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Chairman of the Board of Management of E.ON Energie AG

E.ON Energie AG Annual Press Conference

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Ladies and gentlemen,

From me too a warm welcome to our Annual Press Conference. I realize that some of you might have thought you've been invited to a building site when you arrived, but don't let appearances deceive you. After a year of construction, we are delighted to be able to host you in our revamped, almost finished headquarters today. Also, as you can see, Munich still is and will continue to be our home town.

We are equally delighted to have this opportunity to discuss with you a number of topical, and in some cases controversial, issues. As an energy utility we have been the focus of critical attention from the public for some time now. And even if some of the criticisms are not particularly well-founded, we do seek an ongoing dialog with customers, politicians, public authorities, industry associations, and the general public. Rather than focusing on getting our own arguments across, we want to get a better understanding of the views and concerns expressed. Just in the last six months, E.ON Energie Group representatives have attended over 45 events, including political conventions, trade fairs, and environmental conferences, for this very purpose. And in this process, it has become increasingly evident the concepts of "value for money", "environmental responsibility" and "security of supply" involve much more than just abstract energy policy objectives. Issues such as

- "Why are energy prices going up?"
- "How can we get on top of the climate problem?", or

- “Will energy still be affordable in the future?”

have also become real concerns for the “man in the street.”

We endeavor to provide answers to these questions, not only at meetings and discussions forums, but more importantly, in the way we run our business.

We are already proactively addressing the energy supply needs of the future. And we are laying the foundations accordingly, with the most ambitious capital investment program in the history of the E.ON Group. Of the Group’s recently announced total capital investment budget through 2010 of € 60 billion, over one-third is allocated to E.ON Energie. I would like to take a few moments to outline the wide and diverse range of projects that this vast, and initially perhaps rather abstract, amount will actually be used for.

Most of the funds - around € 12 billion - will be spent on electric generation capacity from a broad mix of sources, comprising coal and gas, but also nuclear and renewables. We believe that this sort of mix provides the best balance between economic considerations and the pressing need to reduce the stress on our environment.

You are already familiar with some of our power station projects. Not far from here, near the town of Irsching in upper Bavaria, two new plants are currently under construction. Block 4 of the facility will boast the world’s most powerful gas turbine. The project, which we implementing in partnership with Siemens, will set new standards in efficiency, economic operation, and environmental friendliness.

Block 5, which also runs on natural gas, is also a joint project – this time between E.ON and two local enterprises, namely N-ERGIE Aktiengesellschaft and Mainova AG. We are also currently building a state-of-the-art gas-fired power plant in Livorno Ferraris, Italy, and are planning to build two more: one in Gönyü, Hungary, and one in Malzenice, Slovakia.

However, hard coal also plays a key role in our capital investment plans. We are currently building or planning to build three largely identical 1,100 MW hard coal-fired power stations, one in Datteln in North Rhine-Westphalia, one in Grosskrotzenburg in Hessen, and the third in Rotterdam. These power stations have an efficiency rating of 46 % – an unprecedented figure that sets new standards in the coal-fired power generation sector.

These new power stations will make a substantial contribution to climate protection. The plant in Grosskrotzenburg alone will save over 1.2 million metric tons in CO2 emissions each year in comparison with the existing generation facilities that will be decommissioned. This is roughly equivalent to the annual emissions of over 700,000 German mid-range cars with average mileages.

Another important aspect of the environmental thinking behind our new coal-fired power stations relates to the local, physical environment around our generation sites. In this area we are going significantly further than the law expects of us. By employing state-of-the-art technology, such as new dust filter systems, even more

powerful sulfur dioxide scrubbers, and additional catalysts to reduce nitrous oxide emissions, we more than meet the already very rigorous contaminant emission limits. In doing so we will, in fact, be setting new standards, against which all comparable power stations in the future will have to be measured.

So as you can see, we are doing all we can to combine the use of hard coal with the highest environmental standards. This is based on the realization that hard coal will inevitably continue to play a key part in securing our future energy supply. There are still sufficient hard coal reserves worldwide to last us for more than 150 years, and these are spread across many countries, which means there is no risk of us becoming completely dependent on imports from any one country.

The long-term availability of this energy carrier makes it particularly worthwhile for us to focus on further improving the associated generation technology. For instance, at our COMTES 700 demonstration facility in Gelsenkirchen, we have successfully tested new materials that will withstand significantly higher pressures and temperatures than those used in today's power stations. These materials will soon pave the way to hard coal-fired power stations with efficiency ratings of over 50 percent. In fact, we will be making As part of our Group-wide *innovate.on* technology initiative we are also already involved in a range of different research projects on CO2 capture and storage. Next year, we will be building a pilot CO2 capture pilot plant at our Maasvlakte power station in the Port of Rotterdam. And this month, we commissioned Germany's first trial

CO2 storage plant at Ketzin in Brandenburg. These projects complement a range of other related activities within the E.ON Group – for instance, E.ON Nordic's pilot post-combustion CO2 separation facility in Karlshamn, Sweden. All of these initiatives are part of a comprehensive Group-wide effort to develop CO2-neutral, hard coal-based generation technology. In addition to our in-house activities, we are actively supporting the EU's ZEP technology platform, which looks into other generation methods. Our ultimate goal is to commission a CO2 emission-free demonstration facility by 2014.

In the interests of climate protection and security, another essential component of a broad energy mix has to be nuclear energy. Our view is that Germany's nuclear energy policy needs to be reconsidered. We will, of course, continue to honor the nuclear-exit accord of 2000. However, we should not lose sight of the drastic changes that have since taken place in the energy landscape. There has been a virtual explosion of energy prices on the world market, and the dangers of climate change have become much more evident. Not least for this latter reason, we are currently seeing a renaissance in nuclear energy all around the world. Many countries around the globe are planning and building new power plants. And we, too, are pursuing a number of possible projects in cooperation with our subsidiary E.ON Kernkraft.

Just this month, E.ON Kernkraft has joined forces with E.ON Nordic to form a consortium with a number of Finnish industrial enterprises

and energy utilities for the construction of a new nuclear power station in Finland. Together with E.ON UK the company is furthermore considering a similar project in England. Further opportunities of this kind are currently also being investigated by the Group in Central and Eastern Europe.

At present, the only other option for CO2-free generation, alongside nuclear, is renewables. And in terms of renewables, the greatest potential for the E.ON Group and its markets lies in offshore wind energy. Since this technology is not yet market ready, our initial focus has been on actively pushing its development. In fact, we began testing the required units on land in December last year. Germany's first offshore wind farm, *alpha ventus*, 45 km off the coast of Borkum and sited at a water depth of around 30 meters, is entering its practical implementation stage right now. The first turbines for this pilot plant were ordered last week. The wind farm off Borkum will be the first to feature generators in the 5 MW class. The first six wind power plants are scheduled for connection to the grid in late summer 2008, with a further six plants due to go online by summer 2009, representing a total installed capacity of 60 MW.

Another four large wind farms in the North Sea and the Baltic are currently under development. All these projects are ground-breaking German initiatives, exploring totally new territory. As we inch our way ahead, we will learn from the experience gained, overcome

teething troubles, and eventually establish offshore technology as a permanent component of our energy mix.

We also see considerable potential in biogas. By the end of this year, our regional utilities will be operating a total of 14 biogas electricity generation plants. The largest of them, with a capacity of 4.3 MW, is at Malchin in the Mecklenburg region, and went in operation in May this year. A further three plants are scheduled to come on stream in 2008.

But we are already working on the next step in this process. The future for the harnessing of biogas as an energy source lies in preparing the product to natural gas quality, for supply to the natural gas grid as “bio-natural gas.” In collaboration with E.ON Ruhrgas, we are trialing this process in demonstration facilities, with a view to maximizing the future benefits and flexibility of biogas.

Ladies and gentlemen,

Our investments in electricity generation will play a part in ensuring reliability of supply for our customers into the long-term future, while at the same time providing more climate-friendly and environmentally responsible forms of energy. And our commitment to climate protection will in future extend far beyond the confines of our own markets. In other countries the potential for efficiency gains and emission reductions is far higher than here in Germany or in Europe. Furthermore, emission-reduction measures in other countries are often more cost-effective than reducing emissions at home. Yet

for effective climate protection, it makes no difference *where* emissions are reduced. All that matters is to ensure that they *are* in fact reduced. So in collaboration with our subsidiary E.ON Energy Projects in Munich, we are building up a team to work on such *joint implementation* projects. We see this as ideally complementing the investments we make in our own generation fleet.

Under the legislation on emission allowance allocations for Phase II trading passed by the German Bundestag last Friday, up to 22 % of certificates allocated in Germany may be transferred to JI/CDM projects. We intend to make use of this opportunity. The total volume issued in Germany, at 453 million metric tons CO2, is very small. Given that the energy industry is largely required to carry the allowance reductions on its own, we too will have to purchase a large number of certificates. In addition, the free allocation to energy utilities is to be reduced by 40 million metric tons annually. This volume will instead be sold to utilities at market prices from 2008 on, and auctioned from 2010 on.

However, the new allocations law is much simpler than the current version, and lays the groundwork for a viable certificate trading structure that will further enhance competition within Europe. Our priority now is to ensure that the new legislation can come into force without delay. Only six months remain until the start of the new CO2 trading period. All the market participants will need that time to adjust

to the new trading environment. It is therefore our hope that the debate around special treatment for lignite can soon be ended.

Ladies and gentlemen,

So much for electricity generation. Another major focus of our investment program is the expansion of our electricity grids. We will be investing a total of € 2.5 billion in this area through 2010, so that new power stations – both ours and those of our competitors– and the increasing number of wind energy plants can feed their power into the grid. We are working on new transmission lines to eliminate bottlenecks in the grid. Several line projects, mainly in northern Germany, are already at the concrete planning stage or under construction.

The massive increase of renewable generation capacity, in particular, will require substantial investment in grid infrastructure. E.ON Netz alone is currently planning and seeking regulatory approval for 500 km of new ultra-high voltage transmission lines. The pending construction of offshore wind farms off the coast of northern Germany also calls for action. Integrating this new generation capacity into the national grid without compromising grid stability will not be possible without fast and efficient approval processes. The reservations of local residents in this regard have to be taken very seriously of course, which is why we are committed to fostering and engaging in dialog with the public in the affected areas.

Another important aspect in the area of our grids is increasing our cross-border interconnector capacity, for a more highly-networked Europe. By fall we will have boosted transmission capacity at our borders with Denmark, the Czech Republic and the Netherlands by a total of more than 1,000 MW.

This will also provide the basis for increased cooperation between European grid operators. From 2009, the transmission grid operators in Germany, France and the Benelux countries will be coordinating their grid operations across all these countries. This is designed to ensure the more efficient use of cross-border interconnector capacity and increase the reliability of electricity transmission. And secondly, more intensive cross-border electricity exchanges will further boost competition in the sector. This increased cooperation between grid operators is seen as a major advance towards a unified north-west European regional market, and therefore an important intermediate step towards implementing the European internal market for electricity.

Initiatives of this kind do more for market forces and competition than the suggestion of some form of expropriation of the networks. As well as being an unjustifiable infringement of corporate property rights, this would also bring significant risks for the long-term reliability of grid operation, since the future operators would also have to invest significant sums in their networks. And it is highly questionable that financial investors would be willing to make those investments, or have the required know-how.

Our investment program shows that we are still ready to enhance the performance and reliability of our networks, just as we have always been in the past. But there has to be a level of profitability sufficient to encourage the investments that requires.

The first round of grid usage fee approvals resulted in significant reductions in our revenues. For 2007, Germany's Federal Network Agency has applied cuts averaging 13 % to the fee applications of our consolidated companies, representing a total of over € 600 million. Those cuts were immediately passed on to our customers.

We are now working on our applications for the second round of approvals in 2008. The applications for grid usage fees are due by the end of this week, and gas fee applications by September 30.

In our applications for the electricity grid, we have had to include costs over and above those approved in the first round. This is for two main reasons:

On the one hand, we need to protect our legal position in view of the ongoing differences between the stance of the grid operators and the Federal Network Agency. We remain convinced that the interpretation adopted by the Agency regarding the rate of return on invested equity has no mandate in the regulations, nor does it provide a reasonable level of return. While E.ON did not issue any legal challenge to the approval decisions made in the first round, we still lack a Supreme

Court ruling on the matter. Accordingly we are again claiming in this round costs that were knocked back by the Agency last year.

The second consideration is that a series of cost increases have made their effects felt. The fees approved last time were based on costs for the 2004 year, whereas the current applications relate to costs for 2006 or budgeted costs for 2008. Since 2004 there have been increases, primarily in those costs that are beyond the control of the grid operators, for example costs for the procurement of electricity to balance network losses or meet obligations under the Renewable Energy Law. Another factor was higher grid maintenance and repair and increased personnel expenses.

But this approvals round is about more than just the grid usage fees for 2008. This round is of crucial significance, since it will be the basis for the incentive regulation process beginning in 2009. Its outcome will become the criterion for the calculation of future grid usage fees. Two weeks ago, the Federal Cabinet adopted the text of the regulations on incentive regulation and referred the text to the Bundesrat. A decision is now expected after the summer break. The executive's draft addresses the grid operators' arguments in some places, and looks for some compromises. We welcome this, even if we see other passages where amendments are still required. In particular, we would like to see sufficient account being taken of capital investments in the calculation of grid usage fees. To create a fair basis

for comparison, it is also necessary to have regard to significant aspects of the individual supply situation. For example, the length of an operator's grid is an important factor in its supply task.

We are facing some major business challenges not only from the current effects of regulation, but also the future impacts. Along with the hits we have taken in the area of our grids, we will also have to adjust to even more intense competition in the market. We made a clear decision to advance the cause of competition, and started our wide-ranging competitive initiative for that purpose. For instance, with measures such as our Internet-based budget energy retailer "E wie Einfach," greater disclosure of power station data, improved grid connection terms for power stations, and the auctioning of power station capacity, we are making a major contribution towards greater competition in Germany and Europe. But because there is "no going back," that also means we have no option but to optimize our position in the market, and use any potential synergies still available to us.

We therefore began a process already last year of re-examining our regional presence Germany. In the *regi.on* project, we are currently enhancing the business model of our seven regional utilities. We are not talking about any sort of "radical surgery," since the core structure of our regional utilities is to remain the same. These companies will continue to be responsible for selling electricity and gas to their customers, and will therefore remain firmly based in the regions. Their overarching tasks are however to be bundled in joint

companies: the billing, receivables management and customer service functions will now be performed by two joint “shared service” companies. Other roles such as product development and market research will also be combined in this way. During the next few weeks we will be presenting the new structure to our municipal shareholders and our employee representatives. We hope that implementation of the changes on the ground will then be completed by mid-2008.

This project involves much more than efficiency gains to offset some economic burdens. The main objective is to become more effective and competitive for the emerging European energy market.

Competition has gained momentum in the German electricity and gas markets over recent months. For instance, we have moved things along by creating a new retail subsidiary, “E wie Einfach.” The new company has got off to a good start, with around 60,000 customers on its books already. Interest in “E wie Einfach” has grown with the recent announcements of electricity price rises by many of our competitors over the last few weeks. Consumers seem to be more ready to switch suppliers than ever before.

Our regional utilities are also responding to this new situation with a range of customer retention measures, focusing in particular on the service and advisory functions, and on the issue of energy savings, for example.

New offerings such as “E wie Einfach” are not the only precursors of a fully liberalized electricity market. In only a few days’ time, the German regulator will relinquish its supervisory role with respect to general electricity tariffs. This marks the end of an era where power prices were mainly determined on the basis of generation, transmission and sales costs. In future, the competitive market environment will also have a decisive influence on the price-setting methodologies of the various market players. It will no longer be a question of what the government may or may not approve but what the customer is prepared to accept and what the competition is doing. Electricity prices will then be subject to the same mechanisms as those of other commodities, such as coffee, beer or fuel oil.

Recent media reports alleging that we will be raising our prices on 1 September are simply not true. We are not planning to make any adjustments before the end of the third quarter this year. And what happens after that depends entirely on market developments, which we are not in a position to predict at this stage.

Any announcements now regarding market prices in three or six months’ time, or even further ahead, would be contrary to the spirit of a liberalized market.

In a market where the pace of change is growing ever-faster, we reserve the right to keep our options open. Furthermore, any premature statement on future prices could be interpreted as an anti-competitive, and hence unlawful, attempt to manipulate the market.

We believe that market normalization should go hand-in-hand with more normal price communication and disclosure practices. Under the new regulations, energy companies are required to give affected customers six weeks' advance notice of any changes to general electricity tariffs. We will, of course, comply with this. But we hope that in future electricity prices will receive just as little attention in public debate as do the prices of other everyday necessities. That, too, would add a dose measure of normality to energy market competition.

Ladies and Gentlemen,

E.ON has given a clear commitment to advance the European internal market process, and to actively support achievement of the goals of the EU agenda. Our high investments in future security of supply, our special efforts in the area of climate protection and our many and diverse initiatives in favor of competition show that this commitment is not just a matter of fine words.

Thank you very much.