

Cleaner & better energy

Company Report

We have answers to the challenges we face. Our new strategy has a clear objective: **cleaner & better energy**. We're committed to substantially improving the world of energy in terms of affordability, supply security, and climate protection. This commitment guides our actions and the key components of our new strategy:

- making our business in Europe even more focused
- selectively seizing growth opportunities outside Europe
- further improving our efficiency and operational excellence
- optimizing how we deploy our capital.

This report highlights many of the ways we're already delivering on our commitment. Everything we do has one objective: **cleaner & better energy**.

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This publication presents E.ON in its new organizational setup, which took effect on January 1, 2011. You'll find facts and figures about the 2010 financial year in our 2010 Annual Report, which reflects the setup that was in place until December 31, 2010.

To download or order a copy of a report, visit eon.com/brochures.

Dear Readers,

In the 2010 financial year, E.ON, like many other energy companies, had to struggle with the effects of the economic crisis. Thanks to forward-looking, prudent policymaking during the crisis, the economies of Germany and many countries in Northern Europe have recovered quickly and without lasting damage. But recovery in many other European countries has been sluggish. Europe's energy consumption and production remain markedly below pre-crisis levels. So far, the energy industry hasn't completed the necessary process of adapting to its changed competitive environment. But at E.ON, we responded early to these challenges by enhancing our performance, cutting our costs, and reducing our debt thanks to our solid operating cash flow and the substantial proceeds from portfolio optimization. That's why, as promised, we've stayed on course in this difficult environment. Our 2010 adjusted EBIT of €9.5 billion was slightly above the high prior-year level, and our adjusted net income of €4.9 billion was slightly below the high prior-year level. At the Annual Shareholders Meeting, we'll therefore propose a cash dividend of €1.50 per share, unchanged from the previous dividend, resulting in a payout ratio of 59 percent of adjusted net income. That means that we're also staying on course with our dividend policy, which has been to pay out 50 to 60 percent of our adjusted net income. For the 2010 financial year, E.ON will again be one of the top DAX dividend performers. In addition, we plan to pay out a dividend of at least €1.30 per share for the 2011 and 2012 financial years.

Although I'm very pleased with our solid results and proud of our employees' performance, a number of indicators suggest that we won't be able to maintain this high level in the next two years. However, we expect that in 2013 the overall performance of our current businesses will again reach the 2010 level. The fact is, we're operating in a tough environment. The power and gas business remains difficult in most of our markets. Across much of Europe, the economic situation continues to dampen energy demand. As a result, electricity and commodity price movements have in some cases led to significantly lower margins and capacity utilization at our power stations. In the wake of the financial and economic crisis, the generation business in Southern Europe continues to be plagued by overcapacity, low power prices, and considerably narrower margins. In 2010, we had to record impairment charges totaling €2.6 billion on our businesses in theses markets. In Germany, our home market, we face fierce competition in the retail business, lower earnings in the regulated network business, and slimmer margins in the generation business.

That's why, when I took over as CEO last spring, I announced that we'd swiftly and thoroughly analyze E.ON's situation and positioning so that we could lay the groundwork for E.ON to remain successful, even in an increasingly difficult business environment. We presented the outline of our new strategy—whose motto is "cleaner & better energy"—in November. Our objective is to make affordability, supply security, and climate protection mutually compatible elements of a corporate strategy, even in tougher times. We aim to supply climate-friendlier energy, become an even more attractive partner for our customers, and at the same time increase our company's value. Cleaner & better energy isn't an empty slogan. It describes a program for the future. Our products and services are cleaner if they substantially improve energy quality in terms of environmental protection and competitiveness. Our energy is better when we deliver a superior performance and deploy technologies that we know better than our competitors and use these technologies to make better products and services for our customers.

Europe will continue to be the main focus of our operations and Germany our key home market. But we intend to focus our operations in Europe more on competitive businesses and markets. These are the markets in which we'll deploy our strengths in power generation, energy trading, global gas, and the marketing of innovative energy solutions to our customers. We can't allow the current situation and the lingering impact of the economic crisis to blind us to the fact that power generation will remain, over the long term, a growth market. I'm convinced that not only will electricity demand pick up but that electricity will find new applications—for example, in transportation—if it can be produced in a climate-friendly manner. At E.ON, we intend to further expand our renewables capacity and integrate it into a system of smart grids and storage devices. We already rank among the world's leading providers of renewable-source electricity. In 2010, we commissioned four large onshore and offshore wind farms, bringing the total capacity of our wind, solar, and biomass facilities to 3.6 GW. And thanks to our photovoltaic and concentrated solar power plants in Southern Europe, we're helping make solar as technologically and commercially advanced as wind. At the same time, we're enhancing network stability and supply security by building highly efficient coal-fired, gas-fired, pumped-storage, and run-of-river power plants. These

efforts will enable us to halve, by 2020, our European generation portfolio's specific carbon emissions from a 1990 baseline, ten years earlier than previously planned. This will play a decisive role in helping the European Union and Germany achieve their climate-policy objectives. And it will further reduce the costs we incur from the purchase of carbon allowances.

Global trading in liquefied natural gas and the development of completely new gas reserves are putting our gas business under considerable pressure to adapt. We're responding by renegotiating and adjusting our supply contracts. Due to its attractive environmental characteristics, natural gas will provide an increasing share of Europe's energy. Recent innovations in the production of natural gas have led to a complete reevaluation of its long-term potential. According to the latest estimates, this climate-friendly energy source will be available for centuries using safe, environmentally friendly production methods. Supply sources and pathways will continue to become more diverse. And thanks to the current price adjustments, natural gas offers entirely new growth potential. E.ON is playing a leading role in all issues relating to natural gas.

In the years ahead, E.ON will be more active outside Europe and benefit from the global demand for additional generating capacity. We have outstanding expertise in the construction and operation of conventional (fossil and nuclear) and renewable-source generating facilities. We'll continue to deploy this expertise, along with our deep knowledge about the development of energy systems, in Russia and North America and leverage it to, initially, two additional regions. We don't intend to enter markets through acquisitions but to focus instead on projects that improve the energy supply in a particular region. Our aim is for our businesses outside Europe to deliver 25 percent of our total earnings by 2015.

Our ability to post a slight increase in earnings in 2010—despite keener competition and a lackluster economy—resulted in part from the cost reductions and operating improvements achieved under our PerformtoWin program and from our investment discipline. But if we want to continue to grow in tough economic times, efficiency will need to be firmly embedded in our company's performance culture.

Going forward, we'll put even greater emphasis on the profitability of our existing and new businesses. Our objective is to deliver an additional €600 million in annual earnings improvements by 2013. In addition, to increase our scope for investments and further reduce our debt, we continue to evaluate the ability of our individual businesses to deliver value to the entire E.ON Group. In 2010, we successfully optimized our portfolio—and surpassed the €10 billion divestment target we'd announced in 2009—by selling U.S. Midwest, transpower, and BKW and by concluding a number of smaller transactions. We'll continue along this course. We intend to unlock about €15 billion through divestments by the end of 2013. We'll use more than half of the proceeds from disposals to reduce our debt. We'll invest the rest in growth businesses, mainly outside Europe. The sale of our 3.5-percent stake in Gazprom at the end of 2010 yielded proceeds totaling €3.4 billion. We also successfully initiated the sale of our gas network in Italy and of our power distribution network in the United Kingdom.

Our focus during the next two years will mainly be on financial consolidation. At the same time, we'll begin implementing our targeted investment strategy for growth in and outside Europe. Our new strategy, our significantly leaner organizational setup, and our new performance culture will enable us to continue E.ON's success story, even in a more difficult business environment.

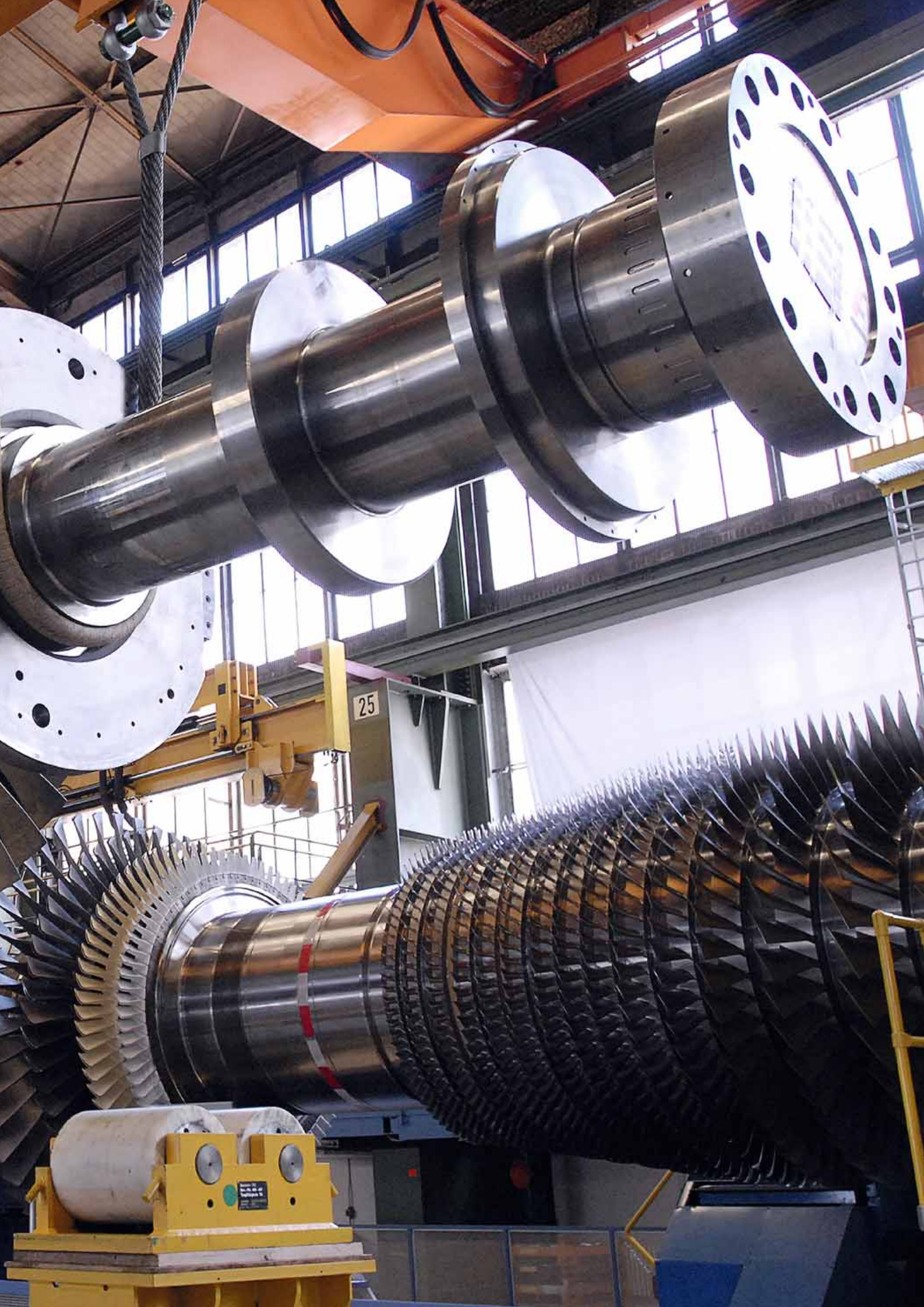
Best wishes,

Dr. Johannes Teyssen

Irsching 4: the world's most efficient CCGT

The world's most efficient combined-cycle gas turbine (CCGT) will enter service late in the summer of 2011 at Irsching power station in southeast Germany. With an unprecedented thermal efficiency of more than 60 percent, unit 4 at Irsching will set new standards for energy efficiency and climate protection. Listed in the *Guinness Book of Records* as the world's most powerful gas turbine, Irsching 4 can produce as much energy as 14 large jet engines. Like Irsching 5, a CCGT that entered service in 2010, Irsching 4 has a high degree of operational flexibility. This will enable our two new units at Irsching to play a key role in stabilizing the network as the amount of power from intermittent renewable sources continues to increase. With this capability, they'll help pave the way to an energy system that will rely increasingly on renewables. And thanks to their high efficiency and relatively low-carbon fuel, they'll make an important contribution to climate protection: their carbon emissions are far below the average for existing facilities.

It's all part of our commitment to **cleaner & better energy**.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Our Company

Profile

We stand for **cleaner & better energy**

At facilities across Europe, Russia, and North America, our more than 85,000 employees generated just under €93 billion in sales in 2010. Our objective is to make energy cleaner and better wherever we operate. Going forward, we want to be even more global and are implementing a new strategy to transform our company into a global provider of specialized energy solutions. The new E.ON will benefit our employees, customers, and investors alike.

E.ON Group highlights (€ in millions)

	2010	2009[1]	+/– %
Power sales (billion kWh)	1,030.4	785.5	+31
Gas sales (billion kWh)	1,342.4	1,206.5	+11
Sales	92,863	79,974	+16
Adjusted EBITDA	13,346	12,975	+3
Adjusted EBIT	9,454	9,291	+2
Adjusted net income	4,882	5,097	-4
Investments	8,286	8,655	-4
Employees (at year-end)	85,105	85,108	–

[1]Adjusted for discontinued operations.

Our advantage

We aim to improve the world of energy wherever we operate. Our products and services lastingly improve energy quality for our customers in terms of environmental protection and competitiveness. Our energy is increasingly friendly to the earth's climate, is attractive for our customers, and enhances our company's value. We achieve this by deploying the latest technologies. Technologies that we know better than our competitors. And that we use to make better products and services for our customers.

Our focus

We focus on what we do best and where we can add the most value. And that's making and marketing energy in competitive, converging international markets. Our core businesses are renewables generation, conventional generation, energy trading, global gas, and innovative energy solutions for customers.

Our responsibility

Climate protection is high on our agenda. That's why we're committed to systematically decarbonizing our power generation. Electricity must be climate friendly to be attractive as a vehicle fuel or in other new applications. That's why we've set a clear target: to halve, by 2020, our European generation portfolio's specific carbon emissions from a 1990 baseline, ten years earlier than originally planned.

Our structure

Led by Group Management in Düsseldorf, the E.ON Group is segmented into global units (by function) and regional units (by country). Five global units are responsible for managing our generation fleet, renewables business, energy trading, new build and technology, and global gas business. Twelve regional units manage our national sales operations, regional energy networks, and distributed-generation activities in Europe. We're also engaged in power generation and wholesale power marketing in Russia, a special-focus country. And a new unit, E.ON International Energy, is responsible for leveraging our expertise in all the value drivers of conventional and renewable power generation to fast-growing regions outside Europe. Group-wide entities deliver support functions like IT and procurement.

Our future

We've rapidly and successfully grown our global renewables business. In a little under three years, we've increased the installed capacity of our wind, solar, and biomass facilities from 0.4 GW to 3.6 GW (at year-end 2010). We've invested about €6 billion in renewables since 2007. It's impressive proof of our ability to become a major global player in technologies—and in some cases in countries—that are new to us. Our next step will be to further strengthen and expand our operations outside Europe, not only by expanding our renewables capacity but also by leveraging all our strengths in power generation.

Integrating responsibility and sustainability: **globally and locally**

Corporate responsibility (CR) is a top priority at E.ON. We believe that embedding CR in our business processes will contribute to our long-term success. To underscore our commitment, we report periodically on our business, social, and environmental performance and on our achievements in these areas.

Clean energy and decarbonization are particularly important issues for the lasting success of our business. We believe that a global climate treaty is necessary to establish the kind of truly global framework within which our industry can make long-term investments in low-carbon, sustainable energy production. Such a treaty faces significant political hurdles, and the targets set during UN climate negotiations aren't sufficiently binding. That's why national and regional climate-protection measures have recently gained in prominence. Although these measures can't replace a global treaty, they're very important because they make it possible for necessary steps to be initiated without delay.

Energy companies have a special responsibility in this area. As part of our new strategy, we've pledged to halve our European generation portfolio's specific carbon emissions by 2020 (compared with a 1990 baseline). We intend to achieve this objective by making substantial investments in renewables and in new, efficient energy assets. Outside Europe, our focus is also on investing in highly efficient generating units and renewables so that we can help meet the rising energy demand in these countries.

On a global and regional level, we work hard to run our business responsibly and sustainably in a wide range of areas. Key components of our CR effort include:

- promoting responsible procurement for key goods and commodities through biomass procurement guidelines, on-site audits at coal mines, and other measures

Energy and environmental education for children

We're playing an active role in helping raise children's awareness about energy and resource conservation. In Germany, we do it through "Leuchtpol," a non-profit organization founded for this purpose. "Leuchtpol" conducts learning modules and energy-experience days at 4,000 nursery schools across the country. It has received awards from UNESCO and the German government's Sustainability Council and is fully funded by E.ON.

- developing and deploying renewables (wind, solar, and biomass) on an industrial scale
- continually increasing the thermal efficiency of our fossil-fueled generating units and developing large-scale applications for carbon capture and storage
- ensuring that all our R&D activities promote an environmentally friendly and climate-friendly energy supply
- engaging in open, honest, and self-critical dialog with stakeholders at our facilites and in other forums; seeking out opportunities for an objective, fact-based discussion of issues like climate protection, responsible procurement, occupational safety, and transparency; and enhancing dialog and cooperation with non-governmental organizations
- taking the needs of our vulnerable customers seriously through a variety of programs in our different markets, including flexible payment plans, energy-saving advice, and community partnerships to help reduce fuel poverty
- meeting global reporting standards by expanding the range of data we factor into the calculation of our carbon footprint to include indirect emissions related to our operations, such as upstream emissions (those attributable to our supply chain) and downstream emissions (those attributable to our customers' consumption of the power and gas we sell them)
- being one of the first energy companies to pledge to conduct sustainability impact assessments for all our major infrastructure projects

Our engagement in these many different areas helps us meet our social responsibilities and deliver on our commitment to cleaner & better energy.

Our efforts were again recognized in 2010. E.ON was again included in the Dow Jones Sustainability Index, one of the world's leading indices of its kind, and in the Carbon Performance Leadership Index, for which only 48 of the world's 500 largest companies qualified.

New policy creates incentives for lower-carbon company cars

A new emissions policy for the company cars used by E.ON corporate officers and executives in Germany took effect in January 2011. The emission cap for all types of vehicles is now 150 grams of CO_2 per kilometer. Vehicles that exceed the cap are subject to a surcharge; those that undercut it receive a discount. Incentives are also offered for gas-powered cars, which have considerably lower carbon emissions than gasoline-powered cars. E.ON UK is among the E.ON companies outside Germany to offer similar incentives for lower-carbon company cars.

Technologies for cleaner & better energy

New technologies, particularly renewables, have changed our company significantly in recent years. This trend will accelerate going forward. That's because new generation technologies are increasingly being accompanied by advances in grid technology. Smart meters will create more options for our retail companies to offer their customers new products and services. They will enable us to better realize the potential of energy-efficiency measures and distributed generation. And, over the medium term, electric vehicles will lead to further significant changes in the energy industry.

Technological advances create challenges but also new opportunities. Our aim is to use these advances to significantly reduce our environmental impact and at the same time to provide better services for our customers. We believe it's our responsibility as an energy company to help renewables break through to true viability—from a technological and business perspective—and to deploy them on an industrial scale. We're already a global leader in renewables. Around the world, we're investing billions of euros in several promising technologies, mainly wind and solar, but also in other technologies like biomass. Along with rapidly expanding our renewables capacity, we're devoting substantial research expenditures to drive development in four main areas: energy efficiency, energy storage, e-mobility, and smart grids.

To deliver on our commitment to cleaner & better energy across our business, our R&D activities cover a broad spectrum, from generation to energy applications for customers:

- high-efficiency coal-fired generation
- carbon capture and storage (CCS)
- next-generation nuclear power
- offshore wind
- technologically advanced, operationally flexible gas-fired generating units
- biomethane
- concentrated solar power (CSP)
- smart grids
- micro combined heat and power (CHP)
- natural-gas heat pumps
- electromobility
- energy storage

We actively support energy research

In addition to our in-house R&D, we provide direct financial support to more than ten universities. Our flagship project is the E.ON Energy Research Center (ERC), a public-private partnership with renowned RWTH Aachen University. A key research area is how to efficiently integrate a large percentage of renewable-source electricity. We're funding the ERC with €40 million over a ten-year period. The ERC's approach is holistic. Instead of looking for solutions to isolated technical problems, it designs comprehensive interdisciplinary solutions that address all aspects of complex energy issues. RWTH Aachen's internationally recognized energy research is complemented by five research areas supported by E.ON: power generation and storage systems, applied geophysics and geothermal energy, automation of complex power systems, energy-efficient buildings and indoor climates, and future energy consumer needs and behavior.

Our customers: from users to producers

Power has long flowed in one direction: from central power stations to users. Increasingly, it's flowing back. Small, in-home CHP units are becoming more economic, and photovoltaic arrays more numerous. Their surplus power will be exported to the grid, transforming thousands of our customers into energy producers. In Germany, we're a partner in Callux, a large field test of gas-fired fuel-cell CHP units in single-family homes. We've also formed an industry user group in Germany to promote field-testing of CHP technologies. And in the United Kingdom, we're testing Stirling engines and fuel cells. System operators will need new control technology to integrating thousands of distributed generating units into the grid. We're already working with leading manufacturers to develop and test the sensors, data links, computers, and automated controls necessary for smart grids.

Precise information simplifies energy saving

An energy bill can only tell you how much energy you used in the past. A smart meter tells you how much you're using right now. It also shows your usage at different times of the day so that you can identify power guzzlers. Studies suggest that this kind of feedback can encourage people to reduce their energy usage by 5 to 10 percent. On a European scale, that's a massive savings in energy and carbon emissions. We've already installed well over one million smart meters (mainly in Sweden and Spain) and are conducting field trials in Germany and the United Kingdom. In late 2010, we began marketing smart meters in conjunction with variable-rate tariffs in several regions in Germany.

Smart meters integral to smart grids

E.ON doesn't just want to use smart meters to help customers use less electricity. Smart meters are integral components of smart grids. New grid technology will also give us the ability to manage power consumption in line with supply as well as greater flexibility to meet our customers' needs. For example, variable-rate tariffs could create incentives for customers to shift usage that isn't time sensitive (like washing a load of clothes) to non-peak hours of the day or night.

E.ON Research Award: support for scientists with innovative ideas

2010 marked the third year that the E.ON Research Award was given to outstanding projects from universities and research institutes from around the world. The award, the most generous of its kind in the German energy industry, has been conferred since 2007. Each award supports research on a specific topic with a total of about €5 million. Grants will eventually total €60 million over the life of the initiative. What makes the E.ON Research Award special is that it isn't a one-time grant: winning projects receive support and assistance over several years.

Five teams from Europe and the United States won the 2010 award, whose research topic was thermal storage for concentrated solar power (CSP). CSP, which is completely zero carbon, uses concentrated sunlight to bring a liquid to a boil, creating steam to drive a turbine to generate electricity. Desertec, a project to produce power in the deserts of North Africa, will be based partly on CSP. We're currently building our first two CSP plants, each of which will have 50 MW of capacity, in southern Spain.

Environmentally friendly power: taking it to the streets

E.ON is driving the development of e-mobility in a number of European markets. Our demonstration projects have shown us that drivers generally want to charge their vehicles at home. That's why we're not focusing on setting up a public charging infrastructure. Instead, we've developed—and are already marketing—charging solutions for different applications. In addition to public charging points with an automated billing function, we're marketing wall-mounted charging points that can charge cars safely and conveniently in home garages and public parking facilities. In Germany, we also offer a green-power product that makes driving electric vehicles completely emission free.

Electric cars as power reservoirs

In the future, the batteries of electric vehicles will help further increase renewables' share of the energy mix. Smart meters make it possible for vehicle batteries to be charged specifically during periods of low demand; for example, batteries could be charged primarily with wind power. It's even technologically feasible for the battery of a parked electric vehicle to deliver a certain amount of power back onto the grid.

MINI Es in Munich

One of Germany's first big trials of electric cars is now complete and is providing us with important insights. In the year-long trial, about 100 drivers logged more than 150,000 emission-free kilometers in and around Munich in BMW Mini Es charged with electricity from E.ON hydroelectric stations in Bavaria. The trial taught us a lot about drivers' charging habits. For example, most drivers preferred charging their car at home in their garage. We draw on our experience in trials like this one to design charging solutions that fit our customers' needs in a variety of settings: home garages, public parking ramps, and the parking facilities of fleet operators like car-leasing companies.

Munich efleet trial

As part of efleet, an electric vehicle trial sponsored by the German Federal Ministry of Transportation, E.ON will set up about 100 charging points, mainly in suburbs of Munich. The trial will give us and our project partners—Audi, Munich's municipal utility, and Munich Technical University—further practical experience with electric vehicles. The focus is on refining data transfer between the driver, vehicle, charging point, and power grid. The trial will use smart phones as drivers' main interface. The vehicle, the Audi A1 e-tron, has a space-saving lithium-ion battery mounted in front of the rear axle. The e-tron has a range of more than 50 kilometers per charge.

Charging ahead in the English Midlands

The Midlands, the birthplace of British carmaking, is now leading the way in eco-motoring. It's the site of Britain's first large-scale trial of electric vehicles: the Coventry and Birmingham Low-Emission Vehicle Demonstrator (CABLED), which is part of our e-mobility initiative. In CABLED's one-year trial, which started in mid-2010, real-world users will test a total of 110 vehicles of several types (electric cars, electric vans, plug-in hybrids). The project will gather data on how the vehicles are used, when they need charging, and how drivers respond to different vehicle technologies. The aim is to promote the wider adoption of low-carbon vehicles. E.ON's role is to provide the charging infrastructure consisting of 90 at-home, 36 public, and 18 workplace charging points.

Cleaner & better energy in Europe: **smart homes**

Homes are responsible for about one quarter of Europe's carbon emissions. To help Europe meet its climate-protection targets, E.ON is working to make homes more sustainable and smarter. More sustainable means using energy more efficiently and conserving resources. Smarter means integrating in-home generation technologies, electric vehicles, and active energy management and functioning as part of a smart grid.

We've initiated a multi-country project (Sweden, the United Kingdom, and Germany) to showcase the energy-efficient homes of tomorrow. Its aims are to learn more about smart and efficient technology, raise public awareness of the energy-saving and climate-protection benefits of this technology, and promote its adoption.

In Malmö, Sweden, we're partnering with other companies to construct a block of homes that incorporates cutting-edge technology and smart meters. In the United Kingdom, where 80 percent of the projected 2050 housing stock has already been constructed, our focus is on identifying technologies that reduce the carbon emissions of existing homes while maintaining customer comfort. In Germany, we're examining technology for new and older homes and participating in projects to make commercial buildings smarter. We're taking the lessons learned in all three countries to help customers across all our markets to shrink their home's carbon footprint.

You'll find more information about our innovative projects in the chapters on our Conventional Generation, Renewables Generation, and Global Gas units (starting on page 46) and at eon.com/innovation.

Control center: the nerve center of the smart grid, where the data from thousands of sensors are processed so that voltage is maintained and supply is precisely balanced against demand.

Plug-in electric cars could one day comprise a distributed energy-storage system.

Consumption management: real-time use is monitored on an in-home display or a computer; the programmable washing machine runs at off-peak times, and the high-tech refrigerator or freezer serves as an energy-storage device.

Smart grids use sensors and data communications to increase distribution capacity, enhance efficiency, and manage power inflows from thousands of distributed sources as well as the timing of power demand.

Smart meters provide real-time data on power and/or gas usage and establish a data interface between consumer, grid operator, and energy supplier.

Micro CHP units in homes and businesses provide climate-friendly sources of power and heat; their surplus power is exported to the grid.

2010

January

After obtaining antitrust approval, E.ON swaps generating capacity with EdF and EnBW. The transactions are part of the measures to enhance competition in Germany's energy market in line with the European Commission's commitment decision regarding E.ON. In 2008, E.ON agreed to divest 4.8 GW of generating capacity and its ultrahigh-voltage transmission system in Germany. As part of meeting this commitment, E.ON had already concluded other agreements—among them agreements with Statkraft (Norway), Electrabel (Belgium), and Verbund (Austria)—to divest generating capacity in Germany.

E.ON and Masdar, Abu Dhabi's renewables initiative, form a carbon-sourcing joint venture. The joint-venture company, called E.ON Masdar Integrated Carbon (EMIC), will develop climate-protection projects in the Middle East, Africa, and Asia. Their purpose will be to significantly reduce the carbon emissions of power stations and industrial facilities. The projects will earn E.ON and Masdar carbon credits that can be used in programs like the EU emissions-trading scheme.

February

E.ON and TenneT Holding close the sale of E.ON's ultrahigh-voltage transmission system in Germany. TenneT acquires all of the equity in E.ON subsidiary transpower stromübertragungs GmbH effective December 31, 2009. By selling its ultrahigh-voltage transmission system, E.ON has nearly completed its commitment to the European Commission.

March

E.ON and Bionersis, one of the world's leading specialists in Clean Development Mechanism landfill-gas projects, invest €6.6 million to reduce the greenhouse-gas (GHG) emissions of Nam Son landfill near Hanoi, Vietnam. The project, at the time the largest climate-protection project in Southeast Asia, will reduce emissions by the equivalent of 4.5 million metric tons of carbon dioxide over the next 20 years. The project is registered with the United Nations Framework Convention on Climate Change.

April

E.ON sells the power and gas business of E.ON U.S. LLC to PPL Corporation of Allentown, Pennsylvania. The agreed-on purchase price is $7.6 billion. The transaction closes on November 1.

May

Johannes Teyssen begins his new function as Chairman of the E.ON Board of Management effective May 1.

E.ON closes the final transaction that fulfills its commitment to the European Commission by divesting 265 MW of power procurement rights from Veltheim coal-fired power station to Morgan Stanley Capital Group.

The E.ON Supervisory Board agrees to organizational and personnel changes to the Board of Management and appoints, with immediate effect, three new members to the Board of Management: Regine Stachelhaus, Jørgen Kildahl, and Klaus-Dieter Maubach (hitherto the CEO of E.ON Energie). Christoph Dänzer-Vanotti and Lutz Feldmann end their service on the Board of Management. Bernhard Reutersberg (hitherto CEO of E.ON Ruhrgas) joins the E.ON Board of Management in August, completing the personnel changes.

E.ON commissions another large onshore wind farm, the 50 MW Barão São João wind farm in southern Portugal.

E.ON and its project partners commission one of the world's most efficient and powerful combined-cycle gas turbines, the 860 MW unit 5 at Irsching power station in southeast Germany. With a thermal efficiency of 59.7 percent, Irsching 5 sets new standards for energy efficiency and climate protection.

June

E.ON and CEA (Commissariat à l'Énergie Atomique et aux Énergies Alternatives) sign an agreement to collaborate in nuclear energy research and development. The agreement creates a platform for new research projects focusing on the future use of nuclear energy.

July

E.ON initiates the divestment of its roughly 21-percent stake in BKW FMB Energie AG of Bern, Switzerland. E.ON's divestment of its minority stake in BKW is part of the ongoing evaluation of its business portfolio. The transaction, for an initial 14 percent of BKW, closes in the same month.

September

E.ON welcomes the German federal government's new energy strategy as an important milestone on the road to the country's energy future. E.ON intends to make a key contribution to implementing this strategy, primarily through updating our conventional generation assets, expanding our renewables capacity, and promoting research and development in the area of energy efficiency. As part of its strategy, the federal government decided to extend the operating lives of nuclear power plants in Germany. The lion's share of the resulting additional profits will go towards consolidating the German federal treasure in the form of a nuclear-fuel tax and an Energy and Climate Fund. The operating-life extension makes clear that nuclear energy will for some time continue to be a mainstay of Germany's energy supply as the country transitions to the energy supply of tomorrow.

October

A large E.ON wind farm enters service near Posen, Poland: Wielkopolska has 52.5 MW of capacity and is one of the country's biggest and most technologically advanced wind farms.

E.ON commissions Rødsand 2, a 207 MW wind farm located between two islands in the Baltic Sea: Fehmarn (Germany) and Lolland (Denmark). Currently the largest of E.ON's six offshore wind farms, Rødsand 2 will produce enough clean energy to power 200,000 households. The project is completed three months earlier than planned.

E.ON receives the first-ever UN approval for a Joint Implementation project in Russia. The project is a new 400 MW high-efficiency combined-cycle gas turbine at Shaturskaya power station outside Moscow. The unit, which enters service in December 2010, will reduce carbon dioxide emissions by more than 1 million metric tons by year-end 2012.

E.ON concludes a new €6 billion credit facility, receiving the best terms for a five-year credit facility obtained by a single-A-rated company since the beginning of the financial crisis. The new facility serves as a general liquidity reserve as part of E.ON's liquidity management.

November

Under the motto cleaner & better energy, E.ON defines new strategic focus areas. In response to its changing business environment, E.ON sets a clear strategic course and initiates the process of transforming itself into a global provider of specialized energy solutions.

December

E.ON sells the 3.5-percent stake in Gazprom held by its subsidiary E.ON Ruhrgas. It sells a 2.7-percent stake to Vnesheconombank, Russia's state-owned investment bank; 0.8 percent had already been sold on market.

E.ON agrees to sell E.ON Rete, which manages its gas distribution network in Italy, to a consortium consisting of Italian infrastructure fund F2i SGR S.p.A. and AXA Private Equity.

Wind power in Texas: excellent environment for efficient, cost-effective renewable energy

Onshore wind is the most commonly deployed renewables technology. The aggregate capacity of our more than 70 onshore facilities ranks us among the world's ten biggest wind-farm operators. Our strategy is to focus on locations that deliver the greatest economic and environmental benefit. That's why we're planning and building large wind farms in places like the United States. The U.S. market offers outstanding opportunities thanks to a high wind yield, large open spaces, and a favorable regulatory environment. The completion of Roscoe wind farm—currently the world's largest—was an important milestone in the rapid expansion of our renewables business. Roscoe consists of 627 turbines spread out over 400 square kilometers of farmland in west-central Texas. With roughly 780 MW of capacity, it produces enough electricity to power more than 230,000 homes. Projects like Roscoe are integral to our effort to help make renewables commercially and technologically viable.

It's all part of our commitment to **cleaner & better energy.**

Our Team

Board of Management

Johannes Teyssen, Jørgen Kildahl, Klaus-Dieter Maubach, Bernhard Reutersberg, Marcus Schenck, and Regine Stachelhaus: the six members of our Board of Management draw on their diverse backgrounds and expertise to set our company's strategic course and steer its business operations. They work together to meet the challenges facing the energy world and to shape our company's future. The Board of Management involves the E.ON Supervisory Board in all relevant issues and decisions.

Dr. Johannes Teyssen
Chairman of the Board of Management and our Chief Executive Officer, bears overall responsibility for E.ON. He also oversees Group Executive Human Resources, Strategy & Corporate Development, Investor Relations, Audit, and Political Affairs & Corporate Communications.

Jørgen Kildahl
oversees our conventional and renewable power generation, our gas business, global trading, and energy optimization across all regions and products.

Prof. Dr. Klaus-Dieter Maubach
is in charge of technology at E.ON and is responsible for all R&D activities, E.ON New Build & Technology, and thus all investment projects.

Dr. Bernhard Reutersberg
oversees our regional units and is responsible for our distribution and retail businesses and for government and regulatory affairs. He also coordinates our energy operations in Russia.

Dr. Marcus Schenck
our Chief Financial Officer, is also responsible for Finance, Accounting, Corporate Planning & Controlling, Tax, M&A, and E.ON International Energy.

Regine Stachelhaus
oversees all the functions that support our core business, in particular Human Resources, IT, Procurement, and Legal Affairs & Compliance. She is the E.ON Group's Labor Director.

Prof. Dr. Klaus-Dieter Maubach | Jørgen Kildahl | Dr. Johannes Teyssen | Regine Stachelhaus | Dr. Marcus Schenck | Dr. Bernhard Reutersberg

Ulrich Hartmann

The E.ON Supervisory Board brings together a wealth of expertise, experience, and perspectives from many sectors of the economy. It consists of ten shareholder and ten employee representatives with a variety of backgrounds—including seasoned executives, union officials, works council representatives, and employees—who together monitor and advise the E.ON Board of Management.

In line with the international scope of E.ON's business, the Supervisory Board has several members with international experience. The Supervisory Board also intends to steadily increase the number of women members. The diversity of its membership is of considerable value for all important decisions the Supervisory Board is directly involved in. And is thus of considerable value for E.ON's future.

Prof. Dr. Günter Vogelsang
Honorary Chairman of the Supervisory Board, E.ON AG

Ulrich Hartmann
Chairman of the Supervisory Board, E.ON AG

Erhard Ott
Deputy Chairman of the Supervisory Board, E.ON AG

Werner Bartoschek
Chairman of the Group Works Council, E.ON Ruhrgas AG

Sven Bergelin
Director of the National Energy Industry Group, Unified Service Sector Union, ver.di

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

Jens P. Heyerdahl d.y.
Attorny (until June 30, 2010)

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

Ulrich Hocker
General Manager, German Investor Protection Association

Prof. Dr. Ulrich Lehner
Member of the Shareholders' Committee, Henkel AG & Co. KGaA

Bård Mikkelsen
Businessman (since July 19, 2010)

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

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

Dr. Walter Reitler
Senior Vice President of HSE and Corporate Responsibility, E.ON Energie AG

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

Hubertus Schmoldt
Economist

Dr. Karen de Segundo
Attorney

Dr. Theo Siegert
Managing Partner, de Haen-Carstanjen & Söhne

Prof. Dr. Wilhelm Simson
Chemist

Dr. Georg Freiherr von Waldenfels
Attorney

Werner Wenning
Former Chairman of the Board of Management, Bayer AG

Hans Wollitzer
Chairman of the Company Works Council, E.ON Energie AG

You'll find the Report of the Supervisory Board in our Annual Report.

Strategic focus areas of our HR management

E.ON has a clear, straightforward commitment: cleaner & better energy. To deliver on this commitment, we rely on our employees' hard work and team spirit. Our HR effort aims to consistently support the implementation of our strategy. Alongside continually improving our operational HR activities, we've defined three key focus areas: leading the business, managing resources, and developing talent. Living up to our social responsibilities for our employees and working openly and constructively with employee representatives are top priorities in everything we do.

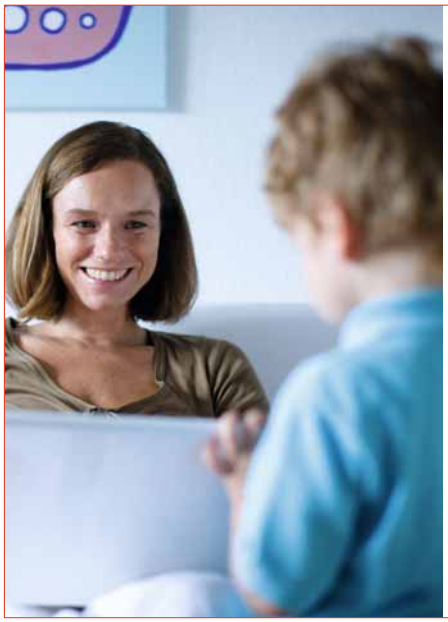
Leading the business

Leadership is one of the keys to achieving our ambitious objectives. That's why we reviewed the HR mechanisms for our key leaders. Our executives are now assigned to one of three new categories: Strategic Leaders (E1 Executives), Performance Leaders (E2 Executives), and Operational Leaders (E3 Executives). This creates a clear leadership structure, promotes flexibility, and makes it easier for our executives to change functions. Expanding Group Managements' HR services to a larger group of executives will make it easier for highly qualified executives to take on roles at other E.ON companies.

Incentive systems, particularly the short-term incentive, were adjusted to fit with E.ON's new management model. Individual performance—especially the performance of those functions that are central to an individual executive's role—will receive increased weighting. At the same time, the company component of performance evaluation will now consist of our new key earnings metric, adjusted EBITDA, and return on capital employed.

The creation of new executive categories has been accompanied by enhanced executive communications. E.ON's Strategic Leaders are in frequent contact with members of the E.ON Board of Management to discuss important developments at our company. This intensive dialog makes them closely involved in strategic decisions. They then continue the cascading communications process by engaging in constructive dialog with their teams.

Another change in executive communications consists of involving Performance Leaders in the communications process. We held our first Group Executive Conference in November 2010. The event gave E1 and E2 Executives the opportunity to discuss the key components of E.ON's new strategy and management model, providing them with thorough preparation for their role as communicators to their managers and employees.



Finding the right balance

Helping our employees find a healthy balance between work and family has long been a priority at E.ON, which is why we continually and systematically expand and refine our targeted support programs.

Essential to this effort in Germany are professional services for employees' family members (childcare, homecare, and eldercare) as well as advice and support for employees experiencing job- or family-related difficulties. Most E.ON companies in Germany offer their employees these services, although the precise range varies. Our goal is to establish uniform standards so that we can ensure high-quality support services across our operations in Germany.

Most E.ON employees in Sweden work flexible hours, and many work from home. This requires a corporate culture that emphasizes performance, not face-time with supervisors. Work-family balance is also promoted by enhanced parental pay, which encourages parents to stay at home with their small children. Another program, called Plusvalet, offers employees a range of time-saving services that include house cleaning, gardening, tutoring for school-age children, and babysitting.

Managing resources

Demographic change is significant societal challenge. Our objective is to use quantitative and qualitative HR planning to identify demographic challenges early and to respond proactively so that we can meet our company's professional and management staffing needs well into the future. For example, we intend to take targeted measures to address issues like the demographically driven shortage of specialized staff and to closely align our talent management with our specific needs. This effort will be supported by the establishment of uniform Group-wide job catogories. We plant to initiate strategic resource management with pilot projects for particularly relevant functional roles.

Developing talent

Each one of our employees has individual strengths and skills that can be better utilized if we manage them more systematically. At the same time, this diversity of knowledge, experiences, and perspectives is an enormous resource that we intend to nourish and expand to create value for our company.

Refining our talent management will play an important role in identifying high potentials, systematically developing their skills, and creating a network that gives them visibility across our company. The foundation of our talent management effort consists of annual performance appraisals for employees and the annual Group-wide management review for senior managers and high potentials. These processes assess individual performance, pinpoint personal development areas, and identify future leaders early. Group-wide talent conferences attended by top executives from around E.ON, systematic succession management, and Group-wide centralized hiring processes will ensure that our most talented people receive targeted development and are placed in the right roles. Individually tailored development programs will help them succeed in their new role by ensuring that they've acquired the necessary skills.

We take specific action to increase the diversity of our workforce, particularly in three key areas: gender, internationalization, and employability.

Like at many companies, at E.ON the percentage of women in executive positions is still low. Our objective is to raise this percentage significantly within the next five years by taking action in the areas that we believe will have the greatest positive impact. In addition to regularly monitoring the percentage of female executives at all our units, we're going to work harder to create an environment that makes it attractive for women with a family to continue their career at E.ON. Also, our succession planning and management staffing decisions will place a special emphasis on female high potentials, who will also receive mentoring from our top executives. Together, these measures will play an important role in steadily increasing the percentage of women executives.

Under our new corporate strategy, we intend to grow by deploying our expertise, particularly in markets outside Europe. It will be essential to have a good understanding of these markets and their players. This will only succeed with a highly skilled workforce that can utilize its talents effectively in an international context. That's why in 2011 we will put in place targeted support measures including international assignments, intercultural training, and technology that makes it easier to collaborate internationally.

Safety F1RST

The safety of everyone who works for us is our top priority. We're also convinced that a good safety performance has a positive effect on the work quality of our maintenance, repair, and new-build projects and on customer satisfaction. In 2010, we further solidified our good safety record. E.ON employees had 2.2 work-related, lost-time injuries per million hours of work (LTIF). This makes E.ON one of the companies with the highest safety standards in our industry. But we want to do even better. Our ambitious objective is to rank among the world's safest companies in any industry by 2015. To get there, we'll continue to take preventive, proactive measures and to factor safety performance into management's variable compensation. Our focus in recent years has been on issues like safety awareness and safety skills. Going forward, we intend to focus on measures that promote continual improvement. These include E.ON companies' annual safety programs (which are incorporated into management's performance agreements) as well as harmonized safety management systems. Our efforts also consist of programs that foster a robust safety culture and encourage everyone at E.ON to act responsibly. In addition, we intend to enhance our safety statistics by supplementing LTIF with total recordable injury frequency (TRIF), which also includes less serious injuries that don't result in lost time but do require medical treatment or result in restricted work assignments. This will give us a more nuanced understanding of accidents and potentially dangerous situations so that we can prevent them from happening in the first place.

We also want to offer our employees a work environment that maintains their health and employability and enables them to contribute their personal and professional skills regardless of their age. We do this by fostering life-long learning through a wide variety of training and qualification programs and by promoting health through free cancer screening and a range of other initiatives.

Living up to our social responsibilities

Even in difficult economic times, E.ON takes a responsible approach to implementing organizational changes by treating our employees fairly and by ensuring that any consequences for them are handled in a socially responsible manner. We demonstrated this anew in the context of PerformtoWin, our Group-wide efficiency-enhancement program. We concluded numerous agreements with employee representatives to secure jobs and working conditions of employees affected by the program. We're currently taking the same approach to outsourcing parts of our IT infrastructure. A key criterion for selecting outsourcing partners was their commitment to continued social responsibility towards the E.ON employees transferred to them. We worked closely with employee representatives to design agreements to protect these employees' interests.

Employees by regions 2010[1]

Germany	35,116	41.26%
Great Britain	16,343	19.20%
Romania	6,535	7.68%
Hungary	5,431	6.38%
Sweden	5,064	5.95%
Russia	4,828	5.67%
Czech Republic	3,454	4.06%
Bulgaria	2,038	2.39%
Italy	1,516	1.78%
Spain	1,310	1.54%
Other[2]	3,470	4.08%
Total	**85,105**	**100.00%**

[1]Excludes board members/managing directors, apprentices and inactive employees.
[2]Fewer than 1,000 employees; includes France, Netherlands, Slovakia, Poland and several other countries.

Promoting mental health

We're convinced that our employees' health is integral to our company's success. Mental health is becoming an increasingly important issue. Mental illnesses, which are nearly always long-term conditions, are responsible for almost 10 percent of sick days taken by employees. To raise our people's mental-health awareness, we use brochures and intranet features that describe the causes, symptoms, and treatment of illnesses like depression and burnout. E.ON Academy offers a variety of programs that teach techniques for dealing with work-related stress. At some facilities, employees have formed self-help groups to offer each other support with challenging situations like returning to work after a prolonged absence. These and other activities are supported by our in-house health managers and the E.ON Board of Management. We have no intention of ignoring the issue of mental illness. Leaving aside its financial impact, we have a clear duty to promote our employees' health and welfare.

Taking new approaches

Heavy snowfall, strong winds, and downed trees caused severe damage to power lines across central and eastern Germany on Christmas Eve 2010. Outages affected more than 100,000 customers of E.ON Avacon and E.ON edis, two of our distribution network operators in Germany. Many of our linespeople and technicians interrupted their holiday and joined the response crews. Their dedication helped us restore service to most customers within 24 hours.

We have a long tradition responding promptly and resolutely in these situations. They're examples of how we always put our customers first, act responsibly, value teamwork, and pitch in together. Being there for each other and for our customers is central to the E.ON spirit.

Working together across borders

Our corporate culture consistently proves its worth—particularly in difficult situations—for our employees, customers, investors, and business partners. The OneE.ON values and behaviors we agreed on several years ago have played a key role in fostering a culture in which our people speak openly and honestly with one another in an atmosphere of trust and mutual respect. The OneE.ON guiding principles also serve as a common foundation for us to work together successfully at all levels of our company and across national and organizational boundaries. For example, a number of young people from Germany now have full-time jobs at E.ON UK after several years ago demonstrating their willingness to be flexible and embrace change. At the time, there was a shortage of highly qualified technicians in Britain, whereas E.ON companies in Germany were unable to offer full-time jobs to many young people who had successfully completed their apprenticeships. We found suitable jobs at E.ON UK for several of them, creating a win-win situation for everyone. This is just one of many examples of how each employee can make a meaningful contribution to our company's success.

A good example of our corporate culture in action

Technicians from E.ON Bayern have trained crews from E.ON Czech in hot-line maintenance on 22-kV lines. This technique makes it possible to work on energized lines so there are no service interruptions for customers.

Meeting challenges together

Building on this culture, we'll be able to successfully meet the significant business challenges we face in the years ahead. Our markets are keenly competitive, government intervention is on the rise, and the energy supply system is in the early stages of a fundamental transformation. At the same time, we're still feeling the lingering effects of the global economic crisis.

Our new strategy and organizational setup, which clearly delineates task areas and shortens decision-making processes, are part of our response to these challenges. Our task now is to ensure that the entire E.ON team—from our boardroom to the employees at our facilities around the world—act together and decisively. Our willingness to embrace change is more important than ever. At E.ON, we all work towards the same objectives for the benefit of the company as a whole. It's important that we do. Because the problems and challenges of the years ahead won't solve themselves. A Group-wide employee opinion survey, to be conducted in June 2011, will help us gauge whether and to what degree our employees are engaged in the changes we've made to meet these challenges. Feedback—including critical feedback—is part of our corporate culture. It helps us identify areas where we can do better and helps us successfully implement change processes.

Expecting performance, fostering improvement

For us to work together successfully, we need to have the right mix of shared rules and open space for entrepreneurial creativity and action. For example, there's no room for compromise on issues like regulatory compliance and occupational safety. We also have high expectations for our people's dedication and performance. A relentless commitment to top performance, particularly in challenging times, is essential for us to remain successful. Everyone needs to be know what their specific role is and that this role makes a valuable contribution. This understanding will be facilitated by rules and mechanisms that will make it easer for us to measure performance and highlight our successes. These mechanisms will include realistic, clearly defined targets, standardized metrics, and periodic feedback. Together, these will help us establish a positive performance culture. New expectations will create new opportunities for everyone.

But these mechanisms won't create a performance culture by themselves. Each and every day, our managers and employees will need to do more to embrace the attitudes, values, and behaviors that will make this culture a reality. Several are particularly essential, such as mutual respect and appreciation, openness and honesty, and the willingness to initiate change and improve one's own performance. This kind of corporate culture will enable us to take an open, positive approach to resolving disagreements within our organization, to act boldly and decisively, and, together, to take new approaches.

Cleaner & better energy, the motto of our new strategy, sets high expectations for us and represents an ambitious commitment to our customers. Combined with the willingness of every employee to deliver a top performance, our new strategy will lay the foundation for us to successfully meet the challenges ahead and continue our success into the future.

Showing our appreciation

A stand at our 2010 Annual Shareholders Meeting gave E.ON apprentices the opportunity to introduce themselves and talk about their work.

Nuclear energy: a key climate-friendly ingredient of our energy mix

We believe that nuclear energy is an indispensable part of a reliable, climate-friendly power supply. Countries around the world have passed laws to allow the continued use of nuclear energy and the construction of new nuclear capacity. We have the outstanding expertise that goes with decades of operating nuclear power plants (NPPs). Our nuclear fleet meets the world's highest safety standards and ranks among the most productive and reliable. Isar 2, an E.ON NPP in southeast Germany, generated 12 billion kWh of electricity in 2010, enough to power about 3.5 million households. And compared with a fossil-fired power plant, it emitted 11.4 million metric tons less carbon dioxide. Our NPPs also support the growth of renewables by balancing the network when the output from renewable sources fluctuates.

It's all part of our commitment to **cleaner & better energy**.

Our Investors

Overview

Thanks to our investors' trust, **we're staying on course.**

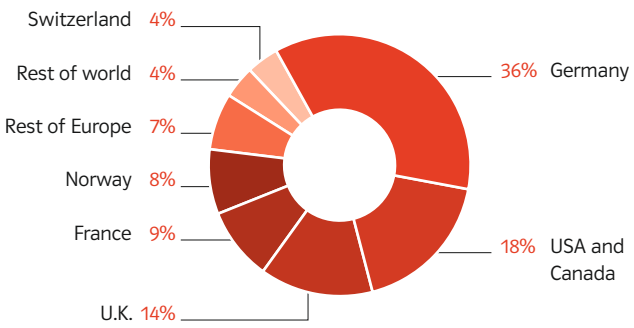
They come from as far away as Beijing and as near as our own neighborhoods. Whether they're a mutual fund in New York, a family of four in Florence, a big bank in Basel, or our own employees in Essen, they all have one thing in common. They've trusted us with their money—by buying our stock or our bonds. We strive to maintain this trust by designing and executing a strategy that ensures our investors an attractive return, now and in the future. The people and institutions that invest in E.ON come from all over the world. The main financial centers in Europe and North America are well represented, while the percentage for Germany consists of a large number of retail investors.

Shareholder structure

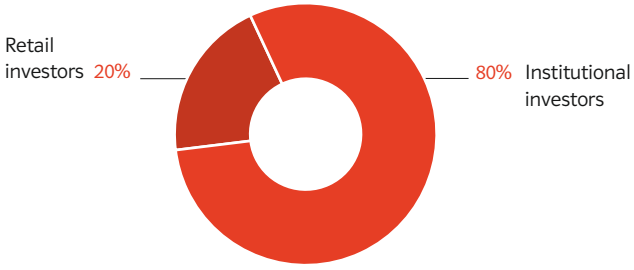
Our most recent shareholder survey shows that we have roughly 80 percent institutional investors and 20 percent retail investors. Investors in Germany hold about 36 percent of our stock, those outside Germany the remaining about 64 percent.[1,2]

> Our shareholders and bond investors from around the world give us a broadly diversified investor structure.

Shareholders: Geographical breakdown[1,2]



Shareholders: Institutional vs. retail investors[1,2]



[1]Percentages based on total investors identified.
[2]Percentages have been rounded.
Sources: Share register as of January 31, 2011; Thomson Reuters as of December 31, 2010.

Our finance strategy takes the long view and is flexible enough for sensible adjustments.

The objectives of our finance strategy are to achieve a cost-efficient capital structure and to ensure that we always have unrestricted access to capital markets. The successful implementation of our finance strategy remains of central importance, particularly because we operate in a comparatively capital-intensive industry. Our assets—which include wind and solar farms, power stations, gas and power grids, and underground gas storage facilities—take up to several years to build and tie up capital for decades.

At our Capital Market Day on November 10, 2010, we announced certain adjustments to our finance strategy. These adjustments were necessary, particularly because going forward we'll have to deal with bigger challenges in our regulatory environment (here, the key issue is the new nuclear-fuel tax in Germany) and in Europe's power and gas markets. Our new target rating is "solid single A"; previously it was "A flat/A2" (Standard & Poor's/Moody's). This new rating target will give us the flexibility to ensure that we don't take hasty action to remain within a narrowly defined target rating. For example, divestments will reduce our debt. But the success of these divestments depends in part on the existence of a receptive buyer market, which isn't always the case. We're firmly convinced that our adjusted target rating will ensure that we can take the action necessary to sustainably improve our debt figures.

We monitor and manage our capital structure using a ratio called debt factor. Our debt factor is equal to our economic net debt divided by our adjusted EBITDA. In prior years, the target range for our debt factor was between 2.8 and 3.3, which was compatible with an A flat/A2 target rating. Our new medium-term target debt factor is equal to or less than 3. To ensure that we achieve this target and maintain our target debt rating, we announced, on Capital Market Day in November 2010, a new strategic program to manage our portfolio and capital structure. Its purpose is to unlock about €15 billion through divestments by the end of 2013. We'll use more than half of these proceeds to reduce our debt and the remainder for growth investments. We already conducted a successful portfolio optimization program in 2009 and 2010. It generated disposal proceeds of about €13 billion, significantly surpassing our original target of €10 billion.

Beyond this, it's also very important to us that we ensure that our shareholders receive an attractive return on their investment. Our stable, consistent dividend policy has played a key role in recent years, and we intend to continue it. Our target payout ratio—which determines our per-share dividend—will therefore remain at 50 to 60 percent of adjusted net income. In addition, we're proposing a dividend of €1.50 per share for the 2010 financial year and announced that we plan to pay a dividend of at least €1.30 per share for the 2011 and 2012 financial years. We firmly believe that this dividend policy will give our shareholders the opportunity for a profitable, long-term investment, even in difficult times.

E.ON stock in 2010

E.ON stock (factoring in the reinvestment of dividends) finished 2010 17 percent below its year-end closing price for 2009, thereby underperforming its peer index, the STOXX Utilities, which declined by 4 percent during the same period.

In 2010, the stock-exchange trading volume of E.ON stock increased by 7 percent year on year to €59.8 billion.

Ten-year performance of E.ON stock

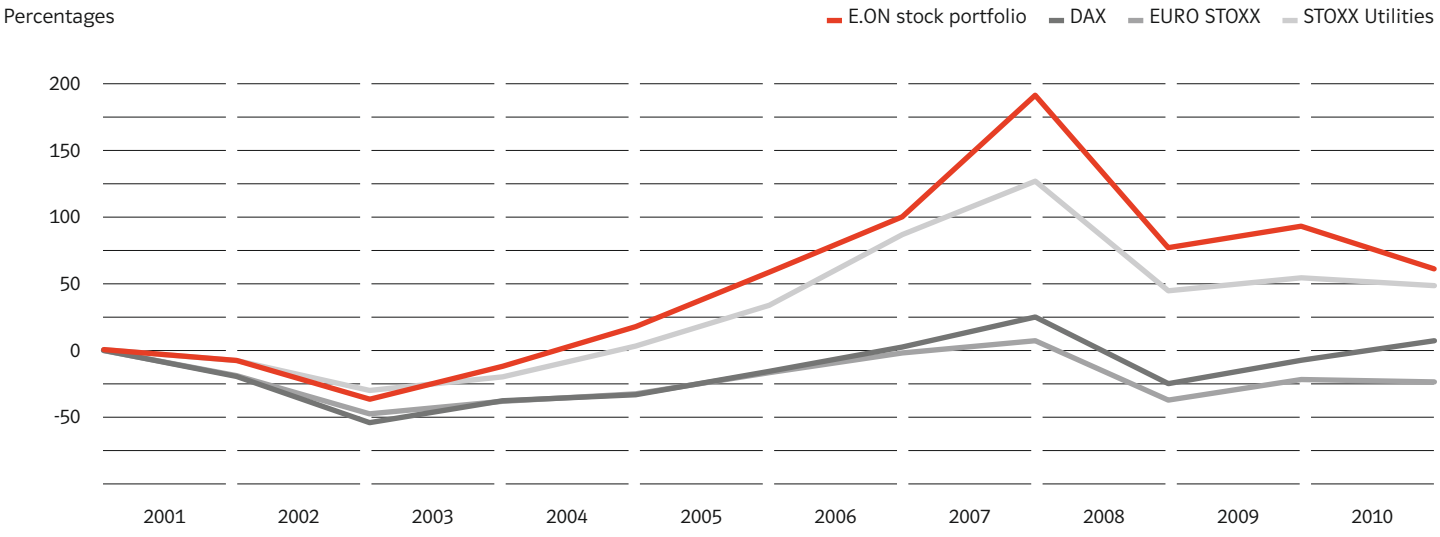
Investors who purchased €5,000 worth of E.ON stock at the end of 2000 and reinvested their cash dividends (including the special dividend in 2006) saw the value of their investment increase to €8,053 by the end of 2010, which represents an average annual return of 4.9 percent. E.ON stock thus outperformed the STOXX Utilities (+4 percent), DAX (+0.7 percent) and the EURO STOXX (-2.7 percent).

Want to find out more?
eon.com/stock

Development 2000–2010

E.ON	+61%
STOXX Utilities	+48%
DAX	+7%
EURO STOXX	-24 %

E.ON stock's ten-year development



Weighting of E.ON stock in major indices (as of December 30, 2010)

DAX	7.2%
EURO STOXX	2.9%
STOXX Utilities	21.2%

E.ON stock key figures[1]

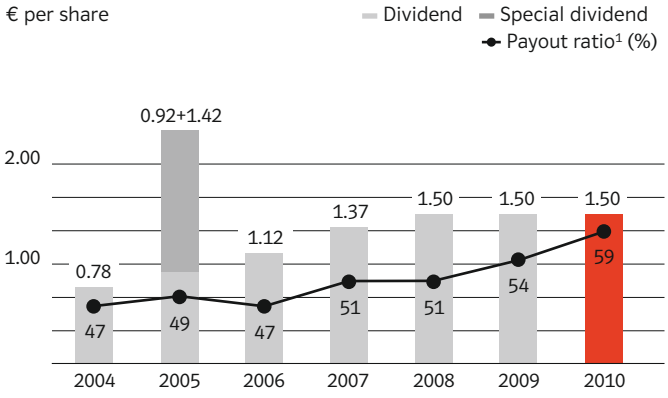
€ per share	2006	2007	2008	2009	2010
Earnings attributable to the shareholders of E.ON AG	2.82	3.69	0.68	4.42	3.07
Earnings from adjusted net income	2.22	2.62	3.01	2.68	2.56
Dividend	1.12	1.37	1.50	1.50	1.50
Dividend payout (€ in millions)	2,210	2,560	2,857	2,858	2,858
Twelve-month high[2]	34.80	48.69	50.93	30.47	29.36
Twelve-month low[2]	27.37	32.02	23.50	18.19	21.13
Year-end closing price as of December 30[2]	34.28	48.53	28.44	29.23	22.94
Number of shares outstanding (in millions)	1,979	1,895	1,905	1,905	1,905
Market capitalization[3] (€ in billions)	67.6	92.0	54.2	55.7	43.7
E.ON stock trading volume[4] (€ in billions)	92.5	136.2	119.2	55.9	59.8
Trading volume of all German stocks[5] (€ in billions)	1,539.3	2,350.9	2,029.6	1,009.1	1,072.1
E.ON stock's share of German trading volume (percentage)	*6.0*	*5.8*	*5.9*	*5.5*	*5.6*

[1]Adjusted for discontinued operations; subsequent to, or adjusted for, stock split.
[2]Xetra.
[3]Based on ordinary shares outstanding.
[4]On all Geraman stock exchanges, including Xetra.
[5]Source: Deutsche Börse AG.

Dividend

At the 2011 Annual Shareholders Meeting, management will propose a cash dividend of €1.50 per share for the 2010 financial year, unchanged from the previous dividend. The payout ratio (as a percentage of adjusted net income) would be 59 percent compared with a ratio of 54 percent in the prior year. Based on E.ON stock's year-end 2010 closing price, the dividend yield is 6.5 percent. This again makes E.ON one of the top DAX dividend performers. E.ON stock's attractiveness to investors is enhanced by the announcement that E.ON plans to pay out a per-share dividend of at least €1.30 for the 2011 and the 2012 financial years.

Dividend per share



[1]Payout ratio not adjusted for discontinued operations.

E.ON stock information

Type of shares
Ordinary shares with no par value/ registered shares

Stock codes
Germany
WKN ENAG99
ISIN DE000ENAG999

USA
Cusip No. 268 780 103

E.ON stock symbols

Reuters		Bloomberg	
FSE	EONGn.F	FSE	EOAN GF
Xetra	EONGn.DE	Xetra	EOAN GY
ADR	EONGY.PK	ADR	EONGY US

Strengthening relationships through dialog.

Our investor relations (IR) are founded on four principles: openness, continuity, credibility, and equal treatment of all investors. Each year we work hard to be even better in each of these areas. Our mission is to provide straightforward, transparent information at our periodic road shows, at conferences, at eon.com, and when we meet personally with investors. In 2010, which was characterized by challenges in our regulatory environment and in Europe's power and gas markets, we continued to seek opportunities for intensive, personal dialog with our analysts and investors. Continually communicating with our investors and strengthening our relationships with them are essential for good IR.

Our annual Capital Market Day typically gives analysts and institutional investors a closer look at one of our operating units. The 2010 event, held on November 10 in London, focused entirely on our new strategy and financial targets. One highlight of the conference was the presentation of detailed financial guidance for 2010–2013, including numerous new key performance indicators as well as our assumptions about future market and commodity-price developments that affect our business. More than 100 investors and analysts attended the conference, and many more watched the live webcast.

Want to find out more?
eon.com/investorrelations

You can contact us at:
investorrelations@eon.com
T +49-211-4579-549

At our 2010 Capital Market Day in London, we presented our new strategy and financial targets.

Reduced funding volume in 2010

The E.ON Group had €27.5 billion in bonds and €1.4 billion in promissory notes outstanding at year-end 2010.

Neither E.ON AG nor E.ON International Finance B.V. issued bonds in 2010. Our cash provided by operating activities and disposal proceeds fully covered our funding needs.

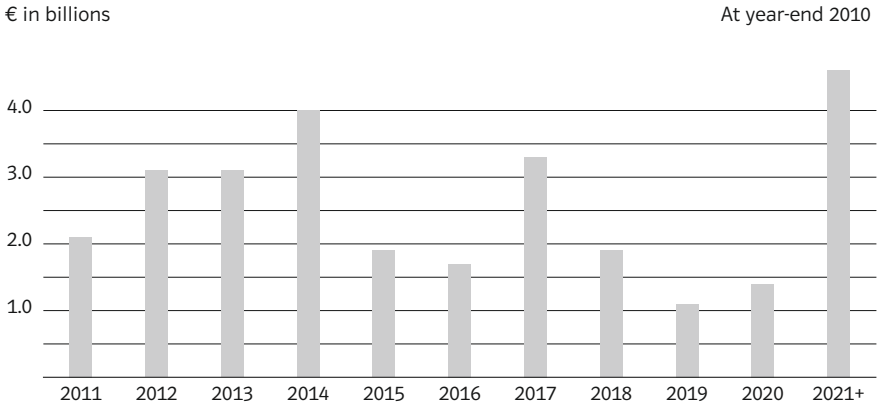
We announced in November 2010 that we intend to use at least half of the proceeds from disposals to reduce our debt. In the wake of the announcement, we repaid, ahead of schedule, about €1.1 billion in various financial liabilities in 2010. Overall, the E.ON Group's financial liabilities at year-end 2010 were €5.3 billion lower than at year-end 2009. In early 2011, we repaid or cancelled about €0.5 billion in promissory notes. In addition, on January 24, 2011, we made a two-step buyback offer on bonds with a face value of about €7 billion. We repurchased €1.81 billion of these bonds. These actions reduced the E.ON Group's debt still further.

At the level of our operating units, Central Networks East and West issued two bonds totaling £500 million in December 2010. The purpose of this transaction was to give us greater strategic flexibility with regard to our distribution-network business in England.

Another funding option alongside bonds is commercial paper (CP), a short-term debt instrument used in particular to meet short-term funding peaks. We used increasingly less CP last year and had none outstanding at year-end 2010 after having €1.5 billion outstanding in year-end 2009.

In the autumn of 2010, we concluded a new five-year, €6 billion syndicated credit facility. This facility has not been drawn on and instead serves as a reliable general liquidity reserve for the E.ON Group. It replaced our existing credit facility, whose two tranches had expiration dates in November 2010 and December 2011, respectively.

Maturity profile of debt issuances by E.ON AG and E.ON International Finance B.V.



Bond weightings

Like E.ON stock, E.ON bonds loom large in major European indices. As of year-end 2010, E.ON's weighting was 9.6 percent in the iBoxx EUR Utilities and 2.4 percent in the iBoxx EUR Non-Financials. These substantial weightings are indicative of E.ON's significance in financial markets and the robust trading volume of our bonds in the secondary market.

Earning our investors' trust through reliability and transparency

The purpose of our creditor relations is to maintain our investors' trust by communicating a clear strategy with the highest degree of transparency. One of our key tasks is therefore to stay in contact with our investors and, if necessary, to expand this dialog. We do this by conducting non-deal road shows in major European financial centers, holding periodic conference calls for analysts and investors, organizing a meeting with our core banks, and offering detailed information on the bond-investor pages of our website. And we can always be reached by phone or by email if bond investors need answers to specific questions. These many communication tools for bond investors underscore our belief that finance isn't just about numbers but to a large degree also about mutual trust.

Creditor relations also involves our interaction with rating agencies. E.ON's credit rating is important as an independent assessment of our financial stability and capacity to repay our debt on time. E.ON is rated by Moody's and Standard & Poor's.

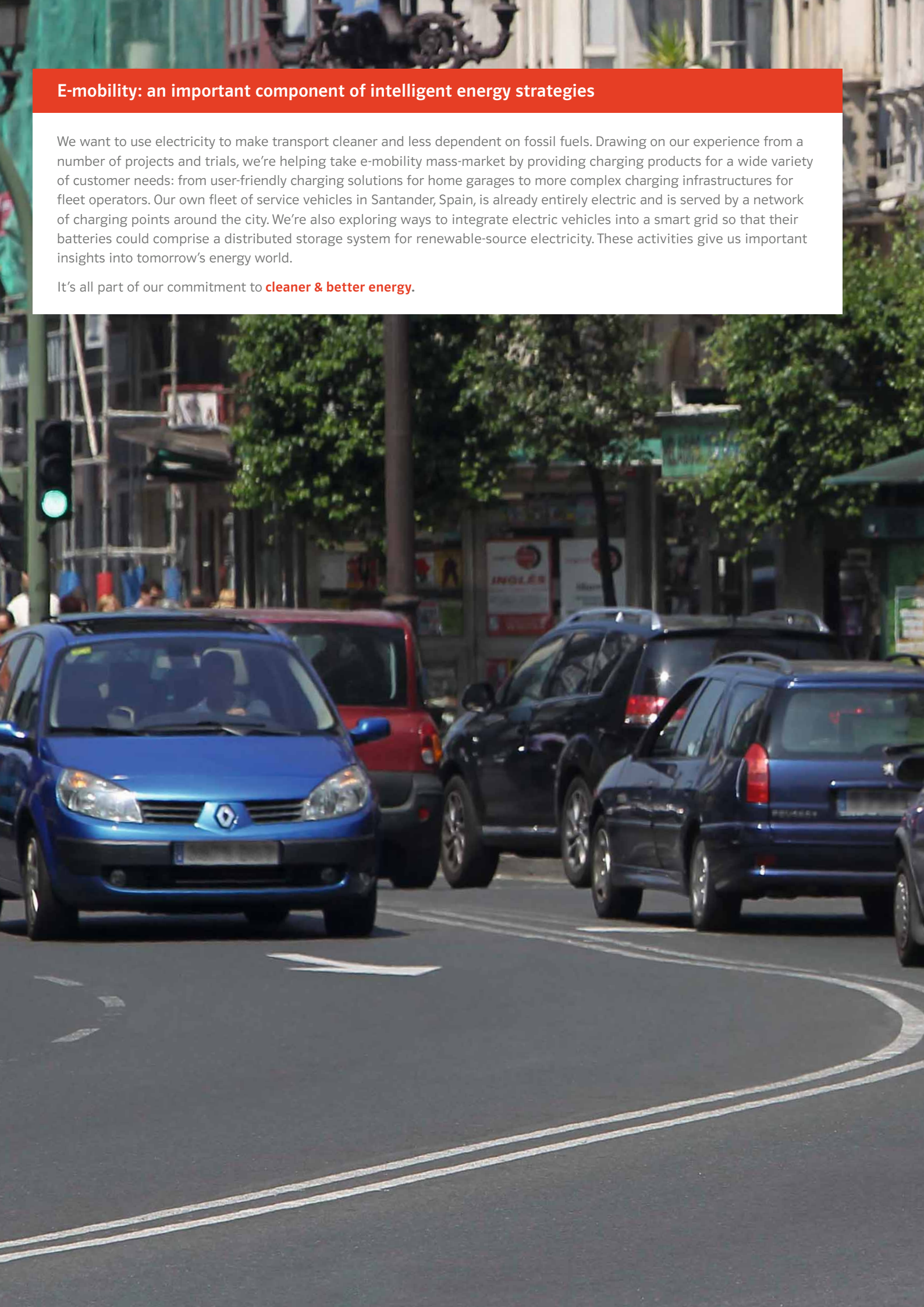
Want to find out more?
eon.com/creditorrelations

You can contact us at:
creditorrelations@eon.com
T +49-211-4579-563

E-mobility: an important component of intelligent energy strategies

We want to use electricity to make transport cleaner and less dependent on fossil fuels. Drawing on our experience from a number of projects and trials, we're helping take e-mobility mass-market by providing charging products for a wide variety of customer needs: from user-friendly charging solutions for home garages to more complex charging infrastructures for fleet operators. Our own fleet of service vehicles in Santander, Spain, is already entirely electric and is served by a network of charging points around the city. We're also exploring ways to integrate electric vehicles into a smart grid so that their batteries could comprise a distributed storage system for renewable-source electricity. These activities give us important insights into tomorrow's energy world.

It's all part of our commitment to **cleaner & better energy**.

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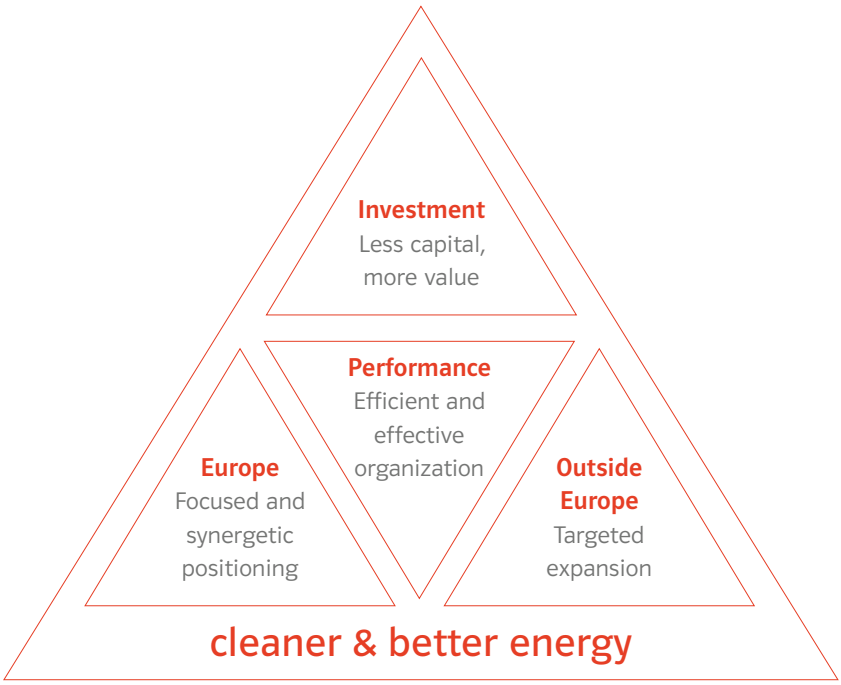
Our Strategy

New focus. New



Our new strategy clearly states our commitment to cleaner & better energy and is indispensable for us to successfully meet current and future challenges.

In a changing market environment, we need to leverage our competitive advantages more effectively in order to create more value for our customers, our investors, and our company.

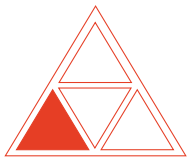
This is the only way E.ON will remain an attractive place for our people to work. We're committed to maintaining a strong position in Europe, while achieving new growth in other regions. This will create attractive personal and professional development opportunities in and outside Europe.

We'll provide our customers with superior products and services, reliable and competitively priced energy service, and a cleaner energy world.

We'll offer our investors the prospect of value-enhancing growth with an attractive risk-reward profile and solid dividends.

Our new strategy involves transforming E.ON from a primarily European energy utility into a global provider of specialized energy solutions. It will benefit our employees, customers, and investors alike.

prospects.



Strategic focus areas

Everywhere we operate we have a single objective: cleaner & better energy. We're convinced that affordability, supply security, and climate protection can be mutually compatible elements of a successful corporate strategy, even in tough economic times. Our new strategy reflects our commitment to cleaner & better energy. We purposely chose "clean" and not "green." And we purposely chose the comparative form because this isn't about defining absolute metrics or uniform targets for all parts of the world but rather about continual improvement processes.

E.ON isn't setting targets for itself or policymakers but rather stating its commitment to improving the world of energy wherever it operates. In this sense, our products and services are cleaner if they substantially improve energy quality in terms of environmental protection and competitiveness. Our energy is better when we deliver a superior performance and deploy technologies that we know better than our competitors and use these technologies to design better products and services for our customers.

How will we achieve this? Here, in brief, are the four key elements of our strategy.

Europe

Europe is and will remain our home and the main focus of our operations. But here we intend to concentrate more on businesses and markets where we can leverage our strengths in a competitive—and therefore generally non-regulated—environment. We believe that a competitive environment offers us significantly greater opportunities to benefit from scale advantages and to leverage synergies across businesses. Furthermore, we're convinced that over the medium term all EU countries will embrace the idea that energy-market convergence offers advantages to consumers and companies. We intend to enhance our efforts to leverage the cross-business synergies created by convergence. We're going to concentrate on what we can do best and on areas where we see the biggest opportunities for profitable growth.

Electricity offers so many advantages as an energy source that the electrification of daily life—at our homes and businesses, in industry and transportation—is nowhere near complete. In this sense, power generation is a long-term growth market, even though much of Europe is still feeling the effects of the global economic crisis. By the middle of this decade at the latest, the ratio of supply to demand will be significantly more attractive in most European markets. Another factor is that a large share of Europe's current coal-fired and oil-fired capacity will be withdrawn owing to the full auctioning of carbon allowances and to the restrictions of the EU's Large Combustion Plant Directive. The key will therefore be to have the right capacity on the market at the right time.

Setting course

E.ON has embarked on a new strategic course. The first leg of the journey came at the end of 2010, when the Board of Management and about 600 senior managers from across E.ON gathered in Berlin to discuss the strategy and its implementation. The next step was to provide all employees with comprehensive information about the strategy's key elements. For us to execute our strategy successfully, it's essential that everyone knows where we're going and why. As E.ON CEO Johannes Teyssen said in his closing remarks at the conference: "A ship and its captain are only as good as the officers and crew."

Our renewables business will continue to focus on industrial-scale projects and cost-effective solutions. In conventional generation, we'll execute our existing investment pipeline in Europe and add selective investments in flexible, low-carbon generating capacity. By 2020 we intend to halve, from a 1990 baseline, our European generation portfolio's specific carbon emissions.

We'll adapt our gas procurement and sales business model to the altered market environment. In addition, we intend to exploit the full synergy potential of optimizing our European gas business.

In energy sales, we intend to enhance our competitiveness through efficient operations, innovative customer solutions, and competitive power, gas, and heat products. This will include energy-related services (such as energy-efficiency advice) and distributed generation.

Outside Europe

Europe's main priority is to transform its energy system to make it more efficient and climate friendlier. But other parts of the world are experiencing robust demand growth and therefore need to add a large amount of technologically advanced generating capacity. We have outstanding expertise in the construction of new conventional and renewable generating facilities. Going forward, we intend to do even more to leverage this expertise and experience outside Europe, as well.

E.ON currently operates businesses in two regions outside Europe: renewables generation in North America and conventional generation and gas production in Russia. We intend to further develop our renewables operations in North America in line with the policy and regulatory environment. In Russia, we'll continue executing our conventional new-build program, which will provide a quick positive return on investment. Going forward, E.ON will tap, initially, two additional growth regions for conventional and renewables generation. In this effort, we'll focus exclusively on offering solutions that significantly improve the energy supply in these regions.

Performance

Under our efficiency-enhancement program called PerformtoWin, we identified cost reductions and operating improvements totaling €1.5 billion annually by 2011 and have already delivered most of them. We intend to build on this achievement. But efficiency enhancement will no longer be the focus of special programs or projects but instead be firmly embedded in a new, comprehensive performance culture. Going forward, we'll put even greater emphasis on the profitability of our existing and new businesses. We intend to deliver an additional €600 million in annual earnings improvements by 2013. Embracing and delivering top performance will be a key prerequisite for us to remain successful in an increasingly competitive and demanding environment. Our objective is for each of our businesses to be in the top quartile of our industry.

A new, leaner organizational setup supports the implementation of our new strategy and helps foster our new performance culture. Group Management in Düsseldorf oversees and coordinate operations, which are segmented into global units (by function) and regional units (by country). Five global units are responsible for managing our generation fleet, renewables business, energy trading, new build and technology, and global gas business.

Twelve regional units in Europe manage our sales operations (power, gas, and heat), regional energy networks, and distributed generation. Russia is managed as a separate unit. Group-wide entities deliver support functions like IT and procurement. Our new setup makes us stronger, leaner, and more efficient and ensures that our strategy is implemented in our markets faster and with greater precision.

Investments

We see clear growth opportunities in energy markets, mainly outside Europe and particularly in power generation. But we also need to consider that in the years ahead E.ON will face significant business challenges stemming from public policy decisions and a significantly altered environment in our current markets.

If we want to optimally seize the market opportunities that are out there, we need to find ways to achieve more growth for less capital. We need to grow by deploying our expertise instead of by deploying more capital.

We'll take a variety of approaches to getting more growth from less capital. For example, in renewables—in Europe and North America—we'll no longer necessarily be both operator and sole owner of wind farms. Instead, for projects where we find partners to be co-owners, we intend to concentrate on making our money through wind-farm design, planning, and operation.

This will apply even more so in new markets, where capital is readily available. What we'll bring to the table is our expertise. We intend to work with partners who have lots of capital and local connections. Our role will be to contribute our expertise in building and operating various generation technologies as well as our understanding of wholesale markets. The idea behind this new strategy is for us to focus more on the activities and processes in which we're a world leader and that create a lot of value.

On the basis of our existing businesses, we plan to invest up to €20 billion for the period 2011–2013. We have high expectations for the returns on these investments. All new growth projects—such as new offshore wind farms and our new gas-fired generating units—must return a minimum of 1.5 percentage points more than their cost of capital.

Grain LNG terminal in the United Kingdom: gas supply security, less carbon

As a lower-carbon fuel, natural gas is an indispensable component of a sustainable energy supply. Demand for gas will continue to increase in the years ahead. Our broadly diversified procurement portfolio helps secure Europe's gas supply. Our portfolio encompasses liquefied natural gas (LNG), including long-term LNG import capacity we've booked for the third phase of the Isle of Grain LNG terminal in the United Kingdom. This solution is more attractive for us than building our own terminal, which would bind a significant amount of capital. Alongside our LNG import capacity in Spain, Grain will represent our first long-term LNG import capacity in Northwest Europe. And it helps promote climate protection. Some of the heat needed by the LNG terminal is piped from a nearby E.ON power plant, which also produces enough electricity to serve about 1 million households. Using waste heat from our plant cuts the LNG terminal's carbon emissions by up to 350,000 metric tons each year.

It's all part of our commitment to **cleaner & better energy**.

Our Structure

Overview

New setup. **New possibilities.**

We see clear growth opportunities in energy markets, in Europe but mainly outside Europe. To seize these opportunities efficiently, we've reconfigured and simplified our organizational setup. Led by Group Management in Düsseldorf, our operations are segmented into global units (by function) and regional units (by country). Five global units are responsible for managing our generation fleet, new build and technology, renewables, global gas, and energy trading.

Twelve regional units in Europe manage our national sales operations, regional energy networks, and distributed-generation activities. We manage our power generation business in Russia as a separate unit.

Group-wide entities carry out support functions like IT and procurement.

Our new setup makes us leaner and more efficient and will ensure that our strategy is implemented in our markets faster and with greater clarity.

In line with our new strategy, we've created a new unit called E.ON International Energy. Its mission is to leverage our outstanding expertise in conventional and renewables generation to fast-growing regions outside Europe. Its initial objective is to define and enter two additional focus regions outside Europe.

Group Management

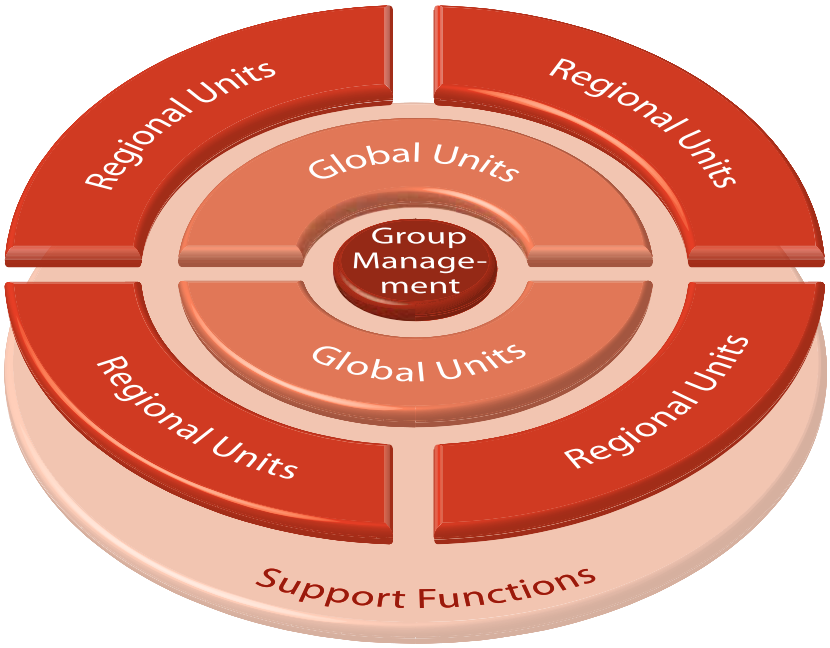
Group Management in Düsseldorf oversees the E.ON Group as a whole and coordinates its operations. Its tasks include charting E.ON's strategic course, defining its financial policy and initiatives, managing business issues that transcend individual markets, managing risk, and continually optimizing the Group's business portfolio.

Global units

Five global units are responsible for conventional generation, new build and technology, renewables generation, global gas, and energy trading.

Conventional Generation

This global unit consists of our conventional (fossil and nuclear) generation assets in Europe. It manages and optimizes these assets across national boundaries.



New Build & Technology[1]
We've also restructured our power-plant construction and technology activities and combined our project-management and engineering expertise to support the construction of new assets and the operation of existing assets across the Group. This unit also oversees our entire research and development effort.

Renewables Generation
We also take a global approach to managing our carbon-sourcing and renewables businesses. Our objective is to extend our leading position in the growing renewables market.

Global Gas
This unit is responsible for gas procurement (including our own gas production) and for project and product development in gas storage, gas transport, liquefied natural gas, and technical asset support.

Trading
This unit is responsible for our trading activities in power, gas, coal, oil, and carbon allowances and is active on all major European energy exchanges.

Regional units

Twelve regional units manage our distribution and sales operations in Europe: Germany, the United Kingdom, Sweden, Italy, Spain, France, the Netherlands, Hungary, the Czech Republic, Slovakia, Romania, and Bulgaria. We manage our power generation business in Russia as a special-focus region.

Support functions

Several entities perform valuable support functions for our core businesses wherever we operate. These functions (IT, procurement, insurance, business processes) will be centrally organized so that we pool professional expertise and leverage synergies.

Want to find out more?
eon.com/structure

E.ON Group key figures for the year ended December 31, 2010, can be found in our 2010 Annual Report.

[1]Not a reporting segment.

Conventional Generation

Global Unit

- More efficient management of our generation assets companywide
- New, technologically advanced generating units enter service and under construction in Europe
- New-build and technology expertise combined in single entity

More efficiency through centralized management

Under our new organizational setup, all of our conventional (fossil and nuclear) assets in Europe are managed by our Conventional Generation global unit effective January 1, 2010. The new unit takes a functional, cross-border approach to managing these assets, which are grouped into fleets by fuel type: steam (primarily coal), nuclear, and CCGT (gas). These fleets are steered by the Generation Center in Hanover. Each fleet is responsible for operating its power plants efficiently; the Generation Center is tasked with managing and coordinating activities across the fleets, setting standards, and providing services.

The purpose of the new setup is to enable us to manage our generation business more systematically and efficiently. By creating a Europe-wide entity, by sharing knowledge and experience, and by using advantages of scale, we intend to systematically leverage synergies and unlock earnings potential in the operation of our assets. Our aim is to establish a culture of knowledge sharing and collaboration across each fleet and to ensure that all our assets benefit from new technological standards and improved processes. Our generation portfolio has grown considerably in recent years, and the new setup and culture will enable us to continue to manage it efficiently and competitively into the future.

High degree of flexibility

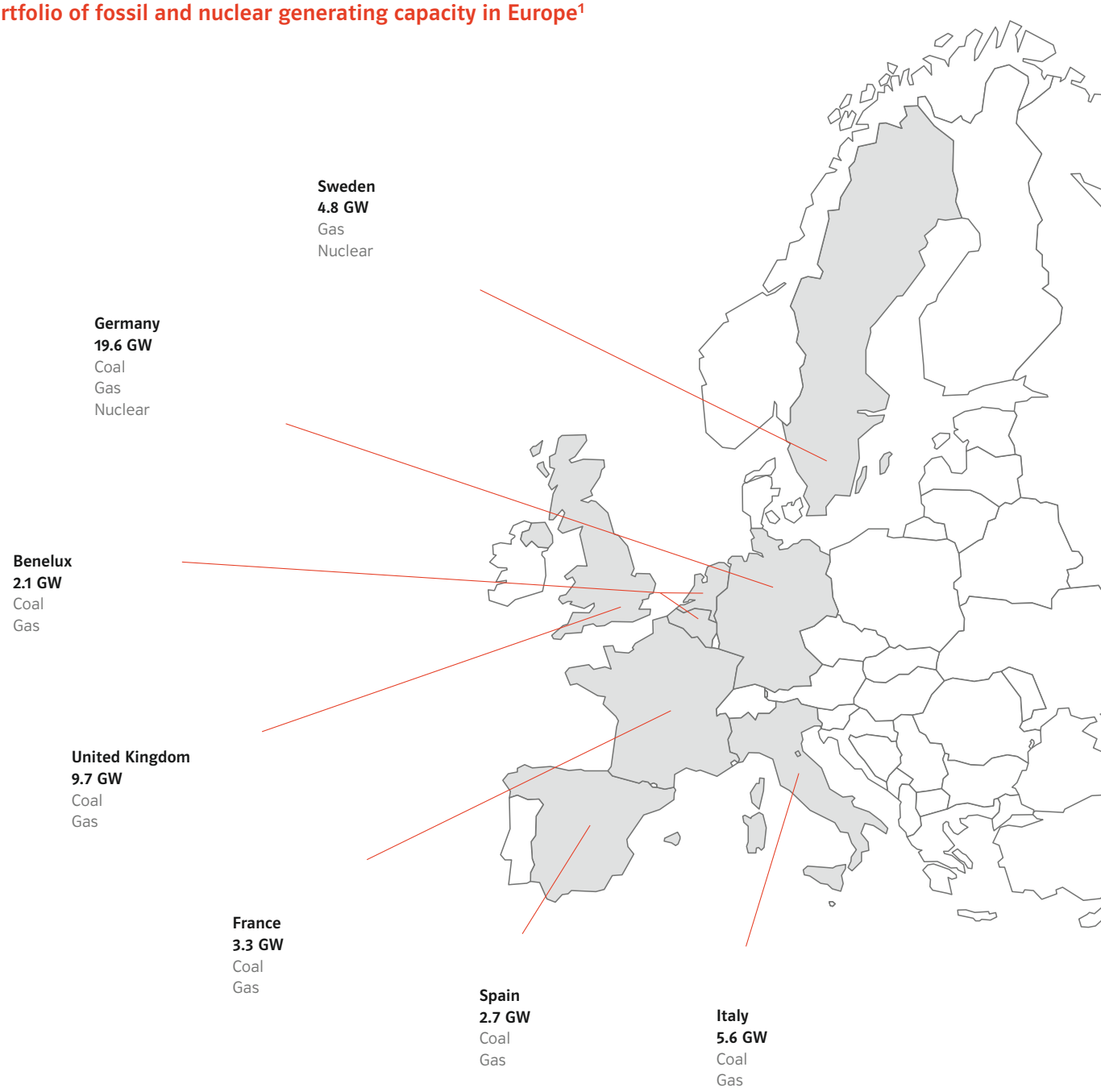
The output of our power plants can at all times be adjusted to the current supply-demand situation, enabling our portfolio to help balance the intermittent output from wind and solar farms. This flexibility also helps ensure that renewables facilities receive preferential dispatch, as is required by the laws of Germany and other European countries.

Future of nuclear energy

The overriding issue for our nuclear fleet in 2010 was the German federal government's comprehensive energy plan, which includes provisions to extend the operating lives of the country's nuclear power plants (NPPs). This decision creates a stable regulatory environment for the operation of NPPs in Germany and makes abundantly clear that nuclear energy will be needed well into the future to ensure a reliable, affordable, and climate-friendly power supply.

In view of the changes in Germany's nuclear-energy laws, E.ON and Vattenfall have agreed to work together to explore all available options for rapidly returning Krümmel and Brunsbüttel NPPs to service and further optimizing their operation.

Our portfolio of fossil and nuclear generating capacity in Europe[1]



[1]At December 31, 2010; figures under our new organizational setup are preliminary. We also have a total of 3.7 GW of distributed generating capacity in Germany, the Benelux countries, the Czech Republic, Hungary, the United Kingdom, and Sweden. Our 8.7 GW of generating capacity in Russia is shown starting on page 72.

Strategic research on next-generation NPPs

The Sustainable Nuclear Energy Technology Platform (SNETP) is a pan-European organization of which E.ON is a member. Its mission is to ensure that nuclear energy remains a key ingredient in the carbon-neutral energy mix of the future. Issues on SNETP's strategic research agenda and implementation plan range from the development of next-generation NPPs to new applications for nuclear energy such as heat and hydrogen production.

New generating units across Europe

2010 was a year of considerable change for our generation business. We concluded the divestment of roughly 5 GW of generating capacity in Germany in line with the commitment we'd made to the European Commission in 2008. And we commissioned several new generating units and integrated them into our new fleet setup. All the new units are energy-efficient CCGTs that have a high degree of operational flexibility. This makes them particularly suited to stabilizing the network to deal with the increasing and intermittent output from wind and solar farms. These units therefore also make an effective contribution to the growth in renewables capacity.

After just under two years of construction, one of the world's most efficient and powerful CCGTs became operational on May 17, 2010: unit 5 at our power station in Irsching in southeast Germany. With a thermal efficiency of 59.7 percent, Irsching 5 sets new standards for energy efficiency and climate protection. When Irsching 4, also a high-efficiency CCGT, becomes operational in 2011, it will be the first unit of its type to achieve a thermal efficiency of over 60 percent.

We also added to our CCGT fleet outside Germany, with new units entering service in France (Émile Huchet) and Italy (Scandale). Units 7 and 8 at Émile Huchet, which became operational in the spring of 2010, have a total capacity of 860 MW. Together with coal-fired units 4 and 6, they make Émile Huchet our largest power station in France. Scandale, in which we have a 50-percent stake, is the second CCGT (after Livorno-Ferraris) that we've commissioned in Italy. Scandale, which is located in southern Italy and entered service in April 2010, has a thermal efficiency of about 56 percent, making it one of the most advanced CCGTs in Italy.

In addition, three new CCGTs entered service in Grain in the United Kingdom in the first quarter of 2011. With an aggregate capacity of 1,275 MW, Grain units 6 to 8 are among the country's larger generating facilities and can meet the electricity needs of about 1 million homes. Grain could also cogenerate 340 MW of heat, giving it an overall thermal efficiency of about 72 percent. This not only makes Grain one of the country's most efficient generating facilities but also one of the world's largest combined-heat-and-power plants. Another CCGT, sited in Algeciras in southern Spain, is nearly completed. It will have roughly 820 MW of capacity, a thermal efficiency of 57.4 percent, and generate electricity from two gas turbines and one steam turbine.

Émile Huchet: largest new CCGT in France

Early in 2010, new CCGT capacity entered service at Émile Huchet, an E.ON power station in St. Avold in the Lorraine region of France. The two new units have an aggregate capacity of 860 MW, making them together what is currently France's largest CCGT facility. Both units have a high thermal efficiency of just under 57 percent.

In Slovakia, a CCGT became operational in Malženice in January 2011. It has 430 MW of capacity and a thermal efficiency of 58 percent, ranking it among the country's most environmentally friendly and energy-efficient units. In Gönyü, Hungary, a similar unit will enter service later this year.

Want to find out more about Conventional Generation?
eon.com/generation

New Build & Technology[1]

Global Unit

Pooling our expertise in new build and technology

As with our existing power stations, in 2010 we also restructured our new-build and technology activities along functional lines. Effective July 1, 2010, the New Build & Technology unit combines the staff and expertise of E.ON Engineering, E.ON Kraftwerke's New-Build Unit, and E.ON Energie's new technologies team.It also has functional oversight over E.ON Kernkraft's Center of Nuclear Competence.

The New Build & Technology unit combines our project-management, project-implementation, and engineering expertise to support the construction of new assets and the operation of existing assets E.ON-wide. These include conventional (fossil and nuclear) and renewabes assets. The new unit is capable of responding swiftly and agilely to a diverse range of market requirements in an environment characterized by high quality standards for new-build projects and the rapid pace of technological development. It also oversees our entire research and development (R&D) effort.[2]

Our major fossil new-build projects include two technologically advanced hard-coal-fired generating units under construction in western Germany (Datteln) and the Netherlands (Maasvlakte).

Carbon capture and storage (CCS): nearly zero emissions

E.ON views CCS as an important step in the transition to a low-carbon generation mix. But there are still significant technological and economic hurdles to overcome before CCS can be deployed on an industrial scale. We're promoting CCS R&D by partnering with universities and by testing carbon-capture equipment at several of our power stations.

[1]New Build & Technology is a separate global unit but not a reporting segment. Its results are reported in the Group Management/Consolidation segment.
[2]You'll find more information about new technologies and R&D starting on page 12.

Maasvlakte 3 and Datteln 4: high-efficiency coal-fired power generation

The high-efficiency hard-coal-fired generating units we're building in the Netherlands (Maasvlakte) and west-central Germany (Datteln, pictured) will set new standards for efficiency. Advanced technology will enable them to achieve a thermal efficiency of over 45 percent. Both units are designed to cogenerate heat for nearby residential areas. Plans call for Datteln 4 to supply environmentally friendly district heat to about 100,000 households in the central Ruhr region. Compared with older units, the new units will burn significantly less coal for each kilowatt-hour of electricity they generate. We're working with all levels of government to reestablish a firm planning foundation for Datteln 4. We firmly believe in the business and environmental case for Datteln 4 and that the project can be approved. We're striving to complete the new unit and make it operational as quickly as possible.

New turbines increase capacity of pumped-stored hydro station

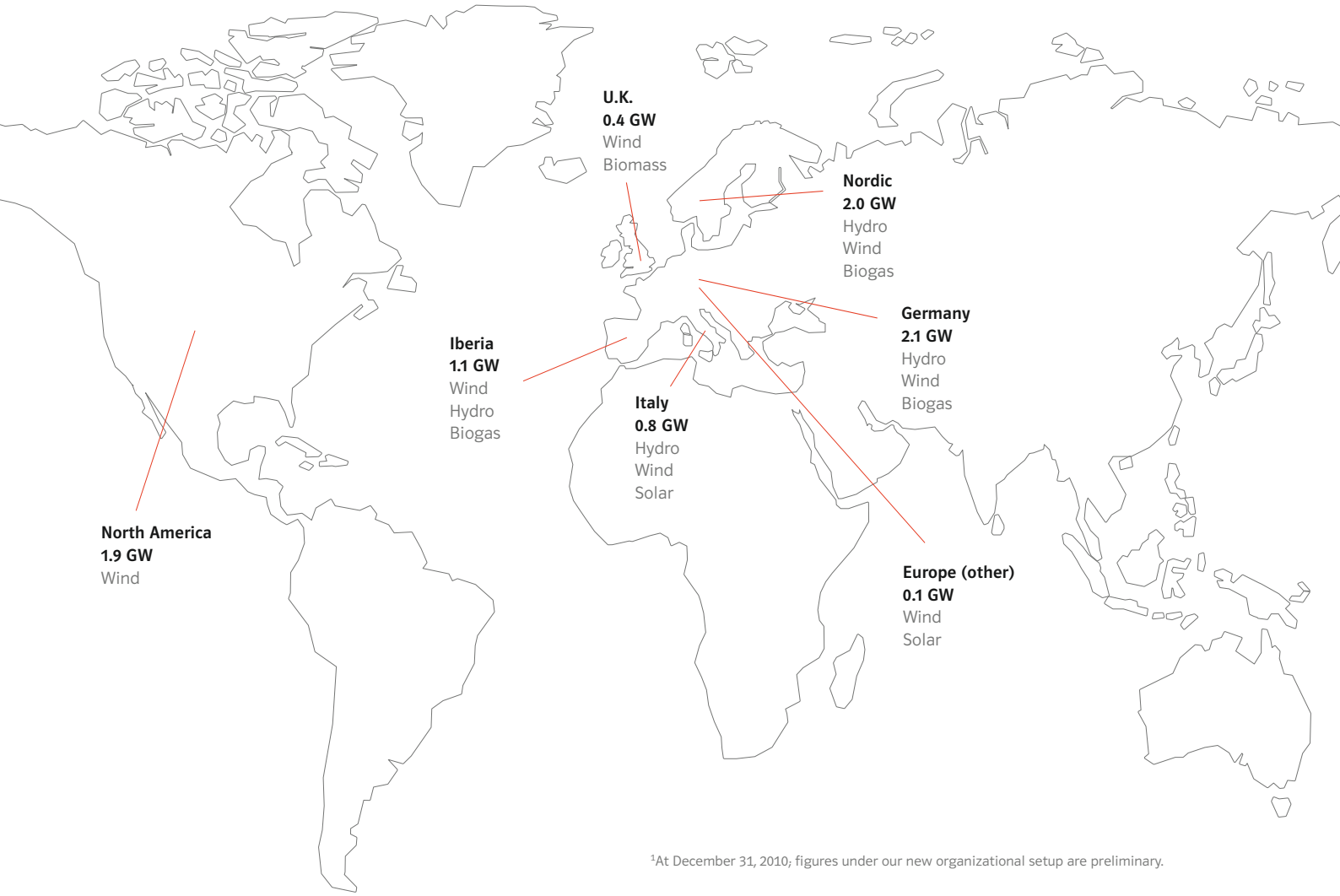
The two turbines at Waldeck 2, our largest pumped-storage hydroelectric station, were recently overhauled and upgraded. The station's total capacity was increased from 440 MW to 480 MW. For the first time, our New Build & Technology unit played a key role. Several of its experts helped manage and coordinate the project. Waldeck 2 returned to service in 2010 with its increased capacity. Pumped storage is a very efficient way to store large quantities of electricity. This zero-carbon electricity is available at a few minutes' notice during demand peaks. Expanding this flexible storage capacity therefore supports the further integration of renewables.

Renewables Generation

Global Unit

- Wind and solar capacity up by 20 percent in 2010
- New offshore wind farms enter service in the United Kingdom, Germany, and Denmark
- E.ON among top three players in offshore wind
- More than 90 MW of solar capacity under construction
- 110 MW of new pumped-storage hydro capacity enters service

Our renewable-source generating capacity[1]



[1]At December 31, 2010; figures under our new organizational setup are preliminary.

The Renewables Generation global unit is responsible for developing and managing our global renewables and carbon-sourcing activities. All of our hydro capacity, which consists of hydroelectric stations in four European countries, is also reported in this unit. Our renewables portfolio encompasses a broad spectrum of technologies. We have 4.8 GW of run-of-river and pumped-storage hydroelectric capacity, about 3.1 GW of onshore wind, and 0.5 GW of offshore wind. We're expanding our solar business to become another key area of our renewables portfolio. In addition, we're active in biomass, biomethane, and marine energy.

It's important to remember that, on their own, renewables like wind and solar aren't suitable sources of baseload power. They need to be integrated into a smart energy system that also includes large-scale energy-storage devices. This way, electricity from renewables will be available even on windless, cloudy days. Pumped-storage hydroelectric stations, which have a high degree of operational flexibility, ideally complement renewables. They can store large quantities of surplus renewables output when the demand for power is low. And they can come onstream at a moment's notice to produce electricity during peakload periods.

Boutique to industrial

We plan to invest about €1.1 billion in renewables in 2011. Our focus is on the most attractive markets and technologies; in recent years, mainly on wind. We had 3.6 GW of renewables capacity at year-end 2010 (almost ten times more than we had three years ago), which ranks us among the world's leading and fastest-growing players in this new, dynamic industry. And we're the only top player that also has a strong position in offshore wind. Through continued strong growth in our core markets in North America and Europe, we intend to expand our installed wind capacity and, increasingly, our solar capacity.

Our strategy is to scale up renewables from boutique to industrial along the entire value chain: development, procurement, construction, and operations and maintenance (O&M). Between 2007 and 2010, the average size of our wind farms increased from 15 to 100 MW, and our average turbine capacity increased from 1.4 to 2.3 MW. Larger facilities and turbines yield significant economies of scale. But the biggest value levers in the renewables business are procurement, construction, and O&M. Here, too, we're adopting an industrial-scale approach. Bulk buying reduces transaction costs and yields economies of scale. After successfully scaling up our wind business, we now intend to apply our boutique-to-industrial approach to solar, which we expect to deliver dramatic cost savings.

Joint research project with environmental organization

Offshore technologies—wind, wave, and tidal stream—are an increasingly important component of our renewables portfolio. Because we believe in developing our offshore business with as little impact as possible on marine ecosystems, we've teamed up with the International Union for Conservation of Nature and Natural Resources (IUCN). The IUCN is the world's oldest and largest global environmental network, bringing together more than 1,000 government agencies and non-governmental organizations and almost 11,000 volunteer scientists. Called "Greening Blue Energy," our joint project with the IUCN is designed to assess and minimize the potential environmental impact of new offshore power facilities. The project is part of our commitment to work closely with environmental organizations and conservationists to develop sustainable solutions for renewable energies.

Onshore wind

Aside from hydro, onshore wind is the most mature, cost-effective renewables technology. Our main onshore presence is in the United States, Spain, and Italy. The U.S. market continues to offer excellent growth potential thanks to a high wind yield, large open spaces, and a favorable regulatory environment. We commissioned more than 350 MW of onshore wind in 2010, including Papalotte Creek 2 (200 MW) in the United States and Wielkopolska (52.5 MW) in Poland. Both projects were completed ahead of schedule and under budget.

Offshore wind

With 467 MW in operation in the United Kingdom, Denmark, and Germany and a project pipeline of more than 3 GW, we have a leading position in offshore wind. Robin Rigg, a 180 MW offshore wind farm in northwestern Britain, was completed in March 2010. Alpha ventus, a 60 MW deep-water wind farm in the German North Sea, was also completed in March 2010. In addition, we're building London Array, the world's largest offshore wind project. It's located in the outer Thames estuary, about 20 kilometers from the southeast coast of England. The first phase will have a capacity of 630 MW and is scheduled to be completed at the end of 2012. When the second phase becomes operational, London Array will have a total capacity of 1 GW. Alpha ventus and London Array are joint projects with other companies.

Solar

Solar energy has enormous potential as a resource. The sunlight hitting just 1,000 square kilometers of desert would meet humans' entire primary energy needs. At the current rate of technology refinement, solar will achieve cost parity with wind in the next five to ten years. Our objective is to develop solar to be another key area of our renewables business alongside wind and hydro. Our solar business achieved several milestones in 2010. We completed four photovoltaic farms in Italy. In partnership with Abengoa, Spain's market leader in concentrated solar power (CSP), we made excellent progress in the construction of two 50 MW CSP plants in Andalucia in southern Spain. Both plants are scheduled to become operational in 2011.

We're also looking much further ahead. In June 2009, we became a founding member of a consortium for a visionary project. Called Desertec, the project will use the sun-drenched, windswept deserts of North Africa as the site for large-scale solar and wind farms to generate electricity for Europe. If everything goes according to plan, this €400 billion project could provide up to 15 percent of Europe's electricity by 2050.

Turbines turning in record time

Rødsand 2, a 207 MW wind farm in the Baltic Sea, entered service in September 2010, three months ahead of schedule.

Out of Africa: energy for Europe

It may sound utopian, but experts agree it's feasible: using the sun-drenched deserts of North Africa as source of electricity for Europe. In July 2009, E.ON and 11 other large corporations signed an agreement to establish the Desertec Industrial Initiative. The objective of the initiative is to analyze and develop the technical, economic, political, social, and ecological framework for large-scale solar and wind power generation in North Africa. If everything goes according to plan, the €400 billion project could provide about 15 percent of Europe's electricity by 2050. In addition, the producer countries will use a significant share of the power Desertec generates to meet their own energy needs.

Hydroelectricity

2010 was also a busy year for our hydro business. In the early summer, we commissioned a new, technologically advanced 70 MW pumped-storage hydro unit near Waldeck in central Germany. We also completed an upgrade program at our second pumped-storage hydro station in Waldeck, which raised its capacity from 440 MW to 480 MW (page 49 has more information on this project). At the end of the year, we filed documents to obtain consent to build a new 300 MW pumped-storage hydro unit, also at the Waldeck site. We're also involved in a project to build a pumped-storage hydro station in the southeast corner of Germany near Passau. Plans call for the 300 MW station to enter service in 2018. A comprehensive upgrade program at Terni hydroelectric station in Italy is also moving forward. In addition, we're taking action to expand our run-of-river hydro capacity. Consents processes are under way for three new plants in southeast Germany.

Biomass

Biomass is another component of our renewables portfolio. We own and operate Steven's Croft, a 44 MW wood-burning power station in Lockerbie, Scotland. The facility, which is one of the United Kingdom's largest dedicated biomass plants, generates enough electricity to power 70,000 homes and displaces 140,000 metric tons of CO_2 annually. We have 400 MW of biomass projects at various stages of development.

Carbon sourcing

The Renewables global unit also manages our global carbon sourcing business, which encompasses Clean Development Mechanism (CDM) and Joint Implementation (JI) projects as defined in Articles 12 and 6 of the Kyoto Protocol. In CDM projects, credits are earned through emission reductions in developing countries; in JI projects, through emission reductions in industrialized countries. Our Renewables Generation unit leverages our deep energy expertise in developing JI/CDM projects in its focus regions of Southeast Asia, the Middle East, North Africa, and Russia. One example is our partnership with Bionersis to develop CDM projects in Southeast Asia to capture landfill gas and use it to generate electricity.

Want to know more about Renewables Generation?
eon.com/renewables

CSP in Spain

We're partnering with another company to build two 50 MW concentrated solar power (CSP) plants in Andalucia in southern Spain. The plants, Helio-energy 1 and 2, are located at a 210-hectare site in Écija near Seville, one of Europe's most sun-intensive regions. Parabolic troughs concentrate sunlight to create steam which drives a turbine and generator to produce electricity. Our entry into the CSP business supplements our photovoltaic activities and represents an important step in expanding our solar portfolio and enlarging applications of this technology to an industrial scale.

Global Gas

Global Unit

- Negotiations to adjust long-term supply contracts
- Gas production sharply higher
- Transport business managed independently effective September 1, 2010
- Investments in storage and pipeline projects help secure tomorrow's gas supply

The operations of our Global Gas unit encompass gas procurement; gas production; project and product development in gas storage, gas transport, and liquefied natural gas; and technical asset support. Integrated portfolio management ensures that different business areas work together effectively and efficiently.

Exploration and production (E&P)

Global Gas, which manages our E&P operations, is a proven gas producer and operator. We produced about 7.5 billion cubic meters (bcm) of gas in 2010, about 75 percent more than in 2009. The biggest contribution came from our 25-percent stake, acquired in 2009, in Yuzhno Russkoye gas field in west Siberia. Yuzhno Russkoye has total reserves of about 600 bcm; our share of its annual output is about 6 bcm. OAO Severneftegazprom (SNGP) has the production license and is the operator. Gazprom owns 50 percent (plus six shares) of SNGP's voting stock, and E.ON and Wintershall both own 25 percent (minus three shares). Our output will continue to increase in the years ahead, in part because of production at Babbage and Huntington gas fields in the U.K.

LTC: energy for decades to come

Long-term contracts (LTCs) are important components of our gas procurement portfolio. But they need to be adjusted in fundamental ways to reflect the current market situation. That's why, in 2010, we entered into talks with all our major suppliers with the aim of adjusting LTCs to reflect the altered market situation. The effects of the economic crisis along with structural changes in the gas market have made it necessary to renegotiate key elements of these contracts. Our long-standing relationships with our suppliers have always been based on mutual trust. We're therefore convinced that by engaging in constructive dialog with them we can successfully resolve this situation and create a solid, lasting foundation for natural gas to continue to play an important role in the energy system of the 21st century.

Successful exploration:
gas discovered in Rhourde Yacoub, Algeria

E.ON and Sonatrach, Algeria's state-owned oil and gas company, discovered gas in the Rhourde Yacoub exploration block in October 2010. With E.ON as operator, the joint venture successfully completed the drilling and testing of the Zemlet Cherguia-1extension exploration well. Rhourde Yacoub is in the Sahara desert in eastern Algeria, about 250 kilometers southeast of Hassi Messaoud. It's located in the gas- and oil-rich Berkine Basin, where exploration began in the 1990s. In the second half of 2008, E.ON participated in the first licensing round after Algeria had enacted a new hydrocarbon law. We were awarded the license for the Rhourde Yacoub block, which covers an area of 1,091 square kilometers, in December 2008. We have a 49-percent stake in the block.

North Sea and Skarv gas and oil field in the Norwegian Sea. Our substantial portfolio of exploration licenses in the United Kingdom, Norway, and North Africa offers further opportunities to expand our production.

Long-term contracts (LTCs)

We're one of Europe's leading gas importers and have a diversified portfolio of LTCs. LTCs enable us to secure gas supplies from the major producer countries for the European market. LTCs typically have a term of more than 30 years and ensure the procurement of large quantities of natural gas at market-based prices. By giving us a strategic sourcing platform in the increasingly global competition for gas supplies, LTCs strengthen Europe's supply security.

Liquefied natural gas (LNG)

LNG represents another important source of Europe's future gas supplies. It also offers us new opportunities for long-term growth in our gas business as well as new supply sources for our markets. We're putting together a diversified portfolio of regasification capacity in Europe in order to supply our target markets with gas from LNG. In 2010 we added long-term LNG import capacity by booking capacity for the third phase of the Isle of Grain LNG terminal in the United Kingdom along with terminals in Spain. Our other major terminal projects are Gate (Rotterdam, the Netherlands) and OLT (off the coast of Livorno, Italy). When completed, OLT will be the world's first floating regasification terminal; LNG will be regasified offshore and piped undersea to Italy's gas network.

Gas sales

We combined our energy sales operations in Germany so that we can do an even better job of meeting customers' specific needs. Our customers now have a single source for power and gas. Becoming a dual-fuel retailer enhances our efficiency and makes us an even more attractive supplier. The situation on Germany's energy markets again changed significantly in 2010. Gas markets became more transparent, liquid, and dynamic. Prices on energy exchanges now serve as the main indicators for our customers and as the benchmarks in a competitive marketplace. Our response to this changing environment is to offer innovative, custom-tailored products and to expand our gas sales outside Germany, where the liberalization of Europe's gas markets is creating new opportunities. E.ON has a broad range of gas supply solutions; volume, structure, and flexibility options; and price models. In addition, we offer services that help our customers increase their energy efficiency.

Infrastructure shareholdings

Alongside gas production and procurement, our infrastructure shareholdings help Europe achieve a high degree of supply security. In partnership with other companies, we're investing in efficient, technologically advanced gas pipeline systems to link Europe with existing and new gas fields. In particular, these include our 15.5-percent stake in the Nord Stream pipeline under the Baltic Sea, which will create the first direct link between Russian gas fields and Europe via the OPAL and NEL pipeline systems in northern and eastern Germany. Together with Gazprom and three other European energy companies, E.ON is building Nord Stream, a 1,224-kilometer pipeline across the Baltic Sea, from Vyborg in Russia to Greifswald in northern Germany. 2010 was a significant year for Nord Stream. In February, it received final construction approval, enabling it to begin laying pipe in April. By year's end, about 60 percent of the pipeline was completed. Towards the end of 2011, the pipeline will start transporting about 27.5 bcm per year. When the tandem pipeline is completed, Nord Stream will have a total capacity of roughly 55 bcm per year.

Nord Stream: Russian natural gas for Europe

Pipelaying for the Nord Stream pipeline across the Baltic Sea began on April 9, 2010, off the coast of Sweden. The first gas deliveries are planned for the end of 2011. At the beginning of 2010, more than 80 percent of the pipeline was already in place.

TAP: gas from Caspian region

The Trans Adriatic Pipeline (TAP) consortium, in which we have a 15-percent stake, plans to build a roughly 520-kilometer gas pipeline from Greece across Albania and under the Adriatic Sea to southern Italy. The two other partners are EGL (Switzerland) and Statoil (Norway), each of which holds 42.5 percent. TAP, which has a planned capacity of 10 bcm per year, will supply Europe with natural gas from the Caspian region via Turkey. It could enter service in late 2016. Its capacity could subsequently be increased to 20 bcm per year.

Gas storage

Europe is producing less gas in regions near consumption centers, and the amount of gas traded on wholesale markets is on the rise. These factors serve to increase Europe's need for supply flexibility. Gas storage facilities play a key role in this area. At E.ON, we have extensive expertise in the development, construction, operation, and marketing of underground gas storage facilities and in innovative solutions for further optimizing gas storage.

Storage solutions for Europe

Our innovative products and services provide customers with transparent, individually tailored storage solutions.

Etzel gas storage facility

Along with OMV and VNG, E.ON is part of a consortium building Etzel gas storage facility in northwest Germany. The facility, which will store gas in underground salt caverns, is projected to have a working gas capacity of about 2 bcm. It will enter service in stages from 2012 to 2014 and be operated by E.ON on behalf of the consortium.

Marketing of storage capacity

E.ON offers a broad range of innovative storage products providing fair, transparent, non-discriminatory access to our capacity. Our new Day-Ahead Portal for marketing spot storage capacity in Germany went live in September 2010. This trading platform enables customers to manage their individual near-term storage-capacity needs so they have even more flexibility to seize opportunities in Germany's wholesale gas market.

As a leading European storage operator, we're involved in a number of projects to add new capacity and enlarge existing capacity. Projects in northern Germany (Etzel) and Austria (7Fields) alone will add more than 3 bcm of storage capacity.

Gas transport: Open Grid Europe

Since September 1, 2010, our gas transport business has been managed by Open Grid Europe, which functions as an independent transmission operator (ITO) within the meaning of the third EU legislative package on the single internal energy market. By establishing an ITO, we've met the European Commission's requirements to unbundle transmission and network operations from our wholesale gas business. The new company, which has about 1,800 employees, is responsible for all aspects of operating its roughly 12,000-kilometer gas transmission system. Open Grid Europe has decades of experience in planning, building, and operating gas transmission pipelines. It's Germany's leading gas-transmission-system operator and provides a full range of transparently structured, customer-centric transmission services, enabling customers to make effective use of the capacities they've booked. It supports liberalization by systematically simplifying network access.

Biomethane

Natural gas is a comparatively low-carbon fuel. The use of biomethane, also called renewable natural gas, makes gas even more environmentally friendly. The German government has set a target of expanding biomethane's share to over 60 billion kWh by 2020. We injected about 400 million kWh of biomethane in 2010, making us a pacesetter in the industry. Our three facilities in Germany (Schwandorf, Aiterhofen, and Einbeck) have been upgrading biogas to pipeline quality and injecting it into the nationwide gas pipeline system since 2008. Two more plants, one in Saarland and one in the Hallertau region of Bavaria, are under construction. The Hallertau plant will be the first in the world to use hops leaves (which until now have been discarded as waste) as the raw material for biomethane. In addition to producing biomethane ourselves, we buy it from other producers, mainly in agricultural and similar segments. By 2012, our biomethane portfolio will increase to 1 billion kWh per year, enough to meet the needs of 100,000 households.

Gas Technology & Energy Systems Competence Center

Our Gas Technology & Energy Systems Competence Center brings together our decades of technological experience and expertise. Research and development fosters the efficient use of natural gas applications and creates new options for energy storage and intelligent grid management. The center is a research and information platform, and its test rigs and laboratories help refine efficient, climate-friendly gas-fueled applications. The applications engineering team specializes in developing innovative technologies and supply concepts, such as gas-fired heat pumps, micro CHP units (Stirling and stationary gas engines), fuel cells, and biomethane projects. The network engineering team specializes in technology that promotes the reliable use and transmission of natural gas, thereby supporting our gas wholesale business. The center's expertise in pipeline technology, metering, gas quality metering, and thermodynamics enables it to rapidly and reliably assess the impact of new natural gas compositions on gas facilities and equipment. Another main focus is the development of smart-metering and smart-grid technology. In 2010, the center began a partnership with Bochum University to develop a new process for measuring the density of LNG. The project is supported by the European Gas Research Group. The process will increase the accuracy of measuring the amount of LNG being offloaded from tanker ships. The project earned an Excellence in Research Grant and is half-funded by the EU. Our Micro CHP User Group is helping our municipal utility customers test this technology. The latest Stirling and gas engines are tested in the center's laboratory and then installed at a municipal utility customer for field testing.

Want to know more about Global Gas?
eon-ruhrgas.com

Trading

Global Unit

- Successfully trading in converging EU markets
- Trading volumes and EBITDA up year on year
- Increasing globalization of energy trading creates global opportunities

Concentrating our strengths and market expertise

Three years after the unification of all of the E.ON Group's European trading activities, our Trading global unit again delivered a substantial earnings contribution while continuing to significantly improve the Group's risk position. Our Düsseldorf-based Trading unit, which has about 1,000 employees from almost 50 countries, is today one of Europe's most successful and most active trading houses. In 2010 it was named House of the Year (Natural Gas, Europe) by *Energy Risk* magazine. Its solid overall performance over the past three years—despite the global financial crisis and ongoing uncertainty in commodity markets—is due to the fact that we successfully combined our trading activities in a single entity. By pooling its strengths and market expertise, Trading has already created considerable value and laid a solid foundation for the years ahead in rapidly converging European and global markets.

Nevertheless, the impact of the financial and economic will remain palpable in the years ahead. In particular, power and gas prices have remained stubbornly lower, creating a difficult market environment. In addition, there's uncertainty about whether the European Commission will include energy trading in financial-market regulation.

As the interface between E.ON and the world's wholesale energy markets, our Trading unit buys and sells electricity, natural gas, oil, coal, freight, biomass, and carbon allowances. Its traders and risk managers source and trade the fuels and emission allowances required to run E.ON's generation fleet, while ensuring the most efficient use of E.ON's asset base and locking in margins for E.ON's generation in forward markets. By doing so, Trading aggregates and reduces E.ON's commodity price risk.

E.ON's portfolio of renewable and efficient conventional generation assets is the most geographical and technologically diverse in Europe. This diversity creates significant opportunities for optimization across national and regional boundaries, opportunities that we can seize for E.ON and our customers. Our generation assets, which we formerly managed by country, now form a truly European portfolio that we manage centrally and that can respond quickly and efficiently to market price movements. This requires cross-market and cross-commodity expertise, as well as a forecasting ability that factors in national, European, and global price trends. We've systematically integrated the diverse perspectives of Trading's predecessor entities to form a holistic European and global market view, thereby setting standards in Europe's trading marketplace.

Trading volume by commodity

1,472 bn kWh Electricity	72 mmt Oil
2,005 bn kWh Natural gas	289 mmt Coal
650 mmt Carbon allowances	mmt = million metric tons

Integration of European markets

E.ON has for years supported initiatives to integrate national markets in Europe. And not without reason: no company has a greater interest in the establishment of a uniform power and gas marketplace in Europe. We can only optimally manage and deploy our broad energy portfolio—with assets in nearly all parts of Europe—if there is a free flow of physical commodities across borders. Moreover, a larger market area with central trading points and uniform rules offers tangible advantages for all sides.

For industrial and residential customers. In a competitive European marketplace, all generation assets will be optimally deployed. Competitive pressure in a barrier-free Europe will ensure that no surplus megawatt-hours are produced. The efficiency gains will be reflected in market-based wholesale prices. This will benefit all customers, since wholesale prices are a major component—along with network fees, taxes, and other government levies—of retail prices.

For investors. A large European marketplace with fair, standardized rules provides a solid foundation for investments in state-of-the-art technologies and assets. The more liquidity and participants a market has, the more reliable its price signals are. Investors want long-term security for their capital investments and therefore need clear price signals before they'll be willing to help bear the anticipated high costs of the new projects that will transform Europe's energy system.

For the environment. A truly European marketplace can draw on a pan-European generation mix: hydroelectricity from Scandinavia and the Alpine countries, climate-friendly nuclear energy from Germany and France, offshore wind power from the North Sea and the Irish Sea, climate-friendly and efficient gas-fired and coal-fired generating units, and so forth. A European marketplace will increase competition on the generation side and give all consumers access to Europe's full range of energy resources. Moreover, it's easer to integrate renewables into this broad mix than into isolated national markets. For example, flexible and efficient conventional and hydro generating units can produce power when renewables output drops on windless, cloudy days. The EU emissions-trading scheme in conjunction with uniform, EU-wide rules for the support of renewables would create a clear framework for investments in environmentally friendly assets.

Market coupling between the power markets of Germany, the Benelux states, and France took place on November 9, 2010. This marked a milestone on the road to an EU-wide internal power market. The governments and market participants of the countries involved had worked for years to create a single, uniform marketplace by simplifying procedures and eliminating trading barriers across the region. E.ON played a key role in propelling and supporting these initiatives. Since market coupling, spot power prices in these countries have not only moved in parallel, they've been almost identical. Soon, this power marketplace will become even larger through the addition of the Scandinavian countries. Market coupling between the German and Scandinavian markets took place in late 2009. The vision of establishing a uniform EU power market by 2015 is taking shape. The German federal government is right to point out that such a market will increase competition and create advantages for consumers.

Developments on wholesale gas markets have been similarly positive. In 2010, trading volumes again increased significantly. Numerous initiatives by market participants, including E.ON, have helped increase liquidity on spot markets. This positive trend at gas hubs across Europe is all the more noteworthy because gas demand generally declined in the wake of the financial and economic crisis and has been slow to recover.

Although the United Kingdom remains by far Europe's most liquid and highest-volume gas market, gas hubs in the Netherlands and Germany recorded the strongest growth in 2010. Title Transfer Facility (TTF) trading point in the Netherlands has the highest trading volume in Continental Europe, and NetConnect Germany (NCG) the strongest growth. The number of active traders at NCG has also increased significantly in recent years.

Like power trading, gas trading clearly reflects the convergence and integration of European markets. The increased volume of liquefied natural gas (LNG) offloaded at European terminals was one of the factors that contributed to a high degree of price correlation on Continental spot markets.

E.ON has been a player at Western Europe's major gas hubs for years and, as the market maker at NCG in Germany, has actively fostered liquidity and reliable pricing. We also support the development of hubs in France, Italy, and Austria and in emerging markets of Central and Eastern Europe such as Hungary, the Czech Republic, and Romania.

Globalization of commodity markets

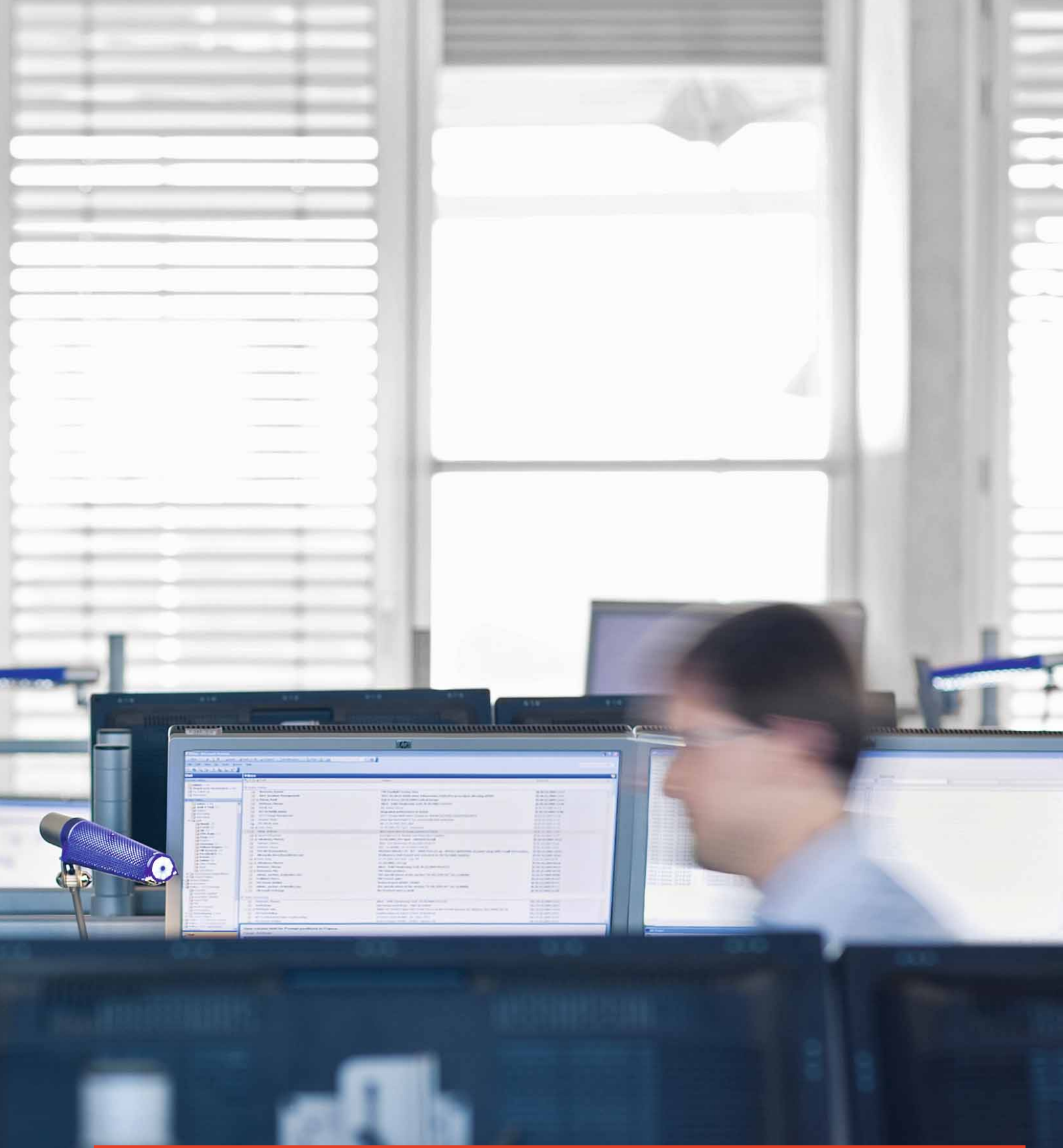
At the same time that markets in Europe are converging and integrating, they're also increasingly driven by global factors. One example is the wholesale gas market. Over the past few years, natural gas has gone from being a pipeline-based European market to a truly global business. One reason for this is additional production of competitively priced gas from fields in the United States that had previously been uneconomic to develop. As a result, LNG shipments that previously would've been sent to the United States are now being rerouted to Europe and Asia. LNG is itself a globally traded spot commodity that serves as a price bridge between markets, thereby enhancing the correlation between them. Natural gas has thus become a global commodity like hard coal or petroleum.

The trend towards globalization is also driven by the growing commodity appetite of emerging countries, particularly China. New global, competitive markets are emerging that make it possible—and necessary—to hedge across continents. In May 2010, for example, our Trading unit made its first financial transaction on the U.S. gas-trading market. Going forward, it intends to expand these activities in order to seize trading opportunities on both sides of the Atlantic. In October 2010, Trading reached a new milestone in emissions trading by participating in the first transaction on the Green Exchange, the New York Mercantile Exchange's trading floor for carbon credits. It purchased EUAs (carbon allowances for the EU emissions trading scheme) for December 2010. This is another demonstration that our Trading unit is already seizing the opportunities created by the increasing convergence of global energy trading.

Want to find out more about Trading?
eon-energy-trading.com

The Trading global unit has trading activities in over 40 countries and a strong presence at all major European energy exchanges and gas hubs. It also trades financial power, carbon, and gas products in the United States and coal and freight globally.[1]

[1]At some locations there can be several trading points for different commodities.



Trading: integrated energy market enhances efficiency of power-plant dispatch

We systematically combined our trading activities. This has created a superb platform for optimally managing all our procurement, trading, and sales activities, enabling us to seize opportunities created by the convergence of European energy markets and global commodity markets. For example, we centrally coordinate our generation fleet in Germany, the United Kingdom, the Benelux countries, Scandinavia, and France. Because physical coupling between these markets is relatively good, we can deploy our assets efficiently across national boundaries. In conjunction with EU-wide emissions trading, competition between power plants ensures that a region's electricity demand is met by the most efficient generation technologies and lowest costs. That prevents unnecessary carbon emissions and conserves resources.

It's all part of our commitment to **cleaner & better energy**.

Regional Units

Our regional units in Europe are responsible for our national sales operations, regional energy networks, and distributed-generation businesses. They're the main point of contact for our customers. They also manage our stakeholder relations in their respective country, including our relations with local and national policymakers, government agencies, trade associations, and the media. They play another important role as partners for our global units operating in their respective region, for which they provide a broad range of functions. They also share with our entire organization their expertise about their market and its policy and regulatory environment. For example, they're responsible for developing new power-plant construction projects from the early planning stages to the investment decision.

Germany

The core tasks of the Germany regional unit are power and gas distribution and sales as well as distributed generation. Munich-based E.ON Energie is the lead company of this unit.

Our sales operations

Almost 1,300 energy suppliers operate in Germany.[1] We compete actively in this keenly contested marketplace by providing a full range of energy products that give our customers a reliable supply of electricity, natural gas, and heat. We also offer a variety of individually tailored energy services. Munich-based E.ON Vertrieb Deutschland (E.ON Sales Germany) manages our energy sales business in Germany for all customer segments, from residential to industrial. Its core tasks are energy procurement, product management, and marketing. Two key focus areas are enhancing energy efficiency and optimizing usage on the demand side. Our regional sales companies give us a strong presence in our customers' communities. E wie Einfach (E like Easy) is our nationwide energy retailer. Our full range of offerings extends from price-cap products (which shield customers from rising energy costs) to innovative solutions that provide customers with feedback on

Smart homes

We're showcasing smart-home technologies in a pilot project in north-central Germany. We've equipped a number of homes with technologies like solar panels, state-of-the-art heating and cooling units, high-efficiency lighting, and smart meters. We've also provided the homeowners with an electric car. One purpose of the project is to test the cars' batteries as energy storage devices. With a smart meter as the interface between an electric car and the grid, the car's battery can be selectively charged when, for example, there's surplus output from renewable generating sources. This flexibility will help the grid deal with renewables' intermittant output. In the future, it will even be possible for a car's battery to feed some of its stored power back onto the grid when power demand is high. Not only will this project help us learn more about our customers' needs and usage habits. It will also demonstrate how tomorrow's innovative technologies will improve customers' quality of life.

[1]Source: BDEW (figure as of November 2010).

their usage and reward them for saving energy. One of the latter is EnergieNavi, a new product we launched at the end of 2010. It includes the installation of a smart meter to promote energy saving at home. With a smart meter, customers can access their usage data online, look for ways to save, and shrink their energy bill by shifting usage to times of the day when electricity is cheaper.

Our networks: getting smarter

Our eight network companies operate a total of 455,000 kilometers of power lines and 65,000 kilometers of gas pipelines. They deliver energy safely and reliably to about 9 million network customers across a large area of Germany. E.ON Netz operates nearly 22,000 kilometers of high-voltage wires which serve as the link between the trans-European power transport system and the systems of regional energy utilities. Our seven regional system operators are responsible for distributing power across their service territories. They also provide many communities with range of other services.

Today's distribution networks do more than deliver electricity to consumers. They also serve as the connection point for electricity from solar, wind, and other types of distributed-generation technologies. As more of this capacity is added to the network, the fluctuations in output increase. Due to the huge growth in Germany's renewables capacity, the electricity flowing through distribution lines is at times 100 percent renewable. E.ON network operators are expanding their grids to address these needs. They're also making their grids smarter. In smart grids, power lines are supplemented by datalinks that make it possible to control electricity production, storage, and distribution. Our high-voltage network already incorporates many smart-grid solutions.

We're also testing smart solutions in our intermediate- and low-voltage networks. In north-central Germany, for example, we've deployed the country's first self-regulating substations which can supply a constant voltage despite dramatic fluctuation in renewables output. Going forward, smart technology will significantly improve the networks' ability to support the growth and integration of distributed generation.

Distributed generation

Through several subsidiaries, we provide a broad spectrum of distributed-generation solutions for the German market: micro combined-heat-and-power (CHP) plants for homes, biomass-powered heating units for manufacturers, and larger units for industrial enterprises. For example, an E.ON combined-cycle gas turbine provides 100 percent of the heat and 70 percent of the electricity for two large paper mills in Plattling. The unit is one of the largest and most technologically advanced of its kind in Germany. It emits roughly 260,000 metric tons of carbon dioxide per year less than would be emitted if the mill received its electricity and heat from separate sources. In another project, we've planned and built high-efficiency energy clusters that will provide power, heat, and air conditioning for Berlin's new airport, Berlin-Brandenburg International. The energy comes from four gas-fired CHP units with a total capacity of about 8 MW. These units capture 90 percent of the energy contained in their fuel, setting new standards for energy efficiency.

Renewables necessitate network expansion

Renewables' share of Germany's generation mix is growing steadily. This energy is delivered onto our networks, and we transport it to where it's needed. This task is increasingly demanding because the output from renewables fluctuates, making it more challenging to maintain a constant, reliable supply of electricity for customers. That's why renewables expansion must be accompanied by network expansion. Over the next few years, E.ON network operators in Germany will invest well over €1 billion just to expand their networks to handle the electricity produced by renewable sources.

Other EU countries

U.K.

E.ON UK is the lead company of our U.K. regional unit and is headquartered in Coventry. E.ON's retail business is a leading energy supplier in the United Kingdom with around 8 million electricity and gas customers, covering domestic, SME, and industrial. E.ON also offers maintenance and consulting services for energy efficiency and heating. In addition, we operate the country's second-largest distribution system. E.ON UK is investigating the possibility of developing up to 6 GW of new nuclear capacity, enough to power a city the size of Greater London, as a 50-50 partner in Horizon Nuclear Power.

Taking energy efficiency to our customers

We're an industry pacesetter in the drive to make the United Kingdom more energy efficient. As part of this effort, we've launched an initiative called Energy Fit. Targeting the energy habits of customers as well as improvements that could be made to their homes, it has a dedicated website (eonenergyfit.com) where people can determine their home's energy fitness and obtain specific recommendations to improve it. We've also distributed more than a quarter of a million Energy Fit starter packs to our retail customers. Each pack contains an energy-usage monitor, lots of energy-saving tips, and software to help manage energy use. The packs have captured customers' imagination and received frequent—and favorable—media attention.

We're also taking our energy-saving message to cities across Britain in a roadshow called the Energy Fit Experience. The events give customers the opportunity to talk one-on-one with our energy experts, ask them questions, get advice, and receive free tips and tools to improve their energy fitness. It's a unique way for our customers to engage with our company and for us to listen carefully to their feedback. Initiatives like this help improve energy habits across Britain. And help us build lasting relationships with our customers.

Support for communities

We help cities become sustainable through a unique series of partnerships at the local government level. One example is our partnership with Stoke-on-Trent in central England which could result in the installation of up to 5,000 rooftop solar panels. And that's just one of the ways this partnership will improve energy efficiency, promote renewables, create jobs, and enhance skills across an entire community.

Sweden

We operate regulated power, gas, and heat distribution systems serving about 1 million customer accounts, mainly in south and east-central Sweden. We also market power, gas, and heat nationwide. Our focus is on supplying low-carbon energy solutions and helping our customers and communities become more sustainable.

Sustainable biofuels

We continue to be a biofuel pacesetter in Sweden. Locally produced, climate-neutral biofuels can help cut carbon emissions and reduce dependence on imported fossil fuels. In 2010, we again increased our biomethane production capacity, which totals 15 million cubic meters a year. One effective application for biomethane is as a climate-friendly alternative fuel for natural-gas-powered vehicles. We now supply 52 biomethane fueling stations across Sweden and recently signed an agreement with Ikea to build a fueling station at one of its stores. We're working with other companies and local governments to expand our biofuel business and make mobility more sustainable.

We're a leader in helping entire communities become more sustainable. We played a key role in designing the energy plan for Västra Hamnen (West Harbor), a formerly run-down industrial site in Malmö that has been transformed into a modern residential area that uses 100 percent locally produced renewable energy. The experience we've gained in Sweden is being shared across our company in a Europe-wide project to promote the development of energy-smart homes. As part of this project, we're building eight homes in another area of Malmö that will showcase the latest energy-efficient technologies and form the nucleus of a new sustainable housing development.

Service reliability and intelligent products for our customers

Getting customers involved is crucial to the effort to build a smarter, more sustainable energy system. We have a variety of programs and services to help our customers in Sweden use less energy and offer micro-generation solutions that enable them to produce their own energy. Another way we get customers involved is by listening to them. Our customer ombudsman has a strong voice in our Sweden unit. Our customer-orientated approach is delivering results. In a recent survey, our customers in Sweden gave us high marks for the quality of our service and our overall approach.

Reliability is the key driver of customer satisfaction in energy distribution. This can be a challenge in Sweden's harsh winter climate. To meet this challenge, we weatherproofed 17,000 kilometers of power lines by burying them or replacing them with sturdier overhead lines. This multi-year, €2 billion project was completed in 2010 and has significantly enhanced reliability for the 266,000 customers served by these lines.

Sustainable living

We played a key role transforming a former industrial site In Malmö, Sweden, into a commercial and residential area powered and heated entirely by locally produced renewable energy.

Italy

E.ON Italia, the lead company of our Italy regional unit, is headquartered in Milan. Among the highlights of 2010, our energy retailer in Italy grew its customer base to nearly 900,000 accounts and now ranks among the country's top four suppliers in terms of sales volume. It also added innovative renewable-energy products and continued its successful customer-loyalty program, which promotes energy efficiency and conservation. In December we sold our regulated gas distribution business in Italy because it offered few opportunities for synergies with our other operations in the region. We expect the transaction to close by the end of March 2011.

In addition, we signed an agreement with GdF Suez to explore opportunities to build new nuclear power capacity in Italy. The Italian government aims for the country's 2020 power mix to be 25 percent nuclear, 25 percent renewables, and 50 percent natural gas.

As part of our commitment to social responsibility, we partnered with other organizations to build a new multifunction community center for Onna, a town severely damaged during an earthquake in 2009. The center, which opened in October 2010, meets the highest standards for seismic integrity and energy efficiency. E.ON Italia also donated 150 computers to schools in the earthquake zone.

Clean power for Italy, clean water for Africa

In September 2010, E.ON Italia launched a special website to raise awareness about hydroelectricity, Italy's first renewable resource. The website is linked to a charitable project to construct four wells to supply water in rural Kenya. The project is a joint effort of E.ON and AMREF, an organization dedicated to humanitarian aid in Africa.

Spain

Madrid-based E.ON España manages our operations in Spain, which include power sales and distribution.

E.ON Energía, our retail subsidiary, grew its customer base in 2010 and now has a total of 100,000 residential, business, and industrial accounts. A separate subsidiary supplies electricity to 500,000 customers (mainly residential) in the regulated market. As deregulation continues, we intend to grow our retail business by marketing attractive, high-value products and services to customers.

In line with our new strategy, we're taking action to make energy cleaner and better in Spain. E.ON España has already installed 160,000 smart meters, a key component of smart grids. It's also on several taskforces to promote electric vehicles and has signed an agreement for this purpose with Santander's city government. Our vehicle fleet in Santander is already entirely electric and is served by a network of charging points around the city.

Taking energy efficiency to the classroom

We take our commitment to social responsibility seriously and have many programs in place. One of the most significant in Spain is Environmental Champions, which we conduct in communities where we operate. Fifteen E.ON volunteers visit local schools to teach more than 350 pupils (aged 7 to 14) ways to use energy more efficiently.

France

Our businesses in France, which is Central Europe's second-largest energy market, are managed by Paris-based E.ON France. This company also engages in electricity and gas sales through its subsidiary E.ON Énergie, which has a solid portfolio of industrial and wholesale customers. Some of the power it markets is generated at E.ON power stations in France. These include two new CCGTs that entered service in early 2010 at Émile Huchet power station. The new units represent an important milestone in giving us an even more balanced, lower-carbon energy mix in France.

France's enactment of new laws to enhance energy-market competition was the biggest energy-policy issue of 2010. E.ON France, which played an active role in the policymaking and public debate that led to this legislation, was strong advocate for the further liberalization of the French energy market.

At the same time, the French government established new guidelines for renewables support that improve the conditions for enlarging France's renewable-source generating capacity using technologies like wind, solar, and biomass. We think a more competitive, greener energy marketplace will benefit our business in France. The opportunities E.ON France currently sees to expand its renewables activities relate mainly to hydroelectric concessions. The French government plans to reallocate the concessions for existing hydroelectric stations with an aggregate capacity of more than 5.2 GW. E.ON France will participate in this process and can draw on the E.ON Group's decades of experience and outstanding technical expertise in operating hydroelectric stations.

Netherlands

E.ON Benelux is based in Rotterdam and is the lead company of our Netherlands unit, which focuses on power marketing and sales. This unit is also responsible for our activities in Belgium and Luxemburg.

The Dutch and Belgian power market is complex and keenly competitive, and aggressive price-cutting campaigns are common. It's also heavily influenced by policymakers and public opinion. Because we generate most of our power in the region from coal, open dialog and good stakeholder relations are essential to our success. This applies not only to the new coal-fired unit we're building in Rotterdam and the CCS demonstration plant planned for this site but also to our coal and biomass sourcing policies. We use a range of forums to engage stakeholders in dialog on responsible procurement and on the transition to tomorrow's energy world. Because the sustainability debate affects our entire industry, we sometimes conduct this dialog in partnership with other market participants.

Customer acquisition in the retail business in 2010 was supported by a successful marketing campaign ("30 million customers in Europe can't be wrong"), which helped us grow our power retail customer base by 20 percent. We also increased our market share in the SME segment.

Hungary

E.ON is one of Hungary's leading energy companies. Budapest-based E.ON Hungária supplies 2.5 million customers with electricity and more than 0.5 million with gas. Our gas wholesale operations meet two thirds of the country's gas demand. Our power and gas networks in Hungary have a total length of about 70,000 kilometers. We're also active in heat supply and have small CHP units at a variety of locations across the country.

Our focus is on helping ensure Hungary's supply of natural gas, enhancing our customer orientation, and improving occupational safety. In line with our customer-orientation strategy, we've implemented two successful programs, one to help vulnerable customers and one to reward loyal customers. We've also made progress in our effort to rank among Hungary's safest companies. We're already a leader in corporate citizenship, and our engagement was recognized by several awards in 2010, including one for employee volunteering.

2010 was a challenging year for Hungary and resulted in a number of changes to our operating environment. The Hungarian government enacted a new tax, the so-called crisis tax, whose purpose is to help reduce the country's budget deficit. The tax, which is levied on revenues and not earnings, affects industries whose business can only react to a limited extent due to their fixed infrastructure. These industries include telecommunications, retail chains, and energy. E.ON is working on solutions to counterbalance the tax's financial impact.

The Hungary government is also drafting economic-stimulus legislation, which will include measures to support renewables, develop geothermal energy, and enhance energy efficiency.

Czech Republic

The E.ON Czech Group has 1.3 million power customers and 105,000 gas customers, making it the Czech Republic's largest integrated power and gas supplier. The focus of its network business is on optimizing processes and on expanding and modernizing infrastructure in line with the circumstances of the country's regulatory environment. E.ON Czech has created an independent network services company with the aim of benchmarking its performance on the efficiency levels achieved by outside providers and offering its services to customers in a competitive marketplace. Key focus areas for its sales business include measures to enhance customers' energy efficiency as well as gas-powered and e-mobility solutions.

Czech police test e-scooters

In November 2010, the E.ON Czech Group provided e-scooters to the police departments of Český Krumlov and České Budějovice as part of a project called Smart Mobility. The goal is to test these agile, low-carbon vehicles in everyday situations.

Slovakia

Bratislava-based E.ON Slovensko is the platform for our operations in Slovakia. E.ON Slovensko has a 40-percent stake in, and management control over, ZSE Group, a leading electricity provider with a share of about 34 percent of the Slovakian electricity market. ZSE serves all customer segments and delivers about 8 billion kWh of electricity annually over 36,000 kilometers of lines in western Slovakia. In addition, E.ON Slovensko operates four 1 MW biogas-fired generating units.

Competition in the Slovakian energy market is becoming keener. ZSE's retail arm, ZSE Energia, is responding with customer-loyalty programs and tariffs that reward our most loyal customers with favorable rates. It's also taking a variety of innovative approaches in order to be even more successful in the marketplace. One example is a certified green power tariff. In addition, ZSE is participating in VIBRATE, an EU-funded project to establish an e-mobility corridor between Vienna and Bratislava.

ZSE is also a leader in corporate responsibility. In 2010, it received the European Volunteering Award in honor of its successful programs to promote employee volunteering.

Making energy saving easy

At E.ON, promoting customer loyalty and energy efficiency go hand in hand. An interactive web portal (setri.sk) provides our customers in Slovakia with energy-saving tips and practical ways they can conserve resources and shrink their carbon footprint.

Romania

E.ON is a leading energy provider in Romania, where we've operated for five years. We're the main gas retailer and distributor in north Romania and the main power retailer and distributor in northeast Romania. Our operations are managed by Bucharest-based E.ON România, which has a majority stake in all four of its operating companies (gas retail, gas distribution, power retail, and power distribution). We have a total of 2.9 million customers in Romania (1.5 million gas, 1.4 million power) and operate gas and power distribution networks with a total length of about 100,000 kilometers. Our power and gas operations in Romania used to be largely separate. But since the start of 2011, they're coordinated through a single company, which makes us Romania's first integrated power and gas supplier.

Enhancing network reliability

A key focus of our operations in Romania is renewing, updating, and expanding our distribution network.

Bulgaria

We deliver electricity to 1.1 million customers in northeast Bulgaria over a network with a total length of 41,800 kilometers. E.ON Bulgaria is based in Varna and is the lead company of our Bulgaria unit.

E.ON Bulgaria not only successfully implemented unbundling requirements, streamlined its structure and processes, and opened a 24-7 call center. It also became one of the first utilities in the country to conduct hot-line maintenance, a special technique that makes it possible to work on power lines safely while they're still energized. This technique enhances customer satisfaction by reducing the number of maintenance-related outages.

Investing in health and safety

E.ON Bulgaria is committed to fostering a robust safety culture across its organization. As part of this effort, it opened a state-of-the-art safety-training center. More than 1,000 E.ON employees and about 200 contractor employees successfully completed the center's training programs in 2010. The center has also conducted numerous demonstrations for students visiting from technical schools and universities.

Russia

- Energy-market liberalization on schedule
- First unit of new-build program becomes operational

Russia has been an important, valued E.ON business partner for more than 40 years. Since acquiring Russian power producer OGK-4 in 2007, E.ON isn't just one of the biggest purchasers of Russian natural gas but also the largest foreign investor in Russia's energy market. Our engagement includes several new generating units as well as investments in gas production and transport. This long-term commitment not only underscores Russia's significance for E.ON but also plays a substantial role in enhancing supply security for our home market, Europe. Russia, a special-focus country for our company, will remain a strategically important E.ON market in the future.

Power business

Our business in Russia consists of power generation, sales to industrial customers, and wholesale marketing. Through its 78.3-percent stake in power producer OGK-4, E.ON Russia has 8.7 GW of generating capacity. That makes Russia home to our third-largest generation portfolio after Germany and the United Kingdom. Our power stations are located in several key industrial regions: Central Russia, Urals, and Siberia. OGK-4 operates 5.5 percent of Russia's total generating capacity and 9 percent of its thermal capacity. OGK-4's average load factor of 73 percent makes it the country's most efficient power producer.

OGK-4 is one of the key players in Russia's wholesale power market. The power it sells meets over 5 percent of the country's total demand.

Russian power market

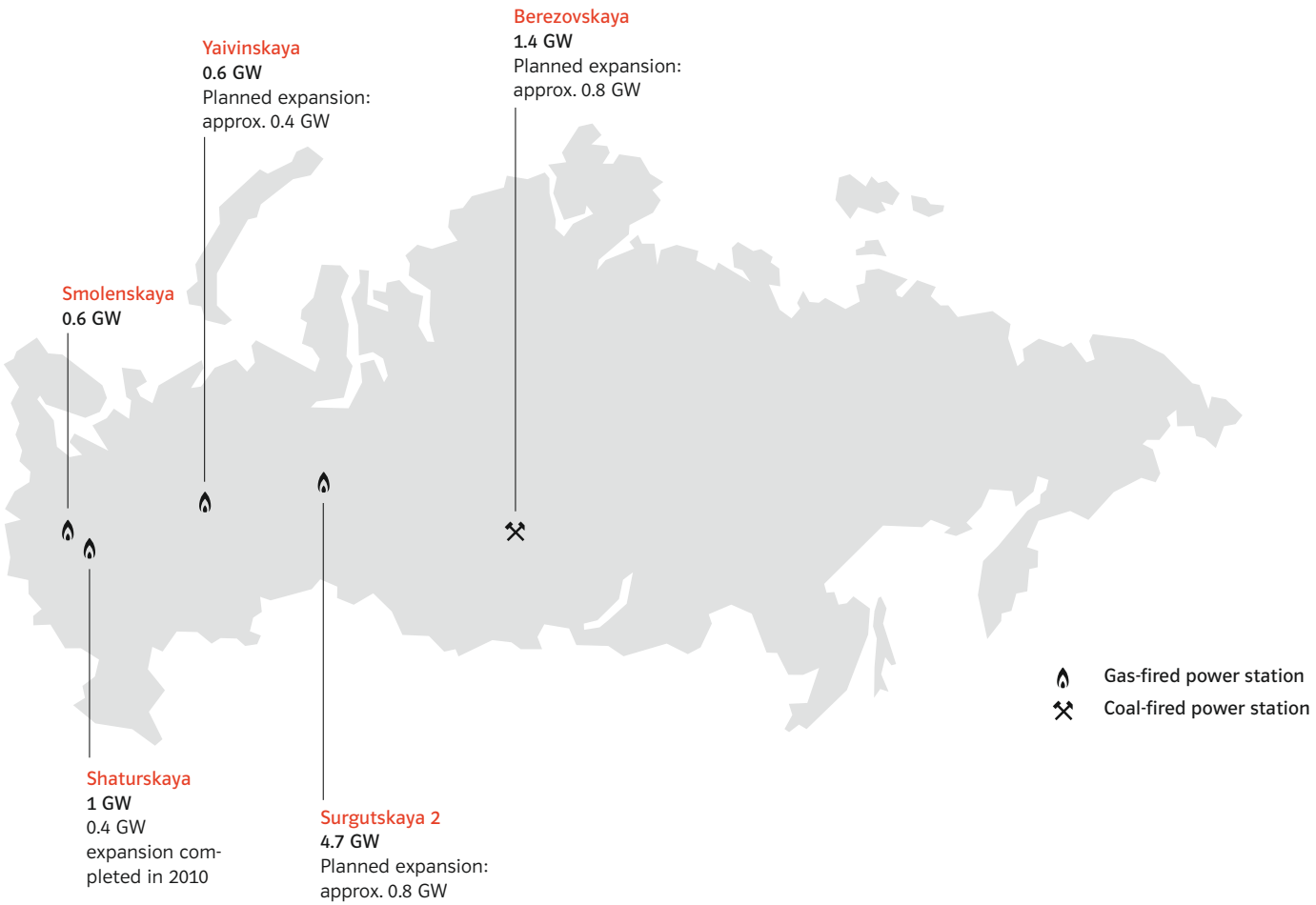
The Russian government is committed to moving forward with power-market liberalization and to creating a stable, favorable environment for investment in power assets. In a country still recovering from the impact of the global economic and financial crisis, however, the government also wants to forestall excessive increases in residential power prices. These two objectives are reflected in the market design and regulatory regime of Russia's power market. The wholesale market is divided into two markets: one for power and one for capacity. The purpose of the electricity market is to enable generators to recover their variable costs (essentially, fuel costs); that of the capacity market is to enable the recovery of fixed costs.

State-of-the-art CCGT enters service in Shatura

A new 400 MW CCGT at Shaturskaya power station entered service in late 2010. It's the first project we've completed under our billion-euro investment program in Russia. This project demonstrates clearly what our new strategy of cleaner & better energy means in practice. The new unit in Shatura has a thermal efficiency of 56 percent, making it currently the most efficient and technologically advanced in Russia. We're setting new standards for efficient, climate-friendly power production.

The new unit is significantly less carbon intensive than older, similarly sized but less efficient units. It alone will reduce carbon dioxide emissions by more than 1 million metric tons by year-end 2012. And it's the first unit in Russia to receive UN certification as a Joint Implementation project under the Kyoto Protocol.

Generation portfolio and planned capacity increases



The liberalization process was completed on January 1, 2011, when Russia's wholesale power market was fully opened to competition; at year-end 2010, 80 percent of the wholesale market had been open to competition. The capacity market divides assets into two classes: old assets (those commissioned through year-end 2006) and new assets. New assets built pursuant to a contractual investment obligation will receive guaranteed capacity prices for a period of up to ten years. Old assets will be marketed by means of auctions. The first auction under the new capacity-market rules was held in the fall of 2010; the next is planned for the spring of 2011. There is a separate mechanism for meeting the power needs of residential and similarly classed customers. Under this mechanism, a portion of wholesale power and generating capacity will be priced according to a fixed tariff.

Russia's power consumption rose by 4.4 percent in 2010. The Russian energy ministry forecasts further growth going forward, with annual consumption increases of 2 to 2.5 percent.

New-build projects

We're building new high-efficiency CCGTs and one technologically advanced lignite-fired generating unit at three of our power stations in Russia. These new units will increase our generating capacity in Russia by 2.4 GW and help meet Russia's rising energy demand. Like the unit in Shatura (see box), we plan to apply for our three remaining CCGTs under construction—two in Surgut and one in Yaiva—to be recognized as Joint Implementation projects.

New CCGT in Shatura: promoting efficient, climate-friendly energy in Russia

In November 2010, we commissioned a new, 400 MW CCGT at Shatura power station, located 150 kilometers east of Moscow. The new CCGT is currently the country's most technologically advanced and efficient generating unit. With a thermal efficiency of more than 56 percent, it sets new standards for climate-friendly power generation. Between its commissioning and year-end 2012, it will emit over 1 million metric tons less carbon dioxide than older, significantly less efficient units in Russia. Thanks to its climate performance, our new CCGT in Shatura is the first project in Russia to receive UN certification as a Joint Implementation project under the Kyoto Protocol. We're building efficient, technologically advanced generating units at three other E.ON power stations in Russia besides Shatura. Our efforts are helping modernize Russia's generation fleet. And helping Russia meet its rising demand with power from efficient, reliable, and climate-friendly sources.

It's all part of our commitment to **cleaner & better energy**.

We invite you to enter into a dialog with us.

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Ident-No. 118390

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Financial Calendar

May 5, 2011	2011 Annual Shareholders Meeting
May 6, 2011	Dividend Payout
May 11, 2011	Interim Report: January – March 2011
August 10, 2011	Interim Report: January – June 2011
November 9, 2011	Interim Report: January – September 2011
March 14, 2012	Release of the 2011 Annual Report
May 3, 2012	2012 Annual Shareholders Meeting
May 4, 2012	Dividend Payout
May 9, 2012	Interim Report: January – March 2012
August 13, 2012	Interim Report: January – June 2012
November 13, 2012	Interim Report: January – September 2012