

E.ON AG · P.O. Box 30 10 51 · 40410 Düsseldorf · Germany
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH UNITED KINGDOM E.ON AG E.ON-Platz 1 40479 Düsseldorf www.eon.com

T 02 11-45 79-0 F 02 11-45 79-5 01

April 09, 2009

Ladies and Gentlemen:

IASB Discussion Paper - Preliminary Views on Financial Statement Presentation

We hereby wish to accept the invitation to comment on the above Discussion Paper and would like thank the IASB for this opportunity to express our opinions.

General Remarks

As a German company, E.ON relies on the provisions of the German Commercial Code ("HGB") concerning balance sheet and income statement classification structures in the preparation and presentation of its IFRS Consolidated Financial Statements. We believe that this procedure has served us very well for the presentation of German financial statements and that it delivers to users of financial statements all relevant information in an appropriate degree of detail.

Thus far, the IASB has issued no structural requirements for the presentation of financial statement information beyond the current regulations of IAS 1 and the Framework. The premise for the project now initiated, with the project objectives defined therein, has not been sufficiently justified in our opinion, aside from a supposedly improved degree of analyzability and comparability of international companies. For E.ON, and presumably also for many other German companies, these substantially altered reporting requirements and the associated adjustments will result in extremely high costs, which we believe are not being given sufficient consideration by the IASB.

Furthermore, the existing conceptual weaknesses of performance reporting under IFRS are not remedied in this part of the project:

• Although the distinction is made in the Framework between revenues and other income (gains), and between expenses and other losses, this differentiation does not answer the question of whether components of income should be recognized in equity or in income.

Vorsitzender des Aufsichtsrats: Ulrich Hartmann

Vorstand: Dr. Wulf H. Bernotat (Vorsitzender) Dr. Johannes Teyssen (stv. Vorsitzender) Christoph Dänzer-Vanotti Lutz Feldmann Dr. Marcus Schenck

Sitz: Düsseldorf

- The project does not provide a theoretical foundation for so-called recycling. Recycling in financial reporting is generally understood to mean the presentation of a component of income in more than one reporting period because its character has changed (e.g. through realization) over time. Accordingly, some income and expenses initially recognized in part in equity are transferred to the income statement in a subsequent reporting period. This recognition in income of the components to be recycled is not reconcilable with the definitions of these financial statement elements in the Framework. In particular, the required increase or decrease in assets or liabilities is absent in the second recognition. Rather, these are actually purely technical entries to derecognize amounts from OCI in order to enable their recognition in the income statement.
- Furthermore, even after the project the body of the IFRS regulations still does not clarify how a breach of the congruence principle recognized in Germany and internationally should be handled. Under the congruence principle, the total of the net incomes reported for the periods must be equal to the net income for the entire period of the enterprise's existence. The IFRS still include some regulations that require only a temporary breach of the congruence principle in relation to the net income reported for the period, along with others that bring about a permanent breach. The OCI components differ further in that their recognition as such is mandatory in part, while in other cases (as in the remeasurement of property, plant and equipment and intangible assets) they arise only as a consequence of measurement options exercised accordingly. This once again underlines the missing theoretical guideline of the regulations.

We would like to point out that we have responded to the questions from the Discussion Paper in numerical order and not according to their relevance to the E.ON Group. In particular, we wish to state that we find the determination of operating cash flow exclusively using the direct method, along with the associated additional reconciliation schedules, to be extremely problematic.

In the following we shall take the opportunity to comment on those selected areas of the Discussion Paper that in our view represent a fundamental change to the status quo. We reserve the right to supplement these comments with additional comments on critical points subsequently identified.

Responses to the questions asked by the IASB

Question 1: Would the objectives of financial statement presentation proposed in paragraphs 2.5-2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not?

We believe that the project objectives set by the IASB do not necessarily improve the usefulness of financial statement information. Although the objective of a uniform classification of financial statement data (cohesiveness) might at first glance seem useful for direct comparison of the various data, it wholly contradicts the balance sheet and income statement structures known today.

E.ON prepares the financial statement information presented in its IFRS balance sheets and income statements on the basis of the proven classification provisions of the German Commercial Code ("HGB"). These provisions, which have been applied in Germany for decades, provide for an allocation of transactions to individual line items that is seamless and known to users of financial statements. We see neither the need for changes to the reporting requirements, nor do we see any specific potential improvements.

The objective of disaggregating financial statement information formulated in general terms in the draft standard has not been sufficiently specified, which has resulted in a large number of differing degrees of detail. This prevents comparability of information in annual financial statements. Furthermore, the existing conceptual weaknesses of performance reporting under IFRS, such as the distinction of components of income recognized in income from those recognized in equity, are not remedied in this part of the project.

Against this backdrop, it is our view that premature requirements imposed on companies for costly adjustments to the reporting structure should be avoided at all costs without simultaneously setting important definitions (e.g. net income, other comprehensive income) and making adjustments to the Framework.

The further objective of the draft, namely to enable an assessment of the liquidity and financial flexibility of a company from its financial statement information can, in our view, also be achieved using the structure of today's annual financial statement information.

E.ON sees no evidence indicating that such radical structural changes, which would entail substantial, costly transitions for the companies applying them, would support established analytical methods.

Question 2: Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today? Why or why not?

We do not agree to the separation of business activities from financing activities as proposed by the IASB, especially not in the balance sheet or in the income statement.

As already stated, we do not believe that such fundamental structural changes will lead to significant improvements over the financial statement information that is presented today.

The adaptation phase for the new reporting format alone may well be very long for shareholders and investors, which could lead to difficulties in generating external capital in the short- to medium-term.

In addition, the information presented in today's reporting format in the balance sheet and income statement, as well as in the notes, is sufficient in our opinion, particularly in view of their maturities. If new regulations on additional subdivision of today's balance sheet and income statement are nevertheless incorporated into new IASB standards, the requirements regarding the scope of the respective disclosures absolutely must be reduced.

We also wish to particularly emphasize that a transition from today's reporting format to the format proposed by the IASB entails immense costs (business support, advisory costs) for the companies applying IFRS. These costs are not matched by a corresponding contribution in value.

Question 4: In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71-2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

The presentation of discontinued operations within different categories (operating, investing, etc.) as discussed in the second part of Question 4 stands in contradiction to the provisions of IFRS 5. IFRS 5.32 requires that a discontinued operation must represent a separate major line of business. This can generally only be an operating activity. In combination with IFRS 5, the presentation of a discontinued operation would therefore have to be made within operating activities, since IFRS 5 prohibits any other interpretation.

Question 5: The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment.

Would a management approach provide the most useful view of an entity to users of its financial statements?

Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

We do not believe that the use of the management approach in the classification of assets and liabilities is a tool that will promote the comparability of information in the annual financial statements.

Although this type of classification of assets and liabilities corresponds with management's definition of the core business, it substantially limits the comparability of balance sheets and financial ratios across companies or sectors.

Aside from the significant additional expense for companies, we believe that this approach also conflicts with the project objective of the IASB, namely to improve the usefulness of financial statement information and to help users make decisions. Should a classification of assets and liabilities in the balance sheet nevertheless become mandatory in future, we agree to the use of the management approach.

Question 11: Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant. Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?

As we have already indicated, we do not believe that this fundamental change to the balance sheet structure, and the associated additional classification of assets and liabilities, particularly in view of their maturities, are necessary.

The balance sheet structure used in Germany today already encompasses a classification into subcategories of long-term and short-term assets and liabilities (non-current assets and long-term debt vs. current assets and short-term debt). Furthermore, the information made available today in order of maturity is used regularly for analytical purposes (debt/equity ratio and equity/assets ratio), and is therefore sufficient in this regard.

We therefore once again state our opposition to such a fundamental change to the balance sheet and income statement structures used today, and to the associated additional requirements for adjustments that would have to be met by companies.

Question 14: Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24-3.33)? Why or why not? If not, how should they be presented?

We believe that a limitation regarding the option on the presentation of components of comprehensive income currently available under IAS 1.81 does not meet the objectives and additionally leads to no identifiable improvements.

E.ON currently publishes a compliant two-step presentation that provides users with quick and coherent access to the relevant information.

The advantages of a single summarized presentation containing all components of comprehensive income are questionable, given the actual absence (or exclusion from the current project) of definitions for the components of comprehensive income and of other comprehensive income. In addition, users of financial reporting information are today barely familiar with the presentation in a single statement, since that has empirically been the presentation option most rarely chosen by companies. We therefore reject a transition of our reporting to a compressed format, as further future adjustments are anticipated in this area, which in turn would have to be implemented by companies.

Question 16: Paragraphs 3.42-3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature or both if doing so will enhance the usefulness of the information for predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

Appropriately structured presentation options that can be used meaningfully by users of financial statements must remain the primary objectives. We therefore welcome the retention of the existing option in the classification of the income statement on the basis of providing relevant and decision-useful information. For E.ON, this leads to the classification of income and expense items according to their nature that is typical in the industry, since for service-oriented companies this approach normally enhances the usefulness of the information and the ability to predict future cash flows.

In particular, we support the opinion of the IASB (cf. paragraph 3.52) stating that for highly service-oriented companies such as utilities, a mandatory requirement to structure the income statement by function would be inconsistent with objectives as it would not generate information that is more decision-useful.

We would further like to express our view that a disaggregation of income and expense items in the income statement by function, and then in another step by nature as well, is not decision-useful for users of financial statements. It is not helpful for analytical purposes to disaggregate an income statement all the way down to account level (as illustrated in Note 4 of App. A). As also determined by the IASB from paragraph 3.46 forward, the clarity and understandability, and even the comparability of the information would be severely compromised.

Question 19: Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

Would a direct method of presenting operating cash flows provide information that is decision-useful?

Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75-3.80) than an indirect method? Why or why not?

Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

We consider this specification of the method in the computation of cash flows to be one of the most drastic changes to IAS 1, and we do not support it.

E.ON currently determines its operating cash flow using the indirect method and has organized all of the associated corporate reporting to that end. This current method of determining cash flow would be disallowed by the proposed restriction of the option in the draft standard, which would lead to substantial additional costs for our company as a consequence of necessary and comprehensive adjustments to our reporting (SAP system, report layouts, etc.).

Furthermore, the application of the direct method for determining cash flow, along with the required reconciliations, would require additional account assignments as soon as each transaction is entered. Added to the account assignments already required for the preparation of the financial statements and for internal enterprise management, the number of necessary additional account assignments would grow exponentially. Given precisely this far more complex structural implementation for the recognition and evaluation of all relevant cash flows in the whole company, the direct method for determining operating cash flow is a method rarely used in practice by German companies. The use of the indirect method to determine operating cash flow provides users of financial statements with an understandable presentation that can be derived from the financial information in the balance sheet and the income statement. We believe that this type of information presentation will therefore require a great deal of adaptation and explanation for users of financial statements as well.

We also do not see any need at this time for a change in the way cash flow is determined from the perspective of analytical methods and options. Existing reporting (applying the indirect method) derives cash flow from net income, and this already meets analytical objectives as a reconciliation schedule. The IASB would now require in the current draft standard that, applying the direct method, a separate schedule reconciling cash flow to comprehensive income be presented in the notes to financial statements (cf. paragraph 4.19). The existing method of cash flow presentation already provides for a similar reconciliation, which we consider sufficient for analytical purposes.

Moreover, users of financial statements would face additional difficulties resulting from the proposed departure from the established and currently still valid classification of individual cash flows by operating, investing and financing activities (cf. paragraph 3.70).

Particularly the elimination of a separate category for cash flow from investing activities would lead to confusion among users of financial reporting. A simultaneous transition to the direct method would be even more problematic when viewed against this backdrop.

In summary, we do not agree to the mandatory use of the direct method, since for us as a company it contains a substantial cost factor that is <u>not</u> compensated by a supposedly better way to achieve the IASB's project objectives. In particular, the IASB statement in paragraph 3.78 that the direct method for determining cash flow is consistent with the project objective of "cohesiveness" is not conclusive.

Question 23: Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components:

(a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

As already discussed, an additional reconciliation from cash flow to comprehensive income, which in our opinion results in part from the prohibition of the use of the indirect method for determining cash flow, should be rejected.

The Consolidated Financial Statements currently published by E.ON already contain statements of changes in provisions, assets and equity that enable the identification of the composition of the respective balance sheet line items. Likewise, these statements of changes permit the derivation of information concerning the effects on comprehensive income and cash flow, such that, in our opinion, there is no need for an additional reconciliation schedule.

Furthermore, the additional expense required for such a reconciliation is enormously high and is in no way proportionate to the additional information gained. Here too, the necessity of additional account assignments to enable the presentation of the allocation of transactions to the four components named in paragraph 4.19 (a)–(d) is a critical factor. It is also debatable whether even a knowledgeable reader of an annual report will technically get through such a reconciliation schedule.

gez, Wilhelm Senior Vice President Accounting gez. Hinzen Vice President Corporate Accounting