



E.ON Group Financial Highlights

€ in millions	2008	2007	+/- %
Electricity sales (billion kWh)	614.6	487.0	+26
Gas sales (billion kWh)	1,224.0	1,092.3	+12
Sales	86,753	68,731	+26
Adjusted EBITDA	13,385	12,450	+8
Adjusted EBIT	9,878	9,208	+7
Net income	1,604	7,724	-79
Net income attributable to shareholders of E.ON AG	1,266	7,204	-82
Adjusted net income	5,598	5,115	+9
Economic investments	26,236	12,456	+111
Cash provided by operating activities of continuing operations	6,738	8,726	-23
Economic net debt (at year-end)	-44,946	-23,432	-21,514 ¹
Pro forma debt factor ²	3.2	1.9	+1.3 ¹
Equity	38,427	55,130	-30
Total assets	157,045	137,294	+14
ROCE (%)	12.9	14.5	-1.6 ³
Pretax cost of capital (%)	9.1	9.1	-
After-tax cost of capital (%)	6.7	6.1	+0.6 ³
Value added	2,902	3,417	-15
Employees (at year-end)	93,538	87,815	+7
Earnings per share ^{4,5} (€)	0.68	3.69	-82
Equity per share ^{4,5} (€)	18.10	26.06	-31
Dividend per share ⁵ (€)	1.50	1.37	+9.5
Dividend payout	2,857	2,560	+12
Market capitalization ⁶ (€ in billions)	54.2	92.0	-41

¹Change in absolute terms.

²Ratio of economic net debt and adjusted EBITDA.

³Change in percentage points.

⁴Attributable to shareholders of E.ON AG.

⁵Subsequent to, or adjusted for, the stock split.

⁶Based on the number of shares outstanding.

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Company Report

- **Our Company.**
A profile of our business and the key issues that affect it.
- **Our People.**
Our Board of Management, our Supervisory Board, and our employees.
- **Our Stock.**
Our stock's performance and an overview of our funding program.
- **Our Strategy.**
Everything about our strategy, from our key beliefs to our growth targets.
- **Our Structure.**
A detailed look at all of our market units.

You can download our Company Report, or order the print version, at eon.com/brochures.

¹Part of the Combined Group Management Report.

- 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.

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

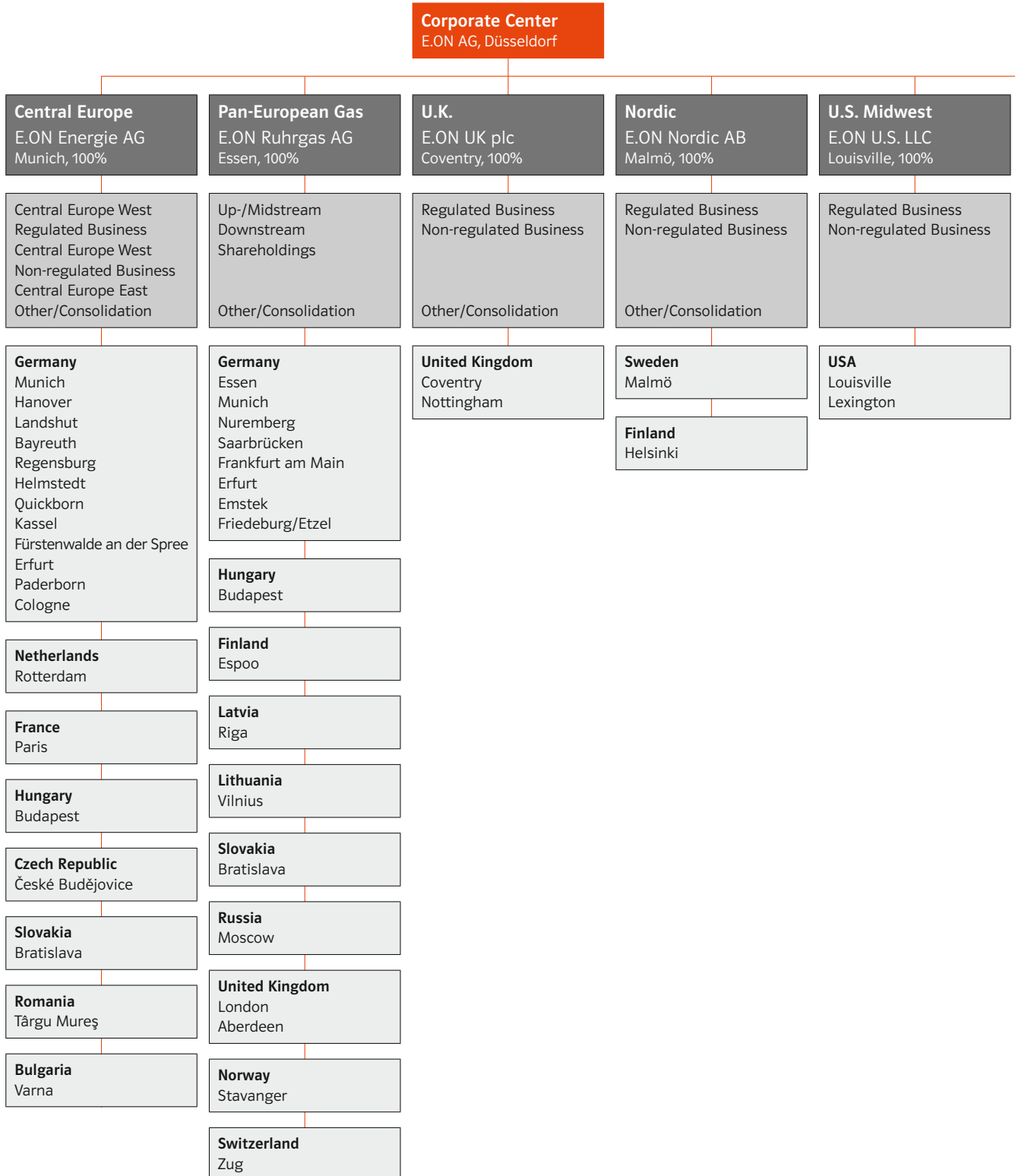
We have managed our European trading operations centrally from Düsseldorf since the start of 2008. E.ON Energy Trading AG brings together our market price risk management activities for power, gas, coal, oil, CO₂ allowances, and other related commodities. The new market unit operates across Europe's 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 Facilities¹¹Corporate 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 the 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

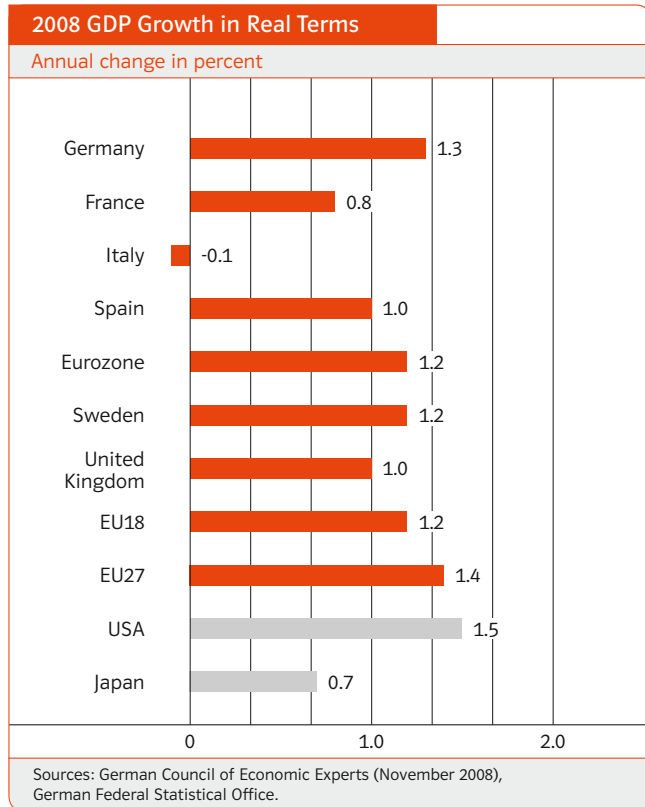
Economic development in 2008 was characterized by the onset of the global slowdown, the escalating financial crisis, and the mutually exacerbating effects of these two phenomena. According to an estimate by the German Council of Economic Experts ("GCEE"), global gross domestic product ("GDP") increased 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

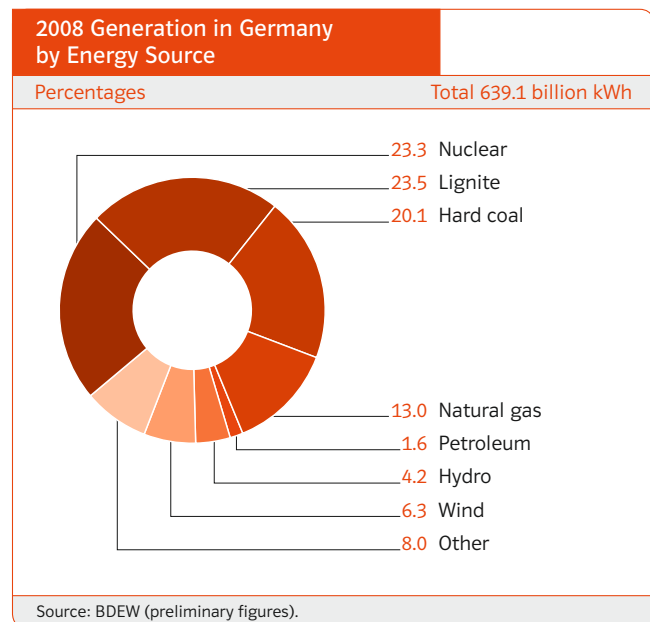
availability. Hydroelectric and wind-power production were essentially unchanged from the prior year. Renewables' share of primary energy consumption rose from 7 percent in 2007 to 7.4 percent in 2008.

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
Total	100.0	100.0

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.

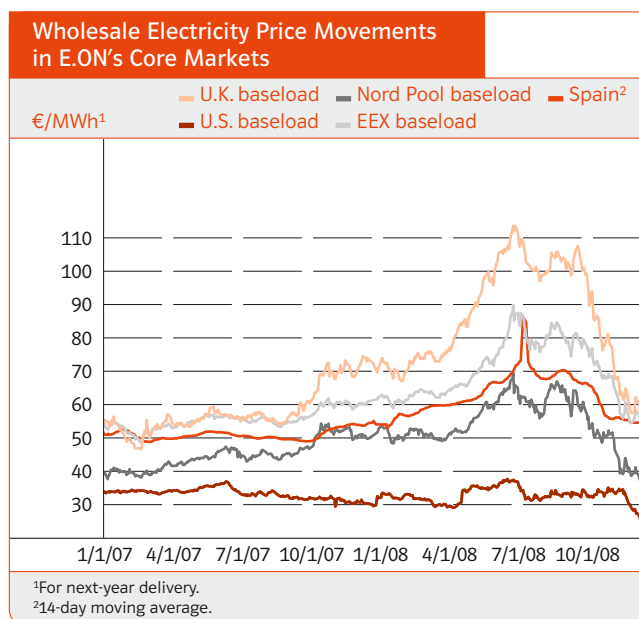
Peninsular electricity consumption in Spain amounted to 264 billion kWh in 2008, an increase of 0.9 percent over 2007. Gas consumption rose by 9.9 percent to 449 billion kWh, mainly due to higher demand from combined-cycle gas turbines (“CCGT”). Higher production from CCGTs was needed to make up for 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.



Prices 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.

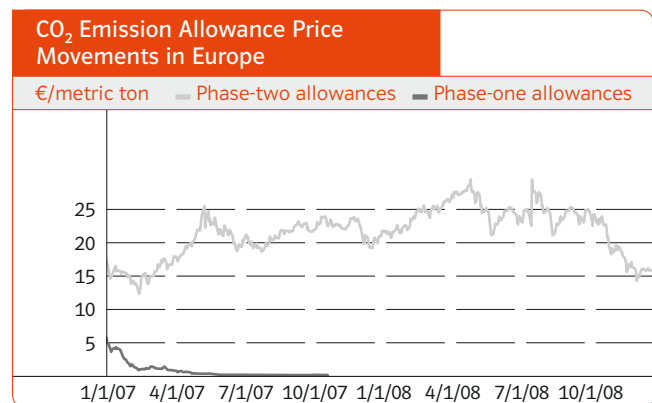
Nordic power prices were also influenced by the movement of fuel prices, although the high availability of hydroelectric plants moderated this factor in the first half of the year and enhanced it in the second half. The hydrological balance, which was above normal in the first and second quarters of 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.

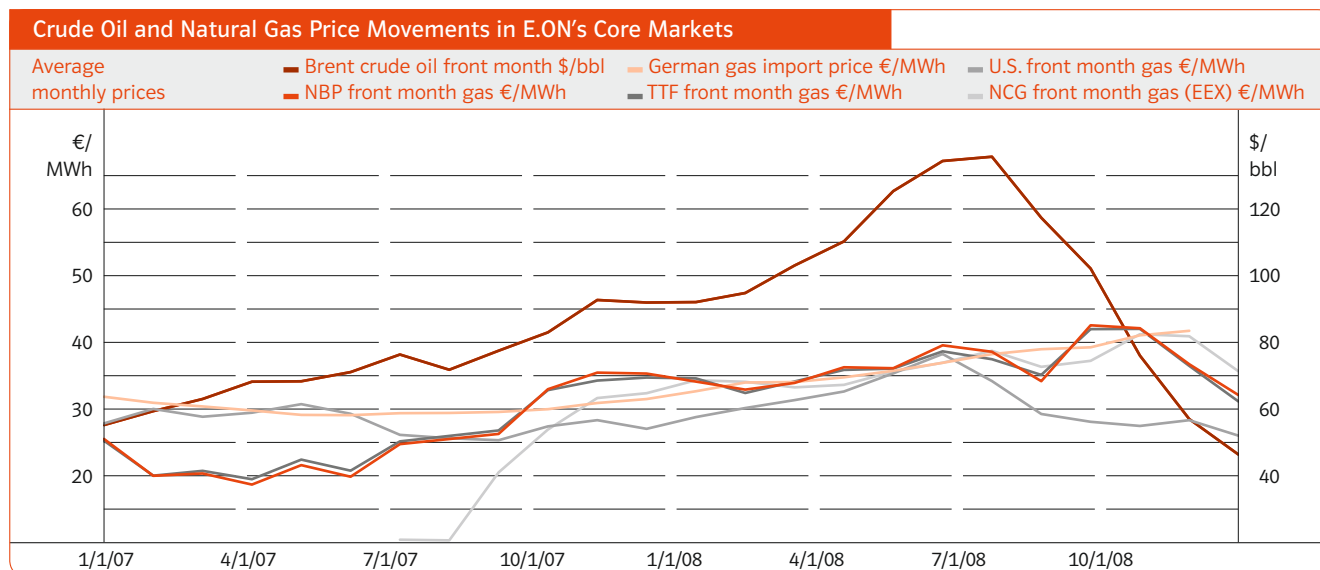
Power prices in the United States also tracked natural gas prices, increasing until mid-year and then declining in the second half to about 20 percent below their level at the start of the year.

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.



CO₂ 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.

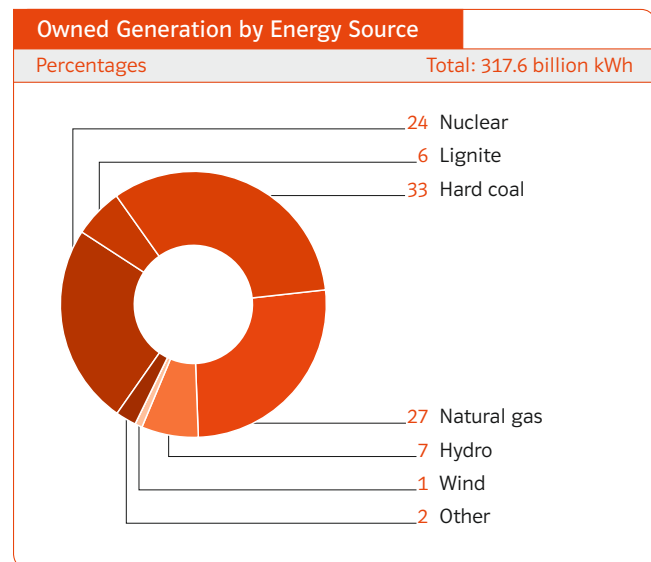
U.S. Midwest's attributable generating capacity at year-end 2008 was 7,507 MW, slightly below the year-end 2007 figure of 7,519 MW.

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
Germany	25,043	26,251	-5
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
Outside Germany	49,323	35,999	+37
E.ON Group	74,366	62,250	+19

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
Total	389.7	327.2	92.9	77.9	56.6	45.5	38.3	38.1	347.2	-	96.6	16.8	-385.8	-	635.5	505.5
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
Power sales	376.2	313.7	92.8	77.8	54.7	43.4	36.4	35.9	347.2	-	93.1	16.2	-358.8	-	614.6	487.0

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
Total (million barrels of oil equivalent)	14.4	9.8	+47

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 ₂ 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
Total	376.2	313.7	92.8	77.8	54.7	43.4	36.4	35.9	347.2	-	93.1	16.2	-385.8	-	614.6	487.0

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
E.ON Ruhrgas AG total sales	687.0	712.8	-4
Intragroup sales	210.1	120.2	+75
E.ON Ruhrgas AG external sales	476.9	592.6	-20
Downstream Shareholdings	191.5	197.5	-3
Pan-European Gas	668.4	790.1	-15
Other market units	555.6	302.2	-
E.ON Group	1,224.0	1,092.3	+12

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
Total	130.2	126.2	112.4	157.1	5.1	5.3	13.9	13.6	493.6	-	32.6	-	-232.2	-	555.6	302.2

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 ¹ (€)	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 ²	48.53
Market capitalization ³ (€ in billions)	54.2	92.0

¹Attributable to shareholders of E.ON AG.
²Year-end closing price on December 30, 2008.
³Based 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	-
Total	86,753	68,731	+26

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
Central Europe	41,135	32,029	+28

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
Pan-European Gas	27,422	22,745	+21

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
U.K.	11,051	12,584	-12

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
Nordic	3,877	3,339	+16

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
U.S. Midwest	1,880	1,819	+3

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	-	-
Energy Trading	31,760	-	-

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
Total	9,878	9,208	+7

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	-
Central Europe	4,720	4,670	+1

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 CO₂ 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
Pan-European Gas	2,631	2,576	+2

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
U.K.	922	1,136	-19

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
Nordic	770	670	+15

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
U.S. Midwest	395	388	+2

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	-	-
Energy Trading	645	-	-

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 CO₂ 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	+/- %
Adjusted EBIT	9,878	9,208	+7
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	-
Income/loss from continuing operations before income taxes	2,595	9,683	-73
Income taxes	-863	-2,289	-
Income/loss from continuing operations	1,732	7,394	-77
Income/loss from discontinued operations, net	-128	330	-
Net income	1,604	7,724	-79
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
Total	-1,835	-960

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	-
Total	5,598	5,115	+9

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 ¹	4.0%	4.0%
Beta factor ²	0.88	0.85
Cost of equity after taxes	8.0%	7.7%
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%) ³	1.5%	1.6%
Cost of debt after taxes	4.2%	3.1%
Share of equity	65%	65%
Share of debt	35%	35%
Cost of capital after taxes	6.7%	6.1%
Cost of capital before taxes	9.1%	9.1%

¹The market premium reflects the higher long-term returns of the stock market compared with German treasury notes.

²The 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.

³The 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
Adjusted EBIT	9,878	9,208
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 ¹	7,784	9,807
- Non-interest-bearing liabilities, including deferred expenses and deferred tax liabilities	50,543	31,349
- Adjustments ²	1,664	9,692
Capital employed in continuing operations (at year-end)	81,137	67,935
Capital employed in continuing operations (annual average)³	76,363	63,287
ROCE	12.9%	14.5%
Cost of capital	9.1%	9.1%
Value added	2,902	3,417

¹Non-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.

²Capital 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.

³In 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 ¹		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

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

²For 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 valued 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 ²	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.

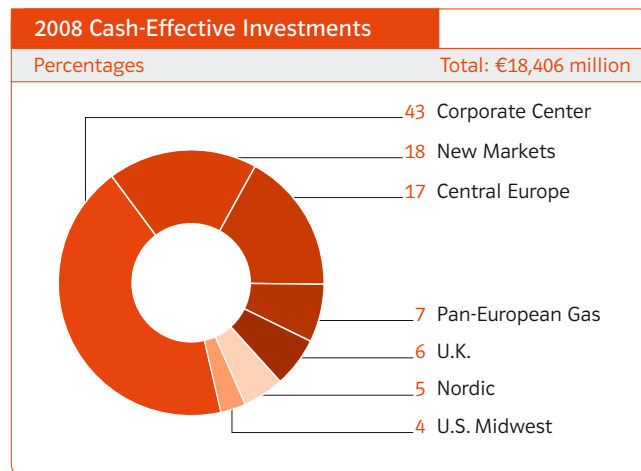
Cash-Effective Investments			
€ in millions	2008	2007	+/- %
Central Europe	3,188	2,581	+24
Pan-European Gas	1,215	2,424	-50
U.K.	1,162	1,364	-15
Nordic	939	914	+3
U.S. Midwest	650	690	-6
Energy Trading	8	-	-
New Markets	3,305	207	-
Corporate Center	7,939	3,126	-
Total	18,406	11,306	+63
<i>Outside Germany</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	-
Total	26,236	12,456

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.

Cash Provided by Operating Activities of Continuing Operations			
€ 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
Cash provided by operating activities of continuing operations	6,738	8,726	-1,988
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 intragroup settlement processes. The high negative figure is mostly attributable to intragroup payments and to a large increase in its inventory of CO₂ 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
Net increase (decrease) in cash and cash equivalents maturing	1,051	1,745
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
Total liquid funds and non-current securities	11,365	13,970
Financial liabilities to banks and third parties	-39,095	-19,357
Financial liabilities to Group companies	-1,963	-2,107
Total financial liabilities	-41,058	-21,464
Net financial position	-29,693	-7,494
Fair value (net) of currency derivatives used for financing transactions ¹	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
Economic net debt	-44,946	-23,432
Adjusted EBITDA	13,385	12,450
Debt factor	3.4	1.9
Pro forma debt factor	3.2	1.9

¹Does 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
Total assets	157,045	100	137,294	100
Equity	38,427	24	55,130	40
Non-current liabilities	62,973	40	52,402	38
Current liabilities	55,645	36	29,762	22
Total equity and liabilities	157,045	100	137,294	100

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
Non-current assets	27,719	27,825
Receivables from affiliated companies	39,852	20,466
Other receivables and assets	3,777	2,569
Liquid funds	415	1,634
Current assets	44,044	24,669
Total assets	71,763	52,494
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
Total equity and liabilities	71,763	52,494

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
Income from continuing operations before income taxes	3,914	6,437
Income taxes	-1,025	-1,321
Net income	2,889	5,116
Net earnings carried forward	30	-
Net income transferred to retained earnings	-62	-2,526
Net income available for distribution	2,857	2,590

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.

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 ¹	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 ²	3,054	559	-
Total	93,538	87,815	+7
Discontinued operations ³	474	474	-

¹Figures do not include apprentices, managing directors, and board members.
²Includes E.ON IS in 2008.
³Contains 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 ¹	
	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 ²	5,607

¹Includes board members, managing directors, and apprentices.
²Includes 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[®] 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 ¹	90
E.ON Group	2,705
¹ 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, 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 CO₂ 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 CO₂ 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 ¹ : 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	-
Total	13.0	100

¹Cash-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.

Auditor's Report

We have audited the consolidated financial statements prepared by the E.ON AG, Düsseldorf, comprising the balance sheet, the income statement, statement of recognized income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the Company, for the business year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit

includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the 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 consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 4, 2009

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Norbert Vogelpoth
Wirtschaftsprüfer
(German Public Auditor)

Dr. Norbert Schwieters
Wirtschaftsprüfer
(German Public Auditor)

E.ON AG and Subsidiaries Consolidated Statements of Income			
€ in millions	Notes	2008	2007
Sales including electricity and energy taxes		88,885	70,761
Electricity and energy taxes		-2,132	-2,030
Sales	(5)	86,753	68,731
Changes in inventories (finished goods and work in progress)		27	22
Own work capitalized	(6)	526	517
Other operating income	(7)	15,454	7,776
Cost of materials	(8)	-66,419	-50,223
Personnel costs	(11)	-5,130	-4,597
Depreciation, amortization and impairment charges	(14)	-6,890	-3,194
Other operating expenses	(7)	-20,337	-9,724
Income/Loss (-) from companies accounted for under the equity method		962	1,147
Income/Loss (-) from continuing operations before financial results and income taxes		4,946	10,455
Financial results	(9)	-2,351	-772
<i>Income from equity investments</i>	(9)	-458	179
<i>Income from other securities, interest and similar income</i>	(9)	1,159	1,035
<i>Interest and similar expenses</i>	(9)	-3,052	-1,986
Income taxes	(10)	-863	-2,289
Income/Loss (-) from continuing operations		1,732	7,394
Income/Loss (-) from discontinued operations, net	(4)	-128	330
Net income		1,604	7,724
<i>Attributable to shareholders of E.ON AG</i>		1,266	7,204
<i>Attributable to minority interests</i>		338	520
in €			
Earnings per share			
(attributable to shareholders of E.ON AG)—basic and diluted	(13)		
from continuing operations		0.75	3.52
from discontinued operations		-0.07	0.17
from net income		0.68	3.69

E.ON AG and Subsidiaries Consolidated Balance Sheets—Assets

€ in millions	Notes	December 31	
		2008	2007
Goodwill	(14a)	17,166	16,761
Intangible assets	(14a)	6,749	4,284
Property, plant and equipment	(14b)	56,526	48,552
Companies accounted for under the equity method	(15)	8,981	8,411
Other financial assets	(15)	8,823	21,478
<i>Equity investments</i>		3,806	14,583
<i>Non-current securities</i>		5,017	6,895
Financial receivables and other financial assets	(17)	2,451	2,449
Operating receivables and other operating assets	(17)	1,295	680
Income tax assets	(10)	1,988	2,034
Deferred tax assets	(10)	2,457	1,155
Non-current assets		106,436	105,804
Inventories	(16)	4,774	3,811
Financial receivables and other financial assets	(17)	2,101	1,515
Trade receivables and other operating assets	(17)	31,342	17,973
Income tax assets	(10)	1,515	539
Liquid funds	(18)	6,348	7,075
<i>Securities and fixed-term deposits</i>		2,125	3,888
<i>Restricted cash and cash equivalents</i>		552	300
<i>Cash and cash equivalents</i>		3,671	2,887
Assets held for sale	(4)	4,529	577
Current assets		50,609	31,490
Total assets		157,045	137,294

E.ON AG and Subsidiaries Consolidated Balance Sheets—Equity and Liabilities			
€ in millions	Notes	December 31	
		2008	2007
Capital stock	(19)	2,001	1,734
Additional paid-in capital	(20)	13,741	11,825
Retained earnings	(21)	22,164	26,828
Accumulated other comprehensive income	(22)	110	10,656
Treasury shares	(19)	-3,549	-616
Reclassification related to put options on treasury shares	(19)	-	-1,053
Equity attributable to shareholders of E.ON AG		34,467	49,374
Minority interests (before reclassification)		4,538	6,281
Reclassification related to put options	(26)	-578	-525
Minority interests	(23)	3,960	5,756
Equity		38,427	55,130
Financial liabilities	(26)	25,036	15,915
Operating liabilities	(26)	6,063	5,432
Income taxes	(10)	2,602	2,537
Provisions for pensions and similar obligations	(24)	3,559	2,890
Miscellaneous provisions	(25)	19,198	18,073
Deferred tax liabilities	(10)	6,515	7,555
Non-current liabilities		62,973	52,402
Financial liabilities	(26)	16,022	5,549
Trade payables and other operating liabilities	(26)	32,060	18,254
Income taxes	(10)	2,153	1,354
Miscellaneous provisions	(25)	4,260	3,992
Liabilities associated with assets held for sale	(4)	1,150	613
Current liabilities		55,645	29,762
Total equity and liabilities		157,045	137,294

E.ON AG and Subsidiaries Consolidated Statements of Recognized Income and Expenses		
€ in millions	2008	2007
Net income	1,604	7,724
Cash flow hedges	180	-81
<i>Unrealized changes</i>	473	-82
<i>Reclassification adjustments recognized in income</i>	-293	1
Available-for-sale securities	-10,186	261
<i>Unrealized changes</i>	-9,769	1,183
<i>Reclassification adjustments recognized in income</i>	-417	-922
Currency translation adjustments	-1,678	-966
<i>Unrealized changes</i>	-1,692	-966
<i>Reclassification adjustments recognized in income</i>	14	-
Changes in actuarial gains/losses of defined benefit pension plans and similar obligations	5	852
Income taxes	1,042	-23
Total income and expenses recognized directly in equity	-10,637	43
Total recognized income and expenses (total comprehensive income)	-9,033	7,767
<i>Attributable to shareholders of E.ON AG</i>	<i>-9,127</i>	<i>7,370</i>
<i>Attributable to minority interests</i>	<i>94</i>	<i>397</i>

E.ON AG and Subsidiaries Consolidated Statements of Cash Flows		
€ in millions	2008	2007
Net income	1,604	7,724
Income from discontinued operations, net	128	-330
Depreciation, amortization and impairment of intangible assets and of property, plant and equipment	6,890	3,194
Changes in provisions	635	-146
Changes in deferred taxes	-1,056	-35
Other non-cash income and expenses	229	-111
Gain/Loss on disposal of	-1,407	-1,502
<i>Intangible assets and property, plant and equipment</i>	-362	-52
<i>Equity investments</i>	-877	-444
<i>Securities (> 3 months)</i>	-168	-1,006
Changes in operating assets and liabilities and in income taxes	-285	-68
<i>Inventories</i>	-1,454	321
<i>Trade receivables</i>	-4,616	455
<i>Other operating receivables and income tax assets</i>	-10,172	-724
<i>Trade payables</i>	515	-958
<i>Other operating liabilities and income taxes</i>	15,442	838
Cash provided by operating activities of continuing operations (operating cash flow)	6,738	8,726
Proceeds from disposal of	432	1,431
<i>Intangible assets and property, plant and equipment</i>	190	293
<i>Equity investments</i>	242	1,138
Purchase of investments in	-18,406	-11,306
<i>Intangible assets and property, plant and equipment</i>	-8,996	-6,916
<i>Equity investments</i>	-9,410	-4,390
Proceeds from disposal of securities (> 3 months) and of financial receivables and fixed-term deposits	10,235	9,914
Purchase of securities (> 3 months) and of financial receivables and fixed-term deposits	-9,099	-9,114
Changes in restricted cash and cash equivalents	-240	286
Cash used for investing activities of continuing operations	-17,078	-8,789
Payments received/made from changes in capital	62	55
Payments for treasury shares, net	-2,951	-3,500
Premiums received for put options on treasury shares	25	64
Cash dividends paid to shareholders of E.ON AG	-2,560	-2,210
Cash dividends paid to minority shareholders	-377	-237
Proceeds from financial liabilities	22,976	12,533
Repayments of financial liabilities	-5,784	-4,897
Cash provided by financing activities of continuing operations	11,391	1,808
Net increase in cash and cash equivalents from continuing operations	1,051	1,745
Cash provided by operating activities of discontinued operations	15	12
Cash used for investing activities of discontinued operations	-15	-12
Cash provided by financing activities of discontinued operations	-	-
Net increase in cash and cash equivalents from discontinued operations	0	0
Effect of foreign exchange rates on cash and cash equivalents	-267	-12
Cash and cash equivalents at the beginning of the year	2,887	1,154
Cash and cash equivalents at the end of the year	3,671	2,887
Supplementary Information on Cash Flows from Operating Activities		
Income taxes paid (less refunds)	-1,490	-1,822
Interest paid	-1,543	-1,134
Interest received	877	814
Dividends received	1,138	1,325

Addition information on the Statements of Cash Flows is provided in Note 29.

Statement of Changes in Equity

€ in millions	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income		
				Currency translation adjustments	Available-for-sale securities	Cash flow hedges
Balance as of January 1, 2007	1,799	11,760	24,350	632	10,491	-90
Changes in scope of consolidation						
Treasury shares repurchased/sold						
Capital increase						
Capital decrease	-65	65	-3,115			
Dividends paid			-2,210			
Other changes						
Net additions/disposals from the reclassification related to put options			56			
Total comprehensive income			7,747	-950	590	-17
<i>Net income</i>			7,204			
<i>Changes in actuarial gains/losses of defined benefit pension plans and similar obligations</i>			543			
<i>Other comprehensive income</i>				-950	590	-17
Balance as of December 31, 2007	1,734	11,825	26,828	-318	11,081	-107
Balance as of January 1, 2008	1,734	11,825	26,828	-318	11,081	-107
Changes in scope of consolidation						
Treasury shares repurchased/sold						
Capital increase	267	1,916				
Capital decrease						
Dividends paid			-2,560			
Other changes						
Share additions			-3,469	-310	163	-35
Net additions/disposals from the reclassification related to put options			128			
Total comprehensive income			1,237	-1,919	-8,568	123
<i>Net income</i>			1,266			
<i>Changes in actuarial gains/losses of defined benefit pension plans and similar obligations</i>			-29			
<i>Other comprehensive income</i>				-1,919	-8,568	123
Balance as of December 31, 2008	2,001	13,741	22,164	-2,547	2,676	-19

Treasury shares	Put options on treasury shares	Equity attributable to shareholders of E.ON AG	Minority interests (before reclassification)	Reclassification related to put options	Minority interests	Total
-230	0	48,712	4,994	-2,461	2,533	51,245
		0	1,067		1,067	1,067
-386		-386				-386
		0	180		180	180
		-3,115	-64		-64	-3,179
		-2,210	-237		-237	-2,447
		0	-56		-56	-56
	-1,053	-997		1,936	1,936	939
		7,370	397		397	7,767
		7,204	520		520	7,724
		543	66		66	609
		-377	-189		-189	-566
-616	-1,053	49,374	6,281	-525	5,756	55,130
-616	-1,053	49,374	6,281	-525	5,756	55,130
		0	267		267	267
-2,933		-2,933				-2,933
		2,183	153		153	2,336
		0	-23		-23	-23
		-2,560	-418		-418	-2,978
		0	-194		-194	-194
		-3,651	-1,622		-1,622	-5,273
	1,053	1,181		-53	-53	1,128
		-9,127	94		94	-9,033
		1,266	338		338	1,604
		-29	-47		-47	-76
		-10,364	-197		-197	-10,561
-3,549	0	34,467	4,538	-578	3,960	38,427

(1) Basis of Presentation

Based in Germany, the E.ON Group ("E.ON" or the "Group") is an international group of companies with integrated electricity and gas operations. The E.ON Group's reportable segments are presented in line with the Group's internal organizational and reporting structure, as defined by International Financial Reporting Standard ("IFRS") 8, "Operating Segments" ("IFRS 8"):

- The Central Europe market unit, led by E.ON Energie AG ("E.ON Energie"), Munich, Germany, operates E.ON's electricity business and the downstream gas business in Central Europe.
- Pan-European Gas is responsible for the upstream and midstream gas business. Moreover, this market unit holds predominantly minority shareholdings in the downstream gas business. This market unit is led by E.ON Ruhrgas AG ("E.ON Ruhrgas"), Essen, Germany.
- The U.K. market unit encompasses the energy business in the United Kingdom. This market unit is led by E.ON UK plc ("E.ON UK"), Coventry, U.K.
- The Nordic market unit, which is led by E.ON Nordic AB ("E.ON Nordic"), Malmö, Sweden, focuses on the energy business in Northern Europe. It operates through the integrated energy company E.ON Sverige AB ("E.ON Sverige"), Malmö, Sweden.
- The U.S. Midwest market unit, led by E.ON U.S. LLC ("E.ON U.S."), Louisville, Kentucky, U.S., is primarily active in the regulated energy market in the U.S. state of Kentucky.
- The Energy Trading market unit, led by E.ON Energy Trading AG ("E.ON Energy Trading"), Düsseldorf, Germany, has been conducting the trading activities of the Central Europe, Pan-European Gas, Nordic, and U.K. market units since January 1, 2008. Energy Trading thus combines E.ON's European trading activities for electricity, gas, coal, oil and CO₂ allowances.

- All of the remaining operating segments have been combined and are reported as "New Markets" in accordance with IFRS 8. New Markets contain the activities of the new Climate & Renewables, Italy, and Russia market units, which began operations on January 1, 2008, and, since July 1, 2008, the Spain market unit as well. This segment also includes the activities acquired in the wake of the agreement with Enel S.p.A. ("Enel"), Rome, Italy, and Acciona S.A. ("Acciona"), Madrid, Spain, on the one hand and Endesa S.A. ("Endesa"), Madrid, Spain, on the other hand, which were fully consolidated as of June 30, 2008. The French activities that were also part of the agreement are reported within the Central Europe segment since the third quarter of 2008.

Furthermore, Corporate Center/Consolidation contains E.ON AG itself ("E.ON" or the "Company"), the interests held directly by E.ON AG, as well as the consolidation effects that take place at Group level. Note 33 provides additional information about the segments.

These Consolidated Financial Statements have been prepared in accordance with Section 315a (1) of the German Commercial Code ("HGB") and with those IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that were adopted by the European Commission for use in the EU as of the end of the fiscal year, and whose application was mandatory as of December 31, 2008. In addition, E.ON has opted for the voluntary early adoption of IFRS 8 since 2007, and also of the revised version of International Accounting Standard ("IAS") 23, "Borrowing Costs" ("IAS 23") since 2008.

(2) Summary of Significant Accounting Policies

General Principles

The Consolidated Financial Statements are generally prepared based on historical cost, with the exception of available-for-sale financial assets that are recognized at fair value and of financial assets and liabilities (including derivative financial instruments) that must be recognized in income at fair value.

Scope of Consolidation

The Consolidated Financial Statements incorporate the financial statements of E.ON AG and entities controlled by E.ON ("subsidiaries"). Control is achieved when the parent company has the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. In addition, special purpose entities are consolidated when the substance of the relationship indicates that the entity is controlled by E.ON.

The results of the subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Income from the date of acquisition or until the date of the disposal, respectively.

Where necessary, adjustments are made to the subsidiaries' financial statements to bring their accounting policies into line with those of the Group. Intercompany receivables, liabilities and results between Group companies are eliminated in the consolidation process.

Associated Companies

An associate is an entity over which E.ON has significant influence but which is neither a subsidiary nor an interest in a joint venture. Significant influence is achieved when E.ON has the power to participate in the financial and operating policy decisions of the investee but does not control or jointly control these decisions. Significant influence is generally presumed if E.ON directly or indirectly holds at least 20 percent, but less than 50 percent, of an entity's voting rights.

Interests in associated companies are accounted for under the equity method. In addition, majority-owned companies in which E.ON does not exercise control due to restrictions concerning the control of assets or management are also generally accounted for under the equity method.

Interests in associated companies accounted for under the equity method are reported on the balance sheet at cost, adjusted for changes in the Group's share of the net assets after the date of acquisition, as well as any impairment charges. Losses that might potentially exceed the Group's interest in an associated company when attributable long-term loans are taken into consideration are not recognized. Any goodwill resulting from the acquisition of an associated company is included in the carrying amount of the investment.

Unrealized gains and losses arising from transactions with associated companies accounted for under the equity method are eliminated within the consolidation process on a pro-rata basis if and insofar as these are material.

Companies accounted for under the equity method are tested for impairment by comparing the carrying amount with its recoverable amount. If the carrying amount exceeds the recoverable amount, the carrying amount is adjusted in the amount of this difference. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed accordingly.

The financial statements of equity interests accounted for under the equity method are generally prepared using accounting that is uniform within the Group.

Joint Ventures

Joint ventures are also accounted for under the equity method. Unrealized gains and losses arising from transactions with joint-venture companies are eliminated within the consolidation process on a pro-rata basis if and to the extent these are material.

Business Combinations

Business combinations are accounted for by applying the purchase method, whereby the purchase price is offset against the proportional share in the acquired company's net assets. In doing so, the values at the acquisition date that corresponds to the date at which control of the acquired company was attained are used as a basis. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values, regardless of the extent attributable to minority interests. The fair values of individual assets are determined using published exchange or market prices at the time of acquisition in the case of marketable securities, for example, and in the case of land, buildings and major technical equipment, generally using independent expert reports that have been prepared by third parties. If exchange or market prices are unavailable for consideration, fair values are determined using the most reliable information available that is based on market prices for comparable assets or on suitable valuation techniques. In such cases, E.ON determines fair value using the discounted cash flow method by discounting estimated future cash flows by a weighted average cost of capital. Estimated cash flows are consistent with the internal mid-term planning data for the next three years, followed by two additional years of cash flow projections, which are extrapolated until the end of an asset's useful life using a growth rate based on industry and internal projections. The discount rate reflects the specific risks inherent in the acquired activities.

Transactions with minority shareholders are treated in the same way as transactions with equity holders. Should the acquisition of additional shares in a subsidiary result in a difference between the cost of purchasing the shares and the carrying amount of the minority interest acquired, that difference must be fully recognized in equity.

Gains and losses from disposals of shares to minority shareholders are also recognized in equity, provided that such disposals do not result in a loss of control.

Intangible assets must be recognized separately from goodwill if they are clearly separable or if their recognition arises from a contractual or other legal right. Provisions for restructuring measures may not be recorded in a purchase price allocation.

If the purchase price paid exceeds the proportional share in the net assets at the time of acquisition, the positive difference is recognized as goodwill. A negative difference is immediately recognized in income.

Foreign Currency Translation

The Company's transactions denominated in foreign currencies are translated at the current exchange rate at the date of the transaction. Monetary foreign currency items are adjusted to the current exchange rate at each balance sheet date; any gains and losses resulting from fluctuations in the relevant currencies, and the effects upon realization, are expensed and reported as other operating income and other operating expenses, respectively. Gains and losses from the translation of financial instruments used in hedges of net investments in its foreign operations are recognized in equity. The ineffective portion of the hedging instrument is immediately recognized in income.

The functional currency as well as the reporting currency of E.ON AG is the euro. The assets and liabilities of the Company's foreign subsidiaries with a functional currency other than the euro are translated using the exchange rates applicable on the balance sheet date, while items of the statements of income are translated using annual average exchange rates. Significant transactions of foreign subsidiaries occurring during the fiscal year are translated in the financial statements using the exchange rate at the date of the transaction. Differences arising from the translation of assets and liabilities, as well as gains or losses in comparison with the translation of prior years, are included as a separate component of equity and accordingly have no effect on net income.

Foreign currency translation effects that are attributable to the cost of monetary financial instruments classified as available for sale are recognized in income. In the case of fair-value adjustments of monetary financial instruments and for non-monetary financial instruments classified as available for sale, the foreign currency translation effects are recognized in equity with no effect on net income.

The following table depicts the movements in exchange rates for the periods indicated for major currencies of countries outside the European Monetary Union:

Currencies					
	ISO Code	€1, rate at year-end		€1, annual average rate	
		2008	2007	2008	2007
British pound	GBP	0.95	0.73	0.80	0.68
Norwegian krone	NOK	9.75	7.97	8.22	8.02
Russian ruble	RUB	41.28	35.99	36.42	34.99
Swedish krona	SEK	10.87	9.45	9.62	9.25
Hungarian forint	HUF	266.70	253.81	251.51	251.34
U.S. dollar	USD	1.39	1.47	1.47	1.37

Recognition of Income

a) Revenues

The Company generally recognizes revenue upon delivery of products to customers or upon fulfillment of services. Delivery is deemed complete when the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable. Revenues from the sale of goods and services are measured at the fair value of the consideration received or receivable. They reflect the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and period-end.

Revenues are presented net of sales taxes, returns, rebates and discounts, and after elimination of intercompany sales.

Revenues are generated primarily from the sale of electricity and gas to industrial and commercial customers and to retail customers. Also shown in this line item are revenues earned from the distribution of electricity and gas, from deliveries of steam, heat and water, as well as from proprietary trading.

b) Interest Income

Interest income is recognized pro rata using the effective interest method.

c) Dividend Income

Dividend income is recognized when the right to receive the distribution payment arises.

Electricity and Energy Taxes

The electricity tax is levied on electricity delivered to retail customers and is calculated on the basis of a fixed tax rate per kilowatt-hour ("kWh"). This rate varies between different classes of customers. Electricity and energy taxes paid are deducted from sales revenues on the face of the income statement if those taxes are levied upon delivery of energy to the retail customer.

Accounting for Sales of Shares of Subsidiaries or Associated Companies

If a subsidiary or associated company sells shares to a third party, leading to a reduction in E.ON's ownership interest in the relevant company ("dilution"), and consequently to a loss of control or significant influence, gains and losses from these dilutive transactions are included in the income statement under other operating income or expenses.

Earnings per Share

Basic (undiluted) earnings per share is computed by dividing the consolidated net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the relevant period. At E.ON the computation of diluted earnings per share is identical to basic earnings per share, because E.ON AG has no dilutive potential ordinary shares.

Goodwill and Intangible Assets

Goodwill

According to IFRS 3, "Business Combinations" ("IFRS 3"), goodwill is not amortized, but rather tested for impairment at the cash-generating unit level on at least an annual basis. Impairment tests must also be performed between these annual tests if events or changes in circumstances indicate that the carrying amount of the respective cash-generating unit might not be recoverable.

Newly created goodwill is allocated to those cash-generating units expected to benefit from the respective business combination. The cash-generating units regularly used at E.ON for goodwill impairment testing purposes are the operating units one level below the segments or the segments themselves.

In a goodwill impairment test, the recoverable amount of a cash-generating unit is compared with its carrying amount, including goodwill. The recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value in use. In a first step, E.ON determines the recoverable amount of a cash-generating unit on the basis of the fair value (less costs to sell) using generally accepted valuation procedures. This is based on the medium-term planning data of the respective cash-generating unit. Valuation is performed using the discounted cash flow method, and accuracy is normally verified through the use of appropriate multiples. In addition, market transactions or valuations prepared by third parties for comparable assets are used to the extent available. Where necessary, a calculation of value in use is also performed. Unlike fair value, the value in use is calculated from the viewpoint of management. In accordance with IAS 36, "Impairment of Assets" ("IAS 36"), it is further ensured that restructuring expenses, as well as initial and subsequent capital investments (where those have not yet commenced), in particular, are not included in the valuation.

If the carrying amount exceeds the recoverable amount, the goodwill allocated to that cash-generating unit is adjusted in the amount of this difference.

If the impairment thus identified exceeds the goodwill allocated to the affected cash-generating unit, the remaining assets of the unit must be written down in the proportion of their carrying amounts. Individual assets may be written down only if their respective carrying amounts do not fall below the highest of the following as a result:

- Fair value less costs to sell
- Value in use, or
- Zero.

Any additional impairment loss that would otherwise have been allocated to the asset concerned must instead be allocated pro rata to the remaining assets of the unit.

E.ON has elected to perform the annual testing of goodwill for impairment at the cash-generating unit level in the fourth quarter of each fiscal year.

Impairment losses recognized for goodwill in a cash-generating unit may not be reversed in subsequent reporting periods.

Intangible Assets

IAS 38, "Intangible Assets" ("IAS 38"), requires that intangible assets be amortized over their useful lives unless their lives are considered to be indefinite.

Acquired intangible assets subject to amortization are classified as marketing-related, customer-related, contract-based, and technology-based. Internally generated intangible assets subject to amortization are related to software. Intangible assets subject to amortization are measured at cost and amortized using the straight-line method over their expected useful lives, generally for a period between 5 and 25 years or between 3 and 5 years for software, respectively. Furthermore, contract-based intangible assets are amortized in accordance with the provisions specified in the contracts. Useful lives and amortization methods are subject to annual verification. Intangible assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that such assets may be impaired.

Intangible assets not subject to amortization are measured at cost and tested for impairment annually or more frequently if events or changes in circumstances indicate that such assets may be impaired. Moreover, such assets are reviewed annually to determine whether an assessment of indefinite useful life remains applicable.

In accordance with IAS 36, the carrying amount of an intangible asset, whether subject to amortization or not, is tested for impairment by comparing the carrying value with the asset's recoverable amount, which is the higher of its value in use and its fair value less costs to sell. Should the carrying amount exceed the corresponding recoverable amount, an impairment charge equal to the difference between the carrying amount and the recoverable amount is recognized.

If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed. A reversal shall not cause the carrying amount of an intangible asset subject to amortization to exceed the amount that would have been determined, net of amortization, had no impairment loss been recognized during the period.

If a recoverable amount cannot be determined for an individual intangible asset, the recoverable amount for the smallest identifiable group of assets (cash-generating unit) that the intangible asset may be assigned to is determined. See Note 14(a) for additional information about goodwill and intangible assets.

Research and Development Costs

Under IFRS, research and development costs must be allocated to a research phase and a development phase. While expenditure on research is expensed as incurred, recognized development costs must be capitalized as an intangible asset if all of the general criteria for recognition specified in IAS 38, as well as certain other specific prerequisites, have been fulfilled. In the 2008 and 2007 fiscal years, these criteria were not fulfilled, except in the case of internally generated software.

Emission Rights

Under IFRS, emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets. Because emission rights are not depleted as part of the production process, they are reported as intangible assets not subject to amortization. Emission rights are capitalized at cost when issued for the respective reporting period as (partial) fulfillment of the notice of allocation from the responsible national authorities, or upon acquisition.

A provision is recognized for emissions produced. The provision is measured at the carrying amount of the emission rights held or, in the case of a shortfall, at the current fair value of the emission rights needed. The expenses incurred for the recognition of the provision are reported under cost of materials.

As part of operating activities, emission rights are also held for proprietary trading purposes. Emission rights held for proprietary trading are reported under other operating assets and measured at the lower of cost or fair value.

Property, Plant and Equipment

Property, plant and equipment are initially measured at acquisition or production cost, including decommissioning or restoration cost that must be capitalized, and are depreciated over the expected useful lives of the components, generally using the straight-line method, unless a different method of depreciation is deemed more suitable in certain exceptional cases.

Useful Lives of Property, Plant and Equipment	
Buildings	10 to 50 years
Technical equipment, plant and machinery	10 to 65 years
Other equipment, fixtures, furniture and office equipment	3 to 25 years

Property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that an asset may be impaired. In such a case, property, plant and equipment are tested for impairment according to the principles prescribed for intangible assets in IAS 36. If an impairment loss is determined, the remaining useful life of the asset might also be subject to adjustment, where applicable. If the reasons for previously recognized impairment losses no longer exist, such impairment losses are reversed and recognized in income. Such reversal shall not cause the carrying amount to exceed the amount that would have been presented had no impairment taken place during the preceding periods.

Investment subsidies do not reduce the acquisition and production costs of the respective assets; they are instead reported on the balance sheet as deferred income.

Subsequent costs arising, for example, from additional or replacement capital expenditure are only recognized as part of the acquisition or production cost of the asset, or else—if relevant—recognized as a separate asset if it is probable that the Group will receive a future economic benefit and the cost can be determined reliably.

Repair and maintenance costs that do not constitute significant replacement capital expenditure are expensed as incurred.

Exploration for and Evaluation of Mineral Resources

The exploration and field development expenditures of the Pan-European Gas market unit are accounted for using the so-called "successful efforts method." In accordance with IFRS 6, "Exploration for and evaluation of mineral resources" ("IFRS 6"), expenditures for exploratory drilling for which the outcome is not yet certain are initially capitalized as an intangible asset.

Upon discovery of oil and/or gas reserves and field development approval, the relevant expenditures are reclassified as property, plant and equipment. Such property, plant and equipment is then depreciated in accordance with production volumes. For economically inviable drilling, the previously capitalized expenditures are immediately expensed. Other capitalized expenditures are also written off once it is determined that no viable reserves could be found. Other expenses for geological and geophysical work (seismology) and licensing fees are immediately expensed.

Borrowing Costs

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset from the time of acquisition or from the beginning of construction or production until entry into service are capitalized and subsequently amortized alongside the related asset. In the case of a specific financing arrangement, the respective specific borrowing costs for that arrangement are used. For non-specific financing arrangements, a financing rate uniform within the Group of 5.0 percent was applied for 2008 (2007: 5.0 percent). Other borrowing costs are expensed.

Government Grants

Government investment subsidies do not reduce the acquisition and production costs of the respective assets; they are instead reported on the balance sheet as deferred income. They are amortized on a straight-line basis over the associated asset's expected useful life.

Government grants are recognized at fair value if it is highly probable that the grant will be issued and if the Group satisfies the necessary conditions for receipt of the grant.

Government grants for costs are posted as income over the period in which the costs to be compensated through the respective grants are incurred.

Leasing

Leasing transactions are classified according to the lease agreements and to the underlying risks and rewards specified therein in line with IAS 17, "Leases" ("IAS 17"). In addition, IFRIC 4, "Determining Whether an Arrangement Contains a Lease" ("IFRIC 4"), further defines the criteria as to whether an agreement that conveys a right to use an asset meets the definition of a lease. Certain purchase and supply contracts in the electricity and gas business as well as certain rights of use may be classified as leases if the criteria are met. E.ON is party to some agreements in which it is the lessor and other agreements in which it is the lessee.

Leasing transactions in which E.ON is the lessee are classified either as finance leases or operating leases. If the Company bears substantially all of the risks and rewards incident to ownership of the leased property, the lease is classified as a finance lease. Accordingly, the Company recognizes on its balance sheet the asset and the associated liability in equal amounts.

Recognition takes place at the beginning of the lease term at the lower of the fair value of the leased property or the present value of the minimum lease payments.

The leased property is depreciated over its useful economic life or, if it is shorter, the term of the lease. The liability is subsequently measured using the effective interest method.

All other transactions in which E.ON is the lessee are classified as operating leases. Payments made under operating leases are generally expensed over the term of the lease.

Leasing transactions in which E.ON is the lessor and substantially all the risks and rewards incident to ownership of the leased property are transferred to the lessee are classified as finance leases. In this type of lease, E.ON records the present value of the minimum lease payments as a receivable. Payments by the lessee are apportioned between a reduction of the lease receivable and interest income. The income from such arrangements is recognized over the term of the lease using the effective interest method.

All other transactions in which E.ON is the lessor are treated as operating leases. E.ON retains the leased property on its balance sheet as an asset, and the lease payments are generally recorded on a straight-line basis as income over the term of the lease.

Financial Instruments

Non-Derivative Financial Instruments

Non-derivative financial instruments are recognized at fair value on the settlement date when acquired. Unconsolidated equity investments and securities are measured in accordance with IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). E.ON categorizes financial assets as held for trading, available for sale, or as loans and receivables. Management determines the categorization of the financial assets at initial recognition.

Securities categorized as available for sale are carried at fair value on a continuing basis, with any resulting unrealized gains and losses, net of related deferred taxes, reported as a separate component within equity until realized. Realized gains and losses are recorded based on the specific identification method. Unrealized losses previously recognized in equity are recognized in financial results in the case of substantial impairment. Reversals of impairment losses relating to equity instruments are recognized exclusively in equity.

Loans and receivables (including trade receivables) are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables are reported on the balance sheet under "Receivables and other assets." They are subsequently measured at amortized cost. Valuation allowances are provided for identifiable individual risks.

Non-derivative financial liabilities (including trade payables) within the scope of IAS 39 are measured at amortized cost, using the effective interest method. Initial measurement takes place at fair value plus transaction costs. In subsequent periods, the amortization and accretion of any premium or discount is included in financial results.

Derivative Financial Instruments and Hedging Transactions

Derivative financial instruments and separated embedded derivatives are measured at fair value as of the trade date at initial recognition and in subsequent periods. IAS 39 requires that they be categorized as held for trading as long as they are not a component of a hedge accounting relationship. Gains and losses from changes in fair value are immediately recognized in net income.

Instruments commonly used are foreign currency forwards and swaps, as well as interest-rate swaps and cross-currency swaps. Equity forwards are entered into to cover price risks on securities. In commodities, the instruments used include physically and financially settled forwards and options related to electricity, gas, coal, oil and emission rights. As part of conducting operations in commodities, derivatives are also acquired for proprietary trading purposes.

IAS 39 sets requirements for the designation and documentation of hedging relationships, the hedging strategy, as well as ongoing retrospective and prospective measurement of effectiveness in order to qualify for hedge accounting. The Company does not exclude any component of derivative gains and losses from the measurement of hedge effectiveness. Hedge accounting is considered to be appropriate if the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is 80 to 125 percent effective at offsetting the change in fair value due to the hedged risk of the hedged item or transaction.

For qualifying fair value hedges, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s) are recognized in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's change in fair value is recognized in equity (as a component of accumulated other comprehensive income) and reclassified into income in the period or periods during which the transaction being hedged affects income. The hedging result is reclassified into income immediately if it becomes probable that the hedged underlying transaction will no longer occur. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recognized immediately in the income statement to the extent required. To hedge the foreign currency risk arising from the Company's net investment in foreign operations, derivative as well as non-derivative financial instruments are used. Gains or losses due to changes in fair value and from foreign currency translation are recognized separately within equity as currency translation adjustments.

Changes in fair value of derivative instruments that must be recognized in income are presented as other operating income or expenses. Gains and losses from interest-rate derivatives are netted for each contract and included in interest income. Gains and losses from derivative proprietary trading instruments

are shown net as either revenues or cost of materials. Certain realized amounts are, if related to the sale of products or services, also included in sales or cost of materials.

Unrealized gains and losses resulting from the initial measurement of derivative financial instruments at the inception of the contract are not recognized in income. They are instead deferred and recognized in income systematically over the term of the derivative. An exception to the accrual principle applies if unrealized gains and losses from the initial measurement are verified by quoted market prices, observable prices of other current market transactions or other observable data supporting the valuation technique. In this case the gains and losses are recognized in income.

IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7") requires comprehensive quantitative and qualitative disclosures about the extent of risks arising from financial instruments. Additional information on financial instruments is provided in Notes 30 and 31.

Inventories

The Company measures inventories at the lower of acquisition or production cost and net realizable value. The cost of raw materials, finished products and goods purchased for resale is determined based on the average cost method. In addition to production materials and wages, production costs include material and production overheads based on normal capacity. The costs of general administration are not capitalized. Inventory risks resulting from excess and obsolescence are provided for using appropriate valuation allowances, whereby inventories are written down to net realizable value.

Receivables and Other Assets

Receivables and other assets are initially measured at fair value, which generally approximates nominal value. They are subsequently measured at amortized cost, using the effective interest method. Valuation allowances, included in the reported net carrying amount, are provided for identifiable individual risks. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

Liquid Funds

Liquid funds include current available-for-sale securities, checks, cash on hand and bank balances. Bank balances and available-for-sale securities with an original maturity of more than

three months are recognized under securities and fixed-term deposits. Liquid funds with an original maturity of less than three months are considered to be cash and cash equivalents, unless they are restricted.

Restricted cash with a remaining maturity in excess of twelve months is classified as financial receivables and other financial assets.

Assets Held for Sale and Liabilities Associated with Assets Held for Sale

Individual non-current assets or groups of assets held for sale and any directly attributable liabilities (disposal groups) are reported in these line items if they can be disposed of in their current condition and if there is sufficient probability of their disposal actually taking place. For a group of assets and associated liabilities to be classified as a disposal group, the assets and liabilities in it must be held for sale in a single transaction or as part of a comprehensive plan.

Discontinued operations are components of an entity that are either held for sale or have already been sold and can be clearly distinguished from other corporate operations, both operationally and for financial reporting purposes. Additionally, the component classified as a discontinued operation must represent a major business line or a specific geographic business segment of the Group.

Non-current assets that are held for sale either individually or collectively as part of a disposal group, or that belong to a discontinued operation, are no longer depreciated. They are instead accounted for at the lower of the carrying amount and the fair value less any remaining costs to sell. If the fair value is less than the carrying amount, an impairment loss is recognized.

The income and losses resulting from the measurement of components held for sale at fair value less any remaining costs to sell, as well as the gains and losses arising from the disposal of discontinued operations, are reported separately on the face of the income statement under income/loss from discontinued operations, net, as is the income from the

ordinary operating activities of these divisions. Prior-year income statement figures are adjusted accordingly. The relevant assets and liabilities are reported in a separate line on the balance sheet. The cash flows of discontinued operations are reported separately in the cash flow statement, with prior-year figures adjusted accordingly. However, there is no reclassification of prior-year balance sheet line items attributable to discontinued operations.

Equity Instruments

IFRS defines equity as the residual interest in the Group's assets after deducting all liabilities. Therefore, equity is the net amount of all recognized assets and liabilities.

E.ON has entered into purchase commitments to minority shareholders. By means of these agreements, the minority shareholders have the right to require E.ON to purchase their shares on specified conditions. None of the contractual obligations has led to the transfer of substantially all of the risk and rewards to E.ON at the time of entering into the contract. IAS 32, "Financial Instruments: Presentation" ("IAS 32"), prescribes that a liability must be recognized at the present value of the probable future exercise price. This amount is reclassified from a separate component within minority interests and reported separately as a liability. The reclassification occurs irrespective of the probability of exercise. Expenses resulting from the accretion of the liability are recognized in interest expenses. If a purchase commitment expires unexercised, the liability reverts to minority interests. Any difference between liabilities and minority interests is recognized directly in retained earnings.

Where shareholders of entities own statutory, non-excludable rights of termination (for example, in German partnerships), such termination rights require the reclassification of minority interests from equity into liabilities under IAS 32. The liability is recognized at the present value of the expected settlement amount irrespective of the probability of termination. Changes in the value of the liability are reported within other operating income. Accretion of the liability and the minority shareholders' share in net income are shown as interest expense.

If an E.ON Group company buys treasury shares of E.ON AG, the value of the consideration paid, including directly attributable additional costs (net after income taxes), is deducted from E.ON AG's equity until the shares are retired, distributed or resold. If such treasury shares are subsequently distributed

or sold, the consideration received, net of any directly attributable additional transaction costs and associated income taxes, are added to E.ON AG's equity.

Share-Based Payment

Share-based payment plans issued in the E.ON Group are accounted for in accordance with IFRS 2, "Share-Based Payment" ("IFRS 2"). Both the E.ON Share Performance Plan introduced in fiscal 2006 and the remaining Stock Appreciation Rights that were granted between 1999 and 2005 as part of the virtual stock option program of E.ON AG are share-based payment transactions with cash compensation, the value of which is reported at fair value as of each balance sheet date. Compensation expense is recorded pro rata over the vesting period. E.ON determines fair value using the Monte Carlo simulation technique.

Provisions for Pensions and Similar Obligations

The valuation of defined benefit obligations in accordance with IAS 19, "Employee Benefits" ("IAS 19"), is based on actuarial computations using the projected unit credit method, with actuarial valuations performed at year-end. The valuation encompasses both pension obligations and pension entitlements that are known on the balance sheet date, as well as economic trend assumptions made in order to reflect realistic expectations.

Actuarial gains and losses that may arise from differences between the estimated and actual number of beneficiaries and from differences between the estimated and actual underlying assumptions are recognized in full in the period in which they occur. Such gains and losses are not reported within the Consolidated Statements of Income but rather are recognized within the Statements of Recognized Income and Expenses as part of equity.

The employer service cost representing the additional benefits that employees earned under the benefit plan during the fiscal year is reported under personnel costs; interest cost and expected return on plan assets are reported under financial results.

Unrecognized past service cost is recognized immediately to the extent that the benefits are already vested or else amortized on a straight-line basis over the average period until the benefits become vested.

The amount reported on the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognized past service cost and reduced by the fair value of plan assets. If a net asset position arises from this calculation, the amount is limited to the as yet unrecognized past service cost plus the present value of available refunds and reductions in future contributions.

Payments for defined contribution pension plans are expensed as incurred and reported under personnel costs. Contributions to government pension plans are treated like payments for defined contribution pension plans to the extent that the Group's obligations under these pension plans correspond to those under defined contribution pension plans.

Provisions for Asset Retirement Obligations and Other Provisions

In accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"), provisions are recognized when E.ON has a legal or constructive present obligation towards third parties as a result of a past event, it is probable that E.ON will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The provision is recognized at the expected settlement amount. Long-term obligations are reported as liabilities at the present value of their expected settlement amounts if the interest rate effect (the difference between present value and repayment amount) resulting from discounting is material; future cost increases that are foreseeable and likely to occur on the balance sheet date must also be included in the measurement. Long-term obligations are discounted at the market interest rate applicable as of the respective balance sheet date. The accretion amounts and the effects of changes in interest rates are generally presented as part of financial results. A reimbursement related to the provision that is virtually certain to be collected is capitalized as a separate asset. No offsetting within provisions is permitted. Advance payments remitted are deducted from the provisions.

Obligations arising from the decommissioning or dismantling of property, plant and equipment are recognized during the period of their occurrence at their discounted settlement amounts, provided that the obligation can be reliably estimated. The carrying amounts of the respective property, plant

and equipment are increased by the same amounts. In subsequent periods, capitalized asset retirement costs are amortized over the expected remaining useful lives of the assets, and the provision is accreted to its present value on an annual basis.

Changes in estimates arise in particular from deviations from original cost estimates, from changes to the maturity or the scope of the relevant obligation, and also as a result of the regular adjustment of the discount rate to current market interest rates. The adjustment of provisions for the decommissioning and restoration of property, plant and equipment for changes to estimates is generally recognized by way of a corresponding adjustment to assets, with no effect on income. If the property, plant and equipment to be decommissioned have already been fully depreciated, changes to estimates are recognized within the income statement.

The estimates for non-contractual nuclear decommissioning provisions are based on external studies and are continuously updated.

Under Swedish law, E.ON Sverige is required to pay fees to the Swedish Nuclear Waste Fund. The Swedish Radiation Safety Authority calculates the fees for the disposal of high-level radioactive waste and nuclear power plant decommissioning based on the amount of electricity produced at the particular nuclear power plant. The proposed fees are then submitted to government offices for approval. Upon approval, E.ON Sverige makes the corresponding payments. In accordance with IFRIC 5, "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" ("IFRIC 5"), payments into the Swedish national fund for nuclear waste management are offset by a right of reimbursement of asset retirement obligations, which is recognized as an asset under "Other assets." In accordance with customary procedure in Sweden, the provisions are discounted at the real interest rate.

No provisions are established for contingent asset retirement obligations where the type, scope, timing and associated probabilities can not be determined reliably.

Contingent liabilities are possible obligations toward third parties arising from past events that are not wholly within the control of the entity, or else present obligations toward third parties arising from past events in which an outflow of resources embodying economic benefits is not probable or where the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are generally not recognized on the balance sheet.

Income Taxes

Under IAS 12, "Income Taxes" ("IAS 12"), deferred taxes are recognized on temporary differences arising between the carrying amounts of assets and liabilities on the balance sheet and their tax bases (balance sheet liability method). Deferred tax assets and liabilities are recognized for temporary differences that will result in taxable or deductible amounts when taxable income is calculated for future periods, unless those differences are the result of the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit/loss. IAS 12 further requires that deferred tax assets be recognized for unused tax loss carry-forwards and unused tax credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. Each of the corporate entities is assessed individually with regard to the probability of a positive tax result in future years. Any existing history of losses is incorporated in this assessment. For those tax assets to which these assumptions do not apply, the value of the deferred tax assets is reduced.

Deferred tax liabilities caused by temporary differences associated with investments in affiliated and associated companies are recognized unless the timing of the reversal of such temporary differences can be controlled within the Group and it is probable that, owing to this control, the differences will in fact not be reversed in the foreseeable future.

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to be applicable for taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates and tax law is generally recognized in income. Equity is adjusted for deferred taxes that had previously been recognized directly in equity.

Deferred taxes for domestic companies are calculated using a total tax rate of 30 percent (2007: 30 percent). This tax rate includes, in addition to the 15 percent (2007: 15 percent) corporate income tax, the solidarity surcharge of 5.5 percent on the corporate tax, and the average trade tax rate of 14 percent (2007: 14 percent) applicable to the E.ON Group. The effects

of the 2008 corporate tax reform in Germany are reflected in this calculation. Foreign subsidiaries use applicable national tax rates.

Note 10 shows the major temporary differences so recorded.

Consolidated Statements of Cash Flows

In accordance with IAS 7, "Cash Flow Statements" ("IAS 7"), the Consolidated Statements of Cash Flows are classified by operating, investing and financing activities. Cash flows from discontinued operations are reported separately in the Consolidated Statement of Cash Flows. Interest received and paid, income taxes paid and refunded, as well as dividends received are classified as operating cash flows, whereas dividends paid are classified as financing cash flows. The purchase and sale prices respectively paid and received in connection with the acquisition and disposal of affiliated companies are reported under investing activities, net of the cash and cash equivalents acquired or divested as part of the transaction. This also applies to valuation changes due to exchange rate fluctuations, whose impact on cash and cash equivalents is separately disclosed.

Segment Information

Segment information was presented in accordance with IFRS 8 for the first time in 2007. The so-called management approach required by IFRS 8 stipulates that the internal reporting organization used by management for making decisions on operating matters should be used to identify the Company's reportable segments and that the internal performance measure, i.e., adjusted EBIT, should be used as the segment result (see Note 33).

Structure of the Consolidated Balance Sheets and Statements of Income

In accordance with IAS 1, "Presentation of Financial Statements" ("IAS 1"), the Consolidated Balance Sheets have been prepared using a classified balance sheet structure. Assets that will be realized within twelve months of the reporting date, as well as liabilities that are due to be settled within one year of the reporting date are generally classified as current.

The Consolidated Statements of Income are classified using the nature of expense method, which is also applied for internal purposes.

Capital Structure Management

At the end of May 2007, E.ON announced its future corporate strategy. As part of this strategic reorientation at E.ON, the financial strategy of the Group was also developed further.

Accordingly, E.ON uses the debt factor as the measure for the management of its capital structure. The debt factor is defined as the ratio of economic net debt to adjusted EBITDA. Economic net debt includes provisions for pensions and waste disposal in addition to financial debt. E.ON has set a debt factor of 3 as its target, which is derived from the target rating of single A flat/A2 and is actively managed.

Based on adjusted EBITDA in 2008 of €13,385 million (2007: €12,450 million) and economic net debt of €44,946 million as of the balance sheet date (2007: €23,871 million), the debt factor is 3.4 (2007: 1.9). Economic net debt was adjusted in 2008 to include certain currency derivative positions. The 2007 figure has been adjusted for enhanced comparability.

Critical Accounting Estimates and Assumptions; Critical Judgments in the Application of Accounting Policies

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that may influence the application of accounting principles within the Group and affect the measurement and presentation of reported figures. Estimates are based on past experience and on additional knowledge obtained on transactions to be reported. Actual amounts may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to accounting estimates are recognized in the period in which the estimate is revised if the change affects only that period or in the period of the revision and subsequent periods if both current and future periods are affected.

Estimates are particularly necessary for the measurement of the value of property, plant and equipment and of intangible assets, especially in connection with purchase price allocations, the recognition and measurement of deferred tax assets, the accounting treatment of provisions for pensions and miscellaneous provisions, for impairment testing in accordance with IAS 36, as well as for the determination of the fair value of certain financial instruments.

The underlying principles used for estimates in each of the relevant topics are outlined in the respective sections.

New Standards and Interpretations

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations that have been transferred by the EU into European law and whose application is mandatory in the reporting period from January 1, 2008, through December 31, 2008, or which are being voluntarily applied by E.ON:

IAS 23, "Borrowing Costs"

In March 2007, the IASB issued revised IAS 23. The revision eliminates the option of recognizing borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of such directly attributable borrowing costs is now mandatory. The revised standard is effective for fiscal years beginning on or after January 1, 2009. Earlier application is permitted. Revised IAS 23 has been transferred by the EU into European law, and E.ON has already applied it in the 2008 fiscal year.

Amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets"

In October 2008, the IASB approved amendments to IAS 39, and IFRS 7. These amendments enable the preparer to reclassify individual financial instruments between measurement categories in particular circumstances. This has led to corresponding enhanced disclosure requirements under IFRS 7. The amendments to IAS 39 and IFRS 7 take effect retrospectively as of July 1, 2008, and have been transferred by the EU into European law. In November 2008, the IASB issued a further amendment to clarify the effective date of these amendments. No reclassifications have been undertaken in the E.ON Group.

The IASB and the IFRIC have issued the following additional standards and interpretations. These standards and interpretations are not being applied by E.ON in the 2008 fiscal year, because adoption by the EU remains outstanding at this time for some of them, or because their application is not yet mandatory:

IFRS 1, "First-time Adoption of International Financial Reporting Standards"

The IASB published a revised version of IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") in November 2008. The objective of restructuring the standard is to simplify its application, given that numerous changes in the preceding years have made it ever more complex and less comprehensible. Since E.ON already prepares its Consolidated Financial Statements in accordance with IFRS, the restructuring of IFRS 1 is not relevant to E.ON.

IFRS 3, "Business Combinations"

In January 2008, the IASB published a revised version of IFRS 3 as part of its "Business Combinations II" project. The most significant changes from the previous version relate to the recognition and measurement of assets and liabilities acquired through a business combination, the measurement of non-controlling interests, as well as to the calculation of goodwill and the presentation of transactions with variable purchase prices. The revised standard is to be applied for transactions taking place in fiscal years beginning on or after July 1, 2009. However, the standard has not yet been transferred by the EU into European law. Given the prospective application of the standard, and of the option in it concerning the determination of goodwill, which may be exercised on an individual basis, E.ON is unable to make a general statement at this time on the future impact of IFRS 3 on its Consolidated Financial Statements.

IAS 1, "Presentation of Financial Statements"

In September 2007, the IASB issued a revised version of IAS 1. The main changes from the previous version relate to the presentation of equity and to changes in the titles of the financial statements. The revised standard applies for fiscal years beginning on or after January 1, 2009. It has been transferred by the EU into European law and its application is thus mandatory for fiscal years beginning on or after January 1, 2009. The application of revised IAS 1 will have no material impact on the presentation of E.ON's Consolidated Financial Statements.

IAS 27, "Consolidated and Separate Financial Statements"

In January 2008, the IASB published a revised version of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27"), as part of its "Business Combinations II" project, which contains guidance on consolidation. In particular, this standard for the first time deals with transactions in which shares in a company (subsidiary) are bought or sold without resulting in a change of control. Additional significant changes from the previous version relate in particular to the recognition and measurement of the remaining investment in an entity after a loss of control of what had been a subsidiary, and to the recognition of losses attributable to minority interests. The amendments introduced by the revised standard are effective for fiscal years beginning on or after July 1, 2009. However, the standard has not yet been transferred by the EU into European law. E.ON is currently evaluating the potential effects arising from the revision of IAS 27.

Collection standard to amend multiple International Financial Reporting Standards

In addition to the amendments of individual standards that have been described above, the IASB also revises existing standards as part of its "Annual Improvements Process." The amendments made through this process are considered by the IASB to be non-urgent but necessary, and are therefore summarized in one collection standard. This standard was published by the IASB in May 2008. Many of these amendments are effective for fiscal years beginning on or after January 1, 2009. The collection standard has been transferred by the EU into European law. There are no timing differences between the application rules of the IASB standard and those of the EU. To the extent that changes in this year's standard are of relevance to E.ON, they will be applied accordingly in the future. The changes to IAS 36 on disclosures associated with this standard are being applied by E.ON in this Annual Report.

Amendments to IAS 32 and IAS 1, "Puttable Financial Instruments and Obligations Arising on Liquidation"

In February 2008, the IASB approved amendments to IAS 32 and IAS 1. The primary purpose of the amendments is to address the presentation of particular types of puttable financial instruments that have characteristics similar to ordinary shares. IAS 32 previously required that such financial instruments be classified as a financial liability. The new version provides for reporting such instruments as equity if the holder can require the issuer to deliver a pro-rata share of the net assets of the entity only on liquidation. The amendments apply for fiscal years beginning on or after January 1, 2009. They have been transferred by the EU into European law and their application is mandatory from January 1, 2009, at the latest. E.ON does not anticipate that the amendments to IAS 32 and IAS 1 will have an impact on its Consolidated Financial Statements.

Amendments to IFRS 1 and IAS 27, "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"

In May 2008, the IASB published amendments to IFRS 1 and IAS 27. The revised version simplifies the first-time preparation of separate financial statements under IFRS. This applies in particular to the initial measurement of the cost of subsidiaries, jointly controlled entities and associates using either the fair value or the carrying amount under previous accounting practice. By removing the definition of the cost method from IAS 27, the separation of earnings into "before" and "after" the acquisition is eliminated. Revised IAS 27 requires that all dividends be presented henceforth as income. The amendments apply for fiscal years beginning on or after January 1, 2009.

They have been transferred by the EU into European law and their application is mandatory from January 1, 2009, at the latest. E.ON anticipates no impact on its Consolidated Financial Statements.

Amendment to IFRS 2, "Vesting Conditions and Cancellations"

In January 2008, the IASB issued revised IFRS 2. The changes from the previous version relate primarily to the definition of vesting conditions and to the regulations governing the cancellation of a plan by a party other than the entity. The amendments apply for fiscal years beginning on or after January 1, 2009. They have been transferred by the EU into European law and their application is mandatory from January 1, 2009, at the latest. E.ON anticipates that revised IFRS 2 will not have a material impact on its Consolidated Financial Statements.

Amendment to IAS 39, "Financial Instruments: Recognition and Measurement"—"Eligible Hedged Items"

In July 2008, the IASB published an amendment to IAS 39 in a document titled "Eligible Hedged Items—Amendment to IAS 39 Financial Instruments: Recognition and Measurement." The document clarifies how the existing principles underlying hedge accounting should be applied in the designation of inflation in a financial hedged item and in the designation of a one-sided risk in a hedged item (for instance with an option as the hedging transaction). The amendment is effective for fiscal years beginning on or after July 1, 2009. The amendments have not yet been transferred by the EU into European law. The application of this amendment to IAS 39 will not have a material impact on E.ON's Consolidated Financial Statements.

IFRIC 11, "IFRS 2—Group and Treasury Share Transactions"

IFRIC 11, "IFRS 2—Group and Treasury Share Transactions" ("IFRIC 11"), addresses how to apply IFRS 2 to share-based payment arrangements involving the granting of an entity's own equity instruments or those of another entity in the same group. Under IFRIC 11, share-based payment systems in which an entity receives services as consideration for its own equity instruments must be accounted for as equity-settled. The interpretation additionally provides guidance on how to

account for share-based payment systems in which equity instruments of an entity's parent company are granted. IFRIC 11 is effective for fiscal years beginning on or after March 1, 2007; the transfer into European law has taken place. E.ON has identified no plans that fall within the scope of IFRIC 11.

IFRIC 12, "Service Concession Arrangements"

IFRIC 12, "Service Concession Arrangements" ("IFRIC 12"), was published in November 2006. The interpretation governs accounting for arrangements in which a public-sector institution grants contracts to private companies for the performance of public services. In performing these services, the private company uses infrastructure that remains under the control of the public-sector institution. The private company is responsible for the construction, operation, and maintenance of the infrastructure. IFRIC 12 is effective for fiscal years beginning on or after January 1, 2008; however, it has not yet been transferred by the EU into European law. E.ON has evaluated the effects of IFRIC 12 and has determined that there will be no material impact on its Consolidated Financial Statements.

IFRIC 13, "Customer Loyalty Programmes"

IFRIC 13, "Customer Loyalty Programmes" ("IFRIC 13"), addresses accounting by entities that grant loyalty award credits. The interpretation clarifies how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. The provisions of IFRIC 13 are effective for fiscal years beginning on or after July 1, 2008. The interpretation has been transferred by the EU into European law and its application is mandatory from January 1, 2009, at the latest. The adoption of IFRIC 13 has had no material impact on E.ON's Consolidated Financial Statements. E.ON has identified no customer loyalty programs subject to the provisions of IFRIC 13.

IFRIC 14, "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC 14, "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC 14"), provides general guidance on how to assess the limit in IAS 19 on the amount of a surplus in a pension plan that can be recognized as an asset. The interpretation also illustrates how the pension asset or liability for defined benefit plans may be affected when there is a statutory or contractual minimum funding requirement. Under IFRIC 14 no additional liability needs to be recognized by the employer unless the contributions that are payable under the minimum funding requirement cannot be returned to the Company. The interpretation applies for fiscal years beginning on or after January 1, 2008. It has been transferred by the EU into European law; application is mandatory from January 1, 2009, at the latest. Based on the pension plans currently in place, E.ON anticipates no material impact on its Consolidated Financial Statements.

IFRIC 15, "Agreements for the Construction of Real Estate"

IFRIC 15, "Agreements for the Construction of Real Estate" ("IFRIC 15"), was published in July 2008. The interpretation provides guidance on accounting practice for the recognition of revenue from real estate sales where agreements are entered into with the purchaser before construction is complete. IFRIC 15 defines criteria that determine whether an agreement is within the scope of IAS 11, "Construction Contracts", or IAS 18, "Revenue." This also determines when revenue from the construction should be recognized. It additionally specifies which disclosures must be made in the notes to the financial statements. IFRIC 15 is effective for fiscal years beginning on or after January 1, 2009. The interpretation has not yet been transferred by the EU into European law. The first-time application of IFRIC 15 will not have a material impact on E.ON's Consolidated Financial Statements.

IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"

IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" ("IFRIC 16"), was published in July 2008. The interpretation addresses issues arising in connection with the hedging of a foreign operation. It provides guidance on identifying what is a hedged risk in the hedge of a net investment in a foreign operation, where a hedging instrument to minimize this risk may be held within a group of companies, and how an entity

should proceed upon disposal of the foreign operation. IFRIC 16 is effective for fiscal years beginning on or after October 1, 2008. The interpretation has not yet been transferred by the EU into European law. There will be no material changes for E.ON arising from the first-time application of IFRIC 16.

IFRIC 17, "Distributions of Non-cash Assets to Owners"

IFRIC 17, "Distributions of Non-cash Assets to Owners" ("IFRIC 17"), was published in November 2008. The interpretation provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners. Under IFRIC 17, a dividend payable should be recognized when the dividend has been appropriately authorized and is no longer at the discretion of the entity. This payable is measured at the fair value of the net assets to be distributed. The difference between the dividend payable and the carrying amount of the asset distributed must be recognized in income. The interpretation also requires an entity to provide additional disclosures if the assets being held for distribution meet the definition of a discontinued operation. IFRIC 17 is effective for fiscal years beginning on or after July 1, 2009. The interpretation has not yet been transferred into European law. E.ON anticipates no impact on its Consolidated Financial Statements.

IFRIC 18, "Transfers of Assets from Customers"

IFRIC 18, "Transfers of Assets from Customers" ("IFRIC 18"), was published in January 2009. The interpretation clarifies the circumstances in which the definition of an asset within the scope of IFRIC 18 is met, and how to recognize the asset and measure its cost on initial recognition. IFRIC 18 additionally provides guidance on the identification of separately identifiable services provided in exchange for the transferred asset, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 is effective for asset transfers received by the entity on or after July 1, 2009. The interpretation has not yet been transferred by the EU into European law. E.ON will evaluate the effects of IFRIC 18 on its Consolidated Financial Statements.

(3) Scope of Consolidation

The number of consolidated companies changed as follows:

Scope of Consolidation			
	Domestic	Foreign	Total
Consolidated companies as of January 1, 2007	139	362	501
Additions	23	100	123
Disposals/Mergers	9	24	33
Consolidated companies as of December 31, 2007	153	438	591
Additions	18	91	109
Disposals/Mergers	20	34	54
Consolidated companies as of December 31, 2008	151	495	646

In 2008, a total of 103 domestic and 83 foreign associated companies were accounted for under the equity method (2007: 107 domestic and 78 foreign). Significant acquisitions, disposals and discontinued operations are discussed in Note 4.

(4) Acquisitions, Disposals and Discontinued Operations

Acquisitions in 2008

Endesa Europa/Viesgo

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 completion of the takeover of Endesa by Enel/Acciona at the end of October 2007, E.ON acquired from Enel all of the shares of the following companies on June 26, 2008:

- Electra de Viesgo Distribución S.L., Santander, Spain
- Enel Viesgo Generación S.L., Santander, Spain
- Enel Viesgo Servicios S.L., Santander, Spain

and, at the same time, all of the shares of Endesa Europa S.L. ("Endesa Europa"), Madrid, Spain, from Endesa.

The aforementioned companies were renamed in the second half of 2008 and are now called E.ON Distribución S.L. ("E.ON Distribución"), E.ON Generación S.L. ("E.ON Generación"), E.ON Servicios S.L. and E.ON Europa S.L. ("E.ON Europa"). The companies are now all based in Madrid, Spain.

The operations of the former Viesgo companies encompass a total of 1.5 GW in conventional generating capacity at a number of different sites in Spain. A newly constructed project with a capacity of approximately 1 GW was brought into operation in the third quarter of 2008. E.ON Distribución supplies electric power to about 660,000 customers in the Spanish provinces of Cantabria and Asturias. In the context of the transaction between E.ON and Enel/Acciona, Endesa also sold to E.ON Generación two additional power plants in Spain with an approximate combined capacity of 1 GW.

E.ON Europa operates generating capacity of about 7 GW and 2.5 GW, respectively, through subsidiaries in Italy and France. Additional power generation assets are held in Poland and in Turkey. The interest in Endesa Italia S.p.A., Rome, Italy, acquired via Endesa Europa is 80 percent. The company has since been renamed E.ON Produzione S.p.A., Rome, Italy ("E.ON Produzione"). The interest in Société Nationale d'Electricité et de Thermique S.A. ("SNET France"), Paris, France, is 65 percent.

An agreement had already been reached in June 2008 with the 20 percent minority shareholder of E.ON Produzione, A2A S.p.A. ("A2A"), Milan, Italy, to acquire that minority interest primarily in return for company-owned generating capacity in Italy valued at approximately €1.5 billion. Since the purchase price was independent of any change in the value of the generating capacity to be specified, the full 100 percent of Endesa Italia already had to be included in the Consolidated Financial Statements effective June 30, 2008. The approximately 1.5 GW in

generating capacity to be transferred was specified in July 2008. The legal transfer of the minority interest and of the generating capacity is to take place in 2009. This capacity has been reported as a disposal group since its specification as such in the third quarter of 2008. It was recognized at the acquired carrying amounts plus adjustments from the preliminary purchase

price allocation, with a net carrying amount of €1.5 billion. The continuing earnings share of the minority shareholder has been presented as a purchase price adjustment since the third quarter of 2008, and will continue to be presented as such until disposal.

Major Balance Sheet Line Items—Endesa Europa/Viesgo Activities			
€ in millions	Carrying amounts before initial recognition	Purchase price allocation	Carrying amounts at initial recognition
Intangible assets	477	2,127	2,604
Property, plant and equipment	6,754	457	7,211
Other assets	2,783	389	3,172
Total assets	10,014	2,973	12,987
Non-current liabilities	2,663	830	3,493
Current liabilities	4,587	447	5,034
Total liabilities	7,250	1,277	8,527
Net assets	2,764	1,696	4,460
<i>Attributable to shareholders of E.ON AG</i>	2,377	-2,377	-
<i>Attributable to minority interests</i>	387	-75	312
Acquisition cost paid in cash		8,566	
Non-monetary consideration for minority interest		1,509	
Goodwill (preliminary) before impairment and reclassification		5,927	
Impairment (preliminary)		-1,800	
Reclassification of goodwill to disposal groups (A2A)		-652	
Goodwill (preliminary)		3,475	3,475

Initial recognition of the operations took place in the second quarter of 2008. Due to the proximity of the acquisition date to the reporting date, no revenue or earnings contributions were recognized in the E.ON Consolidated Financial Statements for the first half of 2008, as these were of little significance for the E.ON Consolidated Financial Statements. As of June 30, 2008, the assets and liabilities measured pursuant to the accounting policies that had been applied by the acquired companies have been recognized on the balance sheet; cash amounted to €124 million. In the first half of 2008, the former Viesgo entities recorded revenues of €539 million and a loss of €5 million. During this period, Endesa Europa recorded revenues of €2,171 million and earnings of €197 million. Separate determination of the revenue and earnings contributions was not possible in the second half of 2008 because the organizational integration of the acquired entities into the E.ON Group had already begun.

Taking into account the complexity of the acquisition and the multitude of individual circumstances to be considered, it was not possible thus far to perform a final purchase price allocation as of the date of initial consolidation; particularly with respect to the comprehensive evaluation of certain contract constructions and of any potentially resulting assets and liabilities or effects on previously performed valuations, additional evaluations and appraisals must yet be undertaken. Consequently, given the preliminary nature of the purchase price allocation, as well as the existing complex transaction structure and the integration commenced on its basis, along with the still ongoing identification and measurement of potential synergies, an allocation of goodwill to individually defined cash-generating units has not been performed as yet. The entire preliminary goodwill is carried within the New Markets segment, since that goodwill amount will be mostly attributable to this segment after finalization of the purchase price allocation—without anticipating the final allocation to cash-generating units. Also reported in this segment are the assets and liabilities acquired in Italy and Spain. The assets and liabilities attributable to the French activities were already allocated to the Central Europe market unit in the third quarter of 2008 because of their internal control and distinct nature.

It has not been possible thus far to implement a complete reconciliation to the accounting policies applied at the E.ON Group. Where such reconciliation could not be performed, the principles of recognition and measurement applied by the predecessor companies were maintained. This was the case primarily with the Italian activities. Adjustments to the E.ON Group's accounting policies already undertaken have been presented together with the adjustments from the purchase price allocation.

In light of the aforementioned complexity, due to which the allocation of preliminary goodwill had not yet been performed as of December 31, 2008, the impairment test on the acquired preliminary goodwill was performed at the level of the entire transaction.

The impairment test thus performed on the entire transaction resulted in a preliminary impairment of €1,800 million, initially allocated to preliminary goodwill. Both the amount and the allocation of this preliminary impairment may change after finalization of the purchase price allocation. Any resulting changes would then be recognized retrospectively. The preliminary impairment is carried entirely in the New Markets segment; in the absence of a goodwill allocation for the reasons already mentioned, it is not possible to allocate the impairment charge to specific cash-generating units. The impairment charge was due in part to the generally deteriorating economic situation in Europe. Especially in Italy, the outlook for the energy market became gloomier in the fall of 2008, in part due to regulatory intervention in wholesale markets and to the reduction in power generation resulting from a delay in the start of operations at certain power plants. The increase in Italy's corporate tax rate from 27.5 percent to 33 percent for companies in the energy, banking, and insurance industries was also a factor. At the time the transaction closed, these factors, among others, were not fully apparent.

Discontinued Operations in 2008

WKE

Through Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, U.S., E.ON U.S. has a 25-year lease on and operates the generating facilities of Big Rivers Electric Corporation ("BREC"), a power-generation cooperative in western Kentucky, and a coal-fired generating facility owned by the City of Henderson, Kentucky, U.S.

In March 2007, E.ON U.S. entered into a termination agreement with BREC to terminate the lease and the operational agreements for nine coal-fired power plants and one oil-fired electricity-generating facility in western Kentucky, which were held through its wholly owned company WKE and its subsidiaries.

The closing of the agreement is subject to a large number of conditions, including review and approval by various regulatory agencies and acquisition of consents from other interested parties. Subject to these contingencies, the parties are working on completing the termination transaction in 2009. Regulatory approvals remain outstanding at this time. WKE therefore continues to be classified as a discontinued operation, as in the previous year.

The tables below provide selected financial information and major balance sheet line items from the discontinued WKE operations in the U.S. Midwest segment for the periods indicated:

Selected Financial Information— WKE (Summary)		
€ in millions	2008	2007
Sales	204	204
Other income/expenses, net	-414	-338
Loss from continuing operations before income taxes and minority interests	-210	-134
Income tax benefit	82	53
Loss from discontinued operations	-128	-81

Major Balance Sheet Line Items— WKE (Summary)		
€ in millions	December 31	
	2008	2007
Intangible assets and property, plant and equipment	156	202
Other assets	422	362
Total assets	578	564
Total liabilities	711	613

Disposal Groups and Assets Held for Sale in 2008

Statkraft/E.ON Sverige

Based on the letter of intent signed in October 2007 concerning the virtually full acquisition from Statkraft AS ("Statkraft"), Oslo, Norway, of its 44.6 percent minority interest in E.ON Sverige primarily in exchange for a variety of power plant units and shares of E.ON AG, the conditions for reporting as a disposal group the assets and related liabilities to be sold, in particular the personnel-related liabilities, were fulfilled in the second quarter of 2008. Write-downs to lower fair values were not necessary. The disposal took place at the end of December 2008; an after-tax gain of €1.0 billion was realized from the disposal of the power plant units. The delivery of the treasury shares was recognized in equity, with no effect on income.

Endesa Europa/Viesgo

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 company-owned generating capacity in Italy valued at approximately €1.5 billion. The preliminary net carrying amount of this disposal group is €1.5 billion and has been attributed to the New Markets segment.

Electrabel/EnBW

In December 2008, E.ON's commitment to the European Commission to sell a variety of power-generation activities, as well as the ultrahigh-voltage network in Germany, came into effect. Based on this commitment and on declarations of intent already signed with two parties interested in acquiring generating capacity, namely Electrabel SA/NV, Brussels, Belgium, and EnBW Energie Baden-Württemberg AG, Karlsruhe, Germany, the total capacity to be sold, along with associated assets and liabilities, has been presented as a disposal group. The net carrying amounts of the disposal group relate exclusively to the Central Europe market unit and amounted to €0.4 billion. The disposal is planned for 2009. The ultrahigh-voltage network has not been reclassified as of December 31, 2008, as the disposal process was not yet initiated.

Interest in OAO Gazprom

In October 2008, E.ON and Gazprom reached an understanding on E.ON acquiring an interest in the Yuzhno Russkoye gas field in Siberia. As consideration for this ownership stake, Gazprom is to receive the Gazprom shares indirectly held by E.ON, representing approximately one-half of the approximately 6 percent of the equity of Gazprom held by E.ON. The shares are therefore reported as assets held for sale. The carrying amount recognized at E.ON for these shares on a fair-value basis is €1.4 billion. The relevant contracts are to be signed in 2009.

Acquisitions in 2007

OGK-4

On October 12, 2007, E.ON acquired from the Russian government's energy holding company RAO UES a majority stake in the Russian power-plant company OAO OGK-4 ("OGK-4"), Surgut, Tyumenskaya Oblast, Russian Federation. After the acquisition of additional smaller tranches following the purchase of the majority stake, E.ON held 72.7 percent of OGK-4 as of December 31, 2007. The total expense incurred for this acquisition, which includes a contractually agreed capital increase of €1.3 billion to finance the investment program planned for the coming years, was approximately €4.4 billion.

Under Russian capital-markets legislation, E.ON was required to make a public offer to purchase the remainder of the shares held by the minority shareholders of OGK-4, and this offer, at a price of 3.3503 rubles per share, was made public on November 15, 2007. The acceptance period ended on February 4, 2008. E.ON was thus able to acquire additional shares equivalent to approximately 3.4 percent of OGK-4 and increase its total ownership stake to approximately 76.1 percent. As was expected, RAO UES did not accept the offer for its stake in OGK-4. Additional shares were purchased in 2008, increasing the stake to 78.3 percent as of December 31, 2008.

OGK-4 operates conventional power plants at five locations with a total installed output of 8.2 GW (net) and plans to build additional power plants with a capacity of about 2.3 GW at the existing locations by 2011.

The initial recognition of the company in the E.ON Consolidated Financial Statements took place in the fourth quarter of 2007.

The purchase price allocation for OGK-4 was finalized in September 2008. The changes from December 31, 2007, were only minor.

Major Balance Sheet Line Items—OGK-4			
€ in millions	IFRS carrying amounts before initial recognition	Purchase price allocation	Carrying amounts at initial recognition
Intangible assets	11	-	11
Property, plant and equipment	738	2,185	2,923
Other assets	1,497	8	1,505
Total assets	2,246	2,193	4,439
Non-current liabilities	210	523	733
Current liabilities	124	-	124
Total liabilities	334	523	857
Net assets	1,912	1,670	3,582
<i>Attributable to shareholders of E.ON AG</i>	<i>1,390</i>	<i>-1,390</i>	<i>0</i>
<i>Attributable to minority interests</i>	<i>522</i>	<i>456</i>	<i>978</i>
Total acquisition costs		4,350	
Goodwill		1,746	1,746

ENERGI E2 Renovables Ibéricas

On August 13, 2007, E.ON Climate & Renewables GmbH acquired a 100-percent stake in ENERGI E2 Renovables Ibéricas S.L.U. ("E2-I"), Madrid, Spain. The purchase price totaled roughly €481 million. E2-I and its affiliated companies were fully consolidated as of August 31, 2007.

The purchase price allocation was finalized in August 2008. Significant changes from the time of initial consolidation were recorded in the areas of intangible assets and financial assets. This resulted in an increase in goodwill of €42 million. As of the first quarter of 2008, the company operates under the name E.ON Renovables Iberia, S.L.

Major Balance Sheet Line Items—E.ON Climate & Renewables (E2-I)			
€ in millions	IFRS carrying amounts before initial recognition	Purchase price allocation	Carrying amounts at initial recognition
Intangible assets and acquired goodwill	64	221	285
Property, plant and equipment	112	32	144
Other assets	127	184	311
Total assets	303	437	740
Non-current liabilities	201	136	337
Current liabilities	42	-	42
Total liabilities	243	136	379
Net assets	60	301	361
<i>Attributable to shareholders of E.ON AG</i>	56	-56	-
<i>Attributable to minority interests</i>	4	33	37
Total acquisition costs		481	
Goodwill		157	157

Airtricity

On December 18, 2007, E.ON North America Holdings LLC acquired all the shares of Airtricity Inc., Chicago, Illinois, U.S., and all the shares of Airtricity Holdings (Canada) Ltd., Toronto, Ontario, Canada, for a purchase price of approximately €580 million. Airtricity and its subsidiaries were fully consolidated as of December 31, 2007. Owing to the proximity of the initial consolidation to the preparation of the Consolidated Financial Statements that year, the entire difference arising from the capital consolidation as of December 31, 2007, was recognized as goodwill. In 2008, undisclosed accruals were allocated for intangible assets and for property, plant and equipment in the respective amounts of €300 million and €56 million, while

deferred taxes of €126 million were recognized as well. Goodwill was thus reduced by €230 million. These amounts include major adjustments involving a reduction of intangible assets by €29 million and resulting in an increase in goodwill of €22 million, comprised in the course of the finalization of the purchase price allocation in December 2008. Since the second quarter of 2008, the companies have been operating as E.ON Climate & Renewables North America Inc., Chicago, Illinois, U.S. and EC&R Canada Ltd., Toronto, Ontario, Canada, respectively.

Major Balance Sheet Line Items—E.ON Climate & Renewables (Airtricity)			
€ in millions	IFRS carrying amounts before initial recognition	Purchase price allocation	Carrying amounts at initial recognition
Intangible assets and acquired goodwill	10	300	310
Property, plant and equipment	822	56	878
Other assets	75	-	75
Total assets	907	356	1,263
Non-current liabilities	134	126	260
Current liabilities	786	-	786
Total liabilities	920	126	1,046
Net assets	-13	230	217
<i>Attributable to shareholders of E.ON AG</i>	-13	13	-
<i>Attributable to minority interests</i>	-	-	-
Total acquisition costs		580	
Goodwill		363	363

Disposals and Discontinued Operations in 2007

ONE

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

RAG

On August 7, 2007, E.ON, ThyssenKrupp and RWE came to an agreement with the foundation "RAG-Stiftung" to sell their shares of RAG AG ("RAG"), Essen, Germany, to that foundation. The three shareholding companies held a total of 90 percent of the share capital of RAG. The package of shares held by E.ON was transferred on November 30, 2007, for a price of €1.

In addition, there were other gains from discontinued operations recognized in 2007. These relate to €418 million in inter-company gains from the sale of tranches of Degussa shares to RAG from previous years and arose from the transfer to RAG-Stiftung on November 30, 2007, of E.ON's shareholding in RAG. Moreover, there were €6 million in gains from the discontinued operations of the Company's former Viterra segment, which had already been disposed of in 2005, as well as a loss of €13 million from the sale of the former Oil segment.

(5) Revenues

Revenues are generally recognized upon delivery of products to customers or upon fulfillment of services. Delivery is considered to have occurred when the risks and rewards associated with ownership have been transferred to the buyer, compensation has been contractually established and collection of the resulting receivable is probable.

Revenues are generated primarily from the sale of electricity and gas to industrial and commercial customers and to retail customers. Additional revenue is earned from the distribution of gas and electricity, from deliveries of steam, heat and water, as well as from proprietary trading.

Revenues from the sale of electricity and gas to industrial and commercial customers and to retail customers are recognized when earned on the basis of a contractual arrangement with the customer; they reflect the value of the volume supplied, including an estimated value of the volume supplied to customers between the date of their last meter reading and period-end. Unrealized and realized proceeds from proprietary trading activities are recognized net in revenues.

The classification of revenues by segment is presented in Note 33.

(6) Own Work Capitalized

Own work capitalized amounted to €526 million in 2008 (2007: €517 million) and resulted primarily from engineering services in networks and in connection with new construction projects.

(7) Other Operating Income and Expenses

The table below provides details of other operating income for the periods indicated:

Other Operating Income		
€ in millions	2008	2007
Income from exchange rate differences	8,571	3,284
Gain on derivative financial instruments	3,543	1,767
Gain on disposal of investments	1,446	1,588
Gain on disposal of property, plant and equipment	419	123
Miscellaneous	1,475	1,014
Total	15,454	7,776

Income from exchange rate differences consisted primarily of realized gains from currency derivatives in the amount of €6,195 million (2007: €2,778 million) and of effects from foreign currency translation on the balance sheet date in the amount of €1,974 million (2007: €392 million). The 2008 figure was marked by the volatility in the currency markets and by E.ON's financing activities.

Gains on derivative financial instruments relate to gains from fair value measurement and to realized gains from derivatives under IAS 39, with the exception of income effects from interest rate derivatives. The gain on derivative financial instruments in 2008 was caused by price changes in the commodity markets, in addition to the currency market volatility and financing activities already mentioned.

The gains on the disposal of investments and of property, plant and equipment included the gain on the Statkraft transaction, which amounted to €1,070 million. In addition, there were gains realized on the sale of securities in the amount of €554 million (2007: €1,128 million). In 2007, this line item also included gains from the disposal of investments and securities, with €321 million attributable to the disposal of ONE (see also Note 4).

Miscellaneous other operating income in 2008 consisted primarily of reductions of valuation allowances on accounts receivable, rental and leasing income, the sale of scrap metal and materials, as well as compensation payments received for damages.

The following table provides details of other operating expenses for the periods indicated:

Other Operating Expenses		
€ in millions	2008	2007
Loss from exchange rate differences	7,879	3,218
Loss on derivative financial instruments	6,552	1,331
Taxes other than income taxes	262	216
Loss on disposal of investments	401	138
Miscellaneous	5,243	4,821
Total	20,337	9,724

Losses from exchange rate differences consisted primarily of realized losses from currency derivatives in the amount of €6,088 million (2007: €2,806 million) and of effects from foreign currency translation on the balance sheet date in the amount of €1,418 million (2007: €319 million).

Losses on derivative financial instruments included losses from fair value measurement and realized losses from derivatives under IAS 39, with the exception of income effects from interest rate derivatives.

Miscellaneous other operating expenses in 2008 consisted primarily of concession payments in the amount of €477 million (2007: €471 million), expenses for external audit and non-audit services and consulting in the amount of €474 million (2007: €414 million), advertising and marketing expenses in the amount of €370 million (2007: €360 million), as well as write-downs of receivables in the amount of €422 million (2007: €333 million). Additionally reported in this item are services rendered by third parties, IT expenditures and insurance premiums.

Other operating expenses from exploration activities totaled €53 million (2007: €25 million).

(8) Cost of Materials

The principal components of expenses for raw materials and supplies and for purchased goods are the purchase of gas and electricity and of fuels for electricity generation, as well as the nuclear segment. Network usage charges are also included in this line item. Expenses for purchased services consist primarily of maintenance costs.

Cost of Materials		
€ in millions	2008	2007
Expenses for raw materials and supplies and for purchased goods	63,611	47,667
Expenses for purchased services	2,808	2,556
Total	66,419	50,223

(9) Financial Results

The following table provides details of financial results for the periods indicated:

Financial Results		
€ in millions	2008	2007
Income from companies in which equity investments are held	217	215
Impairment of other financial assets	-675	-36
Income from equity investments	-458	179
Income from securities, interest and similar income	1,159	1,035
<i>Available for sale</i>	144	207
<i>Loans and receivables</i>	658	696
<i>Held for trading</i>	124	51
<i>Other interest income</i>	233	81
Interest and similar expenses	-3,052	-1,986
<i>Amortized cost</i>	-1,625	-929
<i>Held for trading</i>	-131	-78
<i>Other interest expenses</i>	-1,296	-979
Net interest income	-1,893	-951
Financial results	-2,351	-772

The measurement categories are described in detail in Note 2.

The change in financial results in 2008 as compared with the previous year was due primarily to a significant increase in financial liabilities incurred in the context of the financing program, as well as increased impairment charges on other financial assets. In 2008, the impairments related almost exclusively to the securities held as part of the Company's asset management activities (see Note 31).

Net interest income declined in 2008 primarily as a result of higher interest expense on financial liabilities.

Other interest income consists mostly of the income from lease receivables (finance leases) and income attributable to taxes from previous years. Other interest expense includes the accretion of provisions for asset retirement obligations in the amount of €759 million (2007: €708 million). Also contained in this item is the interest cost from provisions for pensions—net of the expected return on plan assets—in the amount of €145 million (2007: €79 million).

In accordance with IAS 32, the accretion of liabilities in connection with put options resulted in an expense of €61 million (2007: €22 million).

Interest expense was reduced by capitalized interest on debt totaling €182 million (2007: €62 million).

Realized gains and losses from interest rate swaps are shown net in the income statement.

(10) Income Taxes

The following table provides details of income taxes, including deferred taxes, for the periods indicated:

Income Taxes		
€ in millions	2008	2007
Domestic income taxes	977	1,666
Foreign income taxes	937	648
Other income taxes	5	10
Current taxes	1,919	2,324
Domestic	-398	-149
Foreign	-658	114
Deferred taxes	-1,056	-35
Total income taxes	863	2,289

The decrease in tax expense of €1,426 million compared with 2007 primarily reflects the reduced taxable income and the tax relief resulting from the 2008 corporate tax reform in Germany. In contrast, the effective tax rate increased from 24 percent in 2007 to 33 percent in 2008, as the impairment charges on goodwill (see Note 14) in the E.ON Consolidated Financial Statements did not lead to tax relief.

Since January 1, 2008, the average total tax rate in Germany has been 30 percent (2007: 39 percent), based on the 2008 Corporate Tax Reform Act, which took effect on August 18, 2007. The corporate income tax rate has fallen to 15 percent (2007: 25 percent); the average domestic trade tax has risen to 14 percent (2007: 13 percent). The solidarity surcharge remains unchanged from 2007 at 5.5 percent of the corporate income tax rate. The resulting revaluation of all deferred taxes in Germany, which had to be performed in the previous year already, produced non-cash deferred tax income in the amount of €59 million in 2007.

German legislation providing for fiscal measures to accompany the introduction of the European Company and amending other fiscal provisions ("SE-Steuer-gesetz" or "SEStEG"), which came into effect on December 13, 2006, altered the regulations on corporate tax credits arising from the corporate imputation system ("Anrechnungsverfahren"), which had existed until 2001. The change de-links the corporate tax credit from distributions of dividends. Instead, after December 31, 2006, an unconditional claim for payment of the credit in ten equal annual installments from 2008 through 2017 has been established. The resulting receivable is included in income tax assets and amounted to €1,157 million in 2008 (2007: €1,354 million).

Liabilities from income taxes in 2008 consisted primarily of current income taxes for that year and for prior-year periods that have not yet been definitively examined by the tax authorities.

As of December 31, 2008, €8 million (2007: €7 million) in deferred tax liabilities were recognized for the differences between net assets and the tax bases of subsidiaries and associated companies (the so-called "outside basis differences"). Deferred tax liabilities were not recognized for subsidiaries and associated companies to the extent that the Company can control the reversal effect and that it is therefore probable that temporary differences will not be reversed in the foreseeable future. Accordingly, deferred tax liabilities were not recognized for temporary differences of €1,543 million (2007: €1,646 million) at subsidiaries and associated companies, as E.ON is able to control the timing of their reversal and the temporary difference will not reverse in the foreseeable future.

Changes in tax rates and tax law in Russia, Sweden, the United Kingdom and a number of other countries resulted in deferred tax income of €112 million in total. In 2007, changes in foreign tax rates produced total deferred tax income of €118 million.

The differences between the 2008 base income tax rate of 30 percent (2007: 39 percent) applicable in Germany and the effective tax rate are reconciled as follows:

Reconciliation to Effective Income Taxes/Tax Rate	2008		2007	
	€ in millions	%	€ in millions	%
	Expected corporate income tax	778	30.0	3,776
Credit for dividend distributions	-5	-0.2	-75	-0.8
Foreign tax rate differentials	-115	-4.4	-405	-4.2
Changes in tax rate/tax law	-112	-4.3	-177	-1.8
Tax effects on tax-free income	-145	-5.6	-790	-8.2
Tax effects on equity accounting	-289	-11.1	-353	-3.6
Other ¹	751	28.8	313	3.2
Effective income taxes/tax rate	863	33.2	2,289	23.6

¹In 2008, including €1,070 million due to goodwill impairment and -€200 million due to deconsolidation gains.

Corporate income taxes relating to discontinued operations are reported on the face of the income statement under "Income/Loss from discontinued operations, net." They relate exclusively to WKE and amounted to -€82 million in 2008 (2007: -€53 million). See Note 4 for additional discussion.

Income from continuing operations before income taxes and minority interests was attributable to the following geographic locations in the periods indicated:

Income from Continuing Operations before Income Taxes and Minority Interests		
€ in millions	2008	2007
Domestic	4,123	5,500
Foreign	-1,528	4,183
Total	2,595	9,683

Deferred tax assets and liabilities as of December 31, 2008, and December 31, 2007, break down as shown in the following table:

Deferred Tax Assets and Liabilities	December 31	
	2008	2007
€ in millions		
Intangible assets	532	73
Property, plant and equipment	665	608
Financial assets	218	138
Inventories	20	9
Receivables	433	70
Provisions	3,743	3,107
Liabilities	4,323	2,070
Net operating loss carryforwards	717	452
Tax credits	107	81
Other	150	163
Subtotal	10,908	6,771
Changes in value	-179	-212
Deferred tax assets	10,729	6,559
Intangible assets	1,648	1,033
Property, plant and equipment	6,378	6,501
Financial assets	265	1,727
Inventories	225	176
Receivables	4,369	1,946
Provisions	603	443
Liabilities	515	253
Other	784	880
Deferred tax liabilities	14,787	12,959
Net deferred tax assets/liabilities (-)	-4,058	-6,400

Of the deferred taxes reported, a total of €1,098 million was charged directly to equity in 2008 (2007: €2,246 million). A further €106 million in current taxes (2007: €0) was also charged directly to equity.

Net deferred taxes break down as follows based on the timing of their reversal:

Net Deferred Tax Assets and Liabilities				
€ in millions	December 31, 2008		December 31, 2007	
	Current	Non-current	Current	Non-current
Deferred tax assets	259	2,377	298	1,069
Changes in value	-57	-122	-4	-208
Net deferred tax assets	202	2,255	294	861
Deferred tax liabilities	-1,102	-5,413	-712	-6,843
Net deferred tax assets/liabilities (-)	-900	-3,158	-418	-5,982

Following the acquisition of Endesa Europa/Viesgo, the preliminary purchase price allocation resulted in deferred tax assets of €254 million and in deferred tax liabilities of €572 million as of December 31, 2008.

The purchase price allocations of additional acquisitions resulted in the recognition on December 31, 2008, of a total of €6 million in deferred tax assets and €30 million in deferred tax liabilities.

The finalized purchase price allocations of the 2007 acquisitions resulted in a total of €106 million in deferred tax liabilities.

The acquisitions of OGK-4, E2-I and additional companies resulted in the recognition on December 31, 2007, of a total of €696 million in deferred tax liabilities.

The tax loss carryforwards as of the dates indicated are as follows:

Tax Loss Carryforwards		
€ in millions	December 31	
	2008	2007
Domestic tax loss carryforwards	1,377	1,646
Foreign tax loss carryforwards	3,547	739
Total	4,924	2,385

Since January 1, 2004, domestic tax loss carryforwards can only be offset against up to 60 percent of taxable income, subject to a full offset against the first €1 million. This minimum corporate taxation also applies to trade tax loss carryforwards. Of the foreign tax loss carryforwards, a significant portion relates to previous years. The amount of this portion was determined by the relevant national tax authorities in 2008. No deferred taxes have been recognized on a total of €2,095 million in tax loss carryforwards that do not expire.

No deferred taxes have been recognized on a total of €29 million in as yet unused tax credits. Of these, €21 million expire within the next five years, and €8 million after 2013.

(11) Personnel-Related Information**Personnel Costs**

The following table provides details of personnel costs for the periods indicated:

Personnel Costs		
€ in millions	2008	2007
Wages and salaries	4,148	3,692
Social security contributions	642	556
Pension costs and other employee benefits	340	349
<i>Pension costs</i>	314	327
Total	5,130	4,597

In 2008, E.ON purchased on the market a total of 1,138,050 of its own shares (0.06 percent of the shares of E.ON AG) for resale to employees as part of the employee stock purchase program (in 2007, 1,121,715 shares, or 0.05 percent, purchased on the market) at an average purchase price of €39.65 per share (2007: €40.37 per share). These shares were sold to employees at preferential prices between €10.64 and €32.18 (2007: between €15.07 and €34.88). The costs arising from the granting of these preferential prices were charged to personnel costs as "wages and salaries." The Company's capital stock was then

reapportioned, with each old share having been replaced by three new ordinary shares. The preceding prior-year figures reflect the reapportioned capital stock. Further information about the stock split, as well as on the changes in the number of treasury shares held by E.ON AG, can be found in Note 19.

Since the 2003 fiscal year, employees in the U.K. have the opportunity to purchase E.ON shares through an employee stock purchase program and to acquire additional bonus shares. The cost of issuing these bonus shares is also recorded under personnel costs as part of "Wages and salaries."

Share-Based Payment

Members of the Board of Management of E.ON AG and certain executives of E.ON AG and of the market units receive share-based payment as part of their long-term variable compensation. Share-based payment can only be granted if the qualified executive owns a certain minimum number of shares of E.ON stock, which must be held until maturity or full exercise. The purpose of such compensation is to reward their contribution to E.ON's growth and to further the long-term success of the Company. This variable compensation component, comprising a long-term incentive effect along with a certain element of risk, provides for a sensible linking of the interests of shareholders and management.

Stock Appreciation Rights of E.ON AG				
	7th tranche	6th tranche	5th tranche	4th tranche
Date of issuance	Jan. 3, 2005	Jan. 2, 2004	Jan. 2, 2003	Jan. 2, 2002
Term	7 years	7 years	7 years	7 years
Blackout period	2 years	2 years	2 years	2 years
Price at issuance ¹	€20.37	€14.93	€12.62	€16.90
Level of the Dow Jones STOXX Utilities Index (Price EUR)	268.66	211.58	202.14	262.44
Number of participants in year of issuance	357	357	344	186
Number of SAR issued	2.9 million	2.7 million	2.6 million	1.7 million
Exercise hurdle (minimum percentage by which exercise price exceeds the price at issuance)	10%	10%	10%	10%
Exercise hurdle (minimum exercise price) ¹	€22.41	€16.42	€13.88	€18.59
Number of subscription rights ¹	3	3	3	3
Maximum gain on exercise of three subscription rights	€65.35	€49.05	-	-

¹After stock split of August 4, 2008.

The following discussion includes a report on the E.ON AG Stock Appreciation Rights plan, which ended in 2005, and on the E.ON Share Performance Plan, newly introduced in 2006.

Stock Appreciation Rights of E.ON AG

From 1999 up to and including 2005, E.ON annually granted virtual stock options ("Stock Appreciation Rights" or "SAR") through the E.ON AG Stock Appreciation Rights program. The remaining outstanding fourth-tranche SAR that did not expire during the year were exercised in full in 2008. SAR from the fifth through seventh tranches may still be exercised after the end of the program, in accordance with the SAR terms and conditions.

SAR can be exercised by eligible executives following the blackout period within preset exercise windows, provided that the exercise thresholds have been crossed.

The amount paid to executives when they exercise their SAR is paid out in cash, and is equal to the difference between the E.ON AG share price at the time of exercise and the adjusted underlying share price at issuance, multiplied by the number of SAR exercised and by the number of subscription rights of three. The adjustment of the underlying share price and the introduction of the subscription ratio of three was made necessary by the E.ON AG stock split on August 4, 2008, in order to ensure neutrality in value with an unchanged number of SAR. Beginning with the sixth tranche, a cap on gains on SAR equal to 100 percent of the underlying price at the time of issuance was put in place in order to limit the effect of unforeseen extraordinary increases in the underlying share price.

In accordance with IFRS 2 measurement criteria, the SAR were measured by reference to the fair value of the rights as of December 31, 2008.

A recognized option pricing model is used for measuring the value of these options. This option pricing model simulates a large number of different possible developments of the E.ON share price and the benchmark Dow Jones STOXX Utilities Index (Price EUR) (Monte Carlo simulation).

A certain exercise behavior is assumed when determining fair value. Individual exercise rates are defined for each of the tranches, depending on the price performance of the E.ON share. Historical volatility and correlations of the E.ON share price that reflect remaining maturities are used in the calculations. The risk-free interest rate used for reference is the zero swap rate for the corresponding remaining maturity. The dividend yields of the E.ON share are also included in the pricing model. The E.ON share dividend yield is calculated for each tranche and maturity based on the Bloomberg consensus estimates. The annual average of the Xetra closing prices for E.ON AG shares was €38.31 in 2008 (closing prices before the stock split have been adjusted). The Xetra closing price for E.ON AG shares at year-end was €28.44. The Dow Jones STOXX Utilities Index (Price EUR) closed at 337.55 points.

The following overview contains additional parameters used for measurement:

SAR Program of E.ON AG—Measurement Parameters of the Option Pricing Model				
	7th tranche	6th tranche	5th tranche	4th tranche
Intrinsic value as of December 31, 2008 ¹	€24.21	€40.53	€47.46	€34.62
Fair value as of December 31, 2008 ¹	€24.72	€37.80	€48.33	€34.62
Swap rate	2.89%	2.65%	2.27%	2.06%
Volatility of E.ON share	33.51%	36.16%	43.20%	75.12%
Dividend yield of E.ON share	6.64%	6.08%	5.57%	5.57%

¹For three subscription rights.

In 2008, 99,451 SAR from tranches four through seven were exercised on an ordinary basis. The gain to the holders on exercise totaled €6.0 million (2007: €163.2 million). 6,500 SAR of tranche four expired during the fiscal year.

The SAR of tranches five through seven were exercisable on December 31, 2008.

The provision for the SAR program was €6.8 million as of the balance sheet date (2007: €23.2 million). The decline in the value of the rights and the corresponding reduction of the provision resulted in income of €10.4 million in the 2008 fiscal year (2007: €43.4 million expense). The number of SAR, provisions for and expenses arising from the E.ON SAR program have changed as shown in the following table:

Changes in the E.ON AG SAR Program				
	7th tranche	6th tranche	5th tranche	4th tranche
SAR outstanding as of December 31, 2006	2,809,876	54,547	264,930	69,167
SAR granted in 2007	-	-	-	-
SAR exercised in 2007	2,754,876	26,547	113,379	42,333
SAR expired in 2007	-	-	-	-
SAR outstanding as of December 31, 2007	55,000	28,000	151,551	26,834
SAR granted in 2008	-	-	-	-
SAR exercised in 2008	29,000	18,000	32,117	20,334
SAR expired in 2008	-	-	-	6,500
SAR outstanding as of December 31, 2008	26,000	10,000	119,434	0
Gains on exercise in 2008	€1.9 m	€0.9 m	€2.6 m	€0.6 m
Provision as of December 31, 2008	€0.6 m	€0.4 m	€5.8 m	€0.0 m
Income in 2008	€1.0 m	€0.1 m	€7.4 m	€1.9 m

E.ON Share Performance Plan

In 2008, virtual shares ("Performance Rights") from the third tranche of the E.ON Share Performance Plan were granted.

E.ON Share Performance Rights			
	3rd tranche	2nd tranche	1st tranche
Date of issuance	Jan. 1, 2008	Jan. 1, 2007	Jan. 1, 2006
Term	3 years	3 years	3 years
Target value at issuance	€136.26	€96.52	€79.22
Number of participants in year of issuance	555	502	396
Number of Performance Rights issued	294,623	395,025	458,641
Maximum amount paid	€408.78	€289.56	€237.66

At the end of its three-year term, each Performance Right is entitled to a cash payout linked to the final E.ON share price established at that time. The amount of the payout is also linked to the relative performance of the E.ON share price in comparison with the benchmark index Dow Jones STOXX Utilities Index (Total Return EUR). The amount paid out is equal to the target value of this compensation component if the E.ON share price at the end of the term is equal to the initial price at the beginning of the term and the performance

matches that of the benchmark. The maximum amount to be paid out to each participant per Performance Right is limited to three times the initial value at issuance.

60-day average prices are used to determine the initial price, the final price and the relative performance, in order to mitigate the effects of incidental, short-lived price movements.

The calculation of the amount to be paid out takes place at the same time for all plan participants with effect on the last day of the term of the tranche. If the performance of the E.ON share matches that of the index, the amount paid out is not adjusted; the final share price is paid out. However, if the E.ON share outperforms the index, the amount paid out is increased proportionally. If, on the other hand, the E.ON share underperforms the index, disproportionate deductions are made. In the case of underperformance by 20 percent or more, no payment at all takes place.

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporate actions. After the stock split, adjustment factors were generated to ensure

neutrality of value with an unchanged number of Performance Rights. That is why it was not necessary to adjust for the stock split the target values at issuance or the maximum amounts paid.

The fair value is determined for the Performance Rights in accordance with IFRS 2 using a recognized option pricing model. Similar to the option pricing model used for the SAR program, this model involves the simulation of a large number of different possible development tracks for the E.ON share price (taking into account the effects of reinvested dividends and capital adjustment factors) and the benchmark index (Monte Carlo simulation). However, unlike the SAR program, the benchmark for this plan is the Dow Jones STOXX Utilities Index (Return EUR), which stood at 616.05 points on December 31, 2008. Since payments to all plan participants take place on a specified date, no assumptions concerning exercise behavior are made in this plan structure, and such assumptions are therefore not considered in this option pricing model. Dividend payments and corporate actions are taken into account through corresponding factors that are analogous to those employed by the index provider.

E.ON Share Performance Plan— Measurement Parameters of the Option Pricing Model			
	3rd tranche	2nd tranche	1st tranche ¹
Intrinsic value as of December 31, 2008	€73.78	€91.62	€89.70
Fair value as of December 31, 2008	€65.88	€89.65	€89.70
Swap rate	2.69%	2.25%	-
Volatility of E.ON share	40.22%	52.50%	-
Volatility of the Dow Jones STOXX Utilities Index (Total Return EUR)	29.58%	39.34%	-
Correlation between the E.ON share price and the Dow Jones STOXX Utilities Index (Total Return EUR)	0.92	0.93	-

¹Matured.

294,623 third-tranche Performance Rights were granted in 2008. The first tranche matured on December 31, 2008. The payout for the 430,328 first-tranche Performance Rights settled at the end of the term on an ordinary basis was set at €89.70 per Performance Right. As of the balance sheet date, a liability of €38.6 million, the total amount of the payouts, was recognized. The payout and elimination of the liability will take place in the first quarter of 2009. In addition, the cash amount from 9,541 of the first and second tranches of Performance Rights was paid out in 2008 on an extraordinary basis in accordance

with the terms and conditions of the plan. Total extraordinary payments amounted to €1.4 million (2007: €1.6 million). 13,613 first-, second- and third-tranche Performance Rights expired in the 2008 fiscal year. The provision for the plan at year-end amounted to €29.2 million (2007: €67.8 million). The provision is prorated for the respective period elapsed of the total three-year term. The expense for the E.ON Share Performance Plan amounted to €1.4 million in the 2008 fiscal year (2007: €60.5 million).

Changes in the E.ON Share Performance Plan			
	3rd tranche	2nd tranche	1st tranche
Performance Rights outstanding as of December 31, 2006	-	-	454,601
Performance Rights granted in 2007	-	397,382	-
Settled Performance Rights in 2007	-	4,458	11,042
Performance Rights expired in 2007	-	1,658	2,691
Performance Rights outstanding as of December 31, 2007	0	391,266	440,868
Performance Rights granted in 2008	294,623	-	-
Settled Performance Rights in 2008	-	3,463	436,406
Performance Rights expired in 2008	3,379	5,772	4,462
Performance Rights outstanding as of December 31, 2008	291,244	382,031	0
Cash amount paid in 2008	€0.0 m	€0.5 m	€39.5 m
Provision as of December 31, 2008	€6.4 m	€22.8 m	€0.0 m
(-) Expense/ (+) Income in 2008	-€6.4 m	-€2.2 m	€7.2 m

The second and third tranches were not yet payable on an ordinary basis on the balance sheet date.

The issue of a fourth tranche of the E.ON Share Performance Plan is planned for 2009.

Employees

During 2008, the Company employed an average of 91,546 persons (2007: 83,434), not including 2,419 apprentices (2007: 2,352). The breakdown by segment is shown below:

Employees		
	2008	2007
Central Europe	43,190	44,054
Pan-European Gas	10,406	12,204
U.K.	17,535	16,499
Nordic	5,880	5,872
U.S. Midwest	3,070	2,940
Energy Trading	828	-
New Markets ¹	7,704	1,356
Corporate Center	2,933	509
Total	91,546	83,434

¹Including OGG-4, E2-I and Airtricity in 2007.

(12) Other Information

German Corporate Governance Code

On December 15, 2008, the Board of Management and Supervisory Board of E.ON AG made a declaration of compliance pursuant to Section 161 of the German Stock Corporation Act ("AktG"). The declaration was made publicly accessible on the Company's web site (www.eon.com).

Fees and Services of the Independent Auditor

During 2008 and 2007, the Company incurred the following fees for services provided by its independent auditor, PricewaterhouseCoopers ("PwC"):

Independent Auditor Fees		
€ in millions	2008	2007
Financial statement audits	32	33
Other attestation services	31	22
Tax advisory services	2	1
Other services	2	1
Total	67	57

The fees for the financial statement audits concern the audit of the Consolidated Financial Statements and the legally mandated financial statements of E.ON AG and its affiliates.

Fees for other attestation services concern in particular the review of the interim IFRS financial statements. Further included in this item are project-related reviews connected to the introduction of IT and internal-control systems, due-diligence services rendered in connection with acquisitions and disposals, and other specific items.

Fees for tax advisory services primarily include advisory on a case-by-case basis with regard to the tax treatment of M&A transactions, ongoing consulting related to the preparation of tax returns and the review of tax assessments, as well as advisory on other tax-related issues, both in Germany and abroad.

Fees for other services consist primarily of technical support in IT projects and regulatory matters.

Shareholdings and Other Interests

A listing of all shareholdings and other interests of E.ON AG has been compiled and will be published separately in the Electronic Federal Gazette ("elektronischer Bundesanzeiger") in Germany. That listing also contains those shareholdings for which the preparation and publication of annual financial statements and of a corresponding management report under Sections 264 (3) and 264b HGB, respectively, is not required.

(13) Earnings per Share

The computation of basic and diluted earnings per share for the periods indicated is shown below:

Earnings per Share		
€ in millions	2008	2007
Income/Loss (-) from continuing operations	1,732	7,394
less: Minority interests	-338	-520
Income/Loss (-) from continuing operations (attributable to shareholders of E.ON AG)	1,394	6,874
Income/Loss (-) from discontinued operations, net	-128	330
less: Minority interests	-	-
Income/Loss (-) from discontinued operations, net (attributable to shareholders of E.ON AG)	-128	330
Net income attributable to shareholders of E.ON AG	1,266	7,204
in €		
Earnings per share (attributable to shareholders of E.ON AG)		
from continuing operations	0.75	3.52
from discontinued operations	-0.07	0.17
from net income	0.68	3.69
Weighted-average number of shares outstanding (in millions)	1,862	1,954

The computation of diluted earnings per share is identical to that of basic earnings per share, as E.ON AG has not issued any potentially dilutive common stock.

The stock split (see Note 19) has already been included in the computation of earnings per share. The 2007 figures have been adjusted accordingly.

(14) Goodwill, Intangible Assets and Property, Plant and Equipment

Goodwill, Intangible Assets and Property, Plant and Equipment							
€ in millions	Acquisition and production costs						December 31, 2008
	January 1, 2008	Exchange rate differences	Change in scope of consolidation	Additions	Disposals	Transfers	
Goodwill	17,045	-1,163	6,028	21	-71	-1,100	20,760
Marketing-related intangible assets	48	-	-	-	-	-	48
Customer-related intangible assets	2,418	-241	138	1	-1	-18	2,297
Contract-based intangible assets	2,020	-58	2,593	24	-56	-104	4,419
Technology-based intangible assets	599	-18	46	59	-30	37	693
Internally generated intangible assets	229	-54	-3	49	-34	14	201
Intangible assets subject to amortization	5,314	-371	2,774	133	-121	-71	7,658
Intangible assets not subject to amortization	1,571	-197	480	1,566	-898	-66	2,456
Advance payments on intangible assets	30	1	14	29	-2	-39	33
Intangible assets	6,915	-567	3,268	1,728	-1,021	-176	10,147
Real estate and leasehold rights	3,834	-211	408	64	-36	-973	3,086
Buildings	9,144	-407	1,205	77	-100	-388	9,531
Technical equipment, plant and machinery	82,403	-3,951	10,308	1,806	-546	-602	89,418
Other equipment, fixtures, furniture and office equipment	3,212	-324	57	274	-137	-27	3,055
Advance payments and construction in progress	5,672	-579	1,698	6,853	-15	-3,763	9,866
Property, plant and equipment	104,265	-5,472	13,676	9,074	-834	-5,753	114,956

	Accumulated depreciation								Net carrying amounts	
	January 1, 2008	Exchange rate differences	Change in scope of consolidation	Additions	Disposals	Transfers	Impairment	Reversals	December 31, 2008	December 31, 2008
	-284	5	-1	0	1	0	-3,315	0	-3,594	17,166
	-47	-	-	-	-	-	-	-	-47	1
	-1,125	161	-	-182	-	16	-	-	-1,130	1,167
	-771	58	-455	-106	5	-39	-4	-	-1,312	3,107
	-448	13	-29	-84	20	-	-1	-	-529	164
	-172	40	-	-23	16	-	-2	-	-141	60
	-2,563	272	-484	-395	41	-23	-7	0	-3,159	4,499
	-68	9	-	-	50	-	-230	-	-239	2,217
	0	-	-	-	-	-	-	-	0	33
	-2,631	281	-484	-395	91	-23	-237	0	-3,398	6,749
	-257	5	-14	-12	2	17	-8	-	-267	2,819
	-4,161	185	-859	-291	69	344	-7	-	-4,720	4,811
	-49,084	1,774	-4,994	-2,545	365	3,195	-53	-	-51,342	38,076
	-2,194	200	-36	-213	110	47	-	-	-2,086	969
	-17	3	-1	-	-	-	-	-	-15	9,851
	-55,713	2,167	-5,904	-3,061	546	3,603	-68	0	-58,430	56,526

Goodwill, Intangible Assets and Property, Plant and Equipment

€ in millions	Acquisition and production costs						December 31, 2007
	January 1, 2007	Exchange rate differences	Change in scope of consolida- tion	Additions	Disposals	Transfers	
Goodwill	15,604	-822	2,489	13	-10	-229	17,045
Marketing-related intangible assets	227	-4	-	-	-175	-	48
Customer-related intangible assets	2,482	-98	25	1	-2	10	2,418
Contract-based intangible assets	1,694	-22	305	66	-12	-11	2,020
Technology-based intangible assets	503	-8	10	49	-23	68	599
Internally generated intangible assets	218	-21	-	32	-	-	229
Intangible assets subject to amortization	5,124	-153	340	148	-212	67	5,314
Intangible assets not subject to amortization	1,263	-43	-	990	-239	-400	1,571
Advance payments on intangible assets	15	-	-	29	-1	-13	30
Intangible assets	6,402	-196	340	1,167	-452	-346	6,915
Real estate and leasehold rights	3,970	-119	1	25	-61	18	3,834
Buildings	7,996	-163	1,183	74	-146	200	9,144
Technical equipment, plant and machinery	80,098	-1,963	1,901	2,327	-1,428	1,468	82,403
Other equipment, fixtures, furniture and office equipment	3,362	-141	-9	276	-206	-70	3,212
Advance payments and construction in progress	2,088	-176	1,001	3,961	-12	-1,190	5,672
Property, plant and equipment	97,514	-2,562	4,077	6,663	-1,853	426	104,265

a) Goodwill and Other Intangible Assets

Goodwill

During the 2008 and 2007 fiscal years, the carrying amount of goodwill changed as follows in each of E.ON's segments:

Accumulated depreciation									Net carrying amounts	
January 1, 2007	Exchange rate differences	Change in scope of consolidation	Additions	Disposals	Transfers	Impairment	Reversals	December 31, 2007	December 31, 2007	
-284	0	0	0	0	0	0	0	-284	16,761	
-217	4	-	-9	175	-	-	-	-47	1	
-983	56	-	-198	-	-	-	-	-1,125	1,293	
-778	14	-1	-42	6	30	-	-	-771	1,249	
-365	5	1	-78	23	-34	-	-	-448	151	
-165	16	-	-24	1	-	-	-	-172	57	
-2,508	95	0	-351	205	-4	0	0	-2,563	2,751	
0	2	-	-	-	-4	-66	-	-68	1,503	
0	-	-	-	-	-	-	-	0	30	
-2,508	97	0	-351	205	-8	-66	0	-2,631	4,284	
-252	4	-	-12	3	-	-1	1	-257	3,577	
-4,117	95	-	-242	117	-11	-5	2	-4,161	4,983	
-48,264	831	-50	-2,272	781	-94	-17	1	-49,084	33,319	
-2,371	85	15	-218	193	102	-	-	-2,194	1,018	
-26	1	-	-	8	10	-10	-	-17	5,655	
-55,030	1,016	-35	-2,744	1,102	7	-33	4	-55,713	48,552	

Changes in Goodwill by Segment

€ in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Energy Trading	New Markets	Corporate Center/Consolidation	Total
Net carrying amount as of January 1, 2007	2,485	4,399	4,956	298	3,182	-	-	-	15,320
Changes resulting from acquisitions and divestments ¹	17	15	-	2	-	-	2,458	-	2,492
Other changes ²	-28	-39	-614	-12	-330	-	-28	-	-1,051
Net carrying amount as of December 31, 2007	2,474	4,375	4,342	288	2,852	0	2,430	0	16,761
Changes resulting from acquisitions and divestments ¹	-80	-100	-163	2	-	226	6,093	-	5,978
Impairment charges	-	-	-	-	-1,515	-	-1,800	-	-3,315
Other changes ²	-180	-103	-1,027	-61	160	-14	-1,033	-	-2,258
Net carrying amount as of December 31, 2008	2,214	4,172	3,152	229	1,497	212	5,690	0	17,166

¹The changes resulting from acquisitions and divestments also include effects from the reallocation of goodwill in the course of the creation of the Energy Trading, Climate & Renewables and Italy market units.

²Other changes include transfers, exchange rate differences, as well as reclassifications to assets held for sale.

IFRS 3 prohibits the amortization of goodwill. Instead, goodwill is tested for impairment at least annually at the level of the cash-generating units. Goodwill must also be tested for impairment at the level of individual cash-generating units between these annual tests if events or changes in circumstances indicate that the recoverable amount of a particular cash-generating unit might be impaired.

To perform the impairment tests, the Company first determines the fair values less costs to sell of its cash-generating units, which are calculated based on discounted cash flow methods and verified through the use of suitable multiples, to the extent available. Market transactions or valuations by third parties for similar assets are additionally taken into account.

Valuation is based on the medium-term corporate planning authorized by the Board of Management. Underlying the calculations for impairment-testing purposes is a detailed forecasting period of five years, which extends to ten years in exceptional cases. The cash flow assumptions extending beyond the detailed forecasting period are determined using unit-specific growth rates that are based on historical analysis and prospective forecasting. The growth rates used in 2008 ranged between 1.1 and 3.5 percent (2007: 1.3 to 4.1 percent). These nominal growth rates are derived from long-term, market-specific inflation rates, adjusted for unit-specific forecasts of changes by the respective business units (e.g., regulatory framework, reinvestment cycles or growth prospects). The interest rates used for discounting cash flows are calculated on a unit-specific basis using market data, and as of December 31, 2008, ranged between 6.0 and 9.0 percent after taxes (2007: 5.6 to 7.3 percent).

Principal assumptions underlying the determination by management of fair value less costs to sell include forecasts of commodity market prices, of future electricity and gas prices in the wholesale and retail markets, of investment activity, and of changes in the regulatory framework as well as in rates of growth and discount rates.

A total of €3,315 million in impairment charges was recognized following the testing of the respective goodwill balances for impairment. Of this amount, €1,515 million relates to the regulated segment of the U.S. Midwest market unit. The main reasons for the U.S. Midwest impairment charge are an increase in the market-unit-specific cost of capital and lower long-term growth rates due to the deterioration of the overall economic situation. The recoverable amount for determining the impairment of the regulated business at U.S. Midwest is its value in use.

The cash flow forecast used to calculate the value in use for the impairment test at the U.S. Midwest market unit was based on a ten-year planning period and was performed in line with the current rate and regulatory system. The major value driver in the cash flow forecasts is anticipated long-term load growth, since that has the most significant influence on the necessary investment activity. In the context of the rate and regulatory system, the capital invested constitutes the basis for establishing allowed returns on investment, which is set in the form of a permitted return on equity. The long-term load growth on which planning is based is coordinated with the regulatory authorities at regular intervals.

A further preliminary impairment charge of €1,800 million arose on the preliminary goodwill of the operations in Italy, Spain, and France that were acquired from Enel/Acciona and Endesa. Given the still preliminary nature of the purchase price allocation and the as yet incomplete integration process, an allocation of the preliminary goodwill to individually defined cash-generating units has not yet taken place. The entire preliminary goodwill is therefore carried within the New Markets segment (see also Note 4).

The impairment charge on the preliminary goodwill from the acquisitions of the former Endesa Europa/Viesgo activities is due in part to the generally deteriorating economic situation in Europe. Especially in Italy, the outlook for the energy market became gloomier in the fall of 2008, in part due to regulatory intervention in wholesale markets and to the reduction in power generation resulting from a delay in the start of operations at certain power plants. The increase in Italy's corporate tax rate from 27.5 percent to 33 percent for companies in the energy, banking, and insurance industries was also a factor. The recoverable amount for determining this impairment is the fair value less costs to sell.

As all the fair values less costs to sell of the cash-generating units exceeded their respective carrying amounts in 2007, no impairment charges were recognized in 2007 in connection with the testing of goodwill for impairment.

The impairment charges on goodwill, totaling €3,315 million, are contained in the depreciation and amortization line of the income statement.

Intangible Assets

In 2008, the Company recorded an amortization expense of €395 million (2007: €351 million). Impairment charges on intangible assets amounted to €237 million in 2008 (2007: €66 million).

Intangible assets include emission rights from different trading systems with a carrying amount of €1,094 million (2007: €228 million).

€53 million in research and development costs as defined by IAS 38 were expensed in 2008 (2007: €37 million).

Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the five succeeding fiscal years is as follows:

Estimated Aggregated Amortization Expense	
€ in millions	
2009	391
2010	324
2011	290
2012	250
2013	203
Total	1,458

As acquisitions and disposals occur in the future, actual amounts may vary.

As of December 31, 2008, intangible assets from exploration activity had carrying amounts of €399 million (2007: €551 million). Impairment charges of €41 million (2007: €54 million) were recognized on these intangible assets.

b) Property, Plant and Equipment

Borrowing costs in the amount of €182 million were capitalized in 2008 (2007: €62 million) as part of the historical cost of property, plant and equipment.

In 2008, the Company recorded depreciation of property, plant and equipment in the amount of €3,061 million (2007: €2,744 million). Impairment charges were recognized on property, plant and equipment in the amount of €68 million (2007: €33 million). No reversals of impairments on property, plant and equipment were recognized in 2008 (2007: €4 million).

In 2008, restrictions on disposals existed, involving primarily land and buildings, as well as technical equipment and machinery in the amount of €5,760 million (2007: €5,228 million).

Certain power plants, gas storage facilities and supply networks are utilized under finance leases and capitalized in the E.ON Consolidated Financial Statements because the economic ownership of the assets leased is attributable to E.ON.

The property, plant and equipment thus capitalized had the following carrying amounts as of December 31, 2008:

E.ON as Lessee—Carrying Amounts of Capitalized Lease Assets		
€ in millions	December 31	
	2008	2007
Buildings	28	2
Technical equipment, plant and machinery	305	271
Other equipment, fixtures, furniture and office equipment	-	2
Net carrying amount of capitalized lease assets	333	275

The corresponding payment obligations under finance leases are due as shown below:

E.ON as Lessee—Payment Obligations Under Finance Leases						
€ in millions	Minimum lease payments		Covered interest share		Present values	
	2008	2007	2008	2007	2008	2007
Due within 1 year	51	56	19	17	32	39
Due in 1 to 5 years	163	104	63	50	100	54
Due in more than 5 years	294	288	179	188	115	100
Total	508	448	261	255	247	193

The present value of the minimum lease obligations is reported primarily under liabilities from leases. A further €19 million (2007: €22 million) is included in financial liabilities to entities in which an ownership interest exists.

Regarding future obligations under operating leases where economic ownership is not transferred to E.ON as the lessee, see Note 27.

E.ON also functions in the capacity of lessor. The lease installments from operating leases are due as shown in the table at right:

E.ON as Lessor—Operating Leases		
€ in millions	2008	2007
Nominal value of outstanding lease installments		
Due within 1 year	51	29
Due in 1 to 5 years	124	87
Due in more than 5 years	189	190
Total	364	306

See Note 17 for information on receivables from finance leases.

(15) Companies Accounted for under the Equity Method and Other Financial Assets

The following table shows the structure of the companies accounted for under the equity method and the other financial assets as of the dates indicated:

Companies Accounted for under the Equity Method and Other Financial Assets		
€ in millions	December 31	
	2008	2007
Companies accounted for under the equity method	8,981	8,411
Equity investments	3,806	14,583
<i>Equity investment in OAO Gazprom</i>	2,121	13,061
Non-current securities	5,017	6,895
Total	17,804	29,889

The amount shown for non-current securities relates primarily to fully marketable fixed-income securities.

In 2008, impairment charges on companies accounted for under the equity method amounted to €25 million (2007: €1 million) and impairments on other financial assets amounted to €60 million (2007: €28 million). The reduced value of the Gazprom investment reflects the collapse of the financial markets. In addition to the decline in the market value of that investment, which had to be charged against equity, a reclassification of approximately one-half of the stake as assets held for sale was also undertaken, as discussed in more detail in Note 4. The direct recognition in equity of the change in the value of the investment, and also of its tax base, resulted in a substantial reduction in the level of deferred taxes. The carrying amount of other financial assets with impairment losses was €146 million as of the end of the fiscal year (2007: €524 million).

€1,593 million (2007: €1,524 million) in non-current securities is restricted for the fulfillment of legal insurance obligations of VKE.

Shares in Companies Accounted for under the Equity Method

The financial information below summarizes the most important income statement and balance sheet data for the companies that are accounted for under the equity method.

Earnings Data for Companies Accounted for under the Equity Method		
€ in millions	2008	2007
Sales	35,803	48,656
Net income/loss	3,313	4,399

Investment income generated from companies accounted for under the equity method amounted to €965 million in 2008 (2007: €1,019 million).

Balance Sheet Data for Companies Accounted for under the Equity Method		
€ in millions	December 31	
	2008	2007
Non-current assets	26,493	24,940
Current assets	16,954	14,353
Provisions	8,601	8,636
Liabilities and deferred income	17,206	15,280
Equity	17,640	15,377

The carrying amount of companies accounted for under the equity method whose shares are marketable was €990 million in 2008 (2007: €1,104 million). The fair value of E.ON's share in these companies was €1,422 million (2007: €2,284 million).

Additions of investments in companies accounted for under the equity method resulted in a total goodwill of €9 million in 2008 (2007: €102 million).

Investments in associated companies totaling €87 million (2007: €79 million) were restricted because they were pledged as collateral for financing as of the balance sheet date.

(16) Inventories

The following table provides details of inventories as of the dates indicated:

Inventories		
€ in millions	December 31	
	2008	2007
Raw materials and supplies	2,614	1,946
Goods purchased for resale	2,066	1,801
Work in progress and finished products	94	64
Total	4,774	3,811

Raw materials, goods purchased for resale and finished products are generally valued at average cost.

Write-downs totaled €13 million in 2008 (2007: €3 million). Reversals of write-downs amounted to €1 million in 2008 (2007: €5 million). The carrying amount of inventories recognized at net realizable value was €138 million (2007: €183 million).

No inventories have been pledged as collateral.

(17) Receivables and Other Assets

The following table lists receivables and other assets by remaining time to maturity as of the dates indicated:

Receivables and Other Assets				
€ in millions	December 31, 2008		December 31, 2007	
	Current	Con-current	Current	Non-current
Financial receivables from entities in which an ownership interest exists	423	633	463	564
Receivables from finance leases	38	487	43	529
Other financial receivables and financial assets	1,640	1,331	1,009	1,356
Financial receivables and other financial assets	2,101	2,451	1,515	2,449
Operating receivables from entities in which an ownership interest exists	1,164	3	842	4
Trade receivables	13,599	-	9,064	-
Receivables from derivative financial instruments	12,846	346	5,232	328
Other operating assets	3,733	946	2,835	348
Trade receivables and other operating assets	31,342	1,295	17,973	680
Total	33,443	3,746	19,488	3,129

As of December 31, 2008, other financial assets include receivables from owners of minority interests in jointly owned power plants of €687 million (2007: €518 million) and margin account deposits for futures trading of €757 million (2007: €262 million). In addition, based on the provisions of IFRIC 5, other financial assets include a claim for a refund from the Swedish Nuclear Waste Fund in the amount of €1,157 million (2007: €1,280 million) in connection with the decommissioning of nuclear power plants and nuclear waste disposal. Since this asset is designated for a particular purpose, E.ON's access to it is restricted.

Other operating assets consist primarily of accrued interest receivables of €555 million (2007: €598 million).

The aging schedule of trade receivables is presented in the following table:

Aging Schedule of Trade Receivables		
€ in millions	2008	2007
Total trade receivables	13,599	9,064
Not impaired and not yet due	11,202	6,874
Not impaired and up to 60 days past-due	1,523	1,253
Not impaired and 61 to 90 days past-due	219	196
Not impaired and 91 to 180 days past-due	231	285
Not impaired and 181 to 360 days past-due	152	263
Not impaired and over 360 days past-due	68	161
Net value of impaired receivables	204	32

The individual impaired receivables are due from a large number of retail customers from whom it is unlikely that full repayment will ever be received. Receivables are monitored by the various market units. There are no indications that the carrying amounts reported are impaired.

Valuation allowances for trade receivables have changed as shown in the following table:

Valuation Allowances for Trade Receivables		
€ in millions	2008	2007
Balance as of January 1	-556	-503
Change in scope of consolidation	-12	-
Write-downs	-422	-333
Reversals of write-downs	103	64
Disposals	45	198
Other ¹	112	18
Balance as of December 31	-730	-556

¹Other¹ consists primarily of currency translation differences.

Receivables from finance leases are primarily the result of certain electricity delivery contracts that must be treated as leases according to IFRIC 4. The nominal and present values of the outstanding lease payments have the following due dates:

E.ON as Lessor—Finance Leases						
€ in millions	Gross investment in finance lease arrangements		Unrealized interest income		Present value of minimum lease payments	
	2008	2007	2008	2007	2008	2007
Due within 1 year	96	104	44	44	52	60
Due in 1 to 5 years	328	359	163	169	165	190
Due in more than 5 years	799	879	366	429	433	450
Total	1,223	1,342	573	642	650	700

Of the present value of the outstanding lease payments, €525 million (2007: €572 million) are reported as receivables from finance leases and €125 million (2007: €128 million) are reported as financial receivables from entities in which an ownership interest exists.

(18) Liquid Funds

The following table provides details of liquid funds ordered according to maturity as of the dates indicated:

Liquid Funds	December 31	
	2008	2007
€ in millions		
Securities and fixed-term deposits	2,125	3,888
<i>Current securities with an original maturity greater than 3 months</i>	1,347	2,862
<i>Fixed-term deposits with an original maturity greater than 3 months</i>	778	1,026
Restricted cash and cash equivalents	552	300
Cash and cash equivalents	3,671	2,887
Total	6,348	7,075

Restricted cash, of which €29 million (2007: €12 million) has a maturity greater than three months, includes €11 million (2007: €67 million) in collateral deposited with banks, which serves to limit the utilization of credit lines in connection with the marking to market of derivatives transactions, as well as €250 million still subject to a statutory payment moratorium as of December 31, 2008.

In addition, current securities with an original maturity greater than three months include €380 million (2007: €578 million) in securities held by VKE that are restricted for the fulfillment of legal insurance obligations. In 2007, securities in the amount of €234 million were restricted as collateral for financial transactions.

Cash and cash equivalents include €1,838 million (2007: €2,847 million) in checks, cash on hand and balances in *Bundesbank* accounts and at other financial institutions with an original maturity of less than three months, to the extent that they are not restricted.

(19) Capital Stock

At the Annual Shareholders Meeting held on April 30, 2008, shareholders resolved to convert the Company's shares from bearer shares to registered shares, and to amend the Articles of Incorporation accordingly. It was further resolved to reapportion the capital stock, increasing the capital by €267 million from corporate funds in a first step. This was followed by a reapportionment of the capital whereby each old share has been replaced by three new ordinary shares. This has resulted in a tripling of the shares outstanding. The capital stock now amounts to €2,001,000,000 (2007: €1,734,200,000) and is subdivided into 2,001,000,000 registered ordinary shares with no par value (2007: 667,000,000 ordinary shares with no par value issued to bearer). The following information relates to the reapportioned capital stock.

The number of outstanding shares as of December 31, 2008, totaled 1,904,530,366 (2007: 1,894,868,346).

As of December 31, 2008, E.ON AG and one of its subsidiaries held a total of 96,469,634 treasury shares (December 31, 2007: 106,131,654) having a consolidated book value of €3,549 million (equivalent to 4.82 percent or €96,469,634 of the capital stock). The put options in the amount of €1,053 million reported in 2007 were either exercised in 2008 or have expired. The Company acquired 73,692,090 of its own shares during 2008 under the share buyback program initiated in the previous year. The goals of the share buyback are to make E.ON's capital structure more efficient and to enhance the attractiveness of E.ON stock. 1,138,050 shares were purchased on the market and distributed to employees in 2008 (2007: 1,121,715 shares purchased on the market). See also Note 11 as regards the distribution of shares under the employee stock purchase program. 941 treasury shares (2007: 1,371 shares) were also distributed to employees.

Pursuant to another resolution from the Annual Shareholders Meeting of April 30, 2008, the Company has been authorized to purchase own shares until October 30, 2009. The shares purchased, combined with other treasury shares in the possession of the Company, or attributable to the Company pursuant to Sections 71a ff. AktG, may at no time exceed 10 percent of its capital stock. The Company has further been authorized by the Annual Shareholders Meeting to buy shares using put or call options, or a combination of both.

The actions described above have resulted in an increase in the number of treasury shares held, which has had the effect of reducing the equity of the Group by €2,933 million.

Authorized Capital

At the Annual Shareholders Meeting on April 27, 2005, the Board of Management was authorized, subject to the Supervisory Board's approval, to increase the Company's capital stock by up to €540 million ("Sections 202 ff. AktG Authorized Capital") through one or more issuances of new registered ordinary shares in return for contributions in cash and/or in kind (with the option to exclude shareholders' subscription rights). This capital increase is authorized until April 27, 2010. Subject to the Supervisory Board's approval, the Board of Management is authorized to exclude shareholders' subscription rights.

Conditional Capital

At the Annual Shareholders Meeting of April 30, 2003, conditional capital (with the option to exclude shareholders' subscription rights) in the amount of €175 million ("Conditional Capital") was authorized until April 30, 2008. This Conditional Capital may be used to issue bonds with conversion or option rights and to fulfill conversion obligations towards creditors of bonds containing conversion obligations. The securities underlying these rights and obligations are either E.ON AG shares or those of companies in which E.ON AG directly or indirectly holds a majority stake. The conditional capital has not been used.

Voting Rights

For the 2008 fiscal year, the following disclosures about voting rights have been made pursuant to Section 21 (1) of the German Securities Trading Act ("WpHG"):

On July 1, 2008, UBS AG, Zurich, Switzerland, informed us pursuant to Section 21 (1) WpHG that its percentage of voting rights in E.ON AG fell below the threshold of 3 percent on June 4, 2007, and that it stands at 0.76 percent (equivalent to 5,275,721 votes) as of that date. 0.38 percent of the voting rights (equivalent to 2,611,521 votes) are attributable to the company pursuant to Section 22 (1), sentence 1, no. 1, WpHG.

On May 7, 2008, Capital Research and Management Company, Los Angeles, California, United States, informed us pursuant to Section 21 (1) WpHG that its percentage of voting rights in E.ON AG fell below the threshold of 5 percent on May 2, 2008, and that it stands at 4.96 percent (equivalent to 33,110,358 votes) as of that date. 4.96 percent of the voting rights in E.ON AG (equivalent to 33,110,358 votes) are attributable to Capital Research and Management Company pursuant to Section 22 (1), sentence 1, no. 6, WpHG.

On December 29, 2008, Capital Research and Management Company, Los Angeles, California, United States, informed us pursuant to Section 21 (1) WpHG that its percentage of voting rights in E.ON AG fell below the threshold of 3 percent on December 19, 2008, and that it stands at 2.98 percent (equivalent to 59,629,800 votes) as of that date. 2.98 percent of the voting rights in E.ON AG (equivalent to 59,629,800 votes) are attributable to Capital Research and Management Company pursuant to Section 22 (1), sentence 1, no. 6, WpHG.

On January 6, 2009, Statkraft SF, Oslo, Norway, informed us pursuant to Section 21 (1) WpHG that its percentage of voting rights in E.ON AG exceeded the threshold of 3 percent on December 31, 2008, and that it stands at 4.17 percent (equivalent to 83,415,119 votes) as of that date. The aforementioned voting rights are attributed to Statkraft SF pursuant to Section 22 (1), sentence 1, no. 1, WpHG from its subsidiary Statkraft AS, Oslo, Norway, and—because of the same-day transfer of the aforementioned 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 Section 21 (1) WpHG that its percentage of voting rights in E.ON AG exceeded the threshold of 3 percent on December 31, 2008, and that it stands at 4.17 percent (equivalent to 83,415,119 votes) as of that date. Statkraft AS transferred the aforementioned voting rights on the same day to its subsidiary Statkraft Regional Holding AS, Oslo, Norway, so that the percentage of voting rights is now to be attributed to Statkraft AS pursuant to Section 22 (1), sentence 1, no. 1, WpHG, and remains unchanged at 4.17 percent (equivalent to 83,415,119 votes).

On January 2, 2009, Statkraft Regional Holding AS, Oslo, Norway, informed us pursuant to Section 21 (1) WpHG that its percentage of voting rights in E.ON AG exceeded the threshold of 3 percent on December 31, 2008, and that it stands at 4.17 percent (equivalent to 83,415,119 votes) as of that date.

On January 9, 2009, in the name and on behalf of the Kingdom of Norway, the Royal Ministry of Trade and Industry, Oslo, Norway, informed us pursuant to Section 21 (1) WpHG that its percentage of voting rights in E.ON AG exceeded the thresholds of 3 percent and 5 percent on December 31, 2008, and that it stands at 5.91 percent (equivalent to 118,276,492 votes) as of that date.

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

4.17 percent (83,455,839 votes) are attributed to the Kingdom of Norway pursuant to Section 22 (1), sentence 1, no. 1, WpHG. 4.17 percent of the voting rights (83,415,119 votes) attributed to the Kingdom of Norway are directly held by Statkraft Regional Holding AS and are attributed to the Kingdom of Norway via the following controlled entities:

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

A further 1.74 percent (34,720,645 votes) are attributed to the Kingdom of Norway pursuant to Section 22 (1), sentence 1, nos. 1 and 2, WpHG.

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

(20) Additional Paid-in Capital

As of December 31, 2008, additional paid-in capital stands at €13,741 million (2007: €11,825 million). As part of the acquisition of the 44.6 percent interest held by Statkraft in E.ON Sverige, Statkraft received 4.17 percent of the shares of E.ON AG in return. Additional paid-in capital was thus increased by €2,183 million. Because of the shareholder resolution increasing the capital stock of E.ON AG adopted at the Annual Shareholders Meeting of April 30, 2008, additional paid-in capital decreased by €267 million from its level on December 31, 2007.

(21) Retained Earnings

The following table breaks down the E.ON Group's retained earnings as of the dates indicated:

Retained Earnings	December 31	
	2008	2007
€ in millions		
Legal reserves	45	45
Other retained earnings	22,119	26,783
Total	22,164	26,828

The cancellation of 25,000,000 shares in the form of a simplified capital reduction had the effect of reducing retained earnings by a corresponding amount of €3,115 million as of December 31, 2007.

Under German securities law, E.ON AG shareholders may receive distributions from the retained earnings, and generally also from the net income of E.ON AG, as respectively reported in accordance with the German Commercial Code. As of December 31, 2008, the German-GAAP retained earnings totaled €834 million (2007: €3,627 million). Of these, legal reserves of €45 million (2007: €45 million) were restricted

pursuant to Section 150 (3) and (4) AktG, and reserves for treasury shares of €233 million (2007: €230 million) were restricted pursuant to Section 272 (4) HGB on December 31, 2008. Accordingly, retained earnings in the amount of €556 million (2007: €3,352 million) are available in principle for dividend payments.

The Group's consolidated retained earnings as of December 31, 2008, include accumulated undistributed earnings of €1,466 million (2007: €1,297 million) from companies that have been accounted for under the equity method.

A total of €3,469 million in differences from the acquisition of additional shares of subsidiaries, which originated primarily from the transaction with Statkraft to acquire its 44.6 percent interest in E.ON Sverige, was reported as retained earnings.

A proposal to increase the cash dividend for 2008 by 9.5 percent, from €1.37 per share to €1.50 per share, will be submitted to the Annual Shareholders Meeting. The dividend will thus have increased from €0.67 to €1.50 since 2003, which corresponds to an average annual increase of 18 percent. Based on E.ON AG's 2008 year-end closing share price, the dividend yield is 5.3 percent. Based on a €1.50 dividend, the total profit distribution is €2,857 million.

(22) Changes in Other Comprehensive Income

The change in unrealized gains from available-for-sale securities was primarily attributable to the €9,415 million decline in the fair value before deferred taxes of the investment in Gazprom. Since the fair value is still far in excess of the acquisition cost,

there currently are no grounds for recognition of an impairment charge. Reclassification adjustments from available-for-sale securities recognized in income resulted primarily from the sale of securities at the Central Europe market unit.

(23) Minority Interests

Minority Interests	December 31	
	2008	2007
€ in millions		
Central Europe	2,782	2,578
Pan-European Gas	168	212
U.K.	59	84
Nordic	81	1,782
U.S. Midwest	21	29
Energy Trading	-	-
New Markets	805	1,005
Corporate Center/Consolidation	44	66
Total	3,960	5,756

Minority interests as of the dates indicated are attributable to the segments as shown in the table at left:

The decrease in minority interests in 2008 resulted primarily from the purchase of the outstanding stake in E.ON Sverige in exchange for a consideration including a number of power plant units and shares of E.ON AG. The delivery of the treasury shares was recognized in equity as a reduction of additional paid-in capital. The difference between the purchase price and the carrying amount of the shares also led to a reduction of retained earnings. The transaction produced an after-tax gain of approximately €1.0 billion (in this regard, see also Note 4, as well as the preceding discussion of equity).

(24) Provisions for Pensions and Similar Obligations

The retirement benefit obligations toward the employees of the E.ON Group, which amounted to €14.1 billion, were covered by plan assets having a fair value of €11.0 billion as of December 31, 2008. This corresponds to a funded status of 78 percent.

In addition to the reported plan assets, Versorgungskasse Energie ("VKE") administers another pension fund holding

assets of €2.3 billion (2007: €2.4 billion) that do not constitute plan assets under IAS 19 but which nevertheless are solely intended for the coverage of employee retirement benefits in the German market units.

In the last three years, the funded status, measured as the difference between the defined benefit obligation for the pension units and the fair value of plan assets, has changed as follows:

Three-Year History of the Funded Status				
€ in millions	December 31			January 1
	2008	2007	2006	2006
Defined benefit obligation	14,096	15,936	17,306	17,849
Fair value of plan assets	-11,034	-13,056	-13,342	-8,076
Funded status	3,062	2,880	3,964	9,773

Description of the Benefit Obligations

In addition to their entitlements under government retirement systems and the income from private retirement planning, most E.ON Group employees are also covered by occupational retirement plans.

Both defined benefit plans and defined contribution plans are in place at E.ON. The majority of the benefit obligations reported consists of obligations of E.ON Group companies in which the retirement pension is calculated either on the salaries earned during the most recent years of service (final-pay arrangements) or on a scale of fixed amounts.

In order to avoid exposure to future risks from these benefit obligations, newly designed pension plans were introduced at the major German and foreign E.ON Group companies between 1998 and 2008. Virtually all new hires at the German

market units, as well as at the U.K., U.S. Midwest and Spain market units, are now covered by benefit plans whose future risks can be calculated and controlled. In addition, the final-pay arrangements for existing employees at the Group's German companies were largely converted into a newly designed benefit plan beginning in 2004.

The provisions for pensions and similar obligations also include minor provisions for obligations from the assumption of costs for post-employment health care benefits, which are granted primarily in the United States and in Spain.

In pure defined contribution plans, the Company discharges its obligations toward employees when it pays agreed contribution amounts into funds managed by external insurers or similar institutions.

Changes in the Benefit Obligation

The following table shows the changes in the benefit obligation, as measured by the defined benefit obligation, for the periods indicated:

Changes in the Defined Benefit Obligation						
€ in millions	2008			2007		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Defined benefit obligation as of January 1	15,936	7,963	7,973	17,306	8,840	8,466
Employer service cost	220	138	82	256	161	95
Interest cost	866	425	441	810	388	422
Change in scope of consolidation	438	1	437	24	2	22
Past service cost	27	6	21	10	-	10
Actuarial gains (-)/losses	-1,020	77	-1,097	-920	-1,003	83
Exchange rate differences	-1,422	-	-1,422	-761	-	-761
Employee contributions	24	-	24	25	-	25
Pensions paid	-848	-443	-405	-863	-426	-437
Curtailments	-2	-	-2	-	-	-
Other	-123	-120	-3	49	1	48
Defined benefit obligation as of December 31	14,096	8,047	6,049	15,936	7,963	7,973

Foreign benefit obligations relate almost entirely to the benefit plans at the market units U.K. (2008: €4,637 million; 2007: €7,134 million), U.S. Midwest (2008: €911 million; 2007: €779 million) and Spain (2008: €355 million; 2007: €0). The portion of the entire benefit obligation allocated to health care benefits amounted to €161 million (2007: €139 million).

The Endesa Europa/Viesgo acquisition was the principal factor responsible for the change shown as "Change in scope of consolidation" in 2008. The "Other" line reflects primarily the reclassification of defined benefit obligations in the amount of €116 million on the balance sheet as liabilities associated with assets held for sale.

Actuarial gains in 2008 are attributable primarily to the increase of the discount rate, and also to the decline in the salary and pension increase rates at the U.K. market unit, the result of which was a relative decrease in the defined benefit obligation. In Germany, the actuarial losses resulting from the rising pension increase rate, as well as from departures from long-term trend assumptions in 2008, exceed the actuarial gains from the increase of the discount rate.

Actuarial values of the pension obligations of the German, U.K., U.S. and other foreign subsidiaries were computed based on the following average assumptions for each region:

Actuarial Assumptions								
Percentages	December 31, 2008				December 31, 2007			
	Germany	U.K.	U.S.	Other foreign	Germany	U.K.	U.S.	Other foreign
Discount rate	5.75	6.40	6.05	3.00-10.00	5.50	5.80	6.65	4.50-7.50
Salary increase rate	2.75	3.00	5.25	0.00-12.00	2.75	4.20	5.25	2.75-12.00
Expected return on plan assets	4.50-5.10	5.40	8.25	4.50-9.85	4.50-5.40	5.90	8.25	5.00-5.75
Pension increase rate ¹	2.00	2.50	-	0.00-4.25	1.75	3.20	-	0.00-2.00
Health care cost trend	-	-	8.00	4.00	-	-	9.00	-

¹The pension increase rate for Germany applies to eligible individuals not subject to a one-percent pension increase rate.

Other company-specific actuarial assumptions, including employee fluctuation, have also been included in the computations.

To measure the E.ON Group's occupational pension obligations for accounting purposes, the Company has employed the current versions of the biometric tables recognized in each respective country for the calculation of pension obligations.

The discount rate assumptions used by E.ON reflect the region-specific rates available at the end of the respective fiscal year for high-quality fixed-rate corporate bonds with a duration corresponding to the average period to maturity of the pension benefit obligations. In view of the impact of the financial crisis on companies in the financial sector, the previously very high weighting given to returns from financial companies when calculating the discount rate was reduced from the first quarter of 2008 in order to counteract a substantial, inappropriate distortion of the discount rates applied at the E.ON Group.

At the E.ON Group, a uniform increase or decrease of 0.5 percentage points in the discount rate would change the defined benefit obligation by -€865 million and +€965 million, respectively, as of December 31, 2008.

Description of Plan Assets

Defined benefit pension plans in the Group's companies, be they within or outside of Germany, are mostly financed through

the accumulation of plan assets in specially created pension vehicles that legally are distinct from the Company.

Under the Contractual Trust Arrangement (CTA) established for the German subsidiaries, plan assets totaling €4,847 million (2007: €5,204 million) were administered by a trust, E.ON Pension Trust e.V., on a fiduciary basis. The remainder of the domestic plan assets in the amount of €300 million (2007: €318 million) is held primarily by pension funds in the Central Europe market unit.

The foreign plan assets, which amounted to a total of €5,887 million in 2008 (2007: €7,534 million) and are managed mostly by independent pension trusts, are dedicated primarily to the financing of the pension plans at the U.K. and U.S. Midwest market units. Plan assets of €5,132 million (2007: €6,944 million) are attributable to the U.K. market unit. The pension assets of the new Spain market unit, totaling €287 million, consist almost entirely of qualifying insurance policies, which constitute plan assets under IAS 19.

The Endesa Europa/Viesgo acquisition is the principal factor responsible for the change shown as "Change in scope of consolidation" in 2008.

The changes in the fair value of the plan assets covering the benefit obligation for defined benefit pension plans are shown in the following table:

Changes in Plan Assets						
€ in millions	2008			2007		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Fair value of plan assets as of January 1	13,056	5,522	7,534	13,342	5,368	7,974
Expected return on plan assets	721	295	426	731	266	465
Employer contributions	204	7	197	436	269	167
Employee contributions	24	-	24	25	-	25
Change in scope of consolidation	284	-	284	4	4	-
Actuarial gains/losses (-)	-1,008	-352	-656	-65	-72	7
Exchange rate differences	-1,527	-	-1,527	-715	-	-715
Pensions paid	-724	-326	-398	-747	-313	-434
Other	4	1	3	45	-	45
Fair value of plan assets as of December 31	11,034	5,147	5,887	13,056	5,522	7,534

The €2.3 billion (2007: €2.4 billion) in non-current securities and liquid funds administered by VKE are not included in the determination of the funded status as of December 31, 2008, since they do not constitute plan assets under IAS 19. However, these assets, which are primarily dedicated to the coverage of the Central Europe market unit's benefit obligations, do additionally have to be taken into consideration for a comprehensive evaluation of the funded status of the E.ON Group's benefit obligations.

The principal investment objective for the pension plan assets is to provide full coverage of benefit obligations at all times for the payments due under the corresponding pension plans. Plan assets include virtually no owner-occupied real estate. Investment in equity and debt instruments issued by E.ON Group companies is generally not intended.

To implement the investment objective, the E.ON Group generally pursues a liability-driven investment (LDI) approach that takes into account the structure of the benefit obligations. This long-term LDI strategy seeks to manage the funded status, with the result that any changes in the defined benefit obligation, especially those caused by fluctuating inflation and

interest rates are, to a certain degree, covered by simultaneous corresponding changes in the fair value of plan assets. The LDI strategy may also involve the use of derivatives (e.g., interest rate swaps and inflation swaps). In order to improve the funded status of the E.ON Group as a whole, a portion of the plan assets will also be invested in a diversified portfolio of asset classes that are expected to provide for long-term returns in excess of those of fixed-income investments.

The determination of the target portfolio structure for the individual plan assets is based on regular asset-liability studies. In these studies, the target portfolio structure is reviewed under consideration of existing investment principles, the current level of financing of existing benefit obligations, the condition of the capital markets and the structure of the benefit obligations developments, and is adjusted as necessary. The expected long-term returns for the individual plan assets are derived from the portfolio structure targeted and from the expected long-term returns for the individual asset classes in the asset-liability studies.

Plan assets were invested in the asset classes shown in the following table as of the dates indicated:

Classification of Plan Assets						
Percentages	December 31, 2008			December 31, 2007		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Equity securities	11	6	16	18	6	27
Debt securities	62	52	70	49	31	62
Real estate	10	13	8	8	10	7
Other (primarily money market investments)	17	29	6	25	53	4

Provision for Pensions and Similar Obligations

The E.ON Group's recognized net obligation is derived from the difference between the defined benefit obligation and the fair value of plan assets, adjusted for unrecognized past service cost, and is determined as shown in the following table:

Derivation of the Provision for Pensions and Similar Obligations		
€ in millions	December 31	
	2008	2007
Defined benefit obligation—fully or partially funded by plan assets	13,751	15,632
Fair value of plan assets	-11,034	-13,056
Defined benefit obligation—unfunded plans	345	304
Funded status	3,062	2,880
Unrecognized past service cost	-10	-3
Net amount recognized	3,052	2,877
<i>Operating receivables</i>	-507	-13
<i>Provisions for pensions and similar obligations</i>	3,559	2,890

With virtually offsetting actuarial gains and losses of benefit obligations and plan assets, the increase in the recognized net obligation as of December 31, 2008, is attributable primarily to the currency effects shown and to the change in the scope of consolidation.

Contributions and Pension Payments

In 2008, E.ON made employer contributions to plan assets totaling €204 million (2007: €436 million) to fund existing defined benefit obligations. Given the high level of financing of the defined benefit obligations at the German subsidiaries (taking into account the pension funds held by VKE), no significant employer contributions were paid into the German plan assets during 2008.

For 2009, it is expected that overall employer contributions to plan assets will amount to a total of €148 million and primarily involve the funding of new and existing benefit obligations relating exclusively to foreign companies.

Pension payments to cover benefit obligations totaled €848 million in 2008 (2007: €863 million). Prospective pension payments existing as of December 31, 2008, for the next ten years are shown in the following table:

Prospective Pension Payments			
€ in millions	Total	Domestic	Foreign
2009	820	452	368
2010	856	477	379
2011	876	482	394
2012	914	505	409
2013	945	518	427
2014-2018	5,206	2,812	2,394
Total	9,617	5,246	4,371

Pension Cost

The net periodic pension cost for defined benefit pension plans is shown in the table below:

Net Periodic Pension Cost						
€ in millions	2008			2007		
	Total	Domestic	Foreign	Total	Domestic	Foreign
Employer service cost	220	138	82	256	161	95
Interest cost	866	425	441	810	388	422
Expected return on plan assets	-721	-295	-426	-731	-266	-465
Effects of curtailments	-2	-	-2	-	-	-
Recognized past service cost	20	6	14	10	-	10
Total	383	274	109	345	283	62

Actuarial gains and losses are accrued and recognized in full. They are reported outside of the income statement as part of equity in the Statements of Recognized Income and Expenses.

The actual return on plan assets was a loss of €287 million in 2008 (2007: €666 million gain). Difficult conditions in the capital markets led to market losses, particularly in the case of equities, that could not be fully offset with returns from the interest-bearing LDI portfolio.

In addition to the total net periodic pension cost, an amount of €64 million in fixed contributions to external insurers or similar institutions was paid in 2008 (2007: €53 million) for pure defined contribution pension plans.

The total net periodic pension cost shown includes an amount of €11 million in 2008 (2007: €12 million) for retiree health care benefits. A one-percentage-point increase or decrease in the assumed health care cost trend rate would affect the interest and service components and result in a change in net periodic pension cost of +€0.4 million or -€0.4 million (2007: +€0.5 million or -€0.4 million), respectively. The corresponding accumulated post-employment benefit obligation would change by +€4.8 million or -€4.3 million (2007: +€4.9 million or -€4.4 million), respectively.

The changes in actuarial gains and losses recognized in equity (including the actuarial gains and losses from the benefit obligations that were already reported on the balance sheet as "Liabilities associated with assets held for sale" or which have been reclassified to that line item and those of the companies accounted for under the equity method) are shown in the following table:

Accumulated Actuarial Gains and Losses Recognized in Equity		
€ in millions	2008	2007
Accumulated actuarial gains (+) and losses (-) recognized in equity as of January 1	1,633	781
Recognition in equity of current-year actuarial gains (+) and losses (-)	5	852
Accumulated actuarial gains (+) and losses (-) recognized in equity as of December 31	1,638	1,633

In the years 2006 through 2008, the following experience adjustments were made to the present value of all defined benefit obligations and to the fair value of plan assets:

Experience Adjustments			
Percentages	December 31		
	2008	2007	2006
Experience adjustments to the amount of the benefit obligation	1.61	1.22	0.73
Experience adjustments to the value of plan assets	-9.01	-0.50	-0.22

The experience adjustments reflect the effects on the benefit obligations and plan assets at the E.ON Group, which result from differences between the actual changes in these amounts from the assumptions made with respect to these changes at the beginning of the fiscal year. In the measurement of the

benefit obligations, these include the development of salary increases and of other measures relevant in the determination of the benefit obligations, increases in state pensions, employee fluctuation and biometric data such as death and disability.

(25) Miscellaneous Provisions

The following table lists the miscellaneous provisions as of the dates indicated:

Miscellaneous Provisions				
€ in millions	December 31, 2008		December 31, 2007	
	Current	Non-current	Current	Non-current
Non-contractual obligations for nuclear waste management	127	9,138	133	10,022
Contractual obligations for nuclear waste management	161	3,931	300	3,335
Personnel obligations	633	716	593	690
Other asset retirement obligations	290	1,193	301	943
Supplier-related obligations	309	320	451	290
Customer-related obligations	458	141	296	80
Environmental remediation and similar obligations	45	557	32	456
Other	2,237	3,202	1,886	2,257
Total	4,260	19,198	3,992	18,073

The changes in the miscellaneous provisions are shown in the table below:

Changes in Miscellaneous Provisions										
€ in millions	Jan. 1, 2008	Exchange rate differences	Change in scope of consolidation	Accretion	Additions	Utilization	Reclassifications	Reversals	Changes in estimates	Dec. 31, 2008
Contractual obligations for nuclear waste management	3,635	-58	-	232	63	-571	768	-	23	4,092
Personnel obligations	1,283	-9	66	2	719	-663	-8	-41	-	1,349
Other asset retirement obligations	1,244	-46	233	47	57	-22	-46	-	16	1,483
Supplier-related obligations	741	-11	2	19	421	-160	-	-383	-	629
Customer-related obligations	376	-11	348	2	370	-195	-13	-278	-	599
Environmental remediation and similar obligations	488	-	25	34	54	-24	83	-58	-	602
Other	4,143	-103	595	91	1,797	-526	-81	-477	-	5,439
Total	22,065	-376	1,269	907	3,508	-2,169	-65	-1,237	-444	23,458

The accretion expense resulting from the changes in provisions is shown in the financial results (see Note 9).

The interest rates applied for the nuclear power segment, calculated on a country-specific basis, were 5.5 percent as of December 31, 2008, (2007: 5.5 percent) in Germany and 3.0 percent (2007: 2.5 percent) in Sweden. For the other provision items, the interest rates used ranged from 1.7 percent to 4.4 percent, depending on maturity (2007: 3.0 percent to 4.5 percent).

Provisions for Non-Contractual Nuclear Waste Management Obligations

The provisions based on German and Swedish nuclear power legislation totaling €9.3 billion comprise all those nuclear obligations relating to the disposal of spent nuclear fuel rods and low-level nuclear waste and to the retirement and decommissioning of nuclear power plant components that are determined on the basis of external studies and cost estimates.

The provisions are classified primarily as non-current provisions and measured at their settlement amounts, discounted to the balance sheet date.

The asset retirement obligations recognized for non-contractual nuclear obligations include the anticipated costs of run-out operation of the facility, dismantling costs, and the cost of removal and disposal of the nuclear components of the nuclear power plant.

Additionally included as part of the disposal of spent nuclear fuel rods are costs for transports to be conducted from central and local temporary facilities to the conditioning plant and to the final storage facility, the cost of proper conditioning prior to final storage and the cost of procurement of final storage containers.

The decommissioning costs and the cost of disposal of spent nuclear fuel rods and low-level nuclear waste also respectively include the actual final storage costs. The cost estimates used to determine the provision amounts are all based on studies performed by external specialists and are updated annually.

Measurement of the provisions takes into account the influencing factors agreed in the understanding reached between the German government and the country's major power utilities on June 14, 2000, and signed on June 11, 2001. Final storage costs consist mainly of investment and operating costs for the planned final storage facilities Gorleben and Konrad based on Germany's ordinance on advance payments for the establishment of facilities for the safe custody and final storage of radioactive wastes in the country ("Endlagervorausleistungsverordnung") and on data from the German Federal Office for Radiation Protection ("Bundesamt für Strahlenschutz"). Advance payments remitted to the Bundesamt für Strahlenschutz in the amount of €789 million (2007: €781 million) have been deducted from the provisions. These payments are made each year based on the amount spent by the Bundesamt für Strahlenschutz on the construction of the final storage facilities Gorleben and Konrad.

Changes in estimates and reclassifications to provisions for contractual waste management obligations reduced provisions in 2008 by €263 million and €768 million, respectively, at the Central Europe market unit. The Nordic market unit recorded a decrease of €220 million as a result of changes in estimates.

Provisions for Contractual Nuclear Waste Management Obligations

The provisions based on German and Swedish nuclear power legislation totaling €4.1 billion comprise all those contractual nuclear obligations relating to the disposal of spent nuclear fuel rods and low-level nuclear waste and to the retirement and decommissioning of nuclear power plant components that are valued at amounts firmly specified in legally binding civil agreements.

Most of the provisions are classified as non-current provisions and measured at their settlement amounts, discounted to the balance sheet date.

Advance payments made to other waste management companies in the amount of €55 million (2007: €126 million) have been deducted from the provisions attributed to Germany. The advance payments relate to the delivery of interim storage containers.

Concerning the disposal of spent nuclear fuel rods, the obligations recognized in the provisions comprise the contractual costs of finalizing reprocessing and the associated transports and containers for the return of waste into the central interim storage facilities Gorleben and Ahaus and the actual central interim storage itself, as well as the procurement of interim storage containers, transports of spent fuel rods to interim on-site storage facilities and the actual temporary storage itself arising from the "direct permanent storage" path. The provisions also include the contractual costs of decommissioning and the conditioning of low-level radioactive waste.

Changes in estimates in 2008 reduced provisions by €153 million at the Central Europe market unit. The Nordic market unit recorded an increase of €176 million as a result of changes in estimates.

Personnel Obligations

Provisions for personnel costs primarily cover provisions for early retirement benefits, anniversary obligations, share-based payment and other deferred personnel costs.

Provisions for Other Asset Retirement Obligations

The provisions for other asset retirement obligations consist of obligations for conventional and renewable-energy power plants, including the conventional plant components in the nuclear power segment, that are based on legally binding civil agreements and public regulations. Also reported here are provisions for environmental improvements at opencast mining and gas storage facilities and the dismantling of installed infrastructure.

Supplier-Related Obligations

Provisions for supplier-related liabilities consist primarily of provisions for potential losses on open purchase contracts.

Customer-Related Obligations

Provisions for customer-related liabilities consist primarily of potential losses on open sales contracts. Also included are provisions for warranties.

Environmental Remediation and Similar Obligations

Provisions for environmental remediation refer primarily to redevelopment and water protection measures and to the rehabilitation of contaminated sites. Also included here are provisions for reversion of title, other environmental improvements and land reclamation obligations at mining sites.

Other

The other miscellaneous provisions consist primarily of provisions from the electricity and gas business, including the provision established in previous years for the risk of retroactive application of lower network charges resulting from the regulation of network charges in Germany. Further included here are provisions for obligations arising from the acquisition and disposal of businesses, provisions for taxes other than income taxes, provisions from emissions trading systems and provisions for tax-related interest expenses.

(26) Liabilities

The following table provides details of liabilities as of the dates indicated:

Liabilities	December 31, 2008			December 31, 2007		
	Current	Non-current	Total	Current	Non-current	Total
€ in millions						
Financial liabilities to banks and third parties	14,102	24,993	39,095	3,481	15,876	19,357
Financial liabilities to entities in which an ownership interest exists	1,920	43	1,963	2,068	39	2,107
<i>Financial liabilities to affiliated companies</i>	165	21	186	152	9	161
<i>Financial liabilities to associated companies and other equity investments</i>	1,755	22	1,777	1,916	30	1,946
Financial liabilities	16,022	25,036	41,058	5,549	15,915	21,464
Trade payables	5,537	-	5,537	4,477	-	4,477
Operating liabilities to entities in which an ownership interest exists	653	57	710	474	65	539
<i>Operating liabilities to affiliated companies</i>	138	35	173	135	44	179
<i>Operating liabilities to associated companies and other equity investments</i>	515	22	537	339	21	360
Capital expenditure grants	40	305	345	26	219	245
Construction grants from energy consumers	313	3,175	3,488	434	2,978	3,412
Liabilities from derivatives	13,335	292	13,627	5,011	260	5,271
Advance payments	482	344	826	451	6	457
Other operating liabilities	11,700	1,890	13,590	7,381	1,904	9,285
Trade payables and other operating liabilities	32,060	6,063	38,123	18,254	5,432	23,686
Total	48,082	31,099	79,181	23,803	21,347	45,150

Financial Liabilities

The following is a description of the E.ON Group's significant credit arrangements and debt issuance programs. Included under "Bonds" are the bonds currently outstanding, including those issued under the Debt Issuance Program.

Corporate Center**€30 Billion Debt Issuance Program**

The €30 billion Debt Issuance Program allows E.ON AG and E.ON International Finance B.V. ("EIF"), Amsterdam, the Netherlands, under the unconditional guarantee of E.ON AG, to issue from time to time debt instruments through public and private placements to investors.

At year-end 2008, the following EIF bonds were outstanding:

Major Debt Issues of E.ON International Finance ¹				
Volume issued in the respective currency	Initial term	Repayment	Coupon	
EUR 4,250 million	7 years	May 2009	5.750%	
EUR 1,000 million	2 years	Nov 2010	4.750%	
CHF 200 million	3 years	Dec 2010	3.000%	
EUR 750 million	3 years	Sep 2011	5.000%	
GBP 500 million	10 years	May 2012	6.375%	
CHF 250 million ²	4 years	Sep 2012	3.250%	
EUR 1,750 million	5 years	Oct 2012	5.125%	
CHF 250 million	4 years	Dec 2012	3.875%	
EUR 1,500 million	5 years	May 2013	5.125%	
CHF 300 million	5 years	May 2013	3.625%	
EUR 1,000 million	6 years	Jun 2014	5.250%	
CHF 225 million	7 years	Dec 2014	3.250%	
EUR 1,250 million	7 years	Sep 2015	5.250%	
EUR 900 million	15 years	May 2017	6.375%	
EUR 2,375 million ³	10 years	Oct 2017	5.500%	
USD 2,000 million ⁴	10 years	Apr 2018	5.800%	
GBP 600 million	12 years	Oct 2019	6.000%	
EUR 1,400 million ⁵	12 years	May 2020	5.750%	
GBP 975 million ⁶	30 years	Jun 2032	6.375%	
GBP 900 million	30 years	Oct 2037	5.875%	
USD 1,000 million ⁴	30 years	Apr 2038	6.650%	

¹Listing: All bonds denominated in EUR and GBP are listed in Luxembourg. The CHF-denominated bonds are listed on the SWX Swiss Exchange.
²The volume of this issue was raised from originally CHF 200 million to CHF 250 million.
³The volume of this issue was raised in two steps from originally EUR 1,750 million to EUR 2,375 million.
⁴Rule 144A/Regulation S bond.
⁵The volume of this issue was raised from originally EUR 1,000 million to EUR 1,400 million.
⁶The volume of this issue was raised from originally GBP 850 million to GBP 975 million.

E.ON AG and EIF have additionally issued private placements with a total volume of approximately €1.7 billion, as well as promissory notes with a total volume of approximately €1.3 billion.

€10 Billion and USD 10 Billion Commercial Paper Programs

The euro commercial paper program in the amount of €10 billion allows E.ON AG and certain wholly owned subsidiaries, under the unconditional guarantee of E.ON AG, to issue from time to time commercial paper with maturities of up to 729 days to investors. The U.S. commercial paper program in the amount of USD 10 billion allows E.ON AG and E.ON N.A. Funding LLC, a wholly owned U.S. subsidiary, under the unconditional guarantee of E.ON AG, to issue from time to time commercial paper with maturities of up to 366 days and extendible notes with original maturities of up to 397 days (and a subsequent

extension option) to investors. As of December 31, 2008, €7,305 million in commercial paper was outstanding under these two programs (2007: €1,757 million).

€12.5 Billion Syndicated Revolving Credit Facility

In November 2008, E.ON reduced the existing revolving credit facility from €15 billion to €12.5 billion. The credit facility serves as a back-up facility, and allows E.ON AG and certain subsidiaries, each under the unconditional guarantee of E.ON AG, to take out loans in an aggregate amount of up to €12.5 billion. The facility is subdivided into a 364-day tranche ("Tranche A") of €7.5 billion and a long-term tranche ("Tranche B") of approximately €5 billion. Tranche A was successfully extended in November 2008 at a level of €7.5 billion; the new maturity date is November 26, 2009. Tranche B continues unchanged through December 2, 2011. As in 2007, no borrowings were outstanding under this facility as of December 31, 2008.

As of December 31, 2008, the book values of the financial liabilities of E.ON AG and EIF to banks and third parties outside the E.ON Group had the following maturities:

Financial Liabilities of E.ON AG and E.ON International Finance							
€ in millions	Total	Due in 2009	Due in 2010	Due in 2011	Due in 2012	Due in 2013	Due after 2013
Bonds	23,984	4,236	1,672	1,083	2,652	1,965	12,376
Commercial paper	7,305	7,305	-	-	-	-	-
Bank loans/Liabilities to banks	1,571	1,071	-	-	-	-	500
Misellaneous financial liabilities	1,285	4	4	-	-	304	973
Total	34,145	12,616	1,676	1,083	2,652	2,269	13,849

Financial Liabilities by Segment

The following table breaks down the financial liabilities by segment:

Financial Liabilities by Segment as of December 31						
€ in millions	Central Europe		Pan-European Gas		U.K.	
	2008	2007	2008	2007	2008	2007
Bonds	-	-	-	-	272	275
Commercial paper	-	-	-	-	-	-
Bank loans/Liabilities to banks	1,209	992	84	40	26	8
Liabilities from finance leases	130	39	63	63	-	25
Other financial liabilities	123	136	28	47	-	-
Financial liabilities to banks and third parties	1,462	1,167	175	150	298	308

Financial liabilities to financial institutions include collaterals received, measured at a fair value of €1,035 million (2007: €407 million). These collaterals include amounts pledged by banks to limit the utilization of credit lines in connection with the fair value measurement of derivatives transactions. The other financial liabilities include promissory notes in the amount of €1,293 million (2007: €23 million). Additionally included in this line item are margin deposits received in connection with forward transactions on futures exchanges in the amount of €164 million (2007: €46 million), as well as collaterals received in connection with goods and services in the amount of €31 million (2007: €75 million). E.ON can use these collaterals without restriction.

Trade Payables and Other Operating Liabilities

Trade payables totaled €5,537 million as of December 31, 2008 (2007: €4,477 million).

Capital expenditure grants of €345 million (2007: €245 million) were paid primarily by customers for capital expenditures made on their behalf, while E.ON retains the assets. The grants are non-refundable and are recognized in other operating income over the period of the depreciable lives of the related assets.

Nordic		U.S. Midwest		Energy Trading		New Markets		Corporate Center/ Consolidation		Total	
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
506	738	549	635	-	-	-	-	23,984	12,822	25,311	14,470
-	227	-	-	-	-	-	-	7,305	1,757	7,305	1,984
-	-	-	-	-	-	652	546	1,571	426	3,542	2,012
27	30	-	-	-	-	-	-	8	14	228	171
708	431	-	-	171	-	402	102	1,277	4	2,709	720
1,241	1,426	549	635	171	0	1,054	648	34,145	15,023	39,095	19,357

Construction grants of €3,488 million (2007: €3,412 million) were paid by customers for the cost of new gas and electricity connections in accordance with the generally binding terms governing such new connections. These grants are customary in the industry, generally non-refundable and recognized as revenue according to the useful lives of the related assets.

Other operating liabilities consist primarily of accruals in the amount of €6,482 million (2007: €3,530 million), interest payable in the amount of €1,046 million (2007: €760 million) and an obligation to transfer generating capacity in Italy in

the amount of €1,509 million (see also Note 4). Also included in other operating liabilities are counterparty obligations to acquire additional shares in already consolidated subsidiaries and minority interests in fully consolidated partnerships totaling €832 million (2007: €754 million).

Exploration activities accounted for €6 million (2007: €30 million) of the trade payables and other operating liabilities reported.

(27) Contingencies and Commitments

As part of its business activities, E.ON is subject to contingencies and commitments involving a variety of underlying matters. These primarily include guarantees, obligations from litigation and claims (as discussed in more detail in Note 28), short- and long-term contractual and legal obligations and other commitments.

Contingencies

The contingent liabilities of the E.ON Group arising from existing contingencies amounted to €155 million as of December 31, 2008 (2007: €96 million). E.ON currently does not have reimbursement rights relating to the contingent liabilities disclosed.

E.ON has issued direct and indirect guarantees to third parties, which require E.ON to make contingent payments based on the occurrence of certain events or changes in an underlying instrument that is related to an asset, a liability or an equity instrument of the guaranteed party, on behalf of both related parties and external entities. These consist primarily of financial guarantees and warranties.

In addition, E.ON has also entered into indemnification agreements. Along with other guarantees, these indemnification agreements are incorporated in agreements entered into by Group companies concerning the disposal of shareholdings and, above all, cover the customary representations and warranties, as well as environmental damage and tax contingencies. In some cases the buyer of such shareholdings is required to either share costs or cover certain specific costs before E.ON itself is required to make any payments. Some obligations are covered in the first instance by insurance contracts or provisions of the disposed companies. Guarantees issued by companies that were later sold by E.ON AG (or VEBA AG and VIAG AG before their merger) are included in the respective final sales contracts in the form of indemnities.

Moreover, E.ON has commitments under which it assumes joint and several liability arising from its interests in the civil-law companies ("GbR"), non-corporate commercial partnerships and consortia in which it participates.

The guarantees of E.ON also include items related to the operation of nuclear power plants. With the entry into force of the German Nuclear Power Regulations Act ("Atomgesetz" or "AtG"), as amended, and of the ordinance regulating the provision for coverage under the Atomgesetz ("Atomrechtliche Deckungsvorsorge-Verordnung" or "AtDeckV") of April 27, 2002, as amended, German nuclear power plant operators are required to provide nuclear accident liability coverage of up to €2.5 billion per incident.

The coverage requirement is satisfied in part by a standardized insurance facility in the amount of €255.6 million. The institution Nuklear Haftpflicht Gesellschaft bürgerlichen Rechts ("Nuklear Haftpflicht GbR") now only covers costs between €0.5 million and €15 million for claims related to officially ordered evacuation measures. Group companies have agreed to place their subsidiaries operating nuclear power plants in a position to maintain a level of liquidity that will enable them at all times to meet their obligations as members of the Nuklear Haftpflicht GbR, in proportion to their shareholdings in nuclear power plants.

To provide liability coverage for the additional €2,244.4 million per incident required by the above-mentioned amendments, E.ON Energie AG and the other parent companies of German nuclear power plant operators reached a Solidarity Agreement ("Solidarvereinbarung") on July 11, July 27, August 21, and August 28, 2001. If an accident occurs, the Solidarity Agreement calls for the nuclear power plant operator liable for the damages to receive—after the operator's own resources and those of its parent company are exhausted—financing sufficient for the operator to meet its financial obligations. Under the Solidarity Agreement, E.ON Energie's share of the liability coverage on December 31, 2008, remained unchanged from 2007 at 42.0 percent, plus an additional 5.0 percent charge for the administrative costs of processing damage claims.

In accordance with Swedish law, the companies of the Nordic market unit have issued guarantees to governmental authorities. The guarantees were issued to cover possible additional costs related to the disposal of high-level radioactive waste and to the decommissioning of nuclear power plants. These costs could arise if actual costs exceed accumulated funds. In addition, the Nordic market unit is also responsible for any costs related to the disposal of low-level radioactive waste.

In Sweden, owners of nuclear facilities are liable for damages resulting from accidents occurring in those nuclear facilities and for accidents involving any radioactive substances connected to the operation of those facilities. The liability per incident as of December 31, 2008, was limited to SEK 3,625 million, or €333 million (2007: SEK 3,063 million, or €324 million). This amount must be insured according to the Law Concerning Nuclear Liability. The Nordic market unit has purchased the necessary insurance for its nuclear power plants. The Swedish government is still in the process of reviewing the regulatory framework for the aforementioned liability limitation. The extent to which this review will result in changes to the Swedish regulations on the limitation of nuclear liability is still unclear at present.

Other than in the Central Europe and Nordic market units, there are no further nuclear power plants in operation. Accordingly, there are no additional contingent liabilities comparable to those mentioned above.

Other Commitments

In addition to provisions and liabilities carried on the balance sheet and to the reported contingent liabilities, there also are other mostly long-term commitments arising mainly from contracts entered into with third parties and related parties, or on the basis of legal requirements.

As of December 31, 2008, purchase commitments and obligations for orders totaled €11.1 billion (2007: €7.9 billion). Of these commitments, €4.4 billion are due within one year. This total mainly includes obligations for as yet outstanding investments in connection with new power plant construction projects, modernizations of existing power plants and the network connection of offshore wind farms, particularly at the Central Europe, Nordic, Climate & Renewables and Russia market units. As of December 31, 2008, purchase commitments and obligations for new power plant construction totaled €4.6 billion. These commitments also include obligations concerning the construction of wind power plants.

Additional financial obligations arose from rental and tenancy agreements and from operating leases. The corresponding minimum lease payments, presented at their nominal values, are due as broken down in the table below:

E.ON as Lessee—Operating Leases		
€ in millions	Minimum lease payments	
	2008	2007
Due within 1 year	212	148
Due in 1 to 5 years	552	401
Due in more than 5 years	614	334
Total	1,378	883

The expenses reported in the income statement for such contracts amounted to €232 million (2007: €218 million). Furthermore, a lease-leaseback arrangement for power plants has resulted in cash flows, which are financed by restricted, offsetting investments totaling approximately €0.5 billion (2007: €0.7 billion) that are congruent in terms of amounts, maturities and currencies. The arrangement expires in 2030.

Additional long-term contractual obligations in place at the E.ON Group as of December 31, 2008, relate primarily to the purchase of fossil fuels such as natural gas, lignite and hard coal. Obligations under these purchase contracts amounted to roughly €312.8 billion on December 31, 2008 (€29.4 billion due within one year).

Gas is usually procured on the basis of long-term purchase contracts with large international producers of natural gas. Such contracts are generally of a "take-or-pay" nature. The prices paid for natural gas are normally tied to the prices of competing energy sources, as dictated by market conditions. The conditions of these long-term contracts are reviewed at certain specific intervals (usually every three years) as part of contract negotiations and may thus change accordingly. In the absence of an agreement on a pricing review, a neutral board of arbitration makes a final binding decision. Financial obligations arising from these contracts are calculated based on the same principles that govern internal budgeting. Furthermore, the take-or-pay conditions in the individual contracts are also considered in the calculations.

In 2008, purchase commitments for natural gas increased primarily as a result of the rising cost of natural gas deliveries and of the associated change in planning assumptions, in addition to the extension and replenishment of existing supply contracts and the conclusion of new contracts.

As of December 31, 2008, €10.3 billion (€4.3 billion due within one year) in contractual obligations are in place for the purchase of electricity; these relate in part to purchases from jointly operated power plants in the Central Europe market unit. The purchase price of electricity from jointly operated power plants is generally based on the supplier's production cost plus a profit margin that is generally calculated on the basis of an agreed return on capital.

Other purchase commitments amounted to approximately €2.0 billion as of December 31, 2008 (€0.2 billion due within one year). In addition to purchase commitments for heat and alternative fuels, there are long-term contractual obligations in place at the Central Europe market unit for the procurement of services in the area of reprocessing and interim storage of spent nuclear fuel elements delivered through June 30, 2005.

Other financial obligations in place as of December 31, 2008, totaled approximately €2.8 billion (€1.1 billion due within one year). Among others, they include financial obligations from services to be procured, obligations concerning the acquisition of shares and the acquisition of real estate funds held as financial assets, as well as financing commitments.

(28) Litigation and Claims

A number of different court actions (including product liability claims and allegations of price fixing), governmental investigations and proceedings, and other claims are currently pending or may be instituted or asserted in the future against companies of the E.ON Group. This in particular includes legal actions and proceedings concerning alleged price-fixing agreements and anticompetitive practices. In addition, there are lawsuits pending against E.ON AG and U.S. subsidiaries in connection with the disposal of VEBA Electronics in 2000. Since litigation and claims are subject to numerous uncertainties, their outcome cannot be ascertained; however, in the opinion of management, any potential obligations arising from these matters will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

In June 2008, the European Commission transmitted a statement of objections as part of its antitrust proceedings against E.ON Ruhrgas concerning suspected market-sharing with Gaz de France. E.ON Ruhrgas has responded to the objections in a hearing and by other means. It is not possible at this time to estimate any possible fine by the Commission. In the event of the Commission ordering a fine, legal action can be taken.

(29) Supplemental Disclosures of Cash Flow Information

No cash sales took place in 2008 of shareholdings or activities to be deconsolidated. In 2007, the sales prices of such shareholdings and activities totaled €25 million. The deconsolidation of shareholdings and activities resulting from asset sales in 2007 led to reductions of €21 million in assets and €11 million provisions and liabilities. Cash and cash equivalents divested in connection with the sales amounted to €2 million in 2007.

Purchase prices for acquisitions of subsidiaries totaled €8,730 million (2007: €5,416 million). Cash and cash equivalents acquired in connection with the acquisitions amounted to €104 million (2007: €1,450 million). These purchases resulted in assets amounting to €19,016 million (2007: €8,615 million) and in provisions and liabilities totaling €9,965 million (2007: €2,182 million).

Cash provided by operating activities was 23 percent lower in 2008 than in 2007. The decrease was due to the accumulation of emission rights positions at the Group's trading operations, and to negative effects from the gas storage usage at the Pan-European Gas market unit, among other things. Additional negative cash flow effects in 2008 resulted from higher interest payments.

Cash provided by investing activities was negative in 2008. As proceeds from sales of shareholdings declined, spending on investments in property, plant and equipment and on equity investments rose significantly over the previous year. The largest individual project was the acquisition of the Endesa Europa/Viesgo activities.

The net payments for treasury shares relate primarily to the share buyback program. The delivery of own shares and of the power plant units in the amount of €4,346 million as part of the Statkraft/E.ON Sverige transactions was a non-cash consideration and is therefore not presented in the cash flow statement (see also Notes 4 and 23).

Funds tied down in fixed-term deposits and securities declined slightly in 2008.

Increased borrowing led to a strong increase in cash provided by financing activities.

Exploration activity resulted in operating cash flow of -€78 million (2007: -€55 million) and in cash flow from investing activities of -€26 million (2007: -€377 million).

(30) Derivative Financial Instruments and Hedging Transactions

Strategy and Objectives

The Company's policy generally permits the use of derivatives if they are associated with underlying assets or liabilities, planned transactions, or legally binding rights or obligations. Proprietary trading activities are concentrated on the Energy Trading market unit and are conducted within the confines of the risk management guidelines described below.

Hedge accounting in accordance with IAS 39 is used primarily for interest rate derivatives used to hedge long-term debts, as well as for currency derivatives used to hedge net investments in foreign operations and long-term receivables and debts denominated in foreign currencies. In commodities, potentially volatile future cash flows resulting primarily from planned purchases and sales of electricity and from coal and gas supply requirements are hedged. Forward transactions are used to hedge price risks on equities.

Fair Value Hedges

Fair value hedges are used to protect against the risk from changes in market values. The Company uses fair value hedge accounting specifically in the exchange of fixed-rate commitments in long-term receivables and liabilities denominated in euro for variable rates. The hedging instruments used for such exchanges are interest rate swaps. Gains and losses on these hedges are generally reported in that line item of the income statement which also includes the respective hedged items. Interest rate fair value hedges are reported under "Interest and similar expenses." Adjustments to the carrying amounts of hedged items produced a loss in 2008 of €88 million (2007: €9 million loss), which was offset by realized gains of €81 million (2007: €12 million gain) for the year in the

designated hedging instruments. The negative fair values of the derivatives used in fair value hedges totaled €9 million (2007: negative €90 million).

Cash Flow Hedges

Cash flow hedges are used to protect against the risk arising from variable cash flows. Interest rate and cross-currency interest rate swaps are the principal instruments used to limit interest rate and currency risks. The purpose of these swaps is to maintain the level of payments arising from long-term interest-bearing receivables and liabilities denominated in foreign currencies and euro by using cash flow hedge accounting in the functional currency of the respective E.ON company.

In order to reduce future cash flow fluctuations arising from electricity, coal and gas transactions effected at variable spot prices, as well as for the procurement of property, plant and equipment, forward contracts, futures and swaps are concluded and also accounted for using cash flow hedge accounting.

As of December 31, 2008, the hedged transactions in place included foreign currency cash flow hedges with maturities of up to 31 years (2007: up to ten years) and up to twelve years (2007: up to 25 years) for interest cash flow hedges. No risks from equity instruments were hedged in 2008. Commodity cash flow hedges have maturities of up to five years (2007: up to four years).

The amount of ineffectiveness for cash flow hedges recorded for the year ended December 31, 2008, produced a loss of €5 million (2007: €3 million gain).

Pursuant to the information available as of the balance sheet date, the following effects will accompany the reclassifications from accumulated other comprehensive income to the income statement in subsequent periods:

Timing of Reclassifications from OCI ¹ to the Income Statement—2008					
€ in millions	Carrying Amount	2009	2010	2011–2013	>2013
OCI—Currency cash flow hedges	-99	-35	-18	-13	-33
OCI—Interest cash flow hedges	16	-	1	-	15
OCI—Commodity cash flow hedges	187	95	49	43	-
OCI—Other cash flow hedges	-	-	-	-	-

¹OCI = Other comprehensive income. Figures are pre-tax.

Timing of Reclassifications from OCI ¹ to the Income Statement—2007					
€ in millions	Carrying Amount	2008	2009	2010–2012	>2012
OCI—Currency cash flow hedges	-103	-35	-9	-10	-49
OCI—Interest cash flow hedges	6	-1	-	-2	9
OCI—Commodity cash flow hedges	249	128	84	37	-
OCI—Other cash flow hedges	-1	-1	-	-	-

¹OCI = Other comprehensive income. Figures are pre-tax.

Gains and losses from reclassification are generally reported in that line item of the income statement which also includes the respective hedged transaction. Gains and losses from the ineffective portions of cash flow hedges are classified as other operating income or other operating expenses. Interest cash flow hedges are reported under "Interest and similar expenses." The fair values of the derivatives used in cash flow hedges totaled €167 million (2007: negative €339 million).

An amount of €473 million (2007: negative €82 million) was added to other comprehensive income in 2008, while during the same period a loss of €293 million (2007: €1 million gain) was reclassified from OCI to the income statement.

Net Investment Hedges

The Company uses foreign currency loans, foreign currency forwards and foreign currency swaps to protect the value of its net investments in its foreign operations denominated in foreign currencies. For the year ended December 31, 2008, the Company recorded an amount of €2,083 million (2007: €1,489 million) in accumulated other comprehensive income within equity due to changes in fair value of derivatives and currency translation results of non-derivative hedging instruments. There was a gain of €6 million related to ineffective portions from net investment hedges in 2008 (2007: €0 million).

Valuation of Derivative Instruments

The fair value of derivative instruments is sensitive to movements in underlying market rates and other relevant variables. The Company assesses and monitors the fair value of derivative instruments on a periodic basis. Fair values for each derivative financial instrument are determined as being equal to the price at which one party would assume the rights and duties of another party, and calculated using common market valuation methods with reference to available market data as of the balance sheet date.

The following is a summary of the methods and assumptions for the valuation of utilized derivative financial instruments in the Consolidated Financial Statements.

- Currency, electricity, gas, oil and coal forward contracts, swaps, and emissions-related derivatives are valued separately at their forward rates and prices as of the balance sheet date. Whenever possible, forward rates and prices are based on market quotations, with any applicable forward premiums and discounts taken into consideration.
- Market prices for interest-rate, electricity and gas options are valued using standard option pricing models commonly used in the market. The fair values of caps, floors and collars are determined on the basis of quoted market prices or on calculations based on option pricing models.
- The fair values of existing instruments to hedge interest risk are determined by discounting future cash flows using market interest rates over the remaining term of the instrument. Discounted cash values are determined for interest rate, cross-currency and cross-currency interest rate swaps for each individual transaction as of the balance sheet date. Interest income is recognized in income at the date of payment or accrual.
- Equity forwards are valued on the basis of the stock prices of the underlying equities, taking into consideration any timing components.
- Exchange-traded energy futures and option contracts are valued individually at daily settlement prices determined on the futures markets that are published by their respective clearing houses. Paid initial margins are disclosed under other assets. Variation margins received or paid during the term of such contracts are stated under other liabilities or other assets, respectively.
- Certain long-term energy contracts are valued with the aid of valuation models that use internal data if market prices are not available. A hypothetical 10-percent increase or decrease in these internal valuation parameters as of the balance sheet date would lead to a theoretical decrease in market values of €176 million or an increase of €144 million, respectively.

At the beginning of 2008, a loss of €182 million from the initial measurement of derivatives was deferred. After additions of €107 million gains and the realization of €11 million deferred losses, the remainder is a deferred loss of €64 million at year-end, which will be recognized in income during subsequent periods as the contracts are fulfilled.

The following two tables include both derivatives that qualify for IAS 39 hedge accounting treatment and those for which it is not used.

Total Volume of Foreign Currency, Interest Rate and Equity-Based Derivatives				
€ in millions	December 31, 2008		December 31, 2007	
	Nominal value	Fair value	Nominal value	Fair value
FX forward transactions	16,770.8	321.7	18,205.1	43.1
Subtotal	16,770.8	321.7	18,205.1	43.1
Cross-currency swaps	20,974.7	1,878.1	19,847.2	686.6
Cross-currency interest rate swaps	523.8	-17.4	301.6	-49.6
Subtotal	21,498.5	1,860.7	20,148.8	637.0
Interest rate swaps				
Fixed-rate payer	2,131.1	-212.5	1,894.0	-21.5
Fixed-rate receiver	6,285.2	125.8	6,153.7	-85.9
Interest rate future	87.9	0.1	1,719.4	30.2
Interest rate options	134.8	-	-	-
Subtotal	8,639.0	-86.6	9,767.1	-77.2
Other derivatives	138.4	14.0	117.3	12.0
Subtotal	138.4	14.0	117.3	12.0
Total	47,046.7	2,109.8	48,238.3	614.9

Total Volume of Electricity, Gas, Coal, Oil and Emissions-Related Derivatives				
€ in millions	December 31, 2008		December 31, 2007	
	Nominal value	Fair value	Nominal value	Fair value
Electricity forwards	40,485.6	-595.1	25,733.5	-794.1
Exchange-traded electricity forwards	13,503.1	6.2	10,033.6	-98.8
Electricity swaps	1,811.9	-375.6	21.4	-1.1
Exchange-traded electricity options	3,049.4	-84.5	104.9	9.5
Coal forwards and swaps	9,525.0	-350.4	5,024.4	193.1
Exchange-traded coal forwards	32.7	-9.8	38.1	25.7
Oil derivatives	9,393.4	-1,000.3	780.4	11.6
Gas forwards	21,946.9	-7.6	12,932.1	335.3
Gas swaps	354.5	-141.0	313.8	-36.2
Gas options	-	-	4.5	-3.6
Exchange-traded gas forwards	52.9	2.4	1.2	0.1
Emissions-related derivatives	777.6	17.6	1,808.0	6.0
Exchange-traded emissions-related derivatives	176.0	-6.4	407.8	-0.1
Total	101,109.0	-2,544.5	57,203.7	-352.6

(31) Additional Disclosures on Financial Instruments

The following table shows the carrying amounts of the financial instruments, their grouping into IAS 39 categories, their fair values and their measurement sources by class:

Carrying Amounts and Fair Values by Class within the Scope of IFRS 7 as of December 31, 2008					
€ in millions	Carrying amounts	Total carrying amounts within the scope of IFRS 7	IAS 39 measurement category ¹	Fair value	Determined using market prices
Equity investments	3,806	3,806	AfS	3,806	2,121
Financial receivables and other financial assets	4,552	4,536		4,769	1,381
<i>Financial receivables from entities in which an ownership interest exists</i>	931	931	LaR	931	-
<i>Receivables from finance leases²</i>	650	650	n/a	654	-
<i>Other financial receivables and financial assets</i>	2,971	2,955	LaR	3,184	1,381
Trade receivables and other operating assets	32,637	29,333		29,336	594
<i>Receivables from entities in which an ownership interest exists</i>	1,167	1,106	LaR	1,109	-
<i>Trade receivables</i>	13,599	13,599	LaR	13,599	-
<i>Derivatives with no hedging relationships</i>	11,705	11,705	HfT	11,705	590
<i>Derivatives with hedging relationships</i>	1,487	1,487	n/a	1,487	-
<i>Other operating assets</i>	4,679	1,436	LaR	1,436	4
Securities and fixed-term deposits	7,143	7,143	AfS	7,143	6,380
Cash and cash equivalents	3,671	3,671	AfS	3,671	1,848
Restricted cash	552	552	AfS	552	-
Assets held for sale	4,529	1,568	AfS	1,568	1,447
Total assets	56,889	50,608		50,844	13,771
Financial liabilities	41,058	41,045		42,899	23,167
<i>Financial liabilities to entities in which an ownership interest exists</i>	1,944	1,944	AmC	1,944	-
<i>Bonds</i>	25,311	25,311	AmC	27,224	23,162
<i>Commercial paper</i>	7,305	7,305	AmC	7,305	-
<i>Bank loans/Liabilities to banks</i>	3,542	3,542	AmC	3,464	-
<i>Liabilities from finance leases²</i>	247	247	n/a	256	-
<i>Other financial liabilities</i>	2,709	2,696	AmC	2,706	5
Trade payables and other operating liabilities	38,123	29,470		29,467	729
<i>Liabilities to entities in which an ownership interest exists</i>	710	681	AmC	681	-
<i>Trade payables</i>	5,537	5,537	AmC	5,537	-
<i>Derivatives with no hedging relationships</i>	13,026	13,026	HfT	13,026	729
<i>Derivatives with hedging relationships</i>	601	601	n/a	601	-
<i>Put option liabilities under IAS 32</i>	832	832	AmC	832	-
<i>Other operating liabilities</i>	17,417	8,793	AmC	8,790	-
Total liabilities	79,181	70,515		72,366	23,896

¹AfS: Available for sale; LaR: Loans and receivables; HfT: Held for trading; AmC: Amortized cost. The categories are described in detail in Note 2.

²Includes finance leases with third parties and with entities in which an ownership interest exists.

The carrying amounts of cash and cash equivalents and of trade receivables are considered reasonable estimates of their fair values because of their short maturity.

Where the value of a financial instrument can be derived from an active market without the need for an adjustment, that value is used as the fair value. This applies in particular to equities held and bonds issued.

**Carrying Amounts and Fair Values by Class within the Scope of IFRS 7
as of December 31, 2007**

€ in millions	Carrying amounts	Total carrying amounts within the scope of IFRS 7	IAS 39 measurement category ¹	Fair value	Determined using market prices
Equity investments	14,583	14,583	AfS	14,583	13,061
Financial receivables and other financial assets	3,964	3,920		4,140	262
<i>Financial receivables from entities in which an ownership interest exists</i>	899	899	LaR	899	-
<i>Receivables from finance leases²</i>	700	700	n/a	705	-
<i>Other financial receivables and financial assets</i>	2,365	2,321	LaR	2,536	262
Trade receivables and other operating assets	18,653	17,021		16,940	377
<i>Receivables from entities in which an ownership interest exists</i>	846	845	LaR	845	-
<i>Trade receivables</i>	9,064	9,064	LaR	9,064	-
<i>Derivatives with no hedging relationships</i>	4,928	4,928	HfT	4,928	365
<i>Derivatives with hedging relationships</i>	632	632	n/a	632	-
<i>Other operating assets</i>	3,183	1,552	LaR	1,471	12
Securities and fixed-term deposits	10,783	10,783	AfS	10,783	9,635
Cash and cash equivalents	2,887	2,887	AfS	2,887	2,860
Restricted cash	300	300	AfS	300	300
Assets held for sale	577	-	AfS	-	-
Total assets	51,747	49,494		49,633	26,495
Financial liabilities	21,464	21,464		21,903	12,869
<i>Financial liabilities to entities in which an ownership interest exists</i>	2,085	2,085	AmC	2,085	-
<i>Bonds</i>	14,470	14,470	AmC	14,886	12,823
<i>Commercial paper</i>	1,984	1,984	AmC	1,984	-
<i>Bank loans/Liabilities to banks</i>	2,012	2,012	AmC	1,931	-
<i>Liabilities from finance leases²</i>	193	193	n/a	297	-
<i>Other financial liabilities</i>	720	720	AmC	720	46
Trade payables and other operating liabilities	23,686	17,356		17,356	502
<i>Liabilities to entities in which an ownership interest exists</i>	539	539	AmC	539	-
<i>Trade payables</i>	4,477	4,477	AmC	4,477	-
<i>Derivatives with no hedging relationships</i>	4,630	4,630	HfT	4,630	502
<i>Derivatives with hedging relationships</i>	641	641	n/a	641	-
<i>Put option liabilities under IAS 32</i>	754	754	AmC	754	-
<i>Other operating liabilities</i>	12,645	6,315	AmC	6,315	-
Total liabilities	45,150	38,820		39,259	13,371

¹AfS: Available for sale, LaR: Loans and receivables, HfT: Held for trading, AmC: Amortized cost. The categories are described in detail in Note 2.

²Includes finance leases with third parties and with entities in which an ownership interest exists.

The fair value of shareholdings in unlisted companies and of debt securities that are not actively traded, such as loans received, loans granted and financial liabilities, is determined by discounting future cash flows. Any necessary discounting

takes place using current market interest rates over the remaining terms of the financial instruments. Fair value measurement was not applied in the case of shareholdings with a carrying amount of €300 million (2007: €58 million)

as cash flows could not be determined reliably for them. Fair values could not be derived on the basis of comparable transactions. The shareholdings are not material by comparison with the overall position of the Group.

The nominal value of commercial paper and borrowings under revolving short-term credit facilities and of trade receivables is used as the fair value due to the short maturities of these instruments.

See Note 30 for information on the determination of the fair value of derivative financial instruments. The following two tables illustrate the contractually agreed (undiscounted) cash outflows arising from the liabilities included in the scope of IFRS 7:

Cash Flow Analysis as of December 31, 2008				
€ in millions	December 31, 2008			
	Cash outflows 2009	Cash outflows 2010	Cash outflows 2011-2013	Cash outflows from 2014
Financial liabilities to entities in which an ownership interest exists	1,931	5	12	15
Bonds	4,546	3,410	8,292	25,352
Commercial paper	7,428	-	-	-
Bank loans/Liabilities to banks	2,272	399	332	845
Liabilities from finance leases with third parties	44	55	89	284
Other financial liabilities	586	182	884	1,599
Cash outflows for financial liabilities	16,807	4,051	9,609	28,095
Liabilities to entities in which an ownership interest exists	625	9	2	45
Trade payables	5,537	-	-	-
Derivatives (with/without hedging relationships)	28,487	10,460	3,051	985
Put option liabilities under IAS 32	144	112	55	536
Other operating liabilities	8,874	50	110	274
Cash outflows for trade payables and other operating liabilities	43,667	10,631	3,218	1,840
Cash outflows for liabilities within the scope of IFRS 7	60,474	14,682	12,827	29,935

Cash Flow Analysis as of December 31, 2007				
€ in millions	December 31, 2007			
	Cash outflows 2008	Cash outflows 2009	Cash outflows 2010-2012	Cash outflows from 2013
Financial liabilities to entities in which an ownership interest exists	2,099	5	16	23
Bonds	1,018	5,324	4,648	12,024
Commercial paper	2,026	-	-	-
Bank loans/Liabilities to banks	1,112	144	713	221
Liabilities from finance leases with third parties	52	25	63	278
Other financial liabilities	175	97	225	379
Cash outflows for financial liabilities	6,482	5,595	5,665	12,925
Liabilities to entities in which an ownership interest exists	473	11	5	49
Trade payables	4,477	-	-	-
Derivatives (with/without hedging relationships)	27,758	13,339	9,007	10,333
Put option liabilities under IAS 32	131	327	125	185
Other operating liabilities	6,026	32	136	368
Cash outflows for trade payables and other operating liabilities	38,865	13,709	9,273	10,935
Cash outflows for liabilities within the scope of IFRS 7	45,347	19,304	14,938	23,860

For financial liabilities that bear floating interest rates, the rates that were fixed on the balance sheet date are used to calculate future interest payments for subsequent periods as well. Financial liabilities that can be terminated at any time are assigned to the earliest maturity time band in the same way as put options that are exercisable at any time.

In gross-settled derivatives (usually currency derivatives and commodity derivatives), outflows are accompanied by related inflows of funds or commodities.

The net gains and losses from financial instruments by IAS 39 category are shown in the following table:

Net Gains and Losses by Category ¹		
€ in millions	2008	2007
Loans and receivables	377	385
Available for sale	-130	1,533
Held for trading	-2,663	446
Amortized cost	-1,741	-929
Total	-4,157	1,435

¹The categories are described in detail in Note 2.

In addition to interest income and expenses from financial receivables, the net gains and losses in the loans and receivables category consist primarily of valuation allowances on trade payables. Gains and losses on the disposal of available-for-sale securities and equity investments are reported under other operating income and other operating expenses, respectively.

In addition, the interest income and expenses from interest-bearing securities is included in this net result.

The net gains and losses in the held-for-trading category encompass both the changes in fair value of the derivative financial instruments and the gains and losses on realization. The fair value measurement of commodity derivatives is the most important factor in the net result for this category (see Note 7).

Risk Management

Principles

The prescribed processes, responsibilities and actions concerning financial and risk management are described in detail in internal risk management guidelines applicable throughout the Group. The market units have developed additional guidelines of their own within the confines of the Group's overall guidelines. To ensure efficient risk management at the E.ON Group, the Trading (Front Office), Financial Settlement (Back Office) and Risk Controlling (Middle Office) departments are organized as strictly separate units. Risk controlling and reporting in the areas of interest rates, currencies, credit and liquidity management is performed by the Financial Controlling department, while risk controlling and reporting in the area of commodities is performed at Group level by a separate department.

The Company uses a Group-wide treasury, risk management and reporting system. This system is a standard information technology solution that is fully integrated and is continuously updated. The system is designed to provide for the analysis and monitoring of the E.ON Group's exposure to liquidity, foreign exchange and interest risks. The market units employ established systems for commodities. Credit risks are monitored and controlled on a Group-wide basis by Financial Controlling, with the support of a standard software package.

Separate Risk Committees are responsible for the maintenance and further development of the strategy set by the Board of Management of E.ON AG with regard to commodity, treasury and credit risk management policies.

1. Liquidity Management

The primary objectives of liquidity management at E.ON consist of ensuring ability to pay at all times, the timely fulfillment of all payment obligations and the optimization of costs within the E.ON Group.

Cash pooling and external financing are largely centralized at E.ON AG and certain financing companies. The funds are transferred internally to the other Group companies as needed.

E.ON AG plans the Group's financing requirements on the basis of short- and medium-term liquidity planning. The financing of the Group is controlled and implemented on a forward-looking basis in accordance with planned liquidity requirements. Relevant planning factors taken into consideration include operating cash flow, capital expenditures, and the maturity of bonds and commercial paper.

2. Price Risks

In the normal course of business, the E.ON Group is exposed to foreign exchange, interest and commodity price risks, and also to price risks in cash investment activities. These risks create volatility in earnings, equity and cash flows from period to period. E.ON has developed a variety of strategies to limit or eliminate these risks, including the use of derivative financial instruments.

The following discussion of the Company's risk management activities and the estimated amounts generated from profit-at-risk, value-at-risk and sensitivity analyses are "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected due to actual, unforeseeable developments in the global financial markets. The methods used by the Company to analyze risks, as discussed below, should not be considered projections of future events or losses. The Company also faces risks that are either non-financial or non-quantifiable. Such risks principally include country risk, operational risk and legal risk, which are not represented in the following analyses.

Foreign Exchange Risk Management

Due to the international nature of its business activities, the E.ON Group is exposed to exchange risks related to sales, assets, receivables and liabilities denominated in foreign currencies, investments in foreign operations and anticipated foreign currency payments. The Company's exposure results mainly from transactions in U.S. dollars, British pounds, Hungarian forint, Swedish kronor and Russian rubles, and from net investments in foreign operations.

E.ON AG is responsible for controlling the currency risks to which the E.ON Group is exposed, and sets appropriate risk parameters. The subsidiaries are responsible for controlling their operational currency risks. Recognized assets and liabilities are generally hedged in the full amount. For unrecognized firm commitments, hedging takes place after consultation between the subsidiary and E.ON AG.

The foreign exchange risk arising from net investments in foreign operations with a functional currency other than the euro is reduced at Group level as needed through hedges of net investments. In addition, borrowings are made in foreign currency to control foreign exchange risks.

In line with the Company's internal risk-reporting process and international banking standards, market risk has been calculated using the value-at-risk method on the basis of historical market data. The value-at-risk (or "VaR") is equal to the maximum potential loss (on the basis of a probability of 99 percent) from foreign-currency positions that could be incurred within the following business day. The calculations take account of correlations between individual transactions; the risk of a portfolio is generally lower than the sum of its individual risks.

The one-day value-at-risk from the translation of deposits and borrowings denominated in foreign currency, plus foreign currency derivatives, amounted to €341 million (2007: €148 million) and, as in 2007, resulted primarily from the open positions denominated in British pounds and U.S. dollars. The increase in the VaR over the previous year is due in particular to the increased volatility of the EUR/GBP exchange rate and to overall higher volumes denominated in foreign currency.

This VaR has been calculated in accordance with the requirements of IFRS 7. In practice, however, another value will result, since certain underlying transactions (e.g., scheduled transactions and off-balance-sheet own-use agreements) are not considered in the calculation according to IFRS 7.

Interest Risk Management

Several line items on the Consolidated Balance Sheet and certain financial derivatives are based on fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. In the case of balance sheet items and financial derivatives based on floating interest rates, E.ON is exposed to profit risks. E.ON seeks a specific mix of fixed- and floating-rate debt in its overall debt portfolio. This also involves the use of interest rate swaps.

As of December 31, 2008, the E.ON Group held interest rate derivatives with a nominal value of €8,639 million (2007: €9,767 million).

A sensitivity analysis was performed on the Group's short-term and variable-rate borrowings, including interest rate derivatives. A one-percent-point increase (decrease) in interest rates would cause net interest expense to rise (fall) by €80 million per annum (2007: €30 million).

Commodity Price Risk Management

E.ON is exposed to substantial risks resulting from fluctuations in the prices of commodities, both on the supply and demand side. This risk is measured based on potential negative deviation from the target adjusted EBIT.

The maximum permissible risk is determined centrally by the Board of Management in its medium-term planning and translated into a decentralized limit structure in coordination with the market units. Before fixing any limits, the investment plans and all other known obligations and quantifiable risks have been taken into account. Risk controlling and reporting, including portfolio optimization, is performed centrally for the Group at the Corporate Center.

E.ON conducts commodity transactions primarily within the system portfolio, which includes core operations, existing sales and procurement contracts and any commodity derivatives used for hedging purposes or for power plant optimization. The risk in the system portfolio thus arises from the open position between planned procurement and generation and planned sales volumes. The risk of these open positions is measured using the profit-at-risk ("PaR") number, which quantifies the risk by taking into account the size of the open position and the prices, the volatility and the liquidity of the underlying commodities. PaR is defined as the maximum potential negative change in the value of the portfolio at a probability of 95 percent in the event that the open position is closed as quickly as possible.

The principal derivative instruments used by E.ON to cover commodity price risk exposures are electricity, gas, coal and oil swaps and forwards, as well as emissions-related derivatives. Commodity derivatives are used by the market units for the purposes of price risk management, system optimization, equalization of burdens, and even for the improvement of margins. Proprietary trading is permitted only within very tightly defined limits. The risk metric used for the proprietary trading portfolio is a five-day value-at-risk with a 95-percent confidence interval.

The trading limits for proprietary trading as well as for all other trading activities are established and monitored by bodies that are independent from trading operations. A three-year planning horizon, with defined limits, is applied for the system portfolio. Limits used on hedging and proprietary trading activities include five-day value-at-risk and profit-at-risk numbers, as well as stop-loss limits. Additional key elements of the risk management system are a set of Group-wide commodity risk guidelines, the clear division of duties between scheduling, trading, settlement and controlling, as well as a risk reporting system independent of the trading operations. Group-wide developments in commodity risks are reported to the responsible Risk Committee on a monthly basis.

As of December 31, 2008, the E.ON Group has entered into electricity, gas, coal, oil and emissions-related derivatives with a nominal value of €101,109 million (2007: €57,204 million). In 2008, operating control over the financial and physical commodity positions in the liquid European markets was gradually transferred to the newly established Energy Trading market unit.

The VaR for the proprietary trading portfolio amounted to €36 million as of December 31, 2008 (2007: €13 million). The PaR for the financial and physical commodity positions held in the system portfolio over a three-year planning horizon was €4,337 million as of December 31, 2008 (2007: €1,856 million).

The calculation of the PaR reflects the economic position of the E.ON Group over a planning horizon of three years, and in addition to the financial instruments included in the scope of IFRS 7, also encompasses the remaining commodity positions. This economic position is also used for internal risk controlling. Consideration of only the financial positions included in the scope of IFRS 7 resulted in a prior-year PaR of €433 million.

Equity Risk

The value of all exchange-traded equity investments on the balance sheet date was €2,121 million (2007: €13,061 million). This amount is entirely attributable to Gazprom. This investment is treated as strategic and is not being hedged against market volatility at this time (3-month volatility in 2008: 35 percent; 2007: 18 percent). In 2007, some additional equity positions held were hedged using forward transactions. The nominal volume of these forward transactions totaled €97 million in 2007. All exchange-traded equity investments are classified as available for sale. Changes in value are generally shown as a change in OCI.

Credit Risk Management

Credit risk management involves the identification, measurement and control of credit risks. Credit risk results from non-delivery or partial delivery by a counterparty of the agreed consideration for services rendered, from total or partial failure to make payments owing on existing accounts receivable, and from replenishment risks inherent in open transactions.

In order to minimize credit risk arising from the use of financial instruments and from operating activities, the Company enters into transactions only with counterparties that satisfy the Company's internally established minimum requirements. Maximum credit risk limits are set on the basis of internally established credit quality ratings. The setting and monitoring of credit limits is subject to certain minimum requirements, which are based on Group-wide credit risk management guidelines. Not included in this process are long-term contracts arising from operating activities and asset management transactions. These are monitored separately at the level of the responsible market units.

In principle, the respective Group companies are responsible for managing the credit risks in their operating activities. Depending on the nature of the operating activities and the level of the credit limit, additional credit risk monitoring and controls take place at both market unit and Group levels. Monthly reports on the levels of credit limits of major financial and commodity trading counterparties, and on the utilization of these limits, are forwarded to the E.ON Risk Committee. In response to the financial crisis, the reporting frequency for financial institutions was increased to weekly. Intensive, standardized monitoring of quantitative and qualitative early-warning indicators, as well as close monitoring of the credit quality of counterparties, enable E.ON to act early in order to minimize risk.

To the extent possible, pledges of collateral are negotiated with counterparties for the purpose of reducing credit risk. Accepted as collateral are guarantees issued by the respective parent companies of counterparties or evidence of profit-and-loss-pooling agreements in combination with letters of awareness. To a lesser extent, the Company also requires bank guarantees and deposits of cash and securities as collateral to reduce credit risk. The levels and backgrounds of financial assets received as collateral is described in more detail in Notes 18 and 26.

Derivative transactions are generally executed on the basis of standard agreements that allow for the netting of all outstanding transactions with individual counterparties. For currency and interest rate derivatives in the banking sector, this netting option is reflected in the accounting treatment. Although the greater part of the transactions was completed on the basis of contracts that do allow netting, the following table does not show netting of positive and negative fair

values of continuous transactions. The credit risk is thus presented more conservatively in the following table than it actually is. It represents the sum of the positive fair values. Since derivatives in particular are subject to substantial market fluctuations, short-term concentrations of credit risk may occur as a result. In summary, as of December 31, 2008, the Company's derivative financial instruments had the credit ratings and maturities shown in the table.

Rating of Counterparties								
Standard & Poor's and/or Moody's	December 31, 2008							
	Total		Up to 1 year		1 to 5 years		More than 5 years	
	Nominal value	Counter- party risk	Nominal value	Counter- party risk	Nominal value	Counter- party risk	Nominal value	Counter- party risk
€ in millions								
AAA and Aaa through AA- and Aa3	34,682.4	3,447.5	23,089.6	2,570.8	10,247.0	773.6	1,345.8	103.1
AA- and A1 or A+ and Aa3 through A- and A3	46,571.0	4,560.2	25,507.5	2,767.2	12,595.3	802.3	8,468.2	990.7
A- and Baa1 or BBB+ and A3 through BBB- or Baa3	8,385.2	654.3	5,941.1	411.3	2,350.9	241.8	93.2	1.2
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	1,668.9	174.6	584.7	50.9	1,084.2	123.7	-	-
Other ¹	43,083.5	4,948.9	25,372.4	3,292.8	12,787.8	1,539.1	4,923.3	117.0
Total	134,391.0	13,785.5	80,495.3	9,093.0	39,065.2	3,480.5	14,830.5	1,212.0

¹This position consists primarily of parties to contracts with respect to which E.ON has received collateral from counterparties with ratings of the above categories or with an equivalent internal rating.

Rating of Counterparties								
Standard & Poor's and/or Moody's	December 31, 2007							
	Total		Up to 1 year		1 to 5 years		More than 5 years	
	Nominal value	Counter- party risk	Nominal value	Counter- party risk	Nominal value	Counter- party risk	Nominal value	Counter- party risk
€ in millions								
AAA and Aaa through AA- and Aa3	38,474.2	2,235.0	17,384.4	1,000.1	16,163.8	901.3	4,926.0	333.6
AA- and A1 or A+ and Aa3 through A- and A3	27,355.1	2,030.8	14,778.1	1,229.3	10,149.3	728.3	2,427.7	73.2
A- and Baa1 or BBB+ and A3 through BBB- or Baa3	3,396.0	325.5	2,352.0	220.9	948.6	95.7	95.4	8.9
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	4,662.7	211.9	1,583.9	132.1	2,647.0	47.2	431.8	32.6
Other ¹	19,353.9	387.6	11,590.8	141.3	4,706.7	181.6	3,056.4	64.7
Total	93,241.9	5,190.8	47,689.2	2,723.7	34,615.4	1,954.1	10,937.3	513.0

¹This position consists primarily of parties to contracts with respect to which E.ON has received collateral from counterparties with ratings of the above categories or with an equivalent internal rating.

Collateral received has not been taken into account in the above ratings. Exchange-traded forward and option contracts as well as exchange-traded emission-rights-related derivatives having an aggregate nominal value of €13,765 million as of December 31, 2008, (2007: €12,200 million) bear no credit risk.

Asset Management

For the purpose of financing long-term payment obligations, including those relating to asset retirement obligations (see Note 25), financial investments totaling €5.0 billion (2007: €7.3 billion) were held by companies of the Central Europe market unit as of December 31, 2008. The investments were reduced by €1.7 billion in 2008, and the resulting sales proceeds were used for corporate financing purposes.

These financial assets are invested on the basis of an accumulation strategy (total-return approach), with investments broadly diversified across money market instruments, bonds, real estate and equities. Asset allocation studies are performed by external financial advisors at regular intervals to determine the target portfolio structure. The majority of the assets are held in investment funds managed by external fund managers. Risk management for the funds is based on a value-at-risk method, with the VaR figures derived from a three-month holding period and a confidence interval of 98 percent. The resulting VaR determined in 2008 for the money market, bond and equity positions using these parameters was €237 million (2007: €202 million).

Corporate Asset Management at E.ON AG, which is part of the Company's Finance Department, is responsible for continuous monitoring of overall risks and those concerning individual fund managers.

In addition, VKE, which is organized in the form of a German mutual insurance fund ("Versicherungsverein auf Gegenseitigkeit"), manages financial assets dedicated almost exclusively to the coverage of employee retirement benefits at the Central Europe market unit; these assets totaled €2.3 billion at year-end 2008 (2007: €2.4 billion). The pension funds held by VKE do not constitute plan assets under IAS 19 and are shown as non-current and current assets on the balance sheet. The majority of the diversified portfolio, consisting of money market instruments, bonds, real estate and equities, is held in investment funds managed by external fund managers. VKE is subject to the provisions of the Insurance Supervision Act ("Versicherungsaufsichtsgesetz" or "VAG") and its operations are supervised by the German Federal Financial Supervisory Authority ("Bundesanstalt für Finanzdienstleistungsaufsicht" or "BaFin"). Financial investments and continuous risk management are conducted within the regulatory confines set by BaFin. The 3-month VaR with a confidence interval of 98 percent for the assets managed by VKE was €216 million in 2008 (2007: €118 million).

(32) Transactions with Related Parties

E.ON exchanges goods and services with a large number of companies as part of its continuing operations. Some of these companies are related companies accounted for under the equity method or reported at fair value. Transactions with related parties are summarized as follows:

Related-Party Transactions		
€ in millions	2008	2007
Income	7,492	6,626
Expenses	3,627	4,407
Receivables	2,433	1,988
Liabilities	3,433	3,116

Income from transactions with related companies is generated mainly through the delivery of gas and electricity to distributors and municipal entities, especially municipal utilities. The relationships with these entities do not generally differ from those that exist with municipal entities in which E.ON does not have an interest.

Expenses from transactions with related companies are generated mainly through the procurement of gas, coal and electricity.

Receivables from related companies consist mainly of trade receivables.

Liabilities of E.ON payable to related companies include €531 million (2007: €515 million) in trade payables to operators of jointly-owned nuclear power plants. These payables bear interest at 1.0 percent per annum (2007: 1.0 percent) and have no fixed maturity. E.ON procures electricity from these power plants both under a cost-transfer agreement and under a cost-plus-fee agreement. The settlement of such liabilities occurs mainly through clearing accounts. In addition, E.ON reported financial liabilities in 2008 of €1,237 million (2007: €1,233 million) resulting from fixed-term deposits undertaken by the jointly-owned nuclear power plants at E.ON.

Under IAS 24, compensation paid to key management personnel (i.e., the members of the Board of Management of E.ON AG) must be disclosed. The total expense for 2008 amounted to €14.5 million (2007: €16.1 million) in short-term benefits and €2.3 million (2007: €3.0 million) in post-employment benefits.

The service cost of post-employment benefit is equal to the service cost of the provisions for pensions.

The income determined in accordance with IFRS 2 for the tranches of the E.ON SAR Program and the E.ON Share Performance Plan in existence in 2008 was €0.9 million (2007: €11.4 million expense).

Detailed and individualized information on compensation can be found on pages 150 through 155 of the Compensation Report.

(33) Segment Information

The segment information of the E.ON Group is presented in line with the Company's internal organizational and reporting structure.

- The Central Europe market unit focuses on E.ON's electricity business and the downstream gas business in central Europe.
- Pan-European Gas is responsible for the upstream and midstream gas business. Additionally, this market unit holds a number of minority shareholdings in the downstream gas business.
- The U.K. market unit encompasses the energy business in the United Kingdom.
- The Nordic market unit is concentrated on the energy business in Northern Europe.
- The U.S. Midwest market unit is primarily active in the regulated energy market in the U.S. state of Kentucky.
- Energy Trading has been conducting the trading activities of the Central Europe, Pan-European Gas, Nordic, and U.K. market units since January 1, 2008. Energy Trading combines E.ON's European trading activities for electricity, gas, coal, oil and CO₂ allowances.
- New Markets contains the activities of the new Climate & Renewables, Italy, and Russia market units, which began operations on January 1, 2008, and, since July 1, 2008, the Spain market unit as well. This segment also includes the activities acquired in the wake of the agreement with Enel/Acciona S.A. and Endesa, which were fully consolidated as of June 30, 2008. The French activities that were also part of the agreement are reported within the Central Europe segment since the third quarter of 2008.

Corporate Center/Consolidation contains E.ON AG itself, the interests held directly by E.ON AG, as well as the consolidation effects that take place at Group level.

The structural change within the E.ON group that was instituted on January 1, 2008, has led to a new level of complex internal business relationships within the Group. Because of these relationships, there is no basis of data sufficient for the determination of reliable, meaningful figures for prior years.

Under IFRS, segments or material business units that have been sold or are held for sale must be reported as discontinued operations. In 2008 and 2007, this concerned WKE, which is held for sale. The corresponding earnings and cash flow figures as of December 31, 2008, as well as those for the preceding periods, have been adjusted for all components of the discontinued operations (see explanations in Note 4).

Adjusted EBIT is used as the key figure at E.ON for purposes of internal management control and as an indicator of a business's long-term earnings power. Adjusted EBIT is derived from income/loss before interest and taxes and adjusted to exclude certain special items. The adjustments include adjusted net interest income, net book gains, cost-management and restructuring expenses, goodwill impairments, as well as other non-operating income and expenses.

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

Due to the adjustments, the key figures by segment may differ from the corresponding IFRS figures reported in the Consolidated Financial Statements.

The following table shows the reconciliation of adjusted EBIT to net income as reported in the IFRS Consolidated Financial Statements:

Net Income		
€ in millions	2008	2007
Adjusted EBIT	9,878	9,208
Adjusted interest income (net)	-1,835	-960
Net book gains	1,324	1,345
Restructuring/Cost management expenses	-524	-77
Goodwill impairments	-3,315	-
Other non-operating earnings	-2,933	167
Income/Loss (-) from continuing operations before taxes	2,595	9,683
Income taxes	-863	-2,289
Income/Loss (-) from continuing operations	1,732	7,394
Income/Loss (-) from discontinued operations, net	-128	330
Net income	1,604	7,724
Attributable to shareholders of E.ON AG	1,266	7,204
Attributable to minority interests	338	520

Net book gains in 2008 of €1,324 million were at roughly the same level as in the previous year (2007: €1,345 million). In 2008, these gains resulted primarily from the disposal of activities in the context of the agreement between E.ON and Statkraft concerning the acquisition of the E.ON Sverige shares from Statkraft. In addition, as in 2007, gains were generated from the sale of securities at the Central Europe market unit.

In 2008, a total of €524 million in cost-management and restructuring expenses arose as part of a number of different restructuring and integration projects in the E.ON Group. A majority of the expenses related to structural measures primarily at German regional utilities and to costs incurred in connection with the implementation of the new corporate organizational structure, particularly as regards the centralization of trading activities at the Energy Trading market unit. In 2007, only minor levels of cost-management and restructuring expenses were incurred.

Financial Information by Business Segment						
€ in millions	Central Europe		Pan-European Gas		U.K.	
	2008	2007	2008	2007	2008	2007
External sales	32,691	31,350	21,272	19,714	8,884	12,455
Intersegment sales	8,444	679	6,150	3,031	2,167	129
Sales	41,135	32,029	27,422	22,745	11,051	12,584
Adjusted EBITDA	6,266	6,222	3,113	3,176	1,396	1,657
Depreciation and amortization	-1,498	-1,521	-494	-530	-474	-521
Impairments (-)/Reversals (+) ¹	-48	-31	12	-70	-	-
Adjusted EBIT	4,720	4,670	2,631	2,576	922	1,136
<i>Earnings from companies accounted for under the equity method¹</i>	300	317	644	696	4	24
Cash provided by operating activities	4,016	3,811	2,081	3,041	893	1,615
Investments	3,188	2,581	1,215	2,424	1,162	1,364
<i>Intangible assets and property, plant and equipment</i>	2,965	2,390	943	1,381	1,120	1,364
<i>Equity investments²</i>	223	191	272	1,043	42	-
Total assets (December 31)	64,192	63,442	30,382	39,090	17,632	18,170
<i>Intangible assets (December 31)</i>	2,121	1,889	814	1,137	257	675
<i>Property, plant and equipment (December 31)</i>	20,418	18,375	6,773	6,746	5,878	7,506
<i>Companies accounted for under the equity method (December 31)</i>	2,193	2,134	5,871	5,602	-	2

¹Impairments recognized in adjusted EBIT differ from the relevant amounts reported in accordance with IFRS due to impairments on companies accounted for under the equity method and impairments on other financial assets, and also due to impairments recognized in non-operating earnings. Under IFRS, impairments on companies accounted for under the equity method and impairments on other financial assets are included in income/loss (-) from companies accounted for under the equity method and financial results, respectively. In 2008, the differences resulted primarily from goodwill impairment charges, which are reported in non-operating earnings.

²In addition to those accounted for under the equity method, acquisitions of equity investments also include acquisitions of fully consolidated companies and investments in equity holdings that need not be consolidated. Acquisitions of equity investments are reported in the segment to which the acquiring entity is assigned. Accordingly, the New Markets equity investments are presented in the Corporate Center/Consolidation column and relate to the Endesa Europa/Viesgo activities in 2008, and to the purchase of OGK-4, E2-I and Airtricity in 2007.

The goodwill impairment tests that must be performed at least annually according to IAS 36 resulted in an impairment charge of €1.5 billion on the goodwill of the U.S. Midwest market unit and in a further impairment charge of €1.8 billion on the as yet preliminary goodwill of the activities acquired from Enel/Acciona and Endesa in Italy, Spain and France. The topic is discussed in detail in Note 14(a).

Other non-operating earnings were characterized by two negative effects in particular. Firstly, negative effects in the amount of €2,176 million resulted from the marking to market of derivatives used to protect the operating businesses from fluctuations in prices. This same marking to market of derivatives produced a positive effect in the amount of €564 million as of December 31, 2007. Secondly, the financial market crisis made it necessary to write down the value of securities and financial assets held at the Central Europe market unit by a total of €667 million. Losses of this type were of minor significance in 2007.

Adjusted Net Interest Income		
€ in millions	2008	2007
Interest and similar expenses (net) as shown in the Consolidated Statements of Income	-1,893	-951
Non-operating interest expense (+)/ income (-)	58	-9
Adjusted interest income (net)	-1,835	-960

An additional adjustment to the internal profit analysis relates to interest income, which is adjusted on an economic basis. Adjusted net interest income is calculated by taking the net interest income shown in the income statement and adjusting it using economic criteria and excluding certain special (i.e., non-operating) items.

Adjusted net interest income deteriorated by €875 million from its level in 2007. The determining factor behind this deterioration was the change in the net financial position.

Transactions within the E.ON Group are generally effected at market prices.

Nordic		U.S. Midwest		Energy Trading		New Markets		Corporate Center/ Consolidation		E.ON Group	
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
2,683	3,216	1,880	1,819	13,767	-	5,543	253	33	-76	86,753	68,731
1,194	123	-	-	17,993	-	319	-1	-36,267	-3,961	-	-
3,877	3,339	1,880	1,819	31,760	0	5,862	252	-36,234	-4,037	86,753	68,731
1,112	1,027	549	543	649	-	510	43	-210	-218	13,385	12,450
-339	-345	-154	-155	-2	-	-409	-36	-86	-15	-3,456	-3,123
-3	-12	-	-	-2	-	-11	-	1	-6	-51	-119
770	670	395	388	645	0	90	7	-295	-239	9,878	9,208
5	10	21	23	-	-	-1	1	-5	7	968	1,078
835	914	271	216	-1,452	-	140	-	-46	-871	6,738	8,726
939	914	650	690	8	-	3,305	207	7,939	3,126	18,406	11,306
923	892	650	690	7	-	2,250	183	138	16	8,996	6,916
16	22	-	-	1	-	1,055	24	7,801	3,110	9,410	4,390
12,779	11,759	7,624	8,130	27,928	0	27,687	8,422	-31,179	-11,719	157,045	137,294
212	213	10	13	762	-	2,536	317	37	40	6,749	4,284
6,129	7,429	4,890	4,153	6	-	12,043	4,017	389	326	56,526	48,552
292	357	33	32	-	-	315	284	277	-	8,981	8,411

Additional Entity-Wide Disclosures

External sales by product break down as follows:

Segment Information by Product		
€ in millions	2008	2007
Electricity	47,001	37,663
Gas	35,433	27,857
Other	4,319	3,211
Total	86,753	68,731

The following table breaks down external sales (by location of customers and by location of seller), as well as property, plant and equipment, by geographic area:

Geographic Segment Information												
€ in millions	Germany		Europe (euro area excluding Germany)		Europe (other)		United States		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
External sales by location of customer	42,850	36,895	11,226	4,491	30,738	25,520	1,887	1,769	52	56	86,753	68,731
External sales by location of seller	50,514	40,614	7,149	2,780	27,156	23,518	1,887	1,768	47	51	86,753	68,731
Property, plant and equipment	20,018	18,898	8,791	1,573	21,094	23,107	6,572	4,910	51	64	56,526	48,552

E.ON's customer structure in 2008 and 2007 did not result in any major concentration in any given geographical region or business area. Due to the large number of customers the Company serves and the variety of its business activities, there are no individual customers whose business volume is material compared with the Company's total business volume.

Gas is procured primarily from Russia, Norway, Germany, the Netherlands and the United Kingdom.

(34) Compensation of Supervisory Board and Board of Management

Supervisory Board

Provided that E.ON's shareholders approve the proposed dividend at the Annual Shareholders Meeting on May 6, 2009, total remuneration to members of the Supervisory Board will be €4.5 million (2007: €4.5 million).

There were no loans to members of the Supervisory Board in 2008.

The Supervisory Board's compensation structure and the amounts for each member of the Supervisory Board are presented on pages 148 and 149 of the Compensation Report, which is part of the Combined Group Management Report.

Additional information about the members of the Supervisory Board is provided on pages 158 and 159.

Board of Management

Total remuneration to members of the Board of Management in 2008 amounted to €18.9 million (2007: €20.4 million). This consisted of base salary, bonuses, other compensation elements and share-based payments.

Total payments to former members of the Board of Management and their beneficiaries amounted to €7.6 million (2007: €6.6 million). Provisions of €110.4 million (2007: €97.4 million) have been established for the pension obligations to former members of the Board of Management and their beneficiaries.

There were no loans to members of the Board of Management in the 2008 fiscal year.

The Board of Management's compensation structure and the amounts for each member of the Board of Management are presented on pages 150 through 153 of the Compensation Report, which is part of the Combined Group Management Report.

Additional information about the members of the Board of Management is provided on page 163.

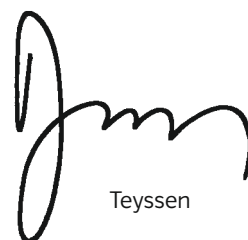
To the best of our knowledge, and in accordance with applicable financial reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report, which has been combined with the management report for E.ON AG, provides a fair review of the development and performance of the business and the position of the E.ON Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, March 3, 2009

The Board of Management



Bernotat



Teyssen



Dänzer-Vanotti



Feldmann



Schenck

Corporate Governance Report

E.ON views corporate governance as a central foundation of responsible and value-oriented management, efficient collaboration between the Board of Management and the Supervisory Board, transparent disclosures, and appropriate risk management.

In 2008, the Board of Management and Supervisory Board paid close attention to E.ON's compliance with the guidelines of the German Corporate Governance Code ("the Code"), particularly in conjunction with the new Code recommendations dated June 6, 2008. On December 15, 2008, the Board of Management and the Supervisory Board jointly issued E.ON's Declaration of Compliance ("Declaration") pursuant to Section 161 of the German Stock Corporation Act stating that E.ON complies with all of the Code's recommendations. The full text of the Declaration, and of Declarations from previous years, is available on the Internet at www.eon.com. E.ON voluntarily complies with most of the Code's suggestions, as well.

Management and Oversight Structure

Supervisory Board

The Supervisory Board has 20 members and, in accordance with the German Codetermination Act of 1976, is composed of an equal number of shareholder and employee representatives. The shareholder representatives are elected by the shareholders at the Annual Shareholders Meeting. The employee representatives are elected by the employees. In the event of a tie vote on the Supervisory Board, another vote is held, if there is still a tie, the Chairperson casts the tie-breaking vote. As a general rule, Supervisory Board members should not be older than 70.

In order to ensure that the Supervisory Board's advice and oversight functions are conducted on an independent basis, no more than two former members of the Board of Management may be members of the Supervisory Board. Supervisory Board members may not hold a corporate office or perform advisory services for the Company's key competitors. Supervisory Board members are required to disclose to the Supervisory Board any conflicts of interest, particularly if a conflict arises from their advising, or holding a corporate office with, one of E.ON's customers, suppliers, creditors, or other business partners. The Supervisory Board is required to report any conflicts of interest to the Annual Shareholders Meeting and to describe how the conflicts have been dealt with. Any material conflict of interest of a non-temporary nature should result in the termination of a member's appointment to the Supervisory Board. There were no conflicts of interest

involving members of the Supervisory Board in 2008. Any consulting or other service agreements between the Company and a Supervisory Board member require the Supervisory Board's consent. No such agreements existed in 2008.

The Supervisory Board oversees the Company's management and advises the Board of Management. The Report of the Supervisory Board on pages 154-157 contains more information about these matters.

Pursuant to its policies and procedures, the Supervisory Board has formed the following committees:

The committee required by Section 27, Paragraph 3 of the Codetermination Act of 1976 consists of two shareholder representative members and two employee representative members. This committee is responsible for recommending to the Supervisory Board potential candidates for the Board of Management if the first vote does not yield the necessary two-thirds majority of votes of Supervisory Board members.

The Executive Committee consists of the four members of the above-named committee. It prepares the meetings of the Supervisory Board and advises the Board of Management on matters of general policy relating to the Company's strategic development. In urgent cases (in other words, if waiting for the Supervisory Board's prior approval would materially prejudice the Company), the Executive Committee acts on the full Supervisory Board's behalf. In particular, the Executive Committee prepares the Supervisory Board's personnel decisions and is responsible for the conclusion, alteration, and termination of the service agreements of Board of Management members. It also deals with corporate-governance matters and reports to the Supervisory Board at least once a year on the status and effectiveness of, and possible ways of improving, the Company's corporate governance.

The Audit and Risk Committee consists of four members who have special knowledge in the field of accounting and/or business administration. In line with the Code's mandates, the Chairperson has extensive knowledge and experience in applying accounting principles and/or in international business control processes.

The Audit and Risk Committee's main task is to monitor the Company's accounting, including the accounting process, the effectiveness of the internal control system, internal risk management, and the internal audit system, compliance, and the independent audit. The committee's tasks relating to the independent audit consist primarily of ensuring the independence of the independent auditor, assigning the auditing task to the independent auditor, establishing auditing priorities, concluding the agreement regarding the independent auditor's fees, and establishing what additional non-auditing services are to be performed by the independent auditor. The Audit and Risk Committee also prepares the Supervisory Board's decision on the approval of the Financial Statements of E.ON AG and of the Consolidated Financial Statements. It also examines the Company's quarterly Interim Reports and discusses the audit review of the Interim Reports with the independent auditor.

The Finance and Investment Committee consists of six members. It advises the Board of Management on all issues of corporate finance and investment planning. It decides on behalf of the Supervisory Board on the approval of the acquisition and disposition of companies, equity interests, and parts of companies, as well as on finance measures whose value exceeds 1 percent of the equity listed in the Company's most recent Consolidated Balance Sheet. If the value of any such transactions or activities exceeds 2.5 percent of the equity listed in the most recent Consolidated Balance Sheet, the Finance and Investment Committee prepares the Supervisory Board's decision on such matters.

The Nomination Committee consists of three shareholder representative members. Its Chairperson is the Chairperson of the Supervisory Board. Its task is to recommend to the Supervisory Board suitable candidates for election to the Supervisory Board by the Annual Shareholders Meeting.

Board of Management

The E.ON AG Board of Management consists of five members and has one Chairperson. Board of Management members may not be older than 65.

The Board of Management has in place policies and procedures for the business it conducts. It manages the Company's businesses, with all its members bearing joint responsibility for its decisions. It establishes the Company's objectives, sets its fundamental strategic direction, and is responsible for corporate policy and Group organization.

The Board of Management regularly reports to the Supervisory Board on a timely and comprehensive basis on all relevant issues of corporate planning, business development, risk assessment, and risk management. It also submits the Group's investment, finance, and personnel plan for the coming fiscal year as well as the medium-term plan to the Supervisory Board for its approval at the last meeting of each financial year.

The Chairperson of the Board of Management informs, without undue delay, the Chairperson of the Supervisory Board of important events that are of fundamental significance in assessing the Company's situation, development, and management and of any defects that have arisen in the Company's monitoring systems. Transactions and measures requiring the Supervisory Board's approval are also submitted to the Supervisory Board without delay.

Members of the Board of Management are also required to promptly report conflicts of interest to the Executive Committee of the Supervisory Board and to inform the other members of the Board of Management. Members of the Board of Management may only assume other corporate positions, particularly appointments to the supervisory boards of non-Group companies, with the consent of the Executive Committee of the Supervisory Board. There were no conflicts of interest involving members of the Board of Management in 2008. Any material transactions between the Company and members of the Board of Management, their relatives, or entities with which they have close personal ties require the consent of the Executive Committee of the Supervisory Board. No such transactions took place in 2008.

Shareholders and Annual Shareholders Meeting

E.ON AG shareholders exercise their rights and vote their shares at the Annual Shareholders Meeting. The Company's financial calendar, which is published in the Annual Report, in the quarterly Interim Reports, and on the Internet at www.eon.com, regularly informs shareholders about important Company dates.

At the Annual Shareholders Meeting, shareholders may vote their shares themselves, through a proxy of their choice, or through a Company proxy who is required to follow the shareholder's voting instructions.

Accounting and Annual Financial Statements

E.ON's Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards. E.ON AG's Financial Statements are prepared in accordance with the German Commercial Code.

As stipulated by German law, the Annual Shareholders Meeting votes to select the Company's independent auditor.

The Audit and Risk Committee prepares the proposal on the selection of the Company's independent auditor for the Annual Shareholders Meeting. In order to ensure the auditor's independence, the Audit and Risk Committee secures a statement from the proposed auditors detailing any facts that could lead to the audit firm being excluded for independence reasons or otherwise conflicted. As part of its audit responsibilities, the independent auditor agrees to:

- promptly inform the Chairperson of the Audit and Risk Committee should any such facts arise during the course of the audit
- promptly inform the Supervisory Board of anything arising during the course of the audit that is of relevance to the Supervisory Board's duties
- inform the Chairperson of the Audit and Risk Committee of, or to note in the audit report, any facts that arise during the audit that contradict the statements submitted by the Board of Management or Supervisory Board in connection with the Code.

Risk Policies

Detailed information about E.ON's risk management system can be found on pages 44-47 of this report.

E.ON has established a Disclosure Committee to support the Board of Management and to be responsible for correct and timely financial disclosures. Its members come from various departments of E.ON AG and are, owing to their functions, particularly suited for the committee's tasks.

The effectiveness of the financial disclosure controls and procedures at E.ON AG and at the market unit lead companies is regularly assessed by E.ON AG Internal Audit and by our independent auditor.

Transparent Management

Transparency is a high priority of E.ON AG's Board of Management and Supervisory Board. Our shareholders, all capital market participants, financial analysts, shareholder associations, and the media regularly receive up-to-date information about the situation of, and any material changes to, the Company. We use the Internet to help ensure that all investors have equal access to comprehensive and timely information about the Company.

E.ON AG issues reports about its situation and earnings by the following means:

- Interim Reports (quarterly)
- Annual Report
- Annual press conference
- Telephone conferences held upon release of the Interim and Annual Reports
- Numerous events for financial analysts in and outside Germany.

A financial calendar lists the dates on which the Company's financial reports are released.

In addition to the Company's periodic financial reports, the Company issues ad-hoc statements when events or changes occur at E.ON AG that could have a significant impact on the price of E.ON stock.

Pursuant to Section 10 of the German Securities Prospectus Law, E.ON is required to publish an annual document that contains all its ad-hoc and financial releases of the previous twelve months.

The financial calendar, ad-hoc statements, and annual document are available on the Internet at www.eon.com.

Directors' Dealings

Persons with executive responsibilities, in particular members of E.ON AG's Board of Management and Supervisory Board and persons closely related to them, must disclose their dealings in E.ON stock or in related financial instruments pursuant to Section 15a of the German Securities Trading Act. Such dealings that took place in 2008 have been disclosed at www.eon.com. As of December 31, 2008, there was no ownership interest subject to disclosure pursuant to Item 6.6 of the Code.

Ethics

Our actions are grounded in integrity and a respect for the law. To this end, the Board of Management has put in place a Code of Conduct containing guidelines for dealing with business partners and government institutions, for keeping business information and company secrets confidential, and for addressing conflicts of interest. Compliance Officers at E.ON AG and the market units are tasked with implementing the Code of Conduct and ensuring that any ethics issues that arise are dealt with independently and objectively.

We have defined guidelines to prevent insider trading which contain mandatory rules for dealing with insider information and trading in E.ON stock. These guidelines go beyond the minimum requirements contained in the German Securities Trading Act. We have also developed a special Code of Ethics that applies primarily to Board of Management members and members of the Disclosure Committee. In particular, the Code of Ethics obliges these individuals to make full, appropriate, accurate, timely, and comprehensible disclosure of information in our corporate publications. The text of the Code of Ethics is available on the Internet at www.eon.com.

Finally, the Company has in place a procedure for dealing with complaints relating to accounting and financial reporting. Complaints may be submitted—anononymously, if desired—to a Compliance Officer who reports directly to the Audit and Risk Committee.

Compensation Report

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
Subtotal	1,567,499	1,442,101	922,358	406,407	4,338,365
Attendance fees and meeting-related reimbursements					171,500
Total					4,509,865

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. Teysen 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 ¹	-	-	116,077	116,077
Christoph Dänzer-Vanotti ²	50	375,000	757,918	89,983
Lutz Feldmann	60	450,000	414,532	216,071
Dr. Marcus Schenck ²	50	375,000	302,963	17,107

¹Entered retirement on March 1, 2008.
²Pension 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
Total	4,573,333	9,565,000	382,875	4,423,713	18,944,921	36,056

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.

Report of the Supervisory Board

In the 2008 financial year, the Supervisory Board performed its tasks carefully and examined the Company's situation thoroughly.

We advised the Board of Management regularly about the Company's management and continually monitored the Board of Management's activities. We were closely involved in all business transactions of key importance to the Company and discussed these transactions thoroughly based on the Board of Management's reports. At the Supervisory Board's five regular meetings and two extraordinary meetings in 2008, we discussed in depth all issues relevant to the Company. The Board of Management regularly provided us with timely and comprehensive information in both written and oral form. The Supervisory Board agreed to the resolutions proposed by the Board of Management after examining and discussing them.

Furthermore, the Chairman of the Supervisory Board was in regular contact with the Board of Management and was informed about the current operating performance of the major Group companies, significant business transactions, and the development of key financial figures.

Strategic Direction, Planned Acquisitions, and Portfolio Optimization

The Board of Management provided us with information on a regular basis about the implementation of the strategic initiatives, announced in May 2007, for the further development of the E.ON Group. In this context, the Board of Management reported about how further optimizing the way E.ON manages its businesses would enable it to seize the opportunities created by the ongoing integration of Europe's energy markets, improve its operating performance, pursue ambitious climate-protection targets, sustainably enhance earnings, and achieve and manage a significantly more efficient capital structure.

In addition, the Board of Management reported in detail about various measures to optimize E.ON's portfolio in a rapidly changing market environment. These measures included the acquisition, initiated in 2007 and completed in June 2008, of an extensive portfolio of assets from Enel and Acciona with operations primarily in Italy, Spain, and France and the corresponding consents process with the European Union. The Board of Management also informed us about the asset-swap agreement E.ON concluded with Statkraft in July 2008. The Board of Management provided detailed reports about the current status of negotiations with Gazprom leading up to the October 2008 Memorandum of Understanding under which E.ON is to acquire a stake in Yuzhno Russkoye, a natural gas field in Siberia.

The Board of Management's reports also addressed the new, functional segmentation and various projects of particular strategic relevance. In this context, the Supervisory Board was informed about the start of operations of the Group's new functionally segmented units (E.ON Climate & Renewables GmbH and E.ON Energy Trading AG) at the beginning of 2008 and about the hiving off of the Group's gas transport and gas storage operations in Europe to form E.ON Gas Transport GmbH and E.ON Gas Storage GmbH.

Energy Policy and Regulatory Environment and Proceedings

The Board of Management informed us about developments in the policy and regulatory environment of the electricity and gas industries. In this context, we dealt extensively with the relevant legislative and regulatory processes and their effects on our markets and the E.ON Group. Key topics were the European Commission's draft for a third package of internal energy market legislation (including the proposed unbundling of network operations), the German federal government's package of integrated energy and climate policies, and the future use of nuclear power. We also discussed the investment conditions for the construction of new power plants in Germany and the German Federal Network Agency's consents process for network charges.

In addition, the Board of Management provided detailed reports about the status of the European Commission's sector inquiry and the resulting commitment decision on the divestment of generating capacity and the ultrahigh-voltage transmission system. E.ON's agreement with the Commission requires it to divest about 5,000 megawatts of generating capacity in Germany and to sell its ultrahigh-voltage transmission system. The Board of Management reported to us regularly and comprehensively about the discussions and negotiations relating to the divestment of these assets. The Board of Management also informed us about antitrust proceedings in the electricity and gas sectors.

Financial Situation and Medium-Term Plan

We discussed in detail the financial situation of the major Group companies in relation to developments in European and global energy markets, about which the Board of Management continually informed us. We also discussed thoroughly the E.ON Group's medium-term plan for the period 2009–2011, including the investment program, its financing, and Group-wide human resources. In this context, the Board of Management explained the analyses regarding the enhancement of the Group's performance as well as structural measures. Furthermore, the Board of Management informed us about the scope of E.ON's use of derivative financial instruments.

The global financial and economic crisis was a key topic of our discussions. The Board of Management informed us in detail about the effects of the crisis on the E.ON's financial situation and the necessary measures and discussed these measures with us.

Corporate Governance

We also regularly discussed the further development of E.ON's corporate governance policies. In this context, we thoroughly discussed the efficiency of the Supervisory Board's work, the expanded risk reporting, the revisions to the compliance organization called for by the German Corporate Governance Code ("the Code"), and the changes to the Code. We also dealt in detail with the Supervisory Board's report to the Annual Shareholders Meeting and the Corporate Governance Report. In line with the Code's new recommendations, we discussed the Board of Management's compensation system and passed a resolution approving it. We also assured ourselves that in the 2008 financial year E.ON AG complied with the corporate governance principles contained in the Declaration of Compliance it had issued on December 17, 2007. E.ON's Declaration of Compliance with the Code pursuant to Section 161 of the German Stock Corporation Act is published on the Internet at www.eon.com.

Committee Meetings

The Supervisory Board's Executive Committee discussed reports from the Board of Management in detail at three meetings. In particular, it prepared the meetings of the E.ON AG Supervisory Board and the E.ON AG Annual Shareholders Meeting. Among other things, the Executive Committee recommended the reappointment of Dr. Teyssen, Mr. Dänzer-Vanotti, Mr. Feldmann, and Dr. Schenck and prepared the Supervisory Board's resolution on the compensation system

for Board of Management members. In addition, the Executive Committee addressed contractual matters such as the inclusion of settlement caps in the service agreements of Board of Management members reappointed since the relevant recommendations of the Code took effect in August 2008.

The Finance and Investment Committee held five regular meetings and one extraordinary meeting to discuss reports from the Board of Management. These comprehensive reports and the committee's thorough discussions focused on the investments in conjunction with the extension of the operating lifetime of Radcliffe power station in the United Kingdom and with the project to build a new power plant in Antwerp, the asset-swap agreement with Statkraft, further issues under the debt issuance program, and the medium-term plan for 2009–2011. At one extraordinary meeting, the committee discussed in detail developments on international financial markets and their effects on the E.ON Group. At its meetings, the committee also prepared Supervisory Board resolutions on transactions requiring the Supervisory Board's approval and/or made such resolutions itself in accordance with the Supervisory Board's policies and procedures.

The Audit Committee was renamed the Audit and Risk Committee pursuant to a Supervisory Board resolution of December 15, 2008. The committee was renamed because of the specification and expansion of its supervisory tasks relating to risk management and the E.ON Group's risk situation. At its four meetings, the Audit and Risk Committee devoted particular attention to the Financial Statements of E.ON AG, the Consolidated Financial Statements, and Interim Reports, and issues relating to accounting, the risk management system, E.ON's risk situation, and its dealings with its independent auditors. The committee also thoroughly discussed the auditing and consulting services performed by the independent auditors, E.ON's insurance strategy, internal audit, and compliance system. Key topics of discussion relating to the financial statements also included the internal control system, the risk report, and the accounting treatment of provisions.

The Nomination Committee held one meeting and one telephone conference at which it thoroughly discussed and prepared the decisions regarding the candidates proposed to the Annual Shareholders Meeting as shareholder representatives on the Supervisory Board and, in Mr. Hartmann's absence, his reelection as Chairman of the Supervisory Board.

Examination and Approval of the Financial Statements of E.ON AG, Approval of the Consolidated Financial Statements, Proposal for Appropriating Income Available for Distribution

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Düsseldorf, the independent auditors chosen by the Annual Shareholders Meeting and appointed by the Supervisory Board, audited and submitted an unqualified opinion on the Financial Statements of E.ON AG and the Combined Group Management Report for the year ended December 31, 2008. The same applies to the Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Consolidated Financial Statements prepared in accordance with IFRS exempt E.ON AG from the requirement to publish Consolidated Financial Statements in accordance with the German Commercial Code. Furthermore, the auditors examined E.ON AG's risk detection system. This examination revealed that the system is fulfilling its tasks. After being subject to a preliminary review by the Audit and Risk Committee, the Financial Statements, the Combined Group Management Report and the Independent Auditor's Report were given to all the members of the Supervisory Board. The Audit and Risk Committee and the Supervisory Board, at its meeting to approve the Financial Statements, also reviewed these documents in detail, with the independent auditors present on both occasions.

At our meeting on March 9, 2009, we examined—with knowledge of, and reference to, the Independent Auditor's Report and the results of the preliminary review by the Audit and Risk Committee—the Financial Statements of E.ON AG, the Consolidated Financial Statements, the Combined Group Management Report, and the Board of Management's proposal regarding the appropriation of net income available for distribution. We found no reasons for objections regarding these documents. We approved the Independent Auditor's Report.

We approved the Financial Statements of E.ON AG prepared by the Board of Management and the Consolidated Financial Statements. The Financial Statements are thus adopted. We agree with the Combined Group Management Report and, in particular, with its statements concerning E.ON's future development.

We examined the Board of Management's proposal for appropriating income available for distribution, which includes a cash dividend of €1.50 per ordinary share, also taking into consideration the Company's liquidity and its finance and investment plans. The proposal is in the Company's interest with due consideration for the shareholders' interests. We therefore agree with the proposal for appropriating income available for distribution.

Personnel Changes on the Supervisory Board

The Supervisory Board's term of service ended with the conclusion of the Annual Shareholders Meeting on April 30, 2008. At this Annual Shareholders Meeting, Ulrich Hartmann, Ulrich Hocker, Prof. Dr. Ulrich Lehner, Bård Mikkelsen, Dr. Henning Schulte-Noelle, Dr. Karen de Segundo, Dr. Theo Siegert, Prof. Dr. Wilhelm Simson, Dr. Georg Freiherr von Waldenfels, and Werner Wenning were elected to serve on the Supervisory Board as shareholder representatives. Effective April 30, 2008, Dr. Karl-Hermann Baumann, Dr. Rolf-E. Breuer, and Dr. Klaus Liesen ended their service on the Supervisory Board. Their wise counsel and business acumen were instrumental in E.ON's transformation into a leading international energy company. We would like to take this opportunity to again thank them for their dedicated service.

At the employee delegate meeting on February 19, 2008, Werner Bartoschek, Sven Bergelin, Gabriele Gratz, Wolf-Rüdiger Hinrichsen, Erhard Ott, Hans Prüfer, Klaus Dieter Raschke, Dr. Walter Reitler, Hubertus Schmoltdt, and Hans Wollitzer were elected to serve on the Supervisory Board as employee representatives effective April 30, 2008. Effective April 30, 2008, Eva Kirchhof and Gerhard Skupke ended their service on the Supervisory Board. We would like to thank Ms. Kirchhof and Mr. Skupke for their dedication and for the constructive way they approached their Supervisory Board duties.

At its constitutive meeting on April 30, 2008, the Supervisory Board reelected Ulrich Hartmann to serve as Chairman and Hubertus Schmoldt to serve as Deputy Chairman of the Supervisory Board for the duration of the board's term.

Personnel Changes on Supervisory Board Committees

At its constitutive meeting, the Supervisory Board elected Dr. Schulte-Noelle and Mr. Prüfer to serve as members of the Conference Committee along with Ulrich Hartmann (Chairman) and Hubertus Schmoldt (Deputy Chairman), whose membership on the committee is established by law. Mr. Hartmann (Chairman), Mr. Schmoldt (Deputy Chairman), Dr. Schulte-Noelle, and Mr. Prüfer also comprise the Executive Committee. At its constitutive meeting, the Supervisory Board also elected Mr. Hartmann, Prof. Dr. Lehner, Mr. Ott, and Mr. Wollitzer to serve as members of the Finance and Investment Committee. The members elected Mr. Hartmann to serve as Chairman of the committee and Mr. Ott to serve as his Deputy. In addition, Mr. Hartmann, Dr. Siegert, Mr. Bartoschek, and Mr. Raschke were elected to serve as members of the Audit and Risk Committee. The members elected Dr. Siegert to serve as Chairman of the committee and Mr. Raschke to serve as his Deputy. The Supervisory Board elected Prof. Dr. Lehner and Dr. Schulte-Noelle to serve on the Nomination Committee along with Mr. Hartmann, who, under the Supervisory Board's policies and procedures, is automatically a member by virtue of his role as Supervisory Board Chairman. Mr. Hartmann is Chairman of the Nomination Committee.

In an extraordinary meeting of the Supervisory Board on May 13, 2008, we passed resolutions that change the Supervisory Board's policies and procedures and those of the Finance and Investment Committee. The Finance and Investment Committee was expanded from four to six members so that in the future it can continue to conduct high-quality examinations of the complex acquisition and financing plans that are part of the Group's investment program and to have a well-founded basis for its preparation of the Supervisory Board's decisions on these matters. The Supervisory Board elected Ms. Gratz and Mr. Wenning as the additional two members of this committee.

Personnel Changes on the Board of Management

At the Supervisory Board meeting on March 5, 2008, we discussed the reappointment of Dr. Johannes Teysen and appointed him to serve as a member of the Board of Management for the period January 1, 2009, to December 31 2013, and reappointed him to serve as Vice Chairman of the Board of Management.

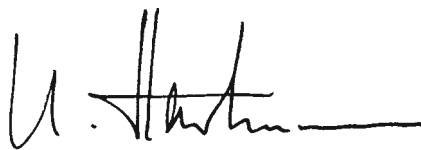
At the Supervisory Board's December meeting, we reappointed Board of Management members Christoph Dänzer-Vanotti, Lutz Feldmann, and Dr. Marcus Schenck to serve as Board of Management members for the period December 1, 2009, to November 30, 2014.

Dr. Burckhard Bergmann retired from the Board of Management at the end of February 2008. This also ended Dr. Bergmann's term as Chairman of the Board of Management of E.ON Ruhrgas AG. We would like to take this opportunity to again thank Dr. Bergmann for his excellent service to the E.ON Group. He made a key contribution to E.ON's transformation into a focused energy company, used his foresight to play a decisive role in setting E.ON's strategic course, and dedicated himself fully to E.ON's successful development.

The Supervisory Board wishes to thank the Board of Management, the Works Councils, and all the employees of the E.ON Group for their dedication and hard work.

Düsseldorf, March 9, 2009

The Supervisory Board



Ulrich Hartmann
Chairman

Supervisory Board (and Information on Other Directorships Held by Supervisory Board Members)

Honorary Chairman

Prof. Dr. Günter Vogelsang

Düsseldorf

Supervisory Board

Ulrich Hartmann

Chairman of the Supervisory Board,
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
(Shareholders' Committee)

Hubertus Schmoldt

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

Deputy Chairman of the Supervisory
Board, 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,
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 of the National Energy
Industry 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 Board)

Gabriele Gratz

Chairwoman of the European Works
Council, E.ON AG

- E.ON Ruhrgas AG

Wolf-Rüdiger Hinrichsen

Chairman of the 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
(Chairman of the Board of Directors)

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 Board)
- Henkel AG & Co. KGaA
(Shareholders' Committee)
- Novartis AG (Administrative Council)

Dr. Klaus Liesen

(until April 30, 2008)

Supervisory Board Member, Consultant

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

Bård Mikkelsen

(since April 30, 2008)

President and Chief Executive Officer,
Statkraft AS

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

Erhard Ott

Member of the National Executive
Board and Director of the Federal
Utilities, Waste Management, and
Transportation Division; Unified Service
Sector Union, ver.di

- E.ON Energie AG

Information as of December 31, 2008, or as of the date on which membership in the E.ON Supervisory Board ended.

- 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.

Hans Prüfer

Chairman of the Group Works Council,
E.ON AG

Klaus Dieter Raschke

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

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

Dr. Walter Reitler

(since April 30, 2008)
Senior Vice President of
HSE and Corporate Responsibility,
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)
Supervisory Board Member

- 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,
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 Company Works
Council, E.ON edis AG

- E.ON edis AG (until April 30, 2008)
- E.ON Edis Energia Sp. z o.o.
(until July 31, 2008)
- Netzservice 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,
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
(Shareholders' Committee)

Hans Wollitzer

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

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

Supervisory Board Committees

Executive Committee

Ulrich Hartmann, Chairman
Wolf-Rüdiger Hinrichsen
(until April 30, 2008)
Hans Prüfer (since April 30, 2008)
Hubertus Schmoldt
Dr. Henning Schulte-Noelle

Audit and Risk Committee

(Audit Committee until
December 15, 2008)
Dr. Karl-Hermann Baumann, Chairman
(until April 30, 2008)
Dr. Theo Siegert, Chairman
(since April 30, 2008)
Werner Bartoschek
(since April 30, 2008)
Gabriele Gratz (until April 30, 2008)
Ulrich Hartmann
Klaus Dieter Raschke

Finance and Investment Committee

Ulrich Hartmann, Chairman
Gabriele Gratz (since May 13, 2008)
Wolf-Rüdiger Hinrichsen
(until April 30, 2008)
Prof. Dr. Ulrich Lehner
Erhard Ott (since April 30, 2008)
Hubertus Schmoldt (until April 30, 2008)
Werner Wenning (since May 13, 2008)
Hans Wollitzer (until April 30, 2008)

Nomination Committee

Ulrich Hartmann
Prof. Dr. Ulrich Lehner
Dr. Henning Schulte-Noelle

Information as of December 31, 2008, or as of the date on which membership in the E.ON Supervisory Board ended.

- 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.

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).

Explanatory Report of the Board of Management on the Disclosures Pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4 of the German Commercial Code

The Board of Management has read and discussed the disclosures pursuant to Section 289, Paragraph 4 and Section 315, Paragraph 4 of the German Commercial Code contained in the Combined Group Management Report for the year ended December 31, 2008, and issues the following declaration regarding these disclosures:

The disclosures pursuant to Section 289, Paragraph 4 and Section 315, Paragraph 4 of the German Commercial Code contained in the Company's Combined Group Management Report are correct and conform with the Board of Management's knowledge. The Board of Management therefore confines itself to the following statements:

Beyond the disclosures contained in the Combined Group Management Report (and legal restrictions such as the exclusion of voting rights pursuant to Section 136 of the German Stock Corporation Act), the Board of Management is not aware of any restrictions regarding voting rights or the transfer of shares. The Company is not aware of shareholdings in the Company's share capital exceeding ten out of one hundred voting rights, so that information on such shareholdings is not necessary. There is no need to describe shares with special control rights (since no such shares have been issued) or special restrictions on the control rights of employees shareholdings (since employees who hold shares in the Company's share capital exercise their control rights directly, just like other shareholders).

With regard to the Board of Management's power to issue or buy back shares, the Board of Management intends to ask the 2009 Annual Shareholders Meeting to give it a new authorization to acquire own shares and an authorization to issue bonds with conversion or option rights. In addition, the Board of Management is considering whether to recommend that the Annual Shareholders Meeting approve a new authorized capital that would take effect when the existing authorized capital expires.

To the extent that the Company has agreed to settlement payments for Board of Management members in the case of a change of control, the purpose of such agreements is to preserve the independence of Board of Management members.

Düsseldorf, March 2009

E.ON AG
Board of Management

Dr. Bernotat

Dr. Teysen

Dänzer-Vanotti

Feldmann

Dr. Schenck

Board of Management (and Information on Other Directorships Held by Board of Management Members)

Dr. Wulf H. Bernotat

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

- E.ON Energie AG¹ (Chairman)
- E.ON Ruhrgas AG¹ (Chairman)
- Allianz SE
- Bertelsmann AG
- Metro AG
- E.ON Nordic AB² (Chairman)
- E.ON Sverige AB² (Chairman)
- E.ON US Investments Corp.² (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 & Portfolio Optimization
 Vice Chairman
 Düsseldorf

- E.ON Energie AG¹
- E.ON Energy Trading AG¹ (Chairman)
- E.ON Ruhrgas AG¹
- Deutsche Bank AG
- Salzgitter AG
- E.ON Italia S.p.A.²
- E.ON Nordic AB²
- E.ON Sverige AB²

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 AG¹ (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 GmbH² (Chairman) (until February 29, 2008)
- E.ON Gastransport AG & Co. KG² (Chairman) (until February 29, 2008)
- ZAO Gerosgaz² (Chairman; chairmanship rotates with representative of foreign partner company) (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 AG¹
- E.ON Nordic AB²
- E.ON Sverige AB²

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 Energie AG¹
- E.ON Italia S.p.A.²
- E.ON Produzione S.p.A.² (until October 16, 2008)
- OAO OGK-4² (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 AG¹
- E.ON Ruhrgas AG¹
- E.ON IS GmbH¹ (Chairman)
- Commerzbank AG
- Aviga GmbH² (Chairman of the Advisory Board)
- E.ON Audit Services GmbH² (Chairman)
- E.ON Risk Consulting GmbH² (Chairman)
- HSBC Trinkaus & Burkhardt AG (Member of the Administrative Board)
- NFK Finanzcontor GmbH² (Chairman)
- OAO OGK-4²

Information as of December 31, 2008, or as of the date on which membership in the E.ON Board of Management ended.

- 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.

¹Exempted E.ON Group directorship.
²Other E.ON Group directorship.

Major Shareholdings as of December 31, 2008

Name	Location	Stake %	Equity €m	Earnings €m	Sales €m
Central Europe market unit					
BKW FMB Energie AG ²	CH, Bern	21.0	659.6	120.5	1,345.8
E WIE EINFACH Strom & Gas GmbH ^{1, 3, 4}	DE, Cologne	100.0	50.0	0.0	421.5
E.ON Avacon AG ¹	DE, Helmstedt	67.8	995.8	51.1	1,289.2
E.ON Bayern AG ^{1, 3}	DE, Regensburg	100.0	905.4	0.0	2,282.2
E.ON Benelux Holding b.v. ¹	NL, Rotterdam	100.0	928.3	240.4	0.0
E.ON Benelux n.v. ¹	NL, Voorburg	100.0	958.6	258.3	1,334.2
E.ON Bulgaria EAD ¹	BG, Varna	100.0	154.4	1.7	21.9
E.ON Bulgaria Grid AD ¹	BG, Varna	67.0	131.7	21.8	115.7
E.ON Bulgaria Sales AD ¹	BG, Varna	67.0	14.4	-11.1	285.3
E.ON Czech Holding AG ^{1, 3, 4}	DE, Munich	100.0	552.9	0.0	7.7
E.ON Dél-dunántúli Áramszolgáltató ZRt. (EDE) ¹	HU, Pécs	100.0	121.5	24.2	339.2
E.ON Dél-dunántúli Gázszolgáltató ZRt. ¹	HU, Pécs	99.9	34.6	-9.4	147.2
E.ON Distribuce, a.s. ¹	CZ, České Budějovice	100.0	813.9	105.9	427.5
E.ON edis AG ^{1, 5}	DE, Fürstenwalde	73.9	972.7	87.4	1,460.3
E.ON Energie AG ^{1, 3, 4}	DE, Munich	100.0	3,707.8	0.0	0.0
E.ON Energie, a.s. ¹	CZ, České Budějovice	100.0	72.6	-20.5	1,203.7
E.ON Energy from Waste AG ^{1, 3, 4}	DE, Helmstedt	100.0	281.5	0.0	10.5
E.ON Energy Sales GmbH ^{1, 3, 4}	DE, Munich	100.0	983.8	0.0	5,799.1
E.ON Engineering GmbH ^{1, 3, 4}	DE, Gelsenkirchen	100.0	22.8	0.0	82.1
E.ON Észak-dunántúli Áramszolgáltató ZRt. ¹	HU, Győr	100.0	227.5	35.8	583.1
E.ON Facility Management GmbH ^{1, 3, 4}	DE, Munich	100.0	4.1	0.0	181.1
E.ON France S.A.S. ¹	FR, Paris	100.0	0.2	0.0	0.0
E.ON Gaz Distribuție S.A. ¹	RO, Târgu Mureș	51.0	260.3	19.5	459.5
E.ON Hanse AG ¹	DE, Quickborn	73.8	544.5	57.1	1,460.8
E.ON Hungária Energetikai ZRt. ¹	HU, Budapest	100.0	1,080.9	54.2	49.8
E.ON Kernkraft GmbH ^{1, 3, 4}	DE, Hanover	100.0	245.2	0.0	3,262.8
E.ON Közép-dunántúli Gázszolgáltató ZRt. ¹	HU, Nagykanizsa	99.6	60.7	-2.9	133.9
E.ON Kraftwerke GmbH ^{1, 3, 4}	DE, Hanover	100.0	1,722.1	0.0	4,062.8
E.ON Mitte AG ¹	DE, Kassel	73.3	496.5	6.3	508.8
E.ON Moldova Distribuție S.A. ¹	RO, Bacău	51.0	198.1	15.9	211.2
E.ON Netz GmbH ^{1, 3, 4}	DE, Bayreuth	100.0	536.2	0.0	6,645.1
E.ON Thüringer Energie AG ¹	DE, Erfurt	53.0	210.6	30.6	1,460.5
E.ON Tiszántúli Áramszolgáltató ZRt. (ETI) ¹	HU, Debrecen	100.0	134.9	21.9	373.5
E.ON Vertrieb Deutschland GmbH ¹	DE, Munich	100.0	72.4	-2.6	1,592.6
E.ON Wasserkraft GmbH ^{1, 3, 4}	DE, Landshut	100.0	370.9	0.0	816.8
E.ON Westfalen Weser AG ¹	DE, Paderborn	62.8	473.5	116.4	578.4
Jihomoravská plynárenská, a.s. (JMP) ²	CZ, Brno	43.7	205.8	24.5	604.9
Pražská plynárenská, a.s. ²	CZ, Prag	49.3	118.3	13.0	307.1
Société Nationale d'Electricité et de Thermique, S.A. (SNET) ¹	FR, Rueil-Malmaison	65.0	696.0	80.8	986.2
Západoslovenská energetika a.s. (ZSE) ²	SK, Bratislava	49.0	907.3	641.7	495.5

¹Consolidated affiliated company.²Other shareholding.³Profit and loss pooling agreement (earnings before pooling).⁴This company exercised its exemption option under Section 264, Paragraph 3, of the German Commercial Code.⁵Includes shares held in trust.⁶Sales reflect the figure recorded for the period ended September 30, 2007.⁷E.ON Ruhrgas AG is an unlimited liability partner (disclosure under Section 285, Number 11a, of the German Commercial Code).⁸IFRS reporting package.

Major Shareholdings as of December 31, 2008

Name	Location	Stake %	Equity €m	Earnings €m	Sales €m
Pan-European Gas market unit					
A/s Latvijas Gāze ²	LV, Riga	47.2	463.1	46.5	339.2
AB Lietuvos Dujos ²	LT, Vilnius	38.9	558.6	30.1	296.2
E.ON Földgáz Storage ZRt. ¹	HU, Budapest	100.0	226.6	71.0	200.4
E.ON Földgáz Trade ZRt. ¹	HU, Budapest	100.0	411.8	201.8	3,119.3
E.ON Gas Storage GmbH ^{1,3}	DE, Essen	100.0	16.1	0.0	722.4
E.ON Gastransport GmbH ^{1,3}	DE, Essen	100.0	638.9	0.0	1,222.2
E.ON Ruhrgas AG ^{1,3}	DE, Essen	100.0	3,499.1	0.0	22,180.7
E.ON Ruhrgas E & P GmbH ^{1,3}	DE, Essen	100.0	1,049.8	0.0	0.0
E.ON Ruhrgas International AG ^{1,3}	DE, Essen	100.0	2,214.6	0.0	0.0
E.ON Ruhrgas Norge AS ¹	NO, Stavanger	100.0	128.9	12.5	123.6
E.ON Ruhrgas UK North Sea Limited ¹	GB, Aberdeen	100.0	70.9	-7.8	27.7
Erdgasversorgungsgesellschaft Thüringen-Sachsen mbH (EVG) ²	DE, Erfurt	50.0	94.5	37.5	596.7
Etzel Gas-Lager GmbH & Co. KG ^{1,7}	DE, Friedeburg-Etzel	74.8	20.0	24.4	49.8
Ferngas Nordbayern GmbH ¹	DE, Nuremberg	70.0	88.6	18.2	956.8
Gasum Oy ²	FI, Espoo	20.0	229.3	47.7	841.6
Gas-Union GmbH ²	DE, Frankfurt am Main	25.9	86.7	13.0	1,019.1
Interconnector (UK) Limited ^{2,6}	GB, London	25.1	44.1	52.2	185.6
MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG ²	DE, Essen	51.0	56.9	36.4	133.3
NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG ²	DE, Emstek	40.6	161.6	67.5	109.5
Nord Stream AG ²	CH, Zug	20.0	133.1	-16.4	0.0
OAQ Gazprom ²	RU, Moscow	6.4	109,918.3	10,301.1	50,726.4
Saar Ferngas AG ²	DE, Saarbrücken	20.0	175.3	35.1	1,132.3
Slovenský Plynárenský Priemysel, a.s. (SPP) ²	SK, Bratislava	24.5	5,754.2	563.9	2,381.7
Thüga Aktiengesellschaft ^{1,3}	DE, Munich	100.0	2,355.4	0.0	415.5
Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG ²	DE, Essen	51.0	25.4	17.7	87.3
U.K. market unit					
Central Networks East plc ¹	GB, Coventry	100.0	941.2	180.5	454.8
Central Networks West plc ¹	GB, Coventry	100.0	853.8	173.2	439.6
Corby Power Ltd. ¹	GB, Corby	50.0	98.5	26.1	92.0
E.ON Energy Limited ¹	GB, Coventry	100.0	1,558.9	-151.4	8,375.2
E.ON UK plc ¹	GB, Coventry	100.0	3,825.5	1,157.7	13,289.0
E.ON UK CHP Ltd. ¹	GB, Coventry	100.0	-283.2	-57.8	263.4
Nordic market unit					
E.ON Elnät Sverige AB ^{1,8}	SE, Malmö	100.0	946.1	-226.7	595.3
E.ON Kärnkraft Sverige AB ^{1,8}	SE, Malmö	100.0	325.2	24.4	629.9
E.ON Nordic AB ^{1,8}	SE, Malmö	100.0	4,429.0	383.0	0.0
E.ON Sverige AB ^{1,8}	SE, Malmö	99.9	3,253.4	1,074.7	16.9
E.ON Värme Sverige AB ^{1,8}	SE, Malmö	100.0	539.8	263.8	393.2
E.ON Vattenkraft Sverige AB ^{1,8}	SE, Sundsvall	100.0	1,720.8	1,711.3	460.6
OKG AB ^{1,8}	SE, Oskarshamn	54.5	320.3	26.1	457.7

¹Consolidated affiliated company.

²Other shareholding.

³Profit and loss pooling agreement (earnings before pooling).

⁴This company exercised its exemption option under Section 264, Paragraph 3, of the German Commercial Code.

⁵Includes shares held in trust.

⁶Sales reflect the figure recorded for the period ended September 30, 2007.

⁷E.ON Ruhrgas AG is an unlimited liability partner (disclosure under Section 285, Number 11a, of the German Commercial Code).

⁸IFRS reporting package.

Major Shareholdings as of December 31, 2008

Name	Location	Stake %	Equity €m	Earnings €m	Sales €m
U.S. Midwest market unit					
E.ON U.S. LLC ^{1,8}	US, Louisville	100.0	2,852.7	-1,427.0	0.0
E.ON U.S. Capital Corp. ^{1,8}	US, Louisville	100.0	580.3	-6.1	0.0
Kentucky Utilities Company (KU) ^{1,8}	US, Lexington	100.0	1,298.5	123.4	960.8
LG&E Energy Marketing Inc. ^{1,8}	US, Louisville	100.0	-314.0	-10.4	23.4
Louisville Gas and Electric Company (LG&E) ^{1,8}	US, Louisville	100.0	822.8	66.7	1,005.0
Energy Trading market unit					
E.ON D-Gas B.V. ¹	NL, Voorburg	100.0	76.7	66.0	64.3
E.ON Energihandel Nordic AB ¹	SE, Malmö	100.0	109.2	13.2	1,322.9
E.ON Energy Trading AG ^{1,3,4}	DE, Düsseldorf	100.0	14.7	0.0	31,877.9
E.ON Polska Sp. z o.o. ¹	PL, Warsaw	100.0	4.1	-0.5	94.6
New Markets					
E.ON Climate & Renewables North America Inc. ^{1,8}	US, Chicago	100.0	555.2	-61.3	0.0
E.ON Distribución S.L. ¹	ES, Madrid	100.0	152.4	4.4	62.6
E.ON España, S.L. ¹	ES, Madrid	100.0	811.0	-5.1	0.0
E.ON Generación, S.L. ¹	ES, Madrid	100.0	1,651.7	-110.1	437.8
E.ON Renovables Iberia, S.L. ¹	ES, Madrid	100.0	18.3	-5.7	4.8
E.ON Italia S.p.A. ¹	IT, Milan	100.0	817.3	18.2	0.2
E.ON Produzione S.p.A. ¹	IT, Rome	80.0	3,281.0	-44.4	1,257.0
OAOGK-4 ¹	RU, Surgut	78.3	3,253.3	180.6	1,043.7
Corporate Center					
Aviga GmbH ¹	DE, Duisburg	100.0	8,609.1	254.8	0.0
E.ON IS GmbH ¹	DE, Hanover	100.0	9.0	7.7	529.9
E.ON North America, Inc. ^{1,8}	US, Wilmington	100.0	264.7	65.7	0.0
E.ON Ruhrgas Holding GmbH ^{1,3}	DE, Düsseldorf	100.0	10,290.5	0.0	0.0

¹Consolidated affiliated company.²Other shareholding.³Profit and loss pooling agreement (earnings before pooling).⁴This company exercised its exemption option under Section 264, Paragraph 3, of the German Commercial Code.⁵Includes shares held in trust.⁶Sales reflect the figure recorded for the period ended September 30, 2007.⁷E.ON Ruhrgas AG is an unlimited liability partner (disclosure under Section 285, Number 11a, of the German Commercial Code).⁸IFRS reporting package.

Summary of Financial Highlights ¹					
€ in millions	2004	2005	2006	2007	2008
Sales and earnings					
Sales	42,150	51,616	64,091	68,731	86,753
Adjusted EBITDA	9,664	10,194	11,724	12,450	13,385
Adjusted EBIT	6,747	7,293	8,356	9,208	9,878
Net income	4,339	7,407	6,082	7,724	1,604
Net income attributable to shareholders of E.ON AG	-	-	5,586	7,204	1,266
Value measures					
ROCE (%)	11.5	12.2	13.8	14.5	12.9
Pretax cost of capital (%)	9.0	9.0	9.0	9.1	9.1
Value added	1,477	1,920	2,916	3,417	2,902
Asset structure					
Non-current assets	88,223	93,914	96,488	105,804	106,436
Current assets	25,839	32,648	31,087	31,490	50,609
Total assets	114,062	126,562	127,575	137,294	157,045
Capital structure					
Equity	33,560	44,484	51,245	55,130	38,427
<i>Capital stock</i>	1,799	1,799	1,799	1,734	2,001
Minority interests	4,144	4,734	2,533	5,756	3,960
Non-current liabilities	52,624	52,251	46,947	52,402	62,973
<i>Provisions</i>	27,328	27,402	22,100	20,963	22,757
<i>Financial liabilities</i>	13,265	10,555	10,029	15,915	25,036
<i>Other liabilities and other</i>	12,031	14,294	14,818	15,524	15,180
Current liabilities	23,734	25,093	29,383	29,762	55,645
<i>Provisions</i>	6,914	6,460	3,994	3,992	4,260
<i>Financial liabilities</i>	7,036	3,807	3,443	5,549	16,022
<i>Other liabilities and other</i>	9,784	14,826	21,946	20,221	35,363
Total equity and liabilities	114,062	126,562	127,575	137,294	157,045
Cash flow and investments					
Cash provided by operating activities of continuing operations	5,776	6,544	7,161	8,726	6,738
Cash-effective investments	4,777	3,941	5,037	11,306	18,406
Financial ratios					
Equity ratio ² (%)	29	35	40	40	24
Non-current assets as a percentage of property, plant and equipment	102	108	102	102	95
Economic net debt (at year-end)	-	-	-18,180	-23,432	-44,946
Debt factor ³	-	-	1.6	1.9	3.2 ⁴
Cash provided by operating activities of continuing operations as a percentage of sales	13.7	12.7	11.2	12.7	7.8
Stock⁵					
Earnings per share attributable to shareholders of E.ON AG (€)	2.20	3.75	2.82	3.69	0.68
Equity ⁶ per share (€)	16.97	22.50	24.62	26.06	18.10
Twelve-month high per share (€)	22.35	29.64	34.80	48.69	50.93
Twelve-month low per share (€)	16.42	21.50	27.37	32.02	23.50
Year-end closing price per share (€)	22.35	29.13	34.28	48.53	28.44
Dividend per share (€)	0.78	0.92	1.12	1.37	1.50
Dividend payout	1,549	4,614 ⁷	2,210	2,560	2,857
Market capitalization ⁸ (€ in billions)	44.2	57.6	67.6	92.0	54.2
E.ON AG long-term ratings					
Moody's	Aa3	Aa3	Aa3	A2	A2
Standard & Poor's	AA-	AA-	AA-	A	A
Employees					
Employees at year-end	59,732	79,570	80,612	87,815	93,538

¹Adjusted for discontinued operations; figures prior to 2006 calculated according to U.S. GAAP. ²Excludes minority interests until 2005. ³Ratio between economic net debt and adjusted EBITDA. ⁴Pro forma. ⁵All figures subsequent to, or adjusted for, the stock split. ⁶Attributable to shareholders of E.ON AG. ⁷Includes special dividend of €4.25 per share. ⁸Based on shares outstanding.

Actuarial gains and losses

The actuarial calculation of provisions for pensions is based on projections of a number of variables, such as projected future salaries and pensions. An actuarial gain or loss is recorded when the actual numbers turn out to be different from the projections.

Adjusted EBIT

Adjusted earnings before interest and taxes. Adjusted EBIT, E.ON's key earnings figure for purposes of internal management control and as an indicator of our businesses' long-term earnings power, is derived from income/loss from continuing operations before interest income and income taxes and is adjusted to exclude certain extraordinary items, mainly other income and expenses of a non-recurring or rare nature (see Other non-operating earnings).

Adjusted EBITDA

Adjusted earnings before interest, taxes, depreciation, and amortization.

Adjusted net income

An earnings figure after interest income, income taxes, and minority interests that has been adjusted to exclude certain extraordinary effects. The adjustments include effects from the marking to market of derivatives, book gains and book losses on disposals, restructuring expenses, and other non-operating income and expenses of a non-recurring or rare nature (after taxes and minority interests). Adjusted net income also excludes income/loss from discontinued operations, net.

ADR

Abbreviation for American depositary receipt. These are depositary certificates issued by U.S. banks and traded on U.S. stock exchanges in place of a foreign stock. ADRs make it easier for foreign companies to gain access to U.S. investors.

Beta factor

Indicator of a stock's relative risk. A beta coefficient of more than one indicates that a stock has a higher risk than the overall market; a beta coefficient of less than one indicates that it has a lower risk.

Bond

Debt instrument that gives the holder the right to repayment of the bond's face value plus an interest payment. Bonds are issued by public entities, credit institutions, and companies and are sold through banks. They are a form of medium- and long-term debt financing.

Capital employed

Represents the interest-bearing capital tied up in the E.ON Group. It is equal to a segment's operating assets less the amount of non-interest-bearing available capital. Other shareholdings are included at their acquisition cost, not their fair value.

Capital stock

The aggregate face value of all shares of stock issued by a company; entered as a liability in the company's balance sheet.

Cash flow

Accounting term for the amount of cash a company or organization receives from, or uses for, its operating, financing, and investing activities.

Cash flow statement

Calculation and presentation of the cash a company has generated or consumed during a reporting period as a result of its operating, investing, and financing activities.

Cash provided by operating activities

Cash provided by, or used for, operating activities of continuing operations.

Commercial paper ("CP")

Unsecured, short-term debt instruments issued by commercial firms and financial institutions. CPs are usually quoted on a discounted basis, with repayment at par value.

Consolidation

Accounting approach in which a parent company and its affiliates are presented as if they formed a single legal entity. All intracompany income and expenses, intracompany accounts payable and receivable, and other intracompany transactions are offset against each other. Share investments in affiliates are offset against their capital stock, as are all intracompany credits and debts, since such rights and obligations do not exist within a single legal entity. The adding together and consolidation of the remaining items in the annual financial statements yields the consolidated balance sheets and the consolidated statements of income.

Contractual trust arrangement ("CTA")

Model for financing pension obligations under which company assets are converted to assets of a pension plan administered by an independent trust that is legally separate from the company.

Cost of capital

Weighted average of the costs of debt and equity financing (weighted average cost of capital: "WACC"). The cost of equity is the return expected by an investor in a given stock. The cost of debt is based on the cost of corporate debt and bonds. The interest on corporate debt is tax deductible (referred to as the tax shield on corporate debt).

Credit default swap ("CDS")

A credit derivative used to hedge the default risk on loans, bonds, and other debt instruments.

Debt factor

Ratio between economic net debt and adjusted EBITDA. Serves as a metric for managing E.ON's capital structure.

Debt issuance program

Contractual framework and standard documentation for the issuance of bonds.

Discontinued operations

Businesses or parts of a business that are planned for divestment or have already been divested. They are subject to special disclosure rules.

Economic net debt

Key figure that supplements net financial position with pension obligations and asset retirement obligations (less prepayments to the Swedish nuclear fund).

Economic investments

Cash-effective capital investments plus debt acquired and asset swaps.

Equity method

Method for valuing shareholdings in associated companies whose assets and liabilities are not fully consolidated. The proportional share of the company's annual net income (or loss) is reflected in the shareholding's book value. This change is usually shown in the owning company's income statement.

Fair value

The price at which assets, debts, and derivatives pass from a willing seller to a willing buyer, each having access to all the relevant facts and acting freely.

Financial derivative

Contractual agreement based on an underlying value (reference interest rate, securities prices, commodity prices) and a nominal amount (foreign currency amount, a certain number of stock shares).

Goodwill

The value of a subsidiary as disclosed in the parent company's consolidated financial statements resulting from the consolidation of capital (after the elimination of hidden reserves and liabilities). It is calculated by offsetting the carrying amount of the parent company's investment in the subsidiary against the parent company's portion of the subsidiary's equity.

Impairment test

Periodic comparison of an asset's book value with its fair value. A company must record an impairment charge if it determines that an asset's fair value has fallen below its book value. Goodwill, for example, is tested for impairment on at least an annual basis.

International Financial Reporting Standards ("IFRS")

Under regulations passed by the European Parliament and European Council, capital-market-oriented companies in the EU must apply IFRS for fiscal years that begin on or after January 1, 2005, and by January 1, 2007, at the latest.

Net financial position

Difference between a company's total financial assets (cash and securities) and total financial liabilities (debts to financial institutions, third parties, and associated companies).

Option

The right, not the obligation, to buy or sell an underlying asset (such as a security or currency) at a specific date at a predetermined price from or to a counterparty or seller. Buy options are referred to as calls, sell options as puts.

Other non-operating earnings

Income and expenses that are unusual or infrequent, such as book gains or book losses from significant disposals as well as restructuring expenses (see Adjusted EBIT).

Purchase price allocation

In a business combination accounted for as a purchase, the values at which the acquired company's assets and liabilities are recorded in the acquiring company's balance sheet.

Rating

Standardized performance categories for an issuer's short- and long-term debt instruments based on the probability of interest payment and full repayment. Ratings provide investors and creditors with the transparency they need to compare the risks of various financial investments.

Prepayments and accrued income

Line item used to account for aperiodic expenses and income. Prepayments, which are recorded on the liability side of the balance sheet, occur when payment is made before the balance-sheet date, but the expense is after the balance-sheet date. Accrued income, which is recorded on the liabilities side of the balance sheet, occurs when payment is received before the balance-sheet date, but the income is recorded after the balance-sheet date.

ROCE

Acronym for return on capital employed. A key indicator for monitoring the performance of E.ON's market units, ROCE is the ratio between adjusted EBIT and capital employed. Capital employed represents the interest-bearing capital tied up in the E.ON Group.

Stock appreciation rights ("SAR")

Virtual stock options in which compensation is in cash instead of in stock. At E.ON, the exercise gain equals the difference between the price of E.ON stock on the exercise date and at the time the SAR were issued.

Stock split

A division of a company's stock by a specified ratio. An individual shareholder's stake in the company remains unchanged but is divided into a correspondingly larger number of shares. The main purpose of a stock split is to reduce the price of an individual share of stock in order to increase the stock's attractiveness to investors.

Syndicated line of credit

Credit facility extended by two or more banks that is good for a stated period of time.

Tax shield

Deductions that reduce an enterprise's tax burden. For example, the interest on corporate debt is tax deductible. An enterprise takes this into consideration when choosing between equity and debt financing (see Cost of capital).

Value added

Key measure of E.ON's financial performance based on residual wealth calculated by deducting the cost of capital (debt and equity) from operating profit. It is equivalent to the return spread (ROCE minus the cost of capital) multiplied by capital employed, which represents the interest-bearing capital tied up in the E.ON Group.

Working capital

The difference between a company's current assets and long-term liabilities.

Additional Information

E.ON AG
E.ON-Platz 1
40479 Düsseldorf
Germany

T +49-211-4579-0
F +49-211-4579-501
info@eon.com
www.eon.com

Media Relations
T +49-211-4579-453
presse@eon.com

Investor Relations
T +49-211-4579-549
investorrelations@eon.com

Creditor Relations
T +49-211-4579-563
creditorrelations@eon.com

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Financial Calendar

May 6, 2009	2009 Annual Shareholders Meeting
May 7, 2009	Dividend Payout
May 13, 2009	Interim Report: January - March 2009
August 12, 2009	Interim Report: January - June 2009
November 11, 2009	Interim Report: January - September 2009
March 10, 2010	Release of 2009 Annual Report
May 6, 2010	2010 Annual Shareholders Meeting
May 7, 2010	Dividend Payout
May 11, 2010	Interim Report: January - March 2010
August 11, 2010	Interim Report: January - June 2010
November 10, 2010	Interim Report: January - September 2010

