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E.ON Energie AG Annual Press Conference

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Embargoed until June 28, 2006, 11 am

Munich, June 28, 2006

Address,

Welcome to this year’s annual press conference. Public debate surrounding the energy sector and our company, which has at times been difficult, resulted in a new record level of applications from you. We are happy about the mounting interest and—as always—hope that your coverage will be both well-balanced and fair.

Today, I would like to focus on two major issues:

- The major entrepreneurial challenges facing us in these times, namely everything regarding the approval of grid fees and price trends
- Topics relevant to growth and our aggressive investment program

In conclusion, I will briefly address other major developments since our last annual press conference, impending dates during the current year, and further interesting fields of activity both within and around the company. And of course, we would like to give you enough time to pose questions to our entire team on the Board of Management and finish on schedule towards noon to provide you with the opportunity to conduct a couple of one-on-one talks over lunch, while giving you enough time to write the articles for tomorrow’s daily press.

1. Entrepreneurial Challenges

The public is abuzz with the first results of the German Federal Network Agency's review of electricity and gas grid fees as well as of the conditions underlying future incentive-based regulation.

Unfortunately, I have to disappoint you, as no binding results have been achieved regarding E.ON Energie yet, although we believe that the Federal Network Agency is on the home stretch of its decision-making process.

What is our current impression? The Federal Network Agency is highly professional and painstakingly analyzes requests made by energy companies. In our requests alone, we have reported 300,000 individual figures for E.ON Energie and, due to the large number of inquiries received, we submitted what is most likely another six-digit figure worth of information. The flood of inquiries made us pensive initially, but we have gained the impression that the new authority's employees listened to our detailed and skilled presentation with an open and constructive attitude.

Most of the topics subject to quarrels and discussions relate to issues specific to the individual grid companies affected. However, there is also nearly a handful of general legal issues on which the industry and the Network Agency have different opinions. As regards some of the unanswered questions, the courts may have to decide how the legislator's intentions should be put into practice. However, protracted court litigation is neither in the grid customers’ or grid operators’ best interests.

Although several of the new authority’s daring interpretations and enforcements of the laws surprised us, we never deviated from the course for close, trusting cooperation we announced publicly. As early as the end of October, I announced that we anticipate grid fees to drop marginally even at our regional companies. Based on current expectations, I believe that the reductions will be considerable. It would not be sensible to speculate about the impending notifications any further, and we will decide how to react definitively only once we have received the notifications.

However, center stage will definitely be taken by an aggressive and constructive handling of the results of the new regulations. Whereas at the end of the day, certain issues may be reviewed by the courts, it is more important that we retain our customers’ trust in implementing the new measures and, of course, that we find, assess and resolutely put the right answers into practice from a business perspective. We will speak about the results as soon as we have achieved them. The barrage of speculation on this issue circulating the press in recent weeks lacks all substantiation.

A reduction in investment would be the most disappointing outcome for all parties involved. Last summer, since we were confident that the new regulatory framework could be implemented constructively, we even went as far as to announce an aggressive 300 million euro investment program for our grids in Germany. We are already in the process of implementing it and have since increased investment in all our regional companies. Our entrepreneurial goal is to continue this aggressive campaign as long as the levels of profitability promised by the law can be maintained. Assessing this will in fact depend less on current grid fee approvals than on the conditions of future incentive-based regulation.

The first internal set of drafts issued by the Network Agency regarding this issue worry me. One of our competitors expressed this concern in a simple slogan: “Those who invest lose.” It is inconceivable that this could be the objective pursued by the politicians—let me remind you here of the results of the Energy Summit with Chancellor Merkel—nor that of Mr. Kurth and his staff. We made constructive suggestions for avoiding such a senseless outcome, and we are very involved in the public debate seeking to achieve a result that benefits customers, the quality of supply over the long term, investments and jobs in Germany.

As you can see, E.ON is absolutely concerned and, to a certain degree, surprised by the perturbing development of regulation at the Federal Network Agency. But we are not looking for a dispute or seeking to bring the situation to a head. In fact, in the interests of our customers, we want to strike a balance wherever we can, make peace with the law, and get back to focusing on what our core tasks really are.

Anything is possible: Neither Cassandra-like predictions, nor the belief in a eureka moment do justice to the earnest of the topic or the status of the debate.

Prices are the second entrepreneurial issue. Many a public debate is hampered by severe misunderstandings as regards the formation of prices on the electricity and gas markets. The populist approach is to simply call for price cuts either without reason or based on allegations that partially strike one as absurd. Here a distinction should be made between industrial customers and major traders on the one hand and private household customers on the other.

The first group only decides on the timing, the timeframe and the apportionment with which demand for electricity is covered. The second group has been living in a state-organized regime of prices that must be adjusted and approved by the government every year. The first group strictly orients itself on the supply and demand side towards prevailing wholesale prices and prices quoted on the exchanges for electricity in Germany and Europe. The second group benefits from rolling average prices on the forward market coordinated and agreed with state regulatory authorities within a period of over a year prior to the submission of the corresponding application.

Both groups have long known that the lion's share of state or state-regulated price components are something that no market participant can avoid: energy taxes, subsidies for renewables and combined heat and power generation as well as license fees for the municipalities—all of which is topped off by sales tax. For private customers in the second group, these components already account for 40 percent of every kilowatt hour.

The situation is not showing any signs of letting up, despite the numerous demands imposed by industrial and consumer associations in light of tight state budgets. Grid fees roughly account for a third of the energy bills of both household and industrial customers. Based on extrapolated grid fee cuts published to date, which should range between 5 percent and 20 percent to the best of my knowledge, and assuming that all grid fees will drop by a good ten percent on a weighted basis, the burden on the average household would be lessened by about 2 euros a month. However, this relief would be nearly completely counteracted at the turn of the year by the expansion of subsidy programs and the three percent sales tax hike.

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This leaves us with the price of electricity generation on the wholesale market and on the exchanges, which, as far as the second customer group, i.e. the private households, is concerned, only accounts for just over a quarter of the bill. In the last few months, these prices went on a dramatic roller coaster ride both throughout Europe as well as on the German power exchange. All market participants were but in a state of uncertainty especially due to the peaks and valleys of CO_2 prices and the manner in which member states handled information on the market's situation, which was careless at times.

During peak periods between the end of April and the beginning of May, base-load deliveries for 2007 experienced a price adjustment of nearly 13 euros per MWh, or some 21 percent. Immediately thereafter, our sales organizations approached customers typical of the first customer group, namely industrial players, other power utilities and traders, since they all displayed substantial restraint in hopes of corrections to the very high level of prices. In May alone, E.ON Sales & Trading used this proactive sales campaign to sell 6,500 GWh for the coming years of delivery at lower supply prices—a multiple of the volume achieved in the same month last year. As prices were clearly on the rise again in early May, this purchase opportunity was of short duration.

As you can see, customers close to the trading business directly benefited from the drop in prices. Germany's power trading market is a two-way street, with developments that transpire in line with other European trading floors. This furnishes yet further proof of the fact that Germany's alleged oligopoly simply does not exist. Since purchases were made much earlier, private customers remained unaffected by the price spikes in the second half of 2005 and the first half of 2006. Mr. Reutersberg pointed this out in an interview he gave just a few days ago. It is thus dumbfounding to hear that some agricultural ministers, who are extremely familiar with the subject matter given that they work for a price approval authority, demand that private customer prices be adjusted at populist speed.

What we can already announce today, however, is that once we have received the legally binding notifications from the Federal Network Agency, we will of course pass through the approved grid fee reductions to grid users and customers. This promotes competition, and intensified competition provides all market participants—including us—with new opportunities.

In the gas sector, Germany’s import prices are linked to those of oil, as is the case throughout the Continent. The end to the oil price linkage so vehemently called for by the same people whenever prices are adjusted has failed to prove a stabilizing, let alone a price-reducing element in England or America. In fact, gas is traded at much higher prices there than it is on our wholesale market.

We have succeeded in keeping end customer prices stable throughout the year despite the rise in wholesale prices, and in so doing, we have factored in the high sales volumes achieved owing to the cold winter. The fourth quarter will show the prices with which we can embark on the next winter period. In this context, we will definitely take grid fees in the gas sector into account.

We are responding to the loss in faith in the price-forming process with a broad-based campaign to promote transparence. In April of this year, we and several other major German power producers started publishing data on the status of all our power plants’ operations on a daily basis, thus exceeding average European disclosure standards. Available capacity is made transparent to traders and electricity customers via the EEX Energy Exchange’s internet platform on a daily basis. EU Competition Commissioner Kroes, Energy Commissioner Piebalgs and German Economics Minister Glos made a point of thanking me personally for this initiative, praising it as what they deemed a courageous move.

All our regional utilities disclosed their entire gas price calculation method in the last price-setting round, although some people still demand more in this area. As we are doing today, we publish detailed information on our price-forming mechanisms for both our non-regulated and regulated business. Nevertheless, the public’s reaction to the follow-up review conducted at E.ON by the European Commission as part of the sector inquiry, which is not at all uncommon, is proof of the continued mistrust in our sector.

Neither do we shy away from public debate, nor from the legitimate measures of the national and European antitrust authorities. After all, we have nothing to hide. However, legal disputes will not help us regain our customers’ trust. They will only believe in us again if we resolutely place our chips on the market and competition and face up to critical questions. I promise that the E.ON Group will take a variety of measures to do everything it can to ensure that market forces are strengthened, national energy islands in European regions are decomposed, and that customers benefit from fair competition over the long term. In this quest, we hope to receive widespread support from our industry as well as from national and international policies—and not just from trivial speeches.

2. **Our Growth and Investment Campaign**

Naturally, Endesa is taking center stage as regards growth in the E.ON Group, which is being driven by the Corporate Center in Düsseldorf and is thus not on the agenda of this press conference.

We are convinced that we at E.ON Energie can learn a lot from experience gained by Endesa in many respects. Let it suffice to mention Endesa’s world-leading position in the distribution business across benchmarks at this juncture. In addition, we will also be able to transfer our best practices to Endesa, too. These encompass the top-notch performance delivered by our nuclear power activities as well as the outstanding availability rates and the efficient operation of our conventional power production facilities.

However, as we did when taking steps towards growing our business in the past, we will benefit from each other in further areas as well.

But I would also like to make it clear that we here at E.ON Energie are in the constant process of taking smaller growth steps and that our course for innovation will in no way, shape or form be hampered by this landmark project. Let me briefly remind you of the following steps:

- At the beginning of 2005, E.ON Bulgaria got off to its start, with some 1.1 million customers.

- In September of 2005, E.ON Benelux succeeded in taking an important step towards growing its business in Holland by acquiring sales operations that serve nearly 300,000 electricity and gas customers.
- In October of 2005, we acquired an electricity business in northeast Romania responsible for 1.3 million customers.
- We streamlined the market structures both in and around Wolfsburg. We control the lion’s share of the local energy business, which serves about 200,000 electricity and gas customers, but we are working in partnership with the City of Wolfsburg and the surrounding municipalities in running it.
- This year we strengthened our market positions in the Czech Republic and Hungary. We will acquire a majority interest in the southern Czech gas utility JCP, via which we will serve approximately 110,000 customers. We will obtain the clear majority of the capital of the Prague-based gas utility, which serves some 440,000 customers in the capital city. We will gain full control of the south Hungarian gas utilities Kögáz and DDGáz, which serve a combined 600,000 customers. We will shed several small minority interests in utilities based in Hungary and the Czech Republic. In sum, this will enable us to assume the clear management role for our operations, increasingly integrate our electricity and gas activities, and become an active player in the competitive arena.

Although these measures may not be apparent to the public at large individually, the picture they paint is testimony to the fact that the Group is making resolute progress in positioning itself in Europe, establishing a clear organizational structure, and managing its activities.

The external growth steps taken in the last few years were the main driver of our Group. In the future, they will be flanked to an even greater degree by our aggressive program for investing in new power plants and grids as a basis for renewing and expanding our existing market position. The investment projects we are in the process of seeing through have progressed at the quickest pace in more than a generation:

- In Datteln in the State of North Rhine-Westphalia, we are building the world's largest, most modern, and environmentally friendly coal-fired power station, with a unit output in excess of 1,000 MW.
- In Irsching, located in the vicinity of Ingolstadt, we are constructing two modern gas-fired power plants at the same time, which on completion will feed over 1,300 MW in new capacity to the live grid. In one of these projects, we joined forces with Siemens to work on developing an entirely new standard for the highest-ever efficiency level in the world.
- In Livorno Ferraris in northern Italy, we are building a modern 800 MW gas-fired power station.

- A total of eight waste incineration plants have been commissioned or under construction since 2005.

External approval procedures are underway for these four conventional power stations, and a number of orders have already been placed. Four additional waste incineration facilities are being planned.

Moreover, we are exploring the possibility of carrying out additional investment projects in the hard coal business in Rotterdam and the vicinity of Frankfurt as well as constructing additional gas-fired power plants in northern Germany, Hungary and Slovakia. Romania provides us with a further option in the generation sector. A few days ago, we submitted a letter of intent to the Romanian government within the scope of a call for bids to become a strategic investor in the construction of a nuclear power station using cutting-edge western technology in Cernavoda.

We also earmarked additional funds for the grid business as part of the aforementioned investment initiative. We are working on new transmission lines to overcome bottlenecks in German grids and are in favor of exploring ways to expand international transfer points in order to extend the European network.

In the field of renewables and energy efficiency, we are sending out clear investment signals in developing offshore wind technology, generating electricity from biomass, and engineering heat insulation for buildings to realize energy savings.

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The new paths I just illustrated tie into our existing strategy seamlessly. Testimony to the success of our strategy so far are our major key financials for 2005. Sales posted a substantial increase, rising by 18 percent to 23.2 billion euros year on year, largely due to the fact that subsidiaries in Bulgaria, Romania and Hungary were consolidated for the first time and, of course, the rise in electricity wholesale prices. Adjusted EBIT advanced to 3.9 billion euros. E.ON Energie now employs some 44,500 people, roughly a third of whom work outside Germany. This figure furnishes impressive proof of the fact that E.ON Energie is gradually evolving into a group with an international footprint covering our entire value-added chain.

Our business has long gained international scope and is becoming faster and tougher. The European Commission is scrutinizing our branch of industry within the scope of the sector inquiry, German policymakers are becoming less scrupulous in digging into the regulatory toolbox, abuse lawsuits are pending, industrial customers are rallying against market-induced price hikes, and private customers are calling for price transparency while bemoaning increases.

It has been obvious for quite a while that we must pick one of two options: We can accept an increase in re-regulation of national and international energy policy, which will enable the regulator to dictate how much we can invest, how to behave, and where we may grow. . This would spell the return to a state-run economy. Or we can embrace the notion of competition with resolve in the European arena. We chose the latter one, since creating a competitive market across borders not only widens companies' range of action, but, more importantly, is in the customers' best interests.

We believe the rapid development of international regional markets across national boundaries is a necessary intermediary step en route to establishing a uniform single European energy market. In our hemisphere, we first place our bets on the development of two regional markets in Central Western and Central Eastern Europe, which are developing at different speeds.

Western Europe already fulfills almost all the requirements for creating a complete regional market has already emerged in Western Europe. With few exceptions, a tightly knit physical network is already in place, and wholesale prices are being increasingly harmonized. In this context, competition can and must progress rapidly. This opens the door for competition to continue developing.

In contrast, developments in Eastern Europe are progressing at a sluggish pace. So far, the region consists of a large number individual domestic markets, there are still numerous grid bottlenecks, and prices, which are clearly below Western European levels, are displaying divergent trends.In the long run, Eastern European countries are certain to connect with Western Europe's regional market, but are likely to adjust to one antother in the run-up. But we still have a long road to travel before we get there.

Until then, we intend to fortify our position on the Central Eastern European market even further. More than anything else, this will involve establishing a significant position in the generation sector. Since a uniform regional market is being created in Eastern Europe, we intend to immediately oversee our activities in that region more cohesively. To this end, we will group our Central Eastern European operations, which already account for more than seven million customers, 2.6 billion euros in sales, and nearly 15,000 employees, in a division dedicated to the region and domiciled at E.ON Energie in Munich.

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In conclusion, I would like to summarize E.ON Energie's future trajectory in a few points:

- We will proactively support political ambitions to accelerate market opening. But competition does not emerge from dirigiste intervention. It is competition among companies, along with transparence, which creates it. We are convinced that this approach represents the best solution for customers in the long term.
- We are extremely critical of all attempts by the government to re-regulate the energy market further. We expect the Federal Network Agency to regulate grids with good measure, ensuring that the long-term interests of grid operators and users are equally paid tribute to. In this context, we believe it is essential

that one cooperate constructively with the regulatory authority. We intend for customers to benefit from the advantages as soon as possible. However, it is with a worried eye that we are witnessing the counteracting increase in the portion accounted for by state levies.

- To further strengthen our position, we will take advantage of the opportunities we created for ourselves to develop all of the markets on which we are present as well as across the stages of the value-added chain.
- We will expand our growth strategy by adding an aggressive program to invest in new power plants and grids and will be ready to take further steps at home and abroad at all times.
- We are in support of the development of European regional markets, as we deem it a necessary intermediary step towards establishing a uniform single European energy market. After all, opening the door to competition across borders gives companies added room for maneuver and serves the interests of European consumers.
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Thank you for your attention.