Annual Report Part II/II

2009 Financial Report

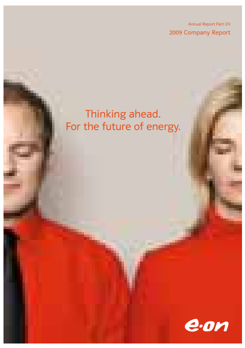
Thinking ahead.
For the future of energy.

E.ON Group Financial Highlights

€ in millions	2009	2008	+/- %
Electricity sales[1, 2] (billion kWh)	815.9	597.4	+37
Gas sales[2] (billion kWh)	1,217.7	1,208.6	+1
Sales	81,817	86,753	-6
Adjusted EBITDA	13,526	13,385	+1
Adjusted EBIT	9,646	9,878	-2
Net income	8,645	1,621	+433
Net income attributable to shareholders of E.ON AG	8,396	1,283	+554
Adjusted net income	5,328	5,597	-5
Economic investments	11,994	26,236	-54
Cash provided by operating activities of continuing operations	9,054	6,738	+34
Economic net debt (at year-end)	-44,665	-44,946	+281[3]
Debt factor[4]	3.3	3.4	-0.1[3]
Equity	43,955	38,444	+14
Total assets	152,636	156,824	-3
ROCE (%)	11.7	12.9	-1.2[5]
Pretax cost of capital (%)	9.1	9.1	–
After-tax cost of capital (%)	6.7	6.7	–
Value added	2,144	2,902	-26
Employees (at year-end)	88,227	93,538	-6
Earnings per share[6, 7] (€)	4.41	0.69	+539
Equity per share[6, 7] (€)	21.21	18.11	+17
Dividend per share[7] (€)	1.50	1.50	–
Dividend payout	2,858	2,857	–
Market capitalization[8] (€ in billions)	55.7	54.2	+3

[1]Includes trading volume of 578.8 billion kWh for 2009 (prior year: 347.2 billion kWh).
[2]In 2009, we deployed a new IT system across our company for gathering energy-related data and also modified our classification methods. We adjusted the prior-year figures accordingly.
[3]Change in absolute terms.
[4]Ratio of economic net debt and adjusted EBITDA.
[5]Change in percentage points.
[6]Attributable to shareholders of E.ON AG.
[7]After, or adjusted for, the stock split in 2008.
[8]Based on shares outstanding.

Contents



Company Report

- Our Company.
  A profile of our business and the key issues that affect it.
- Our Team.
  Our Board of Management, our Supervisory Board, and our employees.
- Our Investors.
  The performance of our stock and bonds.
- Our Strategy.
  From our key beliefs to the businesses we’re developing.
- 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.

[1]Part of the Combined Group Management Report.

- Adjusted EBIT almost at high prior-year level
- Cash provided by operating activities up 34 percent
- Management to propose dividend of €1.50
- 2010 adjusted EBIT expected to be up 0 to 3 percent

E.ON Group: Market Units, Lead Companies, Reporting Units

Corporate Center
E.ON AG, Düsseldorf

Central Europe E.ON Energie AG Munich, Germany, 100%	**Pan-European Gas** E.ON Ruhrgas AG Essen, Germany, 100%	**U.K.** E.ON UK plc Coventry, United Kingdom, 100%	**Nordic** E.ON Sverige AB Malmö, Sweden, 99.99%
Central Europe West • Regulated Business • Non-regulated Business Central Europe East Other/Consolidation	Regulated Business Non-regulated Business Other/Consolidation	Regulated Business Non-regulated Business Other/Consolidation	Regulated Business Non-regulated Business Other/Consolidation

Corporate Profile and Operating Environment

Corporate Structure and Operations

E.ON is one of the world's largest investor-owned energy companies. Our more than 88,000 employees generated just under €82 billion in sales in 2009. E.ON operates along the 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 in the Combined Group Management Report also applies to E.ON AG.

For reasons of materiality, we combine our Climate & Renewables, Russia, Italy, and Spain market units in a single reporting segment called New Markets.

Corporate Center

The E.ON AG Board of Management steers the E.ON Group. Its 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 of ownership interests managed directly by E.ON AG. We also allocate consolidation effects at the Group level to this segment.

Central Europe

E.ON Energie is responsible for our electricity business and our gas distribution and sales business in many countries across Central Europe.

The Central Europe West Regulated and Non-regulated businesses (whose main presence is in Germany, the Netherlands, Belgium, and France) consist of:

- the operation of conventional and nuclear power stations as well as renewable-source and waste-incineration power generation
- electric transmission via high-voltage and ultrahigh-voltage wires networks
- regional distribution of electricity, gas, and heat
- electricity, gas, and heat sales.

The ultrahigh-voltage transmission network was sold to Netherlands-based TenneT in February 2010.

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

U.S. Midwest
E.ON U.S. LLC
Louisville, Kentucky, USA, 100%

Regulated Business
Non-regulated Business/Other

Energy Trading
E.ON Energy Trading SE
Düsseldorf, Germany, 100%

Proprietary Trading
Optimization

New Markets
E.ON Climate & Renewables GmbH
Düsseldorf, Germany, 100%
E.ON Russia Power
Moscow, Russia, 100%
E.ON Italia S.p.A.
Milan, Italy, 100%
E.ON España S.L.
Madrid, Spain, 100%

In 2009, 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 significant minority shareholdings.

Pan-European Gas

E.ON Ruhrgas is one of Europe's leading gas companies and one of the world's largest investor-owned gas importers. Its customers are regional and municipal energy companies as well as industrial enterprises in and outside Germany. Effective 2009, Pan-European Gas adjusted its segment reporting. The reporting units Up-/Midstream and Downstream Shareholdings were replaced by non-regulated and regulated. The non-regulated business consists of the gas wholesale business, the exploration and production business, and the gas storage business. The regulated business consists of ownership interests in energy companies in European countries other than Germany (E.ON Ruhrgas International) and the regulated transport business. Minority ownership interests in municipal gas and electric utilities in Germany (Thüga) are reported, along with consolidation effects, under Other/Consolidation. Thüga was sold to a consortium of municipal utilities effective December 1, 2009.

At year-end 2009, the pipeline system of E.ON Gastransport and its project companies in Germany had a total length of 11,600 kilometers (prior year: 11,552 kilometers); 70 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 was approximately 10 billion cubic meters (6 billion cubic meters in Germany) at year-end 2009.

U.K.

E.ON UK 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, 2009, E.ON UK supplied approximately 7.9 million customer accounts, of which 7.4 million were residential and 0.5 million were business customer accounts.

Nordic

E.ON Sverige manages our energy operations in Northern Europe. 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 2009, Nordic supplied roughly 1 million electricity, gas, and heat customer accounts.

U.S. Midwest
E.ON U.S. is an energy service provider with operations focused on the regulated electric and gas utility sector. 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. Together, LG&E and KU distribute electricity to approximately 940,000 customers, predominantly in Kentucky. They serve several classes of customers including residential, commercial and industrial, and municipalities. LG&E distributes natural gas to approximately 321,000 customers in Kentucky.

Energy Trading
Energy Trading combines our risk management activities, mainly for power, gas, coal, oil, and carbon allowances. These activities consist of optimization and proprietary trading. Both are conducted in accordance with our risk management systems as well as trading limits and can involve intentionally utilizing changes in market prices and risk positions. Energy Trading also includes the financial results of Italy-based E.ON Energy Trading S.p.A. whose operations it has managed centrally since January 1, 2009. Legal integration will be completed at a later stage.

New Markets
E.ON Climate & Renewables is responsible for managing and expanding E.ON's global renewables operations (with the exception of large-scale hydroelectricity) and climate-protection projects.

E.ON Russia Power is responsible for the E.ON Group's electricity operations in Russia. Our Russian business focuses on the operation of thermal power stations in Central Russia, Ural, and Siberia, predominantly fast-growing, industrialized regions of the country.

E.ON Italia manages our power and gas business in Italy. Day-to-day operations consist of power generation, power and gas sales, and gas distribution. At year-end 2009, E.ON Italia supplied power and gas to about 800,000 homes and businesses.

E.ON España runs our integrated energy business in Spain, where at year-end 2009 it supplied electricity to about 700,000 customers.

Sales Markets and Market Positions

Central Europe
- No. 3 in power generation
- No. 1 in power and gas sales
- Significant operations in Germany, Belgium, France, the Netherlands, Hungary, the Czech Republic, Slovakia, Romania, and Bulgaria

Pan-European Gas
- One of Europe's leading gas companies
- Pan-European gas supply portfolio consisting of long-term supply contracts with Norway, Russia, the Netherlands, Germany, Denmark, and the United Kingdom

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, France, Poland, Sweden, Italy, Spain, Portugal, the United Kingdom, and the United States, E.ON Climate & Renewables ranks among the global leaders in wind power.
- Russia
  E.ON is one of Russia's leading thermal power producers.
- Italy and Spain
  We have solid market positions in Italy and Spain.

Strategy

With a broad geographic footprint and strong market positions, E.ON is one of Europe's leading energy companies. Our growth in recent years has enabled us to expand our presence in Europe, tap new markets like Russia, and become a leader in renewables. We are therefore superbly positioned to successfully meet new challenges and seize new opportunities in Europe's energy marketplace. Key areas in the years ahead will be supply security, affordability, and above all climate protection. We are gearing all our businesses to meet these challenges and opportunities and are making targeted investments in climate-friendly and efficient energy supply. At the same time, our Group-wide efficiency-enhancement program called PerformtoWin will enable us to increase our productivity, reduce our costs, and achieve €1.5 billion in earnings improvements by 2011.

Our strategy is founded on six key beliefs:

- We are active along the entire value chain in power and gas: in production, import and wholesale, distribution, and end-customer sales. Our comprehensive market knowledge enables us to operate efficiently and to create value along the entire value chain.
- Power and gas are strongly connected upstream (gas supply to gas-fired generation), midstream (cross-commodity energy trading), and downstream (increasing popularity of dual-fuel products). Our solid position in all three areas provides us with valuable synergies and a superior competitive positioning.
- International scale and strong market positions give us a key competitive edge in liberalized markets and create a solid foundation for ensuring supply security and for making the necessary large-scale investments in climate-friendly power generation.
- Growth beyond our traditional core markets (Germany, the United Kingdom, Sweden) creates additional opportunities to expand our business so that we sustain our success in a consolidating European energy market.
- Our deep expertise in all facets of the energy business is a considerable competitive advantage, one that we leverage fully by sharing best practices across our entire organization.
- Open, competitive markets are the best framework for ensuring a secure, efficient energy supply. An integrated European energy market offers E.ON superb opportunities to strengthen our market position and to capture value from cross-border synergies.

Energy Policy and Regulatory Environment

International

More than 100 heads of state and government met in Copenhagen, Denmark, in December 2009 for the United Nations Climate Change Conference. The purpose was to agree on strategies for limiting global warming to a maximum of 2 degrees Centigrade. The resulting compromise, however, provides only vague guidance for implementation, which will be the subject of further negotiations in Bonn in June 2010 and in Mexico in late 2010. Two key issues are reduction targets for greenhouse-gas ("GHG") emissions and financial assistance for developing countries to take climate-protection measures. The proposals call for industrial countries to provide $30 billion in funding for 2010–2012 and for a $100 billion international fund to be established by 2020.

Europe

In early 2009, the European Commission passed a €5 billion stimulus program to support the expansion of Europe's power and gas networks as well as carbon capture and storage ("CCS") projects. Funds will be disbursed in 2010.

The European Commission, the European Parliament, and the member states next passed the third legislative package. In addition to the complete legal unbundling of electricity and gas transmission system operators, the legislative package allows the establishment of an independent transmission operator ("ITO") or an independent system operator ("ISO"). The third legislative package will affect the entire value chain and will grant national and European regulatory agencies far-reaching new authority to intervene in markets.

In addition, the European Commission, the European Parliament, and the Council passed the green legislative package whose purpose is to enable the EU to achieve its climate targets. By 2020, renewables are supposed to meet 20 percent of the EU's energy consumption, while GHG emissions are to be reduced by 20 percent from a 1990 baseline. Emission allowances for the EU-wide Emissions Trading Scheme ("ETS") have so far been allocated at no cost. No-cost allocation will gradually be replaced by the auctioning of allowances. Starting in 2013, power producers will have to acquire all of their allowances through auctions. The number of allowances will be reduced each year. Industries not subject to the ETS will also have to reduce their emissions in accordance with national targets; a portion of the fuel they use must come from renewable sources. The EU will provide financial support for the development of CCS technology.

There continues to be strong political support for the expansion of renewables. The Renewable Energy Directive, which took effect in 2009, sets a binding target for the Community to increase renewables' share of total energy consumption to 20 percent, which will require renewables' share of electricity consumption to increase to 34 percent. To help promote the achievement of this target, member states will have to submit national action plans (containing their support policies for renewables) to the European Commission. This can be expected to result in the member states maintaining or expanding their support policies.

In general, the member states may still 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.

The European Commission aims to pave the way to a low-carbon economy, in particular by reducing carbon emissions in power generation and the transport sector (through, for example, the development of battery-powered cars). To support this aim, the Commission intends to foster the creation of a European super network for power and gas. It also announced that it intends to design an energy strategy for the period through 2050, in which enhancing energy efficiency and expanding renewables will remain key policy objectives.

Germany

Elections held in September 2009 returned a new federal government consisting of the CDU/CSU and FDP parties. The new government's coalition agreement reiterated the objective of limiting global warming to 2 degrees Centigrade. The government is determined that Germany will remain a pace-setter in climate protection and is committed to the targets of the Integrated Climate Protection and Energy Package, which call for Germany to reduce its GHG emissions by 40 percent by 2020 compared with a 1990 baseline.

One key focus of German energy policy in the new legislative period is the transposition of the EU's third legislative package into national law. Another task is to design the legal framework for the comprehensive transformation of the country's energy networks into smart grids.

The federal government intends to continue to support the expansion of renewables to enable Germany to meet its existing climate-protection targets. In addition, the government intends to support efforts to make renewables competitive as soon as possible. It also plans to design a strategy for importing solar and wind power from North Africa (Desertec is one such example) and to pursue a proactive energy foreign policy.

The coalition agreement also expresses the new federal government's willingness to extend the operating lives of Germany's nuclear power plants ("NPPs") as long as they comply with strict German and international safety standards. It states that not utilizing this key energy-policy option would threaten Germany's ability to meet its climate-protection targets and increase its import dependence. An agreement still needs to be reached on the preconditions for extending NPP operating lives, on detailed rules (such as the operating lives of individual NPPs), on safety standards, and on rules for channeling revenues into the refinement of renewables technologies.

To bolster competition law, the federal government intends to amend Germany's Law against Barriers to Competition ("GWB"). Plans call for it to contain a provision granting regulators the authority, as a final option, to break up companies' that have a dominant market position.

The federal government also intends for Germany to become a lead market for electromobility. It aims for 1 million battery-powered vehicles to be on the country's streets by 2020. It announced that it would design a broad, technology-neutral mobility and fuel strategy that will incorporate all alternative technologies and energy sources. The EU also plans to support the development of electric vehicles.

Incentive-Based Regulation

Pursuant to the relevant ordinance, incentive-based regulation began on January 1, 2009. Interregional gas pipeline operators were migrated to incentive-based regulation on 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 abbreviation, "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 existing 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.

Gas Network Access

Germany's gas transport pipeline system is divided into regional segments called market areas. The coupling of many of these market areas along with the introduction of the two-contract model has significantly simplified gas-network access. Initially, Germany had more than 20 market areas.

Effective October 1, 2009, it only has three for high-calorific ("H") gas and three for low-calorific ("L") gas. NetConnect Germany, the country's largest and most liquid H gas market area, includes the pipeline systems of E.ON Gastransport ("EGT") and bayernets as well as those of its new members, ENI/GVS and GRTgaz Germany. The country's second large H gas market area is called Gaspool. The coupling of market areas is an important milestone for Germany's gas market and fulfills the BNetzA's stipulation that the number of market areas be significantly reduced.

United Kingdom

In mid-2009, the U.K. government published a Low Carbon Transition Plan which articulates how the country could, by 2020, achieve a 34-percent reduction in GHG emissions from a 1990 baseline. At the same time, it published its Renewable Energy Strategy which maps out how the country can achieve its EU target of meeting 15 percent of energy consumption from renewables by 2020. In January 2008, the U.K. government published a White Paper on Nuclear Energy which paves the way for the construction of new NPPs in Britain. It contains a number of provisions to accelerate, and provide a solid legal foundation for, planning and consents processes in order to give private investors incentives to build and operate new, technologically advanced NPPs. The government's objective is to keep nuclear's share of the generation mix at least constant in order to promote climate protection and supply security.

Ten potential NPP sites were identified and then auctioned in spring 2009. In 2010, parliament is expected to pass legislation to speed up and simplify the planning process. The government hopes that the first new NPPs will enter service by the end of this decade.

In November 2009, the Energy Bill was presented to the U.K. parliament. It included provisions to support CCS demonstration projects in the United Kingdom and mandatory social price support to reduce energy bills for the most vulnerable consumers. It also provided greater clarity on the role of the U.K. energy regulator.

In addition, 2009 saw the release of draft National Policy Statements ("NPSs"). NPSs are an integral part of a new system intended to establish a more efficient and timely process for reaching decisions on nationally significant infrastructure projects, such as network expansion. The NPSs are set to take effect in 2010.

The Treasury's Pre-Budget Report in December 2009 announced a review of the electricity market. The Department of Energy and Climate Change and the Treasury will work together in 2010 to ensure that the electricity market framework can most effectively deliver a fair deal for consumers and the low-carbon investments needed for the long term. In addition, in 2010 the U.K. government will continue to refine policies to promote energy efficiency and renewable-source heat and electricity. There will be a general election in the first half of 2010, which could have some impact on future energy policies.

Sweden

In February 2009, the Swedish government agreed on a package of sustainable energy and climate policies. Its primary objective is to end Sweden's dependence on fossil fuels in order to reduce GHG emissions and enhance supply security. It aims to achieve this by increasing the renewables component in all sectors of the economy and enhancing energy efficiency. The government has set ambitious targets for 2020: renewables are to meet 50 percent of Sweden's overall energy demand and 10 percent in the transport sector; energy efficiency is to be increased by 20 percent and GHG emissions cut by 40 percent from a 1990 baseline.

The heat market is to be 100 percent fossil-free by 2020. The government intends to promote hybrid and battery-powered vehicles in order to make the transport sector fossil-free by 2030. In the electricity market, the government intends to retain nuclear energy in order to promote climate protection but also wants to diversify the country's generation mix, which has long consisted mainly of nuclear and hydro power. The aims are to make the power system more reliable and enhance supply security. In addition to promoting the expansion of wind power and other renewables, the government reversed Sweden's nuclear-energy policy. Sweden repealed its nuclear phaseout law and lifted the nearly 30-year-old ban on the construction of new reactors, which will be limited to existing NPP sites.

USA/Kentucky

The arrival of the Obama administration has made climate and energy policy higher priority issues. The main focus over the next decade will be to support the development of cleaner energy technologies and renewables. A stimulus package, called the New Green Deal, is designed to finance subsidies for renewables.

The stimulus package contains about $17 billion in support for renewables, particularly for network expansion to integrate renewables, interconnectors, and measures to manage the intermittency of renewable-source electricity.

The package contains about $3.4 billion in funding for smart grids; plans call for smart meters to cover about 20 percent of the U.S. market.

Two pieces of climate-protection legislation are under consideration. The House of Representatives passed the Waxman bill in June 2009. The Senate has its own bill. A decision is expected in the first half of 2010.

The two bills contain similar CO_2-reduction targets for 2020. The Waxman bill calls for a 17-percent reduction compared with a 2005 baseline (which would put emissions at about 1990 levels); the Senate bill calls for a 20-percent reduction compared with 2005. Both bills also call for the introduction of an emission-trading system, although its precise design is undecided, as are the modalities of the renewables market. Under the bills, CO_2 will be classified as environmental waste. This will make it possible for environmental cost-recovery mechanisms to apply to carbon reduction.

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

France
In April 2009, the Champsaur Commission submitted its report on redesigning electricity-market regulation. The report calls for regulated tariffs for medium-sized and industrial customers to be gradually phased out after a transition period in 2010. However, regulated tariffs for large industrial customers will not be fully eliminated until 2015. The report also calls for competitors to gain access to French baseload capacity (particularly nuclear capacity), although the precise modalities are still undecided. In December 2009, France's Constitutional Court overturned a carbon tax proposed by the French government. A new draft of the carbon tax will be presented in 2010.

Italy
A so-called anti-crisis ordinance was passed in January 2009 whose purpose is to dramatically reduce wholesale electricity prices, although it is highly questionable whether this purpose will actually be achieved. On the contrary, the ordinance is rapidly and fundamentally altering Italy's wholesale electricity market, which could lead to risks in the power marketing segment. The ordinance also grants the Economics Ministry and regulators far-reaching authority to intervene in the marketplace and expands disclosure requirements.

Spain
In October 2009, the Spanish government proposed a royal decree that would force the country's coal-fired power stations to procure and use coal from the national coal stockpile and from Spanish mines. The decree's purpose is to protect Spain's coal-mining industry and to promote supply security. Under the decree, operators of coal-fired power stations will be reimbursed for their actual costs at production levels set by Spain's energy regulatory agency. Meanwhile, other thermal power stations that are currently more competitive (such as CCGTs and stations that burn imported coal) will have to curtail or stop production. In February 2010, Spain's Council of Ministers approved the final draft of the decree, which will soon be published and take effect. Overall, we do not expect the decree to have any negative consequences for E.ON España.

Russia
The Russian electricity market is undergoing substantial change in a variety of ways. It is divided into two markets: one for electricity and one for capacity. The purpose of the electricity market is to enable generators to recover their variable costs (essentially, fuel costs); that of the capacity market is to enable the recovery of fixed costs.

Despite the financial crisis, the liberalization process moved forward in line with the government's stated commitment. As of July 2009, 50 percent of the wholesale electricity market was open to competition; this should increase to 80 percent by the end of 2010.

The rules for the capacity market have not yet been finalized. The current plan calls for a transitional period during which there will be different rules for existing and new assets. Starting in 2010, existing assets will compete in a liberalized capacity market. New assets built pursuant to a contractual investment obligation would receive guaranteed capacity prices for a period of up to ten years. After ten years, the two markets will be combined into a uniform capacity market for new and existing assets. The final design of the rules could have a material influence on the profitability of our current and future Russian generation fleet. Moreover, the recession-driven decline in Russian energy demand has flattened the upward trend in power prices. This means that the relative significance of capacity charges in the overall market will tend to increase.

Macroeconomic Environment

Following the worst recession of the post-war period, the global economy entered a phase of tentative recovery beginning in the second half of 2009. In 2009, the real economy felt the full effects of the financial crisis. According to an estimate by the German Council of Economic Experts ("GCEE"), global production declined by 1.1 percent in 2009. However, the overall decline masks a variety of trends in different regions, ranging from production growth in Asia and a slight stabilization in the United States to a sharp decline in production in the EU. Expansionary monetary policies by central banks, major government stimulus programs, and lower oil prices relative to the prior year all helped slow the worldwide downward trend.

The economies of industrialized countries stabilized by the end of 2009. The recession slowed tangibly in the United States thanks to government stimulus programs and an improved external accounts balance due to lower imports, with private consumption offering the greatest support in the third quarter. The picture was similar in EU member states: by mid-2009, the downward trend was slowed by expansionary monetary policies and government spending. However, investment activity and private consumption remained at low levels. Declining inflation was one reason for stable consumption demand. According to the GCEE, the decline in global demand led to the largest-ever drop in Germany's exports and equipment investments. But by mid-year, an economic collapse was staved off by a combination of government spending, Europe's expansionary monetary policy, and government programs to stabilize the labor market.

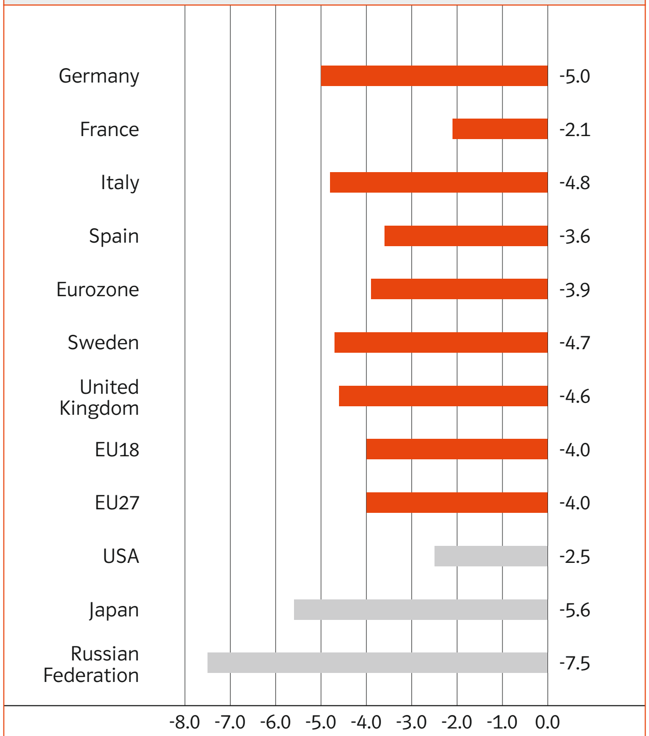
In the first half of the year, this general trend was exacerbated in the United Kingdom by the destabilization of the financial sector. The perceived loss of wealth curbed private consumption demand. Countries in Northern and Southern Europe followed the general EU trend.

Due to their substantial dependence on exports to the rest of the EU, Eastern European countries followed Western Europe's downward path. In some countries, the situation was worsened by massive capital flight, so that some countries had to accept assistance from the International Monetary Fund.

The Russian economy, which is particularly dependent on revenues from crude oil and natural gas exports, experienced a comparatively strong contraction. The collapse of fuel revenues along with capital flight spelled the end of Russia's debt-financed investment boom.

2009 GDP Growth in Real Terms

Annual change in percent



Sources: German Council of Economic Experts (November 2009), German Federal Statistical Office.

Energy Industry

Consumption of primary energy in Germany in 2009 was down sharply, falling to its lowest level since the early 1970s. According to preliminary estimates, it declined by 6.5 percent, from 484.5 million metric tons of coal equivalent ("MTCE") in 2008 to 453.1 MTCE in 2009. The recession was particularly hard on energy-intensive industries (Germany's energy consumption sank more than its GDP).

Germany's petroleum consumption fell by 5.8 percent to its lowest level since German reunification. Nevertheless, petroleum remained by far the country's most important energy source. Natural gas consumption sank by 5.5 percent due to a reduction in demand from industrial customers and gas-fired power stations. The recession hit hard coal the hardest. Consumption fell by an aggregate 18.1 percent, with power stations using almost 13 percent less hard coal than in 2008. Although lignite's share of consumption rose slightly, lignite consumption fell by 2.8 percent in absolute terms due to a reduction in demand from power stations. Nuclear power production was also lower (-9.6 percent), as was hydroelectric (excluding pumped storage) and wind-power production. Overall, however, renewables' share of primary energy consumption rose by 4 percent from 2008, with biomass and photovoltaic recording the biggest gains.

2009 Primary Energy Consumption in Germany by Energy Source

Percentages	2009	2008
Petroleum	34.6	34.3
Natural gas	21.7	21.6
Hard coal	11.1	12.7
Lignite	11.4	10.9
Nuclear	11.1	11.4
Renewables	9.1	8.2
Other (including net power imports/exports)	1.0	0.9
Total	**100.0**	**100.0**

Source: AG Energiebilanzen (preliminary figures from December 21, 2009).

Electricity consumption in England, Scotland, and Wales was 315 billion kWh in 2009 compared with 332 billion kWh in 2008. Gas consumption (excluding power stations) was 597 billion kWh compared with 645 billion kWh in 2008. The main reasons for the decline were the impact of the recession and energy-efficiency measures.

The Nordic region consumed 375 billion kWh of electricity in 2009, about 16 billion kWh less than in 2008. Consumption continued to decline due to lower industrial production caused by the economic slowdown. Net electricity imports to the Nordic region from surrounding countries were 8.6 billion kWh compared with net electricity exports from the Nordic region of 1.4 billion kWh in 2008.

Electricity and gas consumption in the Midwestern United States decreased approximately 6 percent and 5 percent, respectively, in 2009, due primarily to declines in industrial volumes caused by economic conditions and milder weather.

Due to the economic crisis, Russia consumed about 5 percent less electricity in 2009 than in 2008. The decline was less severe than the forecast (-7 percent). The reasons were the start of economic recovery and unusually low temperatures across Russia in the last three months of the year.

Italy's power consumption fell by 6.7 percent (6.5 percent if adjusted for differences in temperature and the number of working days), from 339.5 billion kWh in 2008 to 316.9 billion kWh in 2009. Italy's gas consumption fell by 8.1 percent, from 894.4 billion kWh in 2008 to 821.9 billion kWh in 2009. The main drivers were lower gas-fired power generation and lower industrial consumption.

Peninsular electricity consumption in Spain was 252 billion kWh, 4.5 percent lower than in the prior year (4.3 percent lower if adjusted for differences in temperature and the number of working days). Retail gas consumption declined by 7.9 percent to 241 billion kWh.

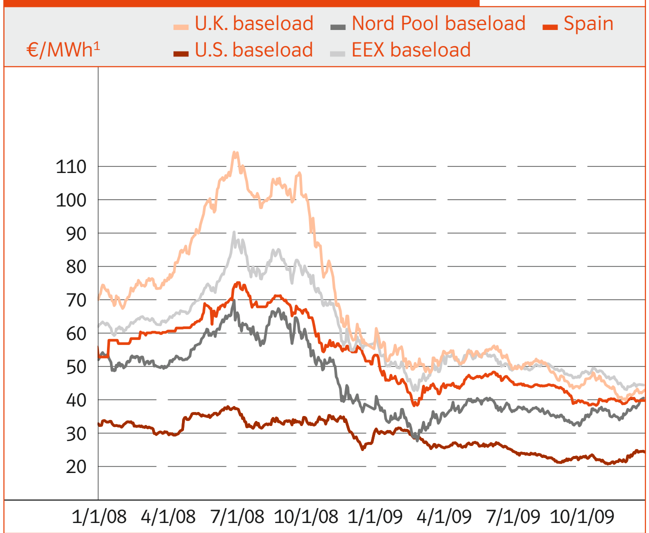
Energy Prices

Four main factors drove electricity and natural gas markets in Europe and Russia in 2009:

- international commodity prices (especially oil, coal, and carbon allowance prices)
- macroeconomic developments
- weather conditions
- in Scandinavia and Russia, the availability of hydroelectricity.

Prices in Europe for electricity products and related commodities did not always move in parallel in 2009. After reaching lows in the first quarter, prices for electricity, oil, coal, and carbon allowances recovered through mid-year. Gas markets were well supplied, and with demand reduced by the recession, prices fell steadily throughout the year. Gas prices at Europe's virtual trading points ceased to track the prices of gas-import contracts, which are indexed to oil prices. Backed by optimism about the global economic outlook and robust demand from China, the price of oil increased substantially over the year to finish at around $78 a barrel. In the second half of the year, electricity prices gave back some of their gains due to lower consumption across Europe resulting from production cuts, primarily in energy-intensive industries. At the start of 2009, prices for baseload electricity for 2010 delivery differed significantly by region, with German electricity trading at around €57 per MWh and Scandinavian electricity at around €37. Prices converged by the end of the year. The German price fell to around €45, and the Scandinavian price rose to around €40. U.K. (€43) and Spanish (€40) prices also closed the year within this range.

Wholesale Electricity Price Movements in E.ON's Core Markets



[1]For next-year delivery.

Hydroelectricity accounts for a large share of Scandinavia's generation mix. As a result, Scandinavian electricity prices are influenced not only by typical factors (like fuel and carbon costs and the economic situation) but also to a significant degree by hydrological balances. Through the middle of the year, hydrological balances reached very low levels before recovering in the autumn and decreasing again towards the end of the year. Low hydrological balances and cold weather generally supported spot electricity prices and prices for 2010 delivery.

Wholesale electricity markets in Italy and Spain are not yet as liquid as those in Northwestern Europe. Electricity prices in Spain moved in a pattern similar to prices in Northwestern Europe. Prices for 2010 delivery fell to near €40 per MWh at the end of September (due to news of new legislation designed to support Spain's coal industry) and remained at this level until the end of the year. In Italy, only the spot market for next-day delivery is sufficiently liquid to have information value. Italian power prices declined, driven largely by the movement of natural gas and oil prices and by the overall economic situation. The effect of the recession-driven decline in consumption was temporarily and partially offset by power plant outages and transmission bottlenecks between the zones of Italy's market-splitting system. The monthly average price for baseload electricity for next-day delivery was around €83 per MWh in January, €67 in late September, and around €57 at year-end 2009.

Prices for carbon allowances under the EU-wide Emissions Trading Scheme were driven largely by commodity prices and the recession. Carbon prices fell through mid-February to a historic low of about €9 per metric ton. Prices recovered through the middle of the year before decreasing again in December to around €13, mainly due to ambiguity following the Copenhagen climate summit and to the prospect of additional certificates being released through auctions in the U.K. and Germany. The German auction will, for the first time, be conducted on the European Energy Exchange in Leipzig.

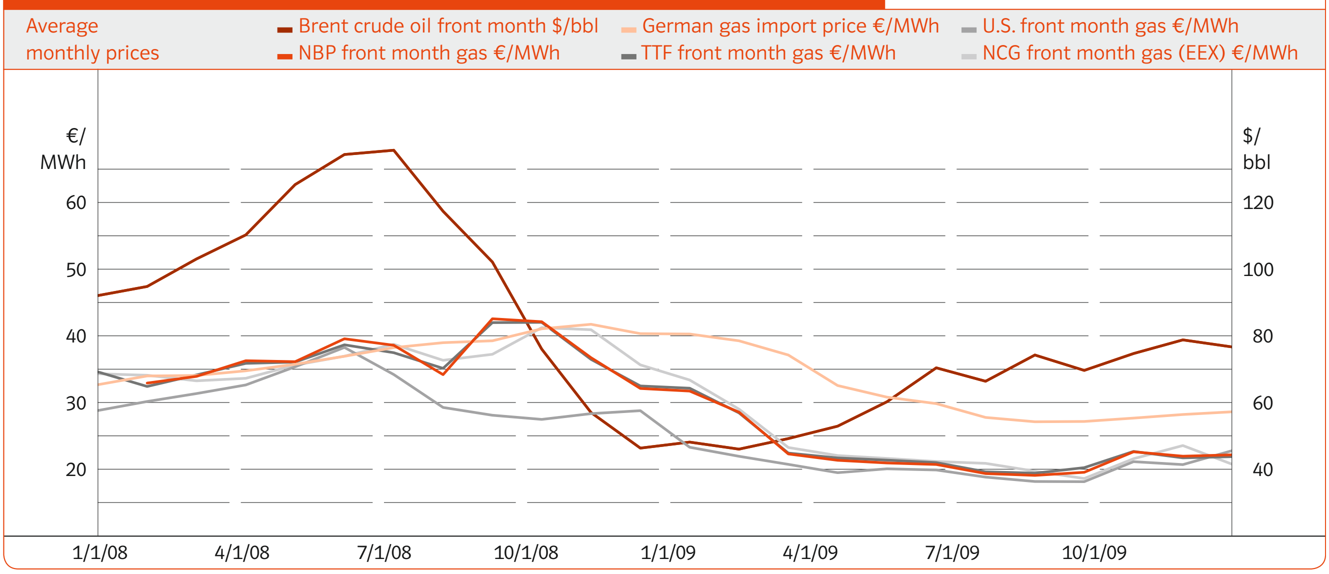
U.S. natural gas and wholesale electricity markets both experienced the weakest pricing environment in several years. A recession-driven drop in gas demand was compounded by increased supply from domestic unconventional gas resources (particularly shale gas). Electricity demand was down by 3.4 percent year on year. As a result of increased utilization of combined-cycle gas-fired power plants, electricity prices tracked natural gas prices. December saw some increase in prices due to the onset of harsh winter weather.

Russian electricity prices were influenced by the global economic crisis and commodity prices. The incremental liberalization of the electricity market took a further step in July 2009 in both price zones (Europe and Siberia). Liberalization should be completed by 2011. Following a catastrophic accident at Sayano-Shushenskaya hydroelectric station in August, the electricity price in Siberia briefly jumped to 537 rubles (around €12.50) per MWh. By the end of September, electricity prices in Siberia had returned to the level of the first half of the year due to network-management measures, extra production from other hydroelectric plants, and lower consumption.

Electricity prices across Russia peaked at the end of the year, as very low temperatures led to high consumption and prices in December. This peak caused the administrator of the trading system to introduce a price cap in the Europe zone. For the year as a whole, the weighted-average price of electricity on the liberalized spot market was 630 rubles (around €14.70) per MWh in the Europe price zone and 410 rubles (around €9.50) in the Siberian price zone.

Carbon Allowance Price Movements in Europe

Crude Oil and Natural Gas Price Movements in E.ON's Core Markets



Attributable Generating Capacity

The E.ON Group's attributable generating capacity changed only slightly, declining by 2 percent, from 74,467 MW at year-end 2008 to 73,266 MW at year-end 2009.

The Central Europe market unit's attributable generating capacity declined by 1 percent to 28,407 MW (prior year: 28,749 MW).

U.K.'s attributable generating capacity was 10,330 MW, the same as at year-end 2008.

Nordic had 6,842 MW of attributable generating capacity (prior-year: 7,229 MW). The main reasons for the change were the transfer of capacity to Statkraft, upgrades at nuclear assets, and a new CHP plant in Malmö.

U.S. Midwest's attributable generating capacity at year-end 2009 remained unchanged at 7,507 MW.

The attributable generating capacity reported in the New Markets segment totaled 20,180 MW (prior year: 20,652 MW), with the following breakdown: Climate & Renewables 2,957 MW (1,979 MW), Russia unchanged at 8,264 MW, Italy 5,606 MW (7,056 MW), and Spain unchanged at 3,353 MW.

Climate & Renewables' attributable generating capacity increased by 978 MW, or just under 50 percent, predominantly through the addition of new capacity in the United States.

Italy's attributable generating capacity declined by 1,450 MW due to the transfer of power stations to A2A.

Attributable Generating Capacity[1]

December 31, 2009, MW	Central Europe	U.K.	Nordic	U.S. Midwest	New Markets	E.ON Group
Nuclear	8,555	–	–	–	–	8,555
Lignite	852	–	–	–	–	852
Hard coal	6,272	–	–	–	–	6,272
Natural gas	3,257	–	–	–	–	3,257
Oil	1,095	–	–	–	–	1,095
Hydro	2,373	–	–	–	–	2,373
Wind	9	–	–	–	198	207
Other	318	–	–	–	10	328
Germany	**22,731**	**–**	**–**	**–**	**208**	**22,939**
Nuclear	–	–	2,770	–	–	2,770
Lignite	69	–	–	–	1,412	1,481
Hard coal	3,963	4,910	–	5,267	1,965	16,105
Natural gas	1,595	3,506	580	2,164	12,313	20,158
Oil	–	1,300	1,487	–	296	3,083
Hydro	47	–	1,768	76	1,262	3,153
Wind	2	–	–	–	2,669	2,671
Other	–	614	237	–	55	906
Outside Germany	**5,676**	**10,330**	**6,842**	**7,507**	**19,972**	**50,327**
E.ON Group	**28,407**	**10,330**	**6,842**	**7,507**	**20,180**	**73,266**

[1]In 2009, we deployed a new IT system across our company for gathering energy-related data and also modified our classification methods. We adjusted the prior-year figures accordingly.

Power Procurement

The E.ON Group's owned generation fell by 5 percent, from 317.6 billion kWh in 2008 to 300.9 billion kWh in 2009. By contrast, power procured increased by 77 percent to 539.7 billion kWh. Renewables accounted for more than 8 percent of our owned generation.

Reflecting the overall situation in the industry, the decline in Central Europe's owned generation is attributable to lower demand resulting from the economic crisis. It is also attributable to a decline in generating capacity in line with the commitment made to the European Commission (see Note 4 to the Consolidated Financial Statements). The increase in power procured resulted primarily from the addition of our French operations, which became consolidated at E.ON Energie effective July 1, 2008.

Power Procured[1]

	Central Europe		U.K.		Nordic		U.S. Midwest		Energy Trading		New Markets		Consolidation		E.ON Group	
Billion kWh	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Owned generation	130.4	138.3	32.8	40.4	19.0	28.3	30.9	35.4	–	–	87.8	75.2	–	–	300.9	317.6
Purchases	260.6	251.4	48.8	52.5	27.3	28.3	3.3	2.9	578.8	347.2	40.3	21.4	-419.4	-399.3	539.7	304.4
Jointly owned power plants	*5.4*	*4.5*	*1.6*	*1.4*	*8.0*	*9.5*	–	–	–	–	*0.5*	–	–	–	*15.5*	*15.4*
Energy Trading/ outside sources	*255.2*	*246.9*	*47.2*	*51.1*	*19.3*	*18.8*	*3.3*	*2.9*	*578.8*	*347.2*	*39.8*	*21.4*	*-419.4*	*-399.3*	*524.2*	*289.0*
Total	**391.0**	**389.7**	**81.6**	**92.9**	**46.3**	**56.6**	**34.2**	**38.3**	**578.8**	**347.2**	**128.1**	**96.6**	**-419.4**	**-399.3**	**840.6**	**622.0**
Station use, line loss, etc.	-13.0	-13.5	-3.6	-3.8	-1.8	-1.9	-1.8	-1.9	–	–	-4.5	-3.5	–	–	-24.7	-24.6
Power sales	**378.0**	**376.2**	**78.0**	**89.1**	**44.5**	**54.7**	**32.4**	**36.4**	**578.8**	**347.2**	**123.6**	**93.1**	**-419.4**	**-399.3**	**815.9**	**597.4**

[1]In 2009, we deployed a new IT system across our company for gathering energy-related data and also modified our classification methods. We adjusted the prior-year figures for U.K. (92.8 billion kWh) and Consolidation (-385.8 billion kWh) accordingly.

U.K. generated 32.8 billion kWh of electricity at its own power plants in 2009, about 19 percent less than in 2008 (40.4 billion kWh). The reduction is mainly attributable to lower wholesale power prices and lower demand which made some generation assets less economic to operate.

Nordic's owned generation decreased by 9.3 billion kWh relative to the prior year. Nuclear power production was significantly below the prior-year level, mainly due to planned maintenance and modernization projects aimed at extending lifetime and increasing capacity at Oskarshamn 3 and Ringhals 1 and longer outages for overhauls. The decline in hydropower production is primarily a result of the agreement between E.ON and Statkraft under which E.ON Sverige sold one third of its hydropower capacity to Statkraft. On a like-for-like basis, hydro production was slightly higher than in 2008.

U.S. Midwest's owned generation was lower due to lower demand from industrial and commercial ("I&C") customers and milder weather.

Owned Generation by Energy Source[1]

	Central Europe		U.K.		Nordic		U.S. Midwest		New Markets		E.ON Group	
Billion kWh	2009	%	2009	%	2009	%	2009	%	2009	%	2009	%
Nuclear	63.3	48	–	–	8.5	45	–	–	–	–	71.8	24
Lignite	6.7	5	–	–	–	–	–	–	9.4	11	16.1	5
Hard coal	40.2	31	12.7	39	–	–	30.3	98	9.2	10	92.4	31
Natural gas/oil	8.7	7	20.1	61	1.6	8	0.3	1	60.7	69	91.4	30
Hydro	6.9	5	–	–	8.1	43	0.3	1	3.2	4	18.5	6
Wind	–	–	–	–	–	–	–	–	5.0	6	5.0	2
Other	4.6	4	–	–	0.8	4	–	–	0.3	–	5.7	2
Total	**130.4**	**100**	**32.8**	**100**	**19.0**	**100**	**30.9**	**100**	**87.8**	**100**	**300.9**	**100**

[1]In 2009, we deployed a new IT system across our company for gathering energy-related data and also modified our classification methods. We adjusted the prior-year figures accordingly.

The breakdown of New Markets' owned generation of 87.8 billion kWh (prior year: 75.2 billion kWh) is:

- Climate & Renewables 5.2 billion kWh (3.2 billion kWh)
- Russia 53.9 billion kWh (56.7 billion kWh)
- Italy 16.5 billion kWh (11.4 billion kWh)
- Spain 12.2 billion kWh (3.9 billion kWh).

Wind farms accounted for 96 percent of Climate & Renewables' owned generation, with biomass and micro-hydro facilities accounting for the remainder. Its owned generation was 63 percent higher than in the prior year.

The Russia market unit met about 91 percent of its total needs of 59.2 billion kWh with electricity from its own power plants. When it made business sense, Russia met its delivery obligations by purchasing electricity instead of producing it.

The Italy market unit met 16.5 billion kWh, or 37 percent, of its total needs of 45.1 billion kWh with electricity from its own power plants. The prior-year figure only includes E.ON Produzione for six months, since the company was added at the end of June 2008 as part of the acquisition of Endesa Europa. Italy procured 11.3 billion kWh of power on the ancillary market and, to optimize margins, on the Italian Power Exchange. It purchased 17.3 billion kWh from E.ON Energy Trading S.p.A., mainly for sales activities.

The Spain market unit generated 70 percent of its total needs of 17.4 billion kWh with electricity from its own power plants. The significant increase (8.3 billion kWh) is principally attributable to the inclusion of all 12 months in 2009. Only six months were included in the prior year. Spain took advantage of spot purchases of natural gas to increase its CCGT production in 2009. Moreover, Los Barrios was idle part of the prior year due to the installation of emission-abatement equipment.

Gas Procurement

E.ON Ruhrgas purchased about 624.1 billion kWh of natural gas from German and foreign producers in 2009, about 8 percent less than in 2008. The biggest suppliers were Norway (which accounted for 27 percent), Russia (26 percent), Germany (22 percent), and the Netherlands (15 percent). As a rule, E.ON Ruhrgas's supply contracts contain minimum take obligations. To some extent, E.ON Ruhrgas fell slightly below these minimums in 2009.

Pan-European Gas's gas production in the North Sea rose by about 4 percent to 1,420 million cubic meters. The increase is primarily attributable to the start of production at Rita gas field. Liquid and condensates production of 5.5 million barrels was slightly below the prior-year figure due to natural production declines at older fields.

Upstream Production

	2009	2008	+/- %
Liquids/oil (million barrels)	5.5	5.9	-7
Gas (million standard cubic meters)	1,420	1,360	+4
Total (million barrels of oil equivalent)	**14.4**	**14.4**	-

Trading Volume

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

Trading Volume

	2009	2008
Power (billion kWh)	1,240.3	878.5
Gas (billion kWh)	1,497.8	937.8
Carbon allowances (million metric tons)	500.9	103.1
Oil (million metric tons)	69.1	46.0
Coal (million metric tons)	223.2	107.2

Power Sales

On a consolidated basis, the E.ON Group increased its power sales by 37 percent, from 597.4 billion kWh in 2008 to 815.9 billion kWh in 2009. The reasons were a significantly higher trading volume but also higher power sales in our New Markets segment. Absent the significantly higher trading volume, power sales were roughly at the prior-year level.

Adjusted for the effect of including new operations in France (which added about 7 billion kWh), Central Europe's power sales declined due to a recession-driven decline in demand.

U.K. sold less electricity to residential and small and medium sized ("SME") customers mainly because of changes in customer behavior, energy-efficiency measures, and the impact of the recession. The overall weather effect in both years is similar. Electricity sales to I&C customers decreased significantly as a result of the continuing economic slowdown, although this was partially offset by customer gains in the autumn.

Nordic sold 10.2 billion kWh less electricity than in the prior year mainly due to lower production resulting primarily from outages at nuclear power stations and the sale of hydro capacity to Statkraft.

U.S. Midwest's utility power sales volumes for 2009 were lower than in the prior year due to milder weather and to lower I&C sales attributable to the economic downturn. The decline in wholesale volumes was due to lower wholesale prices and the economic downturn.

Power Sales[1]

	Central Europe		U.K.		Nordic		U.S. Midwest		Energy Trading		New Markets		Consolidation		E.ON Group	
Billion kWh	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Residential and SME	46.3	46.8	27.3	29.8	7.1	6.6	13.5	14.4	–	–	6.9	1.1	–	–	101.1	98.7
I&C	75.3	82.0	16.4	17.6	10.8	10.6	13.4	13.9	–	–	10.1	6.7	–	–	126.0	130.8
Sales partners	105.9	101.7	–	–	4.2	7.2	4.7	5.0	–	–	3.5	6.5	–	–	118.3	120.4
Wholesale market/ Energy Trading	150.5	145.7	34.3	41.7	22.4	30.3	0.8	3.1	578.8	347.2	103.1	78.8	-419.4	-399.3	470.5	247.5
Total	**378.0**	**376.2**	**78.0**	**89.1**	**44.5**	**54.7**	**32.4**	**36.4**	**578.8**	**347.2**	**123.6**	**93.1**	**-419.4**	**-399.3**	**815.9**	**597.4**

[1]In 2009, we deployed a new IT system across our company for gathering energy-related data and also modified our classification methods. We adjusted the prior-year figures for U.K. (92.8 billion kWh) and Consolidation (-385.8 billion kWh) accordingly.

The breakdown of New Markets' power sales of 123.6 billion kWh (prior year: 93.1 billion kWh) is:

- Climate & Renewables 6.4 billion kWh (4.7 billion kWh)
- Russia 57.3 billion kWh (58.3 billion kWh)
- Italy 44.2 billion kWh (24.7 billion kWh)
- Spain 15.7 billion kWh (5.4 billion kWh).

Climate & Renewables sold its power exclusively in non-regulated markets. Its power sales rose by 36 percent, mainly due to an increase in owned generation.

The Russia market unit sold 57.3 billion kWh of electricity on the wholesale market in 2009. Despite the overall decline in Russian consumption, our Russian business almost equaled its prior-year volume, benefiting in particular from the high load factor of Surgut power station in Siberia.

The Italy market unit sold 44.2 billion kWh of electricity: 4.3 billion kWh to residential and SME customers, 6.6 billion kWh to I&C customers, 3.3 billion kWh to sales partners, 8.3 billion kWh to the wholesale market, and 21.7 billion kWh to E.ON Energy Trading S.p.A. The main reasons for the increase in power sales volume were the transfer of certain activities from E.ON Energy Trading S.p.A. to the Italy market unit and a larger customer base.

The Spain market unit increased its power sales from 5.4 billion kWh in 2008 to 15.7 billion kWh in 2009. E.ON España became a consolidated E.ON company in late June 2008. The inclusion of all the 12 months in 2009 was therefore responsible for most (6.6 billion kWh) of the increase in power sales. Higher production was another positive factor and led to 3.7 billion kWh of additional sales, mainly to the wholesale market.

Gas Sales

On a consolidated basis, the E.ON Group's natural gas sales in 2009 increased by 9.1 billion kWh relative to the prior-year figure, mainly due to a significantly higher trading volume.

Gas Sales[1]

Billion kWh	2009	2008	+/- %
First quarter	191.7	227.4	-16
Second quarter	107.3	152.3	-30
Third quarter	128.8	122.9	+5
Fourth quarter	181.3	184.4	-2
E.ON Ruhrgas AG sales	**609.1**	**687.0**	**-11**
Other shareholdings	147.2	201.6	-27
Intragroup sales	-234.0	-233.9	–
Pan-European Gas	**522.3**	**654.7**	**-20**
Other market units	695.4	553.9	+26
E.ON Group	**1,217.7**	**1,208.6**	**+1**

[1]In 2009, we deployed a new IT system across our company for gathering energy-related data and also modified our classification methods. We adjusted the prior-year figures accordingly.

The increase in Central Europe's gas sales volume is mainly attributable to the inclusion, effective January 1, 2009, of companies in Romania that were formerly consolidated at Pan-European Gas and to the inclusion of operations in France.

E.ON Ruhrgas sold about 609 billion kWh of natural gas in 2009, 78 billion kWh, or about 11 percent, less than the prior-year figure of 687 billion kWh. More than one third of the volume decline resulted from the transfer of supply contracts within the Group and from the curtailment of short-term trading due to unfavorable conditions. Another negative factor was a recession-driven decline in production at industrial facilities in and outside Germany which E.ON Ruhrgas supplies directly or indirectly through regional gas companies and municipal utilities. Significantly keener competition was also responsible for part of the decline in sales volume. Sales in the fourth quarter of 2009 were about 3 billion kWh, or 2 percent, lower than in the prior-year quarter; the competition-driven decline in sales to regional gas companies and municipal utilities was partially offset by higher sales to industrial customers and customers outside Germany. For the year as a whole, about 61 percent of total gas sales went to regional gas companies and municipal utilities, 15 percent to directly supplied industrial customers, and 24 percent to customers outside Germany. The transfer of operations in Romania to the Central Europe market unit was the main reason why Pan-European Gas's majority-owned shareholdings recorded lower gas sales volume than in the prior year.

U.K. sold less gas to residential and SME customers mainly due to changes in customer behavior, energy-efficiency savings, and the recession. The overall weather effect in both years is similar. Gas sales to I&C customers decreased significantly as a result of the continuing economic slowdown. Following the transfer of gas contracts to Energy Trading during 2008, gas sales to Energy Trading in 2009 are zero.

Nordic's gas sales were 10 percent below the prior-year figure. The main factors were the economic downturn and keener competition. Heat sales of 7.9 billion kWh were up 4 percent from the prior-year figure of 7.6 billion kWh, mainly due to colder weather.

U.S. Midwest's gas sales decreased as a result of the economic downturn and milder weather.

In the New Markets segment, Italy sold a total of 25.7 billion kWh of natural gas (prior year: 32.6 billion kWh): 10.3 billion kWh to residential customers and SME, 7.4 billion kWh to I&C customers, 2.4 billion kWh to sales partners, 4.3 billion kWh to the wholesale market, and 1.3 billion kWh to E.ON Energy Trading S.p.A. Gas sales volume declined due to the transfer of certain activities from E.ON Energy Trading S.p.A. to the Energy Trading market unit.

Gas Sales (Excluding Pan-European Gas)[1]

	Central Europe		U.K.		Nordic		U.S. Midwest		Energy Trading		New Markets		Consolidation		E.ON Group	
Billion kWh	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Residential and SME	58.1	45.7	52.8	54.7	0.2	0.2	5.9	6.4	–	–	10.3	7.6	–	–	127.3	114.6
I&C	60.1	56.8	18.5	21.4	4.0	4.9	3.4	3.8	–	–	7.4	16.3	–	–	93.4	103.2
Sales partners	22.9	23.8	–	–	–	–	3.2	3.4	–	–	2.4	4.5	–	–	28.5	31.7
Wholesale market/ Energy Trading	5.0	3.9	–	34.6	0.4	–	0.1	0.3	753.8	493.6	5.6	4.2	-318.7	-232.2	446.2	304.4
Total	**146.1**	**130.2**	**71.3**	**110.7**	**4.6**	**5.1**	**12.6**	**13.9**	**753.8**	**493.6**	**25.7**	**32.6**	**-318.7**	**-232.2**	**695.4**	**553.9**

[1]In 2009, we deployed a new IT system across our company for gathering energy-related data and also modified our classification methods. We adjusted the prior-year figure for U.K. (112.4 billion kWh) accordingly.

Business Development

The financial and economic crisis also left its mark on E.ON. It led to lower demand for power and gas, and we saw the need to streamline our substantial investment program. In addition, currency-translation effects at our U.K., Nordic, and Russia market units had an adverse impact on our earnings situation in our reporting currency (euros). Finally, our policy and regulatory environment presented us with significant challenges. Among them was the sale of our ultrahigh-voltage transmission system and about 5,000 MW of generating capacity in Germany to fulfill our commitment to the European Commission.

Despite the sometimes difficult conditions in the marketplace, we had another successful financial year. As anticipated, our adjusted EBIT of €9.6 billion was at the high prior-year level, while our adjusted net income of €5.3 billion was lower in line with our forecast.

We executed the following significant transactions in 2009.

Acquisitions, Disposals, and Discontinued Operations in 2009

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

Acquisitions

Yuzhno-Russkoye

In October 2008, E.ON and Gazprom reached an understanding on E.ON acquiring an interest in Yuzhno-Russkoye gas field in Siberia. The interest in the gas field was purchased by acquiring 25 percent (minus three shares) of the company that holds the development license.

Belgian Power Plant Unit

In the course of implementing E.ON's commitment to the European Commission to dispose of certain generating capacity in Germany, E.ON acquired all of the shares of a power plant unit in Belgium from Belgium-based Electrabel.

Discontinued Operations

WKE

Through Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, U.S., E.ON U.S. had a 25-year lease on and operated the generating facilities of 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 to terminate the lease and the operating agreements. The agreement closed in July 2009.

Disposal Groups and Assets Held for Sale

Endesa Europa/Viesgo

As part of the acquisition of the Endesa Europa/Viesgo activities, an agreement was reached with A2A, the minority shareholder of E.ON Produzione, to acquire the minority interest primarily in return for company-owned generating capacity of the Italy market unit. The disposal group was reported in the New Markets segment. The agreement closed in July 2009.

Commitment to the European Commission

In December 2008, E.ON's commitment to the European Commission to sell a variety of generating capacity and its ultrahigh-voltage network in Germany took effect. The resulting transactions yielded a disposal gain of €2.4 billion. Individual transactions are shown in the table below.

Commitment to the European Commission

Transaction	Acquirer	Closing date
Various power stations and stakes in power stations	Statkraft	December 31, 2008
Stakes in Lippendorf/Bexbach power stations	EnBW	May 29, 2009
Inn power stations	Verbund	August 31, 2009
Various power stations	GdF Suez/Electrabel	November 4, 2009
Stakes in power stations	EdF/EnBW	December 30, 2009
Stake in Mehrum power station	SW Hannover	January 1, 2010
transpower	TenneT	February 2010

E.ON acquired the remaining outstanding shares of France-based SNET, equal to 35 percent of the company's equity, in transactions with EnBW and EdF. E.ON is now the sole owner of SNET.

Interest in OAO Gazprom

As consideration for an interest in Yuzhno-Russkoye gas field in Siberia, Gazprom received the Gazprom shares indirectly held by E.ON. The relevant contracts were closed in October 2009. This transaction resulted in a book gain of €1.8 billion. E.ON now holds 3.5 percent of Gazprom's equity.

Thüga

In 2009, E.ON conducted negotiations on a sale of the Thüga Group, which is held in the Pan-European Gas market unit, to a consortium of municipal acquirers (Integra/Kom9). The transaction was completed in December 2009 and resulted in a gain on disposal of approximately €0.3 billion.

Sales

Our sales declined by about €5 billion. The key drivers were:
- lower prices in the gas wholesale business and lower sales volume at Pan-European Gas
- currency-translation effects at U.K. and Nordic
- lower nuclear and hydro production at Nordic.

Sales

€ in millions	2009	2008	+/- %
Central Europe	41,419	41,135	+1
Pan-European Gas	20,640	27,422	-25
U.K.	10,097	11,051	-9
Nordic	3,348	3,877	-14
U.S. Midwest	1,843	1,880	-2
Energy Trading	41,251	31,760	+30
New Markets	7,749	5,862	+32
Corporate Center	-44,530	-36,234	–
Total	**81,817**	**86,753**	**-6**

Central Europe

Central Europe grew sales by €0.3 billion.

Sales

€ in millions	2009	2008	+/- %
Central Europe West	39,715	38,640	+3
Regulated	*12,288*	*12,103*	*+2*
Non-regulated	*27,427*	*26,537*	*+3*
Central Europe East	5,323	4,999	+6
Other/Consolidation	-3,619	-2,504	–
Central Europe	**41,419**	**41,135**	**+1**

Central Europe West Regulated's sales of €12.3 billion were up by €0.2 billion, mainly due to higher network charges.

Central Europe West Non-regulated increased sales by €0.9 billion. The inclusion of operations in France added €1.7 billion. These operations were consolidated on July 1, 2008; their sales were recorded under Other/Consolidation in 2008. Sales were adversely affected by lower sales volumes resulting in part from the recession and the disposal of generating capacity. This was only partially offset by positive price effects in Central Europe's sales markets.

Central Europe East's sales rose by about €0.3 billion to €5.3 billion, primarily due to the inclusion of gas operations in Romania formerly consolidated at Pan-European Gas.

Sales reported under Other/Consolidation declined by €1.1 billion, mainly due to a change in the segmentation of our operations in France, whose second-half sales were recorded in this reporting segment in 2008.

Pan-European Gas

Sales at Pan-European Gas fell by 25 percent to €20.6 billion (prior year: €27.4 billion).

Sales

€ in millions	2009	2008	+/- %
Regulated	4,647	6,724	-31
Non-regulated	17,659	22,546	-22
Other/Consolidation	-1,666	-1,848	-10
Pan-European Gas	**20,640**	**27,422**	**-25**

Sales at the regulated business fell by €2,077 million, or 31 percent. Sales at E.ON Földgáz Trade declined due to lower sales volume and adverse currency-translation and price effects. Another factor is that the sales of the E.ON Gaz România Group are reported at the Central Europe market unit effective the beginning of 2009. Sales at the gas transport business were also lower following a reduction in transport charges.

Sales at the non-regulated business were down by €4,887 million, or 22 percent. The gas wholesale business recorded lower sales due to lower prices and sales volume. Upstream sales were at the prior-year level; a price- and volume-driven decline in sales in the United Kingdom and Norway was offset by the addition of Yuzhno-Russkoye gas field.

U.K.

In reporting currency, U.K.'s sales were impacted significantly by sterling's depreciation against the euro and decreased by €954 million. However, sales in local currency increased by 2 percent.

Sales			
€ in millions	2009	2008	+/- %
Regulated	717	785	-9
Non-regulated	9,526	10,567	-10
Other/Consolidation	-146	-301	+51
U.K.	**10,097**	**11,051**	**-9**
£ in millions			
Regulated	639	625	+2
Non-regulated	8,488	8,414	+1
Other/Consolidation	-131	-239	+45
U.K.	**8,996**	**8,800**	**+2**

Sales in the regulated business declined by €68 million to €717 million due to currency movements (-€85 million).

Sales in the non-regulated business fell by €1,041 million to €9,526 million, also due to currency movements (-€1,132 million). Sales in local currency increased marginally as a result of retail price developments.

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

Nordic

Nordic's sales decreased by €529 million, or 14 percent. In local currency, sales were down by 5 percent.

Sales			
€ in millions	2009	2008	+/- %
Regulated	728	732	-1
Non-regulated	2,616	3,366	-22
Other/Consolidation	4	-221	–
Nordic	**3,348**	**3,877**	**-14**
SEK in millions			
Regulated	7,731	7,042	+10
Non-regulated	27,782	32,381	-14
Other/Consolidation	43	-2,126	–
Nordic	**35,556**	**37,297**	**-5**

Sales in the regulated business declined by €4 million to €728 million due entirely to currency-translation effects. In local currency, sales were up by 10 percent, mainly because of improved income recognition and tariff increases.

Sales in the non-regulated business declined by €750 million to €2,616 million due to lower sales volumes in the nuclear and hydro businesses (resulting primarily from planned outages at nuclear power plants and the sale of hydro capacity to Statkraft) and to currency-translation effects.

U.S. Midwest

U.S. Midwest's sales were lower due to the economic downturn and lower wholesale power and gas prices partially offset by a stronger dollar.

Sales			
€ in millions	2009	2008	+/- %
Regulated	1,798	1,831	-2
Non-regulated/Other	45	49	-8
U.S. Midwest	**1,843**	**1,880**	**-2**
$ in millions			
Regulated	2,508	2,693	-7
Non-regulated/Other	62	71	-13
U.S. Midwest	**2,570**	**2,764**	**-7**

Energy Trading

Energy Trading recorded sales of about €41 billion in 2009. Sales from proprietary trading are shown net, along with the associated cost of materials, in the Consolidated Statements of Income. The increase resulted mainly from the expansion of optimization activities due to the centralization of these activities at Energy Trading.

Sales			
€ in millions	2009	2008	+/- %
Proprietary trading	190	242	-21
Optimization	41,061	31,518	+30
Energy Trading	**41,251**	**31,760**	**+30**

New Markets

Sales in this segment rose by 32 percent to €7,749 million.

Sales			
€ in millions	2009	2008	+/- %
Climate & Renewables	466	439	+6
Russia	973	1,044	-7
Million rubles	*42,931*	*38,012*	*+13*
Italy	4,964	3,828	+30
Spain	1,346	551	+144
New Markets	**7,749**	**5,862**	**+32**

Climate & Renewables' sales increased by 6 percent. The main factor was a significant increase in installed capacity, predominantly in the United States; this effect was partially mitigated by negative currency-translation effects and lower U.S. prices.

Increases in electricity and capacity tariffs along with the further liberalization of the electricity market had a positive effect on sales at the Russia market unit. However, the significant weakening of the ruble in the wake of the financial crisis caused Russia's sales to decline by 7 percent in reporting currency.

The sharp increase in Italy's sales resulted mainly from the inclusion of E.ON Produzione's generating capacity for the entire year. E.ON Produzione became a consolidated E.ON company in late June 2008 and consequently was included only in the second half of 2008.

The Spain market unit increased its sales by €795 million. E.ON España became a consolidated E.ON company in late June 2008. The inclusion of all 12 months in 2009 was therefore responsible for most (€570 million) of the increase. Higher power production was also a positive factor.

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 1 percent, or €6 million, to €532 million (prior year: €526 million).

Other operating income increased by 62 percent to €24,961 million (prior year: €15,454 million). Income from exchange-rate differences of €10,849 million (prior year: €8,571 million) and gains on derivative financial instruments of €7,473 million (prior year: €3,543 million) were the main positive factors. Among the derivative financial instruments, significant effects come 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, shareholdings, and fixed assets (primarily through the reduction of our generating capacity in line with our commitment to the European Commission) amounted to €5,309 million (prior year: €1,865 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 declined by €4,332 million to €62,087 million (prior year: €66,419 million), mainly due to lower gas procurement costs.

Personnel costs increased by €227 million to €5,357 million in 2009. The increase results mainly from the addition of operations in our New Markets segment.

Depreciation, amortization, and impairment charges of €3,981 million were below the prior-year figure of €6,852 million. The main reason is that in the prior year we recorded unplanned impairment charges totaling about €3.3 billion on goodwill at U.S. Midwest and on goodwill and other assets at operations acquired from Enel/Acciona and Endesa.

Other operating expenses rose by 11 percent, or €2,266 million, to €22,603 million (prior year: €20,337 million). This is mainly attributable to higher realized losses on currency differences of €11,095 million (prior year: €7,879 million). By contrast, losses on derivative financial instruments of €5,701 million (prior year: €6,552 million) were lower.

Overall, effects from exchange-rate differences and derivative financial instruments recorded in other operating income and expenses offset each other, as shown in the table below.

Net Effects[1]		
€ in millions	2009	2008
Income from exchange-rate differences	10,849	8,571
Expenses from exchange-rate differences	-11,095	-7,879
Income from derivative financial instruments	7,473	3,543
Expenses from derivative financial instruments	-5,701	-6,552
Net results	**1,526**	**-2,317**
Thereof, for informational purposes, commodity derivatives (net)	*1,695*	*-2,342*

[1]For more information, see Note 7 to the Consolidated Financial Statements.

Commodity derivatives constituted the main factor in the line items shown above.

Income from companies accounted for under the equity method was €941 million compared with €912 million in 2008.

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 2009 adjusted EBIT was €232 million below the high prior-year figure. Positive and negative factors largely offset each other. We recorded earnings increases at:

- New Markets and Energy Trading
- Central Europe due to higher earnings at its network business, the inclusion of operations in France, and successful cost-cutting measures.

Earnings were adversely affected by:

- lower gas sales volume, competitive pressure on sales prices, and lower upstream earnings at Pan-European Gas
- currency-translation effects at U.K. and Nordic
- lower generation from nuclear and hydro assets at Nordic.

Adjusted EBIT			
€ in millions	2009	2008	+/- %
Central Europe	4,817	4,720	+2
Pan-European Gas	1,754	2,631	-33
U.K.	649	922	-30
Nordic	535	770	-31
U.S. Midwest	384	395	-3
Energy Trading	949	645	+47
New Markets	862	90	+858
Corporate Center	-304	-295	–
Total	**9,646**	**9,878**	**-2**

Central Europe

Central Europe's adjusted EBIT surpassed the prior-year figure by €97 million.

Central Europe	Adjusted EBITDA		Adjusted EBIT	
€ in millions	2009	2008	2009	2008
Central Europe West	5,799	5,325	4,586	4,213
Regulated	*1,701*	*1,512*	*1,064*	*853*
Non-regulated	*4,098*	*3,813*	*3,522*	*3,360*
Central Europe East	641	663	341	424
Other/Consolidation	39	278	-110	83
Total	**6,479**	**6,266**	**4,817**	**4,720**

Central Europe West Regulated benefited from efficiency enhancements and especially from higher network charges. Its adjusted EBIT surpassed the prior-year figure (€853 million) by €211 million.

Central Europe West Non-regulated's adjusted EBIT increased by €162 million to €3,522 million. Earnings were adversely impacted by the effects of the economic crisis, outages at nuclear power stations, a narrowing of retail electricity margins, and the absence of earnings streams due to the disposal of generating capacity. These effects were more than offset by the inclusion of operations in France, positive price effects in the power generation business, and successful cost-cutting measures, resulting overall in an earnings increase.

Central Europe East's adjusted EBIT of €341 million was down by €83 million. The positive effect of the inclusion of E.ON Gaz România was more than offset by lower earnings in Hungary, the adverse impact of the economic downturn, and negative currency-translation effects.

Adjusted EBIT recorded under Other/Consolidation was down by about €190 million, due mainly to the assignment of operations in France to Central Europe West Non-regulated effective January 1, 2009, and to the economic crisis.

Pan-European Gas

Pan-European Gas's adjusted EBIT declined by €877 million, or 33 percent, to €1.8 billion.

Pan-European Gas	Adjusted EBITDA		Adjusted EBIT	
€ in millions	2009	2008	2009	2008
Regulated	918	866	761	683
Non-regulated	1,085	1,923	751	1,633
Other/Consolidation	272	324	242	315
Total	**2,275**	**3,113**	**1,754**	**2,631**

Adjusted EBIT at the regulated business rose by €78 million, or 11 percent, to €761 million. The main factor was E.ON Ruhrgas International's positive earnings performance which resulted primarily from higher earnings from companies accounted for under the equity method. E.ON Földgáz Trade's earnings were adversely affected by lower sales volume and the resulting failure to meet its minimum take obligations under take-or-pay arrangements; this effect was fully offset by regulatory compensation payments for past losses. The transfer of the E.ON Gaz România Group to the Central Europe market unit effective the beginning of 2009 had an adverse effect on earnings. Earnings at the transport business were down slightly. The adverse effect of a reduction in transport charges was partially offset by higher earnings from companies accounted for under the equity method.

Adjusted EBIT at the non-regulated business fell by 54 percent, or €882 million. The decline is primarily attributable to E.ON Ruhrgas AG's gas wholesale business, whose earnings were adversely affected by competitive pressure on sales prices and by lower sales volume. Earnings from storage usage were also lower. The positive effect of gas withdrawal was lower in 2009 than in 2008. In addition, the dividend on our Gazprom stake was lower than in the prior year. Adjusted EBIT at the upstream business was also lower; a price-driven earnings decline in the United Kingdom and Norway was only partially offset by the addition of Yuzhno-Russkoye gas field.

Adjusted EBIT recorded under Other/Consolidation declined by €73 million. Thüga's adjusted EBIT was at the prior-year level; the decline resulted from consolidation effects relating to intragroup purchases.

U.K.

U.K.'s adjusted EBIT declined by €273 million, or 30 percent.

U.K.	Adjusted EBITDA		Adjusted EBIT	
€ in millions	2009	2008	2009	2008
Regulated	525	583	407	452
Non-regulated	613	894	308	555
Other/Consolidation	-58	-81	-66	-85
Total	**1,080**	**1,396**	**649**	**922**
£ in millions				
Regulated	468	464	363	360
Non-regulated	546	712	275	442
Other/Consolidation	-52	-64	-60	-68
Total	**962**	**1,112**	**578**	**734**

Adjusted EBIT in the regulated business was stable in local currency. Adjusted EBIT in the non-regulated business decreased by €247 million, predominantly due to the transfer of activities (primarily gas contracts) to Energy Trading and to lower market-based transfer prices. All areas of the business delivered underlying operational improvements, including the retail business, which also experienced a recovery in margins.

Nordic

Nordic's adjusted EBIT in reporting currency fell by €235 million, or 31 percent, mainly due to lower power sales volume and negative currency-translation effects. In local currency, adjusted EBIT was down by 23 percent.

Nordic	Adjusted EBITDA		Adjusted EBIT	
€ in millions	2009	2008	2009	2008
Regulated	342	328	226	211
Non-regulated	514	801	348	594
Other/Consolidation	-5	-17	-39	-35
Total	**851**	**1,112**	**535**	**770**
SEK in millions				
Regulated	3,633	3,158	2,401	2,026
Non-regulated	5,458	7,703	3,698	5,714
Other/Consolidation	-50	-170	-422	-336
Total	**9,041**	**10,691**	**5,677**	**7,404**

Adjusted EBIT at the regulated business rose by €15 million, or 7 percent. Higher average tariffs and a non-recurring effect relating to deferred income in the distribution business were the main positive factors. The primary purpose of the tariff increase is to cover substantial investments in supply security. These factors were partially offset by negative currency-translation effects.

Adjusted EBIT at the non-regulated business declined by €246 million due to lower sales volumes in the nuclear and hydro businesses resulting from a reduction in power production. Currency-translation effects constituted another significant adverse factor.

U.S. Midwest

U.S. Midwest's adjusted EBIT decreased by €11 million, or 3 percent. The decrease is attributable to lower sales volumes and lower wholesale prices partially offset by higher retail electric and gas margins due to the timing of fuel, gas, and other cost recoveries from customers and a stronger dollar. In local currency, adjusted EBIT was $46 million, or 8 percent, lower.

U.S. Midwest	Adjusted EBITDA		Adjusted EBIT	
€ in millions	2009	2008	2009	2008
Regulated	560	553	394	402
Non-regulated/Other	-8	-4	-10	-7
Total	**552**	**549**	**384**	**395**
$ in millions				
Regulated	781	814	549	591
Non-regulated/Other	-11	-6	-14	-10
Total	**770**	**808**	**535**	**581**

Energy Trading

Energy Trading recorded an adjusted EBIT of €949 million. The optimization segment, whose main purpose is to limit risks and optimize the deployment of the E.ON Group's generation and production assets, contributed €825 million, continuing its strong development from the end of 2008 (particularly in portfolio optimization for gas) and benefited from the inclusion of Italian trading activities for the first time. The proprietary trading segment contributed an adjusted EBIT of €124 million, which is below the exceptional prior-year figure.

Energy Trading	Adjusted EBITDA		Adjusted EBIT	
€ in millions	2009	2008	2009	2008
Proprietary trading	127	180	124	179
Optimization	834	469	825	466
Total	**961**	**649**	**949**	**645**

New Markets

New Markets' adjusted EBIT rose considerably to €862 million.

New Markets	Adjusted EBITDA		Adjusted EBIT	
€ in millions	2009	2008	2009	2008
Climate & Renewables	293	152	146	66
Russia	203	171	73	41
Million rubles	*8,959*	*6,234*	*3,209*	*1,502*
Italy	821	157	540	–
Spain	227	30	103	-17
Total	**1,544**	**510**	**862**	**90**

Climate & Renewables' adjusted EBIT for 2009 was significantly higher mainly due to the significant increase in installed capacity.

Russia's adjusted EBIT rose by €32 million year on year to €73 million mainly due to the ongoing market liberalization and cost-optimization measures. Positive effects from operating improvements in 2009 exceeded the positive non-recurring currency-translation effects Russia recorded in the fourth quarter of 2008.

Italy posted an adjusted EBIT of €540 million. This sharp increase resulted mainly from the inclusion of E.ON Produzione for the entire year and the successful renegotiation of power supply contracts. Another factor was that the prior-year figure was adversely affected by the non-cash-effective accounting treatment of carbon emission allowances allocated at no cost.

Spain posted an adjusted EBIT of €103 million, of which €60 million came from its generation business. The main factor in the increase was the inclusion of 12 months in 2009 versus 6 months in 2008 (E.ON España became a consolidated E.ON company in late June 2008). In addition, non-recurring effects relating to the accounting treatment of carbon allowances allocated at no cost that adversely impacted adjusted EBIT in 2008 were not repeated in 2009. Spain also saw wider margins in its generation business, which also benefited from gas purchase support from E.ON Ruhrgas.

Net Income

Net income attributable to shareholders of E.ON AG of €8.4 billion and corresponding earnings per share of €4.41 were both sharply higher than the corresponding prior-year figures of €1.3 billion and €0.69.

Net Income

€ in millions	2009	2008	+/- %
Adjusted EBIT	**9,646**	**9,878**	**-2**
Adjusted interest expense (net)	-2,177	-1,835	-
Net book gains	4,815	1,324	-
Restructuring and cost-management expenses	-443	-524	-
Other non-operating earnings	-48	-6,260	-
Income/loss from continuing operations before income taxes	**11,793**	**2,583**	**+357**
Income taxes	-2,976	-834	-
Income/loss from continuing operations	**8,817**	**1,749**	**+404**
Income/loss from discontinued operations, net	-172	-128	-
Net income	**8,645**	**1,621**	**+433**
Shareholders of E.ON AG	*8,396*	*1,283*	*+554*
Minority interests	*249*	*338*	*-26*

Adjusted interest expense (net) increased by €342 million, mainly because our net debt was, on average, higher in 2009 than in 2008.

Adjusted Interest Expense (Net)

€ in millions	2009	2008
Interest expense shown in Consolidated Statements of Income	-2,249	-1,893
Interest income (-)/expense (+) not affecting net income	72	58
Total	**-2,177**	**-1,835**

Net book gains in 2009 were €3.5 billion above the prior-year level. This is mainly attributable to the sale of generating capacity in line with our commitment to the European Commission, the sale of Thüga to a consortium of municipal utilities, and capital gains on the swap of Gazprom stock for our stake in Yuzhno-Russkoye gas field.

Restructuring and cost-management expenses declined by about €80 million. As in the prior year, a significant portion of these expenses resulted from restructuring measures at our regional utilities in Germany and from the continued implementation of the changes to the E.ON Group's organizational structure decided on in 2008.

Other non-operating earnings primarily reflect the marking to market of derivatives used to protect our operating business from price fluctuations. At December 31, 2009, the marking to market of derivatives resulted in a positive effect of about €1.1 billion compared with -€2.2 billion at December 31, 2008. The realization of effects formerly recorded in equity (and thus with no affect on net income) also had a positive effect; these items relate to reorganization measures in connection with corporate law. The main negative factors were the €553 million fine for alleged market sharing between E.ON Ruhrgas and GdF Suez; write-downs on securities, financial investments, and other assets; and costs relating to a storm in Kentucky at the start of 2009. In addition to the negative effects from the marking to market of derivatives, the main adverse effects on other non-operating earnings in 2008 were an impairment charge of €1.5 billion on goodwill at the U.S. Midwest market unit and an impairment charge of €1.8 billion on the goodwill and other assets of the operations in Italy, Spain, and France acquired from Enel/Acciona and Endesa.

The €2,142 million increase in our tax expense relative to 2008 is principally attributable to an increase in deferred taxes on our derivative earnings. By contrast, our effective tax rate declined from 32 percent in 2008 to 25 percent in 2009 because the impairment charges on goodwill recorded in 2008 did not lead to tax relief (see Note 14 to the Consolidated Financial Statements).

Income/loss from discontinued operations, net, consists primarily of Western Kentucky Energy, which was sold in 2009. 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, income 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	2009	2008	+/- %
Net income attributable to shareholders of E.ON AG	8,396	1,283	+554
Net book gains	-4,815	-1,324	–
Restructuring and cost-management expenses	443	524	–
Other non-operating earnings	48	6,260	–
Taxes and minority interests on non-operating earnings	1,104	-1,171	–
Special tax effects	-20	-103	–
Income/loss from discontinued operations, net	172	128	–
Total	**5,328**	**5,597**	**-5**

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.

In addition to adjusted EBIT, our most import key figure for purposes of internal management control, we also use return on capital employed ("ROCE") and value added to monitor the value performance of our operating business. 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 valued 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.

Because changes to these parameters were minimal, in 2009 we did not adjust the cost of capital we use to monitor the value performance of our operating business. The table on the next page illustrates the derivation of cost of capital before and after taxes. 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 a level of debt commensurate with E.ON's target rating and from the market value of E.ON's equity.

E.ON's pretax and after-tax cost of capital in 2009 were unchanged at 9.1 percent and 6.7 percent, respectively. The market units' respective minimum ROCE requirements were between 8.7 percent and 10.4 percent before taxes.

Cost of Capital

	2009	2008
Risk-free interest rate	4.5%	4.5%
Market premium[1]	4.0%	4.0%
Beta factor[2]	0.88	0.88
Cost of equity after taxes	**8.0%**	**8.0%**
Tax rate	27%	27%
Cost of equity before taxes	11.0%	11.0%
Cost of debt before taxes	5.7%	5.7%
Tax shield (tax rate: 27%)[3]	1.5%	1.5%
Cost of debt after taxes	**4.2%**	**4.2%**
Share of equity	65.0%	65.0%
Share of debt	35.0%	35.0%
Cost of capital after taxes	**6.7%**	**6.7%**
Cost of capital before taxes	**9.1%**	**9.1%**

[1]The market premium reflects the higher long-term returns of the stock market compared with German treasury notes.
[2]The beta factor is used as an indicator of a stock's relative risk. A beta of more than one signals a higher risk than the risk level of the overall market; a beta factor of less than one signals a lower risk.
[3]The tax shield takes into consideration that the interest on corporate debt reduces a company's tax burden.

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 Gazprom stock.

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 below shows the E.ON Group's ROCE, value added, and their derivation.

E.ON Group ROCE and Value Added

€ in millions	2009	2008
Adjusted EBIT	**9,646**	**9,878**
Goodwill, intangible assets, and property, plant, and equipment[1]	85,930	80,487
+ Shares in affiliated and associated companies and other share investments	12,803	12,737
+ Inventories	4,518	4,774
+ Accounts receivable	11,577	14,416
+ Other non-interest-bearing assets, including deferred income and deferred tax assets	23,629	28,493
– Non-interest-bearing provisions[2]	7,595	7,784
– Non-interest-bearing liabilities, including deferred expenses and deferred tax liabilities	44,498	50,304
– Adjustments[3]	2,588	1,664
Capital employed in continuing operations (at year-end)	**83,776**	**81,155**
Capital employed in continuing operations (annual average)[4]	**82,459**	**76,367**
ROCE	**11.7%**	**12.9%**
Cost of capital before taxes	**9.1%**	**9.1%**
Value added	**2,144**	**2,902**

[1]Goodwill represents final figures following the completion of the purchase-price allocation (see Note 4 to the Consolidated Financial Statements).
[2]Non-interest-bearing provisions mainly include current provisions, such as those relating to sales and procurement market obligations. They do not include provisions for pensions or for nuclear waste management.
[3]Capital employed is adjusted to exclude the mark-to-market valuation of other share investments (including related deferred tax effects) and operating liabilities for certain purchase obligations to minority shareholdings pursuant to IAS 32. The adjustment to exclude the mark-to-market valuation of other share investments applies primarily to our shares in Gazprom.
[4]In order to better depict intraperiod fluctuations in capital employed, annual average capital employed is calculated as the arithmetic average of the amounts at the beginning of the year, the end of the year, and the balance-sheet dates of the three interim reports. Capital employed in continuing operations amounted to €82,286 million, €82,405 million, and €83,180 million at March 31, June 30, and September 30, 2009, respectively.

ROCE and Value Added by Segment

€ in millions	Central Europe 2009	Central Europe 2008	Pan-European Gas[1] 2009	Pan-European Gas[1] 2008	U.K. 2009	U.K. 2008	Nordic 2009	Nordic 2008
Adjusted EBIT	4,817	4,720	1,754	2,631	649	922	535	770
÷ Capital employed	22,171	19,310	17,638	17,594	8,947	10,101	6,098	6,948
= ROCE	21.7%	24.4%	9.9%	15.0%	7.3%	9.1%	8.8%	11.1%
Cost of capital[2]	9.2%	9.2%	8.8%	8.8%	9.8%	9.8%	9.3%	9.3%
Value added	2,771	2,935	194	1,091	-224	-71	-30	125

[1]Capital employed is adjusted to exclude the mark-to-market valuation of other share investments. This applies primarily to our Gazprom stock.
[2]Before taxes.

ROCE and Value Added Performance in 2009

Despite a difficult economic environment, the E.ON Group continued its positive ROCE performance. Next to our stable adjusted EBIT, we saw primarily an investment-driven increase in our capital employed. With a ROCE of 11.7 percent in 2009, we again substantially exceeded our pretax cost of capital. Value added amounted to €2,144 million.

Central Europe

Central Europe's 2009 ROCE of 21.7 percent was slightly below the prior-year figure but continued to be well ahead of its cost of capital. Its value added was also slightly lower. The decline was mainly due to an increase in capital employed resulting in part from consolidation effects and from higher investments in property, plant, and equipment.

Pan-European Gas

Pan-European Gas's 2009 ROCE and valued added were significantly lower. A marked decline in adjusted EBIT was paired with a slight, investment-driven increase in capital employed. The key earnings factors were price- and volume-driven earnings declines in the gas wholesale and upstream businesses. Despite the disposal of Thüga operations effective December 1, 2009, capital employed increased through the acquisition of a stake in Yuzhno-Russkoye gas field and through investments in the upstream business and in gas infrastructure.

U.S. Midwest		Energy Trading		New Markets		Corporate Center		E.ON Group	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
384	395	949	645	862	90	-304	-295	9,646	9,878
6,260	6,537	527	868	19,067	15,596	1,751	-587	82,459	76,367
6.1%	6.0%	n/a	n/a	4.5%	0.6%	–	–	11.7%	12.9%
8.7%	8.7%	n/a	n/a	10.4%	10.4%	–	–	9.1%	9.1%
-163	-176	n/a	n/a	-1,125	-1,528	–	–	2,144	2,902

U.K.

U.K.'s ROCE declined to 7.3 percent in 2009, which is below its cost of capital. However, this performance is mainly attributable to the transfer of activities (primarily gas contracts) to the Energy Trading market unit. Adjusted for this special effect, U.K.'s underlying operating business increased its ROCE year on year and earned its cost of capital. Operational improvements in the retail business constituted the key factor. Currency-translation effects were almost solely responsible for the significant decline in capital employed, which in local currency was only slightly below the prior-year level.

Nordic

Nordic's ROCE declined to 8.8 percent, slightly below its cost of capital. Nordic's ROCE performance primarily reflects earnings-side effects like the sale of hydro capacity in the Statkraft transaction and a reduction in power production due to outages at nuclear power stations. The decline in capital employed is mainly attributable to the sale of hydro capacity and to currency-translation effects.

U.S. Midwest

U.S. Midwest's ROCE increased slightly compared with the prior year. The main factor was a decline in capital employed resulting from a goodwill impairment charge recorded in 2008. Capital employed in the underlying business had been increasing due to ongoing growth in regulated assets but was not matched by growth on the earnings side due to lower prices and sales volumes.

Energy Trading

Due to the structural particularities of the trading business, Energy Trading's ROCE and value added have very limited information value and are not included here.

New Markets

The increase in capital employed in our New Markets segment is chiefly attributable to the inclusion of Enel/Acciona assets for the entire financial year and the addition of new capacity at Climate & Renewables. We expect these long-term investments to generate earnings increases and create added value in the years ahead.

Cash-Effective and Economic Investments

Our cash-effective investments totaled €9.2 billion in 2009, half the 2008 figure. We invested €8.4 billion in property, plant, and equipment and intangible assets (prior year: €9 billion). Share investments totaled €0.8 billion (prior year: €9.4 billion).

Cash-Effective Investments

€ in millions	2009	2008	+/- %
Central Europe	3,256	3,188	+2
Pan-European Gas	1,610	1,215	+33
U.K.	897	1,162	-23
Nordic	1,104	939	+18
U.S. Midwest	545	650	-16
Energy Trading	53	8	+563
New Markets	1,881	3,305	-43
Corporate Center	-146	7,939	–
Total	**9,200**	**18,406**	**-50**
Outside Germany	*6,644*	*15,415*	*-57*

Our economic investments are equal to our cash-effective investments plus the value of debt acquired and asset swaps.

Economic Investments

€ in millions	2009	2008
Cash-effective investments	9,200	18,406
Debt acquired	–	3,464
Asset swaps	2,794	4,366
Total	**11,994**	**26,236**

Central Europe invested €68 million more in 2009 than in 2008. Investments in property, plant, and equipment and in intangible assets rose by €74 million to €3,039 million. Central Europe invested €1,737 million in power generation assets. This €271 million increase resulted primarily from investments in the Malzenice and Plattling power plant projects (which were consolidated in 2009) and from investments at generation assets of France-based SNET, which were included only in the second half of 2008. In its network business, Central Europe invested about €200 million less, due in part to lower expenditure for network connections for offshore wind farms in the German North Sea. Share investments of €217 million were slightly (€6 million) below the prior-year figure (€223 million).

Pan-European Gas invested €1,610 million. Of this figure, €1,117 million (prior year: €943 million) went towards property, plant, and equipment and intangible assets. It consisted mainly of investments in the exploration business and in gas infrastructure. Share investments of €493 million (prior year: €272 million) consisted mainly of payments to acquire a stake in Yuzhno-Russkoye gas field and payments to MEON, an affiliated company.

U.K. invested about €864 million (prior year: €1,120 million) in property, plant, and equipment and intangible assets and €33 million (prior year: €42 million) in share investments. In local currency, investments decreased by 14 percent from the prior year. U.K.'s expenditure mainly related to investments in its generation fleet (including the construction of Grain gas-fired CHP plant) and in its distribution network.

Nordic invested €165 million more than in the prior year. It invested €810 million (prior year: €923 million) in intangible assets and property, plant, and equipment to maintain and expand existing production plants and to upgrade and modernize its distribution network. Share investments totaled €294 million (€16 million). The current-year figure contains a compensation payment to Statkraft in conjunction with the acquisition of minority interests in E.ON Sverige.

U.S. Midwest's investments were lower than in the prior year due to the completion of flue-gas desulfurization projects (Ghent 4 in June 2008, Ghent 2 in March 2009) and lower spending on the new generation unit at Trimble County.

The New Markets segment invested about €1.9 billion in 2009. Climate & Renewables invested €1,031 million, less than in 2008 (€1,484 million). The majority of investments went towards large wind-power projects in the United States. Russia invested

€403 million, mainly in its new-build program. The significantly higher investments of €644 million recorded in the prior year are primarily attributable to the increase in E.ON's stake in power producer OGK-4 (€246 million). Italy's investments of €172 million (prior year: €860 million) related mainly to the refit of Terni hydroelectric station and the installation of desulfurization equipment at Monfalcone power station. The high 2008 figure reflects an intragroup equity transfer to establish the Italy market unit. Spain's investments of €275 million primarily reflected the two new CCGTs (in Escatrón and Algeciras) and the installation of emission-abatement equipment at Puente Nuevo power station.

The high prior-year investments recorded under Corporate Center consisted primarily of the acquisition of a portfolio of assets from Enel/Acciona and Endesa with operations mainly in Italy, Spain, and France.

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 of continuing operations in 2009 was 34 percent higher than in 2008.

Cash Provided by Operating Activities of Continuing Operations

€ in millions	2009	2008	+/-
Central Europe	5,180	4,016	+1,164
Pan-European Gas	645	2,081	-1,436
U.K.	1,562	893	+669
Nordic	523	835	-312
U.S. Midwest	342	271	+71
Energy Trading	1,122	-1,452	+2,574
New Markets	1,010	140	+870
Corporate Center	-1,330	-46	-1,284
Cash provided by operating activities of continuing operations	**9,054**	**6,738**	**+2,316**
Maintenance investments	1,445	1,648	-203
Growth and replacement investments, acquisitions, other	7,755	16,759	-9,004
Cash-effective effects from disposals	4,925	432	+4,493

Central Europe's cash provided by operating activities was significantly higher than the prior-year figure. The main positive factors were the addition of the gas business in Romania and the inclusion of operations in France, cost savings, higher network charges, and improvements in working capital. These were partially offset by lower interest income.

Pan-European Gas's cash provided by operating activities was down significantly. The main cause was E.ON Ruhrgas AG's gas business, whose cash provided by operating activities was adversely affected by higher payments for hedging transactions, the overall downturn of the gas business, and non-recurring tax payments. These factors were only partially offset by positive effects from storage usage resulting from significantly lower prices for gas put into storage. E.ON Földgáz Trade also benefited mainly from lower prices for gas put into storage. The €553 million fine imposed on E.ON Ruhrgas by the European Commission for alleged market sharing also had a negative impact on cash provided by operating activities.

U.K.'s cash provided by operating activities was up €669 million year on year mainly due to inflows from working capital movements offset by significantly lower adjusted EBIT and by currency effects of -€186 million. The working-capital inflows arose from operational improvements and a positive impact from declining wholesale prices, resulting from the time lag between payments for commodity purchases and collecting cash from customers.

The sharp decline in Nordic's cash provided by operating activities is attributable to lower sales volumes in the nuclear business due to maintenance and modernization projects and to the sale of hydro assets to Statkraft in 2008. Tax payments related to restructuring measures also had a negative effect. Currency-translation effects constituted another significant negative factor.

U.S. Midwest's cash provided by operating activities was higher, mainly due to lower working capital as a result of lower gas prices, partially offset by damage from a winter storm in the first quarter of 2009.

Energy Trading recorded €1,122 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. In 2009, cash provided by operating activities was positively influenced by earnings development and by intragroup contributions. The negative figure recorded in 2008 resulted from working-capital effects in the wake of integration measures, an increase in its inventory of carbon allowances, and intragroup payments.

Cash provided by operating activities at the New Markets segment was significantly higher than the prior-year figure due predominantly to the inclusion of Endesa operations beginning in the second half of 2008, a solid operating performance, and a VAT refund on investments made in 2008 at Spain.

The Corporate Center segment's cash provided by operating activities was considerably below the prior-year level. Higher interest payments relating to the financing of our investment program and lower intragroup tax contributions were the main factors.

Consolidated Statements of Cash Flows (Summary)		
€ in millions	2009	2008
Cash provided by operating activities of continuing operations	9,054	6,738
Cash provided by (used for) investing activities of continuing operations	-3,399	-17,078
Cash provided by (used for) financing activities of continuing operations	-5,170	11,391
Net increase (decrease) in cash and cash equivalents maturing	**485**	**1,051**
Liquid funds as shown on December 31	6,116	6,348

Cash provided by investing activities amounted to -€3,399 million in 2009 (prior year: -€17,078 million). The significantly higher 2008 figure mainly reflects the acquisition of a portfolio of assets from Enel/Acciona and Endesa with operations mainly in Italy, Spain, and France. The 2009 figure was positively impacted by the disposal of generating capacity and the Thüga Group.

Cash provided by financing activities amounted to -€5,170 million (prior year: €11,391 million) and was primarily affected by E.ON AG's dividend payout and the net repayment of financial liabilities. A net increase in financial liabilities was mainly responsible for the significantly positive prior-year figure.

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

Our economic net debt declined by €281 million, from -€44,946 million at year-end 2008 to -€44,665 million at year-end 2009. Our strong cash provided by operating activities and the proceeds from disposals more than offset our significant investments in property, plant, and equipment and E.ON AG's dividend payout.

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

Economic Net Debt

€ in millions	December 31 2009	2008
Liquid funds	6,116	6,348
Non-current securities	3,670	5,017
Total liquid funds and non-current securities	**9,786**	**11,365**
Financial liabilities to banks and third parties	-35,579	-39,095
Financial liabilities to Group companies	-2,198	-1,963
Total financial liabilities	**-37,777**	**-41,058**
Net financial position	**-27,991**	**-29,693**
Fair value (net) of currency derivatives used for financing transactions[1]	-6	1,988
Provisions for pensions	-2,884	-3,559
Asset retirement obligations	-15,050	-14,839
Less prepayments to Swedish nuclear fund	1,266	1,157
Economic net debt	**-44,665**	**-44,946**
Adjusted EBITDA	13,526	13,385
Debt factor	**3.3**	**3.4**

[1]Does not include transactions relating to our operating business or asset management.

Finance Strategy

Equity and debt capital are both important sources of funding for the E.ON Group. E.ON's finance strategy therefore keeps the interests of shareholders and debt investors equally in view.

The main focus of our finance strategy is on E.ON's capital structure, which we monitor using 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 of single A flat (A/A2). An A/A2 rating makes it possible for E.ON to have an efficient capital structure, gives us unrestricted access to all segments of the capital market, and provides us with a risk buffer for unforeseeable events. Our target rating also fits the requirements of a leading utility company and is a solid rating compared with those of our competitors. According to the methodologies currently used by rating agencies, a debt factor between 2.8 and 3.3 is compatible with an A/A2 rating.

We actively manage E.ON's capital structure. If our debt factor is significantly above 3, we apply strict investment discipline. We also utilize alternative funding concepts such as portfolio measures or capital increases.

Our target dividend payout ratio is another component of our finance strategy. The annual target payout ratio is between 50 and 60 percent of adjusted net income. For years, E.ON has pursued a stable and consistent dividend policy and will continue to do so beyond 2009. This ensures that our shareholders have a long-term, value-enhancing investment with a stable return.

Funding Policy and Initiatives

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 our Dutch finance subsidiary E.ON International Finance B.V. under guarantee of E.ON AG or by E.ON AG itself, and the funds are subsequently on-lent in 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 funding program. Since that time, E.ON has funded more than €27.4 billion through bonds and loans. The bond issuances have consisted of a number of benchmark bonds denominated in euros, pounds sterling, U.S. dollars, Swiss francs, and Swedish kroner. E.ON has also issued smaller bonds in a variety of currencies and taken advantage of other financing instruments such as promissory notes. We issued about €5.9 billion of debt in 2007 and about €13.4 billion in 2008. We successfully concluded our funding program with about €8.1 billion of further issuances in 2009.

Public credit markets were at times difficult in 2009, particularly in the first quarter. Compared with other companies, E.ON has very good access to capital markets. But in early 2009, we also had to accept significantly wider credit spreads despite our stable A rating. On the positive side, wider spreads were accompanied by lower nominal interest rates. Despite volatile market conditions, we successfully issued a number of benchmark bonds in the first quarter of 2009, and each was significantly oversubscribed. This underscores the fact that the E.ON Group continues to be very attractive to investors. Credit spreads narrowed during the remainder of 2009. On balance, the financial crisis has so far had no significant adverse effects on the E.ON Group's refinancing costs.

E.ON issued most of its 2009 debt in the first quarter. We used some of these funds to conduct prudent liquidity management. In February 2009, E.ON made a public tender offer for the €4.25 billion bond that matured in May 2009. The face value of the bonds repurchased under the offer was €1.54 billion, or 36 percent of the bond's total face volume. E.ON repaid the bond in its entirety and on schedule in late May 2009. Moreover, funds generated by debt issuances in 2009 were used to reduce our short-term liabilities in the form of commercial paper ("CP").

With the exception of a U.S.-dollar-denominated bond issued in 2008, all E.ON bonds currently outstanding were issued under our Debt Issuance Program ("DIP"). In December 2009, the DIP was, as planned, extended for another year. At this time, the maximum allowable issuance volume was increased from €30 billion to €35 billion. We had about €27 billion worth of bonds outstanding under our DIP at year-end 2009.

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

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 use CP to finance short-term funding peaks and to further diversify our investor base. Under both programs, we had just €1.5 billion outstanding at year-end 2009, substantially less than the €7.3 billion we had outstanding at year-end 2008.

Financial Liabilities

€ in billions	Dec. 31, 2009	Dec. 31, 2008
Bonds[1]	29.0	25.3
EUR	*18.3*	*17.5*
GBP	*4.8*	*3.1*
USD	*2.9*	*2.7*
CHF	*1.5*	*0.8*
SEK	*0.6*	*0.5*
JPY	*0.7*	*0.6*
Other currencies	*0.2*	*0.1*
Promissory notes	1.4	1.3
CP	1.5	7.3
Other liabilities	5.9	7.2
Total	**37.8**	**41.1**

[1]Includes private placements.

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

E.ON successfully extended the 364-day tranche (Tranche A) of its syndicated credit facility. Tranche A now matures on November 25, 2010. As planned, we reduced its volume from €7.5 billion to €4 billion, as our future liquidity requirements will be reduced due to our well-balanced maturity profile and lower investment expenditures. There were no changes to our approximately €5 billion long-term tranche (Tranche B), which matures on December 2, 2011. We did not utilize our syndicated credit facility at any time in 2009.

Standard & Poor's ("S&P") long-term rating for E.ON is A; Moody's long-term rating for E.ON is A2. The short-term ratings are A-1 (S&P) and P-1 (Moody's). The ratings assigned by both agencies thus correspond to E.ON's target rating. Both S&P and Moody's confirmed their long-term and short-term ratings for E.ON, all with a stable outlook, in respective publications issued in December 2009.

E.ON AG Ratings

	Long term	Short term	Outlook
Moody's	A2	P-1	stable
S&P	A	A-1	stable

E.ON Stock

In a volatile stock market, E.ON stock finished 2009 above its 2008 year-end closing price (+9 percent factoring in the reinvestment of the dividend), thereby outperforming its peer index, the STOXX Utilities, which rose by 7 percent during the same period. However, E.ON stock underperformed the German stock market (the DAX was up 24 percent) and the European stock market (the EURO STOXX 50 was up 26 percent) in 2009.

E.ON Stock

	Dec. 31, 2009	Dec. 31, 2008
Earnings per share[1] (€)	4.41	0.69
Dividend per share (€)	1.50	1.50
Shares outstanding (millions)	1,905	1,905
Closing price (€)	29.23[2]	28.44[2]
Market capitalization (€ in billions)[3]	55.7	54.2

[1]Attributable to shareholders of E.ON AG.
[2]Year-end closing price on December 30.
[3]Based on shares outstanding.

Non-current assets at year-end 2009 rose by 4 percent compared with the figure at year-end 2008, primarily due to investments in property, plant, and equipment.

Current assets decreased by 18 percent. The main factors were lower current receivables from derivative financial instruments and the disposal of assets held for sale.

Our equity ratio of 29 percent is 4 percentage points above the figure recorded at year-end 2008, mainly due to our solid earnings.

Non-current liabilities increased by €4.4 billion to €70.8 billion. E.ON successfully placed long-term bonds with a book value of about €8 billion in 2009. This was partially offset by the reclassification (due to maturity dates) of non-current to current liabilities along with a reduction of operating liabilities.

Current liabilities declined by 27 percent from year-end 2008, chiefly due to the repayment of short-term debts and a reduction of operating liabilities.

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 39 percent (December 31, 2008: 35 percent).
- Non-current assets are covered by long-term capital at 102 percent (December 31, 2008: 96 percent).

Additional information about our asset situation is contained in Notes 4 to 26 to the Consolidated Financial Statements.

Summary Statement on E.ON's Earnings, Financial, and Asset Situation

Our earnings situation (adjusted EBIT and adjusted net income were only slightly below the high prior-year figures despite the difficult economic environment), our continued positive value performance, and the slight improvement in our financial key figures are indicative of the E.ON Group's solid financial situation in 2009.

Consolidated Assets, Liabilities, and Equity

€ in millions	Dec. 31, 2009	%	Dec. 31, 2008	%
Non-current assets	113,068	74	108,717	69
Current assets	39,568	26	48,107	31
Total assets	**152,636**	**100**	**156,824**	**100**
Equity	43,955	29	38,444	25
Non-current liabilities	70,828	46	66,425	42
Current liabilities	37,853	25	51,955	33
Total equity and liabilities	**152,636**	**100**	**156,824**	**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 2009 amounts to €3,834 million compared with €2,889 million in the prior year. After transferring €976 million to retained earnings, net income available for distribution totals €2,858 million.

Balance Sheet of E.ON AG (Summary)

€ in millions	December 31, 2009	2008
Intangible assets and property, plant, and equipment	146	155
Financial assets	38,341	27,564
Non-current assets	**38,487**	**27,719**
Receivables from affiliated companies	23,267	39,852
Other receivables and assets	4,909	3,777
Liquid funds	2,025	415
Current assets	**30,201**	**44,044**
Total assets	**68,688**	**71,763**
Equity	12,453	11,475
Special items with provision component	384	393
Provisions	4,954	4,194
Liabilities to affiliated companies	46,345	42,902
Other liabilities	4,552	12,799
Total equity and liabilities	**68,688**	**71,763**

E.ON AG's income from equity interests increased by €1,692 million to €6,689 million. This is mainly attributable to the impairment charges recorded in the prior year on the financial assets of subsidiaries, which had an adverse effect on income from equity interests. Including intragroup tax transfers, E.ON Energie AG transferred €4,004 million of profit and E.ON Ruhrgas Holding GmbH transferred €3,073 million of profit in 2009.

The negative figure recorded under other expenditures and income (net) declined by €369 million year on year to -€487 million. Negative effects from financial transactions constituted the main factor.

Income taxes include current taxes for 2009 and for prior years and taxes for prior years due to outstanding tax audits.

Income Statement of E.ON AG (Summary)

€ in millions	2009	2008
Income from equity interests	6,689	4,997
Interest income	-1,195	-965
Other expenditures and income	-487	-118
Income from continuing operations before income taxes	**5,007**	**3,914**
Income taxes	-1,173	-1,025
Net income	**3,834**	**2,889**
Net earnings carried forward	–	30
Net income transferred to retained earnings	-976	-62
Net income available for distribution	**2,858**	**2,857**

At the Annual Shareholders Meeting on May 6, 2010, management will propose that net income available for distribution be used to pay a cash dividend of €1.50 per ordinary share. The stable development of our operating earnings is the main factor enabling us to maintain the dividend at the prior-year level. We believe that in this way E.ON stock remains 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, which are part of the Combined Group Management Report, are in the chapter Disclosure of Takeover Barriers on pages 162–164 of this report.

Workforce Figures

At year-end 2009, the E.ON Group had 88,227 employees worldwide, about 6 percent less than at year-end 2008. In addition, E.ON had 2,556 apprentices and 330 board members and managing directors. The changes in workforce figures at the market units are largely attributable to restructuring measures in Eastern Europe, the United Kingdom, and Russia and to asset sales.

Employees[1]

	December 31		
	2009	2008	+/- %
Central Europe	48,126	44,142	+9
Pan-European Gas	3,143	9,827	-68
U.K.	16,098	17,480	-8
Nordic	5,570	5,826	-4
U.S. Midwest	3,119	3,110	–
Energy Trading	1,075	885	+21
New Markets	7,976	9,214	-13
Corporate Center[2]	3,120	3,054	+2
Total	**88,227**	**93,538**	**-6**

[1]Figures do not include board members, managing directors, or apprentices.
[2]Includes E.ON IS.

The changes in the workforce figures for the Central Europe market unit are predominantly attributable to two effects. First, Central Europe's and Pan-European Gas's operations in Romania were combined at Central Europe. Second, restructuring at Central Europe East led to a reduction in the number of employees.

The transfer of about 6,000 employees in Romania to Central Europe and the sale of Thüga were responsible for the significant workforce reduction at Pan-European Gas.

U.K.'s headcount declined by about 8 percent, mainly due to restructuring measures in the retail and energy services businesses.

The reduction in Nordic's workforce is mostly due to restructuring in sales and services.

Energy Trading's workforce increased by 21 percent, mainly due to further business expansion and the addition of trading operations in Italy.

There were countervailing effects in New Markets' employee figures. There was an 18-percent reduction in headcount at Russia (due mainly to efficiency-enhancement measures) and at Italy (due to the sale of power stations and the transfer of trading operations to Energy Trading). By contrast, Climate & Renewables' headcount increased by 22 percent due to business expansion.

Geographic Profile

At year-end 2009, the E.ON Group employed 52,591 people, or 60 percent of our workforce, outside Germany. This represents a decrease from the figure of 57,134 employees, or 61 percent of our workforce, for year-end 2008. These figures do not include board members, managing directors, or apprentices.

Employees by Region[1]

	Dec. 31, 2009
Germany	35,636
United Kingdom	17,179
Romania	6,772
Sweden	5,317
Hungary	4,913
Russia	4,702
USA and Canada	3,256
Czech Republic	2,735
Bulgaria	2,108
Other[2]	5,609

[1]Figures do not include board members, managing directors, or apprentices.
[2]Includes Italy, Spain, France, the Netherlands, Poland, and certain other countries.

Gender and Age Profile, Part-Time Staff

At the end of 2009, around 27 percent of our employees were women. Women accounted for 12 percent of our senior managers (an increase from the prior-year figure) and 5 percent of our top executives. The average E.ON Group employee was 42 years old and had worked for us for about 14 years. A total of 8,235 E.ON Group employees were on a part-time schedule, of whom 4,490, or 55 percent, were women. Employee turnover resulting from voluntary terminations averaged around 5 percent across the organization.

Employer Branding

With the pace of demographic change increasing, the war for talent is becoming more intense. E.ON needs to be perceived as an attractive employer for us to hire and retain the best-qualified and most talented people. To succeed in this effort, we seek out opportunities to meet and dialog with potential hires from a variety of target groups. This enables us to communicate with them at eye level and address their needs and interests. In this effort, we use a wide range of channels, including career events and social media. As an international company, E.ON brings together staff from all our market units to refine our employer branding, to identify and address challenges, and to learn from one another. For example, we are very active in marketing our company to potential hires among university students, secondary-school students, and people interested in an apprenticeship. We also make a special effort to reach out to people from minority groups. We offer excellent job opportunities and graduate programs, promote the development of women employees, foster a range of employee networks, and offer guidance and advice to employees interested in pursuing international careers. Our steadily improving rankings in independent surveys—including Best Workplaces in Germany and Best Workplaces in Europe conducted by the Great Place to Work Institute—indicate that our efforts are working.

E.ON Graduate Program

Since it was launched in 2005, the E.ON Graduate Program has accepted 235 trainees Group-wide, 69 in 2009 alone. A total of 133 trainees have completed the program successfully and started their careers with our company.

HR Development: Talent Management

The purpose of our Group-wide management review process is to identify future leaders and evaluate our managers' performance and potential on the basis of uniform standards. The review ensures that our career and succession planning extends across all levels of hierarchy in our organization. Its results are incorporated into our Group-wide succession planning and our target-oriented HR development planning.

Group-wide HR development costs amounted to around €73 million in 2009. The majority of this training is conducted by E.ON Academy, our corporate university.

Top Executives

Changes in our market environment as well as our own PerformtoWin program also affect our top executives. We intend to reduce the number of management positions by adjusting our management structures to market realities. Enhancing our focus on performance will require a substantial contribution from all executives. To assess their individual performance with greater precision, we have expanded our use of key performance indicators and increased the performance-based component of variable compensation and long-term incentive programs.

Compensation, Pension Plans, Employee Participation

Attractive compensation and appealing fringe benefits are essential to a competitive work environment. Company contributions to employee pension plans represent an important component of an employee's compensation package and have long had a prominent place in the E.ON Group. They are an important foundation of employees' future financial security and also foster employee retention. E.ON companies supplement their company pension plans with attractive programs to help their employees save for the future. 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. Our employee stock purchase program became even more attractive through an increase in the tax-free company contribution. In 2009, 22,091 employees purchased a total of 925,282 shares of E.ON stock; 57 percent of employees participated in the program, down slightly from 58 percent in 2008.

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

We have compiled a Compensation Report for the 2009 financial year which provides an overview of the compensation plans for the Board of Management and Supervisory Board and each board member's E.ON Group compensation. 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 on pages 148–155.

Apprentice Programs

E.ON has always placed great emphasis on apprentice programs. In 2009, apprentices accounted for about 7 percent of the E.ON Group's workforce in Germany, almost unchanged from the prior year. Established in 2003, the E.ON training initiative to combat youth unemployment was continued in 2009. 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.

Apprentices in Germany

	Dec. 31, 2009
Central Europe	2,220
Pan-European Gas	221
E.ON AG/Other[1]	115
E.ON Group	**2,556**

[1]Includes E.ON IS.

Research and Development ("R&D")

In 2009, E.ON further enhanced its R&D activities. 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 support the development of key technologies and accelerate their commercial viability through innovate.on, our technology initiative. 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.

R&D expenses pursuant to IAS 38 totaled about €62 million in 2009 (prior year: €53 million). Overall, 229 employees work in R&D at E.ON.

In addition to E.ON's investments to optimize and refine technologies, E.ON also actively promotes basic research and provided €17 million of financial support for energy research at universities and institutes in 2009.

E.ON's total expenditures for new technology (which include support for university research, R&D, and demonstration projects) amounted to €105 million (prior year: €106 million).

Corporate Responsibility ("CR")

Faced with globalization, the worldwide 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.

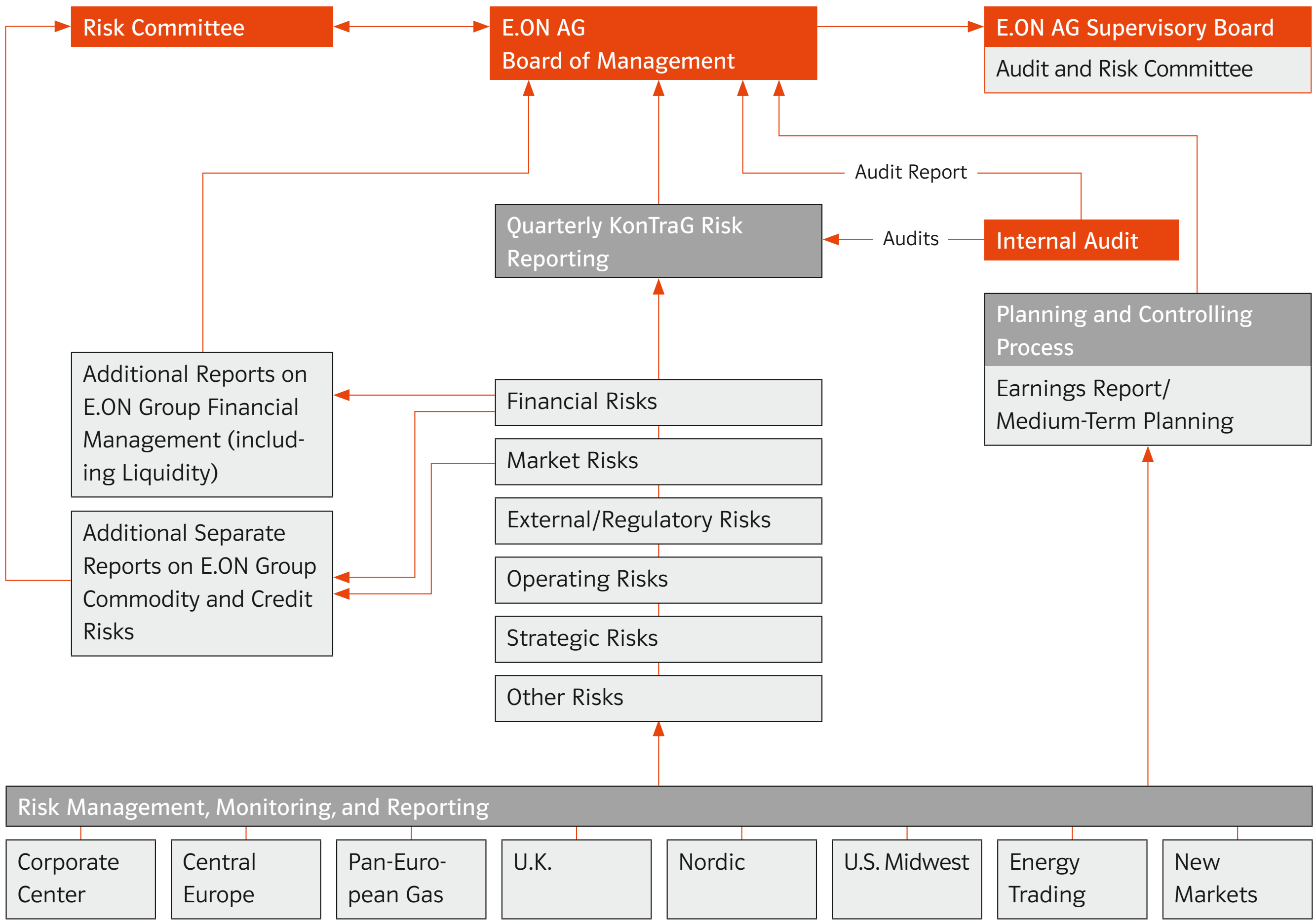
To help us get there, we further refined our CR strategy and programs and defined clear targets and initiatives for 2008–2010. We established Group-wide standards and policies and integrated them into central aspects of our corporate strategy. We also analyzed and evaluated the risks associated with 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 2009 again demonstrates that we are on the right course. Among our most important successes was that we were again included in the Dow Jones Sustainability Index, the world's leading index of its kind. This sends an important signal to capital markets and to the increasing number of investors who factor sustainability criteria into their investment decisions.

E.ON emitted 144.9 million metric tons of CO_2 from electricity production in 2009, 10.3 million metric tons less than in 2008. The main factor was that we produced less power in 2009 than in 2008. Our carbon intensity declined by 1.6 percent to 0.476 metric tons per MWh. Going forward, this trend will become more pronounced as we add more new, high-efficiency fossil-fueled capacity and more renewables capacity. Our carbon emission figures include our CHP units in the United Kingdom pursuant to existing legal obligations.

More information about our CR efforts is available at www.eon.com/responsibility, where you will also find our CR Report, which will be released in May 2010. 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 Internal Audit.

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, claims management, the accounting of risk covering and claims, and all associated reporting.

Risk Committee

In compliance with 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 and may cut it further. This could result in us being unable to sell energy we have already procured. 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. Increasing competition in the natural gas market and increasing trading volumes at virtual 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 the current market situation.

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.

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 conduct 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 allowance, 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

The international nature of E.ON's business operations exposes E.ON to risks stemming from sales, earnings, assets, receivables, liabilities, future payment streams, and investments in business enterprises outside Germany that are denominated in currencies other than the euro. This risk results mainly from transactions denominated in U.S. dollars, pounds sterling, Swedish kroner, Russian rubles, and the Hungarian forint as well as net investments outside Germany.

E.ON faces earnings risks from financial liabilities, accounts payable, and short-term financing with variable interest rates and from interest derivatives that are based on variable interest rates.

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.

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 monitor our business partners' credit ratings on the basis of Group-wide minimum standards.

E.ON could face liquidity risks due to margin calls resulting from adverse price developments of derivative financial instruments.

In addition, E.ON also faces risks from price changes and losses on the current and non-current investments it makes to cover its non-current 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 unaffected by the current financial environment. Although the energy industry is largely non-cyclical, recession-driven 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 and end-customers 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.

Thanks to its very good creditworthiness, E.ON has up to now 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 as well as disposals. This strategy depends in part on our ability to successfully identify and acquire, on acceptable terms, companies that enhance our energy business. 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 assurance 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.

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.

In the case of planned disposals, E.ON faces the risk, which is currently not assessable, of disposals not taking place or being delayed and the risk that E.ON receives lower-than-anticipated disposal proceeds. In such projects, it is not possible to determine the likelihood of these risks. If planned disposals do not take place or are significantly delayed, this would have a negative impact on the planned development of our debt factor.

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 operational 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 (whose possible causes include extreme weather conditions) leading to a power failure or shutdown. Operational failures or extended production stoppages of facilities or components of facilities could negatively impact our earnings.

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.

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 price increases (including legal actions to demand repayment of the increase differential in view of the increasing preponderance of case law ruling that price-adjustment clauses are invalid in the special-customer segment), alleged price-fixing agreements, and anticompetitive practices. Court actions, governmental investigations, proceedings, and other claims could be instituted or asserted in the future against E.ON Group companies. 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.

On July 8, 2009, the European Commission fined E.ON Ruhrgas and E.ON (as joint debtor) €553 million for an alleged market-sharing agreement with GdF Suez. In September 2009, E.ON filed an appeal with the European Court of First Instance to have the ruling overturned. Filing an appeal does not suspend the fine, which was paid, by the deadline, in October 2009. We cannot rule out the possibility of subsequent lawsuits.

E.ON is building a hard-coal-fired power plant in Datteln, Germany. The plant is designed to have a net electric capacity of about 1,055 MW. The Münster Superior Administrative Court ("SAC") issued a decision on September 3, 2009, that declares void the City of Datteln's Development Plan (No. 105 E.ON Power Plant) and the fourth alteration to the Münster Regional Government's Regional Plan. The SAC criticized errors in judgement and, in particular, that the Development Plan did not sufficiently take into consideration binding rules contained in North Rhine-Westphalia's State Development Plan and State Development Program. The SAC did not allow an appeal. The City of Datteln and E.ON filed a motion with the Federal Administrative Court to nullify the SAC's ruling. This motion suspends the SAC's ruling. The Münster Regional Government dismissed motions filed by interested parties to suspend the enforceability of certain rulings. This makes it possible for substantial construction work to continue. In view of these matters, however, we cannot rule out the possibility that the power plant will enter service at a later date than originally planned. In principle, these types of risks attend our other power and gas new-build projects. We strive to identify such risks early and to minimize them by monitoring planning and consents processes.

In early 2009, the German Federal Cartel Office ("FCO"), as part of a sector inquiry, sent a number of E.ON companies a demand for information regarding the capacity situation in Germany's gas transport pipeline system. The companies in question submitted their responses to the FCO. The sector inquiry was concluded on December 15, 2009, with the publication of a final report. The FCO's report did not announce any capacity-related proceedings against E.ON Group companies.

The European Commission is conducting an antitrust investigation of E.ON companies for alleged gas-capacity hording. The Commission has expressed the suspicion that by booking long-term capacity in the gas transmission system of E.ON Gastransport ("EGT"), E.ON Ruhrgas has prevented competitors from gaining access to gas supply markets and consequently may have violated laws against anticompetitive practices. In negotiations with the Commission in 2009, we reached an agreement in principle that the Commission would terminate the investigation by means of a commitment decision pursuant to Article 9 VO 1/2003 under which E.ON Ruhrgas would be obliged to relinquish a portion of its long-term capacity bookings in EGT's system. In view of this agreement, we assume that the Commission will terminate the investigation in the first half of 2010 after concluding further procedural steps.

There are also lawsuits pending against E.ON AG and U.S. subsidiaries in connection with the disposal of VEBA Electronics in 2000. In addition, court actions, governmental investigations, and proceedings, and other claims could be instituted or asserted in the future against companies of the E.ON Group. We attempt to minimize the risks of current and future legal proceedings by managing these proceedings appropriately and by designing appropriate contracts prior to agreements being concluded.

E.ON Ruhrgas currently obtains about one fourth 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.

Regulatory 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.

At the request of the Federal Association of New Energy Suppliers (known by its German abbreviation, "bne") and LichtBlick, the German Federal Network Agency (known by its German abbreviation, "BNetzA") has initiated regulatory proceedings against Germany's four electric transmission system operators ("TSOs"), including transpower (formerly 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 to suppliers of balancing energy any additional earnings. In late 2008, transpower and the TSOs of Vattenfall (50Hertz Transmission) and EnBW had the technology and procedures in place to avoid any uncoordinated balancing between these TSOs. There would therefore seem to be no legal basis for bne and LichtBlick's claims.

The German Federal Ministry of Economics and Technology and the BNetzA are planning to make changes in how capacity is managed on gas transmission pipelines in Germany. It is anticipated that after the current consultations new draft amendments to the Gas Network Access Ordinance, as well as the BNetzA's regulations, will be presented. The amendments could affect our existing gas operations.

In 1999, the German Federal Ministry for the Environment formed a working group (known by its German abbreviation, "AKEnd") to design the process and define the criteria for identifying and selecting a final storage site for German nuclear waste. Among the AKEnd's recommendations is that studies be conducted of five potential above-ground sites and at least two potential underground sites. The AKEnd has submitted its recommendations to the Ministry for the Environment. The German federal government has not yet decided how it will proceed in this matter.

In late 2009, the BNetzA instituted formal proceedings against all E.ON Energie regional distribution companies in Germany that have implemented the new regional structure and against E.ON Energie for allegedly not complying with unbundling requirements. The BNetzA plans to treat the proceedings against E.ON Bayern and E.ON Energie as model-case proceedings and to suspend the proceedings against the other regional distribution companies.

E.ON Gastransport will be migrated to incentive-based regulation in 2010. Prior to migration, the BNetzA will conduct a benchmarking of Germany's small and very heterogeneous group of supraregional gas transmission pipeline operators. The individual efficiency factor will depend to a large degree on the parameters used in the benchmarking and will have an impact on the revenue cap.

On December 29, 2009, the French constitutional council rejected draft legislation introducing a tax on CO_2 emissions. The French government then decided to extend the tax to industries, particularly thermal power generation, that already participate in the EU-wide Emissions Trading Scheme ("ETS"). Under discussion is possible compensation for the companies affected by the carbon tax, compensation that would take into account their position in the international marketplace and each industry's respective energy intensity. The tax is expected to take effect on July 1, 2010.

The Netherlands is currently drafting legislation that would require the country's TSOs to give preferential treatment to renewable-source electricity and define rules for managing any resulting bottlenecks. If the proposed legislation is enacted, it and the actual occurrence of bottlenecks could adversely affect our power stations in the Netherlands.

The European Commission, the European Parliament, and the member states approved the third legislative package. In addition to the complete legal unbundling of electricity and gas TSOs, the legislative package allows the establishment of an independent transmission operator ("ITO") or an independent system operator ("ISO"). The third legislative package will affect the entire value chain and will grant national and European regulatory agencies far-reaching new authority to intervene in markets. Risks result not only from the increased scope of intervention options, but also from the legislation that the member states enact to transpose the third legislative package into national law, which could go beyond the package's guidelines.

In addition, the European Commission, the European Parliament, and the Council passed the green legislative package whose purpose is to enable the EU to achieve its climate targets. By 2020, renewables are supposed to meet 20 percent of the EU's energy consumption, while greenhouse-gas emissions are to be reduced by 20 percent from 1990 levels. ETS emission allowances have so far been allocated at no cost. No-cost allocation will gradually be replaced by the auctioning of allowances. Starting in 2013, power producers will have to acquire all of their allowances through auctions. The number of allowances will be reduced each year. Industries not subject to the ETS will also have to reduce their emissions in accordance with national targets; a portion of the fuel they use must come from renewable sources. The EU will provide financial support for the development of carbon-capture-and-storage technology. The green package will have a profound impact on the future generation mix, network infrastructure, and market rules.

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

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.

Disclosures on the Internal Control System for the Accounting Process

Disclosures pursuant to Section 289, Paragraph 5 of the German Commercial Code, which are part of the Combined Group Management Report, are on pages 164 to 166.

Macroeconomic Situation

The German Council of Economic Experts ("GCEE") expects a slight recovery for the global economy in 2010, although with no signs of dynamic growth on the medium-term horizon. The financial sector's problems remain unsolved, hindering a stable and sustained upward trend. The GCEE expects support to come from government spending programs and robust growth in emerging economies.

Economic recovery in the United States is expected to be hesitant in 2010. The GCEE anticipates a moderate recovery for the EU27. Automatic stabilization mechanisms will continue to offer support, whereas the labor-market situation is expected to worsen. Real-estate markets will also hamper economic growth. Gross domestic product in the EU27 is expected to be flat or slightly positive in real terms. The financial crisis will continue to be particularly hard for Eastern European countries. Russia's economy is expected to recover, albeit slowly, thanks to expansionary fiscal policies and rising fuel prices.

Due to the economic recovery and energy prices, inflation in the United States and the EU will no longer be trending lower but is instead expected to increase slightly.

Energy Industry

The future development of Germany's energy industry will be determined in part by the new federal government's commitment to move forward with the previous government's Integrated Climate Protection and Energy Package. It remains the aim of the federal government to substantially alter 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.

To bolster competition law, the German federal government intends to amend the Law against Barriers to Competition ("GWB"). Plans call for it to contain a provision granting regulators the authority, as a final option, to break up companies that have a dominant market position.

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 carbon 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 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 a variety of European subsidy programs, renewables play an increasingly important role and deliver a continually increasing share of the energy supply. Binding EU and member-state targets for expanding renewables place demands on system integration that are becoming a growing challenge for the energy industry.

Efficiency-Enhancement Program

Our ongoing Group-wide PerformtoWin program aims to achieve lasting earnings improvements in all our market units and at all stages of the value chain, mainly through internal efficiency enhancements. We intend to deliver a total of €1.5 billion in earnings improvements by 2011.

We already made progress in 2009. For example, we designed a detailed package of measures encompassing PerformtoWin projects along the entire value chain. The implementation of PerformtoWin is now in full swing.

But these projects are by no means the end of our efforts. Continual performance improvement is integral to our corporate culture. We strive for all areas of our business to perform at a level well above the industry average.

Employees

The number of employees in the E.ON Group (excluding board members, managing directors, and apprentices) is expected to decline by year-end 2010. This is mainly due to the sale of our ultrahigh-voltage transmission system and of generation capacity in Germany in line with our commitment to the European Commission and to integration and efficiency-enhancement measures in Central Europe East.

Earnings

As in the prior year, the forecast for the E.ON Group's earnings development is subject to significant uncertainty due to the global financial and economic crisis. From today's perspective, it is difficult to predict the pace of economic recovery; in particular, the market environment of our gas business is adversely affected by overcapacity. Under our PerformtoWin program, we have already initiated a variety of measures to reduce our costs and improve our efficiency and productivity. Despite the portfolio changes completed in 2009, we therefore expect our 2010 adjusted EBIT to be 0 to 3 percent above the prior-year figure.

We anticipate that 2010 adjusted net income will be in line with 2009. We expect to record slightly higher interest and tax expenditures.

We intend to stand by our dividend payout ratio of 50 to 60 percent of adjusted net income.

Our forecast by market unit:

Central Europe's 2010 adjusted EBIT is expected to be in line with the 2009 figure. Its underlying business will benefit from positive effects that include the commissioning of new generating units and a reduced impact from the recession. Earnings will be adversely affected by the disposal of generating capacity and the ultrahigh-voltage transmission system.

We anticipate that Pan-European Gas's 2010 adjusted EBIT will be below the 2009 figure. The absence of earnings streams from Thüga is the main negative factor. Another is the new mechanism for regulating costs in the gas transport business in Germany. These factors will be partially offset by higher upstream earning due to the inclusion of Yuzhno-Russkoye gas field for the entire year.

We expect U.K.'s 2010 adjusted EBIT to be higher than in 2009, due primarily to benefits from efficiency improvements. The key challenges are an increasingly competitive marketplace and the residual impact of the recession.

We expect Nordic's 2010 adjusted EBIT to surpass the 2009 figure. Nuclear outages for upgrades and modernization measures were the main negative factor in 2009, whereas 2010 earnings will benefit primarily from higher transfer prices.

We expect U.S. Midwest's 2010 adjusted EBIT to be in line with 2009, with regulatory cost recovery mechanisms offsetting a cost increase relating to additional capacity.

We expect Energy Trading's 2010 adjusted EBIT to be above the 2009 number, mainly due to optimization activities.

We anticipate that New Markets' 2010 adjusted EBIT will be below the prior-year figure. Italy's earnings will be adversely affected by the absence of a positive one-off effect recorded in 2009 and by the disposal of significant generation activities to Italian energy utility A2A. We expect Spain's results to decline due to narrower margins. Climate & Renewables will benefit from a significant increase in its generating capacity. Russia will benefit from the positive impact of ongoing market liberalization and from the addition of new capacity at Shaturskaya power station.

Economic Investments

Our 2010 investment plan calls for economic investments of about €10 billion.

Our economic investments will return nearly to the level prior to our growth program of the past three years, which consisted primarily of external growth. Going forward, we intend to focus on organic growth aimed at further expanding our strong market positions in power and gas.

Accordingly, investments in property, plant, and equipment will account for about 90 percent of our investments. About €1.3 billion will go towards expanding our renewable-source generating capacity.

Financial Situation

We expect our funding needs in 2010 to be minimal and to relate primarily to refinancing. We expect to be able to fund the investment expenditures planned for 2010 and the dividend payout largely by means of cash provided by operating activities and proceeds from disposals. It may be necessary to make short-term use of commercial paper to handle funding peaks during the course of the year. For any debt issuance, our aim is to obtain favorable financing conditions while achieving a broad mix of different markets, investors, currencies, and maturities.

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 by commodity markets, which are already global in scope. 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. Additional opportunities could arise in the future if policymakers decide to extend the operating lives of our nuclear power stations in Germany.

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. 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 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.

General Statement on E.ON's Future Development

We had another successful financial year in 2009 despite at times very difficult circumstances. We can therefore say that E.ON's business has a solid foundation. We are well positioned for the challenges ahead. In 2010, our Group-wide PerformtoWin program will now focus on pressing forward with the planned initiatives and on managing and steering our company in its new organizational structures. E.ON will maintain its very solid position in energy supply in 2010.

From today's perspective, we are unable to issue a reliable forecast for 2011 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 remain a significant source of uncertainty.

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

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 recognised income and expense, cash flow statement, statement of changes in equity 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, 2009. 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, February 26, 2010

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Norbert Vogelpoth	Dr. Norbert Schwieters
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

E.ON AG and Subsidiaries Consolidated Statements of Income

€ in millions	Notes	2009	2008
Sales including electricity and energy taxes		83,718	88,885
Electricity and energy taxes		-1,901	-2,132
Sales	(5)	**81,817**	**86,753**
Changes in inventories (finished goods and work in progress)		43	27
Own work capitalized	(6)	532	526
Other operating income	(7)	24,961	15,454
Cost of materials	(8)	-62,087	-66,419
Personnel costs	(11)	-5,357	-5,130
Depreciation, amortization and impairment charges	(14)	-3,981	-6,852
Other operating expenses	(7)	-22,603	-20,337
Income/Loss (-) from companies accounted for under the equity method		941	912
Income/Loss (-) from continuing operations before financial results and income taxes		**14,266**	**4,934**
Financial results	(9)	-2,473	-2,351
Income from equity investments		*-224*	*-458*
Income from other securities, interest and similar income		*601*	*1,159*
Interest and similar expenses		*-2,850*	*-3,052*
Income taxes	(10)	-2,976	-834
Income/Loss (-) from continuing operations		**8,817**	**1,749**
Income/Loss (-) from discontinued operations, net	(4)	-172	-128
Net income		**8,645**	**1,621**
Attributable to shareholders of E.ON AG		*8,396*	*1,283*
Attributable to minority interests		*249*	*338*
in €			
Earnings per share (attributable to shareholders of E.ON AG)—basic and diluted	(13)		
from continuing operations		4.50	0.76
from discontinued operations		-0.09	-0.07
from net income		**4.41**	**0.69**

E.ON AG and Subsidiaries Consolidated Statements of Recognized Income and Expenses

€ in millions	2009	2008
Net income	**8,645**	**1,621**
Cash flow hedges	207	181
Unrealized changes	*45*	*474*
Reclassification adjustments recognized in income	*162*	*-293*
Available-for-sale securities	772	-10,186
Unrealized changes	*2,617*	*-9,769*
Reclassification adjustments recognized in income	*-1,845*	*-417*
Currency translation adjustments	129	-1,922
Unrealized changes	*473*	*-1,936*
Reclassification adjustments recognized in income	*-344*	*14*
Changes in actuarial gains/losses of defined benefit pension plans and similar obligations	-1,500	3
Companies accounted for under the equity method	23	245
Unrealized changes	*23*	*245*
Reclassification adjustments recognized in income	*–*	*–*
Income taxes	763	1,042
Total income and expenses recognized directly in equity	**394**	**-10,637**
Total recognized income and expenses (total comprehensive income)	**9,039**	**-9,016**
Attributable to shareholders of E.ON AG	*8,783*	*-9,110*
Attributable to minority interests	*256*	*94*

E.ON AG and Subsidiaries Consolidated Balance Sheets—Assets

€ in millions	Notes	December 31 2009	December 31 2008	January 1 2008
Goodwill	(14a)	16,901	17,311	16,761
Intangible assets	(14a)	8,242	6,696	4,284
Property, plant and equipment	(14b)	60,787	56,480	48,552
Companies accounted for under the equity method	(15)	7,342	8,931	8,411
Other financial assets	(15)	9,131	8,823	21,478
Equity investments		*5,461*	*3,806*	*14,583*
Non-current securities		*3,670*	*5,017*	*6,895*
Financial receivables and other financial assets	(17)	2,652	2,451	2,449
Operating receivables and other operating assets	(17)	3,388	3,789	1,758
Income tax assets	(10)	1,549	1,988	2,034
Deferred tax assets	(10)	3,076	2,248	1,155
Non-current assets		**113,068**	**108,717**	**106,882**
Inventories	(16)	4,518	4,774	3,811
Financial receivables and other financial assets	(17)	1,729	2,101	1,515
Trade receivables and other operating assets	(17)	23,007	28,848	16,895
Income tax assets	(10)	1,925	1,515	539
Liquid funds	(18)	6,116	6,348	7,075
Securities and fixed-term deposits		*1,722*	*2,125*	*3,888*
Restricted cash and cash equivalents		*184*	*552*	*300*
Cash and cash equivalents		*4,210*	*3,671*	*2,887*
Assets held for sale	(4)	2,273	4,521	577
Current assets		**39,568**	**48,107**	**30,412**
Total assets		**152,636**	**156,824**	**137,294**

E.ON AG and Subsidiaries Consolidated Balance Sheets—Equity and Liabilities

		December 31		January 1
€ in millions	Notes	2009	2008	2008
Capital stock	(19)	2,001	2,001	1,734
Additional paid-in capital	(20)	13,747	13,741	11,825
Retained earnings	(21)	26,578	22,181	26,828
Accumulated other comprehensive income	(22)	1,552	110	10,656
Treasury shares	(19)	-3,530	-3,549	-616
Reclassification related to put options on treasury shares	(19)	–	–	-1,053
Equity attributable to shareholders of E.ON AG		**40,348**	**34,484**	**49,374**
Minority interests (before reclassification)		4,157	4,538	6,281
Reclassification related to put options	(26)	-550	-578	-525
Minority interests	(23)	**3,607**	**3,960**	**5,756**
Equity		**43,955**	**38,444**	**55,130**
Financial liabilities	(26)	30,657	25,036	15,915
Operating liabilities	(26)	7,850	9,753	6,682
Income taxes	(10)	3,124	2,602	2,537
Provisions for pensions and similar obligations	(24)	2,884	3,559	2,890
Miscellaneous provisions	(25)	18,808	19,198	18,073
Deferred tax liabilities	(10)	7,505	6,277	7,555
Non-current liabilities		**70,828**	**66,425**	**53,652**
Financial liabilities	(26)	7,120	16,022	5,549
Trade payables and other operating liabilities	(26)	23,099	28,370	17,004
Income taxes	(10)	1,643	2,153	1,354
Miscellaneous provisions	(25)	4,715	4,260	3,992
Liabilities associated with assets held for sale	(4)	1,276	1,150	613
Current liabilities		**37,853**	**51,955**	**28,512**
Total equity and liabilities		**152,636**	**156,824**	**137,294**

E.ON AG and Subsidiaries Consolidated Statements of Cash Flows

€ in millions	2009	2008
Net income	8,645	1,621
Income from discontinued operations, net	172	128
Depreciation, amortization and impairment of intangible assets and of property, plant and equipment	3,981	6,852
Changes in provisions	162	635
Changes in deferred taxes	918	-1,085
Other non-cash income and expenses	419	279
Gain/Loss on disposal of	-5,095	-1,407
Intangible assets and property, plant and equipment	*-62*	*-362*
Equity investments	*-4,829*	*-877*
Securities (> 3 months)	*-204*	*-168*
Changes in operating assets and liabilities and in income taxes	-148	-285
Inventories	*739*	*-1,454*
Trade receivables	*1,983*	*-4,616*
Other operating receivables and income tax assets	*1,915*	*-10,172*
Trade payables	*-892*	*515*
Other operating liabilities and income taxes	*-3,893*	*15,442*
Cash provided by operating activities of continuing operations (operating cash flow)	**9,054**	**6,738**
Proceeds from disposal of	4,925	432
Intangible assets and property, plant and equipment	*311*	*190*
Equity investments[1]	*4,614*	*242*
Purchase of investments in	-9,200	-18,406
Intangible assets and property, plant and equipment	*-8,376*	*-8,996*
Equity investments	*-824*	*-9,410*
Proceeds from disposal of securities (> 3 months) and of financial receivables and fixed-term deposits	6,610	10,235
Purchase of securities (> 3 months) and of financial receivables and fixed-term deposits	-6,083	-9,099
Changes in restricted cash and cash equivalents	349	-240
Cash used for investing activities of continuing operations	**-3,399**	**-17,078**
Payments received/made from changes in capital[2]	-1	62
Payments for treasury shares, net[2]	25	-2,951
Premiums received for put options on treasury shares	–	25
Cash dividends paid to shareholders of E.ON AG	-2,857	-2,560
Cash dividends paid to minority shareholders	-299	-377
Proceeds from financial liabilities	10,399	22,976
Repayments of financial liabilities	-12,437	-5,784
Cash provided by (used for) financing activities of continuing operations	**-5,170**	**11,391**
Net increase/decrease in cash and cash equivalents from continuing operations	**485**	**1,051**
Cash provided by operating activities of discontinued operations	26	15
Cash used for investing activities of discontinued operations	-26	-15
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	54	-267
Cash and cash equivalents at the beginning of the year	3,671	2,887
Cash and cash equivalents of continuing operations at the end of the year	**4,210**	**3,671**

[1]For 2009, this figure contains amounts paid out in connection with the disposal of equity investments totaling €488 million.
[2]No material netting has taken place in either of the years presented here.

Supplementary Information on Cash Flows from Operating Activities of Continuing Operations

€ in millions	2009	2008
Income taxes paid (less refunds)	-1,737	-1,490
Interest paid	-1,800	-1,543
Interest received	602	877
Dividends received	1,017	1,138

Additional 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, 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			1,254	-1,919	-8,568	123
Net income			*1,283*			
Changes in actuarial gains/losses of defined benefit pension plans and similar obligations			*-29*			
Other comprehensive income				*-1,919*	*-8,568*	*123*
Balance as of December 31, 2008	**2,001**	**13,741**	**22,181**	**-2,547**	**2,676**	**-19**
Balance as of January 1, 2009	**2,001**	**13,741**	**22,181**	**-2,547**	**2,676**	**-19**
Changes in scope of consolidation						
Treasury shares repurchased/sold						
Capital increase		6				
Capital decrease						
Dividends paid			-2,857			
Other changes						
Share additions			-87			
Net additions/disposals from the reclassification related to put options						
Total comprehensive income			7,341	542	835	65
Net income			*8,396*			
Changes in actuarial gains/losses of defined benefit pension plans and similar obligations			*-1,055*			
Other comprehensive income				*542*	*835*	*65*
Balance as of December 31, 2009	**2,001**	**13,747**	**26,578**	**-2,005**	**3,511**	**46**

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
-616	**-1,053**	**49,374**	**6,281**	**-525**	**5,756**	**55,130**
			267		267	267
-2,933		-2,933				-2,933
		2,183	153		153	2,336
			-23		-23	-23
		-2,560	-418		-418	-2,978
			-194		-194	-194
		-3,651	-1,622		-1,622	-5,273
	1,053	1,181		-53	-53	1,128
		-9,110	94		94	-9,016
		1,283	*338*		*338*	*1,621*
		-29	*-47*		*-47*	*-76*
		-10,364	*-197*		*-197*	*-10,561*
-3,549	**0**	**34,484**	**4,538**	**-578**	**3,960**	**38,444**
-3,549	**0**	**34,484**	**4,538**	**-578**	**3,960**	**38,444**
			-52		-52	-52
19		19				19
		6	23		23	29
			-25		-25	-25
		-2,857	-270		-270	-3,127
			-1		-1	-1
		-87	-312		-312	-399
				28	28	28
		8,783	256		256	9,039
		8,396	*249*		*249*	*8,645*
		-1,055	*-11*		*-11*	*-1,066*
		1,442	*18*		*18*	*1,460*
-3,530	**0**	**40,348**	**4,157**	**-550**	**3,607**	**43,955**

(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. This market unit additionally holds interests predominantly in energy businesses in Europe outside of Germany. It 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 the integrated energy company E.ON Sverige AB ("E.ON Sverige"), Malmö, Sweden, is concentrated on the energy business in Northern Europe.
- 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 SE ("E.ON Energy Trading"), Düsseldorf, Germany, holds the E.ON Group's European trading activities for electricity, gas, coal, oil and CO_2 allowances.
- All of the remaining operating segments have been combined in accordance with IFRS 8, and are reported as the "New Markets" segment. New Markets contains the activities of the new Climate & Renewables, Italy, and Russia market units, as well as the Spain market unit.

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, 2009.

(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 their 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 insofar as 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 generally recognized at their fair values irrespective 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 currency 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.

Foreign-exchange transactions out of the Russian Federation may be restricted in certain cases.

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 2009	€1, rate at year-end 2008	€1, annual average rate 2009	€1, annual average rate 2008
British pound	GBP	0.89	0.95	0.89	0.80
Norwegian krone	NOK	8.30	9.75	8.73	8.22
Russian ruble	RUB	43.15	41.28	44.14	36.42
Swedish krona	SEK	10.25	10.87	10.62	9.62
Hungarian forint	HUF	270.42	266.70	280.33	251.51
U.S. dollar	USD	1.44	1.39	1.39	1.47

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 that of basic earnings per share because E.ON AG has issued no potentially dilutive 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 verified through the use of appropriate multiples, to the extent available. In addition, market transactions or valuations prepared by third parties for comparable assets are used to the extent available. If needed, 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 values 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 in local currency.

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 2009 and 2008 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. The useful lives of the major components of property, plant and equipment are presented below:

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 resulted 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 4.5 percent was applied for 2009 (2008: 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 recognized in income 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 determined by analyzing each transaction individually. If there is objective evidence of impairment, any unrealized gains and losses previously recognized in equity are instead recognized in financial results. When estimating a possible impairment loss, E.ON takes into consideration all available information, such as market conditions and the length and extent of the impairment. If the value on the balance sheet date of the equity instruments classified as available for sale and of similar long-term investments is more than 20 percent below their cost, or if the value has, on average, been more than ten percent below its cost for a period of more than twelve months, this constitutes objective evidence of impairment. For debt instruments, objective evidence of impairment is deemed present if ratings have deteriorated from investment-grade to non-investment-grade. Reversals of impairment losses relating to equity instruments are recognized exclusively in equity, while reversals relating to debt instruments are recognized entirely in income.

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. 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 under IAS 39, 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 cash flows of the transaction being hedged affect 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 equity.

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, is 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 of the reduction 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 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 these 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 carryforwards 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 (2008: 30 percent). This tax rate includes, in addition to the 15 percent (2008: 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 (2008: 14 percent) applicable to the E.ON Group. 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

In accordance with the so-called management approach required by IFRS 8, the internal reporting organization used by management for making decisions on operating matters was used to identify the Company's reportable segments, and the internal performance measure, i.e., adjusted EBIT, was 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

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. The debt factor, and hence the capital structure, is actively managed whenever it exceeds or falls short of the target of 3.

Based on adjusted EBITDA in 2009 of €13,526 million (2008: €13,385 million) and economic net debt of €44,665 million as of the balance sheet date (2008: €44,946 million), the debt factor is 3.3 (2008: 3.4).

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, 2009, through December 31, 2009:

IFRS 7, "Financial Instruments: Disclosures"

In March 2009, the IASB issued amendments to IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"). The amended standard requires that the methods and assumptions applied in determining fair values be disclosed for each financial instrument measured at fair value. If fair values were determined using valuation techniques (fair value hierarchy level 3), the assumptions applied in those must be disclosed. Reconciliation from the beginning balances to the ending balances is also required for these financial instruments. If the assumptions change, the effects of such changes must be disclosed with consideration given to materiality aspects. The amendments to IFRS 7 have been transferred by the EU into European law and their application is mandatory for fiscal years beginning on or after January 1, 2009. E.ON is complying with the enhanced disclosure requirements in these Consolidated Financial Statements.

IAS 1, "Presentation of Financial Statements"

In September 2007, the IASB issued a revised version of IAS 1, "Presentation of Financial Statements" ("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. In addition, whenever an accounting policy is applied retrospectively and whenever items in the annual financial statements are restated or reclassified retrospectively, the opening balance sheet for the earliest comparative period must be presented as well. The revised standard applies for fiscal years beginning on or after January 1, 2009. It has been transferred by the EU into European law.

Omnibus Standard to Amend Multiple International Financial Reporting Standards

The IASB 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 omnibus standard. The first omnibus standard was published by the IASB in May 2008. Many of the amendments are effective for fiscal years beginning on or after January 1, 2009. The omnibus standard has been transferred by the EU into European law. Pursuant to the requirements in the omnibus standard, E.ON presents its derivative financial instruments as current and non-current assets and liabilities based on their remaining terms to maturity. This has resulted in reclassifications of other operating assets and other operating liabilities from current to non-current. Because these reclassifications are retrospective reclassifications of items in the annual financial statements as defined by IAS 1, E.ON must present the opening balance sheet for the comparative period (January 1, 2008).

Amendments to IFRS 1, "First-time Adoption of International Financial Reporting Standards," and IAS 27, "Consolidated and Separate Financial Statements"—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

In May 2008, the IASB issued "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate," amendments to IFRS 1, "First-time Adoption of International Financial Reporting Standards," and IAS 27, "Consolidated and Separate Financial Statements." The revisions simplify the first-time preparation of separate financial statements under IFRS. Accordingly, subsidiaries, jointly controlled entities and associates can now be recognized either at fair value on the date of transition to IFRS or at the carrying amount as determined under previous accounting practice. In addition, the definition of the cost method has been eliminated from IAS 27, with the result that distributions of earnings from the time before the acquisition of a subsidiary are no longer charged against the carrying amount of the interest, but recognized in income. The amendments have been transferred by the EU into European law and their application is thus mandatory for fiscal years beginning on or after January 1, 2009. They will have no impact on E.ON.

Amendment to IFRS 2, "Share-based Payment"—Vesting Conditions and Cancellations

In January 2008, the IASB issued a revised version of IFRS 2, "Share-based Payment" ("IFRS 2"). The changes from the previous version relate primarily to the definition of vesting conditions, the definition and treatment of non-vesting conditions, and also include regulations for the cancellation of a plan by a party other than the entity itself. The amendments have been transferred by the EU into European law and their application is mandatory for fiscal years beginning on or after January 1, 2009. This amendment will have no impact on E.ON's Consolidated Financial Statements.

Amendments to IAS 32, "Financial Instruments: Presentation," and IAS 1, "Presentation of Financial Statements"

In February 2008, the IASB approved amendments to IAS 32, "Financial Instruments: Presentation," and IAS 1, "Presentation of Financial Statements." 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 financial liabilities. 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 have been transferred by the EU into European law and their application is thus mandatory for fiscal years beginning on or after January 1, 2009. The amendments will have no impact on E.ON.

Amendments to IFRIC 9, "Reassessment of Embedded Derivatives," and to IAS 39, "Financial Instruments: Recognition and Measurement"

In March 2009, the IASB published amendments to IFRIC 9, "Reassessment of Embedded Derivatives," and to IAS 39, "Financial Instruments: Recognition and Measurement," clarifying the accounting treatment of embedded derivatives for which a reclassification amendment was used as provided for by the IASB in October 2008 when it amended IAS 39. Pursuant to these changes, if financial instruments are reclassified out of the "fair value through profit or loss" category, all embedded derivatives have to be reassessed and, if necessary, separately accounted for in financial statements. The amendments have been transferred by the EU into European law and their application is thus mandatory for fiscal years beginning after December 31, 2008. They will have no impact on the Consolidated Financial Statements.

IFRIC 13, "Customer Loyalty Programmes"

IFRIC 13, "Customer Loyalty Programmes" ("IFRIC 13"), was published in June 2007. The interpretation 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. IFRIC 13 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. E.ON has identified no 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"), was published in July 2007. 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 has been transferred into European law and its application is thus mandatory for fiscal years beginning on or after January 1, 2009. Based on the pension plans currently in place, there was no material impact on E.ON's Consolidated Financial Statements.

Additional Changes

The prior year's receivables from and payables to investees are now presented by type of underlying transaction. The corresponding comparative figures have been adjusted accordingly. Segment reporting does not include the presentation of total assets by segment, as this is not a key internal management measure at E.ON.

Standards and Interpretations Not Yet Applicable in 2009

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 2009 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"

In November 2008, the IASB issued a revised version of IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). The objective of the new version is to simplify the application of this standard. Revised IFRS 1 is to be applied no later than for fiscal years beginning on or after December 31, 2009. It has been transferred by the EU into European law.

The IASB additionally approved further amendments to IFRS 1 in July 2009 and in January 2010, which primarily define simplifying exemptions in the initial transition to IFRS for particular circumstances. The amendments are to be applied for fiscal years beginning on or after January 1, 2010. Earlier application is permitted. They have not yet been transferred into European law.

Since E.ON already prepares its Consolidated Financial Statements in accordance with IFRS, neither the restructuring of IFRS 1 nor the amendments to it are of relevance.

IFRS 3, "Business Combinations"

In January 2008, the IASB issued 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. The standard has been transferred by the EU into European law. Given the option in the standard 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.

IFRS 9, "Financial Instruments"

In November 2009, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"). Under this new IFRS 9, all financial instruments currently within the scope of IAS 39 will henceforth be subdivided into only two classifications: financial instruments measured at amortized cost and financial instruments measured at fair value. The new standard is to be applied for fiscal years beginning on or after January 1, 2013. Earlier application is permitted. The standard has not yet been transferred by the EU into European law. E.ON is currently evaluating the potential effects arising from the standard.

IAS 24, "Related Party Disclosures"

In November 2009, the IASB issued a revised version of IAS 24 "Related Party Disclosures" ("IAS 24"). In particular, the revisions clarify the definition of a "related party" and simplify the disclosure requirements for entities deemed related by virtue of being controlled or significantly influenced by a particular government. It has not yet been transferred by the EU into European law. The application of revised IAS 24 is mandatory for fiscal years beginning on or after January 1, 2011. Earlier application is permitted. E.ON is currently evaluating the impact on its Consolidated Financial Statements.

IAS 27, "Consolidated and Separate Financial Statements"

In January 2008, the IASB issued 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 have been transferred into European law and their application is mandatory for fiscal years beginning on or after July 1, 2009. The amendments to IAS 27 may have transaction-related effects on the E.ON Consolidated Financial Statements that cannot be estimated at this time.

Omnibus 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 second such omnibus standard was published by the IASB in April 2009. Many of the amendments in it are effective for fiscal years beginning on or after January 1, 2010. The omnibus standard has not yet been transferred by the EU into European law. To the extent that changes in this year's standard are of relevance to E.ON, they will be applied accordingly in the future. Current estimates do not indicate that the amendments will have a material impact on the Consolidated Financial Statements.

Amendments to IFRS 2, "Share-based Payment"

In June 2009, the IASB issued amendments to IFRS 2 that clarify how cash-settled share-based payment transactions are accounted for by a subsidiary within a group. The guidance relates to arrangements in which an entity that prepares financial statements receives goods or services but its parent or another entity in the group must pay for those goods or services, not the receiving entity. The amendments also incorporate guidance previously included in IFRIC 8, "Scope of IFRS 2," and IFRIC 11, "IFRS 2—Group and Treasury Share Transactions." As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amendments to IFRS 2 are to be applied for the first time for fiscal years beginning on or after January 1, 2010. Earlier application is permitted. They have not yet been transferred by the EU into European law. E.ON anticipates that these amendments will not have a material impact on its Consolidated Financial Statements.

Amendment to IAS 32, "Financial Statements: Presentation"—Classification of Rights Issues

In October 2009, the IASB issued an amendment to IAS 32, "Financial Statements: Presentation," regulating the classification of rights issues. This new amendment requires that certain subscription rights, options and warrants that are denominated in a foreign currency be recognized as equity by the issuer of the equity instrument to which the rights refer, rather than as a derivative liability, as was past practice. The amendment is to be applied for fiscal years beginning on or after February 1, 2010. Earlier application is permitted. The amendment has been transferred by the EU into European law. E.ON does not anticipate any impact on its Consolidated Financial Statements.

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

In July 2008, the IASB issued an amendment to IAS 39, "Financial Instruments: Recognition and Measurement"—Eligible Hedged Items. The amendment primarily clarifies the principles for the designation of inflation risks as a hedged item and for the designation of a one-sided risk in a hedged item. The amendment is to be applied for fiscal years beginning on or after July 1, 2009. The standard has been transferred by the EU into European law. The amendment will have no material impact on E.ON.

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. The interpretation has been transferred by the EU into European law and its application is thus mandatory for fiscal years beginning on or after March 29, 2009. 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 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. The interpretation has been transferred by the EU into European law and its application is thus mandatory for fiscal years beginning after December 31, 2009. 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. The interpretation has been transferred by the EU into European law and its application is mandatory for fiscal years beginning after June 30, 2009. 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. The interpretation has been transferred by the EU into European law and its application is thus mandatory for fiscal years beginning after October 31, 2009. 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. IFRIC 18 applies in cases where an entity receives from its customers a non-cash asset, or the funds necessary for the production or acquisition of a non-cash asset, in order to then provide those customers with access to a network, a service or the delivery of goods. The interpretation has been transferred by the EU into European law and its application is thus mandatory, at the latest, for fiscal years beginning after October 31, 2009. E.ON anticipates no material impact on its Consolidated Financial Statements.

IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" ("IFRIC 19"), was published in November 2009. IFRIC 19 clarifies the accounting treatment of financial liabilities that are settled through the transfer of equity instruments. The financial instruments issued are deemed part of the "consideration paid" as defined by IAS 39.41. The borrower must therefore fully or partially derecognize the liability. Any difference between the carrying amount of the financial liability thus (partially) extinguished and the initial measurement amount of the equity instruments issued is recognized in income. IFRIC 19 is effective for fiscal years beginning on or after July 1, 2010. Earlier application is permitted. It has not yet been transferred by the EU into European law. E.ON anticipates no impact 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, 2008	153	438	591
Additions	18	91	109
Disposals/Mergers	20	34	54
Consolidated companies as of December 31, 2008	**151**	**495**	**646**
Additions	15	14	29
Disposals/Mergers	21	68	89
Consolidated companies as of December 31, 2009	**145**	**441**	**586**

In 2009, a total of 57 domestic and 74 foreign associated companies were accounted for under the equity method (2008: 103 domestic and 83 foreign). Significant acquisitions, disposals and discontinued operations are discussed in Note 4.

(4) Acquisitions, Disposals and Discontinued Operations

Acquisitions in 2009

Yuzhno-Russkoye

In October 2008, E.ON and OAO Gazprom, Moscow, Russian Federation ("Gazprom"), reached an understanding on E.ON acquiring an interest in the Yuzhno-Russkoye gas field in Siberia. As consideration for this ownership stake, E.ON delivered to Gazprom the Gazprom shares indirectly held by E.ON, which represent 2.93 percent of the equity of Gazprom and are valued at €2.3 billion, along with a small cash component. The interest in the gas field was purchased by acquiring 25 percent minus three of the shares of OAO Severneftegazprom, Krasnoselkup, Russian Federation, which holds the development license. This interest is accounted for as an associated company, using the equity method, and carried at a prorated acquisition cost of €0.2 billion. There were no significant effects based on the preliminary purchase price allocation for this acquisition. The gas attributable to E.ON's interest is marketed through the project company ZAO Gazprom YRGM Development, Salekhard, Russian Federation, whose earnings are attributable to E.ON in the form of preferred stock. Given that the significant risks and rewards of ownership have been transferred, this company had to be consolidated in full within the E.ON Group since October 2009. The following data refer to ZAO Gazprom YRGM Development:

Major Balance Sheet Line Items—ZAO Gazprom YRGM Development

€ in millions	Carrying amounts before initial recognition	Purchase price allocation	Carrying amounts at initial recognition
Intangible assets	–	2,564	2,564
Other assets	1	4	5
Total assets	**1**	**2,568**	**2,569**
Non-current liabilities	–	513	513
Total liabilities	**0**	**513**	**513**
Net assets	**1**	**2,055**	**2,056**
Attributable to shareholders of E.ON AG	*–*	*2,055*	*0*
Attributable to minority interests	*1*	*–*	*1*
Acquisition cost		**2,205**	
Remaining goodwill (preliminary)		**150**	**150**

The potential effects on revenues and earnings of a full-year consolidation of the company cannot be computed reliably because of the new business structure. Only a small amount of liquid funds was acquired in the transaction.

Revenues of €320 million and net income of €79 million, taking into account the effects of the preliminary purchase price allocation on earnings, are recognized in the 2009 Consolidated Financial Statements.

Significant assets in the purchase price allocation include favorable gas supply contracts, which account for the majority of the difference. The valuation of these contracts, in particular, is not yet complete. Non-current liabilities consist exclusively of deferred taxes. The difference remaining at the project company is €150 million, recognized as preliminary goodwill. The purchase price allocation is preliminary as of December 31, 2009.

Langerlo-Vilvoorde NV

In the course of implementing E.ON's commitment to the European Commission to dispose of a variety of generating capacity in Germany, an agreement was made with Electrabel SA/NV ("Electrabel"), Brussels, Belgium, on the economic exchange of a variety of power plant units and electricity supplies in Germany and Belgium.

In this context, E.ON acquired all of the shares of a power plant unit in Belgium, Langerlo-Vilvoorde NV, Vilvoorde, Belgium. The unit operates coal- and gas-fired power plants at the Langerlo and Vilvoorde locations. The acquisition of this unit took place at the beginning of November 2009 in exchange for the power plant units delivered to Electrabel. A small remainder not covered by the transferred assets was settled by E.ON in cash.

Major Balance Sheet Line Items—Langerlo-Vilvoorde NV

€ in millions	Carrying amounts before initial recognition	Purchase price allocation	Carrying amounts at initial recognition
Intangible assets	–	11	11
Property, plant and equipment	512	-71	441
Other assets	17	55	72
Total assets	**529**	**-5**	**524**
Non-current liabilities	16	–	16
Current liabilities	25	53	78
Total liabilities	**41**	**53**	**94**
Net assets	**488**	**-58**	**430**
Goodwill (preliminary)		**40**	**40**

Carrying amounts before initial consolidation are generally determined on the basis of IFRS. Reconciliation adjustments to the accounting policies applied in the E.ON Group are presented together with the adjustments from the purchase price allocation. Revenues of €52 million and an earnings contribution of €1 million, taking into account the effects of the purchase price allocation on earnings, are recognized in the 2009 Consolidated Financial Statements. The potential effects on revenues and earnings of a full-year consolidation of the company cannot be computed reliably given that the power plants were previously consolidated within the Electrabel group. Only a small amount of liquid funds was acquired.

The purchase price allocation is still preliminary as of December 31, 2009, because investigations relating to the property, plant and equipment, as well as evaluations of legal issues, remain outstanding. The remaining difference was reported as preliminary goodwill as of December 31, 2009.

Discontinued Operations in 2009

WKE

Through Western Kentucky Energy Corp. ("WKE"), Henderson, Kentucky, U.S., E.ON U.S. had a 25-year lease on and operated 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 operating agreements.

The agreement closed in July 2009. The agreement involved offsetting payments amounting to approximately €0.5 billion. Subsequent effects from the settlement of existing contractual relationships that will be recognized in income and cash flows are expected to continue to occur through the end of 2010. These effects will continue to be reported under income/loss from discontinued operations.

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	2009	2008
Sales	92	204
Other income/expenses, net	-332	-414
Loss from continuing operations before income taxes and minority interests	**-240**	**-210**
Income tax benefit	89	82
Loss from discontinued operations	**-151**	**-128**

Major Balance Sheet Line Items—WKE (Summary)		
	December 31	
€ in millions	2009	2008
Intangible assets and property, plant and equipment	–	156
Other assets	–	422
Total assets	**0**	**578**
Total liabilities	–	711

Disposal Groups and Assets Held for Sale in 2009

Endesa Europa/Viesgo

As part of the acquisition of the Endesa Europa/Viesgo activities, an agreement was reached with A2A S.p.A. ("A2A"), Milan, Italy, the minority shareholder of E.ON Produzione S.p.A. ("E.ON Produzione"), Sassari, Italy, to acquire the minority interest primarily in return for company-owned generating capacity of the Italy market unit valued at approximately €1.4 billion. The disposal group was reported in the New Markets segment. The agreement closed in July 2009. Accordingly, the relevant assets and liabilities were sold in the third quarter of 2009.

Commitment to the European Commission

In December 2008, E.ON's commitment to the European Commission to sell a variety of generating capacity and the ultrahigh-voltage network in Germany took effect. Based on this commitment and on declarations of intent already signed at the end of 2008 with two parties interested in acquiring generating capacity, namely Electrabel and EnBW Energie Baden-Württemberg AG ("EnBW"), Karlsruhe, Germany, the total capacity to be sold, along with associated assets and liabilities, has been presented as a disposal group since December 2008. The net carrying amounts of the disposal group relate exclusively to the Central Europe market unit and amounted to approximately €0.1 billion (December 31, 2008: €0.4 billion). The disposals of 0.5 GW of capacity to EnBW, of 0.3 GW of capacity to Österreichische Elektrizitätswirtschafts-AG, Vienna, Austria, and to Verbund-Kraftwerke Beteiligungsholding GmbH & Co KG, Mödling, Austria, and of 1.6 GW of capacity, including electricity supplies, to Electrabel were already completed in 2009, resulting in a total gain on disposal of approximately €2.4 billion. In September and October of 2009, binding contracts were signed with EnBW and Electricité de France SA ("EdF"), Paris, France, as well as with Stadtwerke Hannover AG ("Stadtwerke Hannover"), Hanover, Germany, on the disposal of approximately 1.6 GW of additional generating capacity, including electricity supplies. The remaining outstanding 35 percent of the shares of Société Nationale d'Electricité et de Thermique S.A. ("SNET France"), Paris, France, were acquired in this transaction with EnBW and EdF. When the transaction closed in December, E.ON thus became the sole shareholder of SNET France as of year-end 2009. The closing of the contract with Stadtwerke Hannover was completed in January 2010.

In November 2009, an agreement was reached with TenneT B.V., Arnhem, The Netherlands, on the disposal of the German ultrahigh-voltage network. Accordingly, the ultrahigh-voltage network was reclassified in the fourth quarter of 2009 with a net carrying amount of approximately €0.8 billion. Significant assets and liabilities included property, plant and equipment and non-current assets in the amount of €1.0 billion and €0.7 billion, respectively, along with liabilities and deferred taxes in the amount of €0.9 billion and €0.2 billion, respectively. The agreement is expected to close by the end of February 2010.

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 were reported as assets held for sale since October 2008. The relevant contracts were closed in October 2009. Through the disposal of the interest, fair-value adjustments accumulated in other comprehensive income were realized in income, which resulted in a book gain of €1.8 billion.

Thüga

In 2009, E.ON conducted negotiations on a sale of the Thüga group, which is held in the Pan-European Gas market unit, to a consortium of municipal acquirers (Integra/Kom9). The negotiations did not include the interests in GASAG Berliner Gaswerke Aktiengesellschaft, Berlin, Germany, in HEAG Südhessische Energie AG, Darmstadt, Germany, in Stadtwerke Duisburg Aktiengesellschaft, Duisburg, Germany, and in Stadtwerke Karlsruhe GmbH, Karlsruhe, Germany. Given the progress of the negotiations, the Thüga group has been reported as a disposal group since the third quarter of 2009. As of September 30, 2009, the major balance sheet items of the disposal group consisted of financial assets (approximately €2.0 billion) and non-current intangible assets (approximately €0.9 billion) and of provisions and liabilities (approximately €0.6 billion). Binding contracts on a purchase price of approximately €2.9 billion were signed with the acquirer consortium in October 2009. The transaction was completed in December 2009 and resulted in a gain on disposal of approximately €0.3 billion.

VKE Asset Restructuring

In 2009, an amount of €1.7 billion in employer contributions was paid into the existing Contractual Trust Arrangement (CTA) by certain German entities for the external financing of the existing defined benefit obligations. Collateral was transferred to Pensionsabwicklungstrust e.V. (the trustee) through the exclusive and complete use of an institutional fund that until then had been a consolidated entity of the mutual insurance fund Versorgungskasse Energie ("VKE"). The fair-value adjustments recognized in other comprehensive income were reclassified to income in the amount of €0.1 billion.

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 €8.5 billion paid in cash for the equity, and of approximately €2.9 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., 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. ("E.ON Servicios") and E.ON Europa S.L. ("E.ON Europa"). The companies are now all based in Madrid, Spain.

An agreement had already been reached in June 2008 with the minority shareholder of E.ON Produzione, A2A, which originally held a 20-percent interest, to acquire that minority interest primarily in return for company-owned generating capacity in Italy originally 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 E.ON Produzione already had to be included in the Consolidated Financial Statements effective June 30, 2008. The approximately 1.5 GW of generating capacity to be transferred was specified in July 2008. Following a contractual agreement signed in April 2009, the legal transfer of the minority interest and of the generating capacity will be effective as of July 1, 2009. This capacity was reported as a disposal group from its specification as such in the third quarter of 2008 until the completion of the arrangement. Considering the net financial position attributable to the generating capacity to be transferred and the finalized purchase price allocation, the net carrying amount of this disposal group was approximately €1.4 billion. The continuing earnings share of the minority shareholder was presented as a purchase price adjustment from the third quarter of 2008 until disposal.

Initial recognition of the operations took place in the second quarter of 2008.

The purchase price allocation was finalized in the second quarter of 2009. Compared to the preliminary figures presented at year-end 2008, only minor changes were recorded, mainly in the areas of unfavorable contracts and deferred taxes.

The reconciliation to the E.ON Group's accounting policies is finalized. Reconciliation adjustments to the accounting policies applied at the E.ON Group were presented together with the adjustments from the purchase price allocation.

The allocation of final goodwill was conducted in the second quarter of 2009. It was based on the retroactive allocation of preliminary goodwill to the respective cash-generating units (including the adjustment of prior-year figures) conducted in the first quarter of 2009. In addition, a final determination was made in the second quarter of 2009 on the preliminary impairment charge that was recorded as of December 31, 2008, and retroactively allocated to the respective cash-generating units. Factoring in the final adjustments to purchase price allocation, the impairment charge increased to €1,813 million. Of this total, E.ON recorded impairment charges of €1,663 million on goodwill at the Italy market unit and impairment charges of approximately €150 million on other non-current assets at the Italy and Climate & Renewables market units. Corresponding adjustments were made on the balance sheet and in the income statement for 2008.

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	2,124	2,601
Property, plant and equipment	6,754	453	7,207
Other assets	2,783	322	3,105
Total assets	**10,014**	**2,899**	**12,913**
Non-current liabilities	2,663	894	3,557
Current liabilities	4,587	447	5,034
Total liabilities	**7,250**	**1,341**	**8,591**
Net assets	**2,764**	**1,558**	**4,322**
Attributable to shareholders of E.ON AG	*2,377*	*-2,377*	*–*
Attributable to minority interests	*387*	*-86*	*301*
Acquisition cost paid in cash		**8,510**	
Non-monetary consideration for minority interest		1,375	
Goodwill before impairment and reclassification		5,864	
Reclassification of goodwill to disposal groups (A2A)		-644	
Impairment		-1,663	
Goodwill		**3,557**	**3,557**

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.

(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 €532 million in 2009 (2008: €526 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	2009	2008
Income from exchange rate differences	10,849	8,571
Gain on derivative financial instruments	7,473	3,543
Gain on disposal of investments	5,156	1,446
Gain on disposal of property, plant and equipment	153	419
Miscellaneous	1,330	1,475
Total	**24,961**	**15,454**

In general, E.ON employs derivatives to hedge commodity risks as well as currency and interest risks.

Gains and losses 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.

Income from exchange rate differences consisted primarily of realized gains from currency derivatives in the amount of €9,113 million (2008: €6,195 million) and of effects from foreign currency translation on the balance sheet date in the amount of €1,241 million (2008: €1,974 million).

The gains on the disposal of investments and securities consisted primarily of the €2,359 million gain on the disposal of generating capacity in the context of the commitment made to the European Commission, the book gain of €1,818 million on the disposal of the shares of Gazprom indirectly held by E.ON, and of the book gain of €328 million on the sale of the Thüga group (see also Note 4). Gains were also realized on the sale of securities in the amount of €314 million (2008: €554 million). In 2008, the gains on the disposal of investments also included the gain on the Statkraft transaction, which amounted to €1,070 million.

Miscellaneous other operating income in 2009 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	2009	2008
Loss from exchange rate differences	11,095	7,879
Loss on derivative financial instruments	5,701	6,552
Taxes other than income taxes	255	262
Loss on disposal of investments	122	401
Miscellaneous	5,430	5,243
Total	**22,603**	**20,337**

Losses from exchange rate differences consisted primarily of realized losses from currency derivatives in the amount of €9,344 million (2008: €6,088 million) and of effects from foreign currency translation on the balance sheet date in the amount of €1,207 million (2008: €1,418 million).

Miscellaneous other operating expenses include a European Commission fine for alleged market sharing with GdF Suez in the amount of €553 million, concession payments in the amount of €492 million (2008: €477 million), expenses for external audit and non-audit services and consulting in the amount of €315 million (2008: €474 million), advertising and marketing expenses in the amount of €241 million (2008: €370 million), as well as write-downs of trade receivables in the amount of €382 million (2008: €422 million). Additionally reported in this item are services rendered by third parties, IT expenditures and insurance premiums.

Other operating expenses from exploration activities totaled €41 million (2008: €53 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	2009	2008
Expenses for raw materials and supplies and for purchased goods	59,237	63,611
Expenses for purchased services	2,850	2,808
Total	**62,087**	**66,419**

(9) Financial Results

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

Financial Results

€ in millions	2009	2008
Income from companies in which equity investments are held	167	217
Impairment charges on other financial assets and current securities	-391	-675
Income from equity investments	**-224**	**-458**
Income from securities, interest and similar income	601	1,159
Available for sale	*277*	*407*
Loans and receivables	*190*	*395*
Held for trading	*44*	*124*
Other interest income	*90*	*233*
Interest and similar expenses	-2,850	-3,052
Amortized cost	*-1,658*	*-1,625*
Held for trading	*-31*	*-131*
Other interest expenses	*-1,161*	*-1,296*
Net interest income	**-2,249**	**-1,893**
Financial results	**-2,473**	**-2,351**

The measurement categories are described in detail in Note 2. Prior-year values for available-for-sale securities and for loans and receivables have been adjusted to improve comparability.

The change in net interest income in 2009 as compared with the previous year was due primarily to the lower interest income attributable to the reduced interest rates on available-for-sale securities and loans granted. Low interest rates were also reflected in the interest expense, which declined even as average financial liabilities have increased. The stabilization of the financial markets could be seen in the impairments recognized on the securities held primarily as part of the Company's asset management activities (see Note 31), which were not as high as in 2008.

Other interest income consists mostly of the income from lease receivables (finance leases). Other interest expense includes the accretion of provisions for asset retirement obligations in the amount of €750 million (2008: €759 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 €228 million (2008: €145 million).

In accordance with IAS 32, the accretion of liabilities in connection with put options resulted in an expense of €67 million (2008: €61 million).

Interest expense was reduced by capitalized interest on debt totaling €338 million (2008: €182 million).

Realized gains and losses from interest rate swaps are shown net on the face of 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	2009	2008
Domestic income taxes	1,484	977
Foreign income taxes	541	937
Other income taxes	33	5
Current taxes	**2,058**	**1,919**
Domestic	120	-398
Foreign	798	-687
Deferred taxes	**918**	**-1,085**
Total income taxes	**2,976**	**834**

The increase in tax expense of €2,142 million compared with 2008 primarily reflects the increase in deferred taxes arising from gains on derivatives. On the other hand, the effective tax rate decreased from 32 percent in 2008 to 25 percent in 2009, as the impairment charges on goodwill (see Note 14) recognized in the E.ON Consolidated Financial Statements for 2008 did not lead to tax relief.

German legislation providing for fiscal measures to accompany the introduction of the European Company and amending other fiscal provisions ("SE-Steuergesetz" 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 €980 million in 2009 (2008: €1,157 million).

Liabilities from income taxes in 2009 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, 2009, €31 million (2008: €8 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 €1,933 million (2008: €1,543 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 in Italy, Hungary and a number of other countries resulted in tax expense of €28 million in total. In 2008, changes in foreign tax rates and tax law produced total deferred tax income of €112 million.

The differences between the 2009 base income tax rate of 30 percent (2008: 30 percent) applicable in Germany and the effective tax rate are reconciled as follows:

Reconciliation to Effective Income Taxes/Tax Rate

	2009		2008	
	€ in millions	%	€ in millions	%
Expected corporate income tax	3,538	30.0	775	30.0
Credit for dividend distributions	-47	-0.4	-5	-0.2
Foreign tax rate differentials	-52	-0.4	-115	-4.5
Changes in tax rate/tax law	28	0.2	-112	-4.3
Tax effects on tax-free income	50	0.4	-145	-5.6
Tax effects on equity accounting	-282	-2.4	-289	-11.2
Other[1]	-259	-2.2	725	28.1
Effective income taxes/tax rate	**2,976**	**25.2**	**834**	**32.3**

[1]In 2008, including €1,041 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 -€89 million in 2009 (2008: -€82 million). See Note 4 for additional discussion.

Deferred tax assets and liabilities as of December 31, 2009, and December 31, 2008, break down as shown in the following table:

Deferred Tax Assets and Liabilities

	December 31	
€ in millions	2009	2008
Intangible assets	407	532
Property, plant and equipment	716	679
Financial assets	244	218
Inventories	22	20
Receivables	994	433
Provisions	4,934	3,743
Liabilities	3,443	4,323
Net operating loss carryforwards	1,065	717
Tax credits	126	107
Other	413	150
Subtotal	**12,364**	**10,922**
Changes in value	-171	-179
Deferred tax assets	**12,193**	**10,743**
Intangible assets	2,340	1,633
Property, plant and equipment	6,788	6,378
Financial assets	211	265
Inventories	161	225
Receivables	4,060	4,369
Provisions	826	603
Liabilities	623	515
Other	1,613	784
Deferred tax liabilities	**16,622**	**14,772**
Net deferred tax assets/liabilities (-)	**-4,429**	**-4,029**

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

Net Deferred Tax Assets and Liabilities

€ in millions	December 31, 2009 Current	December 31, 2009 Non-current	December 31, 2008 Current	December 31, 2008 Non-current	January 1, 2008 Current	January 1, 2008 Non-current
Deferred tax assets	237	3,010	122	2,305	286	1,081
Changes in value	-1	-170	-57	-122	-4	-208
Net deferred tax assets	**236**	**2,840**	**65**	**2,183**	**282**	**873**
Deferred tax liabilities	-411	-7,094	-1,162	-5,115	-701	-6,854
Net deferred tax assets/liabilities (-)	**-175**	**-4,254**	**-1,097**	**-2,932**	**-419**	**-5,981**

The separate presentation of derivative financial instruments by maturity has also had effects on the presentation and netting of deferred taxes. This change resulted in a reduction of €223 million in deferred tax assets and liabilities as of December 31, 2008.

Of the deferred taxes reported, a total of €335 million was charged directly to equity in 2009 (2008: €1,098 million). A further €106 million in current taxes (2008: €106 million) was also charged directly to equity.

Income taxes recognized in other comprehensive income for the years 2009 and 2008 break down as follows:

Income Taxes on Components of Other Comprehensive Income

€ in millions	2009 Before income taxes	2009 Income taxes	2009 After income taxes	2008 Before income taxes	2008 Income taxes	2008 After income taxes
Cash flow hedges	207	-84	123	181	-32	149
Available-for-sale securities	772	74	846	-10,186	1,332	-8,854
Currency translation adjustments	129	339	468	-1,922	-177	-2,099
Changes in actuarial gains/losses of defined benefit pension plans and similar obligations	-1,500	434	-1,066	3	-81	-78
Companies accounted for under the equity method	23	–	23	245	–	245
Total	**-369**	**763**	**394**	**-11,679**	**1,042**	**-10,637**

The preliminary purchase price allocation performed in connection with the acquisition of the interest in the Yuzhno-Russkoye gas field has resulted in deferred tax assets of €3 million and in deferred tax liabilities of €503 million as of December 31, 2009.

The preliminary purchase price allocation of the acquisition of the Belgian power plant unit resulted in deferred tax assets of €49 million and in deferred tax liabilities of €15 million as of December 31, 2009.

Additional acquisitions in 2009 resulted in the recognition as of December 31, 2009, of a total of €3 million in deferred tax assets and €20 million in deferred tax liabilities.

The purchase price allocation finalized in 2009 of the acquisition in 2008 of Endesa Europa/Viesgo reduced deferred tax assets by €94 million, from €254 million to €160 million, and deferred tax liabilities by €115 million, from €572 million to €457 million.

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

Tax Loss Carryforwards

	December 31	
€ in millions	2009	2008
Domestic tax loss carryforwards	907	1,377
Foreign tax loss carryforwards	4,968	3,547
Total	**5,875**	**4,924**

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. No deferred taxes have been recognized on a total of €2,066 million in tax loss carryforwards that do not expire (2008: €2,095 million).

No deferred taxes have been recognized on a total of €22 million in as yet unused tax credits. Of these, €13 million expire within the next five years, and €9 million after 2014.

(11) Personnel-Related Information

Personnel Costs

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

Personnel Costs € in millions	2009	2008
Wages and salaries	4,322	4,148
Social security contributions	654	642
Pension costs and other employee benefits	381	340
Pension costs	*375*	*314*
Total	**5,357**	**5,130**

In 2009, E.ON used a total of 925,282 of its treasury shares (0.05 percent of the capital stock of E.ON AG) for the issue of employee shares (2008: 1,138,050 shares or 0.06 percent of the capital stock of E.ON AG) at an average purchase price of €20.18 per share (2008: €39.65 per share, purchased on the market). These shares were sold to employees at preferential prices between €6.66 and €19.41 (2008: between €10.64 and €32.18). The costs arising from the granting of these preferential prices were charged to personnel costs as "Wages and salaries."

Information about the 2008 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
Date of issuance	Jan. 3, 2005	Jan. 2, 2004	Jan. 2, 2003
Term	7 years	7 years	7 years
Blackout period	2 years	2 years	2 years
Price at issuance[1]	€20.37	€14.93	€12.62
Level of the Dow Jones STOXX Utilities Index (Price EUR)	268.66	211.58	202.14
Number of participants in year of issuance	357	357	344
Number of SAR issued	2.9 m	2.7 m	2.6 m
Exercise hurdle (minimum percentage by which exercise price exceeds the price at issuance)	10%	10%	10%
Exercise hurdle (minimum exercise price)[1]	€22.41	€16.42	€13.88
Number of subscription rights[1]	3	3	3
Maximum gain on exercise of three subscription rights	€65.35	€49.05	

[1]After 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, 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 fifth-tranche SAR were exercised in full until maturity on December 9, 2009. SAR from the sixth and 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, 2009.

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 €25.51 in 2009. The Xetra closing price for E.ON AG shares at year-end was €29.23. The Dow Jones STOXX Utilities Index (Price EUR) closed at 342.49 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
Intrinsic value as of December 31, 2009[1]	€26.58	€42.90
Fair value as of December 31, 2009[1]	€26.82	€38.61
Swap rate	1.85%	1.06%
Volatility of E.ON share	35.88%	39.09%
Dividend yield of E.ON share	5.52%	5.25%

[1]For three subscription rights.

In 2009, 118,434 SAR of tranche five were exercised on an ordinary basis. The total gain to holders on exercise was €5.1 million (2008: €6.0 million). Due to changes in the scope of consolidation, 1,000 SAR of tranche five are no longer taken into account. 2,000 SAR of tranche seven expired during the fiscal year.

The SAR of tranches six and seven were exercisable on December 31, 2009.

The provision for the SAR program was €1.0 million as of the balance sheet date (2008: €6.8 million). The decline in the value of the rights and the corresponding reduction of the provision resulted in income of €0.6 million in the 2009 fiscal year (2008: €10.4 million income). 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
SAR outstanding as of December 31, 2007	55,000	28,000	151,551
SAR granted in 2008	–	–	–
SAR exercised in 2008	29,000	18,000	32,117
SAR expired in 2008	–	–	–
SAR outstanding as of December 31, 2008	**26,000**	**10,000**	**119,434**
SAR granted in 2009	–	–	–
SAR exercised in 2009	–	–	118,434
SAR expired in 2009	2,000	–	–
Changes in scope of consolidation 2009	–	–	1,000
SAR outstanding as of December 31, 2009	**24,000**	**10,000**	**0**
Gains on exercise in 2009	–	–	€5.1 m
Provision as of December 31, 2009	€0.6 m	€0.4 m	–
Income in 2009	–	–	€0.6 m

E.ON Share Performance Plan

In 2009, virtual shares ("Performance Rights") were granted under the fourth tranche of the E.ON Share Performance Plan, which was introduced in 2006.

E.ON Share Performance Rights

	4th tranche	3rd tranche[1]	2nd tranche[1]
Date of issuance	Jan. 1, 2009	Jan. 1, 2008	Jan. 1, 2007
Term	3 years	3 years	3 years
Target value at issuance	€27.93	€136.26	€96.52
Number of participants in year of issuance	581	555	502
Number of Performance Rights issued	1,425,414	294,623	395,025
Maximum amount paid	€83.79	€408.78	€289.56

[1]Issued before 2008 stock split.

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, as well as to the performance of the E.ON share price relative to its benchmark, the Dow Jones STOXX Utilities Index (Total Return EUR). The amount paid out is equal to the target value at issuance if the E.ON share price is maintained at the end of the term and the performance of the E.ON share price matches that of the benchmark. The maximum amount to be paid out to each participant per Performance Right is limited to three times the target value originally set.

60-day average prices are used to determine the target value at issuance, 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 in 2008, adjustment factors were generated for the second and third tranches 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 out.

The fair value is determined for the Performance Rights in accordance with IFRS 2 using a recognized option pricing model. 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). The benchmark index stood at 657.34 points on December 31, 2009. 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

	4th tranche	3rd tranche[2]	2nd tranche[1,2]
Intrinsic value as of December 31, 2009	€27.79	€77.11	€90.88
Fair value as of December 31, 2009	€22.43	€73.32	€90.88
Swap rate	1.85%	1.06%	–
Dividend yield of E.ON share	5.52%	5.25%	–
Volatility of E.ON share	44.51%	34.75%	–
Volatility of the Dow Jones STOXX Utilities Index (Total Return EUR)	31.93%	22.12%	–
Correlation between the E.ON share price and the Dow Jones STOXX Utilities Index (Total Return EUR)	0.91	0.86	–

[1]Matured on December 31, 2009
[2]Issued before the 2008 stock split.

1,425,414 fourth-tranche Performance Rights were granted in 2009. The second tranche matured on December 31, 2009. The payout for the 370,246 second-tranche Performance Rights settled at the end of the term on an ordinary basis was set at €90.88 per Performance Right. As of the balance sheet date, a liability of 33.6 million, the total amount of the payouts, was recognized. The payout and elimination of the liability will take place in the first quarter of 2010. In addition, the cash amount from 7,127 second- and third-tranche Performance Rights was paid out during 2009 on an extraordinary basis in accordance with the terms and conditions of the plan. Total extraordinary payouts amounted to €0.6 million (2008: €1.4 million). 9,349 second-, third- and fourth-tranche Performance Rights expired in the 2009 fiscal year. Due to changes in the scope of consolidation, 28,988 Performance Rights of tranches two through four have been removed from the total. The provision for the plan at year-end amounted to €24.3 million (2008: €29.2 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 €29.3 million in the 2009 fiscal year (2008: €1.4 million).

Changes in the E.ON Share Performance Plan

	4th tranche	3rd tranche	2nd tranche
Performance Rights outstanding as of December 31, 2007	**–**	**–**	**391,266**
Performance Rights granted in 2008	–	294,623	–
Settled Performance Rights in 2008	–	–	3,463
Performance Rights expired in 2008	–	3,379	5,772
Performance Rights outstanding as of December 31, 2008	**0**	**291,244**	**382,031**
Performance Rights granted in 2009	1,425,414	–	–
Settled Performance Rights in 2009	–	446	376,927
Performance Rights expired in 2009	6,921	1,670	758
Changes in scope of consolidation 2009	19,604	5,038	4,346
Performance Rights outstanding as of December 31, 2009	**1,398,889**	**284,090**	**0**
Cash amount paid out in 2009	–	€0.1 m	€34.1 m
Provision as of December 31, 2009	€10.4 m	€13.9 m	–
Expense in 2009	-€10.4 m	-€7.5 m	-€11.4 m

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

Employees

During 2009, the Company employed an average of 91,010 persons (2008: 91,546), not including 2,608 apprentices (2008: 2,419). The breakdown by segment is shown below:

Employees

	2009	2008
Central Europe	49,369	43,190
Pan-European Gas	3,693	10,406
U.K.	16,443	17,535
Nordic	5,747	5,880
U.S. Midwest	3,126	3,070
Energy Trading	1,021	828
New Markets	8,483	7,704
Corporate Center	3,128	2,933
Total	**91,010**	**91,546**

(12) Other Information

German Corporate Governance Code

On December 14, 2009, the Board of Management and the 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 2009 and 2008, the following fees for services provided by the independent auditor of the Consolidated Financial Statements, PricewaterhouseCoopers ("PwC"), Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, (domestic) and by companies in the international PwC network were recorded as expenses:

Independent Auditor Fees

€ in millions	2009	2008
Financial statement audits	30	32
Domestic	*19*	*21*
Other attestation services	29	31
Domestic	*22*	*24*
Tax advisory services	2	2
Domestic	*1*	*1*
Other services	3	2
Domestic	*3*	*2*
Total	**64**	**67**
Domestic	*45*	*48*

The fees for 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 performed in the context of the introduction of IT and internal-control systems, due-diligence services rendered in connection with acquisitions and disposals, and other mandatory and voluntary audits.

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 and other projects.

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 indicates the reasons for and methods of consolidation, as well as 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	2009	2008
Income/Loss (-) from continuing operations	8,817	1,749
less: Minority interests	-249	-338
Income/Loss (-) from continuing operations (attributable to shareholders of E.ON AG)	**8,568**	**1,411**
Income/Loss (-) from discontinued operations, net (attributable to shareholders of E.ON AG)	-172	-128
Net income attributable to shareholders of E.ON AG	**8,396**	**1,283**
in €		
Earnings per share (attributable to shareholders of E.ON AG)		
from continuing operations	4.50	0.76
from discontinued operations	-0.09	-0.07
from net income	**4.41**	**0.69**
Weighted-average number of shares outstanding (in millions)	1,905	1,862

The computation of diluted earnings per share is identical to that of basic earnings per share because E.ON AG has issued no potentially dilutive ordinary shares.

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

Goodwill, Intangible Assets and Property, Plant and Equipment

	Acquisition and production costs						
€ in millions	January 1, 2009	Exchange rate differences	Change in scope of consolida-tion	Additions	Disposals	Transfers	December 31, 2009
Goodwill	**20,768**	**91**	**-364**	**14**	**-75**	**-125**	**20,309**
Marketing-related intangible assets	48	–	–	–	–	–	48
Customer-related intangible assets	2,297	57	39	2	-7	4	2,392
Contract-based intangible assets	4,419	1	2,710	37	-39	-333	6,795
Technology-based intangible assets	693	2	4	77	-52	80	804
Internally generated intangible assets	201	13	-5	19	–	1	229
Intangible assets subject to amortization	**7,658**	**73**	**2,748**	**135**	**-98**	**-248**	**10,268**
Intangible assets not subject to amortization	2,456	80	-192	1,750	-2,480	19	1,633
Advance payments on intangible assets	33	–	–	51	-10	-22	52
Intangible assets	**10,147**	**153**	**2,556**	**1,936**	**-2,588**	**-251**	**11,953**
Real estate and leasehold rights	3,086	81	-24	46	-39	-44	3,106
Buildings	9,531	-11	32	127	-111	29	9,597
Technical equipment, plant and machinery	89,418	877	-496	1,677	-882	3,900	94,494
Other equipment, fixtures, furniture and office equipment	3,055	76	-81	206	-255	-335	2,666
Advance payments and construction in progress	9,866	197	71	6,460	-39	-4,969	11,586
Property, plant and equipment	**114,956**	**1,220**	**-498**	**8,516**	**-1,326**	**-1,419**	**121,449**

Accumulated depreciation									Net carrying amounts
January 1, 2009	Exchange rate differences	Change in scope of consolida-tion	Additions	Disposals	Transfers	Impairment	Reversals	December 31, 2009	December 31, 2009
-3,457	**49**	**0**	**0**	**0**	**0**	**0**	**0**	**-3,408**	**16,901**
-47	–	–	–	–	–	–	–	-47	1
-1,130	-43	6	-150	4	2	-120	–	-1,431	961
-1,365	-16	7	-180	11	160	-20	8	-1,395	5,400
-529	-4	–	-91	50	4	-12	–	-582	222
-141	-10	6	-23	–	–	-6	–	-174	55
-3,212	**-73**	**19**	**-444**	**65**	**166**	**-158**	**8**	**-3,629**	**6,639**
-239	-4	–	–	181	–	-32	12	-82	1,551
0	–	–	–	–	–	–	–	0	52
-3,451	**-77**	**19**	**-444**	**246**	**166**	**-190**	**20**	**-3,711**	**8,242**
-267	-2	11	-28	7	–	-3	1	-281	2,825
-4,720	-29	-61	-276	6	140	-10	5	-4,945	4,652
-51,388	-498	427	-2,754	601	16	-71	32	-53,635	40,859
-2,086	-62	61	-187	248	265	–	–	-1,761	905
-15	-3	–	-2	1	–	-21	–	-40	11,546
-58,476	**-594**	**438**	**-3,247**	**863**	**421**	**-105**	**38**	**-60,662**	**60,787**

Goodwill, Intangible Assets and Property, Plant and Equipment

€ in millions	Acquisition and production costs						
	January 1, 2008	Exchange rate differences	Change in scope of consolida-tion	Additions	Disposals	Transfers	December 31, 2008
Goodwill	**17,045**	**-1,163**	**6,036**	**21**	**-71**	**-1,100**	**20,768**
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 consolida-tion	Additions	Disposals	Transfers	Impairment	Reversals	December 31, 2008	December 31, 2008
-284	**5**	**-1**	**0**	**1**	**0**	**-3,178**	**0**	**-3,457**	**17,311**
-47	–	–	–	–	–	–	–	-47	1
-1,125	161	–	-182	–	16	–	–	-1,130	1,167
-771	58	-455	-106	5	-39	-57	–	-1,365	3,054
-448	13	-29	-84	20	–	-1	–	-529	164
-172	40	–	-23	16	–	-2	–	-141	60
-2,563	**272**	**-484**	**-395**	**41**	**-23**	**-60**	**0**	**-3,212**	**4,446**
-68	9	–	–	50	–	-230	–	-239	2,217
0	–	–	–	–	–	–	–	0	33
-2,631	**281**	**-484**	**-395**	**91**	**-23**	**-290**	**0**	**-3,451**	**6,696**
-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	-99	–	-51,388	38,030
-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**	**-114**	**0**	**-58,476**	**56,480**

a) Goodwill and Other Intangible Assets

Goodwill

During the 2009 and 2008 fiscal years, the carrying amount of goodwill changed as follows in each of E.ON's segments:

Changes in Goodwill by Segment

€ in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Energy Trading	New Markets	Corporate Center/ Consoli-dation	E.ON-Group
Net carrying amount as of January 1, 2008	2,474	4,375	4,342	288	2,852	–	2,430	–	16,761
Changes resulting from acquisitions and divestments[1]	-80	-100	-163	2	–	226	6,101	–	5,986
Impairment charges	–	–	–	–	-1,515	–	-1,663	–	-3,178
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**	**5,835**	**0**	**17,311**
Changes resulting from acquisitions and divestments[1]	273	-373	-63	–	–	–	-262	–	-425
Impairment charges	–	–	–	–	–	–	–	–	–
Other changes[2]	-24	-34	215	-1	-51	15	-105	–	15
Net carrying amount as of December 31, 2009	**2,463**	**3,765**	**3,304**	**228**	**1,446**	**227**	**5,468**	**0**	**16,901**

[1]The 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 and from the final allocation in Q2/2009 of the goodwill from the acquisition of the Endesa Europa/Viesgo activities.
[2]Other changes include restructuring, transfers, exchange rate differences as well as reclassifications to asset 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. The calculations for impairment-testing purposes are generally based on a detailed planning period of five years. In certain justified exceptional cases a longer detailed planning period of ten years is used as the calculation basis, especially when that is required under a regulatory framework or specific regulatory provisions. The cash flow assumptions extending beyond the detailed planning period are determined using unit-specific growth rates that are based on historical analysis and prospective forecasting. The growth rates for developed market regions used in 2009 ranged between 1.2 and 3.8 percent (2008: 1.1 and 3.5 percent). The interest rates used for discounting cash flows in these market regions are calculated using market data for each cash-generating unit, and as of December 31, 2009, ranged between 5.8 and 7.9 percent after taxes (2008: 6.0 and 7.8 percent). For Russia, a growth rate of 2.0 percent (2008: 2.0 percent) and a capital cost of 9.4 percent (2008: 9.0 percent), both on euro basis, were used as the basis for calculations. The nominal growth rates are derived from long-term inflation rates, adjusted for unit-specific forecasts of changes by the respective business units (e.g., regulatory framework, reinvestment cycles or growth prospects).

The principal assumptions underlying the determination by management of fair value less costs to sell are the respective forecasts for commodity market prices, future electricity and gas prices in the wholesale and retail markets, E.ON's investment activity, changes in the regulatory framework, as well as for rates of growth and capital cost.

Since the fair values less costs to sell and the calculated values in use both exceeded the corresponding carrying amounts at each of the cash-generating units, no impairment of goodwill was required in the context of the 2009 goodwill impairment tests. The recoverable amount used to determine the impairment of the regulated business at the U.S. Midwest and Italy market units was the value in use.

The cash-generating units Italy Non-regulated, U.S. Midwest Regulated and Russia Generation each had only a small excess of recoverable amount over carrying amount. The respective goodwill allocated to each cash-generating unit is €2.2 billion, $2.1 billion and 62 billion rubles. The respective excesses amount to €0.4 billion, $0.6 billion and 13.0 billion rubles.

Based on the impairments recognized in 2008 on goodwill at the Italy Non-regulated cash-generating unit in the amount of approximately €1.7 billion, and at the U.S. Midwest Regulated cash-generating unit in the amount of approximately €1.5 billion, respectively, the corresponding surpluses are very sensitive to changes in significant parameters, these being the discount rate and the long-term growth rate.

At the Italy Non-regulated cash-generating unit, whose valuation was based on a capital cost of 7.6 percent and on a growth rate of 2.3 percent, a change of more than 0.4 percentage points in the discount rate or of more than 0.8 percentage points in the growth rate would result in impairment. At the U.S. Midwest Regulated cash-generating unit, for which a capital cost of 6.3 percent and a growth rate of 1.2 percent were assumed, a change of more than 0.3 or 0.5 percentage points in local currency in the respective parameters would likewise result in impairment. At the Russia Generation cash-generating unit, an impairment would be triggered by an increase of more than 0.6 percentage points in the discount rate or a decrease of more than 1.0 percentage points in the growth rate (on ruble basis).

Intangible Assets

In 2009, the Company recorded an amortization expense of €444 million (2008: €395 million). Impairment charges on intangible assets amounted to €190 million in 2009 (2008: €290 million).

Reversals of impairments on intangible assets totaled €20 million in 2009 (2008: €0).

Intangible assets include emission rights from different trading systems with a carrying amount of €481 million (2008: €1,094 million). The lower value was due primarily to lower market prices and a reduction of inventory.

€62 million in research and development costs as defined by IAS 38 were expensed in 2009 (2008: €53 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	
2010	471
2011	422
2012	383
2013	307
2014	293
Total	**1,876**

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

As of December 31, 2009, intangible assets from exploration activity had carrying amounts of €448 million (2008: €399 million). Impairment charges of €26 million (2008: €41 million) were recognized on these intangible assets.

b) Property, Plant and Equipment

Borrowing costs in the amount of €338 million were capitalized in 2009 (2008: €182 million) as part of the historical cost of property, plant and equipment.

In 2009, the Company recorded depreciation of property, plant and equipment in the amount of €3,247 million (2008: €3,061 million). Impairment charges were recognized on property, plant and equipment in the amount of €105 million (2008: €114 million). A total of €38 million in reversals of impairments on property, plant and equipment was recognized in 2009 (2008: €0).

In 2009, there were restrictions on disposals involving primarily land and buildings, as well as technical equipment and machinery, in the amount of €5,188 million (2008: €5,760 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, 2009:

E.ON as Lessee—Carrying Amounts of Capitalized Lease Assets

€ in millions	December 31 2009	2008
Buildings	25	28
Technical equipment, plant and machinery	308	305
Net carrying amount of capitalized lease assets	**333**	**333**

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

E.ON as Lessee—Payment Obligations under Finance Leases

	Minimum lease payments		Covered interest share		Present values	
€ in millions	2009	2008	2009	2008	2009	2008
Due within 1 year	63	51	19	19	44	32
Due in 1 to 5 years	147	163	64	63	83	100
Due in more than 5 years	281	294	163	179	118	115
Total	**491**	**508**	**246**	**261**	**245**	**247**

The present value of the minimum lease obligations is reported primarily under liabilities from leases.

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	2009	2008
Nominal value of outstanding lease installments		
Due within 1 year	54	51
Due in 1 to 5 years	100	124
Due in more than 5 years	170	189
Total	**324**	**364**

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 2009	2008
Companies accounted for under the equity method	7,342	8,931
Equity investments	5,461	3,806
Non-current securities	3,670	5,017
Total	**16,473**	**17,754**

Companies accounted for under the equity method consist solely of associates and joint ventures, with only a small proportion of the amount recognized attributable to the latter.

The amount shown for equity investments relates primarily to the directly held interest of approximately 3.5 percent in OAO Gazprom.

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

In 2009, impairment charges on companies accounted for under the equity method amounted to €62 million (2008: €75 million) and impairments on other financial assets amounted to €269 million (2008: €60 million). The carrying amount of other financial assets with impairment losses was €336 million as of the end of the fiscal year (2008: €146 million).

€327 million (2008: €1,593 million) in non-current securities is restricted for the fulfillment of legal insurance obligations of VKE. The change in this amount is due primarily to a restructuring of assets out of VKE into the Contractual Trust Arrangement (CTA) (see Note 31).

Shares in Companies Accounted for under the Equity Method

The financial information at right 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	2009	2008
Sales	36,037	35,803
Net income/loss	2,761	3,313

Investment income generated from companies accounted for under the equity method amounted to €919 million in 2009 (2008: €965 million).

Balance Sheet Data for Companies Accounted for under the Equity Method

	December 31	
€ in millions	2009	2008
Non-current assets	23,142	26,493
Current assets	12,080	16,954
Provisions	6,642	8,601
Liabilities	14,520	17,206
Equity	**14,060**	**17,640**

The carrying amounts of companies accounted for under the equity method whose shares are marketable totaled €833 million in 2009 (2008: €990 million). The fair value of E.ON's share in these companies was €870 million (2008: €1,422 million).

Additions of investments in companies accounted for under the equity method resulted in a total goodwill of €12 million in 2009 (2008: €9 million).

Investments in associated companies totaling €90 million (2008: €87 million) were restricted because they were pledged as collateral for financing as of the balance sheet date.

(16) Inventories

The following table provides a breakdown of inventories as of the dates indicated:

Inventories

	December 31	
€ in millions	2009	2008
Raw materials and supplies	2,258	2,614
Goods purchased for resale	2,110	2,066
Work in progress and finished products	150	94
Total	**4,518**	**4,774**

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

Write-downs totaled €42 million in 2009 (2008: €13 million). Reversals of write-downs amounted to €1 million in 2009 (2008: €1 million). The carrying amount of inventories recognized at net realizable value was €258 million (2008: €138 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, 2009 Current	December 31, 2009 Non-current	December 31, 2008 Current	December 31, 2008 Non-current
Receivables from finance leases	42	580	52	598
Other financial receivables and financial assets	1,687	2,072	2,049	1,853
Financial receivables and other financial assets	**1,729**	**2,652**	**2,101**	**2,451**
Trade receivables	11,577	–	14,416	–
Receivables from derivative financial instruments	7,556	2,365	10,352	2,840
Other operating assets	3,874	1,023	4,080	949
Trade receivables and other operating assets	**23,007**	**3,388**	**28,848**	**3,789**
Total	**24,736**	**6,040**	**30,949**	**6,240**

As of December 31, 2009, other financial assets include receivables from owners of minority interests in jointly owned power plants of €631 million (2008: €687 million) and margin account deposits for futures trading of €127 million (2008: €757 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 €1,266 million (2008: €1,157 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.

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

Aging Schedule of Trade Receivables

€ in millions	2009	2008
Total trade receivables	11,577	14,416
Not impaired and not yet due	9,530	12,019
Not impaired and up to 60 days past-due	1,119	1,523
Not impaired and 61 to 90 days past-due	121	219
Not impaired and 91 to 180 days past-due	309	231
Not impaired and 181 to 360 days past-due	158	152
Not impaired and over 360 days past-due	48	68
Net value of impaired receivables	292	204

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.

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

Valuation Allowances for Trade Receivables

€ in millions	2009	2008
Balance as of January 1	-730	-556
Change in scope of consolidation	1	-12
Write-downs	-382	-422
Reversals of write-downs	55	103
Disposals	198	45
Other[1]	111	112
Balance as of December 31	**-747**	**-730**

[1]"Other" includes currency translation adjustments.

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

	Gross investment in finance lease arrangements		Unrealized interest income		Present value of minimum lease payments	
€ in millions	2009	2008	2009	2008	2009	2008
Due within 1 year	92	96	50	44	42	52
Due in 1 to 5 years	352	328	148	163	204	165
Due in more than 5 years	785	799	409	366	376	433
Total	**1,229**	**1,223**	**607**	**573**	**622**	**650**

The present value of the outstanding lease payments is reported under receivables from finance leases.

(18) Liquid Funds

The following table provides a breakdown of liquid funds by original maturity as of the dates indicated:

Liquid Funds

	December 31	
€ in millions	2009	2008
Securities and fixed-term deposits	1,722	2,125
Current securities with an original maturity greater than 3 months	*1,311*	*1,347*
Fixed-term deposits with an original maturity greater than 3 months	*411*	*778*
Restricted cash and cash equivalents	184	552
Cash and cash equivalents	4,210	3,671
Total	**6,116**	**6,348**

Restricted cash includes an amount of €6 million (2008: €29 million) with a maturity greater than three months.

In addition, current securities with an original maturity greater than three months include €78 million (2008: €380 million) in securities held by VKE that are restricted for the fulfillment of legal insurance obligations. The change in this amount is due primarily to a restructuring of assets out of VKE into the CTA (see Note 31).

Cash and cash equivalents include €2,869 million (2008: €1,838 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

The capital stock is subdivided into 2,001,000,000 registered ordinary shares with no par value ("no-par-value shares") and amounts to €2,001,000,000 (2008: €2,001,000,000). 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 in 2008, increasing the capital by €267 million from corporate funds in a first step. This was followed by a reapportionment of the capital whereby each existing bearer share was replaced by three new registered ordinary shares. This has resulted in a tripling of the shares outstanding.

Pursuant to a resolution from the Annual Shareholders Meeting of May 6, 2009, the Company is authorized to purchase own shares until November 5, 2010. The shares purchased, combined with other treasury shares in the possession of the Company, or attributable to the Company pursuant to Sections 71a et seq. AktG, may at no time exceed ten percent of its capital stock. The Board of Management was authorized at the aforementioned Annual Shareholders Meeting to cancel any shares thus acquired without requiring a separate shareholder resolution for the cancellation or its implementation. The total number of outstanding shares as of December 31, 2009, was 1,905,456,817 (2008: 1,904,530,366). As of December 31, 2009, E.ON AG and one of its subsidiaries held a total of 95,543,183 treasury shares (December 31, 2008: 96,469,634) having a consolidated book value of €3,530 million (equivalent to 4.77 percent or €95,543,183 of the capital stock). 925,282 treasury shares were used for the employee stock purchase program and distributed to employees in 2009 (2008: 1,138,050 shares purchased on the market). See also Note 11 for information on the distribution of shares under the employee stock purchase program. An additional 1,169 treasury shares (2008: 941 shares) were also distributed to employees.

The Company has further been authorized by the Annual Shareholders Meeting to buy shares using put or call options, or a combination of both. When derivatives in the form of put or call options, or a combination of both, are used to acquire shares, the option transactions must be conducted at market terms with a financial institution or on the market. No shares were acquired in 2009 using this purchase model.

Authorized Capital

Pursuant to the shareholder resolution adopted at the Annual Shareholders Meeting on April 27, 2005, the Board of Management is authorized, subject to the Supervisory Board's approval, to increase the Company's capital stock by up to €540 million (Authorized Capital pursuant to Sections 202 et seq. AktG) 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.

Because the next Annual Shareholders Meeting will not take place until after the expiration of this authorized capital, the Annual Shareholders Meeting of May 6, 2009, resolved as follows: Effective April 28, 2010, the Board of Management is authorized, subject to the Supervisory Board's approval, to increase the Company's capital stock by up to €460 million (Authorized Capital pursuant to Sections 202 et seq. AktG) 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 May 5, 2014. 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 May 6, 2009, shareholders approved two conditional capital increases (with the option to exclude shareholders' subscription rights) in the amount of €175.0 million each ("Conditional Capital I and II"), which are authorized until May 5, 2014. The conditional capital increases will be implemented only to the extent required to fulfill the obligations arising on the exercise by holders of conversion and option rights, and those arising from compliance with the mandatory conversion of bonds with conversion or option rights, participation rights and income bonds that have been issued or guaranteed by E.ON AG or by an E.ON AG group company as defined by Section 18 AktG, and to the extent that no cash settlement has been granted in lieu of conversion and no E.ON AG treasury shares or shares of another listed company have been used to service the rights. The conditional capital increases have not been used.

Voting Rights

For the 2009 fiscal year, the following disclosure about voting rights has been made pursuant to Section 21 (1) of the German Securities Trading Act ("WpHG"):

On December 7, 2009, BlackRock Inc., New York, United States, informed us pursuant to Section 21 (1) WpHG that the percentage of voting rights held by Black Rock Financial Management Inc., New York, United States, in the form of shares of E.ON AG, Düsseldorf, Germany, ISIN: DE0007614406, WKN: 761440, exceeded the threshold of 3 percent on December 1, 2009, and that it stands at 4.68 percent (equivalent to 93,552,795 votes) as of that date. The aforementioned voting rights are attributed to BlackRock Inc. pursuant to Section 22 (1), sentence 1, no. 6, WpHG.

(20) Additional Paid-in Capital

As of December 31, 2009, additional paid-in capital stands at €13,747 million (2008: €13,741 million). Additional paid-in capital in 2009 increased primarily as a result of the distribution of shares under the employee stock purchase program.

(21) Retained Earnings

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

Retained Earnings

	December 31	
€ in millions	2009	2008
Legal reserves	45	45
Other retained earnings	26,533	22,136
Total	**26,578**	**22,181**

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, 2009, German-GAAP retained earnings totaled €1,810 million (2008: €834 million). Of these, legal reserves of €45 million (2008: €45 million) were restricted pursuant to Section 150 (3) and (4) AktG, and reserves for treasury shares of €214 million (2008: €233 million) were restricted pursuant to Section 272 (4) HGB on December 31, 2009. Accordingly, retained earnings in the amount of €1,551 million (2008: €556 million) are available in principle for dividend payments.

A proposal to distribute a cash dividend for 2009 of €1.50 per share will be submitted to the Annual Shareholders Meeting. A cash dividend of €1.50 per share was paid for 2008. Based on E.ON AG's 2009 year-end closing share price, the dividend yield is 5.1 percent. Based on a €1.50 dividend, the total profit distribution is €2,858 million.

(22) Changes in Other Comprehensive Income

In October 2008, E.ON and Gazprom reached an understanding on the acquisition by E.ON of an interest in the Siberian gas field Yuzhno-Russkoye. In return for this interest, Gazprom received approximately 3 percent of the Gazprom shares indirectly held by E.ON. €1,818 million was reclassified in connection with the disposal of the Gazprom shares and recognized in income. Additional reclassification adjustments from available-for-sale securities recognized in income resulted primarily from the sale of securities at the Central Europe market unit.

The effect of these reclassifications was offset by the change in unrealized gains on available-for-sale securities, which was attributable primarily to the increase of €2,324 million before deferred taxes in the fair value of the remainder of the interest in Gazprom.

Components of other comprehensive income in the amount of €22 million (2008: €1,039 million) are attributed to assets classified as held for sale.

(23) Minority Interests

Minority Interests

€ in millions	December 31 2009	2008
Central Europe	2,557	2,782
Pan-European Gas	51	168
U.K.	62	59
Nordic	68	81
U.S. Midwest	27	21
Energy Trading	–	–
New Markets	767	805
Corporate Center/Consolidation	75	44
Total	**3,607**	**3,960**

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 2009 resulted primarily from the 35-percent increase of the stake in SNET France to 100 percent.

(24) Provisions for Pensions and Similar Obligations

The retirement benefit obligations toward the employees of the E.ON Group, which amounted to €16.1 billion, were covered by plan assets having a fair value of €13.2 billion as of December 31, 2009. This corresponds to a funded status of 82 percent.

In addition to the reported plan assets, Versorgungskasse Energie ("VKE") administers another pension fund holding assets of €0.5 billion (2008: €2.3 billion) that do not constitute plan assets under IAS 19 but which nevertheless are almost exclusively intended for the coverage of employee retirement benefits in the Central Europe market unit (see Note 31).

In recent 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:

Four-Year History of the Funded Status

€ in millions	December 31 2009	2008	2007	2006
Defined benefit obligation	16,087	14,096	15,936	17,306
Fair value of plan assets	-13,205	-11,034	-13,056	-13,342
Funded status	**2,882**	**3,062**	**2,880**	**3,964**

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 occupational retirement plans, newly designed pension plans were introduced at the major German and foreign E.ON Group companies between 1998 and 2009. 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 Obligations

The following table shows the changes in the present value of the defined benefit obligation for the periods indicated:

Changes in the Defined Benefit Obligation

	2009			2008		
€ in millions	Total	Domestic	Foreign	Total	Domestic	Foreign
Defined benefit obligation as of January 1	14,096	8,047	6,049	15,936	7,963	7,973
Employer service cost	211	136	75	220	138	82
Interest cost	842	450	392	866	425	441
Change in scope of consolidation	-28	-66	38	438	1	437
Past service cost	7	-2	9	27	6	21
Actuarial gains (-)/losses	1,543	249	1,294	-1,020	77	-1,097
Exchange rate differences	309	–	309	-1,422	–	-1,422
Employee contributions	15	–	15	24	–	24
Pensions paid	-874	-470	-404	-848	-443	-405
Curtailments	-2	–	-2	-2	–	-2
Other	-32	-59	27	-123	-120	-3
Defined benefit obligation as of December 31	**16,087**	**8,285**	**7,802**	**14,096**	**8,047**	**6,049**

Foreign benefit obligations relate almost entirely to the benefit plans at the market units U.K. (2009: €6,321 million; 2008: €4,637 million), U.S. Midwest (2009: €916 million; 2008: €911 million) and Spain (2009: €373 million; 2008: €355 million). The portion of the entire benefit obligation allocated to post-employment health care benefits amounted to €166 million (2008: €161 million).

The "Other" line reflects primarily the reclassification of defined benefit obligations as liabilities associated with assets held for sale.

Actuarial losses in 2009 are attributable primarily to the decrease in the discount rate and to the higher salary and pension increase rates at the U.K. market unit, which combined to produce a relative increase in the defined benefit obligation. In Germany, the actuarial losses are due primarily to the decrease in the discount rate.

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

Actuarial Assumptions

	December 31, 2009			December 31, 2008		
Percentages	Germany	U.K.	U.S.	Germany	U.K.	U.S.
Discount rate	5.50	5.70	6.10	5.75	6.40	6.05
Salary increase rate	2.75	4.00	5.25	2.75	3.00	5.25
Expected rate of return on plan assets	4.50-4.70	6.10	7.75	4.50-5.10	5.40	8.25
Pension increase rate[1]	2.00	3.30	–	2.00	2.50	–
Health care cost trend	–	–	8.00	–	–	8.00

[1]The 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.

At the E.ON Group, a uniform increase or decrease of 0.5 percentage points in the discount rates would change the defined benefit obligation by -€1,034 million and +€1,150 million, respectively, as of December 31, 2009.

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 €6,481 million (2008: €4,847 million) were administered by a trust, E.ON Pension Trust e.V., on a fiduciary basis. A restructuring of investments out of the VKE fund into the CTA increased domestic plan assets by €1.7 billion in 2009. The remainder of the domestic plan assets in the amount of €298 million (2008: €300 million) is held primarily by pension funds in the Central Europe market unit.

The foreign plan assets, which totaled €6,426 million in 2009 (2008: €5,887 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 €5,575 million (2008: €5,132 million) are attributable to the U.K. market unit. The pension assets of the Spain market unit, totaling €282 million (2008: €287 million), consist almost entirely of qualifying insurance policies, which constitute plan assets under IAS 19.

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

	2009			2008		
€ in millions	Total	Domestic	Foreign	Total	Domestic	Foreign
Fair value of plan assets as of January 1	11,034	5,147	5,887	13,056	5,522	7,534
Expected return on plan assets	614	270	344	721	295	426
Employer contributions	1,913	1,707	206	204	7	197
Employee contributions	15	–	15	24	–	24
Change in scope of consolidation	22	–	22	284	–	284
Actuarial gains/losses (-)	43	67	-24	-1,008	-352	-656
Exchange rate differences	357	–	357	-1,527	–	-1,527
Pensions paid	-762	-367	-395	-724	-326	-398
Settlements	-1	–	-1	0	–	–
Other	-30	-45	15	4	1	3
Fair value of plan assets as of December 31	**13,205**	**6,779**	**6,426**	**11,034**	**5,147**	**5,887**

The €0.5 billion (2008: €2.3 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, 2009, 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 or equity or debt instruments issued by E.ON Group companies.

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

	December 31, 2009			December 31, 2008		
Percentages	Total	Domestic	Foreign	Total	Domestic	Foreign
Equity securities	17	13	21	11	6	16
Debt securities	64	66	62	62	52	70
Real estate	8	11	5	10	13	8
Other (primarily money market investments)	11	10	12	17	29	6

Provisions 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 Provisions for Pensions and Similar Obligations

	December 31	
€ in millions	2009	2008
Defined benefit obligation—fully or partially funded by plan assets	15,715	13,751
Fair value of plan assets	-13,205	-11,034
Defined benefit obligation—unfunded plans	372	345
Funded status	**2,882**	**3,062**
Unrecognized past service cost	-10	-10
Net amount recognized	**2,872**	**3,052**
Operating receivables	*-12*	*-507*
Provisions for pensions and similar obligations	*2,884*	*3,559*

The decrease in the recognized net obligation as of December 31, 2009, is attributable primarily to the funding of plan assets. This has more than offset the actuarial losses that resulted primarily from the decrease in the discount rates affecting E.ON's German subsidiaries and those at the U.K. market unit, and from the increase in the salary and pension increase rates at the U.K. market unit.

Contributions and Pension Payments

In 2009, E.ON made employer contributions to plan assets totaling €1,913 million (2008: €204 million) to fund existing defined benefit obligations. This includes the funds transferred from VKE into the CTA. 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 additional employer contributions were paid into the German plan assets during 2009.

For 2010, it is expected that overall employer contributions to plan assets will amount to a total of €224 million and primarily involve the funding of new and existing benefit obligations relating exclusively to foreign companies.

Pension payments to cover defined benefit obligations totaled €874 million in 2009 (2008: €848 million). Prospective pension payments existing as of December 31, 2009, for the next ten years are shown in the following table:

Prospective Pension Payments

€ in millions	Total	Domestic	Foreign
2010	856	468	388
2011	872	488	384
2012	888	494	394
2013	908	503	405
2014	927	511	416
2015–2019	4,973	2,733	2,240
Total	**9,424**	**5,197**	**4,227**

Pension Cost

The net periodic cost for defined benefit pension plans included in the provisions for pensions and similar obligations is shown in the table below:

Net Periodic Pension Cost

	2009			2008		
€ in millions	Total	Domestic	Foreign	Total	Domestic	Foreign
Employer service cost	211	136	75	220	138	82
Interest cost	842	450	392	866	425	441
Expected return on plan assets	-614	-270	-344	-721	-295	-426
Effects of curtailments or effects of settlements	-1	–	-1	-2	–	-2
Recognized past service cost	7	-2	9	20	6	14
Total	**445**	**314**	**131**	**383**	**274**	**109**

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 gain of €657 million in 2009 (2008: €287 million loss).

In addition to the total net periodic pension cost, an amount of €71 million in fixed contributions to external insurers or similar institutions was paid in 2009 (2008: €64 million) for pure defined contribution pension plans.

The total net periodic pension cost shown includes an amount of €12 million in 2009 (2008: €11 million) for 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 +€0.6 million or -€0.5 million (2008: +€0.4 million or -€0.4 million), respectively. The corresponding accumulated post-employment benefit obligation would change by +€6.9 million or -€6.0 million (2008: +€4.8 million or -€4.3 million), respectively.

The changes in actuarial gains and losses recognized in equity (including the actuarial gains and losses in 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	2009	2008
Accumulated actuarial gains (+) and losses (-) recognized in equity as of January 1	1,638	1,633
Recognition in equity of current-year actuarial gains (+) and losses (-)	-1,500	5
Accumulated actuarial gains (+) and losses (-) recognized in equity as of December 31	**138**	**1,638**

In the years 2006 through 2009, 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

	December 31			
Percentages	2009	2008	2007	2006
Experience adjustments to the amount of the benefit obligation	0.26	1.61	1.22	0.73
Experience adjustments to the value of plan assets	0.23	-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 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, 2009 Current	December 31, 2009 Non-current	December 31, 2008 Current	December 31, 2008 Non-current
Non-contractual obligations for nuclear waste management	206	8,901	127	9,138
Contractual obligations for nuclear waste management	217	4,160	161	3,931
Personnel obligations	650	711	633	716
Other asset retirement obligations	319	1,246	290	1,193
Supplier-related obligations	361	388	309	320
Customer-related obligations	551	136	458	141
Environmental remediation and similar obligations	68	523	45	557
Other	2,343	2,743	2,237	3,202
Total	**4,715**	**18,808**	**4,260**	**19,198**

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

Changes in Miscellaneous Provisions

€ in millions	Jan. 1, 2009	Exchange rate differences	Change in scope of consolidation	Accretion	Additions	Utilization	Reclassifications	Reversals	Changes in estimates	Dec. 31, 2009
Non-contractual obligations for nuclear waste management	9,265	51	–	483	26	-13	-96	–	-609	9,107
Contractual obligations for nuclear waste management	4,092	29	–	220	64	-240	96	–	116	4,377
Personnel obligations	1,349	–	-12	3	857	-777	-20	-39	–	1,361
Other asset retirement obligations	1,483	14	3	48	65	-15	-36	–	3	1,565
Supplier-related obligations	629	5	-7	15	475	-245	-25	-98	–	749
Customer-related obligations	599	3	21	6	460	-311	37	-128	–	687
Environmental remediation and similar obligations	602	-1	3	17	26	-27	-5	-24	–	591
Other	5,439	20	3	38	1,602	-1,669	-7	-341	1	5,086
Total	**23,458**	**121**	**11**	**830**	**3,575**	**-3,297**	**-56**	**-630**	**-489**	**23,523**

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 5.2 percent as of December 31, 2009, (2008: 5.5 percent) in Germany and 3.0 percent (2008: 3.0 percent) in Sweden. For the other provision items, the interest rates used ranged from 1.2 percent to 4.3 percent, depending on maturity (2008: 1.7 percent to 4.4 percent).

Provisions for Non-Contractual Nuclear Waste Management Obligations

The provisions based on German and Swedish nuclear power legislation totaling €9.1 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 in the disposal of spent nuclear fuel rods are costs for transports to the final storage facility and the cost of proper conditioning prior to final storage, including the necessary 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 €803 million (2008: €789 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 2009 by €538 million and €96 million, respectively, at the Central Europe market unit. The Nordic market unit recorded a decrease of €71 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 €4.4 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 €32 million (2008: €55 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 return of waste with subsequent interim storage at Gorleben and Ahaus, as well as costs incurred for interim on-site storage, including the necessary interim storage containers, 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 2009 reduced provisions by €15 million at the Central Europe market unit. The Nordic market unit recorded an increase of €131 million as a result of changes in estimates.

Personnel Obligations

Provisions for personnel costs primarily cover provisions for early retirement benefits, performance-based compensation components, anniversary obligations 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 and of provisions for rebates.

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 other environmental improvement measures and for 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 potential obligations arising from tax-related interest expenses and from taxes other than income taxes, as well as for a variety of potential settlement obligations.

(26) Liabilities

The following table provides a breakdown of liabilities as of the dates indicated:

Liabilities

€ in millions	December 31, 2009 Current	December 31, 2009 Non-current	December 31, 2009 Total	December 31, 2008 Current	December 31, 2008 Non-current	December 31, 2008 Total
Financial liabilities	**7,120**	**30,657**	**37,777**	**16,022**	**25,036**	**41,058**
Trade payables	4,635	–	4,635	5,938	–	5,938
Capital expenditure grants	83	262	345	40	305	345
Construction grants from energy consumers	322	2,958	3,280	313	3,175	3,488
Liabilities from derivatives	7,307	2,885	10,192	9,645	3,994	13,639
Advance payments	497	239	736	482	344	826
Other operating liabilities	10,255	1,506	11,761	11,952	1,935	13,887
Trade payables and other operating liabilities	**23,099**	**7,850**	**30,949**	**28,370**	**9,753**	**38,123**
Total	**30,219**	**38,507**	**68,726**	**44,392**	**34,789**	**79,181**

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. None of the debt outstanding was in default at any time during the 2009 fiscal year.

Corporate Center

Covenants

The financing activities of E.ON AG and E.ON International Finance B.V. ("EIF"), Rotterdam, The Netherlands, involve the use of covenants consisting primarily of change-of-control clauses, negative pledges, pari-passu clauses and cross-default clauses, each referring to a restricted set of significant circumstances. Financial covenants, i.e., covenants linked to financial ratios, are not employed.

€35 Billion Debt Issuance Program

The €35 billion Debt Issuance Program allows E.ON AG and EIF, under the unconditional guarantee of E.ON AG, to issue from time to time debt instruments through public and private placements to investors. The program was extended for another year as planned in December 2009, and on that occasion, the maximum issuance volume allowed under the program was increased from €30 billion to €35 billion.

At year-end 2009, the following EIF bonds were outstanding:

Major Bond Issues of E.ON International Finance B.V.[1]

Volume issued in the respective currency	Initial term	Repayment	Coupon
EUR 1,000 million	2 years	Nov 2010	4.750%
CHF 200 million	3 years	Dec 2010	3.000%
CHF 500 million	2 years	Feb 2011	2.000%
SEK 1,100 million	2 years	May 2011	3 mth STIB+95
EUR 750 million	3 years	Sep 2011	5.000%
EUR 750 million	2.5 years	Nov 2011	2.500%
GBP 500 million	10 years	May 2012	6.375%
USD 300 million	3 years	June 2012	3.125%
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 750 million	4 years	Mar 2013	4.125%
EUR 1,500 million	5 years	May 2013	5.125%
CHF 300 million	5 years	May 2013	3.625%
GBP 350 million	5 years	Jan 2014	5.125%
EUR 1,750 million	5 years	Jan 2014	4.875%
CHF 525 million[3]	5 years	Feb 2014	3.375%
EUR 1,000 million	6 years	June 2014	5.250%
CHF 225 million	7 years	Dec 2014	3.250%
EUR 1,250 million	7 years	Sep 2015	5.250%
EUR 1,500 million	7 years	Jan 2016	5.500%
EUR 900 million	15 years	May 2017	6.375%
EUR 2,375 million[4]	10 years	Oct 2017	5.500%
USD 2,000 million[5]	10 years	Apr 2018	5.800%
GBP 850 million[6]	12 years	Oct 2019	6.000%
EUR 1,400 million[7]	12 years	May 2020	5.750%
GBP 975 million[8]	30 years	June 2032	6.375%
GBP 900 million	30 years	Oct 2037	5.875%
USD 1,000 million[5]	30 years	Apr 2038	6.650%
GBP 700 million	30 years	Jan 2039	6.750%

[1]Listing: All bonds are listed in Luxembourg with the exception of the CHF-denominated bonds, which are listed on the SWX Swiss Exchange, and the two Rule 144A/Regulation S USD bonds, which are unlisted.
[2]The volume of this issue was raised from originally CHF 200 million to CHF 250 million.
[3]The volume of this issue was raised from originally CHF 400 million to CHF 525 million.
[4]The volume of this issue was raised in two steps from originally EUR 1,750 million to EUR 2,375 million.
[5]Rule 144A/Regulation S bond
[6]The volume of this issue was raised from originally GBP 600 million to GBP 850 million.
[7]The volume of this issue was raised from originally EUR 1,000 million to EUR 1,400 million.
[8]The volume of this issue was raised from originally GBP 850 million to GBP 975 million.

Additionally outstanding as of December 31, 2009, were private placements with a total volume of approximately €2.5 billion, as well as promissory notes with a total volume of approximately €1.4 billion.

€10 Billion and $10 Billion Commercial Paper Programs

The euro commercial paper program in the amount of €10 billion allows E.ON AG and EIF (under the unconditional guarantee of E.ON AG) to issue from time to time commercial paper with maturities of up to two years less one day to investors. The U.S. commercial paper program in the amount of $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 for the investor) to investors. As of December 31, 2009, €1,520 million in commercial paper was outstanding under these two programs (2008: €7,305 million).

€9 Billion Syndicated Revolving Credit Facility

In November 2009, E.ON reduced the existing revolving credit facility from €12.5 billion to approximately €9 billion as planned. The facility is subdivided into a 364-day tranche ("Tranche A") and a long-term tranche ("Tranche B"). Tranche A was extended in November 2009 at a level of €4 billion (previously €7.5 billion); the new maturity date is November 25, 2010. Tranche B in the amount of approximately €5 billion continues unchanged through December 2, 2011. As in 2008, no borrowings were outstanding under this facility as of December 31, 2009. The facility also serves as a backup facility for the commercial paper programs, and allows E.ON AG and E.ON International Finance B.V. (under the unconditional guarantee of E.ON AG) to take out loans in an aggregate amount of up to €9 billion.

As of December 31, 2009, the bonds issued by E.ON AG and EIF had the maturities shown in the table below. The values shown are based on internal liquidity-management data and take into account economic hedges:

Bonds Issued by E.ON AG and E.ON International Finance B.V.

€ in millions	Total	Due in 2009	Due in 2010	Due in 2011	Due in 2012	Due in 2013	Due between 2014 and 2020	Due after 2020
December 31, 2009	28,007	–	1,807	2,234	2,970	2,745	13,866	4,385
December 31, 2008	24,089	4,250	1,810	950	2,673	1,970	9,190	3,246

Financial Liabilities by Segment

The following table breaks down the financial liabilities by segment:

Financial Liabilities by Segment as of December 31

	Central Europe		Pan-European Gas		U.K.	
€ in millions	2009	2008	2009	2008	2009	2008
Bonds	–	–	–	–	9	272
Commercial paper	–	–	–	–	–	–
Bank loans/Liabilities to banks	848	1,209	2	84	52	26
Liabilities from finance leases	151	149	62	63	–	–
Other financial liabilities	698	796	66	105	13	–
Financial liabilities	**1,697**	**2,154**	**130**	**252**	**74**	**298**

Financial liabilities to financial institutions include collateral received, measured at a fair value of €312 million (2008: €1,035 million). This collateral includes amounts pledged by banks to limit the utilization of credit lines in connection with the fair value measurement of derivative transactions. The other financial liabilities include promissory notes in the amount of €1,410 million (2008: €1,293 million). Additionally included in this line item are margin deposits received in connection with forward transactions on futures exchanges in the amount of €155 million (2008: €164 million), as well as collateral received in connection with goods and services in the amount of €43 million (2008: €31 million). E.ON can use this collateral without restriction.

Trade Payables and Other Operating Liabilities

Trade payables totaled €4,635 million as of December 31, 2009 (2008: €5,938 million).

Capital expenditure grants of €345 million (2008: €345 million) were paid primarily by customers for capital expenditures made on their behalf, while E.ON retains ownership of 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		E.ON Group	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
536	506	530	549	–	–	–	–	27,888	23,984	28,963	25,311
–	–	–	–	–	–	–	–	1,520	7,305	1,520	7,305
100	–	–	–	–	–	465	652	818	1,571	2,285	3,542
27	27	–	–	–	–	–	–	5	8	245	247
561	719	–	–	155	171	311	402	2,960	2,460	4,764	4,653
1,224	**1,252**	**530**	**549**	**155**	**171**	**776**	**1,054**	**33,191**	**35,328**	**37,777**	**41,058**

Construction grants of €3,280 million (2008: €3,488 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 €5,846 million (2008: €6,482 million) and interest payable in the amount of €1,090 million (2008: €1,046 million). Also included in other operating liabilities are the counterparty obligations to acquire additional shares in already consolidated subsidiaries and minority interests in fully consolidated partnerships totaling €653 million (2008: €832 million), which are carried forward. In 2008, an obligation to transfer generating capacity in Italy in the amount of €1,509 million (see Note 4) was also included here.

Exploration activities accounted for €6 million (2008: €6 million) of the trade payables and other operating liabilities reported.

(27) Contingencies and Other Financial Obligations

As part of its business activities, E.ON is subject to contingencies and other financial obligations 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, legal and other obligations and commitments.

Contingencies

The contingent liabilities of the E.ON Group arising from existing contingencies amounted to €307 million as of December 31, 2009 (2008: €155 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 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 usually 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 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 companies 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, 2009, remained unchanged from 2008 at 42.0 percent, which includes 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, 2009, was limited to SEK 3,392 million, or €331 million (2008: SEK 3,625 million, or €333 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 contingencies comparable to those mentioned above.

Other Financial Obligations

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

As of December 31, 2009, purchase commitments for investments in intangible assets and in property, plant and equipment amounted to €10.5 billion (2008: €11.1 billion). Of these commitments, €4.2 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, exploration projects and the network connection of offshore wind farms, particularly at the Central Europe, Nordic, Pan-European Gas, Russia and Climate & Renewables market units. As of December 31, 2009, the obligations for new power plant construction reported under purchase commitments totaled €4.5 billion. They include obligations for 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

	Minimum lease payments	
€ in millions	2009	2008
Due within 1 year	220	212
Due in 1 to 5 years	511	552
Due in more than 5 years	497	614
Total	**1,228**	**1,378**

The expenses reported in the income statement for such contracts amounted to €230 million (2008: €232 million). Furthermore, a lease-leaseback arrangement for power plants has resulted in cash flows, which are financed by restricted, offsetting investments totaling approximately €0.4 billion (2008: €0.5 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, 2009, relate primarily to the purchase of fossil fuels such as natural gas, lignite and hard coal. Financial obligations under these purchase contracts amounted to approximately €327.5 billion on December 31, 2009 (€20.5 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 2009, purchase commitments for natural gas increased as a result of changes in planning assumptions in view of an anticipated long-term increase in energy prices.

As of December 31, 2009, €9.0 billion in contractual obligations (€2.4 billion due within one year) 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 as of December 31, 2009 amounted to approximately €2.0 billion (€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.

Further financial obligations in place as of December 31, 2009, totaled approximately €3.3 billion (€1.6 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 corporate actions.

(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.

The entire sector is involved in a multitude of court proceedings throughout Germany in the matter of price-adjustment clauses in the retail electricity and gas supply business with high-volume customers. The legal issues involved have not yet been definitively addressed at the highest judicial level. Companies of the E.ON Group are also involved in legal proceedings in this area. Although the courts have shown a noticeable sector-wide tendency to rule against the utilities, it remains to bee seen how case law will develop in the future.

On July 8, 2009, the European Commission imposed a fine of €553 million on E.ON Ruhrgas for joint liability in alleged market-sharing activities with GdF Suez. E.ON Ruhrgas and E.ON filed an appeal against the Commission's decision with the European Court of First Instance in September. The appeal does not have suspensory effect, and the fine was thus paid when due in October 2009. Further proceedings in this matter cannot be ruled out.

Following its sector inquiry into the European energy markets in 2005, the European Commission initiated proceedings alleging anticompetitive practices against a number of European upstream gas businesses, among them E.ON Ruhrgas. In 2009, the Commission stated its belief that E.ON Ruhrgas had used long-term bookings of virtually all of the gas import capacity in the E.ON Gastransport network to shut out competitors in the gas trading market. Because court proceedings would have entailed substantial business and procedural risks, negotiations were held with the Commission at the end of 2009. The result was an agreement whereby E.ON Ruhrgas returns a portion of its long-term gas import capacity bookings to E.ON Gastransport and undertakes to comply with specific booking quotas. The Commission has welcomed the offer and will conduct a market test on it through the end of February 2010. A decision on whether to declare this commitment as binding and discontinue the proceedings is expected in March or April of 2010.

Because 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.

(29) Supplemental Disclosures of Cash Flow Information

Supplemental Disclosure of Cash Flow Information		
€ in millions	2009	2008
Non-cash investing and financing activities		
Exchanges in corporate transactions	3,251	4,346
Funding of external fund assets for pension obligations through transfer of fixed-term deposits and securities	1,705	-

The total consideration received by E.ON for the disposal of consolidated equity interests and activities generated cash inflows of €5,507 million. Cash and cash equivalents divested in connection with the disposals amounted to €664 million. The sale of these activities led to reductions of €4,797 million in assets and €1,246 million in provisions and liabilities. No cash sales of consolidated equity interests or activities took place in 2008.

Corporate transactions in 2009 involved the non-cash exchange of generating capacity as part of the implementation of the commitment made by E.ON to the European Commission, as well as the Yuzhno-Russkoye transaction, which included non-cash components totaling €2,303 million. In 2008, the delivery of own shares and of the power plant units as part of the Statkraft/E.ON Sverige transaction, altogether valued at €4,346 million, was a non-cash consideration (see also Note 4). Purchase prices for subsidiaries totaled €8,730 million in 2008 and included €104 million in cash and cash equivalents. These 2008 purchases contributed assets in the amount of €19,016 million and provisions and liabilities in the amount of €9,965 million.

Cash provided by operating activities of the E.ON Group was 34 percent higher in 2009 than in 2008. The increase is primarily due to the reduction of the commitment of working capital at the U.K. and Central Europe market units, which had been relatively high in 2008, and to positive effects from the utilization of gas storage at the Pan-European Gas market unit. In addition, a negative prior-year effect in the trading operations was eliminated. These increased cash flows were offset by the payment of a fine to the European Commission and by payments of tax arrears, all of which had a particularly negative effect on operating cash flow in the amount of approximately €1 billion.

Spending on investments in property, plant and equipment and on intangible assets was approximately 7 percent below the previous year's high level. Spending on equity investments declined significantly in 2009. The high amount in 2008 was due primarily to the acquisition of the Endesa Europa/Viesgo holdings package, with activities primarily in Italy, Spain and France. The disposal in 2009 of generating capacity and the sale of the Thüga group made further positive contributions to cash provided by investing activities.

Funds tied down in fixed-term deposits, securities and restricted cash changed only slightly in 2009.

Cash provided by financing activities was negative in the 2009 fiscal year. This was caused by a higher dividend distribution by E.ON AG and by the net repayment of financial liabilities. The higher positive value for 2008 was primarily due to increased borrowing.

Exploration activity resulted in operating cash flow of -€74 million (2008: -€78 million) and in cash flow from investing activities of -€87 million (2008: -€26 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 employed 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, long-term receivables and debts denominated in foreign currency, as well as planned capital investments. In commodities, potentially volatile future cash flows resulting primarily from planned purchases and sales of electricity within and outside of the Group, as well as from anticipated fuel purchases and purchases and sales of gas, are hedged.

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 and British pounds 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 2009 of €5 million (2008: €88 million loss), which was offset by realized gains of €17 million (2008: €81 million gain) for the year in the designated hedging instruments. The fair value hedges that were in place in 2008 expired in 2009. The negative fair values of the derivatives used in fair value hedges in 2008 totaled €9 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 and from capital investments denominated in foreign currency 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 transactions effected at variable spot prices, forward contracts, futures and swaps are concluded and also accounted for using cash flow hedge accounting.

As of December 31, 2009, the hedged transactions in place included foreign currency cash flow hedges with maturities of up to 29 years (2008: up to 30 years) and up to eleven years (2008: up to twelve years) for interest cash flow hedges. Commodity cash flow hedges have maturities of up to three years (2008: up to five years).

The amount of ineffectiveness for cash flow hedges recorded for the year ended December 31, 2009, produced a gain of €2 million (2008: €5 million loss).

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—2009

€ in millions	Carrying amount	2010	2011	2012–2014	>2014
OCI—Currency cash flow hedges	-61	-38	-18	-34	29
OCI—Interest cash flow hedges	14	1	–	–	13
OCI—Commodity cash flow hedges	-62	-83	15	6	–

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

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	–

[1]OCI = 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 €4 million (2008: €167 million).

A gain of €45 million (2008: €474 million) was added to other comprehensive income in 2009. In the same period, a gain of €162 million (2008: €293 million loss) 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 currency. For the year ended December 31, 2009, the Company recorded an amount of €1,374 million (2008: €2,083 million) in accumulated other comprehensive income due to changes in fair value of derivatives and to currency translation results of non-derivative hedging instruments. There was a loss of €1 million related to ineffective portions from net investment hedges in 2009 (2008: €6 million gain).

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 ten-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 €235 million or an increase of €285 million, respectively.

At the beginning of 2009, a loss of €64 million from the initial measurement of derivatives was deferred. After additions of €104 million in gains and the realization of €16 million in deferred losses, the remainder is a deferred gain of €56 million at year-end, which will be recognized in income during subsequent periods as the contracts are settled.

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, 2009 Nominal value	December 31, 2009 Fair value	December 31, 2008 Nominal value	December 31, 2008 Fair value
FX forward transactions	16,949.2	-42.2	16,770.8	321.7
Subtotal	**16,949.2**	**-42.2**	**16,770.8**	**321.7**
Cross-currency swaps	18,407.0	119.0	20,974.7	1,878.1
Cross-currency interest rate swaps	510.4	-32.4	523.8	-17.4
Subtotal	**18,917.4**	**86.6**	**21,498.5**	**1,860.7**
Interest rate swaps				
Fixed-rate payer	1,595.4	-129.7	2,131.1	-212.5
Fixed-rate receiver	1,282.7	61.6	6,285.2	125.8
Interest rate future	188.8	1.7	87.9	0.1
Interest rate options	127.7	–	134.8	–
Subtotal	**3,194.6**	**-66.4**	**8,639.0**	**-86.6**
Other derivatives	79.5	6.4	138.4	14.0
Subtotal	**79.5**	**6.4**	**138.4**	**14.0**
Total	**39,140.7**	**-15.6**	**47,046.7**	**2,109.8**

Total Volume of Electricity, Gas, Coal, Oil and Emissions-Related Derivatives

€ in millions	December 31, 2009 Nominal value	December 31, 2009 Fair value	December 31, 2008 Nominal value	December 31, 2008 Fair value
Electricity forwards	49,623.4	-584.4	40,485.6	-595.1
Exchange-traded electricity forwards	10,755.0	13.7	13,503.1	6.2
Electricity swaps	2,980.4	29.9	1,811.9	-375.6
Exchange-traded electricity options	145.5	-6.2	3,049.4	-84.5
Coal forwards and swaps	7,975.9	-28.2	9,525.0	-350.4
Exchange-traded coal forwards	2,691.3	3.7	32.7	-9.8
Oil derivatives	5,852.6	-33.5	9,393.4	-1,000.3
Exchange-traded oil derivatives	5,437.0	56.9	–	–
Gas forwards	23,914.3	255.5	21,946.9	-7.6
Gas swaps	6,271.0	16.3	354.5	-141.0
Exchange-traded gas forwards	1,100.9	1.4	52.9	2.4
Emissions-related derivatives	2,757.6	3.7	777.6	17.6
Exchange-traded emissions-related derivatives	21.0	1.1	176.0	-6.4
Other derivatives	60.8	14.7	–	–
Total	**119,586.7**	**-255.4**	**101,109.0**	**-2,544.5**

(31) Additional Disclosures on Financial Instruments

The carrying amounts of the financial instruments, their grouping into IAS 39 measurement categories, their fair values and their measurement sources by class are presented in the following table, with amendments to IAS 39 taken into account:

Carrying Amounts, Fair Values and Measurement Categories by Class within the Scope of IFRS 7 as of December 31, 2009

€ in millions	Carrying amounts	Total carrying amounts within the scope of IFRS 7	IAS 39 measurement category[1]	Fair value	Determined using market prices	Derived from active market prices
Equity investments	5,461	5,461	AfS	5,461	3,815	493
Financial receivables and other financial assets	4,381	4,373		4,609	–	–
Receivables from finance leases	*622*	*622*	*n/a*	*627*	–	–
Other financial receivables and financial assets	*3,759*	*3,751*	*LaR*	*3,982*	–	–
Trade receivables and other operating assets	26,395	23,059		23,059	2,013	7,754
Trade receivables	*11,577*	*11,577*	*LaR*	*11,577*	–	–
Derivatives with no hedging relationships	*8,952*	*8,952*	*HfT*	*8,952*	*2,013*	*6,785*
Derivatives with hedging relationships	*969*	*969*	*n/a*	*969*	–	*969*
Other operating assets	*4,897*	*1,561*	*LaR*	*1,561*	–	–
Securities and fixed-term deposits	5,392	5,392	AfS	5,392	4,384	1,008
Cash and cash equivalents	4,210	4,210	AfS	4,210	4,183	27
Restricted cash	184	184	AfS	184	137	47
Assets held for sale	2,273	81	AfS	81	–	81
Total assets	**48,296**	**42,760**		**42,996**	**14,532**	**9,410**
Financial liabilities	37,777	37,566		41,518	–	–
Bonds	*28,963*	*28,963*	*AmC*	*32,799*	–	–
Commercial paper	*1,520*	*1,520*	*AmC*	*1,520*	–	–
Bank loans/Liabilities to banks	*2,285*	*2,285*	*AmC*	*2,285*	–	–
Liabilities from finance leases	*245*	*245*	*n/a*	*356*	–	–
Other financial liabilities	*4,764*	*4,553*	*AmC*	*4,558*	–	–
Trade payables and other operating liabilities	30,949	24,163		24,163	2,210	6,948
Trade payables	*4,635*	*4,635*	*AmC*	*4,635*	–	–
Derivatives with no hedging relationships	*9,505*	*9,505*	*HfT*	*9,505*	*2,210*	*6,261*
Derivatives with hedging relationships	*687*	*687*	*n/a*	*687*	–	*687*
Put option liabilities under IAS 32	*653*	*653*	*AmC*	*653*	–	–
Other operating liabilities	*15,469*	*8,683*	*AmC*	*8,683*	–	–
Total liabilities	**68,726**	**61,729**		**65,681**	**2,210**	**6,948**

[1] AfS: Available for sale; LaR: Loans and receivables; HfT: Held for trading; AmC: Amortized cost. The categories are described in detail in Note 2. The values of financial instruments measured at fair value (AfS, HfT, n/a) using valuation techniques with unobservable inputs (Level 3 of the fair value hierarchy) can be derived from the difference between the fair values of the two disclosed fair value hierarchies and the total fair value of the listed categories.

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, Fair Values and Measurement Categories 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
Receivables from finance leases	*650*	*650*	*n/a*	*654*	*–*
Other financial receivables and financial assets	*3,902*	*3,886*	*LaR*	*4,115*	*1,381*
Trade receivables and other operating assets	32,637	29,333		29,336	594
Trade receivables	*14,416*	*14,373*	*LaR*	*14,375*	*–*
Derivatives with no hedging relationships	*11,705*	*11,705*	*HfT*	*11,705*	*590*
Derivatives with hedging relationships	*1,487*	*1,487*	*n/a*	*1,487*	*–*
Other operating assets	*5,029*	*1,768*	*LaR*	*1,769*	*4*
Securities and fixed-term deposits	7,142	7,142	AfS	7,142	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	4,521	1,568	AfS	1,568	1,447
Total assets	**56,881**	**50,608**		**50,844**	**13,771**
Financial liabilities	41,058	41,045		42,899	23,167
Bonds	*25,311*	*25,311*	*AmC*	*27,224*	*23,162*
Commercial paper	*7,305*	*7,305*	*AmC*	*7,305*	*–*
Bank loans/Liabilities to banks	*3,542*	*3,542*	*AmC*	*3,464*	*–*
Liabilities from finance leases	*247*	*247*	*n/a*	*256*	*–*
Other financial liabilities	*4,653*	*4,640*	*AmC*	*4,650*	*5*
Trade payables and other operating liabilities	38,123	29,470		29,467	729
Trade payables	*5,938*	*5,925*	*AmC*	*5,925*	*–*
Derivatives with no hedging relationships	*13,038*	*13,038*	*HfT*	*13,038*	*729*
Derivatives with hedging relationships	*601*	*601*	*n/a*	*601*	*–*
Put option liabilities under IAS 32	*832*	*832*	*AmC*	*832*	*–*
Other operating liabilities	*17,714*	*9,074*	*AmC*	*9,071*	*–*
Total liabilities	**79,181**	**70,515**		**72,366**	**23,896**

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

The fair value of shareholdings in unlisted companies and of debt instruments 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 €310 million (2008: €300 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 carrying amount of commercial paper, borrowings under revolving short-term credit facilities and trade payables is used as the fair value due to the short maturities of these items.

The determination of the fair value of derivative financial instruments is discussed in Note 30. The fair values determined using valuation techniques for financial instruments carried at fair value are reconciled as shown in the following table:

Fair Value Hierarchy Level 3 Reconciliation (Values Determined Using Valuation Techniques)

€ in millions	Jan. 1, 2009	Purchases (including additions)	Sales (including disposals)	Settle-ments	Gains/ Losses in income state-ment	Transfers into Level 3	Transfers out of Level 3	Gains/ Losses in OCI	Dec. 31, 2009
Equity investments	1,058	189	-65	–	-33	–	–	4	1,153
Derivative financial instruments	-983	-117	–	141	79	–	–	–	-880
Total	**75**	**72**	**-65**	**141**	**46**	**0**	**0**	**4**	**273**

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, 2009

€ in millions	Cash outflows 2010	Cash outflows 2011	Cash outflows 2012–2014	Cash outflows from 2015
Bonds	4,211	3,574	12,807	21,312
Commercial paper	1,538	–	–	–
Bank loans/Liabilities to banks	1,019	209	198	1,099
Liabilities from finance leases	63	39	108	281
Other financial liabilities	2,301	75	656	2,120
Cash outflows for financial liabilities	**9,132**	**3,897**	**13,769**	**24,812**
Trade payables	4,635	–	–	–
Derivatives (with/without hedging relationships)	19,496	6,515	2,009	124
Put option liabilities under IAS 32	200	10	93	349
Other operating liabilities	8,995	30	66	168
Cash outflows for trade payables and other operating liabilities	**33,326**	**6,555**	**2,168**	**641**
Cash outflows for liabilities within the scope of IFRS 7	**42,458**	**10,452**	**15,937**	**25,453**

Cash Flow Analysis as of December 31, 2008 € in millions	Cash outflows 2009	Cash outflows 2010	Cash outflows 2011–2013	Cash outflows from 2014
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	51	60	103	294
Other financial liabilities	2,510	182	882	1,604
Cash outflows for financial liabilities	**16,807**	**4,051**	**9,609**	**28,095**
Trade payables	5,938	–	–	–
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	9,098	59	112	319
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**

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 band in the same way as put options that are exercisable at any time. All covenants were complied with during 2009.

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	2009	2008
Loans and receivables	-141	114
Available for sale	2,158	133
Held for trading	1,754	-2,663
Amortized cost	-1,678	-1,741
Total	**2,093**	**-4,157**

[1]The categories are described in detail in Notes 2 and 9.

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 receivables. 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.

The net gains and losses in the amortized cost category are due primarily to interest on financial liabilities, adjusted for capitalized construction-period interest.

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).

Financial guarantees totaling €905 million (2008: 546 million) were issued to companies outside of the Group. This amount is the maximum amount that E.ON would have to pay in the event of claims on the guarantees.

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 ("PaR"), value-at-risk ("VaR") 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 should not be considered forecasts of future events or losses, as 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
E.ON AG is responsible for controlling the currency risks to which the E.ON Group is exposed, and has set appropriate risk parameters to this end.

Because it does business outside of the euro area, the E.ON Group is exposed to currency translation risk. Fluctuations in exchange rates produce translation effects affecting those revenues and other items of the income statement, as well as the assets, liabilities and payments that are denominated in foreign currency. The Company's exposure results mainly from its operations in the United States, the United Kingdom, Sweden, Russia and Hungary.

This translation risk is reduced by, among other things, borrowing in local currency, which in particular also includes shareholder loans in foreign currency. In addition, hedges of net investments in foreign operations are conducted at Group level as needed. This also involves the use of derivatives. The Group's translation risk is reviewed at regular intervals and the level of hedging is adjusted whenever necessary. The corporate purpose, along with the respective debt factor and the proportional enterprise value denominated in the foreign currency, are the principal criteria governing the level of hedging.

The E.ON Group is also exposed to operating and financial transaction risks arising from foreign-exchange transactions. Operating transaction risks arise primarily from the purchase and sale of gas, the procurement of fuels whose prices are denominated in U.S. dollars, internal use of services and capital spending in foreign currency. The subsidiaries are responsible for controlling their operating currency risks. Recognized assets and liabilities are generally fully hedged. For unrecognized firm commitments and forecast transactions, hedging takes place after consultation between the subsidiary and E.ON AG.

Financial transaction risks arise from monetary receivables and payables. They are generated both by external financing in a variety of foreign currencies including the U.S. dollar, the Swiss franc and the Japanese yen, and by shareholder loans from within the Group denominated in foreign currency. Financial transaction risks are generally fully hedged.

The one-day value-at-risk (99 percent confidence) from the translation of deposits and borrowings denominated in foreign currency, plus foreign-exchange derivatives, was €176 million (2008: €341 million) and, as in 2008, resulted primarily from the positions in British pounds and U.S. dollars.

Interest Risk Management

E.ON is exposed to profit risks arising from financial liabilities with floating interest rates, maturities and short-term borrowings, as well as interest-rate derivatives that are based on floating interest rates. Positions based on fixed interest rates, on the other hand, are subject to changes in fair value resulting from the volatility of market rates. E.ON seeks a specific mix of fixed- and floating-rate debt over time. The long-term orientation of the business model in principle means fulfilling a high proportion of financing requirements at fixed rates, especially within the planning period. This also involves the use of interest rate swaps. With interest rate derivatives included, the share of financial liabilities with fixed interest rates was 88 percent as of December 31, 2009 (2008: 78 percent). Under otherwise unchanged circumstances, the volume of financial liabilities with fixed interest rates, which amounted to €33.5 billion at year-end 2009, would decline to €29.8 billion in 2010 and to €27.7 billion in 2011. The effective interest rate duration of the financial liabilities, including interest rate derivatives, was 6.9 years as of December 31, 2009 (2008: 4.9 years).

As of December 31, 2009, the E.ON Group held interest rate derivatives with a nominal value of €3,195 million (2008: €8,639 million).

A sensitivity analysis was performed on the Group's short-term and variable-rate financial assets and liabilities within the scope of IFRS 7, with interest rate derivatives included. A one-percentage-point increase in interest rates (across all currencies) would cause net interest expense to rise by €10 million per annum (2008: €80 million). The alternative internal management measure generally takes account of short-term and variable-rate borrowings, including hedges of both foreign exchange risk and interest risk. That measure is used for internal controlling and reflects the economic position of the E.ON Group. A one-percentage-point increase in interest rates (across all currencies) would cause interest charges to increase by €40 million in 2010.

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 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, 2009, the E.ON Group has entered into electricity, gas, coal, oil and emissions-related derivatives with a nominal value of €119,587 million (2008: €101,109 million). Operating control over the financial and physical commodity positions in the liquid European markets had already been gradually transferred to the newly established Energy Trading market unit in 2008.

The VaR for the proprietary trading portfolio amounted to €11.5 million as of December 31, 2009 (2008: €36 million). The PaR for the financial and physical commodity positions held in the system portfolio over a three-year planning horizon was €2,845 million as of December 31, 2009 (2008: €4,337 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.

Equity Risk

The value of all exchange-traded equity investments on the balance sheet date was €3,815 million (2008: €2,121 million). Most of this amount is attributable to Gazprom. This investment is not being hedged against market volatility at this time (three-month volatility in 2009: 25 percent; 2008: 35 percent). 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 at E.ON 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 replacement risks 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 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 operating contracts and asset management transactions. These are monitored separately at the level of the responsible market units.

In principle, each Group company is responsible for managing credit risk in its operating activities. Depending on the nature of the operating activities and the credit limit, additional credit risk monitoring and controls take place at both market unit and Group levels. Monthly reports on credit limits, including their utilization, are presented to the E.ON Risk Committee. 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 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 are 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 open 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 open 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 fluctuations in market value, short-term concentrations of credit risk may occur as a result. In summary, as of December 31, 2009, 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, 2009							
	Total		Up to 1 year		1 to 5 years		More than 5 years	
€ in millions	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk
AAA/Aaa through AA-/Aa3	26,884.3	2,482.4	14,527.5	1,675.1	9,914.6	674.1	2,442.2	133.2
A+/A1 through A-/A3	69,631.6	6,029.4	41,217.8	3,128.4	21,382.6	1,784.1	7,031.2	1,116.9
BBB+/Baa1 through BBB-/Baa3	8,300.6	369.6	6,602.7	258.6	1,597.9	111.0	100.0	–
BB+/Ba1 through BB-/Ba3	1,983.4	84.9	402.6	13.5	651.2	71.4	929.6	–
Other[1]	31,922.3	1,849.4	14,474.3	1,229.5	10,238.1	503.0	7,209.9	116.9
Total	**138,722.2**	**10,815.7**	**77,224.9**	**6,305.1**	**43,784.4**	**3,143.6**	**17,712.9**	**1,367.0**

[1]"Other" 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, 2008							
	Total		Up to 1 year		1 to 5 years		More than 5 years	
€ in millions	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk	Nominal value	Counter-party risk
AAA/Aaa through AA-/Aa3	34,682.4	3,447.5	23,089.6	2,570.8	10,247.0	773.6	1,345.8	103.1
A+/A1 through A-/A3	46,571.0	4,560.2	25,507.5	2,767.2	12,595.3	802.3	8,468.2	990.7
BBB+/Baa1 through BBB-/Baa3	8,385.2	654.3	5,941.1	411.3	2,350.9	241.8	93.2	1.2
BB+/Ba1 through BB-/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**

[1]"Other" 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 emissions-related derivatives having an aggregate nominal value of €20,005 million as of December 31, 2009, (2008: €13,765 million) bear no credit risk.

For the remaining financial instruments, the maximum risk of default is equal to their carrying amounts.

Asset Management

For the purpose of financing long-term payment obligations, including those relating to asset retirement obligations (see Note 25), financial investments totaling €4.8 billion (2008: €5.0 billion) were held by companies of the Central Europe market unit as of December 31, 2009.

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 at regular intervals to determine the target portfolio structure. The majority of the assets is held in investment funds managed by external fund managers. Risk management is based on a value-at-risk concept. The three-month VaR with a 98-percent confidence interval for these financial assets totaled €103 million (2008: €237 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 €0.5 billion at year-end 2009 (2008: €2.3 billion). In 2009, €2.1 billion was taken out of VKE, with most of this amount (€1.7 billion) transferred into the Contractual Trust Arrangement. The remaining assets at 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 three-month VaR with a 98-percent confidence interval for these financial assets was €19.3 million (2008: €216 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 parties, the most significant of which are associated companies accounted for under the equity method. Additionally reported as related parties are joint ventures, as well as equity interests carried at fair value and unconsolidated subsidiaries. Transactions with related parties are summarized as follows:

Related-Party Transactions

€ in millions	2009	2008
Income	5,312	7,492
Expenses	3,060	3,627
Receivables	1,641	2,433
Liabilities	2,950	3,433

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 €369 million (2008: €531 million) in trade payables to operators of jointly-owned nuclear power plants. These payables bear interest at 1.0 percent per annum (2008: 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 2009 of €1,232 million (2008: €1,237 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 2009 amounted to €12.3 million (2008: €14.5 million) in short-term benefits and €1.6 million (2008: €2.3 million) in post-employment benefits.

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

The expense 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 2009 was €3.4 million (2008: €0.9 million income).

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

(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. This market unit additionally holds interests predominantly in energy businesses in Europe outside of Germany.
- 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 combines E.ON's European trading activities for electricity, gas, coal, oil and CO_2 allowances.
- All of the remaining operating segments have been combined in accordance with IFRS 8, and are reported as the "New Markets" segment. New Markets contains the activities of the Climate & Renewables, Italy, and Russia market units, as well as the Spain market unit.

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.

Under IFRS, segments or material business units that have been sold or are held for sale must be reported as discontinued operations. For the 2009 and 2008 fiscal years, this concerns WKE. The corresponding earnings and cash flow figures as of December 31, 2009, 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 the key measure 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	2009	2008
Adjusted EBIT	9,646	9,878
Adjusted interest income (net)	-2,177	-1,835
Net book gains/losses	4,815	1,324
Restructuring/Cost management expenses	-443	-524
Impairment U.S. Midwest, Endesa Europa/Viesgo	–	-3,327
Other non-operating earnings	-48	-2,933
Income/Loss (-) from continuing operations before taxes	**11,793**	**2,583**
Income taxes	-2,976	-834
Income/Loss (-) from continuing operations	**8,817**	**1,749**
Income/Loss (-) from discontinued operations, net	-172	-128
Net income	**8,645**	**1,621**
Attributable to shareholders of E.ON AG	*8,396*	*1,283*
Attributable to minority interests	*249*	*338*

Net book gains in 2009 increased by €3.5 billion over the previous year's level. This higher amount was attributable primarily to the disposal of power plants as part of the commitment to the European Commission, the sale of Thüga to a consortium of municipal acquirers and the realization of price gains on the exchange of Gazprom shares for the interest in the Yuzhno-Russkoye gas field.

Cost-management and restructuring expenses decreased by approximately €80 million in 2009. As in 2008, the expenses related primarily to structural measures at German regional utilities and to costs incurred in connection with the continued implementation of the new corporate organizational structure.

Financial Information by Business Segment

	Central Europe		Pan-European Gas		U.K.	
€ in millions	2009	2008	2009	2008	2009	2008
External sales	33,456	32,691	15,360	21,272	8,247	8,884
Intersegment sales	7,963	8,444	5,280	6,150	1,850	2,167
Sales	**41,419**	**41,135**	**20,640**	**27,422**	**10,097**	**11,051**
Adjusted EBITDA	6,479	6,266	2,275	3,113	1,080	1,396
Depreciation and amortization	-1,601	-1,498	-465	-494	-427	-474
Impairments (-)/Reversals (+)[1]	-61	-48	-56	12	-4	–
Adjusted EBIT	**4,817**	**4,720**	**1,754**	**2,631**	**649**	**922**
Earnings from companies accounted for under the equity method[1]	*292*	*300*	*713*	*644*	*1*	*4*
Cash provided by operating activities	5,180	4,016	645	2,081	1,562	893
Investments	3,256	3,188	1,610	1,215	897	1,162
Intangible assets and property, plant and equipment	*3,039*	*2,965*	*1,117*	*943*	*864*	*1,120*
Equity investments[2]	*217*	*223*	*493*	*272*	*33*	*42*

[1]Impairments 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.
[2]In 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.

Other non-operating earnings were characterized primarily by the marking to market of derivatives used to protect the operating businesses from fluctuations in prices. As of December 31, 2009, this marking to market of derivatives produced a positive effect in the range of €1.1 billion, as opposed to the negative effect of approximately €2.2 billion recorded in 2008. The recognition in income of effects associated with corporate restructuring that had previously been recognized in equity also had a positive effect. The positive effects were offset by the fine of €553 million for alleged market sharing between E.ON Ruhrgas and GdF Suez, by impairment charges on securities, financial assets and other assets, and by costs incurred in connection with a storm in Kentucky at the beginning of 2009. In 2008, the negative effect on non-operating earnings of the marking to market of derivatives was added to primarily by the impairment charge of €1.5 billion on the goodwill of the U.S. Midwest market unit and by the impairment charge of €1.8 billion on the goodwill and other assets of the activities acquired from Enel/Acciona and Endesa in Italy, Spain and France.

Adjusted Net Interest Income

€ in millions	2009	2008
Interest and similar expenses (net) as shown in the Consolidated Statements of Income	-2,249	-1,893
Non-operating interest expense (+)/income (-)	72	58
Adjusted interest income (net)	**-2,177**	**-1,835**

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 fell by €342 million from its level in 2008, primarily as a result of the increased average level of net debt during 2009.

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	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
2,491	2,683	1,843	1,880	14,457	13,767	5,889	5,543	74	33	81,817	86,753
857	1,194	–	–	26,794	17,993	1,860	319	-44,604	-36,267	–	–
3,348	**3,877**	**1,843**	**1,880**	**41,251**	**31,760**	**7,749**	**5,862**	**-44,530**	**-36,234**	**81,817**	**86,753**
851	1,112	552	549	961	649	1,544	510	-216	-210	13,526	13,385
-309	-339	-168	-154	-10	-2	-660	-409	-62	-86	-3,702	-3,456
-7	-3	–	–	-2	-2	-22	-11	-26	1	-178	-51
535	**770**	**384**	**395**	**949**	**645**	**862**	**90**	**-304**	**-295**	**9,646**	**9,878**
-7	*5*	*–*	*21*	*–*	*–*	*10*	*-1*	*-7*	*-5*	*1,002*	*968*
523	835	342	271	1,122	-1,452	1,010	140	-1,330	-46	9,054	6,738
1,104	939	545	650	53	8	1,881	3,305	-146	7,939	9,200	18,406
810	*923*	*545*	*650*	*41*	*7*	*1,788*	*2,250*	*172*	*138*	*8,376*	*8,996*
294	*16*	*–*	*–*	*12*	*1*	*93*	*1,055*	*-318*	*7,801*	*824*	*9,410*

Additional Entity-Level Disclosures

External sales by product break down as follows:

Segment Information by Product € in millions	2009	2008
Electricity	48,563	47,001
Gas	28,328	35,433
Other	4,926	4,319
Total	**81,817**	**86,753**

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	Germany		Europe (euro area excluding Germany)		Europe (other)		United States		Other		Total	
€ in millions	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
External sales by location of customer	42,670	42,850	12,032	11,226	25,178	30,738	1,889	1,887	48	52	81,817	86,753
External sales by location of seller	51,477	50,514	8,648	7,149	19,760	27,156	1,889	1,887	43	47	81,817	86,753
Property, plant and equipment	19,568	20,018	9,742	8,745	24,251	21,094	7,192	6,572	34	51	60,787	56,480

E.ON's customer structure 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 Norway, Russia, Germany, the Netherlands and Denmark.

(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, 2010, total remuneration to members of the Supervisory Board will be €4.9 million (2008: €4.5 million).

There were no loans to members of the Supervisory Board in 2009.

The Supervisory Board's compensation structure and the amounts for each member of the Supervisory Board are presented on pages 148 and 149 in 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 160 and 161.

Board of Management

Total remuneration to members of the Board of Management in 2009 amounted to €16.1 million (2008: €18.9 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 €9.9 million (2008: €7.6 million). Provisions of €109.1 million (2008: €110.4 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 2009.

The Board of Management's compensation structure and the amounts for each member of the Board of Management are presented on pages 150 through 155 in 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 167.

Declaration of the Board of Management

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, February 22, 2010

The Board of Management

Bernotat

Teyssen

Dänzer-Vanotti

Feldmann

Schenck

Corporate Governance Declaration (Part of the Combined Group Management Report)

Declaration of Compliance with the German Corporate Governance Code, made in accordance with Section 161 of the German Stock Corporation Act, by the Board of Management and the Supervisory Board of E.ON AG

The Board of Management and the Supervisory Board hereby declare that E.ON AG fully complies with the recommendations contained in the German Corporate Governance Code ("the Code"), dated June 18, 2009, prepared by the Government Commission appointed by the German Minister of Justice and published in the official section of the electronic version of the *Bundesanzeiger*.

Furthermore, the Board of Management and the Supervisory Board declare that E.ON AG has been in compliance with the recommendations contained in the previous version of the Code dated June 6, 2008.

Düsseldorf, December 14, 2009

For the Supervisory Board of E.ON AG
Ulrich Hartmann
(Chairman of the Supervisory Board of E.ON AG)

For the Board of Management of E.ON AG
Dr. Wulf H. Bernotat
(Chairman of the Board of Management of E.ON AG)

The declaration is published at www.eon.com and is thus publicly available to shareholders at all times.

Relevant Information about Management Practices

Corporate Governance

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 2009, the Board of Management and Supervisory Board paid close attention to E.ON's compliance with the Code's guidelines, particularly in conjunction with the new Code recommendations dated June 18, 2009. They determined that E.ON complies not only with all of the Code's recommendations but also with all of its suggestions.

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 primarily 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 on 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 12 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 2009 have been disclosed on the Internet at www.eon.com. As of December 31, 2009, there was no ownership interest subject to disclosure pursuant to Item 6.6 of the Code.

Integrity

Our actions are grounded in integrity and a respect for the law. In 2009, the Board of Management issued a revised Code of Conduct which emphasizes that all employees must comply with laws and regulations and with company policies. These relate to dealing with business partners, third parties, and government institutions, particularly with regard to antitrust law, the granting and accepting of benefits, the involvement of intermediaries, and the selection of suppliers and service providers. Other rules address issues such as the avoidance of conflicts of interest (such as the prohibition to compete, secondary employment, material financial investments) and handling company information, property, and resources. The policies and procedures of our Compliance Organization ensure the investigation, evaluation, cessation, and punishment of reported violations by the appropriate Compliance Officers and the E.ON Group's Chief Compliance Officer. Violations of the Code of Conduct can also be reported anonymously (for example, by means of a whistleblower report). The most recent version of the Code of Conduct is published on the Internet at www.eon.com.

Description of the Functioning of the Board of Management and Supervisory Board and of the Composition and Functioning of their Committees

Board of Management

The E.ON 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 2009. 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 2009.

We have 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.

Supervisory Board

The Supervisory Board has 20 members and, in accordance with the German Codetermination Act, 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. The Supervisory Board oversees the Company's management and advises the Board of Management. It has established policies and procedures for itself and its committees. It holds four regular meetings in each financial year.

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 2009. 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 2009.

The Report of the Supervisory Board, which is on pages 156–159, contains more information about these matters.

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

The Mediation Committee required by Section 27, Paragraph 3 of the Codetermination Act 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. It therefore only meets when necessary.

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 addition, a key Executive Committee task is to prepare the Supervisory Board's personnel decisions and resolutions for setting the total compensation of individual Board of Management members within the meaning of Section 87 of the German Stock Corporation Act. Furthermore, it is responsible for the conclusion, alteration, and termination of the service agreements of Board of Management members and for presenting the Supervisory Board with a proposal for a resolution on the Board of Management's compensation plan including key elements of Board of Management service agreements. 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 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 effectiveness of the internal control mechanisms for the accounting process used at E.ON AG and the market unit lead companies is tested on a regular basis by our Internal Audit division. In addition, 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.

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.

All committees meet at regular intervals and when specific circumstances require it under their policies and procedures. The Report of the Supervisory Board contains information about how often the committees actually met (on page 158) and their composition (on page 161).

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.

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

Compensation Report (Part of the Combined Group Management Report)

This compensation report describes the compensation plan 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, the regulations of the German Stock Corporation Act including the Act on the Appropriateness of Management Board Compensation, and the principles of the German Corporate Governance Code ("the Code").

Compensation Plan 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 plan 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 plan. The wording of the Articles of Association was amended 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 fixed compensation 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 3⅓ euro cents per no-par-value 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 76⅔ euro cents. To adjust for the stock split, net income per share for 2007 will be divided by three before being factored into the three-year average.

Individuals who were members of the Supervisory Board or any of its committees for less than an 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. In accordance with the Code's recommendations, effective June 16, 2010, the deductible will be increased to 10 percent of a damage claim but with a maximum cumulative annual cap of 150 percent of a member's annual fixed compensation.

Fixed annual compensation of €55,000.00 is intended to reflect the independence necessary for the Supervisory Board to fulfill its supervisory function. In addition, there are a number of duties that Supervisory Board members must perform irrespective of the Company's financial performance. For this reason, there should be minimum guaranteed compensation even when the Company faces difficult times, since in such times the Supervisory Board's work is often 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, 2010, approves the proposed dividend, the total compensation of the members of the Supervisory Board will amount to €4.9 million (2008: €4.5 million).

No loans were outstanding or granted to Supervisory Board members in the 2009 financial year. The members of the Supervisory Board are listed on pages 160–161.

Compensation of the Supervisory Board 2009

€	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Supervisory Board compensation from affiliated companies	Total
Ulrich Hartmann	165,000	151,800	136,220	–	453,020
Hubertus Schmoldt	110,000	101,200	90,813	–	302,013
Werner Bartoschek	82,500	75,900	68,110	77,000	303,510
Sven Bergelin	55,000	50,600	45,407	69,980	220,987
Gabriele Gratz	82,500	75,900	68,110	102,000	328,510
Jens P. Heyerdahl d.y. (since June 1, 2009)	32,083	29,517	26,487	–	88,087
Wolf-Rüdiger Hinrichsen	55,000	50,600	45,407	–	151,007
Ulrich Hocker	55,000	50,600	45,407	–	151,007
Prof. Dr. Ulrich Lehner	82,500	75,900	68,110	–	226,510
Bård Mikkelsen (until May 31, 2009)	22,917	21,083	18,919	–	62,919
Erhard Ott	82,500	75,900	68,110	35,750	262,260
Hans Prüfer	82,500	75,900	68,110	–	226,510
Klaus Dieter Raschke	82,500	75,900	68,110	44,480	270,990
Dr. Walter Reitler	55,000	50,600	45,407	35,750	186,757
Dr. Henning Schulte-Noelle	82,500	75,900	68,110	–	226,510
Dr. Karen de Segundo	55,000	50,600	45,407	–	151,007
Dr. Theo Siegert	110,000	101,200	90,813	–	302,013
Prof. Dr. Wilhelm Simson	55,000	50,600	45,407	–	151,007
Dr. Georg Freiherr von Waldenfels	55,000	50,600	45,407	–	151,007
Werner Wenning	82,500	75,900	68,110	–	226,510
Hans Wollitzer	82,500	75,900	68,110	56,950	283,460
Subtotal	**1,567,500**	**1,442,100**	**1,294,091**	**421,910**	**4,725,601**
Attendance fees and meeting-related reimbursements					221,107
Total					**4,946,708**

Compensation Plan for Members of the Board of Management

The Act on the Appropriateness of Management Board Compensation (known by its German abbreviation, "VorstAG") took effect on August 5, 2009. It changes, among other things, parts of the German Stock Corporation Act (known by its German abbreviation, "AktG"). The version of the Code dated June 18, 2009, incorporates VorstAG's provisions and in some cases defines them in greater detail.

The Supervisory Board and the Supervisory Board's Executive Committee thoroughly discussed VorstAG at their meetings on August 10 and December 14, 2009, and August 10 and December 4, 2009, respectively, and determined the modifications that were necessary to the Board of Management's compensation plan, which is described below.

Components of the Compensation Plan

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

These components account for approximately the following percentages of total compensation:

- Base salary 30%
- Annual bonus (with 100% target attainment) 40%
- Long-term variable (value at issuance) 30%

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.

Annual Bonus

In 2009, the annual bonus for E.ON Board of Management members was subject to the same general rules as in previous years.

The amount of the bonus is determined by the degree to which certain company and individual performance targets are attained. Board of Management members who fully attain their performance target receive the target bonus agreed to in their contracts. The maximum bonus that can be attained is 200 percent of the target bonus. The minimum bonus paid is equal to 30 percent of the target bonus.

The target-setting system consists of 70 percent company performance targets and 30 percent individual performance targets.

The company performance targets reflect, in equal shares, the return on capital employed ("ROCE") and operating performance (as measured by adjusted EBIT) during the previous financial year.

The target for the ROCE portion of the annual bonus is equal to the prior-year weighted-average cost of capital plus a spread, stipulated by the Supervisory Board, to increase leverage. The premium is currently two percentage points. If E.ON's actual ROCE is equal to the ROCE target, this constitutes 100-percent attainment. If it is three percentage points or more lower, this constitutes zero-percent attainment. If it is three percentage points or more higher, this constitutes 200-percent attainment. Linear interpolation is used to translate intermediate ROCE figures into percentages.

The target for the adjusted EBIT portion of the annual bonus is the above-described target ROCE multiplied by the prior-year capital employed. If E.ON's actual adjusted EBIT is equal to the adjusted EBIT target, this constitutes 100-percent attainment. If it is twice as high, this constitutes 200-percent achievement. If it is zero, this constitutes zero-percent attainment. Linear interpolation is used to translate intermediate adjusted EBIT figures into percentages.

The individual portion of the annual bonus is calculated according to targets agreed on in writing and/or key task areas.

Changes to the Annual Bonus Mechanism Effective 2010

Section 87 of the VorstAG version of the AktG requires that a management board's overall compensation package must be geared towards the company's long-term business performance. To implement this requirement, the Supervisory Board and Board of Management members agreed that the Board of Management's annual bonus mechanism would adopt a multi-year performance metric effective 2010. This modification affects the company performance portion of the annual bonus. Only in the case of Dr. Bernotat was no contract change made because his service on the Board of Management terminates at the close of April 30, 2010.

In the case of the other Board of Management members, only half of the company performance portion of the annual bonus will, in the future, be a single-year performance metric; namely, the Company's results for the previous financial year. As in the past, this portion of the annual bonus will be calculated and paid out based on the attainment of company performance targets for the previous financial year. It makes sense to retain a single-year performance metric in the annual bonus because the Company's annual results continue to be a measure of its performance and serve as the basis for the dividend payout to shareholders.

The other half of the company performance portion of the annual bonus will, in the future, be a three-year performance metric; namely, the average of the percentages of target attainment of the company performance portion for the previous financial year and the two subsequent years. This portion of the annual bonus will be calculated and paid out based on the attainment of company performance targets for the previous financial year. However, this portion of the bonus is preliminary and is subject to partial repayment if company performance targets are not attained in the subsequent years. This portion of the annual bonus is definitively set at the end of the two-year period following the baseline year. If the three-year average of the achievement of company performance targets is higher than the preliminary calculation for the one-year period, then Board of Management members receive an additional bonus payment (bonus). If it is lower, they are required to pay back the resulting difference or have it deducted from their next bonus (malus or negative bonus).

In addition, the Supervisory Board and the Board of Management members (with the exception of Dr. Bernotat, for the reasons explained above) agreed that in the future the Supervisory Board will determine the degree to which members have met the targets of the individual performance portion of their annual bonus. In making this determination, the Supervisory Board will pay particular attention to the criteria of Section 87 of the AktG and the Code.

As a result of these changes, effective 2010 more than 60 percent of the Board of Management's variable compensation (which consists of the annual bonus and long-term variable compensation) is based on long-term performance metrics, thereby ensuring that this variable compensation is sustainable. The sustainability requirement is also reflected by the fact that the Supervisory Board may consider the criteria of Section 87 of the AktG and the Code when it determines the individual performance portion of the annual bonus.

Long-Term Variable Compensation

The long-term variable compensation component that Board of Management members receive is stock-based compensation under the E.ON Share Performance Plan. The Supervisory Board decides each year how many performance rights are allocated.

To ensure that this compensation is sustainable within the meaning of VorstAG, beginning in 2010, all performance rights allocated under the plan will have a vesting period of four years, not three years as previously.

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.

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 accident insurance coverage, and an annual medical examination. In addition, the Company has taken out D&O insurance for the benefit of Board of Management members to cover the statutory liability related to their Board of Management duties. If an insurance claim is granted, this insurance includes a deductible equal to 25 percent of a Board of Management member's annual fixed compensation. In accordance with VorstAG, effective June 16, 2010, the deductible will be increased to 10 percent of a damage claim but with a maximum cumulative annual cap of 150 percent of member's annual fixed compensation.

Settlement Cap for Premature Termination of Board of Management Duties

In accordance with the Code, the service agreements of all Board of Management members have a settlement cap. 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.

Dr. Bernotat's service agreement does not need to have a settlement cap because he is retiring as planned effective at the close of April 30, 2010; there is therefore no possibility of a settlement for premature contract termination.

Change-in-Control Clauses

The Company had change-in-control agreements with all Board of Management members in the 2009 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 Board of Management members would be 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.

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 also range between 50 percent and 75 percent of the last annual base salary and begin when the member reaches the age of 60. 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 60 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 Board of Management member, 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 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. 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, 2009		Additions to provisions for pensions in 2009	
	As a percentage of annual base salary	(€)	(€)	Thereof interest cost (€)
Dr. Wulf H. Bernotat	70	868,000	569,708	569,708
Dr. Johannes Teyssen	70	700,000	700,668	366,123
Christoph Dänzer-Vanotti[1]	50	375,000	943,331	153,945
Lutz Feldmann	60	450,000	346,307	188,280
Dr. Marcus Schenck[1]	50	375,000	387,435	40,577

[1]Pension entitlement not yet vested.

Compensation of the Members of the Board of Management

Board of Management compensation was not adjusted in 2009.

At its meeting on March 9, 2010, the Supervisory Board determined that the Board of Management's compensation is appropriate. In accordance with VorstAG's provisions, the Supervisory Board made this determination in particular by means of horizontal and vertical comparisons. On the one hand, the Board of Management's compensation was subject to a market comparison with compensation at companies of similar size and in similar industries. On the other, it was compared with compensation at all other levels of hierarchy in the E.ON Group.

The total compensation of the members of the Board of Management in the 2009 financial year amounted to €16.1 million (2008: €18.9 million). Individual members of the Board of Management were paid the following total compensation:

Compensation of the Board of Management 2009

€	Fixed annual compensation	Annual bonus	Other compensation	Fair value of 4th tranche of performance rights	Total	Number of 4th tranche performance rights granted
Dr. Wulf H. Bernotat	1,240,000	2,130,000	45,989	1,049,375	4,465,364	48,336
Dr. Johannes Teyssen	1,000,000	1,710,000	83,564	835,618	3,629,182	38,490
Christoph Dänzer-Vanotti	750,000	1,240,000	14,879	621,861	2,626,740	28,644
Lutz Feldmann	750,000	1,240,000	42,237	621,861	2,654,098	28,644
Dr. Marcus Schenck	750,000	1,300,000	37,735	621,861	2,709,596	28,644
Total	**4,490,000**	**7,620,000**	**224,404**	**3,750,576**	**16,084,980**	**172,758**

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 reimbursement for relocation costs.

The performance rights granted in 2009 as the fourth tranche of the E.ON Share Performance Plan were quoted at their fair value of €21.71 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 vesting period E.ON stock maintains its price and its performance equals the performance of the benchmark index. In 2009, the target value of the rights issued was €1.35 million for the Chairman of Board of Management, €1.075 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 2009 and in previous years and for tranches existing in 2009. The following expenses in accordance with IFRS 2 were recorded for the 2009 financial year: Dr. Bernotat €0.9 million, Dr. Teyssen €0.7 million, Mr. Dänzer-Vanotti €0.6 million, Mr. Feldmann €0.6 million, and Dr. Schenck €0.6 million.

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

No loans were outstanding or granted to members of the Board of Management in 2009 financial year.

Page 167 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 €9.9 million in 2009 (2008: €7.6 million).

Provisions of €109.1 million (2008: €110.4 million) have been provided for pension obligations to former Board of Management members and their beneficiaries.

Report of the Supervisory Board

In the 2009 financial year, the Supervisory Board carefully performed all its duties and obligations under law, the Articles of Association, and its own policies and procedures. It thoroughly examined and discussed the Company's situation.

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 four regular meetings and three extraordinary meetings in 2009, we addressed in depth all issues relevant to the Company. In addition, a strategy meeting was held at which we and the Board of Management thoroughly discussed possible market developments, fundamental issues, and the E.ON Group's future strategic position. The Board of Management regularly provided us with timely and comprehensive information in both written and oral form. We discussed the written and oral reports thoroughly at our meetings. 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 throughout the financial year 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 reported continually on the further implementation of the package of strategic initiatives for the further development of the E.ON Group. In this context, the Board of Management provided us with comprehensive information about PerformtoWin, an efficiency-enhancement program launched prior to the outbreak of the global financial and economic crisis. Its objective is to achieve lasting improvements totaling €1.5 billion by 2011. To implement the program in a socially responsible manner, management and employee representatives agreed on a comprehensive plan to address job-related issues. This program's initial focus was on E.ON's power and gas business in Germany, the United Kingdom, and Scandinavia. Since October 2009, it also includes the Climate & Renewables, Energy Trading, Russia, Italy, and Spain market units. The improvement initiatives include drawing on the expertise of Energy Trading and Pan-European Gas to enhance fuel-procurement efficiency for E.ON power stations, improving maintenance procedures for our wind farms, and reorganizing retail operations in Italy.

In addition, the Board of Management reported in detail about various measures to optimize E.ON's portfolio. In particular, these measures included the asset-swap agreement with Russia's Gazprom successfully concluded in October 2009 under which E.ON acquired a stake in Yuzhno Russkoye, a natural gas field in Siberia. The Board of Management also informed us in detail about the sale, also concluded in October 2009, of the Thüga Group, until then part of the Pan-European Gas market unit, to Integra/Kom9, a consortium of municipal utilities. In addition, the Board of Management kept us informed about the unwind, completed in July 2009, of long-term power supply contracts, originally concluded in 1998 between E.ON U.S. subsidiary Western Kentucky Energy and Big Rivers, a municipal utility.

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 current state of negotiations on the European Commission's third package of internal energy market legislation (including proposals for unbundling network operations) as well as the incentive regulation scheme that took effect in Germany in January 2009 and the resulting consents process for network charges conducted by the German Federal Network Agency. We also discussed the legal disputes relating to the construction of a coal-fired generating unit in Datteln and the overall investment conditions for the construction of new power plants in Germany.

In addition, the Board of Management provided detailed reports about the gas dispute between Russia and Ukraine in early 2009 and the resulting curtailment of natural gas deliveries from Russia and about energy-policy developments in Sweden regarding the construction of nuclear power stations.

The E.ON Group's agreement to the European Commission's commitment decision on the divestment of generating capacity and the ultrahigh-voltage transmission system was again a focus of our discussions in 2009. The Board of Management reported to us regularly and comprehensively about the process of divesting about 5,000 megawatts of generating capacity in Germany and E.ON's ultrahigh-voltage transmission system. By the end of the financial year, the commitment decision was almost completely implemented.

The Board of Management also informed us regularly and in detail about ongoing antitrust proceedings in the electricity and gas sectors. In particular, we discussed the European Commission's investigation of E.ON Ruhrgas on allegations of a market-sharing agreement with Gaz de France and the related fine proceedings as well as the investigation of E.ON Ruhrgas in conjunction with network usage and the agreement reached with the European Commission.

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 2010–2012, 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, which also affected the energy industry and thus the E.ON Group, continued to be a key topic of our discussions. The Board of Management informed us in detail about the effects of the crisis on E.ON's financial situation and the various necessary measures (including adjustments to investment plans) to maintain the Group's ability to act in the near term 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 Act on the Appropriateness of Management Board Compensation ("VorstAG") passed by the German federal parliament and its implementation at E.ON AG, the German Corporate Governance Code ("the Code") which was revised in several places in June 2009 by the Government Commission, and the efficiency of the Supervisory Board's procedures. We also dealt in detail with the Supervisory Board's report to the Annual Shareholders Meeting and the Corporate Governance Report. In line with new legal requirements and the Code's recommendations, we discussed and passed resolutions on adjustments to the deductible of the D&O insurance of the Board of Management and Supervisory Board as well as on changes to the policies and procedures of the Supervisory Board and its Executive Committee. We also assured ourselves that in the 2009 financial year E.ON AG complied with the corporate governance principles contained in the Declaration of Compliance it had issued on December 15, 2008. E.ON's Declaration of Compliance with the Code pursuant to Section 161 of the German Stock Corporation Act is published as part of the Corporate Governance Declaration on page 144 of this report and on the Internet at www.eon.com.

Committee Meetings

The Supervisory Board's Executive Committee met five times. In particular, it prepared the meetings of the E.ON AG Supervisory Board. Among other things, the Executive Committee recommended the appointment of Dr. Teyssen to succeed Dr. Bernotat as Chairman of the Board of Management beginning in May 2010. It also prepared in detail the Supervisory Board's discussion of VorstAG.

The Finance and Investment Committee held six meetings to discuss reports from the Board of Management. These comprehensive reports and the committee's thorough discussions focused on the asset-swap agreement with Gazprom under which E.ON acquired a stake in Yuzhno-Russkoye gas field in Russia, the sale of Thüga AG, and the sale of about 5,000 MW of generating capacity in Germany and the ultrahigh-voltage transmission system. The authorization of the Board of Management to increase financing and the medium-term plan for 2010–12 were also discussed. 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.

At its five meetings, the Audit and Risk Committee devoted particular attention to the Financial Statements of E.ON AG and the Consolidated Financial Statements and Interim Reports prepared in accordance with International Financial Reporting Standards ("IFRS") as well as 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 E.ON's financial situation, the report from the risk committee, the status of E.ON's commodity risk positions for 2009–11, currency management, the requirements of the German Accounting Law Modernization Act ("BilMoG"), the auditing and consulting services performed by the independent auditors, E.ON's insurance strategy, internal audit, the compliance report and E.ON's compliance system, and other issues related to auditing. The Board of Management reported on ongoing proceedings and on legal and regulatory risks for E.ON AG's business. Key topics of discussion relating to the financial statements were the application of IFRS in Eastern Europe, asset management, the testing of the internal control system, and the risk control system.

The Finance and Investment Committee and the Audit and Risk Committee also held one joint meeting at which they discussed the results of a special investigation of the financial crisis conducted by PricewaterhouseCoopers Aktiengesellschaft.

The Nomination Committee held one meeting at which it thoroughly discussed and prepared the decision regarding the candidate proposed to the Annual Shareholders Meeting as shareholder representative on 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, 2009. The same applies to the Consolidated Financial Statements prepared in accordance with 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, 2010, 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

Effective May 31, 2009, Bård Mikkelsen ended his service on the Supervisory Board. E.ON benefited from his wise counsel and business acumen. We would like to take this opportunity to again thank him for his dedicated service. At the E.ON AG Annual Shareholders Meeting on May 6, 2009, Jens P. Heyerdahl was elected as a member of the Supervisory Board effective June 1, 2009, to serve the remainder of the departing member's term.

Personnel Changes on the Board of Management

At the Supervisory Board meeting on May 5, 2009, prior to the Annual Shareholders Meeting, Dr. Wulf H. Bernotat announced that he did not seek to have his contract renewed again. In advance, we would like to take this opportunity to thank Dr. Bernotat for his outstanding service to the E.ON Group. He played a decisive role in leading E.ON's transformation into a focused energy company and dedicated himself fully to E.ON's successful strategic development and internationalization. At our meeting on August 10, 2009, we appointed Dr. Johannes Teyssen to succeed Dr. Bernotat as Chairman of the Board of Management effective May 1, 2010.

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, 2010
The Supervisory Board

U. Hartmann

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 Lufthansa AG
- Münchener Rückversicherungs-Gesellschaft AG (until April 22, 2009)
- Henkel AG & Co. KGaA (Shareholders' Committee)

Hubertus Schmoldt
Deputy Chairman of the Supervisory Board, E.ON AG
- Bayer AG
- Deutsche BP AG
- DOW Olefinverbund GmbH
- RAG Aktiengesellschaft

Werner Bartoschek
Chairman of the Group Works Council, E.ON Ruhrgas AG
- E.ON Ruhrgas 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

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

Jens P. Heyerdahl d.y.
(since June 1, 2009)
Industrialist/Owner
- Berner Gruppen AS
- Hamang Papirfabrik AS

Wolf-Rüdiger Hinrichsen
Chairman of the Works Council, E.ON AG

Ulrich Hocker
General Manager, German Investor Protection Association
- Arcandor AG (until September 30, 2009)
- Deutsche Telekom AG
- Feri Finance AG
- ThyssenKrupp Stainless AG (until September 30, 2009)
- Gartmore SICAV
- Phoenix Mecano AG (Chairman of the Board of Directors)

Prof. Dr. Ulrich Lehner
Member of the Shareholders' Committee, Henkel AG & Co. KGaA
- 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)

Bård Mikkelsen
(until May 31, 2009)
President and Chief Executive Officer, Statkraft AS
- Bonheur ASA (Shareholders' Committee)
- Ganger Rolf ASA (Shareholders' Committee)
- Store Norske Spitsbergen Kulkompani AS (Chairman)
- CERMAQ ASA (Chairman)

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
- Bremer Lagerhaus-Gesellschaft AG

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

Klaus Dieter Raschke
Chairman of the Combined Works Council, E.ON Energie AG
- E.ON Energie AG
- E.ON Kernkraft GmbH

Dr. Walter Reitler
Senior Vice President of HSE and Corporate Responsibility, E.ON Energie AG
- E.ON Energie AG

Information as of December 31, 2009, 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.

Dr. Henning Schulte-Noelle
Chairman of the Supervisory Board,
Allianz SE
- Allianz SE (Chairman)
- ThyssenKrupp AG

Dr. Karen de Segundo
Attorney
- 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
- Henkel AG & Co. KGaA
- Merck KGaA
- DKSH Holding Ltd.
- E. Merck OHG

Prof. Dr. Wilhelm Simson
Chairman of the Supervisory Board,
Merck KGaA (until June 30, 2009)
- Frankfurter Allgemeine Zeitung GmbH
- Hochtief AG
- Merck KGaA (Chairman) (until June 30, 2009)
- E. Merck OHG
- Freudenberg & Co. KG
- Jungbunzlauer Holding AG (Administrative Board)

Dr. Georg Freiherr von Waldenfels
Attorney
- Georgsmarienhütte Holding GmbH
- Rothenbaum Sport GmbH (Chairman)

Werner Wenning
Chairman of the Board of Management,
Bayer AG
- Bayer Schering Pharma AG (Chairman) (until August 26, 2009)
- Deutsche Bank AG
- HDI V.a.G.
- Talanx AG
- 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

Mediation Committee
Ulrich Hartmann, Chairman
Hans Prüfer
Hubertus Schmoldt
Dr. Henning Schulte-Noelle

Executive Committee
Ulrich Hartmann, Chairman
Hans Prüfer
Hubertus Schmoldt
Dr. Henning Schulte-Noelle

Audit and Risk Committee
Dr. Theo Siegert, Chairman
Werner Bartoschek
Ulrich Hartmann
Klaus Dieter Raschke

Finance and Investment Committee
Ulrich Hartmann, Chairman
Gabriele Gratz
Prof. Dr. Ulrich Lehner
Erhard Ott
Werner Wenning
Hans Wollitzer

Nomination Committee
Ulrich Hartmann, Chairman
Prof. Dr. Ulrich Lehner
Dr. Henning Schulte-Noelle

Information as of December 31, 2009, 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 Section 289, Paragraph 4, and Section 315, Paragraph 4, of the German Commercial Code (Part of the Combined Group Management Report)

Composition of Share Capital

The share capital 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 (known by its German abbreviation, "AktG"), 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 a 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 AktG and Sections 31 and 33 of the German Codetermination Act).

Pursuant to Section 179 of the AktG, 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 May 6, 2009, the Board of Management is authorized, until November 5, 2010, 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 AktG 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 (a resolution of the Shareholders Meeting of April 27, 2005), 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 Sections 202 et seq. of the AktG). The Board of Management is authorized, subject to the Supervisory Board's consent, to decide whether to exclude shareholder subscription rights.

Pursuant to Section 3, Paragraph 5 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 from April 28, 2010, until May 5, 2014, by up to €460,000,000 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 Sections 202 et seq. of the AktG).

The Board of Management is furthermore authorized, subject to the Supervisory Board's consent, to exclude shareholders' subscription right in the case of an issue of shares against cash contributions in an amount of up to 10 percent of the Company's share capital. This exclusion may be applied, inter alia, to shares issued under utilization of the Authorized Capital resolution of the Shareholders Meeting of April 27, 2005. The Board of Management is authorized, subject to the Supervisory Board's consent, to exclude the shareholders' subscription right in the case of an issue of shares against contributions in kind, but only to such an extent that the aggregate amount of the shares issued under this authorization (Section 3, Paragraph 5 of the Articles of Association) and under the Authorized Capital resolution of the Shareholders Meeting of April 27, 2005, against contribution in kind with an exclusion of the shareholders' subscription right does not exceed 20 percent of the Company's share capital. In addition, the total amount of shares issued against contributions in cash or in kind with an exclusion of the subscription right may no exceed 20 percent of the Company's share capital.

Finally, the Shareholders Meeting of May 6, 2009, gave the Board of Management two authorizations to issue bonds with conversion or option rights and with conversion obligations, profit participation rights, or participating bonds (or a combination or these instruments). Under these authorizations, the Board of Management may, with the Supervisory Board's consent, issue, once or several times, until May 5, 2014, registered option bonds, convertible bonds, profit participation rights, or participating bonds (or a combination of these instruments) with a total face value of up to €5 billion and grant option rights to the holders of option bonds and/or conversion rights to the holders of convertible bonds for registered Company shares with a proportionate amount of the Company's share capital totaling up to €175,000,000 pursuant to the details of the terms and conditions of the option and/or conversion bonds. This ensures that the total face value of up to €5 billion could only be utilized once through the utilization of both authorizations. In line with the two authorizations, the Company's share capital is conditionally increased by up to €175,000,000 and again by up to €175,000,000 pursuant to Section 3, Paragraphs 3 and 4, of the Articles of Association. Here, too, the Board of Management is authorized, subject to the Supervisory Board's consent, to fully exclude the shareholders' subscription right on bonds (with option or conversion rights or conversion obligation) issued against contributions in cash.

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.

Debt issued since 2007 contains change-of-control clauses that give the creditor the right of cancellation. This applies, inter alia, to bonds issued by E.ON International Finance B.V. and guaranteed by E.ON AG, promissory notes issued by E.ON AG, and other instruments such as credit contracts. Granting change-of-control rights to creditors is considered good corporate governance and has become standard market practice. Further information about financial liabilities is contained in the section of the Combined Group Management Report entitled "Financial Condition" 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).

Disclosures Pursuant to Section 289, Paragraph 5, of the German Commercial Code on the Internal Control System for the Accounting Process (Part of the Combined Group Management Report)

General Principles

We apply Section 315a (1) of the German Commercial Code and prepare our Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") and the interpretations of the International Financial Reporting Interpretations Committee 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 the balance-sheet date (see Note 1 to the Consolidated Financial Statements). Our market units are our IFRS reportable segments.

We prepare the E.ON AG Financial Statements in accordance with the German Commercial Code and the German Stock Corporation Act.

We prepare a Combined Group Management Report which applies to both the E.ON Group and E.ON AG.

Accounting Process

The Consolidated Financial Statements are prepared in a multi-step process using the same SAP software throughout the E.ON Group. The financial statements of our market units (prepared by the respective market unit lead company and approved by its independent auditor) are combined at E.ON AG in the Consolidated Financial Statements. E.ON AG is responsible for maintaining and providing support for the consolidation software, for the E.ON-wide standard chart of accounts, and for implementing central consolidation measures. At several E.ON entities, shared service centers conduct some processes (like human resources management) that have an indirect impact on the accounting process.

All companies included in the Consolidated Financial Statements must comply with our uniform Accounting and Reporting Guidelines for the Annual Consolidated Financial Statements and the Interim Consolidated Financial Statements. These guidelines include a description of all general E.ON Group consolidation processes as well as the applicable IFRS accounting and valuation principles. They also explain accounting principles (such as those for provisions for nuclear waste management and the treatment of regulatory obligations) typical in the E.ON Group. In addition, all such companies must meet the deadlines of our balance-sheet closing calendar.

In conjunction with the closing process, additional qualitative and quantitative information is compiled. Furthermore, dedicated quality-control processes are in place for all relevant departments to discuss and ensure the completeness of relevant information on a regular basis.

E.ON AG's Financial Statements are also prepared by using SAP software. The accounting and preparation processes are divided into discrete functional steps. Automated or manual controls are integrated into each process. Defined procedures ensure that all transactions and the preparation of E.ON AG's Financial Statements are recorded, processed, assigned on an accrual basis, and documented in a complete, timely, accurate manner. Relevant data from E.ON AG's Financial Statements are, if necessary, adjusted to conform with IFRS and then transferred to the consolidation software system using SAP-supported transfer technology.

The following explanations about our Internal Control System and our general IT controls apply to the Consolidated Financial Statements and E.ON AG's Financial Statements.

Internal Control and Risk Management System

Internal controls are an integral part of our accounting processes. Guidelines, called Internal_Controls@E.ON, define uniform financial-reporting documentation requirements and procedures for the entire E.ON Group. The guidelines include a definition of their scope, documentation and evaluation standards, a Catalog of Management Controls, a Generic Risk Catalog, a description of the test activities of our Internal Audit division, and a description of the final Sign-Off process. We believe that compliance with these rules provides sufficient certainty to prevent error or fraud from resulting in material misrepresentations in the Consolidated Financial Statements, the Combined Group Management Report, and the Interim Reports.

COSO Model

Our internal control system is based on the globally recognized COSO model (COSO: The Committee of Sponsoring Organizations of the Treadway Commission). The Generic Risk Catalog (which encompasses company- and industry-specific aspects) defines possible risks for accounting (financial reporting) in the functional areas of our operating entities and thus serves as check list and provides guidance for the documentation process.

The Catalog of Management Controls is a key component of a functioning internal control system. It encompasses overarching controls to address risks in a range of issue areas and processes, such as financial reporting, corporate responsibility, fraud, the communications process, planning and budgeting, investment controlling and internal audit.

Central Documentation System

The E.ON companies to which the internal control system applies use a central documentation system to document key controls. The system defines the scope, detailed documentation requirements, requirements for the assessment process and the final evaluation performed by the Sign-Off process.

Scope

Each year, we conduct a multi-stage process using qualitative criteria and quantitative materiality metrics to define which E.ON companies must document and evaluate their financial-disclosure processes and controls. Selection is based on predefined line items in the balance sheets, income statements and/or notes of each company's prior-year financial statements.

Assessment

After companies have documented their processes and controls, they conduct an annual assessment of the design and the operational effectiveness of the processes as well as the controls embedded in these processes.

Tests Performed by Internal Audit

The management of E.ON companies relies on the assessment performed by their staff and on testing of the internal control system performed by Internal Audit. These tests are a key part of the process. Using a risk-oriented testing plan, Internal Audit tests the E.ON Group's internal control system and identifies potential deficiencies (issues). On the basis of its own evaluation and the results of tests performed by Internal Audit, an E.ON company's management carries out the final signing-off.

Following the preliminary evaluation of the processes and controls performed by an E.ON company's own staff and by Internal Audit, the market units carry out a second evaluation process to ensure quality before a final report is made to E.ON AG. This second evaluation is conducted by a committee of market unit staff or by the market unit management itself.

Sign-Off Process

The final step of the internal evaluation process is the submission of a formal written declaration confirming the system's effectiveness. The declaration process is conducted at all levels of the Group (beginning at the business-unit level) before it is conducted by the market units and, finally, by E.ON AG. It is therefore a formal mechanism that encompasses all levels of the E.ON Group's hierarchy. The Chairman of the E.ON AG Board of Management and the Chief Financial Officer make the final Sign-Off on the effectiveness of the internal control system of E.ON AG's financial reporting.

Internal Audit regularly informs the E.ON AG Supervisory Board's Audit and Risk Committee about the internal control system for financial reporting and any significant issues areas it identifies in the E.ON Group's underlying control processes.

General IT Controls

The effectiveness of the automated controls in the standard accounting software systems and in key additional applications depends to a considerable degree on the proper functioning of IT systems. Consequently, IT controls are embedded in our documentation system. These controls primarily involve ensuring the proper functioning of access-control mechanisms of systems and applications, of daily IT operations (such as emergency intervention), and of the program change process. In addition, support for the central consolidation system is conducted at E.ON AG in Düsseldorf. Furthermore, an E.ON company called E.ON IS provides comprehensive IT services for the majority of our market and business units.

Explanatory Report of the Board of Management on the Disclosures Pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4, as well as Section 289, Paragraph 5, 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, 2009, 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).

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.

The Board of Management also read and discussed the disclosures in the Combined Group Management Report pursuant to Section 289, Paragraph 5, of the German Commercial Code. The disclosures contained in the Combined Group Management Report on the key features of our internal control and risk management system for accounting processes are complete and comprehensive.

Internal controls are an integral part of our accounting processes. Guidelines define uniform financial-reporting documentation requirements and procedures for the entire E.ON Group. We believe that compliance with these rules provides sufficient certainty to prevent error or fraud from resulting in material misrepresentations in the Consolidated Financial Statements, the Combined Group Management Report, and the Interim Reports.

Düsseldorf, February 2010

E.ON AG
Board of Management

Dr. Bernotat　　Dr. Teyssen

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 AG[1] (Chairman)
- E.ON Ruhrgas AG[1] (Chairman)
- Allianz SE
- Bertelsmann AG
- Metro AG
- E.ON Nordic AB[2] (Chairman)
- E.ON Sverige AB[2] (Chairman)
- E.ON US Investments Corp.[2] (Chairman)

Dr. Johannes Teyssen
Born 1959 in Hildesheim,
Member of the Board of Management since 2004
Corporate Planning & Controlling, Group Procurement, PerformtoWin, Upstream/Generation, Trading & Portfolio Optimization, Marketing & Sales, Regulation and Infrastructure Management
Vice Chairman
Düsseldorf
- E.ON Energie AG[1]
- E.ON Energy Trading SE[1] (Chairman)
- E.ON Ruhrgas AG[1]
- Deutsche Bank AG
- Salzgitter AG
- E.ON Italia S.p.A.[2]
- E.ON Nordic AB[2]
- E.ON Sverige AB[2]

Christoph Dänzer-Vanotti
Born 1955 in Freiburg,
Member of the Board of Management since 2006
Group Human Resources, Corporate Sustainability, Real Estate/Mining, Corporate Incident & Crisis Management, Facility Management
Düsseldorf
- E.ON Energie AG[1]
- E.ON Energy Trading SE[1] (since May 12, 2009)
- Deutsche Bahn AG (since February 1, 2009)
- E.ON Nordic AB[2]
- E.ON Sverige AB[2]

Lutz Feldmann
Born 1957 in Bonn,
Member of the Board of Management since 2006
Mergers & Acquisitions, Legal Affairs, Corporate Development, New Markets
Düsseldorf
- E.ON Iberia Energía SL[2]
- E.ON Italia S.p.A.[2]
- OAO OGK-4[2] (Chairman until June 17, 2009)
- Thyssen'sche Handelsgesellschaft mbH[2] (since December 1, 2009)

Dr. Marcus Schenck
Born 1965 in Memmingen,
Member of the Board of Management since 2006
Finance, Accounting, Tax, IT
Düsseldorf
- E.ON Energy Trading SE[1]
- E.ON Ruhrgas AG[1]
- E.ON IS GmbH[1] (Chairman)
- Commerzbank AG
- HSBC Trinkaus & Burkhardt AG (Member of the Administrative Board)

Information as of December 31, 2009, 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.

[1]Exempted E.ON Group directorship.
[2]Other E.ON Group directorship.

Summary of Financial Highlights[1]					
€ in millions	2005	2006	2007	2008	2009
Sales and earnings					
Sales	51,616	64,091	68,731	86,753	81,817
Adjusted EBITDA	10,194	11,724	12,450	13,385	13,526
Adjusted EBIT	7,293	8,356	9,208	9,878	9,646
Net income	7,407	6,082	7,724	1,621	8,645
Net income attributable to shareholders of E.ON AG	–	5,586	7,204	1,283	8,396
Value measures					
ROCE (%)	12.2	13.8	14.5	12.9	11.7
Pretax cost of capital (%)	9.0	9.0	9.1	9.1	9.1
Value added	1,920	2,916	3,417	2,902	2,144
Asset structure					
Non-current assets	93,914	96,488	105,804	108,717	113,068
Current assets	32,648	31,087	31,490	48,107	39,568
Total assets	126,562	127,575	137,294	156,824	152,636
Capital structure					
Equity	44,484	51,245	55,130	38,444	43,955
Capital stock	*1,799*	*1,799*	*1,734*	*2,001*	*2,001*
Minority interests	*4,734*	*2,533*	*5,756*	*3,960*	*3,607*
Non-current liabilities	52,251	46,947	52,402	66,425	70,828
Provisions	*27,402*	*22,100*	*20,963*	*22,757*	*21,692*
Financial liabilities	*10,555*	*10,029*	*15,915*	*25,036*	*30,657*
liabilities and other	*14,294*	*14,818*	*15,524*	*18,632*	*18,479*
Current liabilities	25,093	29,383	29,762	51,955	37,853
Provisions	*6,460*	*3,994*	*3,992*	*4,260*	*4,715*
Financial liabilities	*3,807*	*3,443*	*5,549*	*16,022*	*7,120*
Other liabilities and other	*14,826*	*21,946*	*20,221*	*31,673*	*26,018*
Total equity and liabilities	126,562	127,575	137,294	156,824	152,636
Cash flow and investments					
Cash provided by operating activities of continuing operations	6,544	7,161	8,726	6,738	9,054
Cash-effective investments	3,941	5,037	11,306	18,406	9,200
Financial ratios					
Equity ratio[2] (%)	35	40	40	25	29
Non-current assets as a percentage of property, plant, and equipment	108	102	102	96	102
Economic net debt (at year-end)	–	-18,180	-23,432	-44,946	-44,665
Debt factor[3]	–	1.6	1.9	3.4	3.3
Cash provided by operating activities of continuing operations as a percentage of sales	12.7	11.2	12.7	7.8	11.1
Stock[4]					
Earnings per share attributable to shareholders of E.ON AG (€)	3.75	2.82	3.69	0.69	4.41
Equity[5] per share (€)	22.50	24.62	26.06	18.11	21.21
Twelve-month high (€)	29.64	34.80	48.69	50.93	30.47
Twelve-month low (€)	21.50	27.37	32.02	23.50	18.19
Year-end closing price (€)	29.13	34.28	48.53	28.44	29.23
Dividend per share (€)	0.92	1.12	1.37	1.50	1.50
Dividend payout	4,614[6]	2,210	2,560	2,857	2,858
Market capitalization[7] (€ in billions)	57.6	67.6	92.0	54.2	55.7
E.ON AG long-term ratings					
Moody's	Aa3	Aa3	A2	A2	A2
Standard & Poor's	AA–	AA–	A	A	A
Employees					
Employees at year-end	79,570	80,612	87,815	93,538	88,227

[1]Adjusted for discontinued operations; 2005 figures calculated according to U.S. GAAP. [2]2005 figure excludes minority interests. [3]Ratio between economic net debt and adjusted EBITDA. [4]All figures subsequent to, or adjusted for, the stock split. [5]Attributable to shareholders of E.ON AG. [6]Includes special dividend of €4.25 per share. [7]Based on shares outstanding.

Glossary of Financial Terms

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 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 investments
Cash-effective capital investments plus debt acquired and asset swaps.

Economic net debt
Key figure that supplements net financial position with pension obligations and asset retirement obligations (less prepayments to the Swedish nuclear fund).

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).

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.

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.

Return on equity
The return earned on an equity investment (in this case, E.ON stock), calculated after corporate taxes but before an investor's individual income taxes.

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.

Value at risk ("VaR")
Risk measure that indicates the potential loss that a portfolio of investments will not exceed with a certain degree of probability (for example, 99 percent) over a certain period of time (for example, one day). Due to the correlation of individual transactions, the risk faced by a portfolio is lower than the sum of the risks of the individual investments it contains.

Working capital
The difference between a company's current assets and current liabilities.

Additional Information

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Financial Calendar

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
March 9, 2011	Release of 2010 Annual Report
May 5, 2011	2011 Annual Shareholders Meeting
May 6, 2011	Dividend Payout
May 11, 2011	Interim Report: January – March 2011
August 10, 2011	Interim Report: January – June 2011
November 9, 2011	Interim Report: January – September 2011