

E.ON AG Financial Statements pursuant to German GAAP  
and Combined Group Management Report  
for the 2008 Financial Year

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E.ON AG's Financial Statements and Combined Group Management Report for the 2008 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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- Adjusted EBIT up 7 percent
- Cash provided by operating activities down 23 percent
- Management to propose raising dividend to €1.50
- 2009 adjusted EBIT expected at prior-year level

## Corporate Profile and Operating Environment

### Corporate Structure and Operations

E.ON is one of the world's largest investor-owned energy companies. Our roughly 93,500 employees generated €86.8 billion in sales in 2008. E.ON operates along the entire value chain in power and gas. These operations are segmented geographically or functionally into market units. The lead company of each market unit is responsible for integrating and coordinating operations across its target market. Business units manage day-to-day operations. We pursue a value-oriented management approach aimed at enhancing our competitiveness and delivering profitable growth. All subsequent commentary for the E.ON Group also applies to E.ON AG.

The number of our market units doubled in 2008. At the start of the year, we centralized the management of all of our European trading activities into the Energy Trading market unit. At the same time, we combined our renewables operations (including micro-hydroelectricity) and climate-protection operations into the Climate & Renewables market unit and our existing operations in Italy into the Italy market unit. We acquired a majority stake in OGK-4, a Russian power producer, in October 2007; it is now part of the Russia market unit, which also began operations on January 1, 2008. Pursuant to the agreement we concluded with Enel and Acciona in

April 2007, we acquired a substantial portfolio of assets in late June 2008, with operations primarily in Italy, Spain, and France. The operations in France and Italy are recorded in the Central Europe and Italy market units, respectively. Those in Spain form the new Spain market unit.

Energy Trading is the only one of our new market units that will be disclosed as a separate reporting segment for the 2008 financial year. We have changed E.ON's organizational structure considerably, particularly through the centralization of our European trading operations. We therefore do not show prior-year figures for Energy Trading, nor have we adjusted the prior-year figures of the market units affected by the organizational changes. Consequently, a segmented comparison of our individual market units with their prior-year figures has limited informational value. For reasons of materiality and, in some cases, due to the absence of prior-year figures, we have combined our other new market units in a single reporting segment called New Markets. This segment includes the figures for our majority stake in OGK-4 in Russia and for wind-farm operators E2-I in Spain and Airtricity in North America which in the prior year were disclosed in the Corporate Center/New Markets segment.

\*Page references in the Combined Group Management Report refer to the 2008 E.ON Financial Report.

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.

### Corporate Center

E.ON AG, Düsseldorf, is the E.ON Group's Corporate Center. 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.

The Corporate Center segment consists of E.ON AG itself and the ownership interests managed directly by E.ON AG. We also allocate consolidation effects at the Group level to this segment.

### Central Europe

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 our gas distribution and sales business in Central Europe.

In 2008, the Central Europe West Non-regulated business, whose main presence is in Germany and the Netherlands, consisted of:

- the operation of hydroelectric, conventional, nuclear, and waste-incineration power plants
- regional heat distribution
- electricity, gas, and heat sales.

The Central Europe West Regulated business consists of:

- electric transmission via high-voltage and ultrahigh-voltage wires networks and electric distribution via intermediate- and low-voltage wires networks
- regional gas distribution.

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

In 2008, E.ON Energie supplied power and gas to about 17 million customers in and outside Germany, about half of them in Central Europe West and half in Central Europe East. This figure includes customers served by key minority shareholdings.

### Pan-European Gas

Essen-based E.ON Ruhrgas is the lead company of the Pan-European Gas market unit and is 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 markets our gas transport system. E.ON Gas Storage is responsible for our gas storage business. 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. E.ON Ruhrgas International mainly has ownership interests in energy utilities in other European countries, primarily in Eastern Europe.

At year-end 2008, the pipeline system of E.ON Gastransport and its project companies in Germany had a total length of 11,552 kilometers (prior year: 11,611 kilometers); 86 kilometers of coke gas pipelines are owned by E.ON Ruhrgas. The working gas capacity of E.ON Gas Storage's owned, jointly owned, project-company-owned, and leased underground storage facilities is approximately 9.4 billion cubic meters (5.6 billion cubic meters in Germany). The maximum withdrawal rate of these facilities is 8.9 million cubic meters per hour (5.9 million cubic meters per hour in Germany).

### U.K.

Coventry-based E.ON UK is the lead company of our U.K. market unit. It runs our energy business in the United Kingdom. Its regulated business consists of Central Networks, which operates an electricity distribution business in central England. Its non-regulated business includes the generation, retail, and the energy services businesses. The generation business covers activities including power generation, operation and maintenance of combined heat and power plants, and power station development and operation. The retail business encompasses the sale of electricity and gas services to residential, business, and industrial customers. As of December 31, 2008, E.ON UK supplied approximately 8.1 million customer accounts, of which 7.5 million were residential and 0.6 million were business customer accounts.

### Nordic

Based in Malmö, Sweden, E.ON Nordic is the lead company of the Nordic market unit. It currently operates mainly through E.ON Sverige, an integrated energy company. The regulated business consists of power and gas distribution. The non-regulated business consists mainly of power generation, heat production, power, gas, and heat sales, and energy services. At year-end 2008, E.ON Nordic supplied roughly 1 million electricity, gas, and heat customer accounts.

### U.S. Midwest

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. 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 927,000 customers, predominantly in Kentucky. They serve several classes of customers including residential, commercial and industrial, and municipalities. LG&E distributes natural gas to approximately 314,000 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.

### Energy Trading

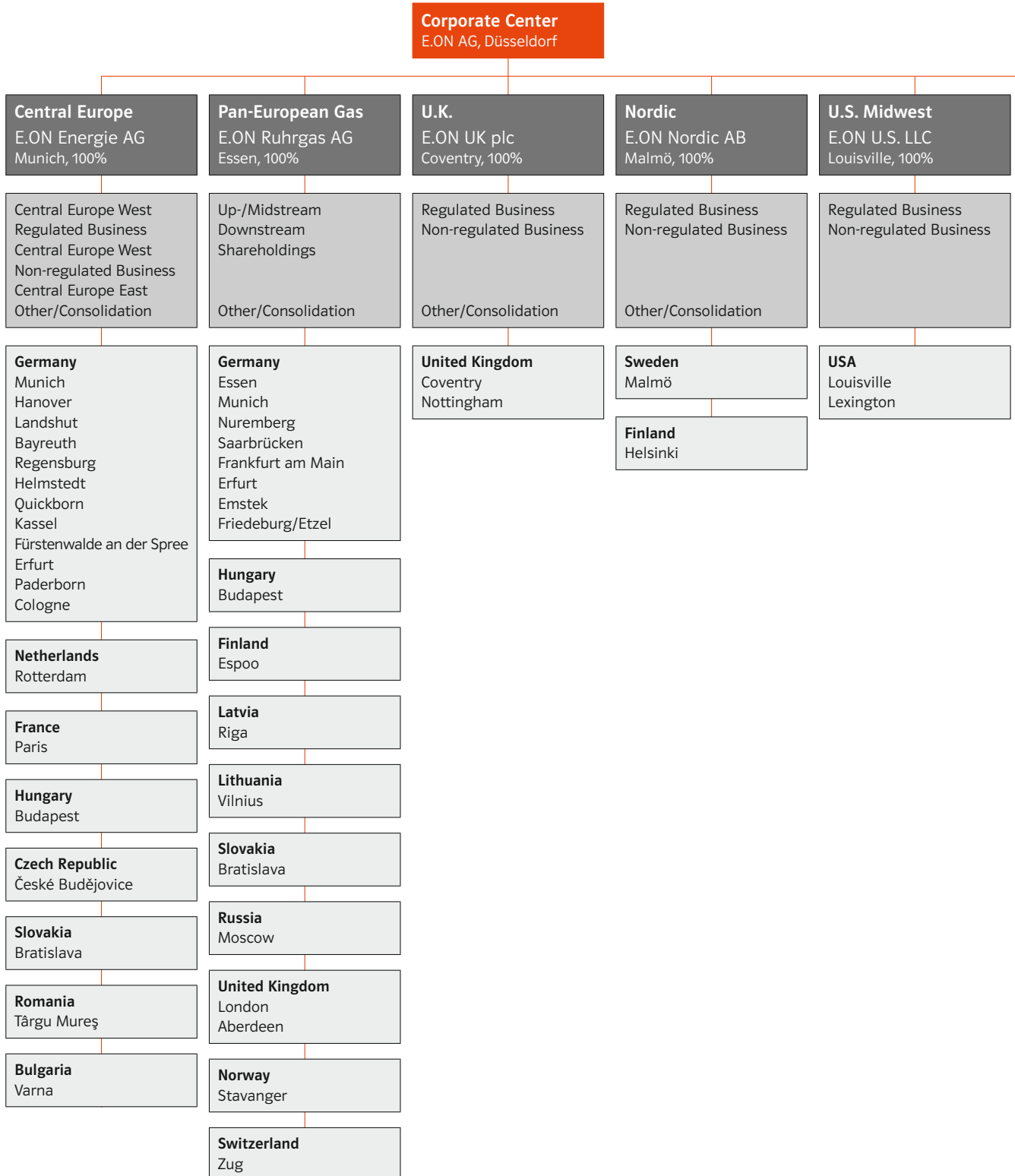
We have managed our European trading operations centrally from Düsseldorf since the start of 2008. E.ON Energy Trading AG brings together our market price risk management activities for power, gas, coal, oil, CO<sub>2</sub> allowances, and other related commodities. The new market unit operates across Europe's liquid energy markets and is responsible for managing the E.ON Group's commodity position in these markets. It also conducts both optimization (fuel procurement, generation fleet and gas portfolio management, and sales procurement) and proprietary trading. Transactions between Energy Trading and our other market units are settled at market-based transfer prices. Proprietary trading, which is conducted in accordance with our risk management systems and trading limits, involves intentionally utilizing changes in market prices and risk positions.

We carried out a series of integration measures in 2008 to legally merge the trading activities of the Central Europe, Pan-European Gas, and Nordic market units into E.ON Energy Trading AG. As of January 1, 2009, we completed the legal

integration of the U.K. trading business. In addition, we intend to transform E.ON Energy Trading AG into a European stock corporation ("SE") to reflect the international scope of its operations.

### New Markets

- Based in Düsseldorf, E.ON Climate & Renewables ("EC&R") is responsible for managing and expanding E.ON's global renewables activities, including micro-hydroelectricity. It currently has a presence in Germany, Denmark, Sweden, the United Kingdom, the United States, Spain, Italy, and Portugal, among other countries, and operates renewables assets in ten countries. At year-end 2008, EC&R had 2 gigawatts ("GW") of renewables generating capacity worldwide, of which 0.9 GW are located in the United States, its single biggest market. The remaining 1.1 GW are located in EC&R's European markets.
- Moscow-based E.ON Russia Power is the lead company of the Russia market unit, which is responsible for the E.ON Group's electricity operations in Russia. Our Russian business focuses on the operation of conventional power stations with an aggregate installed net capacity of 8,264 megawatts ("MW") in Central Russia, Ural, and Western Siberia, predominantly fast-growing, industrialized regions of the country.
- Based in Milan, E.ON Italia, the lead company of the Italy market unit, manages our power and gas business in Italy. Day-to-day operations consist of power generation with an installed capacity of 7,026 MW, power and gas sales, and gas distribution. E.ON Italia operates primarily through E.ON Produzione (its power generation company), E.ON Energia (its newly established sales arm), and the E.ON Rete brand (its five distribution companies). At year-end 2008, E.ON Italia supplied electricity and natural gas to approximately 642,000 residential and business customer accounts.
- Madrid-based E.ON España, the lead company of the Spain market unit, is responsible for our integrated energy business in Spain. E.ON Distribución operates an electric distribution business in northern Spain and served about 660,000 customer accounts as of year-end 2008. E.ON Generación is responsible for power generation and has about 3,300 MW of installed capacity. E.ON Energía supplies power and gas to residential, business, and industrial customers. E.ON Servicios provides centralized services for the Spain market unit's operating companies.

E.ON Group: Market Units, Lead Companies, Businesses, and Main Facilities<sup>1</sup><sup>1</sup>Corporate structure through December 31, 2008.



## Sales Markets and Market Positions

### Central Europe

- No. 2 in power generation
- No. 1 in power and gas sales
- Significant operations in Germany, Belgium, France, the Netherlands, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria

### Pan-European Gas

- No. 1 in gas supply in Europe
- Pan-European gas supply portfolio consisting of long-term supply contracts with Russia, Norway, the Netherlands, Germany, the United Kingdom, and Denmark

### U.K.

- No. 2 in power generation
- No. 3 in power and gas sales
- Significant operations in the United Kingdom

### Nordic

- No. 4 in power generation in the Nordic region
- No. 3 in power sales in the Nordic region
- Significant operations in Sweden and Finland

### U.S. Midwest

- No. 1 in power generation in Kentucky
- No. 1 in power and gas sales in Kentucky
- Significant operations in the Midwestern United States

### New Markets

- Climate & Renewables  
With operations in Germany, Sweden, Italy, Spain, the United Kingdom, and the United States, E.ON Climate & Renewables ranks among the global leaders in wind power.
- Russia  
E.ON ranks among Russia's leading thermal power producers.
- Italy and Spain  
We rank among the leading suppliers in Italy and Spain.

## 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 new challenges and seize new opportunities created by Europe's changing energy marketplace.

In addition, E.ON is selectively expanding into highly promising new growth regions (such as Russia) and into new market segments (such as renewables).

## Energy Policy and Regulatory Environment

### Europe

In September 2007, the European Commission published a draft version of a third package of liberalization legislation. Its purpose is to give more momentum to Europe's internal market for electricity and natural gas. Its far-reaching structural measures 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 October 2008, the European Council of the Heads of State or Government reached an agreement on the third package of liberalization legislation and will adopt this legislation, under the Czech Republic's presidency, in the spring of 2009.

In December 2008, the European Council adopted the energy and climate-protection package that had been proposed by the Commission in January 2008. This renders legally binding the climate-protection targets for 2020 that the Council set in the spring of 2007. These targets must now be transposed into national law. They include the overall target that the

Community reduce its total greenhouse-gas ("GHG") emissions by at least 20 percent by 2020 compared with 1990 levels and that the Community expand its renewables capacity so that it can meet 20 percent of its energy consumption from renewable sources by 2020. The package also calls for the Community to significantly increase its energy efficiency and to reduce its energy consumption by 20 percent by 2020, the EU-wide energy-saving potential estimated by the Commission.

The member states may 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.

In November 2008, the Commission published its second "Strategic Energy Review." This far-reaching package of energy-policy proposals is designed to promote supply security and help the EU reach its climate-protection targets. It supplements the previously published packages of competition and climate-protection proposals, thus completing the energy-policy triad. Its core element is an EU action plan for energy supply security and solidarity which contains proposals for infrastructure and diversification initiatives, energy-related foreign relations, oil and gas storage, crisis-response mechanisms, energy efficiency, and domestic energy resources.

### Germany

Against the background of EU climate-protection targets, in July 2008 the German federal cabinet adopted an Integrated Climate Protection and Energy Package. Its objective is to reduce Germany's GHG emissions by 40 percent by 2020 compared with 1990 levels by, among other strategies, doubling the country's energy efficiency, increasing the share of electricity derived from renewables to at least 30 percent, and increasing the share of electricity produced in cogeneration facilities to 25 percent.

### Incentive-Based Regulation

Pursuant to the relevant ordinance, incentive-based regulation began on January 1, 2009. Interregional gas pipeline operators will be migrated to incentive-based regulation by January 1, 2010. Cost-based network fees provide the starting point for incentive-based regulation under which network operators have ten years to lower their costs to those of a 100-percent-efficient network operator. E.ON network operators included in the nationwide benchmarking conducted by the German Federal Network Agency (known by its German acronym, "BNetzA") already average close to 100 percent. In July 2008, the BNetzA defined the allowed return on equity for the first regulation period of incentive-based regulation (2009-2013): the allowed return for both power and gas is 9.29 percent for new assets and 7.56 percent for old assets. Compared with the previously applicable figures, the allowed

return for gas assets is essentially unchanged, while the allowed return for electricity assets is higher. However, a number of the parameters of incentive-based regulation have yet to be definitively established, with the result that its effects remain not fully foreseeable.

### Gas Network Access

Since the beginning of the gas industry fiscal year on October 1, 2007, gas transport may only be conducted using the two-contract model (also known as the entry-exit model), under which transport customers conclude two contracts—one entry contract and one exit contract—to reach end customers.

The two-contract model is applied in discrete geographical segments of Germany's gas transport pipeline system called market areas. Initially, Germany had more than 20 market areas. The BNetzA and policymakers called for this number to be reduced significantly. E.ON Gastransport ("EGT") reduced the number of its market areas from four to two. Due to differences in gas composition across its service territory, EGT has one market area for low-calorific (L) and one market area for high-calorific (H) gas. In 2008, the BNetzA increased pressure for existing L gas market areas to be combined into a single market area. When this is accomplished, it is anticipated that Germany will have fewer than ten market areas.

In late May 2008, the BNetzA completed the process of establishing the rules for a new balancing regime for the German natural gas sector. The many resulting changes were incorporated into the cooperation agreement that took effect on October 1, 2008. The new balancing regime will also be incorporated into the amended version of the Gas Network Ordinance 2009.

### Competition Initiatives

E.ON continues to move forward with the initiatives launched in 2006 to spur energy-market competition. They include the expansion of cross-border power transfer capacity between Germany and neighboring countries, the publication of key information about our available generating capacity, and the marketing of our generating capacity in Germany via the European Energy Exchange in Leipzig.

### United Kingdom

In May 2007, the U.K. government published "Meeting the Energy Challenge: A White Paper on Energy," which lays out its comprehensive energy and climate-protection strategy. The white paper contains a range of proposals to enhance climate protection and supply security and to ensure an affordable energy supply. In 2008, the U.K. parliament passed laws to implement these proposals. They include laws for reducing GHG emissions and targets for the construction of power stations and network infrastructure.

### Sweden

The current Swedish government, which took office in September 2006, enacted an energy-policy plan for the period through 2010. The plan includes measures that focus on supply security, competitiveness, and low emissions. It also calls for more renewables capacity and the expansion of capacity at existing nuclear power stations. As yet, the government has not, as promised, repealed the carbon tax on power plants that participate in the EU's Emissions Trading Scheme ("ETS").

Sweden repealed its nuclear phaseout law and lifted the ban on the construction of new nuclear power stations. To replace existing nuclear generating capacity, up to ten new reactors will be approved for existing nuclear power station sites. Despite this reevaluation of nuclear power, the government is retaining the nuclear tax.

The regulatory environment for renewables is also improving, in particular for offshore wind power, biogas in the heating segment, and battery-powered vehicles.

In December 2007, the government's Energy Network Commission proposed a new system for regulating electricity network charges. In 2008, it proposed a similar system for regulating gas network charges. Under the current system, network charges are subject to a fairness review on an annual basis. The commission proposes replacing the current system with an incentive-based system under which the regulatory agency would approve a system operator's total network revenues in advance for a multi-year period. Approved revenues would reflect operating costs plus a fair return on capital employed. Capital employed would be based on a system operator's actual network facilities. The commission recommends that the new system take effect in January 2012 for electricity networks and in 2011 for gas networks.

### USA/Kentucky

The arrival of the Obama administration is expected to make climate and energy policy higher priority issues. The main focus over the next decade will be on developing cleaner energy technologies and renewables. A stimulus package, called the New Green Deal, is designed to finance subsidies for renewables. A number of states have introduced climate-protection measures, including measures that require the use of renewables. Far-reaching climate-protection incentives are expected in 2009.

Rate regulation varies significantly by state. About two thirds of U.S. states, including Kentucky, continue to have cost-based rate regulation.

### New Markets

The Russian electricity market is undergoing substantial change in a variety of ways. The main change is the ongoing liberalization process which, despite the financial crisis, is moving forward in keeping with the government's stated commitment. As of July 2008, 25 percent of the wholesale electricity market was open to competition; this is expected to increase to up to 50 percent in 2009. Uncertainty remains, however, regarding the precise market modalities and the effects of the financial crisis on Russia's real economy.

The Italian energy market is subject to considerable political influence. This could, in the near term, lead to changes in market rules, thereby increasing uncertainty for market participants. Italy introduced a so-called Robin-Hood tax to tax windfall profits of oil companies and banks. The proceeds will provide vulnerable customers with up to €400 in annual financial assistance to purchase, among other things, power and gas. In addition, a so-called anti-crisis ordinance was passed in January 2009 whose purpose is to drastically reduce wholesale electricity prices, although it is highly questionable whether this purpose will be achieved. On the contrary, the ordinance is rapidly and fundamentally altering Italy's wholesale electricity market, which could lead to risks in the electricity business. The ordinance also grants the Economics Ministry and regulators far-reaching authority to intervene in the marketplace.

After more than ten boom years of steadily increasing demand, the Spanish energy market is now also undergoing change. The general expectation is that energy companies will face declining revenues, due in part to the economic crisis and in part to uncertainty about whether end-customer prices will be adjusted to reflect actual generation costs. In addition, there is the risk that energy companies will be liable for a portion of the so-called electricity deficit, which currently stands at about €19 billion. The deficit is the result of the politically motivated regulation of end-customer prices which do not reflect real, higher market prices. In the past, energy companies accounted for the deficit as a receivable against the Spanish government. Now, the Spanish government is calling this practice into question and is demanding concessions from the energy companies.

### Economic Environment

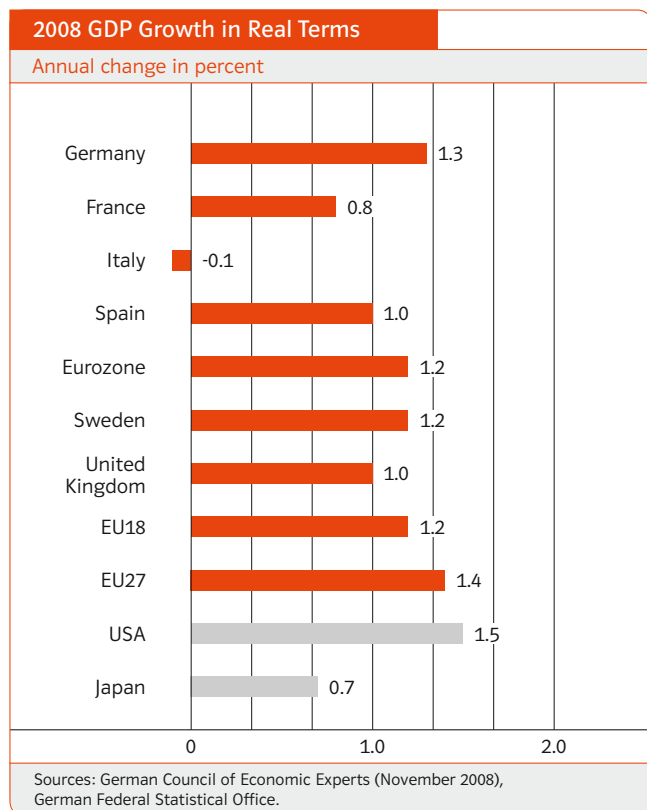
Economic development in 2008 was characterized by the onset of the global slowdown, the escalating financial crisis, and the mutually exacerbating effects of these two phenomena. According to an estimate by the German Council of Economic Experts ("GCEE"), global gross domestic product ("GDP") increased by 2.8 percent in real terms in 2008, well behind the 2007 growth rate of 3.7 percent. Worldwide commodity price inflation through mid-2008 was accompanied by a simultaneous deflation in asset values. As the economic crisis spread to emerging countries, global commodity prices (for example, for oil) fell dramatically due to the expected decline in demand.

While the economic downturn was initially less severe in the United States, its negative effects were faster and more pronounced in the European Union than had first been anticipated. EU and eurozone economic expansion slowed significantly in 2008. All sectors of the EU economy recorded lower growth rates.

The U.K. economy suffered from weaker demand for real estate and from weaker global demand. GDP growth was sharply lower in the Nordic countries and in Southern European countries like Spain and particularly Italy, where GDP growth was actually negative.

According to the GCEE, economic growth in the new EU member states, though it differed by country, was buoyed by strong domestic demand and was generally only slightly lower due to the accelerating crisis in the rest of the EU. Although Russia benefited in the first half of 2008 from significant income from its commodity exports, it suffered in the second half from the financial crisis and the precipitous drop in oil prices. Nevertheless, Russian GDP growth was higher than the Eastern European average thanks to Russia's export income.

After very strong GDP growth in the first quarter of 2008, the German economy was hit hard during the remainder of the year by the financial crisis and the onset of the real economic crisis in the countries it exports to.



## Energy Industry

Consumption of primary energy in Germany in 2008 increased by 1 percent year on year to 478 million metric tons of coal equivalent ("MTCE") due to cooler temperatures. Consumption of petroleum showed the strongest growth, rising by 5 percent to 166 MTCE. Petroleum remained by far Germany's most important energy source, accounting for 34.7 percent of energy consumed. Natural gas consumption sank by just under 1 percent to 105.5 MTCE due to a reduction in gas demand from industrial customers, resulting in particular from a downturn in industrial activity in the fourth quarter of 2008. Consumption of hard coal fell by more than 7 percent to 62.5 MTCE due to lower demand in the electricity and steel industries. Lignite consumption fell by about 4 percent to 53 MTCE because of reduced power plant availability. Nuclear power production rose by 5.9 percent to 55.4 MTCE because of increased plant

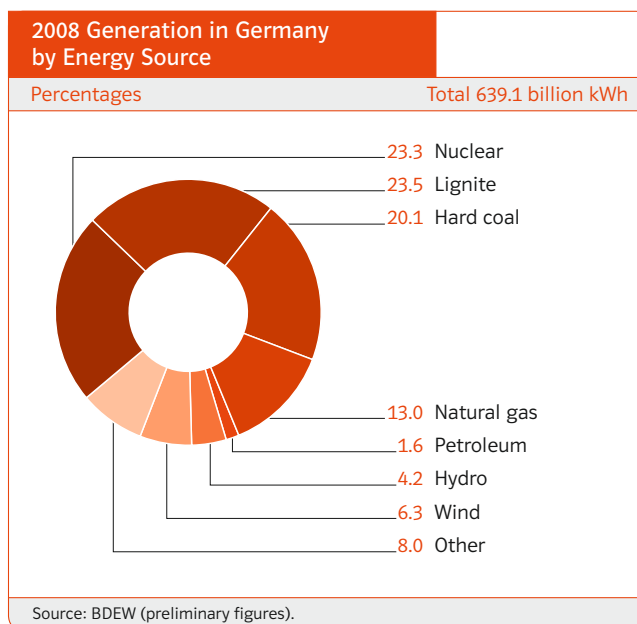
availability. Hydroelectric and wind-power production were essentially unchanged from the prior year. Renewables' share of primary energy consumption rose from 7 percent in 2007 to 7.4 percent in 2008.

### 2008 Primary Energy Consumption in Germany by Energy Source

Percentages	2008	2007
Petroleum	34.7	33.4
Natural gas	22.1	22.6
Hard coal	13.1	14.3
Nuclear	11.1	11.6
Lignite	11.6	11.1
Renewables	7.4	7.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: AG Energiebilanzen (preliminary figures).

Total gross generation in Germany increased slightly, from 637.6 billion kilowatt-hours ("kWh") in 2007 to 639.1 billion kWh in 2008. Nuclear, gas, and renewables' share of generation was higher, whereas hard coal and lignite's share was lower.



Electricity consumption in England, Wales, and Scotland was 315 billion kWh in 2008 compared with 338 billion kWh in 2007. Consumption in the first six months of 2008 was slightly higher than in 2007, mainly due to colder temperatures, whereas it declined in the second half of the year due to the cooler summer and the onset of the recession. Despite a slight reduction in residential gas consumption due to higher retail prices, overall gas consumption increased from 1,053 billion kWh in 2007 to 1,097 billion kWh in 2008 due to higher demand from gas-fired power stations caused by nuclear plant outages.

The Nordic region consumed about 5 billion kWh less electricity than in the previous year. Consumption was lower at the beginning of 2008 due to comparatively warmer weather. The Nordic region exported a net 1.4 billion kWh of electricity to neighboring countries in 2008 compared with net imports of 2.7 billion kWh in 2007. Net exports to Germany increased from 7.3 billion kWh in 2007 to 9.7 billion kWh in 2008.

Electricity consumption in the Midwestern United States decreased by approximately 1 percent in 2008 due to a decline in industrial and residential consumption caused by the economic slowdown. Natural gas consumption increased by approximately 1 percent in 2008 primarily driven by colder weather year on year.

Russian electricity production in 2008 increased by 2.4 percent year on year to 1,036 billion kWh. The increase was less steep due to the economic downturn in the fourth quarter in the wake of the financial crisis. Gas-fired power plants account for the biggest share of Russia's electricity production. With a share of 50 percent, natural gas is the key primary energy source of the entire Russian energy industry. Russia produced 665 billion cubic meters ("bcm") of natural gas in 2008, 11 bcm more than in 2007. Petroleum production declined slightly to 488 million metric tons due to the global financial crisis.

Italy consumed 336.5 billion kWh of electricity in 2008 compared with 339.9 billion kWh in 2007. By year-end, the global financial and economic crisis had also begun to affect the Italian energy market, resulting in reduced demand from industrial customers, although cold winter weather partially offset this effect.

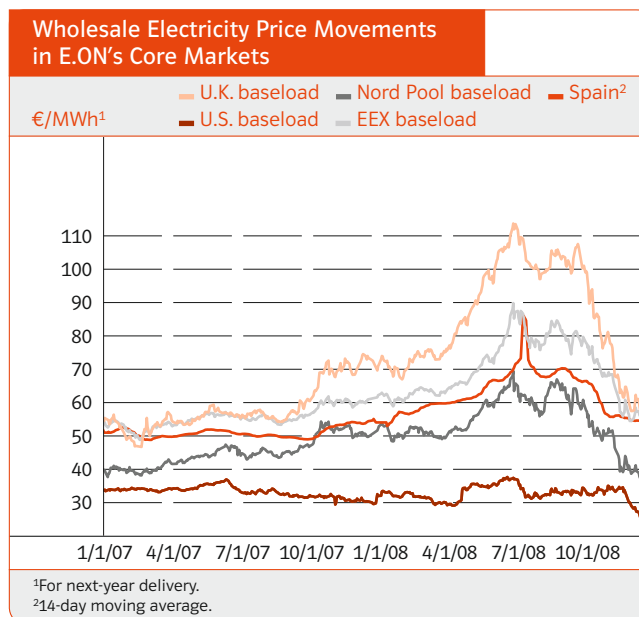
Peninsular electricity consumption in Spain amounted to 264 billion kWh in 2008, an increase of 0.9 percent over 2007. Gas consumption rose by 9.9 percent to 449 billion kWh, mainly due to higher demand from combined-cycle gas turbines ("CCGT"). Higher production from CCGTs was needed to make up for lower production from hydro, oil, and coal facilities. Spain added 3.6 GW of new CCGT capacity in 2008.

### Energy Price Developments

Power and natural gas markets in Europe and Russia were driven by three main factors in 2008:

- international commodity prices (especially oil, coal, and carbon prices), which were affected by global macro-economic developments
- weather conditions
- the availability of hydroelectricity in Scandinavia, Spain, and Russia.

Through June, prices on most European power and natural gas markets trended upward as they tracked rising global commodity and carbon prices. From these high levels, commodity and carbon prices fell sharply in the second half of the year, primarily due to the global financial and economic crisis. Oil and coal prices, for example, sank to half of their all-time highs.



Price for German baseload electricity for next-year delivery increased, tracking the movement of fuel and carbon prices. German electricity prices started the year at about €62 per megawatt-hour ("MWh"), reached a new high of roughly €90 per MWh in June, and then declined through year-end, finishing 2008 at about €56 per MWh.

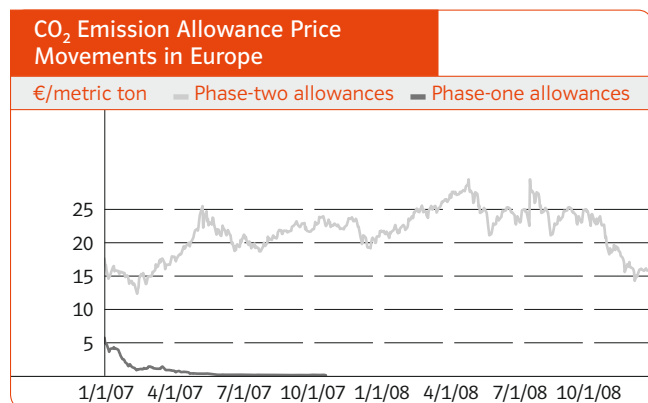
Nordic power prices were also influenced by the movement of fuel prices, although the high availability of hydroelectric plants moderated this factor in the first half of the year and enhanced it in the second half. The hydrological balance, which was above normal in the first and second quarters of 2008, subsequently fell to below normal. Nordic power prices, after moving sharply higher in the second quarter driven by rising fuel prices, finished the year at about €39 per MWh, roughly 25 percent below the price at the start of the year.

U.K. power prices tracked coal, natural gas, and carbon prices. They increased sharply in the first half of the year, rising to a new all-time high in July before declining substantially, ending the year at the same level they started it.

Wholesale electricity markets in Italy and Spain are not as liquid as those in Northwestern Europe. Consequently, the prices shown for Spanish baseload electricity for next-year delivery have limited informational value. Electricity prices in Spain, which moved in a pattern similar to Northwestern European prices, primarily tracked oil and coal prices. Electricity began the year at about €56 per MWh, rose to €75 by early July, and then declined to €51 at year-end due to the economic crisis and the resulting drop in commodity prices. In Italy, only the spot market for next-day delivery is sufficiently liquid to have informational value. Italian electricity prices, which were driven mostly by the movement of gas and oil prices, also declined towards the end of the year due to the economic downturn and finished the year about where they started it. The average price for baseload electricity for next-day delivery was approximately €87 per MWh.

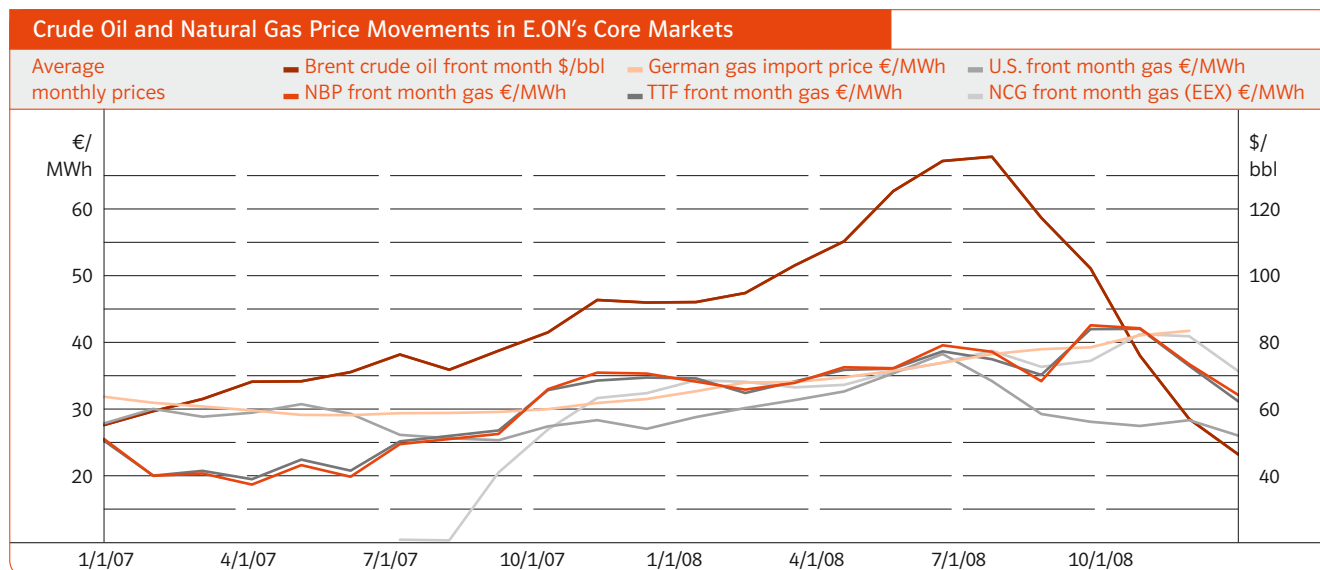
Power prices in the United States also tracked natural gas prices, increasing until mid-year and then declining in the second half to about 20 percent below their level at the start of the year.

Electricity prices in Russia, which are subject to the special conditions of the Russian market, were nevertheless partially influenced by the global economic crisis and commodity prices. Russia's electricity market remains predominantly regulated, although it is undergoing a process of gradual liberalization which is scheduled to be completed in 2011. In the first half of 2008, 15 percent of the electricity market was open to competition; in the second half, 25 percent. The Russian electricity market is divided into two price zones (Europe/Ural and Siberia) and in an electricity market and a capacity market. A spot market for next-day delivery was established in each price zone for the liberalized portion of electricity production. This spot market is only for electric energy sold, not for the capacity used to generate it. Price movements in 2008 were primarily influenced by rising costs, mainly for oil, natural gas, and coal. The rise in gas prices is mainly attributable to the government-mandated adjustment of domestic gas prices, which are currently very low, to reflect global market prices. Other drivers included low water levels in Siberia and the resulting decline in hydroelectric production along with a significant drop in consumption in the fourth quarter due to the economic crisis and mild winter. Spot electricity prices averaged 604 rubles (about €16) per MWh in the Europe/Ural price zone and 528 rubles (about €15) per MWh in the Siberia price zone.



CO<sub>2</sub> emission allowances in the EU-wide ETS were driven mostly by commodity prices. Carbon prices increased through the end of June to about €29 per metric ton and then declined

(accelerated by the economic downturn) to about €16 per metric ton by year-end, one third lower than at the start of the year.



**Attributable Generating Capacity**

The E.ON Group's attributable generating capacity increased by 19 percent from year-end 2007 to 74,366 MW, primarily through acquisitions.

The Central Europe market unit has 28,749 MW of attributable generating capacity (prior year: 28,479 MW).

The decline in U.K.'s attributable generating capacity from 10,581 at year-end 2007 to 10,330 at year-end 2008 results from the transfer of its wind farm fleet (201 MW) to Climate & Renewables and from the sale of Rheidol hydroelectric scheme (50 MW) to Statkraft under the agreement between E.ON and Statkraft regarding E.ON's acquisition of Statkraft's minority interest in E.ON Sverige.

Nordic had 7,229 MW of attributable generating capacity (prior-year: 7,407 MW). This figure does not reflect the 972 MW of capacity that was transferred to Statkraft on December 31, 2008, under the E.ON-Statkraft agreement. Other changes from the prior-year figure mainly reflect the transfer of capacity to Climate & Renewables.

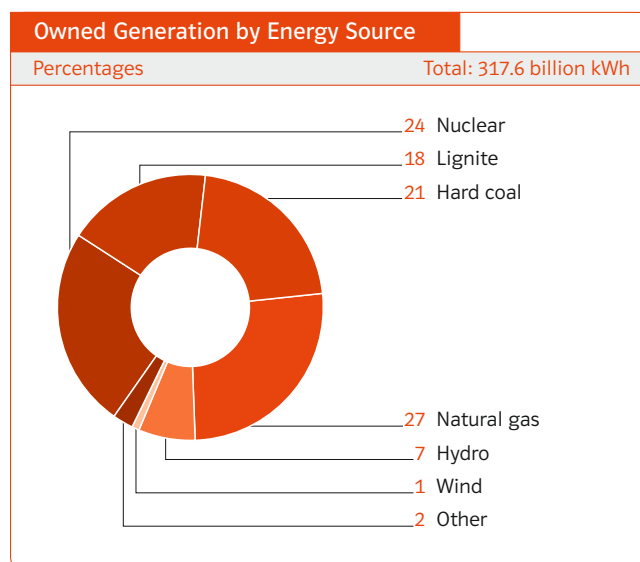
U.S. Midwest's attributable generating capacity at year-end 2008 was 7,507 MW, slightly below the year-end 2007 figure of 7,519 MW.

The attributable generating capacity reported in the New Markets segment totaled 20,551 MW, with the following breakdown: Climate & Renewables (1,979 MW), Russia (8,264 MW), Italy (7,026 MW), and Spain (3,282 MW).

Italy's generation fleet grew in 2008 with the start of commercial operation at the 800 MW CCGT in Livorno Ferraris (E.ON's share: 600 MW). The acquisition of operations from Enel, Acciona, and Endesa added two power plants, Los Barrios (567 MW) and Tarragona (395 MW), to Spain's generation fleet.

Attributable Generating Capacity			
MW	2008	2007	+/- %
Nuclear	8,548	8,548	-
Lignite	1,314	1,314	-
Hard coal	7,475	7,466	-
Natural gas	3,269	4,219	-23
Oil	1,145	1,145	-
Hydro	2,811	3,153	-11
Wind	192	192	-
Other	289	214	+35
<b>Germany</b>	<b>25,043</b>	<b>26,251</b>	<b>-5</b>
Nuclear	2,593	2,622	-1
Lignite	1,412	1,412	-
Hard coal	15,232	11,290	+35
Natural gas	18,683	13,561	+38
Oil	2,509	1,300	+93
Hydro	4,509	2,828	+59
Wind	1,715	8	-
Other	2,670	2,978	-10
<b>Outside Germany</b>	<b>49,323</b>	<b>35,999</b>	<b>+37</b>
<b>E.ON Group</b>	<b>74,366</b>	<b>62,250</b>	<b>+19</b>

U.K. generated 40.4 billion kWh of electricity at its own power plants, about 2 percent less than in the prior year (41.2 billion kWh). New rules governing the generation of fossil-fired power stations came into effect in 2008. This caused a shift in generation away from coal towards natural gas.



## Power and Gas Procurement

Renewables accounted for more than 8 percent of our owned generation of 317.6 billion kWh in 2008.

The decline in Central Europe's share of owned generation from 41 percent in 2007 to 35 percent in 2008 and the resulting increase in procurement from outside sources are predominantly attributable to the E.ON Group's new organizational structure. Procurement from outside sources also includes procurement from the new Energy Trading market unit.

E.ON Nordic's owned generation decreased by 1.9 billion kWh relative to the prior year. Hydropower production was below the 2007 figure mainly because reservoir inflow was lower in 2008 than in 2007. Nuclear power production was slightly below the prior-year level. Power purchases declined, primarily because of the transfer of trading activities to Energy Trading.

U.S. Midwest's owned generation increased slightly to 35.4 billion kWh. Its own assets thus met about 92 percent of its total electricity needs of 38.3 billion kWh. U.S. Midwest procured 2.9 billion kWh from outside sources.

The breakdown of New Markets' owned generation of 75.2 billion kWh is:

- Climate & Renewables (3.2 billion kWh)
- Russia (56.7 billion kWh)
- Italy (11.4 billion kWh)
- Spain (3.9 billion kWh).

Power Procured																
Billion kWh	Central Europe		U.K.		Nordic		U.S. Midwest		Energy Trading		New Markets		Consolidation		E.ON Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Owned generation	138.3	134.6	40.4	41.2	28.3	30.2	35.4	35.2	-	-	75.2	15.9	-	-	317.6	257.1
Purchases	251.4	192.6	52.5	36.7	28.3	15.3	2.9	2.9	347.2	-	21.4	0.9	-385.8	-	317.9	248.4
<i>jointly owned power plants</i>	4.5	8.3	1.4	1.2	9.5	9.8	-	-	-	-	-	-	-	-	15.4	19.3
<i>Energy Trading/ outside sources</i>	246.9	184.3	51.1	35.5	18.8	5.5	2.9	2.9	347.2	-	21.4	0.9	-385.8	-	302.5	229.1
<b>Total</b>	<b>389.7</b>	<b>327.2</b>	<b>92.9</b>	<b>77.9</b>	<b>56.6</b>	<b>45.5</b>	<b>38.3</b>	<b>38.1</b>	<b>347.2</b>	<b>-</b>	<b>96.6</b>	<b>16.8</b>	<b>-385.8</b>	<b>-</b>	<b>635.5</b>	<b>505.5</b>
Station use, line loss, etc.	-13.5	-13.5	-0.1	-0.1	-1.9	-2.1	-1.9	-2.2	-	-	-3.5	-0.6	-	-	-20.9	-18.5
<b>Power sales</b>	<b>376.2</b>	<b>313.7</b>	<b>92.8</b>	<b>77.8</b>	<b>54.7</b>	<b>43.4</b>	<b>36.4</b>	<b>35.9</b>	<b>347.2</b>	<b>-</b>	<b>93.1</b>	<b>16.2</b>	<b>-358.8</b>	<b>-</b>	<b>614.6</b>	<b>487.0</b>

Wind farms accounted for 92 percent of Climate & Renewables' owned generation, with biomass and micro-hydro facilities accounting for the remainder.

Russia met about 94 percent of its total needs of 60.5 billion kWh with electricity from its own power plants.

Italy met about 45 percent of its total needs of 25.3 billion kWh with electricity from its own power plants.

As at U.K., new rules governing the generation of fossil-fired power stations also affected Spain, causing a similar shift in generation away from coal towards natural gas.

E.ON Ruhrgas's supply sources and their respective shares of total procurement in 2008 changed only slightly compared with the prior-year figures. E.ON Ruhrgas purchased about 680 billion kWh of natural gas from domestic and foreign producers in 2008, about 2.6 percent less than in 2008. Russia and Norway were again the two biggest suppliers, both accounting for 26 percent. E.ON Ruhrgas procured 17 percent

from the Netherlands, 6 percent from the United Kingdom, and 4 percent from Denmark. It purchased 18 percent of its natural gas from producers in Germany.

Pan-European Gas's gas production rose by 76 percent in 2008 to 1.4 billion cubic meters. The increase is primarily attributable to the start of production in Njord field. Merganser, Johnson, and Caister fields also contributed to the increase. Liquid and condensates production was also higher, rising by 18 percent to about 6 million barrels, also mainly due to Njord field's solid performance.

Upstream Production			
	2008	2007	+/- %
Liquids/oil (million barrels)	5.9	5.0	+18
Gas (million standard cubic meters)	1,360	771	+76
<b>Total (million barrels of oil equivalent)</b>	<b>14.4</b>	<b>9.8</b>	<b>+47</b>

To execute its procurement and sales mission for the E.ON Group, Energy Trading traded the following financial and physical quantities in 2008:

Trading Volume	
	2008
Power (billion kWh)	878.47
Gas (billion kWh)	937.78
CO <sub>2</sub> emission allowances (million metric tons)	103.06
Oil (million metric tons)	45.96
Coal (million metric tons)	107.15

## Power and Gas Sales

On a consolidated basis, the E.ON Group increased its power sales from 487 billion kWh in 2007 to about 615 billion kWh in 2008. At Central Europe, U.K., and Nordic, the increase primarily reflects the transfer of these market units' trading operations to Energy Trading. Deliveries to these trading operations in 2007 were intrasegment sales.

Central Europe's power sales increased by 62.5 billion kWh to 376.2 billion kWh, due mainly to the transfer of some operations to the E.ON Group's new market units. When these operations

(most notably those that are now part of Energy Trading) were still part of Central Europe, sales to them were classified as intrasegment sales and consequently netted out.

U.K.'s sales to residential and small and medium-sized ("SME") customers decreased slightly for power due to a mix of weather, customer-portfolio, and customer-behavior effects. Sales to industrial and commercial ("I&C") electricity customers increased very slightly (mostly due to changes in customer mix), offset by the initial impact of the economic slowdown at the end of 2008.

If only Nordic's net sales to Energy Trading are considered, Nordic sold 37.6 billion kWh of electricity in 2008, less than the prior-year figure of 43.4 billion kWh (which includes net sales to the Nord Pool power exchange). The main factors were lower net sales to Energy Trading and increased competition in the commercial segment.

U.S. Midwest's utility power sales volumes were slightly higher in 2008 than in 2007, as the reduction in retail sales volumes were offset by an increase in off-system wholesale volumes.

Power Sales																
Billion kWh	Central Europe		U.K.		Nordic		U.S. Midwest		Energy Trading		New Markets		Consolidation		E.ON Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Residential and SME	46.8	44.1	32.5	34.2	6.6	6.1	33.3	34.3	-	-	16.5	4.8	-	-	135.7	123.5
I&C	82.0	83.7	18.6	18.4	10.6	12.0	-	-	-	-	31.8	7.8	-	-	143.0	121.9
Sales partners	101.7	105.8	-	-	7.2	7.3	-	-	-	-	6.5	-	-	-	115.4	113.1
Wholesale market/ Energy Trading	145.7	80.1	41.7	25.2	30.3	18.0	3.1	1.6	347.2	-	38.3	3.6	-385.8	-	220.5	128.5
<b>Total</b>	<b>376.2</b>	<b>313.7</b>	<b>92.8</b>	<b>77.8</b>	<b>54.7</b>	<b>43.4</b>	<b>36.4</b>	<b>35.9</b>	<b>347.2</b>	<b>-</b>	<b>93.1</b>	<b>16.2</b>	<b>-385.8</b>	<b>-</b>	<b>614.6</b>	<b>487.0</b>

The breakdown of New Markets' power sales of 93.1 billion kWh is:

- Climate & Renewables (4.7 billion kWh)
- Russia (58.3 billion kWh)
- Italy (24.7 billion kWh)
- Spain (5.4 billion kWh).

Climate & Renewables sold its power exclusively in non-regulated markets.

The Russia market unit, which sells its power on the wholesale market, benefited from low water levels in Siberia and the resulting decline in hydroelectric production, which it was able to cover with electricity from its power stations.

Italy sold 4.8 billion kWh of electricity to I&C customers, 6.3 billion kWh to sales partners, and 13.6 billion kWh to the wholesale market.

Spain sells most of its electricity on the wholesale market and to large industrial customers. It also supplies electricity to residential customers and small-business customers in the regulated retail market.

On a consolidated basis, the E.ON Group's natural gas sales in 2008 increased by about 132 billion kWh relative to the prior-year figure.

Gas Sales			
Billion kWh	2008	2007	+/- %
First quarter	227.4	213.4	+7
Second quarter	152.3	131.1	+16
Third quarter	122.9	137.2	-10
Fourth quarter	184.4	231.1	-20
<b>E.ON Ruhrgas AG total sales</b>	<b>687.0</b>	<b>712.8</b>	<b>-4</b>
Intragroup sales	210.1	120.2	+75
<b>E.ON Ruhrgas AG external sales</b>	<b>476.9</b>	<b>592.6</b>	<b>-20</b>
Downstream Shareholdings	191.5	197.5	-3
<b>Pan-European Gas</b>	<b>668.4</b>	<b>790.1</b>	<b>-15</b>
Other market units	555.6	302.2	-
<b>E.ON Group</b>	<b>1,224.0</b>	<b>1,092.3</b>	<b>+12</b>

New operations in France were largely responsible for offsetting the 13 billion kWh decline in Central Europe's gas sales volume that resulted from the transfer of certain gas operations to the E.ON Group's new market units.

E.ON Ruhrgas sold 687 billion kWh of natural gas in 2008, 26 billion kWh, or 4 percent, less than the prior-year figure of 713 billion kWh. Deliveries to resellers in Germany declined. Broken down by customer segment, about 38 percent of total gas sales went to regional gas companies, 24 percent to municipal utilities, and just over 13 percent to industrial customers.

Sales outside Germany were down slightly year on year. Adverse effects (such as the hiving off of the spot-market business in the Netherlands and lower deliveries to E.ON UK) were nearly offset by positive effects (such as the assumption of contracts in Italy and LNG supply contracts in Spain).

The sharp increase in E.ON Ruhrgas's intragroup sales is mainly attributable to the transfer of contracts with third parties in France and Italy to other E.ON Group companies, for which E.ON Ruhrgas now serves as the upstream supplier. In addition, E.ON Ruhrgas's trading volumes are now marketed by Energy Trading, whereas in 2007 they were part of E.ON Ruhrgas's external sales.

The majority-owned shareholdings at Downstream Shareholdings sold 191.5 billion kWh of natural gas, down from the prior-year figure of 197.5 billion kWh. The absence of the sales volume from Thüga Italia's operations, which were transferred to the Italy market unit, was partially offset by volume growth at E.ON Földgáz Trade.

Gas Sales (Excluding Pan-European Gas)																
Billion kWh	Central Europe		U.K.		Nordic		U.S. Midwest		Energy Trading		New Markets		Consolidation		E.ON Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Residential and SME	45.7	39.2	56.1	55.5	0.2	0.2	13.6	13.1	-	-	7.6	-	-	-	123.2	108.0
I&C	56.8	59.5	21.7	23.4	4.9	5.1	-	-	-	-	16.3	-	-	-	99.7	88.0
Sales partners	27.7	27.5	-	-	-	-	-	-	-	-	4.5	-	-	-	32.2	27.5
Wholesale market/ Energy Trading	-	-	34.6	78.2	-	-	0.3	0.5	493.6	-	4.2	-	-232.2	-	300.5	78.7
<b>Total</b>	<b>130.2</b>	<b>126.2</b>	<b>112.4</b>	<b>157.1</b>	<b>5.1</b>	<b>5.3</b>	<b>13.9</b>	<b>13.6</b>	<b>493.6</b>	<b>-</b>	<b>32.6</b>	<b>-</b>	<b>-232.2</b>	<b>-</b>	<b>555.6</b>	<b>302.2</b>

U.K.'s gas sales to residential and SME customers increased slightly due to a mix of weather, customer-portfolio, and customer-behavior effects. The increased volumes due to a return to near-normal or colder-than-normal weather in contrast to the mild conditions in 2007 were countered by the continuing impact of energy-efficiency measures on gas demand. Sales to I&C customers declined due to price sensitivity and energy-efficiency measures. The initial impact of the economic slowdown at the end of 2008 also served to reduce gas sales.

Nordic's gas sales were slightly below the prior-year figure. Heat sales were in line with the 7.6 billion kWh recorded in the prior year. Mild weather affected both years negatively.

U.S. Midwest's gas sales for 2008 increased as a result of comparatively colder weather.

Italy, which is disclosed in the New Markets segment, sold 32.6 billion kWh of natural gas in 2008, with 7.6 billion kWh going to residential customers, 16.3 billion kWh to I&C customers, 4.5 billion kWh to sales partners, and 4.2 billion kWh to Energy Trading/other.

### E.ON Stock

In a stock market affected by the financial crisis, E.ON stock finished 2008 41.4 percent below its year-end closing price for 2007. Shareholders who reinvested their cash dividends saw the value of their E.ON portfolio decline by 39.5 percent in 2008, which was less of a reduction than in the German stock market (DAX: -40.4 percent), despite the distortion of the DAX due to the special situation at VW, and less than in the European stock market (EURO STOXX: -42.4 percent). European utility stocks as measured by the STOXX Utilities declined by 36.4 percent in 2008.

On August 4, 2008, we conducted a three-for-one stock split for E.ON stock and simultaneously converted E.ON stock from bearer shares to registered shares. The stock split divided by three the price of E.ON stock at the time of the split, as well as any future per-share dividend. For more information about the stock split, see Note 19 to the Consolidated Financial Statements.

E.ON Stock		
	Dec. 31, 2008	Dec. 28, 2007
Earnings per share <sup>1</sup> (€)	0.68	3.69
Dividend per share (€)	1.50	1.37
Number of shares outstanding (millions)	1,905	1,895
Year-end closing price (€)	28.44 <sup>2</sup>	48.53
Market capitalization <sup>3</sup> (€ in billions)	54.2	92.0

<sup>1</sup>Attributable to shareholders of E.ON AG.  
<sup>2</sup>Year-end closing price on December 30, 2008.  
<sup>3</sup>Based on shares outstanding.

## Business Development

Economic development in 2008, which was characterized by the onset of the global economic downturn following the worsening financial crisis, had no noteworthy effect on our operating business. In the countries where we operate, energy consumption increased slightly or was unchanged from the prior-year level. The development of commodity and carbon prices varied substantially throughout the year. After reaching highs at mid-year, prices fell dramatically in the second half of the year in the wake of the global financial and economic crisis. Our operating business developed well in this environment. We increased adjusted EBIT and adjusted net income in line with our expectations. Several of our market units—U.K., Nordic, U.S. Midwest, part of Climate & Renewables, and Russia—operate outside the eurozone. The respective foreign-exchange rates for U.K. and U.S. Midwest had an adverse impact on our earnings situation in our reporting currency.

The transactions listed below influenced our business in 2008.

## Acquisitions, Disposals, and Discontinued Operations

Note 4 to the Consolidated Financial Statements contains detailed information about these transactions.

### Acquisitions

In the context of the settlement of the bidding contest between Enel/Acciona and E.ON for the Spanish Endesa group in April 2007, E.ON secured for itself a substantial number of strategic holdings, mostly in Italy, Spain, and France, in return for withdrawing its cash takeover offer seeking to acquire a majority interest in Endesa. The total transaction value consisted of the approximately €8.6 billion paid in cash for the equity, and of approximately €2.8 billion in assumed debt. Following the closing of the transaction, the operations in France were transferred to the Central Europe market unit and those in Italy and Spain to the new Italy and Spain market units, respectively. The renewables operations were transferred to Climate & Renewables.

Based on the letter of intent signed in October 2007 with Norway's Statkraft AS, E.ON became the sole owner of E.ON Sverige (minority interests: 0.05 percent). E.ON acquired Statkraft's 44.6-percent stake in E.ON Sverige and one hydroelectric plant in Sweden. In return, Statkraft acquired about 4 percent

of E.ON stock and generation assets in Sweden (40 hydroelectric and 5 heating plants), Germany (2 gas-fired power plants, 11 hydroelectric plants, stakes in 2 biomass-fired power plants, one structured gas supply contract, and a power purchasing agreement), and the United Kingdom (1 hydroelectric plant). The transaction closed on December 31, 2008.

### Discontinued Operations

Through its wholly owned subsidiary Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, USA, E.ON U.S. has a 25-year lease to operate and sell power from the generating facilities of Big Rivers Electric Corporation ("BREC"), a power generation cooperative in western Kentucky, and a coal-fired generating facility owned by the city of Henderson. In March 2007, E.ON U.S. entered into a termination agreement with BREC to terminate the lease and all the operational agreements. The closing of the agreement is subject to a large number of conditions, including review and approval by various regulatory agencies and acquisition of certain consents by other interested parties. Subject to such contingencies, the parties are working on completing the termination transaction in early 2009. Regulatory approvals remain outstanding at this time. WKE therefore continues to be classified as a discontinued operation.

### Disposal Groups

In view of the agreement between E.ON and Statkraft for E.ON to acquire Statkraft's minority stake in E.ON Sverige, the conditions for reporting as a disposal group the assets to be sold, along with the associated liabilities, were fulfilled in the second quarter of 2008. The disposal took place at the end of December 2008.

As part of the acquisition of the Endesa Europa/Viesgo activities, an agreement was reached with the minority shareholder of Endesa Italia, A2A, to acquire the minority interest primarily in return for internally owned power-generation capacity in Italy valued at approximately €1.5 billion.

In December 2008, E.ON's commitment to the European Commission to sell a variety of power-generation activities, as well as its ultrahigh-voltage network in Germany, came into effect. Based on this commitment and on declarations of intent already signed with parties interested in acquiring generating capacity, the total capacity to be sold, along with associated assets and liabilities, is presented as a disposal group. This relates exclusively to the Central Europe market unit. The ultrahigh-voltage network has not been reclassified as of December 31, 2008, as the disposal process was not yet initiated.

In October 2008, E.ON and Gazprom reached an understanding on E.ON acquiring a stake in Yuzhno Russkoye gas field in Siberia. As consideration for this stake, Gazprom is to receive the Gazprom shares indirectly held by E.ON equal to about one half of the approximately 6 percent of Gazprom's equity held by E.ON. The shares are therefore reported as assets held for sale. The relevant contracts are to be signed in 2009.

## Sales

The E.ON Group increased its sales by about €18 billion in 2008 compared with the prior-year figure. The key drivers were:

- the inclusion of our acquisitions, particularly in Russia, Italy, Spain, and France
- positive price effects and higher passthrough effects pursuant to Germany's Renewable Energy Law at Central Europe
- production expansion and energy price movements at Pan-European Gas.

Sales			
€ in millions	2008	2007	+/- %
Central Europe	41,135	32,029	+28
Pan-European Gas	27,422	22,745	+21
U.K.	11,051	12,584	-12
Nordic	3,877	3,339	+16
U.S. Midwest	1,880	1,819	+3
Energy Trading	31,760	-	-
New Markets	5,862	252	-
Corporate Center	-36,234	-4,037	-
<b>Total</b>	<b>86,753</b>	<b>68,731</b>	<b>+26</b>

## Central Europe

Central Europe grew sales by €9.1 billion compared with the prior year.

Sales			
€ in millions	2008	2007	+/- %
Central Europe West	38,640	29,719	+30
<i>Regulated</i>	12,103	11,238	+8
<i>Non-regulated</i>	26,537	18,481	+44
Central Europe East	4,999	4,087	+22
Other/Consolidation	-2,504	-1,777	-41
<b>Central Europe</b>	<b>41,135</b>	<b>32,029</b>	<b>+28</b>

Sales at Central Europe West Regulated rose by €0.9 billion to €12.1 billion, due mainly to higher passthrough effects in the electricity network. These resulted from more green electricity being delivered onto our networks in Germany pursuant to the Renewable Energy Law. The increase in electricity network sales was moderated by regulatory effects. Gas network sales were higher due to higher volume.

Central Europe West Non-regulated increased sales by €8.1 billion, of which €3.9 billion resulted from the transfer of trading, renewables, and Italian operations to the E.ON Group's new market units. Under the old organizational structure, these were intrasegment sales and consequently netted out. The remaining increase resulted predominantly from changes in intragroup offsets and from positive price effects in our sales markets.

Central Europe East's sales rose by about €0.9 billion to €5 billion. Higher electricity prices in Hungary and the Czech Republic constituted the key factor.

Sales reported under Other/Consolidation declined by about €0.7 billion. Sales recorded by our operations in France, which were not included in the prior year, were not sufficient to offset the effects of the changes in Central Europe's organizational structure.

## Pan-European Gas

Pan-European Gas increased sales by 21 percent to €27,422 million (prior year: €22,745 million).

Sales			
€ in millions	2008	2007	+/- %
Up-/Midstream	22,300	17,738	+26
Downstream Shareholdings	6,153	5,625	+9
Other/Consolidation	-1,031	-618	-67
<b>Pan-European Gas</b>	<b>27,422</b>	<b>22,745</b>	<b>+21</b>

Sales at Up-/Midstream rose by 26 percent to €22,300 million in 2008 from €17,738 million in 2007, with the midstream and the upstream businesses both contributing to the increase. The expansion of production in Norway along with higher energy prices were primarily responsible for the increase in upstream sales. Midstream sales rose due to energy price movements, despite lower sales volumes and competitive pressure on sales prices.

Downstream sales rose by €528 million, or 9 percent, from €5,625 million in the prior year to €6,153 million in 2008. The main positive factor was a volume- and price-driven increase in sales at E.ON Földgáz Trade. The main negative factor was the transfer of Thüga Italia's operations to the Italy market unit.

### U.K.

U.K.'s sales in local currency increased by 2 percent. However, sales in reporting currency were impacted significantly by sterling's depreciation against the euro. Sales decreased by €1,533 million in 2008 compared with the prior year.

Sales			
€ in millions	2008	2007	+/- %
Regulated	785	888	-12
Non-regulated	10,567	12,126	-13
Other/Consolidation	-301	-430	+30
<b>U.K.</b>	<b>11,051</b>	<b>12,584</b>	<b>-12</b>

Sales at the non-regulated business fell by €1,559 million to €10,567 million, primarily due to currency movements (-€1,732 million). Retail sales increased relative to the prior year as a result of two price rises in 2008. This was largely offset by a decrease in sales as a result of the transfer of the trading business to Energy Trading.

Sales at the regulated business declined by €103 million to €785 million, primarily due to currency movements (-€129 million).

Sales attributed to Other/Consolidation consist almost entirely of the elimination of intrasegment sales.

### Nordic

Nordic's sales increased by €538 million, or 16 percent, compared with the prior year.

Sales			
€ in millions	2008	2007	+/- %
Regulated	732	729	-
Non-regulated	3,366	2,895	+16
Other/Consolidation	-221	-285	+22
<b>Nordic</b>	<b>3,877</b>	<b>3,339</b>	<b>+16</b>

Sales in the non-regulated business increased by €471 million relative to the prior year, primarily as a result of rising market prices and the deconsolidation of the trading business; in the prior year, these were intrasegment sales and consequently netted out. Sales in the regulated business were in line with the prior year.

### U.S. Midwest

U.S. Midwest's sales in 2008 rose by 3 percent compared with 2007, primarily due to increased fuel, gas, and other cost recoveries from customers and higher off-system wholesale sales. In dollars, sales actually rose by 11 percent, or \$273 million.

Sales			
€ in millions	2008	2007	+/- %
Regulated	1,831	1,766	+4
Non-regulated/Other	49	53	-8
<b>U.S. Midwest</b>	<b>1,880</b>	<b>1,819</b>	<b>+3</b>

### Energy Trading

Energy Trading recorded sales of €31.8 billion in 2008. Sales from proprietary trading are shown net, along with the associated cost of materials, in the Consolidated Statements of Income.

Sales			
€ in millions	2008	2007	+/- %
Proprietary trading	242	-	-
Optimization	31,518	-	-
<b>Energy Trading</b>	<b>31,760</b>	<b>-</b>	<b>-</b>

### New Markets

The breakdown of this segment's sales of €5,862 million is:

- Climate & Renewables (€439 million)
- Russia (€1,044 million)
- Italy (€3,828 million)
- Spain (€551 million).

Higher tariffs, rising wholesale electricity prices, and continued energy-market liberalization had a positive effect on Russia's sales.

The operations acquired from Enel, Acciona, and Endesa contributed to Italy and Spain's sales for the second half of 2008 only.

### Corporate Center

The figure recorded under Corporate Center reflects, in particular, the intragroup offsetting of sales between our European market units and Energy Trading.

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

Own work capitalized increased by 2 percent, or €9 million, to €526 million (prior year: €517 million).

Other operating income increased by 99 percent to €15,454 million (prior year: €7,776 million). Income from exchange-rate differences of €8,571 million (prior year: €3,284 million) and gains on derivative financial instruments of €3,543 million (prior year: €1,767 million) were the main positive factors. The development of currency earnings was influenced by the considerable fluctuations on currency markets. It also reflects the E.ON Group's increased financing activity. These two effects also influenced gains on derivative financial instruments, although here the biggest effect is from commodity derivatives which reflect the considerable price fluctuations that were seen on nearly all markets. This principally affects our coal, oil, and natural gas position. Countervailing effects are recorded under other operating expenses. Notes 30 and 31 to the Consolidated Financial Statements contain further information about derivative financial instruments. Gains on the disposal of securities and shareholdings amounted to €1,446 million (prior year: €1,588 million). Miscellaneous other operating income consisted primarily of reductions of valuation allowances, rental and leasing income, the sale of scrap metal and materials, and compensation payments received for damages.

Costs of materials rose by €16,196 million to €66,419 million (prior year: €50,223 million), mainly due to higher commodity costs and increased business volume.

Personnel costs increased by €533 million to €5,130 million in 2008. The increase results mainly from the inclusion of operations in our new market units.

Depreciation, amortization, and impairment charges of €6,890 million were above the prior-year figure of €3,194 million. The increase is principally attributable to unplanned impairment charges of about €3.3 billion on preliminary goodwill at the operations we acquired from Enel/Acciona and Endesa and on goodwill at U.S. Midwest.

Other operating expenses rose by 109 percent, or €10,613 million, to €20,337 million (prior year: €9,724 million). This is mainly attributable to higher realized losses on currency differences of €7,879 million (prior year: €3,218 million) and to higher losses on derivative financial instruments of €6,552 million (prior year: €1,331 million). It is not permissible to further net these items out with other operating income.

Income from companies accounted for under the equity method was €962 million compared with €1,147 million in the prior year. The 16-percent decline resulted principally from lower equity earnings at Pan-European Gas and U.K.

## Adjusted EBIT

Adjusted EBIT, E.ON's key figure for purposes of internal management control and as an indicator of a business's long-term earnings power, is derived from income/loss from continuing operations before interest and taxes and adjusted to exclude certain extraordinary items. The adjustments include book gains and losses on disposals and other non-operating income and expenses of a non-recurring or rare nature (see also the commentary in Note 33 to the Consolidated Financial Statements).

Our 2008 adjusted EBIT was €670 million higher than the prior-year figure. The main factors were:

- the absence of expenditures for obligations recorded in the prior year in the network business as well as earnings streams from new operations at Central Europe
- positive effects from wholesale energy price movements and increased production at Pan-European gas
- solid earnings at Nordic's non-regulated business
- solid earnings at Energy Trading's short-term optimization segment.

Adjusted EBIT			
€ in millions	2008	2007	+/- %
Central Europe	4,720	4,670	+1
Pan-European Gas	2,631	2,576	+2
U.K.	922	1,136	-19
Nordic	770	670	+15
U.S. Midwest	395	388	+2
Energy Trading	645	-	-
New Markets	90	7	-
Corporate Center	-295	-239	-23
<b>Total</b>	<b>9,878</b>	<b>9,208</b>	<b>+7</b>

### Central Europe

Central Europe's adjusted EBIT surpassed the prior-year figure by €50 million.

Adjusted EBIT			
€ in millions	2008	2007	+/- %
Central Europe West	4,213	4,316	-2
<i>Regulated</i>	853	746	+14
<i>Non-regulated</i>	3,360	3,570	-6
Central Europe East	424	361	+17
Other/Consolidation	83	-7	-
<b>Central Europe</b>	<b>4,720</b>	<b>4,670</b>	<b>+1</b>

Adjusted EBIT at Central Europe West Regulated increased by €107 million to €853 million. Negative regulatory effects in the electricity network were more than offset by the absence of expenditures for obligations recorded in the prior year in the network business and by a weather-driven increase in throughput in the gas network.

Central Europe West Non-regulated's adjusted EBIT declined by €210 million to €3,360 million. Positive price effects in the electricity business were mitigated by higher expenditures for fuel and CO<sub>2</sub> emission allowances and by the adverse effects of shutdowns and production limitations at Krümmel, Brunsbüttel, and Unterweser nuclear power stations. Furthermore, the prior year included higher earnings from the mandatory revaluation of nuclear waste management obligations. Adjusted EBIT in the gas business was adversely affected by higher procurement costs (which could only be partially passed through to customers) and a voluntary agreement with Germany's Federal Cartel Office. In addition, the positive results of operations that were transferred out of Central Europe are now reported at other E.ON market units.

Central Europe East's adjusted EBIT rose by €63 million year on year to €424 million, mainly due to positive price effects in Hungary which were partially offset by higher personnel expenditures.

Adjusted EBIT recorded under Other/Consolidation increased by €90 million relative to the prior-year figure, mainly due to the inclusion of new operations in France.

### Pan-European Gas

Pan-European Gas's adjusted EBIT rose by €55 million, or 2 percent, to €2,631 million.

Adjusted EBIT			
€ in millions	2008	2007	+/- %
Up-/Midstream	1,977	1,581	+25
Downstream Shareholdings	632	987	-36
Other/Consolidation	22	8	+175
<b>Pan-European Gas</b>	<b>2,631</b>	<b>2,576</b>	<b>+2</b>

Up-/Midstream delivered a solid earnings performance. Its adjusted EBIT rose by 25 percent, from €1,581 million to €1,977 million, with the midstream and the upstream businesses both contributing to the earnings improvement. The increase recorded in the upstream business is attributable to energy price movements and to expanded production of oil and natural gas, in particular due to the start of production at Njord field in December 2007.

Midstream's operating business recorded higher earnings from storage valuations. Gas withdrawn from storage in 2008 was valued more favorably relative to procurement prices than in the prior year. Higher earnings from storage valuation were offset by the development of gas procurement costs and by lower earnings due to lower sales volumes. The indexing of gas prices to heating-oil prices adversely affected midstream's adjusted EBIT because procurement prices reflect changes in heating-oil prices faster than sales prices do. Other negative factors included competitive pressure on sales prices and lower earnings on portfolio optimization between Continental European and U.K. gas markets than in the prior year. Higher earnings from the transport business constituted a positive factor.

Downstream Shareholdings' adjusted EBIT fell by €355 million, or 36 percent, from €987 million to €632 million. The main negative factor was lower earnings at E.ON Földgáz Trade resulting from negative currency effects and insufficient price increases granted by the regulator. Adjusted EBIT was also adversely affected by the absence of non-recurring effects recorded in the prior year relating to income from disposals and from the impact of the German corporate tax reform on equity earnings at Thüga and at E.ON Ruhrgas International.

## U.K.

U.K.'s adjusted EBIT declined by €214 million, or 19 percent. In local currency, it declined by 6 percent, mainly due to increased energy-efficiency costs and lower retail volumes.

Adjusted EBIT			
€ in millions	2008	2007	+/- %
Regulated	452	509	-11
Non-regulated	555	762	-27
Other/Consolidation	-85	-135	+37
<b>U.K.</b>	<b>922</b>	<b>1,136</b>	<b>-19</b>

Adjusted EBIT at the regulated business increased slightly in local currency. The decrease in reporting currency is due to currency movements (-€74 million). The key features of the €207 million decline at the non-regulated business were currency effects (-€91 million) and increased energy-efficiency costs in the retail business (-€76 million). Adjusted EBIT recorded under Other/Consolidation was €50 million higher, mainly as a result of the transfer of the trading business.

## Nordic

Nordic's adjusted EBIT increased by €100 million year on year.

Adjusted EBIT			
€ in millions	2008	2007	+/- %
Regulated	211	220	-4
Non-regulated	594	488	+22
Other/Consolidation	-35	-38	+8
<b>Nordic</b>	<b>770</b>	<b>670</b>	<b>+15</b>

Adjusted EBIT at the non-regulated business increased by €106 million. It was positively impacted by rising market-based transfer prices and the absence of an increase in nuclear provisions that adversely affected the prior-year figure. The main negative factor was a decrease in available generation volumes, chiefly due to lower hydro production.

The regulated business recorded a slight decline (€9 million) in adjusted EBIT. The positive effect of higher network tariffs on local grids was offset by lower consumption and increased depreciation in the distribution network.

## U.S. Midwest

U.S. Midwest's adjusted EBIT increased by €7 million, due mainly to increased recovery on capital spent for environmental projects and the timing of fuel, gas, and other cost recoveries partially offset by higher operating expenses and the strong euro. In dollars, adjusted EBIT was up \$49 million, or 9 percent.

Adjusted EBIT			
€ in millions	2008	2007	+/- %
Regulated	402	393	+2
Non-regulated/Other	-7	-5	-40
<b>U.S. Midwest</b>	<b>395</b>	<b>388</b>	<b>+2</b>

## Energy Trading

Energy Trading recorded an adjusted EBIT of €645 million, of which €466 million is attributable to the optimization segment. The figure reflects a very strong performance, mainly in short-term optimization results, along with favorable price movements. The proprietary trading segment also closed 2008 at a very high level and posted an adjusted EBIT of €179 million.

Adjusted EBIT			
€ in millions	2008	2007	+/- %
Proprietary trading	179	-	-
Optimization	466	-	-
<b>Energy Trading</b>	<b>645</b>	<b>-</b>	<b>-</b>

## New Markets

The breakdown of this segment's adjusted EBIT of €90 million is:

- Climate & Renewables (€66 million)
- Russia (€41 million)
- Italy and Spain (-€17 million).

Currency-translation effects and the hedging of investment financing resulted in a positive earnings contribution from Russia. Other positive factors included wider margins stemming from the ongoing market liberalization along with higher sales volumes.

The adjusted EBIT of Italy (€0 million) and Spain (-€17 million) consists of the earnings from operations acquired from Enel, Acciona, and Endesa for the second half of 2008 only. Earnings at both market units were adversely affected by the non-cash-effective accounting treatment of CO<sub>2</sub> emission allowances allocated at no cost.

## Net Income

Net income attributable to shareholders of E.ON AG of €1.3 billion and corresponding earnings per share of €0.68 were both down by 82 percent.

Net Income			
€ in millions	2008	2007	+/- %
<b>Adjusted EBIT</b>	<b>9,878</b>	<b>9,208</b>	<b>+7</b>
Adjusted interest expense (net)	-1,835	-960	-
Net book gains	1,324	1,345	-
Restructuring and cost-management expenses	-524	-77	-
Goodwill impairment	-3,315	-	-
Other non-operating earnings	-2,933	167	-
<b>Income/loss from continuing operations before income taxes</b>	<b>2,595</b>	<b>9,683</b>	<b>-73</b>
Income taxes	-863	-2,289	-
<b>Income/loss from continuing operations</b>	<b>1,732</b>	<b>7,394</b>	<b>-77</b>
Income/loss from discontinued operations, net	-128	330	-
<b>Net income</b>	<b>1,604</b>	<b>7,724</b>	<b>-79</b>
Shareholders of E.ON AG	1,266	7,204	-82
Minority interests	338	520	-35

As anticipated, adjusted interest expense (net) for 2008 declined by €875 million relative to 2007, due mainly to the development of our net financial position.

Adjusted Interest Expense (Net)		
€ in millions	2008	2007
Interest expense shown in Consolidated Statements of Income	-1,893	-951
Interest income (-)/expense (+) not affecting net income	58	-9
<b>Total</b>	<b>-1,835</b>	<b>-960</b>

Net book gains in 2008 of €1,324 million were on par with the prior-year figure (€1,345 million). In 2008, they resulted principally from the disposal of operations pursuant to the agreement between E.ON and Statkraft regarding E.ON's acquisition of Statkraft's stake in E.ON Sverige. As in the prior year, net book gains were also recorded on the sale of securities at Central Europe.

Restructuring and cost-management expenses totaling €524 million arose in 2008 in connection with various restructuring and integration projects at the E.ON Group. A significant portion of these expenses results from measures to improve the sales business of our regional utilities in Germany and from the costs of putting the E.ON Group's new organizational structure into place, in particular the centralization of our trading operations into the Energy Trading market unit. There were only modest restructuring and cost-management expenses in the prior year.

We are required under IAS 36 to test goodwill for impairment on at least an annual basis. This resulted in an impairment charge of €1.5 billion on goodwill for the U.S. Midwest market unit and an impairment charge of roughly €1.8 million on the preliminary goodwill of the operations in Italy, Spain, and France acquired from Enel/Acciona and Endesa. Note 14a to the Consolidated Financial Statements contains detailed information about impairment charges.

Other non-operating earnings primarily reflect two negative effects. First, the marking to market of derivatives used to protect our operating business from price fluctuations resulted in a negative effect of €2,176 million. At December 31, 2007, the marking to market of derivatives resulted in a positive effect in the amount of €564 million. Second, the effects of the financial crisis made it necessary to write down securities and financial investments (€667 million) at Central Europe. Write-downs were of an insignificant magnitude in the prior year.

Income/loss from continuing operations before income taxes declined substantially relative to the prior-year figure. This is due to the impairment charges at U.S. Midwest and the operations acquired from Enel/Acciona and Endesa, the effects of the marking to market of derivatives, and the planned increase in adjusted interest expense (net).

Our continuing operations recorded a tax expense of €863 million in 2008. The decrease in tax expense of €1,426 million compared with 2007 primarily reflects reduced taxable income and the tax relief resulting from the 2008 corporate tax reform in Germany. In contrast, our effective tax rate increased from 24 percent in 2007 to 33 percent in 2008, as the impairment charges on goodwill in the E.ON Consolidated Financial Statements did not lead to tax relief.

Income/loss from discontinued operations, net, consists primarily of Western Kentucky Energy, which is held for sale. Pursuant to IFRS, its results are reported separately in the Consolidated Statements of Income (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.

Adjusted Net Income			
€ in millions	2008	2007	+/- %
Net income attributable to shareholders of E.ON AG	1,266	7,204	-82
Net book gains	-1,324	-1,345	-
Restructuring and cost-management expenses	524	77	-
Goodwill impairment	3,315	-	-
Other non-operating earnings	2,933	-167	-
Taxes and minority interests on non-operating earnings	-1,141	-142	-
Special tax effects	-103	-182	-
Income (+)/loss (-) from discontinued operations, net	128	-330	-
<b>Total</b>	<b>5,598</b>	<b>5,115</b>	<b>+9</b>

## ROCE and Value Added

### Group-wide 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 2008 financial year.

The table at right illustrates the derivation of cost of capital before and after taxes for 2008 and 2007. Deviations result in particular from an increase in long-term interest rates on corporate debt. The E.ON Group's debt-to-equity ratio is

unchanged at 35 to 65. 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. In addition, the figures for 2008 differ from those for 2007 because of the corporate tax reform laws that took effect at the start of 2008.

Overall, the new determination of the parameters led to a change in the E.ON Group's after-tax cost of capital for 2008, which increased from 6.1 percent to 6.7 percent. The pretax cost of capital was unchanged at 9.1 percent due to counterbalancing effects relating to corporate tax reform laws.

We also adjusted the market units' respective minimum ROCE requirement, which for 2008 was between 8.7 percent and 10.4 percent before taxes.

Cost of Capital		
	2008	2007
Risk-free interest rate	4.5%	4.3%
Market premium <sup>1</sup>	4.0%	4.0%
Beta factor <sup>2</sup>	0.88	0.85
<b>Cost of equity after taxes</b>	<b>8.0%</b>	<b>7.7%</b>
Tax rate	27%	33%
Cost of equity before taxes	11.0%	11.5%
Cost of debt before taxes	5.7%	4.7%
Tax shield (tax rate: 27%) <sup>3</sup>	1.5%	1.6%
<b>Cost of debt after taxes</b>	<b>4.2%</b>	<b>3.1%</b>
Share of equity	65%	65%
Share of debt	35%	35%
<b>Cost of capital after taxes</b>	<b>6.7%</b>	<b>6.1%</b>
<b>Cost of capital before taxes</b>	<b>9.1%</b>	<b>9.1%</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 (35 percent) deviated slightly from the E.ON Group's average tax rate for the prior year.

In view of the significant increase in market volatility following the global financial and economic crisis, we repeatedly reexamined the E.ON Group's cost of capital and confirmed that it was at the correct level.

### 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 non-interest-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. 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	2008	2007
<b>Adjusted EBIT</b>	<b>9,878</b>	<b>9,208</b>
Goodwill, intangible assets, and property, plant, and equipment	80,441	69,597
+ Shares in affiliated and associated companies and other share investments	12,787	22,994
+ Inventories	4,774	3,811
+ Accounts receivable	13,599	9,064
+ Other non-interest-bearing assets, including deferred income and deferred tax assets	29,527	13,317
- Non-interest-bearing provisions <sup>1</sup>	7,784	9,807
- Non-interest-bearing liabilities, including deferred expenses and deferred tax liabilities	50,543	31,349
- Adjustments <sup>2</sup>	1,664	9,692
<b>Capital employed in continuing operations (at year-end)</b>	<b>81,137</b>	<b>67,935</b>
<b>Capital employed in continuing operations (annual average)<sup>3</sup></b>	<b>76,363</b>	<b>63,287</b>
<b>ROCE</b>	<b>12.9%</b>	<b>14.5%</b>
<b>Cost of capital</b>	<b>9.1%</b>	<b>9.1%</b>
<b>Value added</b>	<b>2,902</b>	<b>3,417</b>

<sup>1</sup>Non-interest-bearing provisions mainly include current provisions, such as those relating to sales and procurement market obligations. 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 €68,046 million, €80,949 million, and €83,746 million at March 31, June 30, and September 30, 2008, respectively.

## ROCE and Value Added by Segment

€ in millions	Central Europe		Pan-European Gas <sup>1</sup>		U.K.		Nordic	
	2008	2007	2008	2007	2008	2007	2008	2007
Adjusted EBIT	4,720	4,670	2,631	2,576	922	1,136	770	670
÷ Capital employed	19,310	18,943	17,594	17,130	10,101	12,368	6,948	6,886
= ROCE	24.4%	24.7%	15.0%	15.0%	9.1%	9.2%	11.1%	9.7%
Cost of capital	9.2%	9.3%	8.8%	8.8%	9.8%	9.5%	9.3%	8.8%
Value added	2,935	2,917	1,091	1,062	-71	-37	125	62

<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.

<sup>2</sup>For 2007, the Corporate Center segment also includes the New Markets segment.

## ROCE and Value Added Performance in 2008

Our integration and growth strategy is reflected in the E.ON Group's continued positive ROCE performance. Our adjusted EBIT was again higher, but so was our capital employed which increased (despite unplanned impairment changes) due to our investment activity. With a ROCE of 12.9 percent in 2008, we again substantially exceeded our cost of capital. Value added amounted to €2.9 billion in 2008.

## Central Europe

Central Europe's 2008 ROCE of 24.4 percent was slightly below the prior-year figure but again well ahead of its cost of capital. Central Europe again recorded a slight increase in value added, as well. Positive price effects and operating improvements contributed to the positive value performance. The main negative effect was an increase in capital employed resulting primarily from higher investments in property, plant, and equipment, and an increase in working capital. Central Europe's medium-term planned investments will lead to an increase in capital employed which cannot be perpetually offset by further improvements in working capital.

## Pan-European Gas

Pan-European Gas's 2008 ROCE and value added were on par with the prior-year figures. A slight increase in adjusted EBIT was offset by an investment-driven increase in capital employed. The key earnings factors were price- and volume-driven earnings improvements in the upstream business. Adjusted EBIT at the midstream business rose due to higher earnings from storage valuations and from the transport business, while adjusted EBIT at the downstream business declined due to lower earnings at E.ON Földgáz Trade and the absence of non-recurring effects recorded in the prior year.

U.S. Midwest		Energy Trading		New Markets		Corporate Center		E.ON Group	
2008	2007	2008	2007	2008	2007	2008	2007 <sup>2</sup>	2008	2007
395	388	645	-	90	-	-295	-232	9,878	9,208
6,537	6,780	868	-	15,596	-	-591	1,180	76,363	63,287
6.0%	5.7%	74.3%	-	0.6%	-	-	-	12.9%	14.5%
8.7%	7.8%	9.2%	-	10.4%	-	-	-	9.1%	9.1%
-176	-142	565	-	-1,528	-	-	-	2,902	3,417

### U.K.

U.K.'s ROCE declined slightly to 9.1 percent in 2008, due mainly to the transfer of its trading operations to our new Energy Trading market unit. Earnings were stable year on year at U.K.'s continuing operations. Lower earnings in the retail business were offset by higher earnings in the generation business.

### Nordic

In 2008, Nordic increased its ROCE to 11.1 percent, markedly surpassing its cost of capital. This value creation is principally attributable to a significant rise in market-based transfer prices compared with the prior year.

### U.S. Midwest

U.S. Midwest's ROCE increased slightly compared with the prior year, due mainly to increased income from recovery on capital spent for environmental projects. Another positive effect was the timing of fuel cost recoveries from customers. Despite this market unit's investment activity, its capital employed declined slightly due to the goodwill impairment charge recorded in the fourth quarter.

### Energy Trading and New Markets

Due to the structural particularities of the trading business, ROCE and value added for our new Energy Trading market unit have very limited descriptive value and are included here for informational purposes only.

ROCE and value added for the New Markets segment reflect the substantial investments made in these growth markets. In long-term growth businesses like these, earnings increases and value contributions are anticipated in the years ahead.

## Cash-Effective and Economic Investments

We continued to make progress implementing our extensive investment program. Our total investments for 2008 were €18.4 billion, €7.1 billion more than in the prior year. We invested €9 billion in property, plant, and equipment and intangible assets compared with €6.9 billion in the prior year. Share investments totaled €9.4 billion versus €4.4 billion in the prior year.

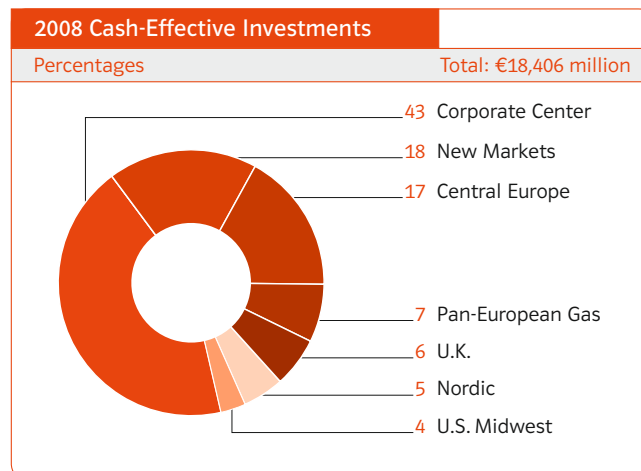
Cash-Effective Investments			
€ in millions	2008	2007	+/- %
Central Europe	3,188	2,581	+24
Pan-European Gas	1,215	2,424	-50
U.K.	1,162	1,364	-15
Nordic	939	914	+3
U.S. Midwest	650	690	-6
Energy Trading	8	-	-
New Markets	3,305	207	-
Corporate Center	7,939	3,126	-
<b>Total</b>	<b>18,406</b>	<b>11,306</b>	<b>+63</b>
<i>Outside Germany</i>	<i>15,415</i>	<i>9,058</i>	<i>+70</i>

In the calculation of our economic investments, the figures shown for debt acquired and asset swaps relate almost entirely to the portfolio of assets acquired from Enel/Acciona and Endesa and to our asset swap with Statkraft.

Economic Investments		
€ in millions	2008	2007
Cash-effective investments	18,406	11,306
Debt acquired	3,464	1,150
Asset swaps	4,366	-
<b>Total</b>	<b>26,236</b>	<b>12,456</b>

Central Europe invested €607 million more in 2008 than in 2007. Investments in property, plant, and equipment and in intangible assets of €2,965 million were €575 million higher than in the prior year, primarily due to higher investments in new generating units and in network infrastructure to connect offshore wind farms in the German North Sea. Central Europe invested €1,466 million in power generation assets and €1,312 million in network assets. Share investments were €223 million (prior year: €191 million) and related primarily to paid-in capital at power generation companies and to the acquisition of shares in SOTEC, a waste incineration company.

Pan-European Gas invested €1,215 million. Of this figure, €943 million (prior year: €1,381 million) went towards property, plant, and equipment and intangible assets, mainly towards gas infrastructure and development costs in the exploration business. Share investments of €272 million related mainly to capital increases at Nord Stream AG, an associated company. The high prior-year figure of €1,043 million mainly reflects the acquisition of Contigas Deutsche Energie-AG from the Central Europe market unit.



U.K.'s investments in 2008 were €1,162 million, of which €1,120 million relates to property, plant, and equipment and €42 million to share investments. Investments were €202 million lower than in the prior year primarily due to currency effects (-€190 million) and the transfer of renewables operations to the Climate & Renewables market unit. Investments in the regulated business increased in line with the allowance granted under the five-year regulation review.

Nordic invested €25 million more in 2008 than in the prior year. It invested €923 million (prior year: €892 million) in property, plant, and equipment and in intangible assets to maintain and expand existing production plants and to upgrade and modernize the distribution network. Share investments totaled €16 million (prior year: €22 million).

Compared with 2007, U.S. Midwest's investments were lower in euros but 1 percent higher in dollars. U.S. Midwest continued its ongoing investment program including a new baseload coal unit at the Trimble County plant. This unit is expected to enter service in 2010.

In the New Markets segment, Climate & Renewables invested €1,484 million (mainly in wind-power projects), Russia €644 million (mainly in four new-build projects and the increase in its stake in OGK-4), Italy €860 million (mainly in operations transferred from other market units, the completion of Livorno Ferraris power station, and upgrades to Terni power station), and Spain €317 million (mainly in two new gas-fired generating units and environmental-protection measures at two existing power stations).

Investments recorded under Corporate Center are mainly attributable to the acquisition of an extensive portfolio of assets from Enel/Acciona and Endesa with operations mainly in Italy, Spain, and France.

### Share Buyback Program

In 2008, we continued the €7 billion share buyback program begun in 2007 and repurchased about 74 million shares of E.ON stock with an aggregate market value of approximately €3 billion. We have spent a total of €6,448 million to repurchase stock. Due to the ongoing financial crisis, we have decided to hold off the program and are watching further developments in the capital markets to maintain the highest degree of flexibility.

### Cash Flow and Financial Position

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

The E.ON Group's cash provided by operating activities in 2008 was 23 percent lower than in 2007.

<b>Cash Provided by Operating Activities of Continuing Operations</b>			
€ in millions	2008	2007	+/-
Central Europe	4,016	3,811	+205
Pan-European Gas	2,081	3,041	-960
U.K.	893	1,615	-722
Nordic	835	914	-79
U.S. Midwest	271	216	+55
Energy Trading	-1,452	-	-1,452
New Markets	140	-	+140
Corporate Center	-46	-871	+825
<b>Cash provided by operating activities of continuing operations</b>	<b>6,738</b>	<b>8,726</b>	<b>-1,988</b>
Maintenance investments	1,648	1,984	-336
Growth and replacement investments, acquisitions, other	16,759	9,322	+7,437
Cash-effective effects from disposals	432	1,431	-999

Central Europe's cash provided by operating activities surpassed the prior-year figure by €205 million, mainly due to a higher cash-effective electricity margin and to a lower contribution to the Contractual Trust Arrangement than in the prior year. It was adversely affected by the shutdowns at Krümmel and Brunsbüttel nuclear power stations, higher cash outflows for electricity procurement and fuel, the regulation of network charges, and an increase in working capital.

Pan-European Gas's cash provided by operating activities was considerably lower compared with the prior-year level. In particular, E.ON Földgáz Trade's cash provided by operating activities declined significantly due to negative price effects resulting from adverse currency movements and insufficient price increases granted by the regulator as well as negative storage effects. There was a net withdrawal of gas from storage facilities in 2007, whereas in 2008 there was a net injection of gas. Pan-European Gas's cash provided by operating activities was also adversely affected by lower dividend payments from shareholdings compared with the prior year. Gas storage usage also had a negative effect on cash provided by operating activities at E.ON Ruhrgas. On balance, significantly more gas was withdrawn from storage in 2007 than in 2008.

U.K.'s cash provided by operating activities was €722 million lower year on year. This is partially caused by currency effects. The majority of the remaining difference results from a time lag between payment for commodity purchase costs and collection of cash from customers in the retail business. In a rising price environment (as in 2008), this results in an increase in operating cash outflows. In a declining price environment (as in 2007), the retail business recorded large operating cash inflows. Despite operational improvements that resulted in a significant reduction in debtor days during 2008, the above-described time lag reduced cash provided by operating activities.

Nordic's cash provided by operating activities paralleled its positive operating performance but declined relative to the prior-year figure due to the development of inventories. By contrast, lower storm-related costs constituted a positive effect.

Cash provided by operating activities at U.S. Midwest was higher mainly due to pension contributions made in 2007.

Energy Trading recorded -€1,452 million in cash provided by operating activities. Because of Energy Trading's central position in the E.ON Group's energy procurement and sales operations, its cash flow is considerably affected by intra-group settlement processes. The high negative figure is mostly attributable to intragroup payments and to a large increase in its inventory of CO<sub>2</sub> emission allowances in the fourth quarter 2008.

The New Markets segment recorded cash provided by operating activities of €140 million.

The Corporate Center segment's cash provided by operating activities was considerably above the prior-year level, due mainly to higher intragroup tax offsets. Higher interest payments constituted a negative effect.

Consolidated Statements of Cash Flows (Summary)		
€ in millions	2008	2007
Cash provided by operating activities of continuing operations	6,738	8,726
Cash provided by (used for) investing activities of continuing operations	-17,078	-8,789
Cash provided by (used for) financing activities of continuing operations	11,391	1,808
<b>Net increase (decrease) in cash and cash equivalents maturing</b>	<b>1,051</b>	<b>1,745</b>
Liquid funds as shown on December 31	6,348	7,075

Cash provided by investing activities in 2008 was -€17,078 million (prior year: -€8,789 million) and reflected the acquisition of an extensive portfolio of assets from Enel/Acciona and Endesa, with operations primarily in Italy, Spain, and France.

Cash provided by financing activities of €11,391 million (prior year: €1,808 million) was positive and was primarily due to the issuance of new bonds. Additional share repurchases and E.ON AG's dividend payout were negative factors.

Note 29 to the Consolidated Financial Statements contains further information about the Consolidated Statement of Cash Flows.

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 -€29,693 million was €22,199 million below the figure reported as of December 31, 2007 (-€7,494 million). The main reason for the decline of our net financial position was the acquisition of an extensive portfolio of assets from Enel/Acciona and Endesa. Other negative factors included higher investments in property, plant, and equipment, E.ON AG's dividend payout, and cash outflow for the share buyback program. Strong cash flow from operating activities was a positive factor. The above factors also led to the significant increase in our economic net debt.

The calculation of economic net debt includes, for the first time, the fair value (net) of currency derivatives used for financing transactions (but excluding transactions relating to our operating business or asset management) so that this figure also reflects the foreign-currency effects of financing transactions which, for accounting reasons, would not be included in the components of net financial position.

Economic Net Debt		
€ in millions	December 31	
	2008	2007
Liquid funds	6,348	7,075
Non-current securities	5,017	6,895
<b>Total liquid funds and non-current securities</b>	<b>11,365</b>	<b>13,970</b>
Financial liabilities to banks and third parties	-39,095	-19,357
Financial liabilities to Group companies	-1,963	-2,107
<b>Total financial liabilities</b>	<b>-41,058</b>	<b>-21,464</b>
<b>Net financial position</b>	<b>-29,693</b>	<b>-7,494</b>
Fair value (net) of currency derivatives used for financing transactions <sup>1</sup>	1,988	706
Provisions for pensions	-3,559	-2,890
Asset retirement obligations	-14,839	-15,034
Less prepayments to Swedish nuclear fund	1,157	1,280
<b>Economic net debt</b>	<b>-44,946</b>	<b>-23,432</b>
Adjusted EBITDA	13,385	12,450
Debt factor	3.4	1.9
<b>Pro forma debt factor</b>	<b>3.2</b>	<b>1.9</b>

<sup>1</sup>Does not include transactions relating to our operating business or asset management.

Our debt factor increased from 1.9 at year-end 2007 to 3.4 at year-end 2008. Taking into account the full-year adjusted EBITDA of the portfolio acquired in the course of 2008 from Enel/Acciona and Endesa results in a pro forma debt factor of 3.2 at year-end 2008.

## Financial Strategy

The E.ON Group's financial strategy has four key elements:

- E.ON's target rating is single A flat/A2. This target rating allows for a more efficient capital structure while ensuring our access to financing.
- To manage our capital structure we use a steering metric called debt factor. 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 actively manage E.ON's capital structure. We use debt factor to continually monitor—and if necessary, adjust—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 funding 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 more 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 between 50 and 60 percent of adjusted net income.

### Funding 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 funding policy is designed to give E.ON access to a variety of financing resources at any time.

As a rule, external funding is carried out by E.ON AG or via our Dutch finance subsidiary E.ON International Finance B.V. under guarantee of E.ON AG, and the funds are on-lent as needed within the Group.

Our funding 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 terms 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 the fall of 2007, E.ON launched its financing program for the period through 2010. Since that time, E.ON has issued a number of benchmark bonds denominated in euros, pounds sterling, and dollars. E.ON has also issued smaller bonds in a variety of currencies and taken advantage of other financing instruments. In addition, E.ON regularly issues commercial paper ("CP"). From the beginning of the financing program

through year-end 2008, E.ON had issued a total of about €19 billion in bonds and promissory notes (Schuldscheine), of which about €13 billion was issued in 2008 (these figures do not include CP). Our benchmark bonds were significantly oversubscribed and placed with a variety of institutional investors. Our successful bond issues demonstrate the trust that investors place in E.ON.

For our achievements in implementing our financing program, we were awarded the coveted prize as "Corporate Issuer of the Year" by the *International Financing Review* in January 2009.

Note 26 to the Consolidated Financial Statements contains further information about E.ON's outstanding bonds.

Due to the financial crisis, risk premiums (spreads) widened in the course of 2008. This development also affected E.ON bonds.

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 outstanding.

E.ON bonds issued in 2008 were issued under our existing €30 billion Debt Issuance Program ("DIP"), with the exception of the dollar-denominated bonds. We had €23.1 billion in bonds outstanding under our DIP at year-end 2008.

In addition to our DIP, we have a €10 billion European CP program and a \$10 billion U.S. CP program under which we can issue short-term CP. We had utilized €7.3 billion of these programs at year-end 2008.

E.ON successfully extended the 364-day tranche (Tranche A) of its syndicated credit facility at a volume of €7.5 billion. Tranche A matures on November 26, 2009. Our approximately €5 billion long-term tranche (Tranche B) matures on December 2, 2011. We did not utilize our credit facility at any time in 2008.

Notes 26 and 27 to the Consolidated Financial Statements contain detailed information about E.ON's liabilities, contingencies, and commitments.

Moody's long-term rating for E.ON has been A2 since April 4, 2007. Standard & Poor's ("S&P") long-term rating for E.ON has been A since June 12, 2007. The short-term ratings are A-1 (S&P) and P-1 (Moody's). The ratings of both agencies thus correspond to E.ON's target rating. In 2008, S&P and Moody's confirmed their E.ON ratings with a stable outlook.

E.ON AG Ratings			
	Long term	Short term	Outlook
Moody's	A2	P-1	Stable
Standard & Poor's	A	A-1	Stable

Non-current assets as of December 31, 2008, rose by 1 percent compared with the figure as of December 31, 2007, mainly due to the acquisition and inclusion, for the first time, of operations from the portfolio of assets acquired from Enel/Acciona and Endesa and to investments in property, plant, and equipment. Lower fair values in the wake of the financial crisis along with impairment charges on goodwill had a negative effect on non-current assets.

Current assets increased by 61 percent compared with year-end 2007. The main factors were higher receivables from derivative transactions as of the balance-sheet date and higher current assets resulting from the inclusion of operations acquired from Enel/Acciona and Endesa.

Our equity ratio was 16 percentage points below the figure of 40 percent recorded at year-end 2007. Amid the financial crisis, the marking to market of our share investment in Gazprom (not including deferred tax assets) reduced our equity by about €9 billion. In addition, the payout of about €3 billion to E.ON shareholders and minority interests could not be fully offset by current net income in 2008. Furthermore, the transaction with Statkraft reduced our equity by €2.7 billion; this did not affect net income. Under the share buyback program, which began in 2007, we repurchased 73,692,090 shares of E.ON stock. We acquired additional shares on-market as part of our employee stock purchase program and transferred these to employees. On balance, the change in treasury shares reduced our equity by €2.9 billion.

Non-current liabilities increased by €10.6 billion to €63 billion. This is primarily due to the successful placement in 2008 of long-term bonds with a book value of €10.8 billion and the reclassification of €4.5 billion from non-current to current liabilities due to maturity dates.

Current liabilities increased by about €25.9 billion to €55.6 billion. The main factors were higher short-term financing, higher liabilities from derivative transactions as of the balance-sheet date, and higher current liabilities from the inclusion of operations acquired from Enel/Acciona and Endesa.

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 36 percent (December 31, 2007: 52 percent).
- Non-current assets are covered by long-term capital at 95 percent (December 31, 2007: 102 percent).

Notes 4 to 26 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 solid financial condition at year-end 2008.

Consolidated Assets, Liabilities, and Equity				
€ in millions	Dec. 31, 2008	%	Dec. 31, 2007	%
Non-current assets	106,436	68	105,804	77
Current assets	50,609	32	31,490	23
<b>Total assets</b>	<b>157,045</b>	<b>100</b>	<b>137,294</b>	<b>100</b>
Equity	38,427	24	55,130	40
Non-current liabilities	62,973	40	52,402	38
Current liabilities	55,645	36	29,762	22
<b>Total equity and liabilities</b>	<b>157,045</b>	<b>100</b>	<b>137,294</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 2008 amounts to €2,889 million compared with €5,116 million in the prior year. Including earnings carried forward of €30 million and after transferring €62 million to retained earnings, net income available for distribution totals €2,857 million.

Balance Sheets of E.ON AG (Summary)		
€ in millions	December 31	
	2008	2007
Intangible assets and property, plant, and equipment	155	158
Financial assets	27,564	27,667
<b>Non-current assets</b>	<b>27,719</b>	<b>27,825</b>
Receivables from affiliated companies	39,852	20,466
Other receivables and assets	3,777	2,569
Liquid funds	415	1,634
<b>Current assets</b>	<b>44,044</b>	<b>24,669</b>
<b>Total assets</b>	<b>71,763</b>	<b>52,494</b>
Equity	11,475	14,076
Special items with provision component	393	414
Provisions	4,194	3,191
Liabilities to affiliated companies	42,902	30,388
Other liabilities	12,799	4,425
<b>Total equity and liabilities</b>	<b>71,763</b>	<b>52,494</b>

Pursuant to a resolution by the Annual Shareholders Meeting on April 30, 2008, the Company conducted a three-for-one stock split under which it redivided its capital stock such that each €2.60 proportionate share of stock was replaced with three €1 proportionate shares of stock. To achieve this, the Company first used its own funds to increase its share capital, without issuing new shares of stock, by €266.8 million, from €1,734.2 million to €2,001 million. The share capital was then redivided so that the amount of capital previously represented by one share of stock was now represented by three shares of €1 each, the lowest proportionate share of capital stock allowable under German law. At the same time, the number of shares to be issued was tripled. The share capital now totals €2,001,000,000.00 (prior year: €1,734,200,000) and consists of 2,001,000,000 (prior year: 667,000,000) registered shares without nominal value. The Company's Articles of Association were amended to reflect this change, which was entered into the Commercial Register (HRB 22315) on August 1, 2008.

As a result of the share buyback program, the Company held a total of 82,616,922 own shares with a total value of €3,316 million as of the balance-sheet date. These shares have been deducted from equity because they were acquired for the purpose of being cancelled.

Income Statement of E.ON AG (Summary)		
€ in millions	2008	2007
Income from equity interests	4,997	7,244
Interest income	-965	-557
Other expenditures and income	-118	-250
<b>Income from continuing operations before income taxes</b>	<b>3,914</b>	<b>6,437</b>
Income taxes	-1,025	-1,321
<b>Net income</b>	<b>2,889</b>	<b>5,116</b>
Net earnings carried forward	30	-
Net income transferred to retained earnings	-62	-2,526
<b>Net income available for distribution</b>	<b>2,857</b>	<b>2,590</b>

E.ON AG's income from equity interests in 2008 declined by €2,247 million to €4,997 million, due in part to lower income transferred combined with higher loss-pooling obligations. The main positive effect on income from equity interests was the €7,740 million in income transferred from E.ON Energie AG. In addition, the payment of paid-in capital from E.ON UK Holding GmbH increased income from equity interests by €3,104 million. The main negative factors were impairment changes at subsidiaries which, due to loss-pooling obligations, had an adverse effect on income from equity interests. Impairment charges relate in particular to the parent company of the U.S. Midwest market unit (€1,703 million) and E.ON Europa S.L. (€1,584 million). E.ON Europa holds shares in affiliated companies in France, Italy, and Spain. Note 14a to the Consolidated Financial Statements contains details about the reasons for the impairment charges.

The negative figure recorded under other expenditures and income (net) improved by €132 million year on year to -€118 million.

Income taxes include current taxes for 2008 and for prior years and taxes for prior years due to outstanding tax audits.

At the Annual Shareholders Meeting on May 6, 2009, management will propose that net income available for distribution be used to pay a cash dividend of €1.50 per share, a 9.5 percent increase. The positive development of our operating earnings is the main factor enabling us to pay out a higher dividend for the tenth 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 €1.50 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).

### Disclosure of Takeover Barriers

The disclosures pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4 of the German Commercial Code are in the chapter Disclosure of Takeover Barriers and Explanatory Report of the Board of Management on pages 160–162 of this report.

## Employees

### Workforce

On December 31, 2008, the E.ON Group had 93,538 employees worldwide, about 7 percent more than at year-end 2007. In addition, E.ON had 2,705 apprentices and 330 board members and managing directors.

Employees <sup>1</sup>	December 31		
	2008	2007	+/- %
Central Europe	44,142	44,051	-
Pan-European Gas	9,827	12,214	-20
U.K.	17,480	16,786	+4
Nordic	5,826	5,804	-
U.S. Midwest	3,110	2,977	+4
Energy Trading	885	-	-
New Markets	9,214	5,424	+70
Corporate Center <sup>2</sup>	3,054	559	-
<b>Total</b>	<b>93,538</b>	<b>87,815</b>	<b>+7</b>
Discontinued operations <sup>3</sup>	474	474	-

<sup>1</sup>Figures do not include apprentices, managing directors, and board members.  
<sup>2</sup>Includes E.ON IS in 2008.  
<sup>3</sup>Contains WKE.

E.ON's new organizational structure is responsible for most of the changes in employee numbers at the market units. Energy Trading combines the Group's European trading operations.

Other significant changes resulting from the new organizational structure include the transfer of Central Europe and Pan-European Gas's operations in Italy to the Italy market unit. The same applies to the Climate & Renewables market unit, which combines our renewables operations. The Spain market unit, with about 1,200 employees, began operations in the third quarter of 2008. It consists of operations acquired from Enel/Acciona and Endesa, which also led to the transfer of about 1,800 employees to the Italy and Central Europe market units. The Russia, Italy, Climate & Renewables, and Spain market units are shown in the New Markets segment.

The slight increase in Central Europe's workforce resulted from two largely countervailing effects: the Group's new organizational structure led to about 2,800 employees being transferred out of Central Europe at the start of the year. This effect was more than offset by the new operations in France and Poland and the acquisition of waste-incineration and power and gas utility assets in Germany.

U.K.'s headcount increased by about 4 percent due to an increase in customer-facing roles in the retail business and the acquisition of a vocational training company.

The decline in the number of employees at Nordic resulting from the transfer of about 100 employees to Energy Trading and Climate & Renewables was more than offset by the hiring of new staff and by the acquisition of a technical consulting company.

The increase in the number of employees at U.S. Midwest is mainly the result of workforce planning and support associated with various capital projects.

### Geographic Profile

At year-end 2008, the E.ON Group employed 57,134 people, or 61.1 percent of our workforce, outside Germany. This represents an increase from the figure of 53,200 employees, or 60.6 percent of our workforce, for year-end 2007. The increase is largely attributable to the acquisition of operations from Enel/Acciona and Endesa.

Total Workforce by Region <sup>1</sup>	
Dec. 31, 2008	
Germany	39,281
United Kingdom	18,581
Romania	8,507
Russia	5,769
Sweden	5,574
Hungary	5,116
USA and Canada	3,250
Czech Republic	2,768
Bulgaria	2,120
Other <sup>2</sup>	5,607

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

## Gender and Age Profile, Part-Time Staff

At the end of 2008, around 27 percent of our employees were women. Currently, 11 percent of our senior managers and 5 percent of our top executives are women. E.ON has instituted a number of measures, including a mentoring program, to achieve its medium-term objective of increasing the number of women senior managers and top executives.

At the end of 2008, our average employee was about 41 years old and had worked for us for about 14 years. A total of 7,209 E.ON Group employees were on a part-time schedule, of whom 4,321, or 60 percent, were women. Employee turnover resulting from voluntary terminations averaged around 5 percent across the organization.

## Employer Branding

To compete internationally, it is increasingly important for us to attract the best-qualified and most talented employees. The Great Place to Work<sup>®</sup> Institute Europe conferred its coveted award on E.ON in 2008. For the first time, the entire E.ON Group may use the institute's "Best Workplaces in Europe" seal. In a study conducted in 2008 by the magazine *Junge Karriere* and CRF, an independent research firm, E.ON ranked as one of Germany's top employers for the second year in a row.

## E.ON Graduate Program

Since it was launched in 2005, this program has accepted 176 trainees Group-wide, of whom 97 have completed the program successfully and started their careers with our company. The Russia market unit was added to the program in 2008.

## HR Development: Talent Management

The purpose of our annual Management Review process is to develop our staff with leadership potential by identifying future leaders and by evaluating managers across E.ON according to uniform standards. Our Senior Management Potentials program offers identified future leaders a variety of individually tailored learning and development opportunities to help them acquire the personal and professional skills they need to become senior managers.

Group-wide HR development costs amounted to around €88 million in 2008. 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. As part of the integration of new market units and the restructuring of existing units, nearly 30 percent of our top management positions were refilled. More than 75 percent of the new top managers came from within E.ON. We refined the variable compensation and long-term incentive programs of our top executives by introducing key performance indicators in order to increase the performance-based aspects of these mechanisms.

## Compensation, Pension Plans, Employee Participation

Attractive compensation and appealing fringe benefits are essential to a competitive work environment. We redesigned and standardized our company pension plans in Germany in 2008. By redistributing the interest-rate and longevity risk and by introducing a more varied employee contribution system, we ensured the future security of our pension plans and strengthened their role as an important component of an attractive compensation plan.

Another factor in employee retention is enabling them to participate in their company's success. Since 2007, Level 3 senior managers in Germany pursuant to our Group-wide job-grading system have been included in the E.ON Share Performance Plan, broadening access to the program beyond top executives. In addition, we further increased the appeal of the employee stock purchase program by increasing the company's contribution. In 2008, 22,392 employees purchased a total of 1,138,050 shares of E.ON stock; 58 percent of employees participated in the program, down slightly from 59 percent in 2007.

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

We have compiled a Compensation Report for the 2008 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 part of this Combined Group Management Report, can be found in the Corporate Governance Report chapter on pages 148-153 and therefore does not appear here.

## Apprentice Programs

E.ON has always placed great emphasis on apprentice programs. In 2008, apprentices accounted for about 7 percent of the E.ON Group's workforce in Germany, almost unchanged from the prior year.

Apprentices in Germany	
Dec. 31, 2008	
Central Europe	2,317
Pan-European Gas	298
E.ON AG/Other <sup>1</sup>	90
<b>E.ON Group</b>	<b>2,705</b>
<sup>1</sup> Includes E.ON IS.	

Established in 2003, the E.ON training initiative was continued and expanded in 2008. Beyond our regular apprenticeship programs, over 950 young people in Germany were offered prospects for the future through vocational training, an internship to prepare them for training, and school projects.

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

In 2008, E.ON again enhanced its R&D. We have long taken a two-pronged approach to our wide range of R&D activities.

First, we optimize our existing facilities and processes in order to find innovative solutions for operational challenges and to operate our facilities efficiently and economically across their lifecycle.

Second, we actively develop key technologies and accelerate their commercial viability through an initiative called innovate.on. We believe this is part of our responsibility as one of the world's leading energy companies. The purpose of these activities is to deploy research results in operational applications and to actively promote their implementation on a commercial scale. In 2008, we added generation III+ nuclear technology to our portfolio of innovate.on technologies.

R&D expenses pursuant to IAS 38 totaled €53 million in 2008 against €37 million in the prior year. Overall, 203 employees work in R&D at the E.ON Group: 70 at Central Europe, 55 at E.ON Engineering UK for U.K., 37 at Pan-European Gas, 25 at Nordic, 8 at U.S. Midwest, 4 at Climate & Renewables, and 4 at the Corporate Center.

In addition to E.ON's investments to optimize and refine technologies, E.ON also promotes basic research, providing €4 million of financial support for energy research at universities and institutes in 2008.

E.ON's investments in new technology (which include support for university research, R&D, and demonstration projects) totaled €106 million in 2008 compared with €83 million in the prior year.

### Corporate Responsibility ("CR")

Faced with globalization, the global increase in energy demand, and climate change, the energy industry is undergoing profound changes, changes that can only be successfully managed in accord with society's expectations and values. Our CR organization provides support in dealing with these expectations in a professional way and helping E.ON achieve a balance between the interests of its various stakeholders. Our objective is to be an industry leader in responsible energy supply.

To help us get there, we further refined our CR strategy and programs and defined clear targets and initiatives for 2008–2010. We established Group-wide standards and policies and integrated them into central aspects of our corporate strategy. We also analyzed and evaluated the risks associated with key CR areas such as marketplace, community, climate protection, environmental protection, health management, and occupational safety. In addition, we rolled out specific projects and programs to promote CR in these core areas and to further sharpen E.ON's CR profile.

Our performance in ratings and rankings in 2008 again demonstrates that we are on the right course. Our most important success was our inclusion, for the second year in a row, in the Dow Jones Sustainability Index, the world's leading index of its kind. We were also included, for the first time, in the Carbon Disclosure Leadership Index, which evaluates companies for the transparency of their environmental disclosures and their efforts to reduce their carbon emissions. Our showing in these rankings sends an important signal to capital markets and to the increasing number of investors who factor sustainability criteria into their investment decisions.

More information about our CR efforts is available at [www.eon.com/responsibility](http://www.eon.com/responsibility), where you will also find our CR publication, which will be released in May 2009. This information is not to be considered part of the Combined Group Management Report.

## Risk Management System

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 Group-wide guidelines and reporting systems; our standardized Group-wide strategy, planning, and controlling processes; Internal Audit activities; the separate Group-wide 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 in a timely manner. We continually review our Group-wide planning, controlling, and reporting processes to ensure that 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, the E.ON Group has a Risk Committee. 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 main 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. In connection with the current economic crisis, E.ON faces risks from declining demand, primarily from industrial and commercial customers who, increasingly, are cutting their production. In addition, the entry of new suppliers into the marketplace along with more aggressive tactics by existing market participants has created a keener competitive environment for our electricity business in and outside Germany which could reduce our margins. E.ON Ruhrgas also faces risks associated with increased competitive pressure 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 Group-wide guidelines and Group-wide 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. The creation of E.ON Energy Trading has enabled us to systematically combine and consistently manage price risks on Europe's liquid commodity markets.

We mainly use electricity, gas, coal, carbon emission, and oil price hedging transactions to limit our exposure to risks resulting from price fluctuations, to optimize systems and load balancing, and to lock in margins. We also engage in proprietary commodity trading in accordance with detailed guidelines and within narrowly defined limits.

## Financial Risks

We also use systematic risk management to manage our interest-rate and currency risks. Detailed information about this can be found in Note 31 to the Consolidated Financial Statements.

Furthermore, there are potential risks due to possible changes in the value of short-term and long-term securities. We manage these through appropriate asset management.

E.ON's operating activities and use of derivative financial instruments expose E.ON to credit default risks. We use a Group-wide 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.

In addition, E.ON also faces risks from price changes and losses on the short-term and long-term investments it makes to cover its long-term obligations, particularly pension and asset-retirement obligations. The foundation of our risk management in this area is a conservative investment strategy and a broadly diversified portfolio. This does not enable us to avoid risks to our portfolio (such as those arising from the financial crisis), but it does enable us to significantly reduce the extent of their impact.

Even E.ON is not entirely unaffected by the current financial environment. Although the energy industry is largely non-cyclical, production declines in cyclical industries could, over time, have a negative impact on our business. In addition, declining valuations and increased volatility could require us to write down the value of some of our financial assets. Furthermore, some of our business partners could default on their payments to us. We are addressing the increase in counterparty risk by stepping up our risk-management efforts, particularly with regard to financial institutions.

Public credit markets are also significantly more volatile than in recent years. Compared with other companies, E.ON has good access to capital markets. But we, too, are witnessing a widening of credit spreads despite our stable A rating. On balance, the financial crisis has so far had no adverse effects on the E.ON Group's refinancing costs, with wider credit spreads being offset by sharply lower nominal interest rates.

Up to now, E.ON, with its very good creditworthiness, has had no trouble accessing debt markets. 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 that materially affect our business.

In addition, there can be no assurances that we will be able to achieve the returns 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 sales 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 substantial 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 electricity operations in and outside Germany could experience unanticipated operational 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, processes, 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 anti-competitive practices. Court actions, governmental investigations, 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.

### Incentive-Based Regulation

Pursuant to the relevant ordinance, network charges in Germany are set in accordance with the incentive-based regulation system effective January 1, 2009. In the benchmarking conducted by the German Federal Network Agency (known by its German acronym, "BNetzA"), E.ON network operators already average close to 100-percent efficiency. Nevertheless, it is not clear to what degree cost increases that have occurred since the benchmarking will be recoverable under the revenue caps.

### Market-Based Network Charges

E.ON Gastransport ("EGT") sets market-based network charges. On September 22, 2008, the BNetzA issued a ruling forbidding this practice. EGT responded by filing a motion to contest this ruling. If the motion is not successful, EGT will be migrated to incentive-based regulation effective January 1, 2010.

After conducting searches at the premises of energy companies across Europe in 2006, the European Commission is investigating E.ON Ruhrgas regarding possible infringements in the gas transport sector. 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. The Commission ended its investigations in the electricity sector by issuing a commitment decision on November 26, 2008, under which E.ON will divest its transmission system and a certain amount of generating capacity.

OFGEM, the U.K. utility regulator, is currently conducting an investigation of allegedly unfair pricing practices in the electricity and gas retail segments in the United Kingdom. The investigation affects all market participants, including E.ON UK. If OFGEM achieves its objective, prices will have to be more cost-based instead of market-based. This would pose risks to the further development of competition in the U.K. retail segment.

### Other Issues

At the request of the Federal Association of New Energy Suppliers (known by its German abbreviation, "bne") and LichtBlick, the BNetzA has initiated regulatory proceedings against Germany's four electric transmission system operators ("TSOs"), including E.ON Netz. Lichtblick and the bne are demanding that the agency require the four TSOs to jointly net out their balancing zones and to disgorge any additional earnings that have been received by the suppliers of balancing energy. There appears to be no legal basis for this demand.

On February 2, 2009, the German Federal Cartel Office ("FCO"), as part of a sector inquiry, sent EGT and E.ON Avacon a demand for information regarding the capacity situation in Germany's gas transport pipeline system. The two companies are currently preparing their response. The FCO is demanding information about how capacity is booked, used, and awarded and about the open-season process. Anticompetitive practices proceedings are possible if the sector inquiry yields sufficient initial suspicion.

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 with Gazprom. In addition, E.ON Ruhrgas currently obtains natural gas from five other supply countries, giving it one of the most diversified gas procurement portfolios in Europe. Certain past events in some Eastern European countries have heightened concerns in parts of Western Europe about the reliability of Russian gas supplies, even though Russia has always been a very reliable supplier. 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 E.ON Ruhrgas's control.

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. 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. Sales 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. Our Nordic market unit also could be negatively affected by a lack of precipitation, which could lead to a decline in hydroelectric generation. 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 risk situation of the E.ON Group's operating business changed relative to the prior year due to the current economic environment. In particular, sustained low price levels in commodity markets and a lasting and significant reduction in demand, particularly from industrial customers, could, over the medium term, have a substantial impact on the E.ON Group's earnings situation. From today's perspective, however, we do not perceive any risks in the future that would threaten the existence of the E.ON Group or individual market units.

## Macroeconomic Situation

The German Council of Economic Experts ("GCEE"), while stressing the significant uncertainty of forecasts in the current economic environment, generally sees downside risk for 2009 and therefore does not anticipate an economic turnaround. It expects the downturn to worsen in mature economies (with no upward momentum in sight) and growth to slacken in emerging economies. The effects of the financial crisis on lending constitute the largest uncertainty factor.

The GCEE expects economic growth in the EU27 to be significantly weaker in 2009. Above-average GDP growth is forecast for some EU countries relevant for our operations (Sweden, the Netherlands), zero growth for Germany, and negative growth for the United Kingdom, Italy, and Spain. Russia is expected to experience a significant economic slowdown due to the financial crisis and to declining revenues from commodity exports. Economic weakness and lower energy prices will lead to lower inflation in the United States and the EU relative to 2008.

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

The so-called green package adopted by the European Union in December 2008 will also affect our industry's future development. Its targets for 2020 are for Europe to:

- reduce its greenhouse-gas emissions by 20 percent
- enhance its energy efficiency by 20 percent
- expand renewables so that they meet 20 percent of total energy consumption.

Substantial uncertainty currently surrounds forecasts of CO<sub>2</sub> emission allowance prices due to the decision to auction all allowances and the numerous exceptions to this rule. The long-term development of allowance prices will be determined primarily by the way emissions trading is handled on a global scale.

Industry observers are forecasting a stabilization of energy prices, which recently declined in the wake of the financial and economic crisis. 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, renewables play an increasingly important role and deliver a continually increasing share of the energy supply. The binding European and national targets for expanding renewables will place demands on system integration that are becoming a growing challenge for the energy industry.

## Efficiency-Enhancement Program

Under the name "Perform-to-Win," we are preparing to implement a comprehensive program designed to make the E.ON Group even more competitive. It consists of measures aimed at improving our efficiency and productivity, cutting costs in specific areas, optimizing our organizational structures and business processes, and eliminating redundant tasks and unnecessary bureaucracy. The measures, which will affect all links of the energy value chain and all operating entities, are

now being worked out in detail and checked for their practicability. We estimate the improvement potential of the entire package of measures at up to €1.5 billion through 2011. Perform-to-Win will help us reach our ambitious objectives despite the impact of the financial and economic crisis and enable us to continue our positive development.

Some of the measures will be relevant across the E.ON Group. These include measures affecting procurement and IT and measures to reduce complexity in administrative areas.

Other measures will be aimed at specific operational entities. Examples include measures to improve the capacity factor of Nordic's nuclear power stations, to optimize U.K.'s entire retail operation, to market Pan-European Gas's storage capacity, and to integrate our power and gas sales businesses in Germany.

Our aim is for Perform-to-Win improve the E.ON Group's underlying ability to continue to develop at a high level and to achieve further value-enhancing growth.

## Employees

The number of employees in the E.ON Group (excluding trainees, board members, and managing directors) is expected to decline by year-end 2009. This is mainly due to integration and efficiency-enhancement measures in Eastern Europe and Russia, divestments in our U.K. services business, and the disposal of shareholdings in power plants in Italy. We also cannot completely rule out the possibility that the implementation of Perform-to-Win will affect our employee numbers in the future.

## Earnings

The forecast for the E.ON Group's 2009 earnings development is subject to significantly more uncertainty than forecasts of previous years. This is mainly because it is difficult to predict the direction the global financial and economic crisis will take and because it is not possible at this time to definitively quantify the earnings impact of the disposal of roughly 5,000 MW of generating capacity under our agreement with the European Commission. At the same time, as part of the Perform-to-Win program, we are examining a variety of

measures aimed at further reducing our costs and improving our efficiency and productivity. In view of these factors, we currently expect the E.ON Group's 2009 adjusted EBIT to match the high prior-year figure, although we do not expect all of our market units to contribute equally to this target.

We expect 2009 adjusted net income to decline by around 10 percent relative to the prior year. This is mainly due to higher interest expenses resulting from the planned increase in our debt, which we have taken on in part to tap growth markets. We intend to stand by our dividend payout ratio of 50 to 60 percent of adjusted net income.

Our forecast by market unit:

We expect Central Europe's 2009 adjusted EBIT to surpass the prior-year figure. Significant adverse effects resulting from the regulation of electricity networks along with adverse effects from the ongoing shutdowns of Krümmel and Brunsbüttel nuclear power stations will be more than offset by the positive development of the generation business.

We expect Pan-European Gas's 2009 adjusted EBIT to be below the prior-year number, resulting in particular from the narrowing of margins in the midstream business due to price and competition factors. We also expect lower earnings in the upstream business due to the current development of gas and oil prices.

We expect U.K.'s 2009 adjusted EBIT to be lower than in 2008, due primarily to the transfer of further activities to Energy Trading and anticipated negative currency-translation effects. The key challenges for U.K. during 2009 are dealing with energy-price volatility, ensuring that it meets its carbon-reduction targets, and managing the current economic conditions.

We expect Nordic's 2009 adjusted EBIT to be below the 2008 figure. This is primarily a result of the sale of one third of Nordic's hydroelectric capacity to Statkraft at the end of 2008. In addition, power upgrades and modernization measures will reduce the availability of Nordic's nuclear fleet in 2009. We also expect currency-translation effects to adversely impact Nordic's adjusted EBIT.

We expect U.S. Midwest's 2009 adjusted EBIT to be consistent with the prior year, with an anticipated decline in retail sales resulting from current economic conditions largely offset by a stronger dollar.

We expect Energy Trading's 2009 adjusted EBIT to be lower than the 2008 number, mainly due to the declining energy prices seen since the fourth quarter of 2008. Additionally, we do not expect Energy Trading to repeat its exceptional 2008 proprietary trading result.

Adjusted EBIT of the New Markets segment will surpass the prior-year figure. Climate & Renewables will benefit from a significant increase in its generating capacity. At the Russia market unit, the positive expectations of market liberalization will be dampened by the effects, which at this time are not fully apparent, of the financial crisis on Russia's real economy. In the case of Italy and Spain, it is important to remember that the Endesa operations in Italy and the Spain market unit were not consolidated until the second half of 2008. In addition, the non-recurring effects relating to the accounting treatment of CO<sub>2</sub> emission allowances that adversely impacted adjusted EBIT in 2008 will not be repeated in 2009. For both Italy and Spain, however, it remains to be seen how planned political measures will affect future business development in these markets.

## Economic Investments

Our investment plan reflects the implementation of the growth program we announced on Capital Market Day in May 2007. Our acquisition of operations from Enel/Acciona and Endesa and our asset swap with Statkraft largely conclude the external

growth portion of this program. In 2009, we will focus on organic growth aimed at cementing and expanding our strong market positions in power and gas. E.ON plans to invest a total of €13 billion in 2009. In view of the current economic environment, we have intensified the ongoing review of our investment program so that we can respond swiftly to new developments.

Economic Investments <sup>1</sup> : 2009 Plan		
	€ in billions	Percentages
Central Europe	3.9	30
Pan-European Gas	4.5	35
U.K.	0.9	7
Nordic	0.9	7
U.S. Midwest	0.5	4
Energy Trading	-	-
New Markets	2.2	17
Corporate Center/Other	0.1	-
<b>Total</b>	<b>13.0</b>	<b>100</b>

<sup>1</sup>Cash-effective capital investments plus debt acquired and asset swaps.

## Financial Situation

For the period 2007-2010, we intend to take on a total of approximately €30 billion in debt at the Group level. This includes the refinancing of bonds existing at the start of this period. We aim to achieve a broad mix of different markets, investors, currencies, and maturities. From the beginning of the financing program through year-end 2008, E.ON had issued a total of about €19 billion in bonds and promissory notes. Despite the financial crisis, we expect to be able to successfully continue our financing program in 2009.

Our successful start in 2009 supports this expectation. In January and February, we placed a total of €5.4 billion in bonds and promissory notes denominated in euros, pounds sterling, and Swiss francs. This enabled us to issue a public buyback offer to repurchase, prior to the maturity date, €1.54 billion of a €4.25 billion bond that matures in May 2009. This saves us interest costs, reduces our credit-risk exposure (by enabling us to avoid short-term depositing), and smoothes out the maturity profile of our portfolio ahead of schedule.

## Opportunities

Based on Group-wide 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 foreign-currency rates and market prices for commodities (electricity, natural gas, coal, oil, and carbon) can create opportunities for our business.

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 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 and of the availability and utilization of our power and gas facilities 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.

The E.ON procurement network enables us to achieve considerable synergies by aggregating volume for the procurement of investment goods, materials, and services. The Group-wide transfer of best practices enables us to achieve further cost reductions, primarily through the comparison of material and performance specifications and through uniform procurement processes. Already in 2008, the centralization of procurement responsibility for new-build investments in the New Build unit and the Climate & Renewables market unit played a decisive role in ensuring that the huge cost increases in the procurement market for large components only had a limited effect on the costs of the E.ON Group's new-build projects.

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 operating business to develop positively in 2010, as well. From today's perspective, we are unable to issue a reliable forecast for 2010 due to uncertainty surrounding economic, foreign-currency, regulatory, technological, and competition-related developments. The effects of the financial crisis and their influence on the global economy are a significant source of uncertainty.

This compensation report describes the compensation system and the individual compensation for E.ON AG's Supervisory Board and Board of Management. It 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 determined by the Annual Shareholders Meeting and 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.

The three-for-one stock split that took place in 2008 did not affect the Supervisory Board's compensation system. The following description deviates from the prior-year description only where adjustments were necessary to neutralize the effects of the stock split.

**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 €345.00 for each 1 euro cent of per-share dividend paid out to shareholders in excess of 3 1/3 euro cents per no-par share for the relevant financial year.

**Long-term variable compensation:** furthermore, Supervisory Board members receive variable compensation of €210.00 for each 1 euro cent of the three-year average of the E.ON Group's consolidated net income per share (attributable to shareholders of E.ON) in excess of 76 2/3 euro cents. To adjust for the stock split, net income per share for 2006 and for 2007 will be divided by three to calculate the three-year average.

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 membership. 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 D&O 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 its 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 May 6, 2009, approves the proposed dividend, the total compensation of the members of the Supervisory Board will amount to €4.5 million (2007: € 4.5 million).

No loans were outstanding or granted to Supervisory Board members in the 2008 financial year. The members of the Supervisory Board are listed on pages 158 and 159.

Compensation of the Supervisory Board 2008					
€	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Supervisory Board compensation from affiliated companies	Total
Ulrich Hartmann	165,000	151,800	97,090	-	413,890
Hubertus Schmoldt	110,000	101,200	64,727	-	275,927
Werner Bartoschek (since April 30, 2008)	61,875	56,925	36,409	57,000	212,209
Dr. Karl-Hermann Baumann (until April 30, 2008)	36,667	33,733	21,576	-	91,976
Sven Bergelin	55,000	50,600	32,363	70,380	208,343
Dr. Rolf-E. Breuer (until April 30, 2008)	18,333	16,867	10,788	-	45,988
Gabriele Gratz	82,500	75,900	48,545	101,000	307,945
Wolf-Rüdiger Hinrichsen	64,167	59,033	37,757	-	160,957
Ulrich Hocker	55,000	50,600	32,363	-	137,963
Eva Kirchhof (until April 30, 2008)	18,333	16,867	10,788	-	45,988
Prof. Dr. Ulrich Lehner	82,500	75,900	48,545	-	206,945
Dr. Klaus Liesen (until April 30, 2008)	18,333	16,867	10,788	-	45,988
Bård Mikkelsen (since April 30, 2008)	41,250	37,950	24,273	-	103,473
Erhard Ott	75,625	69,575	44,500	35,750	225,450
Hans Prüfer	75,625	69,575	44,500	-	189,700
Klaus Dieter Raschke	82,500	75,900	48,545	54,062	261,007
Dr. Walter Reitler (since April 30, 2008)	41,250	37,950	24,273	26,813	130,286
Dr. Henning Schulte-Noelle	82,500	75,900	48,545	-	206,945
Dr. Karen de Segundo (since April 30, 2008)	41,250	37,950	24,273	-	103,473
Dr. Theo Siegert	96,250	88,550	56,636	-	241,436
Prof. Dr. Wilhelm Simson	55,000	50,600	32,363	-	137,963
Gerhard Skupke (until April 30, 2008)	18,333	16,867	10,788	4,452	50,440
Dr. Georg Freiherr von Waldenfels	55,000	50,600	32,363	-	137,963
Werner Wenning (since April 30, 2008)	59,583	54,817	35,060	-	149,460
Hans Wollitzer	75,625	69,575	44,500	56,950	246,650
<b>Subtotal</b>	<b>1,567,499</b>	<b>1,442,101</b>	<b>922,358</b>	<b>406,407</b>	<b>4,338,365</b>
Attendance fees and meeting-related reimbursements					171,500
<b>Total</b>					<b>4,509,865</b>

## Compensation System for Members of the Board of Management

The Code dated June 6, 2008, contains new guidelines that became applicable after its publication on August 8, 2008. In accordance with these guidelines, the Supervisory Board, based on the recommendation of the Supervisory Board's Executive Committee, determines the Board of Management's compensation system including its major contractual components and reviews this system on a regular basis. The Supervisory Board passed a resolution approving the compensation system described below at its meeting on December 15, 2008. In the future, the review will take place on a regular basis. As a rule, this will be every three years unless special circumstances render an earlier review necessary.

### Components of the Compensation System

The compensation of the members of the Board of Management is 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 by the Supervisory Board's Executive Committee 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 under the E.ON Share Performance Plan. The value of the performance rights allocated under the plan is based on the performance of E.ON's stock price, both in absolute terms and relative to the Dow Jones STOXX Utility Index (Return EUR). This compensation is designed to reward Board of Management members 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.

Note 11 to the Consolidated Financial Statements contains a detailed description of stock-based compensation.

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.

### Contractual Non-Cash Compensation

Under their contracts, Board of Management members receive non-cash compensation in the form of a chauffeur-driven company car for business and personal use, telecommunications equipment for business and personal use, appropriate insurance coverage, and an annual medical examination.

### Settlement Cap for Premature Termination of Board of Management Duties

In accordance with the Code, a settlement cap has been included in the service agreements for each of the three members reappointed to the Board of Management after August 8, 2008. Under the cap, payments to a Board of Management member for a premature termination of Board of Management duties without significant cause within the meaning of Section 626 of the German Civil Code may not exceed the value of two years' total compensation or the total compensation for the remainder of the member's service agreement, whichever is less.

Settlement caps are not mandatory for Board of Management members reappointed before the new Code took effect. Nevertheless, Dr. Teysen voluntarily had a settlement cap added to his service agreement. Dr. Bernotat's service agreement does not need to be amended to conform with the new Code's recommendations because its remaining term is less than two years.

### Change-in-Control Clauses

The Company had change-in-control agreements with all Board of Management members in the 2008 financial year. In the event of a premature loss of a Board of Management position due to a change-in-control event, Board of Management members are entitled to severance and settlement payments.

The change-in-control agreements stipulate that a change in control exists in three cases: 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; the Company, as a dependent entity, concludes a corporate agreement; the Company is merged with another company. A Board of Management member is entitled to severance and settlement pay if, within 12 months of the change in control, his or her service agreement is terminated by mutual consent, expires, or is terminated by the Board member (in the latter case, however, only if his or her position on the Board is materially affected by the change in control).

In accordance with the Code, the settlement payments for the three Board of Management members reappointed after August 8, 2008, are equal to 150 percent of the settlement cap; that is, the capitalized amount of three years' total annual compensation (annual base salary, annual target bonus, and other compensation). To reflect discounting and setting off of 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 Code does not require that Board of Management members reappointed before the new Code took effect be subject to settlement caps in the case of a change-in-control event. Nevertheless, Dr. Teyssen voluntarily accepted a 150-percent settlement cap. The cap cannot be exceeded in the case of Dr. Bernotat either because his service agreement, although concluded under the old rules, has a remaining term of less than two years. Under E.ON's previous rules, the settlement payments are equal to the capitalized amount of the Board member's total annual compensation for the remaining term of the service agreement or for at least three years. The previous rules also include the above-described 20-percent reduction to reflect payment for services rendered to other companies or organizations.

### Pension Entitlements

Following the end of their service for the Company, Board of Management members are entitled to receive pension payments in three cases: departure on and after reaching the standard retirement age (60 years); departure due to permanent incapacitation; departure due to their service agreement being terminated prematurely or not extended by the Company (a so-called third pension situation).

In the first two cases (reaching the standard retirement age, permanent incapacitation), pension payments begin when a member departs the Board of Management for one of these reasons; annual pension payments are equal to between 50 percent and 75 percent of the member's last annual base salary.

In the third case, annual pension payments are also equal to 50 percent and 75 percent of the last annual base salary and begin when the member reaches the age of 61. Members who depart the Board of Management in this way receive a reduced pension as a bridge payment from the date of their departure until they reach the age of 61 if they had, at the time of their departure, been in a Top Management position in the E.ON Group for more than five years and if the termination or non-extension of their service agreement is not due to their misconduct or rejection of an offer of extension that is at least on a par with their existing service agreement. The amount of the bridge payment is also initially between 50 percent and 75 percent of the last annual base salary based on the length of service on Board of Management. This amount is then reduced by the ratio between the actual and potential length of service in a Top Management position in the E.ON Group until the standard retirement age. In contrast to this, the service agreements the Company concluded before the 2006 financial year do not include reductions to the bridge payment.

If a recipient of pension payments (or bridge payments) is entitled to pension payments or bridge payments stemming from earlier employment, 100 percent of these payments will be set off against his or her pension or bridge payments from the Company. In addition, 50 percent of income from other employment will be set off against bridge payments.

Pension payments are adjusted on an annual basis to reflect changes in the German consumer price index.

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 an allowance equal to 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 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.

The following table provides an overview of the current pension obligations to Board of Management members. In line with the Code's recommendations, the table also includes the additions to provisions for pensions for each member. 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, 2008		Additions to provisions for pensions in 2008	
	As a percentage of annual base salary	(in €)	(in €)	Thereof interest cost (in €)
Dr. Wulf H. Bernotat	70	868,000	1,412,438	538,929
Dr. Johannes Teyssen	70	700,000	516,634	258,111
Dr. Burckhard Bergmann <sup>1</sup>	-	-	116,077	116,077
Christoph Dänzer-Vanotti <sup>2</sup>	50	375,000	757,918	89,983
Lutz Feldmann	60	450,000	414,532	216,071
Dr. Marcus Schenck <sup>2</sup>	50	375,000	302,963	17,107

<sup>1</sup>Entered retirement on March 1, 2008.  
<sup>2</sup>Pension entitlement not yet vested.

## Compensation of the Members of the Board of Management

The Supervisory Board's Executive Committee, which is responsible for adjusting the fixed and variable compensation components, made no general adjustments to the amount of compensation, although it did make an individual adjustment

to the salary of Dr. Teyssen on his appointment as Vice Chairman of the Board of Management effective March 1, 2008. In the case of Mr. Dänzer-Vanotti, Mr. Feldmann, and Dr. Schenck, the compensation level of 80 percent of the compensation of a regular Board of Management member ended effective January 1, 2008.

The total compensation of the members of the Board of Management in the 2008 financial year amounted to €18.9 million (2007: €20.4 million). Individual members of the Board of Management were paid the following total compensation:

Compensation of the Board of Management 2008						
€	Fixed annual compensation	Annual bonus	Other compensation	Fair value of 3rd tranche of performance rights	Total	Number of 3rd tranche performance rights granted
Dr. Wulf H. Bernotat	1,240,000	2,570,000	33,685	1,215,613	5,059,298	9,908
Dr. Johannes Teyssen	958,333	1,990,000	255,701	926,678	4,130,712	7,553
Dr. Burckhard Bergmann (until February 29, 2008)	125,000	295,000	4,686	120,114	544,800	979
Christoph Dänzer-Vanotti	750,000	1,570,000	9,804	720,436	3,050,240	5,872
Lutz Feldmann	750,000	1,570,000	41,280	720,436	3,081,716	5,872
Dr. Marcus Schenck	750,000	1,570,000	37,719	720,436	3,078,155	5,872
<b>Total</b>	<b>4,573,333</b>	<b>9,565,000</b>	<b>382,875</b>	<b>4,423,713</b>	<b>18,944,921</b>	<b>36,056</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 and for the fees of a real-estate broker.

The performance rights granted in 2008 as the third tranche of the E.ON Share Performance Plan were quoted at their fair value of €122.69 per right on the date of their issuance and were included in Board of Management members' total compensation. This fair value is determined by means of a recognized option-pricing model (a Monte Carlo simulation based on a two-dimensional Black-Scholes model).

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 its performance equals the performance of the benchmark index. In 2008, the target value of the rights issued was €1.35 million for the Chairman of Board of Management, €1.03 million for the Vice Chairman of Board of Management, and €0.8 million for regular Board of Management members.

The German Commercial Code (Section 314, Paragraph 1, Item 6a, Sentence 9) requires supplemental disclosure, by year, of the Company's expenses for all tranches granted in 2008 and in previous years and for tranches existing in 2008. The following income in accordance with IFRS 2, Share-Based

Payment, was recorded for the 2008 financial year: Dr. Bernotat €1.3 million, Dr. Bergmann €0.1 million. For the same period, expenses were recorded for Dr. Teyssen €0.1 million, Mr. Dänzer-Vanotti €0.1 million, Mr. Feldmann €0.2 million, and Dr. Schenck €0.2 million.

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

No loans were outstanding or granted to members of the Board of Management in 2008 financial year.

Page 163 contains 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 €7.6 million in 2008 (2007: €6.6 million).

Provisions of €110.4 million (2007: €97.4 million) have been provided for pension obligations to former Board of Management members and their beneficiaries.

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

#### Composition of Share Capital

The share capital totals €2,001,000,000.00 and consists of 2,001,000,000 registered 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. 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 consists of at least two members. The appointment of deputy Board of Management members is permissible. The Supervisory Board decides on the number of members as well as on their appointment and dismissal.

The Supervisory Board appoints members to the Board of Management for a term not exceeding five years; a member may be appointed for another term of office or a member's term of office may be extended for an additional term not exceeding five years. If more than one person is appointed as member 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 makes 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 requires a resolution of the Shareholders Meeting. Resolutions of the Shareholders Meeting 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 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 April 30, 2008, the Board of Management is authorized, until October 30, 2009, to acquire own shares up to a total of 10 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 10 percent of the Company's share capital.

At the Board of Management's discretion, the acquisition may be conducted:

- through a stock exchange
- by means of a public offer directed at all shareholders or a public solicitation to submit offers
- by means of a public offer or a public solicitation to submit offers for the exchange of liquid shares that are admitted to trading on an organized market for Company shares
- by use of derivatives (put or call options or a combination of both).

These authorizations may be utilized on one or several occasions, in whole or in partial amounts, in pursuit of one or more objectives by the Company and also by affiliated companies or by third parties for the Company's account or its affiliates' account.

With regard to treasury shares that will be or have been acquired based on the above-mentioned authorization and/or prior authorizations by the Shareholders Meeting, the Board of Management is authorized, subject to the Supervisory Board's consent and excluding shareholder subscription rights, to use these shares—in addition to a disposal through a stock exchange or an offer granting a subscription right to all shareholders—as follows:

- to be sold and transferred against cash consideration
- to be sold and transferred against contribution in kind
- to be used in order to satisfy the rights of creditors of bonds with conversion or option rights or, respectively, conversion obligations issued by the Company or its group companies.
- to be offered for purchase and transferred to individuals who are employed by the Company or one of its affiliates.

These authorizations may be utilized on one or several occasions, in whole or in partial amounts, separately or collectively by the Company and also by Group companies or by third parties for the Company's account or its affiliates' account.

In addition, the Board of Management is authorized to cancel treasury shares, without such cancellation or its implementation requiring an additional resolution by the Shareholders Meeting.

In each case, the Board of Management will inform the Shareholders Meeting about the reasons for and the purpose of the acquisition of treasury shares, the number of treasury shares acquired, the amount of the registered share capital attributable to them, the portion of the registered share capital represented by them, and their equivalent value.

Pursuant to Section 3, Paragraph 2 of the Articles of Association, the Board of Management is authorized, subject to the Supervisory Board's consent, to increase the Company's share capital until April 27, 2010, by up to €540,000,000 by issuing new registered 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. The Board of Management is authorized, subject to the Supervisory Board's consent, to decide whether to exclude shareholder subscription rights.

There is currently no authorization by the Shareholders Meeting for the use of conditional capital pursuant to Section 3, Paragraph 3 of the Articles of Association.

### 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/September 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 to a third party all shares in Ruhrgas AG held by E.ON or its affiliated companies 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 ("Auales") contain change-of-control clauses that give the creditor the right of cancellation. In addition, the bonds issued in 2007 and 2008 by E.ON International Finance B.V. and guaranteed by E.ON contain a standard change-of-control clause that is considered good corporate-governance practice. Further information about credit and guarantee facilities and about bonds is contained in the Combined Group Management Report on pages 36-37 and in Note 26 to the Consolidated Financial Statements.

### 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-of-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					
€ in millions	Note	December 31			
		2008	2008	2007	2007
Intangible assets	(1)		10.1		15.0
Property, plant and equipment	(1)		145.2		142.3
Financial assets					
Shares in affiliated companies	(2)		25,755.8		26,714.1
Other financial assets	(3)		1,807.5		953.2
<b>Fixed assets</b>	(4)		<b>27,718.6</b>		<b>27,824.6</b>
Receivables and other assets					
Receivables from affiliated companies	(5)		39,852.4		20,466.0
Other receivables and assets	(6)		3,436.0		2,289.4
Securities	(7)		241.4		240.8
Liquid funds	(8)		414.9		1,634.6
<b>Non-fixed assets</b>			<b>43,944.7</b>		<b>24,630.8</b>
<b>Accrued expenses</b>	(9)		<b>99.9</b>		<b>38.8</b>
<b>Total assets</b>			<b>71,763.2</b>		<b>52,494.2</b>
Capital stock	(10)	2,001.0		1,734.2	
Computed value of shares purchased for retirement		-82.6		-7.7	
Issued capital			1,918.4		1,726.5
Conditional capital: €175.0 million (by April 30, 2008)					
Additional paid-in capital	(11)		5,865.7		6,132.5
Retained earnings	(12)		834.3		3,627.3
Net income available for distribution	(13)		2,856.8		2,589.6
<b>Stockholders' equity</b>	(14)		<b>11,475.2</b>		<b>14,075.9</b>
<b>Reserves subject to future taxation</b>	(15)		<b>393.0</b>		<b>414.2</b>
Provision for pensions		350.1		328.4	
Indemnification claim ("Freistellungsanspruch")		-308.8		-310.2	
	(16)		41.3		18.2
Provision for taxes	(17)		3,188.5		2,365.3
Other provisions	(18)		964.0		807.6
<b>Provisions</b>			<b>4,193.8</b>		<b>3,191.1</b>
Bank loans			3,245.2		802.2
Liabilities to affiliated companies			42,902.5		30,388.1
Other liabilities			9,538.4		3,620.0
<b>Liabilities</b>	(19)		<b>55,686.1</b>		<b>34,810.3</b>
<b>Deferred income</b>			<b>15.1</b>		<b>2.7</b>
<b>Total stockholders' equity and liabilities</b>			<b>71,763.2</b>		<b>52,494.2</b>

Income Statement of E.ON AG			
€ in millions	Note	January 1-December 31	
		2008	2007
Income from equity interests	(20)	4,996.8	7,244.0
Interest income (net)	(21)	-965.0	-557.2
Other operating income	(22)	7,931.8	4,265.1
Personnel expenses	(23)	-116.1	-124.4
Depreciation and amortization of intangible assets and property, plant and equipment		-12.5	-12.0
Write-downs of financial assets and current securities	(24)	-10.2	-21.8
Other operating expenses	(25)	-7,910.5	-4,357.1
<b>Pretax income</b>		<b>3,914.3</b>	<b>6,436.6</b>
Taxes	(26)	-1,025.3	-1,320.6
<b>Net income</b>		<b>2,889.0</b>	<b>5,116.0</b>
Profit brought forward		29.5	-
Income from capital reduction		-	65.0
Net income transferred to retained earnings	(12)	-61.7	-2,526.4
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>2,856.8</b>	<b>2,589.6</b>

## Notes to the Financial Statement of E.ON AG for the 2008 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 25 years. Depreciation on movable fixed assets is generally calculated over the useful life permitted 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 with an acquisition cost of up to 150 euros are depreciated in full in the year of their addition. For additions to assets taking place after January 1, 2008, a collective item is created if the acquisition costs are more than 150 euros but less than 1,000 euros. The respective collective item is depreciated in the year it is created and over the following four financial years at one fifth each year with effect on income.

Shares in affiliated companies and equity interests are generally valued at acquisition cost or lower adjusted value as necessary. Contributions and mergers are stated at book value or at current value. Interest-bearing loans are shown at nominal value, long-term 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 discernable 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, current bank balances and short-term receivables and payables as well as contingencies are translated at the exchange rate valid as of the balance sheet date. Other foreign-currency items are valued at the exchange rate valid on the transaction date, taking into account the lower-of-cost-or-market principle on the balance sheet date. If underlying transactions are combined with hedges to form closed positions, 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 which are set up for each currency separately by 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 models.
- 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 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 ordered from the Corporation is recorded as a reclassification under reserves subject to future taxation. Transfers of tax-free reserves subject to future taxation to replacement assets of partnerships in which E.ON is proprietor are reversed with effect on income.

Pension obligations are 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. In addition, a salary trend of 2.75 percent and pension dynamics of 1.5 percent p.a. was also used as a basis. The standard tables of "Heubeck 2005G" were used in the calculation.

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 excess is not recognized in accordance with the discretionary treatment of such cases allowed under 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 are essentially unchanged from the previous year. They exclusively consist of capitalized software.

Disposals of property, plant and equipment primarily relate to fully amortized technical facilities and machinery as well as plants, operating and office equipment.

### (2) Shares in Affiliated Companies

In the year under review, €1,169.7 million in additions and €2,138.4 million in disposals were recognized for shares in affiliated companies.

€500.0 million of the additions are mainly attributable to the increase in additional paid-in capital of E.ON Italia S.p.A. and a further €351.2 million to the conversion of loans in additional paid-in capital of said company. In addition, €200.0 million were paid into the additional paid-in capital of the E.ON Gruga Objektgesellschaft mbH & Co. KG. A further €90.7 million concern the conversion of loans to E.ON Sechzehnte Verwaltungs GmbH into additional paid-in capital.

Disposals of €1,145.7 million concern mainly the repayment of the additional paid-in capital of E.ON UK Holding GmbH and disposals of €985.1 million concern the withdrawal of capital from the Nordel Holding GmbH & Co. KG.

In the year under review, depreciation concerned primarily an expected permanent reduction in value of the shareholdings in Induboden GmbH & Co. Industrierwerte oHG in the amount of €4.6 million.

In the year under review, a €17.7 million write-up was entered into the books in accordance with Sec. 280, Para. 1 of the German Commercial Code due to positive earnings trends of two affiliated companies.

A list of E.ON AG's shareholdings as of December 31, 2008, 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 €1,798.9 million are included in other financial assets.

#### (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										
€ in millions	Acquisition and production costs				2008	Accumulated depreciation and write-downs December 31 2008	Book value		Depreciation and write-downs 2008 financial year	Write-ups in 2008 financial year
	January 1, 2008	Additions	Disposals	Transfers			2008	2007		
	Licenses, commercial and similar rights	27.1	0.1	-			-	27.2		
<b>Intangible assets</b>	<b>27.1</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>27.2</b>	<b>17.1</b>	<b>10.1</b>	<b>15.0</b>	<b>5.0</b>	<b>-</b>
Real estate, leasehold rights and buildings, including buildings on land owned by third parties	153.9	0.6	1.1	-	153.4	32.3	121.1	126.2	5.0	-
Technical equipment, plant and machinery	9.8	-	7.2	-	2.6	0.3	2.3	2.4	0.1	-
Other plant, fixtures, furniture and office equipment	31.0	2.5	4.4	-	29.1	19.4	9.7	10.0	2.4	-
Advance payments and construction in progress	3.7	8.4	-	-	12.1	-	12.1	3.7	-	-
<b>Property, plant and equipment</b>	<b>198.4</b>	<b>11.5</b>	<b>12.7</b>	<b>-</b>	<b>197.2</b>	<b>52.0</b>	<b>145.2</b>	<b>142.3</b>	<b>7.5</b>	<b>-</b>
Shares in affiliated companies	27,308.8	1,169.7	2,138.4	-120.2	26,219.9	464.1	25,755.8	26,714.1	8.4	17.7
Long-term loans to affiliated companies	943.4	854.4	-	-	1,797.8	-	1,797.8	943.4	-	-
Shares in affiliated companies and investments	8.6	-	-	-	8.6	-	8.6	8.6	-	-
Other long-term loans	2.8	-	0.2	-	2.6	1.5	1.1	1.2	-	-
<b>Financial assets</b>	<b>28,263.6</b>	<b>2,024.1</b>	<b>2,138.6</b>	<b>-120.2</b>	<b>28,028.9</b>	<b>465.6</b>	<b>27,563.3</b>	<b>27,667.3</b>	<b>8.4</b>	<b>17.7</b>
<b>Fixed assets</b>	<b>28,489.1</b>	<b>2,035.7</b>	<b>2,151.3</b>	<b>-120.2</b>	<b>28,253.3</b>	<b>534.7</b>	<b>27,718.6</b>	<b>27,824.6</b>	<b>20.9</b>	<b>17.7</b>

#### (5) Receivables from Affiliated Companies

Receivables predominantly include time and overnight deposits as well as sums resulting from profit- and loss-pooling agreements. €767.4 million (December 31, 2007: €369.2 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, 2008. This item also includes tax and interest receivables from the updated income tax statements of companies included in the tax group for previous years. €1,614.5 million (December 31, 2007: €1,630.1 million) had a remaining term of more than one year.

#### (7) Securities

Securities break down as follows:

Securities	December 31	
	2008	2007
€ in millions		
Treasury stock	233.0	230.8
Other securities	8.4	10.0
<b>Total</b>	<b>241.4</b>	<b>240.8</b>

As of December 31, 2008, E.ON had 11,851,249 E.ON shares stated as treasury stock. The treasury stock on the Corporation's books resulting from the current share buyback program was deducted from stockholders' equity on the equity and liabilities side since it was purchased for the purpose of retiring it. Information on the development of treasury stock is provided in Note 10.

Other securities include shares in stock and pension funds. Due to a lower stock price on the balance sheet date an adjustment in the amount of €1.6 million had to be made to the share fund.

### (8) Liquid Funds

As of the balance sheet date, liquid funds, which primarily consist of bank balances, were down €1,219.7 million.

### (9) Prepaid Expenses

This item predominantly consists of €95.4 million in debt discounts on 26 of the loans granted by E.ON International Finance B.V. Another €4.5 million stem from accrued insurance premiums as well as prepaid insurance premiums, personnel and other expenses.

### (10) Capital Stock

The Annual Shareholders Meeting on April 30, 2008 passed a resolution to change the shares of the Company from bearer to registered shares and to change the bylaws accordingly. Further it was decided to change how the capital stock of the Company is divided in such a way that a share with a prorated amount in the capital stock of currently €2.60 is divided in the future into three shares with a prorated amount in the capital stock of €1.00 per share (stock split). To achieve this, the capital stock of the Corporation was first increased out of company funds without issuing new shares pursuant to Secs. 207 et seqq. of the German Stock Corporation Act by €266.8 million, from currently €1,734.2 million to €2,001.0 million. The capital stock was then again divided in such a way that now three shares without par value take the place of one share at the lowest possible legal prorated amount in the capital stock of €1.00 per share. This increased the number of issued shares by a factor of three. The capital stock now amounts to

€2,001,000,000.00 (previous year: €1,734,200,000.00) and is divided into 2,001,000,000 registered shares without par value (previous year: 667,000,000 shares). The bylaws were changed accordingly; the entries in the Register of Companies (HRB 22315) took place on August 1, 2008.

In another resolution of the Annual Shareholders Meeting of the same day, the Corporation was authorized to acquire treasury shares by October 30, 2009. At no time may the acquired shares together with other treasury shares in the possession of the Corporation or which can be attributed to it pursuant to Secs. 71a et seqq. of the German Stock Corporation Act comprise more than ten percent of the capital stock. Apart from the acquisition of shares for distribution to employees a share buyback program was initiated on June 27, 2007 with the stated goal to buyback shares, by the end of 2008, totaling €7 billion and retire them from circulation. The Board of Directors was authorized by the aforementioned Annual Shareholders Meeting to retire the mentioned shares without the need for another shareholder resolution for implementing the scheme or for retiring them from circulation.

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

Of the 6,905,024 E.ON shares on the books as of January 1, 2008, 3,917,243 shares came from the share buyback program implemented in 2001 and 2002, and 2,974,944 shares from the share buyback program implemented last year. Another 12,837 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 Treasury Shares				
Month of acquisition	Number of shares	% of capital stock	Computed share of capital stock	Purchase price
February	2,821,861	0.42%	€7,336,839	€364,915,814
March	2,510,040	0.38%	€6,526,104	€306,036,044
April	1,878,795	0.28%	€4,884,867	€229,323,580
May	1,636,000	0.25%	€4,253,600	€213,387,078
June	1,948,187	0.29%	€5,065,286	€255,684,633
July	2,631,048	0.39%	€6,840,725	€322,296,541
August	314,000	0.05%	€816,400	€38,232,788
<b>Subtotal before stock split and capital increase</b>	<b>13,739,931</b>	<b>2.06%</b>	<b>€35,723,821</b>	<b>€1,729,876,478</b>
<b>Subtotal after stock split and capital increase</b>	<b>41,219,793</b>	<b>2.06%</b>	<b>€41,219,793</b>	<b>€1,729,876,478</b>
August	7,093,000	0.35%	€7,093,000	€279,323,945
September	16,427,677	0.82%	€16,427,677	€600,044,166
October	7,151,620	0.36%	€7,151,620	€258,905,822
December	3,000,000	0.15%	€3,000,000	€109,421,844

1,200,000 shares of the above-mentioned shares were acquired for distribution to employees of E.ON AG and to employees of affiliated companies, and 73,692,090 shares were acquired in the context of the share buyback program referred to above.

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

Sale of Treasury Shares						
Month of sale	Number of shares	% of capital stock	Computed share of capital stock	Sales price	Sales proceeds	
May	182	0.00%	€473	€-	-€8,401	
July	23	0.00%	€60	€-	-€1,062	
<b>Subtotal before stock split and capital increase</b>	<b>205</b>	<b>0.00%</b>	<b>€533</b>	<b>€-</b>	<b>-€9,463</b>	
<b>Subtotal after stock split and capital increase</b>	<b>615</b>	<b>0.00%</b>	<b>€615</b>	<b>€-</b>	<b>-€9,463</b>	
September	138	0.00%	€138	€-	-€2,123	
October	71	0.00%	€71	€-	-€1,092	
December	1,138,167	0.06%	€1,138,167	€19,234,161	-€24,889,159	

The 1,138,991 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 agreement/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.

As of the balance sheet date, the Corporation was in possession of a total of 82,616,922 treasury shares with an aggregate value of €3,315.5 million (corresponding to 4.13 percent, or a computed share of €82,616,922 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 €82.6 million in the column before the capital stock.

An additional 11,851,249 shares with an aggregate value of €233.0 million (corresponding to 0.59 percent, or a computed share of €11,851,249 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
January	Put option, European	3,500,000 options (=3,500,000 shares)	€112.36
<b>Subtotal after stock split</b>	<b>Put option, European</b>	<b>10,500,000 options (=10,500,000 shares)</b>	<b>€37.47</b>
August	Put option, European	3,000,000 options (=3,000,000 shares)	€37.33

The option premiums received rose by a further €25.0 million to a total of €88.9 million in the reporting year. Of this amount €70.2 million are shown under other operating income and €18.7 million as a reduction in acquisition cost of the treasury shares.

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 Sechzehnte Verwaltungs 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. In the reporting year, 83,415,119 shares in this company were transferred to Statkraft in connection with the takeover of the shares in E.ON Sverige AB. As of the balance sheet date, this company held a total of 2,001,463 shares.

These shares account for 0.10 percent, or a computed share of €2,001,463 of the Corporation's capital stock. Including the shares held by E.ON AG, this corresponds to 4.82 percent, or a computed share of €96,469,634 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 Secs. 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 toward partial bond creditors with conversion obligations to shares of E.ON AG or companies in which E.ON AG directly or indirectly holds a majority stake. The conditional capital was not utilized.

The following reports on voting stock for fiscal 2008 in accordance with Sec. 21, Para. 1 of the German Securities Trading Act were received:

On July 1, 2008, 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, did not reach the threshold of 3% on June 4, 2007, and that it stood at 0.76% (equivalent to 5,275,721 votes) as of that date. 0.38% of the voting rights (equivalent to 2,611,521 votes) are attributable to UBS AG pursuant to Article 22 (1), sentence 1, no. 1, WpHG.

On May 7, 2008, 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, did not reach the threshold of 5% on May 2, 2008 and that it stood at 4.96% (equivalent to 33,110,358 votes) as of that date. 4.96% of the voting rights of E.ON AG (equivalent to 33,110,358 votes) are attributable to Capital Research and Management Company pursuant to Article 22 (1), sentence 1, no. 6, WpHG.

On December 29, 2008, 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: DE000ENAG999, WKN: ENAG99, did not reach the threshold of 3% on December 19, 2008, and that it stood at 2.98% (equivalent to 59,629,800 votes) as of that date. 2.98% of the voting rights of E.ON AG (equivalent to 59,629,800 votes) are attributable to Capital Research and Management Company pursuant to Article 22 (1), sentence 1, no. 6, WpHG.

On January 6, 2009, Statkraft SF Oslo/Norway informed us pursuant to Article 21 (1) WpHG that its share of the voting rights of E.ON AG, Düsseldorf, Germany, ISIN: DE000ENAG999, WKN: ENAG99, had exceeded the threshold of 3% on December 31, 2008, and that it stood at 4.17% (equivalent to 83,415,119 votes) as of that date. The aforementioned voting rights are attributed to Statkraft SF pursuant to Article 22 (1), sentence 1, no. 1, WpHG from its subsidiary Statkraft AS, Oslo/Norway, and—because of the same-day transfer of the afore-mentioned voting rights from Statkraft AS to Statkraft Regional Holding AS Oslo/Norway, a subsidiary of Statkraft AS—from Statkraft Regional Holding AS.

On January 7, 2009, Statkraft AS Oslo/Norway informed us pursuant to Article 21 (1) WpHG that its share of the voting rights of E.ON AG, Düsseldorf, Germany, ISIN: DE000ENAG999, WKN: ENAG99, had exceeded the threshold of 3% on December 31, 2008, and that it stood at 4.17% (equivalent to 83,415,119 votes) as of that date. In the course of a transitional acquisition Statkraft SF Oslo/Norway passed the afore-mentioned voting rights to its subsidiary Statkraft Regional Holding AS Oslo/Norway still on the same day, with the result that Statkraft SF Oslo/Norway now has the same number of voting rights as before, namely 4.17% (equivalent to 83,415,119 votes) pursuant to Article 22 (1), sentence 1 WpHG.

On January 2, 2009, Statkraft Regional Holding AS Oslo/Norway informed us pursuant to Article 21 (1) WpHG that its share of the voting rights of E.ON AG, Düsseldorf, Germany, ISIN: DE000ENAG999, WKN: ENAG99, had exceeded the threshold of 3% on December 31, 2008, and that it stood at 4.17% (equivalent to 83,415,119 votes) as of that date.

On January 9, 2009, the Royal Ministry for Trade and Industry, Oslo, advised us pursuant to Article 21 (1) WpHG on behalf of the Government of Norway that its share of the voting rights exceeded the thresholds of 3% and 5% of the voting rights of E.ON AG, Düsseldorf, Germany, ISIN: DE000ENAG999, WKN: ENAG99, on December 31, 2008, and that it stood at 5.91% (equivalent to 118,276,492 votes) as of that date.

The aforementioned voting rights are attributed to the Government of Norway as follows:

4.17 percent (83,455,839 votes) are attributed to the Government of Norway pursuant to Article 22 (1), page 1, no. 1, WpHG. 4.17 percent (83,415,119 votes) of the voting rights attributable to the Government of Norway are held by Statkraft Regional

Holding AS and are attributed to the Government of Norway via the following controlled enterprises:

- Statkraft SF,
- Statkraft AS,
- Statkraft Regional Holding AS.

Another 1.74 percent (34,720,645 votes) are attributed to the Government of Norway pursuant to Article 22 (1), sentence 1, no. 1 and 2 WpHG.

A further 0.005 percent (100,008 votes) are attributed to the Government of Norway pursuant to Article 22 (1), sentence 1, no. 1, no. 2 (in conjunction with sentence 2) and no. 6 (in conjunction with sentence 2) WpHG.

### (11) Additional Paid-In Capital

The reclassification of the capital stock described under text number 10 resulted in the conversion of a partial amount of the additional paid-in capital into capital stock in the amount of €266.8 million. It now stands at €5,865.7 million.

### (12) Retained Earnings

Retained earnings developed as follows:

Retained Earnings					
€ in millions	Dec. 31, 2007	Additions from 2008 net income	Change in reserves for Treasury shares	Change due to the shares on the books held for retirement	Dec. 31, 2008
Legal reserves	45.3	-	-	-	45.3
Reserves for own shares	230.8	-	2.2	-	233.0
Other retained earnings	3,351.2	61.7	-2.2	-2,854.7	556.0
<b>Total</b>	<b>3,627.3</b>	<b>61.7</b>	<b>-</b>	<b>-2,854.7</b>	<b>834.3</b>

Owing to the share buyback, other retained earnings decreased by a total of €2,854.7 million. In the year under review, €61.7 million (previous year: €2,526.4 million) were transferred from net income of €2,889.0 million (previous year: €5,116.0 million) to other retained earnings.

### (13) Net income available for distribution

The net income available for distribution of €2,856.8 million includes profit brought forward in the amount of €29.5 million.

### (14) Stockholders' Equity

In summary, stockholders' equity developed as follows:

Stockholders' Equity	2008				2007	
	Capital stock	Additional paid-in capital	Retained earnings	Net income available for distribution	Total	Total
€ in millions						
January 1	1,726.5	6,132.5	3,627.3	2,589.6	14,075.9	14,669.5
Dividend of E.ON AG for the previous year				-2,560.1	-2,560.1	-2,209.6
Conversion of additional paid-in capital into issued capital	266.8	-266.8			-	-
Adjustment of the amount shown in the preceding column of the balance sheet due to the capital increase	-1.2				-1.2	-
Drawing on other retained earnings due to the retirement of treasury stock					-	-3,114.0
Capital reduction through the retirement of treasury shares					-	-65.0
Transfer from net income to retained earnings			61.7		61.7	2,526.4
Transfer to additional paid-in capital pursuant to Sec. 237, Para. 5 of the German Stock Corporation Act					-	65.0
Computed value of shares held for retirement (disclosed in the preceding column on the balance sheet)	-73.7				-73.7	-7.7
Offsetting of shares held for retirement against other retained earnings			-2,854.7		-2,854.7	-378.3
Income earmarked for distribution				2,827.3	2,827.3	2,589.6
<b>Status as of December 31</b>	<b>1,918.4</b>	<b>5,865.7</b>	<b>834.3</b>	<b>2,856.8</b>	<b>11,475.2</b>	<b>14,075.9</b>

### (15) Reserves Subject to Future Taxation

Reserves subject to future taxation break down as follows:

Reserves Subject to Future Taxation	December 31	
	2008	2007
€ in millions		
Untaxed reserves acc. to Sec. 6b, German Income Tax Act	105.2	116.0
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	130.7	136.3
Financial assets	157.1	161.9
<b>Total</b>	<b>393.0</b>	<b>414.2</b>

€1.3 million (previous year: €17.5 million) were transferred to reserves subject to future taxation in the year under review. This was contrasted by reversals of fiscal valuation allowances of €10.4 million (previous year: €13.2 million). One of the subsidiaries purchased a property in the reporting year which is attributable in its entirety to E.ON AG because of

the ownership structure. In this connection a reserve subject to future taxation in the amount of €12.1 million was transferred to this property; this resulted in a reversal of a reserve at E.ON AG in the same amount with effect on net income. Net income after taxes increased by €15.0 million owing to the change in reserves subject to future taxation. The extent of future burdens is negligible.

### (16) 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 the 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 indemnification 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 for 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 €0.3 million in indemnification receivables against MEON resulting from staff transfers.

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

### (17) Provisions for Taxes

Provisions for taxes concern mainly taxes for prior years due to outstanding tax audits.

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.

### (18) Other Provisions

Other provisions break down as follows:

Other Provisions		
€ in millions	December 31	
	2008	2007
Tax-induced interest	616.6	420.0
Mining damage	121.9	144.6
Obligations in connection with the disposal of financial assets	77.6	75.1
Stock appreciation rights	16.3	38.8
Cost of preparing the financial statements	7.3	12.3
Impending losses from financial transactions	10.0	6.7
Miscellaneous other risks	114.3	110.1
<b>Total</b>	<b>964.0</b>	<b>807.6</b>

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

### (19) Liabilities

Liabilities					
€ in millions	Dec. 31, 2008				Dec. 31, 2007
	Total	with a remaining term of			
		up to 1 year	1 to 5 years	over 5 years	
Banks	3,245.2	1,470.2	304.5	1,470.5	802.2
Advance payments received	0.1	0.1	-	-	0.1
Accounts payable	24.9	20.4	4.5	-	33.5
Affiliated companies	42,902.5	24,560.8	7,298.8	11,042.9	30,388.1
Associated and other companies	1,232.9	1,232.9	-	-	1,237.5
<i>Secured by mortgages</i>	-	-	-	-	-
Other liabilities	8,280.5	7,922.4	356.9	1.2	2,348.9
<i>Taxes</i>	456.3	456.3	-	-	490.3
<i>Social security</i>	-	-	-	-	0.2
<i>Secured by mortgages</i>	-	-	-	-	-
<b>Total</b>	<b>55,686.1</b>	<b>35,206.8</b>	<b>7,964.7</b>	<b>12,514.6</b>	<b>34,810.3</b>

The increase in liabilities to banks is basically due to the long-term promissory note loans in the amount of €1,275.0 million.

Accounts payable to affiliated companies primarily stem from funds drawn from overnight and time deposits. These principally concern loans granted by E.ON International Finance B.V. in the amount of €18,191.7 million, an increase of €11,242.5 million over the previous year. They are also affected by the loan taken out with E.ON Finanzanlagen GmbH in the amount of €4,963.6 million. The decrease in liabilities to NFK Finanzcontor GmbH in the amount of €7,546.8 million due to the merger has the opposite effect.

### Contingent Liabilities and Other Financial Obligations

Contingent liabilities consist of the following:

Contingent Liabilities	December 31	
	2008	2007
€ in millions		
Contingent liabilities resulting from warranties <i>vis-à-vis affiliated companies</i>	28,960.8 309.3	15,030.0 310.2
Contingent liabilities resulting from guaranties <i>vis-à-vis affiliated companies</i>	2,119.0 -	705.6 -
<b>Total</b>	<b>31,079.8</b>	<b>15,735.6</b>

€23,728.9 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. The Corporation has given parent company guaranties in the amount of €3,287.2 million for companies of the group. Another €1,635.3 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 guaranties of the Corporation also include the liquidity assistance guaranty for MEON under the implementation of the CTA in the amount of €309.3 million.

In addition there are liabilities under guaranties per December 31, 2008 which essentially represent backup guaranties for bank guaranties.

Other financial obligations per December 31, 2008 amounted to €171.8 million, of which €21.2 millions refer to obligations toward affiliated companies (December 31, 2007: €48.0 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 price broke down as follows:

Derivative Financial Instruments	December 31			
	2008		2007	
€ in millions	Nominal volume	Fair value (market value)	Nominal volume	Fair value (market value)
Instrument				
Forward transactions with banks	14,317.0	497.4	14,080.8	93.2
Forward transactions with affiliated companies	26,253.0	-686.4	15,800.7	-84.7
Interest-rate swaps with banks	6,347.5	-25.2	5,750.0	-82.6
Interest-rate swaps with affiliated companies	4,822.6	11.3	4,722.1	90.1
Interest-rate/cross-currency swaps with banks	20,984.8	1,712.9	19,612.9	584.8
Interest-rate/cross-currency swaps with affiliated companies	19,057.0	-2,819.8	16,794.0	-1,034.4
Floors with banks	100.5	-		
<b>Total</b>	<b>91,882.4</b>	<b>-1,309.8</b>	<b>76,760.5</b>	<b>-433.6</b>

## Notes to the Income Statement

### (20) Income from Equity Interests

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

Income from Equity Interests		
€ in millions	2008	2007
Income from profit- and loss-pooling agreements	6,930.8	5,786.4
Tax allocations	239.3	1,666.9
Income from companies in which share investments are held	3,129.9	26.8
<i>From affiliated companies</i>	3,129.9	26.8
Losses from profit- and loss-pooling agreements	-5,303.2	-236.1
<b>Total</b>	<b>4,996.8</b>	<b>7,244.0</b>

Income from profit- and loss-pooling agreements is due mainly to E.ON Energie AG. More than €3 billion of losses from profit- and loss-pooling agreements are due to depreciations at subsidiaries. These hold shares in affiliated companies with business activities in Italy, Spain, France and the United States. Several factors contributed to depreciations in the shares acquired from Enel/Acciona/Endesa. Above all the increase in corporation income taxes on energy companies implemented in Italy, regulatory intervention in the wholesale markets as well as the delayed start-up operations of power stations clouded the outlook. The depreciation on U.S. activities is above all due to the fact that the specific capital costs of subsidiaries as well as lower long-term growth rates had to be taken into consideration.

The distribution of additional paid-in capital by E.ON UK Holding GmbH resulted in an increase in profits from companies in which share investments are held in the amount of €3,104 million, which is shown under the income from participating interests.

### (21) Interest Income (Net)

Interest income breaks down as follows:

Interest Income (Net)		
€ in millions	2008	2007
Income from other securities and long-term loans included in financial assets	98.4	34.1
<i>From affiliated companies</i>	84.5	27.2
Other interest and similar income	1,181.3	895.4
<i>From affiliated companies</i>	957.9	764.4
Interest and similar expenses paid	-2,244.7	-1,486.7
<i>Paid to affiliated companies</i>	-1,694.8	-1,115.7
<b>Total</b>	<b>-965.0</b>	<b>-557.2</b>

The decrease in net interest income is predominantly due to the increased utilization of long-term loans by affiliated companies.

### (22) Other Operating Income

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

Other Operating Income		
€ in millions	2008	2007
Income from the reversal of reserves subject to future taxation	22.6	13.2
Income from the disposal/write-up of fixed assets	21.0	25.7
Other	7,888.2	4,226.2
<b>Total</b>	<b>7,931.8</b>	<b>4,265.1</b>

Income from asset disposals totals of €3.3 million result mainly from the sale of property and buildings. An additional €17.7 million stem from a write-up of financial assets (see Note 2).

Other income includes the following items:

Other Income		
€ in millions	2008	2007
Cross-currency/interest-rate swaps and currency options	2,275.2	2,044.8
Currency exchange differences	5,216.3	1,946.9
Reversals of provisions	120.5	11.3
Other	276.2	223.2
<b>Total</b>	<b>7,888.2</b>	<b>4,226.2</b>

Income from the reversal of provisions represents essentially income not attributable to the period.

### (23) Personnel Expenses

The following table shows an overview of personnel expenses:

Personnel Expenses		
€ in millions	2008	2007
Wages and salaries	88.3	111.4
Social security contributions, pension costs and other employee benefits	27.8	13.0
For pensions	21.5	7.9
<b>Total</b>	<b>116.1</b>	<b>124.4</b>

The decrease in wages and salaries is mainly due to the substantial decrease in transfers to provisions for obligations arising from share-based payments and lower bonus payments. The increased payments as a result of the larger number of employees are overcompensated by the effects specified above.

In the year under review, expenses stemming from share-based payments totaled €5.3 million (previous year: €41.8 million). At the same time, in the year under review there was an income of €16.6 million from the reversal of provisions (previous year: €0). As of the balance-sheet date, the provision accrued for share-based payments amounted to €16.3 million (previous year: €38.8 million).

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

For information on write-downs in the year under review, please turn to Notes 2 and 7.

### (25) Other Operating Expenses

Other operating expenses break down as follows:

Other Operating Expenses		
€ in millions	2008	2007
Currency exchange differences	5,182.6	1,955.9
Cross-currency/interest-rate swaps and currency option premiums	2,208.3	2,039.3
Fees	120.1	73.1
Transfers to reserves subject to future taxation	1.3	17.5
Other expenses	398.2	271.3
<b>Total</b>	<b>7,910.5</b>	<b>4,357.1</b>

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

Auditor's Fees		
€ in millions	2008	2007
Audit	6.7	12.8
Financial statements	4.3	11.7
Other opinions	2.7	1.8
Miscellaneous services	0.7	0.4
<b>Total</b>	<b>10.1</b>	<b>15.0</b>

### (26) Taxes

The following table provides an overview of taxes:

Taxes		
€ in millions	2008	2007
Income taxes	1,025.8	1,321.1
Other taxes	-0.5	-0.5
<b>Total</b>	<b>1,025.3</b>	<b>1,320.6</b>

€1,002.7 million in stated income taxes relate to the year 2008. 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 €1,350.9 million. Taxes for previous years had the opposite effect.

## Additional Information

### Mergers

E.ON Italia Holding GmbH, Düsseldorf (abbreviated to E.ON Italia hereinafter), NFK Finanzcontor GmbH, Norderfriedrichskoog (abbreviated to NFK hereinafter), and Nordel Holding Gesellschaft mbH, Norderfriedrichskoog (abbreviated to Nordel hereinafter)—all subsidiaries wholly owned by E.ON AG—individually entered into merger agreements with E.ON AG on August 21, 2008. Furthermore, E.ON Finance GmbH, Düsseldorf (abbreviated to E.ON Finance hereinafter)—also a subsidiary wholly owned by E.ON AG—entered into a merger agreement with E.ON AG on October 16, 2008. Based on these merger agreements, all companies transferred their assets as a whole, along with all rights and obligations, under 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 the companies by E.ON AG was carried out with economic effect on the following closing dates:

- E.ON Italia January 2, 2008
- NFK January 2, 2008
- Nordel January 4, 2008
- E.ON Finance September 1, 2008

From the merger date onwards, all transactions carried out by the companies are deemed to have been carried out on the account of E.ON AG.

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

The mergers were entered into the Düsseldorf Commercial Register (HRB 22315) on September 5, 2008 (E.ON Italia), October 9, 2008 (NFK and Nordel) and December 16, 2008 (E.ON Finance).

### Personnel

On average, the number of people employed in the 2008 financial year rose by 147 to 616. The averaged figure does not include the five members of the Board of Management or the Corporation's eight trainees.

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

On December 15, 2008, 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 Annual Shareholders Meeting scheduled for May 6, 2009 approves the proposed dividend, the total remuneration of the members of the Supervisory Board will amount to €4.1 million (previous year: €4.3 million).

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

The members of the Supervisory Board had no lines of credit outstanding in fiscal 2008.

The members of the Supervisory Board are listed, along with additional directorships held, on page 76 et seqq.

#### Board of Management

Aggregate remuneration paid to the members of the Board of Management amounts to €18.9 million (2007: €20.4 million) and includes, aside from base pay, bonus, other income, also a share-based payment which has been included at the fair value of the performance rights at grant time. Total compensation of the members of the Board of Management breaks down as follows:

Total Compensation Paid to the Board of Management for Fiscal 2008						
in €	Base pay	Bonus	Other emoluments	Value of performance rights granted (3rd tranche)	Total	Number of performance rights granted (3rd tranche)
Dr. Wulf H. Bernotat	1,240,000	2,570,000	32,056	1,215,613	5,057,669	9,908
Dr. Johannes Teyssen	958,333	1,990,000	253,951	926,678	4,128,962	7,553
Dr. Burckhard Bergmann (until February 29, 2008)	125,000	295,000	4,461	120,114	544,575	979
Christoph Dänzer-Vanotti	750,000	1,570,000	9,054	720,436	3,049,490	5,872
Lutz Feldmann	750,000	1,570,000	39,488	720,436	3,079,924	5,872
Dr. Marcus Schenck	750,000	1,570,000	35,627	720,436	3,076,063	5,872
<b>Total</b>	<b>4,573,333</b>	<b>9,565,000</b>	<b>374,637</b>	<b>4,423,713</b>	<b>18,936,683</b>	<b>36,056</b>

For further information about the compensation for active members of the Board of Management please refer to the Compensation Report, which is part of the Combined Management Report.

The members of the Board of Management had no lines of credit outstanding in fiscal 2008.

Aggregate remuneration paid to retired members of the Board of Management and their beneficiaries amounted to €7.2 million (previous year €6.1 million).

€123.4 million in provisions were accrued to cover pension obligations to retired members of the Board of Management and their beneficiaries (previous year: €105.6 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 78.

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

Honorary Chairman of the Supervisory Board

**Prof. Dr. Günter Vogelsang**  
Düsseldorf

Supervisory Board

**Ulrich Hartmann**

Chairman of the Supervisory Board of E.ON AG

- Deutsche Bank AG (until May 29, 2008)
- Deutsche Lufthansa AG
- IKB Deutsche Industriebank AG (until March 27, 2008)
- Münchener Rückversicherungs-Gesellschaft AG
- Henkel KGaA (Shareholder Committee)

**Hubertus Schmoldt**

Chairman of the Board of Management, Mining, Chemicals, and Energy Labor Union, IGBCE

Deputy Chairman of the Supervisory Board of E.ON AG

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

**Werner Bartoschek**

(since April 30, 2008)

Chairman of the Group Works Council of E.ON Ruhrgas AG

- E.ON Ruhrgas AG

**Dr. Karl-Hermann Baumann**

(until April 30, 2008)

- Linde AG (until June 3, 2008)
- Bayer Schering Pharma AG

**Sven Bergelin**

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

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

**Dr. Rolf-E. Breuer**

(until April 30, 2008)

- Landwirtschaftliche Rentenbank (Administrative Council)

**Gabriele Gratz**

Chairwoman of the European Works Council of E.ON AG

- E.ON Ruhrgas AG

**Wolf-Rüdiger Hinrichsen**

Chairman of the Group Works Council, E.ON AG

**Ulrich Hocker**

General Manager; German Investor Protection Association

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

**Eva Kirchhof**

(until April 30, 2008)

Diploma Physicist

**Prof. Dr. Ulrich Lehner**

Chairman of the Supervisory Board, Deutsche Telekom AG

- Deutsche Telekom AG (Chairman)
- Henkel Management AG
- HSBC Trinkaus & Burkhardt AG
- Porsche Automobil Holding SE
- Dr. Ing. h.c. F. Porsche AG
- ThyssenKrupp AG
- Dr. Oetker KG (Advisory Council)
- Henkel AG & Co. KGaA (Shareholder Committee)
- Novartis AG (Administrative Council)

**Dr. Klaus Liesen**

(until April 30, 2008)

Consultant

- Otto Wolff Industrieberatung und Beteiligungen GmbH (Chairman of the Advisory Council)

**Bård Mikkelsen**

(since April 30, 2008)

President and Chief Executive Officer of Statkraft AS

- Bonheur ASA (Shareholder Committee)
- E.ON Sverige AB (until December 2, 2008)
- Ganger Rolf ASA (Shareholder Committee)
- Store Norske Spitsbergen Kulkompani AS (Chairman)
- CERMAQ ASA

**Erhard Ott**

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

- E.ON Energie AG

All of the information relates to December 31, 2008, 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

### Hans Prüfer

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

### Klaus Dieter Raschke

Chairman of the Group Works Council of E.ON Energie AG

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

### Dr. Walter Reitler

(since April 30, 2008)

Area Manager leader HSE/CR Control E.ON Energie AG

- E.ON Energie AG

### Dr. Henning Schulte-Noelle

Chairman of the Supervisory Board, Allianz SE

- Allianz SE (Chairman)
- ThyssenKrupp AG

### Dr. Karen de Segundo

(since April 30, 2008)

Attorney

- BlackRock New Energy Investment Trust plc
- British America Tobacco plc
- Ensus Ltd.
- Koninklijke Ahold N.V.
- Lonmin plc
- Pöyry Oyj

### Dr. Theo Siegert

Managing Partner de Haen-Carstanjen & Söhne

- Deutsche Bank AG
- ERGO AG
- Merck KGaA
- DKSH Holding Ltd.
- E. Merck OHG

### Prof. Dr. Wilhelm Simson

Chairman of the Supervisory Board of Merck KGaA

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

### Gerhard Skupke

(until April 30, 2008)

Chairman of the Central Works Council of E.ON edis AG

- E.ON edis AG (until April 30, 2008)
- E.ON Edis Energia Sp. z o.o. (until July 31, 2008)
- Netzs-service Mecklenburg-Vorpommern (NMV) GmbH (until July 31, 2008)

### Dr. Georg Frhr. von Waldenfels

Attorney

- Georgsmarienhütte Holding GmbH
- Rothenbaum Sport GmbH (Chairman)

### Werner Wenning

(since April 30, 2008)

Chairman of the Board of Management of Bayer AG

- Bayer Schering Pharma AG (Chairman)
- Deutsche Bank AG (since May 29, 2008)
- Evonik Industries AG (until September 16, 2008)
- Henkel AG & Co. KGaA (Shareholder Committee)

### Hans Wollitzer

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, 2008, 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**

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 of the Board of Management,  
Düsseldorf

- 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 Sverige AB<sup>2</sup> (Chairman)
- E.ON US Investments Corp.<sup>2</sup>  
(Chairman)

**Dr. Johannes Teysen**

born 1959 in Hildesheim,  
Member of the Board of Management  
since 2004

Corporate Planning & Controlling, Regulation  
and Infrastructure Management,  
Group Procurement, Marketing & Sales,  
Upstream/Generation, Trading and  
Portfolio Optimization

Deputy Chairman of the Board of Management,  
Düsseldorf

- E.ON Energie AG<sup>1</sup>
- E.ON Energy Trading AG<sup>1</sup> (Chairman)
- E.ON Ruhrgas AG<sup>1</sup>
- Deutsche Bank AG
- Salzgitter AG
- E.ON Italia S.p.A.<sup>2</sup>
- E.ON Nordic AB<sup>2</sup>
- E.ON Sverige AB<sup>2</sup>

**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)

- Thüga AG<sup>1</sup> (Chairman)  
(until February 22, 2008)
- Allianz Lebensversicherungs-AG
- MAN Ferrostaal AG
- Accumulatorenwerke Hoppecke  
Carl Zoellner & Sohn GmbH
- Jaeger Beteiligungsgesellschaft  
GmbH & Co. KG (Chairman)
- Nord Stream AG
- OAO Gazprom
- E.ON Ruhrgas E&P GmbH<sup>2</sup> (Chairman)  
(until February 29, 2008)
- E.ON Gastransport AG & Co. KG<sup>2</sup>  
(Chairman) (until February 29, 2008)
- ZAO Gerosgaz<sup>2</sup> (Chairman; alternating  
with a representative of the foreign  
partner) (until April 12, 2008)

**Christoph Dänzer-Vanotti**

born 1955 in Freiburg,  
Member of the Board of Management  
since 2006

Human Resources, Corporate Responsibility,  
E.ON Academy, OneE.ON, Facility  
Management, Düsseldorf

- E.ON Energie AG<sup>1</sup>
- E.ON Nordic AB<sup>2</sup>
- E.ON Sverige AB<sup>2</sup>

**Lutz Feldmann**

born 1957 in Bonn,  
Member of the Board of Management  
since 2006

Mergers & Acquisitions, Legal Affairs,  
Corporate Development, New Markets,  
Düsseldorf

- E.ON Iberia Energia SL<sup>2</sup>
- E.ON Italia S.p.A.<sup>2</sup>
- E.ON Produzione S.p.A.<sup>2</sup>  
(until October 16, 2008)
- OAO OGK-4<sup>2</sup> (Chairman)

**Dr. Marcus Schenck**

born 1965 in Memmingen,  
Member of the Board of Management  
since 2006

Finance, Accounting, Tax, IT, Düsseldorf

- E.ON Energy Trading AG<sup>1</sup>
- E.ON Ruhrgas AG<sup>1</sup>
- E.ON IS GmbH<sup>1</sup> (Chairman)
- Commerzbank AG
- Aviga GmbH<sup>2</sup>  
(Chairman of the Advisory Council)
- E.ON Audit Services GmbH<sup>2</sup>  
(Chairman)
- E.ON Risk Consulting GmbH<sup>2</sup>  
(Chairman)
- HSBC Trinkaus & Burkhardt AG  
(Member of the Administrative  
Council)
- OAO OGK-4<sup>2</sup>

Information as of December 31, 2008, or the date of the retirement from the Board of Management 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.

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

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

## Dividend Proposal

Dividend Proposal	
in €	
In 2008, net income amounted to	2,888,953,662.31
Taking into account the profit brought forward from the previous year of	29,563,853.60
And after the transfers to other retained earnings	61,721,966.91
<b>Net income available for distribution totals</b>	<b>2,856,795,549.00</b>

We propose to the Annual Shareholders Meeting that the €2,856,795,549.00 in net income available for distribution for the 2008 financial year be appropriated to distribute a dividend of €1.50 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 €1.50 per individual dividend-bearing share certificate, the partial amount allocable to the shares that no longer bear dividends is carried forward on new account.

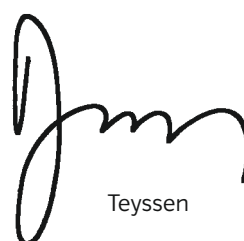
To the best of our knowledge, we declare that, in accordance with applicable principles of accounting, the annual financial statements present a true and fair view of the net worth, financial position and earnings of the Corporation, that the management report, which is combined with the Group management 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, March 3, 2009

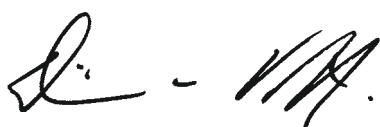
The Board of Management



Bernotat



Teyssen



Dänzer-Vanotti



Feldmann



Schenck

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 management report, which is combined with the group management report of E.ON AG, Düsseldorf, for the business year from January 1 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. 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) and additionally observed the International Standards on Auditing (ISA). 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. 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 in 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 Managing Directors, 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.

Düsseldorf, March 4, 2009

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

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

Additional Information

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

