E ON AG
Form 20-F
March 10, 2005

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As filed with the Securities and Exchange Commission on March 10, 2005.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2004

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number: 1-14688

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

Federal Republic of Germany	**E.ON-Platz 1, D-40479 Düsseldorf, GERMANY**
(Jurisdiction of Incorporation or Organization)	(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
American Depositary Shares representing Ordinary Shares with no par value	New York Stock Exchange
Ordinary Shares with no par value	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2004, 659,153,403 outstanding Ordinary Shares with no par value.

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

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

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

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As used in this annual report,

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

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

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

E.ON Ruhrgas refers to E.ON Ruhrgas AG (formerly Ruhrgas AG or Ruhrgas) and its consolidated subsidiaries, which collectively comprise E.ON s gas business in the Pan-European Gas market unit. Until December 31, 2003, Ruhrgas and its consolidated subsidiaries formed E.ON s former Ruhrgas division.

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

Sydkraft refers to Sydkraft AB and its consolidated subsidiaries, and E.ON Finland refers to E.ON Finland Oyj and its consolidated subsidiaries, which collectively comprise E.ON s Nordic energy business in the Nordic market unit.

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

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

Degussa refers to Degussa AG and its consolidated subsidiaries, in which E.ON now owns a minority interest, and which collectively comprised E.ON s former Degussa division.

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

Stinnes refers to Stinnes AG and its consolidated subsidiaries, which collectively comprised E.ON s former distribution/logistics division.

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

MEMC refers to MEMC Electronic Materials, Inc. and its consolidated subsidiaries, which collectively comprised E.ON s former silicon wafers division.

Unless otherwise indicated, all amounts in this annual report are expressed in European Union euros (euros or EUR or), United States dollars (U.S. dollars or dollars or $), British pounds (GBP) or Swedish öre (öre).

1999, the reporting currency is the euro. Amounts formerly stated in German marks (marks or DM) have been translated into euro using the fixed rate of DM 1.95583 per 1.00. Amounts stated in dollars, unless otherwise indicated, have been translated from euros at an assumed rate solely for convenience and should not be construed as representations that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. Unless otherwise stated, such dollar amounts have been translated from euros at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2004, which was $1.3538 per 1.00. Such rate may differ from the actual rates used in the preparation of the consolidated financial statements of E.ON as of December 31, 2004, 2003 and 2002, and for each of the years in the three-year period ended December 31, 2004, included in Item 18 of this

annual report (the Consolidated Financial Statements), which are expressed in euros, and, accordingly, dollar amounts appearing in this annual report may differ from the actual dollar amounts that were translated into euros in the preparation of such financial statements. For information regarding recent rates of exchange, see Item 3. Key Information Exchange Rates.

Beginning in 2000, E.ON has prepared its financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP). Formerly, the Company prepared its financial statements in accordance with generally accepted accounting principles in Germany as prescribed by the German Commercial Code (*Handelsgesetzbuch,* the Commercial Code) and the German Stock Corporation Act (*Aktiengesetz,* the Stock Corporation Act). Sales and adjusted EBIT presented in this annual report for each of E.ON s segments are based on the consolidated accounts of the E.ON Group as shown in Note 31 (Segment Information) of the Notes to Consolidated Financial Statements under the captions External sales and Adjusted EBIT and are presented prior to the elimination of intersegment transactions. Adjusted EBIT is the measure pursuant to which the Group has evaluated the performance of its segments and allocated resources to them during 2004. Adjusted EBIT is an adjusted figure derived from income/ (loss) from continuing operations (before intra-Group eliminations when presented on a segment basis) before income taxes and minority interests, excluding interest income. Adjustments include net book gains resulting from disposals, as well as restructuring expenses and other non-operating earnings of an exceptional nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions and nuclear waste management is allocated to adjusted interest income. E.ON uses adjusted EBIT as its segment reporting measure in accordance with Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). However, on a consolidated Group basis adjusted EBIT is considered a non-GAAP measure that must be reconciled to the most directly comparable GAAP measure. For a reconciliation of Group adjusted EBIT to net income for each of 2003 and 2004, see Item 5. Operating and Financial Review and Prospects Results of Operations Business Segment Information.

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

SELECTED FINANCIAL DATA

The selected financial data presented below in accordance with U.S. GAAP as of and for each of the years in the five-year period ended December 31, 2004 have been excerpted from or are derived from the Consolidated Financial Statements of E.ON as of and for the period ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively.

On June 16, 2000, VEBA completed the acquisition of VIAG. For convenience reasons, June 30, 2000 has been chosen as the merger date. In 2000, the results of operations of VIAG are included in E.ON s financial data from July 1 to December 31.

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

	Year Ended December 31,					
	2004(1)	2004	2003	2002	2001	2000
	(in millions, except share amounts)					
Statement of Income Data:						
Sales	$ 66,476	49,103	46,427	36,624	36,886	38,374
Sales excluding electricity and natural gas taxes(2)	60,576	44,745	42,541	35,691	36,192	38,385
Income/(Loss) from continuing operations before income taxes	9,204	6,799	5,538	(759)	2,629	5,095
Income/(Loss) from continuing operations after income taxes(3)	6,568	4,852	4,414	(97)	2,581	3,328
Income/(Loss) from continuing operations	5,886	4,348	3,950	(720)	2,129	2,939
Income/(Loss) from discontinued operations(4)	(12)	(9)	1,137	3,306	(55)	628
Net income	5,874	4,339	4,647	2,777	2,048	3,570
Basic earnings/(Loss) per share from continuing operations	8.96	6.62	6.04	(1.10)	3.15	4.74
Basic earnings (Loss) per share from discontinued operations, net(4)	(0.01)	(0.01)	1.74	5.07	(0.08)	1.01
Basic earnings per share from net income(5)	8.95	6.61	7.11	4.26	3.03	5.75

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	Year Ended December 31,					
	2004(1)	2004	2003	2002	2001	2000
	(in millions, except share amounts)					
Balance Sheet Data:						
Total assets	$ 154,417	114,062	111,850	113,503	101,659	106,215
Long-term financial liabilities	18,330	13,540	14,884	17,576	9,308	7,611
Stockholders equity(6)	45,434	33,560	29,774	25,653	24,462	28,033
Number of authorized shares		692,000,000	692,000,000	692,000,000	692,000,000	763,298,875

(1) Amounts in this column are unaudited and have been translated solely for the convenience of the reader at an exchange rate of $1.3538 = 1.00, the Noon Buying Rate on December 31, 2004.

(2) Laws in Germany and other European countries in which E.ON operates require the seller of electricity to collect electricity taxes and remit such amounts to tax authorities. Similar laws also require the seller of natural gas to collect and remit natural gas taxes to tax authorities.

(3) Before minority interest of 504 million for 2004, as compared with 464 million, 623 million, 452 million and 389 million for 2003, 2002, 2001 and 2000, respectively.

(4) For more details, see Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions Discontinued Operations and Note 4 of the Notes to Consolidated Financial Statements.

(5) Includes earnings per share from the first-time application of new U.S. GAAP standards of 0.00, (0.67), 0.29 and (0.04) for 2004, 2003, 2002 and 2001, respectively.

(6) After minority interests.

DIVIDENDS

The following table sets forth the annual dividends paid per ordinary unit bearer share of E.ON AG (each, an Ordinary Share) in euros, and the dollar equivalent, for each of the years indicated. Historically, both VEBA AG and VIAG AG declared and paid dividends in marks. For convenience, historical data regarding VEBA AG is translated from marks into euros at the fixed rate of 1.95583. The table does not reflect the related tax credits available to German taxpayers who receive dividend payments. Owners of Ordinary Shares who are United States residents should be aware that they will be subject to German withholding tax on dividends received. See Item 10. Additional Information Taxation.

	Dividends Paid per Ordinary Share with no par value

Year Ended December 31,		$(1)
2000	1.35	1.18
2001	1.60	1.49
2002	1.75	1.96
2003	2.00	2.39
2004(2)	2.35	3.18

(1) Translated into dollars at the Noon Buying Rate on the dividend payment date, which typically occurred during the second quarter of the following year, except for the 2004 amount, which has been translated at the Noon Buying Rate on December 31, 2004.

(2) The dividend amount for the year ended December 31, 2004 is the amount proposed by E.ON s Supervisory Board and Board of Management and has not yet been approved by its stockholders. Prior to the payment of the dividends, a resolution approving such amount must be passed by E.ON s stockholders at the annual general meeting to be held on April 27, 2005.
See also Item 8. Financial Information Dividend Policy.

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EXCHANGE RATES

Until December 31, 1998, the mark took part in the European Monetary System (EMS) exchange rate mechanism. Within the EMS, exchange rates could fluctuate within permitted margins, fixed by central bank intervention. Against currencies outside the EMS, the mark had, in theory, free floating exchange rates, although central banks sometimes tried to confine short-term exchange rate fluctuations by intervening in foreign exchange markets. As of December 31, 1998, the mark had a fixed value relative to the euro of 1.95583, and therefore was no longer traded on currency markets as an independent currency. As of January 1, 2002, the euro replaced the mark as legal tender in Germany.

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

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

Period	Average(1)	High	Low	Period-End
2000	0.9207			0.9388
2001	0.8909			0.8901
2002	0.9495			1.0485
2003	1.1411			1.2597
2004	1.2478			1.3538
September		1.2417	1.2052	
October		1.2783	1.2271	
November		1.3288	1.2703	
December		1.3625	1.3224	
2005				
January		1.3476	1.2954	
February		1.3274	1.2773	

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

On March 7, 2005, the Noon Buying Rate was $1.3203 per 1.00.

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RISK FACTORS

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

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

Standardized documentation of risks and control systems;

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

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

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

External

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

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

Since 1998, liberalization of the electricity markets in the EU has greatly altered competition in the German electricity market, which was formerly characterized by numerous strong competitors. Following liberalization, significant consolidation has taken place in the German market, resulting in four major interregional utilities: E.ON, RWE AG, Vattenfall Europe AG (Vattenfall Europe) and EnBW Energie Baden-Württemberg AG (EnBW). In addition, the market for electricity trading has become more liquid and competitive, with a total trading volume of approximately 397 terrawatt hours (TWh) at the European Energy Exchange (EEX) spot and futures market in 2004. Liberalization of the German electricity market also caused prices to decrease beginning in 1998, although prices have increased since 2001. Retail prices now exceed 1998 levels, and prices for sales to distributors and industrial customers have also improved, but electricity companies now face new or increased costs that have effectively reduced their margins. Among these new or increased costs are electricity taxes, duties and additional costs attributable to compliance with new legislation, as well as higher costs incurred in procuring balancing power to cover fluctuations in the availability of electricity from renewable resources such as wind. For additional information, see Item 4. Information on the Company Regulatory Environment Germany: Electricity. Although the Company continues to implement cost-management measures at its electricity operations in Germany, it may not be able to fully regain its former profit margins in this sector. Further, although the Company intends to compete vigorously in the changed German electricity market, it cannot be certain that it will be able to develop its business as successfully as its competitors. For information about new regulatory changes that will affect the German electricity market, see the discussion on changes in laws and regulations below.

In 2002, the German Federal Cartel Office instituted proceedings challenging the transmission fees of 10 regional and municipal electricity suppliers in Germany, including four companies of the E.ON Group TEAG

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Thüringer Energie AG (TEAG), E.DIS AG (E.DIS), EAM Energie AG (formerly Energie-Aktiengesellschaft Mitteldeutschland) (EAM) and Avacon AG (Avacon). On February 19, 2003, the Federal Cartel Office issued a decision requiring a 10 percent reduction in TEAG s network fees. The decision rejected the basic principles of the tariff calculation guidelines that are used by all of the E.ON Group companies involved in the proceedings. TEAG appealed the decision in the State Superior Court in Düsseldorf and received a temporary injunction preventing the immediate reduction of its tariffs. On February 11, 2004, TEAG won its appeal, with the court ruling that TEAG s calculation methods follow a set of recognized rules under the electricity industry s association agreement (*Verbändevereinbarung II+*) and represent a recognized business method. The decision is now final and binding until new legislation affecting Germany s electricity industry comes into force. See the discussion on changes in laws and regulations below. All other proceedings of the Federal Cartel Office against regional distributors of the E.ON Group have been put on hold.

On February 24, 2003, the German Federal Cartel Office instituted proceedings challenging the prices charged by E.ON Sales & Trading GmbH (EST) and other wholesale energy companies for balancing energy. The Federal Cartel Office has made inquiries in order to assess whether or not these prices constitute market abuse, which are still pending. If the Company is unable to reach a satisfactory resolution of this proceeding, it may have a material adverse impact on E.ON Energie s transmission rate structure.

Outside Germany, the electricity markets in which the Company operates are also subject to strong competition. The Company has significant U.K. and Swedish operations in electricity generation, distribution and supply, on both the wholesale and retail levels. Increased competition from new market entrants and existing market participants could adversely affect the Company s U.K. or Swedish market share in both the retail and wholesale sectors. In the United States, LG&E Energy, the Company s primary U.S. subsidiary, is exposed to wholesale price and fuel cost risks with respect to its non-regulated operations, whose rates are not set by governmental regulators, and which represent a minority of LG&E Energy s business. A significant deterioration in the market environment for E.ON s U.K. and U.S. operations triggered an impairment analysis in the third quarter of 2002 that resulted in an impairment charge of 2.4 billion, thus reducing the amount of goodwill associated with the Powergen Group acquisition to 6.5 billion. For additional details on this charge, see Item 5. Operating and Financial Review and Prospects Results of Operations. The Company cannot guarantee it will be able to compete successfully in the United Kingdom, the Nordic countries, the United States or other electricity markets where it is already present or in new electricity markets the Company may enter. E.ON Ruhrgas also faces risks associated with increased competition in the gas sector; see Item 4. Information on the Company Business Overview Pan-European Gas Competitive Environment and Regulatory Environment Germany: Gas.

Changes in laws and regulations which affect the Company s operations could materially and adversely affect the Company s financial condition and results of operations.

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

For example, the EU adopted new electricity and gas directives in 2003 which will require changes to the electricity and gas industries of some EU member states, including Germany. One of the requirements is that an independent regulatory authority be established in each member state to oversee access to the electricity and gas networks. The German government has decided to authorize the existing Regulatory Authority for Telecommunications and Posts to perform this function. According to the directives, this regulatory body should have the authority to set or approve network access tariffs or, alternatively, the methodologies used for calculating them, as well as the power to control compliance with the tariffs or methodologies once they are set. The establishment of an independent regulatory authority will therefore change the current system of negotiated third party network access in the electricity and gas industries in Germany. Although draft legislation has been published, the Company cannot yet predict all consequences of this legislation as the relevant issues will also be subject to several new regulations not yet published or still in political discussion. The Company cannot be certain that the

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establishment of a regulator and changes to the current system of network access, as well as other changes introduced as part of the new legislation, will not have a negative effect on its electricity and gas businesses in Germany, including the grid fees E.ON Energie and E.ON Ruhrgas may charge for network access. For more information, see Item 4. Information on the Company Regulatory Environment.

The EU has adopted a directive requiring member states to establish a greenhouse gas emissions allowance trading scheme. Under the scheme, permits to emit a specified amount of carbon dioxide are to be allocated to affected power stations and other industrial installations. Germany, the Netherlands and Sweden have already passed the required legislation and allocated the necessary permits free of charge, while the United Kingdom and Finland are expected to allocate permits during 2005. Although the Company does not generally expect the allocation of emissions allowances to have a negative impact on its operations, the implementation of the EU s emissions trading directive has only recently taken effect in some EU member states and has not yet taken effect in others. The Company cannot currently predict how the trading of emissions allowances will develop and any impact on its operations. For more information, see Item 4. Information on the Company Regulatory Environment.

In Germany, the Company s nuclear power plants are among its cheapest source of power, and, along with hydroelectric and lignite-based power plants, are used primarily to cover the Company s base load power requirements. In June 2001, E.ON, together with the other German operators of nuclear power stations, reached an agreement with the German federal government to phase out the generation of nuclear power in Germany; this agreement was reflected in an amendment of Germany s nuclear energy law in April 2002. For more information about the planned phase-out of nuclear power stations in Germany, see Item 4. Information on the Company Business Overview Central Europe. The amended law provides that the delivery of spent nuclear fuel rods for reprocessing will be allowed until July 2005, during which time plant operators are to build storage facilities on the premises of their nuclear plants. E.ON expects to complete construction of the necessary storage facilities by the end of 2006. The construction costs of these storage facilities are expected to be significant, and the Company may incur higher than anticipated costs in ending its nuclear energy operations.

Regulatory changes can also affect the prices the Company may charge customers. For example,

- As described above, EU directives provide that the regulatory authority to be introduced in Germany should have the power to set or approve network access tariffs or, alternatively, the methodologies used for calculating them. This could lead to lower grid fees for E.ON s electricity and gas transportation and distribution businesses in Germany.

- In Germany, state cartel authorities in Bavaria, Hesse and Thuringia and the Federal Cartel Office have launched investigations of certain utilities with allegedly high gas tariffs to determine whether these gas prices constitute market abuse. These investigations affect some utilities in which Thüga and E.ON Energie hold interests. The Bavarian state cartel office and the Federal Cartel Office have since decided to end their investigations, while the proceedings in Hesse and Thuringia remain pending. The Company cannot currently predict the outcome of the pending investigations.

- Regulators in the United Kingdom have established a price control framework for electricity distribution customers that is in effect through March 31, 2005; new price controls will take effect in April 2005 for the five year period ending March 2010.

- In the United States, the rates for LG&E Energy s retail electric and gas customers in Kentucky, its principal area of operations, are set by state regulators and remain in effect until such time that an adjustment is sought and approved. LG&E Energy s affected utilities applied for and received increases in regulated tariffs effective as of July 1, 2004, although such increases remain the subject of continuing regulatory review and governmental inquiry.

For additional information on these developments, see Item 4. Information on the Company Regulatory Environment. For all of its operations, adverse changes in price controls or rate structures could have an adverse effect

on the Company s operating results.

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Item 4. Information on the Company Regulatory Environment and Item 8. Financial Information Legal Proceedings also contain information regarding other recent or proposed changes in law or regulations or legal proceedings which could negatively affect the Company s operations. The Company is unable to predict the effect of future developments in laws and regulations on its operations and future earnings.

Rising fuel prices could materially and adversely affect the Company s results of operations and financial condition.

A significant portion of the expenses of the Company s regional market units are made up of fuel costs, which are heavily influenced by prices in the world market for oil, natural gas, fuel oil and coal. Similarly, the majority of E.ON Ruhrgas expenses are for purchases of natural gas under long-term take or pay contracts that link the gas prices to that of fuel oil and other competing fuels. The prices for such commodities have historically fluctuated and there is no guarantee that prices will remain within projected levels. The price of oil in particular rose in 2004 as a result of geopolitical factors, including, but not limited to, an increase in demand in China and India, the war and post-war insurgency in Iraq, increased instability in other parts of the Middle East and a further deterioration of the economic and political situation in Venezuela and Nigeria. The Company s electricity operations do maintain some flexibility to shift power production among different types of fuel, and the Company is also partially hedged against rising fuel prices. However, increases in fuel costs could have an adverse effect on the Company s operating results or financial condition if it is not able (or not permitted by regulatory authorities) to shift production to lower-cost fuel or to adjust its rates to offset such increases in fuel prices on a timely or complete basis.

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

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

The demand for power and natural gas is seasonal, with the Company s operations generally experiencing higher demand during the cold weather months of October through March and lower demand during the warm weather months of April through September. The exception to this is the Company s U.S. power business, where hot weather results in an increased demand for electricity to run air conditioning units. As a result of these seasonal patterns, the Company s revenues and results of operations are higher in the first and fourth quarters and lower in the second and third quarters, with the U.S. power business having its highest revenues in the third quarter and a secondary peak in the first and fourth quarters. Revenues and results of operations for all of the Company s energy operations would be negatively affected by periods of unseasonally warm weather during the autumn and winter months. The Company s European energy operations could also be negatively affected by a summer with higher than average temperatures and its Nordic operations could be negatively affected by a lack of precipitation, each of which occurred in 2003. In Sweden, a severe water shortage during late 2002 and early 2003 resulted in decreased energy supply from hydroelectric power plants and higher energy prices in 2003, while higher temperatures in Europe during the summer of 2003 forced some of the Company s German power plants to reduce or shut down operations due to over-heated water needed for cooling the plants. For information on the Company s hydroelectric operations in Sweden, see Item 4. Information on the Company Business Overview Nordic Power Generation. Management expects seasonal and weather-related fluctuations in revenues and results of operations to continue.

Operational

The Company s core energy businesses operate technologically complex production facilities and transmission systems. Operational failures or extended production downtimes could negatively impact the Company s financial condition and results of operations. The Company s businesses are also subject to risks in the ordinary course of business such as the loss of personnel or customers, and losses due to bad debts. The Company believes

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it has appropriate risk control measures in effect to counteract and address these types of risks. The following are additional operational risks the Company faces:

E.ON Ruhrgas long-term gas contracts expose it to volume and price risks.

As is typical in the gas industry, E.ON Ruhrgas enters into long-term gas supply contracts with natural gas producers to secure the supply of almost all the gas E.ON Ruhrgas purchases for resale. These contracts, which generally have terms of around 20 to 25 years, require E.ON Ruhrgas to purchase minimum amounts of natural gas over the period of the contract or to pay for such amounts even if E.ON Ruhrgas does not take the gas, a standard industry practice known as take or pay . The minimum amounts are generally about 80 percent of the firmly contracted quantities. E.ON Ruhrgas also enters into long-term gas sales contracts with its customers, although these contracts are shorter than the gas supply contracts (for distributors and municipal utilities, which constitute the majority of E.ON Ruhrgas customers, the contracts generally have longer terms, while contracts for industrial customers usually have terms between one and five years). In addition, the majority of these gas sales contracts do not include fixed take or pay provisions. Since E.ON Ruhrgas gas supply contracts have longer terms than its gas sales contracts, and commit E.ON Ruhrgas to paying for a minimum amount of gas over a long period, E.ON Ruhrgas is exposed to the risk that it will have an excess supply of natural gas in the long term should it have fewer committed purchasers for its gas in the future and be unable to otherwise sell its gas on favorable terms. Such a shortfall could result if a significant number of E.ON Ruhrgas customers (or their end customers) shifted from natural gas to other forms of energy or if E.ON Ruhrgas customers began to acquire gas from other sources. The ministerial approval E.ON obtained for the acquisition of Ruhrgas required E.ON Ruhrgas to divest its stakes in two gas distributors, as well as granting these distributors the right to terminate their gas sales contracts with E.ON Ruhrgas. The ministerial approval also gave most of E.ON Ruhrgas distribution customers the right to reduce the amounts of natural gas purchased from E.ON Ruhrgas to 80 percent of the contractually agreed amount over the period of the applicable gas sales contract. To date, most customers have decided not to exercise this option. For additional information on these developments, see Item 4. Information on the Company Business Overview Pan-European Gas Sales. If the affected gas distributors choose to begin termination of their gas sales contracts in 2005, or a significant number of other affected customers choose to reduce the amounts of gas purchased from E.ON Ruhrgas in 2005, the take or pay provisions of some of E.ON Ruhrgas gas supply contracts may become applicable, which would negatively affect its results of operations. In addition, due to increasing competition linked to the liberalization of the gas market and the entry of new competitors, E.ON Ruhrgas may not be able to renew some of its existing gas sales contracts as they expire, or to gain new contracts. This may also have the effect of leaving E.ON Ruhrgas with an excess supply of natural gas and/or decrease in margins.

In the course of a proceeding not involving E.ON Ruhrgas, the German Federal Cartel Office issued an opinion stating that it believed that long-term sales contracts requiring municipal utilities or other purchasers to cover 100 percent of their requirements from a single supplier were contrary to German and European competition law, provided their duration exceeds two years, and that even contracts providing for only 50 to 80 percent of a purchaser s requirements must be limited to four years. Based on this legal position, the Federal Cartel Office has instituted proceedings against E.ON Ruhrgas and a number of other long-distance gas wholesale companies in Germany. In the course of these proceedings, the Federal Cartel Office published a memorandum in January 2005 reiterating its aforementioned opinion on the validity of long-term sales contracts for the purpose of public discussion. E.ON Ruhrgas believes the Federal Cartel Office s position fails to take into account that long-term supply contracts needed to ensure secure gas supplies in Germany will only be viable if importers can sell their gas volumes on a long-term basis. However, no assurance can be given as to the outcome of these proceedings. Were any such challenge to result in E.ON Ruhrgas being required to change the terms of its sales contracts, E.ON Ruhrgas exposure to the volume and price risks described in the above paragraph would be heightened.

As is standard in the gas industry, the price E.ON Ruhrgas pays for gas under its long-term gas supply contracts is calculated on the basis of complex formulas incorporating variables based on current market prices for fuel oil, gas oil, coal and/or other competing fuels, with prices being automatically re-calculated periodically, usually quarterly, by reference to market prices of the relevant fuels during a prior period. Price terms in E.ON Ruhrgas gas sales contracts are generally pegged to the price of competing fuels and provide for automatic

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quarterly price adjustments based on fluctuations in underlying fuel prices, again by reference to market prices during a prior period. Since E.ON Ruhrgas supply and sales contracts are generally indexed to different types of oil and related fuels, in different proportions and are adjusted according to different formulas, E.ON Ruhrgas margins for natural gas may be significantly affected in the short term by variations in the price of oil or other fuels, which are generally reflected in prices payable under its supply contracts before they are reflected in prices paid under sales contracts, the so-called time lag effect. Although E.ON Ruhrgas seeks to manage this risk by matching the general terms of its portfolio of sales contracts with those of its supply contracts, there can be no assurance that it will always be successful in doing so, particularly in the short term. For more information on E.ON Ruhrgas gas supply and sales contracts, see Item 4. Information on the Company Business Overview Pan-European Gas Sales.

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

The Company s business strategy involves selective acquisitions and investments in its core business area of energy. This strategy depends in part on the Company s ability to successfully identify and acquire companies that enhance its business on acceptable terms. In order to obtain the necessary approvals for acquisitions, the Company may be required to divest other parts of its business, or to make concessions or undertakings which materially affect its operations. For example, the Company s efforts to obtain control of Ruhrgas through a series of purchases from the holders of Ruhrgas interests were initially blocked by the German Federal Cartel Office and then by a series of plaintiffs who succeeded in convincing the State Superior Court in Düsseldorf to issue a temporary injunction preventing the Company from completing the transaction. In order to receive the ministerial approval of the German Economics Ministry that overruled the initial decision of the Federal Cartel Office, the Company was required to make significant concessions, including committing to divest certain operations, to have E.ON Ruhrgas sell a significant quantity of natural gas at auction (with opening bids set at below-market prices) and to offer certain customers the option of reducing the volume of gas they had contracted for. In addition, in settling the claims of the plaintiffs who had received the temporary injunction, the Company has agreed to divest certain of its operations, to provide certain of the plaintiffs with energy supply contracts and network access, to make certain infrastructure improvements and provide marketing support, as well as making financial payments. For more information, see Item 4. Information on the Company History and Development of the Company Ruhrgas Acquisition. Each of these matters delayed completion of the Ruhrgas acquisition and had the effect of increasing the cost of the transaction to the Company.

In addition, there can be no assurances that the Company will be able to achieve the benefits it expects from any acquisition or investment. For example, the Company may fail to retain key employees, may be unable to successfully integrate new businesses with its existing businesses, may incorrectly judge expected cost savings, operating profits or future market trends and regulatory changes, or may spend more on the acquisition, integration and operations of new businesses than anticipated. Legal challenges may also have an impact. E.ON is currently involved in an arbitration proceeding regarding its interest in E.ON Finland. See Item 4. Information on the Company Business Overview Nordic Overview. Especially large acquisitions, such as those of the Powergen Group (now E.ON UK and LG&E Energy) in 2002, or more recently, the U.K. retail operations and other assets of TXU Europe Group plc (TXU Group), which were purchased by E.ON UK in October 2002, the Midlands Electricity plc (Midlands Electricity) distribution business, which was purchased by E.ON UK in January 2004, or E.ON Ruhrgas, the purchase of which was completed in March 2003, present particularly difficult challenges. For information on the integration of the TXU Group and Midlands Electricity businesses, see Item 4. Information on the Company Business Overview U.K. and for information on the integration of E.ON Ruhrgas, see Item 4. Information on the Company History and Development of the Company Ruhrgas Acquisition. Investments and acquisitions of businesses in new areas such as natural gas require the Company to become familiar with new markets and competitors and expose the Company to commercial and other risks, as well as additional regulatory regimes relating to the acquired businesses that may be stricter than the ones the Company is currently subject to. Because of the risks and uncertainty associated with acquisitions and investments, any acquired businesses or investments may not achieve the profitability expected by the Company.

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The U.S. Public Utility Holding Company Act imposes significant restrictions on the Company s business.

In order to acquire the Powergen Group, the Company was required to register as a holding company under the U.S. Public Utility Holding Company Act of 1935 (PUHCA). Although the Company s non-U.S. businesses are generally (but not entirely) free from regulation under this statute, the Company and its U.S. businesses are subject to extensive regulation under PUHCA. The PUHCA regulations require prior U.S. Securities and Exchange Commission (SEC) approval for a wide range of capital raising, merger and acquisitions, intercompany transactions and non-regulated activities and could interfere with the Company s timely implementation of business plans and its financial flexibility.

The Company cannot be certain it will be able to make required divestments on acceptable terms or within required time periods, which could interfere with its declared business strategy and/or adversely affect its business.

The Company has agreed to sell all of its non-energy-related businesses except its telecommunications interests in connection with its acquisition of Powergen Group, and has agreed to divest additional businesses in connection with its acquisition of Ruhrgas. Although the Company has successfully completed most of the required divestments, the Company cannot be sure that it will be able to complete the remaining required divestments at the most favorable terms, or within the required divestment periods. In connection with certain of its divestitures, the Company has provided standard indemnities to the buyers which expose it to possible losses in certain circumstances. The Company may also be subject to sanctions if it is unable to divest businesses it has undertaken to sell within the required periods. The Company s business strategy, financial condition and share price may suffer if it is unable to complete its planned dispositions successfully.

The Company could be subject to environmental liability associated with its operations that could materially and adversely affect its business.

In case of environmental damages caused by an electric power generation facility, the owner of the facility is subject under German law to liability provisions that guarantee comprehensive compensation to all injured parties. In addition, there has been some relaxation in the evidence required under the German Environmental Liability Law (*Umwelthaftungsgesetz*) to establish and quantify environmental claims. Under German law, the Company may still be subject to future environmental claims with respect to alleged historical environmental damage arising from certain of its discontinued and disposed of operations, including the VEBA Oel oil business, the VAW aluminum operations, the Klöckner & Co AG distribution and logistics businesses and the VEBA Electronics business. The Company may also be subject to environmental claims with respect to Degussa s operations. If claims were to be asserted against the Company in relation to environmental damages and plaintiffs were successful in proving their claims, such claims could result in material losses to the Company.

In case of a nuclear accident in Germany, the owner of the reactor, the factory or the nuclear materials storage facility is subject to liability provisions that guarantee comprehensive compensation to all injured parties. Under German nuclear power regulations, the owner is strictly liable, and the geographical scope of its liability is not limited to Germany. E.ON s Swedish nuclear power stations also expose the Company to liability under applicable Swedish law. The Company does not operate or have interests in nuclear power plants outside of Germany, Sweden and Switzerland, including in the United Kingdom or the United States. The Company takes extensive safety and risk management measures in the operation of its nuclear power operations, and has mandatory insurance with respect to its nuclear operations as described in Item 4. Information on the Company Environmental Matters Germany: Electricity and Nordic. However, any claims against the Company arising in the case of a nuclear power accident could exceed the coverage of such insurance, and cause material losses to the Company.

The Company expects that it will incur costs associated with future environmental compliance, especially compliance with clean air laws. For example, the U.S. Environmental Protection Agency has introduced new regulations regarding the reduction of nitrogen oxide (NO_x) emissions from electricity generating units. These regulations require LG&E Energy to make significant additional capital expenditures in NO_x control equipment, which are currently estimated to total approximately $539 million through 2006, of which nearly all ($516 million) have been incurred through 2004. LG&E Energy also expects to make additional capital expenditures to

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reduce sulphur dioxide emissions from generation units totaling $737 million through 2009. LG&E Energy expects to recover a significant portion of these costs over time from customers of its regulated utility businesses. In the United Kingdom, legislation to implement the EU Large Combustion Plants Directive is currently being discussed. The legislation is expected to require E.ON UK to make decisions on whether to invest in enhanced pollution control devices, reduce operating time at certain of its plants or consider closing certain plants in the future. Similarly, the German government has recently amended an ordinance of the German Federal Pollution Control Act (*Bundesimmissionsschutzgesetz,* or BImSchG) to introduce lower emission limits for air pollutants such as carbon monoxide and NO_x. This amendment requires both E.ON Energie and E.ON Ruhrgas to make investments in pollution control devices. In addition, in the United States, LG&E Energy also expects to be affected by a number of potential regional or industry-wide transmission market structure changes that are currently being proposed by the relevant authorities. Currently, none of E.ON s market units can predict the extent to which their respective operations will be affected by the new or proposed legislation and /or regulations. Revisions to existing environmental laws and regulations and the adoption of new environmental laws and regulations may result in significant increases in costs for the Company. Those costs, if not recoverable from customers, may adversely affect the Company s operating results or financial condition. For more information on environmental matters, see Item 4. Information on the Company Environmental Matters.

Although environmental laws and regulations have an increasing impact on the Company s activities in almost all the countries in which it operates, it is impossible to predict accurately the effect of future developments in such laws and regulations on the Company s future earnings and operations. Some risk of environmental costs and liabilities is inherent in particular operations and products of the Company, as it is with other companies engaged in similar businesses, and there can be no assurance that material costs and liabilities will not be incurred.

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

Each of Italy, Denmark, Sweden, London and large parts of the United States and Canada experienced major power outages during 2003. The reasons for these blackouts vary, although with the exception of London they involved a locally or regionally inadequate balance between power production and consumption, with single failures triggering a cascade-like shutdown of lines and power plants following overload or voltage problems. This type of problem has increased in recent years following the liberalization of EU electricity markets, partly due to an emphasis on unrestricted cross-border physically-settled electricity trading that has resulted in a substantially higher load on the international network, which was originally conceived mainly for purposes of mutual assistance and operations optimization. There are transmission bottlenecks at many locations in Europe, and the high load has resulted in fewer safety reserves in the network. In Germany, where power plants are located in closer proximity to population centers than in many other countries, the risk of blackouts is lower due to shorter transmission paths and a strongly meshed network. In addition, the spread of a power failure is less likely in Germany due to the organization of the German power grid into four balancing zones. Nevertheless, the Company s German or international electricity operations could experience unanticipated operating or other problems leading to a power failure. For example, in the case of the blackout which occurred in Denmark and southern Sweden on September 23, 2003, one of the causes was an unexpected power failure at the Oskarshamn power plant (which is 54.5 percent owned by the Company s majority-owned subsidiary Sydkraft), that occurred as the plant was being reconnected to the grid following regularly scheduled maintenance. In addition, on January 8-9, 2005, a severe storm hit Sweden, destroying the electricity distribution grid in some areas in the south of the country. Approximately 250,000 Sydkraft customers were affected by the resulting power outage, and some customers were left without electricity for several weeks. Sydkraft estimates that its costs for rebuilding its distribution grid and compensating customers will be approximately 164 million. In Germany, almost half of the country s wind turbines are connected to the power grid of E.ON Energie, mostly in the north of Germany. In the case of a power grid failure, technical grid access conditions for wind power plants installed through 2003 may require that the majority of such plants be separated from the grid. This possible separation of a number of wind power plants from the grid may in turn increase the impact of the original power failure in the grid. For more information, see Item 4. Information on the Company Regulatory Environment Germany: Electricity.

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The Company can give no assurances that power failures involving its operations will not occur in the future, or that any such power failure would not have a negative effect on the Company s business and results of operations.

Financial

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

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

The Company is also exposed to other financial risks. For example, it holds certain stock investments which may expose it to the risk of stock market declines. For information on the write downs with regard to E.ON s investment in Bayerische Hypo- und Vereinsbank AG (HypoVereinsbank) in 2002, see Item 5. Operating and Financial Review and Prospects Results of Operations. Financial markets have performed poorly in some recent years, and markets may decline again or experience volatility. In addition, a significant portion of the Company and E.ON UK s outstanding debt bears interest at floating rates; the Company s interest expense will therefore increase if the relevant base rates rise. In addition, the value of the Company s investments in fixed rate bonds will be adversely affected by a rise in interest rates.

The Company also faces risks arising from its energy trading operations. In general, the Company seeks to hedge risks associated with volatile energy-related prices by entering into fixed-price bilateral contracts, futures and options contracts traded on commodities exchanges, and swaps and options traded in over-the-counter financial markets. To the extent the Company is unable to hedge these risks, or enters into hedging contracts that fail to address its exposure or incorrectly anticipate market movements, it may suffer losses, some of which could be material. In addition to the risks associated with adverse price movements, credit risk is also a factor in the energy marketing, trading and treasury activities, where loss may result from the non-performance of contractual obligations by a counterparty. The Company maintains credit policies and control procedures with respect to counterparties to protect it against losses associated with such types of credit risk, although there can be no assurance that these policies and procedures will fully protect the Company. The marking to market of many of E.ON s hedging instruments required by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), has also increased the volatility of the Company s results of operations, though it has not had a material effect on E.ON s overall risk exposure. In addition, LG&E Energy is exposed to potential losses under several fixed-price energy marketing contracts that its former merchant energy trading operations entered into in 1996 and early 1997, some of which run through 2007. Although the Company has used what it believes to be appropriate estimates for future energy prices, among other factors, in establishing a provision to cover anticipated losses on these contracts, no assurance can be given that higher than anticipated future prices or demand, among other factors, may not result in additional losses. For more information about the Company s energy trading operations, its hedging policies and the instruments used, see Item 4. Information on the Company Business Overview Central Europe Trading , Pan-European Gas Trading, U.K. Energy Tr and Nordic Trading , Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2004 Compared with Year Ended December 31, 2003 and Exchange Rate Exposure and Currency Risk Management and Item 11. Quantitative and Qualitative Disclosures about Market Risk.

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Item 4. Information on the Company.

HISTORY AND DEVELOPMENT OF THE COMPANY

E.ON AG is a stock corporation organized under the laws of the Federal Republic of Germany. It is entered in the Commercial Register (*Handelsregister*) of the local court of Düsseldorf, Germany, under HRB 22315. E.ON s registered office is located at E.ON-Platz 1, D-40479 Düsseldorf, Germany, telephone +49-211-45 79-0. E.ON s agent in the United States is E.ON North America, Inc., 405 Lexington Avenue, New York, NY 10174.

The State of Prussia established VEBA in 1929 when it consolidated state-owned coal mining and energy interests (hence the original name VEBA, Vereinigte Elektrizitäts- und Bergwerks-Aktiengesellschaft). Ownership of VEBA was transferred from the dissolved Prussian state to the Federal Republic of Germany. VEBA was partially privatized in 1965, leaving the German government with a 40.2 percent share. After several subsequent offerings, privatization was completed in 1987 when the German government offered its remaining 25.5 percent share to the public. During and since the privatization process, VEBA AG evolved into a management holding company, providing strategic leadership and resource allocation for the entire Group.

VEBA-VIAG MERGER

On June 16, 2000, VEBA AG merged with VIAG AG, one of the largest industrial groups in Germany. VEBA AG was subsequently renamed E.ON AG. The merger of VEBA and VIAG to form E.ON has created the second-largest industrial group in Germany, based on market capitalization at year-end 2004, with sales of 49.1 billion in 2004.

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

The merger of VEBA and VIAG was legally implemented by merging VIAG AG into VEBA AG, with VEBA AG continuing as the surviving entity. The newly-merged company then received the new name E.ON AG. On June 16, 2000, the merger was entered into the Commercial Register in Düsseldorf. Upon registration with the Commercial Register in Düsseldorf, the merger was completed and became effective for purposes of U.S. GAAP as of July 1, 2000. VIAG AG was dissolved and its assets and liabilities were transferred to VEBA AG. Simultaneously, each VIAG shareholder, with the exception of VEBA AG, received two shares of the new company in exchange for each five VIAG shares held. Pursuant to this exchange ratio, the former VIAG shareholders (with the exception of VEBA AG) therefore held 33.1 percent of the company immediately after the merger, while the former VEBA shareholders held 66.9 percent. For information about certain claims brought by former VIAG shareholders regarding the share exchange ratio used in the VEBA-VIAG merger, see Item 8. Financial Information Legal Proceedings.

POWERGEN GROUP ACQUISITION

On April 9, 2001, E.ON made a pre-conditional offer of 765 pence (12.19) per share to the shareholders of the London- and Coventry-based British utility Powergen. The pre-conditions of the offer included making certain government and regulatory filings and obtaining the approval of regulatory authorities in a number of jurisdictions, including approvals from the European Commission, the Office of Gas and Electricity Markets in the United Kingdom and, due to Powergen Group s U.S. businesses, a number of U.S. regulatory authorities, including approvals from the state utility regulators in Kentucky, Tennessee and Virginia, the U.S. Federal Energy Regulatory Commission and the SEC, which administers PUHCA. In connection with its SEC application, E.ON

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agreed, among other things, to divest VEBA Oel, Degussa, Viterra, Stinnes and VAW over a period of three to five years, and to register with the SEC as a holding company under PUHCA following the consummation of the transaction. VEBA Oel, Stinnes and VAW have already been sold. E.ON has also sold a 21.7 percent stake in Degussa through a two-step process to RAG Aktiengesellschaft (RAG), which has resulted in RAG holding a majority of Degussa effective June 1, 2004. For more information, see Ruhrgas Acquisition.

As agreed between E.ON and Powergen, upon satisfaction of all conditions E.ON implemented the transaction under an alternative U.K. legal procedure known as a scheme of arrangement instead of a tender offer. The scheme of arrangement provided for the acquisition of all outstanding Powergen shares by virtue of an order of the English courts following approval of the transaction at a meeting of Powergen shareholders on April 19, 2002, convened by order of the court. The scheme of arrangement was approved by 98.3 percent of the Powergen shares held by Powergen shareholders present and voting (either in person or by proxy). On June 12, 2002, E.ON received SEC approval for the acquisition. On July 1, 2002, E.ON completed its acquisition of Powergen Group, which is now wholly owned by E.ON.

The total purchase price amounted to 7.6 billion (net of 0.2 billion cash acquired), and the assumption of 7.4 billion of debt. Goodwill in the amount of 8.9 billion resulted from the purchase price allocation. A significant deterioration in the market environment for Powergen Group s U.K. and U.S. operations triggered an impairment analysis as of the acquisition date that resulted in an impairment charge of 2.4 billion, thus reducing the amount of goodwill associated with the transaction to 6.5 billion. For additional details on this charge, see Item 5. Operating and Financial Review and Prospects Results of Operations. On July 5, 2004, Powergen was renamed E.ON UK.

Under PUHCA, E.ON AG, LG&E Energy and any other company in the holding structure between E.ON and LG&E Energy are classified as holding companies. As holding companies, they are required to be registered with the SEC or to obtain an exemption. E.ON and each of the companies between E.ON and LG&E Energy have therefore been registered as holding companies under PUHCA and are subject to regulation by the SEC. E.ON UK was also registered pursuant to this requirement but following the transfer of LG&E Energy and its direct parent holding company from a subsidiary of E.ON UK to a direct subsidiary of E.ON AG in March 2003, E.ON applied for the deregistration of E.ON UK as a holding company under PUHCA; the deregistration process was completed in November 2004. The SEC requires registered holding companies and their subsidiaries to receive SEC approval for many transactions, including:

- the issuance of securities;
- the acquisition of securities, utility assets and other businesses; and
- lending to or guaranteeing obligations of any other company in the registered holding company corporate structure.

As a result of the acquisition, all of E.ON s subsidiaries that own or operate facilities used for generation, transmission or distribution of electricity or the retail distribution of gas outside of the United States are classified under PUHCA as foreign utility companies. Transactions between any E.ON subsidiary that is a foreign utility company and an E.ON subsidiary that is not a foreign utility company are subject to the SEC regulation.

Under PUHCA and the rules promulgated by the SEC thereunder, no registered holding company or subsidiary thereof may pay dividends out of capital or unearned surplus, except pursuant to an order of the SEC. LG&E Energy is generally only allowed to pay dividends out of retained earnings.

For more information on E.ON UK and LG&E Energy, see Business Overview U.K. and U.S. Midwest.

RUHRGAS ACQUISITION

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

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In 2001, E.ON concluded contracts for the purchase of significant shareholdings in Ruhrgas with BP p.l.c. (BP) and Vodafone Group Plc (Vodafone). The aggregate consideration paid for these stakes was 3.3 billion. E.ON also reached an agreement in principle with RAG to acquire its Ruhrgas stakes. In January and February 2002, the German Federal Cartel Office blocked the consummation of the transactions with the aforementioned parties on the grounds that the proposed purchase would have a negative effect on competition in the German gas and electricity markets. E.ON appealed the decision to the German Economics Ministry, which has the power to overrule the Cartel Office if it determines a transaction would result in an overriding general benefit to the German economy. In March 2002, E.ON agreed to acquire ThyssenKrupp AG s interest in Ruhrgas for a total consideration of 0.5 billion.

In May 2002, E.ON reached a definitive agreement with RAG to acquire RAG s more than 18 percent interest in Ruhrgas and to sell E.ON s majority interest in Degussa to RAG. Under the arrangement, RAG acquired a majority shareholding in Degussa in two steps at a price of 38 per share. In the first step, in June 2002, RAG made a cash tender offer to Degussa s shareholders at a price of 38 per share. The parties definitive agreement provided that after completion of the tender offer RAG and E.ON would hold equal shareholdings of Degussa and would manage Degussa jointly. In the second step, E.ON sold 3.6 percent of Degussa s shares to RAG at the above price to give RAG a 50.1 percent interest in Degussa effective June 1, 2004.

On July 3, 2002, E.ON reached agreements to acquire the 40 percent interest in Ruhrgas held indirectly by Esso Deutschland GmbH, Deutsche Shell GmbH, and TUI AG, which would make E.ON the sole owner of Ruhrgas. The aggregate purchase price for these stakes was 4.1 billion.

On July 5, 2002, E.ON was granted the ministerial approval it had requested for the acquisition of a majority shareholding in Ruhrgas. The ministerial approval was linked with stringent requirements designed to promote competition in the gas sector. Ruhrgas was required to auction 75 billion kilowatt hours (kWh) of natural gas to its competitors and to legally unbundle its transmission system from its other operations. In addition, E.ON and Ruhrgas were required to divest several shareholdings. These included E.ON Energie s stakes in Gelsenwasser AG (Gelsenwasser) and EWE Aktiengesellschaft (EWE), and minority stakes held by each of E.ON Energie and Ruhrgas in Verbundnetz Gas AG (VNG), Bayerngas GmbH (Bayerngas) and swb AG (swb). On the same day, E.ON completed the acquisition of 38.5 percent of Ruhrgas from BP, Vodafone and ThyssenKrupp AG.

A number of companies with alleged interests in the German energy industry filed complaints against the ministerial approval with the State Superior Court (*Oberlandesgericht*) in Düsseldorf and petitioned the court to issue a temporary injunction blocking the transaction. The court subsequently issued a series of orders in July, August and September 2002 that temporarily enjoined the Company s acquisition of a majority stake in Ruhrgas. In addition, the court prohibited the Company from exercising its shareholders rights with respect to the Ruhrgas stake it had acquired from BP, Vodafone and ThyssenKrupp AG until the takeover was approved. E.ON continued to maintain that the reasons given by the court in the summary proceedings leading to these orders did not justify its decision.

Following the issuance of the temporary injunction, on September 18, 2002, Germany s Federal Minister of Economics confirmed the essential aspects of the July 5 ministerial approval for E.ON s acquisition of Ruhrgas. However, the ministry linked its decision to a tightening of the requirements. Ruhrgas was also required to sell its stakes in Bayerngas and swb, and all of the companies required to be disposed of were granted special rights to terminate their existing purchase agreements with E.ON and Ruhrgas on a staggered basis. In addition, customers purchasing more than 50 percent of their gas requirements from Ruhrgas were granted the right, as of October 2003, to reduce the volume of gas purchased from Ruhrgas to 80 percent of the contracted amount. Finally, Ruhrgas was required to auction 200 billion kWh of natural gas to its competitors, with the minimum bid in such auctions being lower than the average border-crossing price. The approval also provided that the ministry has the right to take further action (including imposing a possible veto) in the event of any sale by E.ON of a controlling interest in E.ON Ruhrgas or a change in control over E.ON. On this basis, the ministry asked the State Superior Court to lift its temporary injunction.

On December 17, 2002, the State Superior Court decided not to lift the temporary injunction, and formal proceedings (*Hauptverfahren*) regarding the injunction started in January 2003. On January 31, 2003, E.ON

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reached settlement agreements with all plaintiffs who had contested the validity of the ministerial approval. The settlement agreements with each of the nine plaintiffs differ in certain respects, though they can be divided into two groups. Those with EnBW and Fortum Oil and Gas Oy (Fortum) primarily entail the exchange of shareholdings in certain of the companies respective domestic and northern European affiliates upon agreed conditions. In addition, E.ON agreed to acquire a stake in Concord Power Verwaltungsgesellschaft GmbH (Concord Power) under an agreement with EnBW and the Saalfeld Group, the owners of Concord Power. Concord Power plans to build a new Combined Cycle Gas Turbine Power Station in Lubmin on the Baltic Sea. The agreements with the remaining plaintiffs Ampere AG, ares Energie AG, GGEW Gruppen-Gas-und Elektrizitätswerk Bergstraße AG, Stadtwerke Aachen Aktiengesellschaft, Stadtwerke Rosenheim GmbH & Co. KG and Trianel European Energy Trading GmbH generally include commitments by E.ON to enter into gas and/or electricity supply contracts, make certain infrastructure improvements (particularly with regard to gas distribution), and provide specified access to the gas and electricity supply grids. Certain of these agreements also provide for the sale by E.ON of shareholdings or distribution assets and the related customer base or require E.ON to provide marketing support. These agreements also required E.ON to make other financial payments to the plaintiffs. In addition, Ruhrgas reconfirmed to all the parties its commitment to open and fair competition in the gas market.

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

Upon termination of the court proceedings, the Company completed the first step of the RAG/ Degussa transaction, *i.e.*, the Company acquired RAG s Ruhrgas stake for total consideration of 2.0 billion, and E.ON tendered 37.2 million of its shares in Degussa to RAG at the price of 38 per share, receiving total proceeds of 1.4 billion. Following this transaction and the completion of the tender offer to the other Degussa shareholders, RAG and E.ON each held a 46.5 percent interest in Degussa, with the remainder being held by the public. With effect from June 1, 2004, E.ON sold a further 3.6 percent of Degussa stock to RAG, giving RAG a 50.1 percent interest in Degussa. Total proceeds from the sale of this 3.6 percent stake amounted to 283 million.

In connection with E.ON s acquisition of Ruhrgas, E.ON committed to divest several shareholdings. E.ON Energie and E.ON Ruhrgas have disposed of the following shareholdings, which comprise all of the shareholdings required to be divested by the ministerial approval:

In September 2003, E.ON Energie sold its 80.5 percent interest in Gelsenwasser to a joint venture company owned by the municipal utilities of the cities of Dortmund and Bochum. Gelsenwasser has been accounted for as a discontinued operation in the Consolidated Financial Statements.

In October 2003, E.ON Energie transferred its 5.26 percent stake in VNG to E.ON Ruhrgas, which already owned an interest in this Leipzig-based gas distributor. In December 2003, E.ON Ruhrgas agreed to sell 32.1 percent of VNG to EWE, and offered its remaining 10.0 percent stake in VNG to eleven municipalities in eastern Germany. These sales were subject to the fulfillment of a number of conditions and were completed in January 2004.

In November 2003, E.ON Energie and E.ON Ruhrgas sold their respective 22.0 percent stakes in Bayerngas to the municipal utilities of the cities of Munich, Augsburg, Regensburg and Ingolstadt, and to the city of Landshut.

In November 2003, E.ON Energie sold its 100 percent interest in E.ON-Energiebeteiligungs-Gesellschaft mbH to EWE. E.ON Energiebeteiligungs-Gesellschaft mbH held E.ON s 32.36 percent interest in swb, comprising all of the shares previously held by E.ON Energie and E.ON Ruhrgas.

In January 2004, E.ON Energie sold its 27.4 percent stake in EWE to EWE s majority shareholders Energieverband Elbe-Weser Beteiligungsholding GmbH and Weser-Ems Energiebeteiligungen GmbH.

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For more information about these transactions, see Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions Central Europe/ Pan-European Gas/ U.K. , Discontinued Operations and Note 4 of the Notes to Consolidated Financial Statements.

E.ON Ruhrgas has also fulfilled the requirement of the ministerial approval to offer those customers which purchase more than 50 percent of their gas requirements from E.ON Ruhrgas the option of reducing the volume of gas purchased from E.ON Ruhrgas to 80 percent of the contracted amount for the remaining term of the applicable contract. In addition, E.ON Ruhrgas has offered Bayerngas and swb the right to a staged termination of their contracts over a three-year period beginning in July 2004. For additional information, see Business Overview Pan-European Gas Sales.

On July 30, 2003, E.ON Ruhrgas offered 33 billion kWh of natural gas at auction from its supply portfolio in the first of six auctions intended to fulfill the requirements of the ministerial approval mandating the sale of an aggregate of 200 billion kWh of gas. 15 billion kWh of this gas was sold. On May 19, 2004, E.ON Ruhrgas offered approximately 39 billion kWh of gas under its long-term supply contracts in an internet-based second auction. The offered volume included a third of the volume not sold in the first auction (approximately 6 billion kWh). In the 2004 auction, seven bidders purchased an aggregate volume of approximately 35 billion kWh of gas. The prices E.ON Ruhrgas obtained in each of the first two auctions were in line with the minimum prices set by the German Federal Ministry for Economics and Labor. E.ON Ruhrgas is required to hold the remaining gas auctions in annual steps. The remaining two thirds of the volumes not sold in the first auction (approximately 12 billion kWh) will be offered at the third and fourth gas auctions.

In addition, on January 1, 2004, in fulfillment of the ministerial requirement that E.ON Ruhrgas legally unbundle its transmission business, E.ON Ruhrgas transferred this business to a new subsidiary, E.ON Ruhrgas Transport AG & Co. KG (E.ON Ruhrgas Transport). For more information on E.ON Ruhrgas Transport, see Business Overview Pan-European Gas Transmission System and Storage.

Finally, as part of the settlement agreement E.ON entered into with the Finnish utility Fortum, E.ON and Fortum swapped certain shareholdings in February and March 2003. Fortum acquired Sydkraft s equity interests in the Norwegian utilities Hafslund, Østfold and Frederikstad and E.ON Energie s equity interest in the Russian utility AO Lenenergo. In return, Sydkraft bought the Swedish distribution company Fortum Nät Småland AB (Småland) and E.ON AG bought the German power plant Fortum Kraftwerk Burghausen GmbH (Burghausen), ownership of which was transferred to E.ON Energie, and the Irish peat-fired power plant Edenderry Power Limited (Edenderry), ownership of which was transferred to E.ON UK.

In connection with its acquisition of Ruhrgas, E.ON seeks to achieve the following potential synergies in its market units:

In the Pan-European Gas market unit, E.ON intends to leverage its increased gas operations to improve its negotiating position with producers of natural gas, and to take advantage of pan-European gas arbitrage opportunities. For information about E.ON s planned capital investment in E.ON Ruhrgas, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

In the Central Europe market unit, E.ON expects to benefit from joint market management with regional energy companies, the integration of continental European gas trading activities and the sharing of technical expertise among the power and gas businesses. In order to integrate the Company s continental European gas trading activities conducted by D-Gas B.V. (D-Gas), E.ON Energie transferred their gas trading operations to E.ON Ruhrgas in 2004.

In the U.K. market unit, E.ON intends to use the Pan-European Gas division to enhance E.ON UK s gas supply and gas storage options, as well as support its trading activities. An important first step was the conclusion of a 10-year gas supply contract between E.ON Ruhrgas and E.ON UK. E.ON Ruhrgas started supplying E.ON UK with gas in October 2004.

In the Nordic market unit, E.ON also intends to use the Pan-European Gas market unit to enhance Sydkraft s gas supply options and expects to be able to use a joint approach for future gas infrastructure

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development. E.ON Ruhrgas and Sydkraft have also entered into a gas supply contract, pursuant to which E.ON Ruhrgas will start to supply Sydkraft with natural gas in autumn 2005.

In addition, E.ON has identified a number of areas in which it expects to achieve cost savings through the integration of E.ON Ruhrgas with other E.ON Group companies. Major areas of potential cost savings include the reduction of procurement costs through process optimization and joint purchasing power, the integration of gas trading activities in central Europe and savings in overhead costs.

For more information on E.ON Ruhrgas, see Business Overview Pan-European Gas. For more information on the impact of this transaction on E.ON s financial condition, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources. In addition, in connection with E.ON s on.top project, E.ON Energie transferred a number of shareholdings to E.ON Ruhrgas or to E.ON AG, and E.ON Ruhrgas transferred a number of shareholdings to E.ON Energie. These transfers, which generally took place in December 2003 or in 2004, are described in more detail in Group Strategy On.top.

GROUP STRATEGY

On.top

E.ON is committed to an integrated business model with a clear focus on power and gas. This was confirmed in a broad strategic review in 2003 called the on.top project, which resulted in a reorganization of E.ON s businesses in order to help implement that model and achieve the strategic objectives outlined below. The core energy business has been reorganized into five new market units. These market units, focusing each on a region in which management believes E.ON has a strong competitive position, are:

Central Europe, led by E.ON Energie AG;

Pan-European Gas, led by E.ON Ruhrgas AG;

U.K., led by E.ON UK plc;

Nordic, led by E.ON Nordic AB; and

U.S. Midwest, led by LG&E Energy LLC.

The lead companies of each market unit report directly to E.ON AG. The activities of the Central Europe, Nordic, U.K. and U.S. Midwest market units include the generation, transmission, distribution and sale of energy to customers in each regional market. While focusing on electricity, these activities also include or will include distribution and sales of natural gas to retail customers. The Pan-European Gas unit focuses on the supply, transmission and sale of natural gas to distributors and industrial customers in Europe, and also engages in trading and gas exploration and production activities. In addition, the market unit has primarily minority interests in a large number of German and other European municipal and regional energy distribution companies.

In addition, the role of the Corporate Center at E.ON AG has been enhanced and more closely aligned to the Group s focus on energy. The Corporate Center s new responsibilities include the design and implementation of strategies and policies with the goal of optimizing the Group s results across the energy markets in which it is active, the pursuit of operational excellence at each of the market units through the transfer of best practice, as well as a stronger role in regulatory affairs that may affect several market units at the same time. Human resources management and career development for 200 top executives currently working throughout the Group have also been centralized at the Corporate Center and a project for establishing a Group-wide E.ON identity has been introduced.

Beginning in 2004, E.ON s financial reporting mirrors the new structure, with each of the five market units constituting a separate segment for financial reporting purposes. Viterra and the results of E.ON s minority interest in Degussa continue to be presented outside of the core energy business, and the results of the enhanced Corporate Center (including consolidation effects) are reported as a separate segment. At the same time, with effect from January 2004, management has decided to use adjusted EBIT, rather than internal operating profit, as the primary measure by which it evaluates the performance of each segment in accordance with SFAS 131. E.ON defines this measure as an adjusted figure derived from income/(loss) from continuing operations (before intra-

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Group eliminations when presented on a segment basis) before income taxes and minority interests, excluding interest income. Adjustments include net book gains resulting from disposals, as well as restructuring expenses and other non-operating earnings of an exceptional nature. In addition, interest income is adjusted using economic criteria. In particular, the interest portion of additions to provisions for pensions and nuclear waste management is allocated to adjusted interest income. Management believes that this measure is the most useful segment performance measure because it better depicts the performance of individual operating units independent of changes in interest income and taxes.

As part of the implementation of the new structure, E.ON completed intra-Group transfers of shareholdings in a number of its companies in December 2003 and in 2004, except as noted below. These transactions include:

The transfer by E.ON Energie to E.ON Ruhrgas of its:

67.7 percent interest in Thüga;

up to 40.0 percent interest in the Austrian company RAG Beteiligungs-Aktiengesellschaft, which owns a 75 percent share in the Austrian exploration and production company Rohöl-Aufsuchungs Aktiengesellschaft (to be completed in 2005);

18.8 percent interest in the Latvian gas supplier JSC Latvijas Gaze;

14.3 percent interest in the Lithuanian gas distributor AB Lietuvos Dujos; and its

gas trading business D-Gas.

The transfer by E.ON Ruhrgas to E.ON Energie of its downstream gas activities in the Czech Republic and Hungary, including its:

4.45 percent interest in the Czech gas distribution company Jihomoravská plynárenská a.s. (JMP);

27.6 percent interest in the Czech gas distribution company Západoceská plynárenská a.s. (ZCP);

24.0 percent interest in the Czech gas distribution company Prazská plynárenská Holding a.s. (PPH);

0.05 percent interest in the Czech gas distribution company Prazská plynárenská a.s. (PP);

14.3 percent interest in the Czech gas distribution company Stredoceska plynárenská a.s. (STP);

9.57 percent interest in the Czech gas distribution company Severomoravská plynárenská a.s. (SMP);

16.52 percent interest in the Czech gas distribution company Východoceská plynárenská a.s. (VCP);

49.8 percent interest in the Hungarian gas distribution company Déldunántuli Gázszolgáltató Részvenytársaság (DDGÁZ); and its

16.3 percent interest in the Hungarian gas distribution company Fövárosi Gázmüvek Részvénytársaság (FÖGÁZ).

The transfer by E.ON Energie to E.ON AG of its 100 percent interest in E.ON Scandinavia (which has since been re-named E.ON Nordic), including its:

55.2 percent interest in Sydkraft, including Sydkraft s interest in Graninge AB (Graninge) and its interest in the Baltic Cable; and a

65.6 percent interest in E.ON Finland.

The on.top project also included the definition of mid-term performance targets for the Group. Management s principal goal in guiding strategic and investment decisions is to realize a significant improvement in E.ON s return on capital while growing earnings through 2006.

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Strategy

E.ON s corporate strategy is to maximize the value of its portfolio of focused energy businesses with a strong presence in the value chains for both electricity and gas through:

Creating value from the convergence of European energy markets (*e.g.*, as the United Kingdom becomes a net importer of gas and can take advantage of greater pipeline capacity connecting it to continental Europe, E.ON will be able to supply its retail gas business in the United Kingdom from its Pan-European Gas supply business).

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

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

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

Tapping value-enhancing growth potential in new markets such as Russia and Italy.

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

Central Europe Fortifying strong market positions and developing new growth potential through:

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

re-investment in power generation to maintain the strong market position;

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

participation in the privatization of power and downstream gas companies in eastern Central Europe, as well as selective investments in power generation.

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

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

participation in infrastructure projects to enhance gas supply position in Europe; and

selective acquisitions of mid- and downstream companies in Europe.

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

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

investing in the generation of power from renewable resources to capture value from the British government s renewable obligation mandate; and

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

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Nordic Strengthening E.ON s position in a consolidating market through:
expanding presence in power generation;

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

continued participation in gas supply and infrastructure developments.

U.S. Midwest Focusing on optimizing LG&E Energy s current operations in Kentucky and delivering additional performance improvements. This could include investments in generation capacity if the demand for electricity grows and the U.S. regulatory authorities enable the Company to earn a return on investment that meets its stringent criteria.

As it focuses on energy, E.ON will seek to maximize the value of its remaining non-core businesses by divesting them at an appropriate time and allocating the proceeds to strategic investments. As part of its strategy to focus on its core energy business, E.ON has decided to actively pursue the disposal of Viterra, and currently expects to complete the disposition of Viterra during 2005.

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

OTHER SIGNIFICANT EVENTS

In January 2004, E.ON UK acquired Midlands Electricity, a British electricity distributor, from Aquila Energy Inc. (Aquila) and FirstEnergy Corp. (FirstEnergy).

In January 2004, E.ON s indirect stake in the Swedish energy utility Graninge increased to 97.5 percent and Graninge was delisted following completion of a mandatory tender offer. Beginning in November 2003, following its receipt of the required approvals from the relevant antitrust authorities, Sydkraft had increased its stake in Graninge from 36.3 percent to 79.0 percent by acquiring shares from Electricité de France (EdF) and other shareholders. Swedish law required Sydkraft to make a public tender for all outstanding Graninge shares following the acquisition of a majority stake. By June 2004, Sydkraft had acquired the remaining outstanding shares and controlled 100 percent of Graninge.

In March 2004, E.ON completed a cash tender offer to the holders of approximately 1.8 billion in outstanding principal amount of debt issued by Powergen and its subsidiaries, which did not include dollar-denominated bonds that matured in 2004. At the conclusion of the offer, a total of approximately 1.2 billion in principal amount of bonds had been tendered.

Effective June 1, 2004, E.ON sold a further 3.6 percent of Degussa stock to RAG and now holds a 42.9 percent shareholding in Degussa.

In July 2004, E.ON and OAO Gazprom (Gazprom) signed a Memorandum of Understanding for a deepened cooperation between the parties to pursue joint projects in gas production in Russia, gas transport to Europe (including the joint construction of a new pipeline through the Baltic Sea to western Europe), power generation in Russia, and the expansion of infrastructure to market natural gas and power in Europe, as well as examine and, if possible, jointly implement generation projects. The parties expect that the Baltic Sea gas pipeline, if and when built, will increase Russia s gas export capacity to western Europe, diversify delivery routes for Russian gas to western Europe, and create new sales opportunities for Russian gas.

In September 2004, E.ON agreed further details regarding its agreement in principle with the Norwegian energy company Statkraft SF (Statkraft) to sell a portion (1.6 TWh) of the generation capacity that Sydkraft had acquired as part of the Graninge acquisition to its minority shareholder Statkraft. E.ON expects that the contract negotiations will be completed in the first half of 2005.

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In October 2004, E.ON Ruhrgas signed an agreement for the acquisition of a 51.0 percent stake in the Romanian gas supplier Distrigaz Nord S.A. (Distrigaz Nord). The transaction is expected to close in the first half of 2005.

In November 2004, E.ON Ruhrgas International AG (ERI) signed an agreement for the acquisition of 75.0 percent minus 1 share each of the gas trading and gas storage businesses of the Hungarian oil and gas company MOL RT. (MOL) and its 50.0 percent interest in the gas importer Panrusgáz Rt. (Panrusgáz). In addition, MOL received a put option to sell to ERI up to 75.0 percent minus 1 share of its gas transmission business and put options to sell to ERI the remaining 25.0 percent plus 1 share in the MOL gas trading and gas storage companies. The transaction is subject to antitrust approval by the relevant cartel authorities and the Hungarian energy office and is expected to close in the second half of 2005.

In December 2004, Viterra acquired 49.1 percent of Deutschbau-Holding GmbH (Deutschbau-Holding) from various investors. Viterra now holds a 99.1 percent interest in Deutschbau-Holding.

In December 2004, Thüga sold its 15.05 percent stake in MVV Energie AG (MVV) to EnBW.

In December 2004, E.ON replaced its existing 12.5 billion credit facility with a new facility that permits borrowings in an aggregate amount of up to 10 billion on improved terms and conditions.

In February 2005, E.ON Energie acquired 67.0 percent stakes in each of the two northeastern Bulgarian electricity distribution companies Elektrorazpredelenie Varna EAD (Elektrorazpredelenie Varna) and Elektrorazpredelenie Gorna Oryahovitza EAD (Elektrorazpredelenie Gorna Oryahovitza).

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

CAPITAL EXPENDITURES

E.ON s aggregate capital expenditures for property, plant and equipment were 2.6 billion in 2004 (2003: 2.6 billion, 2002: 3.1 billion). For a detailed description of these capital expenditures, as well as E.ON s expected capital expenditures for the period beginning in 2005, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

BUSINESS OVERVIEW

INTRODUCTION

E.ON is the second-largest industrial group in Germany, measured on the basis of market capitalization at year-end 2004. In 2004, the Group s core energy business was organized into the following separate market units: Central Europe, Pan-European Gas, U.K., Nordic and U.S. Midwest, as well as the Corporate Center. Outside its core energy business, E.ON holds a controlling interest in Viterra, its real estate subsidiary, and a 42.9 percent interest in Degussa, which is not consolidated, but rather accounted for using the equity method.

Core Energy Business

Central Europe. E.ON Energie is the lead company of the Central Europe market unit. E.ON Energie is one of the largest non-state-owned European power companies in terms of electricity sales, with revenues of 20.8 billion (which included 1.1 billion of electricity taxes that were remitted to the tax authorities) in 2004. E.ON Energie s core business consists of the ownership and operation of power generation facilities and the transmission, distribution and sale of electric power, gas and heat in Germany and continental Europe. The Central Europe market unit owns interests in and operates power stations with a total installed capacity of approximately 35,800 megawatts (MW), of which Central Europe s attributable share is approximately 27,500 MW (not including mothballed, shutdown and reduced power plants). Through its own operations, as well as through distribution companies, in most of which it owns a majority interest, E.ON Energie also distributes electricity, heat and gas to regional and municipal utilities, commercial and industrial customers and residential customers, which together account for more than one-third of the electricity consumption by end users in

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Germany. In 2004, the Central Europe market unit contributed 42.3 percent of E.ON s revenues and recorded adjusted EBIT of 3.6 billion.

Pan-European Gas. E.ON Ruhrgas is the lead company of the Pan-European Gas market unit. E.ON Ruhrgas is one of the leading non-state-owned gas companies in Europe and the largest gas business in Germany in terms of gas sales, with 641.4 billion kWh of gas sold in 2004. E.ON Ruhrgas principal business is the supply, transmission, storage and sale of natural gas. E.ON Ruhrgas imports gas from Russia, Norway, the Netherlands, the United Kingdom and Denmark, and also purchases gas from domestic sources. E.ON Ruhrgas sells this gas to regional and supraregional distributors, municipal utilities and industrial customers in Germany and increasingly also delivers gas to customers in other European countries. In addition, E.ON Ruhrgas is active in gas transmission within Germany via a network of approximately 11,000 kilometers (km) of gas pipelines and operates a number of underground storage facilities in Germany. E.ON Ruhrgas also holds numerous stakes in German and other European gas transportation and distribution companies, as well as a small shareholding in Gazprom, Russia s main natural gas exploration, production, transportation and marketing company. In 2004, the Pan-European Gas market unit recorded revenues of 14.4 billion (which included 2.9 billion in natural gas and electricity taxes that were remitted, directly or indirectly, to the tax authorities) and adjusted EBIT of 1.4 billion. The Pan-European Gas market unit contributed 29.4 percent of E.ON s revenues in 2004.

U.K. E.ON UK is the lead company of the U.K. market unit. E.ON UK is an integrated energy company with its principal operations focused in the United Kingdom. In 2004, the U.K. market unit recorded revenues of 8.5 billion or 17.3 percent of E.ON s revenues, and adjusted EBIT of 1.0 billion. E.ON UK and its associated companies are actively involved in the ownership and operation of power generation facilities, as well as in the distribution and supply of electric power and gas and in energy trading. E.ON UK owns interests in and operates power stations with a total installed capacity of approximately 9,480 MW, of which its attributable share is approximately 9,265 MW (not including mothballed and shutdown power plants). On January 16, 2004, E.ON UK completed the acquisition of the distribution business of Midlands Electricity, together with an electrical contracting operation, an electricity and gas metering business and minority interests in three power stations. The acquisition has approximately doubled the number of customer connections served by E.ON UK s distribution business, bringing it to 4.8 million.

Nordic. E.ON Nordic is the lead company of the Nordic market unit. It currently operates through the two integrated energy companies Sydkraft and E.ON Finland, primarily in Sweden and Finland. In January 2004, E.ON transferred E.ON Nordic from a subsidiary of E.ON Energie to E.ON AG. E.ON Nordic and its associated companies are actively involved in the ownership and operation of power generation facilities, as well as the distribution and supply of electric power, gas and heat. E.ON Nordic owns interests in power stations with a total installed capacity of approximately 16,317 MW, of which its attributable share is approximately 7,971 MW (not including mothballed and shutdown power plants). In 2004, E.ON Nordic recorded revenues of 3.3 billion (including 395 million of electricity and natural gas taxes that were remitted to the tax authorities) or 6.8 percent of E.ON s revenues, and adjusted EBIT of 701 million.

U.S. Midwest. LG&E Energy is the lead company of the U.S. Midwest market unit. LG&E Energy is a diversified energy services company with businesses in power generation, retail gas and electric utility services, as well as off-system sales. LG&E Energy s power generation and retail electricity and gas services are located principally in Kentucky, with a small customer base in Virginia and Tennessee. In 2004, the U.S. Midwest market unit recorded revenues of 1.9 billion or 3.9 percent of E.ON s revenues, and adjusted EBIT of 349 million. LG&E Energy owns interests in and operates power stations with a total installed capacity of approximately 10,600 MW, of which its attributable share is approximately 9,700 MW (not including mothballed and shutdown power plants).

Corporate Center. The Corporate Center consists of E.ON AG itself, equity interests managed directly by E.ON AG, including those of its remaining telecommunications interests, and consolidation effects at the Group level, including the elimination of intersegment sales.

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Other Activities

Viterra. Viterra, E.ON s real estate group, is engaged in two businesses: residential real estate and real estate development. Viterra is one of Germany s largest private owners of residential property, with a property portfolio at year-end 2004 of approximately 138,000 housing units, including approximately 20,000 housing units legally owned by MIRA Grundstücksgesellschaft und Co. KG (MIRA). Viterra also held 76 commercial units at year-end. In 2004, Viterra had revenues of 988 million and adjusted EBIT of 471 million, and contributed 2.0 percent of E.ON s revenues. As part of its strategy to focus on its core energy business, E.ON has decided to actively pursue the disposal of Viterra, and currently expects to complete the disposition of Viterra during 2005.

Degussa. Degussa is one of the major specialty chemical companies in the world. As of February 2003, following the first step of the RAG/ Degussa transaction described in History and Development of the Company Ruhrgas Acquisition, E.ON held a 46.5 percent interest in Degussa and operated Degussa under joint control with RAG, which also held a 46.5 percent interest. E.ON has accounted for Degussa using the equity method since February 1, 2003. Effective June 1, 2004, E.ON sold a further 3.6 percent of Degussa stock to RAG. For all periods from February 1, 2003 until May 31, 2004, E.ON recorded 46.5 percent of Degussa s after-tax earnings in its financial earnings. From June 1, 2004, E.ON has recorded 42.9 percent of Degussa s after-tax earnings in its financial earnings. In 2004, Degussa contributed adjusted EBIT of 107 million.

Until the end of 2001, E.ON reported its telecommunications activities as a separate segment. Following the sale of its remaining minority interest in the French mobile telecommunications network operator Bouygues Telecom S.A. (Bouygues Telecom) in 2003, E.ON s only remaining telecommunications interest is a 50.1 percent stake in the Austrian mobile telecommunications network operator ONE GmbH (ONE), formerly Connect Austria Gesellschaft für Telekommunikation GmbH (Connect Austria). E.ON considers its former telecommunications division to be of minor significance. Accordingly, as of January 2002, E.ON has reported the results of these activities under Other/ Consolidation in 2002 and Corporate Center in 2003 in its segment reporting. Effective January 1, 2002, ONE is accounted for at equity in E.ON s Consolidated Financial Statements, as was Bouygues Telecom until divestment of the first tranche of the shares to the Bouygues Group in March 2003.

For information on E.ON s discontinued operations, including its former oil, distribution/logistics, aluminum and silicon wafers divisions, as well as certain activities of the Central Europe and U.S. Midwest market units and of Viterra and Degussa, see Discontinued Operations.

As a result of E.ON s on.top strategic review launched in 2003, the core energy business has been reorganized into five new regional market units, plus the Corporate Center. Beginning in 2004, E.ON s financial reporting mirrors the new structure, with each of the five market units constituting a separate segment for financial reporting purposes. The results of the enhanced Corporate Center are reported as a separate segment, and Viterra and the results of E.ON s minority interest in Degussa continue to be presented outside of the core energy business. As part of the implementation of the new structure, E.ON completed intra-Group transfers of shareholdings in a number of its companies in December 2003 and in 2004. None of these transfers had any impact on E.ON s financial results on a consolidated basis. To facilitate comparison, the table below provides revenues for both 2004 and 2003 according to the new market unit structure. For information about the transfer of shareholdings in connection with E.ON s on.top project, see History and Development of the Company Group Strategy On.top. For additional information on the presentation of segment information for 2004, 2003 and 2002, see Item 5. Operating and Financial Review and Prospects Business Segment Information.

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The following table sets forth the revenues of E.ON by market unit for 2004 and 2003:

	2004		2003	
	(in millions)	%	(in millions)	%
Central Europe(1)(2)	20,752	42.3	19,253	41.5
Pan-European Gas(3)	14,426	29.4	12,973	27.9
U.K	8,490	17.3	7,923	17.1
Nordic(4)	3,347	6.8	2,824	6.1
U.S. Midwest(2)	1,913	3.9	1,971	4.2
Corporate Center(2)(5)	(813)	(1.7)	(596)	(1.3)
Core Energy Business	*48,115*	*98.0*	*44,348*	*95.5*
Other Activities(2)(6)	*988*	*2.0*	*2,079*	*4.5*
Total Revenues(7)	49,103	100.0	46,427	100.0

(1) Includes electricity taxes of 1,051 million in 2004 and 1,015 million in 2003.

(2) Excludes the sales of certain activities now accounted for as discontinued operations. For more details, see Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions Discontinued Operations and Note 4 of the Notes to Consolidated Financial Statements.

(3) Includes the sales of the former Ruhrgas activities from the date of consolidation on February 1, 2003. Sales include natural gas and electricity taxes of 2,923 million in 2004 and 2,555 million in 2003.

(4) Sales include electricity and natural gas taxes of 395 million in 2004 and 324 million in 2003.

(5) Includes primarily the parent company and effects from consolidation, as well as the results of the former telecommunications division, as explained above.

(6) Includes sales of Viterra and sales of Degussa until January 2003, prior to its deconsolidation. For more details, see Other Activities Degussa, Item 5. Operating and Financial Review and Prospects Overview and Note 4 of the Notes to Consolidated Financial Statements.

(7) Excludes intercompany sales.

The following table sets forth the revenues of E.ON according to the former division structure then in effect for each of 2003 and 2002:

	2003		2002	
	(in millions)	%	(in millions)	%

E.ON Energie(1)(2)	22,642	48.7	19,142	52.3
Ruhrgas(3)	12,085	26.1		
Powergen(2)(4)	9,894	21.3	4,422	12.1
Other/consolidation(2)(5)	(273)	(0.6)	81	0.2
Core Energy Business	*44,348*	*95.5*	*23,645*	*64.6*
Viterra(2)	1,085	2.3	1,214	3.3
Degussa(2)(6)	994	2.2	11,765	32.1
Other Activities	*2,079*	*4.5*	*12,979*	*35.4*
Total Revenues(7)	46,427	100.0	36,624	100.0

(1) Sales include electricity taxes of 1,371 million in 2003 and 933 million in 2002.

(2) Excludes the sales of certain activities now accounted for as discontinued operations. For more details, see Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions Discontinued Operations and Note 4 of the Notes to Consolidated Financial Statements.

(3) Includes the sales of the former Ruhrgas activities from the date of consolidation on February 1, 2003. Sales for the period include natural gas taxes of 2,525 million.

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(4) Includes the sales of the Powergen Group from the date of consolidation on July 1, 2002.

(5) Includes primarily the parent company and effects from consolidation, as well as the results of the former telecommunications division.

(6) In 2003, includes sales of Degussa for the month of January only, prior to its deconsolidation. For more details, see Other Activities Degussa , Item 5. Operating and Financial Review and Prospects Overview and Note 4 of the Notes to Consolidated Financial Statements.

(7) Excludes intercompany sales.

Most of E.ON s operations are in Germany. German operations produced 63.9 percent of E.ON s revenues (measured by location of operation) in 2004 (2003: 64.3 percent; 2002: 62.3 percent). E.ON also has a significant presence outside Germany representing 36.1 percent of revenues by location of operation for 2004 (2003: 35.7 percent; 2002: 37.7 percent). In 2004, approximately 60.6 percent (2003: 60.9 percent; 2002: 55.2 percent) of E.ON s revenues were derived from customers in Germany and 39.4 percent (2003: 39.1 percent; 2002: 44.8 percent) from customers outside Germany. For more details about the segmentation of E.ON s revenues by location of operation and customers for the years 2004, 2003 and 2002, see Note 31 of the Notes to Consolidated Financial Statements. At December 31, 2004, E.ON had 69,710 employees, approximately 52.9 percent of whom were employed in Germany. For more information about employees, see Item 6. Directors, Senior Management and Employees Employees.

E.ON believes that as of December 31, 2004, it had close to 478,000 shareholders worldwide. E.ON s shares, all of which are Ordinary Shares, are listed on all seven German stock exchanges. They are also actively traded over the counter in London. E.ON s American Depositary Shares (ADSs), each of which represents one Ordinary Share, are listed on the New York Stock Exchange (NYSE).

CENTRAL EUROPE

Overview

The Central Europe market unit is led by E.ON Energie. E.ON Energie, which is wholly owned by E.ON, is one of the largest European power companies in terms of electricity sales. E.ON Energie had revenues of 20.8 billion (which included 1.1 billion of electricity taxes that were remitted to the tax authorities), 18.2 billion of which in Germany, and adjusted EBIT of 3.6 billion in 2004. In 2004, E.ON Energie, together with E.ON Ruhrgas and E.ON Nordic, was responsible for all of E.ON s energy activities in Germany and continental Europe and was one of the four interregional electric utilities in Germany that are interconnected in the western European power grid.

In connection with E.ON s acquisition of E.ON Ruhrgas, E.ON Energie was required to divest certain shareholdings. For more information about the required divestments, see History and Development of the Company Ruhrgas Acquisition.

In addition, in connection with E.ON s on.top project, E.ON Energie has transferred or will transfer a number of shareholdings to E.ON Ruhrgas or to E.ON AG, and E.ON Ruhrgas has transferred a number of shareholdings to E.ON Energie. These transfers are described in more detail in History and Development of the Company Group Strategy On.top.

In order to further focus its energy business in Germany and in continental Europe, E.ON Energie entered into the following transactions in 2004 and the beginning of 2005:

In January 2004, E.ON Energie sold its 4.99 percent shareholding in the Spanish utility Union Fenosa S.A. (Union Fenosa) on the market.

In June 2003, the general assembly of E.ON Bayern AG (E.ON Bayern) passed a resolution authorizing E.ON Energie, its controlling shareholder, to use a squeeze out procedure to acquire that portion of E.ON Bayern stock held by minority shareholders. Following registration of the acquired shares in the commercial register on July 1, 2004, E.ON Energie now holds 100.0 percent of E.ON Bayern.

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In October 2004, E.ON Energie qualified as preferred bidder for the acquisition of a majority stake in the Romanian electricity distribution company Electrica Moldova S.A. (Electrica Moldova) from the Romanian government. E.ON Energie currently expects to sign an agreement in the first half of 2005, and to close the transaction in the second half of 2005. In 2003, the company sold approximately 4.1 TWh of electricity to 1.3 million customers.

In December 2004, E.ON Energie increased its stake in the German regional electricity distribution company Avacon by 13.1 percent to 69.6 percent in a multistage process involving acquisition of the intermediate holding companies Ferngas Salzgitter GmbH (Ferngas Salzgitter) and FSG Holding GmbH (FSG Holding). E.ON Energie increased its stake in FSG Holding to 100 percent by acquiring a 10.0 percent interest from Bayerische Landesbank and the remaining 90.0 percent from three Group companies (E.ON Ruhrgas RGE Holding GmbH (45.0 percent), Thüga-Konsortium Beteiligungs GmbH (35.0 percent) and Thüga (10.0 percent)). In addition, E.ON Energie purchased direct shareholdings in Ferngas Salzgitter from Brigitta Erdgas und Erdöl GmbH (BEB) (13.0 percent), Erdgas-Verkaufs-Gesellschaft Münster (EGM) (13.0 percent) and RGE Holding GmbH (39.0 percent). Following these acquisitions, FSG Holding was merged into E.ON Energie and Ferngas Salzgitter into Avacon.

During 2004, Thüga transferred minority shareholdings in several German municipal utilities in Thuringia to E.ON Energie. For more information, see Pan-European Gas Downstream Shareholdings Thüga.

During 2004, E.ON Energie signed agreements to increase its stake in DDGÁZ to 50.01 percent, pending approval by the Hungarian authorities.

In February 2005, E.ON Energie acquired 67.0 percent stakes in each of the two Bulgarian electricity distribution companies Elektrorazpredelenie Varna and Elektrorazpredelenie Gorna Oryahovitza. The companies operate in northeastern Bulgaria. In 2004, the companies sold an aggregate of approximately 5 TWh of electricity to 1.1 million customers.

E.ON Energie s company structure reflects its operations in western and eastern Europe and, in addition, reflects the individual segments of its electricity business: generation, transmission, distribution and sale and trading. The following chart shows the major subsidiaries of the Central Europe market unit as of December 31, 2004, their respective fields of operation and the percentage of each held by E.ON Energie as of that date.

CENTRAL EUROPE MARKET UNIT

Holding Company
E.ON Energie AG

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

Western Europe

Conventional Power Plants
E.ON Kraftwerke GmbH (100%)

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

Nuclear Power Plants
E.ON Kernkraft GmbH (100%)

Power generation by nuclear power plants.

Hydroelectric Power Plants

E.ON Wasserkraft GmbH (100%)

Power generation by hydroelectric power plants.

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

Power generation by conventional power plants.

District heating.

Transmission

E.ON Netz GmbH (100%)

Operation of high voltage grids (380 kilovolt-110 kilovolt).

System operation, including provision of regulating and balancing power.

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Distribution, Sale and Trading of Electricity, Gas and Heat
E.ON Sales & Trading GmbH (100%)

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

Seven regional distributors across Germany
(shareholding percentages range from 62.9 to 100.0 percent).

Distribution and sale of electricity, gas, heat and water to retail customers.
Energy support services.
Waste incineration.

Ruhr Energie GmbH (100%)

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

Eastern Europe

E.ON Hungária Energetikai Rt. (100%)

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

E.ON Czech Holding AG (100%)

Distribution, marketing and sale of electricity and gas in the Czech Republic through its group companies.

Západoslovenská energetika a.s. (49.0%)

Distribution, marketing and sale of electricity in Slovakia.

Consulting and Support Services
E.ON Engineering GmbH (57.0%) (1)

Group internal and external consulting and planning services in the energy sector.
Marketing of expertise in the area of conventional, renewable, cogeneration and nuclear power generation and pipeline business.

E.ON Facility Management GmbH (51.0%)

Infrastructure services.

(1) The remaining 43.0 percent is held by E.ON Ruhrgas.

For financial reporting purposes, the Central Europe market unit comprises four business units: Central Europe West Power, Central Europe West Gas, Central Europe East and Other/ Consolidation. The Central Europe West Power business unit reflects the results of the conventional, nuclear and hydroelectric generation businesses, transmission, the regional distribution of power, and the electricity retail business in Germany, as well as E.ON Energie s trading business. In addition, Central Europe West Power also includes the results of E.ON Benelux B.V. (E.ON Benelux), which operates power generation and district heating businesses in the Netherlands. The Central Europe West Gas business unit reflects the results of the regional distribution of gas and the gas retail business in Germany. The Central Europe East business unit primarily includes the results of the shareholdings in regional

distribution companies in the Czech Republic, Hungary, Slovakia and, from 2005, Bulgaria and presumably Romania. Other/ Consolidation primarily includes the results of other international shareholdings, service companies and the E.ON Energie corporate center, as well as intrasegment consolidation effects.

In the following presentation of the Central Europe market unit, 2003 financial and operating data has been adjusted for the new market unit structure implemented by E.ON in 2004. The adjustment reflects the transfer of several shareholdings from E.ON Energie to other market units at the end of 2003 and the beginning of 2004. In particular, the Nordic activities, including Sydkraft, E.ON Finland and the Baltic Cable, are now part of the Nordic market unit and Thüga and certain other gas activities are now part of the Pan-European Gas market unit. For more details, see History and Development of the Company Group Strategy On.top.

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Operations

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

Generation:	the production of electricity at power stations;
Transmission:	the bulk transfer of electricity across an interregional power grid, which consists mainly of overhead transmission lines, substations and some underground cables (at this level there is a market for bulk trading of electricity, through which sales and purchases of electricity are made between generators, regional distributors, and other suppliers of electricity);
Distribution and Sale:	the transfer and sale of electricity from the interregional power grid and its delivery, across local distribution systems, to customers; and
Trading:	the buying and selling of electricity and related products for purposes of portfolio optimization, arbitrage and risk management.

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

The following table sets forth the sources of E.ON Energie s electric power in kWh in 2004 and 2003:

Sources of Power	2004 million kWh	2003 million kWh(1)	% Change
Own production	131,278	137,107	-4.3
Purchased power	123,035	103,907	+18.4
from power stations in which E.ON Energie has an interest of 50 percent or less	*11,223*	*10,564*	*+6.2*
from other suppliers	*111,812*	*93,343*	*+19.8*
Total power procured(2)	254,313	241,014	+5.5
Power used for operating purposes, network losses and pump storage	(10,239)	(9,234)	+10.9
Total	244,074	231,780	+5.3

(1) Adjusted to reflect the new market unit structure.

(2) Excluding physically-settled electricity trading activities at EST. EST s physically-settled electricity trading activities amounted to 110,914 million kWh and 138,981 million kWh in 2004 and 2003, respectively.

In 2004, E.ON Energie procured a total of 254.3 billion kWh of electricity, including 10.2 billion kWh used for operating purposes, network losses and pumped storage. E.ON Energie purchased a total of 11.2 billion kWh of power from power stations in which it has an interest of 50 percent or less. In addition, E.ON Energie purchased 111.8 billion kWh of electricity from other utilities, 23.9 billion kWh of which were from Vattenfall Europe, the eastern German interregional utility, for redistribution by eastern German regional distributors. In addition, E.ON Energie purchased power from local generators in Hungary and in the Czech Republic totaling 28.1 billion kWh. The

increase in purchased power primarily reflects the first-time full year inclusion of results from Jihomoravská energetika a.s. (JME) and Jihoceská energetika a.s (JCE) following their acquisition in the fall of 2003.

Following the abolition of separate geographic operating areas for utilities under the Energy Law (as defined in Regulatory Environment) in 1998, E.ON Energie began to supply power nationwide and to broaden its activities in neighboring countries. E.ON Energie has thus significantly expanded beyond its traditional home markets, which include parts or all of the German states of Schleswig-Holstein, Lower Saxony, Hesse, North

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Rhine-Westphalia, Mecklenburg-Western Pomerania, Brandenburg, Saxony-Anhalt, Thuringia and Bavaria. E.ON Energie supplied about one-third of the electricity consumed by end users in Germany in 2004. Electricity accounted for 78.8 percent of E.ON Energie s 2004 sales (2003: 77.1 percent), gas revenues represented 14.4 percent (2003: 16.8 percent), district heating 2.0 percent (2003: 2.0 percent) and other activities 4.8 percent (2003: 4.1 percent).

The following table sets forth data on the sales of E.ON Energie s electric power in 2004 and 2003:

Sale of Power(1) to	Total 2004 million kWh	Total 2003 million kWh(2)	% Change in Total
Non-consolidated interregional, regional and municipal utilities	130,862	129,814	+0.8
Industrial and commercial customers	72,077	62,554	+15.2
Residential and small commercial customers	41,135	39,412	+4.4
Total	244,074	231,780	+5.3

(1) Excluding physically-settled electricity trading activities at EST. EST s physically-settled electricity trading activities amounted to 110,914 million kWh and 138,981 million kWh in 2004 and 2003, respectively.

(2) Adjusted to reflect the new market unit structure.

The increase in the total sale of power primarily reflects the inclusion of a full year of results from JME and JCE. For further information, see Item 5. Operating and Financial Review and Prospects Results of Operations. E.ON Energie s total gas sales volume amounted to 102.9 billion kWh in 2004, an 8.5 percent decrease from 112.4 billion kWh in 2003, reflecting warmer weather conditions in 2004, as well as an intra-Group transfer of a gas contract following the on.top project.

Western Europe

Power Generation

General. In Germany, E.ON Energie owns interests in and operates electric power generation facilities with a total installed capacity of approximately 33,800 MW, its attributable share of which is approximately 25,600 MW (not including mothballed, shutdown or reduced power plants). The German power generation business is subdivided into three units according to fuels used: E.ON Kraftwerke GmbH owns and operates the power stations using fossil fuel energy sources, as well as waste incineration plants and renewable generation facilities, E.ON Kernkraft GmbH (E.ON Kernkraft) owns and operates the nuclear power stations and E.ON Wasserkraft GmbH owns and operates the hydroelectric power plants.

In the Netherlands, E.ON Energie operates, through its subsidiary E.ON Benelux, hard coal and natural gas power plants for the supply of electricity and heat to bulk customers and utilities. In 2004, it had a total installed generation capacity of approximately 1,850 MW, and generated approximately 10.0 billion kWh of electricity.

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

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The following table sets forth E.ON Energie s major electric power generation facilities (including cogeneration plants) in Germany and the Netherlands, the total capacity and the capacity attributable to the E.ON Energie for each facility as of December 31, 2004, and their start-up dates.

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

Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie		Start-up Date
		%(1)	MW	
Nuclear				
Brokdorf	1,370	80.0	1,096	1986
Brunsbüttel	771	33.3	257	1976
Emsland	1,329	12.5	166	1988
Grafenrheinfeld	1,275	100.0	1,275	1981
Grohnde	1,360	83.3	1,133	1984
Gundremmingen B	1,284	25.0	321	1984
Gundremmingen C	1,288	25.0	322	1984
Isar 1	878	100.0	878	1977
Isar 2	1,400	75.0	1,050	1988
Krümmel	1,260	50.0	630	1983
Unterweser	1,345	100.0	1,345	1978
Total	13,560		8,473	
Lignite				
Buschhaus	350	100.0	350	1985
Kassel	33	50.0	17	1988
Lippendorf S	891	50.0	446	1999
Schkopau	900	55.6	500	1995
Total	2,174		1,313	
Hard Coal				
Bexbach 1	714	11.1	79	1983
Buer (CHP)	70	100.0	70	1985
Datteln 1	95	100.0	95	1964
Datteln 2	95	100.0	95	1964
Datteln 3	113	100.0	113	1969
Farge	343	100.0	343	1969
GKW Weser/ Veltheim 2	93	74.0	69	1965
GKW Weser/ Veltheim 3	320	74.0	237	1970
Heyden	865	100.0	865	1987
Kiel	323	50.0	162	1970
Knepper C	345	100.0	345	1971
Maasvlakte 1 (NL)(2)	520	100.0	520	1988
Maasvlakte 2 (NL)(2)	520	100.0	520	1987
Mehrum C	690	50.0	345	1979
Rostock	508	50.4	256	1994

Scholven B	345	100.0	345	1968
Scholven C	345	100.0	345	1969

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Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie		Start-up Date
		%(1)	MW	
Hard Coal (continued)				
Scholven D	345	100.0	345	1970
Scholven E	345	100.0	345	1971
Scholven F	676	100.0	676	1979
Shamrock	132	100.0	132	1957
Staudinger 1	249	100.0	249	1965
Staudinger 3	293	100.0	293	1970
Staudinger 5	510	100.0	510	1992
Wilhelmshaven	747	100.0	747	1976
Zolling	449	100.0	449	1986
Total	10,050		8,550	
Natural Gas				
Burghausen	120	100.0	120	2001
Emden GT	52	100.0	52	1972
Erfurt	75	32.9	25	
Franken I/1	383	100.0	383	1973
Franken I/2	440	100.0	440	1976
Galileistraat (NL)	209	100.0	209	1988
Gendorf	40	50.0	20	2002
GKW Weser/ Veltheim 4 GT	400	74.0	296	1975
Grenzach-Wyhlen	40	69.9	28	2004
GT Ummeln	60	74.0	44	1973
Huntorf	290	100.0	290	1977
Irsching 3	415	100.0	415	1974
Jena-Süd	199	73.0	145	1996
Kirchlengern	180	62.9	113	1980
Kirchmöser	178	100.0	178	1994
Leiden (NL)	81	100.0	81	1986
Maasvlakte UCML (NL)	70	100.0	70	2004
Obernburg	100	50.0	50	1995
Robert Frank 4	487	100.0	487	1973
RoCa 3 (NL)(2)	220	100.0	220	1996
Staudinger 4	622	100.0	622	1977
The Hague (NL)	78	100.0	78	1982
Other (<40 MW installed capacity)	313	n/a	283	n/a
Total	5,052		4,649	
Fuel Oil				
Audorf	87	100.0	87	1973
Hausham GT 1	25	100.0	25	1982

Hausham GT 2	25	100.0	25	1982
Hausham GT 3	25	100.0	25	1982

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Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie		Start-up Date
		%(1)	MW	
Fuel Oil (continued)				
Hausham GT 4	25	100.0	25	1982
Ingolstadt 3	386	100.0	386	1973
Ingolstadt 4	386	100.0	386	1974
Itzehoe	87	100.0	87	1972
Wilhelmshaven	56	100.0	56	1973
Zolling GT 1	25	100.0	25	1976
Zolling GT 2	25	100.0	25	1976
Total	1,152		1,152	
Hydroelectric				
Aufkirchen	27	100.0	27	1924
Bittenbrunn	20	100.0	20	1969
Bergheim	24	100.0	24	1970
Braunau-Simbach	100	50.0	50	1953
Egglfing	81	100.0	81	1944
Eitting	26	100.0	26	1925
Ering	73	100.0	73	1942
Erzhausen	220	100.0	220	1964
Feldkirchen	38	100.0	38	1970
Gars	25	100.0	25	1938
Geisling	25	100.0	25	1985
Happurg	160	100.0	160	1958
Hemfurth	20	100.0	20	1915
Jochenstein	132	50.0	66	1955
Kachlet	54	100.0	54	1927
Langenprozelten	164	100.0	164	1975
Neuötting	26	100.0	26	1951
Nußdorf	48	76.5	37	1982
Oberaudorf-Ebbs	60	50.0	30	1992
Passau-Ingling	86	50.0	43	1965
Pfrombach	22	100.0	22	1929
Reisach	105	100.0	105	1955
Rosenheim	35	100.0	35	1960
Roßhaupten	46	100.0	46	1954
Schärding-Neuhaus	96	50.0	48	1961
Stammham	23	100.0	23	1955
Straubing	22	100.0	22	1994
Tanzmühle	28	100.0	28	1959
Teufelsbruck	25	100.0	25	1938
Töging	85	100.0	85	1924
Vohburg	23	100.0	23	1992

Walchensee	124	100.0	124	1924

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Power Plants	Total Capacity Net MW	Capacity Attributable to E.ON Energie		Start-up Date
		%(1)	MW	
Hydroelectric (continued)				
Waldeck 1	120	100.0	120	1931
Waldeck 2	440	100.0	440	1975
Wasserburg	24	100.0	24	1938
Other run-of-river, pump storage and storage	781	n/a	734	n/a
Total	3,408		3,113	
Others	281		191	
Total	**35,677**		**27,441**	
Mothballed/ Shutdown/ Reduced				
Arzberg 5	104	100.0	104	1966
Arzberg 6	252	100.0	252	1974
Arzberg 7	121	100.0	121	1979
Aschaffenburg 21	150	100.0	150	1963
Aschaffenburg 31	143	100.0	143	1971
Emden 4	433	100.0	433	1972
Franken II/1	206	100.0	206	1966
Franken II/2	206	100.0	206	1967
Irsching 1	151	100.0	151	1969
Irsching 2	312	100.0	312	1972
Offleben	280	100.0	280	1988
Pleinting 1	292	100.0	292	1968
Pleinting 2	402	100.0	402	1976
Rauxel 2	164	100.0	164	1967
Scholven G(3)	672	50.0	336	1974
Scholven H(3)	672	50.0	336	1975
Schwandorf B(4)	99	100.0	99	1959
Schwandorf C(4)	99	100.0	99	1961
Schwandorf D	292	100.0	292	1972
Stade	640	66.7	417	1972
Staudinger 2	249	100.0	249	1965
Westerholt 1(5)	138	100.0	138	1959
Westerholt 2(5)	138	100.0	138	1961
Total	6,215		5,320	

(1) Percentage of total capacity attributable to E.ON Energie.

(2) Power station operated by E.ON Benelux under long-term cross-border leasing arrangement.

(3) Not included in October 2000 shutdown program discussed below.

(4) Closed down before the shutdown program discussed below; already dismantled.

(5) Dismantling in process and finished, respectively.
(CHP) Combined Heat and Power Generation.
(NL) Located in the Netherlands.

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For more information about E.ON Energie s power generation facilities in eastern Europe, see Eastern Europe.

Germany. In response to intense competition in Germany over wholesale prices, E.ON Energie has been forced to assess all of its production facilities very carefully with respect to actual and, in the medium term, expected profitability. In October 2000, as a result of this analysis, E.ON Energie decided to shut down or permanently suspend operations at certain power plants with a total installed capacity of approximately 4,900 MW by the end of 2003. This decision primarily affected older and smaller units. The shutdowns of the nuclear power plant Stade and the lignite power plant Arzberg 5 in November and December 2003, respectively, completed the shutdown program.

E.ON Energie s German plants generate electricity primarily with nuclear power, bituminous coal (commonly referred to as hard coal), lignite, gas, fuel oil and water. The existing nuclear and hydroelectric power plants are E.ON Energie s source of power with the lowest variable costs and, together with lignite-based power plants, are used mainly to cover the base load. Hard coal is utilized mainly for middle load, while the other energy sources are used primarily for peak load.

Nuclear Power. E.ON Energie operates its German nuclear power plants through E.ON Kernkraft. These nuclear power plants are required to meet applicable German safety standards, which are among the most stringent standards in the world (see Environmental Matters Germany: Electricity). For the reprocessing of their nuclear waste, E.ON Energie s nuclear power plants have contracts with Cogema SA (Cogema) in France and British Nuclear Fuels plc (BNFL) in the United Kingdom. German law allows the delivery of spent nuclear fuel rods for reprocessing until June 30, 2005. E.ON Energie is currently in the process of constructing interim storage facilities at each power plant to replace the transport of spent fuel elements for reprocessing, as described below. Under German law, the Federal Republic of Germany is responsible for the final storage of all domestic nuclear waste at the expense of the generator.

Operators of nuclear power plants are required under German law to establish sufficient financial provisions for future obligations that arise from the use of nuclear power. The three required provisions are for: (1) management of spent nuclear fuel rods, (2) disposal of contaminated operating waste and (3) the eventual decommissioning of nuclear plants. At year-end 2004, E.ON Energie had a total of approximately 13.1 billion provided for these purposes in respect of nuclear power plants included in the consolidated accounts, consisting of 4.5 billion for management of spent nuclear fuel rods, 0.4 billion for disposal of operational waste and 8.2 billion for decommissioning costs. These provisions are stated net of advance payments of 0.9 billion. In determining its pro rata share of these provisions, provisions attributed to minority interests included in E.ON Energie s consolidated accounts have been deducted and provisions for nuclear plants in which E.ON Energie has a minority interest are added. At year-end 2004, on such a pro rata basis, E.ON Energie s provisions for these purposes totaled 13.6 billion, as compared to 13.9 billion at year-end 2003.

In June 2004, German legislators passed an amendment to Germany s Ordinance on Advance Payments for the Establishment of Federal Facilities for Safe Custody and Final Storage for Radioactive Wastes (*Endlager-Vorausleistungsverordnung*). Under the amended ordinance, construction costs for the final nuclear waste storage facilities, located in Gorleben and Konrad, Germany, are now shared by the nuclear plant operators and other users, such as research institutes, in line with their expected actual usage of the storage facilities. Overall, this lowers E.ON s share of the costs and has led to a reduction of the Company s provisions for nuclear waste management. Partially offsetting this reduction, the post-operation phase at nuclear power stations that use MOX fuel elements, which are fuel elements containing plutonium produced in the reprocessing process, has been extended as a result of a change in the delivery schedule for MOX fuel elements.

E.ON Kernkraft purchases uranium and fuel elements for its nuclear power plants from independent domestic and international suppliers, primarily under long-term contracts. E.ON Energie considers the supply of uranium and fuel elements on the world market to be generally adequate.

In May 1995, PreussenElektra decided to shut down its nuclear power plant at Würgassen for economic reasons and, in October 1995, it applied for and received permission from the German authorities to decommission and dismantle the Würgassen plant in accordance with German nuclear energy legislation. E.ON

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Energie expects the decommissioning of Würgassen, which began in October 1995, to last until approximately 2015. In 2000, as a result of the review of all of its power plants described above, E.ON Energie also decided to shut down the nuclear power plant Stade. In July 2001, E.ON Kernkraft filed an application with the Lower Saxonian Ministry of Environment to decommission and dismantle Stade. E.ON Energie expects to receive the approval for decommissioning/dismantling by the end of 2005. Stade was shut down in November 2003, and E.ON Energie expects its decommissioning to last approximately 10 to 12 years. E.ON Energie has provided 1.9 billion for the decommissioning of Würgassen and Stade, including the management of spent nuclear fuel rods and the dismantling of the plants.

After the German Social Democratic Party and the German Green Party (*Bündnis 90/ Die Grünen*) (together, the Coalition) were elected to lead the German federal government in 1998, the Coalition agreed to phase out the generation of nuclear energy in Germany. The Coalition also agreed to hold consensus-forming discussions with operators of nuclear power plants in order to find a solution to various issues in the area of nuclear energy agreeable to all parties. The discussions began in January 1999 and resulted in an agreement on nuclear power in June 2001 and in an amendment of the German Nuclear Power Regulations Act (*Atomgesetz,* or AtG), which was passed by the German parliament in December 2001 and took effect in April 2002.

Among other things, the amendment provides as follows:

Nuclear Phase-out: The operators of the nuclear plants have agreed to a specified number of operating kWh for each nuclear plant. This number has been calculated on the basis of 32 years of plant operation using a high load factor. The operators may trade allotted kWh among themselves. This means that if one nuclear plant closes before it has produced the allotted amount of kWh, the remaining kWh may be transferred to another nuclear power plant.

Termination of Fuel Reprocessing: The transport of spent fuel elements for reprocessing will be allowed until June 30, 2005 at the latest. Following this deadline, the operators must store spent fuel in interim facilities on the premises of the nuclear plants. Such storage requires the approval and construction of interim storage facilities. The construction of E.ON s interim storage facilities is progressing and the Company expects to finish construction by the end of 2006. For the period from July 2005 until construction is finished, the Company plans to store the spent fuel elements at the plants in so-called in-plant fuel pools. The Company expects the capacity of these fuel pools will be sufficient to store the spent fuel elements until the storage facilities are completed. E.ON believes the transition period from reprocessing to on-site storage allows it to satisfy its obligations under its reprocessing contracts with Cogema and BNFL.

As part of the agreement, the German federal government has agreed not to institute any future changes in German tax law which discriminate against nuclear power operations or other measures creating economic disadvantages in comparison with other forms of power generation.

The Company considers its provisions with respect to nuclear power operations to be adequate with respect to the costs of implementing the agreement. E.ON Energie has no plans to construct any new nuclear power plants in Germany.

In March 1999, the German parliament passed the Tax Relief Act 1999/2000/2002 (*Steuerentlastungsgesetz 1999/2000/2002*, the Tax Relief Act). The Tax Relief Act contains new rules for the tax treatment of nuclear provisions. Furthermore, the German tax authorities have adopted a more stringent interpretation of the previous law with respect to the years before 1999. The changes to the tax status of the provisions include the following:

The accrual period for decommissioning costs has been extended from 19 to 25 years. This requires E.ON Energie to release a portion of the provisions it had previously established for tax purposes based on the shorter accrual period.

Certain parts of the provisions concerning MOX fuel elements have to be reversed. The costs must be capitalized as incurred instead.

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Those portions of the provisions that have been established in past years relating to the financing and operational costs for final storage of nuclear waste have been disallowed. The costs of these items will now be tax-deductible when they are actually expensed.

In accordance with the new general rule for long-term provisions, all types of provisions for nuclear power must now be discounted. The Tax Relief Act sets the discount rate at 5.5 percent. This also applies to provisions that have previously been established, which must be released to the extent they do not reflect this discounting.

The Tax Relief Act provides that the tax payments resulting from the reversal of provisions necessitated by the extension of the accrual period, the disallowance of portions of the provisions related to costs of final storage of waste and the discounting of the provisions are spread over a period of ten years beginning in 1999.

In 2002, the Company concluded its general discussions with the tax authorities regarding the treatment of the years prior to 1999, and the tax calculations for these years have been agreed in principle. Part of the resulting tax has already been paid and the Company has established a provision to cover the remaining amounts. The years from 1999 onwards are still under review.

None of the changes to the tax treatment of nuclear provisions described above cause any changes to the financial statements the Company prepares for other purposes. Due to the recognition of a related deferred tax asset generated by temporary differences between the balance sheet prepared for financial reporting purposes and the balance sheet for tax purposes, the changes in the tax status of the provisions for nuclear waste disposal had no material adverse effect on the Company s consolidated net income in 1999. However, the Tax Reduction Act (*Steuersenkungsgesetz*), which was enacted in October 2000, included a lowering of the corporate income tax from 40 percent to 25 percent, which has resulted in a reduction of the deferred tax asset relating to the provisions.

Hard Coal. In 2004, approximately 40 percent of the hard coal used by E.ON Energie s German operations was mined in Germany. Traditionally, hard coal is mined in Germany under much more difficult conditions than in other countries. Therefore, German coal production costs are substantially above world market levels, and E.ON Energie strongly believes they will continue to remain high. Although electricity producers were in the past required to purchase German coal, they are now free to purchase coal from any source. To encourage the purchase of German coal, the German federal government has been paying direct subsidies to German producers enabling them to offer domestic coal at world market prices, although it is now in the process of reducing such subsidies. Due to high production costs and the reduction in subsidies, the volume of German coal production has shown a relatively steady decline in the past and is expected to continue to decline further. However, E.ON Energie expects that adequate supplies of imported coal for its operations will be available on the world coal market at acceptable prices. Hard coal is generally available from multiple sources, though prices are determined on international commodities markets and are therefore subject to fluctuations. E.ON Benelux also uses imported hard coal in its power plants.

Lignite. German lignite, also known as brown coal, has approximately one-third of the heating value of hard coal. E.ON Energie participates in lignite-based energy generation in western Germany through BKB Aktiengesellschaft (BKB) and in eastern Germany through Kraftwerk Schkopau GbR and a portion of one unit of Kraftwerk Lippendorf. Lignite is a readily available domestic fuel source that E.ON Energie obtains from its own reserves or under long-term contracts with German producers. The price of lignite is not generally volatile and is generally determined by reference to published indices in Germany. However, the price can fluctuate based on the underlying price of hard coal in global commodities markets.

Gas and Oil. In Germany, the price of natural gas is linked to the price of oil and other competing fuels. This mechanism has been enforced in order to reduce the influence of, and dependence on, gas-producing countries. Only about 18 percent of gas demand in Germany is satisfied by German deposits, while about 82 percent is satisfied through imports from foreign producers, primarily from Russia, Norway and the Netherlands. For its gas-fired power plants, E.ON Energie purchases gas from E.ON Ruhrgas and other international suppliers, mainly under short-term contracts. Fuel oil power plants are only used for peak load operations. E.ON Energie purchases its fuel oil from traders or directly from a number of oil companies. As with

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natural gas, the price of fuel oil depends on the price of crude oil. E.ON Benelux purchases predominantly Dutch gas under one-year contracts for its gas-fired power plants.

Water. This domestic source of energy is primarily available in southern Germany due to the presence of mountains and rivers. The variable costs of production are extremely low in the case of run-of-river plants and consequently, these plants are used to cover base load requirements. Storage and pump storage facilities are used to meet peak demand and for back-up power purposes.

Demand for power tends to be seasonal, rising in the winter months and typically resulting in additional electricity sales by E.ON Energie in the first and fourth quarters. E.ON Energie believes it has adequate sources of power to meet foreseeable increases in demand, whether seasonal or otherwise. In order to benefit from economies of scale associated with large stations, E.ON Energie has built large capacity power station units in conjunction with other utilities where it does not require all of the electricity produced by such plants. In these cases, the purchase price of electricity is determined by the production cost plus a negotiated fee.

Although E.ON s power plants are maintained on a regular basis, there is a certain risk of failure for power plants of every fuel type (for example, the breakdown of a generator in the non-nuclear part of the Unterweser power plant in 2002 resulted in the plant being out of service for six months ending in February 2003 and a broken spray duct lid in the nuclear power plant Brunsbüttel resulted in the plant being out of service in February and March 2003). In addition, the summer heat wave in Europe in 2003 reduced the availability of electric generating facilities dependent on using river water for cooling purposes. Depending on the associated generation capacity, the length of the outage and the cost of the required repair measures, the economic damage due to such failure can vary significantly. In order to meet contractual commitments, electricity which cannot be generated at these plants has to be bought from other generators or has to be generated from more expensive plants. Thus, power plant outages can negatively affect the market unit s financial and operating results.

Transmission

The German power transmission grid of E.ON Energie, which operates with voltages of 380, 220 and 110 kilovolts, has a system length of over 42,000 km and a coverage area of nearly 200,000 km^2. It is located in the German states of Schleswig-Holstein, Lower Saxony, Mecklenburg-Western Pomerania, Brandenburg, North Rhine-Westphalia, Saxony-Anhalt, Hesse, Thuringia and Bavaria, and reaches from the Scandinavian border to the Alps. The grid is interconnected with the western European power grid with links to the Netherlands, Austria, Denmark and Eastern Europe. The system is mainly operated by E.ON Netz GmbH (E.ON Netz). The network of E.ON Netz allows long-distance power transport at low transmission losses and covers more than 40 percent of the surface area of Germany. This system is operated from two main system control centers, one in Lehrte near Hanover and one in Karlsfeld near Munich, and from several regional control and service units at decentralized locations within the E.ON Netz grid area.

Access to E.ON Energie s power transmission grid is open to all potential users. The Company believes its usage fees and conditions comply with existing German regulations governing grid access. For further information, see Regulatory Environment Germany: Electricity.

The Baltic cable links the transmission grid of E.ON Energie to Scandinavia. For details, see Nordic Electricity Distribution.

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Distribution and Sale

Electricity. The German utilities historically established defined supply areas which were coextensive with their distribution grids. See Operations. The following map shows E.ON Energie s current supply area in Germany through its majority shareholdings in regional electricity distribution companies:

E.ON Energie supplied about one-third of the electricity consumed by end users in Germany in 2004. Its customers are interregional, regional and municipal utilities, traders, industrial and commercial customers and, only through regional distributors, residential and small commercial customers predominantly in those parts of Germany highlighted on the above map. In compliance with the EU Commission s conditions upon approving the VEBA-VIAG merger, E.ON Energie s majority-owned regional distributors E.DIS and TEAG in eastern Germany purchase power from E.ON Energie s competitor Vattenfall Europe. E.ON Energie s majority-owned distributor Avacon likewise purchases its power primarily from Vattenfall Europe for those of its customers situated in the eastern German state of Saxony-Anhalt. In 2004, E.ON Energie sold 166.7 billion kWh of electricity in western Germany and 32.5 billion kWh in eastern Germany compared with 165.3 billion kWh and 29.0 billion kWh in 2003, respectively.

The following table sets forth the sale of E.ON Energie s electric power (excluding that used in physically settling its trading activities) in Germany in 2004 and 2003:

Sale of Power to	Germany 2004 million kWh	Germany 2003 million kWh(1)	% Change in Total
Non-consolidated interregional, regional and municipal utilities	112,575	111,243	+1.2
Industrial and commercial customers(2)	56,274	51,925	+8.4
Residential and small commercial customers	30,352	31,086	-2.4
Total	199,201	194,254	+2.5

(1) Adjusted to reflect the new market unit structure.

(2) The increase in the sale of power to industrial and commercial customers is primarily attributable to the gain of new customers.

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In order to offer optimized services to major customers and to equalize supply and demand at all times with respect to the costs of procurement, E.ON Energie has integrated its trading and wholesale operations into EST. EST focuses on the national and international wholesale business for regional utilities, large municipal utilities and major industrial customers, and is also responsible for E.ON Energie s trading operations. The regional distribution companies manage the main part of E.ON Energie s retail business, which is the supply of power to municipal utilities, industrial and commercial customers, as well as residential and small commercial customers. The following chart sets forth the principal supply structure of E.ON Energie s electricity sales.

The supply contracts under which E.ON Energie s regional distributors (all are majority-owned) regularly order their required load for upcoming years have historically had relatively long terms. Typical supply contracts now last for one to three years. Potential alternative sources of electricity include the purchase of electricity from other utilities and auto-generation by municipalities, regional distributors or industrial customers. The regional distributors contracts with municipal utilities contain varying terms and conditions. Long-term concession contracts permit municipal utilities and regional distributors to supply electricity to residential customers within a municipality.

Gas. Most of the distribution subsidiaries of E.ON Energie supply natural gas to households, small businesses and industrial customers in many parts of Germany. E.ON Energie s gas sales volume in Germany in 2004 amounted to 102.9 billion kWh compared with 108.0 billion kWh in 2003.

Heat. E.ON Energie is one of the leading suppliers of district heating in Germany. It operates its own district heating networks for six cities in the Ruhr area and supplies four additional networks owned by other companies. E.ON Energie s regional distributors are also involved in district heat and steam delivery. E.ON Energie s total district heat deliveries in Western Europe increased 8.3 percent in 2004 to 13.4 billion kWh, of which 10.2 billion kWh were supplied in Germany. The remaining amount is mainly supplied through E.ON Benelux.

Water. Following the sale of its interest in Gelsenwasser in 2003, E.ON s remaining water business is conducted through certain of its distribution companies, particularly E.ON Hanse AG (E.ON Hanse), Avacon and E.ON Westfalen Weser, in which E.ON Energie has shareholdings of 73.8 percent, 69.6 percent and 62.9 percent, respectively. For more details on discontinued operations, see Item 5. Operating and Financial Review and Prospects Acquisitions and Dispositions Discontinued Operations and Note 4 of the Notes to Consolidated Financial Statements.

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Customers. Through its subsidiaries and companies in which it has shareholdings, E.ON Energie serves approximately 9.3 million electricity customers in Germany. E.ON Energie s German operations also supply approximately 1.7 million customers with gas and more than 0.3 million customers with water.

Trading

E.ON Energie has integrated its trading and wholesale operations into EST. An international team of traders buys and sells electricity on the spot and forward markets. E.ON Energie s trading operations offer customized and standard products that are traded on a bilateral basis, as well as trading in standard exchange-traded instruments. EST s trading focuses on Germany, but also includes the rest of continental Europe, including the European Energy Exchange in Leipzig, the Amsterdam Power Exchange in the Netherlands, Powernext in France and Energy Exchange Austria in Austria. Furthermore, EST supplies cross border trading and risk management processes for optimal international power procurement to E.ON Energie s operations in Hungary, the Czech Republic and Slovakia.

E.ON Energie believes that its trading activities provide valuable market insight and have strengthened its competitive position in the European electricity market. E.ON Energie s trading activities are focused on asset-backed trading in order to optimize the value of its generation portfolio, though E.ON Energie also engages in a limited amount of proprietary trading within its established risk limits.

E.ON Energie s trading business has incorporated a complete and systematic risk management system in compliance with legal and regulatory requirements of the German Federal Supervisory Office for Banking, including the minimum requirements for trading activities of credit institutions. An important aspect of the system is that the trading activities are monitored by a board independent from the trading operations. For more detailed information on E.ON Energie s management of the risks related to its trading activities, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk Management.

The volume of EST s energy trading activities decreased in 2004, reflecting the uncertainties about the development of European wholesale prices. EST traded smaller volumes in 2004, in order to avoid higher risk due to high price volatility. See Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2004 Compared with Year Ended December 31, 2003 Central Europe. The following table sets forth the total volume of EST s traded electric power in 2004 and 2003.

Trading of Power	2004 million kWh	2003 million kWh	% Change in Total
Power sold(1)	162,671	208,939	-22.1
Power purchased(1)	146,755	202,680	-27.6
Total	309,426	411,619	-24.8

(1) Any negative balance of power purchased as compared to power sold is satisfied by the delivery of electricity generated by E.ON Energie.

Other

Consulting and Support Services. E.ON Engineering GmbH offers internal and external consulting, planning and construction services in the energy sector in fields such as chemical analytics and electrical, mechanical and civil engineering, with a focus on conventional and renewable power generation, cogeneration, use of biomass, pipeline construction, development of energy strategies and CO_2-emissions reduction. Building on their shareholdings in municipal and regional utilities, E.ON Energie and the regional distributors also establish partnerships and cooperative relationships with local authorities. E.ON Energie and the regional distributors operate their own electricity and gas supply systems, and provide the local authorities with consulting, technical and managerial support to promote the

efficient use of electricity and gas. E.ON Facility Management GmbH provides technical, commercial and infrastructural facility management services, mainly for E.ON Energie group companies.

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Waste Incineration. E.ON Energie also has a waste incineration business, led by BKB. In 2004, incinerated waste volumes handled by BKB totaled approximately 1.4 million tons.

Other Minority Shareholdings. In the Alpine region, E.ON Energie owns a 20.0 percent equity interest in BKW FMB Energie AG (BKW), a Swiss utility that owns important hydropower assets, as well as a single nuclear power station and interests in other nuclear power stations.

Eastern Europe

E.ON Energie participates in a number of eastern European energy markets with several shareholdings and cooperation agreements. E.ON Energie has significant shareholdings in Hungary, the Czech Republic and Slovakia, has recently acquired shareholdings in Bulgaria and expects to acquire a shareholding in Romania. In those countries in which E.ON Energie has already built up a portfolio of activities, national holding companies such as E.ON Hungária Energetikai Rt. (E.ON Hungária) and E.ON Czech Holding AG coordinate E.ON Energie s activities. In 2003 and 2004, as part of the on.top project, E.ON Energie transferred certain eastern European shareholdings to E.ON Ruhrgas and to E.ON AG, and E.ON Ruhrgas transferred certain eastern European shareholdings to E.ON Energie. For more information, see History and Development of the Company Group Strategy On.top.

In Hungary, E.ON Energie holds all of the shares (except for a golden share held by the Hungarian government) of the regional electricity distributors E.ON Dél-dunántúli Áramszolgáltató Rt., E.ON Észak-dunántúli Áramszolgáltató Rt. (ÉDÁSZ) and E.ON Tiszántúli Áramszolgáltató Rt. Management believes that E.ON Energie has a market share of approximately 45 percent in the Hungarian electricity distribution market. In January 2003, E.ON Hungária founded E.ON Energiakereskedö Kft., an electricity and gas sales company, to serve the liberalized Hungarian electricity market. E.ON Energie also holds a 100.0 percent stake in the natural gas power generation company Debreceni Kombinált Ciklusú Erömü Kft. (95 MW). In the gas sector, E.ON Energie holds a 16.3 percent stake in the gas company FÖGÁZ, a 31.2 percent stake in the gas distribution and supply company Közepdunántuli Gázszolgáltató Rt. (KÖGÁZ) and a 49.99 percent stake in the gas distributor DDGÁZ. During 2004, E.ON Energie signed agreements to increase its stake in DDGÁZ to 50.01 percent, pending approval by the Hungarian authorities. In addition, E.ON Energie intends to increase its stake in KÖGÁZ to 64.46 percent in 2005.

In the Czech Republic, E.ON Energie controls significant participations in the energy sector. In 2004, E.ON Energie increased its stakes in the electricity distributors JME and JCE from 85.7 percent and 84.7 percent, respectively, to 99.0 percent and 98.7 percent, respectively. On a combined basis, JME and JCE provided 1.4 million customers with approximately 12 TWh of electricity in 2004. Pursuant to an option agreement concluded between E.ON Energie and the Czech state-owned company CEZ, a.s. (CEZ) in 2003, E.ON Energie sold its minority stakes in the Czech regional electricity distribution companies Severomoravska energetika a.s. (30.3 percent) and Severoceská energetika a.s. (5.9 percent) in October 2004. In the gas sector, E.ON Energie owns minority shareholdings in the distributors JMP, Jihoceska plynárenska a.s. (JCP), PP, STP, SMP, ZCP and VCP. In 2002, E.ON Energie entered the Slovakian energy market by acquiring a 49.0 percent interest in the Slovakian electricity supplier Západoslovenská energetika a.s. (ZSE), which provided 1.0 million customers with approximately 7 TWh of electricity in 2004.

In February 2005, E.ON Energie acquired 67.0 percent stakes in each of the two northeastern Bulgarian electricity distribution companies Elektrorazpredelenie Varna and Elektrorazpredelenie Gorna Oryahovitza. The companies had combined sales of approximately 5 billion kWh and served approximately 1.1 million customers in 2004.

In the Baltic region, following the re-organization of the Lithuanian energy industry, E.ON Energie now owns a 20.3 percent interest in Rytu Skirstomieji Tinklai (RST), the eastern Lithuanian electricity distribution company. E.ON Energie also owned a 14.6 percent interest in Vakaru Skirstomieji Tinklai (VST), the western Lithuanian electricity distribution company, but sold this stake to VST s new majority shareholder in April 2004 following the completion of the privatization of VST. E.ON Energie also has an agreement with the Lithuanian government to sell its interest in RST to the new majority shareholder should RST be completely privatized.

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In addition, as of December 31, 2004 E.ON Energie held a number of shareholdings in small generation assets, primarily in Hungary and the Czech Republic. E.ON Energie does not have interests in companies operating nuclear power plants other than those in Germany and Switzerland.

Competitive Environment

Since 1998, liberalization of the electricity markets in the EU has greatly altered competition in the German electricity market, which was formerly characterized by numerous strong competitors. Following liberalization, significant consolidation has taken place in the German market, resulting in three mergers of major interregional utilities in recent years: VEBA and VIAG forming E.ON, RWE and Vereinigte Elektrizitätswerke AG forming RWE (both in 2000) and Hamburgische Electricitäts-Werke AG/ Bewag Berliner Kraft und Licht Aktiengesellschaft/ VEAG/ Lausitzer Braunkohle Aktiengesellschaft forming Vattenfall Europe in 2002. In 2004, E.ON, RWE, Vattenfall Europe and the other remaining major interregional utility, EnBW, supplied approximately two thirds of the total electricity production in Germany.

The interregional utilities own the high-voltage transmission lines in their traditional supply areas and are active in all phases of the electricity business. In addition to the interregional utilities, there are about 900 electric utilities in Germany at the state, regional and municipal level, many of which are partly or wholly owned by state or municipal governments. These utilities may be involved in various combinations of the generation, transmission, distribution and supply and trading functions. The liberalization of the electricity market in Germany has also led to new market structures with new market participants. The market for electricity has become more liquid and more competitive, and currently has the highest number of participants in continental Europe. Approximately 200 new market participants have entered the German market since 1998, with more than half of them engaged in electricity trading. The volume of electricity trading remained stable in 2004 (397 TWh at the European Energy Exchange s Spot and Futures Market compared with 391 TWh in 2003), following a large increase in 2003. The European Energy Exchange has also become a benchmark for electricity prices in central Europe.

Liberalization of the electricity market in Germany caused electricity prices to decrease in 1998, with significant declines in some market segments. These declines were largely due to aggressive price setting by new competitors and suppliers, as well as other factors such as significant power plant overcapacity in Germany and Europe and relatively high and increasing price transparency. The rate of price declines began to slow in the second half of 2000, and prices have increased since 2001 but have developed differently in each of the customer segments. In 2004, electricity prices in Germany have continued to recover. According to the German Electricity Association, VDEW, in 2004 prices paid by household customers were about 5 percent higher than in the liberalization year 1998, while prices (including electricity tax) paid by industrial customers were still about 5 percent lower than in 1998. Prices increased in 2004 due to rising fuel costs and higher trading prices, while a significant factor in the overall price recovery are new or increased costs faced by electricity companies since the beginning of liberalization. Among these new or increased costs are the electricity tax (introduced in 1998 and subject to annual increases through 2003), duties and additional costs attributable to compliance with new legislation, including the Renewable Energy Law and Co-Generation Protection Law, as well as higher costs incurred in procuring balancing power to cover fluctuations in the availability of electricity from renewable resources such as wind. As most distributors have tried to pass these increases through to their customers, electricity prices have risen more rapidly than the associated margins for generators in recent years. Taxes and duties accounted for approximately 40 percent of German electricity prices for household customers in 2004, compared with about 25 percent before deregulation in 1998. Similarly, electricity taxes and duties increased from 2 percent of German electricity prices for industrial customers in 1998 to 21 percent in 2004. In view of recent developments in the commodity and fuel markets, E.ON Energie expects electricity prices in Germany to further increase in 2005. E.ON Energie has already announced further price hikes for 2005, which in most cases have been approved by the relevant authorities.

High environmental and nuclear safety standards, as well as high investments in new lignite power plants, taxes on electricity, the requirements of the Co-Generation Protection Law and the Renewable Energy Law s requirement that regional utilities purchase electricity generated from renewable resources impose a considerable burden on German electricity prices. E.ON Energie still believes that it will be able to compete effectively in the

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European Union. In addition, E.ON Energie believes that the liberalization of the gas and electricity markets may open new business opportunities. However, E.ON Energie may be unable to compete as effectively as other electricity companies due to the factors described above. Any of these or other factors could materially and adversely affect E.ON s financial condition and results of operations. See also Item 3. Key Information Risk Factors.

Outside Germany, the energy markets in which E.ON Energie operates are also subject to strong competition. E.ON Energie cannot guarantee it will be able to compete successfully in electricity markets where it already is present or in new electricity markets it may enter.

PAN-EUROPEAN GAS

Overview

E.ON Ruhrgas is the lead company of the Pan-European Gas market unit and is responsible for all of E.ON s non-retail gas activities in continental Europe. E.ON completed the acquisition of all of the outstanding shares of the former Ruhrgas in March 2003 and has fully consolidated the results of the former Ruhrgas activities since February 2003. Details on E.ON s acquisition of Ruhrgas, including the actions taken by E.ON and E.ON Ruhrgas in 2003 and early 2004 to fulfill relevant conditions, the status of integration efforts and progress made on realizing synergies between the two companies are described in History and Development of the Company Ruhrgas Acquisition. In terms of sales, E.ON Ruhrgas is one of the leading non-state-owned gas companies in Europe and the largest gas company in Germany. In 2004, E.ON Ruhrgas recorded revenues of 14.4 billion (which included 2.9 billion in natural gas and electricity taxes that were remitted, directly or indirectly, to the German tax authorities) and adjusted EBIT of 1.4 billion. 13.0 billion of E.ON Ruhrgas 2004 revenues were generated in Germany and 1.4 billion was generated abroad.

As part of E.ON s on.top project, E.ON Energie has transferred certain of its shareholdings in gas distribution and exploration companies to E.ON Ruhrgas, while E.ON Ruhrgas has transferred certain of its downstream gas activities in central Europe to E.ON Energie. E.ON Energie also transferred its gas trading activities to E.ON Ruhrgas in 2004. For more information about E.ON s on.top project and the relevant changes to E.ON Ruhrgas business, see History and Development of the Company Group Strategy On.top.

In 2004, E.ON Ruhrgas entered into the following transactions:

In October 2004, E.ON Ruhrgas signed an agreement with the Romanian government for the acquisition of a 51.0 percent stake in the Romanian gas supplier Distrigaz Nord. Distrigaz Nord is active in gas distribution in northern Romania. The transaction is expected to close in the first half of 2005.

In November 2004, ERI signed an agreement for the acquisition of 75.0 percent minus 1 share each of the gas trading and gas storage businesses of the Hungarian oil and gas company MOL and its 50.0 percent interest in the gas import subsidiary Panrusgáz. In addition, MOL received a put option to sell to ERI up to 75.0 percent minus 1 share of its gas transmission business and put options to sell to ERI the remaining 25.0 percent plus 1 share in the MOL gas trading and gas storage companies. The transaction is subject to antitrust approval and is expected to close in the second half of 2005.

In December 2004, E.ON Ruhrgas made use of its right of first refusal to purchase an additional 4.0 percent interest in the project company Interconnector (UK) Limited (Interconnector), which operates an undersea gas pipeline linking the United Kingdom and Belgium, from another shareholder. The transaction is expected to close in the first quarter of 2005.

For information about additional transactions in the downstream business, see Downstream Shareholdings.

On January 1, 2004, in fulfillment of one of the requirements of the ministerial approval of E.ON s acquisition of Ruhrgas, E.ON Ruhrgas transferred its gas transmission business to a new subsidiary, E.ON Ruhrgas Transport. See also Transmission System and Storage below.

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Operations

Through E.ON Ruhrgas AG and its subsidiaries, E.ON Ruhrgas is primarily engaged in the following segments of the gas industry:

Supply:	The purchase of natural gas under long-term contracts with foreign and domestic producers, including the Russian gas company Gazprom, the world s largest gas producer in terms of volume, in which E.ON Ruhrgas holds a small shareholding. E.ON Ruhrgas also engages in gas exploration and production activities and, to supplement its supply as well as its sales business, in a limited amount of trading activities;
Transmission System:	The transmission of gas within Germany via a network of approximately 11,000 km of pipelines in which E.ON Ruhrgas holds an interest;
Storage:	The storage of gas in a number of large underground natural gas storage facilities; and
Sales:	The sale of gas within Germany to regional and supraregional distributors, municipal utilities and industrial customers, as well as the delivery of gas to a number of customers in other European countries.

In addition to its natural gas supply, transmission system, storage and sales businesses, E.ON Ruhrgas owns numerous shareholdings in integrated gas companies, gas distribution companies and municipal utilities through its subsidiaries ERI and Thüga. ERI holds primarily minority shareholdings in both German and other European integrated gas companies, regional gas distribution companies and municipal gas utilities. Thüga holds primarily minority shareholdings in about 100 regional and municipal electricity and gas utilities in Germany, as well as majority and minority shareholdings in a number of Italian gas distribution and sales companies and one Italian municipal utility. E.ON Ruhrgas subsidiary Ruhrgas Industries GmbH (Ruhrgas Industries) holds and manages the market unit s industrial businesses, which focus on metering and industrial furnaces. Management has decided to actively pursue the disposal of the operations of Ruhrgas Industries during 2005, subject to market conditions.

For financial reporting purposes, the Pan-European Gas market unit is divided into three business units: Up-/ Midstream, Downstream Shareholdings and Other/ Consolidation. The Up-/ Midstream business unit reflects the results of the supply, transmission system, storage and sales businesses, with the midstream operations essentially including all of the supply and sales business other than exploration and production activities. The Downstream Shareholdings business unit reflects the results of ERI and Thüga. Other/ Consolidation primarily includes the results of Ruhrgas Industries, as well as consolidation effects.

The following table provides information about purchases and sales of natural gas and coke oven gas by E.ON Ruhrgas midstream operations for the full years 2004 and 2003, as well as the eleven-month period in 2003 during which these operations were consolidated by E.ON. The difference between gas supplies and gas sales in any given period is due to storage and metering differences and occurs routinely.

Purchases	**Total 2004 billion kWh**	**%**	**Total 2003 billion kWh**	**%**	**February-December 2003 billion kWh**	**%**
Imports	537.4	83.2	506.6	82.6	446.2	82.5
German sources	108.6	16.8	106.8	17.4	94.7	17.5
Total	646.0	100.0	613.4	100.0	540.9	100.0

Sales

Domestic distributors	328.7	51.2	326.7	52.9	282.0	52.8
Domestic municipal utilities	156.1	24.3	159.5	25.8	136.3	25.5
Domestic industrial customers	69.0	10.8	66.0	10.7	59.3	11.1
Sales abroad	87.6	13.7	65.2	10.6	56.9	10.6
Total	641.4	100.0	617.4	100.0	534.5	100.0

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In the table above, as well as in the descriptions of E.ON Ruhrgas supply and sales businesses, purchase and sales volumes are presented for all periods excluding amounts purchased and sold under location swaps , which are the simultaneous purchase and sale of equal amounts of natural gas for approximately the same price but at different locations, as well as relatively minimal amounts of gas that E.ON Ruhrgas does not consider part of its primary business, including volumes handled for third parties. In addition, these gas volumes do not include gas volumes attributable to ERI or Thüga, which are part of the Downstream Shareholdings business unit.

The increase in total sales volume in 2004 is mainly attributable to increased sales to non-domestic customers, primarily reflecting increased sales to affiliated companies. For more information on E.ON Ruhrgas gas supply contract with E.ON UK, see History and Development of the Company Ruhrgas Acquisition and U.K. Energy Wholesale Energy Trading.

Supply

E.ON Ruhrgas purchases virtually all of its natural gas from producers in six countries: Russia, Norway, the Netherlands, Germany, the United Kingdom and Denmark. In 2004, E.ON Ruhrgas purchased a total of 646.0 billion kWh of gas, of which approximately 83.2 percent was imported and approximately 16.8 percent was purchased from German producers. E.ON Ruhrgas was the largest gas purchaser in Germany in 2004, acquiring more than half of the total volume of gas purchased for the German market. Of the 646.0 billion kWh of gas purchased in 2004, E.ON Ruhrgas bought approximately 31.2 percent from Russia and approximately 26.3 percent from Norway, its two largest suppliers. The following table provides information on the amount of gas purchased from each country and its percentage of the total volume of gas purchased by the midstream operations in the full years 2004 and 2003 and the eleven-month period in 2003 during which these operations were consolidated by E.ON:

Sources of Gas	Total 2004 billion kWh	%	Total 2003 billion kWh	%	February-December 2003 billion kWh	%
Germany	108.6	16.8	106.8	17.4	94.7	17.5
Russia	201.3	31.2	186.7	30.4	167.7	31
Norway	169.6	26.3	174.4	28.4	156.4	28.9
The Netherlands	124.1	19.2	100.6	16.4	81.6	15.1
United Kingdom	22.8	3.5	27.3	4.5	24.8	4.6
Denmark	19.3	3.0	17.6	2.9	15.7	2.9
Others(1)	0.3	0.0				
Total	646.0	100.0	613.4	100.0	540.9	100.0

(1) Italy and France.

In the table above, purchase volumes are presented for all periods excluding amounts purchased under location swaps, as well as relatively minimal amounts of gas that E.ON Ruhrgas does not consider part of its primary supply business, including volumes handled for third parties. In addition, these gas volumes do not include gas volumes attributable to ERI or Thüga.

As is typical in the gas industry, these purchases were made under long-term supply contracts that E.ON Ruhrgas has with one or more gas producers in each country. Purchases under such contracts provided for nearly all of the gas bought by E.ON Ruhrgas in 2004; the remaining amounts were purchased on international spot markets or pursuant to short-term contracts. E.ON Ruhrgas current long-term contracts with fixed term (so-called supply -type contracts) have

termination dates ranging from 2005 to 2030 (subject in certain cases to automatic extensions unless either party gives notice of termination), while so-called depletion -type contracts terminate upon the exhaustion of economic production from the relevant gas field. E.ON Ruhrgas believes that its existing contracts secure the supply of a total volume of approximately 10 trillion kWh of natural gas over the period to 2030. As is standard in the gas industry, the price E.ON Ruhrgas pays for gas under these contracts is calculated on the basis of complex formulas incorporating variables based upon current market prices for fuel oil,

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gas oil, coal and/or other competing fuels, with prices being automatically re-calculated periodically, usually monthly or quarterly. The contracts also generally provide for formal revisions and adjustments of the price and other business terms to reflect changes in the market (in many cases expressly including changes in the retail market for natural gas and competing fuels), generally providing that such revisions may only be made once every few years unless the parties agree otherwise. Claims for revision are subject to binding arbitration in the event the parties cannot agree on the necessary adjustments. Certain contracts also provide E.ON Ruhrgas with the possibility of buying specified quantities of gas at prices linked to those on international spot markets. The contracts also require E.ON Ruhrgas to pay for specified minimum quantities of gas even if it does not take delivery of such quantities, a standard gas industry practice known as take or pay. Take-or-pay quantities are generally set at approximately 80 percent of the firm contract quantities. To date, E.ON Ruhrgas has been able to avoid the application of these take-or-pay clauses in nearly all cases. The contracts also include quality and availability provisions (together with related discounts for non-compliance), force majeure provisions and other industry standard terms. E.ON Ruhrgas also has short-term arrangements with some of its suppliers, which provided less than 2 percent of E.ON Ruhrgas gas supply in 2004. E.ON Ruhrgas generally takes delivery of the gas it imports at the point at which the relevant pipeline crosses the German border. For additional information on these contractual obligations, see Item 5. Operating and Financial Review and Prospects Contractual Obligations.

In the medium and long term, rising demand for gas in Europe, combined with falling indigenous production in European countries, particularly in the United Kingdom, will lead to a greater reliance on imports by European gas wholesalers. Accordingly, in the near future, gas producers will have to invest, in some cases quite considerably, in expanding their production capacities. In addition, the natural decline in output from older fields will need to be made up by the development of new fields. E.ON Ruhrgas believes that long-term gas purchase contracts will remain crucial to European gas supplies, ensuring a fair balance of risks between producers and importers. E.ON Ruhrgas believes the price adjustment provisions in such contracts safeguard sufficient supplies of gas at competitive prices, while the take or pay provisions give producers the necessary long-term security for investing. The economic significance of such contracts has been acknowledged by both the German government and, to an increasing extent, by the EU Commission, and E.ON Ruhrgas seeks to balance its purchase and sale obligations so as to minimize risk. For information about risks relating to long-term gas supply contracts, see Item 3. Key Information Risk Factors.

E.ON Ruhrgas supply sources are discussed below on a country-by-country basis.

Russia. In 2004, E.ON Ruhrgas purchased 201.3 billion kWh of gas, or 31.2 percent of its total gas purchased, from Russia. Russia is the largest supplier of natural gas to E.ON Ruhrgas, while E.ON Ruhrgas is the second-largest purchaser of gas from Russia. As with most of its gas imports, E.ON Ruhrgas takes ownership of its Russian gas when it reaches the German border.

All of E.ON Ruhrgas purchases of Russian natural gas are made pursuant to long-term supply contracts with OOO Gazexport, the subsidiary of Gazprom responsible for exports. E.ON Ruhrgas holds a 3.5 percent direct interest in Gazprom; an additional stake of 2.9 percent in Gazprom is attributable to E.ON Ruhrgas on the basis of contractual arrangements relating to its minority interest in a Russian entity that holds these shares. E.ON Ruhrgas considers its shareholding in Gazprom to be an important element supporting its long-term supply relationship with Gazprom, which is the world s largest gas producer, having produced approximately 5.6 trillion kWh of gas in 2004. E.ON Ruhrgas expects the importance of Russian gas exports for Europe to increase as the indigenous production of important European supply countries decreases. Gazprom has indicated it will flexibly cover about one third of E.ON Ruhrgas gas requirements for the German market until 2030. E.ON Ruhrgas and Gazprom may enter into new gas supply contracts in the future which will provide a contractual basis for this arrangement. In July 2004, E.ON and Gazprom signed a Memorandum of Understanding for a deepened strategic cooperation between the parties. For more details, see History and Development of the Company Other Significant Events.

In addition, E.ON Ruhrgas is a member of a consortium that holds a minority interest in Slovenský plynárenský priemysel a.s. (SPP), the operator of the gas transmission system in Slovakia through which most Russian gas bound for western Europe is transported.

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Norway. In 2004, E.ON Ruhrgas purchased 169.6 billion kWh, or 26.3 percent of its total gas purchased, from Norwegian sources. E.ON Ruhrgas takes delivery of its Norwegian supplies at the gas import points near Emden along the German North Sea coast.

In 2001, the Norwegian government abolished Norway s centralized gas marketing system (the so-called GFU) for deliveries in EU member states and introduced a company-based marketing system. Currently, E.ON Ruhrgas has supply contracts with a number of major Norwegian and international energy companies that hold concessions for the exploitation of Norwegian gas fields. Some of the contracts are of the depletion -type while others are supply -type contracts.

The Netherlands. In 2004, E.ON Ruhrgas purchased 124.1 billion kWh, or 19.2 percent of its total gas purchased, pursuant to a single long-term supply contract with N.V. Nederlandse Gasunie. This contract provides E.ON Ruhrgas with a certain degree of flexibility in managing its supply portfolio. E.ON Ruhrgas believes such flexibility is particularly important in this case, as the Dutch gas fields are relatively close to the end consumers of E.ON Ruhrgas imports, making it more economically viable for E.ON Ruhrgas to react to changes in market demand by varying contract quantities. E.ON Ruhrgas takes delivery of Dutch gas at the German border.

Germany. In 2004, E.ON Ruhrgas purchased 108.6 billion kWh, or 16.8 percent of its total gas purchased, from domestic gas production companies. E.ON Ruhrgas has long-term supply contracts for German natural gas with ExxonMobil Gas Marketing Deutschland GmbH (formerly Mobil Erdgas-Erdöl GmbH), ExxonMobil Gas Marketing Deutschland GmbH & Co. KG (50 percent of former BEB), Shell Erdgas Marketing GmbH & Co. KG (50 percent of former BEB), Gaz de France Produktion Exploration Deutschland GmbH (formerly Preussag Energie GmbH) and RWE Dea AG. A number of the contracts provide E.ON Ruhrgas with significant additional flexibility by providing for the supply of minimum and maximum quantities of gas, rather than a single fixed amount. E.ON Ruhrgas expects the volume of gas it purchases from domestic sources to decline over time, as German gas fields will be depleted.

United Kingdom. In 2004, E.ON Ruhrgas purchased 22.8 billion kWh, or 3.5 percent of its total gas purchased, from U.K. sources. These quantities were partly purchased from BP Gas Marketing Ltd under a long-term supply contract, partly purchased on the spot short-term market and partly received as equity gas through E.ON Ruhrgas subsidiary E.ON Ruhrgas UK Exploration and Production Ltd (E.ON Ruhrgas UK), which has interests in U.K. gas fields and infrastructure. See Exploration and Production below for more information on E.ON Ruhrgas UK.

In contrast to its other imported gas, which E.ON Ruhrgas takes ownership of at the German border, E.ON Ruhrgas takes delivery of its purchased U.K. gas supplies partly at Bacton and partly at Zeebrügge in Belgium. Gas from the U.K. gas fields is transported to Belgium through the undersea gas pipeline run by the project company Interconnector, in which E.ON Ruhrgas holds a 10.0 percent interest. In order to transport the gas to Germany, E.ON Ruhrgas has long-term transportation contracts for the transmission of the gas through the Belgian pipeline system to the gas import point Raeren near Aachen on the German-Belgian border.

Denmark. In 2004, E.ON Ruhrgas purchased 19.3 billion kWh, or 3.0 percent of its total gas purchased, from the Danish supplier DONG Naturgas A/ S (DONG), with which E.ON Ruhrgas has a long-term supply contract. E.ON Ruhrgas takes delivery of Danish gas at the German border.

Trading

In order to optimize and manage price risks of its long-term gas portfolio, E.ON Ruhrgas engages in gas, oil and coal trading. The gas trading activities are concentrated at the national balancing point in the United Kingdom, at the Zeebrügge hub in Belgium and at the Title Transfer Facility in the Netherlands, and are mainly handled via brokers participating in open markets. Financial, oil and coal trading activities are undertaken mainly for hedging purposes. Proprietary trading is marginal compared to asset based trading.

As of April 1, 2004, E.ON Energie transferred 100 percent of D-Gas, which has an experienced team of gas traders, to E.ON Ruhrgas. E.ON Ruhrgas total traded gas volume for 2004 was 4.9 percent of total E.ON Ruhrgas sales, as compared with 1.9 percent in 2003, with the increase being attributable to increased hedging

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activities reflecting the expansion of the arbitrage business in the markets in the U.K., Belgium and the Netherlands, as well as due to the inclusion of D-Gas.

All of E.ON Ruhrgas energy trading operations, including its limited proprietary trading, are subject to E.ON s risk management policies for energy trading. For additional information on these policies and related exposures, see Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Exploration and Production

E.ON Ruhrgas participates in the exploration and production segment of the gas industry through its gas production companies in the United Kingdom and in Norway.

United Kingdom. In the United Kingdom, E.ON Ruhrgas operates through its subsidiary E.ON Ruhrgas UK, which holds minority interests in a number of gas production fields and exploration blocks in the British North Sea.

In 2004, E.ON Ruhrgas UK produced 4.0 billion kWh (353 million cubic meters (m^3)) of gas, compared with 2.85 billion kWh (251 million m^3) of gas in 2003. In 2004, this gas came primarily from the Elgin/ Franklin project, in which E.ON Ruhrgas UK holds a 5.2 percent interest, and from the Scoter gas field, in which E.ON Ruhrgas UK holds a 12.0 percent interest and which started regular production in March 2004. In addition, E.ON Ruhrgas UK produced 2.5 million barrels of liquids (oil and condensate) in 2004, which were sold on the market. In July 2004, the field development plan of Glenelg, a satellite field of Elgin/ Franklin, was approved by the authorities. Glenelg and the other Elgin/ Franklin satellite field West Franklin are expected to begin gas and liquids production in 2005. E.ON Ruhrgas UK holds a respective 18.57 and 5.2 percent interest in these fields.

Norway. E.ON Ruhrgas operates in Norway through its subsidiary E.ON Ruhrgas Norge AS (E.ON Ruhrgas Norge). E.ON Ruhrgas Norge holds a 15.0 percent stake in the Njord oil and gas field in the Norwegian Shelf area of the North Sea. Currently, gas from this field is being re-injected to increase the rate of oil recovery. E.ON Ruhrgas Norge obtained 1.6 million barrels of oil as a result of its stake in 2004 which were sold on the market. The field is currently expected to begin producing gas for sale in 2007.

Russia. In July 2004, E.ON and Gazprom signed a Memorandum of Understanding for a deepened strategic cooperation between the parties, including in the area of gas production in Russia. For more details, see History and Development of the Company Other Significant Events.

Liquefied Natural Gas

Liquefied natural gas (LNG), which is liquefied in the gas producing country, transported by tanker and then converted back into gas at the receiving terminal, is an alternative to gas deliveries by pipeline. E.ON Ruhrgas has a majority shareholding in Deutsche Flüssigerdgas Terminal Gesellschaft mbH, which owns property and the necessary permits to build an LNG landing terminal in Wilhelmshaven, Germany. Although LNG is not an attractive option for German purchases under current market conditions, E.ON Ruhrgas believes its interest in this company provides it with an option for diversifying into LNG purchases should costs associated with LNG fall. No assurances can be given, however, that such a terminal will be built.

Transmission System and Storage

E.ON Ruhrgas pipeline system is comprised of pipelines and transport compressor stations (together, the transmission system), as well as underground gas storage facilities (including storage compressor stations) owned by E.ON Ruhrgas, those co-owned directly by E.ON Ruhrgas and other gas companies, and those owned by project companies in which E.ON Ruhrgas holds an interest.

Project companies are entities E.ON Ruhrgas has set up with German or European gas companies for a special purpose, such as establishing a pipeline connection between two countries or building and operating

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underground gas storage facilities. The following table provides more information on the E.ON Ruhrgas share in each of its German project companies as of December 31, 2004:

Project Company	E.ON Ruhrgas Share %
DEUDAN (DEUDAN Deutsch/ Dänische Erdgastransport-Gesellschaft mbH & Co. KG)	25.0
EGL (Etzel Gas-Lager Statoil Deutschland GmbH & Co)	74.8
GHG (GHG-Gasspeicher Hannnover Gesellschaft mbH)	13.2
MEGAL (MEGAL GmbH Mittel-Europäische-Gasleitungsgesellschaft)	50.0
METG (Mittelrheinische Erdgastransportleitungsgesellschaft mbH)(1)	100.0
NETG (Nordrheinische Erdgastransportleitungsgesellschaft mbH & Co. KG)	50.0
NETRA (NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG)	41.7
TENP (Trans Europa Naturgas Pipeline GmbH)	51.0

(1) As of January 1, 2004, the wholly-owned project company Süddeutsche Erdgas Transport Gesellschaft mbH (SETG) was merged into METG.

The E.ON Ruhrgas pipeline system is operated by E.ON Ruhrgas, its wholly-owned subsidiary E.ON Ruhrgas Transport and its project companies, and monitored and maintained largely by E.ON Ruhrgas. The transmission system is used to transport the gas that E.ON Ruhrgas and third party customers receive from suppliers at gas import points on the German border or at other supply points within Germany to customers or to storage facilities for later use.

In fulfillment of one of the requirements of the ministerial approval authorizing E.ON s acquisition of Ruhrgas, the transmission system has been leased out to E.ON Ruhrgas Transport together with all transmission rights and rights of beneficial use that E.ON Ruhrgas possesses in respect of third party transmission systems in Germany. For more information on E.ON Ruhrgas Transport, see E.ON Ruhrgas Transport below.

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The following map shows the pipelines as well as the location of compressor stations, gas storage facilities and field stations of the E.ON Ruhrgas pipeline system:

E.ON Ruhrgas Pipeline System

As shown in the map above, the E.ON Ruhrgas pipeline system is located primarily in western Germany, the historical center of E.ON Ruhrgas operations.

Pipelines. As of the end of 2004, E.ON Ruhrgas owned gas pipelines totaling 6,456 km and co-owned gas pipelines totaling 1,550 km with other companies. In addition, German project companies in which E.ON Ruhrgas holds an interest owned gas pipelines totaling 3,274 km at the end of 2004.

The following table provides more information on E.ON Ruhrgas pipelines in Germany as of December 31, 2004:

Pipelines	Total km	Maintained by E.ON Ruhrgas km
Owned by E.ON Ruhrgas	6,456	6,185
Co-owned pipelines	1,550	605
DEUDAN (PC)	110	0
EGL (PC)	67	67
MEGAL (PC)	1,080	1,080
METG (PC)	425	425
NETG (PC)	285	144
NETRA (PC)	341	106
TENP (PC)	966	966
Companies in which E.ON Ruhrgas holds a stake through its subsidiaries ERI and Thüga		2,015
Owned by third parties		1,072
Total in Germany	11,280	12,665

(PC) project company

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E.ON Ruhrgas share in the use of any particular pipeline it does not wholly own is determined by contract and is not necessarily related to E.ON Ruhrgas interest in the pipeline. E.ON Ruhrgas pipeline network is comprised of pipeline sections of varying diameters originally built according to the estimated capacity needed for the relevant section of the system. Currently, the pipeline network comprises 2,029 km of pipelines with a diameter of less than or equal to 300 millimeters, 3,029 km of pipelines with a diameter of more than 300 and less than or equal to 600 millimeters, 2,918 km of pipelines with a diameter of more than 600 and less than or equal to 900 millimeters, and 3,304 km of pipelines with a diameter of more than 900 and less than or equal to 1,200 millimeters.

In 2004, E.ON Ruhrgas maintained 6,185 km of its own pipelines, 605 km of co-owned pipelines, 1,072 km of pipelines owned by third parties and 2,015 km of pipelines owned by companies in which E.ON Ruhrgas holds a stake through its subsidiaries ERI and Thüga, as well as 2,788 km of pipelines owned by project companies in which E.ON Ruhrgas holds an interest. In total, E.ON Ruhrgas maintained (including providing local monitoring) 12,665 km of pipelines in 2004. For information on pipeline monitoring and maintenance, see Monitoring and Maintenance below.

In addition to its German transmission system, E.ON Ruhrgas has a 10.0 percent interest in Interconnector, a U.K. project company that owns the Interconnector transmission system, comprising a 235 km undersea gas pipeline from the United Kingdom to Belgium and a transport compressor station at Bacton (four units with a total installed capacity of approximately 112 MW). In December 2004, E.ON Ruhrgas made use of its right of first refusal to purchase an additional 4.0 percent interest in Interconnector from another shareholder. The transaction is expected to close in the first quarter of 2005. In July 2004, E.ON Ruhrgas acquired a 20.0 percent interest in BBL Company V.O.F., a Dutch project company founded in July 2004, which is building a second undersea transmission system between continental Europe and the United Kingdom. Construction on this transmission system, which is expected to link Balgzand in the Netherlands to Bacton in the United Kingdom, began in December 2004. E.ON Ruhrgas also owns a 3.0 percent interest in the Swiss project company Transitgas AG, which owns the Transitgas transmission system, running through Switzerland from Wallbach on the Swiss-German border and Rodersdorf on the French-Swiss border to Griespass on the Swiss-Italian border. The Transitgas system comprises pipelines totaling 293 km and one transport compressor station at Ruswil (four units with a total installed capacity of approximately 60 MW).

Compressor Stations. Compressor stations are used to produce the pressure necessary to transport gas through pipelines and to inject gas into underground storage facilities. E.ON Ruhrgas owns or co-owns 15 compressor stations, nine operating for gas transportation purposes (with a total installed capacity of 305 MW), and six for gas storage purposes (with a total installed capacity of 79 MW). Project companies in which E.ON Ruhrgas holds an interest own an additional 16 transport compressor stations with a total installed capacity of 516 MW and two storage compressor stations with a total installed capacity of 17 MW. In 2004, E.ON Ruhrgas provided monitoring and maintenance services under service contracts for the nine transport compressor stations leased out to E.ON Ruhrgas Transport and 12 transport compressor stations of the project companies. E.ON Ruhrgas also operated, monitored and maintained its six compressor stations operating for gas storage purposes. The current installed capacity of the compressor stations monitored and maintained by E.ON Ruhrgas totals 833 MW.

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The following table provides more information about E.ON Ruhrgas and its project companies gas compressor stations in Germany as of December 31, 2004:

Owned by	Compressor Stations	Compressor Units	Total Installed Capacity MW	Compressor Units Monitored and Maintained by E.ON Ruhrgas	Installed Capacity of Compressor Units Monitored and Maintained by E.ON Ruhrgas MW
E.ON Ruhrgas (transportation and storage)	15	44	384	44	384
DEUDAN (PC) (transportation)	2	4	16	0	0
EGL (PC) (storage)	1	2	13	0	0
GHG Hannover (PC) (storage)	1	3	4	0	0
MEGAL (PC) (transportation)	5	17	179	17	179
METG (PC) (transportation)	2	9	99	9	99
NETG (PC) (transportation)	2	5	50	2	20
NETRA (PC) (transportation)	1	2	21	0	0
TENP (PC) (transportation)	4	15	151	15	151
Total in Germany	33	101	917	87	833

(PC) project company

Due to the complexity of the transmission system together with transmission rights and rights of beneficial use, as well as the number and complexity of factors influencing pipeline utilization, such as temperature, the volume of gas transported and the availability of compressor units, no meaningful data on the utilization of the transmission system is available. E.ON Ruhrgas had sufficient pipeline capacity in prior years and booked sufficient pipeline capacity in 2004. E.ON Ruhrgas believes that a shortage of pipeline capacity is not a material risk in the foreseeable future.

Storage. Underground gas storage facilities are generally used to balance gas supplies and heavily fluctuating demand patterns. For example, the gas send out by E.ON Ruhrgas on a cold winter day is approximately four to five times as high as that on a hot summer day, while the flow of gas produced and purchased is much more constant. For this reason, E.ON Ruhrgas injects gas into storage facilities during warm weather periods and withdraws it in cold weather periods to cope with peak demand. E.ON Ruhrgas stores gas in large underground gas storage facilities, which are located in porous rock formations (depleted gas fields or aquifer horizons) or in salt caverns. Underground gas storage facilities consist of an underground section (cavity or porous rock and wells) and an above-ground part,

especially the storage compressor station. As of the end of 2004, E.ON Ruhrgas owned five storage facilities, co-owned another two storage facilities and leased capacity in three storage facilities in order to meet its gas storage requirements. In addition, E.ON Ruhrgas had storage capacity available through two project companies in which it is a shareholder. Through these owned, co-owned, leased and project company storage facilities a working gas storage capacity of approximately 5.2 billion m^3 was available to E.ON Ruhrgas in 2004. Due to the number and complexity of factors influencing storage utilization, particularly temperature and the terms of supply and delivery contracts, E.ON Ruhrgas does not consider data on the utilization of gas storage capacity to be meaningful. E.ON Ruhrgas had sufficient storage capacity available both in 2004 and in prior years and does not consider a shortage of gas storage capacity to be a material risk in the foreseeable future. However, depending on a number of factors such as future gas send out, E.ON Ruhrgas gas supply and delivery situation and further gas sales potential in the United Kingdom, E.ON Ruhrgas intends to increase working gas capacity by enlarging existing storage facilities, building new facilities and by leasing

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additional gas storage capacity in the future. The following table provides more information about E.ON Ruhrgas underground gas storage facilities, all of which are situated in Germany, as of December 31, 2004:

Underground Storage Facilities	E.ON Ruhrgas Share in Working Capacity million m^3	E.ON Ruhrgas Share in Maximum Withdrawal Rate thousand m^3/hour	Owned by	E.ON Ruhrgas Share in Storage Facility or in the Project Company %	Operated by E.ON Ruhrgas
Bierwang(P)	1,300	1,200	E.ON Ruhrgas	100.0	Yes
Empelde(C)	19	39	GHG-Gasspeicher Hannover Gesellschaft mbH (PC)	13.2	
Epe(C)	1,661	2,450	E.ON Ruhrgas	100.0	Yes
Eschenfelden(P)	48	87	E.ON Ruhrgas/N-ERGIE AG	66.7	Yes
Etzel(C)	387	987	Etzel Gas-Lager Statoil Deutschland GmbH & Co(PC)	74.8	
Hähnlein(P)	80	100	E.ON Ruhrgas	100.0	Yes
Krummhörn(C)(1)	0	0	E.ON Ruhrgas	100.0	Yes
Sandhausen(P)	15	23	E.ON Ruhrgas/Gasversorgung Süddeutschland GmbH	50.0	Yes
Stockstadt(P)	135	135	E.ON Ruhrgas	100.0	Yes
Breitbrunn(P)	965(2)	520	RWE Dea AG/ ExxonMobil Gasspeicher Deutschland GmbH(3)/ E.ON Ruhrgas (4)	Leased(3)	Yes(4)
Inzenham-West(P)	500	300	RWE Dea AG	Leased	
Nüttermoor(C)	97	100	EWE AG	Leased	
Total	5,207	5,941			

(C) salt cavern
(P) porous rock

(PC) project company
(1) Currently out of service for repairs/adjustments.

(2) 900 million m^3 was contractually guaranteed in 2004; 965 million m^3 is the current working gas capacity available to E.ON Ruhrgas.

(3) Underground section.

(4) Above ground part, particularly the storage compressor station.

Monitoring and Maintenance. In 2004, E.ON Ruhrgas carried out for itself and under service contracts for E.ON Ruhrgas Transport and some of the project companies E.ON Ruhrgas holds an interest in, monitoring and maintenance services for almost all of the E.ON Ruhrgas pipeline system.

Pipeline system monitoring operations are centered at E.ON Ruhrgas dispatching facility in Essen. Among other tasks, the center keeps the pipeline system under continual surveillance, handles all reports of disturbances in the system and arranges for the necessary response to any disturbance report. In 2004, E.ON Ruhrgas performed this kind of system monitoring for about 12,550 km of pipelines, 21 transport compressor stations, one storage compressor station and seven underground storage facilities. Management of operations, general maintenance (including local monitoring) and trouble shooting are handled by the E.ON Ruhrgas field stations and facilities located along the network. E.ON Ruhrgas also deploys mobile units from these stations and facilities to carry out maintenance and repair work. For certain sections of pipelines, primarily those where no

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field station or facility is located nearby, maintenance (including local monitoring) is performed by third parties under service contracts. E.ON Ruhrgas dispatching, monitoring and maintenance processes are regularly certified under International Standards Organization (ISO) 9001:2000 (quality management), ISO 14001 (environmental management), OHSAS 18001, an Occupational Health and Safety Assessment Series for health and safety management systems (work safety management) and TSM, the Technical Safety Management rules of DVGW (German Association of Gas and Water Engineers). DVGW is a self-regulatory body for the gas and water industries, its technical rules serving as a basis for ensuring safety and reliability of German gas and water supplies.

E.ON Ruhrgas Transport. On January 1, 2004, in fulfillment of one of the requirements of the ministerial approval authorizing E.ON s acquisition of Ruhrgas, E.ON Ruhrgas transferred its gas transmission business to a new subsidiary, E.ON Ruhrgas Transport. E.ON Ruhrgas Transport has sole responsibility for the gas transmission business, including technical responsibility for the transmission system, and functions independently of E.ON Ruhrgas sales business, which is a customer of E.ON Ruhrgas Transport. As the transmission system operator, E.ON Ruhrgas Transport operates and controls the E.ON Ruhrgas transmission system and handles all major functions needed for an independent gas transmission business: transmissions management, transportation contracts (including access fees), shipper relations, planning, controlling and billing. E.ON Ruhrgas Transport obtains certain support services from E.ON Ruhrgas AG under service agreements.

On November 1, 2004, E.ON Ruhrgas Transport introduced an entry/exit model for access to the E.ON Ruhrgas gas transmission system as a result of an agreement reached with the Competition Directorate-General of the European Commission (the Competition Directorate) with respect to a matter that had been pending before the Competition Directorate. The E.ON Ruhrgas Transport entry/exit system enables customers to book entry and exit capacities for the transmission of gas separately, in different amounts and at different times. Booked capacities can be transferred at short notice and combined with capacities of other customers of E.ON Ruhrgas Transport. The fee structure is simple and applies to five zones into which the transmission system of E.ON Ruhrgas has been divided. The level of transmission fees is determined by reference to European markets and pipeline-to-pipeline competition in Germany. Customers also benefit from the introduction of local exit zones within which they can use capacities flexibly. According to the agreement reached with the Competition Directorate, E.ON Ruhrgas will reduce the number of fee zones to four in 2006, unless the company is able to demonstrate that technical, qualitative, economic or other reasons make such reduction of zones impossible.

Partly as a result of the agreement reached with the Competition Directorate, E.ON Ruhrgas Transport made a number of improvements in its transmission business in 2004. For example, E.ON Ruhrgas Transport now offers customers which want to transport gas through the transmission systems of other gas companies one-stop transmission management, which means that the customers have a single point of contact, and has implemented other improvements such as enhanced online communications and simplified contract procedures. Since July 1, 2004, E.ON Ruhrgas has been publishing comprehensive technical data on its transmission system and on available gas transmission capacities.

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Sales

Germany. E.ON Ruhrgas was the largest distributor of natural gas in Germany in 2004, selling a total volume of 553.8 billion kWh of gas. E.ON Ruhrgas also sold 87.6 billion kWh of gas outside of Germany in 2004. The following map illustrates the sales area of E.ON Ruhrgas in Germany:

E.ON Ruhrgas sells gas to regional and supraregional distributors, municipal utilities and industrial customers. The following table sets forth information on the sale of gas by E.ON Ruhrgas sales business in Germany for the periods presented:

Sale of Gas to:	Total 2004 billion kWh	%	Total 2003 billion kWh	%	February-December 2003 billion kWh	%
Distributors	328.7	59.3	326.7	59.2	282.0	59.1
Municipal utilities	156.1	28.2	159.5	28.9	136.3	28.5
Industrial customers	69.0	12.5	66.0	11.9	59.3	12.4
Total	553.8	100.0	552.2	100.0	477.6	100.0

In the table above, sales volumes are presented for all periods excluding amounts sold under location swaps, as well as relatively minimal amounts of gas that E.ON Ruhrgas does not consider part of its primary sales business, including volumes handled for third parties. In addition, these gas volumes do not include gas volumes attributable to ERI or Thüga.

E.ON Ruhrgas sales contracts vary depending on the type of customer. The majority of E.ON Ruhrgas customers are distributors and municipal utilities. As is typical in the industry, sales contracts for these customers generally have longer terms, while sales contracts with industrial customers are shorter, typically having terms between one and five years. Price terms in all types of supply contracts are generally pegged to the price of competing fuels, primarily gas oil or heavy fuel oil, and provide for automatic quarterly price adjustments based on fluctuations in underlying fuel prices. In addition, medium- and long-term contracts, with terms of over two years, usually contain clauses that enable the parties to review prices and price formulas at regular intervals (usually every one to four years) and to negotiate adjustments in accordance with changed market conditions. Contracts for industrial customers generally provide for some form of take or pay obligation, usually in an amount of 50 to 90 percent of the overall annual contract volume. Contracts with distributors and municipal utilities generally do not include fixed take or pay provisions.

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Two requirements of the ministerial approval approving E.ON s acquisition of E.ON Ruhrgas relate to gas sales contracts. First, customers which purchase more than 50 percent of their gas from E.ON Ruhrgas have had the option, since October 2003, of reducing the volume of gas they purchase from E.ON Ruhrgas to 80 percent of the contracted amounts for the remaining term of the relevant contract. Most customers decided not to exercise this option for the gas year ending September 30, 2005, having selected instead revised pricing and delivery terms, including delivery periods, for the 20 percent of contracted gas volumes they were able to terminate (thereby postponing any subsequent exercise of their termination option for one year). Second, two larger regional distributor customers in which E.ON Ruhrgas previously held an interest (Bayerngas and swb) were granted the right to a staged termination of their contracts over a three-year period, beginning in July 2004. To date, one of the parties has elected not to terminate the contract for the first year, with the effect that its termination rights can now be exercised as of October 1, 2005, 2006 and 2007, while the other has decided to sign a new contract with E.ON Ruhrgas without reducing the contracted volumes.

In 2004, gas prices in Germany rose, due primarily to a rise in the price of oil. Competition in the German gas industry has increased in recent years, and E.ON Ruhrgas has in certain cases responded to competitive pressure by re-negotiating the terms of sales contracts with major customers. See also Competitive Environment.

International. In 2004, E.ON Ruhrgas delivered 87.6 billion kWh of gas to customers in other European countries, or 13.7 percent of the total volume of gas sold by E.ON Ruhrgas, compared with 56.9 billion kWh or 10.6 percent in the period from February to December 2003. The primary destinations for E.ON Ruhrgas external sales are Switzerland and the United Kingdom, with the remainder of its exports going to customers in Austria, Hungary, Liechtenstein, Poland, Sweden, France, Denmark, Italy and the Benelux countries. E.ON Ruhrgas external sales are primarily made pursuant to long-term supply contracts similar to those it has with domestic distributors. In October 2004, E.ON Ruhrgas began supplying natural gas to E.ON UK pursuant to a long-term supply contract between the parties. E.ON Ruhrgas has also entered into a long-term gas supply contract with Sydkraft which will take effect in October 2005. See also U.K. Energy Wholesale Energy Trading and Nordic Gas Supply. Limitations on availa gas transportation capacity across the relevant borders may restrict E.ON Ruhrgas ability to expand its external sales business to certain countries.

Downstream Shareholdings

E.ON Ruhrgas owns numerous shareholdings in integrated gas companies, gas distribution companies and municipal utilities through its subsidiaries ERI and Thüga. Thüga was transferred from E.ON Energie to E.ON Ruhrgas at the end of 2003 as part of E.ON s on.top project. For more information, including information on shareholdings ERI transferred to E.ON Energie as part of the on.top project, see History and Development of the Company Group Strategy On.top.

ERI holds primarily minority shareholdings in both German and other European integrated gas companies, regional gas distribution companies and municipal gas utilities, while Thüga holds primarily minority shareholdings in about 100 regional and municipal electricity and gas utilities in Germany, as well as majority and minority shareholdings in a number of Italian gas distribution and sales companies and one Italian municipal utility. Beginning in May 2004, as part of an internal restructuring to create a more focused structure within E.ON Ruhrgas, ERI transferred its shareholdings in 12 German municipal utilities to Thüga. ERI plans to transfer its remaining three shareholdings in German municipal utilities to Thüga in 2005. In addition, ERI transferred its 10.0 percent interest in Thüga to E.ON Ruhrgas Thüga Holding GmbH (Thüga Holding), the holding company through which E.ON Ruhrgas holds its interest in Thüga. In the future, E.ON Ruhrgas expects ERI to focus primarily on international shareholdings and interests in German regional distributors, while Thüga will focus on domestic utilities and Italian shareholdings.

ERI: As of December 31, 2004, ERI s portfolio of shareholdings included primarily minority stakes in 6 domestic and 17 foreign companies. In 2004, ERI (including its fully consolidated shareholdings) contributed sales of 544.5 million (approximately 4.7 percent of E.ON Ruhrgas total sales, excluding natural gas and electricity taxes) and had sales volumes of 30.1 billion kWh in 2004 (2003: 30.1 billion kWh).

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In addition to the on.top and internal restructuring transfers described above, ERI entered into the following transactions in 2004:

In May 2004, ERI and E.ON Energie started to simplify the shareholder structure of Avacon: ERI transferred its 39.0 percent stake in Ferngas Salzgitter, which had a 16.43 percent interest in Avacon, and its 45.0 percent stake in FSG Holding, which had a 25.0 percent stake in Ferngas Salzgitter, to E.ON Energie. For additional details, see Central Europe Overview.

In May 2004, ERI acquired a 40.13 percent interest in the Slovakian company Nafta a.s. from RWE Gas AG and as part of a compulsory tender offer following this purchase acquired a further 0.14 percent of Nafta a.s.

In August 2004, ERI acquired the remaining 25.0 percent of therminvest Sp.z o.o. (therminvest) from EWFE G.S. and now owns 100 percent of therminvest.

In October 2004, as part of the privatization of the Lithanian gas distributor AB Lietuvos Dujos, ERI participated in a capital increase. As a result, ERI s shareholding in AB Lietuvos Dujos increased by 3.21 percent to 38.91 percent.

In November 2004, the gas trading business of Nova Naturgas AB (Nova Naturgas), in which ERI has a 29.59 percent interest, was sold to the Danish gas company DONG.

In November 2004, ERI signed contracts to acquire shareholdings in certain businesses of the Hungarian gas company MOL. For details, see Overview.

During the second half of 2004, ERI increased its shareholding in the Polish district heating company Szczencinska Energetyke Cieplna Sp.z o.o. (SECS) by 5.76 percent to 32.0 percent through the acquisition of employee shares.

Germany. As of December 31, 2004, ERI held interests in the following operating companies, which are primarily gas distributors and municipal utilities:

Shareholding	Share held by ERI %
Ferngas Nordbayern GmbH(1)	53.10
Gas-Union GmbH(1)	25.93
Saar Ferngas AG(1)	20.00
HEAG Südhessische Energie AG (HSE)(2)	21.21
EWR GmbH(2)	20.00
Stadtwerke Neuss Energie und Wasser GmbH(2)	15.00

(1) Interest held via ERI s fully-owned subsidiary RGE Holding GmbH.

(2) As part of the internal restructuring described above, these shareholdings in municipal utilities are expected to be transferred to Thüga in 2005.

ERI holds some stakes in companies which are customers of E.ON Ruhrgas. Other German gas companies also hold interests in certain of these companies.

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International. As of December 31, 2004, ERI held interests in the following operating companies in countries outside of Germany, primarily in central Europe and the Nordic region:

Shareholding	Share held by ERI %
Gasnor AS, Norway	14.00
Nova Naturgas AB, Sweden	29.59
Gasum Oy, Finland	20.00
AS Eesti Gaas, Estonia	33.66
JSC Latvijas Gaze, Latvia	47.23
AB Lietuvos Dujos, Lithuania	38.91
therminvest Sp.z o.o., Poland	100.00
Inwestycyjna Spolka Energetyczna Sp.z o.o. (IRB), Poland	50.00
Szczencinska Energetyka Cieplna Sp.z o.o. (SECS), Poland	32.00
EUROPGAS a.s., Czech Republic(1)	50.00
Colonia-Cluj-Napoca-Energie S.R.L. (CCNE), Romania	33.33
E.ON Ruhrgas Mittel- und Osteuropa GmbH(2)	100.0
Nafta a.s., Slovakia	40.27
S.C. Congaz S.A., Romania	28.59
Ekopur d.o.o., Slovenia(3)	100.00
SOTEG Société de Transport de Gaz S.A., Luxembourg	20.00
CICG Holding S.A., Switzerland	4.00

(1) EUROPGAS a.s. holds 50.0 percent of SPP Bohemia a.s. and an indirect interest of 48.18 percent of Moravské naftové doly a.s. (MND) in the Czech Republic.

(2) The shareholding was transferred from E.ON Ruhrgas to ERI with effect from December 31, 2004, midnight. E.ON Ruhrgas Mittel- und Osteuropa GmbH has an indirect interest of 24.50 percent in SPP, Slovakia.

(3) Ekopur d.o.o. holds 6.52 percent of Geoplin d.o.o. in Slovenia.

As with its German shareholdings, ERI holds some stakes in companies which are customers of E.ON Ruhrgas.

Thüga: Thüga holds primarily minority shareholdings in about 100 regional and municipal electricity and gas utilities in Germany, as well as majority and minority shareholdings in 26 Italian gas distribution and sales companies and one Italian municipal utility. Through its 22 majority-owned shareholdings in gas distributors, Thüga supplied natural gas to approximately 550,000 end customers in Italy in 2004, primarily in the regions of Lombardy, Emilia Romagna, Veneto and Friuli. With respect to its minority shareholdings, Thüga is an active shareholder, offering operational competence as well as other services. In 2004, Thüga contributed sales of 813.0 million (approximately 7.1 percent of E.ON Ruhrgas total sales, excluding natural gas and electricity taxes). Thüga increased its gas sales volumes by 28.2 percent to 20.9 billion kWh in 2004 from 16.3 billion kWh in 2003, primarily as a result of the inclusion of new Italian businesses.

In May 2004, E.ON AG completed a squeeze out procedure which resulted in the acquisition by E.ON AG of the remaining 3.4 percent of Thüga held by minority shareholders and the delisting of Thüga. In November 2004, E.ON AG transferred this 3.4 percent interest to Thüga Holding so that as of December 31, 2004, Thüga Holding held 81.1 percent of Thüga and E.ON Energie, through its subsidiary CONTIGAS Deutsche Energie-AG (CONTIGAS), held the remaining 18.9 percent.

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In addition to the on.top and internal restructuring transfers described above, Thüga was involved in the following transactions in 2004:

In January 2004, as part of a lease agreement, Thüga transferred its electricity supply operations in parts of Bavaria to E.ON Bayern with effect from January 1, 2004.

In April 2004, Thüga acquired 100 percent of the Italian gas distribution and sales companies Metanifera Prealpina S.r.l. and Metanifera Prealpina com S.r.l., which together serve nearly 30,000 gas customers in Italy.

In May 2004, Thüga acquired 100 percent of the Italian gas distributor Fin.Vicu-Group, which serves approximately 100,000 gas customers in Italy.

In June 2004, Thüga acquired a 19.9 percent stake in the Udine-based Italian municipal utility AMGA Azienda Multiservizi S.p.A., which serves approximately 90,000 gas customers in Italy.

In June 2004, Thüga acquired the remaining 25.0 percent stake in Delta Gas S.r.l., an Italian gas distribution company, and now holds all of the shares of this company.

In December 2004, Thüga sold its 15.05 percent stake in MVV to EnBW as a result of an agreement between E.ON AG and EnBW.

During 2004, Thüga transferred its shareholdings in the following five Thuringian municipal utilities to the German distributor TEAG, a majority shareholding of E.ON Energie: Energieversorgung Apolda GmbH (25.1 percent), Energieversorgung Greiz GmbH (24.5 percent), Energieversorgung Nordhausen GmbH (27.9 percent), Energiewerke Zeulenroda GmbH (24.5 percent) and Stadtwerke Weimar Stadtversorgungs-GmbH (25.1 percent).

Other

Ruhrgas Industries: E.ON Ruhrgas industrial activities are held by Ruhrgas Industries. These activities are divided into the metering and industrial furnaces businesses. In 2004, the revenues of Ruhrgas Industries were 1.2 billion, or 8.3 percent of the total revenues of E.ON Ruhrgas. Ruhrgas Industries has subsidiaries in more than 30 countries worldwide.

Ruhrgas Industries does not form part of E.ON Ruhrgas core gas business. Management has therefore decided to actively pursue the disposal of these operations during the course of 2005, subject to market conditions.

Metering. The metering business comprises two divisions: gas measurement and control, and electricity and water metering. Activities in gas measurement and control are conducted by G. Kromschröder AG, Elster GmbH, American Meter Company, Instromet International N.V. and their respective subsidiaries. Products include gas meters and regulators for household use, industrial purposes and bulk metering in the supply, transmission and production of gas. In addition, safety and control systems and components are produced for the water heater market and for uses related to process heating. In the area of electricity and water meters, the Elster Metering Group produces electricity and water meters for households, utilities and industrial customers. The main companies of the Elster Metering Group are Elster Electricity LLC, Elster Metering Ltd., AMCo Water Metering Systems Inc., Elster Messtechnik GmbH, Elster Iberconta S.A. and Elster Medidores S.A. Ruhrgas Industries electricity and water meters business was partly acquired from ABB in December 2002 and has been consolidated within E.ON Ruhrgas as of this date. An additional seven units were transferred to Ruhrgas Industries during the course of 2003 and 2004. The main competitors of the metering division are Actaris, Badger, General Electric, Emerson Process Management, Landis & Gyr, Itron, Neptune and Sensus. Sales of the metering division totaled 956.3 million in 2004.

Industrial Furnaces. The companies in the industrial furnaces division produce large industrial furnaces for heating, heat-treating and melting steel and non-ferrous metals, as well as plants for heat treatment of parts and

components using controlled atmosphere and vacuum technology. The main companies in the division are LOI Thermprocess GmbH and Ipsen International GmbH. The main competitors of the industrial furnaces

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division are Techint-Italimpianti, Chugai Ro, Ebner, Stein Heurtey and Aichelin. Sales of the industrial furnaces division totaled 248.0 million in 2004.

Competitive Environment

Along with oil and lignite/ hard coal, natural gas is one of the three primary sources of energy used in Germany. Gas is currently used for a little more than 20 percent of Germany s energy consumption and satisfies about a third of the energy demand of the German industrial and commercial/residential sectors. Competing sources of energy include electricity and coal in all sectors, gas oil and district heating in the commercial/ residential sector and gas oil and heavy fuel oil in the industrial sector. Natural gas is also used, but to a more limited extent, as an energy source for power stations. Since the 1970s, natural gas has made particular gains in the residential space heating market, where it is marketed as a modern and environmentally-friendly energy source for heating homes. At year-end 2004, approximately 47 percent of German homes were heated using gas, making gas the leading energy source for this market. In 2004, gas was chosen as the heating method for approximately 75 percent of new homes under construction.

The German gas market has always been characterized by competition. Approximately 18 independent companies are active in the regional and supraregional distribution of gas. Competition has increased since the early 1990s, when Wingas entered the gas transmission market by building its own pipeline infrastructure. Wingas pipeline network currently has a length of more than 2,000 km, compared with the E.ON Ruhrgas pipeline network length of over 11,000 km. The market entry of Wingas has led to increased price competition not only in areas close to the Wingas system, but all over Germany.

Within the German gas market, E.ON Ruhrgas competes with domestic and foreign gas companies, the gas subsidiaries of oil producers and pure trading companies. Major domestic competitors include RWE Energy, Shell and ExxonMobil as successors of the former BEB sales division, VNG and Wingas, while foreign competitors include Gaz de France, BP Energie, Econgas, Ecoswitch, Essent and Nuon. E.ON Ruhrgas currently enjoys a strong market position, supplying approximately 57 percent of all gas consumed in Germany in 2003. Nevertheless, E.ON Ruhrgas considers competition in the German gas market to be vigorous, with both new and established competitors vying for the business of E.ON Ruhrgas direct and indirect customers. This is partly due to the association agreements that currently determine the rules of negotiated third party access, which have intensified competition by facilitating market entry for third parties. Third party access has developed dynamically since 2000 when the first association agreement was signed. E.ON Ruhrgas believes it was able to successfully compete in 2004 by remaining flexible in its contract and price negotiations and by offering attractive terms and services to its established and potential customers. Due to likely increasing competition in the transmission business in Germany, however, E.ON Ruhrgas Transport may not be able to renew some of its existing transportation contracts when they expire, or to gain new contracts. This may have the effect of leaving E.ON Ruhrgas Transport with excess transmission capacity.

Gas prices in gas supply contracts are mostly linked to prices for gas oil or heavy fuel oil. The prices for end consumers fluctuate according to oil price developments as well, thereby maintaining competitive prices compared to oil products independent of oil price level. Gas prices in Germany are also affected by applicable taxes on fossil fuels. In Germany, customers in the commercial/residential sector pay gas prices that include at least 0.67 cent/kWh in duties and taxes, while industrial customers pay up to 0.47 cent/kWh in duties and taxes. In 2004, global energy prices rose significantly, though natural gas prices rose less steeply than oil prices. Like other gas companies, E.ON Ruhrgas adjusted its sales prices in 2004 to reflect the higher price levels. In addition, rising oil prices led to further gas price increases as of the beginning of 2005, and more increases are expected in 2005 due to the price linkage between oil and gas. For information on investigations of gas prices charged by some German utilities, including utilities in which E.ON Ruhrgas and E.ON Energie hold interests, see Item 3. Key Information Risk Factors.

The ministerial approval required for E.ON s acquisition of Ruhrgas contained certain requirements intended to promote competition in the German gas market. For more information about these requirements and actions taken by E.ON Ruhrgas, see History and Development of the Company Ruhrgas Acquisition. In connection with an agreement reached with the Competition Directorate-General of the European Commission,

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E.ON Ruhrgas also introduced an entry/exit model for third party access to its gas transmission system in November 2004. For details, see Transmission System and Storage E.ON Ruhrgas Transport. In E.ON Ruhrgas opinion, these requirements and actions have had a considerable influence on the competitive environment in Germany. In addition, the Second Gas Directive and national gas legislation being proposed to implement the Second Gas Directive may change competition in the gas industry. See Regulatory Environment. E.ON Ruhrgas cannot currently predict the form and extent of those changes, or whether the proposed changes will have a negative effect on E.ON Ruhrgas ability to compete and results of operations. See also Item 3. Key Information Risk Factors.

Outside Germany, the gas markets in which E.ON Ruhrgas operates are also subject to strong competition. The Company cannot guarantee it will be able to compete successfully in the gas markets in which it is already present or in new gas markets E.ON Ruhrgas may enter.

Research and Development

In 2004, E.ON Ruhrgas spent 42 million on research and development (R&D) activities. As a percentage of sales, R&D expenditures for E.ON Ruhrgas were 0.3 percent in 2004, compared with 0.3 percent for the eleven month period ended December 31, 2003. E.ON Ruhrgas R&D efforts are focused on improving the operation and monitoring of its pipeline system, improving the competitive position of gas in its fields of application and opening up new market segments for gas. R&D at E.ON Ruhrgas is primarily conducted by each of the business units, which pursue projects according to their respective competitive goals and needs. In 2004, E.ON Ruhrgas continued work on high-resolution remote sensing techniques to increase automation and efficiency of pipeline monitoring and natural gas detection, including a project to install remote monitoring systems in helicopters. E.ON Ruhrgas also worked on a variety of other projects meeting its R&D objectives, such as improving gas measurement technology, developing low cost pipeline rehabilitation, developing tank technology for natural gas powered vehicles, testing gas fuel cell heaters, and developing gas applications for the plastics processing industry. E.ON Ruhrgas employed approximately 400 people in R&D activities in 2004.

U.K.

Overview

The U.K. market unit is led by E.ON UK (formerly Powergen). E.ON UK, a wholly-owned subsidiary of E.ON, is an integrated energy company with its principal operations focused in the United Kingdom. E.ON completed its acquisition of the Powergen Group on July 1, 2002, and has, since the acquisition, managed its operations as a separate market unit. For additional information on E.ON s acquisition of the Powergen Group, including the impairment charge recorded in 2002 in respect of the related goodwill, see History and Development of the Company Powergen Group Acquisition, Item 5. Operating and Financial Review and Prospects Results of Operations and Notes 4 and 11 a) to the Notes to Consolidated Financial Statements. In March 2003, E.ON transferred LG&E Energy (E.ON UK s former principal U.S. operating subsidiary) and its direct parent holding company to a direct subsidiary of E.ON AG. See U.S. Midwest. On July 5, 2004, Powergen was renamed E.ON UK and its industrial and commercial retail business was rebranded as E.ON Energy. E.ON UK continues to operate in the consumer and small and medium enterprise segment of the U.K. energy market under the Powergen brand.

E.ON UK is one of the leading integrated electricity and gas companies in the United Kingdom. It was formed as one of the four successor companies to the former Central Electricity Generating Board as part of the privatization of the electricity industry in the United Kingdom in 1989. In 1998, E.ON UK acquired East Midlands Electricity plc, an electricity distribution and supply company.

In October 2002, E.ON UK acquired the U.K. retail energy business of TXU Group (along with certain other assets) for 2.1 billion, net of 0.1 billion cash acquired. The acquisition of the TXU Group retail business has enabled E.ON UK to better balance its generation output with its mass market retail demand, thereby reducing exposure to wholesale price fluctuations.

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In January 2004, E.ON UK completed the acquisition of Midlands Electricity from Aquila Sterling Holdings LLC for 1.7 billion, net of 0.1 billion cash acquired. Aquila Sterling Holdings is a holding company owned by two U.S. energy companies, Aquila (which holds a majority interest) and FirstEnergy. The distribution network operated by Midlands Electricity covers a geographical area contiguous to that of E.ON UK s existing East Midlands distribution network. The Midlands Electricity network contains approximately 2.4 million customer connections which are supplied by E.ON UK s retail business or by other suppliers, and effectively doubles the size of E.ON UK s distribution business, which is now operated as a single business unit under the name Central Networks. E.ON UK also acquired a number of other businesses in the transaction. These include an electrical contracting operation and an electricity and gas metering business in the United Kingdom, as well as minority equity stakes in companies operating three generation plants located in the United Kingdom, Turkey and Pakistan (see Midlands Electricity Non-Distribution Assets below).

Operations

In the United Kingdom, electricity generated at power stations is delivered to consumers through an integrated transmission and distribution system. For information about the principal segments of the electricity industry, see Central Europe Operations. In the United Kingdom, E.ON UK and its associated companies are actively involved in electricity generation, distribution, retail and trading. All electricity transmission in England and Wales is operated by National Grid Transco plc (National Grid). As of December 31, 2004, E.ON U.K. owned or through joint ventures had an attributable interest in 9,265 MW of generation capacity, including 587 MW of CHP plants and 233 MW of operational wind and hydroelectric generation capacity.

E.ON UK also operates significant wholesale and retail gas businesses and engages in gas trading, as well as offering fixed line telephone services to its U.K. retail energy customers. The company served approximately 8.8 million customer accounts at December 31, 2004, including approximately 5.8 million electricity customer accounts, 2.8 million gas customer accounts, 0.1 million telephone customer accounts and 0.1 million industrial and commercial electricity and gas customer accounts. E.ON UK s Central Networks distribution business served 4.8 million customer connections as of the end of 2004.

The U.K. market unit comprises the non-regulated business, including energy wholesale (generation and energy trading) and retail, the regulated distribution business, and other activities, such as certain non-distribution assets and the E.ON UK corporate center. In 2004, electricity accounted for approximately 67 percent of E.ON UK s sales, gas revenues accounted for approximately 32 percent and other activities (including the fixed line telephone business) accounted for approximately 1 percent. In 2004, E.ON UK had total sales of 8.5 billion and adjusted EBIT of 1.0 billion.

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The following table sets forth the sources and sales channels of electric power in E.ON UK s operations during each of 2004 and 2003:

Sources of Power	Total 2004 million kWh	Total 2003 million kWh	% Change
Own production(1)	34,916	35,881	-2.7
Purchased power from power stations in which E.ON UK has an interest of 50 percent or less(1)	2,047	4,289	-52.3
Power purchased from other suppliers	47,087	53,622	-12.2
Power used for operating purposes, network losses and pump storage	(1,976)	(2,238)	+11.7
Net power supplied(2)	82,074	91,554	-10.4
Sales of Power			
Mass market sales (residential customers and small and medium sized enterprises)	36,189	37,450	-3.4
Industrial and commercial sales(3)	26,528	34,550	-23.2
Market sales	19,357	19,554	-1.0
Net power sold(2)	82,074	91,554	-10.4

(1) The decrease in power supplied by power stations in which E.ON UK has an interest of 50 percent or less is due to E.ON UK becoming the sole owner of the CDC power station in January 2004. This change also led to a corresponding increase in own production, partially offsetting the overall decrease in own production.

(2) Excluding proprietary trading volumes. For information on proprietary trading volumes, see Energy Trading.

(3) During 2004, the industrial and commercial sales business focused on securing profitable customers, which resulted in lower sales volumes in 2004 compared with 2003.

The following table sets forth the sources and sales channels of gas in E.ON UK s operations during each of the periods presented:

Sources of Gas	Total 2004 million kWh	Total 2003 million kWh	% Change
Long-term gas supply contracts	49,494	55,090	-10.2
Market purchases	126,400	115,581	+9.4
Total gas supplied(1)	175,894	170,671	+3.1

Sale and Use of Gas

Gas used for own generation	39,023	37,167	+5.0
Sales to industrial and commercial customers	35,946	35,611	+0.9
Sales to retail mass market customers	66,221	66,788	-0.8
Market sales	34,704	31,105	+11.6
Total gas used and sold(1)	175,894	170,671	+3.1

(1) Excluding proprietary trading volumes. For information on proprietary trading volumes, see Energy Trading.

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Market Environment

E.ON UK primarily operates in the electricity generation, gas shipping, electricity and gas trading and the electricity and gas retail energy markets in Great Britain (England, Wales and Scotland) and in the market for electricity distribution in England.

Electricity. National demand for electricity in England and Wales reported through the New Electricity Trading Arrangements (NETA) was 315 TWh for the twelve months ended December 31, 2004, compared with 305 TWh in 2003. In the medium term, E.ON UK expects electricity demand in the United Kingdom to grow by an average of between 1 to 2 percent per annum under normal weather conditions. It also expects a growing proportion of that demand to be met by smaller CHP and renewable source power stations embedded within local distribution networks.

The principal commercial features of the electricity industry in the United Kingdom in recent years have been increasing competition in supply through a principle of open access to the transmission and distribution systems. Suppliers are fr