2007 Annual Report

+++ 01/23/2007 Study on Electricity Price Movements Creates Basis for Energy Policy Dialog +++ 02/02/2007 E.ON to File Final Bid for Endesa Today +++ Security of Supply +++ 02/03/2007 E.ON Creates a Unique Opportunity for Endesa Shareholders +++ 02/06/2007 More Transparency for the Power Market +++ 02/28/2007 E.ON Remains Committed to Its Offer for Endesa +++ 03/07/2007 E.ON in Favor of European Energy Market +++ 03/27/2007 E.ON Secures 9.9 Percent in Endesa +++ Climate Protection +++ 04/02/2007 E.ON Reaches Agreement with Enel and Acciona +++ 05/03/2007 E.ON Improves Earnings Forecast for 2007 +++ 05/09/2007 E.ON Posts Significant Earnings Improvement +++ 05/24/2007 E.ON Sets Course for Russian Power Market +++ 05/31/2007 E.ON to Step Up Growth Tempo +++ 06/20/2007 E.ON Sells ONE to Bid Consortium of France Télécom and Mid Europa Partners +++ 06/22/2007 E.ON to Build Pilot Plant for CO_2 Capture +++ 06/26/2007 E.ON Starts Share Buyback Program +++ 07/03/2007 Energy Summit: Germany Still Lacks Comprehensive Energy Strategy +++ Growth +++ 07/05/2007 E.ON Demands Harmonization of European Emissions Trading +++ 07/20/2007 E.ON Funding Research with €60 Million +++ 08/02/2007 E.ON Expanding Gas Production with Skarv-Idun +++ 08/07/2007 E.ON Buys Wind Farms in Spain and Portugal +++ Market-Oriented Organization +++ 08/07/2007 Transfer of Shareholdings in RAG Aktiengesellschaft +++ 08/14/2007 E.ON Continues on Growth Path +++ 08/21/2007 E.ON: Trading and Renewables to Be Based in Düsseldorf +++ 08/21/2007 E.ON Intends to Delist from New York Stock Exchange +++ Competition +++ 08/29/2007 E.ON Announces Plans to Build Another Wind Farm off the U.K. Coast +++ 09/11/2007 E.ON Listed as a Sustainable Company +++ 09/15/2007 E.ON about to Enter Russian Electricity Market +++ 09/18/2007 E.ON and Turcas to Build Power Plants in Turkey +++ 09/21/2007 E.ON Issued €3.5 Billion Benchmark Bond +++ 10/04/2007 E.ON Acquires Wind Farms in North America +++ 10/12/2007 E.ON Intends to Swap Assets with Statkraft and to Take Over 100 Percent of E.ON Sverige +++ Optimized Capital Structure +++ 10/15/2007 E.ON: Acquisition of Majority Stake in OGK-4 Signed and Sealed +++ 10/18/2007 E.ON Issued £1.5 Billion Benchmark Bond +++ 11/13/2007 E.ON Investment Program ahead of Schedule +++ 11/21/2007 E.ON Energy Trading: Senior International Trading Managers Complete New Management Board +++ 11/29/2007 E.ON Issued Swiss Franc Bond +++ 11/29/2007 E.ON Plans New Efficient Coal-Fired Power Plant in Belgium +++ 11/29/2007 E.ON Increases Syndicated Credit Facility to €15 Billion +++ 12/06/2007 E.ON Supports Next-Generation Engineers +++ 12/17/2007 Major Progress in Negotiations on Asset Swap between Gazprom and E.ON +++ We're making it happen. +++

E.ON Group Financial Highlights

€ in millions	2007	2006	+/- %
Electricity sales[1] (in billion kWh)	470.8	417.9	+13
Gas sales[1] (in billion kWh)	1,212.5	1,186.9	+2
Sales	68,731	64,091	+7
Adjusted EBITDA	12,450	11,724	+6
Adjusted EBIT	9,208	8,356	+10
Net income	7,724	6,082	+27
Net income attributable to shareholders of E.ON AG	7,204	5,586	+29
Adjusted net income	5,115	4,682	+9
Investments	11,306	5,037	+124
Cash provided by operating activities of continuing operations	8,726	7,161	+22
Economic net debt (at year end)	-24,138	-18,233	-5,905[2]
Debt factor[3]	1.9	1.6	+0.3[2]
Equity	55,130	51,245	+8
Total assets	137,294	127,575	+8
ROCE (in %)	14.5	13.8	+0.7[4]
Cost of capital (in %)	9.1	9.0	+0.1[4]
Value added	3,417	2,916	+17
Employees (at year end)	87,815	80,612	+9
Earnings per share attributable to shareholders of E.ON AG (in €)	11.06	8.47	+31
Equity per share[5] (in €)	78.12	73.81	+6
Dividend per share (in €)	4.10	3.35	+22
Dividend payout	2,590[6]	2,210	+17
Market capitalization[7] (€ in billions)	92.0	67.6	+36

[1]Unconsolidated figures.
[2]Change in absolute terms.
[3]Ratio of economic net debt and adjusted EBITDA.
[4]Change in percentage points.
[5]Thereof shareholders of E.ON AG.
[6]Based on the number of shares outstanding as of December 31, 2007; further share repurchases could alter the dividend payout.
[7]Based on the number of shares outstanding.

E.ON Corporate Profile as of December 31, 2007

Corporate Center
E.ON AG
Düsseldorf

Central Europe market unit	**E.ON Energie AG, Munich, Germany**	**100%**
	E.ON Energie ranks among Europe's largest energy service providers and has operations in many Central European countries, including the Netherlands, Hungary, Slovakia, the Czech Republic, and Switzerland.	
Pan-European Gas market unit	**E.ON Ruhrgas AG, Essen, Germany**	**100%**
	With annual sales of more than 700 billion kilowatt-hours of natural gas, E.ON Ruhrgas is one of Europe's premier gas companies and among the world's biggest investor-owned natural gas importers. Its customers include regional and municipal energy utilities as well as industrial enterprises.	
U.K. market unit	**E.ON UK plc, Coventry, United Kingdom**	**100%**
	E.ON UK, one of the United Kingdom's leading integrated energy utilities, provides power and gas service to customers across Britain.	
Nordic market unit	**E.ON Nordic AB, Malmö, Sweden**	**100%**
	E.ON Sverige manages our energy operations in Northern Europe. It generates, distributes, markets, and delivers electricity and gas through more than 60 operating companies.	
U.S. Midwest market unit	**E.ON U.S. LLC, Louisville, USA**	**100%**
	E.ON U.S. is a diversified energy service provider. Its operations are focused primarily on the regulated electric and gas utility sector in Kentucky.	

New Market Units in 2008

Energy Trading market unit	**E.ON Energy Trading AG, Düsseldorf, Germany**	**100%**
	E.ON Energy Trading began operations in January 2008. It combines all our European trading activities, including electricity, gas, coal, oil, and CO_2 allowances, enabling us to seize the opportunities created by the increasing integration of Europe's power and gas markets and of global commodity markets.	
Climate & Renewables market unit	**E.ON Climate & Renewables GmbH, Düsseldorf, Germany**	**100%**
	E.ON Climate & Renewables is responsible for managing and expanding our global renewables business and for coordinating climate-protection projects. Its generation portfolio consists of about 760 megawatts of generating capacity in Europe and 250 megawatts in North America. Roughly 3,500 megawatts of new capacity are at various stages of construction and planning.	

€ in millions	Sales	Adjusted EBITDA	Adjusted EBIT	ROCE (in %)	Cost of capital (in %)	Value added	Cash provided by operating activities	Invest-ments	Employees (at year end)
	32,029	6,222	4,670	24.7	9.3	2,917	3,811	2,581	44,051
	22,745	3,176	2,576	15.0	8.8	1,062	3,041	2,424	12,214
	12,584	1,657	1,136	9.2	9.5	-37	1,615	1,364	16,786
	3,339	1,027	670	9.7	8.8	62	914	914	5,804
	1,819	543	388	5.7	7.8	-142	216	690	2,977

Russia market unit	**E.ON Russia Power, Russia**	**100%**
	E.ON Russia Power oversees our power business in Russia. Through OGK-4, we have around 8,600 megawatts of generating capacity in the fast-growing, heavily industrialized regions of Central Russia, Ural, and Western Siberia.	
Italy market unit	**E.ON Italia S.r.l., Milan, Italy**	**100%**
	E.ON Italia manages our power and gas business in Italy. We're already active in Italy's wholesale power and gas markets and in natural gas sales. The planned acquisition of Endesa Italia, which we expect to be completed in 2008, will give us about 5,000 megawatts of generating capacity in Italy, making us the country's fourth-largest power producer.	

We've worked hard over the past few years shaping E.ON to face the future challenges of Europe's energy market. This relentless effort has made us a leading performer in our industry. But our company has never rested on its success.

We want to add new chapters to our success story. For that, we need a strategy that's right for all aspects of our business. In 2007, we announced our strategic objectives and launched a package of targeted investment, organizational, and financial initiatives to achieve them.

- Invest in technologically advanced generating capacity and energy infrastructure to ensure +++ security of supply +++ for the long term.
- Emphasize +++ climate protection +++ on a new scale and maintain a balanced energy mix.
- Achieve +++ growth +++ because strong market positions are a decisive advantage in Europe's fiercely competitive energy market.
- Forge a +++ market-oriented organization +++ to seize the opportunities created by the integration of European energy markets.
- Spur +++ competition +++ in our industry because we believe that facing the heat of competition makes us better and enables us to provide our customers with the best products and services.
- Optimize our +++ capital structure +++ to make E.ON stock an even more attractive investment.

These are six key objectives by which we'll measure our success in the years ahead. They're the foundation of our corporate strategy. And we know that to be truly successful we need to achieve all of them.

We're convinced that executing this strategy will enable us to continue to deliver sustainable, superior value to our customers, investors, and employees.

+++ We're making it happen. +++

Contents

[1]Part of the Combined Group Management Report

Dear Shareholders,

Last year, we presented our strategic road map for your company's future development in Europe's converging energy markets. Our major investment program—€60 billion through 2010—and our targeted competition initiatives will accelerate integration and invigorate the emerging EU-wide internal energy market. We're seizing the new opportunities for further growth created by this big market, primarily through the organic growth of our international business but also through selective acquisitions. In business, nothing is more exciting—or more profitable—than playing an active role in shaping a new market. We've seized this opportunity, even though, as we saw in Spain, not every attempt to change outmoded structures is an immediate success. Nevertheless, our agreement with Enel and Acciona will enable us to enter highly attractive new markets like Spain and France and to strengthen our existing market position in Italy. When these transactions are complete, no other energy company will match our broad European footprint. E.ON already has operations in nearly 30 countries, with leading positions in key markets like Germany, the United Kingdom, Sweden, and Eastern Europe. By setting the pace in Europe's energy market, we're unlocking the potential to grow and create sustainable value.

At the same time, we again improved our key financial figures. We grew sales in 2007 by 7 percent to €68.7 billion. Our adjusted EBIT of €9.2 billion surpassed the prior year's record figure by 10 percent. Our consistent success wouldn't be possible without our employees' hard work and dedication. I'd like to take this opportunity to again thank them for their outstanding performance. My thanks also go to our employee representatives for the constructive role they play in our organization.

E.ON stock also performed extremely well in 2007, closing the year 42 percent higher. This is particularly noteworthy, since our stock price had already risen by just over 17 percent in 2006. Including the dividend, E.ON stock rose by 45.6 percent in 2007, outperforming Germany's DAX 30 index (which gained 22.3 percent on the year) and the EURO STOXX 50 (which gained 9.7 percent). These are signals that the capital market supports our new growth strategy and investment offensive.

The attractiveness of E.ON stock is enhanced by our investor-friendly dividend policy. At the Annual Shareholders Meeting on April 30, 2008, we will propose that the dividend be raised by 22 percent to €4.10 per share. Our dividend payout of €2.6 billion again makes us one of the DAX 30's leading dividend performers. We'll continue to aim for a payout ratio of 50 to 60 percent of adjusted net income. In view of our EBIT targets and the effects of our share buyback, we expect to increase our dividend per share by an average of 10 to 20 percent per year through 2010.

We expect adjusted EBIT for 2008 to surpass the high prior-year figure by 5 to 10 percent. We anticipate a slight improvement in 2008 adjusted net income.

As you can see, our strategy is working. In May 2007, we presented a package of intertwined investment, organizational, and financing initiatives. We've made very rapid progress implementing them, in some cases even more rapid than originally anticipated.

We're systematically implementing our €60 billion investment program. We successfully entered Russia's fast-growing electricity market by acquiring a majority stake in OGK-4, a Russian power producer. OGK-4 operates four gas-fired power stations and one coal-fired power station with an aggregate capacity of about 8,600 megawatts, giving it one of the most powerful and efficient asset portfolios in Russia. Over the next three years, we intend to add 2,400 megawatts of technologically advanced generating capacity. Our planned acquisition of Statkraft's shares in E.ON Nordic will, from a structural standpoint, strengthen our position in Northern Europe. It will give us sole responsibility for this business, enabling us to develop it rapidly and ensure that it has better prospects for the future. Our gas procurement strategy is also moving ahead according to plan. In October, we acquired a stake in Skarv and Idun gas fields in the northern Norwegian Sea. Together with other promising satellite fields, the area ranks among Norway's largest and most attractive undeveloped gas fields. The expansion of our global renewables business has actually advanced faster than anticipated, which is why we've doubled our originally planned investments through 2010 to €6 billion. In just a short time, we've become one of the world's top-ten wind-farm operators. Our new Climate & Renewables market unit is responsible for managing the ambitious expansion program for our renewables business. In August, we bought ENERGI E2 Renovables Ibéricas, which has wind-power operations in Spain and Portugal. We followed this up in October with the acquisition of Airtricity in the United States and Canada, marking our successful entry into the world's most attractive renewables market. We already operate 21 wind farms onshore and offshore in the United Kingdom, with additional projects in planning. Among them is one of the world's largest offshore wind farms, which will be located in the Thames estuary. E.ON continues to be involved in a number of ambitious wind-power projects off Germany's North Sea and Baltic Sea coasts. Among them is Germany's first large-scale wind farm, to be sited off the North Sea island of Borkum.

Our expansion in Europe and—in the case of our renewables business—around the world has made it necessary for E.ON to have a more market-oriented and more agile organizational structure. We soon expect to have ten market units (and thus ten market unit lead companies), twice as many as we had in 2007. Among them are new market units for renewables and for trading, which will combine and realign our operations in these areas. Added to these are new regional market units for Italy, Spain, and Russia where our businesses are achieving the necessary mass. We responded early to E.ON's increasing internationality and complexity by further refining the group's management structure. The purpose was to enable us to better manage our international business and to focus E.ON even more systematically on growth, competitiveness, and customer proximity. We also added two new functions to our Board of Management. We introduced the role of Chief Operating Officer, which is held by Johannes Teyssen, and a position for Corporate Development/New Markets, which is held by Lutz Feldmann.

We're also making good progress implementing our financial strategy. Our share buyback program is proceeding according to schedule. We repurchased €3.5 billion of E.ON stock in 2007. We intend to buy back another €3.5 billion of E.ON stock on-market in 2008. As planned, our investment offensive and share buyback are increasing our debt-to-equity ratio, giving E.ON a more efficient capital structure. We responded swiftly to a temporary improvement in the financial markets with highly successful bond issues. We issued a €3.5 billion benchmark bond in September, a £1.5 billion benchmark bond in October, and a CHF 425 million bond in November. All three were significantly oversubscribed and successfully placed with a large number of institutional investors. Our bond strategy is making an important contribution to expanding our investor base. The market's very positive response to these measures provides clear evidence that investors support our corporate and financial strategy.

In my mind, the success of the European internal energy market is a key issue. We're taking action on a variety of fronts so that this important project moves forward. But I'm a realist. It's clear to me that the internal market remains a patchwork of different market structures and regulatory regimes. One reason why it would be wrong to speak of an EU-wide energy market is because national borders aren't porous enough due to a lack of sufficient transfer capacity. In addition, government policies in too many countries continue to distort energy prices. These include Germany's high electricity taxes and surcharges. Indeed, in many European countries, the government continues to call the shots in the energy industry; in others, state control is resurgent. Germany, too, is again showing a marked tendency towards anti-market interventionism.

The European Commission has recognized correctly that the internal energy market is now at a critical phase and that it must seize the initiative to move the market forward. We support the Commission's efforts through a range of initiatives, such as improving market transparency in Germany and increasing the country's cross-border power transfer capacity. On the whole, the Commission's plan points in the right direction.

We also support Germany and Europe's climate policy. This issue is important to me because I'm convinced that the world finally needs to act to tackle climate change. This will only succeed if we get the most climate protection we can from each euro we invest. My impression, though, is that the climate-policy debate in Germany pays too little attention to cost efficiency. Many countries, particularly in Europe, rely on nuclear energy to help protect the earth's climate. Germany, by contrast, is on a course to phase out nuclear energy, which will prevent it from achieving its ambitious climate-protection targets.

In Germany, we need to bring together policymakers, the public, and the energy industry for an objective and honest dialog about energy policy. Germany's energy industry—in part from its own doing—finds itself in an image crisis, a crisis that now affects every project to build a new power plant or new piece of energy infrastructure. If Germany can't modernize its energy asset base, the consequences for its international competitiveness and climate targets are obvious. To me, this is one of the most important policy issues of 2008. I'm personally involved in efforts to reinvigorate a broad and inclusive energy-policy debate. As an energy company, we need the trust of policymakers and the public so that we can continue to operate successfully and create value for all our shareholders well into the future.

Sincerely yours,

Dr. Wulf H. Bernotat

E.ON Stock

→ E.ON stock closes year 41.6 percent higher
→ Management recommends €4.10 per share dividend
→ Dialog with investors intensified

E.ON Stock

E.ON stock is listed on all German stock exchanges. On December 28, 2007, E.ON stock's weighting in the DAX index of Germany's top blue chips was 10.06 percent, once again the highest weighting in the index. E.ON stock is also included in all major European stock indices. In the United States, E.ON stock is traded in the form of American Depositary Receipts (ADRs). Since being delisted from the New York Stock Exchange on September 7, 2007, E.ON ADRs now trade on the over-the-counter market. The conversion ratio between E.ON ADRs and E.ON stock is three to one; that is, the value of three E.ON ADRs is effectively that of one share of E.ON stock.

Weighting of E.ON Stock in Major Indices

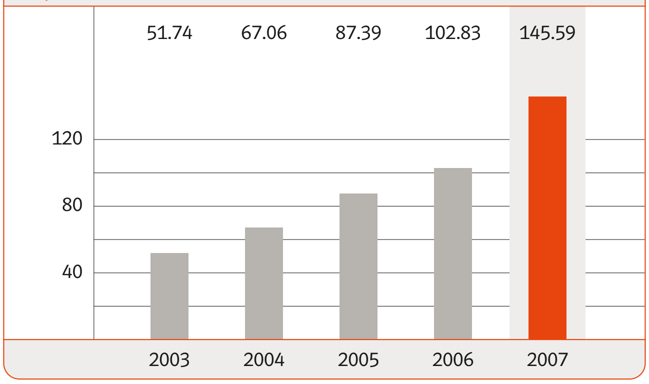
As of December 28, 2007	in %
DAX	10.06
Dow Jones EURO STOXX 50	4.12
Dow Jones STOXX Utilities	18.93

E.ON Stock's Development in 2007

In a strong stock market, the price of E.ON stock increased by 41.6 percent in 2007. Shareholders who reinvested their cash dividends saw the value of their E.ON portfolio increase by 45.6 percent in 2007. E.ON thus outperformed the German stock market (DAX +22.3 percent) and the European stock market (EURO STOXX +9.7 percent). The performance of European utility stocks as measured by the STOXX Utilities (+21.6 percent) also fell short of E.ON stock's performance.

Stock Price at Year End

€ per share



E.ON Stock's Long-Term Development

Long-term investors who purchased €5,000 worth of E.ON stock (then: VEBA stock) at the end of 1997 and reinvested their cash dividends (including the special dividend in 2006) saw the value of their investment rise to more than €15,943 by the end of 2007. This represents an average annual return of 12.3 percent, higher than Germany's DAX index (which advanced 6.6 percent per year on average over the same period) and the broader European market (the EURO STOXX advanced 7.8 percent per year on average). European utility stocks as measured by the STOXX Utilities index averaged 12.7 percent growth per year during the same period.

Investors who purchased €5,000 worth of E.ON stock at the end of 2002 and reinvested their cash dividends (including the special dividend in 2006) saw the value of their investment increase to €23,345 by the end of 2007, which represents an average annual return of 36.1 percent. E.ON stock thus considerably outperformed the DAX (+22.8 percent), the EURO STOXX (+15.8 percent), and the STOXX Utilities (+26.9 percent).

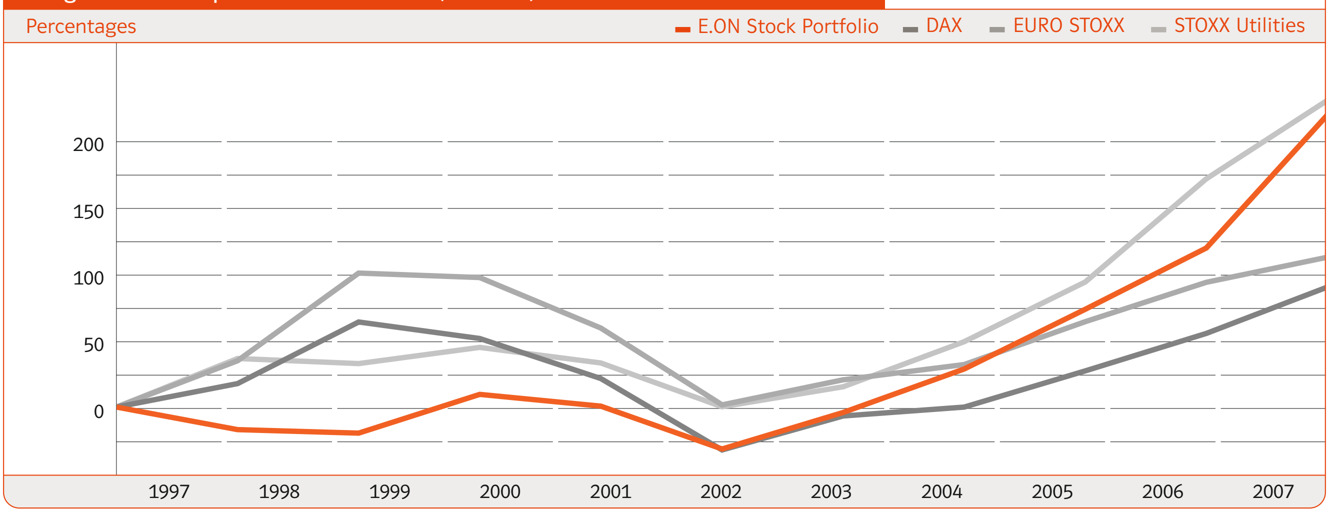
Share Buyback, Cancellation of Shares

In June 2007, E.ON began its previously announced share buyback program. By year end 2007, E.ON had repurchased nearly 28 million of its own shares with an aggregate purchase volume of €3.5 billion and sold put options on 10 million of its own shares. In December 2007, we cancelled 25 million shares, thereby reducing E.ON's capital stock. The share buyback program is an important step towards optimizing E.ON's capital structure. It increases the attractiveness of E.ON stock, since it positively influences earnings per share and the dividend yield.

Dividend

At the 2008 Annual Shareholders Meeting, management will propose that the cash dividend be increased by 22 percent, from €3.35 per share for the 2006 financial year to €4.10 per share for the 2007 financial year. Since the 2002 financial year, the dividend has thus increased from €1.75 to €4.10, which represents an average of 18.6 percent per year. Based on E.ON stock's year end 2007 closing price, the dividend yield is 2.8 percent. The dividend payout ratio is 50.6 percent of adjusted net income (based on shares outstanding as of December 31, 2007; further share repurchases could alter the dividend payout).

Long-Term Development of E.ON Stock (10 Years)



E.ON Stock Information

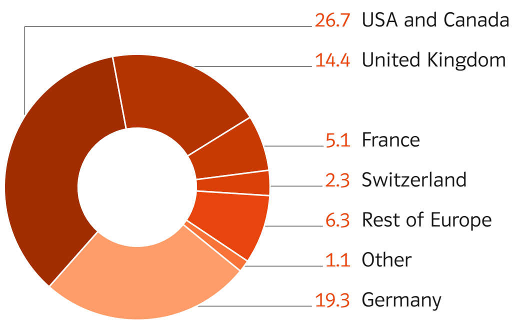
Type of shares	Ordinary shares with no par value	
Stock codes	Germany WKN 761 440 ISIN DE 000 761 4406	USA Cusip No. 268 780 103
Stock symbols	Reuters FSE EONG.F Xetra EONG.DE ADR EONGY.PK	Bloomberg FSE EOA GF Xetra EOA GY ADR EONGY US

Shareholder Structure

A survey conducted in December 2007 identified 75.2 percent of the shares outstanding as being held by institutional investors. According to the survey, institutional investors in Germany hold 19.3 percent of the shares outstanding; those outside of Germany hold 55.9 percent.

Shares Held by Institutional Investors

Percentages — Germany 19.3 — Outside Germany 55.9



Source: Thomson Financial (figures as of December 2007); based on 631,622,782 shares outstanding.

Investor Relations

In 2007, we further enhanced our investor relations activities with the aim of achieving even greater transparency for our shareholders. Through our regular road shows and participation in capital market conferences, we deepened the longstanding relationship of trust we enjoy with all capital market participants as well as with people interested in E.ON stock. We also intensified our dialog with retail investors at many events.

+++ Growth +++

Capital Market Day 2007 in Budapest

E.ON Capital Market Day in Budapest served to underscore our commitment to our target markets in Eastern Europe. The event provided an opportunity to learn firsthand about our operations in the region and about our clear strategy for what is one of Europe's fastest-growing markets.

E.ON Stock Key Figures[1]

Per share (€)	2003	2004	2005	2006	2007
Earnings attributable to the shareholders of E.ON AG	7.11	6.61	11.24	8.47	11.06
Earnings from adjusted net income	–	–	5.52	7.10	7.86
Dividend	2.00	2.35	2.75	3.35	4.10
Dividend payout (€ in millions)	1,312	1,549	4,614[2]	2,210	2,590[3]
Twelve-month high	51.74	67.06	88.92	104.40	146.06
Twelve-month low	34.67	49.27	64.50	82.12	96.05
Year-end closing price	51.74	67.06	87.39	102.83	145.59
Number of shares outstanding (in millions)	656	659	659	660	632
Market capitalization[4] (€ in billions)	33.9	44.2	57.6	67.6	92.0
Book value[5]	45.39	50.93	67.50	73.81	78.12
Market-to-book ratio[6] (percentage)	114	132	129	139	186
E.ON stock trading volume[7] (€ in billions)	38.5	46.1	62.5	92.5	136.2
Trading volume of all German stocks (€ in billions)	807.8	877.7	1,095.8	1,539.3	2,350.9
E.ON stock's share of German trading volume (percentage)	*4.8*	*5.3*	*5.7*	*6.0*	*5.8*

[1]Adjusted for discontinued operations; figures up to and including 2005 calculated according to U.S. GAAP.
[2]Includes special dividend of €4.25 per share.
[3]Based on the number of shares outstanding as of December 31, 2007; further share repurchases could alter the dividend payout.
[4]Based on shares outstanding.
[5]Thereof the shareholders of E.ON AG.
[6]Year-end stock price expressed as a percentage of book value per share.
[7]On all German stock exchanges, including Xetra.

The investment program announced in May 2007 is leading to an increase in E.ON's financing needs. With debt capital markets growing in significance for our company, we are intensifying our relations with debt capital investors and analysts through a number of specifically tailored events.

Once a year, we invite analysts and institutional investors to a Capital Market Day which is held at one of our market units. It gives them the opportunity to hear firsthand the senior management of our market and business units talk about E.ON's business from an operational perspective. The 2007 event was held in Budapest, Hungary, and focused on E.ON's activities in Eastern Europe. For 2008, we again plan to involve specialists from our operating business in a variety of road shows in major financial centers.

We pride ourselves on top-quality service and direct contact with analysts and investors. At eon.com, you will find financial reports, management presentations, contact information, as well as webcasts and podcasts of investor relations events in both audio and video format.

In 2007, the quality of our work was again confirmed by positive reviews by investors, analysts, and financial publications (including the German business biweekly *Capital* and *IR Magazine*). This praise motivates us to further enhance the transparency of our financial communications in 2008.

+++ Optimized Capital Structure +++

To have an efficient capital structure, you need the right debt-to-equity ratio. That's what we're working towards. We've also set a clear earnings target that we call "ten until ten": between now and 2010, we aim to increase our adjusted EBIT by an average of at least 10 percent per year.

Towards an efficient debt-to-equity ratio

E.ON launches a share buyback program.
It started on June 27, 2007. The biggest share buyback program in E.ON's history.

We intend to buy back about €7 billion of our own stock by the end of 2008. Repurchased shares will later be cancelled, which will improve our capital structure and at the same time make E.ON stock a more attractive investment.

As planned, we reached the midway point by year end 2007, having purchased €3.5 billion in E.ON stock on-market. This increased our debt factor from 1.6 to 1.9, moving us markedly closer to our target debt factor of 3. Over the same period, E.ON stock has performed well, indicating that investors support our strategic course.

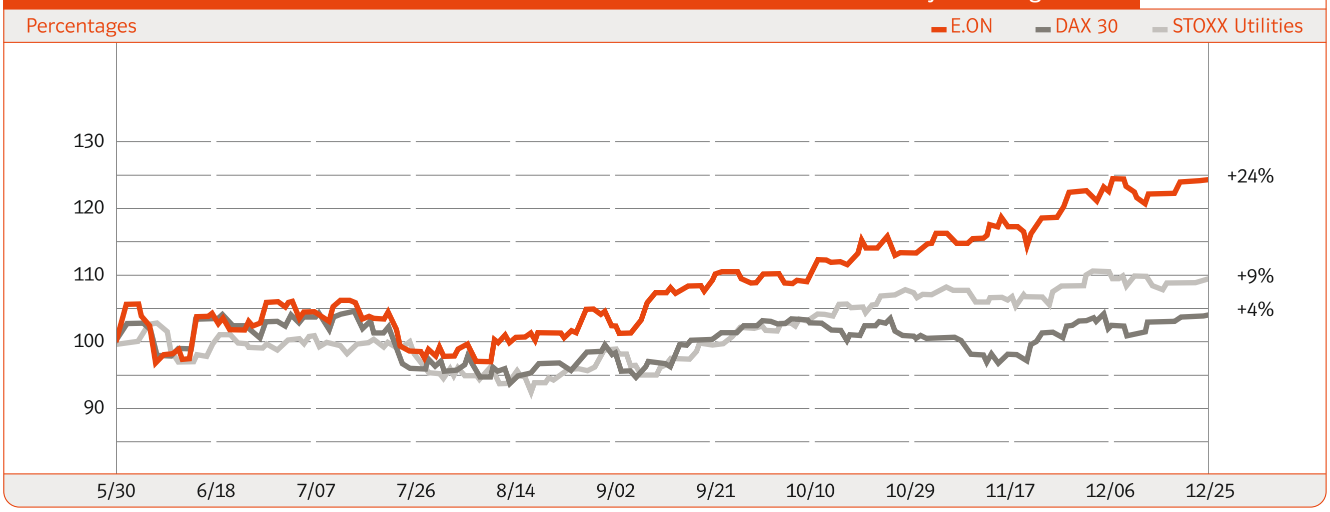
The stock buyback program will continue and be completed on schedule by the end of 2008.

In 2007, we also had a successful start to our financing program. We issued a total of roughly €6 billion in bonds in a number of currencies in international capital markets. Our bonds were significantly oversubscribed, which reflects the capital market's trust in our company.

Solid stock price performance, oversubscribed bonds: the capital market signals its support for E.ON's financing initiatives.

At eon.com, you'll find weekly updates about the status of our buyback program.

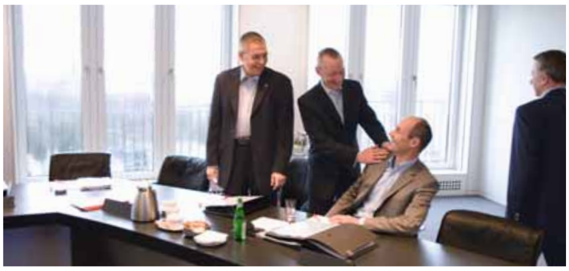
E.ON Stock Performance in 2007 after Announcement of the Investment and Share Buyback Programs



Dr. Burckhard Bergmann Dr. Wulf H. Bernotat Christoph Dänzer-Vanotti Dr. Marcus Schenck Dr. Johannes Teyssen Lutz Feldmann





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

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

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

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

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

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

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

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

In the year under review, the Supervisory Board thoroughly examined E.ON's situation. The E.ON AG Board of Management regularly provided us with timely and comprehensive information. We continually monitored the management of the Company and advised the Board of Management.

At the Supervisory Board's three regular meetings and four extraordinary meetings in 2007, we discussed in depth all issues relevant to E.ON. Between meetings, the Board of Management provided the Supervisory Board with written reports on business transactions of key importance to E.ON. Furthermore, the Chairman of the Supervisory Board was informed on an ongoing basis about all significant business transactions as well as the development of key financial ?figures.

Corporate Strategy and Planned Acquisitions and Disposals

An important topic of our discussions was the package of strategic initiatives, announced in May 2007, for the further development of the E.ON Group. The package's main elements were:

- business management and organizational structure
- growth investments
- climate protection and customer orientation
- earnings growth
- financial strategy.

The Board of Management provided us with comprehensive information about how further optimizing the way E.ON manages its businesses would enable it to seize the opportunities created by the ongoing integration of Europe's ?energy markets, improve its operating performance, pursue ambitious climate-protection objectives, sustainably enhance earnings, and achieve and actively manage a significantly more efficient capital structure. The Board of Management also presented a substantial investment program to ensure that E.ON continues to grow and enhance value well into the future.

Furthermore, the Board of Management informed us about the latest developments in E.ON's initial plan, which was to acquire all of Spanish energy utility Endesa, and about the agreement it subsequently reached with Enel and Acciona under which it will acquire an extensive portfolio of assets, with operations primarily in Spain, Italy, and France.

Other important topics of our discussions and resolutions were the activities surrounding E.ON's entry into the Russian electricity market and the systematic expansion of its renewables operations. The Board of Management provided us with detailed information, in particular about the privatization of the Russian electricity market and the acquisition of OGK-4, a Russian power producer, as well as the purchase of wind-farm operators in Europe and North America.

In addition, the Board of Management reported in detail about a variety of strategically relevant projects, in particular natural gas storage projects in Austria and Germany, the acquisition of gas production licenses in the Norwegian North Sea, the planned acquisition of a stake in the Siberian natural gas field Yushno Russkoye, the participation in the construc?tion of the Skanled gas pipeline in Northern Europe, and the disposal of E.ON's stake in RAG. We were also informed about the planned acquisition of Statkraft's 44.6-percent stake in E.ON Sverige.

Energy Policy and Regulatory Environment

The Board of Management provided us with detailed information about developments in the policy and regulatory environment of the electricity and gas industries. We dealt extensively with the relevant legislative and regulatory processes and their effects on our markets and the E.ON Group. Key topics were:

- the European Union's comprehensive package of energy-policy proposals
- the European Union's climate policy and the development of the EU-wide emissions trading scheme ("ETS"), including Germany's national allocation plan for phase two of the ETS
- the Commission's third package of internal energy ?market legislation, including the proposed unbundling of network operations
- the network charge approvals processes of the German Federal Network Agency

- the German federal government's climate and environmental policy
- the amendment of Germany's law against restraints on competition.

In this context, we also thoroughly discussed issues surrounding the energy summit initiated by the German chancellor to discuss Germany's future energy mix.

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 2008 through 2010, including planned investments and the main topics of groupwide human resources. Furthermore, the Board of Management regularly informed us about the scope of E.ON's use of derivative financial instruments.

Corporate Governance

We also regularly discussed the further development of E.ON's corporate governance policies. We assured ourselves that in the 2007 financial year E.ON AG complied with the corporate governance principles contained in the Declaration of Compliance it had issued on December 13, 2006. E.ON's Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act is published on the Internet at www.eon.com.

Committee Meetings

The Supervisory Board's Executive Committee discussed reports from the Board of Management in detail at four meetings. In particular, it prepared the meetings of the Supervisory Board. It also discussed and passed resolutions on matters relating to the Board of Management, such as the appointment of Dr. Teyssen to serve as Vice Chairman of the Board of Management and the Board of Management's compensation. Matters including the final offer for Endesa were discussed at two joint meetings with the Finance and Investment Committee.

The Finance and Investment Committee held seven meetings to discuss reports from the Board of Management. These ?comprehensive reports focused on the takeover offer for the Spanish utility Endesa, the share buyback program, gas-storage and wind-power projects in Europe and North America, the acquisition of a stake in Norwegian gas fields and in a power producer in Russia. Other topics of detailed discussion were planned financing measures, the acquisition of Statkraft's shares in E.ON Sverige, and the medium-term plan. At these 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. Between its meetings, the committee discussed and approved by means of written correspondence in three cases: power plant projects in Germany and Russia and certain financing measures.

At its five meetings the Audit Committee devoted particular attention to the Financial Statements of E.ON AG, the E.ON Annual Report, the Interim Reports, accounting issues, risk management, and E.ON's dealings with its Independent Auditor. The committee also thoroughly discussed the rules for the approval of non-auditing services performed by the Independent Auditor, E.ON's insurance strategy, E.ON's compliance system, and the system to ensure the correctness of the Annual and Interim Reports, which must be attested to under German law.

Examination and Approval of the Financial Statements of E.ON AG, Approval of the Consolidated Financial Statements, Proposed Dividend

PricewaterhouseCoopers Aktiengesellschaft, Wirtschafts?prüfungsgesellschaft, Düsseldorf, the Independent Auditor chosen by the Annual Shareholders Meeting and appointed by the Supervisory Board, audited and submitted an un?qualified opinion on the Financial Statements of E.ON AG and the Combined Group Management Report for the year ended December 31, 2007. The same applies to the Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Consolidated Financial Statements prepared in accordance with IFRS exempt E.ON AG from the requirement to publish Consolidated Financial Statements in accordance with the German Commercial Code. Furthermore, the auditors examined E.ON AG's risk detection system. This examination revealed that the system is fulfilling its tasks. After being subject to a preliminary review by the Audit 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 Committee and the Supervisory Board, at its meeting to approve the Financial Statements, also reviewed these documents in detail, with the Independent Auditor present on both occasions.

At our meeting on March 5, 2008, we examined—with knowledge of, and reference to, the Independent Auditor's Report and the results of the preliminary review by the Audit 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. In addition, the Combined Group Management Report was in line with the Board of Management's reports to the Supervisory Board. 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 appro?pri?ating income available for distribution, which includes a cash dividend of €4.10 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 net income available for distribution.

Personnel Changes on the Board of Management

At the Supervisory Board meeting on May 30, 2007, we reappointed Dr. Wulf H. Bernotat to serve as a member and as Chairman of the Board of Management for the period May 1, 2008, to April 30, 2010.

At the Supervisory Board meeting on December 17, 2007, we appointed Dr. Johannes Teyssen to serve as Vice Chairman of the Board of Management effective March 1, 2008.

Dr. Hans Michael Gaul and Dr. Burckhard Bergmann retired from the Board of Management at the end of March 2007 and the end of February 2008, respectively. Dr. Bergmann's retirement from the E.ON AG Board of Management also ends his term as Chairman of the Board of Management of E.ON Ruhrgas AG. We would like to take this opportunity to again thank Dr. Gaul and Dr. Bergmann for their excellent service to the E.ON Group. They played key roles in the transformation of E.ON into a focused power and gas company and dedicated themselves to the Company's successful development.

Personnel Changes on the Supervisory Board

In 2007, there were personnel changes on the Supervisory Board among the shareholder representatives and among the employee representatives.

Effective June 30, 2007, Dr. Gerhard Cromme ended his service on the Supervisory Board and on the Finance and Investment Committee. E.ON's transformation into a leading international energy company benefited from Dr. Cromme's wise counsel and business acumen. We would like to take this opportunity to again thank him for his dedicated service.

We were pleased to be able to have Dr. Theo Siegert join the Supervisory Board as Dr. Cromme's successor effective July 4, 2007. Prof. Dr. Ulrich Lehner was elected as the new member of the Finance and Investment Committee.

Seppel Kraus ended his service on the Supervisory Board effective July 31, 2007. We would like to take this opportunity to again thank him for his dedication and for the constructive way he approached his Supervisory Board duties. As his successor, Sven Bergelin was appointed to the Supervisory Board as an employee representative effective August 1, 2007. Ulrich Otte, who ended his service on the Supervisory Board on December 31, 2006, was succeeded by Hans Wollitzer as an employee representative effective January 4, 2007, in accordance to an order issued by the commercial court. At our meeting on March 6, 2007, we elected Gabriele Gratz to succeed Mr. Otte as a member of the Audit Committee.

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 5, 2008
The Supervisory Board

Ulrich Hartmann
Chairman

Supervisory Board

Honorary Chairman

Prof. Dr. Günter Vogelsang
Düsseldorf

Supervisory Board

Ulrich Hartmann
Düsseldorf
Chairman

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

Dr. Karl-Hermann Baumann
Munich

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

Dr. Rolf-E. Breuer
Frankfurt am Main

Dr. Gerhard Cromme
Chairman of the Supervisory Board, ThyssenKrupp AG, Düsseldorf
(until June 30, 2007)

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

Wolf-Rüdiger Hinrichsen
Deputy Chairman of the Combined Works Council, E.ON AG, Düsseldorf

Ulrich Hocker
General Manager, German Investor Protection Association, Düsseldorf

Eva Kirchhof
Diploma Physicist, Munich

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

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

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

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

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

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

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

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

Prof. Dr. Wilhelm Simson
Munich

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

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

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

Supervisory Board Committees

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

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

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

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

+++ Security of Supply +++ Climate Protection +++ Growth +++ Market-Oriented Organization +++ Competition +++ Optimi

January

A storm causes widespread damage to the electric distribution system in southern Sweden, leaving about 170,000 E.ON customers without power. Through the hard work and dedication of E.ON technicians, service is quickly restored in most areas.

E.ON's upstream natural gas business achieves another success when E.ON Ruhrgas is awarded three more licenses to explore for gas in the Norwegian North Sea. One of the licenses names E.ON Ruhrgas Norge as the operator.

February

E.ON spurs retail competition in Germany by launching a new subsidiary called E WIE EINFACH ("E as in Easy"). It's Germany's first energy retailer to offer economically priced power and gas service to homes and small businesses nationwide. At year end, the company already has more than 450,000 customer accounts.

As part of E.ON's package of initiatives to promote competition, E.ON Ruhrgas holds its first auction of natural gas storage capacity, auctioning a total of 200 million cubic meters of capacity at facilities in Germany.

April

E.ON introduces a new Board of Management structure to further enhance the E.ON Group's market orientation and pave the way for further growth. In addition to a Chief Executive Officer a Chief Financial Officer, and a Chief Human Resources Officer, the Board of Management now has a Chief Operating Officer and a member responsible for Corporate Development/New Markets.

E.ON signs an agreement with Enel, an Italian energy utility, and Acciona, a Spanish construction company, to end the impasse in the attempted takeover of Endesa. E.ON agrees not to acquire a minority stake in Endesa. In exchange, Enel and Acciona agree to make a takeover bid for Endesa. When the two companies acquire control of Endesa, E.ON will have the opportunity to acquire an extensive portfolio of assets including operations in Spain, Italy, and France. The transaction is expected to close in 2008.

The E.ON Energy Research Center, a partnership between E.ON and RWTH Aachen University in western Germany, begins operations. E.ON will provide the center with about €40 million in funding for the next ten years. Energy efficiency and climate protection are at the center of E.ON's enhanced research and development effort.

May

E.ON presents a package of strategic initiatives and a €60 billion expanded investment program. E.ON further optimizes its organizational structure and the way it manages its business so that it can better seize the opportunities created by the ongoing integration of Europe's energy markets, improve its performance, sustainably enhance earnings, and achieve a significantly more flexible capital structure.

zed Capital Structure +++ Security of Supply +++ Climate Protection +++ Growth +++ Market-Oriented Organization +++ Competition +++




June

E.ON divests its last remaining non-core asset by signing an agreement to sell its 50.1-percent stake in ONE GmbH, an Austrian telecommunications company, to a consortium consisting of France Télécom und Mid Europa Partners, a private equity firm.

E.ON makes an important contribution to the future of climate protection by becoming Europe's first company to test a process for capturing up to 90 percent of the carbon dioxide contained in conventional power plant emissions. The test, conducted in Sweden, is part of a research initiative called innovate.on.

E.ON begins a share buyback program under which it will repurchase around €7 billion of its own stock by the end of 2008, about half of this figure in 2007. The purpose of the program is to optimize E.ON's capital structure.

July

E.ON proposes a package of reforms to harmonize and enhance the efficiency and transparency of the EU Emission Trading Scheme ("ETS"). Optimizing the ETS is a crucial step towards enabling the EU to achieve its emission-reduction targets while maintaining its economic competitiveness.

August

E.ON expands into new markets and grows its renewables business by acquiring ENERGI E2 Renovables Ibéricas, a wind-farm operator with about 260 megawatts of generating capacity in Spain and Portugal, from Dong Energy, a Danish energy company.

E.ON files to delist its American depositary receipts from the New York Stock Exchange and deregister and end its reporting obligations with the U.S. Securities and Exchange Commission. The delisting takes effect after the close of trading on September 7, 2007.

September

E.ON is admitted into the Dow Jones Sustainability Index, the world's leading index of its type, making E.ON stock even more attractive to investors who look for companies with a strong commitment to corporate responsibility.

E.ON decides on Wilhelmshaven, a port city in northwest Germany, as the site where it will build the world's first coal-fired power plant with a thermal efficiency of more than 50 percent. The plant, part of innovate.on, will have an installed capacity of 500 megawatts, cost about €1 billion to build, and enter service in 2014. Key to the plant's success are materials that can withstand steam temperatures of 700 degrees Centigrade (about 1,300 degrees Fahrenheit).

+++ Security of Supply +++ Climate Protection +++ Growth +++ Market-Oriented Organization +++ Competition +++ Optimized Capital Structu

October

E.ON responds swiftly to a temporary improvement in the capital markets by issuing a €3.5 billion benchmark bond through E.ON International Finance B.V. The bond is heavily oversubscribed and successfully placed with a broad range of international investors.

E.ON enters the highly attractive and fast-growing Russian electricity market by acquiring a majority stake in OGK-4, a power producer. OGK-4 operates four gas-fired power stations and one coal-fired power station with an installed capacity of about 8.6 gigawatts and plans to add 2.4 gigawatts of technologically advanced generating capacity at existing sites by 2011.

E.ON and Statkraft sign a letter of intent for an asset swap under which E.ON will take ownership of the 44.6-percent stake in E.ON Sverige held by Statkraft, giving E.ON nearly 100 percent of E.ON Sverige. In return, Statkraft will receive shareholdings in E.ON generation assets in Sweden, Germany, and England along with shares of E.ON stock. The transaction, which is expected to close in the first half of 2008, will further strengthen E.ON's position in the Nordic market.

Through E.ON International Finance B.V., E.ON issues a £1.5 billion benchmark bond which is successfully placed with a large number of institutional investors.

E.ON makes an important contribution to security of supply by acquiring 28 percent of Skarv and Idun, natural gas fields located in the northern Norwegian Sea that rank among Norway's largest and most attractive undeveloped gas fields. Production is scheduled to begin in 2011. E.ON's share of the fields' annual output is expected to average about 1.4 billion cubic meters for at least ten years.

re +++ Security of Supply +++ Climate Protection +++ Growth +++

+++ Growth +++

Whether it's entering new markets, expanding existing market positions, or growing organically, growth is essential to our business. And it has to create value. Like our €60 billion investment program.

November

E.ON, ThyssenKrupp, and RWE, which together own 90 percent of RAG's stock, sell their share packets to the buyer, RAG Stiftung, for a symbolic price of €1 each.

E.ON successfully concludes an increase of its existing syndicated credit facility from €10 billion to €15 billion. The €5 billion increase is placed within just a few weeks and is significantly oversubscribed despite a difficult market environment.

December

E.ON acquires Airtricity Inc. and Airtricity Holding (Canada) Ltd., the North American activities of Airtricity Holding Ltd., an Ireland-based wind-farm operator. These activities consist of about 250 megawatts of installed wind power capacity. This increases E.ON's wind power capacity to around 900 megawatts, making E.ON one of the world's largest wind-farm operators.

Surgutskaya 2 has 4,800 megawatts of installed capacity, making it one of the largest power stations in the world.

Добро пожаловать в компанию «Э.ОН»!
From zero to 8,600

E.ON enters the Russian electricity market.
Russia has one of the world's largest electricity markets. And with annual growth of 5 percent, it's also one of the fastest growing. The acquisition OGK-4 gives us a leading position in this important market.

OGK-4 operates four gas-fired power stations and one coal-fired power station with an aggregate installed capacity of 8,600 megawatts. By investing €4.6 billion for 76.1 percent of OGK-4, we acquired an asset portfolio that's among the best and most efficient in Russia, consisting of relatively new and technologically advanced generating units with high load factors. Moreover, they're located in the fastest-growing regions of the country. That's what we call a value-enhancing investment.

More than 2,400 miles separate OGK-4's westernmost and easternmost power stations. That gives an indication of Russia's vast size. And its market potential. At 4,800 megawatts of capacity, Surgutskaya 2 in Siberia is already one of the world's biggest power stations. By 2010, it will be 800 megawatts bigger. Altogether, 2,400 megawatts of capacity will be added to OGK-4's existing facilities over the next few years. It's part of our plan to work with OGK-4 to actively seize opportunities for organic growth in Russia's rapidly expanding—and highly promising—electricity market.

Combined Group Management Report

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

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

[1]All subsequent commentary for the E.ON Group also applies to E.ON AG.
[2]Change in percentage points.

Corporate Profile and Operating Environment

Corporate Structure and Operations in 2007

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

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

The Corporate Center/New Markets segment consists of Düsseldorf-based E.ON AG and the ownership interests managed directly by E.ON AG itself. The new market units (except Energy Trading) will also be allocated to this segment until the end of 2008. In 2007, this applies to our majority stakes in OGK-4 (a Russian power producer), ENERGI E2 Renovables Ibéricas (a wind-farm operator in Spain), and Airtricity (a wind-farm operator in North America), all of which were acquired in the second half of 2007. We also allocate consolidation effects at the group level to this segment.

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

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

With operations mainly in Germany, the Netherlands, and Italy, the Central Europe West Power and West Gas businesses engage in:
- electric generation at conventional, nuclear, and renewable-source facilities
- electric transmission via high-voltage and ultrahigh-voltage wires networks
- regional distribution of electricity, gas, and heat
- power trading and electricity, gas, and heat sales.

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

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

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

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

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

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

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

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

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

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

E.ON Group: Market Units, Lead Companies, Businesses, and Main Facilities[1]

Corporate Center
E.ON AG, Düsseldorf

Central Europe
E.ON Energie AG
Munich, 100%

- Central Europe West Power
- Central Europe West Gas
- Central Europe East
- Other/Consolidation

Germany
Munich
Hanover
Landshut
Bayreuth
Regensburg
Helmstedt
Quickborn
Kassel
Fürstenwalde an der Spree
Erfurt
Paderborn
Cologne

Netherlands
The Hague
Voorburg

Italy
Milan
Dalmine

Hungary
Budapest

Czech Republic
České Budějovice

Slovakia
Bratislava

Romania
Bacău
Iaşi

Bulgaria
Varna
Gorna

Pan-European Gas
E.ON Ruhrgas AG
Essen, 100%

- Up-/Midstream
- Downstream
- Shareholdings
- Other/Consolidation

Germany
Essen
Munich
Nuremberg
Saarbrücken
Frankfurt/Main
Erfurt
Emstek
Friedeburg/Etzel

Hungary
Budapest

Romania
Târgu Mureş

Finland
Espoo

Latvia
Riga

Lithuania
Vilnius

Slovakia
Bratislava

Russia
Moskow

United Kingdom
London
Aberdeen

Norway
Stavanger

Italy
Verona

Switzerland
Zug

U.K.
E.ON UK plc
Coventry, 100%

- Regulated Business
- Non-regulated Business
- Other/Consolidation

United Kingdom
Coventry
Nottingham

Nordic
E.ON Nordic AB
Malmö, 100%

- Regulated Business
- Non-regulated Business
- Other/Consolidation

Sweden
Malmö

Finland
Helsinki

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

- Regulated Business
- Non-regulated Business

USA
Louisville
Lexington

[1]Corporate structure through December 31, 2007.

Sales Markets and Market Positions

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

Pan-European Gas
No. 1 in gas supply in Europe

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

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

U.S. Midwest
No. 1 in power generation in Kentucky
No. 1 in power and gas sales in Kentucky

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

Strategy

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

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

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

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

Energy Policy and Regulatory Environment

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

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

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

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

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

Germany

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

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

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

Network Fee Approvals Process

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

Incentive-Based Regulation

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

Gas Network Access

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

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

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

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

Revisions to German Antitrust Law

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

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

Competition Initiatives

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

Economic Environment

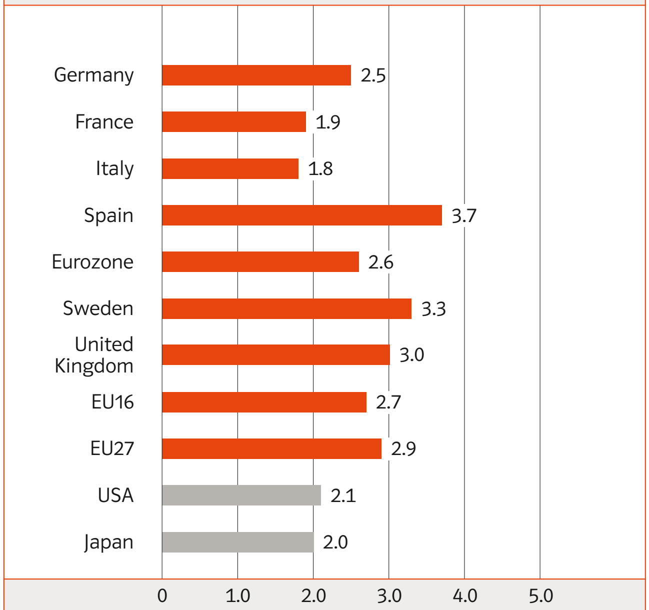
The global economy was in very robust condition in 2007 when financial markets became less stable in the summer in the wake of the mortgage-lending crisis in the United States. According to an estimate by the German Council of Economic Experts ("GCEE"), global gross domestic product ("GDP") increased by 3.7 percent in real terms, slightly behind the 2006 growth rate of 3.9 percent. Oil prices, which at times nearly reached $100 a barrel, continued to dampen economic growth and fuel fears of inflation. Expansion differed by region, with significant economic growth in China and other emerging countries, weaker growth in Japan, and slightly flatter growth in the European Union. The GCEE estimates that the U.S. economy grew at a markedly slower pace in 2007 as a result of the financial crisis.

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

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

2007 GDP Growth in Real Terms

Annual change in percent



Sources: German Council of Economic Experts (November 2007), German Federal Statistical Office.

Energy Industry

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

2007 Primary Energy Consumption in Germany by Energy Source

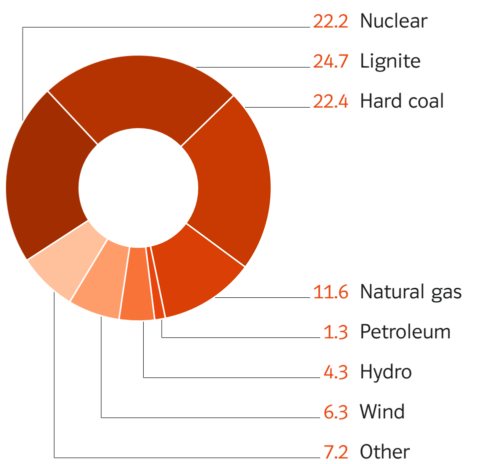
Percentages	2007	2006
Petroleum	33.8	35.5
Natural gas	22.7	22.6
Hard coal	14.1	13.2
Lignite	11.7	10.8
Nuclear	11.1	12.5
Hydro, wind	1.5	1.3
Other, including net power imports/exports	5.1	4.1
Total	**100.0**	**100.0**

Source: AG Energiebilanzen (preliminary figures).

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

2007 Net Generation in Germany by Energy Source

Percentages   Total 631.5 billion kWh



Source: BDEW (preliminary figures).

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

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

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

Energy Price Developments

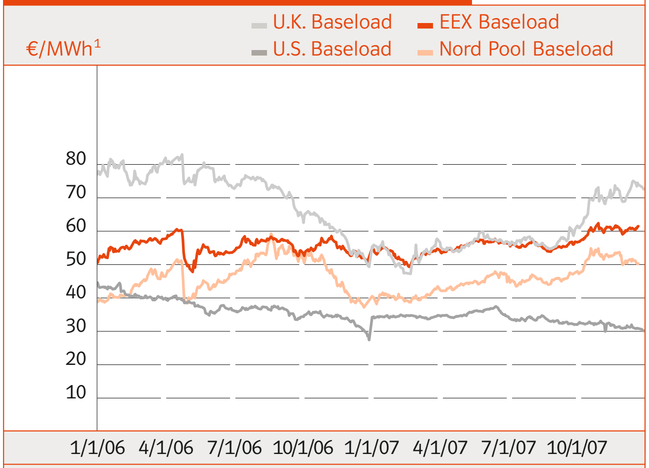
Throughout 2007, European power and natural gas markets were driven by three main factors:

- oil, coal, and CO_2 allowance prices
- warm weather
- the hydrological balance in the Nordic region.

Although prices declined on most European power and gas markets in the first weeks of 2007, they rose again starting in March in response to higher coal, oil, and phase-two CO_2 allowance prices.

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

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



[1]For next-year delivery.

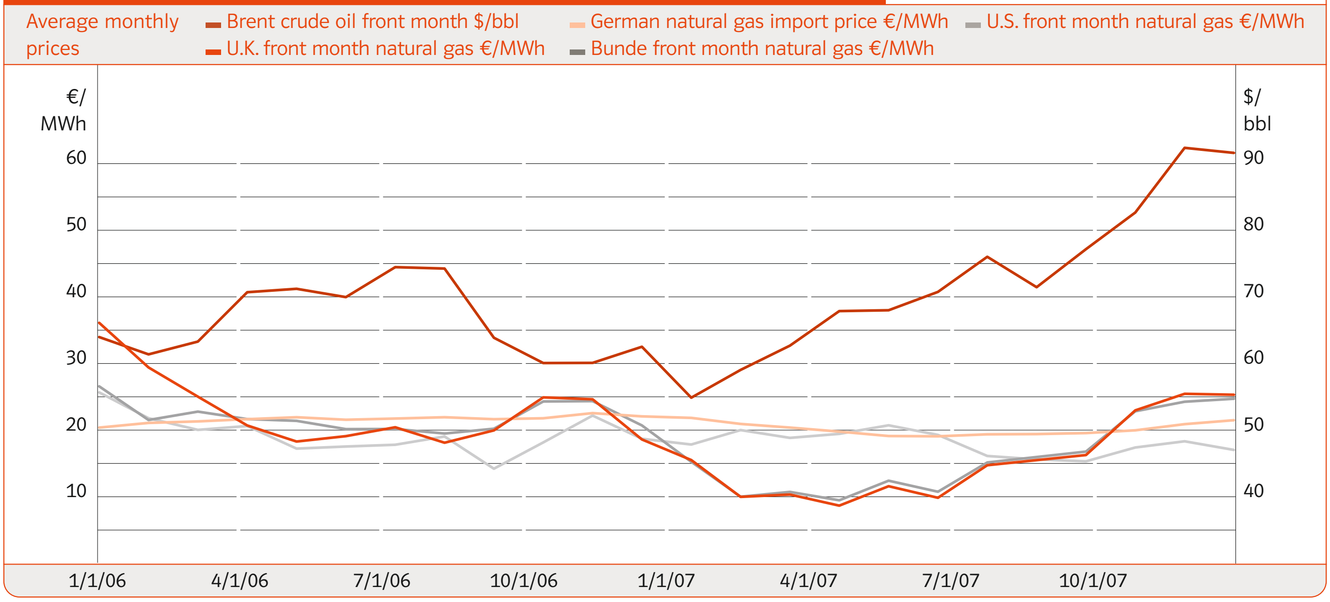
The price of Brent crude oil increased significantly beginning in January 2007 due to renewed tension in the Middle East and Nigeria and lower oil-product inventories in the United States. The remarkable depreciation of the U.S. dollar against other currencies also contributed to the strong rise in dollar-denominated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

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

CO_2 Emission Allowance Price Movements in Europe

Phase-two CO_2 allowance prices increased in response to high oil and gas prices compared to more stable hard coal prices and the European Commission's decision to reduce the caps on installations proposed by the member states in the beginning of the year.

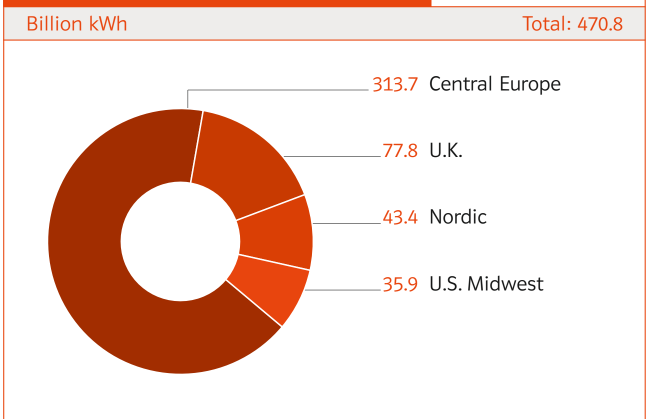
Crude Oil and Natural Gas Price Movements in E.ON's Core Markets



Power and Gas Sales

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

2007 Power Sales[1]

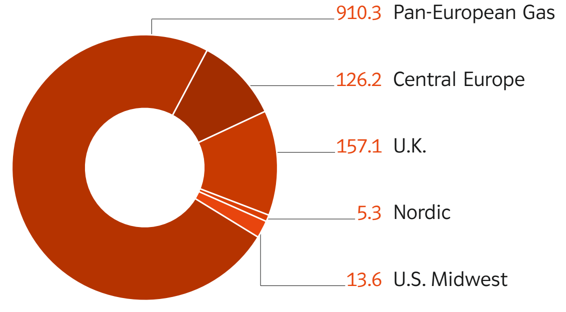


[1]Unconsolidated figures.

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

2007 Gas Sales[1]

Billion kWh Total: 1,212.5



[1]Unconsolidated figures.

Power and Gas Procurement

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

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

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

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

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

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

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

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

Business Development

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

The transactions listed below influenced our business in 2007.

Transactions in 2007

Acquisitions

ENERGI E2 Renovables Ibéricas

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

OGK-4

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

Skarv and Idun

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

Airtricity

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

Divestments

ONE

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

RAG

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

Discontinued Operations

WKE

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

Development of Significant Line Items of the Consolidated Statements of Income

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

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

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

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

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

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

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

Earnings

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

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

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

Net Income

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

Net Income

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

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

Adjusted net interest income is largely unchanged from 2006.

Adjusted Interest Income (Net)

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

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

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

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

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

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

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

Adjusted Net Income

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

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

Sales

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

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

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

Pan-European Gas's sales declined by 1 percent to €22,745 million (prior year: €22,947 million). Sales at Upstream/Midstream of €17,738 million were 6 percent below the prior-year figure of €18,889 million. The slight increase in sales volumes was counteracted by energy price developments and competitive pressure on sales prices in the midstream business. Upstream sales declined by €26 million due mainly to lower sales prices. Lower sales at Upstream/Midstream were nearly offset by positive effects at Downstream Shareholdings, where sales increased by €852 million, or 18 percent, from €4,773 million in 2006 to €5,625 million in 2007. This is mainly attributable to sales development at E.ON Ruhrgas International which benefited principally from the fact that E.ON Földgáz Trade and E.ON Földgáz Storage were consolidated E.ON companies for all of 2007. These subsidiaries became consolidated E.ON companies on March 31, 2006. The sales declines at the other Downstream Shareholdings companies were primarily weather-driven. Thüga recorded lower sales. The main factors were lower power and gas sales volumes resulting primarily from warmer weather compared with the prior year. Higher electricity and gas prices and a positive sales effect stemming from changes to Thüga Italia's scope of consolidation were not sufficient to offset this development.

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

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

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

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

Adjusted EBIT

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

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

Central Europe West Power increased adjusted EBIT by €509 million year on year to €4,145 million. Gross margin effects, the necessary revaluation of provisions for nuclear waste management, and the absence of aperiodic negative effects recorded in the prior-year period were partially mitigated by higher electricity procurement costs and higher expenditures resulting in particular from an increase in the amount of renewable-source electricity delivered onto the network. Adjusted EBIT was also adversely affected by the outages at Krümmel and Brunsbüttel (jointly owned nuclear power stations that have been out of service since the middle of 2007), provisions for obligations in network operations, higher maintenance and IT costs, and lower results from network activities. Another negative factor was lower equity earnings from associated companies due to the absence of positive non-recurring effects recorded in 2006. Higher group internal cost allocation and negative effects relating to new sales operations (mainly the buildup of E WIE EINFACH, our new retail subsidiary in Germany) also served to mitigate to some extent Central Europe West Power's positive earnings performance.

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

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

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

Pan-European Gas's adjusted EBIT of €2,576 million was €229 million, or 10 percent, above the prior-year figure. The increase is attributable to Downstream Shareholdings, where adjusted EBIT rose from €453 million to €987 million, an increase of €534 million or 118 percent. The increase in adjusted EBIT at the E.ON Földgáz companies was the main factor. It resulted from their inclusion, for the first time, for an entire year and from a regulation-driven settlement for price adjustments not taken in prior years. The absence of impairment charges taken on certain shareholdings at Thüga in 2006 had a positive effect on adjusted EBIT in 2007. Other positive factors included higher book gains on the sale of shareholdings at Thüga Deutschland, higher equity earnings from associated companies reflecting deferred tax income resulting from Germany's corporate tax reform.

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

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

The U.K. market unit delivered an adjusted EBIT of €1,136 million in 2007, of which €509 million was in the Regulated business and €762 million in the Non-regulated business. Adjusted EBIT at the Regulated business increased by €21 million principally due to tariff increases. Adjusted EBIT at the Non-regulated business decreased by €89 million. The key features were lower retail margins due to the price reduction and lower retail sales volumes due to both warmer weather and lower customer numbers. These effects were partially offset by the avoidance of the high gas input costs during the first quarter of 2006 caused by gas supply issues and cold weather, increased margins from the gas power stations, and improved station availability. Adjusted EBIT recorded under Other/Consolidation was €35 million lower that in the prior year, mainly due to the transfer of some activities to the center from the business units and a number of items accounted for centrally such as foreign-exchange hedging.

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

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

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

ROCE and Value Added

Groupwide Value-Oriented Management Approach

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

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

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

The table at right illustrates the derivation of cost of capital before and after taxes for 2007 and 2006. Deviations result in particular from a decline in interest-rate levels and a change in E.ON's debt-to-equity ratio. We currently use a debt-to-equity ratio of 35 to 65 for the E.ON Group. This figure reflects a target capital structure derived from the market value of E.ON's equity and a level of debt commensurate with E.ON's target rating.

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

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

Cost of Capital

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

[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. For 2007, the tax rate relevant for this calculation deviated slightly from the E.ON Group's average tax rate.

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

Analyzing Value Creation by Means of ROCE and Value Added

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

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

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

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

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

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

E.ON Group ROCE and Value Added

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

[1]Noninterest-bearing provisions mainly include current provisions. In particular, they do not include provisions for pensions or for nuclear waste management.
[2]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.
[3]In order to better depict intraperiod fluctuations in capital employed, annual average capital employed is calculated as the arithmetic average of the amounts at the beginning of the year, the end of the year, and the balance-sheet dates of the three interim reports. Capital employed in continuing operations amounted to €62,374 million, €62,004 million, and €62,630 million at March 31, June 30, and September 30, 2007, respectively.

ROCE and Value Added by Segment

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

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

ROCE and Value Added Performance

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

Central Europe

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

Pan-European Gas

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

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

U.K.

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

Nordic

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

U.S. Midwest

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

Investments

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

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

Investments

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

Economic Value of Investments

€ in millions	2007
Cash-effective investments	11,306
Debt acquired	1,150
Long-term rental and leasing obligations	198
Asset swaps	-
Total	**12,654**

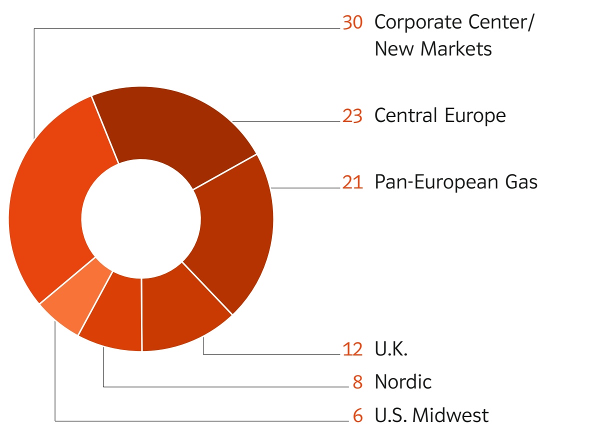
In 2007, Central Europe invested €302 million more than in the prior year. Investments in intangible assets and property, plant, and equipment totaled €2,390 million compared with €1,883 million in 2006. The additional investments went towards power generation projects currently under way, particularly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

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

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

2007 Investments

Percentages Total: €11,306 million



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

U.S. Midwest's investments of €690 million were 73 percent above the prior-year figure, primarily due to increased spending for SO_2 emission-abatement equipment and the new baseload unit under construction at the Trimble County plant. This unit is expected to go into service in 2010.

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

Share Buyback

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

Cash Flow and Financial Condition

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

Consolidated Statements of Cash Flows (Summary)

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

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

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

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

Cash Provided by Operating Activities of Continuing Operations

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

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

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

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

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

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

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

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

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

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

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

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

Economic Net Debt

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

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

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

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

Financial Strategy

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

- E.ON's rating target is single A flat/A2. We defined this as our rating target as part of our original plan to acquire Endesa and confirmed it as our rating target in May 2007. Compared with our former target (strong single A), the new rating target enables us to increase our leverage, thereby improving our capital structure while ensuring our access to financing.

- To manage our capital structure we introduced a new steering measure: the debt factor. The debt factor is our economic net debt divided by adjusted EBITDA. Economic net debt includes not only our financial liabilities but also our provisions for pensions and asset retirement obligations. We have defined 3 as our target debt factor, which is derived from our target rating.

- We intend to actively manage our capital structure. We will use the debt factor to continually monitor—and if necessary, optimize—our capital structure. If our debt factor is significantly above 3, strict investment discipline will be called for. In the case of strategically important investments, we would have to utilize alternative financing concepts in the form of portfolio measures or capital increases. If it becomes apparent that our debt factor will fall and remain significantly below 3, we will return capital to our shareholders, for example through higher dividend payments or share buybacks. But we will always give priority to value-enhancing investments.

- Our target dividend payout ratio remains at 50 to 60 percent of adjusted net income.

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

Financial Policy and Initiatives

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

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

Our financial policy is based on the following principles. First, we use a variety of markets and debt instruments to maximize the diversity of our investor base. Second, we issue bonds with maturities that give our debt portfolio a broadly balanced maturity profile. Third, we combine large-volume benchmark issues with smaller issues that take advantage of market opportunities as they arise.

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

The following E.ON bonds are outstanding:

Bonds Issued by E.ON International Finance

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

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

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

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

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

E.ON successfully increased its existing syndicated credit facility from €10 billion to €15 billion. The facility consists of two tranches. The increase was achieved by raising the short-term tranche from €5 billion to €10 billion. The short-term tranche was also extended for an additional 364 days to November 27, 2008. The long-term tranche has a volume of €5 billion and matures on December 2, 2011. As of year end 2007, our credit facility had not been utilized. Notes 26 and 27 to the Consolidated Financial Statements contain detailed information about E.ON's liabilities, contingencies, and commitments.

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

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

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

E.ON AG Ratings

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

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

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

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

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

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

Consolidated Assets, Liabilities, and Equity

€ in millions	Dec. 31, 2007	%	Dec. 31, 2006	%
Non-current assets	105,804	77	96,488	76
Current assets	31,490	23	31,087	24
Total assets	**137,294**	**100**	**127,575**	**100**
Equity	55,130	40	51,245	40
Non-current liabilities	52,402	38	46,947	37
Current liabilities	29,762	22	29,383	23
Total equity and liabilities	**137,294**	**100**	**127,575**	**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 2007 amounts to €5,116 million compared with €2,572 million in the prior year. After transferring €2,526 million to retained earnings, net income available for distribution totals €2,590 million.

Balance Sheets of E.ON AG (Summary)

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

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

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

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

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

Income Statement of E.ON AG (Summary)

€ in millions	2007	2006
Income from equity interests	7,244	3,710
Interest income	-557	-539
Other expenditures and income	-250	-581
Income from continuing operations before income taxes	**6,437**	**2,590**
Income taxes	-1,321	-18
Net income	**5,116**	**2,572**
Net income transferred to retained earnings	-2,526	-362
Net income available for distribution	**2,590**	**2,210**

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

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

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

Disclosures on Takeover Barriers

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

Strategic Human Resources ("HR")

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

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

People Vision

HR enables E.ON's employees and leaders to fulfill E.ON's vision

People Mission	Best People	Right Leaders	Energizing Environment
People Strategy	Demographics/ Workforce Planning	Leadership	Change Management
	Competence Management	Talent Management	Life Balance
	Employer Branding	Performance Management	Health Management
	Diversity		
	Employability		

Operational Excellence

We strive for cost-efficient, professional, and competitive operational excellence

Common HR Standards | Common HR Services | Common HR IT Systems

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

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

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

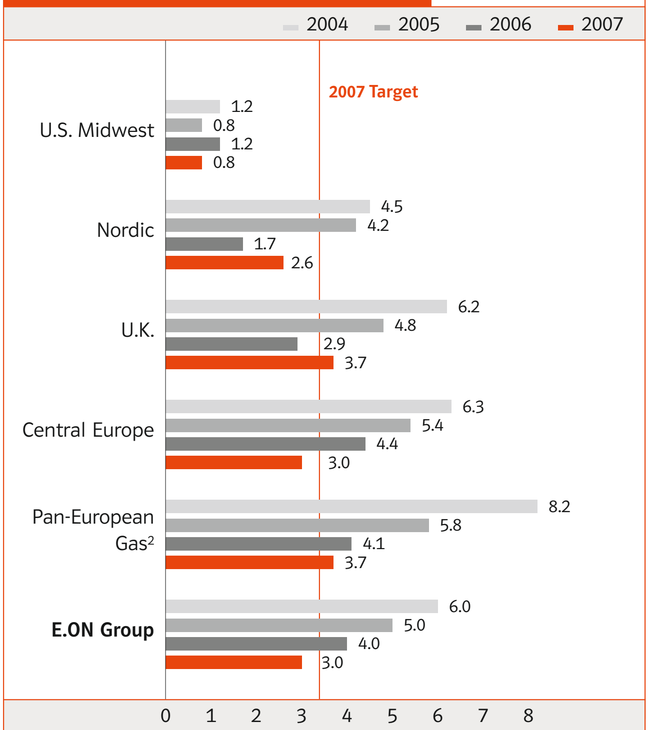
The Life Balance field of action consists of a wide variety of programs, from flex-work to childcare and eldercare services. The aim is to establish a healthy work-life balance as a company value and to cultivate a work environment that enables our employees to balance their career with their family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

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

Occupational Safety

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

Lost-time Injury Frequency[1]



[1]The number of lost-time job-related injuries per million hours work.
[2]Excludes E.ON Gaz România.

Health Management

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

Employer Branding

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

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

E.ON Graduate Program

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

HR Development: Talent Management

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

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

Top Executives

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

Compensation, Pension Plans, Employee Participation

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

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

Embedding OneE.ON in the Workplace

Launched in 2004, OneE.ON is a process for cultivating a shared vision and shared values and behaviors across our organization. Regular corporate activities help embed our guiding principles in the workplace. In May 2007, we held the first E.ON Olympics. Under the slogan Sports Unite, the event brought together 900 E.ON employees at Munich's Olympic Stadium, where they demonstrated their drive for excellent performance and their teamwork in 17 individual and team disciplines.

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

E.ON Employee Opinion Survey ("EOS")

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

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

Workforce

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

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

Employees[1]

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

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

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

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

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

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

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

Gender and Age Profile, Part-Time Staff

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

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

Geographic Profile

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

Employees by Region[1]

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

[1]Includes board members, managing directors, and apprentices.
[2]Includes Italy, the Netherlands, Poland, Finland, Norway, Denmark, and certain other countries.

Apprentice Programs

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

Apprentices in Germany

	Dec. 31, 2007
Central Europe	2,369
Pan-European Gas	276
E.ON AG/Other	11
E.ON Group	**2,656**

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

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

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

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

Research and Development ("R&D")

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

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

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

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

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

Examples of our R&D projects in 2007:

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

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

Corporate Responsibility ("CR")

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

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

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

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

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

Our new CR Report will be published in May 2008 and will also be available at www.eon.com.

Risk Management System

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

Risk Management and Insurance

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

Risk Committee

Pursuant to the provisions of Section 91, Paragraph 2 of the German Stock Corporation Act relating to the establishment of a risk-monitoring and early warning system and to the minimum requirements for risk management and for the use of financial instruments at industrial companies contained in the German Minimum Requirements for Risk Management ("MaRisk"), the E.ON AG Board of Management has established a Risk Committee for E.ON AG. The Risk Committee, which consists of representatives of key E.ON AG divisions and departments, is responsible for ensuring that the risk strategy for commodity and credit risks defined by the Board of Management is implemented, complied with, and further developed.

Risk Situation

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

Market Risks

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

Commodity Price Risks

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

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

Financial Risks

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

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

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

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

Strategic Risks

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

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

Operational Risks

Technologically complex production facilities are involved in the production and distribution of energy. Significant parts of Europe and North America have experienced major power outages in recent years. The reasons for these outages vary, although generally they involved a locally or regionally inadequate balance between power production and consumption, with single failures triggering a cascade-like shutdown of lines and power plants following overload or voltage problems. The likelihood of this type of problem has increased in recent years following the liberalization of EU electricity markets, partly due to an emphasis on unrestricted cross-border physically settled electricity trading that has resulted in a substantially higher load on the international network, which was originally designed mainly for purposes of mutual assistance and operations optimization. As a result, there are transmission bottlenecks at many locations in Europe, and the high load has resulted in lower levels of safety reserves in the network. In Germany, where power plants are located in closer proximity to population centers than in many other countries, the risk of blackouts is lower due to shorter transmission paths and a strongly meshed network. In addition, the spread of a power failure is less likely in Germany due to the organization of the German power grid into four balancing zones. Nevertheless, our German or international electricity operations could experience unanticipated operating or other problems leading to a power failure or shutdown. Operational failures or extended production stoppages of facilities or components of facilities could negatively impact our earnings.

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

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

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

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

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

External Risks

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

- In December 2007, Germany enacted amendments to its law against restraints on competition that will lead to a considerable broadening of antitrust oversight in Germany's electricity and natural gas markets. The amendments took effect on January 1, 2008. We are currently unable to quantify the effects the amendments will have on E.ON. The German Federal Cartel Office ("FCO") is expected to launch a test proceeding in the energy industry some time in 2008.

- As part of an anticompetitive practices case, the FCO is investigating the treatment of CO_2 emission allowances as a cost factor in the price of electricity. The outcome of the proceeding against E.ON is uncertain.

- The European Commission carried out investigations at the premises of several energy companies in Europe, including E.ON AG and some of its affiliates, in May and December 2006. These were followed by requests for information regarding a number of regulatory and energy-market-related issues of E.ON Energie and E.ON Ruhrgas. The two companies have responded to these requests. On July 18, 2007, the Commission initiated formal antitrust proceedings against E.ON Ruhrgas and Gaz de France for alleged infringements of Article 81 of the European Community Treaty. The Commission has pointed out that the initiation of proceedings does not imply that there is conclusive proof of an infringement. In connection with the investigations in the electricity sector, E.ON has proposed to the Commission to divest its transmission system and a certain amount of generating capacity. After conducting a market test, the Commission will make a legally binding decision and not continue any antitrust proceedings relating to the electricity sector.

- E.ON Ruhrgas filed a complaint with the State Superior Court in Düsseldorf against the FCO's decision of January 13, 2006, relating to long-term gas supply contracts; the complaint related mainly to the competitive injunction contained in the FCO's order. The court dismissed this complaint on October 4, 2007. E.ON Ruhrgas has appealed the court's decision to the Federal Supreme Court of Justice, Germany's highest appellate court for civil and criminal cases.

- In September 2007, the European Commission published draft versions of a third package of energy legislation designed to establish a competitive, non-discriminatory, and transparent EU internal energy market. E.ON expressly supports these objectives. In our view, however, some of the proposed measures and mechanisms will not serve to promote competition or the development of cross-border regional markets. In particular, this applies to regulatory oversight over power and gas trading and to the ownership unbundling of electricity and transmission systems or, as an alternative, the creation of independent system operators. E.ON believes that requiring companies to relinquish ownership of assets and regulating competitive markets will not serve to enhance competition, ensure non-discriminatory access to network infrastructure, or integrate regional markets. We believe it makes more sense to systematically move forward with European market integration, particularly by expanding cross-border transfer infrastructure, further integrating cross-border energy trading, and prudently applying existing competition and antitrust mechanisms.

- Germany's incentive regulation ordinance took effect in November 2007, with incentive regulation to begin on January 1, 2009. Under Germany's Energy Law of 2005, the current cost-based, rate-of-return model for network charges is to be replaced by incentive regulation in order to create additional incentives for enhancing the efficiency of network operations. In principle, we support the rapid introduction of a reasonable incentive system. However, a number of useful suggestions made by network operators affected by the legislation were not incorporated into the incentive regulation ordinance. It remains to be seen whether the regulations will in all areas lead to efficiency-enhancement targets that can be achieved and surpassed. Germany's Federal Network Agency must establish benchmarks for all affected network operators by the middle of 2008 and is currently developing a methodology and establishing criteria. Because the Federal Network Agency must still determine major parameters (namely, the benchmarks themselves as well as the allowed return on equity and the investment budgets), we cannot at this time reliably assess the consequences of incentive regulation.

- Currently, E.ON Gastransport's network charges are market based. We cannot rule out the possibility that the Federal Network Agency rules against market-based network charges during the course of 2008. In this case, E.ON Gastransport could be migrated to the incentive system effective January 1, 2010.

- The second round of the network charges approvals process for 2008 is currently under way. The results will serve as the basis for the incentive regulation system. We cannot rule out the possibility that this will pose a risk to our future earnings situation, since it is becoming apparent that the Federal Network Agency is interpreting the law in a one-sided manner prejudicial to network operators. In addition, if the Federal Network Agency significantly reduces the network charges submitted for approval, it may, in individual cases, be necessary for us to record impairment charges on our network operators affected by such rulings.

- In late 2007, the German Federal Network Agency initiated consultation proceedings to reform the model for the Germany's gas industry's control- and balancing-energy market. The agency envisages a fundamental reform of the control- and balancing-energy market. Energy industry trade associations are currently in negotiations with the agency to define a target model. Although it is unclear at this time what the target model will look like, the new model is supposed to be introduced on October 1, 2008, resulting in legal uncertainty for market participants. It is doubtful whether the target model can be fully implemented on October 1, since it is unlikely that all the necessary preconditions will be in place by this date.

- Legal uncertainty surrounding the implementation of national allocation plans in certain EU member states could result in some installations in the energy industry affected by emission-allowance trading having difficulties with allocation of CO_2 emission allowances.

- In January 2008, the European Commission presented a package of legislative proposals on the implementation of EU climate-protection targets, the continuation of emission-allowance trading, carbon storage, and support for renewable-source electricity. The environmentally motivated reorganization of Europe's energy supply system will affect energy companies but also create new lines of business.

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

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

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

The demand for electric power and natural gas is seasonal, with our operations generally experiencing higher demand during the cold weather months of October through March and lower demand during the warm weather months of April through September. The exception to this is our U.S. power business, where hot weather results in an increased demand for electricity to run air conditioning units. As a result of these seasonal patterns, our sales and results of operations are higher in the first and fourth quarters and lower in the second and third quarters, with the U.S. power business having its highest revenues in the third quarter and secondary peaks in the first and fourth quarters. Revenues and results of operations for all of our energy operations can be negatively affected by periods of unseasonably warm weather during the autumn and winter months, as occurred at some of our market units in 2006 and/or 2007. Our Nordic market unit could be negatively affected by a lack of precipitation (which would lead to a decline in hydroelectric generation, as occurred in 2006), and our European energy operations could also be negatively affected by a summer with higher-than-average temperatures to the extent our plants would be required to reduce or shut down operations due to a reduction in the availability of cooling water. We expect seasonal and weather-related fluctuations in sales and results of operations to continue.

IT Risks

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

Management's Evaluation of the Risk Situation

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

New Organizational Structure

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

To seize the earnings and growth opportunities of energy-market integration, we are taking action to organize and manage our businesses—in particular our energy trading and power generation businesses—on a pan-European scale. At the start of 2008, we centralized all our European trading activities in power, gas, coal, oil, and CO_2 emission allowances. We also combined our renewables operations (with the exception of hydroelectricity) and our climate-protection operations and plan to expand this business globally.

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

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

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

- E.ON Energy Trading, Düsseldorf, began operations at the start of 2008. It combines all our European trading activities in electricity, gas, coal, oil, and CO_2 allowances.
- E.ON Climate & Renewables, Düsseldorf, is responsible for managing and expanding our global renewables business and for coordinating climate-protection projects. Its generation portfolio consists of about 760 MW of generating capacity in Europe and 250 MW in North America. Roughly 3,000 MW of new capacity are at various stages of construction and planning.
- E.ON Russia Power oversees our power business in Russia. Through OGK-4, we have around 8,600 MW of generating capacity in the fast-growing, heavily industrialized regions of Central Russia, Ural, and Western Siberia.
- E.ON Italia, Milan, manages our power and gas business in Italy. E.ON is already active in Italy's wholesale power and gas markets and in natural gas sales. The planned acquisition of Endesa Italia will give us about 5,000 MW of generating capacity in Italy, making us the country's fourth-largest power producer.

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

Macroeconomic Situation

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

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

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

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

Energy Industry

The future development of Germany's energy industry will be determined in part by the German federal government's Integrated Climate Protection and Energy Package. Its purpose is to substantially change Germany's energy mix, which would have considerable consequences for our business. The policy's targets for 2020 are for Germany to:

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

On the other hand, the debate about the allocation of CO_2 emission allowances in Europe underscores the importance of establishing a transparent and properly designed emission trading scheme as a mechanism for enhancing climate protection. Substantial uncertainty currently surrounds forecasts of CO_2 emission allowance prices. The future development of prices depends primarily on how restricted the allocation of allowances is. The long-term development of allowance prices will be determined primarily by the way emissions trading is handled on a global scale.

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

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

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

Employees

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

Earnings

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

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

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

Dividends

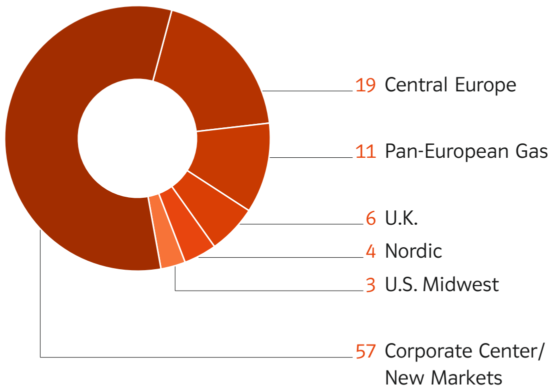
We will continue with our dividend payout ratio of 50 to 60 percent of adjusted net income. In view of our EBIT targets and the effects of our share buyback, we expect to continue to increase our dividend per share by an average of 10 to 20 percent per year for the period through 2010.

Investments

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

Economic Value of 2008 Planned Investments[1]

Percentages — Total: €28 billion



[1]Cash-effective capital investments plus debt acquired, long-term rental and lease obligations, and asset swaps.

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

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

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

Financial Situation

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

Opportunities

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

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

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

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

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

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

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

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

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.

+++ Climate Protection +++

We've pledged to halve our relative carbon-dioxide emissions. It's a pledge we aim to keep. That's why we're investing €6 billion in renewables through 2010. And why every new conventional power plant we build in Europe will emit significantly less CO_2 than the benchmarks set by the EU.

Adding more wind to the mix

E.ON acquires a wind-farm operator in Spain and Portugal.
In August 2007, we significantly expanded our wind-power business and entered the highly attractive Spanish and Portuguese wind-power markets by acquiring ENERGI E2 Renovables Ibéricas.

Our new subsidiary, which now does business as E.ON Renovables Iberia, has about 260 megawatts of installed renewables capacity, predominantly wind power. It's an ideal platform from which to expand our wind-power business in Southern Europe.

Wind power, which emits no CO_2, is an important ingredient in a climate-friendly energy mix. With high-quality wind farms in favorable locations like the Iberian Peninsula, we can help protect the climate in an economically sensible way.

We also entered the world's most attractive renewables market by acquiring Airtricity in North America. With a total installed wind-power capacity of about 900 megawatts, we now rank among the world leaders in this generation technology. And by sharing expertise and best practices across our global organization, we can make our wind-power operations even more efficient.

Wind power is just one of the ways E.ON fosters climate protection. We also actively support the EU's energy-policy agenda and are working hard to reduce our generation fleet's CO_2 emissions.

More wind farms are under construction or in planning and will be completed within the next four years.

The foundation for our targeted growth strategy is an integrated business model that creates value through vertical integration along the entire value chain, horizontal integration between power and gas, and regional integration of European markets.

Our presence in all of Europe's main energy markets gives us an outstanding market position and the world's most geographically diversified generation portfolio. Although our bid for Endesa wasn't successful, the agreement we reached with Enel and Acciona will significantly strengthen our position across Europe.

E.ON is superbly positioned to meet the new challenges of its changing European market environment. We're well on the way towards realizing our vision of becoming the world's leading power and gas company.

European Market and Competition

The environment for E.ON's strategy is influenced mainly by the following factors:

- Europe's energy markets are becoming more integrated as an EU-wide internal market for energy begins to take shape.
- Competition is increasing as markets become more liberalized.
- EU and national governments are enacting climate-protection measures which aim to reduce CO_2 emissions, particularly in the power generation industry.
- Energy companies are expected to ensure security of supply in an environment of increasingly scarce primary energy sources and scarcity at other links of the value chain, including generation equipment, engineering personnel, and sites suitable for building new power plants.
- A number of countries in and on the periphery of Europe are becoming attractive growth markets.

Our strategy for the future contains our endorsement of open and integrated energy markets and our active support of the EU's energy-policy agenda. In Germany, the measures we've taken include the expansion of power and gas cross-border transfer capacity, an initiative to deliver greater transparency on the availability of our generation fleet, and the creation of E WIE EINFACH ("E as in Easy"), our new nationwide power and gas retail subsidiary, which sends a clear signal for more competition in Germany's retail market.

Our presence in all the major European energy markets enables us to benefit substantially from Europe's ongoing market liberalization. We're also combining some operations in order to seize opportunities created by the integration of European energy markets. A noteworthy example of this is our new Energy Trading market unit which brings together the trading operations formerly carried out by a number of our organizational entities across Europe.

Power Generation

Europe will need to add generating capacity in the years ahead to ensure that it maintains a secure and reliable supply of electricity. During this process, we'll invest to maintain and grow our generation portfolio in order to cement and expand our market position, while at the same time setting new standards for energy efficiency and environmental protection.

Security of Supply +++ Climate Protection +++ Growth

E.ON invests in state-of-the-art generation technology. Datteln 4 is a state-of-the-art coal-fired generating unit we're building about 15 miles north of Dortmund in west-central Germany. As with all our new power plants, Datteln 4 incorporates the best available technology and practices. In fact, Datteln 4 and two other E.ON power plants—Maasvlakte 3 in the Netherlands and Staudinger 6 in Germany—will have the same design, which will reduce costs substantially. And all three will have a high thermal efficiency (about 46 percent), enabling them to emit roughly 20 percent less CO_2 than a typical coal-fired plant.

We intend to expand our installed generating capacity in Europe by 50 percent to 69 GW by 2010. The assets we expect to acquire in France, Italy, and Spain under our agreement with Enel and Acciona will put us a long way towards achieving this goal. Most of the rest of our capacity growth will come from the construction of new power plants.

Major Planned Power Plant Construction Projects[1]

Type	Nameplate capacity in MW	Unit	Country	Enters service
Hard coal	1,100	Datteln 4	DE	2011
	1,100	Staudinger 6	DE	2013
	550	50 Plus	DE	2014
	1,100	Maasvlakte 3	NL	2012
	1,600	Kingsnorth	GB	2013
	750	Trimble County 2	US	2010
	1,100	Antwerp	BE	2014
	800	Berezovskaya	RU	2010
	2,000	Other projects	EU	>2014
CCGT	845	Irsching 5	DE	2009
	530	Irsching 4	DE	2011
	800	Livorno Ferraris	IT	2008
	400	Gönyü 1	HU	2010
	400	Malzenice	SK	2010
	1,275	Grain	GB	2010
	440	Malmö	SE	2009
	410	Shaturskaya	RU	2009
	800	Surgutskaya	RU	2010
	400	Yaivinskaya	RU	2010
	3,200	Other projects	EU	>2011
Renewables	3,500	Miscellaneous	EU/US	by 2011
Total	**23,100**			

[1]Excludes construction projects resulting from the acquisition of Viesgo.

Natural Gas Production

To help secure Europe's supply of natural gas, our main upstream objective is to source at least 10 billion cubic meters of natural gas per year from our own production assets. Our acquisition in mid-2007 of a stake in Skarv and Idun, gas fields in the Norwegian Sea, brought us a good deal closer to this objective. We plan to achieve additional growth in our production portfolio through the acquisition of stakes in other gas fields and through our own exploration projects.

Security of Supply +++ Climate Protection +++ Growth

E.ON builds its first power plant in Italy.
With a thermal efficiency of 58 percent, our new combined-cycle gas turbine in Livorno Ferraris, Italy, sets new standards for environmental performance. The 800 MW unit, which is scheduled to begin commercial operation in the second half of 2008, will generate enough electricity to supply a city the size of Milan, which has 1.2 million inhabitants. It ideally complements our existing operations in Italy's power trading and wholesale market.

Natural Gas Storage

We intend to double our working gas capacity in Northwestern Europe by 2015 in order to enhance supply reliability and respond more flexibly to fluctuations in demand. We'll achieve this goal mainly by increasing capacity at existing storage facilities.

Renewables

One of our strategic priorities is to expand our renewables business worldwide. Our successful acquisitions—ENERGI E2 Renovables Ibéricas in Spain and Portugal and Airtricity North America—gave us an installed wind-power capacity of about 900 MW at year end 2007. Going forward, our focus will be on completing the approximately 3,500 MW of renewables projects we have under construction and in planning as well as developing other renewables technologies.

Security of Supply +++ Climate Protection +++ Growth

E.ON acquires wind farms in North America.
The acquisition of Airtricity North America marks the first time E.ON's renewables business has established a strong market position with substantial growth potential outside of Europe. The move expands our wind-power portfolio—we now rank among the world's biggest wind-farm operators—and makes it more geographically diverse.

New Markets

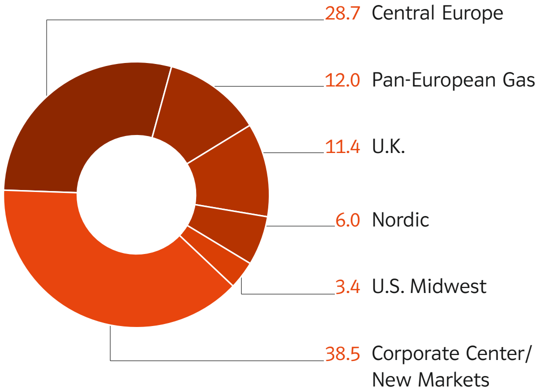
We also aim to grow by entering new markets and by acquiring shareholdings through the privatization of state-owned energy companies. We successfully entered Russia's attractive electricity market by acquiring OGK-4, a power producer. We're examining privatization opportunities in, for example, Southeastern Europe and Turkey.

Climate Protection

Our climate-protection target is to halve our specific CO_2 emissions by 2030 compared with 1990 levels by deploying new technologies (such as carbon capture and storage in conventional power plants) and by expanding our renewable-source generating capacity.

Economic Value of Planned Investments (2008–2010)[1]

Percentages — Total: €49.9 billion



[1]Cash-effective capital investments plus debt acquired, long-term rental and lease obligations, and asset swaps.

Our investment plan shows that we're implementing the growth program we announced in May 2007. Our investments in organic and external growth will serve to cement and systematically enlarge our strong market positions in power and gas. The E.ON Group's medium-term plan for the period 2008–2010 contains investments totaling €49.9 billion, 27 percent of which are earmarked for maintaining our existing business and 73 percent for growth.

The plan reflects our reporting structure for the 2007 financial year (see the E.ON Corporate Profile on the inside front cover of this report). Investments in new markets are shown in the Corporate Center/New Markets segment. The new Climate & Renewables market unit, which will be responsible for our renewables business, began operations on January 1, 2008. For the purposes of this report, renewables investments are allocated to the market units under the reporting structure in effect in 2007.

Central Europe plans to invest €14.3 billion between 2008 and 2010, mainly in the construction and modernization of power plants. Key components are the maintenance and expansion of our generation portfolio in Western Europe. In addition to our investments in coal-fired power plants in

Germany, we plan to build a coal-fired power plant in the Netherlands (Maasvlakte) and another in Belgium (Antwerp). Two additional combined-cycle gas turbines ("CCGTs") will be built at Irsching power station. Central Europe is also planning to build a number of coal-fired and gas-fired power plants in Eastern Europe, including Slovakia (Malzenice) and Hungary (Gönyü). Another focus will be on the expansion of Central Europe's renewable-source generating capacity and investments in its power and gas networks, of which the largest single investment will be for the infrastructure necessary to connect offshore wind turbines to the transmission system.

Pan-European Gas plans to invest €6 billion, mainly in its gas production portfolio. Investments in transport and storage infrastructure are also planned in order to make gas procurement more flexible and to ensure supply security.

U.K. plans to invest a total of about €5.7 billion. One focus will be on renewing its generation fleet by building a highly efficient coal-fired power plant and two gas-fired combined heat and power ("CHP") plants. U.K. also plans to increase its renewable-source power and heat generating capacity, particularly in wind power. Investments are likewise earmarked for the modernization of the distribution system.

Nordic plans to invest €3 billion, mainly to update its electric distribution network in Sweden and to update, expand, and enhance the performance of its generation portfolio. Among these projects is the completion of the CHP plant under construction in Malmö.

U.S. Midwest's planned investments of €1.7 billion include environmental protection measures at existing power plants and improvements to power and gas networks. The completion of Trimble County 2, a coal-fired generating unit, is the largest single project.

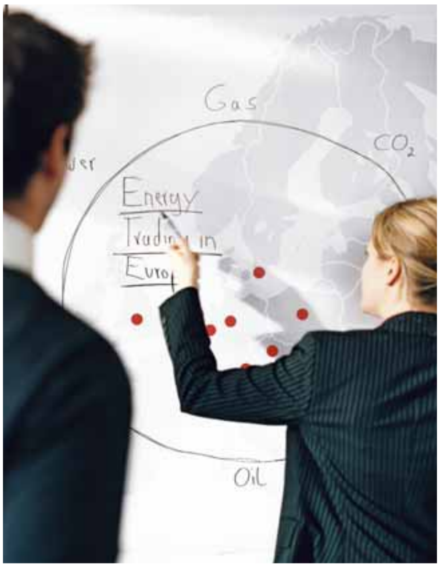
Our investment plan also includes the planned acquisition of assets in France, Italy, and Spain under the agreement we reached with Enel and Acciona as well as other growth investments in new markets.

+++ Market-Oriented Organization +++

European energy markets are changing rapidly. We're changing with them. We've adjusted our organizational structure for three key business areas—energy trading, renewables, and the construction of conventional power plants—to make them more focused, integrated, and market-oriented.

The move to Düsseldorf signals that E.ON is entering the future of European energy trading.

We've created a new market unit that pools our trading expertise from regional locations across Europe.



One market, one team

E.ON combines its European energy-trading operations.
With E.ON Energy Trading, we've created a single, strategically focused company that brings together all of our European energy-trading operations. The new company began to move into its state-of-the-art, red-glass-and-steel headquarters in Düsseldorf in January 2008.

A single company is the right organization for the future of European energy trading. And the future is now. Our energy traders already work across national borders in all key commodities: coal, gas, electricity, oil, and emission allowances. They think, plan, and act on a European scale to seize the new earnings and growth opportunities created by the integration of Europe's energy markets. By adjusting the structure of our trading business, we've forged an organization that can continue to generate significant value going forward. And become one of Europe's leading energy trading companies.

The creation of E.ON Energy Trading will enable us to combine our presence along the entire value chain with our deep market expertise to leverage synergies and achieve additional growth.

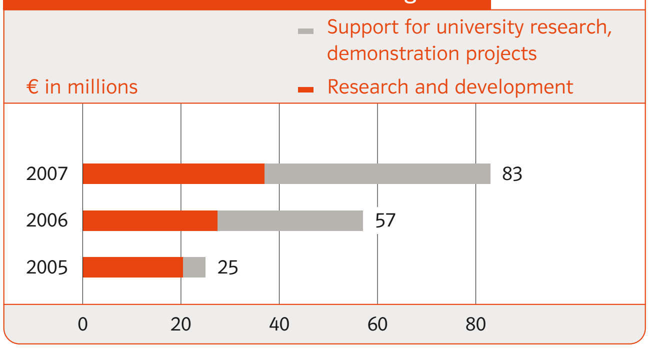
Securing tomorrow's supply of energy has never been more important than it is today. To make sustainable energy a reality and at the same time to provide E.ON with a technological platform for sustainable business success, we research, develop, and use new technologies. This gives us a competitive advantage and makes us an even more attractive employer for top engineers. We're finding solutions to tomorrow's energy challenges and living up to our commitment to corporate responsibility.

E.ON experts review our large portfolio of research projects along the entire value chain and identify promising technologies with economic potential. Key technologies receive targeted investment to refine them further. Such technologies must meet sustainability criteria and offer sufficient economic potential. We've pooled these technologies into innovate.on, our groupwide research initiative, and are actively involved in a number of projects. Our broad international presence enables us to develop technologies at locations where the conditions are particularly favorable.

Investments

E.ON has significantly increased its investments in new technologies in recent years to meet the growing demand for technical solutions. The increases primarily reflect higher investments in large-scale demonstration projects in which key technologies are refined for commercial use. We've also increased our financial support for basic research at universities in order to further spur the development of new ideas and approaches and to establish closer relationships with next-generation engineers and researchers in the energy sciences.

E.ON's Investments in New Technologies

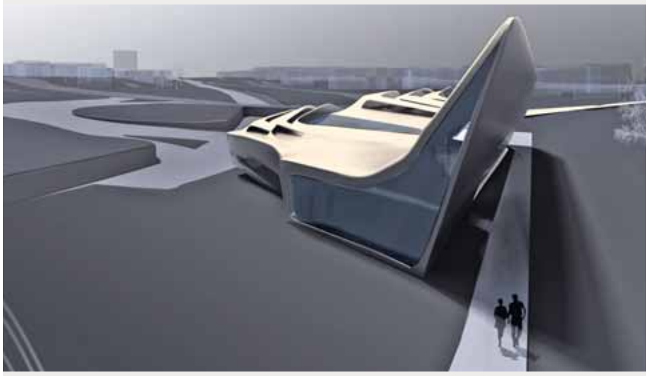


Key Projects in 2007

Universities and Research Institutes

E.ON and RWTH Aachen University entered into a partnership in 2006 to found the E.ON Energy Research Center ("ERC") on the RWTH campus. E.ON agreed to provide the ERC with €40 million in funding over ten years. In 2007, faculty and staff at four of the ERC's five institutes began holding classes and launched a number of projects. In addition to E.ON-funded research, the ERC will conduct research projects financed by other sources. The ERC's research budget for 2007 totaled €7.5 million, of which we contributed €2.5 million.

+++ Climate Protection +++ Security of Supply +++



E.ON supports research center.
The E.ON Energy Research Center, a partnership between E.ON and RWTH Aachen University, began operations in 2007. E.ON will fund the center with about €40 million over the next ten years. Energy efficiency and climate protection are central to E.ON's enhanced research and development effort.

In 2007, we solicited grant proposals for research into energy storage. The program is part of our international research initiative. With an annual grant fund totaling roughly €6 million, this is the first time E.ON has offered grants on this scale. In response, we received a large number of grant proposals from researchers at institutions in 11 countries. One focus is on storage solutions for renewable-source electricity, which is currently one of the central challenges facing the energy industry. In 2008, we'll solicit grant proposals on another research topic. Information about the 2008 grant program will be available at eon.com.

E.ON has partnered with other major corporations and the U.K. government to found the Energy Technology Institute ("ETI") to support energy research at a number of universities in central England. The ETI will receive about €1.4 billion in funding over the next ten years, €66 million of which will come from E.ON UK. Each pound of corporate funding will be matched by the U.K. government.

innovate.on

Our groupwide research initiative, innovate.on, has enabled us to reach important milestones in the development of key technologies.

We've chosen Wilhelmshaven in northwest Germany as the site for the world's first coal-fired power plant to have a thermal efficiency of more than 50 percent. The plant will have an installed generating capacity of 500 MW. A number of related research projects were conducted in 2007, primarily to test the new materials necessary to withstand steam temperatures of 700 degrees Centigrade (nearly 1,300 degrees Fahrenheit).

Carbon capture and storage ("CCS") has the potential to significantly reduce the CO_2 emissions of fossil-fuel-fired generation. We're currently looking at three carbon-capture technologies (pre-combustion, post-combustion, and oxyfuel). In the United States, we're part of the FutureGen Alliance which is developing the world's first commercial-scale coal-fired power plant that will capture and permanently store CO_2 deep beneath the earth. All methods of carbon capture consume energy, making power generation less efficient. FutureGen will use pre-combustion carbon capture, which requires less energy than other methods.

Post-combustion capture, in which CO_2 is extracted from flue gas using various solvents, requires comparatively more energy but offers an important advantage: power plants could be retrofitted with this technology. In partnership with Alstom, a French manufacturer of power generation equipment, we're testing a new capture process in a pilot unit at Karlshamn power station in Sweden. The process, which uses chilled ammonia, promises to be less energy intensive. The Alstom test unit, with 5 MW of thermal capacity, begins operational trials at Karlshamn in 2008. If the test results are positive, the efficiency gains would result in the conservation of significant amounts of fuel.

Security of Supply +++ Climate Protection +++ Growth

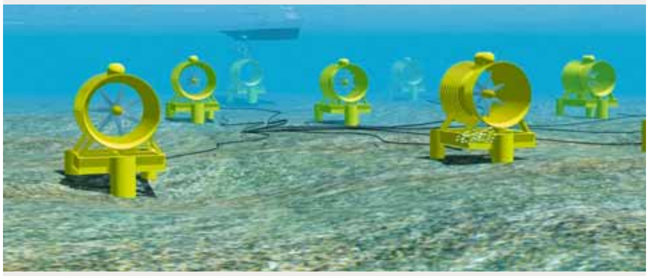
E.ON to build a next-generation coal-fired power plant in Wilhelmshaven.
E.ON will invest about €1 billion to build the world's first coal-fired power plant with a thermal efficiency of more than 50 percent. The plant, part of our innovate.on research initiative, will be located in Wilhelmshaven in northwest Germany, have 500 MW of capacity, and enter service in 2014. Less carbon intensive than today's coal-fired plants, our Wilhelmshaven facility will help enhance security of supply while protecting the earth's climate.

In oxyfuel combustion, coal or natural gas is burned in pure oxygen instead of air, as in today's generating units. Compared with other methods of carbon capture, oxyfuel combustion is at the earliest stage of development. In 2007, we began testing a 1 MW oxyfuel pilot unit at Ratcliffe power station in England. The purpose of the tests is to learn more about combustion processes under these special conditions.

In 2007, we took an important step forward with the construction of two facilities that upgrade biogas to pipeline quality. The facilities, in Ketzin and Schwandorf, Germany, have tested a process called pressure swing absorption that can be used to upgrade biogas (which is about 50 percent methane) to the same quality as natural gas (which is more than 95 percent methane). Upgraded biogas can then be injected into the natural gas pipeline system. The advantage of upgrading biogas is that, after injection into the pipeline system, it can be used in the same energy-efficient applications that natural gas is. Most existing biogas operations use biogas on the site where it is produced in order to generate electricity and heat. Unfortunately, much energy is lost in many of these applications. First, biogas-fired generating units typically have a comparatively low thermal efficiency. Second, the units are often located in rural areas where much of the heat they produce is lost because there's no district-heating network nearby for it to be piped into. Upgrading biogas to pipeline quality makes it possible to avoid these drawbacks.

For several years now, a team of E.ON experts in the United Kingdom has been exploring the possibility of harnessing marine energy. The conditions off the U.K. coast are particularly favorable for this technology. In 2007, the team decided on the size and type of equipment to be tested. The turbines, which will be fixed to the seabed, will be capable capturing tidal-stream energy in both directions (flood and ebb). Plans call for the facility to enter service in 2011 and for its capacity to be gradually expanded to several megawatts.

+++ Climate Protection +++ Security of Supply +++



E.ON to harness marine energy.
To help protect the earth's climate, E.ON is doing more than reducing the carbon intensity of its conventional generation fleet. We're working to harness the clean energy of the ocean tides. E.ON UK is planning to build one of the world's largest tidal energy power plants. The plant, to be sited off the coast of Wales, would generate enough electricity to power 5,000 homes.

Germany's first offshore wind farm, alpha ventus, took an important step closer to becoming a reality with the purchase of six wind turbines with an aggregate capacity of 30 MW. In Germany, wind farms must be sited further out to sea. This creates significant technical challenges: alpha ventus, a joint project of E.ON and two other energy companies, will be sited in the North Sea 45 kilometers (28 miles) offshore in 30 meters (100 feet) of water. This facility, an example of cutting-edge engineering, is scheduled to enter service in 2008.

Renewables have an enormous, as-yet-untapped potential in numerous applications. In 2007, we began laboratory and field tests on natural gas heat pumps from a variety of manufacturers and worked with the manufacturers to further improve the pumps' performance. Natural gas heat pumps are space-heating devices that draw 25 percent of the heat they produce from a renewable source (the heat contained in the air outside the home or building being heated), resulting in lower heating costs.

Disclosure of Takeover Barriers and Explanatory Report of the Board of Management

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

Composition of Share Capital

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

Restrictions on Voting Rights or the Transfer of Shares

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

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

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

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

The Supervisory Board shall appoint members to the Board of Management for a term not exceeding five years; a member may be appointed for another term of office or the term of office of a member may be extended for an additional term not exceeding five years; appointment requires at least two thirds of the votes of Supervisory Board members. If two or more persons are appointed as members of the Board of Management, the Supervisory Board may appoint one of the members as Chairperson of the Board of Management. If a Board of Management member is absent, in the event of an urgent matter, the court shall make the necessary appointment upon petition by a concerned party. The Supervisory Board may revoke the appointment of a member of the Board of Management and the Chairperson of the Board of Management for serious cause (for further details, see Sections 84 and 85 of the German Stock Corporation Act and Sections 31 and 33 of the German Codetermination Act of 1976).

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

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

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

Pursuant to a resolution of the Shareholders Meeting of May 3, 2007, the Board of Management is authorized, until November 3, 2008, to acquire own shares up to a total of ten percent of the share capital. The shares acquired and other own shares that are in possession of or to be attributed to the Company pursuant to Sections 71a et seq. of the German Stock Corporation Act must altogether at no point account for more than ten percent of the share capital. The resolution, which is published on the Company's Website, contains standard provisions regarding how shares may be acquired and how acquired shares may be used, including the authorization to cancel them.

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

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

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

The ministerial approval of the German Federal Minister of Economics and Technology dated July 5/August 18, 2002, on the proposed mergers of E.ON/Gelsenberg and E.ON/ Bergemann contains the following condition: at the direction of the Federal Ministry of Economics and Technology, E.ON must sell all shares in Ruhrgas AG held by it or affiliated companies to a third party if another company acquires a voting-rights or share-capital majority in E.ON and the acquirer gives reasonable cause for concern that the Federal Republic of Germany's energy policy interests will be negatively affected. The acquirer of Ruhrgas shares requires the prior approval of the Federal Ministry of Economics and Technology; such prior approval may be denied only if the acquirer gives reasonable cause for concern that the Federal Republic of Germany's energy policy interests will be negatively affected. This obligation is valid for a period of ten years after the mergers' consummation.

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

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

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

Explanatory Report of the Board of Management on the Disclosures Pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4 of the German Commercial Code

The Board of Management has read and discussed the disclosures pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4 of the German Commercial Code contained in the Combined Group Management Report for the year ended December 31, 2007, and issues the following declaration regarding these disclosures:

The disclosures pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4 of the German Commercial Code contained in the Company's Combined Group Management Report are correct and conform with the Board of Management's knowledge. The Board of Management therefore confines itself to the following statements:

Beyond the disclosures contained in the Combined Group Management Report (and legal restrictions such as the exclusion of voting rights pursuant to Section 136 of the German Stock Corporation Act), the Board of Management is not aware of any restrictions regarding voting rights or the transfer of shares. The Company is not aware of shareholdings in the Company's share capital exceeding ten out of one hundred voting rights, so that information on such shareholdings is not necessary. There is no need to describe shares with special control rights (since no such shares have been issued) or special restrictions on the control rights of employees shareholdings (since employees who hold shares in the Company's share capital exercise their control rights directly, just like other shareholders).

With regard to the Board of Management's power to issue or buy back shares, the Board of Management intends to ask the 2008 Annual Shareholders Meeting to issue it a new authorization to acquire own shares.

To the extent that the Company has agreed to settlement payments for Board of Management members in the case of a change of control, the purpose of such agreements is to preserve the independence of Board of Management members.

Düsseldorf, February 2008

E.ON AG
Board of Management

Central Europe Market Unit

→ Adjusted EBIT surpasses prior-year figure
→ europe.on project key theme in 2007
→ regi.on project launched

Central Europe			
€ in millions	2007	2006	+/- %
Sales	32,029	27,197	+18
Adjusted EBITDA	6,222	5,747	+8
Adjusted EBIT	4,670	4,235	+10
ROCE (in %)	24.7	21.4	+3.3[1]
Cost of capital (in %)	9.3	9.0	+0.3[1]
Value added	2,917	2,457	+19
Cash provided by operating activities	3,811	3,802	-
Investments	2,581	2,279	+13
Employees (at year end)	44,051	43,546	+1

[1]Change in percentage points.

europe.on

E.ON launched a restructuring project in 2006 called europe.on in order to better seize growth opportunities created by the integration of European energy markets. As part of this project, E.ON optimized its existing regional market structures in Europe and created new functionally oriented (as opposed to geographically oriented) units that will pool knowledge from across the organization and manage their business on a European and, in some cases, global scale. This groupwide project affects a number of activities at the Central Europe market unit.

- Central Europe's energy-trading operations (power, gas, coal, oil, and CO_2 emission allowances) at E.ON Sales & Trading ("EST") and E.ON Benelux will be transferred to the new Energy Trading market unit. EST's wholesale and marketing operations will remain part of the Central Europe market unit.

- A New Build unit ("NBU") will be formed at Central Europe to manage the expansion of E.ON's diversified and climate-friendly generation portfolio. The NBU will be part of E.ON Kraftwerke ("EKW") and be responsible for the planning and construction of all of E.ON's new conventional power plants in Europe, ensuring that these projects are even more closely tailored to the conditions on the European market. In addition, all of E.ON's engineering expertise will in the future be combined in E.ON Engineering, E.ON's groupwide engineering arm which is part of the Central Europe market unit.

- A competence center for conventional generation will be established at EKW, one for nuclear generation at E.ON Kernkraft ("EKK"), and one for hydroelectricity at the Nordic market unit. The purpose of the groupwide competence centers is to promote process optimization and the implementation of best practices across the entire organization.

- With the exception of hydroelectricity, E.ON's renewables operations will be managed by the new Climate & Renewables market unit.

- To establish a consistent organization for its gas-storage activities, E.ON will create a new subsidiary to be managed by E.ON Ruhrgas.

- All of Central Europe's operating activities in Italy, with the exception of trading activities, will be transferred to the new Italy market unit.

The new organizational structure will enable Central Europe to share its expertise—particularly in power generation—across the E.ON Group and continue to seize growth opportunities in Central Europe. The project is being implemented, and the new companies and organizational units will begin operations, in 2008.

regi.on

Central Europe also launched a project called regi.on in 2007. Its purpose is to restructure our regional distribution companies ("RDCs") in Germany in order to adapt their organizational structure to the new requirements of their customers, market, and regulatory environment. Central Europe will continue to take a decentralized, regional approach that stresses strong relationships with local business partners. Nevertheless, regi.on will lead to important changes at all key links of the RDCs' value chain (network, marketing, shared services):

- A new marketing management arm will be created to coordinate and conduct strategic planning for power and gas marketing across Germany. The operational side of the marketing business will continue to be managed on a regional basis.

- The network companies will be reintegrated into the RDCs. Within each RDC, the network company and network operations will be made organizationally separate from technical network services functions.

- The RDCs' metering, billing, receivables management, and customer service functions will be combined in two regional shared services companies.

Plans call for the new organizational structure to be implemented in 2008.

Energy Price Discussion in Germany

Higher energy prices have led to an intense and at times highly emotional public debate in Germany. Increasingly, the debate is finding resonance with the media, consumer protection organizations, antitrust authorities, and policymakers. Some people have accused energy companies of price fixing and market manipulation. The tone of the debate worsened when many energy companies announced price increases for power and gas service. Central Europe's RDCs in Germany raised their prices effective January 1, 2008.

The Central Europe market unit denies completely any and all accusations regarding allegedly unjustified or inexplicable price increases, abuse of market power, price fixing, and market manipulation.

Central Europe West

In February 2007, the Central Europe market unit became a pacesetter for power and gas retail competition in Germany by creating a new retail subsidiary called E WIE EINFACH ("E as in Easy": "EWI"). EWI began marketing power and gas services to residential and small-business customers across Germany on April 1, 2007. By the end of the year, EWI already had more than 450,000 customer accounts. EWI is currently the only gas retailer to offer residential and small-business customers nationwide an alternative to their incumbent supplier. By creating EWI, Central Europe is successfully putting into practice its commitment to energy-market competition in Germany.

E.ON Energie AG's stake in E.ON IS was transferred to E.ON effective December 31, 2007. E.ON IS is the E.ON Group's IT service provider and a leading full-service provider for the European energy industry.

BKB was transferred from EWK to E.ON Energie AG effective October 1, 2007. BKB is now a wholly owned subsidiary of E.ON Energie AG. Reorganization of BKB is planned for 2008. BKB's lignite-fired power generation business will be transferred to EKW. Waste incineration is now BKB's core business.

Central Europe East

The E.ON Czech Group ("E.ON Czech") strengthened its competitive position in the Czech natural gas market through an asset swap with RWE in 2006 and through the purchase of shares in Jihočeská plynárenská ("JČP") from Oberösterreichische Ferngas. Following the takeover offer and the squeeze-out process, E.ON Czech became JČP's sole shareholder in late January 2007. JČP's operating entities were merged into E.ON Czech's network, marketing, and service companies effective January 1, 2007. The integration of JČP enables E.ON Czech to offer customers both power and natural gas along with related services.

Central Europe created a Slovakian stock corporation called E.ON Slovensko a.s. on September 22, 2007. With an organizational structure similar to those in other Eastern European countries, it will serve as the holding company for Central Europe's interests in Slovakia.

The European Bank for Reconstruction and Development ("EBRD") acquired a 9.8-percent stake in E.ON Energie România ("EER"), the holding company for Central Europe's interests in Romania, on October 11, 2007. The purpose, as previously in Bulgaria and Slovakia, is to help shield the business from political and regulatory risks. In contrast to the loan model used by the EBRD for its interest in E.ON companies in Bulgaria and Slovakia, the EBRD used an equity model for its interest in EER. Central Europe transferred its shares in E.ON Moldova, a regional electricity distributor, to EER prior to the transaction with the EBRD. Following the completion of legal unbundling, EER holds 51 percent of E.ON Moldova Distributie (its network subsidiary) and 51 percent of E.ON Moldova Furnizare (its marketing subsidiary). The EBRD has an indirect stake of 5 percent in both companies.

ZEUS, which stands for Central European synergies, is a program launched in 2005 to harmonize processes among our subsidiaries in the Czech Republic, Slovakia, Hungary, Romania, and Bulgaria. ZEUS is now in the implementation phase. In 2007, E.ON Czech became the first company in the ZEUS project to adopt the new organizational architecture for its finance, accounting, controlling, procurement, and logistics departments and implement the necessary IT infrastructure. New organizational architectures will be rolled out by 2010 at all companies involved in ZEUS. The collaboration of the five Eastern European subsidiaries is expected to result in lasting savings through, for example, joint tenders for bids and lower operating expenditures. Harmonized processes and a shared IT landscape will serve as the basis for business performance management, which will yield further efficiency gains.

Companies in Central Europe East completed implementation of the legal unbundling of their power and gas network and marketing operations in compliance with EU directives: in Bulgaria effective January 1, in the Czech Republic effective April 1 for the gas business (the electricity business effective January 1, 2006), in Romania effective April 6, and in Hungary and Slovakia effective July 1, 2007. Legal unbundling of network and marketing operations encompasses the separation of a wide variety of functions including accounting, controlling, information processes, organization, and non-discrimination management.

E.ON Sales & Trading ("EST"): from Power Plant Dispatch to Key Account Sales

In 2007, EST served as Central Europe's wholesale power subsidiary, combining power trading and power sales to large customers. EST works closely with Central Europe's national subsidiaries and the other E.ON market units throughout Europe. It also coordinates the dispatch of Central Europe's generation portfolio and offers system services to network and power plant operators. EST is also responsible for optimizing emission-allowance trading for the entire market unit.

EST's power sales business developed successfully in 2007. By offering innovative products and energy solutions, EST cemented its strong position in Germany and, despite an often difficult operating environment, expanded its operations in neighboring European markets.

Power Trading Volume

Billion kWh	2007	2006	+/- %
Sales	153.7	201.6	-24
Purchases	210.3	222.8	-6
Total	**364.0**	**424.4**	**-14**

EST's power-trading operation makes a key contribution to optimizing the dispatch of Central Europe's generation portfolio and ensuring that it meets electricity needs across Continental Europe. EST traded about 364 billion kWh of electricity in 2007. It traded actively on all major power exchanges in Continental Europe. EST focused its trading operations on Germany, Austria, the Benelux countries, and France. Other important markets included southern and eastern European countries, where EST contributed to the procurement operations of Central Europe's national subsidiaries by systematically utilizing all available power procurement options: intraregional power imports and exports and bilateral transactions within the individual countries.

Generation Portfolio

In 2007, Central Europe's nuclear portfolio again operated safely and reliably, achieving an average availability of 85.6 percent and generating a total of 63 billion kWh of electricity. The average availability of nuclear power stations operated by EKK and of nuclear power stations in which EKK has an ownership interest declined compared with 2006. The main reasons for the decline were unscheduled outages at Krümmel and Brunsbüttel (jointly owned nuclear power stations that are operated by Vattenfall Europe Nuclear Energy) and a major scheduled overhaul at Unterweser nuclear power station. We expect Krümmel and Brunsbüttel to return to service in 2008.

Central Europe owns and operates 87 hydroelectric plants and operates an additional 45, providing an economically priced and environmentally friendly source of electricity. Generation at run-of-river and pumped-storage plants and at renewable-source generating facilities such as biomass and wind-power plants totaled roughly 9 billion kWh in 2007.

In Germany, Central Europe owns and operates coal-, gas-, and oil-fired generating facilities which together produced some 63 billion kWh of electricity in 2007—enough to meet about 10 percent of the country's electricity needs. This ranks EKW among Germany's biggest conventional generators.

It's estimated that over the next 15 years Germany will need to replace up to 40,000 MW of generating capacity. Sizeable replacement investments will also be necessary in other European countries. We are currently evaluating the consequences that Germany's National Allocation Plan for phase two of the EU Emissions Trading Scheme could have on power plant replacement. The need to purchase more CO_2 emission allowances could render older generating facilities uneconomical at an earlier date. On the other hand, extending the operating lives of Germany's nuclear power stations would reduce the need to replace older facilities. Over the next three years, Central Europe plans to invest about €6.3 billion in its generation fleet.

Central Europe is currently carrying out a number of power plant projects. Datteln 4, a new coal-fired unit with a nameplate electric generating capacity of 1,100 MW, is under construction at Datteln power station. It will produce electricity and district heat and replace and enlarge Datteln's existing generating capacity. The new unit 4 at Irsching power station is the world's most powerful gas turbine. Following successful operational tests, it will be expanded into a combined-cycle gas turbine ("CCGT") with an electric generating capacity of 530 MW. Datteln 4 and Irsching 4 are both scheduled to enter service in 2011. Irsching 5, an 845 MW CCGT also currently under construction, will become operational in 2009. Central Europe intends to enter the Italian generation market by constructing an 800 MW CCGT in Livorno Ferraris. The unit, which will be completed in 2008, will be managed by the new Italy market unit. A new coal-fired unit with a nameplate electric generating capacity of 1,100 MW is planned for Maasvlakte power station located in the harbor area of Rotterdam. The unit is expected to enter service in 2012. Also in planning is a new coal-fired unit with a nameplate electric generating capacity of 1,100 MW to be built at Staudinger power station.

A key component of Central Europe's long-term generation strategy is to maintain and expand its baseload capacity. Consequently, in 2007 the company pushed forward with its plans to build two more coal-fired generating units. One, to be built in Wilhelmshaven in northwest Germany, is a 550 MW coal-fired unit with a record-setting thermal efficiency of more than 50 percent. The other is a 1,100 MW coal-fired unit to be built in Antwerp, Belgium. The latter is identical in design to the Maasvlakte, Staudinger, and Datteln coal-fired units, which will serve to reduce construction costs.

Attributable Generation Capacity

	December 31	
Megawatts	2007	2006
Nuclear	8,548	8,473
Lignite	1,314	1,315
Hard coal	7,466	7,461
Natural gas	4,219	4,121
Oil	1,145	1,153
Hydro	3,153	3,113
Other	406	367
In Germany	**26,251**	**26,003**
Hard coal	1,099	1,085
Natural gas	1,039	997
Other	90	87
Outside Germany	**2,228**	**2,169**
Total	**28,479**	**28,172**

Central Europe plans to expand its generation portfolio in Central Europe East, as well, in order to back its strong position in power distribution with its own generation assets. Central Europe, which currently supplies about 44.5 billion kWh of electricity in Central Europe East but only generates about 1 billion kWh there, is committed to having a generation portfolio diversified by geography and fuel. In planning are a 400 MW CCGT in Hungary (Gönyü) and a 400 MW CCGT in Slovakia (Malzenice). Both are scheduled to enter service in 2010. Central Europe is also studying whether to become involved in a project to build and operate a nuclear power station in Belene, Bulgaria, and hard-coal-fired and CHP units in Romania.

Electricity Network

E.ON Netz, which owns and operates Central Europe's electric transmission system in Germany, is responsible for planning, constructing, maintaining, and operating this infrastructure. More than 260 electricity traders used Central Europe's wires network as an energy pathway in 2007. The system's peak load was 20,671 MW, 2.4 percent above the prior-year figure.

At more than 140,000 square kilometers, E.ON Netz's service territory covers more than one third of Germany and extends from the North Sea to the Alps. Its wires network is approximately 32,500 circuit-kilometers in length.

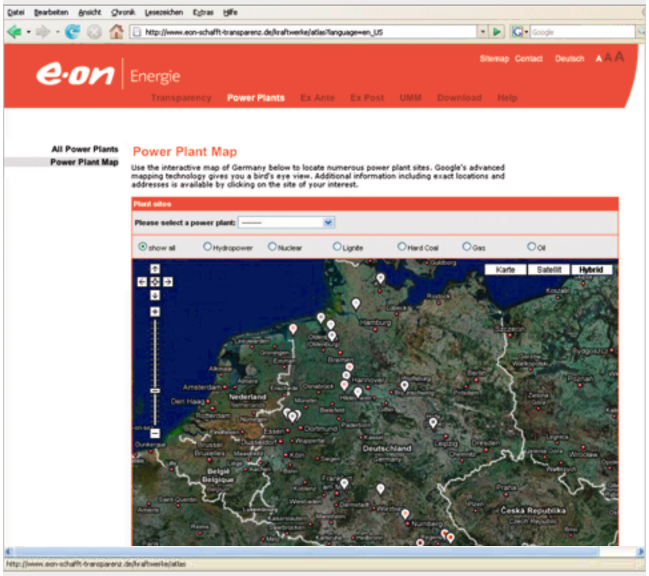
Overall, Central Europe's electricity networks were again extremely reliable in 2007.

Kyrill, a low-pressure system with hurricane-force winds, damaged large sections of the network on January 18–19, 2007. There were no outages in E.ON Netz's ultrahigh-voltage system. About 750,000 customers of Central Europe's distribution system operators experienced short power outages. By the evening of January 19, only about 100,000 customers were still without power. Service was restored to all customers by the evening of January 20.

The loads placed on the electricity network by power trading and wheeling have increased continually in recent years and will increase further in the future. The higher loads result in part from the increasing amount of wind power delivered onto the system. Going forward, this amount will increase further as offshore wind farms come online, creating an even greater need for interregional electricity movements. As studies by the German Energy Agency demonstrate, the electricity network will have to be expanded to handle these demands. Many network expansion projects are already in the approval phase.

A key component of E.ON's competition initiative is to expand Germany's cross-border power infrastructure in order to improve power transfer with its neighbors (such as the Benelux countries and Austria) and to eliminate bottlenecks.

+++ Competition +++



E.ON enhances transparency in the generation business. E.ON was the first power producer in Germany to publish comprehensive information about the availability of its conventional generation portfolio: for each individual generating unit, for each day, 365 days in advance. The level of detail at www.eon-schafft-transparenz.de makes it easier for power traders and wholesalers to analyze the emerging supply and demand situation and forecast prices with greater precision. The Website is in German and English. E.ON's transparency initiative is helping pave the way for Europe to have a truly competitive electricity market.

Power and Gas Sales

Central Europe grew power sales by 45.5 billion kWh to 313.7 billion kWh. The increase is mainly attributable to higher deliveries onto Central Europe's network of electricity pursuant to Germany's Renewable Energy Law and to higher volumes sold to sales and trading partners. Furthermore, results include the sales volume of Italy's Dalmine for all twelve months compared with only one month in the previous year.

Power Sales by Customer Segment[1]

Billion kWh	2007	2006	+/- %
Residential and small commercial	44.1	45.3	-3
Industrial and large commercial	83.7	77.2	+8
Sales partners	185.9	145.7	+28
Power sales	**313.7**	**268.2**	**+17**

[1]Excludes trading operations, which are recognized net under IFRS.

The decline in gas sales volumes is attributable to the unseasonably warm weather across many parts of Europe in the winter and spring months. Although the inclusion of newly consolidated companies, mainly JČP of the Czech Republic (since September 2006) and Dalmine of Italy, had a positive effect on gas sales volumes, overall Central Europe sold 2 percent less natural gas than in the prior year.

Gas Sales by Customer Segment

Billion kWh	2007	2006	+/- %
Residential and small commercial	39.2	44.6	-12
Large industrial and commercial	59.5	53.2	+12
Sales partners	27.5	30.7	-10
Gas sales	**126.2**	**128.5**	**-2**

Power Generation and Procurement

Central Europe utilized its flexible mix of generation assets to meet about 41 percent of its electricity requirements, compared with 47 percent in the prior year. It procured 46.7 billion kWh more electricity from outside sources than in the prior year. This increase, and the corresponding decline in the share of owned generation, are due to the feed-in of more electricity under Germany's Renewable Energy Law and an increase in trading activities. The above-mentioned consolidation effects also served to increase the amount of electricity procured from outside sources.

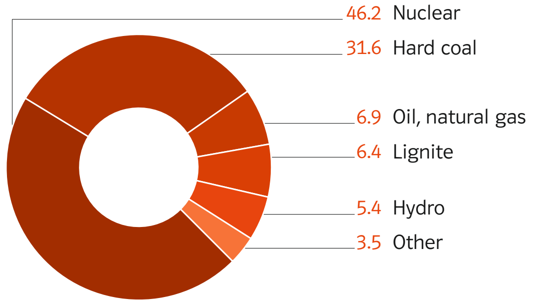
Power Procurement[1]

Billion kWh	2007	2006	+/- %
Owned generation	134.6	131.3	+3
Purchases	192.6	149.9	+28
from jointly owned power plants	*8.3*	*12.3*	*-33*
from outside sources	*184.3*	*137.6*	*+34*
Power procured	**327.2**	**281.2**	**+16**
Station use, line loss, pumped-storage hydro	-13.5	-13.0	-
Power sales	**313.7**	**268.2**	**+17**

[1]Excludes trading operations, which are recognized net under IFRS.

Sources of Owned Generation

Percentages



Sales and Earnings Development

Central Europe grew sales by about €4.8 billion relative to the prior year. Adjusted EBIT exceeded the prior-year figure by €435 million, with Central Europe's businesses developing as follows:

Financial Highlights by Business

	Central Europe West				Central Europe East		Other/Consolidation		Central Europe	
	Power		Gas							
€ in millions	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Sales[1]	23,293	18,829	3,676	4,368	4,087	3,469	973	531	32,029	27,197
Adjusted EBITDA	5,102	4,596	419	496	597	498	104	157	6,222	5,747
Adjusted EBIT	4,145	3,636	200	270	361	266	-36	63	4,670	4,235

[1]Trading operations are recognized net.

Pan-European Gas Market Unit

- Adjusted EBIT up 10 percent
- Europe's natural gas supply secured for long term
- Climate-protection initiative launched

Pan-European Gas € in millions	2007	2006	+/- %
Sales	22,745	22,947	-1
Adjusted EBITDA	3,176	3,092	+3
Adjusted EBIT	2,576	2,347	+10
ROCE (in %)	15.0	14.8	+0.2[1]
Cost of capital (in %)	8.8	8.2	+0.6[1]
Value added	1,062	1,046	+2
Cash provided by operating activities	3,041	604	+403
Investments	2,424	882	+175
Employees (at year end)	12,214	12,417	-2

[1]Change in percentage points.

Contributions to Security of Supply

Pan-European Gas implemented a number of projects in 2007 aimed at securing Europe's supply of natural gas for the long term.

In June 2007, E.ON Ruhrgas became involved in a joint venture to plan Skanled, a new pipeline to transport natural gas from western Norway to southeastern Norway, Sweden, and Denmark. With a 15-percent stake, E.ON Ruhrgas is one of the biggest partners in the project, which includes a total of ten companies from Norway, Sweden, Denmark, Germany, and Poland. A decision on the project will be made by the end of 2009. If Skanled goes forward, it will have a capacity of about 7 billion cubic meters ("bcm") per year, cost about €900 million to build, and become operational by 2012 at the latest.

In November 2007, E.ON Ruhrgas concluded a long-term agreement to lease and develop underground caverns in Etzel, Germany, as a natural gas storage facility. The facility, which will have a working gas capacity of up to 2.5 bcm, is due to enter service in stages beginning in 2011. Underground storage facilities provide a way to adjust the procurement of natural gas from producer countries (which takes place at about the same rate throughout the year) and the supply of gas to customers (which is subject to significant seasonal fluctuations).

On October 1, 2007, the third expansion phase of the Interconnector, a submarine gas pipeline from Zeebrugge (Belgium) to Bacton (United Kingdom), became operational, increasing the pipeline's capacity by 2 bcm to 25.5 bcm per year. E.ON Ruhrgas has a roughly 24-percent stake in the Interconnector.

New Biomethane Company Founded

In February 2007, E.ON Ruhrgas founded a Germany-based company, E.ON Bioerdgas, that will focus on the production and use of biomethane, also known as renewable natural gas and pipeline-quality biogas. The new company's mission will be to realize biogas's full economic and environmental potential. Biomethane has the same broad range of applications as natural gas. It can be used as a fuel for electric generation or space heating and has already been used successfully as an alternative vehicle fuel. Biomethane is significantly more efficient than any other biofuel, including ethanol. Because it is carbon neutral, energy derived from biomass helps protect the earth's climate.

Before it can be injected into the natural gas pipeline system, biogas must be upgraded to biomethane by removing carbon dioxide. E.ON's Schwandorf biomethane production facility—the first in Germany—became operational at the start of 2008. It ranks among the largest facilities that can be built using today's technology. We have other facilities in planning.

New Market Unit Structure

E.ON's new market unit structure, which took effect at the start of 2008, had a number of effects on Pan-European Gas. The E.ON Group will combine all its gas storage operations in Europe in a new unit at Pan-European Gas. Thüga's Italian business was transferred to the new Italy market unit, operations in France will be transferred to Central Europe's France business unit, E.ON Bioerdgas was transferred to the new Climate & Renewables market unit, and E.ON Ruhrgas's trading operations were transferred to the new Energy Trading market unit.

Preparations for Entering the LNG Business

In 2007, E.ON Ruhrgas continued its preparations to enter the liquefied natural gas ("LNG") business. In May, it booked about 1.7 bcm of annual regasification capacity at an LNG terminal on the Isle of Grain in the United Kingdom. The agreement runs through 2029, with regular operations expected to begin in October 2010. The project has synergy potential, since E.ON Ruhrgas would be able to supply fuel to a gas-fired generating unit E.ON UK is building near the Isle of Grain terminal. The terminal's capacity is being expanded by roughly 6.7 bcm for an eventual total of roughly 20 bcm per year.

E.ON Ruhrgas is studying whether to build an LNG terminal in Wilhelmshaven, a port city in northwest Germany. In August 2007, E.ON Ruhrgas filed to make changes to its existing terminal construction permit. The process of selecting the building contractor, who will deliver the terminal turn-key ready, has been under way since September 2007. E.ON Ruhrgas also launched an open season in which market participants can declare their interest in booking capacity, ensuring that third parties will have non-discriminatory access to the planned terminal's capacity. If an investment decision is made in 2008, the Wilhelmshaven terminal could enter service during the 2011/2012 gas industry fiscal year.

To pave the way for the construction of an LNG terminal in Le Havre, France, in June 2007, E.ON Ruhrgas concluded an agreement in principle and acquired a 24.5-percent stake in Gaz de Normandie SAS, Paris, the company that will undertake the project. Plans call for the terminal to have a capacity of about 9 bcm per year, of which E.ON Ruhrgas's share would be 3 bcm per year. Following the completion of additional studies and planning, the terminal could enter service as early as 2011. The Le Havre terminal would simplify E.ON Ruhrgas's access to the French market.

E.ON Ruhrgas also made further progress with its plan, begun in 2006, to build an LNG terminal on the Croatian island of Krk. For this purpose, a consortium, which includes E.ON Ruhrgas, formed a Zagreb-based company called Adria LNG d.o.o. Plans call for the terminal to have an initial capacity of approximately 10 bcm per year and for this capacity later to be expanded to 15 bcm per year. Following the completion of additional studies and planning, the terminal could enter service in early 2012. The final decision on the construction of the terminal will be made in 2008.

E.ON Ruhrgas is holding intensive talks with possible suppliers in Africa and the Middle East in order to procure LNG for the planned terminal projects.

Pipeline System and Underground Storage Facilities

At year end 2007, E.ON Ruhrgas's pipeline system had a total length of 11,602 kilometers compared with 11,611 kilometers a year earlier. The total installed power of E.ON Ruhrgas's 28 compressor stations was unchanged at 908 megawatts. The working gas capacity of E.ON Ruhrgas's owned, jointly owned, project-company-owned, and leased underground storage facilities is approximately 5.2 bcm. The maximum withdrawal rate of these facilities is 5.8 million cubic meters ("mcm") per hour. Over the next several years, E.ON Ruhrgas will further expand its storage facilities in Bierwang, Epe, and Etzel, Germany. It is also studying new storage opportunities in Germany (Lower Saxony and Bavaria) and Austria.

Gas Release Program ("GRP") Continued

In 2002, E.ON Ruhrgas agreed to conduct a GRP which involves holding six annual auctions for a total of 200 billion kWh of the natural gas from its long-term import contracts. The GRP is part of the ministerial approval of E.ON's acquisition of Ruhrgas. E.ON Ruhrgas held the fifth GRP auction in 2007. Thirteen bidders were awarded a total of about 33 billion kWh of natural gas in the online auction. The transfer point is Waidhaus on the German-Czech border. The GRP has achieved its purpose of increasing liquidity and stimulating competition in Germany's gas market.

Climate-Protection Initiative Launched

In December 2007, E.ON Ruhrgas launched a climate-protection initiative in Germany. It will invest more than €200 million in the initiative from 2007 through 2012. The initiative has six focus areas:

- Advanced training for plumbing, heating, and air-conditioning technicians: E.ON Ruhrgas supports the advanced training programs offered by ZVSHK, a German plumbing and heating trade association, to technicians specializing in natural gas applications.

- Natural gas space heating and solar thermal: natural gas heat is already more efficient than oil heat. Adding solar thermal equipment to gas heating systems can reduce fuel consumption—and thus CO_2 emissions—by up to 40 percent.

- Natural gas for the environment: this is an existing communications platform through which gas companies and gas industry trade associations in Germany provide information about innovative gas heating applications.

- Natural gas heat pumps: E.ON Ruhrgas will work with equipment manufacturers and other gas companies to refine this new, green, and climate-friendly home heating technology and make it more price-competitive.

- Biomethane and vehicle fuels: biomethane is natural gas that has been upgraded to the same methane content as natural gas so that it can be injected into the gas pipeline system. When used as a vehicle fuel, biomethane can help reduce greenhouse-gas emissions in the transportation sector.

- Fuel cells: when gas-fired fuel cells become more affordable, they will offer a viable, near-zero-emission technology. Until hydrogen fuel cells are perfected, natural gas is the fuel cell technology of choice.

Natural Gas Production Higher

Natural gas production increased by 10 percent year on year to 795 mcm. The increase results from the fact that production in newly operational fields (Merganser from December 2006 and Minke from June 2007) and the beginning of gas production in the Njord field more than offset the natural production decline in other fields. Production of oil and condensates totaled about 5 million barrels, essentially unchanged from the prior year.

+++ Security of Supply +++ Growth +++

E.ON expands its natural gas production.
E.ON expanded its gas procurement portfolio by acquiring 28 percent of Skarv and Idun, natural gas fields that rank among Norway's largest and most attractive. E.ON's share of the fields' annual output is expected to average about 1.4 bcm for at least ten years and will make an important contribution to security of supply. E.ON also has a 30-percent stake in the Njord field in the Norwegian Sea, which has about 10 bcm of gas reserves.

Upstream Operations Strengthened

Pan-European Gas's objective is to procure 10 bcm of natural gas annually from its own production assets. In August 2007, we acquired 28 percent of Skarv and Idun, large gas fields located in the northern Norwegian Sea just below the arctic circle, moving us a great deal closer to our objective. The purchase price, including acquisition expenses, was €641 million. E.ON's share of the investments to develop the fields will come to approximately $1.4 billion. E.ON's stake in the fields' reserves amounts to 18.4 million standard cubic meters of oil equivalent. Along with other promising satellite fields, the area ranks among Norway's largest and most attractive undeveloped gas fields. Production is scheduled to begin in 2011. E.ON's share of the fields' annual output is expected to average about 1.4 bcm for at least ten years.

Exploration drilling conducted in 2007 in the Huntington Prospect in the U.K. North Sea was successful. In addition, an appraisal well was spudded; it will be used to determine more exactly the size of the discovery. E.ON Ruhrgas UK North Sea has a 25-percent stake in Huntington, which will be developed over the next three years. Exploration drilling in the North West Flank of the Njord field in the Norwegian North Sea also discovered reserves.

In 2007, E.ON Ruhrgas expanded its upstream operations to more countries. In late June, it signed an agreement to acquire a shareholding in Egypt, enabling it to enter one of North Africa's most significant natural gas regions. E.ON Ruhrgas is also exploring other projects in Africa and the Middle East.

Security of Supply

With competition for dwindling resources getting keener and energy consumption rising, securing tomorrow's energy supply has never been more important than it is today. We're doing our part by investing in new sources and pathways for natural gas, by spurring innovation, and by increasing our generating capacity in Europe by 50 percent over the next three years. We're investing €12 billion through 2010 in technologically advanced and climate-friendly power plants.

A pipeline to security of supply

E.ON is building Europe's largest biomethane production facility.
Schwandorf, a town of 28,000 in southeastern Germany, is surrounded by fertile soil where farmers grow rich crops of corn and wheat. That's what made it interesting to E.ON. We're going to use some of these crops as energy crops: biomass from which we'll produce biogas that will be upgraded to biomethane, which has the same quality as the natural gas used to heat homes and businesses. Biomethane is carbon neutral, so it helps protect the earth's climate. It also helps conserve fossil fuels and reduce Europe's dependence on imported energy sources.

By building a state-of-the-art biomethane facility, we're not only finding new uses for biogas but also helping secure Europe's energy supply. The Schwandorf plant will produce 1,000 cubic meters of biomethane per hour and inject it into the local pipeline system. That's enough gas to supply about 5,000 homes.

As competition for energy resources becomes increasingly intense, continuity and reliability are the keys to security of supply and climate protection. Biomethane is one of the ingredients in our diversified gas production portfolio. But we're also working on other ways to enhance security of supply. We're researching and developing the energy sources and technologies of tomorrow, from harnessing the energy of the seas to studying the potential of micro algae. Only a balanced energy mix can secure the supply of energy far into the future.

Studies show that biomethane could meet up to 10 percent of Germany's residential natural gas needs.

Russia and Norway Remain Key Suppliers

E.ON Ruhrgas's supply sources and their respective shares of total procurement changed only slightly compared with the previous year. E.ON Ruhrgas purchased about 698 billion kWh of natural gas from domestic and foreign producers in 2007, 3.5 percent less than in 2006. Russia and Norway were again the two biggest suppliers, accounting for 26 percent and 25 percent, respectively. E.ON Ruhrgas procured 17 percent from the Netherlands, 10 percent from the United Kingdom, and 3 percent from Denmark. It purchased 18 percent of its natural gas from producers in Germany.

Gas Purchases by Region[1]

Billion kWh	2007	%
Russia	178.0	25.5
Norway	174.7	25.0
Germany	127.1	18.2
Netherlands	120.3	17.2
United Kingdom	68.2	9.8
Denmark	20.8	3.0
Other	8.7	1.3

[1]Gas purchases of E.ON Ruhrgas AG; total: 697.8 billion kWh.

Sales Volume Unchanged

Pan-European Gas sold 713 billion kWh of natural gas in 2007, 3 billion kWh more than in 2006. Despite warm weather at the beginning of the year, Pan-European Gas achieved the slight increase thanks to the positive development of sales volumes outside Germany.

E.ON Ruhrgas AG Gas Sales

Billion kWh	2007	2006	+/- %
First quarter	213.4	266.3	-20
Second quarter	131.1	138.6	-5
Third quarter	137.2	111.2	+23
Fourth quarter	231.1	193.6	+19
Total	**712.8**	**709.7**	**-**

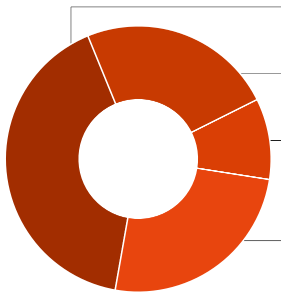
Volume Growth outside Germany Continues

E.ON Ruhrgas's sales in 14 countries outside Germany rose by 13 percent to 180 billion kWh and accounted for 25 percent of its total sales volume, an increase of 2 percentage points. E.ON Ruhrgas's most important market outside Germany was again the United Kingdom, where sales volumes grew by 19 percent to 93 billion kWh. Sales volumes in Denmark rose significantly. E.ON Ruhrgas acquired HNG/Midt-Nord, Denmark's second-biggest gas company, as a customer at the beginning of the year, making E.ON Ruhrgas the country's second-biggest gas supplier. There was also a large increase in exports to the Netherlands, and E.ON Ruhrgas concluded its first supply contract with a customer in Belgium. By contrast, E.ON Ruhrgas was unable to repeat its prior-year sales performance in a number of its long-standing foreign markets (Switzerland, Austria, Hungary, and Luxembourg).

E.ON Ruhrgas sold 3 percent less natural gas in Germany than in the prior year. As in previous years, regional gas companies constituted the largest customer segment, although this segment's share of total sales declined from 45 percent in 2006 to 41 percent in 2007. Deliveries to municipal utilities and industrial customers accounted for about 24 percent and 10 percent, respectively, of total gas sales, both slightly higher than in the previous year.

Gas Sales by Customer Segment

Billion kWh



Gas sales of E.ON Ruhrgas AG; total: 712.8 billion kWh.

Gas Sales at Downstream Shareholdings

Gas Sales at Downstream Shareholdings[1]

Billion kWh	2007	2006[2]
Thüga	19.9	23.1
E.ON Ruhrgas International	177.6	152.0
Total	**197.5**	**175.1**

[1]Unconsolidated gas sales of companies in which majority stakes are held.
[2]Includes E.ON Földgáz from April 2006.

Downstream Shareholdings' sales volume rose to 197.5 billion kWh. The increase is attributable to the inclusion of Hungary's E.ON Földgáz for the entire year in 2007; this company was not included until the second quarter in 2006.

Sales and Adjusted EBIT

Pan-European Gas's sales declined by 1 percent to €22,745 million (prior year: €22,974 million). Adjusted EBIT rose by 10 percent to €2,576 million (prior year: €2,347 million), with Pan-European Gas's businesses performing as follows:

Financial Highlights by Business

	Up-/Midstream		Downstream Shareholdings		Other/ Consolidation		Pan-European Gas	
€ in millions	2007	2006	2007	2006	2007	2006	2007	2006
Sales	17,738	18,889	5,625	4,773	-618	-715	22,745	22,947
Adjusted EBITDA	2,010	2,305	1,158	799	8	-12	3,176	3,092
Adjusted EBIT	1,581	1,905	987	453	8	-11	2,576	2,347

U.K. Market Unit

- Adjusted EBIT down 8 percent
- Investment program up 58 percent
- Groupwide structural change project

U.K.			
€ in millions	2007	2006	+/– %
Sales	12,584	12,518	+1
Adjusted EBITDA	1,657	1,804	–8
Adjusted EBIT	1,136	1,239	–8
ROCE (in %)	9.2	9.7	–0.5[1]
Cost of capital (in %)	9.5	9.2	+0.3[1]
Value added	–37	64	–
Cash provided by operating activities	1,615	724	+123
Investments	1,364	863	+58
Employees (at year end)	16,786	15,621	+7

[1]Change in percentage points.

Retail Business

In response to falls in wholesale energy prices in 2006 and early 2007, E.ON UK announced a reduction in residential retail prices. Gas prices were reduced by 16 percent and electricity prices by 5 percent from April 2007. The reductions were broadly in line with those of other U.K. energy suppliers.

The U.K. market continued to experience high levels of customer switching as customers looked for the best deal.

2007 was an improved year for the B2B business. Despite both sales volumes and customer numbers falling, gross margin improvements in the small and medium enterprise ("SME") and Corporate sectors resulted in an increase in adjusted EBIT.

Central Networks

Central Networks continued to increase its capacity to safely deliver a reliable electricity network across Central England. To meet the challenge of a larger capital work program (which in the current five-year price control review period is 60 percent higher in the East and 44 percent higher in the West than in the previous period), our internal workforce has been supplemented by re-trainees, apprentices, and graduate trainees. We achieved this in a year when the region experienced exceptional storms in January and the worst summer flooding for a number of years.

Energy Services

The Metering business continued to deliver its main strategic aim of in-sourcing metering activities. The New Connections business provided network connections for the Distribution business. The Home Installation business completed around 100,000 B2B jobs and around 15,000 residential jobs during 2007. This business also launched its Sustainable Energy Solutions function which will deliver low-carbon solutions to customers on behalf of the Retail business.

Energy Trading

On May 31, 2007, E.ON set out its new strategic direction which included the decision to establish a new market unit to combine all its European trading operations. The new unit is called E.ON Energy Trading ("EET"). Following the announcement, work commenced at the U.K. market unit to enable this new strategic direction. Ultimately, the establishment of EET will result in the centralization of many of the U.K. trading activities at EET's new headquarters in Düsseldorf, Germany.

The successful performance of the U.K. trading business continues to be included in the results of the U.K. market unit for 2007. Excellent progress is being made to allow the U.K. trading business to become established within EET.

Energy Policy and Regulatory Environment

In May 2007, the U.K. government published "Meeting the Energy Challenge: A White Paper on Energy," which sets out the government's energy and climate-protection strategy. It contains a range of proposals to tackle climate change by reducing carbon-dioxide emissions and ensuring a secure, clean, and affordable energy supply. The climate-protection measures include additional efforts to improve energy efficiency and accelerated growth of renewables capacity. In 2008, the government plans to issue draft legislation to codify these measures, including legislation on the future use of nuclear energy.

Power and Gas Sales

Sales by Customer Segment[1]

Billion kWh	2007	2006	+/- %
Power—Residential and SME	34.2	37.9	-10
Power—I&C	18.4	18.4	-
Power—Market sales	25.2	17.5	+4.4
Total power sales	**77.8**	**73.8**	**+5**
Gas—Residential and SME	55.5	63.9	-13
Gas—I&C	23.4	28.7	-18
Gas—Market sales	78.2	62.8	+25
Total gas sales	**157.1**	**155.4**	**+1**

[1]Excludes energy trading activities.

During 2007, the industrial and commercial sales business continued to focus on securing profitable customers, which resulted in lower sales volumes in 2007 compared with 2006. The reduction in residential and SME sales reflects warmer weather and lower customer numbers. The increase in market sales reflects the competitive environment and changes in demand.

Power Generation and Procurement

Power Generation and Procurement

Billion kWh	2007	2006	+/- %
Owned generation[1]	41.2	35.9	+15
Purchases	36.7	38.8	-5
from jointly owned power plants	*1.2*	*0.7*	*+71*
from outside sources	*35.5*	*38.1*	*-7*
Power procured	**77.9**	**74.7**	**+4**
Station use, line loss, pumped-storage hydro	-0.1	-1.0	-
Power sales	**77.8**	**73.7**	**+6**

[1]Excludes CHP.

The increase in own production in 2007 is primarily attributable to excellent station availability and the increased attractiveness of economic conditions. The increase in power purchased from jointly owned plants is owed to excellent station availability at Corby Power. Power purchased from other suppliers and market sales decreased in 2007 compared with 2006, reflecting the significant increase in own production.

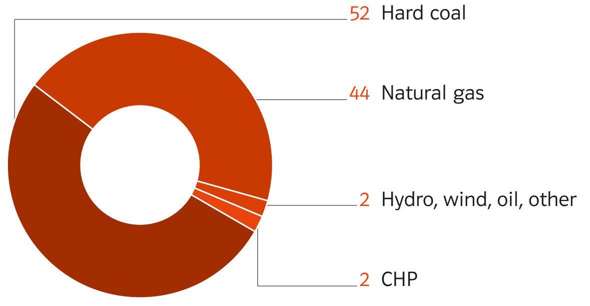
Attributable Generation Capacity

	December 31	
Megawatts	2007	2006
Hard coal	4,910	4,910
Natural gas	3,506	3,490
Hydro, wind, oil, other	1,806	1,788
CHP	359	359
Total	**10,581**	**10,547**

Natural gas capacity increased following a compressor upgrade at the Enfield site. Attributable capacity for wind power rose following completion of the Stags Holt onshore site.

Sources of Generation

Percentages



The switching in sources of generation between coal and gas reflects changes in commodity prices between the years. Economic conditions made gas production more advantageous than in the prior year. Renewable output grew in real terms, while output from the Grain oil-fired plant declined reflecting the redevelopment of the site. The slight reduction in the CHP number is in part due to the reclassification of a number of CHP sites as natural gas facilities.

Security of Supply

E.ON UK is currently looking at options to develop further power plants in the United Kingdom over the next few years. The objective is to deliver secure energy supplies, reduce CO_2 emissions to tackle the challenge of climate change, and keep energy as affordable as possible for our customers.

E.ON UK is progressing with significant investments to improve its generation capacity. This is partly to replace capacity that will be taken out of production in coming years due to environmental regulations. In 2007, E.ON UK started construction of one of the world's largest gas-fired CHP plants. The plant, which will generate 1,275 MW of power and export up to 340 MW of heat at its Isle of Grain site in Kent, is due to be commissioned in 2009.

Security of Supply +++ Climate Protection +++ Growth

Biomass power station enters service.
Steven's Croft, the United Kingdom's second-largest dedicated biomass power station, became operational in December 2007. It will generate enough electricity to power about 70,000 homes and, because it's carbon neutral, will prevent the emission of approximately 140,000 metric tons of greenhouse gases every year.

Progress was also made on consents to build two new highly efficient coal-fired units at Kingsnorth power station in Kent. The new supercritical coal-fired units would be built next to the existing four units and are expected to come online during 2012. Approval has been ratified by the local authority and submitted to the U.K. government for its approval.

The United Kingdom implemented the EU Emissions Trading directive at the beginning of 2005. E.ON UK was allocated 22.1 million metric tons of CO_2 emission allowances for 2007. Having carried forward 5.1 million metric tons from 2006 operational and trading activity, E.ON UK purchased 4.7 million metric tons of additional CO_2 emission allowances in 2007. Phase two of the EU Emissions Trading Scheme began at the start of 2008 and will run through to 2012.

Renewables Growth

E.ON UK plans to grow its renewable electricity generation business in response to U.K. regulatory initiatives. E.ON UK is already one of the leading developers and owner/operators of wind farms in the United Kingdom, with interests in 21 operational onshore and offshore wind farms with a total capacity of 212 MW, of which 201 MW is attributable to E.ON UK.

Potential onshore and offshore projects with an aggregate capacity of approximately 1,134 MW are now in the development phase (compared with 1,139 MW in the development phase in 2006). E.ON UK completed construction of the 18 MW Stags Holt onshore wind farm in Cambridgeshire which became operational in the third quarter of 2007. During the year, E.ON UK commenced construction of Robin Rigg offshore wind farm in the Solway Firth on the northwest coast of England. Robin Rigg will consist of 60 turbines, each with a capacity of 3 MW. At 180 MW of total capacity, the facility is expected to be one of the United Kingdom's largest offshore wind farms when it is completed in the second quarter of 2009.

In addition to the planned expansion of its wind farm portfolio, in 2007 E.ON UK generated 192 gigawatt-hours ("GWh") of renewable energy by co-firing biomass with coal at Kingsnorth and Ironbridge power stations. During 2007, construction was completed on a 44 MW wood-burning plant at Steven's Croft, near Lockerbie in southwest Scotland. Steven's Croft will be one of the United Kingdom's largest dedicated biomass plants with annual generation of 330 GWh. With construction complete, testing commenced in November 2007. Final inspection and full commercial handover took place in February 2008.

During 2008, E.ON UK expects to continue to develop its capability in marine generation (using tidal, stream, and wave power) to position itself to capture future opportunities in this area.

Beginning in 2008, these activities will be managed by E.ON's new Climate & Renewables market unit.

Sales and Adjusted EBIT

In 2007, E.ON UK increased its sales by 1 percent compared with the prior year. Adjusted EBIT declined by 8 percent. The businesses developed as follows:

Financial Highlights by Business

	Regulated Business		Non-regulated Business		Other/Consolidation		U.K.	
€ in millions	2007	2006	2007	2006	2007	2006	2007	2006
Sales	888	858	12,126	12,031	-430	-371	12,584	12,518
Adjusted EBITDA	645	635	1,144	1,267	-132	-98	1,657	1,804
Adjusted EBIT	509	488	762	851	-135	-100	1,136	1,239

Nordic Market Unit

- Adjusted EBIT significantly above prior-year level
- Centralization of trading activities
- Climate protection and security of supply

Nordic			
€ in millions	2007	2006	+/– %
Sales	3,339	2,827	+18
Adjusted EBITDA	1,027	871	+18
Adjusted EBIT	670	512	+31
ROCE (in %)	9.7	8.0	+1.7[1]
Cost of capital (in %)	8.8	9.0	–0.2[1]
Value added	62	–64	–
Cash provided by operating activities	914	715	+28
Investments	914	642	+42
Employees (at year end)	5,804	5,693	+2

[1]Change in percentage points.

Further Integration of E.ON Sverige

On October 12, 2007, E.ON and Statkraft signed a letter of intent for an asset swap in which E.ON will take over the 44.6-percent stake in E.ON Sverige currently held by Statkraft. In return, Statkraft will receive assets from the E.ON Group, including approximately one third of E.ON Sverige's hydropower assets and some Swedish heat production operations.

Centralization of Trading Activities

E.ON Nordic's trading activities have been managed from Nordic headquarters in Malmö, mainly by the Trading business unit. Pending the closing of the transaction between E.ON and Statkraft, Nordic's trading activities will be legally transferred to Düsseldorf-based E.ON Energy Trading.

Climate Protection and Security of Supply

E.ON Nordic has undertaken a number of projects aimed at further improving its environmental performance and security of supply for its customers. It further strengthened its environmental portfolio through investments in a number of key projects, including carbon-capture technology at its Karlshamn oil-fired power plant. Going forward, E.ON Nordic intends to increase its investments in biogas production.

+++ Climate Protection +++ Security of Supply +++

E.ON tests new carbon-capture process.
E.ON is the first company in Europe to test a new method of capturing up to 90 percent of the carbon dioxide from the flue gas of a conventional power plant. This method, called post-combustion capture, is attractive because it could be retrofitted on existing conventional power plants. Part of our innovate.on research initiative, the tests are being conducted at our Karlshamn facility in Sweden.

E.ON Nordic is updating some of its hydropower plants with the latest technology to increase their production efficiency and upgrading its nuclear facilities to increase their generating capacity. Both are sources of carbon-free generation.

To meet supply reliability requirements, E.ON Nordic continued its strong investment in the modernization of its power disribution network and in smart metering equipment, which will also increase service quality for network customers.

E.ON Nordic has ambitious growth plans for the next three years. In addition to generation upgrades, it is building the Öresundsverket CHP plant in Malmö to increase the power supply in southern Sweden and modernizing and expanding its biofuel-based heat production with major projects in Örebro and Norrköping.

E.ON Nordic is underlining its long-term ambition for growth in Finland by participating in Fennovoima, a project to build Finland's next nuclear power station. It is also striving to strengthen its market positions in Finland, Denmark, and Norway.

Energy Policy and Regulatory Environment

The current Swedish government, which took office in September 2006, enacted an energy-policy plan for the period through 2010. The plan's main objective is to secure a reliable, competitively priced, and sustainable supply of energy for Sweden. It calls for more renewables capacity and the expansion of capacity at existing nuclear power plants. Due to open issues with the European Commission, the government has not been successful in repealing the carbon tax on power plants that participate in emissions trading.

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

Power Sales

Power Sales Billion kWh	2007	2006	+/- %
Residential	6.1	6.6	-8
Commercial	12.0	12.9	-7
Sales partners/Nord Pool	25.3	21.1	+20
Total	**43.4**	**40.6**	**+7**

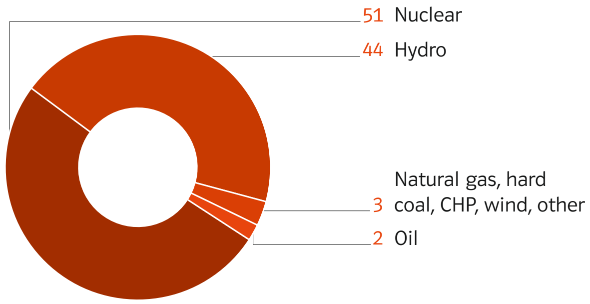
E.ON Nordic sold almost 3 billion kWh more electricity than in 2006, mainly due to increased sales at Nord Pool, Northern Europe's energy exchange. This was primarily a result of higher hydropower production. Sales to residential and commercial customers decreased by 1.4 billion kWh relative to 2006 due to milder weather in the first half of 2007 and increased competition.

Power Generation and Procurement

Power Generation and Procurement Billion kWh	2007	2006	+/- %
Owned generation	30.2	27.9	+8
Purchases	15.3	14.8	+3
from jointly owned power plants	*9.8*	*10.2*	*-4*
from outside sources	*5.5*	*4.6*	*+20*
Power procured	**45.5**	**42.7**	**+7**
Station use, line loss	-2.1	-2.1	–
Power sales	**43.4**	**40.6**	**+7**

Sources of Owned Generation

Percentages



Attributable Generation Capacity		
	December 31	
Megawatts	2007	2006
Nuclear	2,622	2,593
Hydro	2,754	2,751
Oil, other	2,031	2,015
Total	**7,407**	**7,359**

E.ON Nordic's owned generation increased by 2.3 billion kWh relative to the prior year. Hydropower production was above normal due to higher reservoir inflow, primarily during the last quarter of 2006 and the first quarter of 2007. Nuclear power production was below the prior-year figure due to unplanned outages at all three nuclear plants. Purchases from outside sources increased significantly, driven mainly by cross-boarder trading activities.

Gas and Heat Sales

Gas and Heat Sales			
Billion kWh	2007	2006	+/- %
Gas sales	5.3	5.8	-9
Heat sales	7.6	7.9	-4

Heat and gas sales decreased as a consequence of mild weather. The average temperature in 2007 was 1.5 degrees Centigrade (3 degrees Fahrenheit) above normal. The gas business also suffered from increased competition.

Sales and Adjusted EBIT

Nordic's sales increased by €512 million, or 18 percent, compared with the prior year. Nordic's adjusted EBIT increased by €158 million year on year to €670 million. Its businesses developed as follows:

Financial Highlights by Business								
	Regulated Business		Non-regulated Business		Other/Consolidation		Nordic	
€ in millions	2007	2006	2007	2006	2007	2006	2007	2006
Sales	729	725	2,895	2,298	-285	-196	3,339	2,827
Adjusted EBITDA	331	311	714	638	-18	-78	1,027	871
Adjusted EBIT	220	200	488	342	-38	-30	670	512

U.S. Midwest Market Unit

- → Increased investments in pollution control equipment and new generation
- → Disposal of WKE advanced
- → Disposal of interest in Gas Natural BAN

U.S. Midwest			
€ in millions	2007	2006	+/- %
Sales	1,819	1,930	-6
Adjusted EBITDA	543	595	-9
Adjusted EBIT	388	426	-9
ROCE (in %)	5.7	6.0	-0.3[1]
Cost of capital (in %)	7.8	8.0	-0.2[1]
Value added	-142	-142	-
Cash provided by operating activities	216	381	-43
Investments	690	398	+73
Employees (at year end)	2,977	2,890	+3

[1]Change in percentage points.

Security of Supply

In 2007, E.ON U.S. continued secure and reliable energy supply to its customers. Between 2008 and 2010, E.ON U.S. plans to invest approximately €450 million to maintain the reliability of its transmission and distribution network. Over €750 million of generation investment in the same period (primarily related to construction of a new baseload unit at the Trimble County plant) will reinforce the security of the company's power supply.

Security of Supply +++ Climate Protection +++ Growth

E.ON builds climate-friendly power plant.
In Kentucky, we're sharing expertise across our organization to build one of the world's most environmentally friendly coal-fired generating units. Trimble County 2 will have a nameplate capacity of 750 megawatts and meet stringent environmental standards. It will reduce sulfur dioxide emissions by more than 99 percent and mercury and nitrogen oxide emissions by more than 90 percent.

Energy Policy and Regulatory Environment

Rising fuel and energy prices were dominant issues in 2007. In states with liberalized energy markets, the sharp increase in prices led to widespread consumer dissatisfaction and halted further deregulation efforts in the electricity sector.

A number of states have introduced climate-protection measures, including measures that require the use of renewables. Far-reaching climate-protection incentives are expected in 2008 and beyond. For the first time in 30 years, applications were filed for permits to build new nuclear power stations. Currently, neither federal law nor state law in Kentucky, E.ON U.S.'s main supply area, contains climate-protection provisions.

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

Power and Gas Sales

Regulated utility retail power sales volumes increased slightly in 2007 compared with 2006, primarily due to colder weather in February and warmer weather throughout the summer. Off-system power sales volumes were lower in 2007, primarily due to lower market prices.

Sales by Customer Segment

Billion kWh	2007	2006	+/- %
Retail customers	34.3	32.6	+5
Off-system sales	1.6	2.7	-41
Power sales	**35.9**	**35.3**	**+2**
Retail customers	13.1	12.3	+7
Off-system sales	0.5	0.1	+400
Gas sales	**13.6**	**12.4**	**+10**

Gas sales increased in 2007 compared with 2006, primarily due to colder weather in the beginning of 2007 and market factors that produced opportunities for off-system gas sales.

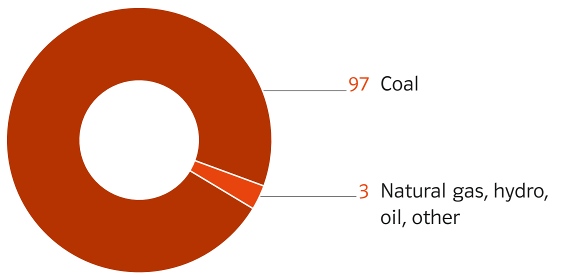
Power Generation and Procurement

Power Generation and Procurement

Billion kWh	2007	2006	+/- %
Owned generation	33.8	34.2	-1
Purchases	2.9	3.3	-12
Power procured	**36.7**	**37.5**	**-2**
Station use, line loss, other	-0.8	-2.2	-
Power sales	**35.9**	**35.3**	**+2**

Sources of Owned Generation

Percentages



Coal-fired power plants accounted for 97 percent of E.ON U.S.'s owned generation in 2007, while gas-fired, hydro, and other generating assets accounted for the remaining 3 percent. E.ON U.S.'s generation portfolio increased slightly, from 7,507 MW at year end 2006, to 7,519 MW at year end 2007, primarily because a mothballed unit was returned to service.

Attributable Generation Capacity

	December 31		
Megawatts	2007	2006	+/- %
Coal	5,281	5,294	–
Natural gas	2,164	2,141	+1
Hydro	74	72	+3
Total	**7,519**	**7,507**	**–**

Sales and Adjusted EBIT

U.S. Midwest's sales decreased by €111 million, or 6 percent, compared with the prior year. U.S. Midwest's adjusted EBIT decreased by €38 million year on year to €388 million. The businesses developed as follows:

Financial Highlights by Business

	Regulated Business		Non-regulated Business/Other		U.S. Midwest	
€ in millions	2007	2006	2007	2006	2007	2006
Sales	1,766	1,869	53	61	1,819	1,930
Adjusted EBITDA	545	592	-2	3	543	595
Adjusted EBIT	393	431	-5	-5	388	426

Disposal of WKE and Gas Natural BAN

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

In March 2007, E.ON U.S. entered into a termination agreement with BREC to terminate the lease and the operational agreements for nine coal-fired and one oil-fired electricity generation units in western Kentucky. During 2007, the parties entered into a number of definitive amendments or ancillary documents regarding the termination transaction.

The closing remains subject to review and approval by various regulatory agencies and other interested parties. Subject to such contingencies, the parties expect to complete the proposed termination transaction during 2008. WKE therefore continues to be classified as a discontinued operation.

In June 2007, E.ON U.S. completed the sale of its minority shareholding interest in Gas Natural BAN and related Argentine investments to affiliates of Gas Natural SDG of Spain. E.ON U.S. had held minority interests in various Gas BAN investments since 1999.

+++ Competition +++

We're committed to competition. So we're seizing the initiative ourselves. By setting the pace, we can shape our market. Over the next three years, we also aim to become one of Europe's leading energy companies in terms of customer satisfaction.


HAMBURGS TOR ZUM GELD: WWW.E-WIE-EINFACH.DE
TEL: 0800 44 11 800
WIE EINFACH
JETZT WECHSELN! SIE SPAREN 1 CENT PRO KWH IM VERGLEICH ZUM ALLGEMEINEN STROMPREIS DES ÖRTLICHEN GRUNDVERSORGERS.

More than 660,000 customers already agree: the price is right, and so is the service.

E.ON makes customer choice easy

E.ON ushers in a new era of retail competition in Germany.
In February 2007, E.ON launched a new retail subsidiary that makes customer choice easy. Its name explains its approach: E WIE EINFACH. Which is German for "E as in Easy."

E WIE EINFACH is the first retailer to offer power and gas service nationwide, making it easy for residential and small business customers across Germany to switch providers. And it has a rate plan that makes saving easy, too. E WIE EINFACH's prices are guaranteed to be cheaper—by 1 cent per kilowatt-hour for power and by 2 cents per cubic meter for natural gas—than customers' local incumbent supplier. The easy approach has paid off. In just twelve months, 660,000 customers have switched to E WIE EINFACH.

Our subsidiary's success has spurred retail competition in Germany. That's evident from the many suppliers that have followed our example. And from the number of customers who have switched. By the third quarter of 2007, the switch rate had reached 11 percent, an increase that's demonstrably the result of our pacesetting approach.

Customers like E WIE EINFACH not only for its prices but also for its consistent customer orientation. Easy to understand, easy to switch, easy to save.

Corporate Governance Report

Joint Report on Corporate Governance by the E.ON AG Board of Management and Supervisory Board

E.ON views corporate governance as a central component of its responsible and value-oriented management approach. In 2007, the Board of Management and Supervisory Board paid close attention to E.ON's compliance with the guidelines of the German Corporate Governance Code ("the Code"), particularly in conjunction with the new Code recommendations issued on June 14, 2007. On December 17, 2007, the Board of Management and the Supervisory Board jointly issued E.ON's Declaration of Compliance ("the Declaration") pursuant to Section 161 of the German Stock Corporation Act stating that E.ON complies with all of the Code's recommendations. The full text of the Declaration, and of Declarations from previous years, is available on the Internet at www.eon.com. E.ON voluntarily complies with most of the Code's suggestions, as well.

Management and Oversight Structure

Supervisory Board

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

In order to ensure that the Supervisory Board's advice and oversight functions are conducted on an independent basis, no more than two former members of the Board of Management may be members of the Supervisory Board. Supervisory Board members may not hold a corporate office or perform advisory services for the Company's key competitors. Supervisory Board members are required to disclose to the Supervisory Board any conflicts of interest, particularly if a conflict arises from their advising, or holding a corporate office with, one of E.ON's customers, suppliers, creditors, or other business partners. The Supervisory Board is required to report any conflicts of interest to the Annual Shareholders Meeting and to describe how the conflicts have been dealt with. Any material conflict of interest of a non-temporary nature should result in the termination of a member's appointment to the Supervisory Board. There were no conflicts of interest involving members of the Supervisory Board in 2007. 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 2007.

The Supervisory Board oversees the Company's management and advises the Board of Management. It deals with the Company's business development, medium-term plan, and the further development of corporate strategy. It discusses the Company's quarterly Interim Reports and, taking into consideration the Independent Auditor's Report and the Audit Committee's preliminary report, approves the Financial Statements of E.ON AG and the Consolidated Financial Statements. It also appoints and removes the members of the Board of Management. Together with the Board of Management, it ensures that the Company has a long-term succession plan in place. Transactions or measures taken by the Board of Management that materially affect the Company's assets, finances, or earnings require the Supervisory Board's prior approval. The policies and procedures of E.ON AG's Supervisory Board include a list of transactions and measures that require prior Supervisory Board approval. The list is not exhaustive.

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

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

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

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

The Audit Committee deals primarily with issues relating to the Company's accounting, compliance, and risk management; the legally mandated independence of the Company's Independent Auditor; the establishment of auditing priorities; and agreements on the Independent Auditor's fees. The Audit Committee also prepares the Supervisory Board's decision on the approval of the Financial Statements of E.ON AG and of the Consolidated Financial Statements. It also examines the Company's quarterly Interim Reports and discusses the audit review of the Interim Reports with the Independent Auditor.

The Finance and Investment Committee consists of four 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 financial measures whose value exceeds 1 percent of the equity listed in the most recent Consolidated Balance Sheet. If the value of any such transactions or activities exceeds 2.5 percent of the equity listed in the most recent Consolidated Balance Sheet, the Finance and Investment Committee prepares the Supervisory Board's decision on such matters.

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

Board of Management

The E.ON AG Board of Management consists of five (through the end of March 2008: six) 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 financial 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 condition, 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 2007. 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 2007.

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, by a proxy of their choice, or by a Company proxy who is required to follow their voting instructions.

Accounting and Annual Financial Statements

Effective the 2007 financial year, the E.ON Group's Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards. E.ON AG's Financial Statements are prepared in accordance with the German Commercial Code.

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

The Audit 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 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 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; and
- inform the Chairperson of the Audit Committee of, or to note in its Audit Report, any facts determined during the audit that contradict the statements submitted by the Board of Management or Supervisory Board in connection with the Code.

Risk Policies

Detailed information about E.ON's risk management system can be found on page 62 of this report. E.ON has established a Disclosure Committee to support the Board of Management and to be responsible for correct and timely financial disclosures. Its members come from various departments of E.ON AG and are, owing to their functions, particularly suited for the committee's tasks.

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

In August 2007, the E.ON AG Board of Management decided to submit applications to delist E.ON American Depositary Receipts from the New York Stock Exchange ("NYSE") and to deregister and end its reporting obligations with the U.S. Securities and Exchange Commission ("SEC"). Since neither the NYSE nor the SEC raised objections during the review period, the delisting and deregistration took effect. As of the 2007 financial year, E.ON is therefore no longer required to fulfill, among other requirements, the requirements contained in Section 404 of the Sarbanes-Oxley Act regarding internal controls over financial reporting.

Nevertheless, in 2007 E.ON's management and Internal Audit carried out an assessment of our documented internal controls over financial reporting. E.ON determined that, as of December 31, 2007, there are no significant deficiencies or material weaknesses in the E.ON Group's internal controls over financial reporting. Our Independent Auditor confirmed this finding after conducting a risk-oriented assessment of our internal controls over financial reporting.

Transparency

Transparency is a high priority of E.ON AG's Board of Management and Supervisory Board. Our shareholders, all capital market participants, financial analysts, shareholder associations, and the media regularly receive up-to-date information about the situation of, and any material changes to, the Company. We use the Internet to help to 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), an Annual Report, an annual press conference, telephone conferences, and numerous events for financial analysts in and outside Germany.

A financial calendar lists the dates on which the Company's financial reports are released. In addition to the Company's periodic financial reports, the Company issues ad-hoc statements when events or changes occur at E.ON AG that could have a significant impact on the price of E.ON stock. Pursuant to Section 10 of the German Securities Prospectus Law, E.ON is required to publish an annual document that contains all its ad-hoc and financial releases of the previous twelve months. The financial calendar, ad-hoc statements, and annual document are available on the Internet at www.eon.com.

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 2007 have been disclosed at ww.eon.com. As of December 31, 2007, there was no ownership interest subject to disclosure pursuant to Item 6.6 of the Code.

Ethics

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

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

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

Compensation Report

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

Compensation System for Members of the Supervisory Board

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

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

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

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

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

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

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

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

Compensation of the Members of the Supervisory Board

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

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

Compensation of the Supervisory Board 2007

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

Compensation System for Members of the Board of Management

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

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

The amount of the bonus is determined by the degree to which certain corporate and personal performance targets are achieved under a target-setting system, 70 percent of which is related to corporate performance targets and 30 percent to personal targets. The corporate performance targets reflect, in equal shares, operating performance (as measured by adjusted EBIT) and return on capital employed ("ROCE"). Board of Management members who fully achieve their performance target receive the target bonus agreed to in their contracts. The maximum bonus that can be achieved is 200 percent of the target bonus. Any compensation received for work done in the Company's interest (other directorships at Group companies) is set off against the bonus or transferred to the Company.

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

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

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

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

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

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

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

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

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

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

Following the end of their service for the Company, Board of Management members are entitled to receive pension payments in three cases: if they reach the standard retirement age (currently 60 years), if they are permanently incapacitated, or if their service agreement is terminated prematurely or not extended. Depending on the length of their service, Board of Management members are entitled to annual pension payments equal to between 50 percent and 75 percent of their last annual base salary. The annual pension of one member of the Board of Management is a fixed amount. If Board of Management members are entitled to pension payments stemming from earlier employment, these payments will be set off against their pension payments from the Company. If their service agreement is terminated prematurely or not extended, and if such termination or non-extension is not due to misconduct or rejection of an offer of extension that is at least on a par with the existing service agreement, Board of Management members who have been in a Top Management position in the E.ON Group for more than five years will receive a reduced pension as a bridge payment until they reach the age of 60. The amount of the bridge payment will be calculated based on the relation between the actual and potential length of service to the Company until the age of 60 is reached. The pension plans the Company granted to Board of Management members before the 2006 financial year do not include limitations on pension entitlements relating to premature termination or non-extension of service agreements.

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

Pensions of the Board of Management Members

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

[1]Pension entitlement not yet vested.
[2]Entered retirement on April 1, 2007.

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

Following the death of an active or former member of the Board of Management, a reduced amount of his or her pension is paid as a survivor's pension to the family. Widows and widowers are entitled to lifelong payment of 60 percent of the pension a Board of Management member received on the date of his or her death or would have received had he or she entered retirement on this date. This payment is terminated if a widow or widower remarries. The survivor's pension for the widow of one Board of Management member deviates from this model and is equal to 75 percent of the member's pension. The children or dependents of a Board of Management member who have not reached the age of 18 are entitled, for the duration of their education or professional training until they reach a maximum age of 25, to an annual payment equal to 20 percent of the pension the Board of Management member received or would have received on the date of his or her death. Surviving children benefits granted before 2006 deviate from this model and are equal to 15 percent of a Board of Management member's pension. If, taken together, the survivor's pensions of the widow or widower and children exceed 100 percent of a Board of Management member's pension, the pensions paid to the children are proportionally reduced by the excess amount.

Compensation of the Members of the Board of Management

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

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

Compensation of the Board of Management 2007

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

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

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

For purposes of internal communications between the Board of Management and the Supervisory Board, the target value is used instead of the fair value. The target value is equal to the cash payout amount of each performance right, if at the end of the maturity period, E.ON stock maintains its price and the performance equals the performance of the benchmark index. The target value for the second tranche is €96.52 per right and equals the average E.ON stock price during the 60 trading days prior to the issuance of the rights on January 1, 2007. The Executive Committee of the Supervisory Board used the target value to determine the number of rights to be issued. These correspond to a target value of €1.35 million for the Chairman of the Board of Management, €0.8 million for Board of Management members, and 80 percent of €0.8 million for the members who joined the Board of Management in 2006.

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

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

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

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

Payments Made to Former Members of the Board of Management

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

Independent Auditor's Report

We have audited the Consolidated Financial Statements prepared by E.ON AG, Düsseldorf, Germany, comprising the balance sheet, the income statement, the statement of recognized income and expenses, the cash flow statement and the notes to the financial statements, together with the Group Management Report, which has been combined with the management report for E.ON AG, for the fiscal year from January 1 through December 31, 2007. The preparation of the Consolidated Financial Statements and of the Combined Management Report in accordance with the IFRS applicable to financial reporting as adopted by the EU and in accordance with the additional requirements pursuant to Article 315a (1) of the German Commercial Code (HGB) is the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Combined Management Report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Article 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), with additional consideration given to the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit in such a way as to ensure 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 Group 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 Group 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the Consolidated Financial Statements and Group 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 are in compliance with the IFRS applicable to financial reporting as adopted by the EU and with the additional requirements pursuant to Article 315a (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 requirements. The Combined Group Management Report is consistent with the Consolidated Financial Statements and, as a whole, provides an appropriate view of the Group's position and appropriately presents the opportunities and risks of future development.

Düsseldorf, February 20, 2008

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	2007	2006
Sales including electricity and energy taxes		70,761	67,653
Electricity and energy taxes		-2,030	-3,562
Sales	(5)	**68,731**	**64,091**
Changes in inventories (finished goods and work in progress)		22	8
Own work capitalized	(6)	517	395
Other operating income	(7)	7,776	7,914
Cost of materials	(8)	-50,223	-46,708
Personnel costs	(11)	-4,597	-4,529
Depreciation, amortization and impairment charges		-3,194	-3,670
Other operating expenses	(7)	-9,724	-11,907
Income/Loss (-) from companies accounted for under the equity method		1,147	748
Income/Loss (-) from continuing operations before financial results and income taxes	(33)	**10,455**	**6,342**
Financial results	(9)	-772	-995
Income from equity investments		*179*	*50*
Income from other securities, interest and similar income		*1,035*	*1,169*
Interest and similar expenses		*-1,986*	*-2,214*
Income taxes	(10)	-2,289	-40
Income/Loss (-) from continuing operations		**7,394**	**5,307**
Income/Loss (-) from discontinued operations, net	(4)	330	775
Net income		**7,724**	**6,082**
Attributable to shareholders of E.ON AG		*7,204*	*5,586*
Attributable to minority interests		*520*	*496*
in €			
Earnings per share (attributable to shareholders of E.ON AG)—basic and diluted	(13)		
from continuing operations		10.55	7.31
from discontinued operations		0.51	1.16
from net income		**11.06**	**8.47**

E.ON AG and Subsidiaries Consolidated Balance Sheets—Assets

€ in millions	Notes	December 31 2007	December 31 2006	January 1 2006
Goodwill	(14a)	16,761	15,320	15,494
Intangible assets	(14a)	4,284	3,894	4,207
Property, plant and equipment	(14b)	48,552	42,484	41,067
Companies accounted for under the equity method	(15)	8,411	7,770	9,507
Other financial assets	(15)	21,478	20,679	16,544
Equity investments		*14,583*	*13,533*	*10,073*
Non-current securities		*6,895*	*7,146*	*6,471*
Financial receivables and other financial assets	(17)	2,449	2,631	3,268
Operating receivables and other operating assets	(17)	680	373	1,736
Income tax assets		2,034	2,090	1
Deferred tax assets	(10)	1,155	1,247	2,108
Non-current assets		**105,804**	**96,488**	**93,932**
Inventories	(16)	3,811	4,199	2,587
Financial receivables and other financial assets	(17)	1,515	1,477	1,090
Trade receivables and other operating assets	(17)	17,973	18,057	17,088
Income tax assets		539	554	874
Liquid funds	(18)	7,075	6,189	9,901
Securities and fixed-term deposits		*3,888*	*4,448*	*5,455*
Restricted cash		*300*	*587*	*98*
Cash and cash equivalents		*2,887*	*1,154*	*4,348*
Assets held for sale	(4)	577	611	682
Current assets		**31,490**	**31,087**	**32,222**
Total assets		**137,294**	**127,575**	**126,154**

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

		December 31		January 1
€ in millions	Notes	2007	2006	2006
Capital stock	(19)	1,734	1,799	1,799
Additional paid-in capital	(20)	11,825	11,760	11,749
Retained earnings	(21)	26,828	24,350	22,910
Accumulated other comprehensive income	(22)	10,656	11,033	8,150
Treasury shares	(19)	-616	-230	-256
Reclassification related to put options on treasury shares	(19)	-1,053	-	-
Equity attributable to shareholders of E.ON AG		**49,374**	**48,712**	**44,352**
Minority interests (before reclassification)		6,281	4,994	4,747
Reclassification related to put options	(26)	-525	-2,461	-3,130
Minority interests	(23)	**5,756**	**2,533**	**1,617**
Equity		**55,130**	**51,245**	**45,969**
Financial liabilities	(26)	15,915	10,029	10,985
Operating liabilities	(26)	5,432	5,422	5,666
Income taxes		2,537	2,333	1,134
Provisions for pensions and similar obligations	(24)	2,890	3,962	9,768
Miscellaneous provisions	(25)	18,073	18,138	18,009
Deferred tax liabilities	(10)	7,555	7,063	7,625
Non-current liabilities		**52,402**	**46,947**	**53,187**
Financial liabilities	(26)	5,549	3,443	3,455
Trade payables and other operating liabilities	(26)	18,254	19,578	18,296
Income taxes		1,354	1,753	1,859
Miscellaneous provisions	(25)	3,992	3,994	2,552
Liabilities associated with assets held for sale	(4)	613	615	836
Current liabilities		**29,762**	**29,383**	**26,998**
Total equity and liabilities		**137,294**	**127,575**	**126,154**

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

€ in millions	2007	2006
Net income	**7,724**	**6,082**
Cash flow hedges	-81	-276
Unrealized changes	*-82*	*-302*
Reclassification adjustments recognized in income	*1*	*26*
Available-for-sale securities	261	3,776
Unrealized changes	*1,183*	*4,202*
Reclassification adjustments recognized in income	*-922*	*-426*
Currency translation adjustments	-966	145
Unrealized changes	*-966*	*9*
Reclassification adjustments recognized in income	*0*	*136*
Changes in actuarial gains/losses of defined benefit pension plans and similar obligations	852	781
Deferred taxes	-23	-862
Total income and expenses recognized directly in equity	**43**	**3,564**
Total recognized income and expenses (total comprehensive income)	**7,767**	**9,646**
Attributable to shareholders of E.ON AG	*7,370*	*8,937*
Attributable to minority interests	*397*	*709*

E.ON AG and Subsidiaries Consolidated Statements of Cash Flows

€ in millions	2007	2006
Net income	7,724	6,082
Income from discontinued operations, net	-330	-775
Depreciation, amortization and impairment of intangible assets and of property, plant and equipment	3,194	3,670
Changes in provisions	-146	1,284
Changes in deferred taxes	-35	-465
Other non-cash income and expenses	-111	62
Gain/Loss on disposal of	-1,502	-950
Intangible assets and property, plant and equipment	*-52*	*-95*
Equity investments	*-444*	*-362*
Securities (> 3 months)	*-1,006*	*-493*
Changes in operating assets and liabilities and in income taxes	-68	-1,747
Inventories	*321*	*-1,673*
Trade receivables	*455*	*-1,516*
Other operating receivables and income tax assets	*-724*	*462*
Trade payables	*-958*	*73*
Other operating liabilities and income taxes	*838*	*907*
Cash provided by operating activities of continuing operations (operating cash flow)	**8,726**	**7,161**
Proceeds from disposal of	1,431	3,877
Intangible assets and property, plant and equipment	*293*	*303*
Equity investments	*1,138*	*3,574*
Purchase of investments in	-11,306	-5,037
Intangible assets and property, plant and equipment	*-6,916*	*-4,096*
Equity investments	*-4,390*	*-941*
Proceeds from disposal of securities (> 3 months) and of financial receivables and fixed-term deposits	9,914	6,899
Purchase of securities (> 3 months) and of financial receivables and fixed-term deposits	-9,114	-10,042
Changes in restricted cash	286	-154
Cash used for investing activities of continuing operations	**-8,789**	**-4,457**
Payments received/made from changes in capital	55	-1
Payments for treasury shares, net	-3,500	28
Premiums received for put options on treasury shares	64	0
Cash dividends paid to shareholders of E.ON AG	-2,210	-4,614
Cash dividends paid to minority shareholders	-237	-244
Proceeds from financial liabilities	12,533	10,845
Repayments of financial liabilities	-4,897	-11,874
Cash provided by (used for) financing activities of continuing operations	**1,808**	**-5,860**
Net increase (decrease) in cash and cash equivalents from continuing operations	**1,745**	**-3,156**
Cash provided by operating activities of discontinued operations	12	69
Cash used for investing activities of discontinued operations	-12	-109
Cash provided by financing activities of discontinued operations	0	2
Net increase (decrease) in cash and cash equivalents from discontinued operations	**0**	**-38**
Effect of foreign exchange rates on cash and cash equivalents	-12	0
Cash and cash equivalents at the beginning of the year	1,154	4,348
Cash and cash equivalents at the end of the year	**2,887**	**1,154**
Supplementary Information on Cash Flows from Operating Activities		
Income taxes paid (less refunds)	-1,822	-840
Interest paid	-1,134	-1,029
Interest received	814	584
Dividends received	1,325	1,079

Statement of Changes in Equity

€ in millions	Capital stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Currency translation adjustment	Available-for-sale securities	Cash flow hedges
Balance as of January 1, 2006	**1,799**	**11,749**	**22,910**	**675**	**7,343**	**132**
Treasury shares repurchased/sold		11				
Dividends paid			–4,614			
Other changes						
Net additions/disposals from the reclassification related to put options						
Total comprehensive income			6,054	–43	3,148	–222
Net income			*5,586*			
Changes in actuarial gains/losses of defined benefit pension plans and similar obligations			*468*			
Other comprehensive income				*–43*	*3,148*	*–222*
Balance as of December 31, 2006	**1,799**	**11,760**	**24,350**	**632**	**10,491**	**–90**
Balance as of January 1, 2007	**1,799**	**11,760**	**24,350**	**632**	**10,491**	**–90**
Changes in scope of consolidation						
Treasury shares repurchased/sold						
Capital increase						
Capital decrease	–65	65	–3,115			
Dividends paid			–2,210			
Other changes						
Net additions/disposals from the reclassification related to put options			56			
Total comprehensive income			7,747	–950	590	–17
Net income			*7,204*			
Changes in actuarial gains/losses of defined benefit pension plans and similar obligations			*543*			
Other comprehensive income				*–950*	*590*	*–17*
Balance as of December 31, 2007	**1,734**	**11,825**	**26,828**	**–318**	**11,081**	**–107**

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
-256	**0**	**44,352**	**4,747**	**-3,130**	**1,617**	**45,969**
26		37				37
		-4,614	-244		-244	-4,858
			-218		-218	-218
				669	669	669
		8,937	709		709	9,646
		5,586	*496*		*496*	*6,082*
		468	*35*		*35*	*503*
		2,883	*178*		*178*	*3,061*
-230	**0**	**48,712**	**4,994**	**-2,461**	**2,533**	**51,245**
-230	**0**	**48,712**	**4,994**	**-2,461**	**2,533**	**51,245**
			1,067		1,067	1,067
-386		-386				-386
			180		180	180
		-3,115	-64		-64	-3,179
		-2,210	-237		-237	-2,447
			-56		-56	-56
	-1,053	-997		1,936	1,936	939
		7,370	397		397	7,767
		7,204	*520*		*520*	*7,724*
		543	*66*		*66*	*609*
		-377	*-189*		*-189*	*-566*
-616	**-1,053**	**49,374**	**6,281**	**-525**	**5,756**	**55,130**

(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 reporting segments are presented in line with the Group's internal organizational and reporting structure:

- The Central Europe market unit, led by E.ON Energie AG ("E.ON Energie"), Munich, Germany, operates E.ON's integrated electricity business and the downstream gas business in Central Europe.
- Pan-European Gas is responsible for the upstream and midstream gas business. Moreover, this market unit holds predominantly minority shareholdings in the downstream gas business. This market unit is led by E.ON Ruhrgas AG ("E.ON Ruhrgas"), Essen, Germany.
- The U.K. market unit encompasses the integrated energy business in the United Kingdom. This market unit is led by E.ON UK plc ("E.ON UK"), Coventry, U.K.
- The Nordic market unit, which is led by E.ON Nordic AB ("E.ON Nordic"), Malmö, Sweden, focuses on the integrated energy business in Northern Europe. It operates through the integrated energy company E.ON Sverige AB ("E.ON Sverige"), Malmö, Sweden.
- The U.S. Midwest market unit, led by E.ON U.S. LLC ("E.ON U.S."), Louisville, Kentucky, U.S., is primarily active in the regulated energy market in the U.S. state of Kentucky.
- Corporate Center/New Markets contains those interests held directly by E.ON AG ("E.ON" or the "Company"), including the operations acquired in Russia and those in the area of renewable energy (see Note 4), as well as E.ON AG itself and the consolidation effects that take place at the Group level.

The market units and Corporate Center/New Markets are the reportable segments as defined by International Financial Reporting Standard ("IFRS") 8, "Operating Segments" ("IFRS 8").

Note 33 provides additional information about the market units.

With European Union ("EU") Regulation 1606/2002 dated July 19, 2002, the European Parliament and the European Council mandated the adoption of IFRS into EU law governing the consolidated financial statements of publicly traded companies for fiscal years beginning on or after January 1, 2005. However, member states were permitted to defer mandatory application of IFRS until 2007 for companies that, like E.ON, had been preparing their consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and whose stock was officially listed for public trading in a non-EU member state. In Germany, the Bilanzrechtsreformgesetz ("BilReG") implemented the option to defer mandatory IFRS application in October 2004.

E.ON made use of this option and, accordingly, the Consolidated Financial Statements for the year ended December 31, 2007, contained in this Annual Report have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). These Consolidated Financial Statements have been prepared in accordance with Article 315a (1) of the German Commercial Code ("HGB") and with those IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that had been 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, 2007. In addition, E.ON has opted for the voluntary early adoption of IFRS 8.

The preparation of the Consolidated Financial Statements in accordance with IFRS has led to changes in the Group's accounting policies as compared with the accounting principles used in the most recent annual Consolidated Financial Statements, i.e., U.S. GAAP. The following accounting policies have been applied for all periods presented in these Consolidated Financial Statements. They have also been used, in accordance with IFRS 1, for the preparation of the opening balance sheet under IFRS as of January 1, 2006. The effects of the transition from U.S. GAAP to IFRS are discussed in Note 35.

(2) Summary of Significant Accounting Policies

General Principles

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

Scope of Consolidation

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

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

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

Associated Companies

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

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

Interests in associated companies accounted for under the equity method are reported on the balance sheet at cost, adjusted for changes in the Group's share of the net assets after the date of acquisition, as well as any impairment charges. Losses that exceed the Group's interest in an associated company 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.

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

Joint Ventures

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

Business Combinations

In accordance with the exemption allowed under IFRS 1, the provisions of IFRS 3, "Business Combinations" ("IFRS 3"), were not applied with respect to the accounting for business combinations that occurred before January 1, 2006. The goodwill maintained from this period did not include any intangible assets that had to be reported separately under IFRS. Conversely, there were no intangible assets that until now had been reported separately that had to be included in goodwill. As no adjustment for intangible assets was required relating to such business combinations, the goodwill reported under U.S. GAAP was maintained in E.ON's opening balance sheet under IFRS.

Business combinations are accounted for by applying the purchase method, whereby the purchase price is offset against the proportional share in the acquired company's net assets. In doing so, the values at the acquisition date that corresponds to the date at which control of the acquired company was attained are used as a basis. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values, regardless of the extent attributable to minority interests. The fair values of individual assets are determined using published exchange or market prices at the time of acquisition in the case of marketable securities, for example, and in the case of land, buildings and more significant 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 specific risks inherent to the asset.

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

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

Intangible assets must be recognized separately from goodwill if they are clearly separable or if their recognition arises from a contractual or other legal right. Provisions for restructuring measures may not be recorded in a purchase price allocation. If the purchase price paid exceeds the proportional share in the net assets at the time of acquisition, the positive difference is recognized as goodwill. A negative difference is immediately recognized in income.

Foreign Currency Translation

The Company's transactions denominated in foreign currencies are translated at the current exchange rate at the date of the transaction. Monetary foreign currency items are adjusted to the current exchange rate at each balance sheet date; any gains and losses resulting from fluctuations in the relevant currencies are included in 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 Consolidated Financial Statements are presented in euro as well. The assets and liabilities of the Company's foreign subsidiaries with a functional currency other than the euro are translated using period-end exchange rates, while items of the statements of income are translated using average exchange rates for the period. 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. In accordance with the option under IFRS 1, all unrealized cumulative translation differences that had resulted from the translation of financial statements into the reporting currency of E.ON in prior periods and had been recognized in equity were offset against retained earnings at the date of transition.

The foreign currency translation effects that are attributable to monetary financial instruments classified as available for sale are recognized in net income. For non-monetary financial instruments classified as available for sale, the foreign currency translation effects are recognized in equity with no effect on net income.

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

Currencies	ISO Code	€ 1, rate at year-end 2007	€ 1, rate at year-end 2006	€ 1, annual average rate 2007	€ 1, annual average rate 2006
British pound	GBP	0.73	0.67	0.68	0.68
Norwegian krone	NOK	7.97	8.24	8.02	8.05
Russian ruble	RUB	35.99	34.68	34.99	34.11
Swedish krona	SEK	9.45	9.04	9.25	9.25
Hungarian forint	HUF	253.81	251.77	251.34	264.26
U.S. Dollar	USD	1.47	1.32	1.37	1.26

Recognition of Income

a) Revenues

The Company generally recognizes revenue upon delivery of products to customers or upon fulfillment of services. Delivery has 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 from the sale of goods and services are measured at the fair value of the consideration received or receivable.

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. Additional revenue is earned from the distribution of electricity and gas, as well as from deliveries of steam and heat.

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.

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 by domestic utilities in Germany and Sweden 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.

Germany's Energy Tax Act ("Energiesteuergesetz," "EnergieStG") regulates the taxation of energy generated from petroleum, natural gas and coal. It replaced the Petroleum Tax Act ("Mineralölsteuergesetz") effective August 1, 2006. Under the Energy Tax Act, natural gas tax is not levied until delivery to the end consumer. Under the previously applicable Petroleum Tax Act, natural gas tax became due at the time of the procurement or removal of the natural gas from storage facilities.

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.

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, "Intangible Assets" ("IAS 38"), as well as certain other specific prerequisites, have been fulfilled. In the 2007 and 2006 fiscal years, these criteria have not been fulfilled.

Research and development costs totaled €37 million in 2007 (2006: €27 million).

Earnings per Share

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

Goodwill and Intangible Assets

Goodwill

According to IFRS 3, 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. E.ON has identified the operating units one level below its primary segments as its cash-generating units.

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 valuation procedures that make use of the Company's internal mid-term planning data. Valuation is based on the discounted cash flow method, and accuracy is verified through the use of multiples. In addition, market transactions or valuations prepared by third parties for comparable assets are used to the extent available.

In an 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. 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 not be written down if their respective carrying amounts were to fall below the highest of the following as a result:

- Fair value less costs to sell
- Value in use
- Zero

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

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

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

Intangible Assets

IAS 38 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. 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, "Impairment of Assets" ("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 its recoverable amount, which is the higher of an asset's value in use and its fair value less costs to sell. Should the carrying amount exceed the 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.

Please see Note 14(a) for additional information about goodwill and intangible assets.

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 amortized, they are reported as intangible assets not subject to amortization. Emission rights are capitalized at cost on acquisition or when issued for the respective reporting period as (partial) fulfillment of the notice of allocation from the responsible national authorities.

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. Any expected shortfall in emission rights is recorded under miscellaneous provisions. 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 their expected useful lives, generally using the straight-line method, unless a different method of depreciation is deemed more suitable in certain exceptional cases.

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

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

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

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

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

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. Borrowing costs are generally allocated using the Group's overall cost of financing as a basis. As of December 31, 2007, a financing rate uniform within the Group of 5.0 percent was applied. In the case of a specific financing arrangement, the respective specific borrowing costs for that arrangement are used. Other borrowing costs are expensed.

Government Grants

Government investment subsidies do not reduce the acquisition and production costs of the respective assets; they are instead reported on the balance sheet as deferred income. They are amortized on a straight-line basis over the related 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 recognized over the period in which the costs that are supposed 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 as income over the term of the lease.

Financial Instruments

The first-time adoption of IFRS 7, "Financial Instruments: Disclosures" ("IFRS 7"), became effective in the 2007 fiscal year. The new standard requires both quantitative and qualitative disclosures about the extent of risks arising from financial instruments (e.g., credit, liquidity and market risks).

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. E.ON categorizes financial assets as held for trading, available for sale, or as loans and receivables. Management determines the categorization of the financial assets at initial recognition.

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

Loans and receivables (including trade receivables) are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Loans and receivables are reported on the balance sheet under "Receivables and other assets." They are subsequently measured at amortized cost, using the effective interest method. Valuation allowances 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. Reversals of losses are recognized under "Other operating income."

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

Derivative Financial Instruments and Hedging Transactions

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

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

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

For qualifying fair value hedges, the change in the fair value of the derivative and the change in the fair value of the hedged item that is due to the hedged risk(s) are recognized in income. If a derivative instrument qualifies as a cash flow hedge, the effective portion of the hedging instrument's gain or loss is recognized in equity (as a component of accumulated other comprehensive income) and reclassified into income in the period or periods during which the transaction being hedged affects income. The hedging result is reclassified into income immediately if it becomes probable that the hedged underlying transaction will no longer occur. For hedging instruments used to establish cash flow hedges, the change in fair value of the ineffective portion is recognized immediately in the income statement. To 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 classified 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.

See Note 30 for additional information regarding the Company's use of derivative instruments.

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

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

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

Share-Based Payment

Share-based payment plans issued in the E.ON Group are accounted for in accordance with IFRS 2, "Share-Based Payment" ("IFRS 2"). Both the E.ON Share Performance Plan introduced in fiscal 2006 and the remaining Stock Appreciation Rights 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 of the liability at 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 the 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 service cost representing the additional benefits that employees earned under the benefit plan during the fiscal year is reported under personnel costs; interest expenses 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 is amortized on a straight-line basis over the average period until the benefits become vested.

The amount reported in 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 unrecognized past service cost plus the present value of available refunds and reductions in future contributions.

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

Provisions for Asset Retirement Obligations and Other Provisions

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

Obligations arising from the decommissioning and restoration of property, plant and equipment are recognized during the period of their occurrence at their discounted settlement amounts, provided that the obligation can be reliably estimated. The carrying amounts of the respective property, plant and equipment are increased by the same amounts. In subsequent periods, capitalized asset retirement costs are amortized over the expected remaining useful lives of the assets, and the provision is accreted to its present value on an annual basis.

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

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

Under Swedish law, E.ON Sverige is required to pay fees to the country's national fund for nuclear waste management. Each year, the Swedish Nuclear Power Inspectorate 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 a departure from the policy applied in Germany, provisions for Sweden measured on the basis of the contributions to the fund 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 potential or present obligations toward third parties 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 has been 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. Following passage of the 2008 corporate tax reforms in Germany, deferred taxes for domestic companies were calculated using a total tax rate of 30 percent (2006: 39 percent). This tax rate includes, in addition to the 15 percent (2006: 25 percent) corporate income tax, the solidarity surcharge of 5.5 percent on the corporate tax, and the average trade tax rate of 14 percent (2006: 13 percent) applicable to the E.ON Group. Foreign subsidiaries use applicable national tax rates.

Note 10 shows the major temporary differences so recorded.

Consolidated Statement of Cash Flows

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

Segment Information

Segment reporting has for the first time taken place in accordance with IFRS 8. The so-called management approach required by IFRS 8 stipulates that the internal reporting organization used by management for making decisions on operating matters and the internal performance measure, i.e., adjusted EBIT, should be applied in the identification of the Company's reportable segments (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 classified as current.

In addition, as part of the transition to IFRS, classification of the Income Statement was changed to the nature of expense method which is also applied for internal purposes.

Capital Structure Management

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

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

Based on adjusted EBITDA in 2007 of €12,450 million (2006: €11,724 million) and net economic debt of €24,138 million as of the balance sheet date (2006: €18,233 million), the debt factor is 1.9 (2006: 1.6).

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 valuation and presentation of reported figures. Estimates are based on past experience and on additional knowledge obtained on transactions to be reported. Actual amounts could 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, as well as for impairment testing in accordance with IAS 36.

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 IFRIC have issued standards and interpretations whose application is not yet mandatory in the reporting period. The application of some of these standards and interpretations is at the present time still subject to adoption by the EU, which remains outstanding.

IFRS 3, "Business Combinations"

In January 2008, the IASB published a revised version of IFRS 3, "Business Combinations" ("IFRS 3"), as part of its "Business Combinations II" project. The most significant changes from the previous version relate to the recognition and measurement of assets and liabilities acquired through a business combination, the measurement of non-controlling interests, as well as to the calculation of goodwill and the presentation of transactions with variable purchase prices. The revised standard is to be applied for transactions taking place in fiscal years beginning on or after July 1, 2009. However, the standard has not yet been transferred by the EU into European law. E.ON is currently evaluating the potential effects arising from the revision of IFRS 3.

IFRS 2, "Share-based Payment"

In January 2008, the IASB issued revised IFRS 2, "Share-based Payment" ("IFRS 2"). The changes from the previous version relate primarily to the definition of vesting conditions and to the regulations governing the cancellation of a plan by a party other than the entity. The amendments are to be applied for fiscal years beginning on or after January 1, 2009. However, the standard has not yet been transferred by the EU into European law. Revised IFRS 2 will not have a material impact on E.ON's Consolidated Financial Statements.

IAS 23, "Borrowing Costs"

In March 2007, the IASB issued revised IAS 23, "Borrowing Costs" ("IAS 23"). IAS 23 eliminates the option of recognizing borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of such directly attributable borrowing costs is now mandatory. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. However, the standard has not yet been transferred by the EU into European law. Revised IAS 23 has no impact for E.ON as E.ON already capitalizes borrowing costs as a part of the cost of acquisition or construction.

IAS 1, "Presentation of Financial Statements"

In September 2007, the IASB issued a revised version of IAS 1. The main changes from the previous version relate to the presentation of equity and to changes in the titles of the financial statements. The revised standard is to be applied for fiscal years beginning on or after January 1, 2009. However, the standard has not yet been transferred by the EU into European law. Revised IAS 1 will not have a material impact on E.ON's Consolidated Financial Statements.

IAS 27, "Consolidated and Separate Financial Statements"

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

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

In February 2008, the IASB approved amendments to IAS 32 and IAS 1. The primary purpose of the amendments is to address the accounting treatment for particular types of puttable financial instruments that have characteristics similar to ordinary shares. IAS 32 previously required that such financial instruments be classified as a financial liability. The new version provides for reporting such instruments as equity if the holder can require the issuer to deliver a pro rata share of the net assets of the entity only on liquidation. The amendments are to be applied for fiscal years beginning on or after January 1, 2009. The amendments have not yet been transferred by the EU into European law. E.ON is currently evaluating the potential effects of the amendments to IAS 32 and IAS 1.

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

IFRIC 11, "IFRS 2—Group and Treasury Share Transactions" ("IFRIC 11"), addresses how to apply IFRS 2 to share-based payment arrangements in which an entity's own equity instruments or equity instruments of another company in the same group are granted. IFRIC 11 requires share-based compensation systems in which a company receives goods or services as consideration for its own equity instruments to be accounted for as equity-settled share-based payment transactions. IFRIC 11 further provides guidance on how share-based compensation systems in which a parent company's equity instruments are granted should be accounted for at a member of a group of companies. IFRIC 11 is to be applied for fiscal years beginning on or after March 1, 2007. The adoption of IFRIC 11 will not have a material impact on E.ON's Consolidated Financial Statements.

IFRIC 12, "Service Concession Arrangements"

IFRIC 12, "Service Concession Arrangements" ("IFRIC 12"), governs accounting for arrangements in which a public-sector institution grants contracts to private companies for the performance of public services. In performing these services, the private company uses infrastructure that remains under the control of the public-sector institution. The private company is responsible for the construction, operation, and maintenance of the infrastructure. IFRIC 12 is to be applied for fiscal years beginning on or after January 1, 2008; however, it has not yet been transferred by the EU into European law. E.ON is currently evaluating the potential effects of an introduction of IFRIC 12.

IFRIC 13, "Customer Loyalty Programmes"

IFRIC 13, "Customer Loyalty Programmes" ("IFRIC 13"), addresses accounting by entities that grant loyalty award credits. The interpretation clarifies how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. The provisions of IFRIC 13 are to be applied for fiscal years beginning on or after July 1, 2008. However, the interpretation has not yet been transferred by the EU into European law. The adoption of IFRIC 13 will not have a material impact on E.ON's Consolidated Financial Statements.

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

IFRIC 14, "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction" ("IFRIC 14"), provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. The interpretation also explains 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 is mandatory for fiscal years beginning on or after January 1, 2008; however, it has not yet been transferred by the EU into European law. The adoption of IFRIC 14 will not have a material impact on E.ON's Consolidated Financial Statements.

(3) Scope of Consolidation

The number of consolidated companies changed as follows during the reporting year:

Scope of Consolidation	Domestic	Foreign	Total
Consolidated companies as of January 1, 2006	129	379	508
Additions	15	18	33
Disposals/Mergers	5	35	40
Consolidated companies as of December 31, 2006	**139**	**362**	**501**
Additions	23	100	123
Disposals/Mergers	9	24	33
Consolidated companies as of December 31, 2007	**153**	**438**	**591**

In 2007, a total of 107 domestic and 78 foreign associated companies were accounted for under the equity method (2006: 108 domestic and 60 foreign).

See Note 4 for additional information on acquisitions, disposals and discontinued operations.

(4) Acquisitions, Disposals and Discontinued Operations

Acquisitions in 2007

OGK-4

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

Under Russian capital-markets legislation, E.ON was required to make a public offer to purchase the remainder of the shares held by the minority shareholders of OGK-4, and this offer, at a price of 3.3503 rubles per share, was made public on November 15, 2007. The acceptance period ended on February 4, 2008. E.ON was thus able to acquire additional shares equivalent to approximately 3.4 percent of OGK-4 and increase its total ownership stake to approximately 76.1 percent. As was expected, RAO UES did not accept the offer for its 22.5 percent stake in OGK-4.

OGK-4 operates conventional power plants at five locations with a total installed output of 8.6 gigawatts (GW) and plans to build additional power plants with a capacity of about 2.4 GW at the existing locations by 2011.

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

The E.ON Consolidated Financial Statements included revenues of €248 million and earnings of €3 million (after write-down of fair value adjustments from the purchase price allocation) attributable to OGK-4 for the period from October 1 through December 31, 2007. OGK-4's revenues and earnings for the full year amounted to €898 million and €29 million, respectively.

The purchase price allocation for OGK-4 was not final as of December 31, 2007, because effects on property, plant and equipment and also from potential obligations, in particular, remain to be evaluated.

Major Balance Sheet Line Items—OGK-4

€ in millions	IFRS carrying amounts before initial recognition	Purchase price allocation	Carrying amounts at initial recognition
Intangible assets	11	–	11
Property, plant and equipment	738	2,212	2,950
Other assets	1,497	5	1,502
Total assets	**2,246**	**2,217**	**4,463**
Non-current liabilities	210	529	739
Current liabilities	124	–	124
Total equity and liabilities	**334**	**529**	**863**
Net assets	**1,912**	**1,688**	**3,600**
Attributable to shareholders of E.ON AG	*1,390*	*–1,390*	*–*
Attributable to minority interests	*522*	*461*	*983*
Total acquisition costs		**4,350**	
Goodwill (preliminary)		**1,733**	**1,733**

ENERGI E2 Renovables Ibéricas

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

The E.ON Consolidated Financial Statements included revenues of €5 million and a loss of €1 million (after write-down of fair-value adjustments from the purchase price allocation) attributable to E2-I for the period from September 1 through December 31, 2007. E2-I's revenues and earnings for the full year amounted to roughly €15 million and €4 million, respectively.

Airtricity

On December 18, 2007, E.ON North America Holdings LLC acquired all the shares of Airtricity Inc., Chicago, Illinois, U.S., and all the shares of Airtricity Holdings (Canada) Ltd., Toronto, Ontario, Canada, for a purchase price of approximately €580 million. Airtricity operates a number of wind farms in the U.S. states of Texas and New York with a total installed output of around 250 MW. Additional wind farms with greatly enhanced generating capacity are to be completed by the end of 2008. As the timing of this consolidation is so close to the preparation of the Consolidated Financial Statements, the entire difference between the purchase price and Airtricity's equity is being carried provisionally as goodwill.

For the full year, Airtricity generated revenues of roughly €9 million and a loss of approximately €44 million.

Major Balance Sheet Line Items—E.ON Climate & Renewables (E2-I and Airtricity)

€ in millions	IFRS carrying amounts before initial recognition	Purchase price allocation	Carrying amounts at initial recognition
Intangible assets and acquired goodwill	74	231	305
Property, plant and equipment	934	31	965
Other assets	202	218	420
Total assets	**1,210**	**480**	**1,690**
Non-current liabilities	335	143	478
Current liabilities	828	5	833
Total equity and liabilities	**1,163**	**148**	**1,311**
Net assets	**47**	**332**	**379**
Attributable to shareholders of E.ON AG	*43*	*-43*	*-*
Attributable to minority interests	*4*	*32*	*36*
Total acquisition costs		**1,061**	
Goodwill (preliminary)		**718**	**718**

Disposals and Discontinued Operations in 2007

ONE

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

RAG

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

The following were the effects arising from discontinued operations:

WKE

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

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

The closing of the agreement is subject to a number of conditions, including review and approval by various regulatory agencies and acquisition of certain consents by other interested parties. Subject to such contingencies, the parties are working on completing the termination transaction by mid-2008. WKE therefore continued to be classified as a discontinued operation.

The tables below provide selected financial information from the discontinued WKE operations in the U.S. Midwest segment for the periods indicated:

Selected Financial Information—WKE (Summary)

€ in millions	2007	2006
Sales	204	227
Other income/(expenses), net	-338	-129
Income from continuing operations before income taxes and minority interests	**-134**	**98**
Income taxes	53	-34
Income from discontinued operations	**-81**	**64**

Major Balance Sheet Line Items—WKE (Summary)

	December 31		January 1
€ in millions	2007	2006	2006
Property, plant and equipment	202	215	211
Other assets	362	396	471
Total assets	**564**	**611**	**682**
Total liabilities	613	615	836

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

Acquisitions in 2006

JČP/DDGáz

In the course of portfolio adjustments undertaken in the Czech Republic and Hungary, minority shareholdings in various companies were sold. In exchange, E.ON acquired, in addition to two other minority shareholdings, a further 46.7 percent of the company Jihočeská plynárenská, a.s. ("JČP"), České Budějovice, Czech Republic, in which E.ON previously held a 13.1 percent share. This company was fully consolidated as of September 1, 2006. An additional 39.2 percent interest was acquired in a separate transaction, which also took place in September. E.ON thus held 99.0 percent of JČP. The remaining stake in JČP was purchased in 2007.

As part of the portfolio adjustment, an additional 49.9 percent interest was acquired in the fully consolidated company Dél-dunántúli Gázszolgáltató ZRt. ("DDGáz"), Pécs, Hungary, in which E.ON previously held 50.02 percent interest. As a result E.ON held 99.9 percent of DDGáz.

The exchange transaction resulted in total acquisition costs of €104 million, taking into account a total cash component of €30 million. The gains on the disposal of the minority interests totaled €31 million.

E.ON Földgáz Storage/E.ON Földgáz Trade

As of March 31, 2006, E.ON Ruhrgas had acquired a 100 percent interest in the gas trading and storage business of the Hungarian oil and gas company MOL through the acquisition of interests in MOL Földgázellátó ZRt. (now E.ON Földgáz Storage) and MOL Földgáztároló ZRt. (now E.ON Földgáz Trade), both of Budapest, Hungary. The purchase price was approximately €400 million. It had been agreed that, contingent on regulatory developments in Hungary, compensatory payments may be required until the end of 2009. The companies were fully consolidated as of March 31, 2006. As of December 31, 2006, the purchase price allocation resulted in preliminary goodwill of €119 million, which in 2007 was adjusted by €9 million to €110 million.

Disposals and Discontinued Operations in 2006

The following were reported as discontinued operations in 2006: E.ON Finland, Espoo, Finland, ("E.ON Finland") in the Nordic market unit, the operations of WKE in the U.S. Midwest market unit, and Degussa. In addition, E.ON recorded a gain of approximately €54 million (net of tax: €53 million) in 2006 from a purchase price adjustment on the disposal of Viterra.

E.ON Finland

On June 26, 2006, E.ON Nordic and the Finnish energy group Fortum Power and Heat Oy ("Fortum") finalized the transfer to Fortum of all of E.ON Nordic's shares in E.ON Finland pursuant to an agreement signed on February 2, 2006. The purchase price for the 65.56 percent stake totaled approximately €390 million. E.ON Finland was classified as a discontinued operation in mid-January 2006.

The table below provides selected financial information from the discontinued operations of the Nordic segment for the periods indicated:

Selected Financial Information—E.ON Finland (Summary)	
€ in millions	2006
Sales	131
Gain on disposal, net	11
Other income/(expenses), net	-115
Income from continuing operations before income taxes and minority interests	**27**
Income taxes	-7
Income from discontinued operations	**20**

Degussa

In December 2005, E.ON and RAG signed a framework agreement on the sale of E.ON's 42.9 percent stake in Degussa to RAG. As part of the implementation of that framework agreement, E.ON transferred its stake in Degussa into RAG Projektgesellschaft mbH, Essen, Germany on March 21, 2006. E.ON's stake in this entity was forward sold to RAG on the same date. On July 3, 2006, E.ON and RAG executed the forward sales agreement for E.ON's stake in RAG Projektgesellschaft mbH. Thus E.ON has sold its entire remaining, indirectly held stake in Degussa.

RAG paid E.ON the roughly €2.8 billion purchase price on August 31, 2006. The transaction initially resulted in a gain of €981 million, which subsequently had to be adjusted for the intercompany gain attributable to E.ON's minority ownership interest in RAG (39.2 percent). An initial gain of €596 million was thus realized from the transfer and the subsequent sale.

As the interest in Degussa qualified as a discontinued operation under IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" ("IFRS 5"), until its disposal, this gain, together with the effect of the equity-method measurement of Degussa in the first quarter of 2006 of €37 million was reported as income from discontinued operations in E.ON's Consolidated Financial Statements. In total, income of €633 million was recognized for Degussa.

Intercompany gains arising from the sale of tranches of Degussa shares to RAG totaled €418 million as of December 31, 2006.

(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 and deliveries of steam and heat.

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.

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

(6) Own Work Capitalized

Own work capitalized amounted to €517 million in 2007 (2006: €395 million) and resulted primarily from engineering services rendered 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	2007	2006
Income from exchange rate differences	3,284	4,439
Gain on derivative financial instruments	1,767	1,087
Gain on disposal of investments	1,588	981
Other trade income	232	169
Miscellaneous	905	1,238
Total	**7,776**	**7,914**

Realized gains from currency derivatives and the effects of positive exchange rate differences recognized in income are reported as income from exchange rate differences.

Gains on derivative financial instruments include the gains recognized as a result of the required marking to market and realized gains from derivatives under IAS 39, except for the income effects from interest rate derivatives.

Gains on the disposal of investments included proceeds from the sale of ONE in the amount of €321 million. The line item further included gains realized on the sale of securities in the amount of €1,128 million (2006: €613 million). In 2006, this line item also included gains from the disposal of institutional securities funds as part of the transfer to the Contractual Trust Arrangement ("CTA") in the amount of €159 million (see also Note 24).

Miscellaneous other operating income in 2007 consisted primarily of reductions of valuation allowances on accounts receivable, rental and leasing income, the sale of scrap metal and materials, as well as compensation payments received for damages.

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

Other Operating Expenses		
€ in millions	2007	2006
Loss from exchange rate differences	3,218	4,447
Loss on derivative financial instruments	1,331	3,052
Taxes other than income taxes	216	190
Loss on disposal of investments	138	125
Miscellaneous	4,821	4,093
Total	**9,724**	**11,907**

Realized losses from currency derivatives and the effects of negative exchange rate differences recognized in income are reported as losses from exchange rate differences.

Losses on derivative financial instruments include losses recognized as a result of the required marking to market and realized losses from derivatives under IAS 39, except for the income effects from interest rate derivatives.

Miscellaneous other operating expenses in 2007 consisted primarily of concession payments in the amount of €471 million (2006: €512 million), expenses for external audit and non-audit services and consulting in the amount of €414 million (2006: €263 million), advertising and marketing expenses in the amount of €360 million (2006: €281 million), as well as write-downs of receivables in the amount of €333 million (2006: €293 million). Additionally reported in this item are services rendered by third parties, IT expenditures and insurance premiums.

(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. Expenses for purchased services consist primarily of maintenance costs. Network usage charges are also included in the cost of materials.

Cost of Materials		
€ in millions	2007	2006
Expenses for raw materials and supplies and for purchased goods	47,667	44,171
Expenses for purchased services	2,556	2,537
Total	**50,223**	**46,708**

(9) Financial Results

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

Financial Results € in millions	2007	2006
Income from companies in which equity investments are held	215	209
Impairment of other financial assets	-36	-159
Income from equity investments	**179**	**50**
Available for sale	207	216
Loans and receivables	696	779
Held for trading	51	53
Other interest income	81	121
Income from securities, interest and similar income	**1,035**	**1,169**
Amortized cost	-929	-988
Held for trading	-78	-142
Other interest expenses	-979	-1,084
Interest and similar expenses	**-1,986**	**-2,214**
Net interest income	**-951**	**-1,045**
Financial results	**-772**	**-995**

The measurement categories are described in detail in Note 2.

Reduced impairments of minority shareholdings and lower interest expenses led to a significant improvement in financial results for 2007 as compared with the previous year.

A total of €140 million in impairment charges that arose in connection with changes in network regulation on minority interests in Germany were recognized in 2006 as impairments of other financial assets.

Net interest and similar expenses improved in 2007 primarily as a result of an increase in expected returns on plan assets determined in connection with the measurement of the provisions for pensions and similar obligations.

Other interest income consists mostly of the income from lease receivables (finance leases). Other interest expense includes accretion of provisions for asset retirement obligations in the amount of €708 million (2006: €713 million).

Also included in this item is the interest expense from provisions for pensions—net of the expected return on plan assets—in the amount of €79 million (2006: €242 million).

The accretion of liabilities in connection with put options resulted in an expense of €22 million (2006: €102 million) pursuant to IAS 32.

Interest expense was reduced by capitalized interest on debt totaling €62 million (2006: €27 million).

Realized gains and losses from interest rate swaps are shown net.

(10) Income Taxes

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

Income Taxes		
€ in millions	2007	2006
Current taxes		
Domestic corporate income tax	931	-407
Domestic trade tax	735	354
Foreign income taxes	648	553
Other income taxes	10	5
Total	**2,324**	**505**
Deferred taxes		
Domestic	-149	-61
Foreign	114	-404
Total	**-35**	**-465**
Total Income Taxes	**2,289**	**40**

The increase in tax expense of €2,249 million compared with 2006 primarily reflects the special effect of first-time capitalization of discounted corporate tax credits which in 2006 had produced tax income of €1,279 million. The remainder of the increase is attributable to increased earnings.

The Corporate Tax Reform Act of 2008, which took effect on August 18, 2007, provides for extensive tax changes in Germany. In particular, the corporate income tax rate is cut from 25 percent in 2007 to 15 percent in 2008, while the average domestic trade tax rises from 13 percent in 2007 to 14 percent in 2008. The solidarity surcharge remains unchanged at 5.5 percent of the corporate income tax rate. The change in the overall tax rate from the previous rate of 39 percent to 30 percent necessitates a revaluation of all domestic deferred tax assets and deferred tax liabilities as of December 31, 2007. This revaluation in 2007 produced non-cash deferred tax income in the amount of €59 million.

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. While the recognition of the discounted credits resulted in tax income of €1,279 million in 2006, the change in corporate tax credits resulted in tax income of €75 million in 2007.

With the entry into force on December 29, 2007, of the Annual Tax Act of 2008 in Germany, those currently untaxed income components that until then had been recognized in a type of equity called ”EK 02” now have to be declared retrospectively irrespective of distributions. Taxes on this income must be paid in up to ten equal annual installments, with the first payment due on September 30, 2008. This so-called corporate income tax surcharge is equal to 3 percent of the EK 02 calculated as of December 31, 2006. This produces a gross amount of €88 million. A one-time payment option is also available. Assuming a scheduled payment on September 30, 2008, the tax expense for 2007 is €70 million.

No deferred tax liabilities were recognized in 2006 for the differences between net assets and the tax bases of subsidiaries and associated companies (the so-called ”outside basis differences”). As of December 31, 2007, deferred tax liabilities amounted to €7 million. Deferred tax liabilities were not recognized for subsidiaries and associated companies to the extent that the Company can control the reversal effect and insofar as it is probable that temporary differences will not be reversed in the foreseeable future. No deferred tax liabilities were recognized for temporary differences of €1,646 million (2006: €1,335 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 the United Kingdom, the Czech Republic and a number of other countries resulted in deferred tax income of €118 million. In 2006, changes in foreign tax rates produced total deferred tax income of €21 million.

The differences between the 2007 base income tax rate of 39 percent (2006: 39 percent) applicable in Germany and the effective tax rate are reconciled as follows:

Reconciliation to Effective Income Taxes/Tax Rate

	2007		2006	
	€ in millions	%	€ in millions	%
Expected corporate income tax	3,776	39.0	2,085	39.0
Credit for dividend distributions	-75	-0.8	-76	-1.4
Foreign tax rate differentials	-405	-4.2	-71	-1.3
Changes in tax rate/tax law	-177	-1.8	-21	-0.4
Tax effects on tax-free income	-790	-8.2	-491	-9.2
Tax effects on equity accounting	-353	-3.6	-227	-4.2
Other[1]	313	3.2	-1,159	-21.7
Effective income taxes/tax rate	**2,289**	**23.6**	**40**	**0.8**

[1]Income from capitalization of corporate tax credits in 2006: €-1,279 million.

As discussed in Note 4, the corporate income taxes relating to discontinued operations are reported in E.ON's Consolidated Statement of Income under "Income/Loss from discontinued operations, net," and break down as follows:

Income Taxes from Discontinued Operations

€ in millions	2007	2006
WKE	-53	34
E.ON Finland	-	7
Viterra	-	1
Total	**-53**	**42**

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

Income from Continuing Operations before Income Taxes and Minority Interests

€ in millions	2007	2006
Domestic	5,500	3,463
Foreign	4,183	1,884
Total	**9,683**	**5,347**

Deferred tax assets and liabilities as of December 31, 2007, and December 31, 2006, break down as shown in the following table:

Deferred Tax Assets and Liabilities

	December 31	
€ in millions	2007	2006
Intangible assets	73	62
Property, plant and equipment	608	647
Financial assets	138	209
Inventories	9	12
Receivables	70	397
Provisions	3,107	4,209
Liabilities	2,070	2,418
Net operating loss carryforwards	452	613
Tax credits	81	38
Other	163	187
Subtotal	**6,771**	**8,792**
Valuation allowance	-212	-435
Deferred tax assets	**6,559**	**8,357**
Intangible assets	1,033	1,101
Property, plant and equipment	6,501	6,547
Financial assets	1,727	1,977
Inventories	176	246
Receivables	1,946	2,076
Provisions	443	502
Liabilities	253	178
Other	880	1,546
Deferred tax liabilities	**12,959**	**14,173**
Net deferred tax assets/liabilities (-)	**-6,400**	**-5,816**

Of the deferred taxes reported, a total of €2,246 million was charged directly to equity in 2007 (2006: €2,223 million).

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

Net Deferred Tax Assets and Liabilities

€ in millions	December 31, 2007 current	December 31, 2007 non-current	December 31, 2006 current	December 31, 2006 non-current
Deferred tax assets	298	1,069	254	1,428
Changes in value	-4	-208	-11	-424
Net deferred tax assets	**294**	**861**	**243**	**1,004**
Deferred tax liabilities	-712	-6,843	-568	-6,495
Net deferred tax assets/liabilities (-)	**-418**	**-5,982**	**-325**	**-5,491**

In the acquisition of OGK-4, the purchase price allocation resulted in deferred tax liabilities of €529 million as of December 31, 2007. The purchase price alloation for E2-I resulted in deferred tax liabilities of €148 million as of December 31, 2007.

The purchase price allocations of other acquisitions resulted in the recognition on December 31, 2007, of a total of €19 million in deferred tax liabilities.

The acquisitions of DDGáz, E.ON Földgáz Trade, E.ON Földgáz Storage, Somet and E.ON Värme resulted in the recognition on December 31, 2006, of a total of €6 million in deferred tax assets and €27 million in deferred tax liabilities.

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

Tax Loss Carryforwards

€ in millions	December 31 2007	December 31 2006
Domestic tax loss carryforwards	1,646	2,016
Foreign tax loss carryforwards	739	956
Total	**2,385**	**2,972**

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 tax credits for which no deferred taxes have been recognized, €12 million expire after 2012.

(11) Personnel-Related Information

Personnel Costs

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

Personnel Costs € in millions	2007	2006
Wages and salaries	3,692	3,553
Social security contributions	556	580
Pension costs and other employee benefits	349	396
Pension costs	*327*	*377*
Total	**4,597**	**4,529**

In 2007, E.ON purchased on the market a total of 373,905 of its own shares (0.05 percent of the shares of E.ON AG) for resale to employees as part of the employee stock purchase program at an average purchase price of €121.10 per share (in 2006, treasury share usage: 443,290 shares; 0.06 percent). These shares were sold to employees at preferential prices between €45.20 and €104.64 (2006: between €38.37 and €74.77). The costs arising from the granting of these preferential prices were charged to personnel costs as "wages and salaries." Further information about the changes in the number of its own 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.

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

Stock Appreciation Rights of E.ON AG

From 1999 up to and including 2005, E.ON annually granted virtual stock options ("Stock Appreciation Rights" or "SAR") through the E.ON AG Stock Appreciation Rights program. The third tranche of SAR was exercised in full in 2007. SAR from the fourth through seventh tranches may still be exercised after the end of the program, in accordance with the SAR terms and conditions.

Stock Appreciation Rights of E.ON AG	7th tranche	6th tranche	5th tranche	4th tranche	3rd tranche
Date of issuance	Jan. 3, 2005	Jan. 2, 2004	Jan. 2, 2003	Jan. 2, 2002	Jan. 2, 2001
Term	7 years	7 years	7 years	7 years	7 years
Blackout period	2 years	2 years	2 years	2 years	2 years
Price at issuance[1]	€61.10	€44.80	€37.86	€50.70	€58.70
Level of the Dow Jones STOXX Utilities Index (Price EUR)	268.66	211.58	202.14	262.44	300.18
Number of participants in year of issuance	357	357	344	186	231
Number of SAR issued	2.9 m	2.7 m	2.6 m	1.7 m	1.8 m
Exercise hurdle (minimum percentage by which exercise price exceeds the price at issuance)	10%	10%	10%	10%	20%
Exercise hurdle (minimum exercise price)[1]	€67.21	€49.28	€41.65	€55.77	€70.44
Maximum exercise gain	€65.35	€49.05	–	–	–

[1]Adjusted for special dividend distribution in 2006.

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 underlying share price at issuance multiplied by the number of SAR exercised. 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. This cap on gains took effect for the first time in the 2006 fiscal year.

In accordance with IFRS 2 measurement criteria, the SAR were measured by reference to the fair value of the rights as of December 31, 2007.

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 and of the benchmark index 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 (2.30 percent) and of the benchmark index (3.18 percent) are also included in the pricing model. The dividend yield used for the E.ON share in the calculations is based on the ratio of the most recent dividend distributed and the share price on the valuation date. Accordingly, as of the balance sheet date, this yield corresponds approximately to the anticipated future dividend yield. The average of the Xetra closing prices for E.ON AG shares was €118.08 in 2007. The Xetra closing price for E.ON AG shares at year-end was €145.59. The Dow Jones STOXX Utilities Index (Price EUR) closed at 549.75 points.

The following overview contains additional parameters used for measurement:

SAR Program of E.ON AG—Measurement Parameters of the Option Pricing Model

	7th tranche	6th tranche	5th tranche	4th tranche
Intrinsic value as of December 31, 2007	€65.35	€49.05	€107.73	€94.89
Fair value as of December 31, 2007	€64.09	€48.64	€104.39	€93.81
Swap rate	4.43%	4.42%	4.45%	4.55%
Volatility of the E.ON share	25.61%	25.47%	24.44%	21.97%
Volatility of the Dow Jones STOXX Utilities Index (Price EUR)	14.74%	14.78%	14.54%	13.78%
Correlation between the E.ON share price and the Dow Jones STOXX Utilities Index (Price EUR)	0.7015	0.7191	0.7492	0.7845

2,902,786 SAR from tranches three through seven were exercised on an ordinary basis in 2007. In addition, 100,349 SAR from tranches three, four, five, and seven were exercised in accordance with the SAR terms and conditions on an extraordinary basis. The total gain to the holders on exercise amounted to €163.2 million (2006: €134.4 million). 7,000 SAR from tranche three expired during 2007.

The provision for the SAR program was €23.2 million as of the balance sheet date (2006: €143.1 million). The expense for the 2007 fiscal year amounted to €43.4 million (2006: €113.0 million).

The number of SAR, provisions for and expenses arising from the E.ON SAR program have changed as shown in the following table:

Changes in the E.ON AG SAR Program

	7th tranche	6th tranche	5th tranche	4th tranche	3rd tranche
SAR outstanding as of December 31, 2005	2,885,428	2,417,995	613,711	238,909	158,750
SAR granted in 2006	–	–	–	–	–
SAR exercised in 2006	49,511	2,349,731	346,358	169,742	85,750
SAR expired in 2006	26,041	13,717	2,423	–	–
SAR outstanding as of December 31, 2006	**2,809,876**	**54,547**	**264,930**	**69,167**	**73,000**
SAR granted in 2007	–	–	–	–	–
SAR exercised in 2007	2,754,876	26,547	113,379	42,333	66,000
SAR expired in 2007	–	–	–	–	7,000
SAR outstanding as of December 31, 2007	**55,000**	**28,000**	**151,551**	**26,834**	**–**
Gains on exercise in 2007	€145.3 m	€1.3 m	€9.2 m	€2.8 m	€4.6 m
Provision as of December 31, 2007	€3.5 m	€1.4 m	€15.8 m	€2.5 m	€0.0 m
Expense in 2007	€31.2 m	€0.1 m	€8.7 m	€2.0 m	€1.4 m

The SAR of tranches four through seven were exercisable on December 31, 2007.

E.ON Share Performance Plan

In 2007, virtual shares ("Performance Rights") from the second tranche of the E.ON Share Performance Plan were granted. For the first time, certain members of senior management were also granted Performance Rights alongside top management.

E.ON Share Performance Rights

	2nd tranche	1st tranche
Date of issuance	Jan. 1, 2007	Jan. 1, 2006
Term	3 years	3 years
Target value at issuance	€96.52	€79,22
Number of participants in year of issuance	501	396
Number of Performance Rights issued	395,025	458,641
Maximum amount paid	€289.56	€237.66

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

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

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

The plan contains adjustment mechanisms to eliminate the effect of events such as interim corporate actions. Accordingly, to compensate for the economic effects of the special dividend payment of May 5, 2006, capital adjustment factors were established for the first tranche.

The fair value is determined for the Performance Rights in accordance with IFRS 2 using a recognized option pricing model. Similar to the option pricing model used for the SAR program, this model involves the simulation of a large number of different possible development tracks for the E.ON share price (taking into account the effects of reinvested dividends and capital adjustment factors) and the benchmark index (Monte Carlo simulation). However, unlike the SAR program, the benchmark for this plan is the Dow Jones STOXX Utilities Index (Total Return EUR), which stood at 968.95 points on December 31, 2007. 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

	2nd tranche	1st tranche
Intrinsic value as of December 31, 2007	€162.93	€157.47
Fair value as of December 31, 2007	€163.59	€158.72
Swap rate	4.45%	4.55%
Volatility of the E.ON share	21.73%	21.56%
Volatility of the Dow Jones STOXX Utilities Index (Total Return EUR)	13.46%	13.81%
Correlation between the E.ON share price and the Dow Jones STOXX Utilities Index (Total Return EUR)	0.7977	0.8056

395,025 second-tranche Performance Rights were granted in 2007. In 2007, the cash amount from 15,500 of the first and second tranches of Performance Rights was paid out on an extraordinary basis in accordance with the terms and conditions of the plan. Total payments amounted to €1.6 million (2006: €0.1 million). 4,349 first- and second-tranche Performance Rights expired in the 2007 fiscal year. Provisions for the plan totaled €67.8 million at year-end (2006: €8.9 million). Each provision is prorated for the respective period elapsed of the total three-year term. The total expense for the E.ON Share Performance Plan amounted to €60.5 million in 2007 (2006: €9.0 million).

Changes in the E.ON Share Performance Plan

	2nd tranche	1st tranche
Performance Rights granted in 2006	–	458,641
Settled Performance Rights in 2006	–	2,020
Performance Rights expired in 2006	–	2,020
Performance Rights outstanding as of December 31, 2006	**–**	**454,601**
Performance Rights granted in 2007	395,025	–
Settled Performance Rights in 2007	4,458	11,042
Performance Rights expired in 2007	1,658	2,691
Performance Rights outstanding as of December 31, 2007	**388,909**	**440,868**
Cash amount paid in 2007	€0.6 m	€1.0 m
Provision as of December 31, 2007	€21.2 m	€46.6 m
Expense in 2007	€21.7 m	€38.8 m

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

The issue of a third tranche of the E.ON Share Performance Plan is planned for 2008.

Employees

During 2007, the Company employed an average of 83,434 people (2006: 80,453), not including 2,352 apprentices (2006: 2,280). The breakdown by market unit is shown below:

Employees

	2007	2006
Central Europe	44,054	44,148
Pan-European Gas	12,204	12,653
U.K.	16,499	14,599
Nordic	5,872	5,697
U.S. Midwest	2,940	2,919
Corporate Center/New Markets	1,865	437
Total	**83,434**	**80,453**

(12) Other Information

German Corporate Governance Code

On December 17, 2007, the Board of Management and Supervisory Board of E.ON AG made a declaration of compliance pursuant to Article 161 of the German Stock Corporation Act ("AktG"). The declaration was made publicly accessible on E.ON's Web site (www.eon.com).

Fees and Services of the Independent Auditor

During 2007 and 2006, the Company incurred the following fees for services provided by its independent auditor, PricewaterhouseCoopers ("PwC"):

Independent Auditor Fees

€ in millions	2007	2006
Financial statement audits	33	33
Other attestation services	22	25
Tax advisory services	1	1
Other services	1	2
Total	**57**	**61**

The fees for the financial statement audits concern the audit of the Consolidated Financial Statements and the legally mandated financial statements of E.ON AG and its affiliates. This item also includes the additional fees charged for the audit of internal controls over financial reporting.

Fees for other attestation services concern in particular the review of the interim IFRS financial statements and, in 2006, the review of the conversion to IFRS. Further included in this item are project-related reviews connected to the introduction of IT and internal-control systems, due-diligence services rendered in connection with acquisitions and disposals, and other specific items.

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

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

Shareholdings and Other Interests

A listing of all shareholdings and other interests of E.ON AG has been compiled and will be published separately in the Electronic Federal Gazette ("elektronischer Bundesanzeiger") in Germany. That listing also contains those shareholdings for which the preparation and publication of consolidated financial statements and of a corresponding management report under Articles 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	2007	2006
Income/Loss (-) from continuing operations	7,394	5,307
less: Minority interests	-520	-486
Income/Loss (-) from continuing operations (attributable to shareholders of E.ON AG)	**6,874**	**4,821**
Income/Loss (-) from discontinued operations, net	**330**	**775**
less: Minority interests	-	-10
Income/Loss (-) from discontinued operations, net (attributable to shareholders of E.ON AG)	330	765
Net income attributable to shareholders of E.ON AG	**7,204**	**5,586**
in €		
Earnings per share (attributable to shareholders of E.ON AG)		
from continuing operations	10.55	7.31
from discontinued operations	0.51	1.16
from net income	**11.06**	**8.47**
Weighted-average number of shares outstanding (in millions)	651	659

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

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

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

Goodwill, Intangible Assets and Property, Plant and Equipment

€ in millions	January 1, 2006	Exchange rate differences	Change in scope of consoli-dation	Additions	Disposals	Transfers	December 31, 2006
	Acquisition and production costs						
Goodwill	**15,792**	**-245**	**74**	**56**	**-12**	**-61**	**15,604**
Marketing-related intangible assets	223	4	–	–	–	–	227
Customer-related intangible assets	2,443	31	2	2	-5	9	2,482
Contract-based intangible assets	1,689	10	-24	28	-18	9	1,694
Technology-based intangible assets	346	1	3	65	-32	120	503
Internally generated intangible assets	291	4	–	20	-2	-95	218
Intangible assets subject to amortization	**4,992**	**50**	**-19**	**115**	**-57**	**43**	**5,124**
Intangible assets not subject to amortization	1,171	11	-39	391	-244	-27	1,263
Advance payments on intangible assets	26	1	–	11	–	-23	15
Intangible assets	**6,189**	**62**	**-58**	**517**	**-301**	**-7**	**6,402**
Real estate and leasehold rights	4,030	86	-12	55	-49	-140	3,970
Buildings	7,716	5	-59	100	-24	258	7,996
Technical equipment, plant and machinery	78,028	95	182	2,067	-1,169	895	80,098
Other equipment, fixtures, furniture and office equipment	3,343	26	-77	243	-180	7	3,362
Advance payments and construction in progress	1,330	-27	42	1,815	-32	-1,040	2,088
Property, plant and equipment	**94,447**	**185**	**76**	**4,280**	**-1,454**	**-20**	**97,514**

a) Goodwill and Other Intangible Assets

Goodwill

During the 2007 and 2006 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	Corporate Center/ New Markets	Total
Net carrying amount as of January 1, 2006	2,419	4,200	4,955	368	3,552	–	15,494
Changes resulting from acquisitions and divestments	65	146	–	3	–	–	214
Other changes[1]	1	53	1	-73	-370	–	-388
Net carrying amount as of December 31, 2006	**2,485**	**4,399**	**4,956**	**298**	**3,182**	**–**	**15,320**
Changes resulting from acquisitions and divestments	17	15	–	2	–	2,458	2,492
Other changes[1]	-28	-39	-614	-12	-330	-28	-1,051
Net carrying amount as of December 31, 2007	**2,474**	**4,375**	**4,342**	**288**	**2,852**	**2,430**	**16,761**

[1]Other changes include transfers and exchange rate differences from the respective reporting year as well as reclassifications to discontinued operations (2006, Nordic segment: -€83 million).

Accumulated depreciation									Net carrying amounts
January 1, 2006	Exchange rate differences	Change in scope of consoli-dation	Additions	Disposals	Transfers	Impairment	Reversals	December 31, 2006	December 31, 2006
-298	**–**	**14**	**–**	**–**	**–**	**–**	**–**	**-284**	**15,320**
-123	-3	–	-50	–	–	-41	–	-217	10
-782	-13	9	-197	1	-1	–	–	-983	1,499
-601	-5	12	-51	8	-1	-140	–	-778	916
-267	-1	-3	-54	31	-71	–	–	-365	138
-209	-3	–	-26	–	73	–	–	-165	53
-1,982	**-25**	**18**	**-378**	**40**	**–**	**-181**	**–**	**-2,508**	**2,616**
–	–	–	–	–	–	–	–	–	1,263
–	–	–	–	–	–	–	–	–	15
-1,982	**-25**	**18**	**-378**	**40**	**–**	**-181**	**–**	**-2,508**	**3,894**
-333	-1	–	-12	2	96	-5	1	-252	3,718
-3,813	-8	36	-216	5	-96	-25	–	-4,117	3,879
-46,847	-64	392	-2,275	914	-29	-355	–	-48,264	31,834
-2,378	-20	38	-205	178	16	–	–	-2,371	991
-9	1	–	–	–	–	-18	–	-26	2,062
-53,380	**-92**	**466**	**-2,708**	**1,099**	**-13**	**-403**	**1**	**-55,030**	**42,484**

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. In addition, to the extent available, market transactions or valuations by third parties are taken into account for similar assets.

Valuation is based on the corporate planning authorized by the Board of Management. Underlying the calculations is a detailed forecasting period of five years, which extends to ten years in exceptional cases. The cash flow assumptions extending beyond the detailed forecasting period are determined using unit-specific growth rates that are based on historical analysis and prospective forecasting. The after-tax interest rates used for discounting cash flows are calculated on a unit-specific basis using market data, and as of December 31, 2007, ranged between 5.6 and 7.3 percent after taxes (2006: 5.4 to 7.8 percent).

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

As all the fair values less costs to sell of the cash-generating units exceeded their respective carrying amounts, no charges were recognized in 2007 or 2006 in connection with the testing of goodwill for impairment.

Intangible Assets

In 2007, the Company recorded an aggregate amortization expense of €351 million (2006: €378 million). Impairment charges of €66 million on intangible assets were recognized in 2007 (2006: €181 million).

Intangible assets not subject to amortization include emission rights from a variety of trading systems with a carrying amount of €228 million (2006: €289 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	
2008	335
2009	275
2010	211
2011	177
2012	151
Total	**1,149**

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

b) Property, Plant and Equipment

Borrowing costs in the amount of €62 million were capitalized in 2007 (2006: €27 million) as part of the historical cost of property, plant and equipment.

In 2007, the Company recorded depreciation of property, plant and equipment in the amount of €2,744 million (2006: €2,708 million). Impairment charges on property, plant and equipment amounted to €33 million (2006: €403 million). In 2006, the amount included €227 million in impairment charges for gas distribution network operations in Germany that resulted from the regulation of network charges. Reversals of impairments on property, plant and equipment amounted to €4 million in 2007 (2006: €1 million).

Restrictions on disposals of the Company's property, plant and equipment exist in the amount of €5,228 million (2006: €4,236 million) mainly with regard to land, buildings and technical equipment.

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, 2007:

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

	December 31	
€ in millions	2007	2006
Land	–	–
Buildings	2	3
Technical equipment, plant and machinery	271	285
Other equipment, fixtures, furniture and office equipment	2	6
Net carrying amount of capitalized lease assets	**275**	**294**

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	2007	2006	2007	2006	2007	2006
Due within 1 year	56	58	17	15	39	43
Due in 1 to 5 years	104	127	50	42	54	85
Due in more than 5 years	288	295	188	203	100	92
Total	**448**	**480**	**255**	**260**	**193**	**220**

The present value of the minimum lease obligations is reported primarily under liabilities from leases. A further €22 million (2006: €24 million) is included in financial liabilities to entities in which an ownership interest exists.

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

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

E.ON as Lessor—Operating Leases

€ in millions	2007
Nominal value of outstanding lease installments	
Due within 1 year	29
Due in 1 to 5 years	87
Due in more than 5 years	190
Total	**306**

See Note 17 for information on receivables from finance leases.

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

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

Companies Accounted for Under the Equity Method and Other Financial Assets

€ in millions	Dec. 31 2007	Dec. 31 2006	Jan. 1 2006
Companies accounted for under the equity method	8,411	7,770	9,507
Equity investments	14,583	13,533	10,073
Equity investment in OAO Gazprom	*13,061*	*11,918*	*8,141*
Non-current securities	6,895	7,146	6,471
Total	**29,889**	**28,449**	**26,051**

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

In 2007, impairment charges on companies accounted for under the equity method amounted to €1 million (2006: €215 million) and impairments on other financial assets amounted to €28 million (2006: €152 million). In 2006, €335 million in impairment charges were related to equity method companies and minority shareholdings with network operations in Germany, and resulted from the regulation of network charges. The carrying amount of other financial assets with impairment losses was €524 million as of the end of the fiscal year (2006: €436 million).

€1,524 million (2006: €1,169 million) in non-current securities is restricted for the fulfillment of legal insurance obligations of VKE.

Shares in Associated Companies Accounted for Under the Equity Method

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

Earnings Data for Companies Accounted for Under the Equity Method

€ in millions	2007	2006
Sales	48,656	49,531
Net income/loss	4,399	3,715

Investment income generated from associated companies accounted for under the equity method amounted to €1,019 million in 2007 (2006: €880 million).

Balance Sheet Data for Companies Accounted for Under the Equity Method

	December 31	
€ in millions	2007	2006
Non-current assets	24,940	42,011
Current assets	14,353	27,034
Provisions	8,636	23,114
Liabilities and deferred income	15,280	26,381
Equity	**15,377**	**19,550**

The carrying amount of associated companies accounted for under the equity method whose shares are marketable was €1,104 million in 2007 (2006: €973 million). The fair value of E.ON's share in these companies was €2,284 million (2006: €2,401 million).

Additions of investments in associated companies accounted for under the equity method resulted in a total goodwill of €102 million in 2007 (2006: €54 million).

Investments in associated companies totaling €79 million (2006: €76 million) were restricted because they were pledged as collateral for financing as of the balance sheet date.

(16) Inventories

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

Inventories	December 31	
€ in millions	2007	2006
Raw materials and supplies	1,946	2,144
Goods purchased for resale	1,801	1,987
Work in progress and finished products	64	68
Inventories	**3,811**	**4,199**

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

Write-downs totaled to €3 million in 2007 (2006: €6 million). Reversals of write-downs amounted to €5 million in 2007 (2006: €5 million). The carrying amount of inventories recognized at net realizable value was €183 million.

No inventories have been pledged as collateral.

(17) Receivables and Other Assets

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

Receivables and Other Assets	December 31, 2007		December 31, 2006	
€ in millions	current	non-current	current	non-current
Financial receivables from entities in which an ownership interest exists	463	564	451	593
Accounts receivable from finance leases	43	529	61	531
Other financial receivables and financial assets	1,009	1,356	965	1,507
Financial receivables and other financial assets	**1,515**	**2,449**	**1,477**	**2,631**
Operating receivables from entities in which an ownership interest exists	842	4	1,018	28
Trade receivables	9,064	–	9,760	–
Receivables from derivative financial instruments	5,232	328	4,714	4
Other operating assets	2,835	348	2,565	341
Trade receivables and other operating assets	**17,973**	**680**	**18,057**	**373**
Receivables and other assets	**19,488**	**3,129**	**19,534**	**3,004**

As of December 31, 2007, other financial assets include receivables from owners of minority interests in jointly owned power plants of €518 million (2006: €609 million) and margin account deposits for futures trading of €262 million (2006: €135 million). In addition, in line with the application of IFRIC 5, other financial assets include a claim for a refund from the Swedish nuclear fund in the amount of €1,280 million (2006: €1,290 million) in connection with the decommissioning of nuclear power plants and nuclear waste disposal. Since this asset is designated for a particular purpose, E.ON's access to it is restricted.

Other operating assets consist primarily of accrued interest receivables of €598 million (2006: €555 million).

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

Aging Schedule of Trade Receivables

€ in millions	2007	2006
Total trade receivables	9,064	9,760
Not impaired and not yet due	6,874	7,113
Not impaired and up to 90 days past-due	1,449	1,938
Not impaired and 91 to 180 days past-due	285	192
Not impaired and 181 to 360 days past-due	263	285
Not impaired and over 360 days past-due	161	189
Net value of impaired receivables	32	43

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

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

Valuation Allowances for Trade Receivables

€ in millions	2007	2006
Balance as of January 1	-503	-394
Change in scope of consolidation	–	3
Write-downs	-333	-293
Reversals of write-downs	64	54
Derecognition	198	149
Other[1]	18	-22
Balance as of December 31	**-556**	**-503**

[1]"Other" consists primarily of additions and currency translation differences.

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

E.ON as Lessor—Finance Leases

€ in millions	Gross investment in finance lease arrangements		Unrealized interest income		Present value of minimum lease payments	
	2007	2006	2007	2006	2007	2006
Due within 1 year	104	102	44	35	60	67
Due in 1 to 5 years	359	351	169	155	190	196
Due in more than 5 years	879	1,007	429	547	450	460
Total	**1,342**	**1,460**	**642**	**737**	**700**	**723**

Of the present value of the outstanding lease payments, €572 million (2006: €592 million) are reported as receivables from finance leases and 128 million (2006: €131 million) are reported as financial receivables from entities in which an ownership interest exists.

(18) Liquid Funds

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

Liquid Funds	December 31	
€ in millions	2007	2006
Securities and fixed-term deposits	3,888	4,448
Current securities with an original maturity greater than 3 months	*2,862*	*4,399*
Fixed-term deposits with an original maturity greater than 3 months	*1,026*	*49*
Restricted cash	300	587
Cash and cash equivalents	2,887	1,154
Total	**7,075**	**6,189**

Restricted cash, of which €12 million (2006: €18 million) has a maturity greater than three months, includes €67 million (2006: €74 million) in collateral deposited at banks, which serves to limit the utilization of credit lines in connection with the marking to market of derivatives transactions. In addition, current securities with an original maturity greater than three months include €578 million (2006: €566 million) in securities held by VKE that are restricted for the fulfillment of legal insurance obligations toward companies of the E.ON Group. Additional securities in the amount of €234 million (2006: €371 million) are restricted as collateral for financial transactions.

Cash and cash equivalents include checks, cash on hand and balances in Bundesbank accounts and at other credit institutions, as well as €2,847 million (2006: €1,115 million) in securities with an original maturity of less than three months, to the extent that they are not restricted.

(19) Capital Stock

The Company's authorized capital stock of €1,734,200,000 (2006: €1,799,200,000) consists of 667,000,000 (2006: 692,000,000) ordinary shares issued with no par value. The €65 million reduction in capital is due to the cancellation of 25,000,000 treasury shares in December 2007. The number of outstanding shares as of December 31, 2007, totaled 631,622,782 (2006: 659,597,269).

As of December 31, 2007, E.ON AG held a total of 6,905,024 treasury shares (2006: 3,930,537) having a consolidated book value of €616 million (equivalent to 1.03 percent or €17,953,062 of the capital stock). The increase in the number of treasury shares resulted from inflows of own shares that were purchased under the share buyback program and had not yet been cancelled as of the balance sheet date. 373,905 shares were purchased on the market for E.ON's employee stock program and subsequently distributed to employees in 2007 (2006: distribution of 443,290 treasury shares). See also Note 11 with regard to the distribution of shares under the employee stock program. 457 treasury shares (2006: 427 shares) were also distributed to employees.

A further 28,472,194 shares of E.ON AG are held by one of its subsidiaries as of December 31, 2007 (2006: 28,472,194).

E.ON Energie AG acquired a total of 2,890 E.ON AG shares on the open market that were immediately tendered in lieu of payments to third parties.

The Company plans to buy back a total of €7 billion in shares of E.ON AG under the share buyback program. The goals of the share buyback are to optimize E.ON's capital structure and to make E.ON stock more attractive. At the Annual Shareholders Meeting of May 3, 2007, the Board of Management was authorized to cancel treasury shares without requiring an additional shareholder resolution.

In its meeting of December 4, 2007, the Board of Management of E.ON AG resolved to cancel 25,000,000 of the shares acquired by the Company through its share buyback program. This was equivalent to 3.61 percent or €65 million of the capital stock of E.ON AG. The reduction of capital proceeded as a simplified capital reduction as specified in Article 71 (1) No. 8 AktG.

Moreover, E.ON entered into put option arrangements in 2007 for a further 10,000,000 of its own shares, again as part of the share buyback program. Pursuant to IAS 32, the €1,098 million in conditional purchase price obligations arising from the put options, which had been recognized as a separate component of equity, have now been reclassified as a liability. The €64 million option premium received had the net effect, after deduction of €19 million in deferred taxes, of increasing equity by a total of €45 million.

Authorized Capital

At the Annual Shareholders Meeting on April 27, 2005, the Board of Management was authorized, subject to the Supervisory Board's approval, to increase the Company's capital stock by up to €540 million ("Article 202 ff. AktG Authorized Capital") through one or more issuances of new ordinary shares with no par value 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.

At the Annual Shareholders Meeting of April 30, 2003, conditional capital (with the option to exclude shareholders' subscription rights) in the amount of €175.0 million ("Conditional Capital") was authorized until April 30, 2008. This Conditional Capital may be used to issue bonds with conversion or option rights and to fulfill conversion obligations towards creditors of bonds containing conversion obligations. The securities underlying these rights and obligations are either E.ON AG shares or those of companies in which E.ON AG directly or indirectly holds a majority stake.

For the 2007 fiscal year, the following disclosures about voting rights have been made pursuant to Article 21 (1) of the German Securities Trading Act ("WpHG"):

On June 6, 2007, UBS AG, Zurich, Switzerland, informed us pursuant to Article 21 (1) WpHG that its share of the voting rights of E.ON AG, Düsseldorf, Germany, ISIN: DE0007614406, WKN: 761440, passed the threshold of 3 percent on June 1, 2007, and that it stands at 3.48 percent (equivalent to 24,100,066 votes) as of that date. 0.16 percent of the voting rights (equivalent to 1,102,568 votes) are attributable to UBS AG pursuant to Article 22 (1), sentence 1, no. 1, WpHG.

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

(20) Additional Paid-in Capital

Additional paid-in capital results exclusively from share issuance premiums. As of December 31, 2007, additional paid-in capital amounts to €11,825 million (2006: €11,760 million). This represents an increase of €65 million since December 31, 2006. This increase is due to the retirement of 25,000,000 shares.

The €11 million increase in 2006 resulted from the distribution of 443,290 E.ON AG shares to employees.

(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	2007	2006
Legal reserves	45	45
Other retained earnings	26,783	24,305
Total	**26,828**	**24,350**

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

Under German securities law, E.ON AG shareholders may only receive distributions from the retained earnings of E.ON AG as defined by German GAAP. As of December 31, 2007, these German-GAAP retained earnings amounted to €3,627 million (2006: €4,593 million). Of these, legal reserves of €45 million (2006: €45 million) pursuant to Article 150 (3) and (4) AktG and reserves for treasury shares of €230 million (2006: €230 million) pursuant to Article 272 (4) HGB were not distributable on December 31, 2007. Accordingly, an amount of €3,352 million (2006: €4,318 million) is in principle available for dividend payments.

The Group's retained earnings as of December 31, 2007, include accumulated undistributed earnings of €1,297 million (2006: €910 million) from companies that have been accounted for under the equity method.

A proposal to increase the cash dividend for 2007 by 22 percent, from €3.35 per share to €4.10 per share, will be submitted to the Annual Shareholders Meeting. The dividend will thus have increased from €1.75 to €4.10 since 2002, which corresponds to an average annual increase of 19 percent. Based on E.ON AG's 2007 year-end closing price, the dividend yield is 2.8 percent. Based on a €4.10 dividend, the total profit distribution is €2,590 million.

(22) Changes in Other Comprehensive Income

The change in unrealized gains from available-for-sale securities was primarily attributable to an increase of €1,143 million (before deferred taxes) in the fair value of the investment in Gazprom.

In 2007, reclassification adjustments from available-for-sale securities recognized in income resulted primarily from the sale of securities at the Central Europe market unit. In 2006, this item included a gain of €159 million from the deconsolidation of institutional securities funds that took place as part of the funding of the CTA (see also Note 24).

(23) Minority Interests

Minority interests as of the dates indicated are attributable to the segments as shown below:

Minority Interests	December 31	
€ in millions	2007	2006
Central Europe	2,578	2,299
Pan-European Gas	212	832
U.K.	84	63
Nordic	1,782	1,789
U.S. Midwest	29	77
Corporate Center/New Markets	1,071	-2,527
Total	**5,756**	**2,533**

The increase in minority interests in 2007 resulted primarily from the expiration of an obligation concerning the purchase of the outstanding stake in E.ON Sverige and from the acquisition of OGK-4 (see also Notes 26 and 4).

(24) Provisions for Pensions and Similar Obligations

The retirement benefit obligations toward the employees of the E.ON Group, which amounted to €15.9 billion, were covered by plan assets having a fair value of €13.1 billion as of December 31, 2007. This corresponds to a funded status of 82 percent.

In addition to the reported plan assets, VKE manages financial investments and liquid funds totaling €2.4 billion (2006: €2.3 billion) that do not constitute plan assets under IAS 19 but which nevertheless are solely intended for the coverage of employee retirement benefits in the Central Europe market unit and at Corporate Center/New Markets.

In 2006 and 2007, 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:

Two-Year History

	Dezember 31		January 1
€ in millions	2007	2006	2006
Defined benefit obligation	15,936	17,306	17,849
Fair value of plan assets	-13,056	-13,342	-8,076
Funded status	**2,880**	**3,964**	**9,773**

Description of the Benefit Obligations

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

Both defined benefit pension plans and defined contribution pension plans are maintained at E.ON. The majority of the benefit obligations reported consists of obligations of those companies in the E.ON Group 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 reduce the risks associated with this type of benefit obligations, a majority of the final-pay retirement pension plans were closed between 1998 and 2006 to new employees joining the Company and replaced by newly designed pension plans in Germany and the U.K. containing elements of both defined benefit and defined contribution pension plans, and by defined contribution pension plans in the United States. The newly designed pension plans were also introduced at many of the Group's German companies to cover existing benefits for years of service beyond 2004.

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

Under defined contribution pension plans, the Company discharges its obligations toward the employees in defined contribution pension plans when it pays agreed contribution amounts into funds managed by external retirement insurers.

Changes in the Benefit Obligation

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

Changes in the Defined Benefit Obligation

	2007			2006		
€ in millions	Total	Domestic	Foreign	Total	Domestic	Foreign
Defined benefit obligation as of January 1	17,306	8,840	8,466	17,849	9,205	8,644
Employer service cost	256	161	95	265	172	93
Interest cost	810	388	422	771	361	410
Change in scope of consolidation	24	2	22	-2	5	-7
Past service cost	10	–	10	14	1	13
Actuarial gains (-)/losses	-920	-1,003	83	-816	-492	-324
Exchange rate differences	-761	–	-761	45	–	45
Employee contributions	25	–	25	21	–	21
Pensions paid	-863	-426	-437	-847	-416	-431
Other	49	1	48	6	4	2
Defined benefit obligation as of December 31	**15,936**	**7,963**	**7,973**	**17,306**	**8,840**	**8,466**

Foreign benefit obligations relate almost entirely to the benefit plans at the market units U.K. (2007: €7,134 million) and U.S. Midwest (2007: €779 million). The portion of the entire benefit obligation allocated to health care benefits amounted to €139 million (2006: €179 million).

The addition of OGK-4 (€22 million) was the principal factor behind the change shown as "Change in scope of consolidation" in 2007.

Actuarial gains in 2006 and 2007 are attributable primarily to the increase of the discount rate, which led to a relative decrease of the defined benefit obligation.

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

Actuarial Assumptions

	December 31, 2007				December 31, 2006			
	Germany		U.K.	U.S.	Germany		U.K.	U.S.
in %	CTA plans	Other			CTA plans	Other		
Discount rate	5.50	5.50	5.80	6.65	4.50	4.50	5.10	5.95
Salary increase rate	2.75	2.75	4.20	5.25	2.75	2.75	4.00	5.25
Expected return on plan assets	5.40	4.50	5.90	8.25	4.90	4.50	5.90	8.25
Pension increase rate	1.75	1.75	3.20	–	1.50	1.50	3.00	–
Health care cost trend	–	–	–	9.00	–	–	–	10.00

Other company-specific actuarial assumptions, including employee fluctuation, have also been included in the computations. In Germany, the increase in age limits provided by the Retirement Pension Age Limit Adjustment Act ("RV-Altersgrenzenanpassungsgesetz") was included for the first time in the determination of the benefit obligation in 2007.

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

The discount rate assumptions used by E.ON reflect the country-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.

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.

In 2006, a number of German subsidiaries established a so-called Contractual Trust Arrangement (CTA), with two trusts (Pensionsabwicklungstrust e.V., E.ON Pension Trust e.V.) created for this purpose. The funds administered on a fiduciary basis by E.ON Pension Trust e.V. amounted to €5,204 million on December 31, 2007, and must be treated as plan assets under IAS 19. The remainder of the domestic plan assets in the amount of €318 million is held by pension funds in the Central Europe market unit.

The foreign plan assets, which amounted to €7,534 million in 2007 (2006: €7,974 million) and are managed by independent pension trusts, are dedicated almost entirely to the financing of the pension plans at the U.K. and U.S. Midwest market units. The majority of these plan assets, namely €6,944 million (2006: €7,401 million), is attributable to the U.K. market unit.

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

	2007			2006		
€ in millions	Total	Domestic	Foreign	Total	Domestic	Foreign
Fair value of plan assets as of January 1	13,342	5,368	7,974	8,076	307	7,769
Expected return on plan assets	731	266	465	529	102	427
Employer contributions	436	269	167	5,241	5,126	115
Employee contributions	25	–	25	21	–	21
Change in scope of consolidation	4	4	–	-4	–	-4
Actuarial gains/losses (-)	-65	-72	7	-36	-21	-15
Exchange rate differences	-715	–	-715	87	–	87
Pensions paid	-747	-313	-434	-575	-146	-429
Other	45	–	45	3	–	3
Fair value of plan assets as of December 31	**13,056**	**5,522**	**7,534**	**13,342**	**5,368**	**7,974**

The €2.4 billion (2006: €2.3 billion) in financial assets and liquid funds administered by VKE are not included in the determination of the funded status 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 do not include any owner-occupied real estate. Investment in equity and debt instruments issued by E.ON Group companies is generally not intended.

To implement the investment objective, the E.ON Group in principle 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, counteracted 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, i.e., the difference between the defined benefit obligations for all pension plans and the fair value of all plan assets, 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 is based on regular asset-liability studies. In these studies, the target portfolio structure is reviewed under consideration of existing investment principles, the current funded status, the condition of the capital markets and the structure of the benefit obligations developments, and is adjusted as necessary. The anticipated long-term returns on the individual plan assets are derived from the portfolio structure targeted and from the long-term returns forecast 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, 2007			December 31, 2006		
in %	Total	Domestic	Foreign	Total	Domestic	Foreign
Equity securities	18	6	27	18	1	29
Debt securities	49	31	62	39	3	63
Real estate	8	10	7	5	4	5
Other (primarily fixed-term deposits)	25	53	4	38	92	3

Provision for Pensions and Similar Obligations

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

Derivation of the Provision for Pensions and similar obligations

€ in millions	December 31 2007	December 31 2006	January 1 2006
Defined benefit obligation—fully or partially funded plans	15,632	16,996	17,508
Fair value of plan assets	-13,056	-13,342	-8,076
Defined benefit obligation—unfunded plans	304	310	341
Funded status	**2,880**	**3,964**	**9,773**
Unrecognized past service cost	-3	-4	-5
Net amount recognized	**2,877**	**3,960**	**9,768**
Operating receivables	*-13*	*-2*	*-*
Provisions for pensions and similar obligations	*2,890*	*3,962*	*9,768*

The decline during 2006 in the provision for pensions and similar obligations resulted primarily from the first-time funding of the CTA in Germany in the amount of €5.1 billion. The additional decline in the provision for pensions and similar obligations as of December 31, 2007, was due primarily to the increase in the discount rates applied, which had the effect of reducing the entire defined benefit obligation.

Contributions and Pension Payments

In 2007, E.ON made employer contributions to plan assets totaling €436 million (2006: €5,241 million, including CTA funding) to fund existing defined benefit obligations. For 2008, it is expected that overall employer contributions to plan assets will amount to a total of €188 million and primarily involve the funding of new and existing benefit obligations.

Prospective Employer Contributions in 2008

€ in millions	Domestic	Foreign
Prospective Employer Contributions	112	76

Pension payments to cover benefit obligations totaled €863 million in 2007 (2006: €847 million). Prospective pension payments existing as of December 31, 2007, for the next ten years are shown in the following table:

Prospective Pension Payments

€ in millions	Total	Domestic	Foreign
2008	867	447	420
2009	892	462	430
2010	919	479	440
2011	940	489	451
2012	962	497	465
2013–2017	5,145	2,615	2,530
Total	**9,725**	**4,989**	**4,736**

Pension Cost

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

Net Periodic Pension Cost

	2007			2006		
€ in millions	Total	Domestic	Foreign	Total	Domestic	Foreign
Employer service cost	256	161	95	265	172	93
Interest cost	810	388	422	771	361	410
Expected return on plan assets	-731	-266	-465	-529	-102	-427
Past service cost	10	–	10	14	1	13
Total	**345**	**283**	**62**	**521**	**432**	**89**

Actuarial gains and losses have been recognized in full in the period in which they occurred. 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 totaled €666 million in 2007 (2006: €486 million).

In addition to the total net periodic pension cost, an amount of €53 million in 2007 (2006: €54 million) was incurred for defined contribution pension plans and other retirement provisions, under which the Company pays fixed contributions to external insurers or similar institutions.

The total net periodic pension cost shown includes an amount of €12 million in 2007 (2006: €15 million) for retiree health care benefits. A one-percentage-point increase or decrease in the assumed health care cost trend rate would affect the interest and service components and result in a change in net periodic pension cost of +€0.5 million or -€0.4 million (2006: +€0.7 million or -€0.6 million), respectively. The resulting accumulated post-employment benefit obligation would change by +€4.9 million or -€4.4 million (2006: +€7.7 million or -€6.9 million), respectively.

The changes in actuarial gains and losses recognized in equity are shown in the following table:

Accumulated Actuarial Gains and Losses Recognized in Equity

€ in millions	2007	2006
Accumulated actuarial gains (+) and losses (-) recognized in equity as of January 1	781	–
Recognition in equity of current-year actuarial gains (+) and losses (-)	852	781
Accumulated actuarial gains (+) and losses (-) recognized in equity as of December 31	**1,633**	**781**

In 2007 and 2006, the following experience adjustments were made to the present value of all benefit obligations and to the fair value of plan assets:

Experience Adjustments

	December 31	
in %	2007	2006
Experience adjustments to the amount of the benefit obligation	1.22	0.73
Experience adjustments to the value of plan assets	-0.50	-0.22

The experience adjustments reflect the effects on the benefit obligations and plan assets at the E.ON Group resulting from differences between the actual changes in these amounts during the fiscal year from the assumption made with respect to these changes at the beginning of the year. This includes, among other things, the development of salary increases and of other measures relevant in the determination of the benefit obligations, increases in state pensions, employee fluctuation and biometric data such as death and disability.

(25) Miscellaneous Provisions

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

Miscellaneous Provisions

€ in millions	December 31, 2007 current	December 31, 2007 non-current	December 31, 2006 current	December 31, 2006 non-current
Non-contractual obligations for nuclear waste management	133	10,022	120	10,425
Contractual obligations for nuclear waste management	300	3,335	294	3,389
Personnel obligations	593	690	686	804
Other asset retirement obligations	301	943	295	901
Supplier-related obligations	451	290	419	107
Customer-related obligations	296	80	309	41
Environmental remediation and similar obligations	32	456	15	474
Other	1,886	2,257	1,856	1,997
Total	**3,992**	**18,073**	**3,994**	**18,138**

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

Changes in Miscellaneous Provisions

€ in millions	Jan. 1, 2007	Exchange rate differences	Change in scope of consolidation	Accretion	Additions	Utilization	Reclassifications	Reversals	Changes in estimates	Dec. 31, 2007
Non-contractual obligations for nuclear waste management	10,545	-52	–	492	25	–	-110	–	-745	10,155
Contractual obligations for nuclear waste management	3,683	-13	–	181	55	-384	110	–	3	3,635
Personnel obligations	1,490	-6	3	3	598	-717	1	-89	–	1,283
Other asset retirement obligations	1,196	-20	2	35	5	-23	–	–	49	1,244
Supplier-related obligations	526	-2	–	6	297	-51	–	-35	–	741
Customer-related obligations	350	-4	–	1	237	-113	-3	-92	–	376
Environmental remediation and similar obligations	489	-3	–	15	23	-17	–	-19	–	488
Other	3,853	-37	42	30	1,504	-984	-21	-244	–	4,143
Total	**22,132**	**-137**	**47**	**763**	**2,744**	**-2,289**	**-23**	**-479**	**-693**	**22,065**

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

The interest rates applied for the nuclear power segment, calculated on a country-specific basis, were 5.5 percent (2006: 5.0 percent) in Germany and 2.5 percent (2006: 2.1 percent to 2.5 percent) in Sweden. For the other provision items, the interest rates used ranged from 3.0 percent to 4.5 percent, depending on maturity (2006: 3.8 percent to 5.2 percent).

Provisions for Non-Contractual Nuclear Waste Management Obligations

The provisions based on German and Swedish nuclear power legislation totaling €10.2 billion comprise all those nuclear obligations relating to the disposal of spent nuclear fuel rods and low-level nuclear waste and to the retirement and decommissioning of nuclear power plant components that are determined on the basis of external studies and cost estimates.

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

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

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

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

Measurement of the provisions takes into account the influencing factors agreed in the understanding reached between the German government and the country’s major power utilities on June 14, 2000, and signed on June 11, 2001. Final storage costs consist mainly of investment and operating costs for the planned final storage facilities Gorleben and Konrad based on Germany’s ordinance on advance payments for the establishment of facilities for the safe custody and final storage of radioactive wastes in the country (”Endlagervorausleistungsverordnung”) and on data from the German Federal Office for Radiation Protection (”Bundesamt für Strahlenschutz”). Advance payments remitted to the Bundesamt für Strahlenschutz in the amount of €781 million (2006: €781 million) have been deducted from the provisions. These payments are made each year in the amount spent by the Bundesamt für Strahlenschutz on the construction of the final storage facilities Gorleben and Konrad, which are calculated based on the Endlagervorausleistungsverordnung.

Changes in estimates in 2007 reduced provisions by €859 million at the Central Europe market unit. The Nordic market unit recorded an increase of €114 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 €3.6 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 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 reprocessors and to other waste management companies in the amount of €126 million (2006: €113 million) have been deducted from the provisions attributed to Germany. The advance payments relate to reprocessing services and to the delivery of interim storage containers, as well as the return of waste resulting from reprocessing. Concerning the disposal of spent nuclear fuel rods, the obligations recognized in the provisions comprise the contractual costs of finalizing reprocessing and the associated transports and containers for the return of waste into the central interim storage facilities Gorleben and Ahaus and the actual central interim storage itself, as well as the procurement of interim storage containers, transports of spent fuel rods to interim on-site storage facilities and the actual temporary storage itself arising from the "direct permanent storage" path. The provisions also include the contractual costs of decommissioning and the conditioning of low-level radioactive waste.

Changes in estimates in 2007 reduced provisions by €58 million at the Central Europe market unit. The Nordic market unit recorded an increase of €61 million as a result of changes in estimates.

Personnel Obligations

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

Provisions for Other Asset Retirement Obligations

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

Supplier-Related Obligations

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

Customer-Related Obligations

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

Environmental Remediation and Similar Obligations

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

Other

The other miscellaneous provisions consist primarily of provisions from the electricity and gas business, including the provision established in 2006 for the risk of retroactive application of lower network charges resulting from the regulation of network charges in Germany. They further include provisions for obligations arising from the acquisition and disposal of businesses, provisions for taxes other than income taxes, provisions from emissions trading systems and provisions for tax-related interest expenses.

(26) Liabilities

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

Liabilities	December 31, 2007			December 31, 2006		
€ in millions	current	non-current	Total	current	non-current	Total
Financial liabilities to banks and third parties	3,481	15,876	19,357	1,472	9,993	11,465
Financial liabilities to entities in which an ownership interest exists	2,068	39	2,107	1,971	36	2,007
Financial liabilities to affiliated companies	*152*	*9*	*161*	*147*	*7*	*154*
Financial liabilities to associated companies and other equity investments	*1,916*	*30*	*1,946*	*1,824*	*29*	*1,853*
Financial liabilities	**5,549**	**15,915**	**21,464**	**3,443**	**10,029**	**13,472**
Trade payables	4,477	–	4,477	5,311	–	5,311
Operating liabilities to entities in which an ownership interest exists	474	65	539	274	70	344
Operating liabilities to affiliated companies	*135*	*44*	*179*	*75*	*48*	*123*
Operating liabilities to associated companies and other equity investments	*339*	*21*	*360*	*199*	*22*	*221*
Capital expenditure grants	26	219	245	23	243	266
Construction grants from energy consumers	434	2,978	3,412	360	3,110	3,470
Liabilities from derivatives	5,011	260	5,271	5,897	41	5,938
Advance payments	451	6	457	400	9	409
Other operating liabilities	7,381	1,904	9,285	7,313	1,949	9,262
Trade payables and other operating liabilities	**18,254**	**5,432**	**23,686**	**19,578**	**5,422**	**25,000**
Total	**23,803**	**21,347**	**45,150**	**23,021**	**15,451**	**38,472**

Financial Liabilities

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

Corporate Center

€30 Billion Debt Issuance Program

The existing €20 billion Medium Term Note program was increased to €30 billion in December 2007 and renamed "Debt Issuance Program." The program allows E.ON AG and E.ON International Finance B.V. ("EIF"), Amsterdam, the Netherlands, under the unconditional guarantee of E.ON AG, to periodically issue debt instruments through public and private placements to investors. At year-end 2007, the following EIF bonds were outstanding:

Debt Issues of E.ON International Finance

Volume issued in the respective currency	Initial term	Repayment	Coupon	Listing
EUR 4,250 m	7 years	May 2009	5.750%	Luxembourg
CHF 200 m	3 years	Dec 2010	3%	SWX Swiss Exchange
GBP 500 m	10 years	May 2012	6.375%	Luxembourg
EUR 1,750 m	5 years	Oct 2012	5.125%	Luxembourg
CHF 225 m	7 years	Dec 2014	3.25%	SWX Swiss Exchange
EUR 900 m	15 years	May 2017	6.375%	Luxembourg
EUR 1,750 m	10 years	Oct 2017	5.5%	Luxembourg
GBP 600 m	12 years	Oct 2019	6%	Luxembourg
GBP 975 m	30 years	June 2032	6.375%	Luxembourg
GBP 900 m	30 years	Oct 2037	5.875%	Luxembourg

The Debt Issuance Program documentation and the documentation of the outstanding bonds are customary for such financing programs and instruments.

€10 Billion Commercial Paper Program

The existing €10 billion commercial paper program allows E.ON AG and certain wholly owned subsidiaries, under the unconditional guarantee of E.ON AG, to periodically issue commercial paper with maturities of up to 729 days to investors. As of December 31, 2007, €1,757 million in commercial paper was outstanding under the program (2006: €123 million).

€15 Billion Syndicated Multi-Currency Revolving Credit Facility Agreement

In November 2007, E.ON increased the amount available under its existing revolving credit facility from €10 billion to €15 billion. Under the facility, E.ON AG and certain subsidiaries, each under the unconditional guarantee of E.ON AG, may make borrowings in various currencies in an aggregate amount of up to €15 billion. The facility is divided into Tranche A in the amount of €10 billion and Tranche B in the amount of €5 billion. Tranche A has a maturity date of November 27, 2008. Tranche B runs until December 2, 2011. Borrowings under the credit facility generally bear interest equal to EURIBOR or LIBOR for the respective currency plus a margin of 15 basis points. As of December 31, 2007, there were no borrowings outstanding under this facility (2006: €0).

As of December 31, 2007, the book values financial liabilities of E.ON AG and EIF to banks and third parties outside the E.ON Group had the following maturities:

Financial Liabilities of E.ON AG and E.ON International Finance

€ in millions	Total	Due in 2008	Due in 2009	Due in 2010	Due in 2011	Due in 2012	Due after 2012
Bonds	12,822	–	4,162	120	–	2,423	6,117
Commercial paper	1,757	1,757	–	–	–	–	–
Bank loans / Liabilities to banks	425	425	–	–	–	–	–
Liabilities from finance leases	–	–	–	–	–	–	–
Other financial liabilities	12	4	4	4	–	–	–
Total	**15,016**	**2,186**	**4,166**	**124**	**–**	**2,423**	**6,117**

Financial Liabilities by Segment

The following table shows the financial liabilities to banks and third parties by segment:

Financial Liabilities by Market Unit as of December 31

	Central Europe		Pan-European Gas		U.K.	
€ in millions	2007	2006	2007	2006	2007	2006
Bonds	–	–	–	–	275	406
Commercial paper	–	–	–	–	–	–
Bank loans / Liabilities to banks	992	1,040	40	69	8	27
Liabilities from finance leases	39	24	63	66	25	54
Other financial liabilities	136	126	47	105	–	6
Financial liabilities to banks and third parties	**1,167**	**1,190**	**150**	**240**	**308**	**493**

Nordic		U.S. Midwest		Corporate Center/New Markets		Total	
2007	2006	2007	2006	2007	2006	2007	2006
738	634	635	729	12,822	7,234	14,470	9,003
227	243	–	–	1,757	123	1,984	366
–	54	–	–	972	48	2,012	1,238
30	36	–	–	14	16	171	196
431	383	–	15	106	27	720	662
1,426	**1,350**	**635**	**744**	**15,671**	**7,448**	**19,357**	**11,465**

Other Financial Liabilities

Other financial liabilities include collateral received, measured at a fair value of €407 million (2006: €55 million). This collateral includes amounts pledged by banks to limit the utilization of credit lines in connection with the marking to market of derivatives transactions and margin deposits received in connection with forward transactions on futures exchanges. Also included here is collateral received in connection with goods and services in the amount of €75 million (2006: €77 million). E.ON can sell or repledge this collateral with no subsidiary conditions.

Trade Payables and Other Operating Liabilities

Trade payables totaled €4,477 million as of December 31, 2007 (2006: €5,311 million).

Capital expenditure grants of €245 million (2006: €266 million) were paid primarily by customers for capital expenditures made on their behalf, while E.ON retains the assets. The grants are non-refundable and are recognized in other operating income over the period of the depreciable lives of the related assets.

Construction grants of €3,412 million (2006: €3,470 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 €3,530 million (2006: €2,673 million), interest payable in the amount of €760 million (2006: €672 million) and the €1,111 million in obligations under the put options that were written in 2007 as part of the share buyback program. Also included in other operating liabilities are counterparty obligations to acquire additional shares in already consolidated subsidiaries and minority interests in fully consolidated partnerships totaling €754 million (2006: €2,781 million). This decrease in liabilities from counterparty obligations resulted primarily from the obligation toward Statkraft concerning the purchase of its remaining stake in E.ON Sverige for approximately €2 billion, which expired unexercised in 2007.

(27) Contingencies and Commitments

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

Contingencies

The contingent liabilities of the E.ON Group arising from existing contingencies amounted to €96 million as of December 31, 2007 (2006: €114 million). E.ON currently does not have reimbursement rights relating to the contingent liabilities disclosed.

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

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

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

The guarantees of E.ON also include items related to the operation of nuclear power plants. With the entry into force on April 27, 2002, 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"), as amended, German nuclear power plant operators are required to provide nuclear accident liability coverage of up to €2.5 billion per incident.

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

To provide liability coverage for the additional €2,244.4 million per incident required by the above-mentioned amendments, E.ON Energie AG and the other parent companies of German nuclear power plant operators reached a Solidarity Agreement ("Solidarvereinbarung") on July 11, July 27, August 21, and August 28, 2001. If an accident occurs, the Solidarity Agreement calls for the nuclear power plant operator liable for the damages to receive—after the operator's own resources and those of its parent company are exhausted—financing sufficient for the operator to meet its financial obligations. Under the Solidarity Agreement, E.ON Energie's share of the liability coverage currently stands at 42.0 percent (2006: 42.0 percent), with 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 nuclear power plant decommissioning. These costs could arise if actual costs exceed accumulated funds. In addition, Nordic 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, 2007, was limited to SEK 3,063 million, or €324 million (2006: SEK 3,102 million, or €343 million), which 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 currently 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 nuclear power plants in operation. Accordingly, there are no additional contingent liabilities comparable to those mentioned above.

Other Commitments

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

As of December 31, 2007, purchase commitments and obligations totaled €7.9 billion (2006: €4.9 billion). This total includes obligations for as yet outstanding investments in connection with new power plant construction projects as well as modernizations of existing power plants, particularly at the Central Europe, Nordic and U.K. market units and at the power plant operator OGK-4 acquired in Russia. As of December 31, 2007, purchase commitments and obligations for new power plant construction totaled €5.4 billion (2006: €2.5 billion). These commitments also include obligations concerning the construction of wind power plants.

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

E.ON as Lessee—Operating Leases

€ in millions	Minimum lease payments
Due within 1 year	148
Due in 1 to 5 years	401
Due in more than 5 years	334
Total	**883**

The expenses reported in the income statement for such contracts amounted to €218 million (2006: €236 million).

Additional long-term contractual obligations in place at the E.ON Group as of December 31, 2007, relate primarily to the purchase of fossil fuels such as gas, lignite and hard coal. Obligations under these purchase contracts amounted to roughly €250 billion on December 31, 2007.

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 3 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.

As of December 31, 2007, €7.7 billion in contractual obligations are in place for the purchase of electricity; these relate in particular to purchases from jointly operated power plants in the Central Europe market unit. The purchase price of electricity from jointly operated power plants is determined by the supplier's production cost plus a profit margin that is generally calculated on the basis of an agreed return on capital.

Long-term contractual obligations have also been entered into by the Central Europe market unit for the procurement of services in the area of reprocessing and interim storage of spent nuclear fuel elements delivered through June 30, 2005.

Other financial obligations in place as of December 31, 2007, totaled approximately €3.7 billion. They consist primarily of obligations concerning the acquisition of equity investments and the acquisition of real estate funds held as financial assets, as well as obligations arising from the network connection of offshore wind farms. These items concern primarily the Central Europe market unit.

In addition, there is an obligation toward the minority shareholders of the Russian power plant operator OGK-4 to acquire their shares. More information on this is contained in Note 4.

(28) Litigation and Claims

A number of different court actions (including product liability lawsuits), 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 anti-competitive practices. In addition, there are lawsuits pending against E.ON AG and U.S. subsidiaries in connection with the disposal of VEBA Electronics in 2000. E.ON Ruhrgas is a party to a number of different arbitration proceedings in connection with the acquisition of Europgas a.s. and in connection with gas delivery contracts. Since litigation or 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 Disclosure of Cash Flow Information

The following table indicates supplemental disclosures of cash flow information:

Supplemental Disclosure of Cash Flow Information		
€ in millions	2007	2006
Non-cash investing and financing activities		
Exchanges and contributions of assets as part of acquisitions	–	138
Funding of external fund assets for pension obligations through transfer of fixed-term deposits and securities	–	5,126

The sales price of deconsolidated shareholdings and activities amounted to €25 million in 2007 (2006: €989 million). The deconsolidation of shareholdings and activities resulting from asset sales led to reductions of €21 million (2006: €1,523 million) related to assets and €11 million (2006: €562 million) related to provisions and liabilities. Cash and cash equivalents divested herewith amounted to €2 million (2006: €550 million).

Purchase prices for acquisitions of subsidiaries totaled €5,416 million (2006: €550 million). Cash and cash equivalents acquired in connection with the acquisitions amounted to €1,450 million (2006: €57 million). These purchases resulted in assets amounting to €8,615 million (2006: €1,935 million) and in provisions and liabilities totaling €2,182 million (2006: €1,365 million).

Cash provided by operating activities was 22 percent higher in 2007 than in 2006. This increase is due primarily to the positive cash flow effects of operational improvements and a reduced commitment of funds to working capital at the Pan-European Gas and Nordic market units. An additional positive contribution came from the reduction of receivables at the U.K. market unit. Negative cash flow effects in 2007 occurred at the Corporate Center and were caused primarily by higher tax payments outside of the Group.

Cash provided by investing activities was negative in 2007. With declining proceeds from sales of shareholdings, spending on investments in property, plant and equipment and on equity investments rose significantly over the previous year. The largest individual project was the acquisition of the majority of the shares of the Russian power plant company OGK-4. This increased spending was offset by a reduction in funds used for fixed-term deposits and securities purchases.

Increased borrowing led to a strong increase in cash provided by financing activities. For the first time since 2002, these cash flows were positive in 2007, in spite of the effect of the share buyback program.

(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, forecasted transactions, or legally binding rights or obligations. Some of the companies in the market units also conduct proprietary trading in commodities within the risk management guidelines described below.

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

Fair Value Hedges

Fair value hedges are used to protect against the risk from changes in market values. The Company uses fair value hedge accounting specifically in the exchange of fixed-rate commitments in long-term receivables and liabilities denominated in foreign currencies and euro for variable rates. The hedging instruments used for such exchanges are interest rate and cross-currency 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 2007 of €9 million (2006: €14 million gain), which was offset by realized gains of €12 million (2006: €15 million loss) for the year in the designated hedging instruments. The negative fair values of the derivatives used in fair value hedges totaled €90 million (2006: negative €98 million).

Cash Flow Hedges

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

To reduce cash flow fluctuations arising from future electricity and gas transactions effected at variable spot prices, futures and forward contracts are concluded and also accounted for using cash flow hedge accounting.

As of December 31, 2007, the hedged transactions in place included foreign currency cash flow hedges with maturities of up to ten years (2006: up to eleven years) and up to 25 years (2006: up to 26 years) for interest cash flow hedges. Share price risk is hedged up to one year (2006: one year). Planned commodity cash flow hedges have maturities of up to four years (2006: up to four years).

The amount of ineffectiveness for cash flow hedges recorded for the year ended December 31, 2007, produced a gain of €3 million (2006: €3 million gain).

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

Timing of Reclassifications from OCI[1] to the Income Statement—2007

€ in millions	Carrying-amount	2008	2009	2010–2012	>2012
OCI—Currency cash flow hedges	-103	-35	-9	-10	-49
OCI—Interest cash flow hedges	6	-1	–	-2	9
OCI—Commodity cash flow hedges	249	128	84	37	–
OCI—Other cash flow hedges	-1	-1	–	–	–

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

Timing of Reclassifications from OCI[1] to the Income Statement—2006

€ in millions	Carrying amount	2007	2008	2009–2011	>2011
OCI—Currency cash flow hedges	-98	-43	-10	-25	-20
OCI—Interest cash flow hedges	3	-1	-1	–	5
OCI—Commodity cash flow hedges	274	253	20	1	–
OCI—Other cash flow hedges	-31	-31	–	–	–

[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 negative fair values of the derivatives used in cash flow hedges totaled €339 million (2006: negative €359 million).

A negative amount of €82 million (2006: negative €302 million) was added to other comprehensive income in 2007, while during the same period a gain of €1 million (2006: €26 million) was reclassified from OCI to the income statement.

Net Investment Hedges

The Company uses foreign currency loans, foreign currency forwards and foreign currency swaps to protect the value of its net investments in its foreign operations denominated in foreign currencies. For the year ended December 31, 2007, the Company recorded an amount of €1,489 million (2006: €909 million) in accumulated other comprehensive income within equity due to changes in fair value of derivatives and currency translation results of non-derivative hedging instruments. There were no ineffective portions from net investment hedges in 2007 (2006: €2 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. Forward rates and prices are based on spot rates and prices, with forward premiums and discounts taken into consideration. Market data are used to the extent possible.
- Market prices for currency, 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.

Losses of €11 million (2006: €49 million) and gains of €141 million (2006: €96 million) from the initial measurement of derivative financial instruments at the inception of the contract were deferred and will be recognized in income during subsequent periods as the contracts are fulfilled. The following two tables include both derivatives that qualify for IAS 39 hedge accounting treatment and those that do not qualify.

Total Volume of Foreign Currency, Interest Rate and Equity-Based Derivatives

	December 31, 2007		December 31, 2006	
€ in millions	Nominal value	Fair value	Nominal value	Fair value
FX forward transactions				
Buy	8,466.8	-24.2	4,532.7	-27.1
Sell	9,738.3	67.3	6,982.4	19.4
FX currency options				
Buy	–	–	7.4	0.1
Sell	–	–	–	–
Subtotal	**18,205.1**	**43.1**	**11,522.5**	**-7.6**
Cross-currency swaps	19,847.2	686.6	18,499.3	7.4
Cross-currency interest rate swaps	301.6	-49.6	321.9	-17.0
Subtotal	**20,148.8**	**637.0**	**18,821.2**	**-9.6**
Interest rate swaps				
Fixed-rate payer	1,894.0	-21.5	2,292.5	-16.4
Fixed-rate receiver	6,153.7	-85.9	6,078.3	-89.8
Interest rate future	1,719.4	30.2	–	–
Subtotal	**9,767.1**	**-77.2**	**8,370.8**	**-106.2**
Other derivatives	117.3	12.0	636.7	31.0
Subtotal	**117.3**	**12.0**	**636.7**	**31.0**
Total	**48,238.3**	**614.9**	**39,351.2**	**-92.4**

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

	December 31, 2007		December 31, 2006	
€ in millions	Nominal value	Fair value	Nominal value	Fair value
Electricity forwards	25,733.5	-794.1	29,049.7	-854.0
Exchange-traded electricity forwards	10,033.6	-98.8	8,089.5	-275.0
Electricity swaps	21.4	-1.1	15.1	0.5
Exchange-traded electricity options	104.9	9.5	0.3	0.2
Coal forwards and swaps	5,024.4	193.1	1,320.2	29.2
Exchange-traded coal forwards	38.1	25.7	58.9	-1.1
Oil derivatives	780.4	11.6	1,213.4	-30.6
Gas forwards	12,932.1	335.3	16,757.1	6.7
Gas swaps	313.8	-36.2	153.4	-17.4
Gas options	4.5	-3.6	5.3	2.8
Exchange-traded gas forwards	1.2	0.1	–	–
Emissions-related derivatives	1,808.0	6.0	461.0	2.8
Exchange-traded emissions-related derivatives	407.8	-0.1	33.9	3.8
Total	**57,203.7**	**-352.6**	**57,157.8**	**-1,132.1**

(31) Additional Disclosures on Financial Instruments

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

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

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

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

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

Where financial instruments are listed on an active market, the respective price quotes at that market constitute the fair value. This applies in particular to equities held and bonds issued.

The fair value of shareholdings in unlisted companies and of debt securities that are not actively traded, such as loans received, loans granted and financial liabilities, is determined by discounting future cash flows. Discounting takes place using current customary market interest rates through the

Carrying Amounts and Fair Values by Class Within the Scope of IFRS 7 as of December 31, 2006

€ 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	13,533	13,533	AfS	13,533	11,928
Financial receivables and other financial assets	4,108	4,095		4,361	235
Financial receivables from entities in which an ownership interest exists	*913*	*913*	*LaR*	*913*	–
Receivables from finance leases[2]	*723*	*723*	*n/a*	*730*	–
Other financial receivables and financial assets	*2,472*	*2,459*	*LaR*	*2,718*	*235*
Trade receivables and other operating assets	18,430	16,980		16,980	85
Receivables from entities in which an ownership interest exists	*1,046*	*1,046*	*LaR*	*1,046*	–
Trade receivables	*9,760*	*9,760*	*LaR*	*9,760*	–
Derivatives with no hedging relationships	*4,294*	*4,294*	*HfT*	*4,294*	*85*
Derivatives with hedging relationships	*424*	*424*	*n/a*	*424*	–
Other operating assets	*2,906*	*1,456*	*LaR*	*1,456*	–
Securities and fixed-term deposits	11,594	11,594	AfS	11,594	11,266
Cash and cash equivalents	1,154	1,154	AfS	1,154	1,154
Restricted cash	587	587	AfS	587	587
Assets held for sale	611	134	AfS	134	–
Total assets	**50,017**	**48,077**		**48,343**	**25,255**
Financial liabilities	13,472	13,472		14,239	8,654
Financial liabilities to entities in which an ownership interest exists	*1,983*	*1,983*	AmC	*1,982*	–
Bonds	*9,003*	*9,003*	AmC	*9,670*	*8,622*
Commercial paper	*366*	*366*	AmC	*366*	–
Bank loans/Liabilities to banks	*1,238*	*1,238*	AmC	*1,238*	–
Liabilities from finance leases[2]	*220*	*220*	n/a	*321*	–
Other financial liabilities	*662*	*662*	AmC	*662*	*32*
Trade payables and other operating liabilities	25,000	18,791		18,791	421
Liabilities to entities in which an ownership interest exists	*344*	*344*	*AmC*	*344*	–
Trade payables	*5,311*	*5,311*	*AmC*	*5,311*	–
Derivatives with no hedging relationships	*5,436*	*5,436*	*HfT*	*5,436*	*421*
Derivatives with hedging relationships	*502*	*502*	*n/a*	*502*	–
Put option liabilities under IAS 32	*2,781*	*2,781*	*AmC*	*2,781*	–
Other operating liabilities	*10,626*	*4,417*	*AmC*	*4,417*	–
Total liabilities	**38,472**	**32,263**		**33,030**	**9,075**

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

remaining terms of the financial instruments. Fair value measurement was not applied in the case of shareholdings with a carrying amount of €58.3 million (2006: €58.3 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 fair value of commercial paper and borrowings under revolving short-term credit facilities and of trade receivables is used as the fair value due to the short maturities of these instruments.

See Note 30 for information on the determination of the fair value of derivative financial instruments.

The following two tables illustrate the contractually agreed (undiscounted) cash outflows arising from the financial liabilities included in the scope of IFRS 7:

Cash Flow Analysis

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

Cash Flow Analysis

	December 31, 2006			
€ in millions	Cash outflows 2008	Cash outflows 2009	Cash outflows 2010–2012	Cash outflows from 2013
Financial liabilities to entities in which an ownership interest exists	1,982	4	19	20
Bonds	790	679	5,658	6,541
Commercial paper	367	–	–	–
Bank loans/Liabilities to banks	523	130	574	194
Liabilities from finance leases with third parties	56	42	70	285
Other financial liabilities	487	89	42	113
Cash outflows for financial liabilities	**4,205**	**944**	**6,363**	**7,153**
Liabilities to entities in which an ownership interest exists	305	–	–	53
Trade payables	5,311	–	–	–
Derivatives (with/without hedging relationships)	22,555	9,027	12,445	11,157
Put option liabilities under IAS 32	2,187	292	101	136
Other operating liabilities	4,168	128	100	21
Cash outflows for trade payables and other operating liabilities	**34,526**	**9,447**	**12,646**	**11,367**
Cash outflows for liabilities within the scope of IFRS 7	**38,731**	**10,391**	**19,009**	**18,520**

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

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

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

Net Gains and Losses by Category[1]

€ in millions	2007	2006
Loans and receivables	385	520
Available for sale	1,533	847
Held for trading	446	-1,858
Amortized cost	-929	-989
Total	**1,435**	**-1,480**

[1]The categories are described in detail in Note 2.

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

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

The net gains and losses in the held-for-trading category encompass both the changes in fair value of the derivative financial instruments and the gains and losses on realization.

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. A new department was set up in 2007 at Group level to manage all risk controlling and reporting in the area of commodities, while risk controlling and reporting in the areas of interest rates and currencies remains the responsibility of the Financial Controlling department.

The Company uses a Group-wide treasury, risk management and reporting system. This system is a standard information technology solution and is both fully integrated and 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.

Counterparty risks are monitored on a Group-wide basis by Financial Controlling, with the support of a standard software package.

A separate Risk Committee is responsible for the maintenance and further development of the strategy set by the Board of Management of E.ON AG with regard to commodity and credit risk management policies.

1. Liquidity Management

The primary objectives of E.ON's internal liquidity management 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.

In order to control liquidity, the Group's financial guidelines provide for a general obligation to tender in the case of financial transactions by companies of which E.ON is the sole owner. 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.

While maintaining a strategic credit line reserve, E.ON AG makes arrangements with banks for sufficient liquidity on the basis of current liquidity planning. The subsidiaries submit their liquidity requirements to E.ON AG.

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 equity investments in the context of cash investment activities. These risks create volatility in earnings, equity and cash flows from period to period. The Company makes use of derivative financial instruments in various strategies to limit or eliminate these risks.

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

Foreign Exchange Risk Management

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

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

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

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

The one-day value-at-risk from the translation of deposits and borrowings denominated in foreign currency, plus foreign currency derivatives, amounted to €148 million (2006: €54 million) and, as in 2006, resulted primarily from the open positions denominated in British pounds and U.S. dollars. The increase in the VaR over the previous year is due in particular to the increased volatility of the EUR/GBP exchange rate and to overall higher volumes denominated in foreign currency.

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

Interest Risk Management

Several line items on the Consolidated Balance Sheet and certain financial derivatives are based on fixed interest rates, and are therefore subject to changes in fair value resulting from changes in market rates. In the case of balance sheet items and financial derivatives based on floating interest rates, E.ON is exposed to profit risks. E.ON seeks to maintain a specific mix of fixed- and floating-rate debt in its overall debt portfolio. The Company uses interest rate swaps in order to benefit from the spread between short-term and long-term interest rates and from any potential easing of interest rates in general.

As of December 31, 2007, the E.ON Group has entered into interest rate swaps with a nominal value of €9,767 million (2006: €8,371 million).

A sensitivity analysis was performed on the Group's short-term and variable-rate borrowings, including interest rate derivatives. A one-percent increase (decline) in the level of interest rates would cause net interest expense to rise (fall) by €30 million per annum (2006: €35 million).

Commodity Price Risk Management

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

The maximum permissible risk is determined centrally by the Board of Management in its medium-term planning and translated into a decentralized limit structure in coordination with the market units. Before fixing any limits, the investment plans and all other known obligations and quantifiable risks have been taken into account.

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

The principal derivative instruments used by E.ON to cover commodity price risk exposures are electricity, gas, coal and oil swaps and forwards, as well as emissions-related derivatives. Commodity derivatives are used by the market units for the purposes of price risk management, system optimization, equalization of burdens and 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. 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 Risk Committee on a monthly basis.

As of December 31, 2007, the E.ON Group has entered into electricity, gas, coal, oil and emissions-related derivatives with a nominal value of €57,204 million (2006: €57,158 million).

The VaR for the proprietary trading portfolio amounted to €13 million as of December 31, 2007 (2006: €16 million). The PaR for the financial instruments in the scope of IFRS 7 included in the system portfolio was €433 million as of December 31, 2007 (2006: €289 million).

The restriction to financial instruments included in the scope of IFRS 7 that has been applied in this calculation does not reflect the economic position of the E.ON Group. Consequently, none of the off-balance sheet transactions, such as own-use contracts under normal trading relationships, may be included when calculating the PaR according to IFRS 7, even though such transactions represent a material component of the economic position. The PaR reflecting the actual economic position therefore differs significantly from the PaR determined in accordance with IFRS 7.

Equity Risk

The value of all exchange-traded equity investments on the balance sheet date was €13,457 million (2006: €12,871 million). The most significant component of these investments is the interest in Gazprom, which is valued at €13,061 million (2006: €11,918 million). This investment is treated as strategic and is not being hedged at this time. Some additional equity positions held are hedged using forward transactions. The nominal volume of these forward transactions totaled €97 million as of the balance sheet date (2006: €567 million). All exchange-traded equity investments are classified as available for sale. Changes in value are generally shown as a change in OCI.

Credit Risk Management

Credit risk management involves the identification, measurement and control of credit risks. Credit risk results from non-delivery or partial delivery by a counterparty of the agreed consideration for services rendered or of payments owing on existing accounts receivable, and from the additional expenses for replenishment of the funds thus lost.

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

In principle, the respective Group companies are responsible for managing the credit risks in their operating activities. Depending on the nature of the operating activities and the level of the credit limit, additional credit risk monitoring and controls take place at both market unit and Group levels. Monthly reports on the levels of credit limits, and on their utilization by significant counterparties in the areas of financial and energy trading, are forwarded to the E.ON Risk Committee.

The carrying amounts of primary and derivative financial assets plus the financial guarantees made represent the maximum credit risk as of the reference date.

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

Derivative transactions are generally executed on the basis of standard agreements that allow for the netting of all outstanding transactions with individual counterparties. For currency and interest rate derivatives in the banking sector, this netting option is reflected in the accounting treatment. Although the greater part of the transactions was completed on the basis of contracts that do allow netting, the table on the following page does not show netting of positive and negative fair values of continuous transactions. Moreover, collateral received is not taken into account. This means that the counterparty risk is shown to be higher in the following table than it actually is. The counterparty risk is equal to the sum of the positive fair values. In summary, as of December 31, 2007, the Company's derivative financial instruments had the credit ratings and maturities shown in the table. Because derivatives in particular are subject to significant market fluctuations, short-term concentrations of credit risk may occur. For that reason, the credit risk concentrations arising from derivative receivables are shown separately.

Rating of Counterparties

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

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

Rating of Counterparties

Standard & Poor's and/or Moody's € in millions	December 31, 2006 Total Nominal value	 Counter-party risk	 Up to 1 year Nominal value	 Counter-party risk	 1 to 5 years Nominal value	 Counter-party risk	 More than 5 years Nominal value	 Counter-party risk
AAA and Aaa through AA- and Aa3	34,452.3	1,941.3	13,592.5	941.2	15,000.6	616.8	5,859.2	383.3
AA- and A1 or A+ and Aa3 through A- and A3	22,849.7	1,585.1	9,319.7	944.5	11,607.9	585.5	1,922.1	55.1
A- and Baa1 or BBB+ and A3 through BBB- or Baa3	3,511.6	279.8	2,181.4	218.1	1,084.5	61.7	245.7	0.0
BBB- and Ba1 or BB+ and Baa3 through BB- and Ba3	2,032.2	156.4	1,196.6	111.1	827.3	45.3	8.3	0.0
Other[1]	25,482.2	395.9	11,125.1	200.3	6,332.5	93.2	8,024.6	102.4
Total	**88,328.0**	**4,358.5**	**37,415.3**	**2,415.2**	**34,852.8**	**1,402.5**	**16,059.9**	**540.8**

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

Exchange-traded forward and option contracts as well as emissions-related derivatives having an aggregate nominal value of €12,200 million as of December 31, 2007, (2006: €8,182 million) bear no counterparty risk.

Asset Management

For the purpose of financing long-term payment obligations, including those relating to asset retirement obligations (see Note 25), financial investments totaling €7.3 billion (2006: €8.9 billion) were held by companies of the Central Europe market unit as of December 31, 2007.

These financial assets are invested on the basis of an accumulation strategy (total-return approach), with investments broadly diversified across money market instruments, bonds, real estate and equities. Asset allocation studies are performed by external financial advisors at regular intervals to determine the target portfolio structure. The majority of the assets are held in investment funds managed by external fund managers. Risk management for the funds is based on a value-at-risk method, with the VaR figures derived from a three-month holding period and a confidence interval of 98 percent. The VaR determined for 2007 using these parameters was €202 million (2006: €383 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.

At year-end 2007, VKE, which is organized in the form of a German mutual insurance fund ("Versicherungsverein auf Gegenseitigkeit"), managed a total of €2.4 billion (2006: €2.3 billion) in financial assets dedicated almost exclusively to the coverage of employee retirement benefits in the Central Europe market unit. The pension plan assets held by VKE do not constitute plan assets under IAS 19 and are shown as both non-current and current assets on the balance sheet. 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 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. The 3-month VaR with a confidence interval of 98 percent for the assets managed by VKE was €118 million in 2007 (2006: €71 million).

(32) Transactions with Related Parties

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

Related-Party Transactions

€ in millions	2007	2006
Income	6,626	7,467
Expenses	4,407	3,804
Receivables	1,988	1,892
Liabilities	3,116	2,440

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 €515 million (2006: €286 million) in trade payables to operators of jointly-owned nuclear power plants. These payables bear interest at 1.0 percent per annum (2006: 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 2007 of €1,233 million (2006: €1,255 million) resulting from fixed-term deposits undertaken by the jointly-owned nuclear power plants at E.ON.

The transfer of E.ON's minority stake in Degussa into RAG Projektgesellschaft mbH and the subsequent forward sale of that company to RAG produced a gain of €596 million in 2006. For additional information, see Note 4.

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 2007 amounted to €16.1 million (2006: €16.5 million) in short-term benefits and €3.0 million (2006: €3.3 million) in post-employment benefits.

The service cost of post-employment benefit 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 2007 was €11.4 million (2006: €17.7 million).

Detailed and individualized information on compensation can be found on pages 117 through 121 of the Compensation Report.

(33) Segment Information

The reportable segments of the E.ON Group are presented in line with the Company's internal organizational and reporting structure.

- The Central Europe market unit focuses on E.ON's integrated electricity business and the downstream gas business in central Europe.
- Pan-European Gas is responsible for the upstream and midstream gas business. Additionally, this market unit holds a number of minority shareholdings in the downstream gas business.
- The U.K. market unit encompasses the integrated energy business in the United Kingdom.
- The Nordic market unit is concentrated on the integrated 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.
- Corporate Center/New Markets contains those interests managed directly by E.ON AG that have not been allocated to any of the other segments, including the operations acquired in 2007 in Russia and in the area of renewable energy (see also Note 4), as well as E.ON AG itself and consolidation effects at the Group level.

Under IFRS segments or material business units that have been sold or are held for sale must be reported as discontinued operations. In 2007, this includes WKE, which is held for sale.

In 2006, E.ON Finland and Degussa, which had been sold in June and August of 2006 respectively, were reported as discontinued operations along with WKE. The corresponding figures as of December 31, 2007, as well as those for the preceding period, have been adjusted for all components of the discontinued operations (see explanations in Note 4).

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

Adjusted net interest income is calculated by taking the net interest income shown in the income statement and adjusting it using economic criteria and excluding certain special items, i.e., the portions of interest expense that are non-operating. Net book gains are equal to the sum of book gains and losses from disposals, which are included in other operating income and other operating expenses. Cost-management and restructuring expenses are non-recurring in nature. Other non-operating earnings encompass other non-operating income and expenses that are unique or rare in nature. Depending on the case, such income and expenses may affect different line items in the income statement. For example, effects from the marking to market of derivatives are included in other operating 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	2007	2006
Adjusted EBIT	9,208	8,356
Adjusted interest income (net)	-960	-948
Net book gains	1,345	829
Restructuring expenses	-77	-
Other non-operating earnings	167	-2,890
Income/Loss from continuing operations before taxes	**9,683**	**5,347**
Income taxes	-2,289	-40
Income/Loss from continuing operations	**7,394**	**5,307**
Income/Loss from discontinued operations, net	330	775
Net income	**7,724**	**6,082**
Attributable to shareholders of E.ON AG	*7,204*	*5,586*
Attributable to minority interests	*520*	*496*

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

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

Other non-operating earnings resulted primarily from the marking to market of derivatives (€564 million) used to protect the operating businesses from fluctuations in prices. This improvement was attributable primarily to gains of €2.5 billion at the U.K. and Pan-European Gas market units.

Financial Information by Business Segment	Central Europe		Pan-European Gas		U.K.	
€ in millions	2007	2006	2007	2006	2007	2006
External sales	31,350	26,384	19,714	20,555	12,455	12,355
Intersegment sales	679	813	3,031	2,392	129	163
Sales	**32,029**	**27,197**	**22,745**	**22,947**	**12,584**	**12,518**
Adjusted EBITDA	6,222	5,747	3,176	3,092	1,657	1,804
Depreciation and amortization	-1,521	-1,495	-530	-502	-521	-554
Impairments[1]	-31	-17	-70	-243	-	-11
Adjusted EBIT	**4,670**	**4,235**	**2,576**	**2,347**	**1,136**	**1,239**
Earnings from companies accounted for under the equity method[1]	*317*	*315*	*696*	*536*	*24*	*6*
Cash provided by operating activities	3,811	3,802	3,041	604	1,615	724
Investments	2,581	2,279	2,424	882	1,364	863
Intangible assets and property, plant and equipment	*2,390*	*1,883*	*1,381*	*377*	*1,364*	*860*
Equity investments[2]	*191*	*396*	*1,043*	*505*	*-*	*3*
Total assets	63,442	59,093	39,090	36,994	18,170	19,636
Intangible assets	*1,889*	*1,965*	*1,137*	*867*	*675*	*793*
Property, plant and equipment	*18,375*	*17,664*	*6,746*	*6,289*	*7,506*	*7,157*
Companies accounted for under the equity method	*2,134*	*1,962*	*5,602*	*5,276*	*2*	*8*

[1]Impairments recognized in adjusted EBIT differ from the relevant amounts reported in accordance with IFRS due to impairments on equity-method companies and other financial assets, which under IFRS are included in income/loss (-) from companies accounted for under the equity method and financial results, respectively. In 2007, differences resulted primarily from impairment charges and reversals recognized on equity investments. In 2006, differences were primarily due to impairments stemming from regulation on property, plant and equipment and on equity investments at the Central Europe and Pan-European Gas market units.
[2]In addition to those accounted for using the equity method, equity investments also include acquisitions of fully consolidated companies and investments in equity holdings that need not be consolidated.

These gains were offset by costs associated with the attempted acquisition of Endesa (€288 million) and the severe storm in Sweden at the beginning of 2007 (€95 million). In 2006, the reduction of network charges enforced by the German Federal Network Agency ("Bundesnetzagentur") resulted in impairment charges totaling €374 million at the Central Europe and Pan-European Gas market units in the gas distribution networks and in minority shareholdings with activities in the area of networks. Moreover, additional impairments had to be recorded for gas storage facilities and CHP plants at the U.K. market unit (€187 million), as well as for property, plant and equipment at the Pan-European Gas and Nordic market units (€100 million in total).

Adjusted Interest Income (Net)

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

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 is largely unchanged from 2006. Compared with 2006, net interest and similar expenses decreased primarily due to increases in expected returns on plan assets. This is offset at Group level by an increase in net non-operating interest income. The positive change in non-operating interest income is due to reduced interest expense incurred in conection with put options.

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

Nordic		U.S. Midwest		Corporate Center/New Markets		E.ON Group	
2007	2006	2007	2006	2007	2006	2007	2006
3,216	2,740	1,819	1,930	177	127	68,731	64,091
123	87	–	–	-3,962	-3,455	–	–
3,339	**2,827**	**1,819**	**1,930**	**-3,785**	**-3,328**	**68,731**	**64,091**
1,027	871	543	595	-175	-385	12,450	11,724
-345	-359	-155	-163	-51	-14	-3,123	-3,087
-12	–	–	-6	-6	-4	-119	-281
670	**512**	**388**	**426**	**-232**	**-403**	**9,208**	**8,356**
10	*1*	*23*	*21*	*8*	*-10*	*1,078*	*869*
914	715	216	381	-871	935	8,726	7,161
914	642	690	398	3,333	-27	11,306	5,037
892	*592*	690	*398*	*199*	*-14*	*6,916*	*4,096*
22	*50*	–	–	*3,134*	*-13*	*4,390*	*941*
11,759	11,290	8,130	8,387	-3,297	-7,825	137,294	127,575
213	*229*	*13*	*20*	*357*	20	*4,284*	*3,894*
7,429	*7,184*	*4,153*	*4,000*	*4,343*	190	*48,552*	*42,484*
357	*383*	*32*	*40*	*284*	101	*8,411*	*7,770*

Geographic Segmentation

The following table details external sales (by location of customers and by location of seller) and property, plant and equipment information by geographic area:

Geographic Segment Information

€ in millions	Germany		Europe (euro area excluding Germany)		Europe (other)		United States		Other		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
External sales by location of customer	36,895	34,929	4,491	3,783	25,520	23,431	1,769	1,884	56	64	68,731	64,091
External sales by location of seller	40,614	38,942	2,780	2,051	23,518	21,168	1,768	1,879	51	51	68,731	64,091
Property, plant and equipment	18,898	18,380	1,573	1,104	23,107	18,999	4,910	3,928	64	73	48,552	42,484

Information on Major Customers and Suppliers

E.ON's customer structure in 2007 and 2006 did not result in any major concentration in any given geographical region or business area. Due to the large number of customers the Company serves and the variety of its business activities, there are no individual customers whose business volume is material compared with the Company's total business volume.

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

(34) Compensation of Supervisory Board and Board of Management

Supervisory Board

Provided that E.ON's shareholders approve the proposed dividend at the Annual Shareholders Meeting on April 30, 2008, total remuneration to members of the Supervisory Board will be €4.5 million (2006: €4.1 million).

There were no loans to members of the Supervisory Board in 2007.

The Supervisory Board's compensation structure and the amounts for each member of the Supervisory Board are presented on pages 117 through 121 of the Compensation Report, which is part of the Combined Group Management Report.

Additional information regarding members of the Supervisory Board is provided on pages 19 and 212.

Board of Management

Total remuneration to members of the Board of Management in 2007 amounted to €20.4 million (2006: €21.7 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 €6.6 million (2006: €11.7 million). Provisions of €97.4 million (2006: €99.9 million) have been established for the pension obligations to former members of the Board of Management and their beneficiaries.

There were no loans to members of the Board of Management in the 2007 fiscal year.

The Board of Management's compensation structure and the amounts for each member of the Board of Management are presented on pages 117 through 121 of the Compensation Report, which is part of the Combined Group Management Report.

Additional information regarding members of the Board of Management is provided on pages 14, 15 and 213.

(35) E.ON Group IFRS Reconciliations

Explanatory Notes Concerning the Transition of Group Accounting Policies to International Financial Reporting Standards (IFRS)

E.ON has prepared its first Consolidated Financial Statements in accordance with IFRS for the year ended December 31, 2007. The effective date of the E.ON Group's IFRS Consolidated Opening Balance Sheet is January 1, 2006 (the date of transition to IFRS according to IFRS 1).

According to IFRS 1, the first IFRS Consolidated Financial Statements must use recognition and measurement principles that are based on standards and interpretations that are mandatory at December 31, 2007, the date of first-time preparation of Consolidated Financial Statements according to IFRS, provided these have been published effective December 31, 2007, and adopted by the EU. These accounting and measurement principles must be applied retrospectively to the date of transition to IFRS and for all periods presented within the first IFRS Consolidated Financial Statements.

Any resulting differences between the carrying amounts of assets and liabilities according to IFRS as of January 1, 2006, compared with those presented in the U.S. GAAP Consolidated Balance Sheet as of December 31, 2005, were recognized in equity within the IFRS opening balance sheet.

As provided for by IFRS 1, E.ON has applied the mandatory exceptions as well as certain optional exemptions described in the following text to the retrospective application of IFRS.

Explanation of the IFRS 1 Exemptions Applied by E.ON

In the IFRS Consolidated Opening Balance Sheet as of January 1, 2006, the carrying amounts of assets and liabilities from the U.S. GAAP balance sheet as of December 31, 2005, are generally recognized and measured according to those IFRS regulations in effect on December 31, 2007. For certain individual cases, however, IFRS 1 provides for optional exemptions to the general principle of retrospective application of IFRS. The following discussion describes the exemptions that E.ON has made use of in preparing its IFRS Consolidated Opening Balance Sheet.

Business Combinations

E.ON has elected to utilize the option under IFRS 1 not to apply the provisions of IFRS 3 retrospectively to business combinations that took place prior to the transition to IFRS. The presentation of these business combinations according to U.S. GAAP was maintained. In general, all of those assets and liabilities that were acquired in a business combination and that fulfill the IFRS recognition criteria must be recognized in the IFRS consolidated opening balance sheet. Furthermore assets and liabilities that were not recognized under U.S. GAAP but are subject to recognition under IFRS are recognized in the IFRS opening balance sheet. Any resulting adjustment amounts are recognized in retained earnings with no effect on net income unless they pertain to intangible assets whereby an adjustment of the goodwill determined under U.S. GAAP would be required. As no adjustment for intangible assets was required relating to such business combinations, the goodwill previously reported under U.S. GAAP was maintained in E.ON's opening balance sheet under IFRS.

Goodwill must be tested for impairment at the time of transition to IFRS. No impairment was determined by E.ON at the time of transition.

Cumulative Translation Differences

E.ON has elected to utilize the exemption provided for under IFRS 1 whereby the unrealized cumulative translation differences resulting from the translation of financial statements into the reporting currency of E.ON and previously reported within other comprehensive income may be recognized in full within equity at the time of transition to IFRS.

In a subsequent disposal of an enterprise, only those foreign currency translation differences that were recognized in equity after the preparation of the opening balance sheet are recognized in the gain or loss on disposal.

Significant Effects of Transition from U.S. GAAP to IFRS

The following reconciliations and their associated explanatory notes provide an overview of the effects of transition to IFRS. The adjustments are presented in the following sections:

- Equity as of January 1, 2006
- Equity as of December 31, 2006
- Net income for the fiscal year from January 1, 2006, through December 31, 2006

Reconciliation of Equity

Reconciliation of Equity			
€ in millions	Reference	December 31, 2006	January 1, 2006
Equity under U.S. GAAP		47,845	44,484
Changes in the presentation of minority interests	a	4,917	4,734
Equity under U.S. GAAP, including minority interests		**52,762**	**49,218**
Effects of IAS 32	b	-2,780	-3,249
Inventories	c	348	134
Pensions and similar obligations	d	-81	-1,391
Miscellaneous provisions	e	-129	-43
Derivatives	f	226	-566
Valuation of available-for-sale financial instruments	g	370	377
U.S. regulation	h	279	403
Income taxes	i	223	800
Other	j	27	286
Total adjustments		**-1,517**	**-3,249**
Equity under IFRS		**51,245**	**45,969**

a) Changes in the Presentation of Minority Interests

Under IFRS, minority interests of third parties in the Group are reported as part of equity. Under U.S. GAAP, minority interests are reported separately from shareholders' equity.

b) Effects of IAS 32

Put Options on Minority Interests

Financial instruments for which a right of repayment exists for the investor do not constitute equity instruments under the IFRS definition of equity. E.ON has made conditional and unconditional commitments to certain minority shareholders to acquire the outstanding shares. As a result, a liability in the amount of the present value of the future exercise price must be reported. This reclassification from equity is irrespective of the probability of exercise and is reported separately within minority interests.

Under U.S. GAAP, these potential commitments are generally reported similar to derivatives at fair value.

Minority Interests in German Partnerships

Under German corporate law, shareholders of a German partnership have a statutory, non-excludable right of termination. Under IAS 32, this right of termination causes the minority interests in the Group to be considered repayable. Accordingly, a corresponding liability at the present value of the expected settlement amount must be reclassified from equity, irrespective of the probability of exercise. The reclassification is reported separately within minority interests.

Under U.S. GAAP, these partnership interests are shown under minority interests.

In total, these effects resulted in a reduction in equity of €3,249 million within the opening balance sheet (December 31, 2006: –€2,780 million).

c) Inventories

Under U.S. GAAP, gas inventories were generally measured at LIFO. Under IAS 2, "Inventories" ("IAS 2"), this measurement method is not allowed. The adjustment to average-cost measurement of gas inventories resulted in an increase in equity of €134 million within the opening balance sheet (December 31, 2006: €348 million).

d) Pensions and Similar Obligations

Both U.S. GAAP and IFRS require the formation of provisions for pension obligations. Differences in the opening balance sheet in the values recognized under IAS 19, and SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), resulted in particular from the election to recognize all cumulative actuarial gains and losses in equity under IFRS. As part of the transition, the intangible pension asset and the prepaid pension asset as well as the additional minimum liability were eliminated. As a result, equity decreased by €1,391 million within the opening balance sheet (December 31, 2006: –€81 million). The further decline by December 31, 2006, is predominantly due to the first-time application of SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"), which also requires recognition of actuarial gains and losses within equity.

e) Miscellaneous Provisions

Under IFRS, long-term provisions must generally be discounted at the market interest rate applicable as of the respective balance sheet date if the effect resulting from discounting (the difference between present value and repayment amount) is material. In contrast, U.S. GAAP sets more stringent requirements with regard to discountability, with the result that under IFRS, more provisions are recognized at their lower present values.

A further difference exists with regard to the subsequent measurement of provisions for asset retirement obligations. Under both U.S. GAAP and IFRS, the acquisition or production costs of property, plant and equipment must be increased to include future asset retirement cost. The increased amount is amortized over the useful life of the corresponding asset. Each subsequent remeasurement of the provision under IFRS leads to an increase or a reduction of the entire cost of the asset to be decommissioned, while a remeasurement under U.S. GAAP leads to an increase or a reduction of only the asset retirement cost. Remeasurements of this type only affect the income statement if a reduction of the provision causes the carrying amount of the corresponding asset (or, under U.S. GAAP, the asset retirement cost portion) to be reduced to zero; in this case, each further reduction of the provision is recognized in income. As a consequence of the different definitions of the corresponding asset items, remeasurements of asset retirement obligations are less frequently recognized within the income statement under IFRS than under U.S. GAAP.

A further reduction in equity resulted from the different treatment of the bonus features ("Aufstockungsbeträge") of early retirement arrangements under IFRS.

In total, the differences in the accounting for other provisions resulted in a reduction in equity of €43 million within the opening balance sheet (December 31, 2006: –€129 million).

f) Derivatives

Further differences exist with regard to the definition of a derivative. Under U.S. GAAP, there are industry-specific exceptions for power-plant-specific supply contracts that are unknown under IFRS. This means that the definition of a derivative encompasses more contracts under IFRS.

In the case of embedded derivatives in certain supply and sale contracts, IFRS provides for the possibility of measuring only the embedded derivative, while reporting the non-derivative portion as a pending transaction. This is an exception for own-use contracts. Under U.S. GAAP, the existence of an embedded derivative in these contracts gives rise to fair value reporting through income for the contract as a whole. Further effects arise from differences in the definition of a derivative with regard to future settlement and market liquidity.

In total, these effects resulted in a reduction in equity of €566 million within the opening balance sheet (December 31, 2006: increase of €226 million).

g) Valuation of Available-for-Sale Financial Instruments

Under U.S. GAAP, non-marketable equity instruments are accounted for at cost. Under IFRS, all equity instruments must be reported at fair value to the extent that the fair value can be reliably determined. This applies even if an exchange quotation or another publicly available market price does not exist. Unrealized gains and losses from available-for-sale financial instruments, with the exception of impairment charges are reported in equity and reclassified when realized. The fair value measurement of available-for-sale equity instruments resulted in an increase in equity of €377 million within the opening balance sheet (December 31, 2006: €370 million).

h) U.S. Regulation

Accounting for E.ON's regulated utility businesses, Louisville Gas and Electric Company, Louisville, Kentucky, U.S., and Kentucky Utilities Company, Lexington, Kentucky, U.S., of the U.S. Midwest market unit, conforms to U.S. generally accepted principles as applied to regulated public utilities in the United States of America. These entities are subject to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), under which certain costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery of such costs from customers in future rates approved by the relevant regulator. Likewise, certain credits that would otherwise be reflected as income are deferred as regulatory provisions. The current or expected recovery by the entities of deferred costs and the expected return of deferred credits is generally based on specific ratemaking decisions or precedent for each item. The regulatory assets and liabilities under U.S. GAAP do not fulfill the recognition criteria for assets and liabilities under IFRS. As a result, these regulatory assets and liabilities were offset against equity and resulted in an increase in equity of €403 million within the opening balance sheet (December 31, 2006: €279 million).

i) Income Taxes

The adjustments described above result in changes in temporary differences between IFRS carrying amounts and tax-basis values and, accordingly, to changes in deferred taxes, that are different from those under U.S. GAAP.

Furthermore, under IAS 12, deferred taxes arising from investments in subsidiaries and associates (outside basis differences) are not recognized to the extent that the investor is able to control the timing of the reversal of the temporary difference and to the extent that it is probable that the temporary differences will not reverse in the foreseeable future.

In total, these effects resulted in an increase in equity within the opening balance sheet of €800 million (December 31, 2006: €223 million).

j) Other

Leasing

In a manner analogous to EITF 01-8, "Determining Whether an Arrangement Contains a Lease" ("EITF 01-8"), IFRIC 4 provides for the reporting of embedded leases. IFRIC 4 requires retrospective application whereas the equivalent provisions of EITF 01-8 under U.S. GAAP had to be applied prospectively as of May 28, 2003. The positive effect of this application on equity amounted to €90 million within the opening balance sheet (December 31, 2006: €125 million).

Change in Scope of Consolidation

One gas storage company in the Pan-European Gas market unit must be additionally consolidated under IFRS. The obligation to consolidate arises from SIC Interpretation 12, "Consolidation—Special Purpose Entities" ("SIC 12"), since E.ON has a right to obtain the majority of this company's benefits and is thereby exposed to the majority of its business risks. The U.S. GAAP criterion of asymmetric distribution of opportunities and risks under Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"), is not met. Moreover, there are significant protective rights for minority shareholders, meaning that control in the context of U.S. GAAP is not present. The consolidation of the gas storage company resulted in an increase in equity of €81 million in the opening balance sheet (December 31, 2006: €70 million).

Impairment

Under U.S. GAAP, the first step in the impairment testing of property, plant and equipment and intangible assets is to determine whether the carrying amount of the asset or group of assets being tested may not be recoverable. The carrying amount is not recoverable if it exceeds the estimated future undiscounted cash flows arising from the use of the asset or group of assets tested. In such a case, the second step is to recognize an impairment charge in the amount of the difference between the previous carrying amount and the lower fair value. Under IFRS no two-step approach exists. The carrying amount of the asset being tested is compared with its recoverable amount, which is the higher of an asset's value in use and its fair value less costs to sell. If the carrying amount exceeds the corresponding recoverable amount, an impairment charge is recognized in the amount of the difference. In the fourth quarter of 2006, impairment charges in the amount of €186 million were recognized in accordance with IFRS on property, plant and equipment and intangible assets at the U.K. market unit. No impairment was necessary under U.S. GAAP because the undiscounted cash flows exceeded the carrying amounts of the assets. As of December 31, 2006, this resulted in a decrease in equity under IFRS of €186 million.

Degussa

Furthermore, the conversion to IFRS of E.ON's interest in Degussa within the opening balance sheet, as well as the subsequent related impacts during 2006 from the application of the equity method and the accounting for the disposal of Degussa under IFRS, resulted in a reduction in equity of -€31 million (December 31, 2006: -€142 million).

Reconciliation of Net Income

Reconciliation of Net Income

€ in millions	Reference	2006
Net income under U.S. GAAP		5,057
Changes in the presentation of minority interests	a	526
Net income under U.S. GAAP, including minority interests		**5,583**
Effects of IAS 32	b	-121
Inventories	c	214
Pensions and similar obligations	d	118
Miscellaneous provisions	e	-78
Derivatives	f	791
Valuation of available-for-sale financial instruments	g	-55
U.S. regulation	h	9
Income taxes	i	-363
Other	j	-16
Total adjustments		**499**
Net income under IFRS		**6,082**

a) Changes in the Presentation of Minority Interests
Consistent with the change in presentation within the balance sheet, minority interests are reported directly in equity under IFRS as part of the allocation of earnings. Under U.S. GAAP, minority interests in earnings are reported within the calculation of net income.

b) Effects of IAS 32
Put Options on Minority Interests
Financial instruments for which a right of repayment exists do not constitute equity instruments under the IFRS definition of equity. E.ON has made conditional and unconditional repurchase offers to certain minority shareholders to acquire the outstanding shares. Correspondingly, a liability in the amount of the present value of the future exercise price must be reported, irrespective of the probability of exercise. The accretion expense for the liability is shown in interest income. The minority interest remains part of the earnings allocation reported directly within equity under IFRS.

Under U.S. GAAP, these potential commitments are generally reported at fair value similar to derivatives. Minority interests are included in the calculation of net income.

Minority Interests in German Partnerships
Under German corporate law, shareholders of a German partnership have a statutory, non-excludable right of termination. Under IAS 32, this right of termination causes the minority interests in the Group to be considered repayable. Accordingly, a corresponding liability in the present value of the expected settlement amount must be reclassified from minority interests. The shares in earnings to which the minority shareholders are entitled as well as the accretion expense for the liability must be shown as interest expense. Other changes in the value of the liability are reported as other operating income and expenses.

Under U.S. GAAP, these partnership interests are shown under minority interests. The share in earnings to which these minority shareholders are entitled is still shown as minority interests in earnings and included in the calculation of net income.

These effects resulted in a decrease of net income by €121 million for the year ended December 31, 2006.

c) Inventories
The adjustment from LIFO measurement of gas inventories as was generally applied under U.S. GAAP to average-cost measurement under IFRS resulted in an increase in net income of €214 million for the year ended December 31, 2006.

d) Pensions and Similar Obligations
E.ON has elected the option under IAS 19 to recognize all actuarial gains and losses within equity with no further amortization through net income as required under U.S. GAAP.

As a result, net income increased by €118 million for the year ended December 31, 2006.

e) Miscellaneous Provisions
The differences in the accounting treatment miscellaneous of provisions described in connection with the reconciliation of equity resulted in a reduction in net income of €78 million for the 2006 fiscal year. The increased charge as of the end of the fiscal year is primarily due to early retirement agreements at the Central Europe market unit.

f) Derivatives
Under U.S. GAAP, there are industry-specific exceptions for power-plant-related supply contracts that are unknown under IFRS. This means that the definition of a derivative encompasses more contracts under IFRS.

In the case of embedded derivatives in certain supply and sale contracts, IFRS provides for the possibility of measuring only the embedded derivative, while reporting the non-derivative portion as a pending transaction. Under U.S. GAAP, the existence of an embedded derivative in these contracts gives rise to fair value reporting through income for the contract as a whole. Further effects arise from the definition of a derivative with regard to net settlement and market liquidity.

The total increase in net income for the year ended December 31, 2006, attributable to these circumstances was €791 million.

g) Valuation of Available-for-Sale Financial Instruments

Under IFRS, the foreign currency translation effects from monetary financial instruments classified as available-for-sale are recognized in income to the extent to which they are related to acquisition costs. Under U.S. GAAP, these effects are classified as other comprehensive income, along with all other changes in fair value. For the year ended December 31, 2006, this resulted in a decrease in net income of €55 million.

h) U.S. Regulation

The regulatory assets and liabilities under U.S. GAAP do not fulfill the recognition criteria for assets and liabilities under IFRS. Immediate recognition in the income statement of the resulting income and expenses resulted in an increase in net income of €9 million for the year ended December 31, 2006.

i) Income Taxes

During the 2006 fiscal year, the above deviations in income, particularly with respect to pensions, resulted in changes of deferred taxes that reduced net income.

Furthermore, under IAS 12, deferred taxes arising from investments in subsidiaries and associates (outside basis differences) are not recognized to the extent that the investor is able to control the timing of the reversal of the temporary difference and to the extent that it is probable that the temporary differences will not reverse in the foreseeable future. In comparison with U.S. GAAP, this resulted in an increase in net income under IFRS.

Overall the changes in income taxes resulted in a reduction of net income during the year ended December 31, 2006, of €363 million.

j) Other

A further difference results from the conversion to IFRS of E.ON's interest in Degussa both with respect to the equity results as well as the book gain calculated upon disposal in 2006. The conversion led to an increase in net income of €205 million for the year ended December 31, 2006. This was offset by an impairment charge of €186 million at the U.K. market unit recognized only under IFRS in the fourth quarter 2006.

Cash Flow Adjustments

As a result of the conversion to IFRS, E.ON's 2006 cash flows from operating, investing and financing activities were adjusted from their U.S. GAAP amounts by –€33 million, +€44 million and –€11 million, respectively. These minor adjustments result from differences in the scope of consolidation and the accounting treatment of lease arrangements in accordance with IFRIC 4.

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 19, 2008

The Board of Management

Bernotat

Bergmann

Dänzer-Vanotti

Feldmann

Schenck

Teyssen

Additional Explanations Concerning the IFRS Reconciliations

In addition to the explanations in Note 35 concerning the reconciliation of equity and net income, the following describes the effects of the transition to IFRS on other important key financial figures.

Reconciliation of Adjusted EBIT

The reconciliation of adjusted EBIT from U.S. GAAP to IFRS for the year ended December 31, 2006, is presented in the following tables:

Reconciliation of Adjusted EBIT 2006

€ in millions	Central Europe	Pan-European Gas	U.K.	Nordic	U.S. Midwest	Corporate Center	Core Energy Business	Other activities[1]	E.ON Group
Adjusted EBIT under U.S. GAAP[2]	4,168	2,106	1,229	619	391	-416	8,097	53	8,150
Inventories	1	213	–	–	–	–	214	–	214
Pensions and similar obligations	102	9	6	–	3	8	128	–	128
Miscellaneous provisions	33	-7	–	-107	–	-3	-84	–	-84
Derivatives	–	–	8	–	–	–	8	–	8
U.S. regulation	–	–	–	–	32	–	32	–	32
Other	-69	26	-4	–	–	8	-39	-53	-92
Total adjustments	**67**	**241**	**10**	**-107**	**35**	**13**	**259**	**-53**	**206**
Adjusted EBIT under IFRS	**4,235**	**2,347**	**1,239**	**512**	**426**	**-403**	**8,356**	**0**	**8,356**

[1]Included in the other activities under U.S. GAAP was the 42.9 percent interest in Degussa accounted for at equity until its disposal in July 2006.
[2]Non-GAAP financial measure; see reconciliation in 2006 Anual Report, page 36.

The increase in adjusted EBIT according to IFRS is primarily due to the change in measurement of gas inventories from LIFO under U.S. GAAP to average-cost measurement under IFRS. An additional positive effect results from the reduction compared with U.S. GAAP of the expense for pensions, which is primarily due to the elimination of the amortization of actuarial gains and losses in the income statement. The immediate recognition in income of U.S. regulatory assets and liabilities recognized in accordance with U.S. GAAP within the U.S. Midwest market unit also led to an increase in adjusted EBIT.

These positive effects were offset in 2006 by the negative impact of differences in the accounting for miscellaneous provisions. As required under IFRS, the adjusted EBIT of the "other activities" which was attributable to the equity earnings of E.ON's share in Degussa under U.S. GAAP, has been reclassified to discontinued operations.

For a detailed explanation of these effects, see the description in Note 35 of the reconciliation of equity and net income.

Reconciliation of Adjusted Net Income

The following table describes the reconciliation from U.S. GAAP to IFRS of adjusted net income for the 2006 fiscal year:

Reconciliation of Adjusted Net Income

€ in millions	2006
Adjusted net income under U.S. GAAP[1]	4,386
Differences in EBIT	206
Adjusted interest income (net)	133
Income taxes	-73
Minority interests	30
Total adjustments	**296**
Adjusted net income under IFRS	**4,682**

[1]Non-GAAP financial measure; see reconciliation in 2006 Annual Report, page 37.

The definition and reconciliation of net income to adjusted net income under IFRS is presented on page 40.

In addition to the differences in adjusted EBIT, the increase in 2006 of adjusted net income as compared with U.S. GAAP is due primarily to the differences in adjusted interest income, which result mainly from the differences in the accounting treatment of miscellaneous provisions, which are described in Note 35.

Other Directorships Held by Members of the E.ON AG Supervisory Board (as of December 31, 2007)

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

Hubertus Schmoldt
Chairman of the Board of Management, Industriegewerkschaft Bergbau, Chemie, Energie
Deputy Chairman
- Bayer AG
- Deutsche BP AG
- RAG Aktiengesellschaft
- Evonik Industries AG
- DOW Olefinverbund GmbH

Dr. Karl-Hermann Baumann
- Linde AG
- Bayer Schering Pharma AG

Sven Bergelin
(since August 1, 2007)
Director, National Energy Working Group, Unified Service Sector Union, ver.di
- E.ON Avacon AG
- E.ON Kernkraft GmbH

Dr. Rolf-E. Breuer
- Landwirtschaftliche Rentenbank

Dr. Gerhard Cromme
(until June 30, 2007)
Chairman of the Supervisory Board, ThyssenKrupp AG
- Allianz SE
- Axel Springer AG
- Siemens AG (Chairman)
- ThyssenKrupp AG (Chairman)
- Compagnie de Saint-Gobain

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

Ulrich Hocker
General Manager, German Investor Protection Association
- Feri Finance AG
- Deutsche Telekom AG
- Arcandor AG
- ThyssenKrupp Stainless AG
- Gartmore SICAV
- Phoenix Mecano AG (Chairman of the Administrative Board)

Seppel Kraus
(until July 31, 2007)
Labor Union Secretary
- Hexal AG
- Wacker Chemie AG
- Novartis Deutschland GmbH

Prof. Dr. Ulrich Lehner
President and Chief Executive Officer, Henkel KGaA
- Dr. Ing. h.c. F. Porsche AG
- Porsche Automobil Holding SE
- Novartis AG
- HSBC Trinkaus & Burkhardt AG

Erhard Ott
Member of the Board of Management, Unified Service Sector Union, ver.di
- E.ON Energie AG

Klaus Dieter Raschke
Chairman of the Combined Works Council, E.ON Energie AG
- E.ON Energie AG
- E.ON Kernkraft GmbH

Dr. Henning Schulte-Noelle
Chairman of the Supervisory Board, Allianz SE
- Allianz SE (Chairman)
- Siemens AG
- ThyssenKrupp AG

Dr. Theo Siegert
(since July 4, 2007)
Managing Partner, de Haen-Carstanjen & Söhne
- Deutsche Bank AG
- ERGO AG
- Merck KGaA
- E. Merck OHG
- DKSH Holding Ltd.
- Hülskens Holding GmbH & Co. KG

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

Gerhard Skupke
Chairman of the Central Works Council, E.ON edis AG
- E.ON edis AG

Dr. Georg Freiherr von Waldenfels
Former Minister of State, Attorney
- CAPEO Consulting AG
- Georgsmarienhütte Holding GmbH
- Rothenbaum Sport GmbH (Chairman)

Hans Wollitzer
(since Januar 4, 2007)
Chairman of the Central Works Council, E.ON Energie AG
- E.ON Energie AG
- E.ON Bayern AG

Information as of December 31, 2007, 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.

Other Directorships Held by Members of the E.ON AG Board of Management (as of December 31, 2007)

Dr. Wulf H. Bernotat
Chairman of the Board of Management and Chief Executive Officer
- E.ON Energie AG[1] (Chairman)
- E.ON Ruhrgas AG[1] (Chairman)
- Allianz SE
- Bertelsmann AG
- Metro AG
- E.ON US Investments Corp.[2] (Chairman)
- E.ON Nordic AB[2] (Chairman)
- E.ON UK plc[2] (Chairman)
- E.ON Sverige AB[2] (Chairman)

Dr. Burckhard Bergmann
Member of the Board of Management
- Thüga AG[1] (Chairman)
- Allianz Lebensversicherungs-AG
- MAN Ferrostaal AG
- Accumulatorenwerke Hoppecke Carl Zoellner & Sohn GmbH
- Jaeger Beteiligungsgesellschaft mbH & Co. KG (Chairman)
- Nord Stream AG
- OAO Gazprom
- E.ON Ruhrgas E&P GmbH[2] (Chairman)
- E.ON Gastransport AG & Co. KG[2] (Chairman)
- E.ON UK plc[2]
- ZAO Gerosgaz[2] (Chairman; chairmanship rotates with representative of foreign partner company)

Christoph Dänzer-Vanotti
Member of the Board of Management
- E.ON Nordic AB[2]
- E.ON Sverige AB[2]

Lutz Feldmann
Member of the Board of Management
- E.ON Energie AG[1]
- OAO OGK-4[2]

Dr. Hans Michael Gaul
Member of the Board of Management (until March 31, 2007)
- Allianz Versicherungs-AG
- DKV AG
- Volkswagen AG
- Evonik Industries AG
- HSBC Trinkaus & Burkhardt AG
- IVG Immobilien AG
- VNG Verbundnetz Gas AG

Dr. Marcus Schenck
Member of the Board of Management
- E.ON Ruhrgas AG[1]
- E.ON IS GmbH[2]
- NFK Finanzcontor GmbH[2] (Chairman)
- E.ON Risk Consulting GmbH[2] (Chairman)
- E.ON Audit Services GmbH[2] (Chairman)
- OAO OGK-4[2]

Dr. Johannes Teyssen
Member of the Board of Management
- E.ON Energie AG[1]
- E.ON Ruhrgas AG[1]
- Salzgitter AG
- E.ON Nordic AB[2]
- E.ON Sverige AB[2]
- E.ON UK plc[2]

Information as of December 31, 2007, 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.

Major Shareholdings as of December 31, 2007

Name	Location	Stake %	Equity €m	Earnings €m	Sales €m
Central Europe market unit					
E.ON Energie AG[1, 3, 4]	DE, Munich	100.0	4,218.8	0.0	0.0
BKB Aktiengesellschaft[1, 3, 4]	DE, Helmstedt	100.0	359.6	0.0	191.7
BKW FMB Energie AG[2]	CH, Bern	21.0	645.0	174.6	1,205.4
Dalmine Energie S.p.A.[1]	IT, Dalmine	100.0	20.4	5.5	604.3
E WIE EINFACH Strom & Gas GmbH[1, 3, 4]	DE, Cologne	100.0	50.0	0.0	34.8
E.ON Avacon AG[1]	DE, Helmstedt	66.9	1,044.6	129.0	3,423.4
E.ON Bayern AG[1, 3]	DE, Regensburg	100.0	905.4	0.0	3,888.6
E.ON Benelux Holding b.v.[1]	NL, Voorburg	100.0	722.9	0.0	0.0
E.ON Benelux n.v.[1]	NL, Voorburg	100.0	735.3	0.0	1,088.4
E.ON Bulgaria EAD[1]	BG, Varna	100.0	152.7	1.9	6.2
E.ON Bulgaria Grid AD[1]	BG, Gorna	67.0	109.9	-3.9	122.9
E.ON Bulgaria Sales AD[1]	BG, Varna	67.0	25.5	10.0	146.3
E.ON Czech Holding AG[1, 3, 4]	DE, Munich	100.0	552.9	0.0	6.4
E.ON Dél-dunántúli Áramszolgáltató ZRt. ("EDE")[1]	HU, Pécs	100.0	121.5	0.0	339.2
E.ON Dél-dunántúli Gázszolgáltató ZRt.[1]	HU, Pécs	99.9	34.6	-9.4	145.4
E.ON Distribuce, a.s.[1]	CZ, České Budějovice	100.0	744.9	73.0	399.6
E.ON edis AG[1, 7]	DE, Fürstenwalde	74.0	933.3	75.2	2,113.9
E.ON Energie, a.s.[1]	CZ, České Budějovice	100.0	94.4	-13.0	964.8
E.ON Energy Trading AG[1, 3, 4]	DE, Munich	100.0	995.2	0.0	16,995.3
E.ON Engineering GmbH[1, 3, 4]	DE, Gelsenkirchen	100.0	22.8	0.0	64.8
E.ON Észak-dunántúli Áramszolgáltató ZRt.[1]	HU, Györ	100.0	227.5	0.0	581.3
E.ON Facility Management GmbH[1, 3, 4]	DE, Munich	100.0	4.1	0.0	173.0
E.ON Hanse AG[1]	DE, Quickborn	73.8	557.3	79.4	2,941.0
E.ON Hungária Energetikai ZRt.[1]	HU, Budapest	100.0	1,075.4	27.1	49.8
E.ON Italia S.p.A.[1]	IT, Milan	100.0	2.9	1.6	188.4
E.ON Kernkraft GmbH[1, 3, 4]	DE, Hanover	100.0	245.2	0.0	2,308.8
E.ON Közép-dunántúli Gázszolgáltató ZRt.[1]	HU, Nagykanizsa	99.6	60.7	-2.9	132.1
E.ON Kraftwerke GmbH[1, 3, 4]	DE, Hanover	100.0	1,661.7	0.0	3,089.3
E.ON Mitte AG[1]	DE, Kassel	73.3	535.0	71.2	1,324.2
E.ON Moldova Distributie S.A.[1]	RO, Bacău	51.0	237.1	6.3	304.4
E.ON Netz GmbH[1, 3, 4]	DE, Bayreuth	100.0	536.2	0.0	5,729.9
E.ON Thüringer Energie AG[1, 7]	DE, Erfurt	77.2	828.7	70.3	1,439.2
E.ON Tiszántúli Áramszolgáltató ZRt. ("ETI")[1]	HU, Debrecen	100.0	128.6	0.0	372.6
E.ON Wasserkraft GmbH[1, 3, 4]	DE, Landshut	100.0	370.9	0.0	378.2
E.ON Westfalen Weser AG[1]	DE, Paderborn	62.8	395.8	0.0	1,286.5
Jihočeská plynárenská, a.s. ("JČP")[1]	CZ, České Budějovice	100.0	81.9	5.6	130.0
Jihomoravská plynárenská, a.s. ("JMP")[2]	CZ, Brno	43.7	209.6	34.2	637.2
Prazska plynárenská, a.s.[2]	CZ, Prague	49.3	111.9	11.9	334.0
Západoslovenská energetika a.s. ("ZSE")[2]	SK, Bratislava	49.0	338.3	90.9	721.5
Pan-European Gas market unit					
E.ON Ruhrgas AG[1, 3]	DE, Essen	100.0	3,501.5	0.0	19,080.6
A/s Latvijas Gāze[2]	LV, Riga	47.2	339.0	30.1	261.5
AB Lietuvos Dujos[2]	LT, Vilnius	38.9	537.3	17.1	225.4
E.ON Földgáz Storage ZRt.[1]	HU, Budapest	100.0	267.5	24.8	108.5
E.ON Földgáz Trade ZRt.[1]	HU, Budapest	100.0	199.0	-105.0	1,961.8
E.ON Gastransport AG & Co. KG[1, 5]	DE, Essen	100.0	115.6	36.4	1,297.4
E.ON Gaz Distributie S.A.[1, 9]	RO, Târgu Mureş	51.0	428.1	24.6	718.9
E.ON Ruhrgas E&P GmbH[1, 3]	DE, Essen	100.0	1,048.9	0.0	0.0
E.ON Ruhrgas International AG[1, 3]	DE, Essen	100.0	2,214.6	0.0	0.0
E.ON Ruhrgas Norge AS[1]	NO, Stavanger	100.0	27.7	10.9	130.1
E.ON Ruhrgas UK North Sea Limited[1]	GB, Aberdeen	100.0	85.6	-7.2	12.2

Major Shareholdings as of December 31, 2007

Name	Location	Stake %	Equity €m	Earnings €m	Sales €m
Erdgasversorgungsgesellschaft Thüringen-Sachsen mbH ("EVG")[2]	DE, Erfurt	50.0	83.4	26.3	739.8
Etzel Gas-Lager GmbH & Co. KG[1]	DE, Friedeburg-Etzel	74.8	20.0	23.6	50.3
Ferngas Nordbayern GmbH[1]	DE, Nuremberg	70.0	91.7	20.6	815.0
Gasum Oy[2]	FI, Espoo	20.0	226.1	44.5	879.8
Gas-Union GmbH[2]	DE, Frankfurt am Main	25.9	81.7	13.2	1,280.0
Interconnector (UK) Limited[2, 6]	GB, London	23.6	49.9	55.3	198.8
MEGAL Mittel-Europäische-Gasleitungsgesellschaft mbH & Co. KG[2]	DE, Essen	51.0	23.6	3.1	63.5
NETRA GmbH Norddeutsche Erdgas Transversale & Co. KG[2]	DE, Emstek	40.6	161.6	82.7	113.9
Nord Stream AG[2]	CH, Zug	24.5	-3.5	-4.1	0.0
OAO Gazprom[2]	RU, Moscow	6.4	96,358.9	17,969.5	63,051.6
Saar Ferngas AG[2, 3]	DE, Saarbrücken	20.0	140.2	0.0	1,429.3
Slovenský Plynárenský Priemysel, a.s. ("SPP")[2, 8]	SK, Bratislava	24.5	5,780.5	645.9	2,505.4
Thüga Aktiengesellschaft[1, 3]	DE, Munich	100.0	2,355.4	0.0	391.8
Trans Europa Naturgas Pipeline Gesellschaft mbH & Co. KG[2]	DE, Essen	51.0	11.2	3.6	59.0
U.K. market unit					
E.ON UK plc[1]	GB, Coventry	100.0	3,706.6	-686.5	0.0
Central Networks East plc[1]	GB, Coventry	100.0	906.0	222.6	0.0
Central Networks West plc[1]	GB, Coventry	100.0	812.1	215.6	0.0
Corby Power Ltd.[1]	GB, Corby	50.0	89.6	35.5	0.0
E.ON Energy Limited[1]	GB, Coventry	100.0	2,161.6	336.4	4,491.7
E.ON UK CHP Ltd.[1]	GB, Coventry	100.0	-251.0	-151.2	164.9
E.ON UK CoGeneration Limited[1]	GB, Coventry	100.0	11.7	-0.6	51.5
E.ON UK Renewables Limited[1]	GB, Coventry	100.0	19.8	1.1	16.5
Economy Power Limited[1]	GB, Coventry	100.0	26.5	14.8	0.0
Enfield Energy Centre Limited[1]	GB, Coventry	100.0	203.8	9.9	164.2
Nordic market unit					
E.ON Nordic AB[1]	SE, Malmö	100.0	4,429.0	263.4	0.0
E.ON Sverige AB[1, 8]	SE, Malmö	55.3	3,046.7	49.9	11.7
U.S. Midwest market unit					
E.ON U.S. LLC[1, 8]	US, Louisville	100.0	4,281.1	39.3	0.0
E.ON U.S. Capital Corp.[1, 8]	US, Louisville	100.0	568.6	0.9	0.0
Kentucky Utilities Company ("KU")[1, 8]	US, Lexington	100.0	1,074.6	129.1	930.8
LG&E Energy Marketing Inc.[1, 8]	US, Louisville	100.0	-287.0	-12.6	50.1
Louisville Gas and Electric Company ("LG&E")[1, 8]	US, Louisville	100.0	807.5	82.5	941.4
Other					
Airtricity Inc.[1]	US, Chicago	100.0	-69.0	49.9	0.0
Aviga GmbH[1]	DE, Duisburg	100.0	1,266.5	61.8	0.0
E.ON Renovables Iberia, S.L.[1]	ES, Madrid	100.0	22.8	-2.2	0.7
E.ON IS GmbH[1]	DE, Hanover	100.0	11.3	0.0	349.5
E.ON North America, Inc.[1]	US, New York	100.0	186.5	8.9	0.0
E.ON Ruhrgas Holding GmbH[1, 3]	DE, Düsseldorf	100.0	10,290.5	0.0	0.0
OAO OGK-4[1]	RU, Surgut	72.7	3,600.0	29.0	898.0

[1]Consolidated associated company.
[2]Other shareholding.
[3]Profit and loss pooling agreement (earnings after pooling).
[4]This company exercised its exemption option under Section 264, Paragraph 3, of the German Commercial Code.
[5]Equity in the amount of €115.6 million, of which €90 million in unpaid capital contributions has not yet been demanded.
[6]Sales reflect the figure recorded for the period ended September 30, 2007.
[7]Includes shares held in trust.
[8]IFRS reporting package.
[9]Formerly E.ON Gaz România S.A.

Actuarial gains and losses
The actuarial calculation of provisions for pensions is based on forecasts 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 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 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, incomes 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 share. ADRs make it easier for foreign companies to gain access to U.S. investors.

Balancing energy
Energy not scheduled in advance that is required to meet energy imbalances within a power system in real time. It is supplied to a transmission system operator ("TSO") by various types of reserve generating equipment that can respond quickly to the TSO's request for more or less energy, ensuring that customers have a stable supply of electricity.

Barrel ("bbl")
Unit of capacity for crude oil and petrochemical products. A barrel is equal to 42 U.S. gallons, 35 Imperial gallons, or 159 liters; "bbl" is actually an abbreviation of "blue barrel," referring to the blue-colored 42-gallon steel drums used by Standard Oil in the late 19th century.

Baseload
Minimum amount of electricity delivered or required within a power system. Since this minimum is typically at night, baseload is the sum of the electricity consumed by industrial facilities that operate 24 hours a day, by street lights, and by commercial and residential appliances that run around the clock (refrigerators, air conditioners, electric space heating).

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.

Biogas
The German Energy Act of 2005 classifies biomethane, gas from biomass, landfill gas, sewage gas, and mine gas as biogas.

Biomass
Organic material made from plants and animals. Typical examples relevant for the energy industry are wood, crops, manure, and some types of garbage. Biomass can, for example, be burned in combined-cycle generating units to produce both electricity and heat.

Brent crude oil
A light crude oil with a low sulfur content. It is extracted from beneath the North Sea floor between the Shetland Islands and Norway and traded at London's International Petroleum Exchange ("IPE") and other European exchanges. Because Brent is Europe's most commonly traded crude oil, the price of the IPE Brent futures contract is often used as Europe's benchmark price.

British thermal unit ("Btu")
Amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit. It is used to compare the heat-producing value of different fuels. In the U.S., fuels such as natural gas are priced in millions of Btu ("MmBtu"). One MmBtu equals 0.29307 megawatt-hours.

Capital employed
Represents the interest-bearing capital tied up in the 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.

Carbon dioxide ("CO_2")
A colorless, odorless gas that at very low concentrations is a natural component of air. It is formed by the combustion of carbonaceous matter.

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.

Clean Development Mechanism ("CDM")
A flexible arrangement contained in the Kyoto Protocol that allows industrialized countries with a greenhouse-gas ("GHG") reduction commitment (Annex 1 countries) to invest in projects that reduce GHG emissions in developing and emerging countries with no GHG reduction commitment (non-Annex 1 countries). The Annex 1 country making such an investment can earn certified emission reductions from the project and credit these to its emission-reduction target. CDMs also result in technology transfer to developing countries.

CO_2 emission allowance trading
EU-wide emissions trading scheme designed to enable the Community to meet its greenhouse-gas emission-reduction targets under the Kyoto Protocol. Energy production and energy-intensive industrial facilities with more than 20 megawatts of installed capacity must demonstrate that they have allowances commensurate with their CO_2 emissions. EU member states allocate emission allowances to facility operators. If operators produce more CO_2 than anticipated, they must either reduce the CO_2 emissions of their facilities or buy additional allowances. If they produce less CO_2, they may sell their unused allowances on the open market. Phase one of emissions trading was from 2005 through 2007; phase two is from 2008 to 2012.

Cogeneration Protection Law
German law designed to promote the maintenance, modernization, and growth of cogeneration capacity in order to reduce energy consumption and protect the earth's climate. Depending on the size and age of a qualifying cogeneration facility, its operator receives, in addition to the market price, a subsidy payment for each kilowatt-hour of electricity the facility delivers onto the power system.

Combined heat and power ("CHP")
Generating technology in which both electric and thermal energy are obtained from a single energy source, which makes CHP generating units significantly more efficient. Also known as cogeneration.

Commercial papers ("CPs")
Unsecured, short-term money market obligations issued by commercial firms and financial institutions. CPs are usually quoted on a discounted basis, with repayment at the par value.

Compressor station
Facilities placed roughly every 100 to 250 kilometers (60 to 150 miles) to move natural gas in transport pipelines through the creation of pressure differentials.

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.

Control area
Power system or part of a power system in which the transmission system operator ensures system stability by matching, at all times, generation and consumption by means of balancing energy.

Control area imbalance calculation
Calculation of the difference between electricity generated and consumed within a control area, or between gas injected and withdrawn from the control area of a market area, over a specified period of time.

Cost of capital
Weighted average of the costs of debt and equity funds (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 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.

District heating
System by which heat (steam or hot water) produced at a central source is distributed through a network of pipes to several buildings and sometimes an entire district of a city.

Economic net debt
Key figure that supplements net financial position with pension obligations and asset retirement obligations (less prepayments to the Swedish nuclear fund).

Economic value of investments
Cash-effective capital investments plus debt acquired, long-term rental and lease obligations, and asset swaps.

Energy efficiency
Ratio between the amount of energy produced by a machine and the amount of energy it consumes, indicating the efficiency of a particular energy transformation technology.

Energy Law of 2005
German law designed to create market conditions a) under which the general public will have access to a reliable, economically priced, consumer-friendly, efficient, and environmentally friendly supply of natural gas and electricity and b) that ensure effective competition in these industries. It transposes a number of EU laws into German law.

Entry-exit model
Pricing model for natural gas transport under which shippers can book pipeline receipt and delivery points separately and in different volumes, use transport capacity without specifying a transport path, and aggregate it with the capacity of other shippers.

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.

EU energy regulation
Energy market regulation in individual EU member states is based on EU directives. In September 2007, the EU Commission published a third package of legislative proposals to establish an EU-wide internal market for electricity and natural gas. The package is currently being debated in the European Council and European Parliament.

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.

Federal Network Agency for Electricity, Gas, Telecommunications, Post, and Railway
German federal regulatory authority that since July 2005 has, in conjunction with state-level agencies, regulatory oversight over Germany's electricity and gas networks. Its commonly used German abbreviation is BNetzA.

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).

Fossil fuel
Any naturally occurring energy source (such as petroleum, natural gas, or coal) formed in the earth from plant or animal remains.

Fuel cell
Device that generates direct current and heat by means of an electrochemical reaction between hydrogen and oxygen. Such devices are currently about 60 percent energy-efficient.

Goodwill
That portion of the purchase price of a company that exceeds its book value (fixed and intangible assets less debt). Goodwill is based on projections of future earnings.

Henry Hub
Nexus of numerous interstate natural gas pipelines in Louisiana, USA. The price of the natural gas futures contract at the New York Mercantile Exchange is based on delivery at the Henry Hub. This contract is widely used in the U.S. as a benchmark price for natural gas.

High voltage
Voltages of between 60 kilovolts und 110 kilovolts and in Sweden up to 130 kilovolts.

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.

Incentive regulation
Term for a German regulatory policy under which network charges are structured so that they provide system operators with an incentive to make their operations more efficient. The regulatory agency sets the maximum annual total revenues an operator can record for providing transmission or distribution services over a five-year period. These annual maximums decline according to a schedule of anticipated efficiency improvements. System operators have an incentive to achieve efficiencies at a faster rate than the schedule calls for because they can, despite having lowered their cost structure, still charge the maximum amount until the end of the regulation period.

Incentive Regulation Ordinance
German ordinance that took effect in November 2007 under which incentive regulation will begin on January 1, 2009. Incentive regulation will replace the current cost-based model of network charges.

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. However, the regulations gave member states the option to allow companies to apply IFRS beginning on January 1, 2007, at the latest. In October 2004 the German parliament passed a law allowing late application.

Joint Implementation ("JI")
A flexible arrangement contained in the Kyoto Protocol that allows industrialized countries with a greenhouse-gas ("GHG") reduction commitment (Annex 1 countries) to invest in projects that reduce GHG emissions in another Annex 1 country, to earn certified emission reductions from the project, and to credit these to their own emission-reduction target.

Line loss
Difference between the electric energy delivered onto, and supplied from, a transmission or distribution system. Line loss results from resistance in conductors, conduction over insulators, coronas (luminous electrical discharges on transmission lines), and other physical phenomena.

Liquefied natural gas ("LNG")
Natural gas converted to a liquid state by pressure and severe cooling (minus 162 degrees Celsius, minus 260 degrees Fahrenheit), which reduces its volume by a factor of 600. LNG is transported in tanker ships to terminals where it is returned to a gaseous state. LNG is playing an increasingly important role in international gas supply.

National Balancing Point ("NBP")
Notional point on the U.K.'s National Transmission System ("NTS"). For accounting and balancing purposes, all gas traded within the NTS is said to flow through this point. Natural gas futures contracts in the U.K. are typically settled through the transfer of ownership at the NBP.

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).

Network access charge
Amount paid to an intervening network for the use of this network to transport or distribute power or gas. In Germany, these charges are priced in euro cents per cubic meter for gas and euro cents per MWh for power. Germany's Energy Law of 2005 and related ordinances allow both cost- and market-based mechanisms for setting these charges.

Network charge approvals process
Under the Energy Law of 2005 and the Electricity and Gas Network Charge Ordinances, a regulatory agency must issue prior approval for cost-based power and gas network access charges. In certain circumstances, natural gas transport system operators can submit market-based charges to the regulatory authority.

Network Connection Ordinance
Establishes rules for connecting end-consumers to energy delivery networks (low-voltage electricity and low-pressure natural gas).

Nitrogen oxide ("NOx")
Term for any of several gaseous oxides of nitrogen. The combustion of natural gas, oil, and coal is one of the ways NOx is released into the atmosphere.

Oil price indexation
Common feature of natural gas supply contracts by which the price of natural gas is indexed to the market price for crude oil or petroleum products like heating oil and heavy oil. There is typically a lag of several months before the contract price for natural gas is adjusted to reflect oil price movements, usually in the form of a monthly average or moving average for several months.

Option
The right, not the obligation, to buy or sell an underlying asset (for instance, a security or currency) at a specific date at a predetermined price from a counterparty or seller. Buy options are referred to as calls, sell options as puts.

Ordinary share
Participation in the ownership of an enterprise. It has no par value (the nominal value assigned to a share of stock by the corporate charter at the time of issuance).

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).

Peakload
Maximum demand for electricity within a power system. To meet this demand and ensure system reliability as demand fluctuates, a power system must have access to extra generating capacity beyond its baseload and intermediate-load capacity.

Power Station Grid Connection Ordinance
German ordinance in effect since June 2007 that establishes rules for connecting generating units with a nameplate capacity of 100 megawatts and higher to electricity networks with a voltage of 100 kilovolts and higher.

Primary energy
Naturally occurring forms of energy or energy sources like fossil fuels (natural gas, petroleum, hard coal, lignite), nuclear fuel (uranium), and renewables (water, solar, wind).

Primary energy consumption
Energy consumed by end-users in a political entity (usually a country) over a certain period of time (usually a year). It excludes electricity consumption, but includes the energy used to produce electricity.

Pumped storage hydroelectric plant
Facility that enables electricity to be stored for later use. Electricity produced by other generating plants (usually during off-peak hours, when electricity is cheaper) is used to pump water into an elevated storage reservoir. When additional generating capacity is needed (usually during peakload periods), the water is released to turn the turbines of a hydroelectric plant located on a lower level.

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 full repayment. Ratings provide the foundation for investors and creditors to compare the risks of various financial investments.

Regenerative energy
See Renewable energy.

Regulations on network access
Issued on the basis of Germany's Energy Law of 2005 to regulate the modalities of power and gas network access.

Regulations on network access charges
Issued on the basis of Germany's Energy Law of 2005 to regulate the modalities of power and gas network access charges.

Renewable energy
Energy from sources that are essentially inexhaustible. Examples include solar, biomass, hydro, wind, geothermal, wave, and tidal energy.

Renewable Energy Law
German law to promote the growth of renewable-source generating capacity so that Germany can meet its EU-mandated target of 12.5 percent renewable generation by 2010 and at least 20 percent by 2020. Its commonly used German abbreviation is EEG. Under this law, electricity system operators must give preferential treatment to electricity from renewable-source generating units when they dispatch generating capacity to meet load. In Germany, renewable-source electricity receives a guaranteed price that is above the market price. This extra cost is passed from system operators and energy suppliers to end-customers.

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.

Sulfur dioxide ("SO_2")
Heavy, pungent, toxic gas produced primarily through the combustion of sulfurous fossil fuels like coal and petroleum products.

Syndicated line of credit
Credit facility extended by two or more banks that is good for a stated period of time.

System users
Any person or entity feeding energy into, or taking energy out of, an electricity or gas supply system.

Take-or-pay contracts
Long-term supply contracts used primarily in the natural gas industry requiring the customer to pay for a minimum quantity (typically an annual quantity) of gas whether or not delivery is accepted.

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).

Therm
Measure of heat content of gas equal to 100,000 British thermal units (see British thermal units). One therm is equal to 0.0293071 megawatt-hours.

Transformer
A device for changing voltage levels; for example, from the intermediate voltage at which electric energy is distributed to the low voltage at which it is delivered to residential customers.

Transmission system
Interconnected system of ultra-high-voltage transmission lines of more than 100 kilovolts used to transfer electric energy.

Two-contract model (gas)
A model for natural gas network access in Germany in which transport customers have two contracts: one entry or exit contract and one balancing area contract. The two-contract model is based on an entry-exit system for market areas that have a single notional trading point. The entry contract gives the transport customer access to the market area to transport the capacity booked to the notional trading point where ownership of the gas is transferred. The exit contract allows the transport customer to transport gas to the receipt point that has been booked.

Ultra-high voltage
Voltages above 110 kilovolts (typically 220 kilovolts and 380 kilovolts) at which electric energy is moved in bulk over long distances.

Unbundling
EU requirement that energy companies create independent entities (with separate accounting, information, organizational, and legal structures) to manage their operations at the individual links in the electricity and natural gas value chain (production, trading, transmission, and distribution). Its purpose is to prevent energy companies from distorting competition in the EU's liberalized energy markets or engaging in discriminatory business practices or cross subsidization.

Underground natural gas storage facility
Located in natural or manmade caverns in geological formations (in Germany, at depths of up to 2,900 meters or 1.8 miles), such facilities serve to balance seasonal or sudden fluctuations in natural gas consumption.

U.S. GAAP
Abbreviation for accounting principles that are generally accepted in the United States. Accounting, valuation, and disclosure policies based on the principle of fair presentation of financial statements to provide information needed for decision-making, especially for investors.

Value added
Key measure of E.ON's financial performance based on the 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 group.

Working capital
The difference between a company's current assets and short-term liabilities.

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Only the German version of this Annual Report is legally binding.

Art Direction: Lesmo, Düsseldorf
Production: Jung Produktion, Düsseldorf
Typesetting & Lithography: Addon Technical Solutions, Düsseldorf
Printing: Druckpartner, Essen

Photo Credits: Rüdiger Nehmzow (pages 2, 20, 21, 22, 24, 25, 72, 73, 78, 79, 96, and 97), Andreas Pohlmann (pages 4, 14, and 15), Hartmut Nägele (page 16),

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Summary of Financial Highlights

Summary of Financial Highlights[1]

€ in millions	2003	2004	2005	2006	2007
Sales and earnings					
Sales	39,953	42,150	51,616	64,091	68,731
Adjusted EBITDA	8,584	9,664	10,194	11,724	12,450
Adjusted EBIT	5,645	6,747	7,293	8,356	9,208
Net income	4,647	4,339	7,407	6,082	7,724
Net income attributable to shareholders of E.ON AG	–	–	–	5,586	7,204
Value measures					
ROCE (in %)	9.9	11.5	12.2	13.8	14.5
Cost of capital (in %)	9.5	9.0	9.0	9.0	9.1
Value added	251	1,477	1,920	2,916	3,417
Asset structure					
Non-current assets	86,967	88,223	93,914	96,488	105,804
Current assets	24,883	25,839	32,648	31,087	31,490
Total assets	111,850	114,062	126,562	127,575	137,294
Capital structure					
Equity	29,774	33,560	44,484	51,245	55,130
Capital stock	*1,799*	*1,799*	*1,799*	*1,799*	*1,734*
Minority interests	4,625	4,144	4,734	2,533	5,756
Non-current liabilities	53,452	52,624	52,251	46,947	52,402
Provisions	*27,085*	*27,328*	*27,402*	*22,100*	*20,963*
Financial liabilities	*14,521*	*13,265*	*10,555*	*10,029*	*15,915*
Other liabilities and other	*11,846*	*12,031*	*14,294*	*14,818*	*15,524*
Current liabilities	23,999	23,734	25,093	29,383	29,762
Provisions	*7,243*	*6,914*	*6,460*	*3,994*	*3,992*
Financial liabilities	*7,266*	*7,036*	*3,807*	*3,443*	*5,549*
Other liabilities and other	*9,490*	*9,784*	*14,826*	*21,946*	*20,221*
Total equity and liabilities	111,850	114,062	126,562	127,575	137,294
Cash flow and investments					
Cash provided by operating activities of continuing operations	5,224	5,776	6,544	7,161	8,726
Investments	8,773	4,777	3,941	5,037	11,306
Financial ratios					
Equity ratio[2] (in %)	27	29	35	40	40
Non-current assets as a percentage of property, plant and equipment	101	102	108	102	102
Economic net debt (at year end)	–	–	–	-18,233	-24,138
Debt factor[3]	–	–	–	1.6	1.9
Cash provided by operating activities of continuing operations as a percentage of sales	13.1	13.7	12.7	11.2	12.7
Stock					
Earnings per share attributable to shareholders of E.ON AG (in €)	7.11	6.61	11.24	8.47	11.06
Equity per share[4] (in €)	45.39	50.93	67.50	73.81	78.12
Twelve-month high per share (in €)	51.74	67.06	88.92	104.40	146.06
Twelve-month low per share (in €)	34.67	49.27	64.50	82.12	96.05
Year-end closing price per share (in €)	51.74	67.06	87.39	102.83	145.59
Dividend per share (in €)	2.00	2.35	2.75	3.35	4.10
Dividend payout	1,312	1,549	4,614	2,210	2,590[5]
Market capitalization[6] (€ in billions)	33.9	44.2	57.6	67.6	92.0
E.ON AG long-term ratings					
Moody's	A-1	Aa3	Aa3	Aa3	A2
Standard & Poor's	AA-	AA-	AA-	AA-	A
Employees					
Employees at year end	57,029	59,732	79,570	80,612	87,815

[1]Adjusted for discontinued operations; up to and including 2005 pursuant to U.S. GAAP. [2]Excludes minority interests up to 2005. [3]Ratio between economic net debt and adjusted EBITDA. [4]Thereof shareholders of E.ON AG. [5]Based on the number of shares outstanding as of December 31, 2007; further share repurchases could alter the dividend payout. [6]Based on the number of shares outstanding.

Financial Calendar

April 30, 2008	2008 Annual Shareholders Meeting
May 2, 2008	Dividend Payout
May 14, 2008	Interim Report: January – March 2008
August 13, 2008	Interim Report: January – June 2008
November 12, 2008	Interim Report: January – September 2008
March 10, 2009	Release of 2008 Annual Report
May 6, 2009	2009 Annual Shareholders Meeting
May 7, 2009	Dividend Payout
May 13, 2009	Interim Report: January – March 2009
August 12, 2009	Interim Report: January – June 2009
November 11, 2009	Interim Report: January – September 2009