



E.ON AG Press Conference

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Presentation by:

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Ladies and gentlemen, our financing power has been the subject of speculation—sometimes wild speculation—in recent weeks and months. Before I talk about our new finance strategy, I'd therefore like to take a moment to describe our current financial situation. In the past three years, our net financial position has improved due to divestments and the results of our activities. At year end 2006, our net debt was only €137 million (under IFRS). However, the net financial position doesn't adequately depict our debt situation. That's why last quarter we introduced a new financial key figure called "economic net debt," which includes our financial liabilities as well as provisions for pensions and asset-retirement obligations. At year end 2006, our economic net debt was €8.2 billion. Measured against E.ON's considerable earnings capacity, that's a low level of debt compared with other European energy utilities. But this also means, particularly in view of the anticipated further increase in our earnings capacity and our investment program, that we need to pay closer attention to our capital structure. Consequently, our package of initiatives includes, along with the three focus areas Wulf Bernotat just spoke about, a fourth focus area: **the active management of our capital structure.**

When we announced our takeover offer for Endesa last year, we defined "single A flat" as our target rating. From today's perspective, this still positions us very well compared with our competitors. The higher level of debt commensurate with a single A flat rating will optimize our capital costs. At the same time, we'll continue to have access to all the important capital markets and a high degree of financing security. For these reasons, we intend to retain single A flat as our target rating.

But a target rating alone isn't enough for the kind of active management of our capital structure we have in mind. That's why we're introducing a new steering metric called "debt factor," which is equal to the ratio between our economic net debt (which, as I mentioned, is €8.2 billion) and adjusted EBITDA. Our adjusted EBITDA for 2006 was €1.8 billion, resulting in a debt factor of 1.5.

In order to have a more efficient capital structure with a balanced debt-to-equity ratio, we've defined 3 as our target debt factor, which we aim to achieve by the end of 2008. I'd like to emphasize, however, that this isn't about quick fixes but above all about a sustained, long-term strategy.

We'll use the debt factor to continually monitor—and if necessary, optimize—our capital structure. And this means optimize in both directions:

- If our debt factor is substantially above 3, strict investment discipline will be called for. In the case of strategically important investments, we'd have to utilize alternative financing mechanisms in the form of portfolio measures or even capital increases.
- If it looks like our debt factor will fall substantially below 3, we'll return capital to our shareholders, for example through higher dividend payments or share buybacks, although our priority will always be value-enhancing investments.

That's how it works in principle. I'll now explain where we stand today.

As I said, our debt factor is currently 1.5. The significantly higher investments that Wulf Bernotat just spoke about will significantly increase our net debt. But the expansion of our business will of course, over time, result in significantly higher cash flows.

In view of these factors, we've decided to supplement our investment program with a €7 billion share buyback program. We expect to complete the buyback—and thus achieve our target debt factor—by the end of 2008 at the latest.

A share buyback is also intended to demonstrate that we view our own stock as an attractive investment with upside potential. The share buyback will also make E.ON stock more attractive to our shareholders, since it will increase earnings per share and the dividend yield.

I'd now like to say a few words about our future dividend policy. We intend to retain our current dividend payout ratio of 50 to 60 percent of adjusted net income. In view of our EBIT targets and the effects of the share buyback, we continue to expect our dividends to increase by 10 to 20 percent per year on average.

As you can see, our package of initiatives lays the groundwork for the continued successful development of our company, from which our shareholders certainly won't be the only ones to benefit. Successful companies are in the best position to address the interests of their customers, their employees, and society in general. And that's what we're working to do.

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