today's perspective, we are unable to issue a reliable forecast for 2007 due to uncertainty surrounding economic, foreign currency, regulatory, technological, and competition-related developments.

This Combined Review of Operations contains certain forward-looking statements that are subject to risk and uncertainties. For information identifying economic, currency, regulatory, technological, competitive, and some other important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, you should refer to E.ON's filings to the Securities and Exchange Commission (Washington, DC), as updated from time to time, in particular to the discussion included in the sections of the E.ON 2005 Annual Report on Form 20-F entitled "Item 3. Key Information: Risk Factors," "Item 5. Operating and Financial Review and Prospects," and "Item 11. Quantitative and Qualitative Disclosures about Market Risk."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In 2005 E.ON systematically executed its integration and growth strategy for its power and gas business and further developed this strategy to enhance security of supply into the future.

Integration and Growth Strategy

Our business model is aligned with our integration and growth strategy. Our objectives are to enhance our earnings power for the long term and to improve our competitiveness by leveraging synergies and achieving growth.

We achieve these objectives by integrating our operations along three axes:

- integration of our regional markets
- horizontal integration of our power and gas operations
- vertical integration

Vertical integration extends along the entire value chain, from our operations upstream (power generation and gas production) and midstream (transmission and wholesale) to downstream (distribution and sales).

With this business model as our foundation, the key elements of our integration and growth strategy are to:

- enlarge E.ON's market position while focusing geographically on our existing market units
- integrate the upstream, midstream, and downstream operations of our power and gas business for the long term
- seize value-enhancing growth opportunities in new markets, primarily in Europe
- strengthen our upstream position and diversify our generation portfolio
- apply our strategic and financial criteria to investments

Furthermore, following a three-year phase of reorganizing the group and focusing on our core energy business, we are now open to considering larger-scale acquisitions.

Strategic Developments at the Market Units

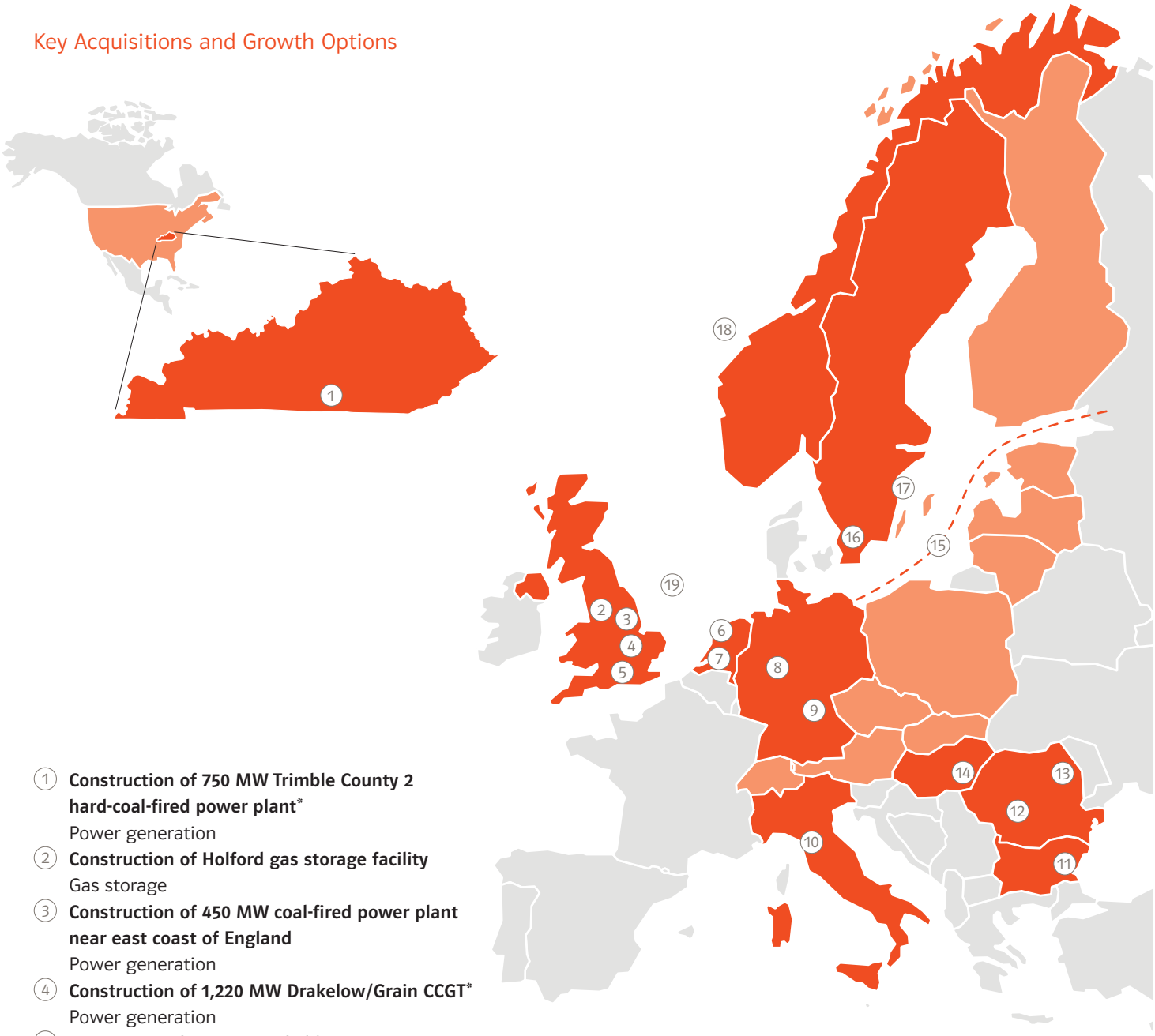
The Central Europe market unit is concentrating on strengthening its market positions and developing new growth potential. Central Europe's main focus is to consolidate its distribution and sales operations in power and gas. It is investing in generating capacity to expand its market position and back up its sales operations. A key element of its growth strategy is to acquire shareholdings through the ongoing privatizations in Eastern Europe.

The decisions Central Europe made in 2005 regarding investments in generating capacity and acquisitions will make a substantial contribution to E.ON's strategic success. The decision to build our first power plant in Italy will strengthen E.ON's market position there. Acquisitions in Romania and Bulgaria enabled E.ON to enter two new distribution and sales markets in Eastern Europe.

The Pan-European Gas market unit also further strengthened its market position through diversification. A key strategic measure is to expand upstream operations. Examples include the investments in gas fields in the U.K. North Sea and the Norwegian Sea. Pan-European Gas is also investing to improve its infrastructure. An example of this is its participation in the North European Gas Pipeline ("NEGP"). The NEGP provides Germany with a direct link to Russia, one of its most important natural gas suppliers.

Pan-European Gas continued to systematically implement its growth strategy in Central and Eastern Europe by acquiring a majority stake in Romania's Distrigaz Nord, which enabled it to tap a new gas market.

Key Acquisitions and Growth Options



1. **Construction of 750 MW Trimble County 2 hard-coal-fired power plant***
   Power generation
2. **Construction of Holford gas storage facility**
   Gas storage
3. **Construction of 450 MW coal-fired power plant near east coast of England**
   Power generation
4. **Construction of 1,220 MW Drakelow/Grain CCGT***
   Power generation
5. **Acquisition of 392 MW Enfield CCGT**
   Power generation
6. **Modernization of 1,000 MW Maasvlakte hard-coal-fired power plant**
   Power generation
7. **Acquisition of NRE Energie**
   Power and gas sales
8. **Construction of 1,100 MW hard-coal-fired power plant in Datteln***
   Power generation
9. **Construction of 1,330 MW CCGT in Irsching**
   Power generation
10. **Construction of 800 MW Livorno-Ferraris CCGT**
    Power generation
11. **Acquisition of Varna and Gorna Oryahovitza**
    Power distribution and sales
12. **Acquisition of Distrigaz Nord**
    Gas distribution and sales
13. **Acquisition of Electrica Moldava**
    Power distribution and sales
14. **Acquisition of MOL**
    Gas trading and storage
15. **Shareholding in North European Gas Pipeline**
    Gas transport
16. **Construction of 400 MW steam heat plant in Malmö***
    Power generation
17. **Modernization and enhancement of 1,160 MW Oskarshamn nuclear power station***
    Power generation
18. **Increased ownership in Njord Field**
    Gas and oil production
19. **Acquisition of Caledonia Oil and Gas Ltd.**
    Gas production

*In planning stage

Investments in generating capacity constitute a key element of the U.K. market unit's strategy. These include gas-fired power plants with low CO_2 emissions as well as renewable-source generating assets. U.K. is currently planning to build 1,100 MW of wind power capacity.

A further focus of our U.K. strategy is to invest in natural gas storage operations to counteract the effects of price volatility on gas procurement costs.

The Scandinavian market is going through a period of consolidation, and our Nordic market unit is cementing its position there by growing along the value chain and enhancing the efficiency of its operations. Investment in generating capacity is also the key focus at Nordic. In addition, Nordic will make substantial investments in wind power capacity and in modernizing and expanding its power and gas networks.

Nordic also plans to develop its downstream business with the goal of strengthening its market position. As part of this strategy, Nordic plans to expand its natural gas operations into central Sweden.

The U.S. Midwest market unit's strategy is to enlarge E.ON's position in the U.S. market, in particular through consistent performance improvements and the development of growth opportunities. Key investment areas are environmental protection equipment, infrastructure measures, and delivering growth potential in the generating business.

Security of Supply

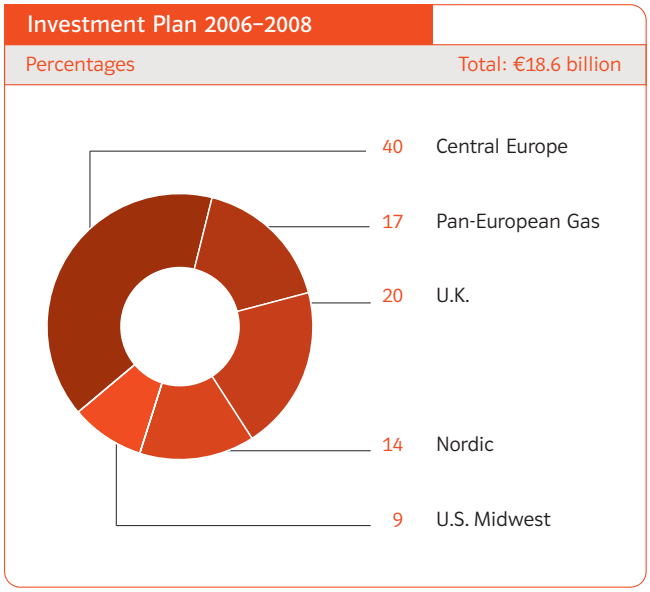
The growing global demand for energy is intensifying competition for scare resources. These factors, in turn, are reflected in the development of energy prices. Our strategy is therefore aimed at securing not only our sales position but also power and gas supplies for the future.

We plan to make substantial investments in our transmission and distribution networks to ensure a reliable supply of energy. Our second focus is on investments on the upstream side to secure energy supplies into the future. E.ON plans to invest €5 billion in new generating assets alone. Through acquisitions at Pan-European Gas in 2005, we made progress towards our strategic objective of sourcing 15 to 20 percent of our natural gas needs from our own production assets.

To supplement our equity gas position, we have begun to develop a liquefied natural gas ("LNG") business. LNG will help diversify supply options and provide greater flexibility than pipeline-based sourcing alone. The growing LNG market is receiving particular impetus from the increasing demand for natural gas in Europe, the United States, and Southeast Asia. E.ON intends to develop Germany's first LNG terminal. We are currently studying the technical and economic feasibility of a terminal sited at the North Sea port of Wilhelmshaven.

Through these projects, we are making a key strategic contribution to the security of electricity and gas supplies for our customers.

Investment Plan



Our investment plan is fully in line with our strategy of cementing our existing market positions and enlarging our integrated power and gas business through organic and selective external growth. To achieve this, the E.ON Group plans to invest about €18.6 billion over the next three years. In particular, these investments will serve to enhance security of supply in our markets. Roughly €16.3 billion is earmarked for property, plant, and equipment. Most of our fixed-asset investments will go towards the modernization and new construction of power plants and networks, with €1.2 billion going towards renewable generating assets. We plan to invest €2.3 billion to acquire shareholdings, particularly in Eastern Europe and in natural gas production. These figures do not reflect the possible acquisition of Endesa.

Central Europe plans to invest €7.4 billion between 2006 and 2008, of which about 90 percent will be in property, plant, and equipment. Some €2.6 billion is earmarked for power generation over the next three years. In Germany we plan to build a new hard-coal-fired power plant in Datteln and two combined cycle gas turbines in Irsching in Bavaria. E.ON is building another state-of-the-art gas-fired power plant in Livorno Ferraris, Italy. A total of €3.7 billion will be invested in Central Europe's power and gas networks. In Germany alone we will invest about €2.8 billion to maintain and enlarge our network infrastructure. Central Europe's financial investments will serve primarily to expand our position in Eastern Europe.

Pan-European Gas plans to invest €3.2 billion. Just under €2 billion of this will be invested in property, plant, and equipment, mainly to expand transport pipelines, natural gas storage facilities, and gas production with the goal of making gas procurement more flexible and better matched to our needs. Investments of €1.3 billion will go towards the acquisition of shareholdings, in part in gas production assets.

U.K. plans to invest a total of about €3.7 billion, predominantly in property, plant, and equipment. The focus will be on maintaining existing networks and building environmentally friendly power plants. We intend to build a gas-fired power plant and an efficient coal-fired power plant. U.K. also plans to increase its renewable generating capacity, particularly in wind power. About €300 million is earmarked for acquiring stakes in wind farm companies.

All of Nordic's planned investments are in property, plant, and equipment. Investments totaling €2.7 billion will go towards modernizing and expanding Nordic's power and gas networks in Sweden, enhancing the efficiency of generating units, constructing a steam heat plant in Malmö, and building several wind farms.

U.S. Midwest plans to invest €1.7 billion in property, plant, and equipment. No financial investments are planned. Investments include environmental protection measures at existing power plans and improvements to power and gas networks. The plan also includes the construction of the Trimble County 2 coal-fired power plant.

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

Key Figures per Share

€	2005	2004	+/– %
Stock price at year end	87.39	67.06	+30
Earnings from continuing operations	6.64	6.13	+8
Earnings from discontinued operations	4.61	0.48	–
Dividend	2.75	2.35	+17
Book value at year end[1]	67.50	50.93	+33

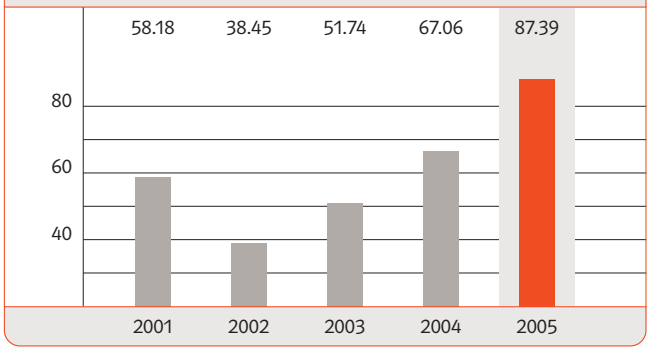
[1]Excludes minority interests.

E.ON Stock in 2005

In a strong market, E.ON stock advanced 30.3 percent in 2005, thereby outperforming the broader European stock market as measured by the EURO STOXX 50, which rose 24.3 percent on the year. Shareowners who held their E.ON stock throughout 2004 and reinvested their cash dividends saw their E.ON investment increase by 34.8 percent in value, a better performance than the DAX index of Germany's top 30 blue chips, which ended the year up 27.1 percent. E.ON stock performed slightly better than its European utility peers as measured by the STOXX Utilities index, which closed the year 29.9 percent higher.

Stock Price at Year End

€ per share



E.ON Stock Long Term

Investors who purchased €5,000 worth of E.ON stock at the end of 1995 and reinvested their cash dividends saw the value of their investment rise to more than €18,100 by the end of 2005. This represents an average annual increase of 13.8 percent, higher than Germany's DAX index, which advanced 9.15 percent per year on average over the same period. During the same ten-year span E.ON stock outperformed both the broader European market (the EURO STOXX 50 averaged 11.3 percent growth per year on average) and its utility peers (the STOXX Utilities averaged 12.8 percent growth per year on average).

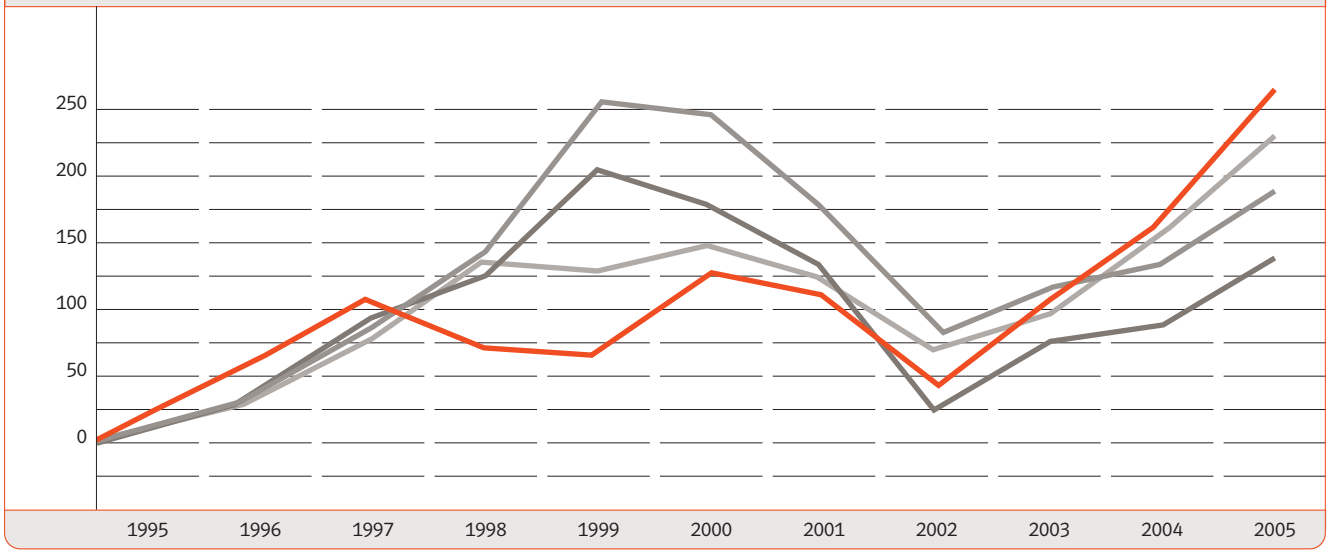
Investors who purchased €5,000 worth of E.ON stock at the end of 2000 and reinvested their cash dividends saw the value of their investment rise 58.1 percent by the end of 2005. Over the same five-year period the DAX index fell 15.9 percent, the EURO STOXX 50 fell 16.8 percent, and the STOXX Utilities rose 33.7 percent. E.ON stock thus considerably outperformed the broader German stock market, the broader European stock market, and an aggregate of other major European utility stocks.

Dividend

At the 2006 Annual Shareholders Meeting, management will propose that the cash dividend be increased by 17 percent, from €2.35 per share for the 2004 financial year to €2.75 per share for the 2005 financial year. Compared with the dividend of €1.35 for the 2000 financial year, the dividend has more than doubled over the last five years, increasing by an average of 17.3 percent per year. Based on E.ON stock's year-end 2005 closing price, the dividend yield is 3.1 percent.

At the same time, management will also propose a special, one-time dividend of €4.25 per share, thereby implementing the plan announced last year to let our shareholders participate in the gain on disposal of our roughly 43 percent stake in Degussa. Including the special dividend, the dividend yield is 8 percent based on E.ON stock's year-end 2005 closing price.

E.ON Ten-Year Stock Performance versus German and European Stock Indices



E.ON Stock Key Figures

Per share (€)	2001	2002	2003	2004	2005
Earnings					
from continuing operations	3.49	–1.38	5.74	6.13	6.64
from discontinued operations	0.36	5.35	2.31	0.48	4.61
from cumulative effect of changes in accounting principles, net	–0.04	0.29	–0.67	–	–0.01
from net income	3.81	4.26	7.11	6.61	11.24
Dividend	1.60	1.75	2.00	2.35	2.75
Dividend payout (€ in millions)	1,100	1,142	1,312	1,549	4,614[1]
Twelve-month high	64.50	59.97	51.74	67.06	88.92
Twelve-month low	46.91	38.16	34.67	49.27	64.50
Year-end closing price	58.18	38.45	51.74	67.06	87.39
Number of shares outstanding (in millions)	674	652	656	659	659
Market capitalization[2] (€ in billions)	39.2	25.1	33.9	44.2	57.6
Book value[3]	36.30	39.33	45.39	50.93	67.50
Market-to-book ratio[4] (percentage)	160	98	114	132	129
E.ON stock trading volume[5] (€ in billions)	38.3	39.9	38.5	46.1	62.5
Trading volume of all German stocks (€ in billions)	1,025.7	859.9	807.8	877.7	1,095.8
E.ON stock's share of German trading volume (percentage)	3.7	4.6	4.8	5.3	5.7

[1]Includes special dividend of €4.25 per share.
[2]Market capitalization based on ordinary shares outstanding.
[3]Excludes minority interests.
[4]Year-end stock price expressed as a percentage of book value per share (excluding minority interests).
[5]On all German stock exchanges, including XETRA.

E.ON Bonds

Under its Medium Term Note program, in May 2002 E.ON premiered on international bond markets by issuing a multi-currency bond in euros and pounds sterling in the amount of €7.3 billion. In 2005 their risk premiums (spreads) were, on the whole, stable, after having narrowed considerably in the previous years.

E.ON bonds are included in all relevant bond indices. Inclusion in indices is subject to strict criteria, such as a bond's rating, term, and minimum trading volume.

E.ON AG Ratings

	Long term	Short term	Outlook
Moody's	Aa3	P-1	Stable
Standard & Poor's	AA–	A-1+	Negative
Fitch[1]	AA–	F-1+	Stable

[1]Unsolicitated rating.

Investor Relations

The year 2005 was a pivotal year for investor relations activities of the E.ON Group. In addition to increasing the number of road shows and general capital market events we participated in, we completed a number of steps towards becoming more transparent with capital market relevant data.

Besides the usual transmittal of information through one-on-one meetings, telephone calls, and telephone and analyst conferences, we introduced integrated management site visits as a new feature. These included visits to U.K. and German generation sites as well as a gas compressor station in Germany. We continued enhancing our services for retail investors by increasing our presence at information forums designed specifically for savings bank customers. Our Internet platform www.eon.com was relaunched and designed to be more user friendly.

Continuing our successful Capital Market Day series, we held the 2005 event in London presenting the U.K. market unit. Approximately 100 participants used the day to gain insight into the group's U.K. operations, having direct access to senior management from both the market unit and Corporate Center. This year's event will take place in July in Stockholm where we will present the Nordic market unit.

As we are committed to holding our standards in financial communications at a high level, we appreciate receiving feedback on our performance from the capital market. In 2005, the quality of our work was confirmed by how investors and analysts voted in a number of European and global surveys. These results only make us more motivated to deliver even higher quality in 2006.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Employees[1]	Dec. 31, 2005	Dec. 31, 2004	+/– %
Central Europe	44,476	36,811	+21
Pan-European Gas	13,366	4,001	+234
U.K.	12,891	10,397	+24
Nordic	5,801	5,530	+5
U.S. Midwest	3,002	2,997	–
Corporate Center/Other	411	420	–2
Group	**79,947**	**60,156**	**+33**
Discontinued operations[2]	463	9,554	–95
Degussa[3]	41,469	40,174	+3

[1]Figures do not include apprentices, managing directors, or board members.
[2]At year end 2005, consists of WKE; at year end 2004, WKE, Viterra, and Ruhrgas Industries.
[3]Accounted for using the equity method effective February 1, 2003. At December 31, 2005, Degussa had 1,972 apprentices.

At year end 2005 the E.ON Group had 79,947 employees worldwide, as well as 229 board members and managing directors and 2,471 apprentices. E.ON's workforce increased by 19,791 employees, or 33 percent, since year end 2004. This development is mainly attributable to consolidation effects at the Central Europe and Pan-European Gas market units.

Central Europe's workforce increased to 44,476 employees, 21 percent more than at year end 2004. This resulted primarily from the addition of Gorna Oryahovitza und Varna, regional electric distribution companies in Bulgaria (a total of about 3,700 employees), and the Romanian electric distribution company E.ON Moldova (about 2,800 employees). Other newly consolidated companies include the IT service provider E.ON IS (formerly is:energy, about 1,300 employees) and DDGáz and Kögáz, Hungarian gas distribution companies (a total of about 900 employees).

The increase at Pan-European Gas resulted from the acquisition of Distrigaz Nord, a Romanian natural gas distribution company, in the second quarter, which added more than 9,300 employees.

E.ON Employees in Europe

At year end 2005 the U.K. market unit had 12,891 employees. This roughly 24 percent rise from year end 2004 is primarily attributable to the integration of staff formerly employed by an outside service provider.

Geographic Profile

At year end 2005 the E.ON Group employed 45,820 people outside Germany, representing 57 percent of its total workforce. This constitutes an increase from the figure of 27,104 for year end 2004, which represented 45 percent of the group's total workforce. The increase is also mainly attributable to Pan-European Gas's acquisition of Distrigaz Nord and a number of acquisitions by Central Europe in Eastern Europe.

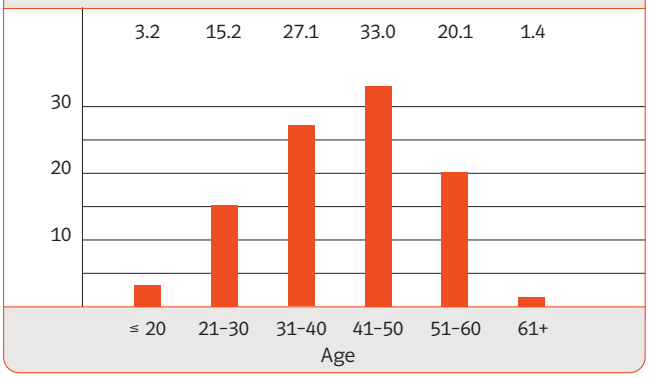
Employees[1]

	Dec. 31, 2005
Europe	79,620
North America	3,017
Asia	10
Total	**82,647**

[1]Includes board members, managing directors, and apprentices.

Age Profile

Percentages



Gender and Age Profile, Part-Time Staff

At year end 2005, about 26 percent of our employees were women. Our average employee is about 41 years old and has worked for us for about 16 years.

At year end 2005, 5,472 E.ON Group employees were on a part-time schedule, of whom 3,843, or 70 percent, were women.

OneE.ON and Shared Identity

The purpose of cultivating shared values and behaviors and a common corporate identity is to further enhance our competitiveness going forward and to promote the ongoing integration of all our market units. In a project called OneE.ON we defined the core behaviors that guide our actions: Customer Orientation, Drive for Excellent Performance, Change Initiation, Teamwork, Leadership, and Diversity and Development.

Since the very start of OneE.ON in 2004, all market and business units as well as our employee representatives have been involved in all aspects of the project. The first OneE.ON Day, held on April 12, 2005, marked the beginning of a communications effort to reach each and every employee in the group. On this day the OneE.ON message was heard by more than 70,000 employees at more than 400 locations.

During 2005, workshops were held for employees throughout the group. Their goal was to develop a shared understanding of our vision to become the world's leading power and gas company. In addition, each member of the E.ON Board of Management has become the patron of one of the OneE.ON behaviors, which are becoming an integral part of our corporate culture.

OneE.ON Day also marked the start of the first groupwide photo contest which had OneE.ON as its theme. A selection of the more than 3,000 photos submitted can be found throughout this report.

In early 2005 E.ON also launched a groupwide employee newspaper. *E.ON World*, which is published quarterly in seven languages and more than 20 local editions, keeps employees up to date about the latest news from around the group.

E.ON Employee Opinion Survey

The OneE.ON process received further impetus from our second groupwide employee opinion survey ("EOS") which we held in 2005. About 84 percent of our employees around the world took advantage of this opportunity to tell us what they think about the OneE.ON process and a range of work-related issues. The results were collated into more than 10,000 individual reports, one for each organizational unit.

The 2005 EOS confirmed the solid results from the first survey and even surpassed them in the areas of employees' identification with E.ON and overall job satisfaction.

Furthermore, the results of the 2005 EOS indicate that the OneE.ON integration process is moving forward successfully.

Apprentice Programs

Providing vocational training to young people has long been a centerpiece of E.ON's HR policy. In the previous two years we implemented initiatives that gave 300 additional young people in Germany the opportunity to receive vocational training. In 2005 we further expanded our efforts in this area.

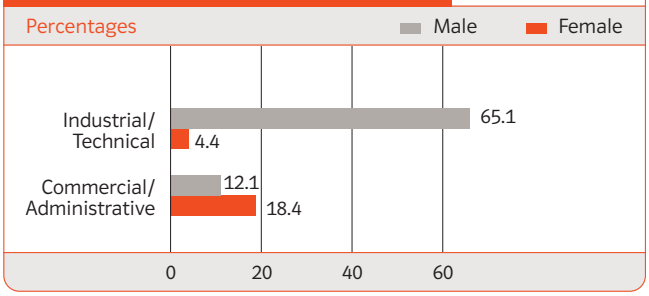
All together, we offered 515 additional young people in Germany a chance to start their careers, 90 as apprentices and 425 as pre-apprentice interns. In support of an initiative by the German Federal Ministry for Labor and Social Affairs, we also started a project to encourage physically challenged young people to seek job training. In recognition of our exemplary corporate citizenship in the area of vocational training in 2005, E.ON received a certificate from the German Federal Employment Agency.

Apprentices by Segment

	Dec. 31, 2005
Central Europe	2,281
Pan-European Gas	182
Corporate Center/Other	8
E.ON Group	**2,471**
Degussa	1,972
E.ON Group and Degussa	**4,443**

In 2005 apprentices accounted for about 7 percent of the E.ON Group's workforce in Germany, continuing the high levels of prior years.

Apprentices by Vocation and Gender



Groupwide Graduate Program

Launched successfully in September 2005, the groupwide E.ON Graduate Program replaced several similar programs. Currently, 35 trainees from a number of different countries are taking part in the 18-month program. Its purpose is to provide targeted training and support for highly motivated university graduates from a variety of disciplines to prepare them for internationally oriented responsibilities in the E.ON Group.

Expatriate Assignments

International expatriate assignments create attractive career and development opportunities and at the same time foster groupwide knowledge transfer. Expatriates, by drawing on their experiences in more than one culture, make an active contribution to corporate integration and to realizing the objectives of OneE.ON. With this in mind, the purpose of our international HR management is to promote and expand cross-border employee exchanges. At year end 2005 about 130 employees were on expatriate assignments throughout the group.

In 2005 we significantly redesigned our expatriate policy to reflect changes in the group's organizational structure and international standards. The new groupwide policy, which establishes consistent relocation benefits for expatriates and their families as well as comprehensive measures to prepare them for their assignments and reintegrate them when they return, will make an important contribution to the continued success of our international exchange effort.

Job Grading

After completing the job grading project for the E.ON Group's top executive positions, in 2005 we extended this project to 1,400 senior management positions. The resulting transparency and comparability of these positions will, in conjunction with a groupwide review process, make it possible to identify career development paths and opportunities across market unit and national boundaries. The job grading project also provides further impetus to groupwide integration, fosters networking between managers, and helps cultivate a shared E.ON identity.

Top Executives

In 2005 we expanded the support we provide to the group's top 200 executives.

We further harmonized the hiring criteria for the top executive positions identified in the job grading project. This will facilitate the posting of top executives throughout the group and lay the groundwork for international executive development.

We also introduced a new executive compensation plan which contains a fixed component as well as short-term and long-term variable components. The short-term bonus plan rewards executives for the degree to which they contribute to the group's overall performance and achieve their own performance targets. In 2006 we intend to replace E.ON's existing stock-option plan with a new groupwide plan that reflects the absolute performance of E.ON stock as well as its relative performance compared with a peer index.

Other key areas were the systematic analysis of E.ON's succession needs and the identification of potential candidates. Launched in 2004, the E.ON Executive Pool is a program specially designed for senior managers who have the potential, expertise, and ambition to grow professionally within our organization and to meet the challenges the group will face in the future.

HR Development

In addition to designing and overseeing groupwide HR development progress, one of our key tasks is to identify emerging leaders, for which we have a systematic, uniform groupwide process.

For several years now, E.ON Campus has provided our emerging leaders from across the group with a forum in which to network across organizational boundaries and benefit from the experience of our senior leadership. To further enhance this process, in 2005 we held a number of forums at which emerging and current leaders discussed innovative ideas and business solutions.

Diversity

We are currently preparing groupwide rules and policies to actively foster diversity in the E.ON Group and make E.ON an even more attractive company to work for. We are already well on our way. For example, in 2005 E.ON Ruhrgas was again chosen as Germany's best employer in a competition judged by an independent institute and a major German business magazine. E.ON Ruhrgas was also chosen as one of Europe's best employers in 2005.

In addition, E.ON U.S. received a Corporation of Excellence Award for its active commitment to businesses owned and operated by minority groups. These awards reflect the consistent enhancement of our HR and management systems.

E.ON Academy

In 2005 the E.ON Academy, the E.ON Group's corporate university, increased to 90 the number of development courses it offers to the group's executives, senior managers, and emerging leaders. It organized a total of 6,280 training days for the program's 1,580 participants.

E.ON Academy serves the market and business units as the group's competence center for executive development. In this role, it organized a total of 1,800 days of training. Academy Online, an electronic learning platform to which 15,000 E.ON employees currently have access, contains more than 80 e-learning programs and more than 20,000 publications.

E.ON Academy also organizes events, such as the Bonn Summit on Energy Law held in 2005, which enhance dialog between leading experts and opinion makers from the realms of business, science, politics, and culture and underscore our commitment to corporate social responsibility.

E.ON InvestmentPlan

Launched in 2000, the E.ON InvestmentPlan gives E.ON employees in Germany the opportunity to invest in equity and bond funds set up specifically for E.ON staff. As of year end 2005 about 5,000 employees had invested in equity funds and about 3,000 in bond funds. Once a year the plan also gives employees the opportunity to purchase employee shares. In 2005 we introduced a new bonus system to the employee share purchase program to make it even more attractive and to give employees a greater stake in their company's success. As a result, 17,610 employees in Germany—half of those eligible to participate—purchased a total of 308,555 shares of E.ON stock.

Pension Plans

Company contributions to employee pension plans represent an important component of an employee's compensation package. Company pension plans vary considerably according to industry practice and the legal requirements of the different countries in which our market units operate.

In 2005 E.ON moved to finance the pension obligations of its Germany-based companies through a contractual trust arrangement ("CTA"), which involves transferring to an independent trust the assets necessary to meet future pension obligations. One of the purposes of the CTA is to enhance the financial security of E.ON's pension plans.

Occupational Safety and the Environment

In 2005 E.ON defined uniform groupwide health, safety, and environmental ("HSE") standards. We also held our first groupwide Safety Summit to promote HSE excellence throughout the group.

In the future, each business unit will set up an HSE management system in which all work-related accidents are recorded using the same international standard: lost time injury frequency ("LTIF").

Our enhanced HSE effort has helped us to continue our trend towards fewer accidents and in 2005 contributed to a 16.6 percent reduction in LTIF compared with 2004. Going forward, we plan to extend our enhanced occupational safety standards to third-party service providers.

In 2005 E.ON Ruhrgas received a prestigious German industry award for its health-maintenance programs.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Central Europe Market Unit

- Adjusted EBIT surpasses prior-year figure
- Position in Central Europe West and East strengthened
- 2006 adjusted EBIT expected to be slightly above prior-year level

Central Europe			
€ in millions	2005	2004	+/– %
Sales	24,295	20,752	+17
thereof energy taxes	1,049	1,051	–
Adjusted EBITDA	5,284	4,908	+8
Adjusted EBIT	3,930	3,602	+9
ROCE (in %)	21.9	21.3	+0.6[1]
Cost of capital (in %)	9.0	9.0	–
Value added	2,318	2,083	+11
Cash provided by operating activities	3,020	2,938	+3
Investments	2,177	2,527	–14
Employees (at year end)	44,476	36,811	+21

[1]Change in percentage points.

Market positions in Central Europe West and East Strengthened

In 2005 we strengthened our positions in our core markets by further enhancing the horizontal integration of our power and gas operations and by achieving growth in Central Europe West and East. On the power side, E.ON Energie acquired two regional electric distribution companies in Bulgaria, one regional electric distribution company in Romania, and a power and gas utility in the Netherlands. On the gas side, we acquired majority ownership interests in two natural gas distribution companies in Hungary.

Along with new acquisitions and increasing its stakes in existing shareholdings, in 2005 E.ON Energie also focused on optimizing operations at its existing regional distribution companies ("RDCs"). All E.ON RDCs in Germany now offer their customers both electric and gas service.

In 2005 we continued to execute our single-brand strategy and rebranded four of our seven RDCs in Germany. They now do business under the names E.ON Avacon, E.ON edis, E.ON Mitte, and E.ON Thüringer Energie. In addition, is:energy, our IT service provider, was rebranded to E.ON IS.

Central Europe West

In July 2005 we merged Gasversorgung Thüringen and TEAG, an RDC that was already a consolidated E.ON company, to form E.ON Thüringer Energie. E.ON Energie owns 76.8 percent of the merged entity whose more than 1,500 employees supply roughly 580,000 customers with electricity and roughly 113,000 with natural gas.

In September 2005 E.ON Benelux acquired NRE Energie ("NRE"), the Netherlands' fifth-largest utility with some 100,000 power and 175,000 gas customers. The acquisition gives us access to our first end-customers in the Dutch market.

Central Europe East

In March 2005 the Hungarian antitrust agency approved our acquisition of majority interests in two gas distribution companies, DDGáz and Kögáz. E.ON Hungária Energetikai now has a 50.01 percent stake in DDGáz and a 98.1 percent stake in Kögáz. Together, the two companies have a roughly 18 percent share of Hungary's end-customer gas market.

In October 2004 E.ON Energie and the Bulgarian government signed an agreement under which we acquired a 67 percent stake in two regional electric distribution companies, Gorna Oryahovitza and Varna. After financial closing in late February 2005, the stakes were transferred to E.ON Bulgaria, the new holding company for our Bulgarian operations.

In April 2005 E.ON Energie signed a purchase agreement to acquire a majority ownership interest in Electrica Moldova, a Romanian electric distribution company. E.ON Energie completed the acquisition in September 2005, acquiring 24.6 percent of Electrica Moldova and simultaneously increasing its ownership to 51 percent through a capital increase. The company, renamed E.ON Moldova, supplies 1.3 million customers with about 4 TWh of electricity annually, giving it roughly an 11 percent share of Romania's electric distribution market.

As with our earlier acquisitions, we have initiated cost-cutting and efficiency-enhancement programs at our most recently acquired distribution companies in Central Europe East.

Energy Prices in Europe and Germany

Overall, energy prices in Europe increased significantly in 2005 due to higher fuel costs. E.ON Energie's end-customer business is not immune to these developments. For example, although grid fees and surcharges remained largely unchanged, industrial customers in Germany who concluded new supply agreements in 2005 faced significantly higher price levels than in 2004. Prices in the residential segment in Germany remained stable following a roughly 4 percent increase at the start of the year.

Procurement costs incurred by local and regional gas companies also rose during the year due to the indexation of natural gas prices to oil prices.

Nevertheless, the price industrial customers in Germany pay for natural gas is in the lower middle range compared with the rest of Europe. Despite Germany's higher surcharges, an average price increase of just over 20 percent during the past 12 to 18 months, and another increase at the end of the year, the price residential customers in Germany pay for natural gas is still in the middle range for Europe.

Higher energy prices, particularly for natural gas, led to a heated public debate in the German media and consumer protection organizations and also attracted the attention of

Germany's antitrust authorities and political leaders. The German Federal Cartel Office initiated an investigation of E.ON Energie and other companies for potential unlawful market practices relating to CO_2 emission allowance trading and the calculation of electricity prices.

Natural Gas Price Transparency

Numerous natural gas customers, mostly those of E.ON Hanse, invoked Article 315 of the German Commercial Code to refuse to pay all or part of the price increases. We have responded to the often strident tone of the debate in Germany by providing the public with facts through an informational ad campaign, media interviews with E.ON management, and an array of information offerings on our website. Our consistent message has been that electricity prices move in response to market forces on Europe's power exchanges and that natural gas prices are indexed to oil prices. In November 2005 E.ON Hanse published how it calculates natural gas prices for residential customers; our other RDCs in Germany followed suit in December 2005 and January 2006. This transparency is an important step towards regaining our customers' trust. It shows that the retail margins of our RDCs in Germany are actually down from the prior year and that higher procurement costs have not been fully passed on to customers. E.ON Energie has thus set the pace in price transparency and competition in Germany's energy industry.

Power and Gas Sales

Central Europe sold about 14 billion kWh more electricity than in the prior year due to the sale of larger volumes of electricity it was required to purchase under Germany's Renewable Energy Law and to the inclusion of newly consolidated companies in Bulgaria and Romania.

Power Sales by Customer Segment[1]			
Billion kWh	2005	2004	+/– %
Residential and small commercial	42.9	41.1	+4
Industrial and large commercial	77.2	72.1	+7
Sales partners	138.4	130.9	+6
Power sales	**258.5**	**244.1**	**+6**

[1]Excludes energy trading activities.

Despite temperature-driven declines in sales volume and the loss of some business to competitors, Central Europe's RDCs sold about 9 billion kWh more gas than in 2004. The key factor was the inclusion of newly consolidated companies in Hungary and at E.ON Bayern. Another positive factor was the inclusion of Gasversorgung Thüringen, which was consolidated effective July 1, 2005, pursuant to U.S. GAAP.

Gas Sales by Customer Segment			
Billion kWh	2005	2004	+/– %
Residential and small commercial	36.6	29.0	+26
Large industrial and commercial	46.2	42.1	+10
Sales partners	29.5	31.8	–7
Gas sales	**112.3**	**102.9**	**+9**

Power Procurement[1]			
Billion kWh	2005	2004	+/– %
Owned generation	129.1	131.3	–2
Purchases	142.2	123.0	+16
from jointly owned power plants	12.0	11.2	+7
from outside sources	130.2	111.8	+16
Power procured	**271.3**	**254.3**	**+7**
Plant-use, line loss, pumped-storage hydro	–12.8	–10.2	+25
Power sales	**258.5**	**244.1**	**+6**

[1]Excludes energy trading activities.

Power Procurement

The Central Europe market unit met about 48 percent of its power requirements with electricity from its own generation assets, compared with 52 percent in the prior year. Central Europe's generation operations benefit from its flexible energy resource mix. It procured around 19 billion kWh more electricity from jointly owned power stations and outside sources than in 2004. About one third of this increase is attributable to the purchase of larger volumes of renewable-source electricity subsidized under Germany's Renewable Energy Law. Another factor was the inclusion of the newly consolidated distribution companies in Bulgaria and Romania, since we do not own generation assets in these markets.

Sources of Owned Generation		
Percentages	2005	2004
Nuclear	48.0	46.9
Hard coal	30.5	33.7
Lignite	6.6	6.5
Oil and natural gas	6.9	5.5
Hydro	5.5	5.5
Other	2.5	1.9

Sales and Adjusted EBIT

Central Europe grew sales by 17 percent relative to the prior year, mainly due to three factors: the global increase in raw materials and energy prices which ultimately led to increases in our power and gas prices, the passthrough of the costs of the significantly greater volume of electricity purchased under Germany's Renewable Energy Law, and the consolidation effects mentioned above.

Adjusted EBIT rose by €328 million year-on-year, with Central Europe's business units developing as follows.

Financial Highlights by Business Unit

	Central Europe West				Central Europe East		Other/Consolidation		Central Europe	
	Power		Gas							
€ in millions	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Sales[1]	16,945	14,597	3,463	2,979	2,618	1,877	220	248	23,246	19,701
Adjusted EBITDA	4,218	3,784	521	511	432	377	113	236	5,284	4,908
Adjusted EBIT	3,389	2,996	307	315	237	235	–3	56	3,930	3,602

[1]Excludes energy taxes; energy trading activities are recognized net.

Central Europe West Power grew adjusted EBIT by €393 million. The increase is chiefly attributable to additional operating improvements and the passthrough to end customers of higher wholesale electricity prices. There were three main adverse affects: we had to pay significantly more for conventional fuel, our power procurement costs were higher, and we had higher burdens resulting from expenses for additional CO_2 certificates.

Adjusted EBIT at Central Europe West Gas was €8 million below the prior-year figure. Lower sales volumes and considerably higher procurement costs could not be counteracted by the above-mentioned consolidation effects or by higher sales prices.

Central Europe East's adjusted EBIT was on par with the prior-year figure. As anticipated, our newly consolidated companies in Bulgaria, Romania, and Hungary did not, in their first year, make a noteworthy earnings contribution.

Adjusted EBIT recorded under Other/Consolidation declined by €59 million, mainly due to the reversal of a provision in the prior year.

Power Trading

E.ON Sales & Trading ("EST") is Central Europe's wholesale power subsidiary. By combining power trading and power sales to large customers, EST can offer its customers the entire range of procurement solutions. EST works closely with E.ON Energie's subsidiaries and the other E.ON market units throughout Europe. EST's power sales business developed successfully in 2005. By offering innovative products and energy solutions, EST cemented its strong position in Germany and, despite an often difficult operating environment, expanded its operations in neighboring European markets.

EST's power trading operation makes a key contribution to optimizing the dispatch of Central Europe's generation portfolio and managing its electricity procurement across Continental Europe. In addition, at the start of 2005 EST took on the role of optimizing E.ON Energie's emission allowance trading operations.

EST traded about 333 billion kWh of electricity in 2005. It operates on all major power exchanges in Continental Europe. EST focuses its trading operations on Germany, Austria, the Benelux countries, and France. Other important markets include southern and eastern European countries where EST contributes to the procurement operations of E.ON Energie's national subsidiaries by systematically utilizing all available power procurement options: intraregional power imports and exports and bilateral transactions within the individual countries.

Power Trading Volume

Billion kWh	2005	2004	+/– %
Sales	164.1	146.8	+12
Purchases	168.7	162.7	+4
Total	**332.8**	**309.5**	**+8**

Generation Fleet

In 2005 Central Europe's nuclear fleet again operated safely and reliably, achieving an average availability of 90.1 percent. This performance again ranked us among the world's premier nuclear generators. Including power produced at jointly owned assets, total generation amounted to 66 billion kWh.

In Germany, Central Europe owns and operates conventional (coal, gas, and oil) and renewable-source (biomass and wind) generating facilities which together produce some 48 billion kWh of electricity—about 10 percent of the country's electricity consumption. This ranks Central Europe among Germany's biggest conventional generators.

Central Europe owns and operates 88 hydroelectric plants and operates an additional 45, providing an economically priced and environmentally friendly source of electricity. Generation at run-of-river and pumped-storage plants totaled roughly 9 billion kWh in the period under review; this figure includes generation facilities that qualify for support under Germany's Renewable Energy Law as well as jointly owned generation assets.

Attributable Generation Capacity

Megawatts	Dec. 31, 2005	Dec. 31, 2004
Nuclear	8,473	8,473
Lignite	1,313	1,313
Hard coal	7,451	7,510
Natural gas	3,793	3,849
Oil	1,153	1,152
Hydro	3,113	3,113
Other	327	191
In Germany	**25,623**	**25,601**
Hard coal	1,059	1,040
Natural gas	1,011	895
Other	64	6
Outside Germany	**2,134**	**1,941**
Total	**27,757**	**27,542**

Estimates indicate that Germany will have to replace 40,000 MW of generating capacity over the next 15 years. As CO_2 reduction targets become more demanding, there will be an even greater need to replace generating assets.

As part of a long-term strategy for managing our generation assets, we plan to make considerable investments to maintain and expand our market position in generation and to operate a flexible generating fleet with a balanced energy resource mix. In Germany our investments include a 1,100 MW hard-coal-fired power plant that will produce electricity and steam heat at our existing site in Datteln and a 800 MW combined cycle gas turbine ("CCGT") at our Irsching site. The plants are expected to begin commercial operation in 2011 and 2008, respectively. We also plan to build a 530 MW state-of-the-art, environmentally friendly CCGT at Irsching. This unit is expected to become operational in 2011. A new size of turbine will give it a thermal efficiency of roughly 60 percent, earning it a top ranking in generating technology.

In addition, we will invest about €240 million over the next several years to extend the operating lifetime and significantly improve the environmental performance of Maasvlakte power station, a 1,052 MW hard-coal-fired facility in the Netherlands.

We plan to enter the Italian generating market by constructing an 800 MW CCGT facility in Livorno-Ferraris. The plant sets new standards for thermal efficiency (about 58 percent) and for its expected environmental performance. Investments in the unit will total roughly €400 million. Lower courts have

dismissed a number of suits filed to contest the construction permit. If the appeals court upholds these dismissals in 2006, we expect this facility to be completed in 2007 or 2008.

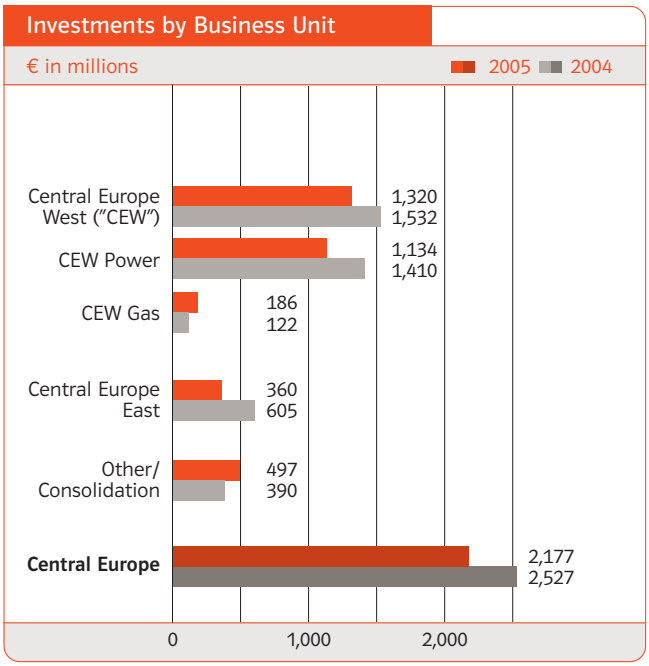
Network Infrastructure and Reliability

E.ON Netz, which owns and operates Central Europe's electric transmission system in Germany, is responsible for planning, constructing, maintaining, and operating this infrastructure. More than 200 electricity traders used Central Europe's wires network as an energy pathway in 2005. The system's peak demand day was December 4, 2005, when 21,062 MW of load was met, slightly below the prior-year figure.

At more than 140,000 square kilometers, E.ON Netz's service territory covers more than one third of Germany and extends from the North Sea to the Alps. Its wires network is approximately 32,600 circuit-kilometers in length.

In 2005 our transmission system in Germany was again extremely reliable. Deliveries of wind power peaked during the spring, placing a burden on our system, and fell off during the summer due to seasonal weather patterns. Between 2006 and 2008 we will invest €2.8 billion to maintain the high reliability of our energy transmission and distribution infrastructure in Germany into the future. Of this figure, €2.3 billion will be spent on our electricity network and €0.5 billion on our natural gas network. These investments will ensure that our customers continue to enjoy the most reliable energy service possible.

Investments



Central Europe invested €2.2 billion in 2005, about €0.3 billion less than in 2004. Capital expenditures for intangible assets and property, plant, and equipment totaled €1.5 billion, about 7 percent more than the prior-year figure of €1.4 billion. The increase results from higher investments in conventional power plants, waste-incineration generating capacity, and electric distribution infrastructure.

Investments in financial assets totaled €0.7 billion (prior year: €1.1 billion), of which the acquisition of shares in Romania's E.ON Moldova and shares in NRE by E.ON Benelux are noteworthy. The prior-year figure reflects the acquisition of an ownership interest in Ferngas Salzgitter, payments for the acquisition of Bulgarian electric distribution companies, and increases in our existing stakes in the Czech Republic.

Outlook

For 2006, we expect Central Europe's adjusted EBIT to be slightly above the prior-year level. We expect to offset the adverse affects of regulatory measures affecting the operations of our energy transmission and distribution systems by achieving operating improvements in other areas.

Pan-European Gas Market Unit

- Adjusted EBIT up 14 percent
- Upstream business expanded
- 2006 adjusted EBIT expected to be above prior-year level

Pan-European Gas			
€ in millions	2005	2004[1]	+/– %
Sales	17,914	13,227	+35
thereof gas and electricity taxes	3,110	2,923	+6
Adjusted EBITDA	1,939	1,772	+9
Adjusted EBIT	1,536	1,344	+14
ROCE (in %)	11.5	10.4	+1.1[2]
Cost of capital (in %)	8.2	8.2	–
Value added	441	285	+55
Cash provided by operating activities	1,999	903	+121
Investments	531	614	–14
Employees (at year end)	13,366	4,001	+234

[1]Adjusted for Ruhrgas Industries.
[2]Change in percentage points.

Ruhrgas Industries Divested

In 2004 we decided to initiate the disposal process for Ruhrgas Industries, a noncore business. The sale of Ruhrgas Industries to CVC Capital Partners, a European private equity firm, was completed in September 2005. The transaction volume was approximately €1.5 billion.

Acquisition in Romania

By acquiring Distrigaz Nord, a Romanian gas distributor, in June 2005, we took an important step closer to achieving our objective of expanding our market position in Central and Eastern Europe. E.ON Ruhrgas paid €127 million for a 30 percent stake in Distrigaz Nord and expanded this stake to 51 percent through an immediate capital increase of €178 million.

Gas Sales

E.ON Ruhrgas AG sold 690 billion kWh of gas in 2005, 8 percent more than in 2004. The volume growth resulted mainly from higher sales volumes outside Germany, which increased by just under 48 billion kWh year-on-year. Sales volumes in Germany were on the prior-year level.

E.ON Ruhrgas AG sold 135 billion kWh of natural gas to customers outside Germany in 2005. This 54 percent increase from 2004 resulted primarily from increased deliveries to the United Kingdom, the Netherlands, Belgium, and Italy. In Sweden the company began supplying E.ON Nordic. It also further increased deliveries to France and Denmark. In early 2005 E.ON Ruhrgas AG made short-term deliveries to help Gaz de France make up shortfalls. It also concluded its first supply agreement with an industrial customer in the Netherlands. As a result, exports as a share of E.ON Ruhrgas AG's total gas sales increased from 13.7 percent in 2004 to 19.6 percent in 2005. E.ON Ruhrgas AG sells gas to customers in 13 countries.

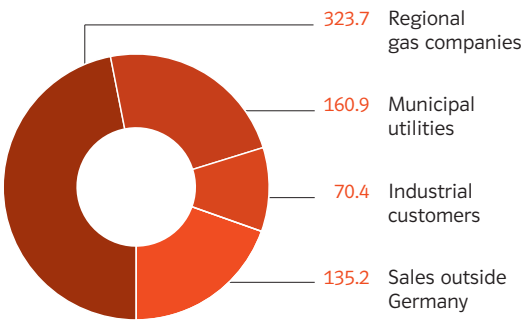
E.ON Ruhrgas AG Gas Sales			
Billion kWh	2005	2004	+/– %
First quarter	225.6	211.2	+7
Second quarter	137.5	125.4	+10
Third quarter	113.8	105.8	+8
Fourth quarter	213.3	199.0	+7
Gas Sales	**690.2**	**641.4**	**+8**

Customer Structure

E.ON Ruhrgas AG's customer segments in Germany accounted for roughly the same percentage of its sales. As in previous years, regional gas companies constituted E.ON Ruhrgas AG's largest customer segment, although this segment's share of total sales declined from 51 percent to 47 percent due to a 2 percent decline in sales volume and the sharp increases in deliveries outside Germany. Municipal utilities accounted for 23 percent of total sales, 1 percentage point lower than in 2004 despite a 3 percent increase in sales volume to this segment. Gas deliveries to industrial customers were 2 percent higher; this segment's share of total sales declined from 11 percent to 10 percent.

Gas Sales by Customer Segment

Billion kWh — Total: 690.2 billion kWh



Gas Sales at Downstream Shareholdings[1]

Billion kWh	2005	2004	+/– %
Thüga	22.5	20.9	+8
E.ON Ruhrgas International[2]	46.5	30.1	+54
Gas sales at Downstream Shareholdings	**69.0**	**51.0**	**+35**

[1]Unconsolidated gas sales of companies in which majority stakes are held.
[2]Second half of 2005 includes sales of Distrigaz Nord.

Gas sales of companies in which E.ON Ruhrgas International and Thüga have a majority ownership interest rose by 35 percent to 69 billion kWh. The inclusion of Distrigaz Nord for the second half of 2005 was a key factor in the increase. The increase reported by Thüga is primarily attributable to consolidation effects at Thüga Italia.

Natural Gas: A Modern Space-Heating Energy

In 2005 residential customers continued to turn to natural gas as a modern and environmentally friendly source of energy for space heating. In Germany, about 75 percent of all residential building permits granted in 2005 were for housing with natural gas space heating, on par with the high prior-year figure. At year end 2005, about 48 percent of homes in Germany were heated with natural gas, which further extended its leading position in the home heating market.

Sales and Adjusted EBIT

Net of energy taxes, sales at Pan-European Gas increased by 44 percent, from €10,304 million in 2004 to €14,804 million in 2005. The increase results mainly from higher average sales prices in conjunction with higher sales volumes in the midstream business. Increased production compared with the prior year and higher sales prices led to higher sales at the upstream business. In September 2005 Pan-European Gas increased its stake in Njord Field from 15 percent to 30 percent. In addition, Scoter gas field produced throughout 2005, whereas in 2004 production began in March. Sales were higher at the Downstream Shareholdings business unit primarily due to consolidation effects at Thüga Italia and the inclusion of newly consolidated Distrigaz Nord.

Financial Highlights by Business Unit

€ in millions	Up-/Midstream 2005	Up-/Midstream 2004	Downstream Shareholdings 2005	Downstream Shareholdings 2004	Other/ Consolidation 2005	Other/ Consolidation 2004[2]	Pan-European Gas 2005	Pan-European Gas 2004[2]
Sales[1]	13,380	9,274	1,848	1,358	-424	-328	14,804	10,304
Adjusted EBITDA	1,297	1,142	644	634	-2	-4	1,939	1,772
Adjusted EBIT	988	862	551	486	-3	-4	1,536	1,344

[1]Excludes energy taxes.
[2]Adjusted for Ruhrgas Industries

Adjusted EBIT for 2005 was €192 million, or 14 percent, above the 2004 figure. The Up-/Midstream business unit was the main factor in this development. The upstream business, which in 2005 benefited from higher oil and gas prices compared with 2004, was responsible for a lion's share of the increase. The performance of the midstream business was influenced by a number of factors. Heating oil prices, to which natural gas prices are indexed, rose throughout 2005, resulting in substantially higher procurement costs. The delay in the adjustment of sales prices to reflect procurement prices had a significant adverse affect on adjusted EBIT. This effect was partially counteracted by hedging transactions. Positive effects included increased income from demand charges resulting from colder low temperatures than in 2004, higher sales volumes, and the recalculation of fees for pipeline use and leasing. On balance, adjusted EBIT at the Up-/Midstream business unit rose by 15 percent to €988 million.

The Downstream Shareholdings business unit grew adjusted EBIT by 13 percent year-on-year to €551 million. This is principally attributable to higher equity earnings from associated companies and lower writedowns.

Supply Countries

E.ON Ruhrgas AG purchased 686.1 billion kWh of natural gas from domestic and foreign producers in 2005, 6 percent more than in 2004. Russia and Norway were the two biggest suppliers, accounting for 28.2 percent and 27.5 percent, respectively. E.ON Ruhrgas purchased 15.5 percent of its natural gas from suppliers in Germany. Long-term supply contracts, in which producers and importers share risks fairly, form the backbone of E.ON Ruhrgas's natural gas purchasing operation. These contracts are supplemented by short-term trading transactions, mainly in the United Kingdom, to optimize E.ON Ruhrgas's purchase portfolio.

In the third quarter of 2005, E.ON Ruhrgas extended an existing supply contract with Gazprom through 2020 to secure Germany and Europe's supply of natural gas well into the future. As a result, Gazprom will remain one of E.ON Ruhrgas's most important suppliers in the coming decade.

Gas Purchases by Region[1]

Billion kWh	2005	%
Russia	193.5	28.2
Norway	188.4	27.5
Netherlands	139.0	20.2
Germany	106.1	15.5
United Kingdom	34.1	5.0
Denmark	23.7	3.4
Other	1.3	0.2
Total	**686.1**	**100.0**

[1]Gas purchases of E.ON Ruhrgas AG.

Pipeline and Storage System

At year end 2005 the pipeline system of E.ON Ruhrgas and its project companies had a total length of 11,273 kilometers ("km"). E.ON Ruhrgas monitors and maintains a total of 12,690 km of pipe, including 1,075 km for nongroup companies. E.ON Ruhrgas also operates 28 compressor stations with total installed power of 853 megawatts. At year end 2005 E.ON Ruhrgas had underground storage facilities with a total working gas capacity of 5.1 billion cubic meters. The maximum withdrawal rate of these facilities is 5.8 million cubic meters per hour.

Transport Business

At the start of 2004, E.ON Ruhrgas unbundled its gas transmission business. Since that time, its subsidiary E.ON Ruhrgas Transport ("ERGT") has been responsible for its entire transmission business. E.ON Ruhrgas AG is one of its customers. In a rapidly changing regulatory environment, ERGT maintained reliable pipeline operations and provided all its customers with the best possible service. In 2005 the company was Germany's largest provider of gas transport services. Since the summer of 2000, the transport business has continued to experience dynamic growth. ERGT markets transport capacity via the entry-exit system, which was introduced on November 1, 2004. ERGT concluded about 600 new transport agreements in 2005 for a total of well over 1,000 transport agreements since it began operations. With competition in the gas transport business becoming significantly keener, ERGT has moved to further expand its pipeline system in a number of areas in order to improve its position compared with other transport system operators.

Gas Release Program ("GRP")

In May 2005 E.ON Ruhrgas held its third auction of the natural gas it procures under long-term supply contracts. Seven bidders were awarded a total of about 39 billion kWh of natural gas in the Internet-based auction. The contracts have a three-year term. As in the 2004 auction, in 2005 E.ON Ruhrgas also offered one third of the gas not sold in the 2003 auction. The delivery point for gas auctioned in 2005 is Emden/Bunde, Germany. The GRP, under which E.ON Ruhrgas auctions natural gas from its long-term import contracts, was one of the requirements of the ministerial approval of E.ON's acquisition of Ruhrgas.

Court Action on Long-Term Supply Contracts

Under an order dated January 13, 2006, the German Federal Cartel Office prohibited E.ON Ruhrgas from implementing existing long-term gas supply contracts with regional and local gas distributors and from entering into new contracts identical or similar in nature. This dispute relates to the enforceability of long-term gas supply contracts, which have been customary in the German natural gas market for delivery to distributors since the beginning of the natural gas industry itself.

The differing legal opinions, which touch on basic principles like freedom of contract and competition, as well as on the security of the energy supply, can only be resolved definitively by the courts. E.ON Ruhrgas has therefore filed an emergency petition against the order with the State Superior Court in Düsseldorf in order to prevent it from taking immediate effect.

Upstream Business

Our long-term goal is to source 15 to 20 percent of our natural gas needs from our own production assets, both to enhance security of supply and strengthen our own position in gas production. In 2005 we took important steps towards achieving this strategic objective.

In September E.ON Ruhrgas Norge acquired a 15 percent stake in Njord Field from Paladin Resources plc., a British oil and gas company, for about €61 million. This increases our total stake to 30 percent. Njord is an oil and gas field in the Haltenbank region of the Norwegian Sea. Gas production is expected to begin at the end of 2007. In addition to owning a share of the oil production, the 30 percent stake will provide about 600 million cubic meters of natural gas from the field each year.

In November E.ON Ruhrgas acquired Caledonia Oil and Gas Limited ("COGL") of the United Kingdom for roughly €690 million including debt. COGL is a natural gas production company with interests in 15 gas fields in the U.K. Southern North Sea. It also owns 100 percent of Caledonia Energy Trading Limited, a gas trading company, and stakes in two pipeline systems near the fields to deliver the gas to the U.K. mainland. COGL now operates as E.ON Ruhrgas UK North Sea Limited.

Infrastructure Projects and Security of Supply

In September 2005 we took a further step towards working more closely with Gazprom. In Berlin an agreement in principle was signed with Gazprom and BASF to build the North European Gas Pipeline ("NEGP"). The more than 1,200 km long pipeline will link Russia with Germany's Baltic Sea coast.

The NEGP is expected to become operational in 2010. The first stage of the project consists of a single pipeline with a transport capacity of about 27.5 billion cubic meters of natural gas a year. Plans call for a second pipeline to be built alongside the first, doubling transport capacity to about 55 billion cubic meters a year. Investments in the dual-pipeline project will total more than €4 billion. In December 2005 Gazprom began work to build the onshore link-up line on the Russia end.

In 2005 E.ON Ruhrgas increased to over 23 percent its stake in Interconnector (UK) Limited, a company that owns and operates a natural gas pipeline between Bacton in the United Kingdom and Zeebrugge in Belgium. The transaction gives E.ON Ruhrgas the second-largest stake in the company.

To further diversify its supply options, E.ON Ruhrgas plans to build Germany's first liquefied natural gas terminal. A majority stakeholder in Deutsche Flüssigerdgas Terminal Gesellschaft, E.ON Ruhrgas already has access to an appropriate site in Wilhelmshaven. The first phase of the project consists of a feasibility study on the technical and economic requirements for constructing such a facility. According to initial estimates, investments in the project will total about €500 million. The investment decision will depend on whether we are confident that we can procure the necessary volume of LNG for the long term.

Investments

Investments by Business Unit			
€ in millions	2005	2004	+/- %
Up-/Midstream	474	83	+471
Downstream Shareholdings	57	531	-89
Other/Consolidation	-	-	-
Pan-European Gas	**531**	**614**	**-14**

In 2005 Pan-European Gas invested approximately €531 million. The acquisition of a majority interest in Distrigaz Nord, a Romanian gas distributor, was the largest transaction of the year. Pan-European Gas also increased its stake in Njord Field, a natural gas and oil reservoir in the Norwegian Sea, from 15 percent to 30 percent. It also increased its stake in Interconnector (UK) Limited from 10 to 23.6 percent.

Pan-European Gas also invested in infrastructure expansion projects. Of the investments, €263 million went towards intangible assets and property, plant, and equipment, while €268 million went towards the acquisition of shareholdings.

Outlook

We expect Pan-European Gas's adjusted EBIT for 2006 to be above the figure for 2005. The Up-/Midstream business will benefit from the intengration of E.ON Ruhrgas UK North Sea Limited (formerly COGL), which was acquired in 2005. The acquisition of the storage and trading operations of Hungary's MOL will be the main factor in the development of the downstream business.

U.K. Market Unit

- Adjusted EBIT down 5 percent
- Acquisition of Enfield Energy Centre completed
- Increase in adjusted EBIT forecast for 2006

U.K.			
€ in millions	2005	2004	+/– %
Sales	10,176	8,490	+20
Adjusted EBITDA	1,550	1,592	–3
Adjusted EBIT	963	1,017	–5
ROCE (in %)	7.6	8.9	–1.3[1]
Cost of capital (in %)	9.2	9.2	–
Value added	–202	–34	–
Cash provided by operating activities	101	633	–84
Investments	926	503	+84
Employees (at year end)	12,891	10,397	+24

[1]Changes in percentage points.

Acquisitions

E.ON UK acquired, in two tranches, 100 percent of the equity of Enfield Energy Centre Ltd, which operates a gas-fired power station near London. With an installed capacity of 392 MW, the power station can generate enough power for 300,000 homes. The purchase price was approximately €185 million. Enfield Energy Centre became a consolidated E.ON company on April 1, 2005.

E.ON UK acquired Holford Gas Storage Limited ("HGSL") from Scottish Power. HGSL was formed to develop one of the United Kingdom's largest underground gas-storage facilities and has already gained full planning permission to build such a facility in Cheshire in northwest England. The purchase price for the development rights of HGSL is approximately €140 million. HGSL became a consolidated E.ON company on July 28, 2005.

Retail Business

In response to higher wholesale energy prices, E.ON UK increased its residential retail prices on August 31, 2005, by 7.2 percent for electricity and 11.9 percent for gas. These price rises are in line with other U.K. energy suppliers. The price rises resulted in increased switching in the market. During the year, E.ON UK's customer accounts decreased by approximately 0.2 million.

E.ON Brand

The process of establishing the E.ON brand in the United Kingdom continued during 2005. In October a new element to the Powergen brand was added by including the statement "A company of E.ON." This has helped to project the E.ON name onto the national stage.

Power and Gas Sales

Sales by Customer Segment[1]			
Billion kWh	2005	2004	+/– %
Power – Residential and SME	37.3	36.2	+3
Power – I&C	22.3	26.5	–16
Total power sales	**59.6**	**62.7**	**–5**
Gas – Residential and SME	67.7	66.2	+2
Gas – I&C	32.6	35.9	–9
Total gas Sales	**100.3**	**102.1**	**–2**

[1]Excludes wholesale and energy trading activities.

The decrease in power and gas volumes reflected E.ON UK's focus on margin rather than volume in the industrial and commercial ("I&C") market during 2005.

Power Generation and Procurement

Power Generation and Procurement			
Billion kWh	2005	2004	+/– %
Owned Generation[1]	37.3	34.9	+7
Purchases	24.5	29.8	–18
Jointly owned power plants	0.6	2.0	–70
Outside sources	23.9	27.8	–14
Power procured	**61.8**	**64.7**	**–4**
Plant use, line loss, pumped-storage hydro	–2.2	–2.0	–
Power sales	**59.6**	**62.7**	**–5**

[1]Excludes CHP and renewable generation.

The increase in owned generation was driven mainly by the acquisition of Enfield power station in 2005 and the return to service of both combined cycle gas turbine ("CCGT") modules at Killingholme.

Purchases from outside sources declined due to higher owned generation and lower retail I&C sales. Jointly owned power plant generation was down because 2004 included some months of Cottam Development Centre purchases prior to E.ON UK's 100 percent acquisition and because Corby generation was down in 2005 due to lower gas generation margins.

Attributable Generation Capacity

Megawatts	Dec. 31, 2005	Dec. 31, 2004
Hard coal	4.910	4.910
Natural gas	3.272	1.980
Hydro, wind, oil, and other	1.788	1.788
CHP	577	587
Total	**10.547**	**9.265**

Sources of Generation

Percentages	2005	2004
Hard coal	56	56
Natural gas	34	34
Hydro, wind, oil and other	2	1
CHP	8	9

U.K.'s attributable generation portfolio was 10,547 MW at December 31, 2005, an increase of about 14 percent from December 31, 2004, mainly due to the return to service of Killingholme power plant (900 MW) and the acquisition of Enfield power plant (392 MW).

The return to service of the Killingholme power plant is the first example in the United Kingdom of a CCGT returning from a mothballed condition. During 2005, E.ON UK shut down two oil-fired units at Grain for the summer and then returned these two units later in the year for winter use.

E.ON UK is currently looking at options to develop further CCGT power plants in the UK over the next few years.

During 2005, E.ON UK co-fired biomass materials at the Kingsnorth, Ironbridge, and Ratcliffe power plants, generating a total of 230 GWh. Work also commenced on the construction of a 44 MW wood-burning plant in Lockerbie in southwest Scotland. When built, Lockerbie will be the United Kingdom's largest dedicated biomass plant. The start of commercial operation of the plant is planned for December 2007.

E.ON UK continues to grow a balanced portfolio of renewable power purchase agreement contracts and physical assets. E.ON UK has around 1,100 MW of wind and biomass generation at various stages of development and will continue to review and monitor other eligible technologies as they become economical. E.ON UK's offshore wind project at Scroby Sands was officially opened during March 2005, signaling E.ON UK's intention to be a lead developer of renewable technologies.

The new EU-wide emission allowance trading scheme went live on January 1, 2005. During 2005 the U.K. business bought around 4.7 million metric tons of allowances.

Sales and Adjusted EBIT

E.ON UK increased its sales in 2005 compared with the prior year primarily due to price increases in the retail business. E.ON UK delivered an adjusted EBIT of €963 million during 2005, of which €452 million was in the regulated business and €661 million in the non-regulated business.

Adjusted EBIT at the regulated business was up €6 million due to a full twelve-month contribution from Midlands Electricity, which was acquired on January 16, 2004.

Adjusted EBIT at the non-regulated business increased by €35 million. Significant increases in commodity input costs, which include the new carbon cost, were offset by higher retail prices and benefits from the integration of customer service activities of the former TXU business.

Reported performance up to quarter three 2005 was above the 2004 performance. However, results in the last quarter suffered, primarily due to high gas prices caused by cold weather, gas supply issues, and availability problems with E.ON UK's coal plant.

Adjusted EBIT recorded under Other/Consolidation was down €95 million due to lower earnings following the sale of noncore assets such as Paiton and the absence of deferred warranty income from previous asset sales. In addition, shared service costs increased as a result of acquisitions.

Investments

Investments by Business Unit

€ in millions	2005	2004	+/– %
Regulated business	320	255	+25
Non-regulated business	606	233	+160
Other/Consolidation	–	15	–
Total	**926**	**503**	**+84**

In 2005 U.K. invested €361 million in financial assets, which mainly reflects investments in the Enfield CCGT asset and Holford gas storage. Capital expenditure for intangible assets and property, plant, and equipment was €565 million, €54 million higher than the prior year, largely due to higher expenditure on U.K.'s power stations and distribution network. Capital expenditure for additions to property, plant and equipment was directed primarily at renewable generation, conventional power stations, and the regulated distribution business.

Outlook

The 2006 adjusted EBIT of the U.K. market unit is expected to be significantly higher than the 2005 level. Significant features next year include the full-year impact of increased retail prices and increased value from E.ON UK's generation fleet partially offset by higher commodity costs.

Financial Highlights by Business Unit

	Regulated Business		Non-regulated Business		Other/ Consolidation		U.K.	
€ in millions	2005	2004	2005	2004	2005	2004	2005	2004
Sales	813	941	9,553	7,788	–190	–239	10,176	8,490
Adjusted EBITDA	604	594	1,081	1,036	–135	–38	1,550	1,592
Adjusted EBIT	452	446	661	626	–150	–55	963	1,017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Nordic Market Unit

- Adjusted EBIT up 15 percent
- Sydkraft rebranded to E.ON Sverige
- Adjusted EBIT for 2006 expected to be below the strong 2005 figure

Nordic			
€ in millions	2005	2004	+/– %
Sales	3,471	3,347	+4
thereof energy tax	402	395	+2
Adjusted EBITDA	1,193	1,121	+6
Adjusted EBIT	806	701	+15
ROCE (in %)	11,4	9.6	+1.8[1]
Cost of capital (in %)	9.0	9,0	–
Value added	170	44	+286
Cash provided by operating activities	746	957	–22
Investments	538	740	–27
Employees (at year end)	5,801	5,530	+5

[1]Change in percentage points.

Year in Review

In early 2005 a storm did severe damage to the electric distribution system in parts of southern Sweden. Some 250,000 E.ON customers were left without electricity. In some areas it took more than six weeks to restore service. The direct and indirect effects were significant and affected large parts of E.ON Sverige's operations. The associated costs of around €140 million are extraordinary in nature and therefore not included in adjusted EBIT.

Pursuant to a decision by the Swedish government, E.ON Sverige permanently withdrew Barsebäck 2 nuclear power plant on May 31, 2005. E.ON Sverige was compensated for the loss of power production with additional attributable generation capacity at Ringhals nuclear power station.

Sydkraft was rebranded to E.ON Sverige in September 2005. The company's objective was to achieve 10 percent unaided awareness within one year. Surveys taken in December 2005 indicate that the new brand has already achieved unaided awareness of 20 percent among the Swedish public.

In early October 2005, Norway's Statkraft, E.ON Sverige's minority shareholder, took ownership of 24 hydroelectric plants pursuant to an agreement between the two companies signed in July 2005. Twenty of the plants are in Sweden and four in Finland. Most are relatively small facilities. Together, they produce about 1.6 billion kWh of electricity during a typical year.

E.ON Nordic is currently studying a number of options for expanding its natural gas business in central Sweden.

Power Sales

Power Sales			
Billion kWh	2005	2004	+/– %
Residential	8.5	9.1	–7
Commercial	13.8	14.5	–5
Sales partners/Nord Pool	26.2	25.9	+1
Total	**48.5**	**49.5**	**–2**

E.ON Nordic sold 1.0 billion kWh less electricity than in 2004. The decrease was mainly a consequence of lower sales to residential and commercial customers, primarily as a result of the January storm and continued keen competition. The decrease was partially offset by increased hydroelectric production, resulting in higher sales on the Nord Pool energy exchange. E.ON Nordic sold 95 percent of its power in Sweden and 5 percent in Finland.

Power Generation and Procurement

Power Generation and Procuremet			
Billion kWh	2005	2004	+/– %
Owned generation	34.3	33.1	+4
Purchases	16.3	18.4	–11
from jointly owned power plants	10.4	11.0	–5
from outside sources	5.9	7.4	–20
Power procured	**50.6**	**51.5**	**–2**
Plant use, line loss, pumped-storage hydro	–2.1	–2.0	–
Power sales	**48.5**	**49.5**	**–2**

Attributable Generation Capacity		
Megawatts	Dec. 31, 2005	Dec. 31, 2004
Nuclear	2.608	2.590
Hydro	2.771	3.127
Oil and other	2.215	2.254
Total	**7.594**	**7.971**

E.ON Nordic covered more than 70 percent of its electricity sales with power from its own generation assets. Nordic's owned generation increased by 1.2 billion kWh relative to the prior year. Higher reservoir levels at the start of the year along with higher inflow, especially during the summer months, resulted in higher hydroelectric generation. Nuclear power production declined compared with 2004, which was characterized by very high availability.

Gas and Heat Sales			
Billion kWh	2005	2004	+/- %
Gas sales	7.0	7.1	-1
Heat sales	10.1	10.1	-

Gas and heat sales were on par with the previous year.

Sales and Adjusted EBIT

Nordic's sales increased 4 percent year-on-year thanks to higher average sales prices.

Nordic's adjusted EBIT surpassed the high prior-year figure by 15 percent. The improvement was primarily a result of increased hydroelectric production and successful hedging activities, which enabled Nordic to secure higher effective sales value for its production portfolio. Nordic's adjusted EBIT from its gas operations improved due to a favorable spread between gas oil and fuel oil prices. Nordic's Finnish business unit reported a slightly higher adjusted EBIT.

Investments

Investments by Business Unit			
€ in millions	2005	2004	+/- %
Sweden	504	701	-28
Finland	34	39	-13
Nordic	**538**	**740**	**-27**

E.ON Nordic invested €407 million (2004: €350 million) in intangible assets and property, plant, and equipment, in particular to maintain existing production plants and to upgrade and extend its distribution network. Investments in financial assets totaled €131 million compared with €390 million in 2004, which included €307 million for the acquisition of the remaining shares in Graninge.

Outlook

We anticipate that Nordic's adjusted EBIT for 2006 will be below the strong figure posted in 2005. Earnings development will be affected by significantly higher nuclear and hydro taxes and by the absence of earnings streams from the hydroelectric plants sold to Statkraft. These effects will be partially counteracted by higher electricity prices.

Financial Highlights by Business Unit						
	Sweden		Finland		Nordic	
€ in millions	2005	2004	2005	2004	2005	2004
Sales[1]	2,821	2,714	248	238	3,069	2,952
Adjusted EBITDA	1,114	1,045	79	76	1,193	1,121
Adjusted EBIT	765	662	41	39	806	701

[1]Excludes energy taxes.

U.S. Midwest Market Unit

- Adjusted EBIT up year-on-year
- Disposal of WKE and LPI initiated
- 2006 adjusted EBIT expected to be at prior-year level

U.S. Midwest			
€ in millions	2005	2004	+/– %
Sales	2,045	1,718	+19
Adjusted EBITDA	560	539	+4
Adjusted EBIT	365	354	+3
ROCE (in %)	5.5	5.5	–
Cost of capital (in %)	8.0	8.0	–
Value added	–166	–161	–
Cash provided by operating activities	214	152	+41
Investments	227	247	–8
Employees (at year end)	3,002	2,997	–

Disposal of WKE and LPI Initiated

U.S. Midwest is in the process of disposing of various investments.

Western Kentucky Energy Corp. ("WKE") operates the generating facilities of Big Rivers Electric Corporation ("BREC"), a power generation cooperative in western Kentucky, and a coal-fired facility owned by the city of Henderson, Kentucky, under a 25-year lease. In November 2005, E.ON U.S. entered into a letter of intent with BREC regarding a proposed transaction to terminate the lease and operational agreements between the parties and other related matters. The parties are in the process of negotiating definitive documents regarding the transaction, the closing of which would be subject to review and approval by various regulatory agencies and other interested parties. Subject to such contingencies, the parties are working to complete the proposed termination transaction by the end of 2006. WKE's results are recorded under discontinued operations in E.ON's Consolidated Financial Statements.

LPI is engaged in negotiations to sell its remaining 50 percent interest in a coal-fired facility near Roanoke Rapids, North Carolina.

Sales by Customer Segment			
Billion kWh	2005	2004	+/– %
Retail customers	33.3	31.9	+4
Off-system-sales	4.4	4.2	+5
Power sales	**37.7**	**36.1**	**+4**
Retail customers	13.8	14.3	–3
Off-system-sales	0.8	0.4	+100
Gas sales	**14.6**	**14.7**	**–1**

Power and Gas Sales

Regulated utility retail power sales volumes were higher in 2005 than in 2004 due to warmer summer and fall weather. The average retail price for electricity in 2005 was $51.60 per MWh versus $46.38 per MWh in 2004. Off-system sales volumes were higher compared with 2004 due to higher market prices. The average off-system sales price achieved in 2005 was $45.35 per MWh compared with $36.95 per MWh in 2004. Retail natural gas sales volumes declined due largely to milder winter weather compared with 2004 and the impact of higher prices on retail demand. Off-system sales of natural gas increased due to lower retail sales.

Power and Generation Procurement

Power and Generation Procurement			
Billion kWh	2005	2004	+/– %
Proprietary generation	35.6	34.4	+3
Purchases	5.1	4.7	+9
Power procured	**40.7**	**39.1**	**+4**
Plant use, line loss, other	–3.0	–3.0	–
Power sales	**37.7**	**36.1**	**+4**

Sources of Owned Generation		
Percentages	2005	2004
Coal	97	99
Natural gas, hydro, wind, oil, and other	3	1

Attributable Generation Capacity

Attributable Generation Capacity			
Megawatts	Dec. 31, 2005	Dec. 31, 2004	+/– %
Coal	5,294	5,294	–
Natural gas	2,186	2,186	–
Oil and hydro	130	130	–
Regulated business	**7,610**	**7,610**	**–**
Non-regulated business	**105**	**380**	**–72**
U.S. Midwest	**7,715**	**7,990**	**–3**

Coal-fired power plants accounted for 97 percent of U.S. Midwest's owned generation in 2005, while gas-fired, hydro, and other generating assets accounted for the remaining 3 percent. U.S. Midwest's generation portfolio decreased from 7,990 MW at year end 2004 to 7,715 MW at year end 2005 due to the sale of the Gregory partnership in the non-regulated business.

Financial Highlights by Business Unit						
	Regulated Business		Non-regulated Business/ Other		U.S. Midwest	
€ in millions	2005	2004	2005	2004	2005	2004
Sales	1,965	1,643	80	75	2,045	1,718
Adjusted EBITDA	543	520	17	19	560	539
Adjusted EBIT	351	339	14	15	365	354

U.S. Midwest's sales increased by 19 percent. The main drivers were higher off-system revenues due to higher prices and volumes, the increase in retail electric and gas rates effective July 1, 2004, as approved by the Kentucky Public Service Commission, and higher retail electric volumes resulting from warmer summer and fall weather.

U.S. Midwest's adjusted EBIT improved by 3 percent. The main factors in the regulated business were the increased retail electric and gas rates, higher retail electric volumes, and a higher contribution from off-system sales due to higher prices and volumes in the off-system electric market. These were partially offset by costs associated with participation in the Midwest Independent Transmission System Operator, higher depreciation on newly installed assets, and higher operating expenses. Adjusted EBIT at the non-regulated operations was on par with the prior year.

Investments

Investments			
€ in millions	2005	2004	+/– %
Regulated business	221	242	–9
Non-regulated business	6	5	+20
U.S. Midwest	**227**	**247**	**–8**

Investments at U.S. Midwest were slightly lower year-on-year, primarily due to decreased spending on pollution control equipment.

Outlook

E.ON U.S. expects 2006 adjusted EBIT to be on par with 2005.


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ruhrgas


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Bayern


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We have audited the Consolidated Financial Statements prepared by E.ON AG, Düsseldorf, Germany, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the Consolidated Financial Statements, together with the Group management report, which is combined with the management report of E.ON AG for the fiscal year from January 1, 2005, to December 31, 2005. The preparation of the Consolidated Financial Statements in accordance with Accounting Principles Generally Accepted in the United States (U.S. GAAP) and the combined management report in accordance with German commercial law are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the Consolidated Financial Statements and the combined management report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, results of operations and cash flows in the Consolidated Financial Statements in accordance with U.S. GAAP and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with the U.S. GAAP and give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

In addition, we confirm that the Consolidated Financial Statements for the fiscal year from January 1, 2005, to December 31, 2005, satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements in accordance with IFRS, as adopted by the EU.

Düsseldorf, March 2, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Vogelpoth
Wirtschaftsprüfer
(German Public Auditor)

Laue
Wirtschaftsprüfer
(German Public Auditor)

E.ON AG and Subsidiaries Consolidated Statements of Income

€ in millions	Note	2005	2004
Sales	(32)	**56,399**	**46,742**
Electricity and petroleum tax		–4,545	–4,358
Sales, net of electricity and petroleum tax		**51,854**	**42,384**
Cost of goods sold and services provided	(5)	–40,787	–31,441
Gross profit on sales		**11,067**	**10,943**
Selling expenses		–3,852	–4,235
General and administrative expenses		–1,528	–1,350
Other operating income	(6)	7,569	6,115
Other operating expenses	(6)	–5,874	–4,754
Financial earnings	(7)	–174	–364
Income/Loss from continuing operations before income taxes and minority interests		**7,208**	**6,355**
Income taxes	(8)	–2,276	–1,850
Minority interests	(9)	–553	–478
Income/Loss from continuing operations		**4,379**	**4,027**
Income/Loss from discontinued operations, net	(4)	3,035	312
Cumulative effect of changes in accounting principles, net		–7	–
Net income		**7,407**	**4,339**
Earnings per share in €—basic and diluted	(12)		
from continuing operations		6.64	6.13
from discontinued operations		4.61	0.48
from cumulative effect of changes in accounting principles, net		–0.01	–
from net income		**11.24**	**6.61**

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	Note	December 31, 2005	2004
Assets			
Goodwill	(13 a)	15,363	14,454
Intangible assets	(13 a)	4,125	3,788
Property, plant and equipment	(13 b)	41,323	43,563
Financial assets	(13 c)	21,686	17,263
Fixed assets		**82,497**	**79,068**
Inventories	(14)	2,457	2,647
Financial receivables and other financial assets	(15)	2,019	2,124
Operating receivables and other operating assets	(15)	21,354	15,759
Assets of disposal groups	(4)	681	553
Liquid funds (thereof cash and cash equivalents < 3 months 2005: 4,413; 2004: 4,176)	(16)	15,119	12,016
Non-fixed assets		**41,630**	**33,099**
Deferred taxes	(8)	2,079	1,551
Prepaid expenses	(17)	356	344
Total assets (thereof short-term 2005: 32,648; 2004: 25,839)		**126,562**	**114,062**

E.ON AG and Subsidiaries Consolidated Balance Sheets

€ in millions	Note	December 31, 2005	2004
Stockholders' equity and liabilities			
Capital stock	(18)	1,799	1,799
Additional paid-in capital	(19)	11,749	11,746
Retained earnings	(20)	25,861	20,003
Accumulated other comprehensive income	(21)	5,331	268
Treasury stock	(18)	-256	-256
Stockholders' equity		**44,484**	**33,560**
Minority interests	(22)	**4,734**	**4,144**
Provisions for pensions	(23)	8,720	8,589
Other provisions	(24)	25,142	25,653
Accrued liabilities		**33,862**	**34,242**
Financial liabilities	(25)	14,362	20,301
Operating liabilities	(25)	19,052	14,054
Liabilities		**33,414**	**34,355**
Liabilities of disposal groups	(4)	831	54
Deferred tax liabilities	(8)	8,420	6,605
Deferred income	(17)	817	1,102
Total liabilities (thereof short-term 2005: 25,093; 2004: 23,734)		**82,078**	**80,502**
Total stockholders' equity and liabilities		**126,562**	**114,062**

E.ON AG and Subsidiaries Consolidated Statements of Cash Flows

€ in millions	2005	2004
Net income	7,407	4,339
Income applicable to minority interests	553	478
Adjustments to reconcile net income to net cash provided by operating activities		
Income from discontinued operations	–3,035	–312
Depreciation, amortization, impairment	3,068	3,051
Changes in provisions	–367	–574
Changes in deferred taxes	395	58
Other non-cash income and expenses	–310	25
Gain/Loss (–) on disposal:		
equity investments	–44	–397
other financial assets	–3	–34
intangible assets and property, plant and equipment	–36	–31
Changes in non-fixed assets and other operating liabilities		
inventories	–283	–285
trade receivables	–1,505	–210
other operating receivables	–3,851	–2
trade payables	1,386	–113
other operating liabilities	3,226	–153
Cash provided by operating activities	**6,601**	**5,840**
Proceeds from disposal of		
equity investments	6,093	1,619
other financial assets	305	719
intangible and fixed assets	201	268
Purchase of		
equity investments	–985	–2,203
other financial assets	–362	–294
intangible assets and property, plant and equipment	–2,990	–2,612
Changes in securities (other than trading) (> 3 months)	–479	–385
Changes in financial receivables	–1,384	2,506
Cash provided by (used for) investing activities	**399**	**–382**
Payments received/made from changes in capital including minority interests	–26	3
Payments received/made for treasury stock, net	–33	–
Payment of cash dividends to		
stockholders of E.ON AG	–1,549	–1,312
minority stockholders	–245	–286
Payments for financial liabilities	3,022	3,522
Repayments of financial liabilities	–7,634	–6,693
Cash used for financing activities	**–6,465**	**–4,766**
Net increase in cash and cash equivalents (< 3 months)	**535**	**692**
Effect of foreign exchange rates on cash and cash equivalents (< 3 months)	77	–60
Cash and cash equivalents (< 3 months) at the beginning of the period	4,176	3,321
Cash and cash equivalents (< 3 months) from discontinued operations at the beginning of the period	–375	–152
Cash and cash equivalents (< 3 months) from continuing operations at the end of the period	**4,413**	**3,801**
Available-for-sale securities (> 3 months) from continued operations at the end of the period	10,706	7,791
Available-for-sale securities (> 3 months) from discontinued operations at the end of the period	–	49
Cash and cash equivalents (< 3 months) from discontinued operations at the end of the period	–	375
Liquid funds as shown on the balance sheet	**15,119**	**12,016**

Consolidated Statements of Changes in Stockholders' Equity

€ in millions	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Currency translation adjustments	Accumulated other comprehensive income: Available-for-sale securities	Accumulated other comprehensive income: Minimum pension liability	Accumulated other comprehensive income: Cash flow hedges	Treasury stock	Total
Balance as of January 1, 2004	**1,799**	**11,564**	**16,976**	**–1,021**	**1,184**	**–492**	**20**	**–256**	**29,774**
Shares reacquired/sold		182							182
Dividends paid			–1,312						–1,312
Net income			4,339						4,339
Other comprehensive income				125	994	–598	56		577
Total comprehensive income									**4,916**
Balance as of December 31, 2004	**1,799**	**11,746**	**20,003**	**–896**	**2,178**	**–1,090**	**76**	**–256**	**33,560**
Shares reacquired/sold		3							3
Dividends paid			–1,549						–1,549
Net income			7,407						7,407
Other comprehensive income				620	4,698	–312	57		5,063
Total comprehensive income									**12,470**
Balance as of December 31, 2005	**1,799**	**11,749**	**25,861**	**–276**	**6,876**	**–1,402**	**133**	**–256**	**44,484**

(1) Basis of Presentation

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

The E.ON Group is an internationally active group of energy companies with integrated electricity and gas operations based in Germany. Effective January 1, 2004, the Group has been organized around five defined target markets:

- The Central Europe market unit, led by E.ON Energie AG ("E.ON Energie"), Munich, Germany, operates E.ON's integrated electricity business and the downstream gas business in Central Europe.
- Pan-European Gas is responsible for the upstream and midstream gas business. Moreover, this market unit holds predominantly minority interests in companies of the downstream gas business. This market unit is led by E.ON Ruhrgas AG ("E.ON Ruhrgas"), Essen, Germany.
- The U.K. market unit encompasses the integrated energy business in the United Kingdom. This market unit is led by E.ON UK plc ("E.ON UK"), Coventry, U.K.
- The Nordic market unit, which is led by E.ON Nordic AB ("E.ON Nordic"), Malmö, Sweden, focuses on the integrated energy business in Northern Europe. It operates through the integrated energy company E.ON Sverige AB ("E.ON Sverige"), Malmö, Sweden, (formerly: Sydkraft AB) and through E.ON Finland Oyj ("E.ON Finland"), Espoo, Finland, primarily in Sweden and Finland. For additional information about E.ON Finland, please see Note 34.
- The U.S. Midwest market unit, led by E.ON U.S. LLC ("E.ON U.S."), Louisville, Kentucky, U.S., (formerly: LG&E Energy LLC) is primarily active in the regulated energy market in the U.S. state of Kentucky.

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

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

The other activities of the E.ON Group include the activities of Degussa AG ("Degussa"), Düsseldorf, Germany, which is accounted for at equity. In addition, the 2004 balance sheet data reported by segment still include Viterra AG ("Viterra"), Essen, Germany, as part of other activities in 2004.

Note 32 provides additional information about the market units.

Pursuant to Article 57 Sentence 1 No. 2 of the Introductory Law to the German Commercial Code ("EGHGB"), E.ON is exempted from the requirement to prepare consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS") and a management report in accordance with Article 315a of the German Commercial Code ("HGB") for the 2005 fiscal year. E.ON is preparing consolidated financial statements and a management report in accordance with internationally accepted accounting standards (U.S. GAAP), as provided for by Article 292a HGB, in combination with Article 58 (5) Sentence 2 EGHGB. For an assessment of the conformity of U.S. GAAP regulations with the Fourth and Seventh EU Accounting Directives, E.ON refers to German Accounting Standard ("DRS") No. 1, "Exempting Consolidated Financial Statements in accordance with Article 292a HGB," and DRS No. 1a, "Exempting Consolidated Financial Statements in accordance with Article 292a HGB—U.S. GAAP Consolidated Financial Statements: Goodwill and Other Intangible Assets," as well as to the transitional regulations of German Accounting Amendment Standard ("DRÄS") No. 2, Article 2. A description of the significant differences between German GAAP as regulated in the German Commercial Code ("HGB accounting") and U.S. GAAP is provided in Note 2(b).

(2) Summary of Significant Accounting Policies and Significant Differences between U.S. GAAP and German GAAP as regulated in the German Commercial Code ("HGB Accounting")

a) Summary of Significant Accounting Policies

Principles of Consolidation

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

- Majority-owned subsidiaries in which E.ON directly or indirectly exercises control through a majority of the stockholders' voting rights ("affiliated companies") are fully consolidated. Furthermore, Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"), requires E.ON to consolidate so-called variable interest entities in which it is the primary beneficiary for economic purposes, even if it does not have a controlling interest.
- Majority-owned companies in which E.ON does not exercise management control due to restrictions in the control of assets and management ("unconsolidated affiliates") are generally accounted for under the equity method. Companies in which E.ON has the ability to exercise significant influence in the investees' operations ("associated companies") are also accounted for under the equity method. These are mainly companies in which E.ON holds an interest of between 20 and 50 percent.
- All other share investments are accounted for under the cost method or, if they are marketable, at fair value.

A list of all E.ON stockholdings and other interests is filed in the Commercial Register of the Düsseldorf District Court, HRB 22315.

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

Business Combinations

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

Foreign Currency Translation

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

The assets and liabilities of the Company's foreign subsidiaries with a functional currency other than the euro are translated using year-end exchange rates, while the statements of income are translated using annual-average exchange rates. Significant transactions of foreign subsidiaries occurring during the fiscal year are included in the financial statements using the exchange rate at the date of the transaction. Differences arising from the translation of assets and liabilities, as well as gains or losses in comparison with the translation of prior years, are included as a separate component of stockholders' equity and accordingly have no effect on net income.

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

Currencies

	ISO code	€1, rate as of December 31, 2005	€1, rate as of December 31, 2004	€1, annual average rate 2005	€1, annual average rate 2004
British pound	GBP	0.69	0.71	0.68	0.68
Norwegian krone	NOK	7.99	8.24	8.01	8.37
Swedish krona	SEK	9.39	9.02	9.28	9.12
U.S. dollar	USD	1.18	1.36	1.24	1.24

[1] The countries within the European Monetary Union are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain.

Revenue Recognition

The Company generally recognizes revenue upon delivery of products to customers or upon fulfillment of services. Delivery has occurred when the risks and rewards associated with ownership have been transferred to the buyer, compensation has been contractually established and collection of the resulting receivable is probable. The following is a description of E.ON's major revenue recognition policies in the various segments.

Core Energy Business

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

Revenue from the sale of electricity and gas to industrial and commercial customers and to retail customers is recognized when earned on the basis of a contractual arrangement with the customer; it reflects the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and year-end.

Gains and losses on derivative financial instruments used for proprietary trading are presented net in the Consolidated Statement of Income.

Other Activities

Sales at Viterra, which is focused on the business of residential real estate and on the growing business of real estate development, are recognized net of discounts, sales incentives, customer bonuses and rebates granted when risk is transferred, remuneration is contractually fixed or determinable and satisfaction of the associated claims is probable. Viterra also performs services under long-term contractual commitments (in particular property leases and service contracts); revenue from such sales is recognized according to the terms of the contracts or at the point when the relevant services have been rendered. Due to the sale of Viterra and its consequent classification as a discontinued operation, the net income from operations of Viterra and the gains from the sale are both reported under "Income/Loss from discontinued operations, net" in the accompanying Consolidated Statements of Income, with the prior-year figures adjusted accordingly. Please see Note 4 for further details.

Electricity Tax

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

Petroleum Tax

The petroleum tax in Germany also includes the natural gas tax. This tax becomes due at the time of procurement or removal of the natural gas from storage facilities. The tax is calculated on the basis of the specified quantities of natural gas.

Cost of Goods Sold and Services Provided

Cost of goods sold and services provided primarily includes the cost of generation, procured electricity and gas, the cost of raw materials and supplies used to produce energy, depreciation of the equipment used to generate, store and transfer electricity and gas, personnel costs directly related to the generation and supply of energy, as well as costs incurred in the purchase of production-related services.

Selling Expenses

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

Administrative Expenses

Administrative expenses primarily include the personnel costs for those employees not connected with production and sales, as well as the depreciation of administration buildings.

Accounting for Sales of Stock of Subsidiaries or Associated Companies

If a subsidiary or associated company sells its stock to a third party, leading to a reduction in E.ON's ownership share of the relevant company ("dilution"), in accordance with "SEC Staff Accounting Bulletin" ("SAB") 51, "Accounting for Sales of Stock of a Subsidiary" ("SAB 51"), gains and losses from these dilutive transactions are included in the income statement under other operating income or expenses.

Advertising Costs

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

Research and Development Costs

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

Earnings per Share

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

Goodwill and Other Intangible Assets

Goodwill

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

The testing of goodwill for impairment involves two steps:

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

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

Intangible Assets Not Subject to Amortization

SFAS 142 also requires that intangible assets other than goodwill be amortized over their useful lives unless their lives are considered to be indefinite. Any intangible asset that is not subject to amortization must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

This impairment test for intangible assets with indefinite lives consists of a comparison of the fair value of the asset with its carrying value. Should the carrying value exceed the fair value, an impairment loss equal to the difference is recognized in other operating expenses.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are classified into marketing-related, customer-related, contract-based and technology-based, all of which are valued at cost and amortized using the straight-line method over their expected useful lives, generally for a period between 5 and 25 years or between 3 and 5 years for software, respectively.

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

Expenditures for natural gas exploration and development by the companies active in the oil and gas sectors are accounted for under the successful efforts method according to SFAS 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies" ("SFAS 19"). Under this method, the costs of exploratory drilling (both productive wells and dry holes) are initially capitalized as an intangible asset. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to tangible production assets. Both tangible and intangible assets are capitalized and amortized on the unit of production basis. All exploration expenditure determined to be unsuccessful is charged against income. Other capitalized costs are also written down once it has been established that no viable reserves can be determined. Other expenses for geological and geophysical work (seismology) and license acquisition costs are immediately charged against income.

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

Please see Note 13(a) for additional information about goodwill and intangible assets.

Property, Plant and Equipment

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

Useful Lives of Property, Plant and Equipment

Buildings	10 to 50 years
Power plants	
Conventional components	10 to 60 years
Nuclear components	up to 25 years
Hydro power plants and other facilities used to generate renewable energy	10 to 50 years
Equipment, fixtures, furniture and office equipment	3 to 25 years
Technical equipment for storage, distribution and transmission	15 to 65 years

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized in accordance with SFAS 144 when such a long-lived asset's carrying amount exceeds its fair value. In such cases, the carrying value of such an impaired asset is written down to its fair value. If necessary, the remaining useful life of the asset is correspondingly revised.

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

Repair and maintenance costs are expensed as incurred.

Leasing

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

Leasing transactions in which E.ON is the lessee are differentiated into capital leases and operating leases. In a capital lease, the Company receives the economic benefit of the leased property and recognizes the asset and associated liability on its balance sheet. All other transactions in which E.ON is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

Leasing transactions in which E.ON is the lessor and the lessee enjoys substantially all the benefits and bears the risks of the leased property are classified as sales-type leases or direct financing leases. In these two types of leases, E.ON records the present value of the minimum lease payments as a receivable. The lessee's payments to E.ON are allocated between a reduction of the lease obligation and interest income. All other transactions in which E.ON is the lessor are categorized as operating leases. E.ON records the leased property as an asset and the scheduled lease payments as income.

Financial Assets

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

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

The residual value of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in net interest income. Realized gains and losses on such securities are respectively included in "Other operating income" and "Other operating expenses." Other share investments that are non-marketable are accounted for at acquisition cost.

Inventories

The Company values inventories at the lower of acquisition or production cost or market value. Raw materials, products and goods purchased for resale are primarily valued at average cost. Gas inventories are generally valued at LIFO. The specific identification method is primarily used for real estate inventories. In addition to production materials and wages, production costs include material and production overheads based on normal capacity. Interest on borrowings is capitalized if the production activities are performed over an extended period ("qualifying assets"). The costs of general administration, voluntary social benefits and pensions are not capitalized. Inventory risks resulting from excess and obsolescence are provided for by appropriate valuation allowances.

Receivables and Other Assets

Receivables and other assets are recorded at their nominal values. Valuation allowances are provided for identified individual risks for these line items, as well as for long-term loans. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

Emission Rights

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

As part of operating activities, emission rights are also held for proprietary trading purposes. Emission rights held for proprietary trading are reported under other assets.

Discontinued Operations and Assets Held for Sale

Discontinued operations are those operations of a reportable or operating segment, or of a component thereof, that either have been disposed of or are classified as held for sale. Assets and liabilities attributable to a component must be clearly distinguishable from the other consolidated entities in terms of their operations and cash flows. In addition, the reporting entity must not have any significant continuing involvement in the operations classified as a discontinued operation.

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

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

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

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

Liquid Funds

Liquid funds include certain available-for-sale securities, checks, cash on hand and bank balances. E.ON considers liquid funds with an original maturity of three months or less to be cash equivalents.

Stock-Based Compensation

Stock-based compensation plans are accounted for on the basis of their intrinsic values, as provided for in SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), in combination with FIN 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FIN 28"). The corresponding expense is recognized in the income statement.

U.S. Regulatory Assets and Liabilities

Accounting for E.ON's regulated utility businesses, Louisville Gas and Electric Company, Louisville, Kentucky, U.S., and Kentucky Utilities Company, Lexington, Kentucky, U.S., of the U.S. Midwest market unit, conforms with U.S. generally accepted principles as applied to regulated public utilities in the United States of America. These entities are subject to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), under which costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery of such costs from customers in future rates approved by the relevant regulator. Likewise, certain credits that would otherwise be reflected as income are deferred as regulatory provisions. The current or expected recovery by the entities of deferred costs and the expected return of deferred credits is generally based on specific ratemaking decisions or precedent for each item.

The U.S. Midwest market unit currently receives interest on all regulatory assets except for certain assets that have separate rate mechanisms providing for recovery within twelve months. Additionally, no interest is earned on the asset retirement obligation ("ARO") regulatory asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired.

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

Provisions for Pensions

The valuation of pension liabilities is based on actuarial computations using the projected unit credit method in accordance with SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). The interpretation of the Emerging Issues Task Force ("EITF") Issue 03-4, "Determining the Classification and Benefit Attribution Method for a 'Cash Balance' Pension Plan" ("EITF 03-4"), has been adopted for pension plans of the type described therein. The expanded disclosure requirements outlined in SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132R"), were followed by E.ON for all domestic and foreign pension plans.

Other Provisions and Liabilities

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

SFAS 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), requires that the fair value of a liability arising from the retirement or disposal of an asset be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. When the liability is recorded, the Company must capitalize the costs of the liability by increasing the carrying amount of the long-lived asset. In subsequent periods, the liability is accreted to its present value and the carrying amount of the asset is depreciated over its useful life. Provisions for nuclear decommissioning costs are based on external studies and are continuously updated. Other provisions for the retirement or decommissioning of property, plant and equipment are based on estimates of the amount needed to fulfill the obligations.

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

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

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), requires the guarantor to recognize a liability for the fair value of an obligation assumed under certain guarantees. It also expands the scope of the disclosures made concerning such guarantees. Note 26 contains additional information on significant guarantees that have been entered into by E.ON.

Deferred Taxes

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

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

Note 8 shows the major temporary differences so recorded.

Derivative Instruments and Hedging Activities

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

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

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

SFAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing retrospective and prospective assessments of effectiveness in order to qualify for hedge accounting. The Company does not exclude any component of derivative gains and losses from the assessment of hedge effectiveness. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80 to 125 percent effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

For qualifying fair value hedges, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s) are recorded in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's gain or loss is reported in stockholders' equity (as a component of accumulated other comprehensive income) and is reclassified into earnings in the period or periods during which the transaction being hedged affects earnings. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recorded in current earnings. To hedge the foreign currency risk arising from the Company's net investment in foreign operations, derivative as well as non-derivative financial instruments are used. Gains or losses due to changes in fair value and from foreign-currency translation are recorded in the cumulative translation adjustment within stockholders' equity as a currency translation adjustment in accumulated other comprehensive income.

Fair values of derivative instruments are classified as operating assets or liabilities. Changes in fair value of derivative instruments affecting income are classified as other operating income or expenses. Realized gains and losses of derivative instruments relating to sales of the Company's products are principally recognized in sales or cost of goods sold. Gains and losses from interest-rate derivatives are displayed within interest income.

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

Please see Note 29 for additional information regarding the Company's use of derivative instruments.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows is classified by operating, investing and financing activities pursuant to SFAS No. 95, "Statement of Cash Flows" ("SFAS 95"). Cash flows from and to discontinued operations are not included in the Consolidated Statement of Cash Flows, and prior-year figures are adjusted accordingly. The separate line item, "Other non-cash income and expenses," mainly comprises undistributed income from companies accounted for at equity. Effects of changes in the scope of consolidation are shown in investing activities, but have been eliminated from operating and financing activities. This also applies to valuation changes due to exchange rate fluctuations, whose impact on cash and cash equivalents is separately disclosed.

Segment Information

The Company's segment reporting is prepared in accordance with SFAS 131. The management approach required by SFAS 131 designates that the internal reporting organization that is used by management for making operating decisions and assessing performance should be used as the source for presenting the Company's reportable segments (see Note 32).

Use of Estimates

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

Reclassifications

Certain reclassifications to the prior year's presentation are made to conform with the current-year presentation.

New Accounting Pronouncements

In December 2004, the FASB published a revised version of SFAS 123, "Share-Based Payment" ("SFAS 123R"). For E.ON, this means that in the future, obligations resulting from the Company's stock-based employee compensation program will have to be reported at their fair value, rather than on the basis of the previously applicable intrinsic value. The corresponding expenses are recognized unchanged in the income statement. A new SEC regulation caused the initial adoption of SFAS 123R to be postponed to fiscal years beginning after June 15, 2005.

In May 2005, the FASB published SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"), a new standard for reporting voluntary changes in accounting principles, accounting changes mandated by accounting pronouncements that do not specify transition provisions and corrections of accounting errors. According to this standard, accounting changes shall henceforth be retrospective, meaning that all prior-year financial statements have to be adjusted unless such adjustment is impracticable. Changes in depreciation, amortization or depletion method for long-lived, nonfinancial assets, however, shall be accounted for prospectively. The application of the standard is mandatory for fiscal years beginning after December 15, 2005.

No significant effects on E.ON's assets, financial condition and results are expected to result from the initial adoption of these two standards.

In February 2006, the FASB published SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). This standard permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 also clarifies the treatment of embedded derivatives in connection with certain securitized financial assets and with respect to the concentration of credit risks. In addition, it lifts the restrictions on the use of derivative financial instruments in connection with special-purpose entities that had been provided for in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). The adoption of SFAS 155 is mandatory for fiscal years that begin after September 15, 2006.

E.ON is currently evaluating the effects arising from the adoption of SFAS 155.

b) Significant Differences between U.S. GAAP and German GAAP as regulated in the German Commercial Code ("HGB Accounting")

Business Combinations

Under U.S. GAAP, the measurement date for the consolidation of an acquired entity is the date of its registration in the Commercial Register. Assets acquired and liabilities assumed are accounted for at their fair values under the purchase method. HGB accounting requires that mergers and acquisitions be accounted for as of the date agreed upon in the merger contract.

Under U.S. GAAP, goodwill acquired in a business combination is no longer amortized over its useful life, but rather tested for impairment on at least an annual basis. In HGB accounting, goodwill is capitalized and periodically amortized or offset against retained earnings.

Capitalization of Interest

Under certain conditions, U.S. GAAP requires the capitalization of interest as a part of the historical cost of acquiring assets that are constructed or otherwise produced for an enterprise's own sake. HGB accounting permits, but does not require, such capitalization. Under U.S. GAAP, interest is capitalized on debt apportionable to the construction period of qualifying assets as a part of their cost of acquisition. The additional acquisition or construction cost is depreciated over the related asset's expected useful life.

Disposal Expenses

Under U.S. GAAP, for certain estimated costs resulting from the decommissioning or disposal of property, plant and equipment, an accrual and a corresponding increase in acquisition or production costs is to be provided and amortized over the asset's remaining useful life. In HGB accounting, such expenses do not increase the acquisition and production costs of the corresponding assets.

Securities and Other Investments

Under U.S. GAAP, marketable securities and other share investments are classified into one of three categories: held-to-maturity securities, available-for-sale securities or trading securities. The Company's securities and other investments are considered to be available for sale and thus must be valued at market value on the balance-sheet date. Under U.S. GAAP, unrealized holding gains and losses are excluded from income and reported as an adjustment to stockholders' equity. In HGB accounting, securities and other investments cannot be valued in excess of their acquisition costs at the balance-sheet date.

Equity Method/Negative Goodwill

The income of companies accounted for using the equity method has been determined using valuation principles prescribed by U.S. GAAP. To the extent that certain equity investees do not prepare consolidated U.S. GAAP financial statements, an estimate is made of the reconciling items based on information provided by the investee.

In addition to the above, under U.S. GAAP, any remaining negative goodwill is realized as income. Negative goodwill from consolidation must be released in HGB accounting when expenses or losses expected at the time the stockholding is acquired are incurred, or if it becomes apparent that the negative goodwill corresponds to a realized profit on the balance-sheet date.

Provisions for Pensions and Similar Liabilities

Due to changes of the calculation bases, the unfunded accumulated benefit obligation exceeds the accrued pension provision without further considering the increase in salaries in some group companies. In such cases, under U.S. GAAP, provisions for pensions are increased by an additional minimum liability that does not affect income due to an offsetting intangible asset as long as it does not exceed the unrecognized prior service cost. Additional minimum liability in excess of the amount of the unrecognized prior service cost is recognized with no effect on income under stockholders' equity in the amount of the projected benefit liabilities described. In HGB accounting, these provisions for pensions are immediately expensed in the income statement.

In HGB accounting, provisions are established for the estimated number of employees nearing retirement and expected to participate in the early retirement program. Under U.S. GAAP, such accruals are established only if the employee consents by entering into a binding contractual agreement over the remaining length of employment.

Guarantees

Under U.S. GAAP, certain guarantees are to be recorded as liabilities at their fair value, even if there is little likelihood of their being used. In HGB accounting, a provision is established in the amount of the reasonably expected estimated liability.

Deferred Taxes

Under U.S. GAAP, deferred taxes are provided for all temporary and quasi-permanent differences between the tax balance sheet and the Consolidated Balance Sheet (temporary concept). Under U.S. GAAP, deferred taxes also are calculated for tax loss carryforwards. A valuation allowance is established when it is more likely than not that the deferred tax assets will not be realized.

In HGB accounting, deferred taxes are calculated based on the timing concept for all timing differences between valuation amounts in the tax income statement and the Consolidated Statement of Income. For quasi-permanent differences that are released over a very long period of time or only during the course of a company's divestment or liquidation, deferred taxes may only be applied if their reversal is sufficiently likely.

Consolidation of Variable Interest Entities

In contrast with HGB accounting, under U.S. GAAP certain variable interest entities are fully consolidated, even in the absence of a stockholding interest, if the interest in such an entity results in the reporting company being the primary beneficiary.

Minority Interests

In HGB accounting, minority interests in subsidiaries are shown as part of stockholders' equity and net income.

Other

Other differences in accounting principles primarily include unrealized gains from foreign currency translation, outstanding derivative financial instruments, internally-generated intangible fixed assets, the capitalization of lease contracts, stock appreciation rights and the accounting for costs related to initial public offerings and mergers.

(3) Scope of Consolidation

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

Scope of Consolidation	Domestic	Foreign	Total
Consolidated companies as of December 31, 2004	**197**	**469**	**666**
Additions	8	49	57
Disposals/Mergers	77	139	216
Consolidated companies as of December 31, 2005	**128**	**379**	**507**

The disposals relate primarily to the sale of Viterra, which involved the disposal of 42 companies, and that of Ruhrgas Industries GmbH ("Ruhrgas Industries"), Essen, Germany, in which 53 companies were disposed of.

The variable interest entities consolidated within the E.ON Group as of December 31, 2005, are two real estate leasing companies, two jointly managed electricity generation companies and one company managing investments. Following the termination in August 2005 of all contractual relationships with one other variable interest entity for the management and disposal of real estate, which is now presented as a discontinued operation, FIN 46R no longer applies to this company.

As of December 31, 2005, the variable interest entities included in the E.ON Group had total assets of €795 million (2004: €1,109 million) and recorded earnings of €17 million (2004: €91 million) before consolidation. As of December 31, 2004, total assets of €344 million and earnings of €76 million before consolidation were reported for the variable interest entity disposed of during 2005. Fixed assets and other assets in the amount of €127 million serve as collateral for liabilities relating to financial leases and bank loans.

The recourse of creditors of the consolidated variable interest entities to the assets of the primary beneficiaries is generally limited. Two variable interest entities have no such limitation of recourse. The primary beneficiary is liable for €82 million in respect of these two entities.

In addition, the Company has had contractual relationships with another leasing company in the energy sector since July 1, 2000. The Company is not the primary beneficiary of this variable interest entity. The entity is currently in liquidation pursuant to a shareholder resolution. As of the end of the 2004 fiscal year, the entity had total assets of €120 million and recorded earnings for 2004 of €29 million. The E.ON Group's maximum exposure to loss related to its association with this variable interest entity is approximately €15 million. Neither the relationship to this entity nor its liquidation is expected to result in a realization of losses.

The extent of E.ON's interest in another variable interest entity, which has been in existence since 2001 and was expected to terminate in the fourth quarter of 2005, still cannot be assessed in accordance with the FIN 46R criteria due to insufficient information. The significant transactions between this entity and the E.ON Group took place in the fourth quarter of 2005. However, the entity's liquidation remains outstanding. The entity handled the liquidation of assets from operations that had already been sold. Originally, its total assets amounted to €127 million. The relationship with this entity is not expected to result in any significant effects on earnings.

In 2005, a total of 127 domestic and 63 foreign companies were accounted for at equity (2004: 134 domestic and 78 foreign).

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

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

The presentation of E.ON's acquisitions, disposals, discontinued operations and disposal groups in this Note is based on SFAS 141 and 144. Pursuant to SFAS 141, acquisitions are classified as either "significant" or "other." For significant transactions, additional information is provided. In 2005, no acquisition was classified as significant under these guidelines.

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

Acquisitions in 2005

Central Europe

Gorna Oryahovitza/Varna

In February 2005, E.ON Energie acquired 67 percent stakes in each of the regional utilities Elektrorazpredelenie Gorna Oryahovitza AD ("Gorna Oryahovitza"), Gorna Oryahovitza, Bulgaria, and Elektrorazpredelenie Varna AD ("Varna"), Varna, Bulgaria. The aggregate purchase price of approximately €138 million was paid in 2004 in accordance with the contract and reported under other financial receivables. Goodwill of €16 million resulted from the purchase price allocation. The companies were fully consolidated as of March 1, 2005.

ETE

In July 2005, E.ON Energie transferred its 51 percent interest (49 percent voting interest) in Gasversorgung Thüringen GmbH ("GVT"), Erfurt, Germany, and its 72.7 percent interest in Thüringer Energie AG ("TEAG"), Erfurt, Germany, to Thüringer Energie Beteiligungsgesellschaft mbH ("TEB"), Munich, Germany. Municipal shareholders also transferred interests in GVT totaling 43.9 percent to TEB. GVT was then merged into TEAG, and the merged entity was renamed E.ON Thüringer Energie AG ("ETE"), Erfurt, Germany. Following the reorganization, E.ON Energie holds an 81.5 percent interest in TEB and TEB holds a 76.8 percent interest in ETE.

The consolidation of GVT as of July 1, 2005, undertaken at an acquisition cost of €168 million, led to goodwill of €58 million as a result of the purchase price allocation. The transfer of the stake in TEAG resulted in a gain of €90 million, which is included under other operating income.

NRE

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

E.ON Moldova

In September 2005, E.ON Energie acquired a 24.6 percent stake in the regional utility Electrica Moldova S.A. ("Moldova"), Bacău, Romania—now E.ON Moldova S.A. ("E.ON Moldova")—and simultaneously increased its stake in the company to 51 percent by subscribing to a capital increase. The purchase price for the 51 percent amounted to €101 million, with no goodwill resulting from the preliminary purchase price allocation. E.ON Moldova was fully consolidated as of September 30, 2005.

Pan-European Gas

Distrigaz

Following approval by the relevant authorities, E.ON Ruhrgas purchased a 30 percent interest in the gas utility S.C. Distrigaz Nord S.A. ("Distrigaz"), Târgu Mureş, Romania, from the Romanian government for €127 million. Following a simultaneous increase in capital by €178 million in June 2005 this holding increased to 51 percent. The company was fully consolidated as of June 30, 2005. Goodwill amounting to €56 million resulted from the preliminary purchase price allocation.

Caledonia

E.ON Ruhrgas in November 2005 bought the British gas exploration company Caledonia Oil and Gas Limited ("Caledonia"), London, U.K., which has a stake in 15 gas fields in the British part of the southern North Sea. The purchase price including incidental acquisition expenses for the 100 percent interest in Caledonia amounted to €602 million and was primarily paid through the issuance of loan notes. The company was fully consolidated as of November 1, 2005. Total goodwill in the amount of €349 million resulted from the preliminary purchase price allocation. The company was subsequently renamed E.ON Ruhrgas UK North Sea Limited.

U.K.

Enfield

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

Holford

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

Disposals, Discontinued Operations and Disposal Groups in 2005

Discontinued Operations in 2005

For the 2005 fiscal year, Viterra and Ruhrgas Industries, both of which were sold during the year, are reported as discontinued operations in accordance with SFAS 144. In the U.S. Midwest market unit, Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, U.S., has also been classified as a discontinued operation. In addition, there were gains in 2005 from the discontinued operations of the Company's former aluminum segment, which had already been sold in 2002, as well as from the discontinued operations of a company in the U.S. Midwest market unit that was sold in 2003. These gains totaled €11 million before taxes (after-tax gain: €11 million). In 2004, discontinued operations in the Company's former Viterra segment and the sale of the former Oil segment resulted in an aggregate pre-tax loss of €9 million (after-tax loss: €9 million).

Pan-European Gas

Ruhrgas Industries

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

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

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

US-Midwest

WKE

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

In November 2005, E.ON U.S. entered into a letter of intent with BREC regarding a proposed transaction to terminate the lease and operational agreements among the parties and other related matters. The closing of the intended transaction is subject to the review and approval of various regulatory agencies and other interested parties. Subject to such contingencies, the parties are working towards completing the proposed transaction by the end of 2006. At the end of December 2005, WKE was classified as a discontinued operation.

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

Selected Financial Information – WKE – (Summary)		
€ in millions	2005	2004
Sales	214	195
Gain on disposal, net	–	–
Other income/expenses, net	–466	–199
Income from continuing operations before income taxes	**–252**	**–4**
Income taxes	90	2
Income from discontinued operations	**–162**	**–2**

The increase in net other expenses is largely attributable to the marking to market of certain derivative instruments, which was required as a result of the termination of the lease due to the fact that the underlying contract is no longer expected to be fulfilled.

Major Balance Sheet Line Items – WKE – (Summary)	
€ in millions	December 31, 2005
Fixed assets	212
Non-fixed assets	469
Total assets	**681**
Total liabilities	831

Other Activities

Viterra

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

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

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

Acquisitions in 2004

Significant Acquisitions in 2004

U.K.

Midlands Electricity

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

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

Major Balance Sheet Line Items – Midlands Electricity – (Summary)

€ in millions	January 16, 2004
Intangible assets	10
Goodwill	473
Property, plant and equipment	1.745
Financial assets	34
Non-fixed assets	197
Other assets	20
Total assets	**2.479**
Accrued liabilities	178
Liabilities	1.911
Other liabilities	335
Total liabilities	**2.424**
Net assets	**55**

Other Acquisitions in 2004

Central Europe

JME/JCE

In 2003, majority stakes in two Czech regional utilities, Jihomoravská energetika a.s. ("JME"), Brno, Czech Republic, and Jihočeská energetika a.s. ("JCE"), České Budějovice, Czech Republic, were acquired for a total of €207 million, and both companies were fully consolidated on October 1, 2003. In December 2004, additional interests in JME and JCE were acquired; these transactions increased the Company's respective interests in JME and JCE from 85.7 percent and 84.7 percent as of January 1, 2004, to 99 percent and 98.7 percent as of December 31, 2004. The total purchase price in 2004 amounted to €81 million.

Through the acquisition of all minority interests in 2005, E.ON's ownership interest in both companies was increased to 100 percent. The acquisition costs for the stakes acquired in 2005 amounted to €5 million. The businesses of JCE and JME were subsequently transferred to the Group companies E.ON Distribuce a.s., E.ON Česká republika a.s. and E.ON Energie a.s., all registered in České Budějovice, Czech Republic.

For the interests acquired in 2004 and 2005, no goodwill remained after purchase price allocation.

E.ON Bayern

In June 2003, a meeting of shareholders of E.ON Bayern AG ("E.ON Bayern"), Regensburg, Germany, had authorized E.ON Energie to acquire the outstanding shares of E.ON Bayern held by minority shareholders by means of a squeeze-out procedure. In 2004, the acquisition of the remaining E.ON Bayern shares resulted in acquisition costs of €189 million, of which €165 million were attributable to the transfer of E.ON AG shares. The goodwill resulting from this transaction was €148 million.

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

Pan-European Gas

Thüga

At the extraordinary general meeting of shareholders of Thüga Aktiengesellschaft ("Thüga"), Munich, Germany, held on November 28, 2003, it had been decided that E.ON AG would acquire the remaining shares held by the minority shareholders in a squeeze-out transaction. In May 2004, the squeeze-out transaction for the outstanding Thüga shares (3.4 percent) was completed and entered in the commercial register, with the result that the total E.ON Group stake in Thüga amounted to 100 percent as of December 31, 2004. The remaining 2.9 million shares were acquired at a purchase price of €223 million (including ancillary costs related to the acquisition). The purchase price allocation for these shares resulted in goodwill amounting to €106 million.

Nordic

Graninge

In the first half of 2004, E.ON Sverige increased its stake in Graninge AB ("Graninge"), Sollefteå, Sweden, from 79 percent as of January 1, 2004, to 100 percent through the acquisition of the outstanding shares in three tranches for an aggregate price of €307 million (2.82 billion SEK). The purchase price allocation relating to these shares resulted in goodwill amounting to €76 million.

In 2003, E.ON increased its stake in Graninge from the 36.3 percent held on January 1, 2003, to 79 percent as of December 31, 2003, upon receiving regulatory antitrust approval for the transaction. To comply with Swedish stock exchange regulations, such an acquisition of a majority interest required that a public takeover offer, valid until January 16, 2004, had to be submitted to the remaining minority shareholders in November 2003. As of December 31, 2004, the goodwill relating to the 100 percent interest in Graninge amounted to €233 million.

Disposals, Discontinued Operations and Disposal Groups in 2004

Disposal Groups in 2004

Nordic

Graninge

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

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

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

Major Balance Sheet Line Items – Graninge Hydroelectric Capacity Disposal Group – (Summary)

€ in millions	December 31, 2004
Fixed assets	553
Non-fixed assets	–
Total assets	**553**
Total liabilities	54
Net assets	**499**

(5) Cost of Goods Sold and Services Provided

The table at right provides details of cost of goods sold and services provided by segment for the periods indicated:

Cost of Goods Sold and Services Provided		
€ in millions	2005	2004
Central Europe	16,933	13,813
Pan-European Gas	13,588	9,017
U.K.	8,166	6,365
Nordic	2,080	1,924
U.S. Midwest	1,487	1,088
Corporate Center	-1,467	-766
Core energy business	**40,787**	**31,441**
Other activities	-	-
Total	**40,787**	**31,441**

(6) Other Operating Income and Expenses

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

Other Operating Income		
€ in millions	2005	2004
Gain on the reversal of provisions	206	424
Gain on disposal of fixed assets	125	583
Gain on derivative financial instruments	3,318	1,901
Income from exchange rate differences	2,622	2,154
Other trade income	103	116
SAB 51 gain	31	-
Miscellaneous	1,164	937
Total	**7,569**	**6,115**

Other operating income includes income not related to the financial year amounting to €400 million (2004: €472 million).

Gains on the reversal of provisions primarily relate to amounts accrued for goods and services received but not invoiced and to personnel costs. These provisions were reversed whenever circumstances indicated that utilization of the respective provisions was no longer probable. Reversals of provisions in 2004 mostly related to provisions for anticipated losses from open transactions and to services received but not invoiced.

In 2004, gains on the disposal of fixed assets consisted primarily of proceeds from the sale of shares in EWE Aktiengellschaft ("EWE"), Oldenburg, Germany, and Verbundnetz Gas AG ("VNG"), Leipzig, Germany, (total gain: €317 million), the disposal of 3.6 percent of the shares of Degussa (€51 million), the sale of shares in Union Fenosa (€26 million) and additional disposals of investments held by the Central Europe market unit (€57 million).

Gains on derivative financial instruments include the gains recognized as a result of the required marking to market and realized gains from derivatives under SFAS 133.

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

The disposal of shares of E.ON Avacon AG ("E.ON Avacon"), Helmstedt, Germany, resulted in an SAB 51 gain of €31 million.

Miscellaneous other operating income in 2005 includes gains realized on the sale of securities classified as non-fixed assets in the amount of €490 million (2004: €337 million). Also included in this item is the €90 million gain from the reduction of the Company's stake in TEAG in connection with the bundling into ETE of its electric and gas activities in the German state of Thuringia. The line item further includes reductions of valuation allowances on accounts receivable, rental and leasing income, the sale of scrap metal and materials, as well as compensation for damages received.

Other operating expenses include costs that cannot be allocated to production, selling or administration activities. The following table provides details of other operating expenses for the periods indicated:

Other Operating Expenses

€ in millions	2005	2004
Additions to provisions	176	201
Loss on disposal of fixed assets	52	121
Loss on derivative financial instruments	2,372	1,316
Loss from exchange rate differences	2,484	2,463
Other taxes	57	78
Write-down of non-fixed assets	38	31
Miscellaneous	695	544
Total	**5,874**	**4,754**

Included in other operating expenses are expenses not related to the fiscal year amounting to €256 million (2004: €202 million).

Additions to provisions in 2005 primarily related to goods and services received but not invoiced, whereas in 2004 they primarily related to personnel costs.

Losses on derivative financial instruments include losses recognized as a result of the required marking to market and realized losses from derivatives under SFAS 133.

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

Miscellaneous other operating expenses mainly consist of losses from the sale of securities that were classified as non-fixed assets amounting to €95 million (2004: €131 million), as well as costs for external audit and non-audit services and consulting amounting to €168 million (2004: €154 million).

(7) Financial Earnings

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

Financial Earnings		
€ in millions	2005	2004
Income from companies in which share investments are held; thereof from affiliated companies: 33 (2004: 32)	203	185
Income from profit-and-loss-pooling agreements; thereof from affiliated companies: 3 (2004: 5)	3	5
Income from companies accounted for under the equity method; thereof from affiliated companies: 3 (2004: 4)	778	817
Losses from companies accounted for under the equity method; thereof from affiliated companies: –96 (2004: –54)	–345	–168
Losses from profit-and-loss-pooling agreements; thereof from affiliated companies: –1 (2004: –8)	–3	–10
Write-down of investments	–29	–77
Income from share investments	**607**	**752**
Income from other long-term securities	45	36
Income from long-term loans	31	43
Other interest and similar income; thereof from affiliated companies: 6 (2004: 8)	971	536
Interest and similar expenses; thereof from affiliated companies: –8 (2004: –5) thereof SFAS 143 accretion expense: –511 (2004: –499)	–1,783	–1,677
Interest and similar expenses (net)	**–736**	**–1,062**
Write-down of financial assets and long-term loans	–45	–54
Financial earnings	**–174**	**–364**

Losses from companies accounted for under the equity method in 2005 were attributable primarily to the impairment charge recorded by Degussa on its fine chemicals division. The equity-method accounting of Degussa resulted in a net loss to E.ON of €215 million through its directly held 42.9 percent share. This loss includes the pro-rata share of the impairment charge on the fine chemicals division attributable to E.ON, which amounted to €347 million. In 2004, income from companies accounted for at equity included a gain of €107 million from the equity-method treatment of Degussa.

Valuation adjustments of deferred tax assets in the financial statements of another at-equity holding of the Corporate Center were primarily responsible for €96 million in losses from companies accounted for under the equity method attributable to this holding in 2005.

The losses from companies accounted for at equity also include €1 million (2004: €86 million) in impairment charges on goodwill of companies accounted for at equity.

The figure for net interest and similar expenses improved in 2005, primarily because of a continued improvement in the financial position. Interest expense was reduced by capitalized interest on debt totaling €24 million (2004: €20 million).

Included in interest and similar expenses (net) is a balance of €30 million (2004: €31 million) in interest expense resulting from financial relationships with associated companies and other share investments.

(8) Income Taxes

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

Income Taxes		
€ in millions	2005	2004
Current taxes		
Domestic corporate income tax	1,081	952
Domestic trade tax	416	446
Foreign income tax	381	395
Other	–	–1
Total current taxes	**1,878**	**1,792**
Deferred taxes		
Domestic	–4	92
Foreign	402	–34
Total deferred taxes	**398**	**58**
Income taxes	**2,276**	**1,850**

The increase in tax expenses of €426 million over the previous year primarily reflects the following events: Improvements in operating income and a reduced proportion of tax-exempt earnings resulted in an increase in current income taxes of €86 million. The significant increase in foreign deferred taxes was due in particular to the marking to market of energy derivatives in the U.K. market unit, which resulted in an increase over 2004 in the fair values of these derivatives.

The 2003 Tax Preference Reduction Act ("Steuervergünstigungsabbaugesetz") altered the regulatory framework regarding the utilization of corporate tax credits arising from the corporate imputation system ("Anrechnungsverfahren"), which existed until 2001. The main changes include the repeal of the tax credit for corporate dividends paid out after April 11, 2003, and before January 1, 2006. This has resulted in a final increased tax burden of approximately €258 million (2004: €219 million) on dividend payments in the amount of €1,549 million in 2005 (2004: €1,312 million).

In 2004, a deferred tax liability of €330 million was recorded to take into account the difference between net assets and the tax bases of subsidiaries and associated companies. As of December 31, 2005, the deferred tax liability amounted to €436 million. No deferred taxes have been recognized for temporary differences between net assets and the tax bases of foreign subsidiaries held by companies in third countries, since no actual reversals of these differences are expected to occur, which in turn makes it impracticable to determine deferred taxes for them.

Changes in foreign tax rates resulted in a total deferred tax expense of €4 million. This compares to a deferred tax benefit of €10 million recorded in 2004.

In light of the positive developments in three precedent-setting tax proceedings in the lower German tax courts, the Company released a tax provision in 2001 that had previously been established to account for a probable liability stemming from gains from profit-and-loss-pooling agreements with former non-profit real estate companies that were in place during periods prior to the consolidated tax filing status. In December 2002, the federal tax court confirmed the favorable decisions of the lower courts. In accordance with that December 2002 tax court decision, the tax authorities in 2004 made the appropriate amendments to the corporate tax assessments for preceding years. This resulted in the Company receiving tax refunds in 2004 totaling €351 million.

For fiscal years ending after December 31, 2003, pre-consolidation remittance surpluses and shortfalls ("vororganschaftliche Mehr- und Minderabführungen") have become subject to the revised provisions of Article 14 (3) of the Corporate Tax Act ("KStG"), as amended by the Directive Implementation Act of December 9, 2004 ("EURLUmsG"). This revision of the KStG provides that tax-effective transfers of profits and losses that took place during periods before the profit-and-loss-pooling agreement came into effect no longer fall under the profit-and-loss rules applicable to consolidated entities. Pre-consolidation remittance surpluses and shortfalls are now to be treated respectively as distributions and capital contributions, with 5 percent of distributions taxable. This change in tax law resulted in a tax benefit of €9 million in 2005 (2004: €152 million tax expense), including a deferred tax benefit of €20 million (2004: €87 million tax expense).

The differences between the statutory tax rate in 2005 of 25 percent (2004: 25 percent) in Germany and the effective tax rate are reconciled as follows:

Reconciliation to Effective Income Taxes/Tax Rate

	2005		2004	
	€ in millions	%	€ in millions	%
Corporate income tax	1,802	25.0	1,588	25.0
Domestic trade tax net of federal tax benefit	475	6.6	433	6.8
Foreign tax rate differentials	165	2.3	164	2.6
Changes in valuation allowances	109	1.5	–202	–3.2
Changes in tax rate/tax law	4	0.1	142	2.2
Tax effects on				
Tax-free income	–218	–3.0	–343	–5.4
Equity accounting	–46	–0.7	–122	–1.9
Other	–15	–0.2	190	3.0
Effective income taxes/tax rate	**2,276**	**31.6**	**1,850**	**29.1**

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

Income Taxes from Discontinued Operations

€ in millions	2005	2004
Viterra	19	64
Ruhrgas Industries	21	35
WKE	–90	–2
Total	**–50**	**97**

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

Income from Continuing Operations before Income Taxes and Minority Interests

€ in millions	2005	2004
Domestic	3,526	3,553
Foreign	3,682	2,802
Total	**7,208**	**6,355**

Deferred tax assets and liabilities are as follows as of December 31, 2005 and 2004:

Deferred Tax Assets and Liabilities

	December 31,	
€ in millions	2005	2004
Deferred tax assets		
Intangible assets	41	167
Property, plant and equipment	624	376
Financial assets	383	518
Inventories	7	14
Receivables	178	343
Accrued liabilities	4,753	4,165
Liabilities	2,421	1,250
Net operating loss carryforwards	891	1,089
Tax credits	33	34
Other	269	440
Subtotal	**9,600**	**8,396**
Valuation allowance	–573	-509
Total	**9,027**	**7,887**
Deferred tax liabilities		
Intangible assets	1,030	700
Property, plant and equipment	6,609	6,155
Financial assets	2,312	1,114
Inventories	94	98
Receivables	2,401	1,934
Accrued liabilities	1,167	1,086
Liabilities	911	1,149
Other	844	705
Total	**15,368**	**12,941**
Net deferred tax assets/liabilities (–)	**–6,341**	**–5,054**

Of the deferred tax liabilities on financial assets reported for 2005, €1,137 million (2004: €317 million) relate to the marking to market of other share investments. Of this amount, €1,120 million (2004: €299 million) were recorded under stockholders' equity (other comprehensive income), with no effect on income.

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

Net Deferred Tax Assets and Liabilities

	December 31, 2005		December 31, 2004	
€ in millions	Total	Thereof non-current	Total	Thereof non-current
Deferred tax assets	2,652	2,269	2,060	1,865
Valuation allowance	–573	–563	–509	–506
Net deferred tax assets	**2,079**	**1,706**	**1,551**	**1,359**
Less deferred tax liabilities	8,420	7,929	6,605	5,779
Net deferred tax assets/liabilities (–)	**–6,341**	**–6,223**	**–5,054**	**–4,420**

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

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

The purchase price allocation of the acquisition of Midlands Electricity resulted in a deferred tax liability of €274 million in 2004.

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

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

Tax Loss Carryforwards

	December 31,	
€ in millions	2005	2004
Domestic tax loss carryforwards	2,907	4,487
Foreign tax loss carryforwards	1,220	1,158
Total	**4,127**	**5,645**

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

Foreign tax loss carryforwards expire as follows: €52 million in 2006, €29 million between 2007 and 2010, €508 million after 2010. €631 million do not have an expiration date.

Tax credits totaling €37 million are exclusively foreign and expire as follows: €7 million between 2007 and 2010 and €15 million after 2010. €15 million do not have an expiration date.

(9) Minority Interests in Net Income

Minority stockholders participate in the profits of the affiliated companies in the amount of €584 million (2004: €533 million) and in the losses in the amount of €31 million (2004: €55 million).

(10) Personnel-Related Information

Personnel Costs

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

Personnel Costs		
€ in millions	2005	2004
Wages and salaries	3,232	2,933
Social security contributions	553	504
Pension costs and other employee benefits; thereof pension costs: 744 (2004: 734)	794	755
Total	**4,579**	**4,192**

In 2005, E.ON purchased a total of 308,555 of its ordinary shares (0.04 percent of E.ON's outstanding shares) on the open market (2004: 211,815; 0.03 percent) at an average price of €76.03 (2004: €58.08) per share for resale to employees. These shares were sold to employees at preferential prices between €35.01 and €64.04 per share (2004: between €29.68 and €53.31). The difference between purchase price and resale price was charged to personnel costs as "wages and salaries." Further information about the changes in the number of its own shares held by E.ON AG can be found in Note 18.

Since the 2003 fiscal year, a stock-based employee compensation program based on E.ON shares has been in place at the U.K. market unit. Through this program, employees have the opportunity to purchase E.ON shares and to acquire additional bonus shares. The cost of issuing these bonus shares is also recorded under personnel costs as "wages and salaries."

Stock Appreciation Rights of E.ON AG

In 1999, the E.ON Group introduced a stock-based compensation plan ("Stock Appreciation Rights" or "SAR") based on E.ON AG shares. E.ON AG continued the SAR program by issuing a seventh tranche of SAR in 2005.

Since all first-tranche SAR (1999 to 2003) were exercised in full in 2002, there remained liabilities from the second through seventh tranches in 2005 as follows:

Stock Appreciation Rights of E.ON AG						
	7th tranche	6th tranche	5th tranche	4th tranche	3rd tranche	2nd tranche
Date of issuance	Jan. 3, 2005	Jan. 2, 2004	Jan. 2, 2003	Jan. 2, 2002	Jan. 2, 2001	Jan. 3, 2000
Term	7 years	7 years	7 years	7 years	7 years	7 years
Blackout period	2 years	2 years	2 years	2 years	2 years	2 years
Price at issuance (in €)	65.35	49.05	42.11	54.95	62.95	48.35
Number of participants in year of issuance	357	357	344	186	231	155
Number of SAR issued (in millions)	2.9	2.7	2.6	1.7	1.8	1.5
Exercise hurdle (minimum percentage by which exercise price exceeds the price at issuance)	10	10	10	10	20	20
Exercise hurdle (minimum exercise price in €)	71.89	53.96	46.32	60.45	75.54	58.02
Intrinsic value as of December 31, 2005 (in €)	22.04	38.34	45.28	32.44	24.44	39.04
Maximum exercise gain (in €)	65.35	49.05	–	–	–	–
Number of SAR outstanding as of December 31, 2005 (in millions)	2.9	2.4	0.6	0.2	0.1	0.1
Provision as of December 31, 2005 (€ in millions)	31.8	92.7	27.8	7.7	3.9	0.5
Excercise gains in 2005 (€ in millions)	0.1	1.2	49.9	8.5	15.1	3.3
Expense in 2005 (€ in millions)	31.9	70.2	15.4	6.4	13.6	0.2

All the members of the Board of Management of E.ON AG and certain executives of E.ON AG and of the market units participate in the E.ON AG SAR program.

SAR can only be issued if the qualified executive owns a certain minimum number of shares of E.ON stock, which must be held until the expiration date of the issued SAR, or until they have all been exercised.

SAR can be exercised (either the total grant or partial grant) by eligible executives following the blackout period of 2 years until the end of the respective tranche's term within predetermined exercise windows for a period of four weeks starting on the first business day after the publication of an E.ON Interim Report or Annual Report. The term of the SAR is limited to a total of 7 years.

Both of the following two conditions must be met before E.ON SAR may be exercised:

- Between the date of issuance and exercise, the E.ON stock price must outperform the Dow Jones STOXX Utilities Index (Price EUR) on at least ten consecutive trading days.
- The E.ON stock price on the exercise date must be at least 10.0 percent (for the second and third tranches: at least 20.0 percent) above the price at issuance.

SAR that remain unexercised by the employee on the corresponding tranche's last exercise date are considered to have been exercised automatically on that date, subject to fulfillment of the exercise conditions. Otherwise the rights embodied in the SAR expire.

When exercising SAR, qualified executives receive cash. Possible dilutive effects of capital-related measures and extraordinary dividend payments between the time of issuance of the SAR and their exercise are taken into consideration when calculating such compensation.

The amount paid to executives when they exercise their SAR is the difference between the E.ON AG stock price at the time of exercise and the underlying stock price at issuance multiplied by the number of SAR exercised. Beginning with the sixth tranche, a cap on gains on SAR equal to 100 percent of the strike price was put in place in order to limit the effect of unforeseen extraordinary increases in the price of the underlying stock.

Starting with the fourth tranche, the underlying stock price equals the average XETRA closing quotations for E.ON stock during the December prior to issuance. For tranches two and three, the underlying stock price is the E.ON stock price at the actual time of issuance.

Once issued, SAR are not transferable, and when the qualified executive leaves the E.ON Group they may be exercised according to the SAR conditions either on the next possible allowed date or, if certain conditions have been fulfilled, prior to that date. If employment is terminated by the executive, SAR expire and become void without compensation if such termination occurs within the two-year blackout period or if the SAR are not exercised on the next possible exercise date.

In 2005, 3,432,309 SAR from tranches two through five were exercised on an ordinary basis. In addition, 140,004 SAR from tranches two through seven were exercised in accordance with the SAR terms and conditions on an extraordinary basis. 39,000 SAR expired. The gain to the holders on exercise was €78.1 million. The intrinsic values of the second through seventh tranches are shown in the table on page 131 and resulted in an increase in the liability to €164.4 million. The total expense recorded for the SAR program in 2005 was 137.7 million.

The E.ON SAR program has shown the following developments since 2002:

Development of the SAR Program of E.ON AG

Number of options	7th tranche	6th tranche	5th tranche	4th tranche	3rd tranche	2nd tranche
Outstanding as of January 1, 2002	**–**	**–**	**–**	**–**	**1,822,620**	**1,345,800**
Granted in 2002	–	–	–	1,646,419	–	–
Exercised in 2002	–	–	–	–	–	220,150
Expired in 2002	–	–	–	–	–	–
Change in scope of consolidation	–	–	–	–	–504,720	–301,000
Outstanding as of December 31, 2002	**–**	**–**	**–**	**1,646,419**	**1,317,900**	**824,650**
Granted in 2003	–	–	2,549,188	15,000	–	–
Exercised in 2003	–	–	9,902	–	–	–
Expired in 2003	–	–	–	–	–	–
Change in scope of consolidation	–	–	–	–46,000	–17,000	–26,800
Outstanding as of December 31, 2003	**–**	**–**	**2,539,286**	**1,615,419**	**1,300,900**	**797,850**
Granted in 2004	–	2,653,847	12,107	–	–	–
Exercised in 2004	–	6,666	49,000	805,533	–	605,350
Expired in 2004	–	–	–	–	–	–
Change in scope of consolidation	–	–	–	–	–	–
Outstanding as of December 31, 2004	**–**	**2,647,181**	**2,502,393**	**809,886**	**1,300,900**	**192,500**
Granted in 2005	2,904,949	17,297	–	–	–	–
Exercised in 2005	7,521	55,983	1,860,682	503,477	983,650	161,000
Expired in 2005	12,000	20,000	–	–	7,000	–
Change in scope of consolidation	–	–170,500	–28,000	–67,500	–151,500	–19,000
Outstanding as of December 31, 2005	**2,885,428**	**2,417,995**	**613,711**	**238,909**	**158,750**	**12,500**
Outstanding as of December 31, 2005 (in %)	99.3	90.5	24.0	14.4	8.7	0.9
SAR exercisable at year-end	–	–	613,711	238,909	158,750	12,500

The changes in the scope of consolidation in 2005 are related to the discontinued operations Viterra and Ruhrgas Industries. The respective percentages of outstanding SAR indicated for December 31, 2005, are based on the total number of SAR issued from each corresponding tranche. As of December 31, 2005, none of the SAR in the sixth and seventh tranches were exercisable because the blackout periods had not expired.

Employees

During 2005, the Company employed an average of 75,173 people (2004: 61,309), not including 2,174 apprentices (2004: 2,063). The breakdown by segments is shown below:

Employees	2005	2004
Central Europe	42,835	37,509
Pan-European Gas	11,025	3,982
U.K.	12,106	10,453
Nordic	5,766	5,908
U.S. Midwest	3,007	3,039
Corporate Center	434	418
Core energy business	**75,173**	**61,309**
Other activities	–	–
Total	**75,173**	**61,309**

(11) Other Information

Cost of Goods

Cost of goods amounted to €35,364 million (2004: €27,791 million).

Taxes Other than Income Taxes

Taxes other than income taxes totaled €57 million in 2005 (2004: €78 million) and consisted principally of property tax and real estate transfer tax in both years.

German Corporate Governance Code

On December 19, 2005, the Board of Management and Supervisory Board of E.ON AG made a declaration of compliance pursuant to Article 161 of the German Stock Corporation Act ("AktG"). The declaration was made publicly accessible on E.ON's Web site (www.eon.com).

Fees and Services of the Independent Auditor

During 2005 and 2004, the Company incurred the following fees for services provided by its independent auditor, PricewaterhouseCoopers ("PwC"):

Independent Auditor Fees € in millions	2005	2004
Audit fees thereof audit fees for financial statements: 26 (2004: 26)	40	41
Audit-related services	10	11
Tax advisory fees	1	2
All other fees	1	5
Total	**52**	**59**

Audit fees consist primarily of fees for auditing the Consolidated Financial Statements, the accounting review of the interim financial statements and the auditing of the financial statements of E.ON AG and its subsidiaries, categorized above as "audit fees for financial statements." This category also includes the additional fees charged for audit services relating to the documentation of internal controls required by Section 404 of the Sarbanes-Oxley Act. Audit fees not included in the category "audit fees for financial statements" relate to other attestation services, especially those rendered in connection with the review of interim financial statements and with regulatory and other legal compliance matters, and to the audit of IT and internal-control systems and risk-management systems.

Fees for audit-related services relate primarily to attestations in connection with the adoption of International Financial Reporting Standards ("IFRS") and of IT and internal-control systems, as well as due-diligence services rendered in connection with acquisitions and disposals.

Fees for tax advisory services primarily include advisory on a case-by-case basis with regard to the tax treatment of M&A transactions, ongoing consulting related to preparing tax returns and review of tax assessments, as well as advisory on other tax-related issues, both in Germany and abroad.

Other fees primarily include specific training services and, in 2004, project-related services in connection with the implementation of Section 404 of the Sarbanes-Oxley Act.

(12) Earnings per Share

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

Earnings per Share		
€ in millions	2005	2004
Income/Loss from continuing operations	4,379	4,027
Income/Loss from discontinued operations	3,035	312
Income/Loss from cumulative effect of changes in accounting principles, net	–7	–
Net income	**7,407**	**4,339**
Weighted-average number of shares outstanding (in millions)	659	657
Earnings per share (in €)		
from continuing operations	6.64	6.13
from discontinued operations	4.61	0.48
from cumulative effect of changes in accounting principles, net	–0.01	–
from net income	**11.24**	**6.61**

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

(13) Fixed Assets

The following table provides information about the developments of fixed assets during the fiscal year:

Fixed Assets

€ in millions	Acquisition and production costs							
	January 1, 2005	Exchange rate differences	Change in scope of consolidation	Additions	Disposals	Transfers	Impairment	December 31, 2005
Goodwill	14,758	613	356	43	82	-26	-	15,662
Intangible assets	5,428	32	494	114	79	67	-	6,056
Advance payments on intangible assets	7	-	2	26	-	-9	-	26
Goodwill and intangible assets	**20,193**	**645**	**852**	**183**	**161**	**32**	**-**	**21,744**
Real estate, leasehold rights and buildings	18,653	-35	-6,749	95	395	218	15	11,772
Technical equipment, plant and machinery	73,725	834	1,623	1,918	1,240	540	9	77,391
Other equipment, fixtures, furniture and office equipment	3,222	71	146	209	241	70	129	3,348
Advance payments and construction in progress	1,348	31	-5	940	119	-854	10	1,331
Property, plant and equipment	**96,948**	**901**	**-4,985**	**3,162**	**1,995**	**-26**	**163**	**93,842**
Shares in unconsolidated affiliates	599	-2	-157	228	204	226	14	676
Shares in associated companies	10,431	47	-140	330	561	149	8	10,248
Other share investments	2,560	-2	-195	149	120	-147	15	2,230
Long-term loans to unconsolidated affiliates	592	-1	-52	30	110	-208	-	251
Loans to associated companies and other share investments	315	-8	-1	74	50	-17	1	312
Other long-term loans	556	-9	-2	52	21	-5	9	562
Long-term securities	466	4	-3	362	274	-	-	555
Financial assets	**15,519**	**29**	**-550**	**1,225**	**1,340**	**-2**	**47**	**14,834**
Total	**132,660**	**1,575**	**-4,683**	**4,570**	**3,496**	**4**	**210**	**130,420**

a) Goodwill and Other Intangible Assets

Goodwill

During the 2004 and 2005 fiscal years, the carrying amount of goodwill changed as follows in each of E.ON's segments:

Changes in Goodwill by Segment

€ in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Corporate Center	Core energy business	Other activities	Total
Book value as of January 1, 2004	**2,178**	**3,755**	**4,348**	**297**	**3,367**	**-**	**13,945**	**10**	**13,955**
Goodwill additions/disposals	282	167	473	71	-	1	994	-	994
Other changes[1]	-155	-2	-42	-9	-287	-	-495	-	-495
Book value as of December 31, 2004	**2,305**	**3,920**	**4,779**	**359**	**3,080**	**1**	**14,444**	**10**	**14,454**
Goodwill additions/disposals	115	481	21	7	-	-1	623	-	623
Other changes[1]	-1	-332	155	2	472	-	296	-10	286
Book value as of December 31, 2005	**2,419**	**4,069**	**4,955**	**368**	**3,552**	**-**	**15,363**	**-**	**15,363**

[1]Other changes include transfers and exchange rate differences; the figures for 2005 also include reclassifications to discontinued operations (Pan-European Gas segment: -€326 million; other activities: -€10 million).

	Accumulated depreciation								Net book value	
	January 1, 2005	Exchange rate differences	Change in scope of consolidation	Additions	Disposals	Transfers	Fair value OCI adjustments	December 31, 2005	December 31, 2005	December 31, 2004
	304	-3	-2	-	-	-	-	299	15,363	14,454
	1,647	10	-30	366	52	16	-	1,957	4,099	3,781
	-	-	-	-	-	-	-	-	26	7
	1,951	**7**	**-32**	**366**	**52**	**16**	**-**	**2,256**	**19,488**	**18,242**
	6,713	29	-2,583	231	302	38	-	4,126	7,646	11,940
	44,433	318	387	2,012	1,067	-71	-	46,012	31,379	29,292
	2,216	43	69	249	230	26	-	2,373	975	1,006
	23	-	-	-	-	-15	-	8	1,323	1,325
	53,385	**390**	**-2,127**	**2,492**	**1,599**	**-22**	**-**	**52,519**	**41,323**	**43,563**
	28	-	-18	-	1	-	-	9	667	571
	495	1	-4	-	3	-	5	494	9,754	9,936
	-1,924	-	-12	-	-	-	-4,839	-6,775	9,005	4,484
	-	-	-	-	-	-	-	-	251	592
	18	-	-	-	-	-	-	18	294	297
	7	-	-	-	-	-	-	7	555	549
	-368	-	-	-	-	-	-237	-605	1,160	834
	-1,744	**1**	**-34**	**-**	**4**	**-**	**-5,071**	**-6,852**	**21,686**	**17,263**
	53,592	**398**	**-2,193**	**2,858**	**1,655**	**-6**	**-5,071**	**47,923**	**82,497**	**79,068**

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

As the fair value of each reporting unit exceeded the carrying amount, no goodwill impairment charge was recognized in 2005 in connection with the impairment test (2004: €0 million).

Other Intangible Assets

As of December 31, 2005, the Company's intangible assets other than goodwill, including advance payments on intangible assets, consisted of the following:

Intangible Assets

€ in millions	December 31, 2005			December 31, 2004		
	Acquisition costs	Accumulated amortization	Net book value	Acquisition costs	Accumulated amortization	Net book value
Intangible assets subject to amortization						
Marketing-related intangible assets	**223**	**123**	**100**	**220**	**72**	**148**
thereof brand names	223	123	100	215	71	144
Customer-related intangible assets	**2,419**	**765**	**1,654**	**2,238**	**578**	**1,660**
thereof customer lists and customer relationships	2,305	704	1,601	2,074	514	1,560
Contract-based intangible assets	**1,674**	**593**	**1,081**	**1,488**	**540**	**948**
thereof concessions	1,223	392	831	1,201	360	841
Technology-based intangible assets	**662**	**476**	**186**	**598**	**457**	**141**
thereof software	563	408	155	467	354	113
Intangible assets not subject to amortization	**1,104**	**–**	**1,104**	**891**	**–**	**891**
thereof easements	818	–	818	802	–	802
Total	**6,082**	**1,957**	**4,125**	**5,435**	**1,647**	**3,788**

The table below includes all intangible assets added in 2005. Also included are the intangible assets that were acquired as part of business combinations.

Intangible Assets Added in 2005

	Acquisition costs (€ in millions)	Weighted average amortization period (in years)
Intangible assets subject to amortization		
Marketing-related intangible assets	**–**	
Customer-related intangible assets	**144**	**27**
thereof customer lists and customer relationships	141	28
Contract-based intangible assets	**160**	**22**
thereof construction permits	140	25
Technology-based intangible assets	**88**	**3**
thereof software	85	3
Intangible assets not subject to amortization	**253**	
thereof licenses for exploration and production	251	
Intangible assets added in 2005	**645**	

In 2005, the Company recorded an aggregate amortization expense of €366 million (2004: €370 million). No impairment charge on intangible assets other than goodwill was recognized in 2005 (2004: €9 million).

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

Estimated Aggregated Amortization Expense	
€ in millions	
2006	354
2007	326
2008	241
2009	198
2010	165
Total	**1,284**

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

b) Property, Plant and Equipment

Property, plant and equipment includes capitalized interest on debt apportioned to the construction period of qualifying assets as part of their cost of acquisition and production in the amount of €24 million (2004: €20 million). Impairment charges on property, plant and equipment were €163 million (2004: €156 million).

In 2005, the Company recorded depreciation of property, plant and equipment in the amount of €2,492 million (2004: €2,286 million).

As of December 31, 2005, the gross carrying value of property, plant and equipment under operating leases in which the E.ON is the lessor was €1,270 million (2004: €8,174 million), and the accumulated depreciation corresponding to these leased assets totaled €983 million (2004: €3,578 million). The changes are primarily the result of disposals of companies.

Restrictions on disposals of the Company's tangible fixed assets exist in the amount of €4,191 million (2004: €3,742 million) mainly with regard to land, buildings and technical equipment. For additional information on collateralized tangible fixed assets, see Note 25.

Jointly Owned Power Plants

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

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

Jointly Owned Power Plants				
Name of plants by type	Ownership interest (in %)	Total acquisition cost (€ in millions)	Accumulated depreciation & amortization (€ in millions)	Construction work in progress (€ in millions)
Nuclear				
Isar 2	75.00	1,991	1,855	8
Gundremmingen B	25.00	96	81	–
Gundremmingen C	25.00	108	93	–
Lignite				
Lippendorf S	50.00	532	373	–
Hard coal				
Bexbach 1	8.33	64	60	–
Trimble County (U.S.)	75.00	516	187	8
Rostock	50.38	317	284	–
Hydroelectric/Wind				
Nymølle Havspark/Rødsand (Denmark)	20.00	42	4	–
Nußdorf	53.00	55	41	–
Ering	50.00	31	28	–
Egglfing	50.00	47	43	–

c) Financial Assets

Impairment charges on financial assets during 2005 amounted to €47 million (2004: €230 million).

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

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

Earnings Data for Companies Accounted for Under the Equity Method

€ in millions	2005	thereof RAG	2004	thereof RAG
Sales	59,533	21,670	55,790	18,240
Net income/loss	1,782	91	2,415	–
E.ON's share of net income/loss	550	36	881	–
Other[1]	–117	–36	–232	–
Income from companies accounted for under the equity method	**433**	**–**	**649**	**–**

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

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

Balance-Sheet Data for Companies Accounted for Under the Equity Method

	December 31,			
€ in millions	2005	thereof RAG	2004	thereof RAG
Fixed assets	47,547	16,841	48,318	17,714
Non-fixed assets and prepaid expenses	32,165	11,679	30,713	11,973
Accrued liabilities	28,611	15,401	26,797	14,686
Liabilities and deferred income	30,307	9,833	29,561	9,785
Minority interests	2,152	1,831	3,085	2,889
Net assets	**18,642**	**1,455**	**19,588**	**2,327**
E.ON's share in equity	6,788	570	7,433	912
Other[1]	2,901	–570	2,398	–912
Investment in companies accounted for under the equity method	**9,689**	**–**	**9,831**	**–**

[1]"Other" primarily includes adjustments to conform with E.ON accounting policies, goodwill, fair value adjustments due to purchase price allocations, intercompany eliminations and impairments.

The book value of affiliated and associated companies accounted for under the equity method whose shares are marketable amounts to a total of €2,536 million (2004: €2,739 million). The fair value of E.ON's share in these companies is €5,493 million (2004: €4,096 million).

Additions of investments in associated and affiliated companies that are accounted for under the equity method resulted in goodwill of €44 million in 2005 (2004: €51 million).

Investments in associated companies totaling €71 million (2004: €69 million) were restricted because they were pledged as collateral for financing as of the balance-sheet date.

Other Share Investments and Available-for-Sale Securities

The amortized costs, fair values and gross unrealized gains and losses for other share investments and available-for-sale securities that management intends to hold long-term, as well as the maturities of fixed-term securities as of December 31, 2005 and 2004, are summarized below:

Other Share Investments and Available-for-Sale Securities

	December 31, 2005				December 31, 2004			
€ in millions	Amortized cost	Fair value	Gross unrealized loss	Gross unrealized gain	Amortized cost	Fair value	Gross unrealized loss	Gross unrealized gain
Fixed-term securities								
Less than 1 year	10	10	–	–	109	109	–	–
Between 1 and 5 years	54	54	–	–	14	14	–	–
More than 5 years	58	68	–	10	97	101	–	4
Subtotal	**122**	**132**	**–**	**10**	**220**	**224**	**–**	**4**
Non-fixed-term securities	**2,624**	**10,033**	**1**	**7,410**	**2,755**	**5,094**	**1**	**2,340**
Total	**2,746**	**10,165**	**1**	**7,420**	**2,975**	**5,318**	**1**	**2,344**

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

Disposals of other share investments and available-for-sale securities generated proceeds of €353 million in 2005 (2004: €769 million) and capital gains of €3 million (2004: €25 million). The Company uses the specific identification method as a basis for determining these amounts.

Non-fixed-term securities include non-marketable investments or securities of €767 million (2004: €1,065 million).

For the other share investments that are marketable, gross unrealized gains of €6,814 million were recorded as of December 31, 2005 (2004: €1,974 million). The increase in fair value of other share investments that are marketable in 2005 was primarily attributable to the investment in OAO Gazprom ("Gazprom"), Moscow, Russia.

Long-Term Loans

Long-term loans were as follows as of December 31, 2005 and 2004:

Loans

	December 31, 2005			December 31, 2004		
	€ in millions	Average interest rate	Maturity through	€ in millions	Average interest rate	Maturity through
Loans to affiliated companies	251	4.24%	2022	592	4.34%	2025
Loans to associated companies and other share investments	294	3.68%	2024	297	3.18%	2024
Other long-term loans	555	2.08%	2021	549	2.42%	2023
Total	**1,100**			**1,438**		

Of the decline in loans to affiliated companies, €223 million is due to the capital increase that took place following the conversion of shareholder loans at ONE GmbH ("ONE"), Vienna, Austria. For additional information, see Note 31.

(14) Inventories

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

Inventories	December 31,	
€ in millions	2005	2004
Raw materials and supplies by segment		
Central Europe	904	838
Pan-European Gas	28	104
U.K.	326	221
Nordic	223	213
U.S. Midwest	237	182
Corporate Center	–	–
Core energy business	**1,718**	**1,558**
Other activities	–	69
Total	**1,718**	**1,627**
Work in progress	**58**	**320**
Finished products	**10**	**98**
Goods purchased for resale	**671**	**602**
Inventories	**2,457**	**2,647**

Raw materials, finished products and goods purchased for resale are generally valued at average cost. Where this is not the case, the LIFO method is used, particularly for the valuation of natural gas inventories. In 2005, inventories valued according to the LIFO method amounted to €502 million (2004: €509 million).

The difference between valuation according to LIFO and higher replacement costs is €332 million (2004: €89 million).

(15) Receivables and Other Assets

The following table provides details of receivables and other assets as of the dates indicated:

Receivables and Other Assets	December 31, 2005		December 31, 2004	
€ in millions	With a remaining term up to 1 year	With a remaining term of more than 1 year	With a remaining term up to 1 year	With a remaining term of more than 1 year
Financial receivables from affiliated companies	115	–	85	19
Financial receivables from associated companies	87	158	84	3
Other financial assets	858	801	1,145	788
Financial receivables and other financial assets	**1,060**	**959**	**1,314**	**810**
Trade receivables	8,179	90	6,462	72
Operating receivables from affiliated companies	62	–	63	–
Operating receivables from associated companies and other share investments	748	–	747	24
Reinsurance claim due from the mutual insurance fund Versorgungskasse Energie	80	1,495	44	974
U.S. regulatory assets	52	69	58	55
Other operating assets	8,832	1,747	6,334	926
Operating receivables and other operating assets	**17,953**	**3,401**	**13,708**	**2,051**
Receivables and other assets	**19,013**	**4,360**	**15,022**	**2,861**

In 2005, other financial assets included receivables from owners of minority interests in jointly owned power plants of €688 million (2004: €724 million) and margin account deposits receivable of €30 million (2004: €67 million). In addition, in connection with the application of SFAS 143, other financial assets include a claim for a refund from the Swedish nuclear fund in the amount of €394 million (2004: €404 million) in connection with the decommissioning of nuclear power plants. Since this asset is designated for a particular purpose, E.ON's access to it is restricted.

The reinsurance claims due from the mutual insurance fund Versorgungskasse Energie Versicherungsverein auf Gegenseitigkeit ("VKE"), Hanover, Germany, cover part of the pension obligations payable to E.ON Energie employees. The claims of these employees at the point of retirement are covered to a certain extent by insurance contracts entered into with VKE. To improve overall coverage, E.ON made an additional contribution of €463 million in 2005.

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

Other operating assets include the positive fair values of derivative financial instruments of €7,349 million (2004: €3,007 million). The increase in the fair values of the derivatives is due to a combination of increasing volumes and higher market prices. Also included here are tax refund claims of €553 million (2004: €1,815 million). This line item further includes receivables related to E.ON Benelux's cross-border lease transactions for power plants amounting to €1,011 million (2004: €900 million) and accrued interest receivables of €544 million (2004: €543 million). Also included in this line item is the €309 million (2004: €0 million) surplus of plan assets within the E.ON UK pension plans over the respective benefit obligations covered by the plans.

Valuation Allowances for Doubtful Accounts

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

Valuation Allowances for Doubtful Accounts		
€ in millions	2005	2004
Balance as of January 1	**431**	**463**
Changes affecting income	34	–13
Changes not affecting income	58	–19
Balance as of December 31	**523**	**431**

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

(16) Liquid Funds

The following table provides details of liquid funds as of the dates indicated:

Liquid Funds		
	December 31,	
€ in millions	2005	2004
Cash and cash equivalents	**4,413**	**4,176**
Deposits at banking institutions with an original maturity greater than 3 months	1,488	89
Securities with an original maturity greater than 3 months	9,218	7,751
Investments in short-term securities	**10,706**	**7,840**
Total	**15,119**	**12,016**

Cash and cash equivalents with an original maturity of less than three months include checks, cash on hand, and balances in Bundesbank accounts and at other banking institutions. Also included here are €42 million (2004: €32 million) in securities with an original maturity of less than three months.

Balances in bank accounts include €54 million (2004: €23 million) of collateral deposited at banks, the purpose of which is to prevent the exhaustion of credit lines in connection with the marking to market of derivatives transactions.

Also included in bank account balances are liquid funds in the amount of €44 million (2004: €40 million) that are subject to restricted access, of which €3 million must be considered as long-term restricted funds (2004: €12 million).

Available-for-sale securities that management does not intend to hold long-term are classified as liquid funds.

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

Available-for-Sale Securities

	December 31, 2005				December 31, 2004			
€ in millions	Amortized cost	Fair value	Gross unrealized loss	Gross unrealized gain	Amortized cost	Fair value	Gross unrealized loss	Gross unrealized gain
Fixed-term securities								
Less than 1 year	406	433	1	28	165	168	–	3
Between 1 and 5 years	2,408	2,426	5	23	2,372	2,395	17	40
More than 5 years	2,689	2,797	3	111	2,359	2,413	27	81
Subtotal	**5,503**	**5,656**	**9**	**162**	**4,896**	**4,976**	**44**	**124**
Non-fixed-term securities	**2,823**	**3,604**	**23**	**804**	**2,459**	**2,807**	**40**	**388**
Total	**8,326**	**9,260**	**32**	**966**	**7,355**	**7,783**	**84**	**512**

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

Unrealized Losses

	December 31, 2005					
	Less than 12 months		12 months or greater		Total	
€ in millions	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Fixed-term securities						
Less than 1 year	309	1	–	–	309	1
Between 1 and 5 years	964	5	–	–	964	5
More than 5 years	357	3	–	–	357	3
Subtotal	**1,630**	**9**	**–**	**–**	**1,630**	**9**
Non-fixed-term securities	**303**	**23**	**–**	**–**	**303**	**23**
Total	**1,933**	**32**	**–**	**–**	**1,933**	**32**

In 2005, amortized costs were written down in the amount of €32 million (2004: €45 million).

The disposal of short-term marketable securities that management does not intend to hold long-term generated proceeds in the amount of €4,997 million (2004: €4,180 million). Realized net gains from such disposals in an amount of €395 million (2004: €206 million) were recorded in 2005. E.ON uses the specific identification method as a basis for determining cost and calculating realized gains and losses on such disposals.

Non-fixed-term securities classified as short-term include €39 million in non-marketable securities or investments (2004: €0 million).

(17) Prepaid Expenses and Deferred Income

Of the prepaid expenses totaling €356 million (2004: €344 million), €227 million (2004: €217 million) matures within one year. Deferred income totaled €817 million in 2005 (2004: €1,102 million), of which €202 million (2004: €194 million) matures within one year.

(18) Capital Stock

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

Pursuant to a shareholder resolution approved at the Annual Shareholders Meeting held on April 27, 2005, the Board of Management is authorized to buy back outstanding shares up to an amount of 10 percent of E.ON AG's capital stock through October 27, 2006.

During 2005, the E.ON AG purchased a total of 344,304 shares on the open market (2004: 212,135). Of these, 35,749 shares were designated as compensation for former shareholders. 308,704 (2004: 240,754) shares were distributed to employees. Thus, as of December 31, 2005, E.ON AG held a total of 4,374,254 (2004: 4,374,403) treasury shares having a book value of €256 million in the Consolidated Balance Sheet (equivalent to 0.6 percent or €11,373,060 of the capital stock). Please refer to Note 10 for further information on stock-based compensation.

As part of the voluntary share exchange offer made to shareholders of CONTIGAS, E.ON Energie bought 486,255 shares of E.ON AG, which it provided to CONTIGAS shareholders who tendered their shares in the exchange offer. The gain of approximately €3 million realized from this transaction is included in additional paid-in capital.

An additional 28,472,194 shares of E.ON AG are held by one of its subsidiaries as of December 31, 2005 (2004: 28,472,194). These shares held by subsidiaries were acquired at the time of the VEBA/VIAG merger and considered treasury shares with no purchase price allocated to them.

Authorized Capital

At the Annual Shareholders Meeting of April 27, 2005, the three authorizations for capital increases granted to the Board of Management at the Annual Shareholders Meeting of May 25, 2000, were rescinded. The Board had been authorized to increase the Company's capital stock by up to €180 million ("Authorized Capital I") through the issuance of new shares in return for cash contributions (with the option to restrict shareholders' subscription rights) and to increase the Company's capital stock by up to €180 million ("Authorized Capital II") through the issuance of new shares in return for contributions in kind, excluding shareholders' subscription rights. Following the capital increase in 2000, Authorized Capital II stood at €150.4 million. The Board had further been authorized to increase the Company's capital stock by up to €180 million ("Authorized Capital III") through the issuance of new shares in return for cash contributions (with the authorization to exclude shareholders' subscription rights).

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

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

For 2005, there are no disclosures about voting rights pursuant to Article 21 (1) of Germany's Securities Trading Act ("WpHG").

(19) Additional Paid-in Capital

Additional paid-in capital results exclusively from share issuance premiums. As of December 31, 2005, additional paid-in capital amounts to €11,749 million (2004: €11,746 million). The increase of €3 million during 2005 is primarily a result of the execution of the exchange offer for minority shareholders of CONTIGAS.

The increase in 2004 from €11,564 million to €11,746 million resulted from the distribution of 3.1 million E.ON AG shares held by subsidiaries to minority shareholders.

(20) Retained Earnings

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

Retained Earnings

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

According to German securities law, E.ON AG shareholders can only receive distributions from the retained earnings of E.ON AG as defined by German GAAP, which are included in the Group's retained earnings under U.S. GAAP. As of December 31, 2005, these German-GAAP retained earnings amount to €4,231 million (2004: €3,852 million). Of these, legal reserves of €45 million (2004: €45 million) pursuant to Article 150 (3) and (4) AktG and reserves for own shares of €257 million (2004: €257 million) pursuant to Article 272 (4) HGB were not distributable on December 31, 2005. Accordingly, an amount of €3,929 million (2004: €3,550 million) is in principle available for dividend payments.

The Group's retained earnings as of December 31, 2005, include accumulated undistributed earnings of €617 million (2004: €692 million) from companies that have been accounted for under the equity method.

(21) Other Comprehensive Income

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

Changes in Other Comprehensive Income

€ in millions	December 31, 2005			December 31, 2004		
	Before tax	Tax benefit/ expense	Net of tax	Before tax	Tax benefit/ expense	Net of tax
Foreign currency translation adjustments	536	78	614	139	–25	114
Plus/Less (–): reclassification adjustments affecting income	6	–	6	11	–	11
Unrealized holding gains/losses arising during period	5,709	–851	4,858	1,349	–243	1,106
Plus/Less (–): reclassification adjustments affecting income	–169	9	–160	–107	–5	–112
Additional minimum pension liability	–580	268	–312	–935	337	–598
Cash flow hedges	65	–8	57	89	–33	56
Total	**5,567**	**–504**	**5,063**	**546**	**31**	**577**

The increase in unrealized gains from available-for-sale securities was primarily attributable to an increase by €4,837 million (before tax) in the fair value of the investment in Gazprom.

The change in the minimum pension liability is due primarily to the lowering of the discount rate. For additional information, see Note 23.

(22) Minority Interests

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

Minority Interests	December 31,	
€ in millions	2005	2004
Central Europe	2,618	2,096
Pan-European Gas	255	126
U.K.	81	92
Nordic	1,659	1,668
U.S. Midwest	85	103
Corporate Center	36	36
Core energy business	**4,734**	**4,121**
Other activities	–	23
Total	**4,734**	**4,144**

(23) Provisions for Pensions

E.ON and its subsidiaries maintain both defined benefit pension plans and defined contribution plans. Some of the latter are part of a multiemployer pension plan under EITF 90-3, "Accounting for Employers' Obligations for Future Contributions to a Multiemployer Pension Plan," for approximately 5,500 employees at the Nordic market unit.

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

Upon approval by the Supervisory Board on August 10, 2005, E.ON formed E.ON Pension Trust e.V. and Pensionsabwicklungstrust e. V., both with registered offices in Grünwald, Germany, as part of a contractual trust arrangement (CTA). The purpose of these trusts is the fiduciary administration of funds to provide for future retirement benefit payments to employees of German group companies. The approval allows for a contribution of up to €5.4 billion. No contributions to the trusts have been made as of the end of 2005.

The liabilities arising from the pension plans and their respective costs are determined using the projected unit credit method in accordance with SFAS 87. The valuation is based on current pensions and pension entitlements and on economic assumptions that have been chosen in order to reflect realistic expectations. Furthermore, cash balance pension plans are valued in accordance with EITF 03-4 (traditional unit credit method). The obligations arising primarily at U.S. companies from health-care and other post-retirement benefits for certain employees are calculated in accordance with SFAS 106.

The effective date for fixing the economic valuation parameter is December 31 of each year. The necessary calculation of the number of personnel, particularly in the German group companies, takes place on September 30, with significant changes carried forward to December 31.

Actuarial gains and losses result from variations in valuation assumptions, differences between the estimated and actual number of beneficiaries and underlying assumptions. Under

U.S. GAAP, they are recognized as provisions for pensions on a delayed basis and amortized separately over periods determined for each individual pension plan.

The changes in the projected benefit obligation ("PBO") are shown below. The disposal of Viterra (€228 million) and Ruhrgas Industries (€179 million) is mainly responsible for the change shown as "Change in scope of consolidation" in 2005. The acquisition of Midlands Electricity, which resulted in an increase of €1,390 million in related obligations, was mainly responsible for the change in that same category in 2004.

Changes in the Projected Benefit Obligation		
€ in millions	2005	2004
Projected Benefit Obligation as of January 1	**15,918**	**13,295**
Service cost	232	215
Interest cost	777	804
Change in scope of consolidation	-375	1,397
Prior service cost	32	6
Actuarial losses	1,618	1,182
Exchange rate differences	352	-144
Other	-	6
Pensions paid	-842	-843
Projected Benefit Obligation as of December 31	**17,712**	**15,918**

The amount disclosed for 2004 was not adjusted for discontinued operations in order to maintain comparability. Accordingly, this results in differences to the presentation of net periodic pension costs for 2004.

Of the entire benefit obligation, €187 million (2004: €210 million) is related to health-care benefits.

No significant effects resulted from the adoption of FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP No. 106-2") in the third quarter of 2004.

The changes in plan assets are shown in the following table. The disposal of Viterra, which led to a reduction of €13 million in plan assets, and of Ruhrgas Industries, with a reduction in plan assets of €40 million, are mainly responsible for the change shown as "Change in scope of consolidation" in 2005. The full consolidation of Midlands Electricity resulted in an addition of €1,218 million in the same category in 2004.

Changes in Plan Assets		
€ in millions	2005	2004
Fair value of plan assets as of January 1	**6,399**	**4,922**
Actual return on plan assets	1,198	601
Company contributions	733	182
Employee contributions	17	16
Change in scope of consolidation	-58	1,220
Exchange rate differences	262	-97
Pensions paid	-451	-439
Other	-3	-6
Fair value of plan assets as of December 31	**8,097**	**6,399**

The company contributions include payments of €629 million to the E.ON Holding Group of the Electricity Supply Pension Scheme (ESPS) to facilitate the merger of the previously autonomous sections of E.ON UK covering Powergen, East Midlands Electricity, Midlands Electricity and TXU. The payment has covered a significant portion of the actuarial deficit in the E.ON UK pension plans and improved financing across all four sections.

For 2006, it is expected that the overall Company contribution to plan assets will consist of €87 million (2004: €54 million) to guarantee the minimum plan asset values stipulated by law or by-laws, and of €5.4 billion as part of the CTA funding.

In the E.ON Group, the vast majority of reported plan assets currently relates to the pension plans at the U.K. and U.S. Midwest market units. The investment objective for the pension plan assets is to provide full coverage of benefit obligations at all times for the corresponding pension plans.

The long-term investment strategy and the associated expected rate of return on plan assets for the various pension plans takes into consideration, among other things, the scope of the benefit obligations, the maturity structure, the minimum capital reserve requirements and, if applicable, other relevant factors. In 2005, the average rate of return on

plan assets was 17.3 percent. This performance was above the expected rate of return of 6.7 percent, which is part of the net periodic pension costs.

The target portfolio structure was determined on the basis of current evaluations of the investment strategy and the market environment, and is reviewed on a regular basis and adjusted, if necessary, to reflect market trends. The current investment strategy is focused on equity securities, as well as on high-quality government bonds and selected corporate bonds. As of December 31, 2005, the percentage of overall plan assets consisting of equity securities had been further reduced.

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

Categories of Plan Assets

in %	Target allocation	December 31, 2005	December 31, 2004
Equity securities	22	45	51
Debt securities	69	48	42
Real estate	9	5	5
Other	–	2	2

Debt with remaining maturities from 0 to 49 years had an average weighted remaining maturity of 17.4 years on December 31, 2005. On December 31, 2004, the remaining terms ranged between 0 and 30 years, and the average weighted remaining maturity of the debt was 17.1 years.

The funded status—the difference between the PBO for all pension units and the fair value of plan assets—is reconciled with the provisions shown on the balance sheet as shown below:

Net Amount Recognized

€ in millions	December 31, 2005	December 31, 2004
Funded status	9,615	9,519
Unrecognized actuarial loss	–3,192	–2,453
Unrecognized prior service cost	–27	–27
Net amount recognized	**6,396**	**7,039**

The amounts recognized on the balance sheet are as follows:

Amounts Recognized in Financial Positions

€ in millions	December 31, 2005	December 31, 2004
Provisions for pensions	8,720	8,589
Additional minimum liability		
Intangible assets	–29	–38
Accumulated other comprehensive income	–1,986	–1,512
Other operating assets	–309	–
Net amount recognized	**6,396**	**7,039**

The provisions for pensions reported for December 31, 2005, include €430 million (2004: €403 million) in short-term commitments, of which €32 million are attributable to the partial reversal of the additional minimum liability due to the planned CTA funding.

The accumulated benefit obligation for all defined benefit pension plans amounted to €16,475 million (2004: €14,878 million) on December 31, 2005.

Under U.S. GAAP, the additional minimum liability is recognized against intangible assets and accumulated other comprehensive income, and thus does not affect net income.

Provisions for pensions shown on the balance sheet as of December 31, 2005, particularly include obligations of U.S. companies arising from post-retirement health-care benefits in the amount of €153 million (2004: €181 million), with allowances made for increases in the costs of health-care benefits amounting to 10.0 percent in the short term and 5.0 percent in the long term.

The total net periodic defined benefit pension cost is detailed in the table below. Amounts for 2004 are adjusted to reflect effects of discontinued operations.

Net Periodic Pension Cost

€ in millions	2005	2004
Employer service cost	215	190
Interest cost	777	783
Expected return on plan assets	-448	-422
Prior service cost	33	25
Net amortization of losses	85	40
Total	**662**	**616**

The net periodic pension cost shown includes an amount of €13 million in 2005 (2004: €17 million) for retiree health-care benefits. A one-percentage-point increase or decrease in the assumed health care cost trend rate would affect the interest and service components and result in a change in net periodic pension cost of +€0.6 million or -€0.5 million, respectively. The resulting accumulated post-retirement benefit obligation would change by +€8.8 million or -€7.8 million, respectively.

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

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

Pension Payments

€ in millions	
2006	865
2007	889
2008	915
2009	939
2010	960
2011-2015	5,009
Total	**9,577**

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

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

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

Actuarial Assumptions

	December 31, 2005			December 31, 2004		
in %	Germany	United Kingdom	United States	Germany	United Kingdom	United States
Discount rate	4.00	4.80	5.50	4.75	5.30	5.75
Salary increase rate	2.75	4.00	5.25	2.75	4.00	4.50
Expected return on plan assets	4.00	5.50	8.25	4.75	6.70	8.25
Pension increase rate	1.50	2.80	-	1.25	2.80	-

(24) Other Provisions

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

Description of Asset Retirement Obligations

As of December 31, 2005, E.ON's asset retirement obligations included:

- retirement costs shown in sub-items 1ab) and 1ba) for decommissioning of nuclear power plants in Germany in the amount of €8,400 million (2004: €8,204 million) and in Sweden in the amount of €403 million (2004: €404 million),
- environmental improvement measures reported under sub-item 8) related to the locations of non-nuclear power plants, including removal of electricity transmission and distribution equipment in the amount of €388 million (2004: €327 million) and
- environmental improvements at gas storage facilities in the amount of €90 million (2004: €77 million) and at opencast mining facilities in the amount of €61 million (2004: €59 million) as well as the decommissioning of oil and gas field infrastructure in the amount of €319 million (2004: €277 million). These obligations are also reported under sub-item 8).

Changes in Asset Retirement Obligations		
€ in millions	2005	2004
Balance as of January 1	**9,348**	**9,269**
Liabilities incurred in the current period	37	11
Liabilities settled in the current period	-181	-164
Change in scope of consolidation	33	2
Accretion expense	511	499
Revision in estimated cash flows	-126	-272
Other changes	39	3
Balance as of December 31	**9,661**	**9,348**

Interest resulting from the accretion of asset retirement obligations is shown in financial earnings (see Note 7).

Other Provisions

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

Other Provisions	December 31,	
€ in millions	2005	2004
Provisions for nuclear waste management (1)	13,362	13,481
Disposal of nuclear fuel rods	5,003	5,370
Asset retirement obligation (SFAS 143)	8,803	8,608
Waste disposal	425	378
less advance payments	869	875
Provisions for taxes (2)	3,000	2,871
Provisions for personnel costs (3)	1,540	1,611
Provisions for supplier-related contracts (4)	2,150	2,818
Provisions for customer-related contracts (5)	306	439
U.S. regulatory liabilities (6)	507	415
Provisions for environmental remediation (7)	309	337
Provisions for environmental improvements, including land reclamation (8)	1,725	1,657
Miscellaneous (9)	2,243	2,024
Total	**25,142**	**25,653**

As of December 31, 2005, €19,112 million of the above provisions are due after more than one year (2004: €19,142 million).

Of these other provisions, €14,457 million (2004: €14,512 million) bear interest.

1) Provisions for Nuclear Waste Management

a) Germany

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

The provisions for nuclear waste management stated above are net of advance payments of €869 million in 2005 (2004: €875 million). The advance payments are prepayments to nuclear fuel reprocessors and to other waste management companies, as well as to governmental authorities, relating to reprocessing of spent fuel rods and the construction of permanent storage facilities. Provisions for the costs of nuclear fuel rod disposal, of nuclear power plant decommissioning and of the disposal of low-level nuclear waste also include the costs for the permanent storage of radioactive waste.

Permanent storage costs include investment, operating and financing costs for the planned permanent storage facilities Gorleben and Konrad and are based on Germany's ordinance on advance payments for the establishment of federal facilities for the safe custody and final storage of radioactive wastes ("Endlagervorausleistungsverordnung") and on data from the German Federal Office for Radiation Protection ("Bundesamt für Strahlenschutz"). Each year the Company makes advance payments to the Bundesamt für Strahlenschutz.

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

aa) Management of Spent Nuclear Fuel Rods

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

There are contracts in place between E.ON Energie and two large European fuel reprocessing firms, BNFL in the U.K. and Cogema in France, for the reprocessing of spent nuclear fuel rods from its German nuclear plants. The radioactive waste that results from reprocessing will be returned to Germany to be temporarily stored in an authorized storage facility. Permanent storage is also expected to occur in Germany.

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

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

The cost estimates are based primarily on existing contracts.

Provisions for the costs of permanent storage of used fuel rods primarily include

- contractual costs for procuring intermediate containers and intermediate on-site storage on the plant premises and
- costs of transporting spent fuel rods to conditioning facilities, conditioning costs and costs for procuring permanent storage containers as determined by external studies.

The provision for the management of used fuel rods is provided over the period in which the fuel is consumed to generate electricity.

ab) Nuclear Plant Decommissioning

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

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

ac) Waste from Plant Operations

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

b) Sweden

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

ba) Decommissioning

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

bb) Nuclear Fuel Rods and Nuclear Waste in Sweden

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

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

c) United Kingdom and United States

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

2) Taxes

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

3) Personnel Liabilities

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

4) Supplier-Related Liabilities

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

5) Customer-Related Liabilities

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

6) U.S. Regulatory Liabilities

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

7) Environmental Remediation

Provisions for environmental remediation refer primarily to rehabilitating contaminated sites, redevelopment and water protection measures.

8) Environmental Improvements and Similar Liabilities, including Land Reclamation

Provisions for environmental improvements and similar liabilities primarily include asset retirement obligations pursuant to SFAS 143 in the amount of €858 million (2004: €740 million). Also included are provisions for reversion of title, other environmental improvements and reclamation liabilities.

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

9) Miscellaneous

Other provisions primarily include provisions arising from the electricity business, provisions for liabilities arising from the acquisition and disposal of companies, provisions from emissions trading systems and provisions for tax-related interest expenses.

(25) Liabilities

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

Liabilities	December 31, 2005					December 31, 2004				
		Average interest rate up to 1 year (in %)	With a remaining term of				Average interest rate up to 1 year (in %)	With a remaining term of		
€ in millions	Total		up to 1 year	1 to 5 years	over 5 years	Total		up to 1 year	1 to 5 years	over 5 years
Bonds (including Medium Term Note programs)	9,538	5.7	732	5,195	3,611	9,148	2.4	355	5,306	3,487
Commercial paper	–	–	–	–	–	3,631	2.1	3,631	–	–
Bank loans/Liabilities to banks	1,530	5.0	424	729	377	4,130	3.7	1,010	1,506	1,614
Bills payable	42	–	–	42	–	51	2.6	3	48	–
Other financial liabilities	1,306	2.7	742	165	399	1,648	4.4	155	547	946
Financial liabilities to banks and third parties	**12,416**		**1,898**	**6,131**	**4,387**	**18,608**		**5,154**	**7,407**	**6,047**
Financial liabilities to affiliated companies	134	3.1	128	–	6	134	2.5	128	–	6
Financial liabilities to associated companies and other share investments	1,812	4.4	1,781	12	19	1,834	3.5	1,754	20	60
Financial liabilities to group companies	**1,946**		**1,909**	**12**	**25**	**1,968**		**1,882**	**20**	**66**
Financial liabilities	**14,362**		**3,807**	**6,143**	**4,412**	**20,576**		**7,036**	**7,427**	**6,113**
Accounts payable	5,288		5,272	16	–	3,662		3,627	35	–
Operating liabilities to affiliated companies	105		59	3	43	147		103	–	44
Operating liabilities to associated companies and other share investments	188		98	70	20	184		92	71	21
Capital expenditure grants	270		19	96	155	271		26	93	152
Construction grants from energy consumers	3,674		420	736	2,518	3,558		347	692	2,519
Advance payments	488		488	–	–	725		722	3	–
Other operating liabilities	9,039		6,946	668	1,425	5,507		3,793	323	1,391
thereof taxes	614		614			989		989		
thereof social security contributions	63		63			62		62		
Operating liabilities	**19,052**		**13,302**	**1,589**	**4,161**	**14,054**		**8,710**	**1,217**	**4,127**
Liabilities	**33,414**		**17,109**	**7,732**	**8,573**	**34,630**		**15,746**	**8,644**	**10,240**

Up to December 31, 2004, liabilities of Viterra were reported net of the interest portion of non-interest-bearing and low-interest liabilities in the Consolidated Balance Sheet and totaled €34,355 million. The interest portion amounted to €275 million.

Due to the disposal of Viterra in 2005 (see Note 4), no deduction of the interest portion was reported as of December 31, 2005.

Financial Liabilities

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

These financing arrangements contain affirmative and negative covenants and provide for various events of default that are generally in line with industry standard terms for similar borrowings. In general, E.ON's most significant financial arrangements do not include financial covenants such as ratio compliance tests or a rating trigger, though a number do include restrictions on certain types of transactions and negative pledges, while others include material adverse change clauses relating to the relevant borrower. The following description of each of the Group's most significant individual financing arrangements includes disclosures of financial covenants or cross-default clauses contained in those arrangements that were in effect as of December 31, 2005. E.ON and its subsidiaries were in compliance with all such covenants as of December 31, 2005 and 2004, and no cross-default clauses had been triggered as of such dates.

In addition, E.ON has numerous additional financing arrangements that are not individually significant and that are summarized below grouped by segment and type of arrangement. These other arrangements also include affirmative and negative covenants and provide for various events of default that are generally in line with industry standard terms for similar borrowings. Certain of these arrangements also include financial covenants, including requirements to maintain certain ratios. Certain arrangements also include material adverse change clauses, as well as restrictions on certain types of transactions and negative pledges. E.ON and its subsidiaries were in compliance with all such covenants as of December 31, 2005 and 2004, and no cross-default clauses had been triggered as of such dates.

The failure of E.ON or the relevant borrower to comply with any of the identified covenants or the triggering of any cross-default clauses could result in any and all of the following:

- the repayment of the affected financing arrangement
- the declaration that a liability becomes due and payable before its stated maturity
- the triggering of cross defaults in other financing arrangements
- E.ON's access to additional financing on favorable terms being severely curtailed or even eliminated

Corporate Center

€20 billion Medium Term Note Program

The existing €20 billion MTN program allows E.ON AG and its wholly owned subsidiaries E.ON International Finance B.V. ("E.ON International Finance"), Rotterdam, The Netherlands, and E.ON UK Finance plc ("E.ON UK Finance"), Coventry, U.K., under the unconditional guarantee of E.ON AG, to periodically issue debt instruments through syndicated and private placements to investors. On May 17, 2002, E.ON issued its first-ever multi-currency bond in euros and pounds sterling ("GBP") on the international bond markets. At year-end 2005, the following bonds were outstanding:

- €4.25 billion issued by E.ON International Finance with a coupon of 5.75 percent and a maturity in May 2009
- €0.9 billion issued by E.ON International Finance with a coupon of 6.375 percent and a maturity in May 2017
- GBP 500 million or €725 million issued by E.ON International Finance with a coupon of 6.375 percent and a maturity in May 2012
- GBP 0.975 billion or €1.37 billion issued by E.ON International Finance with a coupon of 6.375 percent and a maturity in June 2032

Neither the MTN program nor any of the bonds outstanding at the end of 2005 or 2004 contain any financial covenants. The MTN program documentation, as well as the bonds issued under the program, both contain the same cross-default clause. A cross default would be triggered if any creditor is entitled to declare that any such indebtedness is payable before its stated maturity by reason of an event of default or if an issuer or the guarantor under the program fails to pay indebtedness for borrowed money or any amount payable under any guarantee in respect of such indebtedness (cross payment default). A cross default would only occur if the aggregate amount of such indebtedness exceeds €25 million.

€10 billion Commercial Paper Program

The existing €10 billion commercial paper program allows E.ON AG and the wholly owned subsidiaries E.ON International Finance and E.ON UK Finance, under the unconditional guarantee of E.ON AG, to periodically issue commercial paper with maturities of up to 729 days to investors. Proceeds from these offerings may be used for general corporate purposes. The commercial paper program does not contain any financial covenants. A cross default would be triggered if any creditor is entitled to declare that any such indebtedness is

payable before its stated maturity by reason of an event of default or if an issuer or the guarantor under the program fails to pay indebtedness for borrowed money or any amount payable under any guarantee in respect of such indebtedness (cross payment default). A cross default would only occur if the aggregate amount of such indebtedness exceeds €30 million. As of December 31, 2005, no commercial paper was outstanding under the program (2004: €3.4 billion), leaving the full amount available.

€10 billion Syndicated Multi-Currency Revolving Credit Facility Agreement

Under the existing €10 billion revolving credit facility, E.ON AG and its subsidiaries E.ON Finance GmbH, Düsseldorf, Germany, E.ON International Finance and E.ON UK Finance (each under the unconditional guarantee of E.ON AG, collectively "the borrowers") may make borrowings in various currencies in an aggregate amount of up to €10 billion. The facility is divided into Tranche A, a revolving credit facility in the amount of €5 billion, and Tranche B, a revolving credit facility also in the amount of €5 billion. Amounts raised under Tranche A may be used for general corporate purposes, and amounts raised under Tranche B may be used for the refinancing of existing credit facilities, for liquidity back-up and for other general corporate purposes. Tranche A has an initial maturity of 364 days but includes both an extension option and a term-out option of 364 days each. Tranche B has a maturity of 5 years but includes an extension option which allows for two extensions each of one year. The extension option may only be exercised at the end of year 1 and/or at the end of year 2. On October 17, 2005, both the extension option for Tranche A and Tranche B were exercised, and as a result, Tranche A was extended to November 30, 2006, and Tranche B was extended to December 2, 2010. On November 28, 2005, an Amendment Agreement was signed to reduce commitment fees and margin with effect on December 1, 2005. Drawings under Tranche A now bear interest equal to EURIBOR or LIBOR for the respective currency plus a margin of 12.5 basis points (down from 15 basis points) and drawings under Tranche B bear interest equal to EURIBOR or LIBOR for the respective currency plus a margin of 15 basis points (down from 20 basis points). A cross default would be triggered by the declaration of financial indebtedness of any material subsidiary or any of the borrowers to be due and payable prior to its specified maturity pursuant to the occurrence of an event of default (cross acceleration default) and by non-payment of any financial indebtedness of any material subsidiary or any of the borrowers when due or after any applicable grace period (cross payment default). These cross defaults would only occur if the aggregate amount of all such financial indebtedness is more than €100 million (or its equivalent in any other currency or currencies). The material subsidiaries pursuant to this agreement are E.ON Energie AG, E.ON UK plc, E.ON U.S. LLC, E.ON Ruhrgas AG and any other member of the Group whose total assets or revenues exceed 10 percent of the total assets or revenues of the E.ON Group. As of December 31, 2005, there were no borrowings outstanding under this facility (2004: €0 million).

The E.ON AG syndicated credit facility contains no financial covenants, nor does it provide for a rating trigger.

Bilateral Credit Lines

At year-end 2005, E.ON AG had committed short-term credit lines of €180 million (2004: €180 million) with maturities of up to one year and variable interest rates of up to 25 basis points above EURIBOR. These credit lines may be used for general corporate purposes. In addition, E.ON AG had several uncommitted short-term credit lines. E.ON AG had no outstanding balances under this lines at the end of 2005 and 2004.

As of December 31, 2005, E.ON North America Inc. ("E.ON North America"), New York, U.S., a wholly-owned subsidiary of E.ON AG, had an USD 50 million credit facility. This is an overdraft loan facility to be used for short-term overnight general corporate use. The rate charged on the daily loan balance is 8 basis points over the Federal Funds Rate. There was no outstanding balance under this line at the end of 2005 and 2004.

None of these bilateral credit lines include financial covenants, nor do they provide for cross defaults or a rating trigger.

Central Europe

Bank Loans, Credit Facilities

As of December 31, 2005, the Central Europe market unit had committed credit lines of €348 million (2004: €491 million). The credit lines may be used for general corporate purposes. In particular, they serve as back-up facilities for letters of credit and bank guarantees. In addition, Central Europe had uncommitted short-term credit lines with various banks. Under the credit lines, €180 million was outstanding at year-end 2005 (2004: €181 million). Most of the credit lines do not have a specific maturity. Interest rates for unanticipated drawdowns of facilities reach up to 3 percent. Planned use of the facilities is subject to interest at variable money-market rates plus a margin of up to 47.5 basis points.

Bank loans have been used by the Central Europe market unit primarily to finance specific projects or investment programs and include subsidized credit facilities from national and international financing institutions. Bank loans (including short-term credit lines) amounted to €1,109 million as of December 31, 2005 (2004: €1,216 million).

Pan-European Gas

Long-Term Loans

In March 1999, E.ON Ruhrgas obtained four long-term bilateral loans from banks bearing fixed interest rates in the aggregate amount of €280 million with maturities of 5 to 15 years and repayable at maturity. The entire amount of €140 million outstanding under the loans as of December 31, 2004, was repaid prior to maturity during 2005. The corresponding loss on extinguishment totaled €18 million. The interest rates for these loans varied between 3.75 and 5.068 percent.

In addition, in the period from 1997 to 2003, Pan-European Gas subsidiary Ferngas Nordbayern GmbH obtained long-term loans from banks totaling €84 million. The loans each have a maturity of up to 10 years with annual or quarterly repayments. The outstanding amount as of December 31, 2005, was approximately €15 million (2004: €21 million). The interest rates for these loans vary between 4.1 and 5.98 percent (on average, about 5.06 percent).

U.K.

Bonds

Following the acquisition of the Midlands Electricity group of companies in January 2004, E.ON UK plc assumed responsibility for the liabilities of the acquired companies that were outstanding at the time of the acquisition. In the following, these liabilities are referred to as "the Midlands Debt."

During the first half of 2004, a portion of the outstanding bonds issued by E.ON UK plc and its subsidiaries were purchased by other E.ON Group companies following an offer to tender. Consequently, as of December 31, 2005, only a portion of the bonds still outstanding were held by investors external to the E.ON Group, as detailed below:

- GBP 250 million or €362 million bond issued by E.ON UK plc with a coupon of 8.5 percent maturing in July 2006, of which GBP 44 million or €62 million was held by external investors
- GBP 250 million or €362 million bond issued by E.ON UK plc with a coupon of 6.25 percent maturing in April 2024, of which GBP 8 million or €11 million was held by external investors
- GBP 150 million or €217 million issued by Central Networks plc (previously Midlands Electricity plc, a wholly-owned subsidiary of E.ON UK plc) with a coupon of 7.375 percent maturing in November 2007 (part of the Midlands Debt), of which GBP 0.4 million or approximately €0.6 million was held by external investors
- €500 million Eurobond issued by E.ON UK plc with a coupon of 5.0 percent maturing in July 2009, of which €264 million was held by external investors
- USD 410 million or €347 million Yankee Bond issued by Powergen (East Midlands) Investments, London, U.K., with a coupon of 7.45 percent maturing in May 2007, of which USD 173 million or €147 million was held by external investors

Each of these bonds includes covenants providing for a negative pledge and restrictions on sale and lease-back transactions. Each also includes a cross-default clause that would be triggered by a non-payment of principal, premium or interest on any obligation of the issuer, E.ON UK plc or any of its subsidiaries, with the threshold amounts ranging from GBP 10 million to GBP 50 million.

Nordic

E.ON Sverige Medium Term Note Program

A domestic MTN program was established by Sydkraft, now E.ON Sverige, in 1999 and was increased in 2003 to a maximum allowed outstanding amount of SEK 13 billion. The facility is renewed every year and allows for borrowings in various currencies with a maturity of up to 15 years with various interest rate structures. The program does not include any financial covenants but does contain a cross-default clause which would be triggered by a default of E.ON Sverige or any of its subsidiaries on financial indebtedness in the amount of SEK 10 million or more. The outstanding amount as of December 31, 2005, was SEK 6,601 million or €703 million (2004: SEK 4,458 million or €494 million).

E.ON Sverige Commercial Paper Programs

Established in 1990, the domestic commercial paper program of Sydkraft, now E.ON Sverige, was increased in 1999 to a maximum allowed outstanding amount of SEK 3 billion. Borrowings can be made for terms of up to 360 days. The outstanding amount as of December 31, 2005, was SEK 0 million or €0 million (2004: SEK 1,500 million or €166 million).

A Euro commercial paper program was established by Sydkraft, now E.ON Sverige, in 1990 with a maximum allowed outstanding amount of USD 200 million. Borrowings can be made in various currencies for terms of up to 360 days. The outstanding amount as of December 31, 2005, was €0 million (2004: €61 million).

None of these commercial paper programs include any financial covenants or cross-default clauses.

Bank Loans, Credit Facilities

E.ON Sverige has obtained bilateral loans from credit institutions at variable money-market rates, with a floating rate spread of 21.5 and 42.5 basis points over the Stockholm Interbank Offered Rate (STIBOR), respectively, and maturities of up to ten years. As of December 31, 2005, the aggregate amount outstanding was SEK 1,349 million or €144 million (2004: SEK 2,269 million or €252 million). These loans have mainly been used to finance specific investments.

U.S. Midwest

Bonds and Medium Term Note Programs

E.ON U.S. Capital Corp. ("E.ON U.S. Capital"), Louisville, Kentucky, U.S., has an MTN program under which it was authorized to issue initially up to USD 1.05 billion in bonds. Amounts repaid may not be reborrowed. As of December 31, 2005, the amount outstanding under the program was USD 300 million or €254 million (2004: USD 300 million or €221 million), leaving USD 400 million available for future issuance. The average interest rate for issues under this program for 2005 was 6.97 percent with maturities ranging from 2008 to 2011.

The E.ON U.S. Capital MTN program requires E.ON U.S. to maintain ownership of at least 80 percent of E.ON U.S. Capital and 100 percent of Louisville Gas and Electric Company ("LG&E"), Louisville, Kentucky, U.S. The program also requires E.ON U.S. Capital to maintain tangible net worth of at least USD 25 million, and prohibits liens on the shares of LG&E and E.ON U.S. Capital. Additionally, the program limits the use of sale and leaseback transactions. Any default on debt of the subsidiaries of E.ON U.S. Capital in excess of USD 15 million or a default by LG&E or E.ON U.S. in excess of USD 25 million causes a default of the MTN program.

In addition, as of December 31, 2005, bonds in the amount of USD 574 million or €486 million (2004: USD 574 million or €422 million) were outstanding at LG&E and bonds in the amount of USD 362 million or €307 million (2004: USD 385 million or €283 million) were outstanding at Kentucky Utilities Company ("Kentucky Utilities"), Lexington, Kentucky, U.S., with fixed interest rates as well as with variable interest rates. Fixed rate bonds range from 5.90 percent to 7.92 percent, the average interest rate on the variable rate bonds was less than 2.60 percent in 2005. On the LG&E bonds, maturities range from 2013 to 2035, and on the Kentucky Utilities bonds, maturities range from 2006 to 2035. The LG&E and Kentucky Utilities bonds are collateralized by a lien on substantially all of the assets of the respective companies.

Bilateral Credit Lines, Bank Loans

LG&E has five revolving lines of credit with banks totaling USD 185 million or €157 million. These credit facilities expire in June 2006, and there was no outstanding balance under any of these facilities on December 31, 2005 (2004: €0 million).

These revolving lines of credit include financial covenants, in particular that LG&E's debt/total capitalization ratio must be less than 70 percent and that E.ON AG must own at least two thirds of voting stock of LG&E directly or indirectly. Furthermore, the corporate credit rating of LG&E must be at or above BBB- and Baa3 and LG&E may not dispose of assets aggregating more than 15 percent of its total assets.

Each of the credit lines contains a cross-default provision that causes the LG&E bilateral line of credit to be in default if LG&E is in default on other debt in excess of USD 25 million.

As of December 31, 2005, E.ON's financial liabilities to banks and third parties had the following maturities:

Financial Liabilities to Banks and Third Parties by Maturities

€ in millions	Repayment 2006	Repayment 2007	Repayment 2008	Repayment 2009	Repayment 2010	Repayment after 2010	Total
Bonds (including MTN programs)	732	219	283	275	4,418	3,611	9,538
Commercial paper	–	–	–	–	–	–	–
Bank loans/Liabilities to banks	424	183	116	74	356	377	1,530
Bills payable	–	40	2	–	–	–	42
Other financial liabilities	742	39	99	24	3	399	1,306
Financial liabilities to banks and third parties	**1,898**	**481**	**500**	**373**	**4,777**	**4,387**	**12,416**
Used credit lines	93	14	14	–	8	52	181
Unused credit lines	5,597	–	–	–	5,000	122	10,719
Used and unused credit lines	**5,690**	**14**	**14**	**–**	**5,008**	**174**	**10,900**

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

Financial Liabilities to Banks and Third Parties by Interest Rate

	December 31, 2005				
€ in millions	0-3%	3.1-7%	7.1-10%	more than 10%	Total
Bonds (including MTN programs)	571	8,624	343	–	9,538
Commercial paper	–	–	–	–	–
Bank loans/Liabilities to banks	765	762	3	–	1,530
Bills payable	–	42	–	–	42
Other financial liabilities	161	1,124	4	17	1,306
Financial liabilities to banks and third parties	**1,497**	**10,552**	**350**	**17**	**12,416**

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

Bank Loans		
	December 31,	
€ in millions	2005	2004
Bank loans collateralized by mortgages on real estate	141	1,147
Other collateralized bank loans	51	805
Uncollateralized bank loans, drawings on credit lines, short-term loans	1,338	2,178
Bank loans/Liabilities to banks	**1,530**	**4,130**

Collateralized liabilities to banks totaled €192 million as of December 31, 2005 (2004: €1,952 million), including €0 million (2004: €278 million) that are non-interest-bearing or bear interest rates below market rates.

In 2004, bank loans that bear interest below market rates had been granted mainly to Viterra for financing residential rental real estate. In return, occupancy rights and/or rents below the prevailing market rates were offered to the lender. Due to these conditions, such loans appeared at present value on the balance sheet in 2004. Due to the disposal of Viterra in 2005, no such loans are recorded in the Consolidated Balance Sheet as of December 31, 2005. Financial liabilities include non-interest-bearing and low-interest liabilities in the amount of €26 million in 2005 (2004: €566 million).

In November 2005, E.ON Ruhrgas issued Loan Notes in connection with the acquisition of Caledonia for an amount of approximately GBP 402 million, or €595 million, with a contractual maturity of eighteen months, which may be redeemed after one year. A large portion of these Loan Notes (approximately GBP 365 million or €528 million) was converted into USD Loan Notes (approximately USD 636 million). The coupon is based on LIBOR. As of December 31, 2005, €545 million of these Loan Notes are shown under "Other financial liabilities." €49 million of the Loan Notes issued were assigned to banks in 2005 and are disclosed as "Bank loans/Liabilities to banks" at year-end 2005.

Operating Liabilities

Capital expenditure grants of €270 million (2004: €271 million) are paid primarily by customers in the core energy business for capital expenditures made on their behalf, while E.ON retains the assets. The grants are non-refundable and are recognized in other operating income over the period of the depreciable lives of the related assets.

Construction grants of €3,674 million (2004: €3,558 million) are paid by customers of the core energy business for costs of connections according to the generally binding linkup terms. These grants are customary in the industry, generally non-refundable and recognized as revenue according to the useful lives of the related assets.

Other operating liabilities primarily include the negative fair values of derivative financial instruments of €5,761 million (2004: €1,773 million), E.ON Benelux's cross-border lease transactions for power plants amounting to €1,011 million (2004: €900 million) and accrued interest payable of €638 million (2004: €694 million).

(26) Contingencies and Commitments

E.ON is subject to contingencies and commitments involving a variety of matters, including different types of guarantees, litigation and claims (as discussed in Note 27), long-term contractual and legal obligations and other commitments.

Financial Guarantees

Financial guarantees include both direct and indirect obligations (indirect guarantees of indebtedness of others). These require the guarantor to make contingent payments based on the occurrence of certain events or changes in an underlying instrument that is related to an asset, a liability, or the equity of the guaranteed party.

The Company's financial guarantees include nuclear-energy-related items. Obligations also comprise direct financial guarantees to creditors of related parties and third parties. Direct financial guarantees with specified terms extend as far as 2022. Maximum potential undiscounted future payments could total up to €427 million (2004: €737 million). €304 million of this amount involves guarantees issued on behalf of related parties (2004: €534 million). Indirect guarantees primarily include obligations in connection with cross-border lease transactions and obligations to provide financial support to primarily related parties. Indirect guarantees have specified terms up to 2023. Maximum potential undiscounted future payments could total up to €431 million (2004: €459 million). €67 million of this amount involves guarantees issued on behalf of related parties (2004: €162 million). The Company has recorded provisions of €25 million (2004: €98 million) as of December 31, 2005, with respect to financial guarantees. In addition, E.ON has commitments under which it assumes joint and several liability arising from its stakes in the civil-law companies ("GbR"), non-corporate commercial partnerships and consortia in which it participates.

Several subsidiaries have certain obligations that are based on their membership in VKE in accordance with the articles of incorporation. It is not expected that any claims will arise in respect of these obligations.

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

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

To provide liability coverage for the additional €2,244.4 million per incident required by the above-mentioned amendments, E.ON Energie and the other parent companies of German nuclear power plant operators reached a Solidarity Agreement ("Solidarvereinbarung") on July 11, July 27, August 21, and August 28, 2001. If an accident occurs, the Solidarity Agreement calls for the nuclear power plant operator liable for the damages to receive—after the operator's own resources and those of its parent company are exhausted—financing sufficient for the operator to meet its financial obligations. Under the Solidarity Agreement, E.ON Energie's share of the liability coverage currently stands at 43.0 percent (2004: 43.0 percent), with an additional 5.0 percent charge for the administrative costs of processing damage claims.

In accordance with Swedish law, the Nordic market unit has issued guarantees to governmental authorities. The guarantees were issued to cover possible additional costs related to the disposal of high-level radioactive waste and to nuclear power plant decommissioning. These costs could arise if actual costs exceed accumulated funds. In addition, Nordic is also responsible for any costs related to the disposal of low-level radioactive waste. In Sweden, owners of nuclear facilities are liable for damages resulting from accidents occurring in those nuclear facilities and for accidents involving any radioactive substances connected with the operation of those facilities. As of December 31, 2005, the liability was limited to SEK 3,401 million, or €362 million, per incident (2004: SEK 3,076 million, or €341 million), which amount must be insured according to the Law Concerning Nuclear Liability. The Nordic market unit has purchased the necessary insurance for its nuclear power plants. The Swedish government is currently in the process of reviewing the regulatory framework for nuclear obligations. As of today, it is unclear to what extent this review will lead to an adjustment of the nuclear liability limit in Sweden.

Neither the U.K. nor the U.S. Midwest market unit operates nuclear power plants; they therefore do not have comparable contingent liabilities.

Indemnification Agreements

Contracts in connection with the disposal of shareholdings concluded throughout the Group include indemnification agreements and other guarantees with terms up to 2041 in accordance with contractual arrangements and local legal requirements, unless shorter terms were contractually agreed. The maximum undiscounted amounts potentially payable in respect of the circumstances expressly set forth in these agreements could total up to €6,623 million (2004: €4,602 million). The indemnities ("Freistellungen") typically relate to customary representations and warranties, environmental damages and taxes. In some cases the buyer is required to either share costs or cover a certain amount of costs before the Company is required to make any payments. Some obligations are to be covered first by insurance contracts or provisions of the disposed companies. The Company has recorded provisions of €296 million (2004: €86 million) as of December 31, 2005, with respect to all indemnities and other guarantees included in sales agreements. Guarantees issued by companies that were later sold by E.ON AG (or VEBA AG and VIAG AG before their merger) are included in the final sales contracts in the form of indemnities.

Other Guarantees

Other guarantees with an effective period through 2020 consist primarily of market value guarantees and warranties (maximum potential undiscounted future payments of €130 million). Product warranties, for which provisions of €25 million had been established as of December 31, 2004, no longer exist as of December 31, 2005, due to the disposal of Viterra and Ruhrgas Industries in 2005, and the corresponding provisions have been eliminated.

Long-Term Obligations

As of December 31, 2005, the principal long-term contractual obligations in place relate to the purchase of fossil fuels such as gas, lignite and hard coal.

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

The increase of contractual obligations in place for the purchase of gas are mainly due to the higher purchasing costs of gas in 2005, which led to an adjustment of planning assumptions.

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

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

Other financial obligations amount to €4,299 million (2004: €4,093 million). They primarily consist of obligations for the acquisition of investments.

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

The Central Europe market unit has entered into put option agreements related to various acquisitions that allow other shareholders to exercise rights to sell their remaining stakes for an aggregate total of approximately €1.1 billion.

As of December 31, 2005, the Nordic market unit is a party to a put option agreement which, if exercised, would lead to the acquisition by that market unit of additional shares in E.ON Finland. For additional information about E.ON Finland, please see Note 34.

A CTA with a funding volume of up to €5.4 billion will be established in the E.ON Group in order to cover existing pension obligations. This amount is not included in the table below.

Expected payments arising from long-term obligations totaled €181,134 million on December 31, 2005, and are as follows:

Contractual Financial Obligations

€ in millions	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
Natural gas	164,634	15,292	26,565	34,835	87,942
Oil	–	–	–	–	–
Coal	2,889	1,135	1,099	485	170
Lignite and other fossil fuels	1,089	33	66	66	924
Total fossil fuel purchase obligations	**168,612**	**16,460**	**27,730**	**35,386**	**89,036**
Electricity purchase obligations	4,228	1,231	915	515	1,567
Other purchase obligations	1,024	208	238	135	443
Total long-term purchase commitments/obligations	**173,864**	**17,899**	**28,883**	**36,036**	**91,046**
Major repairs	19	14	5	–	–
Environmental protection measures	29	3	5	3	18
Other (including capital expenditure commitments)	1,791	647	416	263	465
Total other purchase commitments/obligations	**1,839**	**664**	**426**	**266**	**483**
Other financial obligations	**4,299**	**237**	**3,681**	**205**	**176**
Loan commitments	**1,132**	**364**	**193**	**14**	**561**
Total	**181,134**	**19,164**	**33,183**	**36,521**	**92,266**

Rental, Tenancy and Lease Agreements

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

Rental, Tenancy and Lease Agreements

€ in millions	
2006	136
2007	121
2008	107
2009	65
2010	69
Thereafter	236
Total	**734**

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

(27) Litigation and Claims

Various legal actions, including lawsuits for product liability or for alleged price-fixing agreements, governmental investigations, proceedings and claims are pending or may be instituted or asserted in the future against the Company. This in particular includes arbitration proceedings against E.ON Nordic (for further information see Note 34), as well as lawsuits against E.ON AG and U.S. subsidiaries in connection with the disposal of VEBA Electronics in 2000. Since litigation or claims are subject to numerous uncertainties, their outcome cannot be ascertained; however, in the opinion of management, any potential obligations arising from these matters will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

In the wake of the various corporate restructurings of the past several years, shareholders have filed a number of claims ("Spruchstellenverfahren"). The claims contest the adequacy of share exchange ratios or cash settlements paid to former shareholders of the acquired companies. The claims impact the Central Europe and Pan-European Gas market units, as well as the VEBA-VIAG merger itself. Because the share exchange ratios and settlements were determined by outside experts and reviewed by other auditing firms, E.ON believes that the exchange ratios and settlements are correct.

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

(28) Supplemental Disclosure of Cash Flow Information

The following table indicates supplemental disclosures of cash flow information:

Supplemental Disclosure of Cash Flow Information		
€ in millions	2005	2004
Cash paid during the year for		
Interest, net of amounts capitalized	966	1,101
Income taxes, net of refunds	1,059	1,360
Non-cash investing and financing activities		
Increase of stakes in subsidiaries in exchange for distribution of E.ON AG shares to minority shareholders	35	182
Loan notes issued in lieu of cash purchase price payments for Caledonia	595	–
Exchanges and contributions of assets as part of acquisitions	171	–

The deconsolidation of shareholdings and operations resulting from divestments led to reductions of €7,160 million (2004: €231 million) related to assets and €4,510 million (2004: €186 million) related to provisions and liabilities. Liquid funds divested herewith amounted to €45 million (2004: €19 million).

In 2005, cash provided by operating activities increased significantly over the preceding year. The increase was due primarily to changes in tax payments, and in particular to the change in the VAT treatment of gas transactions in the Pan-European Gas market unit. Other positive influences were provided by higher prepayments by customers in December at the Pan-European Gas market unit, the increase in gross margin at the Central Europe market unit and by effects resulting from the elimination of currency swaps in the Corporate Center. These improvements were partly offset by pension fund contributions at the U.K. market unit, increased contributions to the VKE fund at the Central Europe market unit and storm damage payments at the Nordic market unit.

Cash provided by investing activities was positive in 2005. In particular, the sale of Viterra and Ruhrgas Industries generated large positive cash flows. Investments in property, plant and equipment, particularly power plants and grids, were higher than in 2004. However, because payments for acquisitions declined markedly, net investment by the Group actually declined.

The marked reduction of financial debts and higher dividend distributions are reflected in the negative cash flow from financing activities.

Purchase prices for acquisitions of subsidiaries totaled €1,336 million (2004: €1,004 million). This includes the loan notes issued in lieu of cash purchase price payments for the €595 million acquisition of Caledonia. Liquid funds acquired in connection with the acquisitions amounted to €275 million (2004: €110 million). The purchases resulted in assets amounting to €3,892 million (2004: €2,680 million) and in provisions and liabilities totaling €1,922 million (2004: €2,569 million).

The following adjustments have been made in the Consolidated Statement of Cash Flows for 2004 to take into account the effects from discontinued operations: total cash provided by operating activities decreased by €132 million; total cash used for investing activities decreased by €214 million; total cash used for financing activities increased by €305 million.

(29) Derivative Financial Instruments and Hedging Transactions

Strategy and Objectives

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

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

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

Commodity derivatives are subject to the specific market unit's risk management guidelines. The market units involved in such activities enter into commodity derivatives for price risk management, system optimization, load balancing and margin improvement. Any use of derivatives is only allowed within limits established and monitored by a board independent from the trading operations. Proprietary trading activities are subject to particularly strict limits. The risk ratios and limits used mainly include Profit at Risk and Value at Risk figures, as well as volume, credit and book limits.

Additional key elements of risk management are the clear division of duties between scheduling, trading, settlement and control, as well as a risk reporting independent from the trading operations.

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

Fair Value Hedges

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

Cash Flow Hedges

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

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

As of December 31, 2005, the hedged transactions in place included foreign currency cash flow hedges with maturities of up to 12 years (2004: up to 20 years) and up to 27 years (2004: 28 years) for interest rate cash flow hedges. Planned commodity cash flow hedges have maturities of up to 3 years (2004: up to 3 years).

The amount of ineffectiveness for cash flow hedges recorded for the year ended December 31, 2005, was a gain of €1 million (2004: €1 million). For the year ended December 31, 2005, reclassifications from accumulated other comprehensive income for cash flow hedges resulted in a loss of €208 million (2004: €117 million gain). The Company estimates that reclassifications from accumulated other comprehensive income for cash flow hedges in the next twelve months will result in a gain of €68 million. Gains and losses from reclassification are generally reported in that line item of the income statement which also includes the respective hedged transaction. Gains and losses from the ineffective portion of cash flow hedges are classified as other operating income or other operating expenses. Interest rate cash flow hedges are reported under "Interest and similar expenses (net)." The early termination of a cash flow hedge resulting from the probability that the hedged transaction would not occur resulted in a gain of €34 million recognized in other operating income.

Net Investment Hedges

The Company uses foreign currency loans, foreign currency forwards, FX swaps and cross-currency swaps to protect the value of its net investments in its foreign operations denominated in foreign currencies. For the year ended December 31, 2005, the Company recorded an amount of €825 million (2004: €1,060 million) in accumulated other comprehensive income within stockholders' equity due to changes in fair value of derivative and foreign currency transaction results of non-derivative hedging instruments.

Valuation of Derivative Instruments

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

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

- Currency, electricity, gas, oil and coal forward contracts, swaps and emissions-related derivatives are valued separately at their forward rates and prices as of the balance-sheet date. Forward rates and prices are based on spot rates and prices, with forward premiums and discounts taken into consideration.
- Market prices for currency, electricity and gas options are valued using standard option pricing models commonly used in the market. The fair values of caps, floors and collars are determined on the basis of quoted market prices or on calculations based on option pricing models.
- The fair values of existing instruments to hedge interest rate risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument. Discounted cash values are determined for interest rate, cross-currency and cross-currency interest rate swaps for each individual transaction as of the balance-sheet date. Interest exchange amounts are considered with an effect on current results at the date of payment or accrual.
- Equity swaps are valued on the basis of the stock prices of the underlying equities, taking into consideration any financing components.
- Exchange-traded energy futures and option contracts are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses. Paid initial margins are disclosed under other assets. Variation margins received or paid during the term of such contracts are stated under other liabilities or other assets, respectively.
- Certain long-term energy contracts are valued by the use of valuation models that include average probabilities and take into account individual contract details and variables.

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

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

Total Volume of Foreign Currency, Interest Rate and Equity-Based Derivatives

€ in millions	Total volume of derivative financial instruments			
	December 31, 2005		December 31, 2004	
Remaining maturities	Nominal value	Fair value	Nominal value	Fair value
FX forward transactions				
Buy	4,091.3	79.2	4,238.2	-41.3
Sell	8,331.2	-81.7	5,328.6	134.2
FX currency options				
Buy	227.7	32.8	782.7	46.7
Sell	139.6	-39.0	422.2	-36.4
Subtotal	**12,789.8**	**-8.7**	**10,771.7**	**103.2**
Cross-currency swaps				
up to 1 year	1,734.7	34.7	499.1	-7.0
1 year to 5 years	8,163.2	57.8	11,033.7	484.2
more than 5 years	6,358.4	66.6	7,163.8	236.3
Cross-currency interest-rate swaps				
up to 1 year	125.0	13.1	102.3	1.4
1 year to 5 years	316.4	5.0	125.0	12.1
more than 5 years	-	-	297.4	-38.5
Subtotal	**16,697.7**	**177.2**	**19,221.3**	**688.5**
Interest-rate swaps				
Fixed-rate payer				
up to 1 year	612.2	-11.8	371.0	-5.4
1 year to 5 years	1,294.9	-44.1	2,092.5	-107.9
more than 5 years	1,033.5	-18.0	373.3	-36.6
Fixed-rate receiver				
up to 1 year	-	-	23.3	0.3
1 year to 5 years	5,364.4	64.3	3,914.0	100.6
more than 5 years	1,196.4	-20.7	147.0	4.5
Subtotal	**9,501.4**	**-30.3**	**6,921.1**	**-44.5**
Interest-rate options				
Buy up to 1 year	-	-	554.6	-7.2
1 year to 5 years	-	-	-	-
more than 5 years	-	-	-	-
Sell up to 1 year	-	-	110.9	-2.0
1 year to 5 years	-	-	-	-
more than 5 years	-	-	-	-
Subtotal	**0.0**	**0.0**	**665.5**	**-9.2**
Equity swaps	-	-	63.8	103.0
Subtotal	**0.0**	**0.0**	**63.8**	**103.0**
Total	**38,988.9**	**138.2**	**37,643.4**	**841.0**

Total Volume of Electricity, Gas, Coal, Oil and Emissions-Related Financial Derivatives

€ in millions Remaining maturities	December 31, 2005		thereof trading December 31, 2005		December 31, 2004	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Electricity forwards						
up to 1 year	15,379.4	24.0	14,221.3	-64.0	7,521.9	41.6
1 year to 3 years	4,722.5	-116.1	4,228.7	-95.0	2,306.2	-39.9
4 years to 5 years	54.4	-5.0	12.0	-0.5	59.6	-0.4
more than 5 years	9.6	0.8	1.9	-0.1	7.5	-1.0
Subtotal	**20,165.9**	**-96.3**	**18,463.9**	**-159.6**	**9,895.2**	**0.3**
Exchange-traded electricity forwards						
up to 1 year	3,316.7	-103.6	2,402.8	49.6	3,085.4	-93.3
1 year to 3 years	1,621.4	-18.1	985.4	49.8	1,309.9	-9.9
4 years to 5 years	17.6	-1.4	17.6	-1.4	-	-
more than 5 years	1.9	0.1	1.9	0.1	-	-
Subtotal	**4,957.6**	**-123.0**	**3,407.7**	**98.1**	**4,395.3**	**-103.2**
Electricity swaps						
up to 1 year	88.3	-21.6	-	-	29.7	0.3
1 year to 3 years	-	-	-	-	3.1	-0.1
4 years to 5 years	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-
Subtotal	**88.3**	**-21.6**	**0**	**0**	**32.8**	**0.2**
Electricity options						
up to 1 year	-	-	-	-	8.8	-0.2
1 year to 3 years	-	-	-	-	-	-
4 years to 5 years	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-
Subtotal	**0**	**0**	**0**	**0**	**8.8**	**-0.2**
Exchange-traded electricity options						
up to 1 year	12.1	-0.7	12.1	-0.7	64.9	-1.5
1 year to 3 years	71.7	-0.2	71.7	-0.2	132.6	-1.6
4 years to 5 years	-	-	-	-	-	-
more than 5 years	-	-	-	-	-	-
Subtotal	**83.8**	**-0.9**	**83.8**	**-0.9**	**197.5**	**-3.1**
Coal forwards and swaps						
up to 1 year	839.4	-46.0	127.2	-2.8	1,541.6	26.8
1 year to 3 years	439.9	-3.0	51.3	-1.9	851.2	18.3
4 years to 5 years	31.9	-1.4	-	-	112.0	1.1
more than 5 years	-	-	-	-	-	-
Subtotal	**1,311.2**	**-50.4**	**178.5**	**-4.7**	**2,504.8**	**46.2**
Oil derivatives						
up to 1 year	845.0	106.1	103.5	0.6	405.0	28.5
1 year to 3 years	341.7	59.1	-	-	266.0	28.1
4 years to 5 years	-	-	-	-	2.8	-
more than 5 years	-	-	-	-	-	-
Subtotal	**1,186.7**	**165.2**	**103.5**	**0.6**	**673.8**	**56.6**
Carryover	**27,793.5**	**-127.0**	**22,237.4**	**-66.5**	**17,708.2**	**-3.2**

Total Volume of Electricity, Gas, Coal, Oil and Emissions-Related Financial Derivatives

€ in millions Remaining maturities	December 31, 2005		thereof trading December 31, 2005		December 31, 2004	
	Nominal value	Fair value	Nominal value	Fair value	Nominal value	Fair value
Carryover	**27,793.5**	**–127.0**	**22,237.4**	**–66.5**	**17,708.2**	**–3.2**
Gas forwards						
up to 1 year	4,628.7	380.8	483.8	–65.2	1,606.8	77.4
1 year to 3 years	4,226.9	541.4	250.5	–8.8	1,117.9	131.7
4 years to 5 years	763.7	27.4	61.7	1.5	426.0	2.0
more than 5 years	92.6	–17.7	–	–	–	–
Subtotal	**9,711.9**	**931.9**	**796.0**	**–72.5**	**3,150.7**	**211.1**
Gas swaps						
up to 1 year	1,987.3	277.4	1,340.7	3.4	1,908.1	78.1
1 year to 3 years	1,645.0	306.8	594.0	0.8	1,513.9	143.6
4 years to 5 years	737.0	86.9	–	–	503.1	–7.0
more than 5 years	1,892.3	7.9	–	–	373.8	–24.2
Subtotal	**6,261.6**	**679.0**	**1,934.7**	**4.2**	**4,298.9**	**190.5**
Gas options						
up to 1 year	43.3	–16.7	–	–	34.1	–7.6
1 year to 3 years	–	–	–	–	24.5	–7.7
4 years to 5 years	–	–	–	–	–	–
more than 5 years	–	–	–	–	–	–
Subtotal	**43.3**	**–16.7**	**0**	**0**	**58.6**	**–15.3**
Emissions-related derivatives						
up to 1 year	98.4	4.9	92.3	0.8	28.8	–0.5
1 year to 3 years	24.3	1.6	20.2	0.2	5.9	–0.1
4 years to 5 years	–	–	–	–	–	–
more than 5 years	–	–	–	–	–	–
Subtotal	**122.7**	**6.5**	**112.5**	**1.0**	**34.7**	**–0.6**
Exchange-traded emissions-related derivatives						
up to 1 year	11.4	0.3	8.9	0.3	–	–
1 year to 3 years	5.6	0.3	1.4	0.2	–	–
4 years to 5 years	–	–	–	–	–	–
more than 5 years	–	–	–	–	–	–
Subtotal	**17.0**	**0.6**	**10.3**	**0.5**	**0.0**	**0.0**
Total	**43,950.0**	**1,474.3**	**25,090.9**	**–133.3**	**25,251.1**	**382.5**

Counterparty Risk from the Use of Derivative Financial Instruments

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

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

The credit-risk management policy that has been established throughout the Group entails the systematic monitoring of the creditworthiness of counterparties and a regular assessment of credit risk. The credit ratings of all counterparties to derivative financial instruments are reviewed using the Company's established credit approval criteria. The subsidiaries involved in electricity, gas, coal, oil and emissions-related derivatives also perform thorough credit checks on

their counterparties and monitor creditworthiness on a regular basis. The Company receives and pledges collateral in connection with long-term interest and currency hedging derivatives in the banking sector. Furthermore, collateral is required when entering into transactions in commodity derivatives with counterparties of a low degree of creditworthiness. Derivative transactions are generally executed on the basis of standard agreements that allow for the netting of all outstanding transactions with individual contracting partners. For currency and interest-rate derivatives in the banking sector, this netting option is reflected in the accounting treatment. Exchange-traded electricity forward and option contracts and emission rights having an aggregate nominal value of €5,058 million as of December 31, 2005, bear no counterparty risk.

In summary, as of December 31, 2005, the Company's derivative financial instruments had the following credit structure and lifetime. The continuing netting of outstanding transactions with positive and negative market values is not shown in the table below, even though the greater part of the transactions was completed on the basis of contracts that do allow netting. The counterparty risk is the sum of the positive fair values.

Rating of Counterparties

Standard & Poor's and/ or Moody's	December 31, 2005							
	Total		Up to 1 year		1 to 5 years		More than 5 years	
€ in millions	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk
AAA and Aaa through AA- and Aa3	28,821.5	2,557.9	11,489.8	1,036.7	11,738.9	994.6	5,592.8	526.6
AA- and A1 or A+ and Aa3 through A- and A3	19,604.5	1,108.4	8,416.0	787.4	8,791.6	314.9	2,396.9	6.1
A- and Baa1 or BBB+ and A3 through BBB- or Baa3	4,805.1	652.1	3,503.1	450.8	997.8	201.3	304.2	–
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	1,403.0	182.4	944.1	142.7	372.4	38.8	86.5	0.9
Other[1]	23,246.3	2,648.2	15,276.2	2,067.9	5,760.1	530.1	2,210.0	50.2
Total	**77,880.4**	**7,149.0**	**39,629.2**	**4,485.5**	**27,660.8**	**2,079.7**	**10,590.4**	**583.8**

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

(30) Non-Derivative Financial Instruments

The Company estimates the fair value of its non-derivative financial instruments using available market information and appropriate valuation methodologies. The interpretation of market data to generate estimates of fair value requires considerable judgement. Accordingly, the estimates are not necessarily indicative of the amounts the Company would realize for its non-derivative financial instruments under current market conditions.

The estimated book values and fair values of non-derivative financial instruments as of December 31, 2005 and 2004, are summarized in the following table:

Non-Derivative Financial Instruments

	December 31, 2005		December 31, 2004	
€ in millions	Book value	Fair value	Book value	Fair value
Assets				
Loans	1,100	1,112	1,438	1,477
Securities	10,420	10,420	8,617	8,617
Financial receivables and other financial assets	2,019	2,019	2,124	2,124
Cash and deposits at banking institutions	5,859	5,859	4,233	4,233
Total	**19,398**	**19,410**	**16,412**	**16,451**
Liabilities				
Financial liabilities	14,362	15,421	20,301	21,168

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

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

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

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

(31) Transactions with Related Parties

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

Related-Party Transactions		
€ in millions	2005	2004
Income	5,408	4,846
Expenses	2,913	2,530
Receivables	2,263	1,686
Liabilities	2,161	1,973

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

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

Accounts receivable from related companies consist mainly of trade receivables and of a subordinated loan to ONE in the amount of €162 million (2004: €469 million). Interest income recognized on this loan amounted to €11 million in 2005 (2004: €14 million). In May 2005, shareholder loans to ONE were partially converted to equity; the E.ON share of the converted loans amounted to €223 million. In December 2005, ONE repaid €95 million of the remaining shareholder loans to E.ON. As a consequence of a refinancing measure undertaken at ONE in October 2004, E.ON is no longer liable for a guarantee it issued to a bank consortium in 2003 in order to provide additional financial support in the event that ONE is or may become unable to comply with specified debt covenants. The total maximum obligation of E.ON under this agreement was €194 million.

Liabilities of E.ON payable to related companies include €241 million (2004: €1,513 million) in trade payables to operators of jointly-owned nuclear power plants. These payables bear interest at 1.0 percent per annum (2004: between 1.0 and 1.95 percent), and have no fixed maturity. E.ON procures electricity from these power plants both under a cost-transfer agreement and under a cost-plus-fee agreement. The settlement of such liabilities occurs mainly through clearing accounts. In addition, E.ON reported financial liabilities in 2005 of €1,253 million resulting from fixed-term deposits undertaken by the jointly-owned nuclear power plants at E.ON.

(32) Segment Information

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

- The Central Europe market unit, led by E.ON Energie AG, Munich, Germany, focuses on E.ON's integrated electricity business and the downstream gas business in central Europe.
- Pan-European Gas is responsible for the upstream and midstream gas business. Additionally, this market unit holds a number of minority shareholdings in the downstream gas business. The lead company of this market unit is E.ON Ruhrgas AG, Essen, Germany.
- The U.K. market unit encompasses the integrated energy business in the United Kingdom. This market unit is led by E.ON UK plc, Coventry, U.K.
- The Nordic market unit, which is led by E.ON Nordic AB, Malmö, Sweden, focuses on the integrated energy business in Northern Europe. It operates through the integrated energy company E.ON Sverige AB, Malmö, Sweden, and through E.ON Finland Oyj, Espoo, Finland, primarily in Sweden and Finland.
- The U.S. Midwest market unit, led by E.ON U.S. LLC, Louisville, Kentucky, U.S., is primarily active in the regulated energy market in the U.S. state of Kentucky.
- The Corporate Center contains those interests managed directly by E.ON AG that have not been allocated to any of the other segments, E.ON AG itself and the consolidation effects at the Group level.

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

In 2005, this particularly includes the activities of the disposed entities Viterra and Ruhrgas Industries, as well as WKE, which has not been disposed of as yet. The corresponding figures as of December 31, 2005, as well as those for the preceding period, have been adjusted for all components of the discontinued operations. The table below provides a reconciliation of the income statement figures published for the 2004 reporting period to the current 2004 values, as adjusted for the discontinued operation components (see also the explanations on page 113). The 2004 balance-sheet data were not adjusted, as such adjustment is not required by SFAS 144.

Adjustments for Discontinued Operations (2004 reporting period)

€ in millions	Published for the 2004 reporting period	Adjustments	Adjusted figures for the 2004 reporting period
Central Europe	3,602	–	3,602
Pan-European Gas	1,428	–84	1,344
U.K.	1,017	–	1,017
Nordic	701	–	701
U.S. Midwest	349	5	354
Corporate Center	–314	–24	–338
Core energy business	**6,783**	**–103**	**6,680**
Other activities	**578**	**–471**	**107**
Adjusted EBIT	**7,361**	**–574**	**6,787**
Adjusted interest income (net)	–1,140	109	–1,031
Non-operating Income	578	21	599
Income/Loss from continuing operations before income taxes and minority interests	**6,799**	**–444**	**6,355**
Net income	**4,339**	**–**	**4,339**

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

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

Net Income

€ in millions	2005	2004
Adjusted EBIT	**7,333**	**6,787**
Adjusted interest income (net)	–1,027	–1,031
Net book gains	491	589
Cost-management and restructuring expenses	–29	–100
Other non-operating earnings	440	110
Income/Loss from continuing operations before income taxes and minority interests	**7,208**	**6,355**
Income taxes	–2,276	–1,850
Minority interests	–553	–478
Income/Loss from continuing operations	**4,379**	**4,027**
Income/Loss from discontinued operations, net	3,035	312
Cumulative effect of changes in accounting principles, net	–7	–
Net income	**7,407**	**4,339**

Net book gains in 2005 are due primarily to the sale of securities (€371 million). In addition, the transfer of the stake in TEAG resulted in a gain of €90 million. In 2004, net book gains resulted primarily from the sale of E.ON's interests in EWE and VNG (€317 million), the sale of securities (€221 million) and the sale of Degussa shares (€51 million).

Cost management and restructuring expenses declined from their 2004 level to €29 million. They arose primarily in the U.K. market unit as a result of the integration of Midlands Electricity into the market unit.

Other non-operating earnings primarily include unrealized gains from the marking to market of energy derivatives at the U.K. market unit. These derivatives are used to hedge against fluctuations in prices. In the fourth quarter of 2005, the fair value of these derivatives held within the Group increased by more than €600 million on aggregate as a result of the strong increase in gas prices. At the end of 2005, the marking to market of derivatives resulted in a gain of approximately €1,200 million. On the other hand, an impairment charge recorded by Degussa at its Fine Chemicals division translated into a negative effect on earnings in the amount of €347 million through E.ON's direct ownership interest in Degussa (42.9 percent). The costs resulting from the severe storm in Sweden at the beginning of the year amounted to approximately €140 million. Additional negative effects on earnings were attributable to impairments in the area of generation recorded at cogeneration facilities in the U.K. market unit (€129 million) and to an adjustment of deferred taxes (€103 million) undertaken at an at-equity holding of the Corporate Center. The 2004 value primarily reflected the positive effects from the marking to market of derivatives (approximately €290 million). This gain was partially offset by impairment charges on real estate and short-term securities at the Central Europe market unit and by non-recurring charges on investments at the Central Europe and U.K. market units.

Segment Information by Division

€ in millions	Central Europe 2005	Central Europe 2004	Pan-European Gas 2005	Pan-European Gas 2004[1]	U.K. 2005	U.K. 2004	Nordic 2005	Nordic 2004
External sales	24,047	20,540	16,835	12,671	10,102	8,480	3,369	3,281
Intersegment sales	248	212	1,079	556	74	10	102	66
Total sales	**24,295**	**20,752**	**17,914**	**13,227**	**10,176**	**8,490**	**3,471**	**3,347**
Depreciation and amortization	–1,298	–1,121	–387	–334	–586	–575	–379	–420
Impairments[3]	–56	–185	–16	–94	–1	–	–8	–
Adjusted EBIT	**3,930**	**3,602**	**1,536**	**1,344**	**963**	**1,017**	**806**	**701**
thereof: earnings from companies accounted for at equity[4]	189	143	509	419	17	43	9	10
Investments	**2,177**	**2,527**	**531**	**614**	**926**	**503**	**538**	**740**
Intangible assets and property, plant and equipment	1,519	1,388	263	105	565	511	407	350
Financial assets	658	1,139	268	509	361	–8	131	390
Total assets	**60,531**	**55,537**	**30,746**	**22,720**	**19,177**	**14,986**	**11,193**	**11,289**

[1]Adjusted for discontinued operations.
[2]The other activities of the E.ON Group include the 42.9 percent interest in Degussa accounted for at equity in the Consolidated Financial Statements. In addition, the balance-sheet data reported by segment also include the at-equity carrying amount of Degussa and the total assets and liabilities of Viterra, which in 2004 was still reported under other activities.
[3]In 2005 and 2004, the impairment charges recognized in adjusted EBIT differed from the impairment charges recorded in accordance with U.S. GAAP. In 2005, the difference was the result of impairments recorded in the area of generation, specifically power-heat coupling plants in the U.K. market unit. In 2004, the difference was due to impairment charges on real property, on a municipal utility investment at the Central Europe market unit, and on an Asian power plant investment at the U.K. market unit, all of which were included in non-operating earnings.
[4]In 2004 and 2005, the earnings contributing to adjusted EBIT from companies accounted for at equity differed from the at-equity results recorded in accordance with U.S. GAAP. In 2005, this was the result of impairment charges included in non-operating earnings. They relate to the Fine Chemicals division of Degussa and to deferred tax assets of an at-equity holding of the Corporate Center. In 2004, the impairment charges on a municipal utility investment at the Central Europe market unit and on an Asian power plant investment at the U.K. market unit were responsible for the difference.

Interest Income

€ in millions	2005	2004
Net interest expense	**–224**	**–578**
(–) Net interest expense relating to liabilities of affiliated and associated companies as well as other share investments	32	28
(–) Accretion expense related to the adoption of SFAS 143	511	499
(+) Income from long-term loans	31	43
Interest and simliar expenses (net) as shown in Note 7	**–736**	**–1,062**
(+) Non-operating interest income (net)[1]	–39	151
(–) Interest portion of long-term provisions	252	120
Adjusted interest income (net)	**–1,027**	**–1,031**

[1]This figure is calculated by adding interest expenses and subtracting interest income. In 2005, non-operating interest income primarily related to an eliminated provision for interest that had been recognized in previous years. In 2004, non-operating interest income (net) primarily reflected tax-related interest.

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

Net interest income is largely unchanged from 2004. The loss of the positive one-time effect from the amendment of the Endlagervorausleistungsverordnung is offset primarily by the markedly improved net financial position.

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

U.S. Midwest		Corporate Center		Core energy business		Other activities[2]		E.ON Group	
2005	2004[1]	2005	2004[1]	2005	2004[1]	2005	2004[1]	2005	2004[1]
2,045	1,718	1	52	56,399	46,742	–	–	56,399	46,742
–	–	–1,503	–844	–	–	–	–	–	–
2,045	**1,718**	**–1,502**	**–792**	**56,399**	**46,742**	**–**	**–**	**56,399**	**46,742**
–195	–185	–12	–22	–2,857	–2,657	–	–	–2,857	–2,657
–	–	–1	–18	–82	–297	–	–	–82	–297
365	**354**	**–399**	**–338**	**7,201**	**6,680**	**132**	**107**	**7,333**	**6,787**
17	17	9	–42	750	590	132	107	882	697
227	**247**	**–62**	**478**	**4,337**	**5,109**	**–**	**–**	**4,337**	**5,109**
227	247	9	11	2,990	2,612	–	–	2,990	2,612
–	–	–71	467	1,347	2,497	–	–	1,347	2,497
9,296	**7,643**	**–6,186**	**–5,794**	**124,757**	**106,381**	**1,805**	**7,681**	**126,562**	**114,062**

Geographic Segmentation

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

Geographic Segment Information

	Germany		Europe (Eurozone excluding Germany)		Europe (other)		United States		Other		Total	
€ in millions	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
External sales												
by location of customer	33,557	28,621	3,030	2,179	17,743	14,110	1,990	1,770	79	62	56,399	46,742
by location of company	36,635	30,028	1,476	1,462	16,243	13,482	1,980	1,711	65	59	56,399	46,742
Property, plant and equipment	19,010	23,171	1,339	1,283	16,819	15,327	4,072	3,693	83	89	41,323	43,563

Information on Major Customers and Suppliers

E.ON's customer structure in 2005 and 2004 did not result in any major concentration in any given geographical region or business area. Due to the large number of customers the Company serves and the variety of its business activities, there are no individual customers whose business volume is material compared with the Company's total business volume.

E.ON procures the majority of its gas inventory from Russia and Norway.

(33) Compensation of Supervisory Board and Board of Management

Supervisory Board

Provided that E.ON's shareholders approve the proposed dividend at the Annual Shareholders' Meeting on May 4, 2006, total remuneration to members of the Supervisory Board is €3.8 million (2004: €3.3 million).

There were no loans to members of the Supervisory Board in 2005.

The Supervisory Board's compensation structure, as well as the amounts for each member of the Supervisory Board, are shown in the Compensation Report (pages 185 through 188) according to the regulations of the German Corporate Governance Code.

Additional information regarding members of the Supervisory Board is provided on pages 15 and 178.

Board of Management

Total remuneration to members of the Board of Management in 2005 amounted to €22.5 million (2004: €17.3 million). This consisted of base salary, bonuses, other compensation elements and stock options. In accordance with the new statutory provisions regarding publication of compensation of Board of Management members (Gesetz über die Offenlegung der Vorstandsvergütungen, VorstOG) the included stock options are quoted at their fair value on the date they were issued.

Total payments to former members of the Board of Management and their beneficiaries amounted to €5.4 million (2004: €5.2 million). The previous year's value of total remuneration of the current and former members of the Board of Management was adjusted in accordance with the new statutory provisions regarding publication of compensation of Board of Management members. Provisions of €89.0 million (2004: €83.5 million) have been established for the pension obligations to former members of the Board of Management and their beneficiaries.

There were no loans to members of the Board of Management in the 2005 fiscal year.

The Board of Management's compensation structure, as well as the amounts for each member of the Board, are shown in the Compensation Report (pages 185 through 188) according to the regulations of the German Corporate Governance Code.

Additional information regarding members of the Board of Management is provided on pages 10 through 11 and 179.

(34) Subsequent Events

E.ON will acquire full ownership of the gas trading and storage business of the Hungarian oil and gas company MOL. The two companies had first agreed in November 2004 that E.ON would acquire 75 percent of the gas trading and storage business and 50 percent of the gas importer Panrusgaz. The European Commission approved the acquisition, subject to certain conditions. Under these conditions, MOL must divest itself entirely of the gas storage and gas trading business. Accordingly, it was agreed on January 12, 2006, that E.ON would also acquire the remaining 25 percent of both companies. The aggregate purchase price for the complete stake is now approximately €450 million. In addition, E.ON will assume financial debts of approximately €600 million. It was further agreed that, depending on regulatory developments, compensatory payments would be made through the end of 2009 if that should become necessary for a subsequent adjustment of the purchase price. The transaction will be completed by the end of March 2006.

Under an order dated January 13, 2006, the German Federal Cartel Office prohibited E.ON Ruhrgas from implementing existing long-term gas supply contracts with regional and local gas distributors and from entering into new contracts identical or similar in nature. This dispute relates to the enforceability of long-term gas supply contracts, which have been customary in the German natural gas market for delivery to distributors since the beginning of the natural gas industry itself. The differing legal opinions, which touch on basic principles like freedom of contract and competition, as well as on the security of the energy supply, can only be resolved definitively by the courts. E.ON Ruhrgas has therefore filed a complaint against the order with the State Superior Court in Düsseldorf, along with an emergency petition to prevent it from taking immediate effect.

E.ON Nordic and the Finnish energy group Fortum Power and Heat Oyj ("Fortum") signed an agreement on February 2, 2006, under which Fortum will acquire E.ON Nordic's entire interest in E.ON Finland. These 10,246,565 shares constitute 65.56 percent of the capital stock and voting rights of E.ON Finland. The total purchase price is approximately €380 million (€37.12 per share). The transaction is subject to the approval of the Finnish competition authority. E.ON Finland is listed on the Helsinki Stock Exchange. Moreover, the City of Espoo, which at 34.24 percent is the second largest shareholder of E.ON Finland, entered into an agreement with Fortum on January 18, 2006, whereby the City also sells and transfers its entire shareholding in E.ON Finland once E.ON Nordic has transferred its E.ON Finland shares to Fortum. Through this agreement, E.ON Nordic satisfies its obligations under a call option for all shares of E.ON Finland owned by

E.ON Nordic, which it had entered into with Fortum in 2002. Fortum exercised the option in January 2005. In response to Fortum exercising its option, E.ON Nordic had replied that, in view of the position held by the City of Espoo concerning restrictions on share transfers based on the shareholders' agreement between E.ON Nordic and the City of Espoo, E.ON Nordic was not in a position to deliver the E.ON Finland shares. In response, Fortum filed a Request for Arbitration against E.ON Nordic with the International Chamber of Commerce in February 2005. The Espoo City Council consented on January 16, 2006, that both the city itself and E.ON Nordic sell their respective interests in E.ON Finland to Fortum. This decision was declared enforceable with immediate effect by the leadership of the city. When the transaction between E.ON Nordic and Fortum is completed, the companies will simultaneously terminate the arbitration proceedings related to the transfer of the E.ON Finland shares. In connection with the acquisition, E.ON and Fortum reached agreement on a settlement of all related remaining open matters. This agreement involves an additional €16 million payment by Fortum to E.ON.
In February 2006, E.ON Energie and RWE AG, Essen, Germany, signed an agreement concerning the exchange of holdings in the Czech Republic and Hungary. Its implementation, which is planned for the current fiscal year, is subject to the approval of the responsible committees and competition authorities.

On February 21, 2006, E.ON made an offer to acquire 100 percent of the shares and American Depositary Shares of Endesa S.A. ("Endesa"), Madrid, Spain, for a price of €27.50 per share in cash. Endesa is Spain's largest electric utility, which also has significant activities in Latin America and Italy. The total consideration offered for Endesa is approximately €29.1 billion. The completion of the offer is conditional upon E.ON acquiring at least 50.01 percent of the share capital of Endesa and upon the annual shareholders meeting of Endesa resolving to make certain amendments to Endesa's by-laws. E.ON will file notice of its intended acquisition with Spain's General Secretary of Energy (Secretario General de Energía) and with the European Commission. The relevant approvals are not conditions of the offer. E.ON expects to be able to complete the transaction by mid-2006.

On January 27, 2006, RAG made public its previously issued stock purchase offer to Degussa's minority shareholders, thereby continuing the implementation of its framework agreement concerning the disposal of E.ON's 42.9 percent stake in Degussa. The acceptance period ended on February 27, 2006. RAG has announced that it and E.ON now hold at least 95 percent of Degussa stock, the figure named in the stock purchase offer.

Düsseldorf, March 1, 2006

The Board of Management

Bernotat

Bergmann

Gaul

Krüper

Schipporeit

Teyssen

Other Directorships Held by Members of E.ON AG's Supervisory Board

Ulrich Hartmann
Chairman of the Supervisory Board, E.ON AG
- Deutsche Bank AG
- Deutsche Lufthansa AG
- Hochtief AG
- IKB Deutsche Industriebank AG (Chairman)
- Münchener Rückversicherungs-Gesellschaft AG
- Arcelor
- Henkel KGaA

Hubertus Schmoldt
Chairman of the Board of Management, Industriegewerkschaft Bergbau, Chemie, Energie
Deputy Chairman
- Bayer AG
- BHW AG
- DOW Olefinverbund GmbH
- Deutsche BP AG
- RAG Aktiengesellschaft

Günter Adam
Chairman of the Central Works Council, Degussa AG
- Degussa AG

Dr. Karl-Hermann Baumann
- Linde AG
- Schering AG

Ralf Blauth
Chairman of the Combined Works Council, Degussa AG
(until June 30, 2005)
- Degussa AG
- RAG Aktiengesellschaft

Dr. Rolf-E. Breuer
Chairman of the Supervisory Board, Deutsche Bank AG
- Deutsche Bank AG (Chairman)
- Landwirtschaftliche Rentenbank

Dr. Gerhard Cromme
Chairman of the Supervisory Board, ThyssenKrupp AG
- Allianz AG
- Axel Springer AG
- Deutsche Lufthansa AG
- Hochtief AG
- Siemens AG
- ThyssenKrupp AG (Chairman)
- Volkswagen AG
- Suez S.A.
- BNP Paribas S.A.
- Compagnie de Saint-Gobain

Gabriele Gratz
Chairwoman of the Works Council, E.ON Ruhrgas AG
(since July 1, 2005)
- E.ON Ruhrgas AG

Ulrich Hocker
General Manager, German Investor Protection Association
- Feri Finance AG
- Gildemeister AG
- KarstadtQuelle AG
- ThyssenKrupp Stainless AG
- Gartmore SICAV
- Phoenix Mecano AG (Chairman of the Administrative Board)

Seppel Kraus
Labor Union Secretary
- Wacker-Chemie AG
- UPM-Kymmene Beteiligungs GmbH

Prof. Dr. Ulrich Lehner
President and Chief Executive Officer, Henkel Group
- HSBC Trinkaus & Burkhardt KGaA
- Ecolab Inc.
- Novartis AG
- The DIAL Corporation[1] (Chairman)

Dr. Klaus Liesen
Honorary Chairman of the Supervisory Board, E.ON Ruhrgas AG
- TUI AG
- Volkswagen AG

Peter Obramski
Labor Union Secretary
(until June 30, 2005)
- E.ON Energie AG
- E.ON Engineering GmbH
- E.ON Kraftwerke GmbH
- RAG Bahn und Hafen GmbH

Ulrich Otte
Chairman of the Central Works Council, E.ON Energie AG
- E.ON Energie AG
- E.ON Kraftwerke GmbH

Klaus-Dieter Raschke
Chairman of the Combined Works Council, E.ON Energie AG
- E.ON Energie AG
- E.ON Kernkraft GmbH

Dr. Henning Schulte-Noelle
Chairman of the Supervisory Board, Allianz AG
- Allianz AG (Chairman)
- Siemens AG
- ThyssenKrupp AG

Prof. Dr. Wilhelm Simson
- Frankfurter Allgemeine Zeitung GmbH
- Merck KGaA (Chairman since January 1, 2006)
- E. Merck OHG
- Freudenberg & Co.
- Jungbunzlauer Holding AG

Gerhard Skupke
Chairman of the Central Works Council, E.ON edis AG
- E.ON edis AG

Dr. Georg Frhr. von Waldenfels
Former Minister of State, Attorney
- Georgsmarienhütte Holding GmbH
- GI Ventures AG (Chairman)

Information as of December 31, 2005, or as of the date on which membership in the E.ON Supervisory Board ended.
• Directorships/supervisory board memberships within the meaning of Article 100, Paragraph 2, of the German Stock Corporation Act (AktG).
• Directorships/memberships in comparable domestic and foreign supervisory bodies of commercial enterprises.

[1]Exempted directorship.

Other Directorships Held by Members of E.ON AG's Board of Management

Dr. Wulf H. Bernotat

Chairman of the Board of Management and CEO

- E.ON Energie AG[1] (Chairman)
- E.ON Ruhrgas AG[1] (Chairman)
- Allianz AG
- Metro AG
- RAG Aktiengesellschaft (Chairman)
- E.ON Nordic AB[2] (Chairman)
- E.ON UK plc[2] (Chairman)
- E.ON U.S. Investments Corp.[2] (Chairman)
- E.ON Sverige AB[2] (Chairman)

Dr. Burckhard Bergmann

Member of the Board of Management Upstream Business, Market Management, Group Regulatory Management

- E.ON Ruhrgas International AG[1] (Chairman)
- Thüga AG[1] (Chairman)
- Allianz Lebensversicherungs-AG
- MAN Ferrostaal AG
- Jaeger Akustik GmbH & Co. (Chairman)
- Mitteleuropäische Gasleitungsgesellschaft mbH (MEGAL)[2] (Chairman)
- OAO Gazprom
- E.ON Ruhrgas E & P GmbH[2] (Chairman)
- E.ON Ruhrgas Transport Management GmbH[2] (Chairman)
- E.ON UK plc[2]
- Trans Europe Naturgas Pipeline GmbH (TENP)[2] (Chairman)
- ZAO Gerosgaz[2] (Chairman; chairmanship rotates with representative of foreign partner company)

Dr. Hans Michael Gaul

Member of the Board of Management Controlling/Corporate Planning, M&A, Legal Affairs

- Degussa AG[1]
- E.ON Energie AG[1]
- E.ON Ruhrgas AG[1]
- Allianz Versicherungs-AG
- DKV AG
- RAG Aktiengesellschaft
- Steag AG
- Volkswagen AG
- E.ON Nordic AB[2]
- E.ON Sverige AB[2]

Dr. Manfred Krüper

Member of the Board of Management Human Resources, Infrastructure and Services, Procurement, Organization

- Degussa AG[1]
- E.ON Energie AG[1]
- equitrust Aktiengesellschaft (Chairman)
- RAG Aktiengesellschaft
- RAG Immobilien AG
- Victoria Versicherung AG
- Victoria Lebensversicherung AG
- E.ON North America, Inc.[2] (Chairman)
- E.ON U.S. Investments Corp.[2]

Dr. Erhard Schipporeit

Member of the Board of Management Finance, Accounting, Taxes, IT

- Degussa AG[1]
- E.ON Ruhrgas AG[1]
- Commerzbank AG
- Deutsche Börse AG
- SAP AG
- Talanx AG
- E.ON Audit Services GmbH[2] (Chairman)
- E.ON IS GmbH[2]
- E.ON Risk Consulting GmbH[2] (Chairman)
- E.ON UK plc[2]
- E.ON U.S. Investments Corp.[2]
- HDI V. a. G.

Dr. Johannes Teyssen

Member of the Board of Management Downstream Business, Market Management, Group Regulatory Management

- E.ON Bayern AG[1] (Chairman)
- E.ON Hanse AG[1] (Chairman)
- Salzgitter AG
- E.ON Nordic AB[2]
- E.ON Sverige AB[2]

Information as of December 31, 2005.
• Directorships/supervisory board memberships within the meaning of Article 100, Paragraph 2, of the German Stock Corporation Act (AktG).
• Directorships/memberships in comparable domestic and foreign supervisory bodies of commercial enterprises.

[1]Exempted E.ON Group directorship.
[2]Other E.ON Group directorship.

Joint Report on Corporate Governance Prepared by the Board of Management and the Supervisory Board of E.ON AG

E.ON views corporate governance as a central component of its responsible and value-oriented management approach. We have welcomed the creation of uniform standards, both on the national and international level.

Corporate Governance in Germany

Compliance with the guidelines of the German Corporate Governance Code ("the Code") was among the issues addressed by the Board of Management and Supervisory Board in 2005, particularly in conjunction with the new Code recommendations issued on June 2, 2005. The annual efficiency test was carried out and did not indicate any problems. In addition, E.ON took all necessary organizational measures to comply with Germany's Act on the Improvement of Investor Protection. These included revising our company guidelines for preventing insider trading in E.ON stock.

On December 19, 2005, the Board of Management and the Supervisory Board jointly issued E.ON's Declaration of Compliance ("the Declaration") pursuant to Article 161 of the German Stock Corporation Act stating that E.ON will comply with all but one of the recommendations of the Code dated June 2, 2005.

Following the decision by the Board of Management and Supervisory Board to disclose, for the first time, in the Notes to the Consolidated Financial Statements of the 2004 Annual Report, the compensation of each individual member of the Board of Management and Supervisory Board, E.ON's only exception concerns the Code's recommendation that the D&O liability insurance of members of the Board of Management and Supervisory Board should include an appropriate deductible. E.ON's D&O liability insurance does not include a deductible. We explain the reasons for this in the Declaration. We follow all of the Code's other recommendation and most of its suggestions.

The full text of the Declaration is printed on page 189 of this report and is also available at www.eon.com.

United States Securities Laws

As a company whose ADRs are listed on the New York Stock Exchange ("NYSE"), E.ON is subject to certain U.S. federal securities laws, including the Sarbanes-Oxley Act ("SOA") enacted in 2002, as well as the regulations of the U.S. Securities and Exchange Commission ("SEC") and the NYSE. The SOA makes an important contribution to strengthening corporate governance and regaining investors' confidence. We support its goals and principles and comply with the requirements it makes of us, despite the considerable costs of compliance.

Management and Oversight Structure

Supervisory Board

The Supervisory Board has 20 members and, in accordance with the German Codetermination Act, is composed of an equal number of shareholder and employee representatives. The shareholder representatives are elected by the shareholders at the Annual Shareholders Meeting, and the employee representatives are elected by the employees. In the event of a tie vote on the Supervisory Board, another vote is held; if there is still a tie, the chairperson casts the tie-breaking vote. As a general rule, members of the Supervisory Board of E.ON AG should not be older than 70.

In order to ensure that the Supervisory Board's advice and oversight functions are conducted on an independent basis, no more than two former members of the Board of Management may be members of the Supervisory Board. Supervisory Board members may not hold a corporate office or perform advisory services for the Company's key competitors. Supervisory Board members are required to disclose to the Supervisory Board any conflicts of interest, particularly if a conflict arises from their advising or holding a corporate office with one of E.ON's customers, suppliers, creditors, or other business partners. The Supervisory Board is required to report any conflicts of interest to the Annual Shareholders Meeting and to describe how the conflicts have been handled. Any material conflict of interest of a non-temporary nature should result in the termination of the member's appointment to the Supervisory Board. There were no conflicts of interest involving members of the Supervisory Board in 2005. In addition, any consulting or other service agreements between the Company and a Supervisory Board member require the Supervisory Board's prior consent. No such agreements existed in 2005.

The Supervisory Board oversees the management of the Company and advises the Board of Management. It deals with the Company's business development, medium-term plan, and the further development of corporate strategy. It discusses the Company's quarterly Interim Reports and, taking into consideration the external Auditors' Report and the Audit Committee's preliminary report, approves the Financial Statements of E.ON AG and the Consolidated Financial Statements. It also appoints and removes the members of the Board of Management. Together with the Board of Management, it ensures that the Company has a long-term succession plan in place. Transactions or measures taken by the Board of Management that materially affect the Company's assets, finances, or earnings require the Supervisory Board's prior approval. The policies and procedures of E.ON AG's Supervisory Board include a list of transactions and measures that require prior Supervisory Board approval. The list is not exhaustive.

Pursuant to its policies and procedures, the Supervisory Board has formed the following committees:

The committee required by Article 27, Paragraph 3 of the Codetermination Act consists of two shareholder representative members and two employee representative members. This committee is responsible for recommending to the Supervisory Board potential candidates for the Board of Management if the first vote does not yield the necessary two-thirds majority of votes of Supervisory Board members.

The Executive Committee consists of the four members of the above-named committee. It prepares meetings of the Supervisory Board and advises the Board of Management on matters of general policy relating to the Company's strategic development. In urgent cases (in other words, if waiting for the Supervisory Board's prior approval would materially prejudice the Company), the Executive Committee acts on the full Supervisory Board's behalf. In particular, the Executive Committee prepares the Supervisory Board's personnel decisions and is responsible for the conclusion, alteration, and termination of the employment contracts of Board of Management members. It also deals with issues of corporate governance and reports to the Supervisory Board at least once a year on the status and effectiveness of, and possible ways of improving, the Company's corporate governance.

The Audit Committee consists of four members who have special knowledge in the field of accounting and/or business administration. The SOA requires that each of the members of the Audit Committee be independent of the Company. Under an exemption afforded by a rule in the U.S. Securities Exchange Act, employee representatives are also considered independent of the Company. Pursuant to the Code's mandates, the chairman has extensive knowledge and experience in applying accounting principles and/or in international business control processes. Currently, the Audit Committee's financial experts pursuant to the SOA are Ulrich Hartmann and Dr. Karl-Hermann Baumann.

The Audit Committee deals primarily with issues relating to the Company's accounting and risk management, the legally mandated independence of the Company's external auditors, the establishment of auditing priorities, and agreements on the external auditors' fees. The Audit Committee also prepares the Supervisory Board's decision on the approval of the Financial Statements of E.ON AG and of the Consolidated Financial Statements. It also examines the Company's Annual Report on Form 20-F and its quarterly Interim Reports and discusses the review of the Interim Reports with the external auditors.

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

Board of Management

The Board of Management of E.ON AG consists of six members and has one Chairperson. Members of the Board of Management may not be older than 65.

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

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

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

Members of the Board of Management are also required to promptly report conflicts of interest to the Executive Committee of the Supervisory Board and to inform the other members of the Board of Management. Members of the Board of Management may only assume other corporate positions, particularly appointments to the supervisory boards of non-Group companies, with the consent of the Executive Committee of the Supervisory Board. There were no conflicts of interest involving members of the Board of Management in 2005. Any material transactions between the Company and members of the Board of Management, their relatives, or entities with which they have close personal ties require the consent of the Executive Committee of the Supervisory Board, and all transactions must be conducted on an arm's length basis. No such transactions took place in 2005.

Annual Shareholders Meeting

E.ON AG shareholders exercise their rights and vote their shares at the Annual Shareholders Meeting. The Company's financial calendar, which is published in the Annual Report, in the quarterly Interim Reports, and on the Company's Internet site, regularly informs shareholders about important Company dates.

At the Annual Shareholders Meeting, shareholders may vote their shares themselves, by a proxy of their choice, or by a Company proxy who is required to follow the shareholder's voting instructions.

As a rule, the Shareholders Meeting is chaired by the Chairperson of the Supervisory Board.

Accounting and Annual Financial Statements

The E.ON Group's Consolidated Financial Statements are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). E.ON AG's Financial Statements are prepared in accordance with the German Commercial Code.

As stipulated by German law, the Annual Shareholders Meeting votes to select the Company's external auditors.

The Audit Committee prepares the proposal on the selection of the Company's external auditors for the Annual Shareholders Meeting. In order to ensure the external auditors' independence, the Audit Committee secures a statement from the proposed auditors detailing any facts that could lead to the audit firm being excluded for independence reasons or otherwise conflicted. As part of their audit responsibilities the external auditors agree to:

- promptly inform the Chairperson of the Audit Committee should any such facts arise during the course of the audit;
- promptly inform the Supervisory Board of anything arising during the course of the audit that is of relevance to the Supervisory Board's duties; and
- inform the Chairperson of the Audit Committee of, or to note in their audit report, any facts determined during the audit that contradict the statements submitted by the Board of Management or Supervisory Board in connection with the Code.

Risk Policies

Detailed information about E.ON's risk management system can be found on pages 56–57 of this report.

In accordance with an SEC recommendation, E.ON has established a Disclosure Committee, which supports the Board of Management and serves as the central decision-making body responsible for correct and timely financial disclosures. The members of the Disclosure Committee come from various departments of E.ON AG and are, owing to their functions within the Company, particularly suited for the committee's tasks.

Under the Disclosure Committee's leadership, we carried out a review of the financial reporting paths and the existing disclosure controls and procedures at E.ON AG and at the market units lead companies. The effectiveness of these controls and procedures is regularly assessed by E.ON AG's Internal Audit department and by our external auditors.

Under an SEC ruling dated March 2, 2005, beginning with the 2006 financial year we must fulfill the requirements contained in Section 404 of the SOA which are designed to increase the transparency of the internal control system for financial reporting. To meet these requirements, we carried out a Group-wide project designed, in particular, to ensure that we have in place uniform procedures for documenting, evaluating, and testing our internal controls and to coordinate and monitor, on a Group-wide basis, the activities of the major Group companies.

Transparency

Transparency is a high priority of E.ON AG's Board of Management and Supervisory Board. Our shareholders, all capital market participants, financial analysts, shareholder associations, and the media regularly receive up-to-date information about the situation of, and any material changes to, the Company. We use the Internet to help to ensure that all investors have equal access to comprehensive and timely information about the Company.

E.ON AG issues reports about its situation and earnings by the following means:

- Interim Reports (quarterly)
- Annual Report
- Form 20-F
- Annual press conference
- Telephone conferences held upon release of the Interim and Annual Reports
- Numerous events for financial analysts in and outside Germany.

A financial calendar lists the dates on which the Company's financial reports are released.

In addition to the Company's periodic financial reports, the Company issues ad-hoc statements when events or changes occur at E.ON AG that (a) are not publicly known and (b) could have a significant impact on the price of E.ON stock.

The financial calendar and ad-hoc statements are available on the Internet at www.eon.com.

Persons with executive responsibilities, in particular members of E.ON AG's Board of Management and Supervisory Board and persons closely related to them, must disclose their dealings in E.ON stock or in related financial instruments pursuant to Article 15a of the German Securities Trading Act. Such dealings that took place in 2005 have been disclosed on the Internet at www.eon.com. As of December 31, 2005, there was no ownership interest subject to disclosure pursuant to Item 6.6 of the Code.

Ethics

Our actions are grounded in integrity and a respect for the law. To this end, the Board of Management has put into place a Code of Conduct containing guidelines for dealing with business partners and government institutions, for keeping business information and company secrets confidential, and for addressing conflicts of interest. Compliance Officers at E.ON AG and the market units are tasked with implementing the Code of Conduct and ensuring that any ethics issues that arise are dealt with independently and objectively.

In compliance with SOA requirements, we have also developed a special Code of Ethics that applies primarily to Board of Management members and Disclosure Committee members. In particular, the Code of Ethics obliges these individuals to make full, appropriate, accurate, timely, and comprehensible disclosure of information both in the documents we submit to the SEC and in our other corporate publications. The text of the Code of Ethics is on the Internet at www.eon.com.

Finally, the Company has in place a procedure for dealing with complaints relating to accounting and financial reporting. Complaints may be submitted—anonymously, if desired—to a Compliance Officer who reports directly to the Audit Committee.

Compensation Report

The Compensation System for Members of the Supervisory Board

Pursuant to E.ON AG's Articles of Association, members of the Supervisory Board receive an annual compensation. By virtue of a resolution adopted at the Annual Shareholders Meeting on April 27, 2005, a new basic concept was introduced for the compensation system, effective as of January 1, 2005. In accordance with statutory provisions and in line with the Code's recommendations, the revised compensation system takes into consideration the responsibility and the scope of activities of Supervisory Board members, as well as the financial situation and the business performance of the Company. In accordance with the Code, members of the Supervisory Board receive a fixed annual compensation, as well as two variable, performance-based compensation components: a short-term component that is linked to dividends and a long-term component that is tied to the three-year average of the E.ON Group's consolidated net income.

Fixed compensation: in addition to being reimbursed for their expenses, which also include the value-added tax due on their compensation, members of the Supervisory Board receive a fixed amount of €55,000.00 for each fiscal year.

Short-term variable compensation: in addition, members of the Supervisory Board receive a variable compensation of €115.00 for each €0.01 of dividend paid out to shareholders in excess of €0.10 per no-par share for the previous fiscal year.

Long-term variable compensation: furthermore, members of the Supervisory Board receive a variable compensation of €70.00 for each €0.01 of the three-year average of the E.ON Group's consolidated net income per share in excess of €2.30.

Individuals who were members of the Supervisory Board or any of its committees for a period of less than a full fiscal year receive a pro-rata compensation for each full or partial month of membership. The fixed compensation is payable after the end of a fiscal year. Variable compensation components are payable after the Annual Shareholders Meeting, which votes to formally approve the acts of the members of the Supervisory Board in the previous fiscal year.

The Chairman of the Supervisory Board receives three times the above-mentioned compensation; the Deputy Chairman as well as every chairman of a Supervisory Board committee receive a total of twice the above-mentioned amount; and each Committee member receives a total of one-and-a-half times the above-mentioned compensation.

In addition, members of the Supervisory Board are paid an attendance fee of €1,000.00 per day for meetings of the Supervisory Board or any of its committees. Finally, the Company may also take out liability insurance for the benefit of Supervisory Board members to cover the statutory liability of Supervisory Board members for their activity.

The purpose of increasing the fixed annual compensation from €10,000.00 to €55,000.00 is to make allowance for the independence that the Supervisory Board requires to fulfill its supervisory function. In addition, there are a number of other duties that Supervisory Board members have to perform irrespective of the Company's financial performance. For this reason, a minimum compensation should be guaranteed even during times that are difficult for the Company, when the work of the Supervisory Board is usually particularly challenging. On the other hand, the dividend-based compensation should ensure that the compensation interests of the Supervisory Board to some extent are brought in line with the return expectations of shareholders. Finally, since another part of variable compensation is linked to the three-year average of consolidated net income, the Supervisory Board's compensation also contains a component that is related to the Company's long-term performance.

Compensation Paid to Members of the Supervisory Board

Assuming that the Annual Shareholders Meeting on May 4, 2006 will approve the proposed dividend, the total compensation paid to members of the Supervisory Board will amount to €3.8 million (2004: € 3.3 million):

No loans were outstanding or granted to members of the Supervisory Board in fiscal 2005.

In calculating the variable short-term compensation, the proposed special dividend of €4.25 was not considered in accordance with a Supervisory Board resolution.

The members of the Supervisory Board are listed on page 15.

Compensation of the Supervisory Board 2005					
€	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Supervisory Board compensation from affiliated companies	Total
Ulrich Hartmann	165,000	91,425	126,420	–	382,845
Hubertus Schmoldt	110,000	60,950	84,280	–	255,230
Günter Adam	55,000	30,475	42,140	–	127,615
Dr. Karl-Hermann Baumann	110,000	60,950	84,280	–	255,230
Ralf Blauth (until June 30, 2005)	41,250	22,856	31,605	–	95,711
Dr. Rolf-E. Breuer	55,000	30,475	42,140	–	127,615
Dr. Gerhard Cromme	82,500	45,713	63,210	51,500	242,923
Gabriele Gratz (since July 1, 2005)	27,500	15,237	21,070	50,750	114,557
Wolf-Rüdiger Hinrichsen	82,500	45,713	63,210	–	191,423
Ulrich Hocker	55,000	30,475	42,140	–	127,615
Eva Kirchhof	55,000	30,475	42,140	–	127,615
Seppel Kraus	55,000	30,475	42,140	–	127,615
Prof. Dr. Ulrich Lehner	55,000	30,475	42,140	–	127,615
Dr. Klaus Liesen	55,000	30,475	42,140	–	127,615
Peter Obramski (until June 30, 2005)	27,500	15,237	21,070	29,320	93,127
Erhard Ott (since July 1, 2005)	27,500	15,237	21,070	–	63,807
Ulrich Otte	66,458	36,824	50,919	66,850	221,051
Klaus-Dieter Raschke	82,500	45,713	63,210	44,640	236,063
Dr. Henning Schulte-Noelle	82,500	45,713	63,210	–	191,423
Prof. Dr. Wilhelm Simson	55,000	30,475	42,140	–	127,615
Gerhard Skupke	55,000	30,475	42,140	10,750	138,365
Dr. Georg Freiherr von Waldenfels	55,000	30,475	42,140	–	127,615
Subtotal	**1,455,208**	**806,318**	**1,114,954**	**253,810**	**3,630,290**
Attendance fees and meeting-related reimbursements					128,816
Total					**3,759,106**

The Compensation System for Members of the Board of Management

The compensation of the members of the Board of Management is currently composed of a fixed annual base salary, an annual bonus, and a long-term variable component.

The base salary is paid on a monthly basis and is reviewed regularly to determine whether it is in line with market salaries and whether it is fair and reasonable. The last date on which salaries were adjusted was July 1, 2004. The amount of the bonus is determined by the degree to which certain corporate and personal performance targets are achieved under a target-setting system, 70 percent of which is related to corporate performance targets, while personal targets account for 30 percent. The corporate performance targets reflect, in equal shares, operating performance (as measured by adjusted EBIT) and return on capital employed ("ROCE"). Members of the Board of Management who fully achieve their performance target receive the target bonus agreed to in their contracts. The maximum bonus that can be achieved is 200 percent of the target bonus. Any compensation received for work done in the Company's interest (other directorships at Group companies) is set off against the bonus or transferred to the Company.

The long-term variable compensation component that members of the Board of Management receive is stock-based compensation. This compensation is designed to reward members of the Board of Management (and other key executives) for their contributions to increasing the Company's shareholder value, as well as to promote E.ON's long-term corporate growth. This variable pay component, which combines incentives for long-term growth with a risk component, effectively aligns the interests of the management with those of the shareholders.

In 1999 E.ON introduced annual stock appreciation rights ("SAR") in the framework of its stock option program. The SAR program is described in the Notes to Consolidated Financial Statements on page 131-133.

In fiscal 2006, a new long-term compensation component will be introduced, the amount of which will depend on the performance of E.ON's stock price, both in absolute terms and relative to an industry index. This new compensation component will replace the SAR program. Board members who have already been granted SAR can continue to exercise these options in accordance with the agreed terms and conditions.

The total compensation paid to members of the Board of Management therefore includes both fixed and variable components, as recommended in the Code. Criteria applied to determine the amount of compensation include in particular the scope of responsibilities of a member of the Board of Management, his or her personal performance, the performance of the Board as a whole, as well as the Company's financial situation, its success, and its future prospects relative to a benchmark environment.

The variable compensation components contain an element of risk and consequently are not guaranteed compensation. The stock-based compensation systems are based on challenging, relevant benchmark parameters. Under the terms of the plan, it is not possible to change performance targets or benchmark parameters at a later stage. The Executive Committee of the Supervisory Board is responsible for decisions on compensation. The Supervisory Board recently discussed the compensation system for the Board of Management at its meeting on December 19, 2005.

In the event of a premature loss of a Board position due to a change-in-control event, the members of the Board of Management are entitled under their service agreement to payment equal to a maximum of five years' annual target compensation, depending on the length of the remaining term of their service agreement. In any other case, severance pay is only payable if it has been agreed to in a personal termination contract.

Following the end of their service for the Company, members of the Board of Management are entitled to receive pension payments in three cases: if they reach the regular retirement age of currently 60 years, if they are permanently incapacitated, and—providing that certain requirements are met—if their service agreement is terminated prematurely or not extended. Depending on the length of service of members of the Board of Management, their annual pension entitlements are equal to between 50 percent and 75 percent of their last annual base salary. Pension payments are adjusted on an annual basis to reflect changes in the German consumer price index. The annual pension of one member of the Board of Management is a fixed amount that is also adjusted on an annual basis to reflect changes in the consumer price index plus an additional 0.7 percent per year.

Following the death of an active or former member of the Board of Management, a reduced amount of his or her pension is paid as a survivors' pension to the family. A Board member's widow is entitled to lifelong payment of a maximum of 60 percent of the pension. A Board member's children who have not reached a specified age are entitled to an annual payment equal to 20 percent of his or her pension.

Compensation Paid to Members of the Board of Management

The total compensation paid to the members of the Board of Management amounted to €22.5 million (2004: € 17.3 million). Individual members of the Board of Management were paid the following total compensation:

Compensation of the Board of Management 2005

	Fixed annual compensation (in €)	Annual bonus (in €)	Other compensation (in €)	Fair value of 7th tranche SAR granted (in €)	Total (in €)	Number of 7th tranche SAR granted
Dr. Wulf H. Bernotat	1,150,000	3,180,000	41,412	1,350,000	5,721,412	97,472
Dr. Burckhard Bergmann	700,000	1,800,000	28,174	800,000	3,328,174	57,761
Dr. Hans Michael Gaul	700,000	2,100,000	31,113	800,000	3,631,113	57,761
Dr. Manfred Krüper	700,000	1,850,000	31,313	800,000	3,381,313	57,761
Dr. Erhard Schipporeit	700,000	1,620,000	41,780	800,000	3,161,780	57,761
Dr. Johannes Teyssen	700,000	1,700,000	43,135	800,000	3,243,135	57,761
Total	**4,650,000**	**12,250,000**	**216,927**	**5,350,000**	**22,466,927**	**386,277**

Other compensation of €0.2 million (2004: €0.5 million) consists primarily of benefits in kind from the personal use of company cars.

The SAR granted in tranche seven in 2005 were quoted at their fair value on the date of their issuance. This fair value is determined by means of a recognized option pricing model. The model simulates a large number of different scenarios for E.ON AG stock and its benchmark index, the Dow Jones STOXX Utilities Index (price EUR). The intrinsic value of the stock options is determined for each scenario. The fair value included in the table on page 187 is equal to the discounted average of these intrinsic values.

Detailed information about the E.ON AG SAR program can be found on pages 131-133 in Note 10 of the Consolidated Financial Statements.

Exercise gains were paid out to members of the Board of Management in 2005 due to their exercise during 2005 of SAR granted under tranches two to five in fiscal years 2000 to 2003. The exercise gains are shown in the table below.

Total payments made to retired Board of Management members and to their beneficiaries amounted to €5.4 million in 2005 (2004: €5.2 million). In addition, former members of the Board of Management received exercise gains in 2005 amounting to €4.3 million (2004: 0.8 million) for SAR granted in previous years. Provisions of €89.0 (2004: €83.5 million) have been provided for pension obligations to retired Board of Management members and their beneficiaries.

No loans were outstanding or granted to members of the Board of Management in fiscal 2005.

Pages 11 and 179 contain additional information about the members of the Board of Management.

SAR Exercise Gains Paid in 2005

	5th tranche (2003)		4th tranche (2002)		3rd tranche (2001)		2nd tranche (2000)	
	SAR exercised Number	Exercise gain (in €)	SAR exercised Number	Exercise gain (in €)	SAR exercised Number	Exercise gain (in €)	SAR exercised Number	Exercise gain (in €)
Dr. Wulf H. Bernotat	40,000	1,547,600	–	–	–	–	–	–
Dr. Burckhard Bergmann	15,000	384,150	–	–	–	–	–	–
Dr. Hans Michael Gaul	10,000	384,700	40,000	698,200	25,000	399,450	10,500	201,810
Dr. Manfred Krüper	–	–	25,000	658,250	25,000	355,500	21,000	403,620
Dr. Erhard Schipporeit	30,000	803,900	40,000	439,100	25,000	407,150	–	–
Dr. Johannes Teyssen	37,209	1,032,178	–	–	16,500	244,200	–	–

Declaration of Compliance

Declaration of Compliance with the German Corporate Governance Code, Made in Accordance with Article 161 of the German Stock Corporation Act, by the Board of Management and Supervisory Board of E.ON AG

The Board of Management and the Supervisory Board hereby declare that E.ON AG complies with the recommendations contained in the German Corporate Governance Code (dated June 02, 2005) prepared by the Government Commission appointed by the German Minister of Justice and published in the official section of the electronic version of the *Bundesanzeiger*. Furthermore, the Board of Management and the Supervisory Board declare that E.ON AG has been in compliance since the last statement of German Corporate Governance Code (dated May 21, 2003) recommendations was issued. However, there are the following exceptions:

1. Item 3.8 of the German Corporate Governance Code recommends that the liability insurance provided for members of the Board of Management and Supervisory Board (so-called D&O insurance) should include an appropriate deductible.

The D&O liability insurance of members of the Board of Management and Supervisory Board does not include a deductible. E.ON continues to believe that imposing deductibles is not an appropriate way to improve the sense of responsibility with which members of the Board of Management and Supervisory Board perform their assigned tasks and functions. E.ON's policy in this regard conforms with international standards and with those in effect at its subsidiaries in the United Kingdom and the United States.

2. Item 4.2.4 of the German Corporate Governance Code recommends that the compensation of each individual member of the Board of Management should be disclosed in the Notes to the Consolidated Financial Statements. Similarly, Item 5.4.5 of the German Corporate Governance Code recommends that the compensation of each individual member of the Supervisory Board should be disclosed in the Notes to the Consolidated Financial Statements.

E.ON disclosed the compensation of each individual member of the Board of Management and Supervisory Board in the Notes to the Consolidated Financial Statements of the 2004 E.ON Annual Report for the first time.

Düsseldorf, December 19, 2005

For the Supervisory Board of E.ON AG
Ulrich Hartmann
Chairman of the Supervisory Board

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

Summary of Financial Highlights[1]					
€ in millions	2001	2002	2003	2004	2005
Sales and earnings					
Sales	36,041	35,300	44,109	46,742	56,399
Adjusted EBITDA[2]	6,144	6,991	8,683	9,741	10,272
Adjusted EBIT[3]	3,352	4,258	5,707	6,787	7,333
Income/Loss (–) from continuing operations before income taxes and minority interests	3,014	–947	5,165	6,355	7,208
Income/ Loss (–) from continuing operations	2,349	–901	3,575	4,027	4,379
Income/ Loss (–) from discontinued operations	247	3,487	1,512	312	3,035
Net income	2,570	2,777	4,647	4,339	7,407
Value measures					
ROCE[4] (in %)	9.6	9.2	9.9	11.5	12.1
Asset structure					
Long-term assets	64,663	86,286	86,967	88,223	93,914
Short-term assets	36,996	27,217	24,883	25,839	32,648
Total assets	101,659	113,503	111,850	114,062	126,562
Capital structure					
Stockholders' equity	24,462	25,653	29,774	33,560	44,484
thereof capital stock	1,799	1,799	1,799	1,799	1,799
Minority interests	6,362	6,511	4,625	4,144	4,734
Long-term liabilities	44,628	58,501	53,452	52,624	52,251
thereof provisions	26,564	29,159	27,085	27,328	27,403
thereof financial liabilities	9,308	17,175	14,521	13,265	10,555
thereof other liabilities	8,756	12,167	11,846	12,031	14,293
Short-term liabilities	26,207	22,838	23,999	23,734	25,093
thereof provisions	6,237	5,588	7,243	6,914	6,459
thereof financial liabilities	7,011	7,675	7,266	7,036	3,807
thereof other liabilities	12,959	9,575	9,490	9,784	14,827
Total liabilities and stockholders' equity	101,659	113,503	111,850	114,062	126,562
Cash flow and investments					
Cash provided by operating activities	2,587	3,498	5,307	5,840	6,601
Free cash flow[5]	–124	411	2,769	3,228	3,611
Investments	6,744	23,760	9,013	5,109	4,337
Financial ratios					
Equity ratio (in %)	24.1	22.6	26.6	29.4	35.1
Long-term assets as a percentage of property, plant, and equipment	116.7	105.1	101.0	102.4	108.1
Return on equity after taxes (in %)	9.8[6]	11.1	16.8	13.7	19.0
Net financial position[7] (financial assets less financial liabilities at year end)	1,782	–12,460	–7,855	–5,483	3,863
Cash provided by operating activities as a percentage of sales	7.2	9.9	12.0	12.5	11.7

Summary of Financial Highlights[1]

€ in millions	2001	2002	2003	2004	2005
Stock					
Earnings per share (in €)					
from continuing operations	3.49	–1.38	5.47	6.13	6.64
from discontinued operations	0.36	5.35	2.31	0.48	4.61
from cumulative effect of changes in accounting principles, net	–0.04	0.29	–0.67	–	–0.01
from net income	3.81	4.26	7.11	6.61	11.24
Other per share figures (in €)					
Stockholders' equity[8]	36.30	39.33	45.39	50.93	67.50
Twelve-month high	64.50	59.97	51.74	67.06	88.92
Twelve-month low	46.91	38.16	34.67	49.27	64.50
Year-end closing price	58.18	38.45	51.74	67.06	87.39
Dividend	1.60	1.75	2.00	2.35	2.75
Dividend payout	1,100	1,142	1,312	1,549	4,614[9]
Market capitalization[10] (€ in billions)	39.2	25.1	33.9	44.2	57.6
E.ON AG long-term ratings					
Moody's	Aa2	Aa2	A-1	Aa3	Aa3
Standard & Poor's	AA	AA–	AA–	AA–	AA–
Employees					
Employees at year end	84,934	98,419	57,445	60,156	79,947

[1]Adjusted for discontinued operations and, in the case of 2001, goodwill amortization.
[2]Non-GAAP financial measure; see reconciliation to net income on page 37.
[3]Non-GAAP financial measure; see reconciliation to net income on page 37 and commentary on page 172-173.
[4]Non-GAAP financial measure; see derivation on pages 38-41; not adjusted for discontinued operations for 2001, 2002, and 2003.
[5]Non-GAAP financial measure; see reconciliation to cash provided by operating activities on page 45.
[6]Stockholders' equity not adjusted for goodwill amortization.
[7]Non-GAAP financial measure; see reconciliation on page 47.
[8]Excludes minority interests.
[9]Includes special dividend of €4.25 per share.
[10]Market capitalization based on ordinary shares outstanding.

Major Shareholdings at December 31, 2005

Name	Location	Ownership interest	Stockholders' equity[1]	Earnings[1]	Sales[1]
Central Europe Market Unit		%	€m	€m	€m
E.ON Energie AG[2, 4]	DE, Munich	100.0	4,166.8	1,937.3	0.0
BKW FMB Energie AG[3, 6]	CH, Bern	21.0	508.6	120.8	1,705.0
Dél-dunántúli Gázszolgáltató Rt. (DDGáz)[2]	HU, Pécs	50.0	44.6	3.3	222.5
E.ON Avacon AG[2]	DE, Helmstedt	67.2	993.7	133.3	2,846.3
E.ON Bayern AG[2, 4]	DE, Regensburg	100.0	874.6	134.6	2,957.2
E.ON Benelux Holding b.v.[2]	NL, Den Haag	100.0	666.4	88.8	0.0
E.ON Bulgaria EAD[2]	BG, Varna	100.0	150.8	0.9	4.8
E.ON Česká republika, a.s.[2]	CZ, České Budějovice	100.0	110.3	16.6	205.0
E.ON Czech Holding AG[2, 4, 5]	DE, Munich	100.0	552.9	15.3	0.0
E.ON Dél-dunántúli Áramszolgáltató Rt. (EDE)[2]	HU, Pécs	100.0	121.9	10.3	283.1
E.ON Distribuce, a.s.[2]	CZ, České Budějovice	100.0	667.4	71.4	374.0
E.ON edis AG[2]	DE, Fürstenwalde/Spree	71.3	898.5	98.5	1,820.6
E.ON Energie, a.s.[2]	CZ, České Budějovice	100.0	104.3	–20.0	864.9
E.ON Facility Management GmbH[2, 4, 5]	DE, Würzburg	100.0	3.6	–7.3	169.3
E.ON Hanse AG[2]	DE, Quickborn	73.8	544.0	94.9	2,647.5
E.ON Hungária Energetikai Rt.[2]	HU, Budapest	100.0	1,024.2	74.1	20.3
E.ON IS GmbH[2]	DE, Hanover	100.0	17.4	3.8	323.7
E.ON Kernkraft GmbH[2, 4, 5]	DE, Hanover	100.0	243.3	974.2	2,189.7
E.ON Kraftwerke GmbH[2, 4, 5]	DE, Hanover	100.0	1,843.9	314.0	2,299.6
E.ON Mitte AG[2]	DE, Kassel	73.3	491.2	81.5	1,027.2
E.ON Moldova S.A.[2, 6]	RO, Bacău	51.0	148.1	6.0	238.7
E.ON Netz GmbH[2, 4, 5]	DE, Bayreuth	100.0	811.8	245.0	3,568.0
E.ON Sales & Trading GmbH[2, 4, 5]	DE, Munich	100.0	995.1	294.4	10,145.5
E.ON Thüringer Energie AG[2]	DE, Erfurt	76.8	702.0	115.7	958.1
E.ON Tiszántúli Áramszolgáltató Rt. (ETI)[2]	HU, Debrecen	100.0	138.4	7.0	305.4
E.ON Wasserkraft GmbH[2, 4, 5]	DE, Landshut	100.0	370.9	173.4	350.0
E.ON Westfalen Weser AG[2]	DE, Paderborn	62.8	477.1	67.6	1,008.3
Elektrorazpredelenie Gorna Oryahovitza AD[2]	BG, Gorna	67.0	61.2	–6.1	91.4
Elektrorazpredelenie Varna AD[2]	BG, Varna	67.0	71.1	–5.8	100.2
Közép-dunántúli Gázszolgáltató Rt.[2]	HU, Nagykanizsa	98.1	68.1	4.6	206.4
NRE Energie b.v.[2]	NL, Eindhoven	100.0	3.8	1.6	201.9
Západoslovenská energetika a.s. (ZSE)[3, 6]	SK, Bratislava	49.0	267.6	65.6	578.7
Pan-European Gas Market Unit					
E.ON Ruhrgas AG[2, 4, 5]	DE, Essen	100.0	3,494.5	2,096.8	16,872.2
A/s Latvijas Gāze[3, 6]	LV, Riga	47.2	309.7	27.0	173.5
AB Lietuvos Dujos[3, 6]	LT, Vilnius	38.9	174.7	19.6	144.4
E.ON Ruhrgas E&P GmbH[2, 4]	DE, Essen	100.0	876.6	68.1	0.0
E.ON Ruhrgas International AG[2, 4]	DE, Essen	100.0	1,934.7	164.6	0.0
E.ON Ruhrgas Norge AS[2]	NO, Stavanger	100.0	23.2	7.6	116.5
E.ON Ruhrgas Transport AG & Co. KG[2, 7]	DE, Essen	100.0	115.6	39.8	1,147.0
E.ON Ruhrgas UK North Sea Limited[10]	GB, Aberdeen	100.0	606.0	2.0	0.0
Erdgasversorgungsgesellschaft Thüringen-Sachsen mbH (EVG)[3, 6]	DE, Erfurt	50.0	60.9	16.3	490.8
Etzel Gas-Lager Statoil Deutschland GmbH & Co.[3, 6]	DE, Friedeburg-Etzel	74.8	31.8	23.7	48.8
Ferngas Nordbayern GmbH[2]	DE, Nuremberg	70.0	88.8	22.3	784.6
Gasum Oy[3, 6]	FI, Espoo	20.0	214.7	33.7	603.6
Gas-Union GmbH[3, 6]	DE, Frankfurt am Main	25.9	70.4	7.5	880.8
Interconnector (UK) Limited[3, 9]	GB, London	23.6	19.5	46.5	136.4
MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG[3, 6, 8]	DE, Essen	51.0	30.2	8.7	45.4
NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG[3, 6]	DE, Emstek	40.6	156.8	55.1	104.6
OAO Gazprom[3, 6]	RU, Moscow	6.4	48,940.2	4,497.2	24,770.1

Major Shareholdings at December 31, 2005

Name	Location	Ownership interest	Stockholders' equity[1]	Earnings[1]	Sales[1]
		%	€m	€m	€m
Saar Ferngas AG[3, 4, 6]	DE, Saarbrücken	20.0	133.2	36.0	947.4
S.C. Distrigaz Nord S.A.[2]	RO, Târgu Mureş	51.0	288.2	-28.5	491.8
Slovenský Plynárenský Priemysel, a.s. (SPP)[3, 6]	SK, Bratislava	24.5	2,120.5	539.5	1,742.3
Thüga Aktiengesellschaft[2, 4]	DE, Munich	100.0	2,355.4	311.2	320.1
U.K. Market Unit					
Central Networks East plc[2, 6]	GB, Coventry	100.0	634.9	140.0	434.7
Central Networks West plc[2, 6]	GB, Coventry	100.0	527.5	144.4	445.2
Corby Power Ltd.[2, 6]	GB, Corby	50.0	66.5	25.5	64.0
E.ON UK Cogeneration Ltd.[2, 6]	GB, Coventry	100.0	13.8	-8.5	51.5
E.ON UK plc[2, 6]	GB, Coventry	100.0	2,679.2	53.6	7,109.6
E.ON UK Renewables Holdings Ltd.[2, 6]	GB, Coventry	100.0	17.4	-4.1	0.0
Edenderry Power Ltd.[2, 6]	IE, Dublin	100.0	33.2	3.9	44.2
Enfield Energy Centre Ltd.[2, 6]	GB, Coventry	100.0	51.5	13.5	164.2
Powergen Retail Ltd.[2, 6]	GB, Coventry	100.0	1,663.9	226.3	4,491.7
Nordic Market Unit					
E.ON Nordic AB[2]	SE, Malmö	100.0	4,108.8	134.1	41.9
E.ON Sverige AB[2]	SE, Malmö	55.3	3,099.6	565.4	973.1
U.S. Midwest Market Unit					
E.ON U.S. LLC[2]	US, Louisville	100.0	4,515.6	45.9	0.0
E.ON U.S. Capital Corp.[2]	US, Louisville	100.0	39.1	-462.6	0.0
Kentucky Utilities Company (KU)[2]	US, Lexington	100.0	821.5	88.6	969.8
LG&E Energy Marketing Inc.[2]	US, Louisville	100.0	-311.0	4.7	0.0
LG&E Power Inc.[2]	US, Louisville	100.0	104.6	20.2	0.0
Louisville Gas and Electric Company (LG&E)[2]	US, Louisville	100.0	825.6	101.2	1,144.8
Other					
Aviga GmbH[2]	DE, Duisburg	100.0	1,197.3	69.9	0.0
Degussa AG[3]	DE, Düsseldorf	42.9	2,739.3	-1,020.6	3,561.1
E.ON North America, Inc.[2, 6]	US, New York	100.0	151.0	19.6	0.0
E.ON Ruhrgas Holding GmbH[2, 4]	DE, Düsseldorf	100.0	10,040.5	2,069.1	0.0
RAG Aktiengesellschaft[3, 6]	DE, Essen	39.2	486.9	0.0	4,394.9

[1]Figures reflect the financial statements prepared in accordance with the GAAP of each individual country and do not reflect the amounts included in E.ON's Consolidated. Financial Statements. Stockholders' equity of non-eurozone companies is translated into eruos at year-end rates; earnings and sales of these companies are translated into euros at annual average rates.
[2]Consolidated subsidiaries.
[3]Other shareholdings.
[4]Profit and loss pooling agreement (earnings before pooling).
[5]This company exercised its exemption option under Article 264b, Paragraph 3 of the German Commercial Code.
[6]Mainly prior-year figures unless profit and loss pooling agreement exits.
[7]Stockholders' equity of €115.6 million, thereof €90.0 million in unpaid capital contributions have not yet been demanded. This company exercised its exemption option under Article 264 of the German Commercial Code.
[8]Company was created in 2005. Figures are for MEGAL GmbH only.
[9]Sales taken from Consolidated Financial Statements for the period ended September 30, 2005.
[10]Figures calculated pursuant to U.S. GAAP.

Actuarial gains and losses
The actuarial calculation of provisions for pensions is based on forecasts of a number of variables, such as projected future salaries and pensions. An actuarial gain or loss is recorded when the actual numbers turn out to be different from the projections.

Adjusted EBIT
Adjusted earnings before interest and taxes. An indicator of a business's long-term earnings power, adjusted EBIT is E.ON's key performance metric. It is an adjusted figure derived from income/loss from continuing operations before income taxes and minority interests. The adjustments include book gains and losses on disposals, restructuring expenses, and other nonrecurring expenses (see Other nonoperating earnings).

Adjusted EBITDA
Adjusted earnings before interest, taxes, depreciation, and amortization.

Adjusted EBITDA ÷ Net financial position
Indicator of a company's ability to service its debt. It equals the portion of a company's net financial liabilities that could be paid back out of its adjusted EBITDA.

Adjusted EBITDA ÷ Net interest expense
Indicator of a company's ability to service its debt. It equals the number of times a company's net interest expense could be paid using its adjusted EBITDA.

ADR
Abbreviation for American depositary receipt. These are depositary certificates traded on U.S. stock exchanges in place of a foreign share. ADRs make it easier for foreign companies to gain access to U.S. investors.

Balancing energy
Energy not scheduled in advance that is required to meet energy imbalances within a power system in real time. It is supplied to a transmission system operator ("TSO") by various types of reserve generating equipment that can respond quickly to the TSO's request for more or less energy, ensuring that customers have a stable supply of electricity.

Barrel ("bbl")
Unit of capacity for crude oil and petrochemical products. A barrel is equal to 42 U.S. gallons, 35 Imperial gallons, or 159 liters; "bbl" is actually an abbreviation of "blue barrel," referring to the blue-colored 42-gallon steel drums used by Standard Oil in the late nineteenth century.

Baseload
Minimum amount of electricity delivered or required within a power system. Since this minimum is typically at night, baseload is the sum of the electricity consumed by industrial facilities that operate 24 hours a day, by street lights, and by commercial and residential appliances that run around the clock (refrigerators, air conditioners, electric space heating).

Beta factor
Indicator of a stock's relative risk. A beta coefficient of more than one indicates that a stock has a higher risk than the overall market; a beta coefficient of less than one indicates that it has a lower risk.

Biomass
Organic material made from plants and animals. Typical examples relevant for the energy industry are wood, crops, manure, and some types of garbage. Biomass can, for example, be burned in combined-cycle generating units to produce both electricity and heat.

Brent crude oil
A light crude oil with a low sulfur content. It is extracted from beneath the North Sea floor between the Shetland Islands and Norway and traded at London's International Petroleum Exchange ("IPE") and other European exchanges. Because Brent is Europe's most commonly traded crude oil, the price of the IPE Brent futures contract is often used as Europe's benchmark price.

British thermal unit ("Btu")
Amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit. It is used to compare the heat-producing value of different fuels. In the U.S., fuels such as natural gas are priced in millions of Btus ("MmBtus"). One MmBtu equals 0.29307 MWh, which is enough energy to provide electric service to about 300 homes for one hour.

Carbon dioxide ("CO_2")
A colorless, odorless gas that at very low concentrations is a natural component of air. It is formed by the combustion of carbonaceous matter.

Cash flow statement
Calculation and presentation of the cash a company has generated or consumed during a reporting period as a result of its operating, investing, and financing activities.

Charge approvals process
Process by which the German Federal Network Agency or a German state-level regulator approves power and gas network access charges, which under German law are cost-based. In certain circumstances, system operators can submit market-based charges for regulatory approval.

CO_2 emission certificate trading
EU-wide emissions trading scheme. Energy production and energy-intensive industrial facilities must demonstrate that they have certificates commensurate with their CO_2 emissions. Initially, the individual member states allocate emissions certificates to facility operators. If operators produce more CO_2 than anticipated, they must either reduce the CO_2 emissions of their facilities or buy additional emissions certificates. If they produce less CO_2, they may sell their unused certificates on the open market.

Cogeneration Protection Law
German law designed to promote the maintenance, modernization, and growth of cogeneration capacity in order to reduce energy consumption and protect the earth's climate. Depending on the size and age of a qualifying cogeneration facility, its operator receives, in addition to the market price, a subsidy payment for each kilowatt-hour of electricity the facility delivers onto the power system.

Combined heat and power ("CHP")
Generating technology in which both electric and thermal energy are obtained from a single energy source, which makes CHP generating units significantly more efficient.

Commercial papers ("CPs")
Unsecured, short-term money market obligations issued by commercial firms and financial institutions. CPs are usually quoted on a discounted basis, with repayment at the par value. The maturities of CPs are typically from 2 to 364 days.

Compressor station
Facilities placed roughly every 100 to 250 kilometers (60 to 150 miles) to move natural gas in transport pipelines through the creation of pressure differentials.

Contractual trust arrangement ("CTA")
Model for financing pension obligations under which company assets are converted to assets of a pension plan administered by an independent trust that is legally separate from the company.

Control area
Power system or part of a power system in which the transmission system operator ensures system stability by matching, at all times, generation and consumption by means of balancing energy.

Control area imbalance calculation
Calculation of the difference between generation and consumption within a control area over a specified period of time.

Cost of capital
Weighted average of the costs of debt and equity funds (weighted average cost of capital: "WACC"). The cost of equity is the return expected by an investor in a given stock. The cost of debt is equivalent to a firm's long-term financing terms. The interest on corporate debt is tax deductible.

Derivative
Product whose value derives largely from the price, price fluctuations, or price expectations of an underlying instrument (such as a stock, bond, currency, interest rate, or commodity).

Discontinued operations
Businesses or parts of a business that are planned for divestment or have already been divested. They are subject to special disclosure rules.

Dispatch
The monitoring and controlling of an integrated electric or natural gas supply system such that energy is supplied as economically and reliably as possible.

District heating
System by which heat (steam or hot water) produced at a central source is distributed through a network of pipes to several buildings and sometimes an entire district of a city.

Energy efficiency
Ratio between the amount of energy produced by a machine and the amount of energy it consumes, indicating the efficiency of a particular energy transformation technology.

Energy Law of 2005
German law designed to create market conditions a) under which the general public will have access to a reliable, economically priced, consumer-friendly, efficient, und environmentally friendly supply of natural gas and electricity and b) that ensure effective competition in these industries.

Entry-exit model
Pricing model for natural gas transport under which shippers can book pipeline receipt and delivery points separately and in different volumes, use transmission capacity without specifying a transport path, and aggregate it with the capacity of other shippers.

Equity method
Method for valuing shareholdings in associated companies whose assets and liabilities are not fully consolidated. The proportional share of the company's annual net income (or loss) is reflected in the shareholding's book value. This change is typically shown in the owning company's income statement.

Fair value
The price at which assets, debts, and derivatives pass from a willing seller to a willing buyer, each having access to all the relevant facts and acting freely.

Federal Network Agency for Electricity, Gas, Telecommunications, Post, and Railway
German federal regulatory authority that since July 2005 has, in conjunction with state-level agencies, regulatory oversight over Germany's electricity and gas networks. Its commonly used German abbreviation is BNetzA.

Fossil fuel
Any naturally occurring energy source (such as petroleum, natural gas, or coal) formed in the earth from plant or animal remains.

Free cash flow
Cash provided by operating activities less investments in intangible assets and property, plant, and equipment.

Fuel cell
Device that generates direct current and heat by means of an electrochemical reaction between hydrogen and oxygen. Such devices are currently about 60 percent energy efficient.

Henry Hub
Nexus of numerous interstate natural gas pipelines in Louisiana, USA. The price of the natural gas futures contract at the New York Mercantile Exchange is based on delivery at the Henry Hub. This contract is widely used in the U.S. as a benchmark price for natural gas.

High voltage
Voltages of between 60 kV und 110 kV.

Impairment test
Periodic comparison of an asset's book value with its fair value. A company must record an impairment charge if it determines that an asset's fair value has fallen below its book value. Effective January 1, 2002, E.ON adopted SFAS 142, a U.S. accounting standard under which goodwill is no longer periodically amortized but instead is tested for impairment on at least an annual basis.

Incentive regulation
Term for a German regulatory policy under which network access charges are structured so that they provide system operators with an incentive to make their operations more efficient. The regulatory agency sets a maximum charge for such services or the maximum total revenues (typically over a five-year period) an operator can record for providing such services. These maximums are reduced each year according to a schedule of anticipated productivity improvements. System operators have an incentive to achieve efficiencies at a faster rate than the schedule calls for because they can, despite having lowered their cost structure, still charge the maximum amount until the end of the regulation period, at which time the maximums are adjusted to reflect the actual improvements achieved. Incentives create a regulatory environment in which win-win outcomes are possible for system customers and system operators.

Line loss
Difference between the electric energy delivered onto, and supplied from, a transmission or distribution system. Line loss results from resistance in conductors, conduction over insulators, coronas (luminous electrical discharges on transmission lines), and other physical phenomena.

Liquefied natural gas ("LNG")
Natural gas converted to a liquid state by pressure and severe cooling (minus 162 degrees Celsius, minus 260 degrees Fahrenheit), which reduces its volume by a factor of 600. LNG is transported in tankers to terminals where it is returned to a gaseous state. LNG is playing an increasingly important role in international gas supply.

Medium-term note program
Flexible bond programs used to issue debt instruments. Volumes, currencies, and maturities (usually between 2 and 30 years) can be adjusted to meet a company's financing needs.

National Balancing Point ("NBP")
Notional point on the U.K.'s National Transmission System ("NTS"). For accounting and balancing purposes, all gas traded within the NTS is said to flow through this point. Natural gas futures contracts in the U.K. are typically settled through the transfer of ownership at the NBP.

Net financial position
Difference between a company's total financial assets and total financial liabilities.

Net financial position ÷ cash provided by operating activities
Indicator of a company's ability to service its debt. Equals the number of years it would take to pay back a company's net financial liabilities out of its cash provided by operating activities.

Network access charge
Amount paid to an intervening network for the use of this network to transport or distribute power or gas. In Germany these charges are priced in euro cents per cubic meter for gas and euro cents per MWh for power. Under new German legislation and regulation, there will be both cost- and marked-based mechanisms for setting these charges.

Nitrogen oxide ("NO_X")
Term for any of several gaseous oxides of nitrogen. The combustion of natural gas, oil, and coal is one of the ways NO_X is released into the atmosphere.

Non-GAAP financial measures
Under U.S. securities laws, financial measures not computed in U.S. GAAP must be designated as such in financial reports.

Oil price indexation
Common feature of natural gas supply contracts by which the price of natural gas is indexed to the market price for crude oil or petroleum products like heating oil and heavy oil. There is typically a lag of several months before the contract price for natural gas is adjusted to reflect oil price movements, usually in the form of a monthly average or moving average for several months.

Option
The right, not the obligation, to buy or sell an underlying asset (for instance, a security or currency) at a specific date at a predetermined price from a counterparty or seller. Buy options are referred to as calls, sell options as puts.

Ordinary share
Participation in the ownership of an enterprise. It has no par value (the nominal value assigned to a share of stock by the corporate charter at the time of issuance). Ordinary shares typically entitle owners to receive any dividends that are declared and to vote at the annual shareholders meeting.

Other nonoperating earnings
Income and expenses that are unusual or infrequent, such as book gains or losses from disposals and restructuring expenses (see Adjusted EBIT).

Peakload
Maximum demand for electricity within a power system. To meet this demand and ensure system reliability as demand fluctuates, a power system must have access to extra generating capacity beyond its baseload and medium-load capacity.

Primary energy
Naturally occurring forms of energy or energy sources like fossil fuels (natural gas, petroleum, hard coal, lignite), nuclear fuel (uranium), and renewables (water, solar, wind).

Primary energy consumption
Energy consumed by end users in a political entity (usually a country) over a certain period of time (usually a year). It excludes electricity consumption, but includes the energy used to produce electricity.

Pumped storage hydroelectric plant
Facility that enables electricity to be stored for later use. Electricity produced by other generating plants (usually during off-peak hours, when electricity is cheaper) is used to pump water into an elevated storage reservoir. When additional generating capacity is needed (usually during peakload periods), the water is released to turn the turbines of the hydroelectric plant located a lower level.

Purchase price allocation
In a business combination accounted for as a purchase, the values at which the acquired company's assets and liabilities are recorded in the acquiring company's balance sheet.

Rating
Standardized performance categories for an issuer's short- and long-term debt instruments based on the probability of full repayment. Ratings provide the foundation for investors and creditors to compare the risks of various financial investments.

Regenerative energy
See Renewable energy.

Regulations on network access charges
Issued on the basis of Germany's Energy Law of 2005 to regulate the modalities of power and gas network access charges.

Renewable energy
Energy from sources that are essentially inexhaustible. Examples include solar, biomass, hydro, wind, geothermal, wave, and tidal energy.

Renewable Energy Law
German law to promote the growth of renewable generating capacity so that Germany can meet its EU-mandated target of 12.5 percent renewable generation by 2010.

ROCE
Acronym for return on capital employed. A key indicator for monitoring the performance of E.ON's market units, ROCE is the ratio between adjusted EBIT and capital employed. Capital employed represents the interest-bearing capital tied up in the E.ON Group.

Stock appreciation rights ("SAR")
Virtual stock options in which compensation is in cash instead of in stock. At E.ON, the exercise gain equals the difference between the price of E.ON on the exercise date and at the time the SAR were issued.

Sulfur dioxide ("SO_2")
Heavy, pungent, toxic gas produced primarily through the combustion of sulfurous fossil fuels like coal and petroleum products.

Syndicated line of credit
Credit facility extended by two or more banks that is good for a stated period of time (usually one to seven years) and a stated amount. The borrower may draw down the line in different amounts, at different times, and in different currencies.

System users
Persons or entities that contract to move electricity or natural gas on a transmission or distribution system.

Take-or-pay contracts
Long-term supply contracts used primarily in the natural gas industry requiring the customer to pay for a minimum quantity (typically an annual quantity) of gas whether or not delivery is accepted.

Tax shield
Deductions that reduce an enterprise's tax burden. For example, the interest on corporate debt is tax deductible. An enterprise takes this into consideration when choosing between equity and debt financing (see Cost of capital).

Therm
Measure of heat content of gas equal to 100,000 British thermal units (see British thermal units). One therm is equal to 0.0293071 MWh, which is enough energy to provide electric service to about 30 homes for one hour.

Transformer
A device for changing voltage levels; for example, from the medium voltage at which electric energy is distributed to the low voltage at which it is delivered to residential customers.

Transmission system
Interconnected system of high-voltage and ultra-high-voltage transmission lines used to transfer electric energy in bulk from production assets to centers of consumption or to other transmission systems.

Transport system operators
Move natural gas over long distances through a system of high-pressure pipelines.

Ultra-high voltage
Voltages above 110 kV at which electric energy is moved in bulk over long distances.

Unbundling

EU requirement that energy companies create legally independent entities (with separate accounting, information, organizational structures) to manage their operations at the individual links in the electricity and natural gas value chain (production, trading, transmission, and distribution). Its purpose is to ensure that energy companies do not distort competition in the EU's liberalized energy markets or engage in discriminatory business practices or cross subsidization.

Underground natural gas storage facility

Located in natural or manmade caverns in geological formations (in Germany, at depths of up to 2,900 meters or 1.8 miles), such facilities serve to balance seasonal or sudden fluctuations in natural gas consumption. In Europe and the U.S., natural gas is typically piped into storage in the summer and withdrawn in the winter.

U.S. GAAP

Abbreviation for accounting principles that are generally accepted in United States. Accounting, valuation, and disclosure policies based on the principle of fair presentation of financial statements to provide information needed for decision-making, especially for investors.

Value added

Key measure of E.ON's financial performance based on the residual wealth calculated by deducting the cost of capital (debt and equity) from operating profit. It is equivalent to the return spread (ROCE minus the cost of capital) multiplied by capital employed, which represents the interest-bearing capital tied up in the group.

Working capital

The difference between a company's current assets and long-term liabilities.


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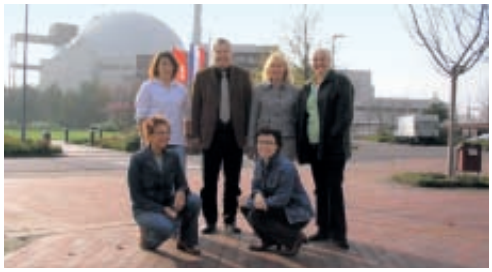


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Only the German version of this Annual Report is legally binding.

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Financial Calendar

May 4, 2006	2006 Annual Shareholders Meeting
May 5, 2006	Dividend Payout
May 10, 2006	Interim Report January – March 2006
August 15, 2006	Interim Report January – June 2006
November 8, 2006	Interim Report January – September 2006
March 7, 2007	Release of 2006 Annual Report
May 3, 2007	2007 Annual Shareholders Meeting
May 4, 2007	Dividend Payout
May 9, 2007	Interim Report January – March 2007
August 15, 2007	Interim Report January – June 2007
November 13, 2007	Interim Report January – September 2007