

E.ON AG Financial Statements pursuant to German GAAP  
and Combined Group Management Report  
for the 2007 Financial Year



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E.ON AG's Financial Statements and Combined Group Management Report for the 2007 fiscal year will be published in the German Electronic Federal Gazette ("elektronischer Bundesanzeiger"). E.ON AG's management report is combined with that of the Group.

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Düsseldorf

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Düsseldorf  
Chairman

Hubertus Schmoltdt  
Chairman of the Board of Management,  
Industriegewerkschaft Bergbau,  
Chemie, Energie, Hanover  
Deputy Chairman

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Munich

Sven Bergelin  
Director, National Energy Working Group,  
Unified Service Sector Union, ver.di,  
Berlin  
(since August 1, 2007)

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Frankfurt am Main

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Chairman of the Supervisory Board,  
ThyssenKrupp AG, Düsseldorf  
(until June 30, 2007)

Gabriele Gratz  
Chairwoman of the Works Council,  
E.ON Ruhrgas AG, Essen

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Deputy Chairman of the Combined  
Works Council, E.ON AG, Düsseldorf

Ulrich Hocker  
General Manager, German  
Investor Protection Association,  
Düsseldorf

Eva Kirchhof  
Diploma Physicist, Munich

Seppel Kraus  
Labor Union Secretary, Munich  
(until July 31, 2007)

Prof. Dr. Ulrich Lehner  
President and Chief Executive Officer,  
Henkel KGaA, Düsseldorf

Dr. Klaus Liesen  
Honorary Chairman of the Supervisory  
Boards, E.ON Ruhrgas AG, Essen, and  
Volkswagen AG, Wolfsburg

Erhard Ott  
Member of the Board of Management,  
Unified Service Sector Union, ver.di,  
Berlin

Hans Prüfer  
Chairman of the Combined Works  
Council, E.ON AG, Düsseldorf

Klaus Dieter Raschke  
Chairman of the Combined Works  
Council, E.ON Energie AG, Hanover

Dr. Henning Schulte-Noelle  
Chairman of the Supervisory Board,  
Allianz SE, Munich

Dr. Theo Siegert  
Managing Partner, de Haen-Carstanjen  
& Söhne, Düsseldorf  
(since July 4, 2007)

Prof. Dr. Wilhelm Simson  
Munich

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

Dr. Georg Freiherr von Waldenfels  
Former Minister of State, Attorney,  
Munich

Hans Wollitzer  
Chairman of the Central Works Council,  
E.ON Energie AG, Munich  
(since January 4, 2007)

### Supervisory Board Committees

**Executive Committee**  
Ulrich Hartmann, Chairman  
Wolf-Rüdiger Hinrichsen  
Hubertus Schmoltdt  
Dr. Henning Schulte-Noelle

**Audit Committee**  
Dr. Karl-Hermann Baumann,  
Chairman  
Gabriele Gratz (since March 6, 2007)  
Ulrich Hartmann  
Klaus Dieter Raschke

**Finance and  
Investment Committee**  
Ulrich Hartmann, Chairman  
Dr. Gerhard Cromme (until June 30, 2007)  
Wolf-Rüdiger Hinrichsen  
Prof. Dr. Ulrich Lehner (since July 1, 2007)  
Hubertus Schmoltdt

**Nomination Committee**  
(since December 17, 2007)  
Ulrich Hartmann  
Prof. Dr. Ulrich Lehner  
Dr. Henning Schulte-Noelle

## Dr. Wulf H. Bernotat

Born 1948 in Göttingen  
Member of the Board of Management since 2003  
Group Executive Human Resources, Investor Relations,  
Group Audit, Corporate Communications,  
Economic and Public Affairs  
Chairman and CEO, Düsseldorf

## Dr. Johannes Teyssen

Born 1959 in Hildesheim  
Member of the Board of Management since 2004  
Corporate Planning & Controlling, Infrastructure Management,  
Group Procurement, Marketing & Sales, Upstream/Generation,  
Trading & Portfolio Optimization, Düsseldorf  
(Vice Chairman since March 1, 2008)

## Dr. Burckhard Bergmann

Born 1943 in Sendenhorst/Beckum  
Member of the Board of Management since 2003  
Gas Procurement, Gas Production,  
Group Regulatory Management  
Düsseldorf (until February 29, 2008)

## Christoph Dänzer-Vanotti

Born 1955 in Freiburg  
Member of the Board of Management since 2006  
Corporate Responsibility, E.ON Academy, Facility Management,  
Real Estate, OneE.ON, Human Resources/Organization,  
Düsseldorf

## Lutz Feldmann

Born 1957 in Bonn  
Member of the Board of Management since 2006  
Mergers & Acquisitions, Legal Affairs, Corporate Development/  
New Markets, Düsseldorf

## Dr. Marcus Schenck

Born 1965 in Memmingen  
Member of the Board of Management since 2006  
Finance, Accounting, Tax, IT, Düsseldorf

## Dr. Hans Michael Gaul

Born 1942 in Düsseldorf  
Member of the Board of Management since 1990  
Corporate Planning & Controlling, Mergers & Acquisitions,  
Legal Affairs Düsseldorf (until March 31, 2007)

## Executive Vice Presidents

Kiran Bhojani, Düsseldorf  
Dr. Peter Blau, Düsseldorf  
Gert von der Groeben, Düsseldorf  
Heinrich Montag, Düsseldorf

- Adjusted EBIT up 10 percent
- Cash provided by operating activities above prior-year level
- Management to propose raising dividend to €4.10
- Higher adjusted EBIT expected for 2008

E.ON Group <sup>1</sup>			
€ in millions	2007	2006	+/- %
Sales	68,731	64,091	+7
Adjusted EBITDA	12,450	11,724	+6
Adjusted EBIT	9,208	8,356	+10
Net income	7,724	6,082	+27
Net income attributable to shareholders of E.ON AG	7,204	5,586	+29
Adjusted net income	5,115	4,682	+9
ROCE (in %)	14.5	13.8	+0.7 <sup>2</sup>
Value added	3,417	2,916	+17
Cash provided by operating activities of continuing operations	8,726	7,161	+22
Economic net debt (at year end)	-24,138	-18,233	-32
Investments	11,306	5,037	+124
Employees (at year end)	87,815	80,612	+9

<sup>1</sup>All subsequent commentary for the E.ON Group also applies to E.ON AG.  
<sup>2</sup>Change in percentage points.

## Corporate Profile and Operating Environment

### Corporate Structure and Operations in 2007

E.ON is one of the world's largest investor-owned energy services providers. Our roughly 88,000 employees generated €68.7 billion in sales in 2007. E.ON operates along the entire value chain in power and gas. These operations are organized in market units in line with the structure of our respective target markets. We are focused on our target markets: Central Europe, the United Kingdom, Northern Europe, and the Midwestern United States. In 2008, we have added, or intend to add, two geographically segmented market units (Russia and Italy) and two functionally segmented market units (Climate & Renewables and Energy Trading). The resulting changes to our market unit structure and segment reporting are discussed in the Forecast on page 68.

The Corporate Center's main tasks are to manage E.ON as an integrated energy company, chart E.ON's strategic course, manage and secure necessary financing, manage business issues that transcend individual markets, manage risk, and continually optimize the group's business portfolio. We take a value-oriented management approach aimed at improving our competitiveness and delivering profitable growth.

The Corporate Center/New Markets segment consists of Düsseldorf-based E.ON AG and the ownership interests managed directly by E.ON AG itself. The new market units

This Combined Group Management Report contains certain forward-looking statements based on E.ON management's current assumptions and forecasts and other currently available information. Various known and unknown risks, uncertainties, and other factors could lead to material differences between E.ON's actual future results, financial situation, development or performance and the estimates given here. E.ON assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

(except Energy Trading) will also be allocated to this segment until the end of 2008. In 2007, this applies to our majority stakes in OGK-4 (a Russian power producer), ENERGI E2 Renovables Ibéricas (a wind-farm operator in Spain), and Airtricity (a wind-farm operator in North America), all of which were acquired in the second half of 2007. We also allocate consolidation effects at the group level to this segment.

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

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

With operations mainly in Germany, the Netherlands, and Italy, the Central Europe West Power and West Gas businesses engage in:

- electric generation at conventional, nuclear, and renewable-source facilities
- electric transmission via high-voltage and ultrahigh-voltage wires networks
- regional distribution of electricity, gas, and heat
- power trading and electricity, gas, and heat sales.

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

In 2007, E.ON Energie supplied power and gas to about 17 million customers in and outside Germany. This figure includes customers served by key minority shareholdings.

Essen-based E.ON Ruhrgas is the lead company of the Pan-European Gas market unit and responsible for managing our natural gas business in Europe, which is vertically integrated along the value chain. E.ON Ruhrgas E&P operates upstream in gas exploration and production. The midstream business combines gas procurement and sales and manages the entire technical infrastructure. E.ON Gastransport provides gas transport services. E.ON Ruhrgas International and Thüga are responsible for managing downstream shareholdings. In Germany Thüga's portfolio consists primarily of minority stakes in regional utilities. In Italy Thüga has, up till now, mainly acquired majority stakes in regional gas utilities.

E.ON Ruhrgas International mainly has ownership interests in energy utilities in other European countries, primarily in Eastern Europe.

Coventry-based E.ON UK is the lead company of our U.K. market unit. It runs our energy business in the United Kingdom. The regulated business consists of Central Networks, which operates an electricity distribution business. The non-regulated business includes the Energy Wholesale, Retail, and Energy Services businesses. The Energy Wholesale business covers activities including power generation, energy trading, operation and maintenance of combined heat and power plants, development and operation of renewable energy sites, and power station development and operation. The Retail business includes sales of electricity and gas services to residential, business, and industrial customers. As of December 31, 2007, E.ON UK supplied approximately 8 million customer accounts, of which 7.4 million were residential and 0.6 million were business customer accounts.

Based in Malmö, Sweden, E.ON Nordic is the lead company of the Nordic market unit. E.ON Nordic currently operates through E.ON Sverige, an integrated energy company in which it holds a majority stake. E.ON Sverige operates primarily in Sweden but also operates on a smaller scale in Denmark and Finland.

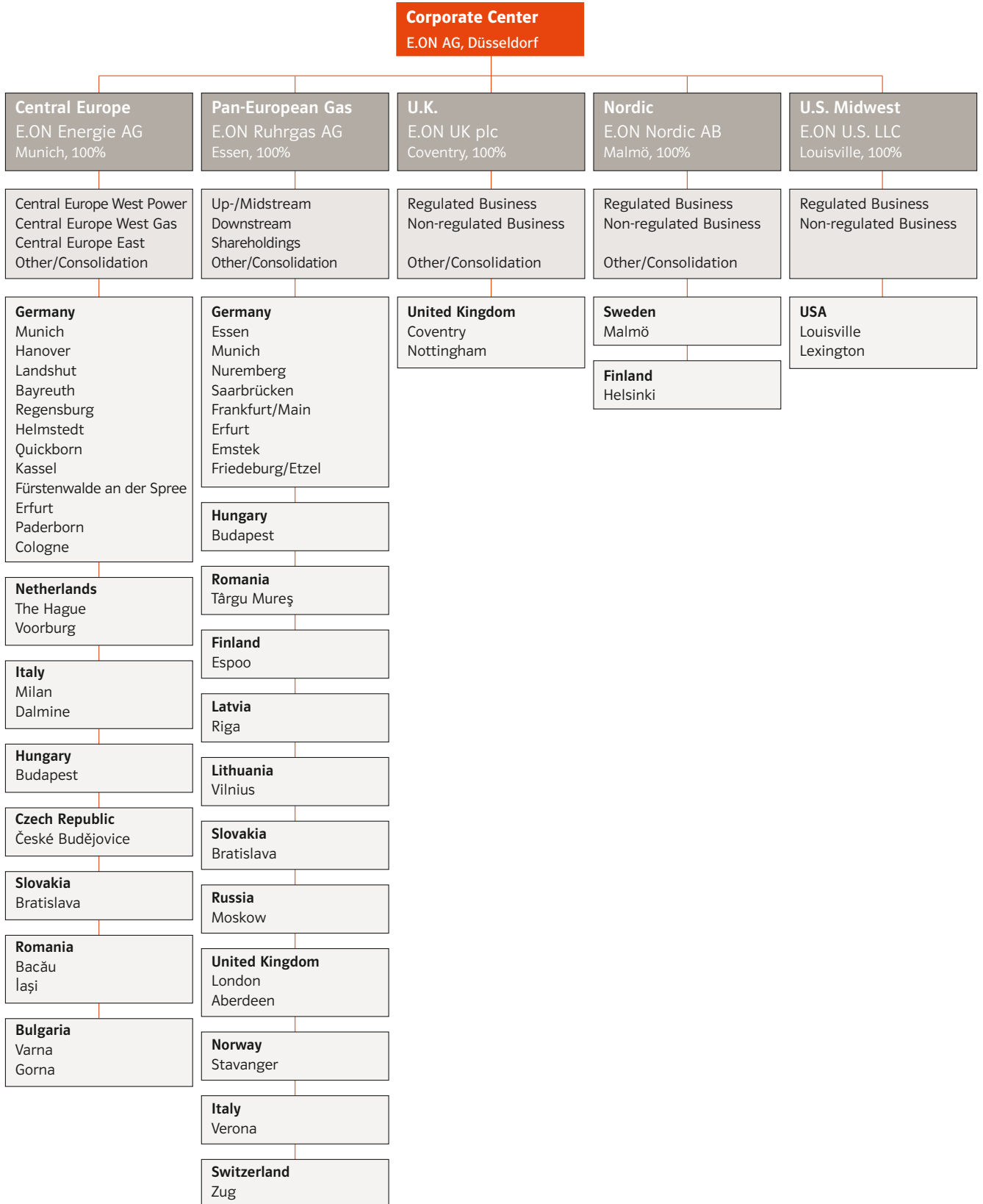
Day-to-day operations consist of power generation, heat production, power and gas distribution, power, gas, and heat sales, and energy trading. At year end 2007, E.ON Nordic supplied roughly 1 million customer accounts.

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

Together, LG&E and KU distribute electricity to approximately 0.9 million customers, predominantly in Kentucky. They serve several classes of customers including residential, commercial and industrial, as well as municipalities. LG&E distributes natural gas to approximately 0.3 million customers in Kentucky.

The non-regulated business consists primarily of the Argentine gas distribution operations, in which E.ON U.S. owns interests in two companies.

**E.ON Group: Market Units, Lead Companies, Businesses, and Main Facilities<sup>1</sup>**



<sup>1</sup>Corporate structure through December 31, 2007.

## Sales Markets and Market Positions

### Central Europe

No. 2 in power generation  
No. 1 in power and gas sales

### Pan-European Gas

No. 1 in gas supply in Europe

### U.K.

No. 2 in power generation  
No. 3 in power and gas sales

### Nordic

No. 4 in power generation  
No. 3 in power sales

### U.S. Midwest

No. 1 in power generation in Kentucky  
No. 1 in power and gas sales in Kentucky

### New Markets

By acquiring OGK-4 in 2007, E.ON has become one of Russia's leading thermal power producers. By acquiring Airtricity North America and ENERGI E2 Renovables Ibéricas, E.ON now ranks among the world's biggest wind-power producers.

## Strategy

Thanks to our targeted growth and integration strategy, E.ON ranks among Europe's leading integrated power and gas companies.

The foundation of our industry leadership is our integrated business model with operations along the entire value chain.

- We're vertically integrated, with operations upstream (power generation and natural gas production), mid-stream (wholesale), and downstream (end-customer supply), enabling us to optimize our business while at the same time managing risks.
- We're horizontally integrated in order to leverage power-gas convergence (in particular due to the increasingly important role natural gas plays in power generation and in end-customer supply), providing us with synergy and growth potential.
- The expansion of the European Union and the regional integration of our operations offer additional growth potential and, increasingly, opportunities to optimize our risk position and asset portfolio.

E.ON is therefore superbly positioned to meet the new challenges of Europe's changing energy marketplace.

## Energy Policy and Regulatory Environment

### Europe

In the spring of 2007, the European Council of the Heads of State or Government, under Germany's presidency, endorsed an integrated European energy and climate policy. It includes legislation for the completion of the internal energy market, an ambitious climate-protection package, and targets for expanding renewable electricity and enhancing energy efficiency.

In September 2007, the Commission adopted a third package of liberalization legislation. Its purpose is to give new momentum to Europe's internal market for electricity and natural gas. It includes far-reaching structural measures which include proposals for the ownership unbundling of electricity and gas transmission networks from generation/import and supply as well as proposals for the regulation of the generation and wholesale market.

In addition, in early 2007 the European Council agreed on comprehensive climate-protection targets for the year 2020. The Council adopted the binding target proposed by the Commission that the Community reduce its total greenhouse-gas ("GHG") emissions by at least 20 percent by 2020 compared with 1990 levels. Another target is for the Community to expand its renewables capacity such that it meets 20 percent of its electricity needs from renewable sources by 2020.

The Council also aims to significantly increase the EU's energy efficiency, endorsing the Commission's estimate that the Community can reduce its energy consumption by 20 percent by 2020.

The member states are left to decide on their own energy mix. In view of nuclear energy's significant contribution to the EU's energy supply, the Council emphasized the need for a broad-based dialog on the opportunities and risks of nuclear energy in the Community.

## Germany

Against the background of EU climate-protection targets, in August 2007 the German federal cabinet adopted an Integrated Climate Protection and Energy Package aimed at setting global standards. To implement the package's central policy objectives, the federal cabinet adopted a comprehensive set of initiatives on December 5, 2007.

Their central objective is to reduce Germany's GHG emissions by 40 percent by 2020 compared with 1990 levels by, among other strategies, enhancing energy efficiency and increasing the use of low-emission generation technologies. Another objective is for the country to derive 25 to 30 percent of its electricity from renewables.

The Emissions Trading directive requires each EU member state to submit a national allocation plan (NAP) for emission allowances to the European Commission for approval. Germany's NAP for phase two of emission-allowance trading, as approved by Brussels, took effect in August 2007 as the German Allocation Law 2012. This law reduces the total allocation for phase two (2008-2012) compared with phase one. The annual allocation to participants in emission trading in Germany for the period 2008-2012 was cut by nearly 10 percent to 453 million metric tons of carbon dioxide.

### Network Fee Approvals Process

In early July and early October 2007, respectively, electricity and natural gas network operators were required, for the second time, to submit their network charges to the appropriate regulatory agency for approval. The second round will set network fees for 2008 and thus serve as the basis for the incentive-based regulation system which begins in 2009. As in the first round, there have been delays in the issuing of rulings. The Federal Network Agency, for example, has only issued a few rulings for electricity networks owned by competitors. The first rulings for E.ON Energie subsidiaries are due soon. Delays are also expected in the gas sector, for which the approvals process began three months later.

### Incentive-Based Regulation

Germany's incentive regulation ordinance took effect in November 2007, with incentive regulation to begin on January 1, 2009. It is now up to the Federal Network Agency and state-level regulatory agencies to design and implement an incentive-based regulation system. The Federal Network Agency has the authority, among other things, to define the allowed return on equity, the parameters of benchmarking, and the investment budgets for network expansion.

### Gas Network Access

In the first half of 2006, Germany's natural gas industry designed a cooperation agreement on the future modalities of network access. The German Federal Network Agency ruled on November 17, 2006, that one of the two types of access contained in the cooperation agreement—single booking—contravenes German law. This made it necessary to revise the cooperation agreement. The agency approved the revised agreement, dated June 1, 2007, which took effect on October 1, 2007.

Since the beginning of the gas industry fiscal year on October 1, 2007, transport customers may only use the other type of network access contained in the cooperation agreement—the two-contract model, which consists of one entry and one exit contract—to reach end-customers. Network access contracts that were concluded after the cooperation agreement took effect (July 19, 2006) were changed to the two-contract model by April 1, 2007. All earlier network access contracts were so modified by October 1, 2007.

The two-contract model is applied in discrete geographical areas of Germany's gas transport pipeline system called market areas. At the time the discussions started, Germany had more than 20 market areas within which capacity could be freely aggregated. The Federal Network Agency and policy-makers called for this number to be reduced significantly. E.ON Gastransport, reduced the number of its market areas from four to two: one for low-caloric (L) and one for high-caloric (H) gas. Market area operators are currently holding negotiations on further combinations of market areas to take effect on October 1, 2008, at which time it is anticipated that Germany will have about ten market areas.

In late 2007, the German Federal Network Agency initiated consultation proceedings with the aim of fundamentally reforming the gas industry's control- and balancing-energy market. The agency aims for the reform to take effect by October 1, 2008. Energy industry trade associations are currently in negotiations with the agency to define the target model for the reforms.

### Revisions to German Antitrust Law

In December 2007, Germany enacted amendments to its law against restraints on competition. Section 29 of the amended law contains provisions that considerably broaden antitrust oversight in Germany's electricity and natural gas markets. Under the amended provisions, a supplier can be accused of anticompetitive behavior if it charges prices that are less favorable than other suppliers or if a supplier holding a dominant position in an energy market charges prices that disproportionately exceed its costs.

In contrast to the EU's objective of spurring competition, Germany's revised antitrust law could subject hitherto unregulated sectors like power generation and trading/marketing to stricter—and non-market-oriented—state control.

### Competition Initiatives

In 2006, E.ON launched a number of initiatives to spur energy-market competition in Germany and Europe. Among them was a series of rapid-response measures along the entire value chain which we fully implemented in 2007. These measures included the expansion of cross-border power transfer capacity between Germany and neighboring countries, the publication of key information about our available generating capacity, the marketing of our generating capacity in Germany via the European Energy Exchange in Leipzig, and the reduction in the number of market areas in E.ON Gastransport's gas transmission system from four to two: one for H gas and one for L gas. As part of our effort to enhance transparency, in 2007 we began publishing detailed information about our generation fleet in Germany at [www.eon-schafft-transparenz.de](http://www.eon-schafft-transparenz.de). The Website at this URL is also in English.

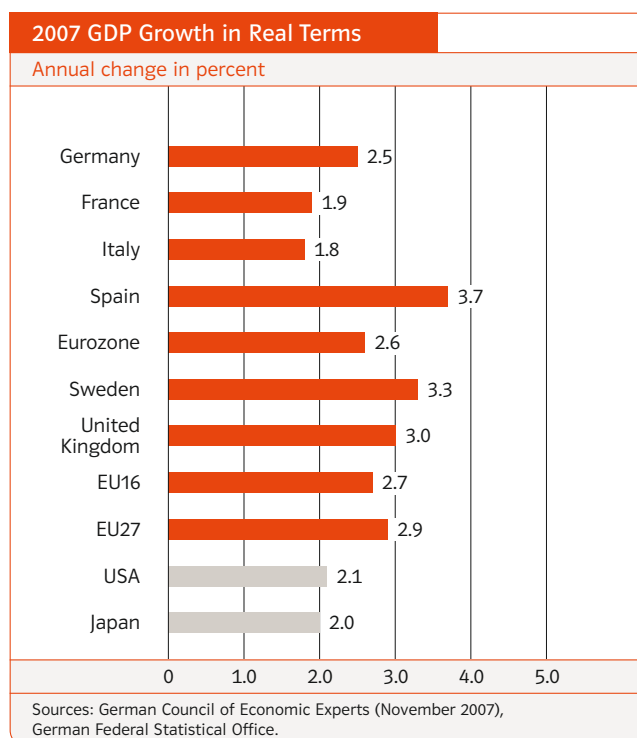
### Economic Environment

The global economy was in very robust condition in 2007 when financial markets became less stable in the summer in the wake of the mortgage-lending crisis in the United States. According to an estimate by the German Council of Economic Experts ("GCEE"), global gross domestic product ("GDP") increased by 3.7 percent in real terms, slightly behind the 2006 growth rate of 3.9 percent. Oil prices, which at times nearly reached \$100 a barrel, continued to dampen economic

growth and fuel fears of inflation. Expansion differed by region, with significant economic growth in China and other emerging countries, weaker growth in Japan, and slightly flatter growth in the European Union. The GCEE estimates that the U.S. economy grew at a markedly slower pace in 2007 as a result of the financial crisis.

Eurozone economic expansion was very solid in 2007, with support from investment and slightly weaker consumption. Growth in the United Kingdom and Sweden was driven by consumption and investment with less impetus from exports. According to the GCEE, the dynamic economic growth in new EU member states continued in 2007. Poland benefited from buoyant demand for investment goods, the Czech Republic from solid consumer demand, and Slovakia from significantly higher exports. Economic growth was weaker in Germany due to the VAT increase that took effect at the start of the year but did not stall, as some observers had feared.

The effect of high global energy prices on the domestic economy was mitigated by the simultaneous depreciation of the U.S. dollar.



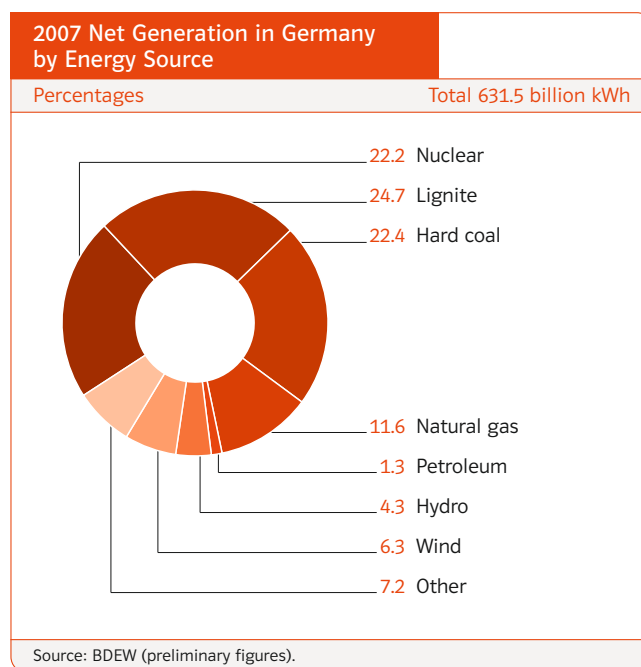
### Energy Industry

Consumption of primary energy in Germany, our most important sales market, declined by 5 percent year on year to 472 million metric tons of coal equivalent (“MTCE”) due to milder temperatures. Consumption of petroleum fell by 10 percent to 160 MTCE. Petroleum remained by far Germany’s most important energy source, accounting for 33.8 percent of energy consumed. Natural gas consumption declined by 4.5 percent to 107 MTCE. Slightly less natural gas was used to generate electricity. The industrial segment also consumed less natural gas than in the previous year. Consumption of hard coal rose by 1.5 percent to 66.6 MTCE due to higher demand in the electricity and steel industries. Lignite consumption increased by about 3 percent to 55.2 MTCE due to higher demand from power producers. Nuclear power production declined by 16 percent to 52.3 MTCE because some power stations were not, or were only partially, in service. Hydroelectric generation rose slightly. Generation from wind and from other energy sources increased by 30 percent and 18 percent, respectively. Renewables’ share of primary energy consumption rose from 5.4 percent in 2006 to 6.6 percent in 2007.

2007 Primary Energy Consumption in Germany by Energy Source		
Percentages	2007	2006
Petroleum	33.8	35.5
Natural gas	22.7	22.6
Hard coal	14.1	13.2
Lignite	11.7	10.8
Nuclear	11.1	12.5
Hydro, wind	1.5	1.3
Other, including net power imports/exports	5.1	4.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: AG Energiebilanzen (preliminary figures).

Total gross generation in Germany declined by 0.8 percent, from 636.8 billion kilowatt-hours (“kWh”) in 2006 to 631.5 billion kWh in 2007. Nuclear and petroleum’s share of generation was significantly lower, whereas more electricity was produced from lignite, hard coal, natural gas, and renewables.



Electricity consumption in England, Wales, and Scotland reported provisionally by the National Grid was 337.7 billion kWh during 2007, which is down on 2006 consumption (350 billion kWh). Gas consumption was 1,053 billion kWh, representing a slight increase from the prior year.

The Nordic region consumed about 3 billion kWh more electricity than in the previous year. Consumption was lower at the beginning of 2007 due to considerably warmer weather compared with 2006, when the Nordic region experienced a cold winter. From the beginning of the summer and throughout the remainder of 2007, temperatures were closer to normal, and demand increased continually compared with 2006, a year with warmer-than-normal temperatures during this period. Net imports to Nordic from surrounding countries decreased to 2.7 billion kWh during the year compared with a net import of over 11 billion kWh in the prior year. Net exports to Germany increased to 7.3 billion kWh compared with 1.5 billion kWh in 2006. The hydrological situation during 2007 was well above normal. The year started and ended with almost the same reservoir levels, about 7 billion kWh above normal.

Electricity consumption in the Midwestern United States increased by approximately 3.5 percent in 2007 due to increased demand caused by colder-than-normal weather in February and warmer weather during the summer months. Natural gas consumption increased by approximately 6 percent in 2007 due primarily to higher residential and commercial volumes caused by colder weather in early 2007.

### Energy Price Developments

Throughout 2007, European power and natural gas markets were driven by three main factors:

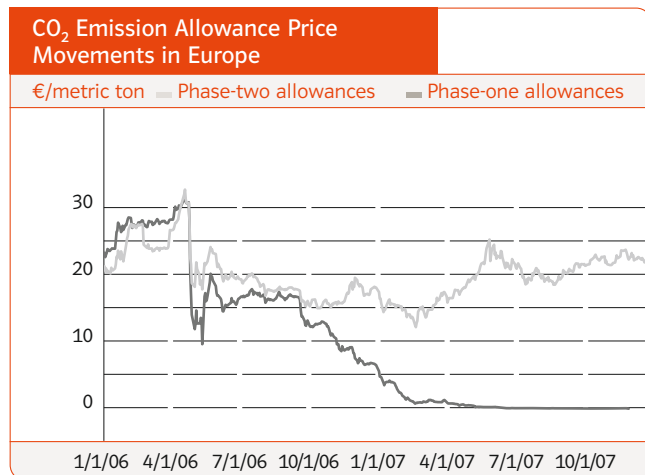
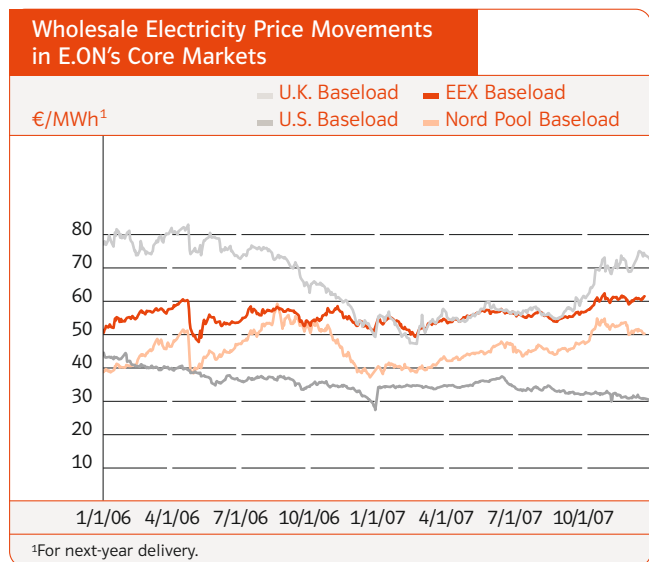
- oil, coal, and CO<sub>2</sub> allowance prices
- warm weather
- the hydrological balance in the Nordic region.

Although prices declined on most European power and gas markets in the first weeks of 2007, they rose again starting in March in response to higher coal, oil, and phase-two CO<sub>2</sub> allowance prices.

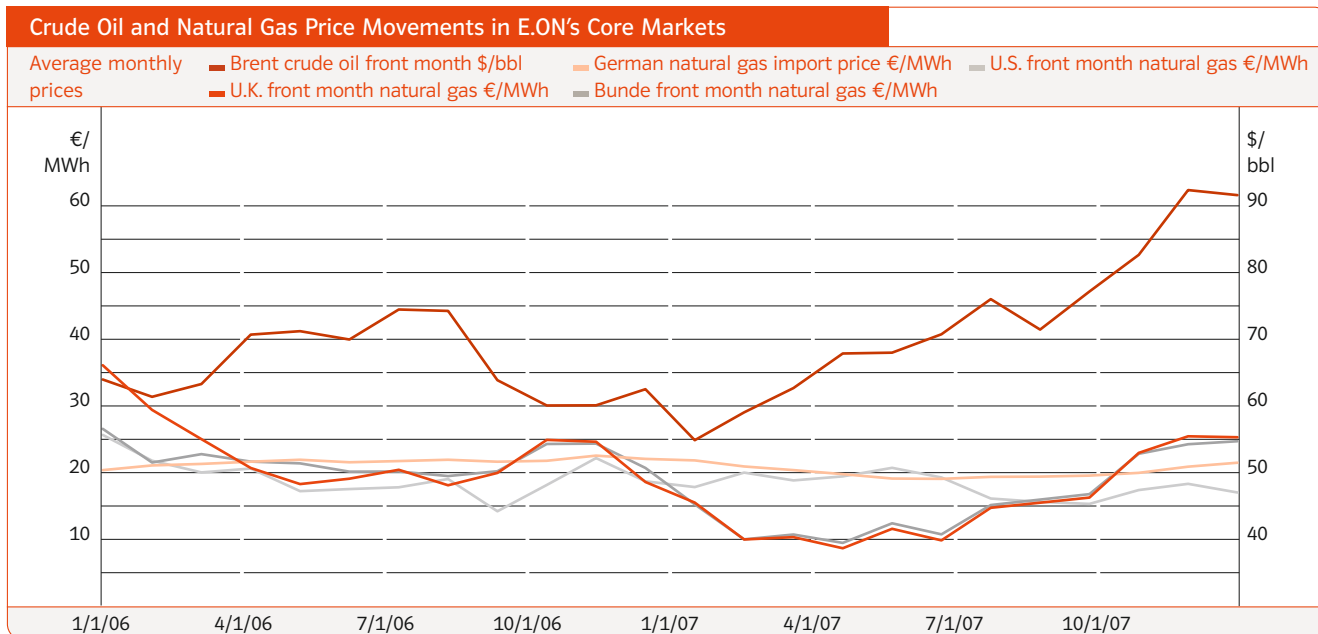
Higher coal prices sent German power prices to €62 per megawatt-hour in October 2007, a new all-time high. At the end of the year, German prices stood at €61 per megawatt-hour ("MWh").

The price of Brent crude oil increased significantly beginning in January 2007 due to renewed tension in the Middle East and Nigeria and lower oil-product inventories in the United States. The remarkable depreciation of the U.S. dollar against other currencies also contributed to the strong rise in dollar-denominated Brent crude oil prices. At the end of December 2007, Brent was quoted at close to \$96 per barrel, about \$46 per barrel higher than in January 2007.

Coal prices have moved continually higher in 2007, particularly in the last two quarters. In December, coal was selling for \$117 per metric ton, the highest level since June 2004. The increase was mainly due to sustained strong demand in the Pacific market, high freight rates (which account for about 30 percent of the price of coal), and the weaker dollar, which improves the purchasing power of local currencies.

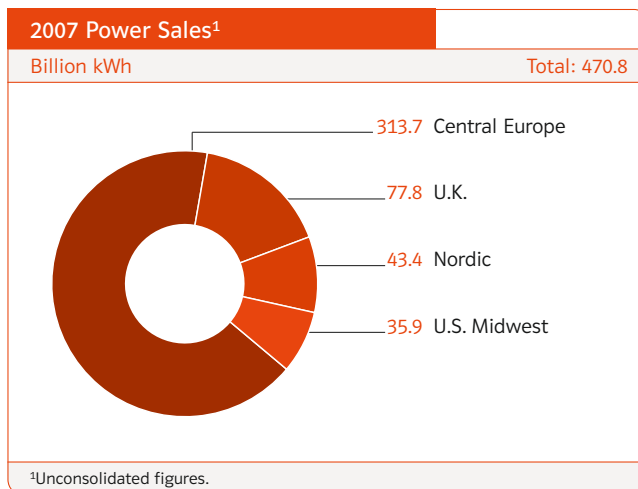


Phase-two CO<sub>2</sub> allowance prices increased in response to high oil and gas prices compared to more stable hard coal prices and the European Commission's decision to reduce the caps on installations proposed by the member states in the beginning of the year.

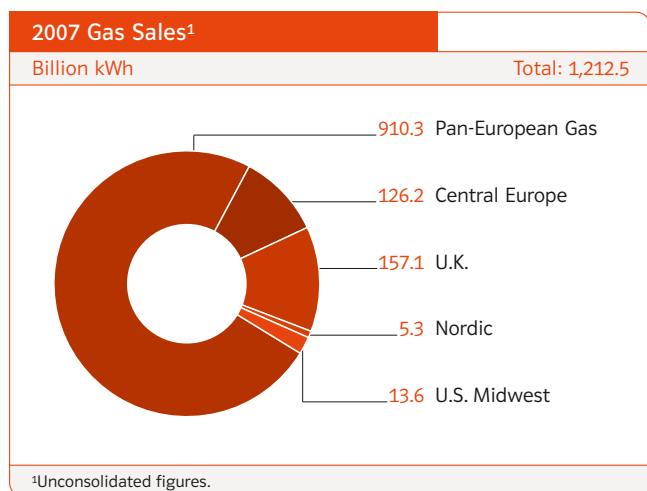


### Power and Gas Sales

The E.ON Group increased its power sales volume by 13 percent, from 417.9 billion kWh in the prior year to 470.8 billion kWh in 2007. Central Europe's 17-percent increase in volume is predominantly attributable to significantly higher deliveries onto its network of electricity pursuant to Germany's Renewable Energy Law. Under this law, network operators must give priority to electricity from renewable-source generating units. A mechanism has been established for network operators and energy retailers to pass the higher cost of renewable-source electricity through to all end-customers. However, the costs typically could not be completely passed through, particularly in the residential segment where basic utility service uses integrated prices. Central Europe also benefited from higher sales volumes to sales and trading partners. U.K. sold 5 percent more electricity, Nordic 7 percent more, and U.S. Midwest 2 percent more. The respective factors were higher wholesale volumes, higher hydroelectric production in Sweden, and favorable temperatures in Kentucky compared with the prior year.



Natural gas sales volumes increased by 2 percent year on year, from 1,186.9 billion kWh to 1,212.5 billion kWh. This was mainly due to the full-year inclusion of Hungary's E.ON Földgáz at Pan-European Gas, which increased its sales volume by 2 percent. In addition, higher wholesale volumes enabled U.K. to increase its gas deliveries by 1 percent, while low temperatures in the Midwestern United States early in the year enabled U.S. Midwest to sell 10 percent more natural gas. By contrast, higher temperatures in Europe compared with the prior year served to reduce sales volumes by 2 percent at Central Europe and 9 percent at Nordic.



## Power and Gas Procurement

The Central Europe market unit met 134.6 billion kWh, or about 41 percent, of its power requirements with electricity from its own generating facilities. Central Europe purchased 192.6 billion kWh of electricity from jointly owned power plants and outside sources, about 28 percent more than in the prior year. Overall, power procurements rose by 16 percent to 327.2 billion kWh.

As in the past, in 2007 Pan-European Gas purchased natural gas from German producers and five export countries, which accounted for the following percentages of its total procurements of 698 billion kWh:

- Germany: 18 percent
- Russia: 26 percent
- Norway: 25 percent
- Netherlands: 17 percent
- United Kingdom: 10 percent
- Denmark: 3 percent
- Other: 1 percent

The U.K. market unit backed 41.2 billion kWh, or about 53 percent, of its power requirements of 77.9 billion kWh with electricity from its own power plants. U.K. purchased 36.7 billion kWh of electricity from jointly owned power plants and third parties. Owned generation increased by 5.3 billion kWh from 2006.

Nordic covered about two thirds of its total power requirements of 45.5 billion kWh with power from its own generating facilities. Nordic purchased 15.3 billion kWh of electricity from jointly owned power plants and outside sources compared with 14.8 billion kWh in the prior year.

U.S. Midwest procured 36.7 billion kWh of electricity in 2007, of which about 92 percent was at its own facilities. It procured 2.9 billion kWh from outside sources, 12 percent less than in the previous year.

### Conversion of Group Reporting Policies to International Financial Reporting Standards ("IFRS")

Through the end of the 2006 financial year, E.ON AG prepared its Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Effective January 1, 2007, we apply International Financial Reporting Standards ("IFRS"), which are applicable in the European Union and which deviate substantially from U.S. GAAP in a number of respects. Detailed explanatory notes on the conversion of Group Reporting Policies to IFRS and IFRS reconciliations can be found on pages 203-209 of the Condensed Consolidated Interim Financial Statements and on page 211.

### Business Development

Economic development in 2007 had no noteworthy effect on our business. While energy consumption declined in Germany and in the sales territory of our U.K. market unit, electricity and gas consumption increased slightly in Northern Europe and in Kentucky. On the whole, our business developed well. We increased adjusted EBIT more than we had anticipated at year end 2006. Three of our market units—U.K., Nordic, and U.S. Midwest—operate outside the eurozone. With the exception of U.S. Midwest, the respective foreign-exchange rates did not have a significant impact on our earnings situation.

The transactions listed below influenced our business in 2007.

### Transactions in 2007

#### Acquisitions

##### ENERGI E2 Renovables Ibéricas

On August 13, 2007, E.ON Climate & Renewables GmbH acquired a 100-percent stake in ENERGI E2 Renovables Ibéricas S.L.U. ("E2-I"), Madrid, Spain. The purchase price totaled roughly €481 million. E2-I and its affiliated companies were fully consolidated as of August 31, 2007. Through its affiliated and associated companies, E2-I primarily operates wind farms in Spain and Portugal with an installed generating capacity of about 260 MW. A more extensive development project pipeline is in place for the coming years.

##### OGK-4

On October 12, 2007, E.ON acquired from the Russian government holding company RAO UES a majority stake in the Russian power-plant company OAO OGK-4 ("OGK-4"). After the acquisition of additional smaller tranches following the purchase of the majority stake, E.ON holds 72.7 percent of OGK-4 as of the balance sheet date. The total expense incurred for this acquisition, which includes a contractually agreed capital increase of €1.3 billion to finance the investment program planned for the coming years, was approximately €4.4 billion. Under Russian capital-markets legislation, E.ON was required to make a public offer to purchase the remainder of the shares held by the minority shareholders of OGK-4, and this offer, at a price of 3.3503 rubles per share, was made public on November 15, 2007. The acceptance period ended on February 4, 2008. E.ON was thus able to acquire additional shares equivalent to approximately 3.4 percent of OGK-4 and increase its total ownership stake to 76.1 percent. As was expected, RAO UES did not accept the offer for its remaining 22.5-percent stake in OGK-4. OGK-4 operates conventional power plants at five locations with a total installed capacity of 8.6 gigawatts ("GW") and plans to build additional power plants with a capacity of about 2.4 GW at its existing locations by 2011. The initial recognition of the company in the E.ON Consolidated Financial Statements took place in the fourth quarter of 2007.

##### Skarv and Idun

In October 2007, E.ON Ruhrgas acquired a 28-percent stake in Skarv and Idun, important Norwegian natural gas fields. The purchase price including incidental acquisition expenses amounted to €641 million. E.ON's share of the investments for developing these fields is around \$1.4 billion. Skarv and Idun are both in the northern Norwegian Sea, just below the Arctic Circle. The reserves acquired by E.ON are roughly 18.4 million standard cubic meters oil equivalent.

##### Airtricity

On December 18, 2007, E.ON North America Holdings LLC acquired all the shares of Airtricity Inc., Chicago, Illinois, USA, for a purchase price of approximately €580 million. Airtricity operates a number of wind farms in the U.S. states of Texas and New York with a total installed capacity of around 250 MW. Full consolidation of the Airtricity companies took place on December 31, 2007.

## Divestments

### ONE

E.ON and its partners Telenor and Tele Danmark signed a contract in June 2007 to sell their shares in the Austrian telecommunications company ONE to a consortium of bidders consisting of France Télécom and the financial investor Mid Europa Partners. The transfer of E.ON's 50.1-percent stake became effective on October 2, 2007. E.ON realized cash proceeds of around €569 million from the sale, including the consideration for the shareholder loans granted, as well as a disposal gain of €321 million.

### RAG

On August 7, 2007, E.ON, ThyssenKrupp, and RWE came to an agreement with the RAG-Stiftung to sell to it their shares in RAG. The three shareholding companies held a total of 90 percent of the share capital of RAG. The block of E.ON shares was transferred on November 30, 2007, at a purchase price of €1.

## Discontinued Operations

### WKE

Through its wholly owned subsidiary Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, USA, E.ON U.S. has a 25-year lease on and operates the generating facilities of Big Rivers Electric Corporation ("BREC"), a power generation cooperative in western Kentucky, and a coal-fired facility owned by the city of Henderson, Kentucky, USA. In March 2007, E.ON U.S. entered into a termination agreement with BREC to terminate the lease and the operational agreements for nine coal-fired plants and one oil-fired electricity generation unit in western Kentucky. The closing of the agreement is subject to a number of conditions, including review and approval by various regulatory agencies and obtaining the consent of other interested parties. Subject to such contingencies, the parties expect to complete the termination transaction by mid-2008. WKE therefore continued to be classified as a discontinued operation.

## Development of Significant Line Items of the Consolidated Statements of Income

Own work capitalized increased by 31 percent, or €122 million, to €517 million in 2007 (2006: €395 million) and resulted primarily from engineering services rendered in connection with new construction projects.

Other operating income declined by 2 percent, from €7,914 million in the prior year to €7,776 million. Gains on the disposal of investments totaled €1.6 billion in 2007, gains on derivative financial instruments totaled 1.8 billion, and income from exchange-rate differences totaled €3.3 billion. Miscellaneous other operating income in 2007 consisted primarily of reductions of valuation allowances on accounts receivable, rental and leasing income, the sale of scrap metal and materials, as well as compensation payments received for damages.

Costs of materials rose by €3,515 million, from €46,708 million in the prior year to €50,223 million in 2007. The increase is primarily attributable to higher expenses resulting from significantly higher electricity deliveries onto Central Europe's transmission system pursuant to Germany's Renewable Energy Law.

Personnel costs increased slightly, from €4,529 million in 2006 to €4,597 million in 2007. Personnel costs rose by €137 million at the U.K. market unit mainly due to staff additions in a new business, but declined by €68 million at Central Europe primarily due to lower provisions for part-time work programs for employees approaching retirement age.

Depreciation, amortization, and impairment charges of €3,194 million in 2007 were below the prior-year figure of €3,670 million. The decline is principally attributable to lower impairment charges, which in the prior year consisted of impairment charges at Central Europe (€236 million) mainly due to regulatory issues, at U.K. (€204 million) mainly on gas storage and combined heat and power plants, at Nordic (€70 million) on the heating business, and at Pan-European Gas (€73 million) in part on an administration building. These effects were partially offset by higher depreciation and amortization.

Other operating expenses declined by 18 percent, or €2,183 million, to €9,724 million (prior year: €11,907 million). This is mainly attributable to lower realized losses on currency differences of €3,218 million (prior year: €4,447 million) and lower losses on derivative financial instruments of €1,331 million (prior year: €3,052 million) at the U.K., Pan-European Gas, and Nordic market units.

Income from companies accounted for under the equity method was €1,147 million compared with €748 million in 2006. The 53-percent increase resulted principally from higher equity earnings at Pan-European Gas. This market unit's prior-year equity earnings were adversely affected primarily by impairment charges relating to regulatory issues. Income from companies accounted for under the equity method in 2007 was also higher due to deferred tax income resulting from the reform of Germany's corporate tax laws.

## Earnings

Adjusted earnings before interest and taxes ("adjusted EBIT") is used as the key figure at E.ON for purposes of internal management control and as an indicator of a business's long-term earnings power. We believe adjusted EBIT is a suitable metric for evaluating the operating performance of our market units.

Adjusted EBIT is derived from income/loss from continuing operations before taxes and adjusted to exclude certain special items. The adjustments include adjusted net interest income, net book gains, cost-management and restructuring expenses, and other non-operating income and expenses.

Adjusted net interest income is calculated by taking the net interest income shown in the income statement and adjusting it using economic criteria and excluding certain special items, i.e., the portions of interest expense that are non-operating. Net book gains are equal to the sum of book gains and losses from disposals, which are included in other operating income and other operating expenses. Cost-management and restructuring expenses are non-recurring in nature. Other non-operating earnings encompass other non-operating income and expenses that are unique or rare in nature. Depending on the case, such income and expenses may affect different line items in the income statement. For example, effects from the marking to market of derivatives are included in other operating expenses and income, while impairment charges on property, plant, and equipment are included in depreciation, amortization, and impairments.

## Net Income

Net income attributable to shareholders of E.ON AG of €7.2 billion was 29 percent above the prior-year level.

Net Income			
€ in millions	2007	2006	+/- %
<b>Adjusted EBIT</b>	<b>9,208</b>	<b>8,356</b>	<b>+10</b>
Adjusted interest income (net)	-960	-948	-
Net book gains	1,345	829	-
Restructuring and cost-management expenses	-77	-	-
Other non-operating earnings	167	-2,890	-
<b>Income/Loss from continuing operations before taxes</b>	<b>9,683</b>	<b>5,347</b>	<b>+81</b>
Income taxes	-2,289	-40	-
<b>Income/Loss from continuing operations</b>	<b>7,394</b>	<b>5,307</b>	<b>+39</b>
Income/Loss from discontinued operations, net	330	775	-57
<b>Net income</b>	<b>7,724</b>	<b>6,082</b>	<b>+27</b>
Shareholders of E.ON AG	7,204	5,586	+29
Minority interests	520	496	+5

The E.ON Group's positive earnings trend continued in the 2007 financial year. Our adjusted EBIT for 2007 significantly surpassed the high prior-year level.

Adjusted net interest income is largely unchanged from 2006.

Adjusted Interest Income (Net)		
€ in millions	2007	2006
Interest and similar expense (net) as shown in the Consolidated Statements of Income	-951	-1,045
Non-operating interest expense (+)/ income (-)	-9	97
<b>Total</b>	<b>-960</b>	<b>-948</b>

Net book gains in 2007 increased by €516 million over the previous year. As in 2006, they were generated primarily from the sale of securities at the Central Europe market unit.

In 2007, restructuring and cost-management expenses arose primarily in the U.K. market unit's retail customer business. There were no restructuring and cost-management expenses in 2006.

Other non-operating earnings resulted primarily from the marking to market of derivatives (€564 million) used to protect the operating businesses from fluctuations in prices. This improvement of about €2.5 billion was attributable primarily to gains at the U.K. and Pan-European Gas market units. These gains were partially offset by costs associated with the attempted acquisition of Endesa (€288 million) and the storm in Sweden at the beginning of 2007 (€95 million). In 2006, the regulation of network charges enforced by the German Federal Network Agency resulted in impairment charges totaling €374 million at the Central Europe and Pan-European Gas market units in the gas distribution networks and in minority shareholdings with activities in the area of networks. Moreover, additional impairments had to be recorded for cogeneration and gas storage facilities at the U.K. market unit (€187 million), as well as for property, plant and equipment at the Pan-European Gas and Nordic market units (€100 million in total).

Income/Loss (-) from continuing operations before income taxes rose considerably relative to the prior-year figure. The main factors were the positive effect of the marking to market of derivatives and higher net book gains.

The increase in tax expense of €2,249 million compared with the previous year is primarily attributable to the special effect of €1,279 million relating to the first-time capitalization of discounted corporate tax credits in 2006. The remaining increase primarily reflects increased profits.

Income/Loss (-) from discontinued operations, net, contains a loss of €81 million for Western Kentucky Energy, which is held for sale. Pursuant to IFRS, its results are reported separately in the Consolidated Statements of Income. In addition, there were other gains from discontinued operations recognized in 2007. These relate to €418 million in intercompany gains from the sale of tranches of Degussa shares to RAG AG from previous years and arose from the transfer to RAG-Stiftung on November 30, 2007, of E.ON's shareholding in RAG AG. Moreover, there were €6 million in gains from the discontinued operations of the Company's former Viterra segment which was sold in 2005, as well as a loss of €13 million from the sale of the former Oil segment. The prior-year figure also includes earnings from our shareholdings in E.ON Finland (sold in June 2006) and in Degussa (sold in July 2006) (see Note 4 to the Consolidated Financial Statements).

## Adjusted Net Income

Net income reflects not only our operating performance but also special effects such as the marking to market of derivatives. Adjusted net income is an earnings figure after interest income, incomes taxes, and minority interests that has been adjusted to exclude certain special effects. In addition to the marking to market of derivatives, the adjustments include book gains and book losses on disposals, restructuring expenses, other non-operating income and expenses (after taxes and minority interests) of a special or rare nature. Adjusted net income also excludes income/loss (-) from discontinued operations and from the cumulative effect of changes in IFRS principles (after taxes and minority interests), as well as special tax effects. Special tax effects relate mainly to changes in the tax laws of Germany and the United Kingdom.

Adjusted Net Income			
€ in millions	2007	2006	+/- %
Net income attributable to shareholders of E.ON AG	7,204	5,586	+29
Net book gains	-1,345	-829	-
Restructuring and cost-management expenses	77	-	-
Other non-operating earnings	-167	2,890	-
Taxes and minority interests on non-operating earnings	-142	-921	-
Special tax effects	-182	-1,279	-
Income (+)/loss (-) from discontinued operations, net	-330	-765	-
<b>Total</b>	<b>5,115</b>	<b>4,682</b>	<b>+9</b>

## Sales

Our sales in 2007 increased to €68.7 billion thanks exclusively to the significant increase—€4.6 billion—achieved by the Central Europe market unit.

Sales			
€ in millions	2007	2006	+/- %
Central Europe	32,029	27,197	+18
Pan-European Gas	22,745	22,947	-1
U.K.	12,584	12,518	+1
Nordic	3,339	2,827	+18
U.S. Midwest	1,819	1,930	-6
Corporate Center/New Markets	-3,785	-3,328	-
<b>Total</b>	<b>68,731</b>	<b>64,091</b>	<b>+7</b>

Central Europe grew sales by about €4.8 billion relative to the prior-year period. Sales at Central Europe West Power were €4.5 billion higher due primarily to the passthrough of the significantly greater volume of electricity procured under Germany's Renewable Energy Law, higher electricity prices, and increased sales in the power trading business. Sales at Central Europe West Gas were about €690 million lower due primarily to mild temperatures in the first quarter and the resulting decline in sales volumes. Central Europe East increased sales by about €620 million. The main drivers were higher electricity prices in Hungary and the Czech Republic, the inclusion for the entire year of the results of two Czech subsidiaries (JČP and Teplárna Otrokovice), and currency effects. The significant increase in sales recorded in the Other/Consolidation segment is mainly attributable to the inclusion of Italy's Dalmine for the entire year.

Pan-European Gas's sales declined by 1 percent to €22,745 million (prior year: €22,947 million). Sales at Upstream/Midstream of €17,738 million were 6 percent below the prior-year figure of €18,889 million. The slight increase in sales volumes was counteracted by energy price developments and competitive pressure on sales prices in the midstream business. Upstream sales declined by €26 million due mainly to lower sales prices. Lower sales at Upstream/Midstream were

nearly offset by positive effects at Downstream Shareholdings, where sales increased by €852 million, or 18 percent, from €4,773 million in 2006 to €5,625 million in 2007. This is mainly attributable to sales development at E.ON Ruhrgas International which benefited principally from the fact that E.ON Földgáz Trade and E.ON Földgáz Storage were consolidated E.ON companies for all of 2007. These subsidiaries became consolidated E.ON companies on March 31, 2006. The sales declines at the other Downstream Shareholdings companies were primarily weather-driven. Thüga recorded lower sales. The main factors were lower power and gas sales volumes resulting primarily from warmer weather compared with the prior year. Higher electricity and gas prices and a positive sales effect stemming from changes to Thüga Italia's scope of consolidation were not sufficient to offset this development.

The U.K. market unit increased its sales slightly in 2007 compared with the prior year. Sales in the Non-regulated business, which is primarily comprised of the Energy Wholesale (generation and trading), Retail and the Energy Services businesses in the United Kingdom, increased by €95 million, from €12,031 million in 2006 to €12,126 million in 2007. This 1-percent increase was primarily attributable to higher average retail prices in 2007 offset by lower sales volumes compared with 2006 in the Retail business and higher sales volumes from the Energy Wholesale business. Sales in the Regulated business, which is primarily comprised of the U.K. distribution operations, increased to €888 million in 2007 from €858 million in 2006. The sales increase of €30 million, or 3 percent, was principally attributable to tariff changes. Sales attributed to Other/Consolidation consist almost entirely of the elimination of intrasegment sales and had a negative impact on sales of €430 million in 2007, as compared to a negative impact of €371 million in 2006.

Nordic's sales increased by €512 million compared with the prior year. Sales in the Non-regulated business increased as a result of significantly higher electricity volumes sold at Nord Pool and the positive impact of hedging activities. The increase in power sales was to some extent offset by weather-driven declines in gas and heat sales. Sales in the Regulated business increased by €4 million, mainly based on a tariff adjustment to cover increased costs for line loss in 2006. This increase was partly offset by a decrease in transported gas volumes.

Sales of U.S. Midwest's Regulated business, which is comprised of the utility operations of LG&E and KU, decreased by €103 million to €1,766 million in 2007, from €1,869 million in 2006. The 6-percent decrease was attributable to the strong euro (€156 million). In local currency, sales of the Regulated business increased as a result of higher power retail sales partially offset by lower gas prices. Sales at the Non-regulated business decreased primarily due to the strong euro. Sales in local currency were relatively flat.

Intersegment sales of approximately –€4 billion were netted out in the Corporate Center/New Markets segment. Sales of Russian power producer OGK-4 and wind-farm operator E2-I were €248 million and €5 million, respectively.

### Adjusted EBIT

Adjusted EBIT			
€ in millions	2007	2006	+/- %
Central Europe	4,670	4,235	+10
Pan-European Gas	2,576	2,347	+10
U.K.	1,136	1,239	-8
Nordic	670	512	+31
U.S. Midwest	388	426	-9
Corporate Center/New Markets	-232	-403	-
<b>Total</b>	<b>9,208</b>	<b>8,356</b>	<b>+10</b>

Central Europe's adjusted EBIT exceeded the prior-year figure by about €435 million, or 10 percent.

Central Europe West Power increased adjusted EBIT by €509 million year on year to €4,145 million. Gross margin effects, the necessary revaluation of provisions for nuclear waste management, and the absence of aperiodic negative effects recorded in the prior-year period were partially mitigated by higher electricity procurement costs and higher expenditures resulting in particular from an increase in the amount of renewable-source electricity delivered onto the network. Adjusted EBIT was also adversely affected by the outages at Krümmel and Brunsbüttel (jointly owned nuclear power stations that have been out of service since

the middle of 2007), provisions for obligations in network operations, higher maintenance and IT costs, and lower results from network activities. Another negative factor was lower equity earnings from associated companies due to the absence of positive non-recurring effects recorded in 2006. Higher group internal cost allocation and negative effects relating to new sales operations (mainly the buildup of E WIE EINFACH, our new retail subsidiary in Germany) also served to mitigate to some extent Central Europe West Power's positive earnings performance.

Adjusted EBIT of €200 million at Central Europe West Gas was €70 million below the prior-year figure due primarily to the very mild winter and the resulting decline in sales volumes.

Central Europe East's earnings performance was very positive, with adjusted EBIT climbing by 30 percent year on year to €361 million. The increase results primarily from higher gross margins in Hungary and Romania along with positive earnings contributions from JČP and Teplárna Otrokovice, whose results were included for only part of the prior year. Positive currency effects and higher equity earnings from associated companies also served to increase adjusted EBIT. Adverse effects included weather-driven declines in sales volumes, particularly in the Czech Republic.

Adjusted EBIT of -€36 million recorded under Other/Consolidation was €99 million below the prior-year figure as a result of lower results from realized currency hedging transactions, lower earnings from the sale of securities, and higher other expenditures.

Pan-European Gas's adjusted EBIT of €2,576 million was €229 million, or 10 percent, above the prior-year figure. The increase is attributable to Downstream Shareholdings, where adjusted EBIT rose from €453 million to €987 million, an increase of €534 million or 118 percent. The increase in adjusted EBIT at the E.ON Földgáz companies was the main factor. It resulted from their inclusion, for the first time, for an entire year and from a regulation-driven settlement for price adjustments not taken in prior years. The absence of impairment charges taken on certain shareholdings at Thüga in 2006 had

a positive effect on adjusted EBIT in 2007. Other positive factors included higher book gains on the sale of shareholdings at Thüga Deutschland, higher equity earnings from associated companies reflecting deferred tax income resulting from Germany's corporate tax reform.

Adjusted EBIT at the midstream business was €235 million lower than the figure for the prior year, mainly due to a decline in gross margins brought on by lower earnings from storage valuation, competition-driven price measures, and results of short-term trading transactions. The earnings decline was mitigated by the absence in the current year of the adverse earnings effect recorded in the prior year resulting from the fact that procurement prices are adjusted more rapidly than sales prices. This effect was only partially offset by higher equity earnings from associated companies, in particular from Gazprom.

Adjusted EBIT in the upstream business fell by €89 million due to lower gas sales prices, higher impairment charges on exploration activities in the German and U.K. North Sea, and higher gas field operating costs and write-downs due to the start of production at new fields.

The U.K. market unit delivered an adjusted EBIT of €1,136 million in 2007, of which €509 million was in the Regulated business and €762 million in the Non-regulated business. Adjusted EBIT at the Regulated business increased by €21 million principally due to tariff increases. Adjusted EBIT at the Non-

regulated business decreased by €89 million. The key features were lower retail margins due to the price reduction and lower retail sales volumes due to both warmer weather and lower customer numbers. These effects were partially offset by the avoidance of the high gas input costs during the first quarter of 2006 caused by gas supply issues and cold weather, increased margins from the gas power stations, and improved station availability. Adjusted EBIT recorded under Other/Consolidation was €35 million lower than in the prior year, mainly due to the transfer of some activities to the center from the business units and a number of items accounted for centrally such as foreign-exchange hedging.

Nordic's adjusted EBIT increased by €158 million year on year to €670 million. Adjusted EBIT at the Non-regulated business rose from €342 million to €488 million, due mainly to higher electricity volumes (primarily from hydro production due to an above-normal inflow to winter reservoirs) plus higher average wholesale price levels achieved through hedging activities. The Non-regulated business was negatively affected by a change in the estimate for future nuclear decommissioning costs. The retail and heat businesses performed better than in the prior year despite lower volumes. The retail business benefited from lower operating costs and higher intercompany offsets resulting from contracts within the market unit. The positive development in the heat business was mainly a result of more cost-efficient production. Adjusted EBIT of €220 million for the Regulated business rose by 10 percent due mainly to increased network tariffs based on higher costs for line loss in previous years. Adjusted EBIT at the gas distribution business was at the same level as the prior year. On January 14, 2007, a storm in southern Sweden caused substantial damage to the electricity distribution system in some areas. The costs of repair work and compensation of customers were approximately €95 million. Storm-related costs do not affect adjusted EBIT, as this event was exceptional in nature.

Adjusted EBIT at the U.S. Midwest market unit decreased by 9 percent, from €426 million in 2006 to €388 million in 2007. Adjusted EBIT at the Regulated business decreased by €38 million or 9 percent, from €431 million in 2006 to €393 million in 2007. The decrease is primarily attributable to the stronger euro (€36 million). In local currency, adjusted EBIT was slightly lower than in the previous year. Lower off-system electric sales and lower gas margins as a result of the timing of gas cost recoveries from customers were generally offset by higher retail electric volumes and earnings from higher environmental cost recoveries. Adjusted EBIT at E.ON U.S.'s Non-regulated business was flat compared to prior year.

Adjusted EBIT recorded under Corporate Center/New Markets was -€232 million (2006: -€403 million). Adjusted EBIT at OGK-4 and E2-I was insignificant.

## ROCE and Value Added

### Groupwide Value-Oriented Management Approach

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

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

### Cost of Capital

The cost of capital is determined by calculating the weighted-average cost of equity and debt. This average represents the market-rate returns expected by stockholders and creditors. The cost of equity is the return expected by an investor in E.ON stock. The cost of debt equals the long-term financing terms (after taxes) that apply in the E.ON Group. The parameters of the cost of capital determination are reviewed on an annual basis. The cost of capital is adjusted if there are significant changes.

Due to significant changes in a number of the parameters, we adjusted our cost of capital in the 2007 financial year.

The table at right illustrates the derivation of cost of capital before and after taxes for 2007 and 2006. Deviations result in particular from a decline in interest-rate levels and a change in E.ON's debt-to-equity ratio. We currently use a debt-to-

equity ratio of 35 to 65 for the E.ON Group. This figure reflects a target capital structure derived from the market value of E.ON's equity and a level of debt commensurate with E.ON's target rating.

Overall, the new determination of the parameters led to a slight increase in the E.ON Group's average cost of capital for 2007, which increased from 5.9 percent to 6.1 percent after taxes and from 9.0 percent to 9.1 percent before taxes.

We also adjusted the individual market units' minimum ROCE requirements, which for 2007 were between 7.8 percent and 9.5 percent before taxes.

Cost of Capital		
	2007	2006
Risk-free interest rate	4.3%	5.1%
Market premium <sup>1</sup>	4.0%	5.0%
Beta factor <sup>2</sup>	0.85	0.7
<b>Cost of equity after taxes</b>	<b>7.7%</b>	<b>8.6%</b>
Tax rate	33%	35%
Cost of equity before taxes	11.5%	13.2%
Cost of debt before taxes	4.7%	5.6%
Tax shield (tax rate: 35%) <sup>3</sup>	1.6%	2.0%
<b>Cost of debt after taxes</b>	<b>3.1%</b>	<b>3.6%</b>
Share of equity	65%	45%
Share of debt	35%	55%
<b>Cost of capital after taxes</b>	<b>6.1%</b>	<b>5.9%</b>
<b>Cost of capital before taxes</b>	<b>9.1%</b>	<b>9.0%</b>

<sup>1</sup>The market premium reflects the higher long-term returns of the stock market compared with German treasury notes.  
<sup>2</sup>The beta factor is used as an indicator of a stock's relative risk. A beta of more than one signals a higher risk than the risk level of the overall market; a beta factor of less than one signals a lower risk.  
<sup>3</sup>The tax shield takes into consideration that the interest on corporate debt reduces a company's tax burden. For 2007, the tax rate relevant for this calculation deviated slightly from the E.ON Group's average tax rate.

Effective 2008, the cost of capital was adjusted again to reflect the corporate tax reform laws that took effect in Germany and the United Kingdom on January 1, 2008. The E.ON Group's average cost of capital is now 6.3 percent after taxes and 8.6 percent before taxes.

### Analyzing Value Creation by Means of ROCE and Value Added

ROCE is a pretax total return on capital. It measures the sustainable return on invested capital generated by operating a business. ROCE is defined as the ratio of adjusted EBIT to capital employed.

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

As in the prior year, capital employed does not include the marking to market of other share investments. The purpose is to provide us with a more consistent picture of our ROCE performance. Other share investments are recorded in the Consolidated Balance Sheets at their mark-to-market valuation. However, changes in their market value do not affect adjusted EBIT but are included in equity, resulting in neither profit nor loss. This applies in particular to our shares in Gazprom.

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

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

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

E.ON Group ROCE and Value Added		
€ in millions	2007	2006
<b>Adjusted EBIT</b>	<b>9,208</b>	<b>8,356</b>
Goodwill, intangible assets, and property, plant, and equipment	69,597	61,698
+ Shares in affiliated and associated companies and other share investments	22,994	21,303
+ Inventories	3,811	4,199
+ Accounts receivable	9,064	9,760
+ Other noninterest-bearing current assets and deferred tax assets	13,317	12,561
- Noninterest-bearing provisions <sup>1</sup>	6,024	5,614
- Noninterest-bearing liabilities and deferred tax liabilities	35,132	36,149
- Adjustments <sup>2</sup>	9,692	6,267
<b>Capital employed in continuing operations (at year end)</b>	<b>67,935</b>	<b>61,491</b>
<b>Capital employed in continuing operations (annual average)<sup>3</sup></b>	<b>63,287</b>	<b>60,756</b>
<b>ROCE</b>	<b>14.5%</b>	<b>13.8%</b>
<b>Cost of capital</b>	<b>9.1%</b>	<b>9.0%</b>
<b>Value added</b>	<b>3,417</b>	<b>2,916</b>

<sup>1</sup>Noninterest-bearing provisions mainly include current provisions. In particular, they do not include provisions for pensions or for nuclear waste management.

<sup>2</sup>Capital employed is adjusted to exclude the mark-to-market valuation of other share investments (including related deferred-tax effects) and operating liabilities for certain purchase obligations to minority shareholdings pursuant to IAS 32. The adjustment to exclude the mark-to-market valuation of other share investments applies primarily to our shares in Gazprom.

<sup>3</sup>In order to better depict intraperiod fluctuations in capital employed, annual average capital employed is calculated as the arithmetic average of the amounts at the beginning of the year, the end of the year, and the balance-sheet dates of the three interim reports. Capital employed in continuing operations amounted to €62,374 million, €62,004 million, and €62,630 million at March 31, June 30, and September 30, 2007, respectively.

## ROCE and Value Added by Segment

€ in millions	Central Europe		Pan-European Gas <sup>1</sup>		U.K.	
	2007	2006	2007	2006	2007	2006
Adjusted EBIT	4,670	4,235	2,576	2,347	1,136	1,239
÷ Capital employed	18,943	19,818	17,130	15,855	12,368	12,822
= ROCE	24.7%	21.4%	15.0%	14.8%	9.2%	9.7%
Cost of capital	9.3%	9.0%	8.8%	8.2%	9.5%	9.2%
Value added	2,917	2,457	1,062	1,046	-37	64

<sup>1</sup>Capital employed is adjusted to exclude the mark-to-market valuation of other share investments. This applies primarily to our shares in Gazprom.

## ROCE and Value Added Performance

Our integration and growth strategy is reflected in an additional improvement of the E.ON Group's ROCE and value added performance. In 2007, our ROCE and value added were again higher compared with the prior year. With a ROCE of 14.5 percent, we substantially exceeded our cost of capital. Value added increased to €3.4 billion in 2007.

## Central Europe

The Central Europe market unit significantly increased both its ROCE and value added in 2007. Positive price effects and operating improvements in conjunction with a significant reduction in the capital basis led to a positive ROCE performance. Capital employed declined despite higher investments mainly because of a reduction in working capital, positive effects from changes in deferred taxes, and the sale of shareholdings. Central Europe's medium-term investment plan of €14 billion will lead to an increase in capital employed that cannot be perpetually offset by further improvements in working capital.

## Pan-European Gas

Pan-European Gas achieved a slight increase in both ROCE and value added in 2007. The main driver was the earnings improvement in the downstream business that resulted in particular from the earnings increase at shareholdings in Hungary and the absence of non-recurring adverse earnings effects relating to the regulation of network charges. In addition, E.ON Földgáz benefited from a regulation-driven settlement for price adjustments not taken in prior years. Despite a higher capital basis resulting from an increase in investments, these positive effects led ROCE to increase slightly, from 14.8 to 15.0 percent.

Nordic		U.S. Midwest		Corporate Center/New Markets		E.ON Group	
2007	2006	2007	2006	2007	2006	2007	2006
670	512	388	426	-232	-403	9,208	8,356
6,886	6,423	6,780	7,118	1,180	-1,280	63,287	60,756
9.7%	8.0%	5.7%	6.0%	-	-	14.5%	13.8%
8.8%	9.0%	7.8%	8.0%	-	-	9.1%	9.0%
62	-64	-142	-142	-	-	3,417	2,916

### U.K.

U.K.'s ROCE declined to 9.2 percent in 2007. The primary negative factor was the decline in the operating earnings contribution from the retail business, which was partially offset by a decrease in the capital basis resulting from a reduction in working capital.

### Nordic

In 2007, Nordic increased its ROCE to 9.7 percent, markedly surpassing its cost of capital. This value creation is principally due to the significant year-on-year increase in adjusted EBIT Nordic achieved, which more than offset an investment-driven increase in capital employed.

### U.S. Midwest

U.S. Midwest's ROCE declined slightly compared with the prior year, resulting primarily from timing effects in the recovery of gas procurement costs from customers. This effect does not constitute a lasting reduction in ROCE.

## Investments

In late May 2007, E.ON presented its corporate strategy for the future. The centerpiece is an investment program under which we plan to invest €60 billion through 2010 to expand our business and achieve selective growth in our European core market and in adjacent growth regions. Seventy percent of the program represents growth. One key focus, for which we have earmarked €12 billion, is the construction of new power plants.

We already began to implement the investment program in the second half of 2007. For 2007 as a whole, the E.ON Group invested €11.3 billion. Of this figure, we invested €6.9 billion in intangible assets and property, plant, and equipment compared with €4.1 billion in the prior year. Share investments totaled €4.4 billion versus €0.9 billion in the prior year.

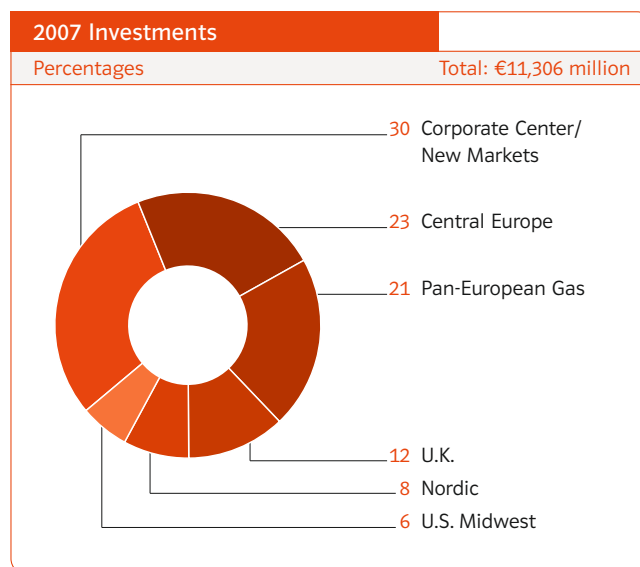
Investments			
€ in millions	2007	2006	+/- %
Central Europe	2,581	2,279	+13
Pan-European Gas	2,424	882	+175
U.K.	1,364	863	+58
Nordic	914	642	+42
U.S. Midwest	690	398	+73
Corporate Center/New Markets	3,333	-27	-
<b>Total</b>	<b>11,306</b>	<b>5,037</b>	<b>+124</b>
<i>Outside Germany</i>	<i>9,058</i>	<i>3,212</i>	<i>+182</i>

Economic Value of Investments	
€ in millions	2007
Cash-effective investments	11,306
Debt acquired	1,150
Long-term rental and leasing obligations	198
Asset swaps	-
<b>Total</b>	<b>12,654</b>

In 2007, Central Europe invested €302 million more than in the prior year. Investments in intangible assets and property, plant, and equipment totaled €2,390 million compared with €1,883 million in 2006. The additional investments went towards power generation projects currently under way, particularly those in Germany and Italy, and investments in off-shore network infrastructure. Share investments of €191 million were €205 million below the prior-year figure.

Pan-European Gas invested €2,424 million. Of this figure, €1,381 million (prior year: €377 million) went towards intangible assets and property, plant, and equipment. Here, the purchase of Skarv and Idun gas fields (€641 million) and the construction of new gas pipelines Lauterbach-Scheidt and Rothenstadt-Schwandorf (€160 million) constituted the biggest investments. Share investments of €1,043 million (prior year: €505 million) almost exclusively reflect the acquisition of Contigas Deutsche Energie-AG from the Central Europe market unit. A corresponding offsetting item was recorded in the Corporate Center/New Markets segment.

U.K.'s investments were €501 million higher, primarily due to increased additions to property, plant, and equipment. The non-regulated business increased investment in the development of new generation capacity and gas storage. Expenditure in the regulated business increased in line with the allowance granted under the five-year regulation review.



Throughout 2007, Nordic continued its challenging investment plan to increase its generating capacity and further improve security of supply, investing €272 million more than in 2006. Nordic invested €892 million (prior year: €592 million) in intangible assets and property, plant, and equipment to maintain and expand existing production plants and to upgrade and extend the distribution network. Share investments totaled €22 million compared with €50 million in 2006.

U.S. Midwest's investments of €690 million were 73 percent above the prior-year figure, primarily due to increased spending for SO<sub>2</sub> emission-abatement equipment and the new baseload unit under construction at the Trimble County plant. This unit is expected to go into service in 2010.

In addition to the offsetting item recorded for the intragroup acquisition of Contigas Deutsche Energie-AG, the Corporate Center/New Market segment's investments primarily reflect expenditures to acquire ENERGI E2-I Renovables Ibéricas and Airtricity North America, both of which are wind-farm operators, and OGK-4, a major Russian power producer.

### Share Buyback

E.ON repurchased €3.5 billion of its own shares on-market in 2007, acquiring 27,974,944 shares at an average price of €125.1120 between June and December 2007. E.ON also sold put options on 10 million of its own shares in 2007 with an average exercise price of €114.2757. These options may be exercised between August and October 2008. The share buyback is expected to be fully completed by the end of 2008.

### Cash Flow and Financial Condition

E.ON presents its financial condition using, among other financial measures, cash provided by operating activities of continuing operations and economic net debt.

Consolidated Statements of Cash Flows (Summary)		
€ in millions	2007	2006
Cash provided by operating activities of continuing operations	8,726	7,161
Cash provided by (used for) investing activities of continuing operations	-8,789	-4,457
Cash provided by (used for) financing activities of continuing operations	1,808	-5,860
<b>Net increase (decrease) in cash and cash equivalents maturing</b>	<b>1,745</b>	<b>-3,156</b>
Liquid funds as shown on December 31	7,075	6,189

Cash provided by investing activities was -€8,789 million (prior year: -€4,457 million). Spending on investments in property, plant, and equipment and on share investments rose significantly over the previous year, from €5,037 million to €11,306 million. By contrast, proceeds from the sale of shareholdings declined to €1,431 million (prior year: €3,877 million). The reallocation of long-term deposits resulted in an increase in cash of €800 million. Cash provided by financing activities amounted to €1,808 million due to the cash inflows from borrowing exceeding the cash outflows relating to the share buyback and the dividend payout. Note 29 to the Consolidated Financial Statements contains further information about the Consolidated Statements of Cash Flows.

The E.ON Group's cash provided by operating activities was 22 percent higher in 2007 than in 2006.

Central Europe's cash provided by operating activities of €3,811 million was on par with the prior-year level. The main positive factors were a reduction in working capital and a higher cash-effective electricity margin. Cash provided by operating activities was adversely affected by the regulation of network charges, outages at jointly owned nuclear power stations, higher expenditures for electricity purchased pursuant to Germany's Renewable Energy Law, and a weather-driven decline in natural gas sales volumes. Higher group charges and negative effects relating to new sales operations (mainly the buildup of E WIE EINFACH, our new retail subsidiary in Germany) also served to reduce cash provided by operating activities.

Cash Provided by Operating Activities of Continuing Operations			
€ in millions	2007	2006	+/-
Central Europe	3,811	3,802	+9
Pan-European Gas	3,041	604	+2,437
U.K.	1,615	724	+891
Nordic	914	715	+199
U.S. Midwest	216	381	-165
Corporate Center/New Markets	-871	935	-1,806
<b>Cash provided by operating activities of continuing operations</b>	<b>8,726</b>	<b>7,161</b>	<b>+1,565</b>
Maintenance investments	1,984	1,788	+196
Growth and replacement investments, acquisitions, other	9,322	3,249	+6,073
Cash-effective effects from disposals	1,431	3,877	-2,446

Pan-European Gas recorded a substantial improvement in cash provided by operating activities in 2007. This is mainly attributable to the inclusion of the E.ON Földgáz companies, which were not consolidated until March 31, 2006, and negatively impacted cash provided by operating activities in the prior-year period due to a buildup of working gas in storage at E.ON Földgáz Trade. In addition, there were positive effects at E.ON Ruhrgas from storage usage in the period under review. Higher advance payments from customers and lower tax payments were other positive factors in 2007. Higher non-recurring dividend payments compared with the prior year also contributed to the increase in cash provided by operating activities.

Cash provided by operating activities at the U.K. market unit was significantly higher year on year. The improvement was mainly due to the following factors:

- improved operational performance from the Retail business which has delivered a reduction in debtor days
- strong profits from the fourth quarter of 2006 collected as cash in 2007.

Market commodity prices declined in 2007. This resulted in lower commodity purchase costs but also triggered a retail price reduction for our customers. Lower commodity purchase costs reduced cash outflows immediately. However, the impact of the lower retail sales prices is delayed from a cash inflow perspective due to quarterly billing cycles and customer payment profiles.

Nordic's cash provided by operating activities increased significantly compared with the prior year. Positive effects from higher power sales volumes and higher average wholesale price levels achieved through hedging activities were offset by cash-effective payments for the January storm and by higher income tax payments.

Cash provided by operating activities at U.S. Midwest was lower mainly due to increased pension contributions made in 2007 and the strong performance of the euro.

The Corporate Center/New Markets segment's cash provided by operating activities was considerably below the prior-year level, due mainly to higher tax payments.

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

Net financial position equals the difference between our total financial liabilities and our total liquid funds and non-current securities. Our net financial position of -€7,494 million was €7,357 million below the figure reported as of December 31, 2006 (-€137 million). The main factors were the significant increase in investments along with expenditures for the share buyback program.

Net financial position includes liquid funds and non-current securities in the amount of €13,970 million (prior year: €13,335 million). Non-current securities consist mainly of highly liquid, fixed-return securities. Only a very small portion consists of direct subprime investments for which we estimate a maximum risk of loss of €10 million.

Besides financial liabilities, there are other line items that are debt-like. These are mainly provisions for pensions and provisions for nuclear waste management. To provide a more meaningful description of E.ON's actual financial situation, starting with the first quarter of 2007 we have been reporting a new key figure, "economic net debt." This key figure supplements net financial position with provisions for pensions and provisions for waste management and asset retirement obligations (less prepayments).

Economic Net Debt		
€ in millions	December 31	
	2007	2006
Liquid funds	7,075	6,189
Non-current securities	6,895	7,146
<b>Total liquid funds and non-current securities</b>	<b>13,970</b>	<b>13,335</b>
Financial liabilities to banks and third parties	-19,357	-11,465
Financial liabilities to group companies	-2,107	-2,007
<b>Total financial liabilities</b>	<b>-21,464</b>	<b>-13,472</b>
<b>Net financial position</b>	<b>-7,494</b>	<b>-137</b>
Provisions for pensions	-2,890	-3,962
Non-contractual nuclear waste management obligations	-10,155	-10,545
Contractual nuclear waste management obligations	-3,635	-3,683
Other asset retirement obligations	-1,244	-1,196
Less prepayments to Swedish nuclear fund	1,280	1,290
<b>Economic net debt</b>	<b>-24,138</b>	<b>-18,233</b>
Adjusted EBITDA	12,450	11,724
<b>Debt factor</b>	<b>1.9</b>	<b>1.6</b>

Compared with the figure as of December 31, 2006 (–€18,233 million), economic net debt increased by €5,905 million to –€24,138 million. The main factor was the change in our net financial position (–€7,357 million). Positive factors included the reduction of €1,072 million in provisions for pensions and the reduction of €390 million in provisions for nuclear waste management.

Pension obligations declined compared with year end 2006 due principally to actuarial gains attributable to higher interest rates used to calculate the defined benefit obligation.

Debt factor is the ratio between economic net debt and adjusted EBITDA. Our debt factor as of year end 2007 was 1.9 compared with 1.6 as of year end 2006.

## Financial Strategy

As part of E.ON's new strategic direction, we also further developed our financial strategy. It has four key elements:

- E.ON's rating target is single A flat/A2. We defined this as our rating target as part of our original plan to acquire Endesa and confirmed it as our rating target in May 2007. Compared with our former target (strong single A), the new rating target enables us to increase our leverage, thereby improving our capital structure while ensuring our access to financing.
- To manage our capital structure we introduced a new steering measure: the debt factor. The debt factor is our economic net debt divided by adjusted EBITDA. Economic net debt includes not only our financial liabilities but also our provisions for pensions and asset retirement obligations. We have defined 3 as our target debt factor, which is derived from our target rating.
- We intend to actively manage our capital structure. We will use the debt factor to continually monitor—and if necessary, optimize—our capital structure. If our debt factor is significantly above 3, strict investment discipline will be called for. In the case of strategically important investments, we would have to utilize alternative financing concepts in the form of portfolio measures or capital increases. If it becomes apparent that our debt factor will fall and remain significantly below 3, we will return capital to our shareholders, for example through higher dividend payments or share buybacks. But we will always give priority to value-enhancing investments.
- Our target dividend payout ratio remains at 50 to 60 percent of adjusted net income.

To supplement our investment program, we are conducting a €7 billion share buyback. We expect the buyback to be completed by the end of 2008 at the latest, by which time we will also achieve our target debt factor.

## Financial Policy and Initiatives

Our investment program and share buyback program are financed by means of liquid funds, cash provided by operating activities, and debt. Our financial policy is designed to give E.ON access to a variety of financial resources at any time.

As a rule, external financing is carried out by E.ON AG or via our Dutch financing company E.ON International Finance B.V. under guarantee of E.ON AG and the funds are onlent as needed within the Group.

Our financial policy is based on the following principles. First, we use a variety of markets and debt instruments to maximize the diversity of our investor base. Second, we issue bonds with maturities that give our debt portfolio a broadly balanced

maturity profile. Third, we combine large-volume benchmark issues with smaller issues that take advantage of market opportunities as they arise.

In October 2007, E.ON launched its financing program with a €3.5 billion benchmark bond, followed by a £1.5 billion benchmark bond (also in October) and a debut CHF 425 million bond in the Swiss bond market (in November). Our bonds denominated in euros and pounds sterling were significantly oversubscribed and placed with a large number of institutional investors. The Swiss-franc bonds were publicly offered in Switzerland only and were also placed with a large number of investors. Our successful bond issues demonstrate that investors support our corporate and financial strategy.

The following E.ON bonds are outstanding:

Bonds Issued by E.ON International Finance				
Issue volume and currency	Term	Maturity	Coupon	Listing
EUR 4,250 million	7 years	May 2009	5.750%	Luxembourg
CHF 200 million	3 years	Dec 2010	3%	SWX Swiss Exchange
GBP 500 million	10 years	May 2012	6.375%	Luxembourg
EUR 1,750 million	5 years	Oct 2012	5.125%	Luxembourg
CHF 225 million	7 years	Dec 2014	3.25%	SWX Swiss Exchange
EUR 900 million	15 years	May 2017	6.375%	Luxembourg
EUR 1,750 million	10 years	Oct 2017	5.5%	Luxembourg
GBP 600 million	12 years	Oct 2019	6%	Luxembourg
GBP 975 million	30 years	June 2032	6.375%	Luxembourg
GBP 900 million	30 years	Oct 2037	5.875%	Luxembourg

In the secondary market, E.ON bonds developed differently in the first half and the second half of 2007. In the first half of the year, the risk premiums (spreads) of E.ON bonds narrowed (for our euro-denominated bonds) or remained largely unchanged (for our bonds denominated in British pounds sterling). In the second half of the year, the spreads widened significantly driven by the mortgage-lending crisis in the United States and a negative overall mood in the market. Credit default swaps, indicators of the current price of hedging E.ON's credit risk, followed this pattern.

E.ON bonds are included in all relevant bond indices, in particular the iBoxx Utilities A, iBoxx Utilities, and iBoxx Non-Financials A. Selection for inclusion in indices is subject to criteria, such as a bond's rating, maturity, and minimum trading volume.

E.ON bonds were issued under our existing Debt Issuance Program ("DIP"). In December 2007, the DIP's volume was raised from €10 billion to €30 billion. Translated into our reporting currency, we had €13 billion in bonds outstanding under our DIP at year end 2007.

In addition to our DIP, we have a €10 billion European Commercial Paper under which we can issue short-term commercial paper. We had utilized €1.8 billion of this program as of year end 2007.

E.ON successfully increased its existing syndicated credit facility from €10 billion to €15 billion. The facility consists of two tranches. The increase was achieved by raising the short-term tranche from €5 billion to €10 billion. The short-term tranche was also extended for an additional 364 days to November 27, 2008. The long-term tranche has a volume

of €5 billion and matures on December 2, 2011. As of year end 2007, our credit facility had not been utilized. Notes 26 and 27 to the Consolidated Financial Statements contain detailed information about E.ON's liabilities, contingencies, and commitments.

Following the announcement of our new investment plan for the period 2007-2010, on May 31, 2007, Moody's confirmed its long-term rating for E.ON at A2 with a stable outlook. Previously, Moody's had reduced its long-term rating for E.ON from Aa3 to A2 following E.ON's announcement that it had signed an agreement with Enel and Acciona to acquire certain assets. Moody's short-term rating for E.ON remained unchanged at P-1.

On June 12, 2007, Standard & Poor's lowered its long-term rating for E.ON from AA- to A (stable outlook) and its short-term rating from A-1+ to A-1 following the announcement of E.ON's revised strategy on May 31, 2007.

Moody's A2 rating and Standard & Poor's A rating take into consideration the increase in our planned investments and the resulting increase in our debt. Both agencies anticipate that the key figures relevant for E.ON's rating will remain compatible with the A2 and A ratings despite our increased investments and debt.

#### E.ON AG Ratings

	Long term	Short term	Outlook
Moody's	A2	P-1	Stable
Standard & Poor's	A	A-1	Stable

As of December 31, 2007, total equity and liabilities amounted to €137.3 billion, €9.7 billion more than the figure for December 31, 2006. Non-current assets increased by 10 percent, due principally to the inclusion of our new activities in Russia, Portugal, Spain, and the United States. As of the balance-sheet date, non-current assets and current assets accounted for 77 percent and 23 percent, respectively, of total equity and liabilities, largely unchanged from year end 2006. Our equity ratio was 40 percent, also unchanged from December 31, 2006.

The following key figures underscore that the E.ON Group has a solid asset and capital structure:

- Non-current assets are covered by equity at 52 percent (year end 2006: 53 percent).
- Non-current assets are covered by long-term capital at 102 percent (year end 2006: 102 percent)

Notes 4 to 18 to the Consolidated Financial Statements contain additional information about our asset situation.

Our positive earnings situation, solid increase in value, and good financial key figures are indicative of the E.ON Group's outstanding financial condition at year end 2007.

Consolidated Assets, Liabilities, and Equity				
€ in millions	Dec. 31, 2007	%	Dec. 31, 2006	%
Non-current assets	105,804	77	96,488	76
Current assets	31,490	23	31,087	24
<b>Total assets</b>	<b>137,294</b>	<b>100</b>	<b>127,575</b>	<b>100</b>
Equity	55,130	40	51,245	40
Non-current liabilities	52,402	38	46,947	37
Current liabilities	29,762	22	29,383	23
<b>Total equity and liabilities</b>	<b>137,294</b>	<b>100</b>	<b>127,575</b>	<b>100</b>

## Financial Statements of E.ON AG

E.ON AG prepares its Financial Statements in accordance with the German Commercial Code and the German Stock Corporation Act. E.ON AG's net income for 2007 amounts to €5,116 million compared with €2,572 million in the prior year. After transferring €2,526 million to retained earnings, net income available for distribution totals €2,590 million.

Balance Sheets of E.ON AG (Summary)		
€ in millions	December 31	
	2007	2006
Intangible assets and property, plant, and equipment	158	166
Financial assets	27,667	22,253
<b>Non-current assets</b>	<b>27,825</b>	<b>22,419</b>
Receivables from affiliated companies	20,466	18,779
Other receivables and assets	2,569	2,667
Liquid funds	1,634	338
<b>Current assets</b>	<b>24,669</b>	<b>21,784</b>
<b>Total assets</b>	<b>52,494</b>	<b>44,203</b>
Equity	14,076	14,669
Special items with provision component	414	410
Provisions	3,191	3,150
Liabilities to affiliated companies	30,388	23,785
Other liabilities	4,425	2,189
<b>Total equity and liabilities</b>	<b>52,494</b>	<b>44,203</b>

E.ON AG's income from equity interests increased by €3,534 million to €7,244 million, primarily because certain non-recurring effects led to higher income transferred under profit- and loss-pooling agreements. Income transferred under profit- and loss-pooling agreements (including income from group allocations) with E.ON Energie AG totaled €4,806 million and with E.ON Ruhrgas Holding GmbH €2,090 million.

The negative figure recorded under other expenditures and income (net) improved by €331 million year on year to -€250 million. This resulted from the one-time discounting of long-term noninterest-bearing tax credits that occurred in the prior year and the revaluation of provisions for pensions.

Twenty-five million of the shares purchased under the share buyback program were cancelled in 2007, which reduced E.ON AG's capital stock by €65 million. The €65 million was added to additional paid-in capital pursuant to Section 237, Paragraph 5 of the German Stock Corporation Act; this reduced retained earnings by €3,114 million.

Income taxes include current taxes for 2007 and the prior year. In 2006, the first-time capitalization of noninterest-bearing tax credits reduced the tax expense pursuant to new standards contained in Germany's Bill on the Tax Features for the Introduction of the European Corporation, partially offset by the effects of supplementary tax payments for previous years.

Income Statement of E.ON AG (Summary)		
€ in millions	2007	2006
Income from equity interests	7,244	3,710
Interest income	-557	-539
Other expenditures and income	-250	-581
<b>Income from continuing operations before income taxes</b>	<b>6,437</b>	<b>2,590</b>
Income taxes	-1,321	-18
<b>Net income</b>	<b>5,116</b>	<b>2,572</b>
Net income transferred to retained earnings	-2,526	-362
<b>Net income available for distribution</b>	<b>2,590</b>	<b>2,210</b>

At the Annual Shareholders Meeting on April 30, 2008, management will propose that net income available for distribution be used to pay a cash dividend of €4.10 per share, a 22 percent increase. The solid development of our operating earnings enables us to pay out a higher dividend for the ninth year in a row. We believe this makes E.ON stock even more attractive to investors.

If the number of ordinary shares is reduced as a result of the repurchase of own shares by the time of the Annual Shareholders Meeting, we plan to amend the proposed resolution in such a way that the amount proportionate to those repurchased shares (at an unchanged distribution of €4.10 per ordinary share) be carried forward as income.

The complete Financial Statements of E.ON AG, with the unqualified opinion issued by the auditors, PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Düsseldorf, will be announced in the electronic *Bundesanzeiger*. Copies are available on request from E.ON AG and at [www.eon.com](http://www.eon.com).

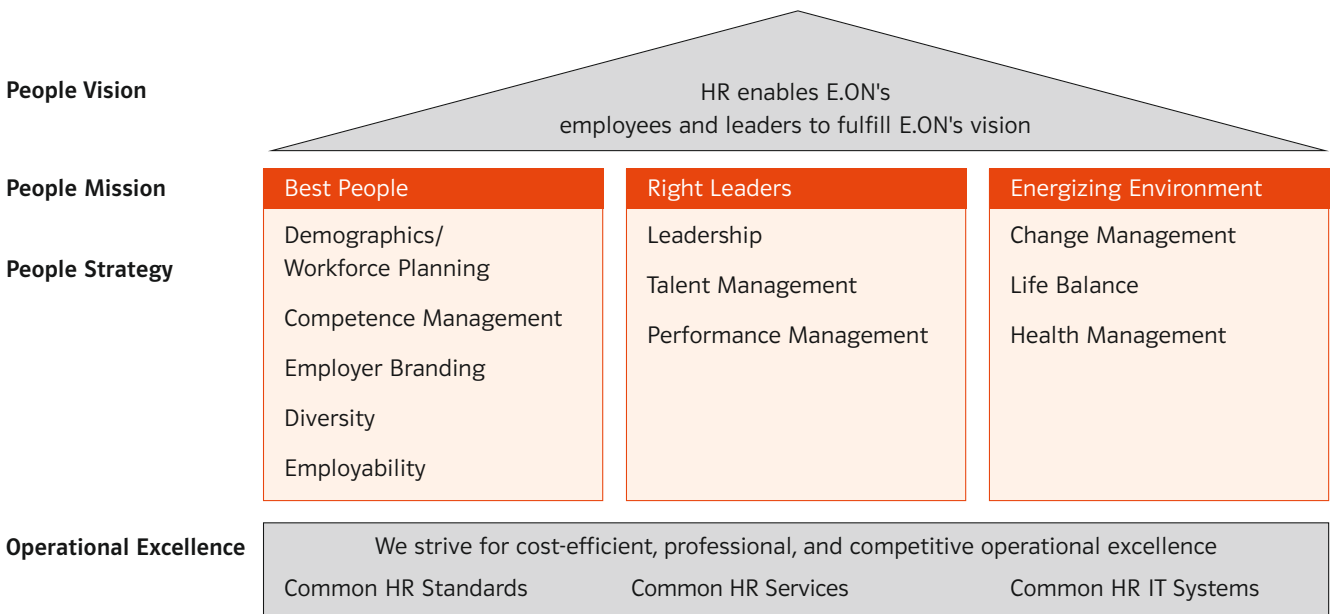
## Disclosures on Takeover Barriers

The disclosers pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4 of the German Commercial Code are in the chapter Disclosures on Takeover Barriers and Explanatory Report of the Board of Management on pages 83-84 of this report.

**Strategic Human Resources (“HR”)**

HR at the E.ON Group is based on OneHR, our groupwide HR strategy. OneHR is derived from E.ON’s corporate strategy, the E.ON values and behaviors, and the changing environment in which our company operates. HR forms the foundation on which E.ON employees and managers successfully execute our corporate strategy. We’ve defined 11 strategic fields of action which encompass specific initiatives and programs.

The purpose of our Talent Management activities is to identify, recruit, develop, and retain people with high potential. It includes our targeted support for top-talented female employees and our programs to further expand international employee exchange. These measures are designed to promote diversity and equality, contribute substantially to the company’s success, and reflect E.ON’s increasing internationalization.



Two of the principal challenges of today’s labor market are a declining number of qualified candidates and an aging workforce. We meet these challenges through concrete initiatives that comprise the Demographics/Staff Planning field of action. The purpose of these initiatives is to identify demographic risks early. Closely related are our activities to maintain our people’s employability and retain their expertise and experience for our company. For this purpose, E.ON Academy continues to further enhance our groupwide employee education programs and create new learning methods, such as the establishment of function-specific academies for all relevant job families.

We adopted an employer brand with the slogan “Your energy shapes the future” to help us compete for the best job candidates and secure E.ON a lasting position as a top employer.

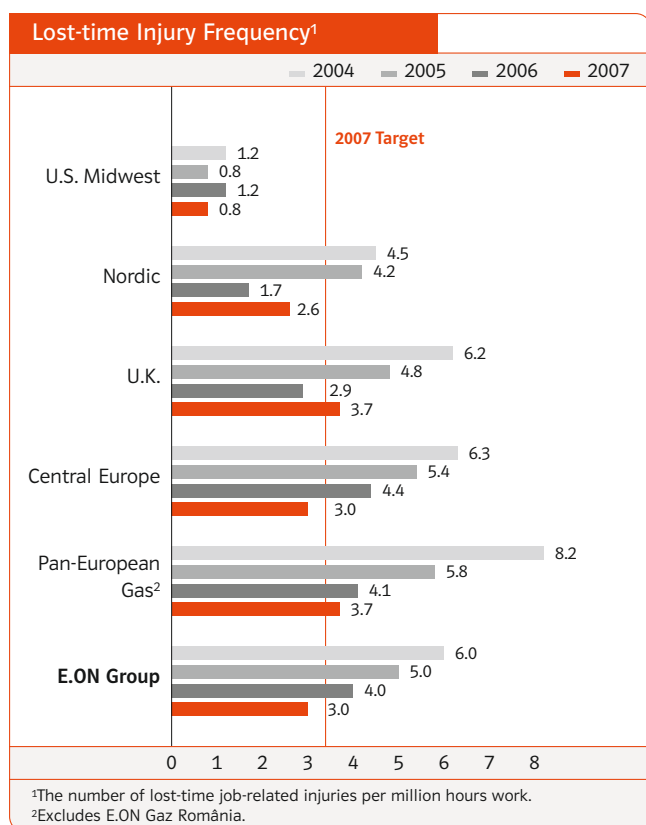
Our company faces special challenges when its structure changes through the creation or integration of new units. The Change Management field of action aims to support change processes and prepare our managers for dealing with change.

The Life Balance field of action consists of a wide variety of programs, from flex-work to childcare and eldercare services. The aim is to establish a healthy work-life balance as a company value and to cultivate a work environment that enables our employees to balance their career with their family and personal lives.

Many of our existing HR activities are already based on the fields of action and our HR strategy of recruiting and retaining the best employees, helping employees acquire the skills they need to move into management functions, and creating an attractive work environment.

## Occupational Safety

E.ON continues to be a leader in occupational health and safety. And we continue to improve. In 2007, E.ON recorded a lost-time injury frequency ("LTIF": the number of lost-time job-related injuries per million hours work) of 3, a 25-percent improvement on the prior-year figure. This improvement is the result of our systematic commitment to promoting a safety culture among E.ON employees and the contractor employees who work at our facilities and above all the linking of occupational safety to management incentives as well as a continual reporting process. Despite these efforts, we regret to report that four E.ON employees and nine contractor employees lost their lives on the job in 2007. This is unacceptable and has spurred us to initiate a comprehensive package of measures to do even more to promote a safety culture. As part of a project called Safe.TEG, top executives will undergo an external assessment to help them take a self-critical approach towards identifying potential areas for improvement. We will also continue with our Supplier Management project, which is aimed at ensuring that contractor employees enjoy the same occupational safety as E.ON employees, and expand our reporting system in order to increase transparency. In addition, E.ON established Executive Safety Councils to ensure that safety always comes first in our operations.



## Health Management

E.ON has a long tradition of employee health management. Colon cancer screening, smoke cessation courses, and a variety of company sports programs are just some of our offerings. By embedding health management in our OneHR strategy and coordinating it centrally at the Corporate Center, we're underscoring our belief that investing in our employees' health adds sustainable value to our organization.

## Employer Branding

E.ON was chosen as one of Germany's top 20 employers of 2007 in an employer ranking conducted by *karriere* magazine and the *geva*-institut. E.ON Ruhrgas again performed extremely well in external rankings and was chosen as one of Germany's Best Employers of 2007 and one of the Best Workplaces in Europe 2007, a ranking of the top 100 employers in Europe.

In winter semester 2007/2008, a program called E.ONSupportINGStudents was introduced across Germany. The program supports engineering students by offering them insights into engineering's practical applications, opportunities to network, mentoring, and financial support. The program will admit 30 students from across Germany each year.

## E.ON Graduate Program

Since it was launched in 2005, this program has accepted 120 trainees groupwide, of whom 45 have already completed the program successfully and started their careers with our company. In the fall of 2007, E.ON Gas Distributie in Romania became our first subsidiary in Eastern Europe to take part in the program.

## HR Development: Talent Management

We launched our new Senior Management Potentials program in July 2007. The revamped program offers promising employees a variety of individually tailored learning and development opportunities to help them acquire the personal and professional skills they need to become senior managers. Global Placement supports these employees along their development path towards senior management by ensuring that they are given preference in our systematic, groupwide hiring processes.

Groupwide training and development expenses (course costs) amounted to around €78 million in 2007 (excluding OGG-4, Airtricity, and E2-I). The majority of this training is conducted by E.ON Academy, our corporate university.

## Top Executives

The E.ON Group's increasing international expansion has a direct impact on how we manage the careers of our top executives. In addition to an increase in the number of manager exchanges between market units, top managers increasingly require international experience. Proven E.ON managers, including members of the Executive Pool, were selected for key positions in our newly acquired companies, while some country-specific management positions were filled with managers from the region. At the companies we acquired, we were successful in retaining the existing leadership.

## Compensation, Pension Plans, Employee Participation

Attractive compensation and appealing fringe benefits are essential to a competitive work environment. By redesigning and standardizing our company pension plans in Germany, we have ensured that these features will remain key components of E.ON's attractive compensation plans going forward.

Another factor in employee retention is enabling them to participate in their company's success. In 2007, Level 3 senior managers in Germany were included in the second tranche of the E.ON Share Performance Plan, broadening access to the program beyond top executives. In addition, we increased the appeal of the employee stock purchase program by increasing the company's contribution. In 2007, 22,184 employees purchased a total of 373,905 shares of E.ON stock. Participation increased to 59 percent from 54 percent in the prior year. Employees in the United Kingdom also have a Share Incentive Plan that enables them to buy E.ON stock at favorable terms.

## Embedding OneE.ON in the Workplace

Launched in 2004, OneE.ON is a process for cultivating a shared vision and shared values and behaviors across our organization. Regular corporate activities help embed our guiding principles in the workplace. In May 2007, we held the

first E.ON Olympics. Under the slogan Sports Unite, the event brought together 900 E.ON employees at Munich's Olympic Stadium, where they demonstrated their drive for excellent performance and their teamwork in 17 individual and team disciplines.

In June 2007, we held our third OneE.ON Day. The event focused on two themes, improving teamwork and negotiating change.

## E.ON Employee Opinion Survey ("EOS")

In September 2007, we conducted our third groupwide EOS. Eighty-one percent of employees participated. The EOS is a recognized and well-established management and communications tool that supports the implementation of E.ON's strategy and facilitates dialog between employees and management.

According to the survey, employee satisfaction stands at around 80 percent, which represents a high to very high level compared with other large corporations. The survey also showed increases in employees' identification with E.ON, their commitment to our corporate values, and their trust in E.ON's management. The focus areas for 2008 are to support change processes and to fine-tune our organization so that it enables our employees to deliver their best performance.

## Workforce

On December 31, 2007, the E.ON Group had 87,815 employees worldwide, about 9 percent more than at year end 2006. In addition, E.ON had 2,656 apprentices and 287 board members and managing directors.

The slight increase in Central Europe's workforce compared with year end 2006 was due primarily to the hiring of former apprentices who had completed their training.

Employees <sup>1</sup>	December 31		+/- %
	2007	2006	
Central Europe	44,051	43,546	+1
Pan-European Gas	12,214	12,417	-2
U.K.	16,786	15,621	+7
Nordic	5,804	5,693	+2
U.S. Midwest	2,977	2,890	+3
Corporate Center/New Markets <sup>2</sup>	5,983	445	-
<b>Total</b>	<b>87,815</b>	<b>80,612</b>	<b>+9</b>
Discontinued operations <sup>3</sup>	474	473	-

<sup>1</sup>Figures do not include apprentices, managing directors, and board members.  
<sup>2</sup>Includes OGK-4, E.ON Climate & Renewables.  
<sup>3</sup>Consists of WKE.

The number of employees at Pan-European Gas declined mainly due to efficiency-enhancement measures at E.ON Gaz Distributie in Romania.

U.K.'s workforce was higher due to headcount increases in the Retail and Energy Services businesses.

The increase in Nordic's workforce was primarily the result of the strategy in some business areas to replace contractor staff with internal staff and the acquisition of an energy services company.

The number of employees at U.S. Midwest rose by about 3 percent since year end 2006 due mainly to the construction of the Trimble County 2 generating unit and capital expansion projects.

At year end 2007, the Corporate Center/New Markets segment had 5,983 employees. This increase is primarily attributable to the acquisition of OGK-4 (a Russian power producer with approximately 5,300 employees) and wind-farm operators E2-I and Airtricity.

### Gender and Age Profile, Part-Time Staff

At the end of 2007, around 28 percent of our employees were women. Going forward, we want this figure to increase, particularly the percentage of women in management positions. Currently, 10 percent of our senior managers and 4 percent of our top executives are women.

At year end 2007, our average employee was about 41 years old and had worked for us for about 14 years. A total of 6,195 E.ON Group employees were on a part-time schedule, of whom 4,438, or 72 percent, were women. Employee turnover resulting from voluntary terminations averaged around 4 percent across the organization.

### Geographic Profile

At year end 2007, the E.ON Group employed 53,200 people, or 60.6 percent of our workforce, outside Germany. This represents an increase from the figure of 46,598 employees, or 57.8 percent of our workforce, for year end 2006. This is largely attributable to the acquisition of OGK-4, a Russian power producer.

Employees by Region <sup>1</sup>	
Dec. 31, 2007	
Germany	37,414
United Kingdom	17,143
Romania	10,568
Sweden	5,466
Russia	5,320
Hungary	4,958
USA and Canada	3,077
Czech Republic	2,562
Bulgaria	2,357
Other <sup>2</sup>	1,893

<sup>1</sup>Includes board members, managing directors, and apprentices.  
<sup>2</sup>Includes Italy, the Netherlands, Poland, Finland, Norway, Denmark, and certain other countries.

### Apprentice Programs

E.ON has always placed great emphasis on apprentice programs. In 2007, apprentices accounted for more than 7 percent of the E.ON Group's workforce in Germany, a further improvement from the prior years.

Apprentices in Germany	
Dec. 31, 2007	
Central Europe	2,369
Pan-European Gas	276
E.ON AG/Other	11
<b>E.ON Group</b>	<b>2,656</b>

Established in 2003, the E.ON training initiative continued in 2007. Beyond our regular apprenticeship programs, over 600 young people in Germany were offered prospects for the future through vocational training or an internship to prepare them for training. In another component of our training initiative, 430 disadvantaged young people received preparatory training for a future apprenticeship at 19 project locations. This program has been a true success over the past ten

years, with over 75 percent of its graduates having found an apprenticeship or a job. We have another program aimed at helping physically and mentally challenged people find a job at an E.ON company in Germany. The program is part of a national initiative run by German Federal Ministry for Labor and Social Security.

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

We have compiled a Compensation Report for the 2007 financial year which provides an overview of the compensation systems for the Board of Management and Supervisory Board and each board member's compensation within the E.ON Group. The report applies the regulations of the German Commercial Code amended to reflect the Management Board Compensation Disclosure Law as well as the principles of the German Corporate Governance Code. The Compensation Report, which is to be considered part of this Combined Group Management Report, can be found in the Corporate Governance Report on pages 117-121 and therefore does not appear here. Information about board compensation for E.ON AG is shown in the Notes to the Financial Statements of E.ON AG.

### Research and Development ("R&D")

In 2007, E.ON significantly enhanced its R&D to promote the introduction of new technologies. Our wide range of R&D activities aims to increase energy efficiency, conserve resources, and improve economic efficiency.

R&D expenditures totaled €37 million in 2007 against €27 million in the prior year. Overall, 190 employees work in R&D at the E.ON Group: 70 at Central Europe, 55 at U.K., 34 at Pan-European Gas, 24 at Nordic, and 7 at U.S. Midwest.

Innovative ideas often result from the interaction between basic research and practical experience. For this reason, E.ON enhanced its support for basic research and increased funding for energy research at universities and institutes to €5.5 million.

E.ON's investments in new technology (which include support for university research, R&D, and demonstration projects) totaled €83 million in 2007 compared with €57 million in the prior year.

Innovative technologies are the backbone of our company. As part of our groupwide research initiative called *innovate.on*, we launched a number of large-scale demonstration projects for new technologies in 2007. Going forward, we will continue to focus on promising key technologies that will help us meet the challenge of delivering an economically priced, environmentally friendly, and secure supply of energy. Once developed in our R&D programs, processes are put into practical application.

Examples of our R&D projects in 2007:

- carbon capture at Karlshamn power plant in Sweden
- research on carbon storage as part of an EU project in Germany
- upgrading of biogas to pipeline quality for injection into the natural gas pipeline system at demonstration facilities in Germany
- a pilot unit to study the corrosive effects of co-firing biomass in the United Kingdom
- applied research through the test of batteries to store electricity in the United Kingdom
- scientific field study with approximately 80 heat pumps that have replaced old oil furnaces in residential dwellings
- tests with a variety of natural gas heat pumps that conserve fuel by tapping a renewable resource: the heat of outside air.

A detailed description of our activities in the area of new technologies is on pages 80-82 of this report.

## Corporate Responsibility ("CR")

CR is becoming an increasingly important issue, both in our view and that of the general public. The framework for our CR efforts is the continually changing economic, environmental, and social landscape within which we operate as well as the many and varied expectations and interests of our stakeholders. We strive to be an energy-industry leader in CR. Our aim is to earn, maintain, and enhance our stakeholders' trust and to anticipate changes in our business environment and incorporate these insights into our decision-making processes, enabling us to actively manage commercial opportunities and risks and maximize shareholder value and the benefit to society.

We enlarged our CR organization in 2007 with the aim of making CR an even more integral part of our corporate culture and business processes. We added staff, including staff with international experience, to the CR department in the Corporate Center to give it the resources to engage in the strategic development and groupwide implementation of our CR strategy. Our CR Council, which was formed in 2005, is our groupwide committee for CR issues. It is composed of board members from our market units, professional staff from departments in the Corporate Center, and an employee representative. The council advises and supports the E.ON

Board of Management in identifying groupwide CR focus areas and setting objectives. CR managers and departments at our market units are responsible for overseeing the implementation of CR initiatives.

We defined a groupwide climate-protection target in 2007. By 2030 we aim to halve our specific carbon-dioxide emissions compared with 1990 levels. To meet this target, we plan to make substantial investments in renewables and in more efficient power plants. In 2007, we also redesigned our groupwide "Energy for Children" initiative, which focuses on early childhood education in energy and environmental issues. We plan to launch the initiative in 2008.

E.ON's commitment to transparent reporting is demonstrated by the CR Report we published in May 2007, which received an A+ rating—the highest rating possible—from the internationally recognized Global Reporting Initiative. This rating was one of the reasons E.ON was for the first time included in the Dow Jones Sustainability World and STOXX indices as a responsible company. Our performance in other external ratings improved, as well. For example, we moved from 25th to 16th position in Accountability's international rating of Fortune 100 companies.

In 2008, we will roll out a revamped CR strategy that better embeds CR in our corporate strategy. Going forward, one of our key tasks will be to integrate the new market units into our CR effort.

Our new CR Report will be published in May 2008 and will also be available at [www.eon.com](http://www.eon.com).

## Risk Management System

E.ON views the management of opportunities and risks as a normal and conscious aspect of managing our business. Consequently, our risk management system consists of a number of components that are embedded into E.ON's entire organizational structure and processes. As a result, our risk management system is an integral part of our business and decision-making processes. The key components of our risk management system include our groupwide guidelines and reporting systems; our standardized groupwide strategy, planning, and controlling processes; Internal Audit activities; the separate groupwide risk reporting conducted pursuant to the Corporate Sector Control and Transparency Act ("KonTraG"); and the establishment of risk committees. Our risk management system is designed to enable management to recognize risks early and to take the necessary countermeasures. We continually review our groupwide planning, controlling, and reporting processes to ensure they remain effective and efficient. As required by law, the effectiveness of our risk management system is reviewed regularly by our Internal Audit and our Independent Auditors.

## Risk Management and Insurance

E.ON Risk Consulting GmbH, a wholly owned subsidiary of E.ON AG, is responsible for insurance-risk management in the E.ON Group. It develops and optimizes solutions for E.ON's operating risks by using insurance and insurance-related instruments and secures the necessary coverage in international insurance markets. To this end, E.ON Risk Consulting GmbH is, among other things, responsible for management of client data and insurance contracts, the accounting of risk covering and claims, and all associated reporting.

## Risk Committee

Pursuant to the provisions of Section 91, Paragraph 2 of the German Stock Corporation Act relating to the establishment of a risk-monitoring and early warning system and to the minimum requirements for risk management and for the use of financial instruments at industrial companies contained in the German Minimum Requirements for Risk Management ("MaRisk"), the E.ON AG Board of Management has established a Risk Committee for E.ON AG. The Risk Committee,

which consists of representatives of key E.ON AG divisions and departments, is responsible for ensuring that the risk strategy for commodity and credit risks defined by the Board of Management is implemented, complied with, and further developed.

## Risk Situation

In the normal course of business, we are subject to a number of risks that are inseparably linked to the operation of our businesses. The E.ON Group, and thus E.ON AG, is exposed to the following categories of risk:

### Market Risks

Our market units operate in an international market environment that is characterized by general risks relating to the business cycle and by increasingly intense competition that could reduce our margins. Liberalization of the German electricity market caused prices to decrease beginning in 1998. Since 2001, prices have increased. Retail prices now exceed 1998 levels, and prices for sales to distributors and industrial customers have also increased. These price increases have generally been driven by increases in the price of fuel as well as additional taxes and levies. There was strong public criticism in the fall of 2007 in response to the announcement of electricity increases to take effect on January 1, 2008. Faced with rising energy costs, we cannot rule out the possibility of future electricity price increases. As a result, we expect to face increasing political pressure. Adjusted for taxes and other levies, German wholesale and retail electricity prices are in the midrange for Europe. Outside Germany, increased competition from new market entrants and existing market participants could adversely affect our U.K. or Swedish market share in both the retail and wholesale sectors. In addition to our operations in the United Kingdom and the Nordic countries, we are also subject to competitive pressure on margins in Eastern and Southern Europe and in other electricity markets where we are already present or in new electricity markets we may enter. E.ON Ruhrgas also faces risks associated with increased competition in the gas sector. We use a comprehensive sales management system and intensive customer management to minimize these risks.

### Commodity Price Risks

The E.ON Group's business operations are exposed to commodity price risks. In order to limit our exposure to these risks, we pursue systematic risk management. The key elements of our risk management are, in addition to the above-mentioned binding groupwide guidelines and groupwide reporting system, the use of quantitative key figures, the limitation of risks, and the strict separation of functions between departments. To limit commodity price risks, we utilize derivative financial instruments that are commonly used in the marketplace. These instruments are transacted with financial institutions, brokers, power exchanges, and third parties whose creditworthiness we monitor on an ongoing basis.

Our energy business mainly uses electricity, gas, coal, carbon emission, and oil price hedging transactions to limit its exposure to risks resulting from price fluctuations, to optimize systems and load balancing, and lock in margins. Our energy business also engages in proprietary commodity trading in accordance with detailed guidelines and within narrowly defined limits. The face value of energy derivatives amounted to €57,204 million as of December 31, 2007. Their market value was -€353 million.

### Financial Risks

We also use systematic risk management to manage our interest-rate and currency risks.

As of December 31, 2007, the nominal value of interest rate and foreign currency derivatives was €48,238 million; their market value was €615 million.

E.ON's operating activities and use of derivative financial instruments expose E.ON to credit default risks. We use a groupwide credit risk management system to systematically monitor the creditworthiness of our business partners and regularly calculate our credit default risk. We review our business partners' credit ratings by means of existing criteria for creditworthiness.

Furthermore, there are potential risks due to possible changes in the value of short-term and long-term securities. These risks are managed by appropriate asset management. We carry out both short-term and long-term financial planning to monitor and manage liquidity risks.

### Strategic Risks

Our business strategy involves acquisitions and investments in our core business. This strategy depends in part on our ability to successfully identify and acquire companies that enhance our energy business on acceptable terms. In order to obtain the necessary approvals for acquisitions, we may be required to divest other parts of our business or to make concessions or undertakings which materially affect our operations. In addition, there can be no assurances that we will be able to achieve the benefits we expect from any acquisition or investment. For example, we may fail to retain key employees, may be unable to successfully integrate new businesses with our 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. Furthermore, investments and acquisitions in new geographic areas or lines of business require us to become familiar with new markets and competitors and expose us to commercial and other risks. These considerations also apply to the package of strategic initiatives we adopted in 2007 and to our €60 billion investment program for the period through 2010.

We have comprehensive processes in place to manage these potential risks. These processes include, in addition to the relevant company guidelines and manuals, comprehensive due diligence, legally binding contracts, a multi-stage approvals process, and shareholding and project controlling. Comprehensive post-acquisition integration projects also contribute to successful integration.

### Operational Risks

Technologically complex production facilities are involved in the production and distribution of energy. Significant parts of Europe and North America have experienced major power outages in recent years. The reasons for these outages vary, although generally 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. The likelihood of 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 designed mainly for purposes of mutual assistance and operations optimization. As a result, there are transmission bottlenecks at many locations in Europe, and the high load has resulted in lower levels of 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, our German or international electricity operations could experience unanticipated operating or other problems leading to a power failure or shutdown. Operational failures or extended production stoppages of facilities or components of facilities could negatively impact our earnings.

The following are among the comprehensive measures we take to address these risks:

- systematic employee training, advanced training, and qualification programs
- further refinement of our production procedures and technologies
- regular facility and network maintenance and inspection
- company guidelines as well as work and process instructions
- quality management, control, and assurance
- project, environmental, and deterioration management
- crisis-prevention measures and emergency planning.

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

In addition, there are currently certain risks relating to legal proceedings resulting from the E.ON Group's operations. These in particular include legal actions and proceedings concerning alleged price-fixing agreements and anticompetitive practices. In addition, there are lawsuits pending against E.ON AG and U.S. subsidiaries in connection with the disposal of VEBA Electronics in 2000. E.ON Ruhrgas is a party to a number of different arbitration proceedings in connection with the acquisition of Europpas a.s. and in connection with gas delivery contracts entered into with Gas Terra B.V., Gasversorgung Süddeutschland GmbH, and Norsk Hydro Produksjon ASA. Court actions, governmental investigations, and proceedings, and other claims could be instituted or asserted in the future against companies of the E.ON Group. We attempt to minimize the risks of current and future legal proceedings by managing these proceedings appropriately and by designing appropriate contracts prior to agreements being concluded.

Increasing competition in the natural gas market and increasing trading volumes at notional trading points and gas exchanges could result in risks for natural gas purchased under long-term take-or-pay contracts. On the other hand, these contracts between producers and importers are subject to periodic adjustments to current market forces.

## External Risks

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

- In December 2007, Germany enacted amendments to its law against restraints on competition that will lead to a considerable broadening of antitrust oversight in Germany's electricity and natural gas markets. The amendments took effect on January 1, 2008. We are currently unable to quantify the effects the amendments will have on E.ON. The German Federal Cartel Office ("FCO") is expected to launch a test proceeding in the energy industry some time in 2008.
- As part of an anticompetitive practices case, the FCO is investigating the treatment of CO<sub>2</sub> emission allowances as a cost factor in the price of electricity. The outcome of the proceeding against E.ON is uncertain.
- The European Commission carried out investigations at the premises of several energy companies in Europe, including E.ON AG and some of its affiliates, in May and December 2006. These were followed by requests for information regarding a number of regulatory and energy-market-related issues of E.ON Energie and E.ON Ruhrgas. The two companies have responded to these requests. On July 18, 2007, the Commission initiated formal antitrust proceedings against E.ON Ruhrgas and Gaz de France for alleged infringements of Article 81 of the European Community Treaty. The Commission has pointed out that the initiation of proceedings does not imply that there is conclusive proof of an infringement. In connection with the investigations in the electricity sector, E.ON has proposed to the Commission to divest its transmission system and a certain amount of generating capacity. After conducting a market test, the Commission will make a legally binding decision and not continue any antitrust proceedings relating to the electricity sector.
- E.ON Ruhrgas filed a complaint with the State Superior Court in Düsseldorf against the FCO's decision of January 13, 2006, relating to long-term gas supply contracts; the complaint related mainly to the competitive injunction contained in the FCO's order. The court dismissed this complaint on October 4, 2007. E.ON Ruhrgas has appealed the court's decision to the Federal Supreme Court of Justice, Germany's highest appellate court for civil and criminal cases.
- In September 2007, the European Commission published draft versions of a third package of energy legislation designed to establish a competitive, non-discriminatory, and transparent EU internal energy market. E.ON expressly supports these objectives. In our view, however, some of the proposed measures and mechanisms will not serve to promote competition or the development of cross-border regional markets. In particular, this applies to regulatory oversight over power and gas trading and to the ownership unbundling of electricity and transmission systems or, as an alternative, the creation of independent system operators. E.ON believes that requiring companies to relinquish ownership of assets and regulating competitive markets will not serve to enhance competition, ensure non-discriminatory access to network infrastructure, or integrate regional markets. We believe it makes more sense to systematically move forward with European market integration, particularly by expanding cross-border transfer infrastructure, further integrating cross-border energy trading, and prudently applying existing competition and antitrust mechanisms.
- Germany's incentive regulation ordinance took effect in November 2007, with incentive regulation to begin on January 1, 2009. Under Germany's Energy Law of 2005, the current cost-based, rate-of-return model for network charges is to be replaced by incentive regulation in order to create additional incentives for enhancing the efficiency of network operations. In principle, we support the rapid introduction of a reasonable incentive system. However, a number of useful suggestions made by network operators affected by the legislation were not incorporated into the incentive regulation ordinance. It remains to be seen whether the regulations will in all areas lead to efficiency-enhancement targets that can be achieved and surpassed. Germany's Federal Network Agency must establish benchmarks for all affected network operators by the middle of 2008 and is currently developing a methodology and establishing criteria. Because the Federal Network Agency must still determine major parameters (namely, the benchmarks themselves as well as the allowed return on equity and the investment budgets), we cannot at this time reliably assess the consequences of incentive regulation.
- Currently, E.ON Gastransport's network charges are market based. We cannot rule out the possibility that the Federal Network Agency rules against market-based network charges during the course of 2008. In this case, E.ON Gastransport could be migrated to the incentive system effective January 1, 2010.

- The second round of the network charges approvals process for 2008 is currently under way. The results will serve as the basis for the incentive regulation system. We cannot rule out the possibility that this will pose a risk to our future earnings situation, since it is becoming apparent that the Federal Network Agency is interpreting the law in a one-sided manner prejudicial to network operators. In addition, if the Federal Network Agency significantly reduces the network charges submitted for approval, it may, in individual cases, be necessary for us to record impairment charges on our network operators affected by such rulings.
- In late 2007, the German Federal Network Agency initiated consultation proceedings to reform the model for the Germany's gas industry's control- and balancing-energy market. The agency envisages a fundamental reform of the control- and balancing-energy market. Energy industry trade associations are currently in negotiations with the agency to define a target model. Although it is unclear at this time what the target model will look like, the new model is supposed to be introduced on October 1, 2008, resulting in legal uncertainty for market participants. It is doubtful whether the target model can be fully implemented on October 1, since it is unlikely that all the necessary preconditions will be in place by this date.
- Legal uncertainty surrounding the implementation of national allocation plans in certain EU member states could result in some installations in the energy industry affected by emission-allowance trading having difficulties with allocation of CO<sub>2</sub> emission allowances.
- In January 2008, the European Commission presented a package of legislative proposals on the implementation of EU climate-protection targets, the continuation of emission-allowance trading, carbon storage, and support for renewable-source electricity. The environmentally motivated reorganization of Europe's energy supply system will affect energy companies but also create new lines of business.

We try to manage these risks by engaging in an intensive and constructive dialog with government agencies and policymakers.

We could be subject to environmental liabilities associated with our nuclear and conventional power operations that could materially and adversely affect our business. In addition, new or amended environmental laws and regulations may result in significant increases in our costs.

E.ON Ruhrgas currently obtains approximately 26 percent of its total natural gas supply from Russia pursuant to long-term supply contracts. Recent events in some Eastern European countries have heightened concerns in parts of Western Europe about the reliability of Russian gas supplies. Historically cold temperatures in Russia in the winter of 2005-2006 increased gas consumption, leading some Western European countries to report declines in pressure in gas pipelines and shortfalls in the volume of gas they received from Russia. In addition, a dispute between Russia and Ukraine over the imposition of significant price increases on Russian gas delivered to Ukraine at the beginning of 2006 led to interruptions in the supply of Russian gas to Ukraine (and through Ukraine to other countries) in early 2006. In late 2006, a similar price dispute between Russia and Belarus led to Belarus blocking the transit of gas and oil through that country, while in early 2007 Poland attempted to raise transit fees charged for Russian gas and oil being shipped to Western Europe through Poland, leading to speculation that Gazprom might retaliate by halting gas and oil shipments. Economic or political instability or other disruptive events in any transit country through which Russian gas must pass before it reaches its final destination in Western Europe can have a material adverse effect on the supply of such gas, and all such events are completely outside the control of E.ON Ruhrgas. Although E.ON Ruhrgas has to date not experienced any interruptions in supply or declines in delivered gas volumes below those guaranteed to it under its long-term contracts, no assurance can be given that such

interruptions or declines will not occur. Any prolonged interruption or decline in the amount of gas delivered to E.ON Ruhrgas under its contracts with Gazprom, its subsidiaries or any other party would result in E.ON Ruhrgas having to use its storage reserves to make up the shortfall with respect to amounts it is contracted to deliver to customers and could have a material adverse effect on E.ON's results of operations and financial condition.

The demand for electric power and natural gas is seasonal, with our 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 our 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, our sales 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 secondary peaks in the first and fourth quarters. Revenues and results of operations for all of our energy operations can be negatively affected by periods of unseasonably warm weather during the autumn and winter months, as occurred at some of our market units in 2006 and/or 2007. Our Nordic market unit could be negatively affected by a lack of precipitation (which would lead to a decline in hydroelectric generation, as occurred in 2006), and our European energy operations could also be negatively affected by a summer with higher-than-average temperatures to the extent our plants would be required to reduce or shut down operations due to a reduction in the availability of cooling water. We expect seasonal and weather-related fluctuations in sales and results of operations to continue.

### IT Risks

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

### Management's Evaluation of the Risk Situation

During the year under review, the E.ON Group's risk situation did not change substantially from the prior year. From today's perspective, we do not perceive any risks in the future that would threaten the existence of the E.ON Group or individual market units.

## New Organizational Structure

By further optimizing our organizational structure, we aim to take advantage of the opportunities created by the ongoing integration of European and global energy markets.

To seize the earnings and growth opportunities of energy-market integration, we are taking action to organize and manage our businesses—in particular our energy trading and power generation businesses—on a pan-European scale. At the start of 2008, we centralized all our European trading activities in power, gas, coal, oil, and CO<sub>2</sub> emission allowances. We also combined our renewables operations (with the exception of hydroelectricity) and our climate-protection operations and plan to expand this business globally.

In October 2007, we acquired a majority stake in OGK-4, a major Russian power producer, marking our successful entry into one of the world's most interesting and fastest-growing electricity markets.

Pursuant to the agreement we concluded with Enel and Acciona in April 2007, we will acquire a substantial portfolio of assets in 2008, primarily in Spain, Italy, and France.

In view of these changes, the following new market unit lead companies have, or will, become operational in 2008:

- E.ON Energy Trading, Düsseldorf, began operations at the start of 2008. It combines all our European trading activities in electricity, gas, coal, oil, and CO<sub>2</sub> allowances.
- E.ON Climate & Renewables, Düsseldorf, is responsible for managing and expanding our global renewables business and for coordinating climate-protection projects. Its generation portfolio consists of about 760 MW of generating capacity in Europe and 250 MW in North America. Roughly 3,000 MW of new capacity are at various stages of construction and planning.
- E.ON Russia Power oversees our power business in Russia. Through OGK-4, we have around 8,600 MW of generating capacity in the fast-growing, heavily industrialized regions of Central Russia, Ural, and Western Siberia.
- E.ON Italia, Milan, manages our power and gas business in Italy. E.ON is already active in Italy's wholesale power and gas markets and in natural gas sales. The planned acquisition of Endesa Italia will give us about 5,000 MW of generating capacity in Italy, making us the country's fourth-largest power producer.

Initially, only Energy Trading will be disclosed as a separate reporting segment in the 2008 financial year. The other shareholdings will be combined in the Corporate Center/New Markets segment. During the course of the year, we will decide on the future form of our segment reporting based on the new market units' respective business development, volume, and significance.

## Macroeconomic Situation

The German Council of Economic Experts ("GCEE") predicts that the global economy will expand at a slower pace in 2008 than in 2007. In view of the U.S. economy's expected weakness, brought on by the mortgage lending crisis and slower growth in domestic demand, the EU and Japan are also expected to expand at a slower pace.

Energy prices will lead to lower inflation in the United States, whereas inflation in the EU is expected to stay at the same level as in 2007.

The GCEE expects the EU economy to grow by 2.3 percent in real terms. Economic growth in some EU countries relevant for our operations (Spain, Sweden, the Netherlands) is forecast to be above average, in others (Germany, the United Kingdom, France) below average. Central and Eastern European countries are expected to continue on their robust, largely domestically driven growth path, although at a slightly slower pace.

The GCEE expects Germany's economy to expand by 1.9 percent in 2008 in real terms and consumer prices to rise by 2.2 percent, maintaining their high rate of increase.

## Energy Industry

The future development of Germany's energy industry will be determined in part by the German federal government's Integrated Climate Protection and Energy Package. Its purpose is to substantially change Germany's energy mix, which would have considerable consequences for our business.

The policy's targets for 2020 are for Germany to:

- derive 25 to 30 percent of its electricity from renewable sources
- derive 25 percent from cogeneration
- achieve an additional reduction in electricity consumption of up to 11 percent.

On the other hand, the debate about the allocation of CO<sub>2</sub> emission allowances in Europe underscores the importance of establishing a transparent and properly designed emission trading scheme as a mechanism for enhancing climate protection. Substantial uncertainty currently surrounds forecasts of CO<sub>2</sub> emission allowance prices. The future development of

prices depends primarily on how restricted the allocation of allowances is. The long-term development of allowance prices will be determined primarily by the way emissions trading is handled on a global scale.

Industry observers predict that prices will remain at high levels for the foreseeable future. The International Energy Agency made a significant upward correction to its long-term oil price projection compared with last year. The reason for the correction is that the oil price increases of the last three years have not had the same negative impact on the global economy that they had in the 1980s. Natural gas and oil products are competing fuels in many applications, so their prices will likely continue to move in tandem in the future. As for coal, increased production in conjunction with increased demand is expected to result in stable price development over the long term, leading to a wider spread between coal and oil prices.

Supported by European subsidy programs, renewable energies are playing an increasingly important role and account for a continually increasing share of the energy supply.

The global supply of uranium is secure, access to it is very good, and uranium has a high energy content. These three factors serve to enhance nuclear power's role in energy supply and its contribution to security of supply. Furthermore, as an emission-free energy source, nuclear power is a significant factor in Europe's ability to achieve its emission-reduction targets under the Kyoto Protocol. In the EU, these aspects are receiving considerable attention in the policymaking debate about nuclear energy and have led some countries to extend the operating lives of existing nuclear power stations and to build new ones.

## Employees

The E.ON Group's workforce is expected to increase to 95,000 (excluding trainees, board members, and managing directors) by year end 2008, with the growth coming primarily through the addition of our new market units and hiring at the U.K. market unit.

## Earnings

For 2008 we expect the E.ON Group's adjusted EBIT to again surpass the high prior-year figure and to increase by 5 to 10 percent. Our forecast includes our expectation to acquire, during the course of 2008, a substantial portfolio of assets as part of our agreement with Enel and Acciona. Further earnings drivers will be operational improvements in our electricity business as well as the ongoing implementation of efficiency-oriented measures.

We anticipate a slight increase in adjusted net income for 2008, with operating improvements partially offset by higher interest expenses.

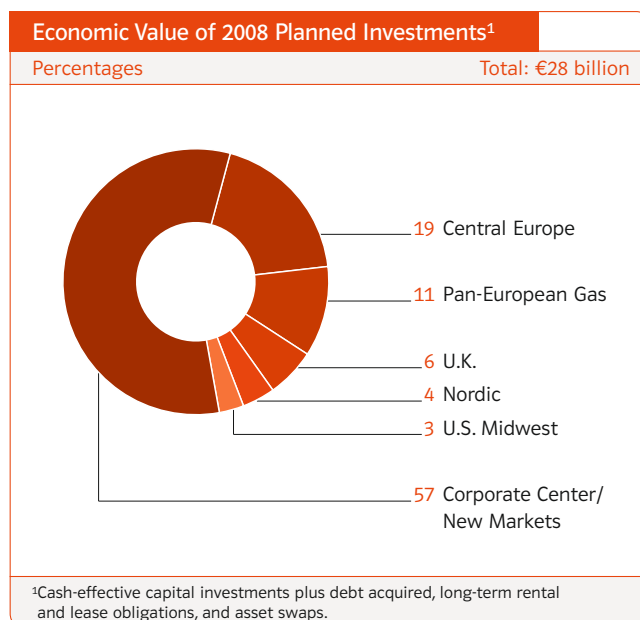
In 2008, we have made substantial changes to our organizational structure, in particular the centralization of our European trading operations. Consequently, a segmented comparison with prior-year figures would have little informational value. Therefore, for 2008 we will issue earnings forecasts for the E.ON Group only, not for our individual market units.

## Dividends

We will continue with our dividend payout ratio of 50 to 60 percent of adjusted net income. In view of our EBIT targets and the effects of our share buyback, we expect to continue to increase our dividend per share by an average of 10 to 20 percent per year for the period through 2010.

## Investments

Our investment plan reflects the implementation of the growth plan we announced in May 2007. Our investments in organic and external growth will serve to cement and systematically enlarge our strong market positions in power and gas. E.ON plans to invest a total of approximately €28 billion in 2008.



About 16 percent of these investments are for maintenance and replacement in our existing business and about 84 percent for growth. Investments are significantly higher relative to 2007, primarily due to our planned external growth initiatives. The figure shown under Corporate Center/New Markets primarily reflects the acquisition of assets pursuant to E.ON's agreement with Enel und Acciona and the planned asset swap with Statkraft. The figure for Central Europe includes the planned acquisition of operations in France, which is also part of the agreement with Enel and Acciona. The figure for Pan-European Gas includes the acquisition of a stake in Yushno Russkoye.

Organic growth investments total about €6.3 billion and will serve mainly to increase our electric generating capacity, expand our renewables business, and enlarge our upstream and midstream natural gas businesses.

About €4.5 billion of our investments will serve to maintain and replace existing facilities. The main focus will be to secure our existing generating capacity and to update and maintain our electric distribution and transmission systems.

## Financial Situation

Through 2010, we intend to take on a total of approximately €30 billion in debt at the corporate level. This includes the refinancing of existing bonds. We aim to achieve a broad mix of different markets, investors, currencies, and maturities.

## Opportunities

Based on groupwide guidelines, the lead companies of all our market units as well as certain departments at E.ON AG report, on a yearly basis at the end of the fourth quarter, their opportunities that are sufficiently concrete and substantial. An opportunity is substantial within the meaning of E.ON guidelines if it could have a significantly positive effect on a market unit's asset, financial, or earnings situation.

Positive developments in interest rates, foreign currency rates, and market prices for the commodities electricity, natural gas, coal, oil, and carbon can create opportunities for our business operations.

The Energy Trading market unit, which began operations at the start of 2008, will enable us to seize opportunities created by the increasing integration of the European power and gas markets and of global commodity markets. In view of market developments in the United Kingdom and Continental Europe, trading at European gas hubs can create additional sales and procurement opportunities.

In addition, the ongoing optimization of natural gas transport and storage rights could yield additional opportunities.

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

The E.ON procurement network enables us to achieve considerable synergies by aggregating procurement volume internationally. Transferring best practices groupwide also enables us to further reduce the cost of the goods and services we procure. In particular, the optimization of technical specifications for procurement amounts and the use of proven, uniform procurement processes across the organization can yield cost advantages. In view of our upcoming major investments in new generating capacity, the pooling of expertise at the New Build unit and the Climate & Renewables market unit in 2007 paved the way for us to centralize procurement for all power plant construction projects and to best realize, across all our markets, synergies in technology and procurement.

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

Overall, we expect the E.ON Group's business to develop positively in 2008 and 2009. From today's perspective, we are unable to issue a reliable forecast for 2009 due to uncertainty surrounding economic, foreign-currency, regulatory, technological, and competition-related developments.

## Compensation Report

The compensation report applies the regulations of the German Commercial Code amended to reflect the Management Board Compensation Disclosure Law as well as the principles of the German Corporate Governance Code ("the Code"). It is to be considered part of the Combined Group Management Report.

### Compensation System for Members of the Supervisory Board

The compensation of Supervisory Board members is governed by E.ON AG's Articles of Association. In accordance with German law and the Code's recommendations, the compensation system takes into consideration Supervisory Board members' responsibilities and scope of duties as well as the Company's financial situation and business performance. In accordance with the Code, Supervisory Board members receive fixed annual compensation as well as two variable, performance-based compensation components. The short-term component is linked to dividends. The long-term component is linked to the three-year average of the E.ON Group's consolidated net income.

**Fixed compensation:** in addition to being reimbursed for their expenses including the value-added tax due on their compensation, Supervisory Board members receive a fixed amount of €55,000.00 for each financial year.

**Short-term variable compensation:** in addition, Supervisory Board members receive variable compensation of €115.00 for each €0.01 of dividend paid out to shareholders in excess of €0.10 per no-par share for the previous financial year.

**Long-term variable compensation:** furthermore, Supervisory Board members receive variable compensation of €70.00 for each €0.01 of the three-year average of the E.ON Group's consolidated net income per share in excess of €2.30.

Individuals who were members of the Supervisory Board or any of its committees for less than the entire financial year receive pro-rata compensation for each full or partial month of service. Fixed compensation is payable after the end of the financial year. Variable compensation components are payable after the Annual Shareholders Meeting, which votes to formally approve the acts of the members of the Supervisory Board in the previous financial year.

The Chairman of the Supervisory Board receives a total of three times the above-mentioned compensation; the Deputy Chairman and every chairman of a Supervisory Board committee receive a total of twice the above-mentioned amount; and each committee member receives a total of one-and-a-half times the above-mentioned compensation.

Supervisory Board members are paid an attendance fee of €1,000.00 per day for meetings of the Supervisory Board or its committees. Finally, the Company has taken out liability insurance for the benefit of Supervisory Board members to cover the statutory liability related to their Supervisory Board duties. If an insurance claim is granted, this insurance includes a deductible equal to 50 percent of a Supervisory Board member's annual fixed compensation.

Fixed annual compensation of €55,000.00 is intended to take into account the independence of the Supervisory Board required to fulfill the supervisory function. In addition, there are a number of duties that Supervisory Board members need to perform irrespective of the Company's financial performance. For this reason, a minimum compensation should be guaranteed even during times that are difficult for the Company, when the work of the Supervisory Board is usually particularly challenging. On the other hand, dividend-based compensation is designed to ensure that the Supervisory Board's compensation interests are, to some extent, aligned with shareholders' return expectations. Finally, since another part of variable compensation is linked to the three-year average of consolidated net income, the Supervisory Board's compensation also contains a component that is related to the Company's long-term performance.

### Compensation of the Members of the Supervisory Board

Assuming that the Annual Shareholders Meeting on April 30, 2008, approves the proposed dividend, the total compensation of the members of the Supervisory Board will amount to €4.5 million (2006: €4.1 million).

No loans were outstanding or granted to Supervisory Board members in the 2007 financial year. The members of the Supervisory Board are listed on page 19.

## Compensation of the Supervisory Board 2007

€	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Supervisory Board compensation from affiliated companies	Total
Ulrich Hartmann	165,000	138,000	161,490	-	464,490
Hubertus Schmoldt	110,000	92,000	107,660	-	309,660
Dr. Karl-Hermann Baumann	110,000	92,000	107,660	-	309,660
Sven Bergelin (since August 1, 2007)	22,917	19,167	22,429	-	64,513
Dr. Rolf-E. Breuer	55,000	46,000	53,830	-	154,830
Dr. Gerhard Cromme (until June 30, 2007)	41,250	34,500	40,373	-	116,123
Gabriele Gratz	77,917	65,167	76,259	101,000	320,343
Wolf-Rüdiger Hinrichsen	82,500	69,000	80,745	-	232,245
Ulrich Hocker	55,000	46,000	53,830	-	154,830
Eva Kirchhof	55,000	46,000	53,830	-	154,830
Seppel Kraus (until July 31, 2007)	32,083	26,833	31,401	-	90,317
Prof. Dr. Ulrich Lehner	68,750	57,500	67,287	-	193,537
Dr. Klaus Liesen	55,000	46,000	53,830	-	154,830
Erhard Ott	55,000	46,000	53,830	-	154,830
Hans Prüfer	55,000	46,000	53,830	17,750	172,580
Klaus Dieter Raschke	82,500	69,000	80,745	61,980	294,225
Dr. Henning Schulte-Noelle	82,500	69,000	80,745	-	232,245
Dr. Theo Siegert (since July 4, 2007)	27,500	23,000	26,915	-	77,415
Prof. Dr. Wilhelm Simson	55,000	46,000	53,830	-	154,830
Gerhard Skupke	55,000	46,000	53,830	11,450	166,280
Dr. Georg Freiherr von Waldenfels	55,000	46,000	53,830	-	154,830
Hans Wollitzer (since January 4, 2007)	55,000	46,000	53,830	56,750	211,580
<b>Subtotal</b>	<b>1,452,917</b>	<b>1,215,167</b>	<b>1,422,009</b>	<b>248,930</b>	<b>4,339,023</b>
Attendance fees and meeting-related reimbursements					189,151
<b>Total</b>					<b>4,528,174</b>

### Compensation System for Members of the Board of Management

The compensation of the members of the Board of Management is currently composed of a fixed annual base salary, an annual bonus, and a long-term variable component.

The base salary is paid on a monthly basis and is reviewed regularly to determine whether it is in line with market salaries and whether it is fair and reasonable.

The amount of the bonus is determined by the degree to which certain corporate and personal performance targets are achieved under a target-setting system, 70 percent of which

is related to corporate performance targets and 30 percent to personal targets. The corporate performance targets reflect, in equal shares, operating performance (as measured by adjusted EBIT) and return on capital employed ("ROCE"). Board of Management members who fully achieve their performance target receive the target bonus agreed to in their contracts. The maximum bonus that can be achieved is 200 percent of the target bonus. Any compensation received for work done in the Company's interest (other directorships at Group companies) is set off against the bonus or transferred to the Company.

The long-term variable compensation component that Board of Management members receive is stock-based compensation. This compensation is designed to reward Board of Management members (and other key executives) for their contributions to increasing the Company's shareholder value and to promote E.ON's long-term business performance. This variable pay component, which combines incentives for long-term growth with a risk component, effectively aligns management's and shareholders' interests.

Introduced in the 2006 financial year, the E.ON Share Performance Plan is a uniform groupwide stock-based compensation system. The amount of compensation from the E.ON Share Performance Plan depends on the performance of E.ON's stock price, both in absolute terms and relative to an industry index.

Through the end of 2005, E.ON awarded annual stock appreciation rights ("SAR") as part of its stock option program. SAR already granted may still be exercised in accordance with the program's terms and conditions.

Both programs are described in Note 11 to the Consolidated Financial Statements.

In line with the Code's recommendations, the total compensation paid to Board of Management members therefore includes both fixed and variable components. Criteria applied to determine the amount of compensation include in particular a Board of Management member's duties, his or her personal performance, the performance of the Board of Management as a whole, as well as the Company's financial situation, its business performance, and its future prospects relative to a benchmark environment.

The variable compensation components contain an element of risk and consequently are not guaranteed compensation. The stock-based compensation program is based on demanding, relevant benchmark parameters. Under the program's terms, performance targets or benchmark parameters cannot be changed at a later stage.

The Supervisory Board discussed the compensation system for the Board of Management at its meeting on December 17, 2007. The Supervisory Board's Executive Committee, which is responsible for decisions on compensation, most recently reviewed the Board of Management's compensation at its meeting on December 17, 2007.

In the event of a premature loss of a Board of Management position due to a change-in-control event, the service agreements of Board of Management members entitle them to severance and settlement payments.

The Company had change-of-control agreements with all Board of Management members in the 2007 financial year. The standard change-of-control agreements with the Chairman of the Board of Management and with the members who joined the Board of Management in 2006 stipulate that a change of control exists in three cases: if a third party acquires at least 30 percent of the Company's voting rights, thus triggering the automatic requirement to make an offer for the Company pursuant to Germany's Stock Corporation Takeover Law; if the Company, as a dependent entity, concludes a corporate agreement; or if the Company is merged with another company. If, within 12 months of the change of control, the service agreement of a Board of Management member is terminated by mutual consent, expires, or is terminated by the Board of Management member because his or her position on the Board is materially altered by the change of control, he or she is entitled to severance pay equal to the capitalized amount of his or her total annual compensation (annual base salary, annual target bonus, and other compensation) for the remaining term of the service agreement or for at least three years. To reflect discounting and setting off payment for services rendered to other companies or organizations, payments will be reduced by 20 percent. If a Board of Management member is above the age of 53, this 20 percent reduction is diminished according to an age-related schedule.

The change-of-control agreements with the other members of the Board of Management reflect the hitherto standard terms for such agreements. Under these agreements, a change in control exists if a single shareholder acquires 25 percent or more of the Company's voting rights; if a third party acquires a share of the Company's voting rights that has led or would lead to this party having a share of the voting rights of at least half of the Company's share capital with voting rights at an Annual Shareholders Meeting; if the Company, as a dependent entity, concludes a corporate agreement, becomes part of another company through subordination, takes on a different legal form, or is merged with another company. In the case of such a change-of-control event, a Board of Management member is entitled to severance and settlement payments. A Board of Management member will receive severance pay equal to the capitalized amount of his or her total annual compensation (annual base salary, annual target bonus, and other compensation) for the remaining term of the service agreement. If the remaining term of the service agreement exceeds three years, severance pay for the period beyond three years will be reduced by 25 percent to reflect discounting and setting off payment for services rendered to other companies or organizations. In addition, he or she will receive a settlement payment equal to at least three times his or her total annual compensation or, if he or she has been a Board of Management member for more than ten years, four times such compensation. Together, severance and settlement payments may not exceed five times a Board of Management member's total annual compensation.

Following the end of their service for the Company, Board of Management members are entitled to receive pension payments in three cases: if they reach the standard retirement age (currently 60 years), if they are permanently incapacitated, or if their service agreement is terminated prematurely or not extended. Depending on the length of their service, Board of Management members are entitled to annual pension payments equal to between 50 percent and 75 percent of their last annual base salary. The annual pension of one member of the Board of Management is a fixed amount. If Board of Management members are entitled to pension payments stemming from earlier employment, these payments will be set off against their pension payments from the Company. If their service agreement is terminated prematurely or not extended, and if such termination or non-extension is not due to misconduct or rejection of an offer of extension that is at least on a par with the existing service agreement, Board of Management members who have been

in a Top Management position in the E.ON Group for more than five years will receive a reduced pension as a bridge payment until they reach the age of 60. The amount of the bridge payment will be calculated based on the relation between the actual and potential length of service to the Company until the age of 60 is reached. The pension plans the Company granted to Board of Management members before the 2006 financial year do not include limitations on pension entitlements relating to premature termination or non-extension of service agreements.

The following table shows the current pension entitlement of Board of Management members. In line with the Code's recommendations, the table also includes the additions to provisions for pensions. These additions to provisions for pensions are not paid compensation but valuations calculated in accordance with IFRS.

Pensions of the Board of Management Members				
	Current pension entitlement at December 31, 2007		Additions to provisions for pensions in 2007	
	As a percentage of annual base salary	(in €)	(in €)	Thereof interest cost (in €)
Dr. Wulf H. Bernotat	70	868,000	1,493,957	473,859
Dr. Burckhard Bergmann	-	743,608	919,757	562,382
Christoph Dänzer-Vanotti <sup>1</sup>	50	300,000	828,280	52,468
Lutz Feldmann	50	300,000	208,538	95,843
Dr. Hans Michael Gaul <sup>2</sup>	-	-	109,686	109,686
Dr. Marcus Schenck <sup>1</sup>	50	300,000	366,974	2,144
Dr. Johannes Teyssen	70	525,000	590,867	259,331

<sup>1</sup>Pension entitlement not yet vested.  
<sup>2</sup>Entered retirement on April 1, 2007.

Pension payments are adjusted on an annual basis to reflect changes in the German consumer price index. In the case of pensions granted before 2003, the Executive Committee of the Supervisory Board may, under certain circumstances, make additional adjustments that it deems appropriate. The annual pension of one member of the Board of Management is a fixed amount that is also adjusted on an annual basis to reflect changes in the consumer price index plus an additional 0.7 percent per year.

Following the death of an active or former member of the Board of Management, a reduced amount of his or her pension is paid as a survivor's pension to the family. Widows and widowers are entitled to lifelong payment of 60 percent of the pension a Board of Management member received on the date of his or her death or would have received had he or she entered retirement on this date. This payment is terminated if a widow or widower remarries. The survivor's pension for the widow of one Board of Management mem-

ber deviates from this model and is equal to 75 percent of the member's pension. The children or dependents of a Board of Management member who have not reached the age of 18 are entitled, for the duration of their education or professional training until they reach a maximum age of 25, to an annual payment equal to 20 percent of the pension the Board of Management member received or would have received on the date of his or her death. Surviving children benefits granted before 2006 deviate from this model and are equal to 15 percent of a Board of Management member's pension. If, taken together, the survivor's pensions of the widow or widower and children exceed 100 percent of a Board of Management member's pension, the pensions paid to the children are proportionally reduced by the excess amount.

## Compensation of the Members of the Board of Management

Dr. Hans Michael Gaul retired from the Board of Management on March 31, 2007.

The total compensation of the members of the Board of Management in the 2007 financial year amounted to €20.4 million (2006: €21.7 million). Individual members of the Board of Management were paid the following total compensation:

Compensation of the Board of Management 2007						
€	Fixed annual compensation	Annual bonus	Other compensation	Fair value of 2nd tranche of performance rights	Total	Number of 2nd tranche performance rights granted
Dr. Wulf H. Bernotat	1,240,000	2,880,000	47,241	1,164,278	5,331,519	13,987
Dr. Burckhard Bergmann	750,000	1,760,000	28,939	689,893	3,228,832	8,288
Christoph Dänzer-Vanotti	600,000	1,410,000	18,103	551,964	2,580,067	6,631
Lutz Feldmann	600,000	1,410,000	39,918	551,964	2,601,882	6,631
Dr. Hans Michael Gaul (until March 31, 2007)	187,500	440,000	6,606	172,473	806,579	2,072
Dr. Marcus Schenck	600,000	1,410,000	33,343	551,964	2,595,307	6,631
Dr. Johannes Teysen	750,000	1,760,000	86,315	689,893	3,286,208	8,288
<b>Total</b>	<b>4,727,500</b>	<b>11,070,000</b>	<b>260,465</b>	<b>4,372,429</b>	<b>20,430,394</b>	<b>52,528</b>

The remaining other compensation of the members of the Board of Management consists primarily of benefits in kind from the personal use of company cars and, in the case of one member, temporary reimbursement for rental payments on a secondary residence.

The performance rights granted in 2007 as the second tranche of the E.ON Share Performance Plan were quoted at their fair value of €83.24 per right on the date of their issuance and were included in the total compensation of the members of the Board of Management. This fair value is determined by means of a recognized option pricing model. The model, called a Monte Carlo simulation, simulates a large number of different scenarios for E.ON AG stock and its benchmark index, the Dow Jones STOXX Utilities Index (Return EUR). According to the terms and conditions of the E.ON Share Performance Plan, the intrinsic value of the performance rights is determined for each scenario based on E.ON stock's outperformance or underperformance of its benchmark index and the stock's corresponding payout value. The fair value is equal to the discounted average of these intrinsic values.

For purposes of internal communications between the Board of Management and the Supervisory Board, the target value is used instead of the fair value. The target value is equal to the cash payout amount of each performance right, if at the end of the maturity period, E.ON stock maintains its price and the performance equals the performance of the benchmark index. The target value for the second tranche is €96.52 per right and equals the average E.ON stock price during the 60 trading days prior to the issuance of the rights on January 1, 2007. The Executive Committee of the Supervisory Board used the target value to determine the number of rights to be issued. These correspond to a target value of €1.35 million for the Chairman of the Board of Management, €0.8 million for Board

of Management members, and 80 percent of €0.8 million for the members who joined the Board of Management in 2006.

The German Commercial Code (Section 314, Paragraph 1, Item 6a, Sentence 9) requires supplemental disclosure of the Company's expenses for the performance rights granted in 2007 and all tranches existing in the 2007 financial year that were granted in prior years. The following expenses in accordance with IFRS 2 were recorded for the 2007 financial year: Dr. Bernotat (€5.6 million), Dr. Bergmann (€2.6 million), Mr. Dänzer-Vanotti (€0.8 million), Mr. Feldmann (€0.4 million), Dr. Schenck (€0.4 million), and Dr. Teysen (€1.6 million). Income of about €0.1 million was recorded relating to Dr. Gaul for January 1 - March 31, 2007, due to a decline in the value of SAR and performance rights during this period.

Additional detailed information about E.ON AG's stock-based compensation program can be found in Note 11 to the Consolidated Financial Statements.

No loans were outstanding or granted to members of the Board of Management in the 2007 financial year.

Pages 14, 15, and 213 contain additional information about the members of the Board of Management.

## Payments Made to Former Members of the Board of Management

Total payments made to former Board of Management members and to their beneficiaries amounted to €6.6 million in 2007 (2006: €11.7 million). Provisions of €97.4 million (2006: €99.9 million) have been provided for pension obligations to former Board of Management members and their beneficiaries.

### **Disclosures Pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4 of the German Commercial Code (Part of the Combined Group Management Report)**

#### **Composition of Share Capital**

The share capital shall total €1,734,200,000.00 and consist of 667,000,000 bearer shares without nominal value. Each share of stock grants the same rights and one vote at a Shareholders Meeting.

#### **Restrictions on Voting Rights or the Transfer of Shares**

Shares acquired by an employee under the Company-sponsored employee stock purchase program are subject to a blackout period that begins the day ownership of such shares is transferred to the employee and that ends on December 31 of the next calendar year plus one (that is, if ownership is transferred on July 1, 2008, the blackout period extends to December 31, 2010). As a rule, an employee may not sell such shares until the blackout period has expired.

Pursuant to Section 71b of the German Stock Corporation Act, the Company's own shares give it no rights, including no voting rights.

#### **Legal Provisions and Rules of the Company's Articles of Association regarding the Appointment and Removal of Board of Management Members and Amendments to the Articles of Association**

Pursuant to the Company's Articles of Association, the Board of Management shall consist of at least two members. The appointment of deputy Board of Management members is permissible. The Supervisory Board shall decide on the number of members as well as on their appointment and dismissal.

The Supervisory Board shall appoint members to the Board of Management for a term not exceeding five years; a member may be appointed for another term of office or the term of office of a member may be extended for an additional term not exceeding five years; appointment requires at least two thirds of the votes of Supervisory Board members. If two or more persons are appointed as members of the Board of Management, the Supervisory Board may appoint one of the members as Chairperson of the Board of Management. If a Board of Management member is absent, in the event of

an urgent matter, the court shall make the necessary appointment upon petition by a concerned party. The Supervisory Board may revoke the appointment of a member of the Board of Management and the Chairperson of the Board of Management for serious cause (for further details, see Sections 84 and 85 of the German Stock Corporation Act and Sections 31 and 33 of the German Codetermination Act of 1976).

Pursuant to Section 179 of the German Stock Corporation Act, an amendment to the Articles of Association shall require a resolution of the Shareholders Meeting. Resolutions of the Shareholders Meeting shall require a simple majority and, in cases where a majority of the share capital is required, a simple majority of the share capital represented, unless the law or the Articles of Association explicitly prescribe otherwise. The Articles of Association contain no other provisions regarding amendments.

The Supervisory Board is authorized to decide by resolution on amendments to the Articles of Association that affect only their wording (Section 24 of the Articles of Association). Furthermore, the Supervisory Board is authorized to revise the wording of Section 3 of the Articles of Association after complete or partial consummation of the increase of the share capital in accordance with the respective utilization of the authorized capital and—if the authorized capital has not been utilized at all or not completely by April 27, 2010—after the expiration of the authorization period. Furthermore, the Supervisory Board is authorized to adapt the wording of Section 3 of the Articles of Association according to the utilization of the conditional capital.

#### **Board of Management's Power to Issue or Buy Back Shares**

Pursuant to a resolution of the Shareholders Meeting of May 3, 2007, the Board of Management is authorized, until November 3, 2008, to acquire own shares up to a total of ten percent of the share capital. The shares acquired and other own shares that are in possession of or to be attributed to the Company pursuant to Sections 71a et seq. of the German Stock Corporation Act must altogether at no point account for more

than ten percent of the share capital. The resolution, which is published on the Company's Website, contains standard provisions regarding how shares may be acquired and how acquired shares may be used, including the authorization to cancel them.

Pursuant to Section 3, Paragraph 2 of the Articles of Association, the Board of Management is, subject to the approval of the Supervisory Board, authorized to increase the Company's share capital until April 27, 2010, by up to €540,000,000 by issuing new bearer shares with no-par value against contribution in cash and/or in kind once or several times (authorized capital pursuant to Section 202 et seq. of the German Stock Corporation Act). See Note 19 to the Consolidated Financial Statements for more information about authorized capital.

Pursuant to a resolution of the Annual Shareholders Meeting of April 30, 2003, the Board of Management is authorized, subject to the approval of the Supervisory Board, until April 30, 2008, to issue, once or several times, bonds with conversion or option rights for shares of E.ON AG with a maximum maturity of 20 years from issue. The aggregate face value of the bonds must not exceed €5,000,000,000. The aggregate face value of the shares to be granted in the event of conversion or option rights from this authorization being issued is €175,000,000 at the most. Therefore, pursuant to Section 3, Paragraph 3 of the Articles of Association, the Company's share capital shall be conditionally increased by up to €175,000,000 (see Note 19 to the Consolidated Financial Statements). The bonds may also be issued in exchange for contributions in kind if the value of these contributions in kind is at least equivalent to the issue price. The resolution, which is published on the Company's Website, contains standard provisions regarding conversion rights and obligations, dilution protection, and, to the extent legally permissible, the exclusion of the shareholders' right of subscription.

#### Significant Agreements to which the Company Is a Party that Take Effect on a Change of Control of the Company Following a Takeover Bid

The ministerial approval of the German Federal Minister of Economics and Technology dated July 5/August 18, 2002, on the proposed mergers of E.ON/Gelsenberg and E.ON/Bergemann contains the following condition: at the direction of the Federal Ministry of Economics and Technology, E.ON must sell all shares in Ruhrgas AG held by it or affiliated

companies to a third party if another company acquires a voting-rights or share-capital majority in E.ON and the acquirer gives reasonable cause for concern that the Federal Republic of Germany's energy policy interests will be negatively affected. The acquirer of Ruhrgas shares requires the prior approval of the Federal Ministry of Economics and Technology; such prior approval may be denied only if the acquirer gives reasonable cause for concern that the Federal Republic of Germany's energy policy interests will be negatively affected. This obligation is valid for a period of ten years after the mergers' consummation.

In accordance with standard market practice in comparable contracts, the credit and guarantee facilities ("Avaes") (see Note 26 to the Consolidated Financial Statements) contain change-of-control clauses that give the creditor the right of cancellation. In addition, the bonds issued in 2007 by E.ON International Finance B.V. and guaranteed by E.ON (see Note 26 to the Consolidated Financial Statements) contain a standard change-of-control clause that is considered good corporate governance practice.

#### Settlement Agreements between the Company and Board of Management Members in the Case of a Change-of-Control Event

In the event of a premature loss of a Board of Management position due to a change-in-control event, the service agreements of Board of Management members entitle them to severance and settlement payments (see the detailed presentation in the Compensation Report).

Balance Sheet of E.ON AG		December 31			
		2007	2007	2006	2006
€ in millions	Note				
Intangible assets	(1)		15.0		19.5
Property, plant and equipment	(1)		142.3		147.0
Financial assets					
Shares in affiliated companies	(2)		26,714.1		22,042.7
Other financial assets	(3)		953.2		210.0
<b>Fixed assets</b>	(4)		<b>27,824.6</b>		<b>22,419.2</b>
Receivables and other assets					
Receivables from affiliated companies	(5)		20,466.0		18,778.7
Other receivables and assets	(6)		2,289.4		2,370.9
Securities	(7)		240.8		241.1
Liquid funds	(8)		1,634.6		337.8
<b>Non-fixed assets</b>			<b>24,630.8</b>		<b>21,728.5</b>
<b>Prepaid expenses</b>	(9)		<b>38.8</b>		<b>55.2</b>
<b>Total assets</b>			<b>52,494.2</b>		<b>44,202.9</b>
Capital stock	(10)	1,734.2			1,799.2
Computed value of shares purchased for retirement		-7.7			
Issued capital			1,726.5		
Conditional capital: €175.0 million					
Additional paid-in capital	(11)		6,132.5		6,067.5
Retained earnings	(12)		3,627.3		4,593.2
Net income available for distribution			2,589.6		2,209.6
<b>Stockholders' equity</b>	(13)		<b>14,075.9</b>		<b>14,669.5</b>
<b>Reserves subject to future taxation</b>	(14)		<b>414.2</b>		<b>409.9</b>
Provisions for pensions		328.4		315.5	
Indemnification claim ("Freistellungsanspruch")		-310.2		-314.8	
	(15)		18.2		0.7
Provisions for taxes	(16)		2,365.3		2,415.1
Other provisions	(17)		807.6		734.1
<b>Provisions</b>			<b>3,191.1</b>		<b>3,149.9</b>
Bank loans			802.2		412.7
Liabilities to affiliated companies			30,388.1		23,784.7
Other liabilities			3,620.0		1,773.4
<b>Liabilities</b>	(18)		<b>34,810.3</b>		<b>25,970.8</b>
<b>Deferred income</b>			<b>2.7</b>		<b>2.8</b>
<b>Total stockholders' equity and liabilities</b>			<b>52,494.2</b>		<b>44,202.9</b>

Income Statement of E.ON AG		January 1-December 31	
€ in millions	Note	2007	2006
Income from equity interests	(19)	7,244.0	3,709.5
Interest income (net)	(20)	-557.2	-538.7
Other operating income	(21)	4,265.1	3,856.8
Personnel expenses	(22)	-124.4	-236.2
Depreciation and amortization of intangible assets and property, plant and equipment		-12.0	-11.5
Write-downs of financial assets and current securities	(23)	-21.8	-4.4
Other operating expenses	(24)	-4,357.1	-4,185.9
<b>Pretax income</b>		<b>6,436.6</b>	<b>2,589.6</b>
Taxes	(25)	-1,320.6	-18.0
<b>Net income</b>		<b>5,116.0</b>	<b>2,571.6</b>
Income from capital reduction		65.0	-
Net income transferred to retained earnings	(12)	-2,526.4	-362.0
Transfer to additional paid-in capital in accordance with Sec. 237, Para. 5 of the German Stock Corporation Act	(11)	-65.0	-
<b>Net income available for distribution</b>		<b>2,589.6</b>	<b>2,209.6</b>

## Notes to the Financial Statements of E.ON AG for the 2007 Financial Year

### Basis of Presentation

These financial statements have been prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). Individual balance sheet and income statement items have been combined in order to improve clarity. These items are stated and explained separately in the notes to the financial statements. The income statement has been prepared using the nature-of-expense method. The financial statements have been prepared in euros (€) and amounts are stated in millions of euros (€ million).

### Accounting, Valuation and Disclosure Policies

Intangible assets are generally valued at acquisition cost and amortized on schedule using the straight-line method over a period of three years. Intangible assets associated with the capitalization of expenses incurred to introduce ERP software are amortized using scheduled depreciation over five years.

Property, plant and equipment are valued at acquisition or production cost less scheduled depreciation. Buildings are generally depreciated using the straight-line method over a useful life of up to 50 years. Depreciation on movable fixed assets is generally calculated as permissible under tax law using the declining-balance method. The declining-balance method of depreciation is replaced by the straight-line method according to schedule when the even distribution of the residual book value over the remaining useful life leads to higher depreciation amounts. Movable fixed assets are depreciated pro rata temporis.

Low-value assets are depreciated in full in their year of addition.

Shares in affiliated companies and equity interests are generally valued at acquisition cost or lower adjusted value as necessary. Mergers are stated at fair value. Interest-bearing loans are shown at nominal value, interest-free and low-interest loans as well as receivables at their present value.

The values of receivables and other assets are adjusted to account for recognizable individual risks. Current securities are valued at acquisition cost or lower market or repurchase value, as appropriate.

Cash and cash equivalents denominated in foreign currencies as well as bank balances are translated at the exchange rate valid as of the balance-sheet date. Other foreign-currency items are valued as of the balance-sheet date at the exchange rate valid as of the transaction date, while taking into account the lower-of-cost-or-market principle. When underlying transactions are combined with hedges to form closed items, valuation is carried out using the hedged exchange rate.

Expenses of the financial year that are recognized as expenses after the balance-sheet date are stated as prepaid expenses.

Derivative financial instruments are used to hedge against interest-rate and currency risks arising from booked, pending and planned underlying transactions. Booked and pending underlying transactions as well as their respective hedges are assigned to portfolios. These are set up for each currency and, within each currency, separately for currency and interest-rate hedging instruments. Transactions assigned to a portfolio are separately valued as of the balance-sheet date. The following valuation methods and assumptions are used to determine market values:

- Foreign exchange forwards and swaps are valued at the forward rate effective as of the balance-sheet date.
- Foreign-currency options are valued in line with their nature, using the Black-Scholes or binomial model.
- Interest-rate hedging instruments are valued by discounting their future cash flows. Discounting is performed over the instruments' remaining term using going interest rates. Interest-rate swap amounts are recognized with an effect on net income at payment or accrual.

The portfolio's valuation result is derived from the difference between market values and acquisition costs. According to accounting principles under German commercial law, a portfolio with a negative valuation result gives rise to a provision for imminent losses from pending transactions. Positive valuation results are disregarded. In addition, hedging transactions may be assigned directly to booked and pending underlying transactions and combined with them to form valuation units.

E.ON AG has established risk management guidelines for the use of derivative financial instruments. Credit risks from the use of derivative financial instruments are systematically monitored and controlled throughout the Group.

Untaxed reserves and extraordinary fiscal write-downs are stated under reserves subject to future taxation. The transfer of untaxed reserves to replacement assets is recorded as a reclassification under reserves subject to future taxation.

Pension obligations were valued using the benefit/years-of-service method, applying the internationally generally accepted projected unit credit method. The calculation is based on an interest rate of 4.25 percent, which is derived from long-term conditions on the capital market.

Provisions for taxes and other provisions take all identifiable risks and other commitments into account.

Deferred tax assets and liabilities are offset against each other. In cases where this results in an excess of assets, such an excess is not recognized, in accordance with the discretionary treatment of such cases allowable pursuant to Sec. 274, Para. 2 of the German Commercial Code.

Liabilities are shown at their repayment value. Annuities are stated at their present value. Values for contingent liabilities resulting from guaranties and warranties correspond to the credit amounts still outstanding as of the balance-sheet date.

Income of the financial year that is recognized as income after the balance-sheet date is stated as deferred income.

## Notes to the Balance Sheet

### (1) Intangible Assets and Property, Plant and Equipment

Intangible assets were essentially unchanged compared with the previous year. They exclusively consist of capitalized software.

Disposals of property, plant and equipment primarily relate to the sale of several plots of land and an office building.

### (2) Shares in Affiliated Companies

In the year under review, €4,680.8 million in additions and €1.3 million in disposals were recognized for shares in affiliated companies.

€4,305.3 million of the additions are attributable to the increase in the additional paid-in capital of E.ON Russia Power GmbH in connection with the acquisition of OGK-4. A further €359.5 stem from the intra-group purchase of a 49 percent stake in VEBA Electronics GmbH.

In the year under review, depreciation was largely carried out due to the reduction in value of the shareholdings in E.ON IS GmbH and E.ON Risk Consulting GmbH amounting to €14.7 million and €7.0 million, respectively, which are expected to be permanent.

In the year under review, a €13.7 million write-up was entered into the books in accordance with Sec. 280, Para. 1 of the German Commercial Code due to the positive earnings trend of VEBA Telecom Management GmbH.

A list of E.ON AG's shareholdings and their other interests as of December 31, 2007, is published in the German Electronic Federal Gazette ("elektronischer Bundesanzeiger").

### (3) Other Financial Assets

Shareholdings amounting to €8.6 million and long-term loans amounting to €944.6 million are included in other financial assets. Additions to long-term loans relate to the grant of loans to affiliated companies.

#### (4) Fixed Assets

The breakdown and development of fixed asset items summarized in the balance sheet is shown in the following table:

Development of Fixed Assets of E.ON AG					Accumulated depreciation and write-downs		Book value		Depreciation and write-downs 2007	Write-ups 2007
€ in millions	Acquisition/production costs				December 31		2007	2006		
	Jan. 1 2007	Additions	Disposals	Transfers	2007	2007				
Licenses, commercial and similar rights	26.5	0.6	-	-	27.1	12.1	15.0	19.5	5.0	-
<b>Intangible assets</b>	<b>26.5</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>27.1</b>	<b>12.1</b>	<b>15.0</b>	<b>19.5</b>	<b>5.0</b>	<b>-</b>
Real estate, leasehold rights and buildings, including buildings on land owned by third parties	164.7	2.7	13.5	-	153.9	27.7	126.2	135.7	4.6	-
Technical equipment, plant and machinery	9.8	-	-	-	9.8	7.4	2.4	2.5	0.1	-
Other plant, fixtures, furniture and office equipment	28.0	3.6	0.6	-	31.0	21.0	10.0	8.8	2.3	-
Advance payments and construction in progress	-	3.7	-	-	3.7	-	3.7	-	-	-
<b>Property, plant and equipment</b>	<b>202.5</b>	<b>10.0</b>	<b>14.1</b>	<b>-</b>	<b>198.4</b>	<b>56.1</b>	<b>142.3</b>	<b>147.0</b>	<b>7.0</b>	<b>-</b>
Shares in affiliated companies	22,629.3	4,680.8	1.3	-	27,308.8	594.7	26,714.1	22,042.7	21.8	13.7
Long-term loans to affiliated companies	200.0	743.4	-	-	943.4	-	943.4	200.0	-	-
Shares in associated and other investments	8.6	-	-	-	8.6	-	8.6	8.6	-	-
Other long-term loans	3.1	-	0.3	-	2.8	1.6	1.2	1.4	-	-
<b>Financial assets</b>	<b>22,841.0</b>	<b>5,424.2</b>	<b>1.6</b>	<b>-</b>	<b>28,263.6</b>	<b>596.3</b>	<b>27,667.3</b>	<b>22,252.7</b>	<b>21.8</b>	<b>13.7</b>
<b>Fixed assets</b>	<b>23,070.0</b>	<b>5,434.8</b>	<b>15.7</b>	<b>-</b>	<b>28,489.1</b>	<b>664.5</b>	<b>27,824.6</b>	<b>22,419.2</b>	<b>33.8</b>	<b>13.7</b>

#### (5) Receivables from Affiliated Companies

Receivables predominantly include time and overnight deposits as well as sums resulting from profit- and loss-pooling agreements. €369.2 million (December 31, 2006: €522.7 million) thereof had a remaining term of more than one year.

#### (6) Other Assets

Other assets relate to tax refund claims and interest receivables as well as the discounted corporate tax refund claim as of December 31, 2007. This item also includes tax and interest receivables from the updated income tax statements of companies included in the tax group for previous years. €1,630.1 million (December 31, 2006: €1.689,1 million) had a remaining term of more than one year.

#### (7) Securities

Securities break down as follows:

Securities	December 31	
	2007	2006
€ in millions		
Treasury stock	230.8	230.8
Other securities	10.0	10.3
<b>Total</b>	<b>240.8</b>	<b>241.1</b>

As of December 31, 2007, E.ON had 3,930,080 E.ON shares stated as treasury stock. The treasury stock on the Corporation's books resulting from the share buyback program was deducted from stockholders' equity on the equity and liabilities side since it was purchased for retirement. Information on the development of treasury stock is provided in Note 10.

Other securities include €10.0 million in shares in stock and pension funds.

**(8) Liquid Funds**

As of the balance-sheet date, liquid funds, which primarily consist of bank balances, were up €1,296.8 million.

**(9) Prepaid Expenses**

This item predominantly consists of €28.3 million in debt discounts on five of the loans granted by E.ON International Finance B.V. Another €10.5 million stem from accrued insurance premiums as well as personnel and other expenses.

**(10) Capital Stock**

Pursuant to the May 3, 2007 Annual Shareholders Meeting resolution, the Corporation is authorized to buy back shares in the Corporation until November 3, 2008. Combined, the purchased shares and the other treasury stock that are in the Corporation's possession or allocable to it pursuant to Secs. 71a et seqq. of the German Stock Corporation Act may never account for more than ten percent of the Corporation's capital stock. Besides the shares purchased for issuance to

employees, a share buyback program was launched on June 27, 2007, with the objective of buying back shares with a total value of about €7 billion by the end of 2008, in order to retire them. At the aforementioned Annual Shareholders Meeting, the Board of Management was authorized to retire the shares referenced above, without such retirement requiring the passage of a further resolution by the Annual Shareholders Meeting.

For reasons of simplicity, the following commentary on the development of the Corporation's treasury stock is based on whole euro amounts.

Of the 3,930,537 E.ON shares on the books as of January 1, 2007, 3,917,243 came from the share buyback program implemented in 2001 and 2002. Another 13,294 shares stem from the intra-group acquisition of EBY Port 1 GmbH in 2003.

The following shares were bought in the year under review:

Acquisition of Own Shares					
Month of acquisition	Number of shares	% of capital stock	Computed share of capital stock	Purchase price	
June	296,865	0.04%	€771,849	€35,518,802	
July	6,036,554	0.87%	€15,695,040	€732,943,004	
August	5,991,054	0.87%	€15,576,740	€698,196,182	
September	6,310,000	0.91%	€16,406,000	€775,823,969	
October	4,417,570	0.64%	€11,485,682	€574,713,572	
November	3,397,481	0.49%	€8,833,451	€458,433,282	
December	1,899,325	0.28%	€4,938,245	€270,361,657	

Of the shares purchased, 373,905 were earmarked for issuance to employees of E.ON AG and employees of affiliated companies. The 27,974,944 shares remaining were purchased within the scope of the aforementioned share buyback program.

In the year under review, treasury stock was used as shown in the table below:

Sale of Own Shares						
Month of sale	Number of shares	% of capital stock	Computed share of capital stock	Sales price	Sales proceeds	
May	34	0.00%	€88	€-	-€1,939	
July	24	0.00%	€62	€-	-€1,108	
August	25	0.00%	€65	€-	-€1,154	
September	19	0.00%	€49	€-	-€877	
November	355	0.00%	€923	€-	-€16,387	
December	373,905	0.05%	€972,153	€28,198,936	-€13,499,725	

The 374,362 shares stated here were issued to qualified employees of E.ON AG and the E.ON Group within the scope of the employee share purchase program and shop agreements/personnel measures. In line with their purpose, the resulting aforementioned capital gains have been disclosed as part of personnel costs or other operating expenses of E.ON AG.

In its meeting on December 4, 2007, the Board of Management of E.ON AG decided to retire 25,000,000 of the shares purchased within the scope of the share buyback. This represented 3.61 percent of the Corporation's capital stock, or a computed share of the capital stock of €65,000,000.00. The capital reduction was conducted as a simplified capital reduction in accordance with Sec. 71, Para. 1, Item 8 of the German Stock Corporation Act.

As per its resolution of May 30, 2007, the Supervisory Board approved the authorization issued to conduct share buybacks by the Annual Shareholders Meeting, while authorizing the Finance and Investment Committee to amend the Articles of Association in accordance with Sec. 24 of the Articles of Association in connection with the retirement of shares in compliance with Sec. 71, Para. 1, Item 8 of the German Stock Corporation Act. In its meeting on December 17, 2007, the Finance and Investment Committee decided to amend the Articles of Association. The Corporation's capital stock now amounts to €1,734,200,000.00 and is split among 667,000,000 bearer shares (without nominal value). The entry into the

Düsseldorf Commercial Register (HRB 22315) was made on December 27, 2007.

As of the balance-sheet date, the Corporation was in possession of a total of 2,974,944 treasury shares with an aggregate value of €386.0 million (corresponding to 0.44 percent, or a computed share of €7,734,854.40, of the Corporation's capital stock). These shares were purchased for the purpose of retirement. They are set apart from the capital stock as an open position in the amount of €7.7 million in the column before the capital stock.

An additional 3,930,080 shares with an aggregate value of €230.8 million (corresponding to 0.59 percent, or a computed share of €10,218,208.00, of the Corporation's capital stock) are recognized as treasury stock under current securities (see Note 7).

Furthermore, the Corporation was authorized by the Annual Shareholders Meeting to purchase shares inter alia by exercising put or call options or a combination of the two. If the purchase is conducted using derivatives in the form of put or call options or a combination of the two, the option transactions must be concluded with a financial institution or on the stock market at near-market conditions.

The following table contains an overview of the put options granted within the scope of the buyback program.

Put Options Granted			
Conclusion of option agreements	Option class	Number of options/shares	Average exercise price
August	Put option, European	3,000,000 (=3,000,000 shares)	112.80 €
September	Put option, European	3,500,000 (=3,500,000 shares)	114.78 €
October	Put option, European	3,500,000 (=3,500,000 shares)	115.04 €

Option premiums received amount to €63.9 million and are stated as part of other liabilities.

In accordance with Sec. 160, Para. 1, Item 2 of the German Stock Corporation Act, E.ON shares held by the Group company E.ON Kraftwerke GmbH are classified as treasury stock as defined in Sec. 71, Para. 1, Item 4 of the German Stock Corporation Act in conjunction with Sec. 71d of the German Stock Corporation Act. As of January 1, 2007, this company held a total of 28,472,194 shares, which were held throughout the period under review.

These shares account for 4.27 percent, or a computed €74,027,704.40 of the Corporation's capital stock. Including the shares held by E.ON AG, this corresponds to 5.30 percent, or a computed €91,980,766.80 of the Corporation's capital stock.

In January 2007, E.ON Energie AG purchased 2,890 shares in E.ON AG at a purchase price of €301,045 and transferred them as payment in kind to a third party immediately after the purchase. This corresponded to a computed share of €7,514 of the Corporation's capital stock.

At the Annual Shareholders Meeting on April 27, 2005, the Board of Management was authorized, subject to the approval of the Supervisory Board, to increase the Corporation's capital stock by up to €540 million until April 27, 2010 through the one-time or repeated issuance of shares without nominal value in return for cash or contributions in kind, under the discretionary limitation of shareholder subscription rights (authorized capital in accordance with Sec. 202 et seqq. of the German Stock Corporation Act). The Board of Management is furthermore empowered, subject to the consent of the Supervisory Board, to decide on the exclusion of shareholder subscription rights.

At the April 30, 2003 Annual Shareholders Meeting, a resolution was passed to approve €175.0 million in conditional capital expiring on April 30, 2008, along with the option of excluding shareholder subscription rights for the issuance of partial bonds with conversion or option rights as well as for the fulfillment of conversion obligations to partial bond creditors regarding shares of E.ON AG or companies in which E.ON AG directly or indirectly holds a majority stake.

The following reports on voting stock for fiscal 2007 in accordance with Sec. 21, Para. 1 of the German Securities Trading Act were received:

- On June 6, 2007, UBS AG, Zurich, Switzerland, informed us pursuant to Article 21 (1) WpHG that its share of the voting rights of E.ON AG, Düsseldorf, Germany, ISIN: DE0007614406, WKN: 761440, passed the threshold of 3 percent on June 1, 2007, and that it stands at 3.48 percent (equivalent to 24,100,066 votes) as of that date. 0.16 percent of the voting rights (equivalent to 1,102,568 votes) are attributable to UBS AG pursuant to Article 22 (1), sentence 1, no. 1, WpHG.
- On December 21, 2007, Capital Research and Management Company, Los Angeles, California, U.S., informed us pursuant to Article 21 (1) WpHG that its share of the voting rights of E.ON AG, Düsseldorf, Germany, ISIN: DE0007614406, WKN: 761440, passed the threshold of 5 percent on December 13, 2007, and that it stands at 5.06 percent (equivalent to 33,743,064 votes) as of that date. 5.06 percent of the voting rights of E.ON AG (equivalent to 33,743,064 votes) are attributable to Capital Research and Management Company pursuant to Article 22 (1), sentence 1, no. 6, WpHG.

### (11) Additional Paid-In Capital

Due to the retirement of shares, additional paid-in capital was increased by €65.0 million in accordance with Sec. 237, Para. 5 of the German Stock Corporation Act. It now amounts to €6,132.5 million.

### (12) Retained Earnings

Retained earnings developed as follows:

Retained Earnings						
€ in millions	Dec. 31, 2006	Additions from 2007 net income	Change in reserves for own shares	Change due to the retirement of treasury stock	Change due to the shares on the books held for retirement	Dec. 31, 2007
Legal reserves	45.3	-	-	-	-	45.3
Reserves for own shares	230.8	-	-	-	-	230.8
Other retained earnings	4,317.1	2,526.4	-	-3,114.0	-378.3	3,351.2
<b>Total</b>	<b>4,593.2</b>	<b>2,526.4</b>	<b>-</b>	<b>-3,114.0</b>	<b>-378.3</b>	<b>3,627.3</b>

Owing to the share buyback, other retained earnings decreased by a total of €3,492.3 million. In the year under review, €2,526.4 million (previous year: €362.0 million) were transferred from net income of €5,116.0 million (previous year: €2,571.6 million) to other retained earnings.

### (13) Stockholders' Equity

In summary, stockholders' equity developed as follows:

€ in millions	2007				2006	
	Capital stock	Additional paid-in capital	Retained earnings	Net income available for distribution	Total	Total
January 1	1,799.2	6,067.5	4,593.2	2,209.6	14,669.5	16,712.0
Dividend of E.ON AG for the previous year				-2,209.6	-2,209.6	-4,614.1
Drawing on other retained earnings due to the retirement of treasury stock			-3,114.0		-3,114.0	
Capital reduction through the retirement of treasury shares	-65.0				-65.0	
Transfer from net income to retained earnings			2,526.4		2,526.4	362.0
Transfer to additional paid-in capital pursuant to Sec. 237, Para. 5 of the German Stock Corporation Act		65.0			65.0	
Computed value of shares held for retirement (disclosed in the preceding column on the balance sheet)	-7.7				-7.7	
Offsetting of shares held for retirement against other retained earnings			-378.3		-378.3	
Income earmarked for distribution				2,589.6	2,589.6	2,209.6
<b>December 31</b>	<b>1,726.5</b>	<b>6,132.5</b>	<b>3,627.3</b>	<b>2,589.6</b>	<b>14,075.9</b>	<b>14,669.5</b>

#### (14) Reserves Subject to Future Taxation

Reserves subject to future taxation break down as follows:

Reserves Subject to Future Taxation	December 31	
	2007	2006
€ in millions		
Untaxed reserves acc. to Sec. 6b, German Income Tax Act	116.0	98.5
Valuation allowances in acc. with the Coal Adjustment Act, Plant Closures Act, Sec. 35, German Income Tax Act, and Rationalization Act for		
Property, plant and equipment	136.3	148.4
Financial assets	161.9	163.0
<b>Total</b>	<b>414.2</b>	<b>409.9</b>

€17.5 million (previous year: €64.3 million) were transferred to reserves subject to future taxation in the year under review. This was contrasted by reversals of fiscal valuation allowances of €13.2 (previous year: €12.0 million). Net income decreased by €2.7 million owing to the change in reserves subject to future taxation. The extent of future burdens is negligible.

#### (15) Provisions for Pensions

Pension obligations along with the necessary plan assets were transferred to MEON Pensions GmbH & Co. KG (abbreviated to MEON hereinafter) within the scope of a contractual trust arrangement (CTA). For this purpose, effective at the end of 2006, employee pension entitlements as well as the underlying plan assets were transferred to MEON by signing a contract for the collective assumption of debt, including an exemption agreement. MEON's collective assumption of debt does not relate to provisions for employees who are specifically exempt, or to non-cash benefits or rights of use or pecuniary benefits granted in place of them.

E.ON became a party to the agreement for a collective assumption of debt existing with MEON within the scope of the transfer of employees to E.ON AG.

The agreement for the collective assumption of debt stipulates that MEON declare that it will assume the debt associated with benefit obligations accrued up until midnight on December 31, 2006, intended for current and former employees via a contract with the former employer (transferring company) effective as per a real agreement for the benefit of the beneficiaries and their surviving dependants.

Concurrently, MEON made an internal arrangement to indemnify the former employer of the benefit obligations assumed via the agreement for the collective assumption of debt (indemnification agreement). In exchange, the former employer transferred the assets required to cover these benefit obligations to MEON.

The indemnification receivables are valued using the method applied to provisions for pensions, based on a computed interest rate of 4.25 percent.

In the year under review, the Corporation had €1.6 million in indemnification receivables resulting from staff transfers vis-à-vis MEON.

Provisions for pensions were openly offset against the right of indemnity.

#### (16) Provisions for Taxes

Provisions for taxes relate to the commercial earnings tax of the current financial year and taxes for periods which have not been audited by the tax authorities (cf. Note 25).

As in the previous year, the offsetting of deferred tax liabilities against deferred tax assets resulted in a surplus of tax assets, which are not considered.

#### (17) Other Provisions

Other provisions break down as follows:

Other Provisions	December 31	
	2007	2006
€ in millions		
Tax-induced interest	420.0	369.7
Mining damage	144.6	145.1
Obligations in connection with the disposal of financial assets	75.1	75.2
Stock appreciation rights	38.8	41.8
Cost of preparing the financial statements	12.3	10.6
Impending losses from financial transactions	6.7	7.0
Miscellaneous other risks	110.1	84.7
<b>Total</b>	<b>807.6</b>	<b>734.1</b>

Mining damage provisions relate to reclamations possibly resulting from the operation of closed pits when they were run by acquired mining companies.

## (18) Liabilities

Liabilities	Dec. 31, 2007				Dec. 31, 2006
	Total	with a remaining term of			
		up to 1 year	1 to 5 years	over 5 years	
€ in millions					
Banks	802.2	802.2	-	-	412.7
Advance payments received	0.1	0.1	-	-	0.2
Accounts payable	33.5	24.4	9.1	-	33.2
Affiliated companies	30,388.1	23,328.9	2,752.6	4,306.6	23,784.7
Associated and other companies	1,237.5	1,237.5	-	-	1,255.5
<i>Secured by mortgages</i>	-	-	-	-	-
Other liabilities	2,348.9	2,347.6	1.1	0.2	484.5
<i>Taxes</i>	490.3	490.3	-	-	353.6
<i>Social security</i>	0.2	0.2	-	-	0.7
<i>Secured by mortgages</i>	-	-	-	-	-
<b>Total</b>	<b>34,810.3</b>	<b>27,740.7</b>	<b>2,762.8</b>	<b>4,306.8</b>	<b>25,970.8</b>

Accounts payable to affiliated companies primarily stem from funds drawn from overnight and time deposits. These principally relate to €7,546.8 million in funds drawn from NFK Finanzcontor GmbH and €4,468.2 million in funds drawn from E.ON Finanzanlagen GmbH. This item also reflects the impact of the €6,949.2 million in funds forwarded from E.ON International Finance B.V.

## Contingent Liabilities and Other Financial Obligations

The table below provides an overview of contingent liabilities:

Contingent Liabilities	December 31	
	2007	2006
€ in millions		
Contingent liabilities resulting from warranties	15,030.0	9,540.2
<i>Vis-à-vis affiliated companies</i>	310.2	314.8
Contingent liabilities resulting from guaranties	705.6	2,138.0
<i>Vis-à-vis affiliated companies</i>	-	2,069.1
<b>Total</b>	<b>15,735.6</b>	<b>11,678.2</b>

€13,000.0 million in contingent liabilities arising from warranties consist of repayment guaranties made to bond creditors for principal from the bonds issued by E.ON International Finance B.V. Another €1,719.8 million relate to warranties provided by E.ON AG in connection with the divestment of operations insofar as a contractual limit has been set. The

Corporation's financial warranties include a liquidity bridge warranty vis-à-vis MEON from the implementation of the CTA. These obligations amount to €310.2 million.

Furthermore, as of December 31, 2007, the Corporation had a total of €649.7 million in guaranties on its books, largely for the benefit of Dalmine Energie S.p.A.

Other financial obligations totaled €194.4 million as of December 31, 2007. €48.0 million thereof relate to liabilities vis-à-vis affiliated companies (December 31, 2006: €36.6 million).

### Derivative Financial Instruments

As of the balance-sheet date, derivative financial instruments used to hedge interest-rate and currency risks arising from fluctuations in market prices broke down as follows:

Derivative Financial Instruments	December 31			
	2007		2006	
	Nominal volume	Fair value (market value)	Nominal volume	Fair value (market value)
€ in millions				
Instrument				
Forward transactions with banks	14,080.8	93.2	6,801.6	-52.1
Forward transactions with affiliated companies	15,800.7	-84.7	7,888.8	63.5
Interest-rate swaps with banks	5,750.0	-82.6	5,750.0	-85.4
Interest-rate swaps with affiliated companies	4,722.1	90.1	4,722.1	97.9
Interest-rate/cross-currency swaps with banks	19,612.9	584.8	18,298.3	-25.8
Interest-rate/cross-currency swaps with affiliated companies	16,794.0	-1,034.4	17,005.7	-343.2
<b>Total</b>	<b>76,760.5</b>	<b>-433.6</b>	<b>60,466.5</b>	<b>-345.1</b>

### Notes to the Income Statement

#### (19) Income from Equity Interests

The table below provides an overview of income from equity interests:

Income from Equity Interests	2007	2006
€ in millions		
Income from profit- and loss-pooling agreements	5,786.4	2,719.6
Tax allocations	1,666.9	1,095.1
Income from companies in which share investments are held	26.8	19.0
<i>From affiliated companies</i>	26.8	19.0
Losses from profit- and loss-pooling agreements	-236.1	-124.2
<b>Total</b>	<b>7,244.0</b>	<b>3,709.5</b>

It primarily stems from income claims and equalization commitments to the following companies.

For reasons of clarity, tax allocations have been broken down by company.

Income from Equity Interests by Company	2007	2006
€ in millions		
E.ON Energie AG	4,806.5	1,907.4
E.ON Ruhrgas Holding GmbH	2,089.6	1,630.2
VIAG Telecom Beteiligungs GmbH	498.8	244.8
Other	-150.9	-72.9
<b>Total</b>	<b>7,244.0</b>	<b>3,709.5</b>

#### (20) Interest Income (Net)

Interest income breaks down as follows:

Interest Income (Net)	2007	2006
€ in millions		
Income from other securities and long-term loans included in financial assets	34.1	6.8
<i>From affiliated companies</i>	27.2	6.8
Other interest and similar income	895.4	268.1
<i>From affiliated companies</i>	764.4	211.2
Interest and similar expenses paid	-1,486.7	-813.6
<i>Paid to affiliated companies</i>	-1,115.7	-444.5
<b>Total</b>	<b>-557.2</b>	<b>-538.7</b>

The decrease in net interest income is predominantly due to the rise in interest expenses from the use of fixed-term and overnight deposits by affiliated companies (-€820.2 million).

A counteracting effect was felt principally from the rise in interest expenses from the use of fixed-term and overnight deposits by affiliated companies (€550.9 million), the rise in interest income from fixed-term deposits with outside companies (€61.0 million), the decline in interest expenses associated with long-term loans granted to affiliated companies (€82.0 million), the decrease in financing costs (€73.9 million) and the decline in interest expenses associated with drawings on commercial paper (€14.1 million).

### (21) Other Operating Income

Other operating income breaks down as shown in the following table:

Other Operating Income		
€ in millions	2007	2006
Income from the reversal of reserves subject to future taxation	13.2	12.0
Income from the disposal/write-up of fixed assets	25.7	75.8
Other	4,226.2	3,769.0
<b>Total</b>	<b>4,265.1</b>	<b>3,856.8</b>

Income from asset disposals totals €12.0 million exclusively originate from the sale of property and buildings. An additional €13.7 million stem from a write-up of financial assets (cf. Note 2).

Other income includes the following items:

Other Income		
€ in millions	2007	2006
Cross-currency/interest-rate swaps and currency options	2,044.8	1,770.1
Currency exchange differences	1,946.9	1,894.6
Reversal of provisions	11.3	13.6
Other	223.2	90.7
<b>Total</b>	<b>4,226.2</b>	<b>3,769.0</b>

### (22) Personnel Expenses

The following table shows an overview of personnel expenses:

Personnel Expenses		
€ in millions	2007	2006
Wages and salaries	111.4	97.1
Social security contributions, pension costs and other employee benefits	13.0	139.1
<i>For pensions</i>	7.9	134.3
<b>Total</b>	<b>124.4</b>	<b>236.2</b>

The increase in wages and salaries is mainly due to the increase in transfers to provisions for obligations arising from share-based payment and to payments of exercise gains that have an effect on expenses.

In the year under review, expenses stemming from share-based payments totaled €41.8 million (previous year: €27.0 million). As of the balance-sheet date, the provision accrued for share-based payments amounted to €38.8 million (previous year: €41.8 million).

The social security contributions, pension costs and other employee benefits stated in the previous year are primarily the result of the one-off effect of the change in the method used to value provisions for pensions.

### (23) Write-Downs of Financial Assets and Current Securities

For information on write-downs in the year under review, please turn to Note 2.

### (24) Other Operating Expenses

Other operating expenses break down as follows:

Other Operating Expenses		
€ in millions	2007	2006
Cross-currency/interest-rate swaps and currency option premiums	2,039.3	1,771.4
Currency exchange differences	1,955.9	1,860.8
Fees	73.1	55.1
Transfers to reserves subject to future taxation	17.5	64.3
Discount on corporate income tax credit receivables	-	197.4
Other expenses	271.3	236.9
<b>Total</b>	<b>4,357.1</b>	<b>4,185.9</b>

Other operating expenses include auditor's fees, which break down as follows.

Auditor's Fees		
€ in millions	2007	2006
Audit	12.8	13.6
<i>Financial statements</i>	11.7	12.6
Other opinions	1.8	2.7
Miscellaneous services	0.4	0.4
<b>Total</b>	<b>15.0</b>	<b>16.7</b>

### (25) Taxes

The following table provides an overview of taxes:

Taxes		
€ in millions	2007	2006
Income taxes	1,321.1	17.8
Other taxes	-0.5	0.2
<b>Total</b>	<b>1,320.6</b>	<b>18.0</b>

Income taxes stated for the fiscal year include €761.1 million in corporate income tax, €38.4 million relating to the solidarity surcharge, and €551.4 million in commercial earnings tax disclosed as a tax expense. The remaining amount relates to taxes for prior years.

Income taxes disclosed in the previous year relate to the expense associated with the corporate income tax, solidarity surcharge, and commercial earnings tax in the fiscal year,

which amount to €529.8 million. A counteracting effect was felt from the capitalization of the corporate income tax credit, which led to a €987.0 million tax gain. The remaining amount relates to taxes for prior years.

### Additional Information

#### Mergers

E.ON Montan GmbH, Düsseldorf (abbreviated to "Montan" hereinafter) and E.ON Academy GmbH, Düsseldorf (abbreviated to "Academy" hereinafter), both of which are subsidiaries wholly owned by E.ON AG, individually entered into merger agreements with E.ON AG on July 10, 2007. Based on these merger agreements, Montan and Academy transferred their assets as a whole, along with all rights and obligations, with dissolution without winding up in accordance with Sec. 2, Item 1 of the German Company Transformation Act (UmwG) to the assuming company, E.ON AG (merger through absorption). The absorption of the assets of Montan and Academy by E.ON AG was carried out as an internal arrangement as of the end of the day on May 31, 2007 (fiscal transfer date). From the beginning of the day on June 1, 2007 (merger date) onwards, all of the transactions carried out by Montan and Academy shall be deemed to have been carried out on the account of E.ON AG.

E.ON AG continued accounting for the figures pertaining to the assets and equity and liabilities earmarked for transfer stated on the closing balance sheets of Montan and Academy on its own books (book value linkage).

When the merger became effective, all of the employment relationships of the employees of the transferring legal entities, Montan and Academy, along with the associated rights and obligations, were transferred to the absorbing legal entity within the scope of a universal succession in compliance with Sec. 613a of the German Civil Code (BGB). The mergers were entered into the Düsseldorf Commercial register (HRB 22315) on August 14, 2007.

#### Personnel

On average, the number of people employed in the 2007 financial year rose by 99 to 469. The averaged figure does not include the 6 members of the Board of Management or the Corporation's 11 trainees.

#### Statement of Compliance Pursuant to Sec. 161 of the German Stock Corporation Act

On December 17, 2007, the Board of Management and the Supervisory Board of E.ON AG issued a statement of compliance with the German Corporate Governance Code in accordance with Sec. 161 of the German Stock Corporation Act and published it on the Corporation's website under [www.eon.com](http://www.eon.com) to make it permanently available to its shareholders.

## Disclosure on Boards

### Board Compensation

#### Supervisory Board

Provided that E.ON's April 30, 2008 Annual Shareholders Meeting approves the proposed dividend, the total remuneration of the members of the Supervisory Board will amount to €4.3 million (2006: €3.8 million).

The compensation model for the Supervisory Board is described in the Compensation Report, which is part of the Combined Review of Operations.

The members of the Supervisory Board had no lines of credit outstanding in fiscal 2007.

The members of the Supervisory Board are listed, along with additional directorships held, on page 72 et seqq.

#### Board of Management

Aggregate remuneration paid to the members of the Board of Management amounts to €20.4 million (2006: €21.7 million) and includes base pay, a bonus, other income and share-based payment, which has been included at the fair value of the performance rights at grant. Total compensation of the members of the Board of Management breaks down as follows:

Total Compensation Paid to the Board of Management for Fiscal 2007						
in €	Base pay	Bonus	Other emoluments	Value of performance rights granted (2 <sup>nd</sup> tranche)	Total	Number of performance rights granted (2 <sup>nd</sup> tranche)
Dr. Wulf H. Bernotat	1,240,000	2,880,000	44,862	1,164,278	5,329,140	13,987
Dr. Burckhard Bergmann	750,000	1,760,000	28,414	689,893	3,228,307	8,288
Christoph Dänzer-Vanotti	600,000	1,410,000	18,103	551,964	2,580,067	6,631
Lutz Feldmann	600,000	1,410,000	39,918	551,964	2,601,882	6,631
Dr. Hans Michael Gaul (until March 31, 2007)	187,500	440,000	5,856	172,473	805,829	2,072
Dr. Marcus Schenck	600,000	1,410,000	32,043	551,964	2,594,007	6,631
Dr. Johannes Teysen	750,000	1,760,000	85,065	689,893	3,284,958	8,288
<b>Total</b>	<b>4,727,500</b>	<b>11,070,000</b>	<b>254,261</b>	<b>4,372,429</b>	<b>20,424,190</b>	<b>52,528</b>

For further information on the compensation of active and retired members of the Board of Management as well as the compensation model for the Board of Management, please turn to the Compensation Report, which is part of the Combined Review of Operations.

The members of the Board of Management had no lines of credit outstanding in fiscal 2007.

Aggregate remuneration paid to retired members of the Board of Management and their beneficiaries amounted to €6.1 million (previous year: €11.3 million). €105.6 million in

provisions were accrued to cover pension obligations to retired members of the Board of Management and their beneficiaries (previous year: €98.4 million). The exemption right from the collective debt agreement with MEON will be offset openly using this accrual.

The members of the Board of Management are listed, along with additional directorships held, on page 74.

## Members of E.ON's Supervisory Board and Additional Directorships Held

**Prof. Dr. Günter Vogelsang**

Honorary Chairman of the Supervisory Board

**Dr. Karl-Hermann Baumann**

- Linde AG
- Bayer Schering Pharma AG

**Wolf-Rüdiger Hinrichsen**

Deputy Chairman of the Group Works Council, E.ON AG

**Ulrich Hartmann**

Chairman

- Deutsche Bank AG
- Deutsche Lufthansa AG
- IKB Deutsche Industriebank AG (Chairman)
- Münchener Rückversicherungs-Gesellschaft AG
- Henkel KGaA

**Sven Bergelin**

(since August 1, 2007)

Director, National Energy Working Group, Unified Service Sector Union, ver.di

- E.ON Avacon AG
- E.ON Kernkraft GmbH

**Ulrich Hocker**

General Manager, German Investor Protection Association

- Feri Finance AG
- Deutsche Telekom AG
- Arcandor AG
- ThyssenKrupp Stainless AG
- Gartmore SICAV
- Phoenix Mecano AG (President of the Administrative Council)

**Hubertus Schmoldt**

Chairman of the Board of Management, Industriegewerkschaft Bergbau, Chemie, Energie  
Deputy Chairman

- Bayer AG
- Deutsche BP AG
- RAG Aktiengesellschaft
- Evonik Industries AG
- DOW Olefinverbund GmbH

**Dr. Gerhard Cromme**

(until June 30, 2007)

Chairman of the Supervisory Board, ThyssenKrupp AG

- Allianz SE
- Axel Springer AG
- Siemens AG (Chairman)
- ThyssenKrupp AG (Chairman)
- Compagnie de Saint-Gobain

**Eva Kirchhof**

Diploma Physicist

**Seppel Kraus**

(until July 31, 2007)

Labor Union Secretary

- Hexal AG
- Wacker-Chemie GmbH
- Novartis Deutschland GmbH

**Gabriele Gratz**

Chairwoman of the Works Council, E.ON Ruhrgas AG

- E.ON Ruhrgas AG

All of the information relates to December 31, 2007, or the date of retirement from the Supervisory Board of E.ON AG.

- Directorships/supervisory board memberships within the meaning of Section 100, Paragraph 2 of the German Stock Corporation Act.
- Directorships/memberships in comparable domestic and foreign supervisory bodies of commercial enterprises.

## Members of E.ON's Supervisory Board and Additional Directorships Held

### Prof. Dr. Ulrich Lehner

President and Chief Executive Officer,  
Henkel KGaA

- Dr. Ing. h.c. F. Porsche AG
- Porsche Automobil Holding SE
- Novartis AG
- HSBC Trinkhaus & Burkhardt AG

### Dr. Klaus Liesen

Honorary Chairman of the  
Supervisory Boards,  
E.ON Ruhrgas AG and  
Volkswagen AG

### Erhard Ott

Member of the Board of Management,  
Unified Service Sector Union ver.di

- E.ON Energie AG

### Hans Prüfer

Chairman of the Combined Works  
Council of E.ON AG

### Klaus Dieter Raschke

Chairman of the Combined Works  
Council, E.ON Energie AG

- E.ON Energie AG
- E.ON Kernkraft GmbH

### Dr. Henning Schulte-Noelle

Chairman of the Supervisory Board,  
Allianz SE

- Allianz SE (Chairman)
- Siemens AG
- ThyssenKrupp AG

### Dr. Theo Siegert

(since July 4, 2007)  
Managing Partner,  
de Haen-Carstanjen & Söhne

- Deutsche Bank AG
- ERGO AG
- Merck KGaA
- E. Merck OHG
- DKSH Holding Ltd.
- Hülskens Holding GmbH & Co. KG

### Prof. Dr. Wilhelm Simson

- Hochtief AG
- Merck KGaA (Chairman)
- E. Merck OHG
- Freudenberg KG
- Jungbunzlauer Holding AG
- Frankfurter Allgemeine Zeitung GmbH

### Gerhard Skupke

Chairman of the Combined Works  
Council, E.ON edis AG

- E.ON edis AG

### Dr. Georg Freiherr von Waldenfels

Former Minister of State, Attorney

- CAPEO Consulting AG
- Georgsmarienhütte Holding GmbH
- Rothenbaum Sport GmbH  
(Chairman)

### Hans Wollitzer

(since January 4, 2007)  
Chairman of the Central Works Council  
of E.ON Energie AG

- E.ON Energie AG
- E.ON Bayern AG

All of the information relates to December 31, 2007, or the date of retirement from the Supervisory Board of E.ON AG.

- Directorships/supervisory board memberships within the meaning of Section 100, Paragraph 2 of the German Stock Corporation Act.
- Directorships/memberships in comparable domestic and foreign supervisory bodies of commercial enterprises.

## Members of the Board of Management and Additional Directorships Held

**Dr. Wulf H. Bernotat**

Chairman of the Board of Management and Chief Executive Officer  
Group Executive Human Resources,  
Investor Relations, Group Audit,  
Corporate Communications, Economic  
and Public Affairs

- E.ON Energie AG<sup>1</sup> (Chairman)
- E.ON Ruhrgas AG<sup>1</sup> (Chairman)
- Allianz SE
- Bertelsmann AG
- Metro AG
- E.ON Nordic AB<sup>2</sup> (Chairman)
- E.ON UK plc<sup>2</sup> (Chairman)
- E.ON US Investments Corp.<sup>2</sup> (Chairman)
- E.ON Sverige AB<sup>2</sup> (Chairman)

**Dr. Burckhard Bergmann**

Member of the Board of Management  
Gas Procurement, Gas Production,  
Group Regulatory Management

- Thüga AG<sup>1</sup> (Chairman)
- Allianz Lebensversicherungs-AG
- MAN Ferrostaal AG
- Accumulatorenwerke Hoppecke  
Carl Zoellner & Sohn GmbH
- Jaeger Beteiligungsgesellschaft mbH  
& Co. KG (Chairman)
- North Stream AG
- OAO Gazprom
- E.ON Ruhrgas E & P GmbH<sup>2</sup>  
(Chairman)
- E.ON Gastransport AG & Co. KG<sup>2</sup>  
(Chairman)
- E.ON UK plc<sup>2</sup>
- ZAO Gerosgaz<sup>2</sup>  
(Chairman; chairmanship rotates  
with a representative of a foreign  
partner company)

**Christoph Dänzer-Vanotti**

Member of the Board of Management  
Corporate Responsibility, E.ON Academy,  
Facility Management, Real Estate,  
OneE.ON, Human Resources/  
Organization

- E.ON Nordic AB<sup>2</sup>
- E.ON Sverige AB<sup>2</sup>

**Lutz Feldmann**

Member of the Board of Management  
Mergers & Acquisitions, Legal Affairs,  
Corporate Development/New Markets

- E.ON Energie AG<sup>1</sup>
- OAO OGK-4<sup>2</sup>

**Dr. Hans Michael Gaul**

(until March 31, 2007)

Member of the Board of Management  
Corporate Planning & Controlling,  
Mergers & Acquisitions, Legal Affairs

- Allianz Versicherungs-AG
- DKV AG
- Volkswagen AG
- Evonik Industries AG
- HSBC Trinkaus & Burkhardt AG
- IVG Immobilien AG
- VNG Verbundnetz Gas AG<sup>2</sup>

**Dr. Marcus Schenck**

Member of the Board of Management  
Finance, Accounting, Tax, IT

- E.ON Ruhrgas AG<sup>1</sup>
- E.ON IS GmbH<sup>2</sup>
- NFK Finanzcontor GmbH<sup>2</sup> (Chairman)
- E.ON Risk Consulting GmbH<sup>2</sup>  
(Chairman)
- E.ON Audit Services GmbH<sup>2</sup>  
(Chairman)
- OAO OGK-4<sup>2</sup>

**Dr. Johannes Teysen**

Member of the Board of Management  
Corporate Planning & Controlling,  
Infrastructure Management,  
Group Procurement, Marketing & Sales,  
Upstream/Generation,  
Trading & Portfolio Optimization

- E.ON Energie AG<sup>1</sup>
- E.ON Ruhrgas AG<sup>1</sup>
- Salzgitter AG
- E.ON Nordic AB<sup>2</sup>
- E.ON Sverige AB<sup>2</sup>
- E.ON UK plc<sup>2</sup>

Information as of December 31, 2007, or the date of retirement from the Board of Management of E.ON AG, respectively.

- Directorships/supervisory board memberships within the meaning of Section 100, Paragraph 2 of the German Stock Corporation Act.
- Directorships/memberships in comparable domestic and foreign supervisory bodies of commercial enterprises.

<sup>1</sup>Exempted E.ON Group directorship.

<sup>2</sup>Other E.ON Group directorship.

## Dividend Proposal

Dividend Proposal	
in €	
In 2007, net income amounted to	5,116,023,094.74
Taking into account the transfers to other retained earnings	2,526,369,688.54
<b>Net income available for distribution totals</b>	<b>2,589,653,406.20</b>

We propose to the Annual Shareholders Meeting that the €2,589,653,406.20 in net income available for distribution for the 2007 financial year be appropriated to distribute a dividend of €4.10 per individual share certificate with dividend entitlements. If the number of dividend-bearing shares is reduced as a result of share buybacks by the time the Annual Shareholders Meeting convenes, it is intended to adapt the draft resolution so as to ensure that, based on an unchanged dividend payment of €4.10 per individual dividend-bearing share certificate, the partial amount allocable to the shares that no longer bear dividends is carried forward on new account.

To the best of our knowledge, we declare that, in accordance with applicable principles of accounting, the annual financial statements present a true and fair view of the net worth, financial position and earnings of the Corporation, that the management report, which is combined with the Group management report, presents a true and fair view of the Corporation's operating results, and that the opportunities and risks associated with anticipated developments have been described.

Düsseldorf, February 19, 2008

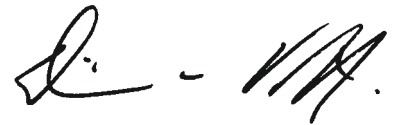
The Board of Management



Bernotat



Bergmann



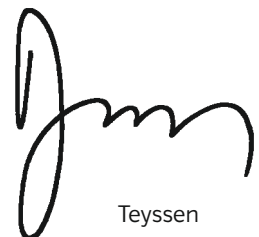
Dänzer-Vanotti



Feldmann



Schenck



Teysen

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the combined management report of E.ON AG for the fiscal year from January 1, 2007, to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and combined management report in accordance with German commercial law are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit. We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance.

Düsseldorf, February 20, 2008

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Norbert Schwieters	Michael Reuther
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations. In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The combined management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.



Additional Information

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**The German version of E.ON AG's  
Financial Statements and  
Combined Group Management  
Report is legally binding.**

