



**E.ON AG Annual Results Press Conference
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Statement by:

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Please check against delivery

Good morning, everyone. I'd like to welcome you to our annual results press conference in Düsseldorf. As usual, Marcus Schenck and I will share the task of talking to you about our results and business development. As this is my last annual results press conference as E.ON CEO, I'm going to provide some additional context for my remarks about 2009.

The global economy hit bottom in 2009. Nevertheless, we were able to stay on course, just like we'd promised and reiterated on several occasions. The recession made things hard for our business, as well. It led to declines—in some case significant declines—in power and gas prices and sales volume. Our gas wholesale business in particular is under considerable volume and margin pressure due to the economic crisis and excess supply on global markets. Nevertheless, our 2009 adjusted EBIT of €9.6 billion was at the high prior-year level. As for adjusted net income, the slight upward correction we made to our forecast was right on target: at €5.3 billion, our 2009 adjusted net income was about 5 percent under the high prior-year figure. At the 2010 Annual Shareholders Meeting, we'll therefore propose that the cash dividend be kept stable, compared with the prior year, at €1.50 per share. This would result in a payout ratio of 54 percent of adjusted net income. This means that we're also staying the course with our dividend policy, which is to pay out 50 to 60 percent of our adjusted net income. From today's perspective, we expect our 2010 adjusted EBIT—in part thanks to Perform-to-Win—to be 0 to 3 percent above the prior-year level and for adjusted net income to be in line with the prior-year figure.

Our 2009 results and our forecast for the years ahead demonstrate how important it was for us to begin—before the onset of the global financial and economic crisis—to enhance our company's efficiency through a Group-wide program called Perform-to-Win. Starting in 2011, we expect it to deliver €1.5 billion in annual earnings improvements. The first set of initiatives is already having a positive impact on our earnings. Along with enhancing our efficiency, we're investing in long-term growth and optimizing our portfolio so that we stay on our successful course in difficult times.

In 2009, we sold our ultrahigh-voltage transmission system and reduced our power capacity in Germany by about 5,000 MW. This largely fulfilled the commitments we made to the European Commission. In addition, we sold most of Thüga for a very good price; Thüga assets not included in the deal will be sold separately. Through these transactions, we significantly reduced

our position at all stages of the value chain in Germany, gave important impetus to competition, and at the same time established new positions in other European markets.

Streamlining our portfolio by divesting our ultrahigh-voltage transmission system, power capacity, and Thüga has already delivered about €6 billion in cash. This puts us well on the way to achieving our announced objective of generating more than €10 billion in cash through asset sales by the end of 2010. This cash will enhance our investment and financial strength.

These measures are part of our response to the significant changes in our industry's economic, political, and regulatory environment and to the substantially greater pace of change, particularly in recent years.

Let's look first at the development of the generation business in Europe. After years of weak wholesale prices, we experienced a veritable generation renaissance; what had before been isolated national markets began to converge into a European wholesale power market. A glance at current price movements on European power exchanges will show that prices are converging and that no single market can decouple itself from overall trends. E.ON was an early mover in helping to shape market integration and has drawn the right conclusions. We have, more than any other company, taken a truly European approach to our generation and trading business. We have put into place a fleet management structure that extends across national boundaries and our trading business lies at the commercial heart of E.ON. As a truly international business, E.ON Energy Trading became operational in 2008 and is now one of the leading players in Europe.

We've certainly been among the pacesetters in helping to create an open, transparent and competitive European market for energy. In the case of renewables, however, we waited. Some people say we waited too long. When we did move forward, we did so with typical E.ON resoluteness by designing a clear and convincing strategy. Renewables are now a relatively significant ingredient in our generation mix. In just a short time, we've built a multinational business and established ourselves as a top international renewables player, and not just in Europe. In the past two years, E.ON Climate & Renewables has added new two wind turbines a day, built (in Texas) the world's largest wind farm, built Germany's first offshore wind farm, and—in the depths of the recession—made the decision to move forward with the construction of London Array, a much larger offshore wind farm. In addition,

in 2009 we entered the solar power business (photovoltaic and concentrated solar power) which we intend to grow into our second key renewables pillar. In less than two years, renewables have become a core E.ON business. And that also means that wind and solar are not only key sources of zero-carbon generation but will also very soon account for a significant share of our earnings.

One of the reasons that generation—whether conventional or renewable—has become such a major part of our business is because there's been unprecedented pressure on our network and retail businesses over the past decade. The pressure has come from two directions: regulators and new competitors. Network charges in Germany are significantly lower than in 2003. If you factor out the steady rise in energy taxes and surcharges, today's residential electricity prices in Germany would be about what they were in 1998. This, in turn, means that we haven't seen higher earnings in our retail business. That's why we've seized the initiative here as well, creating E wie Einfach ("E like Easy") as an alternative for price-conscious customers who prefer standardized power and gas products. On the infrastructure side, Germany's new regulatory regime has had a significant adverse effect on our network business in the last few years. The situation is much different in the United Kingdom, for instance, which has a proven regulatory regime that has less tendency to overreact and is past the phase of simply pushing for cost reductions.

Our response to the significant pressure on our network and retail businesses has been thoroughly customer-friendly: we've become much more efficient across all levels of these businesses, primarily through structural improvements. We revamped our retail organization in Germany, making it leaner and more agile. This is one of the reasons why, despite continually increasing pressure, the 2009 earnings in our German retail business were in line with the prior-year figure.

That said, we can't meet the energy challenges of the future merely by cutting costs. Today, more is at stake than just energy costs. Climate protection and supply security are equally important, and a comprehensive energy strategy needs to factor in all three objectives.

We see two big, fundamental trends in energy supply. First, power generation has been undergoing enormous changes, particularly in the last few years. Second, these changes are giving a completely new significance to

networks, distribution, and energy storage. Many issues surrounding these two trends are still unresolved.

To promote climate protection and supply security, there's a clear and sensible road towards zero-carbon generation consisting of renewables, nuclear power, and technologically advanced coal-fired generation with carbon capture. All of these generation technologies have one thing in common. They require significantly greater up-front investments than, for example, gas-fired generating units, but also have lower operating costs. There's broad political and public support for the transition to zero carbon. But it's not clear—even after several years of EU-wide emissions trading—whether carbon prices will remain consistently at a level such that long-term investments in climate-friendly technologies make business sense.

Most people familiar with these issues take it for granted that as we add more renewables we won't, for some time to come, be able to do without energy sources like natural gas and coal. But it's an open question whether, for example, we can make carbon capture and storage (CCS) technically and commercially viable and, more importantly, whether CCS will receive the necessary political and public support. Another question is what role will natural gas play over the long term as a climate-friendly fossil fuel. We believe that gas isn't just an interim option but will remain an important fuel in space heating and power generation. And finally, what role will zero-carbon nuclear power play? It would be a mistake to simply replace nuclear with renewables capacity, as some people propose. With this approach, our climate-protection targets would recede into the distant future. Over the next 20 years, we'd just be replacing one zero-carbon technology with another, while gaining nothing in terms of climate protection. That would mean two decades of no progress in tackling climate change.

But these issues and contradictions need to be resolved not only from a climate-protection perspective. We need clarity and a stable, reliable regulatory framework for the billions of investments that we will need for our energy future—the smart world of energy—a reality. Going forward, the smart world of energy will provide the technological means for resolving the trilemma; that is, for achieving a balance between the three overarching energy-policy objectives: affordability, supply security, and climate friendliness.

We think that high-capacity energy storage devices have the potential to make renewables suitable for supplying baseload electricity. This could enable renewables to serve as the mainstay of the energy supply system within several decades. In addition, distributed generation—whether micro generation or electric cars that store power generated at night—is likely play a much bigger role than today. Smart household appliances will enable residential customers to better manage their energy usage. Increasingly, electricity will flow in two directions. Customers will become power managers, power producers, and, in a real sense, partners of energy companies. At stake is nothing less than a fundamental transformation of the entire energy system.

But it all this will never become reality unless power networks are expanded and upgraded on a massive scale. Smart grids will become a sort of electricity Internet. In short, smart grids are an important key to the energy future. Just to make sure there's no misunderstanding: I'm not talking about the ultrahigh-voltage transmission system that we sold but about the thousands of kilometers of distribution lines that remain a core E.ON business, particularly in view of the energy future I've been describing.

It's a huge undertaking. It will only be a success if policymakers for competition and climate protection work together to design a consistent approach as part of a broader energy and climate strategy, a strategy that lays out a clear course for the transition to the smart world of energy.

Investment incentives must be a central part of this strategy. According to reliable estimates, deploying smart grids on a national scale would cost Germany about €20 billion between now and 2020.

These investments need to be seen as an enormous opportunity. Because without them, much of Germany's energy and climate-protection program won't achieve its objective. These investments would also provide a huge economic stimulus.

This is the energy future we all want. And energy companies are ready and able to make the necessary investments. But the problem is, under Germany's current regulatory regime—whose rate structure doesn't even cover our cost of capital—we're essentially punished for making investments in the future.

Up to now, the main focus of German network regulation has been on optimization and cost reduction. That may be a reasonable approach for existing networks. But here we're talking about investments in the future, innovative technologies, and new markets. This requires a regulatory framework that encourages investments and thus helps achieve a broader social objective by fostering the creation of a smart energy world. The German federal government has recognized this. Its coalition agreement calls for "smart regulation" to promote new investment in network infrastructure. I believe it's urgent that such regulation be laid out in detail as part of the government's much-awaited—and hopefully soon-to-be-completed—comprehensive energy strategy. Such a strategy would finally pave the way for the multi-billion investments that are necessary.

E.ON was an early mover in committing itself to climate protection. In May 2007, we pledged to halve our generation fleet's specific carbon dioxide emissions by 2030 from a 1990 baseline. At the 2009 Climate Change Conference in Copenhagen, we stated clearly that if a robust treaty was reached, E.ON would be prepared to achieve its 2030 target by 2020, ten years earlier. Regrettably, no such treaty was signed. We'll therefore follow the negotiations in 2010 closely and continue to advocate the stable regulatory framework that's necessary for us to make long-term investments in low-carbon technologies. What we need is a global framework that makes it worthwhile to invest in carbon avoidance and in low-carbon technologies. More specifically, this would mean an at least a 50-percent reduction in global carbon emissions by 2050 compared with 1990 and a global carbon-trading scheme that involves all industrial countries including BRIC. Let me reiterate that under such a framework we'd be able to halve our generation fleet's specific carbon dioxide emissions by as early as 2020.

Our energy mix in 2020 would be 40 percent nearly zero emission. This 40 percent would be about half renewables and half nuclear. Renewables, which currently account for about one fourth of our generation investments, will in the future account for more than half. We see no contradiction between renewables and nuclear. On the contrary, the faster we expand renewables, the more we need nuclear power as a stabilizing factor to help keep overall energy costs down while protecting the climate and ensuring security of supply. To receive enduring public support, climate protection can't lead to skyrocketing costs. And nuclear power can help prevent this from happening.

E.ON is prepared to help make the necessary investments—if a regulatory framework is put into place that’s part of a comprehensive energy strategy and that provides the right investment incentives. This applies to grid infrastructure, generation, and supply security. Together with the streamlining of our portfolio and our current projects to enhance efficiency, these investments will help create a solid platform from which E.ON can start off strong when the current economic crisis ends and so that E.ON will remain a profitable and solid investment for the long term. E.ON is determined to play a leading role in shaping tomorrow’s smart energy world.

This is the moment when I hand things over to Marcus Schenk for a detailed look at our results. Before I do that, I’d like to say a few personal words. This is my seventh E.ON annual results press conference. With each passing year, the interest in E.ON has grown. And as our company has become more international, so has the pool of journalists at our press conferences. In May, I’ll hand over to Johannes Teysen the responsibility for leading our company and thus for communicating with the media. This summer, Johannes will present his vision of E.ON’s future strategic course and new financial targets for the years beyond 2010. As for me, I’ve tried from this podium and on many other occasions to help you see our point of view. I’ve sought an open and honest dialog, and have tried to be clear and forthright. With some of you I made progress.

I’d like to thank you for your objective and even-handed coverage and for the many lively and interesting conversations we’ve had here, in Berlin, in Madrid, or at one of our offshore wind farms or other facilities around the world. I ask that you show the same interest and the same objectivity to E.ON and the new team of Teysen and Schenk. Over to you, Marcus.

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