Strategy and Objectives

Our Strategy: Partner for the New Energy World

Adopted in 2014, E.ON's strategy focuses our company systematically on the new energy world of empowered and proactive customers, renewables and distributed energy, energy efficiency, local energy systems, and digital solutions. By seizing the initiative, E.ON can—for the benefit of our customers, employees, business partners, shareholders, and society in general—take advantage of the significant opportunities created by the emergence of the new energy world.

Our strategy reflects three fundamental market developments and corresponding growth businesses: the global trend toward renewables (particularly wind and solar), the evolution of energy networks into a platform for distributed-energy solutions, and customers' changing needs. We aim to add value in all of our businesses by delivering an outstanding performance in key areas, such as continual innovation, an unambiguous commitment to sustainability, and a strong brand.

Objectives and Core Businesses

E.ON is based in Essen, Germany, and has around 43,000 employees. With a clear focus on three strong core businesses—Energy Networks, Customer Solutions, and Renewables—we aim to become the partner of choice for energy and customer solutions:

- Energy Networks: Energy networks link our customers together and are the hub for grid digitalization, such as the direct marketing of distributed energy. In Germany, about one third of distributed generating capacity subsidized by the Renewable Energy Law is connected to our networks. Regional energy networks are what makes the transformation of the energy system possible. E.ON is already a leader in network efficiency and will continue to set new standards in the future.

- Customer Solutions: E.ON is expanding its top-quality offerings in the physical and digital new energy world for municipal, public, industrial, commercial, and residential customers in attractive regional markets. We strive to become customers' partner of choice. This is based on a consistently superior customer experience, strong digital orientation, and high-quality service. In addition, we will continually improve or redefine our portfolio of products and services in response to customers' demand for energy efficiency, distributed generation and storage, and sustainable mobility solutions.

- Renewables: E.ON's international renewables business focuses in attractive target regions (Europe and North America) and customer-relevant technologies (onshore and offshore wind, photovoltaic) for network companies, energy suppliers, large customers, wholesale markets, and government subsidy programs. Our industry-leading capabilities in project development and execution and in operational excellence already give us a tangible competitive advantage in this business.

Although each of these core businesses is independent and has its own business logic, combining them in a single company offers significant advantages. It will enable E.ON to acquire and leverage a comprehensive understanding of the transformation of the energy system and the interplay between the individual submarkets in regional and local energy supply systems. Being part of the same company will enable these businesses to work together to design customer-oriented offerings and package solutions for the new energy world (such as sustainable solutions for cities), to conduct joint stakeholder management, and to position the brand more effectively.

In addition to our three core businesses, our portfolio includes a nuclear power business in Germany, which is not a strategic business segment for E.ON and is managed by a separate operating company, PreussenElektra of Hanover. As Germany's phaseout of nuclear energy moves forward, E.ON will ensure that its nuclear assets are decommissioned and dismantled safely and cost-effectively. A solution for the funding of the intermediate and final storage of nuclear waste is on the horizon. In December 2016 Germany's two houses of parliament passed a law to reassign responsibility for the country's nuclear waste. The law cannot take effect until the European Commission has completed a state-aid review. E.ON is obliged to make a considerable contribution, approximately €10 billion, to finance this solution. In return, the German state will assume responsibility for the intermediate and final storage of the country's nuclear waste. E.ON continues to advocate that the law be underpinned by a contractual agreement in order to ensure lasting legal certainty.

Resources and Capabilities

A focused setup and systematic approach will enable E.ON to retain its existing strengths and advantages and build on them. Examples include our success at developing and building an international renewables portfolio consisting of 4.6 GW of operational capacity and an attractive development pipeline, our outstanding record of managing a total of roughly 1 million kilometers of energy networks, and our direct access to 30 million customers in key European markets and in Turkey.

Alongside its existing capabilities and resources, E.ON is developing and refining the necessary expertise for the key success factors in its businesses. In particular, we cultivate a strong customer orientation, develop and implement new downstream business models and products, and leverage the digital transformation. The successful implementation of our strategy also depends on partnerships, such as partnerships with providers of new technology and business models.

Significance for Employees and Stakeholders

E.ON offers attractive opportunities to current and future employees by creating jobs and career opportunities in growth markets and by setting clear objectives. It offers investors a reasonable balance between dividends with good growth prospects, highly predictable earnings, and solid financing.

Transformation

In 2016 E.ON embarked on a journey of transformation. The goal of this journey is to become a leading company in the new energy world. In the years ahead, we will therefore place considerable strategic emphasis on putting the right pieces in place for future success and growth in a demanding market environment.

Uniper Spinoff

E.ON and Uniper have operated separately as independent companies since January 1, 2016. Düsseldorf-based Uniper has about 13,000 employees and focuses on the conventional energy world. It consists of upstream and midstream businesses that originally belonged to E.ON. At our Annual Shareholders Meeting on June 8, 2016, E.ON SE shareholders voted to spin off a 53.35-percent majority stake in Uniper, which had a successful stock-market listing on September 12. Currently, E.ON continues to have a 46.65-percent stake in Uniper. We intend to divest our remaining Uniper stake over the medium term. Furthermore, a Control Termination Agreement was concluded, which took effect on December 31, 2016, at which time Uniper was deconsolidated.

Corporate Initiatives

Alongside the demanding spinoff process, we launched three important corporate initiatives in 2016 in order to enhance our competitiveness and customer orientation. They will help us lay the foundation for lasting success in the years ahead. All of them are designed for rapid results and implementation.

- Our focus on the new energy world and our commitment to put customers at the center of everything we do were the starting points for our new brand idea ("Let's Create a Better Tomorrow"). Our new brand positioning aims for a strong emotional appeal and personality, built on what matters to our customers: brilliant experiences, giving them more; and smarter, sustainable solutions. These key brand pillars and our vibrant new brand design will enable our customer businesses to be distinctive in our chosen markets. At the end of 2016, our Italy regional unit already adopted our new brand positioning at the end of 2016. Our other regional units are following.

- Successful digitalization is an integral component of our strategy, which was appointed a Chief Digital Officer last year. Under his leadership, we are conducting a Group-wide digital transformation initiative to explore ideas that will fundamentally improve our customer experience, accelerate process simplification and automation, as well as enable us to tap new sources of growth through new and/or disruptive business models. We have already identified and prioritized the most promising ideas, which we will validate and implement swiftly in the months ahead.

- Under the project name Phoenix, E.ON is reviewing and optimizing our central functions and costs across the company in the wake of the Uniper spinoff. Its purpose is to make our central functions leaner and more customer-oriented so that we can continue to position ourselves successfully in the face of keener competition. As a result of Phoenix we intend to permanently reduce our controllable costs by €400 million.

Finance Strategy

The section of the Combined Group Management Report entitled Financial Situation contains explanatory information about our finance strategy.

People Strategy

The section of the Combined Group Management Report entitled Employees contains explanatory information about our people strategy.

Combined Group Management Report

- Adjusted EBIT at core business down slightly
- Earnings from discontinued operations and provisions for nuclear-waste management lead to €16 billion net loss
- Management to propose dividend of €0.21 per share
- 2017 adjusted EBIT between €2.8 and €3.1 billion

Corporate Profile

Business Model

E.ON is an investor-owned energy company. Led by Group Management in Essen, our operations are segmented into three operating units: Energy Networks, Customer Solutions, and Renewables. Our non-strategic operations are reported under Non-Core Business.

Group Management

The main task of Group Management is to lead the entire E.ON Group by overseeing and coordinating its operating businesses. This includes charting E.ON's strategic course, defining its financial policy and initiatives, managing business issues that transcend individual markets, managing risk, continually optimizing E.ON's business portfolio, and conducting stakeholder management.

Energy Networks

This segment consists of our power and gas distribution networks and related activities. It is subdivided into three regional markets: Germany, Sweden, and East-Central Europe/Turkey (which consists of the Czech Republic, Hungary, Romania, Slovakia, and Turkey). This segment's main tasks include operating its power and gas networks safely and reliably, carrying out any necessary maintenance and repairs, and expanding its networks, which frequently involves adding customer grid connections.

Customer Solutions

This segment serves as the platform for working with our customers to actively shape Europe's energy transition. This includes supplying customers in Europe (excluding Turkey) with power, gas, and heat as well as with products and services that enhance their energy efficiency and autonomy and provide other benefits. Our activities are tailored to the individual needs of customers across all segments: residential, small and medium-sized enterprises, large commercial and industrial, and public entities. E.ON's main presence in this business is in Germany, the United Kingdom, Sweden, Italy, the Czech Republic, Hungary, and Romania. E.ON Connecting Energies, which provides customers with turn-key distributed energy solutions, is also part of this segment.

Renewables

This segment consists of Onshore Wind/Solar and Offshore Wind/Other. We plan, build, operate, and manage renewable generation assets. We market their output in several ways: in conjunction with renewable incentive programs, under long-term electricity supply agreements with key customers, and directly to the wholesale market.

Non-Core Business

This segment consists of our non-strategic operations, in particular the operation of our nuclear power stations in Germany (which is managed by our PreussenElektra unit) and, effective January 1, 2016, our stake in the Uniper Group which we account for using the equity method. Uniper's earnings are reported under non-operating earnings.

New Features in Our Reporting

In view of our new strategy and the Annual Shareholders Meeting's vote to spin off Uniper, we applied IFRS 5 and report the Uniper Group as a discontinued operation. We therefore adjusted our 2016 and 2015 numbers, with the exception of our total assets and liabilities in 2015, to exclude Uniper and no longer provide commentary on its business performance. After the Control Termination Agreement took effect, Uniper was deconsolidated effective December 31, 2016, and is recorded in our Consolidated Financial Statements as an associated company in accordance with our stake and accounted for using the equity method.

Management System

Our corporate strategy aims to deliver sustainable growth in shareholder value. We have put in place a Group-wide planning and controlling system to assist us in planning and managing E.ON as a whole and our individual businesses with an eye to increasing their value. This system ensures that our financial resources are allocated efficiently. We strive to enhance our sustainability performance efficiently and effectively as well. We have high expectations for our sustainability performance. We embed these expectations progressively more deeply into our organization—across all of our businesses, entities, and processes and along the entire value chain—by means of binding company policies and minimum standards.

Our main key figures for managing our operating business are adjusted EBIT and cash-effective investments. Other key figures for managing the E.ON Group—alongside adjusted net income, and earnings per share (based on adjusted net income)—are cash-conversion rate and ROCE.

In April 2016 the E.ON Management Board decided that adjusted earnings before interest and taxes ("adjusted EBIT") will supersede adjusted EBITDA as E.ON's most important key figure for indicating its businesses' long-term earnings power. The E.ON Management Board is convinced that adjusted EBIT is the most suitable key figure for assessing operating performance because it presents a business's operating earnings independently of non-operating factors, interest, and taxes. The adjustments include net book gains, cost-management and restructuring expenses, impairment charges, and other operating earnings, which include, among other items, the marking to market of derivatives (see the explanatory information on pages 37 and 38 of the Combined Group Management Report and in Note 33 of the Consolidated Financial Statements).

Cash-effective investments are equal to the investment expenditures shown in our Consolidated Statements of Cash Flows.

Cash-conversion rate is equal to our operating cash flow before interest and taxes divided by adjusted EBITDA. It indicates whether our operating earnings are generating enough liquidity.

Return on capital employed ("ROCE") assesses the value performance of our operating business. ROCE is a pretax total return on capital and is defined as the ratio of our EBIT to annual average capital employed.

Adjusted net income is an earnings figure after interest income, income taxes, and non-controlling interests that has been adjusted to exclude non-operating effects. Also excluded are non-operating interest expense/income, taxes on operating earnings, and non-controlling interests' share of operating earnings.

E.ON manages its capital structure by means of its debt factor (see the section entitled Finance Strategy on page 39). Debt factor is equal to our economic net debt divided by our adjusted EBITDA and is therefore a dynamic debt metric. Economic net debt includes our net financial debt as well as our pension and asset-retirement obligations.

Alongside our most important financial management key figures, this Combined Group Management Report includes other financial and non-financial key performance indicators ("KPIs") to highlight aspects of our business performance and our sustainability performance vis-à-vis all our stakeholders: our employees, customers, shareholders, bond investors, and the countries in which we operate. Operating cash flow, and value added are examples of our other financial KPIs. Among the KPIs of our sustainability performance are our carbon emissions and TRIF (which measures reported work-related injuries and illnesses). The sections entitled Corporate Sustainability and Employees contain explanatory information about these KPIs. However, these KPIs are not the focus of the ongoing management of our businesses.

Innovation

In 2016 we regrouped our innovation activities to reflect the spinoff of Uniper from E.ON. Projects relating to conventional energy were transferred to Uniper, those relating to nuclear energy to PreussenElektra. E.ON now has the following Innovation Hubs:

- Retail and end-customer solutions: develop new business models for distributed-energy supply, energy efficiency, and mobility
- Renewables generation: increase the cost-effectiveness of existing wind and solar assets and study new renewables technologies
- Infrastructure and energy networks: develop energy-storage and energy-distribution solutions for an increasingly decentralized and volatile generation system
- Energy intelligence and energy systems: study potentially fundamental changes to energy systems and the role of data in the new energy world

Strategic Co-Investments

We support our effort to develop customer-centric and innovative technologies and business models by identifying promising energy technologies of the future that will enhance our palette of offerings for our millions of customers around Europe and will make us a pacesetter in the operation of smart energy systems. We select new businesses that offer the best opportunities for partnerships, commercialization, and equity investments. Our investments focus on strategic technologies and business models that enhance our ability to lead the move to distributed, sustainable, and innovative energy offerings. These arrangements benefit new technology companies and E.ON, since we gain access to their innovations and have a share in the value growth.

In 2016 our investments included Kite Power Solutions, a British company that is developing a solution to harness the energy of the wind using kites (which soar at altitudes of up to 450 meters) instead of ground-based rotors. We reinvested in two companies that have shown a positive development since the beginning our partnership with them in 2014: Berlin-based Thermondo (which is a pacesetter in the digitalization of home heating installation) and California-based AutoGrid (which brings intelligent data management to the distributed energy world).

Sample Projects from 2016

Customer Solutions

In the United Kingdom we worked with Enervee, a U.S.-based company that is one of our strategic co-investments, to develop an online platform for the British market called E.ON Marketplace. Consumers can use the E.ON Marketplace to compare the energy efficiency of household goods and consumer electronics.

In Germany we developed Impuls KW, a new mobile application for tablets and smart phones that enables customers to monitor the performance of their distributed generating units with one-click simplicity. It features an easy-to-read display of technical and economic data, including energy consumption, fuel costs, peak demand, economic efficiency, and various types of emissions.

In Hungary we developed an energy container that can provide round-the-clock, fossil-free electricity to customers whose homes are remote from the grid, thereby eliminating the need for costly grid extensions. Electricity from the container's rooftop solar panels can either be consumed immediately or stored in batteries. If the batteries are fully charged, the surplus electricity powers electrolysis equipment that produces hydrogen which is stored in gas cylinders outside the container. At night or on cloudy days, customers draw their electricity from the batteries or a hydrogen-powered fuel cell. The container, which is equipped with remote surveillance and monitoring, can generate enough electricity to meet the average residential demand (4,000 kWh per year), can store up to 15 days of backup electricity, and is nearly 100 percent reliable.

Renewables

We developed and rolled out an end-to-end mobile asset management system that can be used online and offline. The new digital tool for wind asset maintenance overcomes the practical limitations of the existing desktop system and also reduces the number of paper-based processes.

Distribution Networks

As part of our effort to meet the challenges of a low-carbon, sustainable energy system, we selected Simris, a small community in southeast Sweden, to test a small offgrid energy system. One business and 160 households will take part in the trial and use energy from local renewable sources. Simris already has a wind farm and solar panels. A battery will now be installed to store surplus wind and solar power, providing a source of reserve power. This will enable the participants in the trial to disconnect themselves from the grid for certain periods of time. The trial is expected to start in the first half of 2017 and last three years.

University Support

Our innovation activities include partnering with universities and research institutes to conduct research projects in a variety of areas. Our flagship partnership is with the E.ON Energy Research Center ("ERC") at RWTH Aachen University in Germany. In 2016 we decided to continue this successful partnership and therefore extended our agreement with the university for another five years. The main purpose of the partnership is to study ways to expand the horizons of energy conservation and sustainable energy and to draw on this research to develop new offerings and solutions for customers. The ERC's research focuses on renewables, technologically advanced electricity networks, and efficient technology for buildings.

Macroeconomic and Industry Environment

Macroeconomic Environment

Global economic growth was again weak—3.1 percent, according to an OECD estimate—in 2016. The OECD noted a reduction in private and public investment activity worldwide.

The U.S. economy was on a stable growth path in 2016, particularly in the second half of the year. Growth was supported by private consumption and private investment, which were bolstered by a labor market almost at full employment. China's economic growth rate declined further in 2016, which the OECD ascribes to the fact that the country's growth drivers have shifted from investment to consumption and services.

The euro zone continued its monetary and fiscal policies of recent years. Nevertheless, there was only a moderate improvement in domestic demand, which was driven by private consumption. Thanks to this robust domestic demand, Germany's gross domestic product ("GDP") growth was barely dampened by the weak global economic environment. Demand was supported by a solid labor market and favorable monetary policies.

Italy's growth remained tepid. Economic expansion in Germany's neighbors to the East was weaker than in the prior year. For example, the Czech Republic's GDP grew by 2.4 percent, Hungary's by 1.7 percent.

Turkey's GDP growth rate slowed.

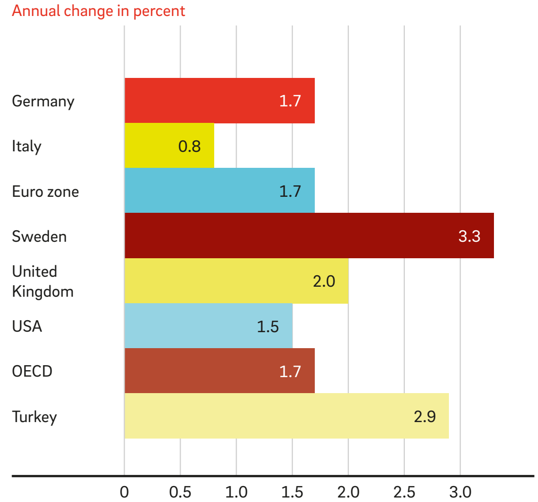
Energy Policy and Regulatory Environment

International

The Paris Agreement on climate protection took effect on November 4, 2016. It was ratified by 55 UN member states that together account for at least 55 percent of global carbon emissions. The 22nd United Nations climate change conference took place in Marrakesh, Morocco, from November 7 to 18, 2016. It focused on the practical implementation of the Paris Agreement. Based on scenarios developed by the World Energy Council and the International Energy Agency, the Paris Agreement's objective of limiting the increase in global temperatures to under 2 degrees Celsius can only be reached with greater efforts.

2016 GDP Growth in Real Terms

Annual change in percent



Source: OECD, 2016

Europe

The energy policy of the European Union ("EU") began to turn more of its attention to end-customers. The European Commission's package of measures called Clean Energy for All Europeans aims to improve energy services for residential customers enabling them to save money and conserve energy, in particular through the use of smart technologies.

The EU also intends to remain a pacesetter in renewables and has set a binding target for renewables to account for at least 27 percent of its energy mix by 2030. In the commission's view, the package of measures makes the necessary adjustments to the electricity market design so that in the future large amounts of wind and solar energy can be fed into the system efficiently.

The EU continues to emphasize the key role distribution system operators ("DSOs") play in implementing the energy transition and therefore sees them as important partners in redesigning the energy system.

In its long-term strategy, the EU strengthened its commitment to energy efficiency by setting a binding target that the EU must improve its energy efficiency by 30 percent by 2030 relative to a 2007 baseline. It emphasized the significance of renewables for the EU's future energy mix, including more use of renewable electricity for heat and transport.

Central Eastern Europe

The Czech Republic established its regulations for power and gas prices for 2016–2018. The country's regulatory agency aims to promote cost efficiency and also to spur investment in networks by providing operators with adequate and stable returns. As planned, Romania implemented a number of measures to further liberalize its energy market. In 2016 there was again a general trend in this region toward government-mandated price reductions. Hungary began the process of revising its ordinances and directives for tariffs, pricing, and network connections. The revisions under discussion include new methodologies for gas and power distribution systems, the regulation of the electricity prices paid by industrial customers, and electricity storage devices.

Germany

In 2016 Germany made a number of important energy-policy decisions roughly one year before the elections to the federal parliament, which will take place in the autumn of 2017. In the summer of 2016 it enacted far-reaching amendments to the Renewable Energy Act, the Electricity Market Act, and the Act on the Digitalization of the Energy Transition. Support for renewables will now take the form of competitive tenders, including for offshore wind farms. The Electricity Market Act does not introduce a capacity market, which had been a topic of much debate. Instead, it seeks to ensure supply security by bolstering the current market design, by placing greater responsibilities on market participants, and by introducing a variety of reserve mechanisms (network and capacity reserves along with an on-call reserve of lignite-fired generating units). The Smart Meters Operation Act, which is part of the Act for the Digitalization of the Energy Transition, sets the timeline and price caps for the rollout of smart meters and advanced metering technology to various customer groups.

Besides these laws enacted in the summer of 2016, other important energy-policy decisions were made in the autumn and winter of 2016, some of which have significant implications for DSOs. The amended Incentive Regulation Ordinance took effect in September 2016. In October the German Federal Network Agency set the rate of return for power and gas networks for the third regulatory period. The rate of return for new assets is only 6.91 percent. Lawmakers also amended the German Energy Industry Act, which governs how concessions are awarded. Under one of the amendments, communities may, along with the existing energy-related criteria, consider "local community affairs" as a criterion for awarding concessions.

To comply with European law, in the autumn of 2016 Germany amended its Combined-Heat-and Power ("CHP") Act and again amended the Renewable Energy Act. As with renewables, competitive tenders will be introduced for CHP units between 1 and 50 MW. The reduced 20 percent surcharge for renewable power now must also be paid on an operator's own consumption from upgraded existing assets, which were previously exempted from the surcharge. Finally, an experimentation clause was added to the German Energy Industry Act to make it possible to conduct trials of research projects in sector-coupling that are part of the Smart Energy Showcases: Digital Agenda for the Energy Transition.

Italy

The Italian Regulatory Authority for Electricity, Gas, and Water wants to spur competition in the end-customer market and intends to supplant regulated tariffs.

Sweden

Sweden's Energy Policy Commission developed a long-term strategy for the country's energy supply through 2050. It presented its findings at the start of 2017. Renewables and energy efficiency will play important roles in this strategy. In addition, the Swedish government has an interest in enhancing consumers' rights in the energy marketplace. This includes energy services such as flexible demand, energy efficiency, and self-generation of energy.

Turkey

Turkey amended its electricity market legislation in 2016. These changes included the designation of zones in which renewables will receive preferential dispatch.

United Kingdom

The government announced in 2013 that the Competition and Markets Authority ("CMA") would conduct an annual investigation of the state of competition in Britain. The CMA presented its first report at the end of 2016. Its primary focus in the energy sector was on retail electricity and gas markets for end-customers. The CMA's proposed remedies are aimed primarily at enhancing customer activity and engagement (for example, by increasing transparency) and at increasing competition. The government is crafting legislation to implement the remedies.

USA

The United States provides support for renewables primarily through tax credits, such as production tax credits for wind and investment tax credits for solar.

Earnings Situation

Business Performance in 2016

In the 2016 financial year our operating business performed in line with our expectations. Our sales declined by 11 percent year on year to €38.2 billion. Adjusted EBIT in our core business declined by about €0.1 billion to €2.5 billion. The principal positive effect in our operating business was higher earnings at Renewables due to the fact that Amrumbank West and Humber Gateway wind farms were for the first time fully operational for the entire year. These effects were more than offset by lower earnings at Energy Networks resulting from the non-recurrence of positive one-off items recorded in the prior-year.

Adjusted EBIT for the E.ON Group declined by €451 million to €3.1 billion (if disposals are factored out, adjusted EBIT was €85 million below the prior-year figure). Adjusted net income declined by €172 million to €904 million. Our adjusted EBIT and adjusted net income were therefore at the upper end of our forecast range of €2.7 to €3.1 billion and €0.6 to €1 billion, respectively. In addition, we recorded a cash-conversion rate of 80 percent, which is equal to operating cash flow before interest and taxes (€3,974 million) divided by adjusted EBITDA (€4,939 million). Our ROCE was 10.4 percent.

Our investments of €3.2 billion were slightly below the prior-year figure but in line with the €3.4 billion foreseen for 2016 in our medium-term plan.

Our operating cash flow of €3 billion was significantly below the prior-year figure of €4.2 billion, primarily because of higher net tax payments and the disposal of the E&P business.

Acquisitions, Disposals, and Discontinued Operations in 2016

We executed the following significant transactions in 2016. Note 4 to the Consolidated Financial Statements contains detailed information about them.

Disposal Groups, Assets Held for Sale, and Discontinued Operations

To implement our new strategy, through year-end 2016 we classified as disposal groups, assets held for sale, or discontinued operations:

- Uniper Group, which was spun off
- our E&P business in the North Sea
- our stake in Enovos International
- our stake in Latvijas Gāze
- the network connection for Humber Gateway wind farm.

Disposals resulted in cash-effective items totaling €836 million in 2016 (prior year: €4,305 million).

Sales

Our sales of €38.2 billion were about €4.5 billion below the prior-year level. Sales declined by €3.2 billion at Customer Solutions, by €1.6 billion at Corporate Functions/Other, and by €0.8 billion at Non-Core Business. The transfer of Uniper's wholesale customers in Germany at the end of 2015 and lower sales prices, the decommissioning of Grafenrheinfeld nuclear power station, and the expiration of supply contracts at PreussenElektra were the main reasons for the decline. In addition, the prior-year figure includes E&P operations in the North Sea and generation operations in Italy and Spain that have since been divested; these items are reported under Corporate Functions/Other.

Sales

	Fourth quarter			Full year		
€ in millions	2016	2015	+/- %	2016	2015	+/- %
Energy Networks	3,685	3,505	+5	15,892	14,989	+6
Customer Solutions	6,289	6,984	-10	22,368	25,614	-13
Renewables	335	448	-25	1,357	1,481	-8
Non-Core Business	470	430	+9	1,538	2,290	-33
Corporate Functions/Other	279	506	-45	1,124	2,756	-59
Consolidation	-1,083	-1,259	–	-4,106	-4,474	–
E.ON Group	**9,975**	**10,614**	**-6**	**38,173**	**42,656**	**-11**

Other Line Items from the Consolidated Statements of Income

Own work capitalized of €529 million surpassed the prior-year figure of €510 million. The increase is predominantly attributable to own work capitalized in conjunction with the completion of IT projects and network investments.

Other operating income rose by 18 percent, from €6,337 million to €7,448 million, primarily because income from currency-translation effects increased by €1,143 million, from €3,894 million to €5,039 million. In addition, income from derivative financial instruments rose from €524 million to €1,141 million. By contrast, income from the sale of current securities and from cost passthroughs declined. Corresponding amounts resulting from currency-translation effects and from derivative financial instruments are recorded under other operating expenses.

Costs of materials decreased by 3 percent, from €33,184 million to €32,325 million. A significant decline in our procurement costs for power and gas was matched by a similar decline in our sales. This was partially offset by an increase in costs of materials in the fourth quarter resulting from an increase in provisions for nuclear waste management following the German federal government's adoption of the recommendations of the Commission for Organizing and Financing the Nuclear Energy Phaseout.

As anticipated, personnel costs of €2,839 million were below the prior-year figure of €2,995 million due to a lower average headcount.

Depreciation charges on continuing operations declined by €1,846 million, from €5,669 million to €3,823 million. The significant decline resulted primarily from the non-recurrence of impairment charges recorded in the prior year along with the sale of our U.K. and Norwegian E&P operations. This was partially offset by an increase in depreciation charges following Germany's enactment of a law to reassign responsibility for the country's nuclear waste. The impairment charges on our Uniper stake in the amount of €7 billion, which were necessary in order to reflect Uniper's lower market capitalization, are disclosed under discontinued operations. They were recorded principally in earlier quarters.

Other operating expenses of €7,867 million were slightly below the prior-year level of €7,968 million. Expenditures relating to currency-translation effects surpassed the prior-year figure of €4,049 million by €876 million but were counteracted by lower expenditures relating to derivative financial instruments. In addition, effective 2016 concession fees are no longer recorded under this line item but rather under costs of materials.

Income from companies accounted for under the equity method of €285 million was slightly below the prior-year figure of €295 million. Our remaining Uniper stake is not recognized in income until the 2017 financial year.

Adjusted EBIT

Adjusted EBIT in our core business declined by €75 million year on year. Energy Networks' adjusted EBIT was lower due primarily to the non-recurrence of positive one-off items recorded in Germany in 2015. However, it posted higher earnings in East-Central Europe/Turkey. Customer Solutions' adjusted EBIT was at the prior-year level. Although earnings in Germany were lower due in particular to the non-recurrence of positive one-off items recorded in 2015, adjusted EBIT in the United Kingdom and at the Other unit was higher. Renewables' positive earnings performance was due principally to the fact that Amrumbank West and Humber Gateway wind farms were for the first time fully operational for the entire year. Adjusted for special items recorded in 2015, Adjusted EBIT in our core business was up slightly.

Adjusted EBIT

	Fourth quarter			Full year		
€ in millions	2016	2015	+/- %	2016	2015	+/- %
Energy Networks	475	552	-14	1,671	1,811	-8
Customer Solutions	264	319	-17	812	806	+1
Renewables	121	167	-28	430	391	+10
Corporate Functions/Other	-261	-156	–	-398	-411	–
Consolidation	-6	10	–	15	8	–
Adjusted EBIT from core business	**593**	**892**	**-34**	**2,530**	**2,605**	**-3**
Non-Core Business (PreussenElektra)	208	115	+81	553	563	-2
Other (divested operations)	–	138	–	29	395	-93
Adjusted EBIT	**801**	**1,145**	**-30**	**3,112**	**3,563**	**-13**

Adjusted EBIT for the E.ON Group declined by €451 million, owing primarily to the items mentioned above in the commentary on adjusted EBIT in our core businesses and to the absence of earning streams from divested operations. If these earnings are factored out, adjusted EBIT for the E.ON Group would be €85 million below the prior-year figure.

E.ON generates a significant portion of its adjusted EBIT in very stable businesses. Regulated, quasi-regulated, and long-term contracted businesses accounted for the overwhelming proportion of our adjusted EBIT in 2016.

Our regulated business consists of operations in which revenues are largely set by law and based on costs. The earnings on these revenues are therefore extremely stable and predictable.

Our quasi-regulated and long-term contracted business consists of operations in which earnings have a high degree of predictability because key determinants (price and/or volume) are largely set by law or by individual contractual arrangements for the medium to long term. Examples of such legal or contractual arrangements include incentive mechanisms for renewables and the sale of contracted generating capacity.

Our merchant activities are all those that cannot be subsumed under either of the other two categories.

Business Segments

Energy Networks

Below we report on a number of important non-financial key figures for this segment, such as power and gas passthrough, system length, and the number of connections.

Power and Gas Passthrough

Power passthrough was at the prior-year level at all of this segment's operating units. Gas passthrough rose by 7.9 billion kWh, or 5 percent.

Power passthrough in Germany in 2016 was at the prior-year level. Gas passthrough rose by 4 percent, or 4.2 billion kWh, mainly because of higher sales to large customers due to economic growth. In addition, lower temperatures in our network territory relative to the prior year had a positive impact on sales to standard-load-profile customers.

Power and gas passthrough in Sweden rose to about 37 billion kWh and 4.9 billion kWh, respectively, primarily because of low temperatures at the beginning and end of 2016.

Power passthrough at East-Central Europe/Turkey was 0.4 billion kWh above the prior-year level owing to positive economic development in the Czech Republic. The 3.6 billion kWh increase in gas passthrough is primarily attributable to regulatory changes in Hungary.

Energy Passthrough

	Germany		Sweden		East-Central Europe/Turkey		Total	
Billion kWh	2016	2015	2016	2015	2016	2015	2016	2015
Full year								
Power	68.0	68.1	37.3	36.3	35.4	35.0	140.7	139.4
Line loss, station use, etc.	2.6	2.6	1.1	1.1	2.8	3.0	6.5	6.7
Gas	106.8	102.6	4.9	4.8	43.4	39.8	155.1	147.2

System Length and Connections

System length in Germany—about 350,000 kilometers for power and about 58,000 kilometers for gas—was roughly at the prior-year level. At year-end we had about 5.8 million connection points for power and about 0.9 million for gas.

The length of our power system in Sweden was roughly 136,400 kilometers at year-end 2016, slightly higher than the prior-year figure of 135,500 kilometers. The length of the gas distribution system was unchanged at 2,100 kilometers. The number of connection points in the power distribution system was unchanged at roughly 1 million.

System length in East-Central Europe/Turkey—about 232,000 kilometers for power and about 44,000 kilometers for gas—was at the prior-year level, as were the roughly 4.7 million connection points for power and the roughly 1.3 million for gas.

Sales and Adjusted EBIT

This segment's sales rose by €0.9 billion, whereas its adjusted EBIT declined by €140 million.

Sales rose by €0.9 billion in Germany, primarily because of higher sales in conjunction with the REL. REL compensation to generators in our service territory totaled about €7.7 billion, €0.5 billion more than in 2015. The rise is mainly attributable to increases in installed generating capacity and in the amount of electricity fed into our distribution networks. For distribution network operators, however, REL compensation is passed through and therefore is not recorded in income. Sales also increased owing to higher gas passthrough. This operating unit's adjusted EBIT declined by €235 million to €894 million, primarily because of the absence of positive one-off effects recorded in 2015 (the reversal of provisions for network risks along with special items in income from equity interests). Higher depreciation charges are mainly attributable to higher investments.

Sales in Sweden were slightly higher due to volume factors. Adjusted EBIT was significantly higher thanks to an improved gross margin in the power business. In addition, earnings in the first half of 2015 were adversely affected by costs in conjunction with storm damage.

Sales in East-Central Europe/Turkey were €35 million below the prior-year level. Although sales in Romania and the Czech Republic declined owing mainly to tariff effects, adjusted EBIT rose by €25 million. Adjusted EBIT was higher in the Czech Republic due to improved margins and cost savings. Our equity stakes in Turkey and the Slovak Republic contributed to the earnings increase as well. Adjusted EBIT in Romania declined significantly because of tariff effects in the power and gas businesses. This was partially offset by an increase in gas passthrough. Earnings in Hungary were lower due to regulation-driven impairment charges in the gas network and higher costs, which were only partially offset by lower network losses.

Energy Networks

	Germany		Sweden		East-Central Europe/ Turkey		Total	
€ in millions	2016	2015	2016	2015	2016	2015	2016	2015
Fourth quarter								
Sales	2,917	2,776	293	259	475	470	3,685	3,505
Adjusted EBITDA	423	527	151	112	182	149	756	788
Adjusted EBIT	256	371	110	76	109	105	475	552
Full year								
Sales	13,205	12,312	1,029	984	1,658	1,693	15,892	14,989
Adjusted EBITDA	1,507	1,686	562	489	610	558	2,679	2,733
Adjusted EBIT	894	1,129	398	328	379	354	1,671	1,811

Customer Solutions
Below we report on a number of important non-financial key figures for this segment, such as power and gas sales volume and customer numbers.

Power Sales

	Germany		United Kingdom		Other		Total	
Billion kWh	2016	2015	2016	2015	2016	2015	2016	2015
Fourth quarter								
Residential and SME	5.1	5.3	5.7	6.2	5.9	5.4	16.7	16.9
I&C	2.4	3.7	3.8	3.9	7.2	7.5	13.4	15.1
Sales partners	0.1	2.0	–	–	0.7	0.6	0.8	2.6
Customer groups	**7.6**	**11.0**	**9.5**	**10.1**	**13.8**	**13.5**	**30.9**	**34.6**
Wholesale market	4.7	3.2	0.4	0.2	2.0	1.8	7.1	5.2
Total	**12.3**	**14.2**	**9.9**	**10.3**	**15.8**	**15.3**	**38.0**	**39.8**
Full year								
Residential and SME	18.0	18.3	21.2	22.9	21.0	20.5	60.2	61.7
I&C	9.4	14.3	15.1	17.8	28.6	28.7	53.1	60.8
Sales partners	0.9	8.1	–	–	2.5	2.7	3.4	10.8
Customer groups	**28.3**	**40.7**	**36.3**	**40.7**	**52.1**	**51.9**	**116.7**	**133.3**
Wholesale market	18.0	5.7	1.1	0.8	7.6	7.4	26.7	13.9
Total	**46.3**	**46.4**	**37.4**	**41.5**	**59.7**	**59.3**	**143.4**	**147.2**

Gas Sales

	Germany		United Kingdom		Other		Total	
Billion kWh	2016	2015	2016	2015	2016	2015	2016	2015
Fourth quarter								
Residential and SME	8.2	7.7	12.8	11.7	10.9	11.2	31.9	30.6
I&C	1.4	5.1	2.4	2.4	7.5	6.6	11.3	14.1
Sales partners	–	2.1	–	–	0.7	0.5	0.7	2.6
Customer groups	**9.6**	**14.9**	**15.2**	**14.1**	**19.1**	**18.3**	**43.9**	**47.3**
Wholesale market	3.5	1.0	–	–	0.5	1.4	4.0	2.4
Total	**13.1**	**15.9**	**15.2**	**14.1**	**19.6**	**19.7**	**47.9**	**49.7**
Full year								
Residential and SME	23.9	23.2	39.8	41.0	28.0	33.0	91.7	97.2
I&C	5.0	17.8	8.6	10.4	23.2	23.3	36.8	51.5
Sales partners	–	8.6	–	–	2.0	1.6	2.0	10.2
Customer groups	**28.9**	**49.6**	**48.4**	**51.4**	**53.2**	**57.9**	**130.5**	**158.9**
Wholesale market	12.0	1.8	–	–	4.0	9.7	16.0	11.5
Total	**40.9**	**51.4**	**48.4**	**51.4**	**57.2**	**67.6**	**146.5**	**170.4**

Power and Gas Sales Volume
In 2016 this segment's power and gas sales declined by 3.8 billion kWh and 23.9 billion kWh, respectively.

Customer Solutions' power sales in Germany were at the prior-year level. Power sales to residential and small and medium enterprise ("SME") customers were lower due in to part to keen competition but mainly to a reduction in average consumption and to keen competition. In particular, this reduction reflects technical improvements such as energy-efficient appliances as well as more consumption-conscious consumer behavior. Power sales to industrial and commercial ("I&C") customers and to sales partners declined, primarily because of the transfer of E.ON Energie Deutschland's wholesale customers to Uniper Energy Sales at the end of 2015. Power sales to the wholesale market rose significantly owing to Uniper Energy Sales for its wholesale customers and resales to Uniper Global Commodities. Gas sales volume declined by 14 percent, mainly because sales to I&C customers and sales partners were lower due to the above-mentioned transfer of wholesale customers. By contrast, gas sales to residential and SME customers were slightly higher due to weather factors, and wholesale gas sales were significantly higher thanks to the deliveries to Uniper for its wholesale customers.

Power sales in the United Kingdom declined by 4.1 billion kWh. Declining customer numbers and customers' energy-saving behavior led to lower power sales to residential and SME customers. A reduction in the number of customer facilities served along with lower offtake were the reasons for the decline in power sales to I&C customers. Gas sales decreased by 3 billion kWh. Lower customer numbers were responsible for the reduction in gas sales to residential and SME customers. The reason for the decline in gas sales to I&C customers is the same as for power.

Other's power sales (Sweden, Hungary, the Czech Republic, Romania, Italy) and E.ON Connecting Energies were up slightly. By contrast, its gas sales declined by 10.4 billion kWh, mainly because of a new strategy for the residential-customer business in Hungary and lower sales volume to wholesale customers in the Czech Republic.

Customer Numbers
This segment had about 21.4 million customers at year-end 2016, less than the prior-year figure of 22.7 million. The number of customers in the United Kingdom declined from 7.6 to 7 million; power customers account for about 60 percent of customer losses, gas customers for about 40 percent. Customer numbers in Hungary declined from 3.1 billion in 2015 to 2.5 billion in 2016 as a result of the above-mentioned new strategy. In Germany they decreased from 6.2 million in 2015 to 6.1 million in 2016. A high level of acquisitions nearly offset customer losses in a keenly competitive marketplace.

Sales and Adjusted EBIT
This segment's sales decreased by €3.2 billion in 2016, whereas its adjusted EBIT was slightly above the prior-year level.

Sales in Germany declined, primarily because of the transfer of E.ON Energie Deutschland's wholesale customers to Uniper Energy Sales at the end of 2015. Adjusted EBIT was 42 percent lower. The decline is primarily attributable to the non-recurrence of positive one-off effects recorded in the prior year (primarily settlement-related items from previous reporting periods). Earnings were also adversely affected by higher customer-acquisition costs, higher Renewable Energy Law levies, higher network fees, a slight decline in average power consumption, and costs for the further buildup of the customer-solutions business.

Currency-translation effects, lower sales volume, declining customer numbers, and a reduction in gas prices in January caused sales in the United Kingdom to decline by €1.9 billion. Adjusted EBIT increased by €87 million primarily owing to lower costs in conjunction with government-mandated energy-efficiency measures.

Other's sales declined by €0.6 billion, primarily because of lower sales volume and prices in the power and gas business in Hungary and the Czech Republic along with the sale of an equity interest in our gas business in Italy in July 2015. By contrast, sales in Sweden rose owing to lower temperatures. Other's adjusted EBIT rose by €84 million. Romania benefited from wider power and gas margins and improved receivables management, Hungary from its new strategy for the residential-customer business and improved power and gas margins, and Sweden from improved margins in the heat businesses along with lower temperatures. Improved margins in the Czech Republic also had a positive impact on earnings.

Customer Solutions

	Germany		United Kingdom		Other		Total	
€ in millions	2016	2015	2016	2015	2016	2015	2016	2015
Fourth quarter								
Sales	2,255	2,446	2,115	2,552	1,919	1,986	6,289	6,984
Adjusted EBITDA	107	201	163	158	77	44	347	403
Adjusted EBIT	88	187	138	122	38	10	264	319
Full year								
Sales	7,781	8,539	7,791	9,659	6,796	7,416	22,368	25,614
Adjusted EBITDA	299	452	460	402	351	258	1,110	1,112
Adjusted EBIT	232	397	365	278	215	131	812	806

Renewables

Below we report on a number of important non-financial key figures for this segment, such as generating capacity, power generation, and power sales volume.

Generating Capacity

At year-end 2016 this segment's fully consolidated generating capacity of 4,176 MW and attributable generating capacity of 4,574 MW were both 5 percent above the corresponding figures at year-end 2015, 3,967 MW and 4,365 MW. The principal reasons for the increase were the commissioning of Colbeck's Corner in mid-2016 and a capacity increase at Amrumbank West wind farm following a software update.

Fully Consolidated and Attributable Generating Capacity

December 31	Fully Consolidated		Attributable	
MW	2016	2015	2016	2015
Wind	510	501	471	462
Solar	–	–	–	–
Other	–	–	–	–
Germany	**510**	**501**	**471**	**462**
Wind	3,647	3,447	4,084	3,884
Solar	19	19	19	19
Other	–	–	–	–
Outside Germany	**3,666**	**3,466**	**4,103**	**3,903**
Generating Capacity	**4,176**	**3,967**	**4,574**	**4,365**

Power Generation and Sales Volume
This segment's owned generation rose by 1.2 billion kWh in 2016.

Onshore Wind/Solar's generation was 0.5 billion kWh higher. Unfavorable wind conditions led to lower output in the United Kingdom, Sweden, and Poland. This was more than offset by higher output in Italy and positive effects from the commissioning of Colbeck's Corner wind farm in the United States in May 2016. Unplanned outages constituted the main reason why the availability ratio of 94.2 percent in 2016 was below the prior-year figure of 95.8 percent.

Offshore Wind/Other's generation was 0.7 billion kWh higher, mainly because Amrumbank West wind farm in the German North Sea and Humber Gateway wind farm in the U.K. North Sea were in operation during the year. Amrumbank West did not enter service until October 2015, and Humber Gateway was only in operation for five months in 2015. The availability ratio of 96.7 percent in 2016 surpassed the prior-year figure of 94.5 percent, primarily because of a reduction in outages at Robin Rigg and an improved performance at Amrumbank West and Humber.

Power Generation

	Onshore Wind/Solar		Offshore Wind/Other		Total	
Billion kWh	2016	2015	2016	2015	2016	2015
Fourth quarter						
Owned generation	2.2	2.2	0.9	1.2	3.1	3.4
Purchases	0.4	0.5	0.2	0.2	0.6	0.7
Jointly owned power plants	*–*	*–*	*0.2*	*0.2*	*0.2*	*0.2*
Third parties	*0.4*	*0.5*	*–*	*–*	*0.4*	*0.5*
Power sales	**2.6**	**2.7**	**1.1**	**1.4**	**3.7**	**4.1**
Full year						
Owned generation	8.2	7.7	3.4	2.7	11.6	10.4
Purchases	1.4	1.6	0.7	0.9	2.1	2.5
Jointly owned power plants	*–*	*–*	*0.7*	*0.9*	*0.7*	*0.9*
Third parties	*1.4*	*1.6*	*–*	*–*	*1.4*	*1.6*
Power sales	**9.6**	**9.3**	**4.1**	**3.6**	**13.7**	**12.9**

Sales and Adjusted EBIT
This segment's 2016 sales were €124 million below the prior-year figure, whereas its adjusted EBIT surpassed the prior-year figure by €39 million.

Onshore Wind/Solar's sales and adjusted EBIT decreased primarily owing to declining prices across all regions and lower output in Europe. In addition, prior-year adjusted EBIT benefited from book gains and a positive one-off effect.

Offshore Wind/Other's sales and adjusted EBIT rose by €105 million and €136 million, respectively, mainly because Amrumbank West and Humber Gateway wind farms were, for the first time, in operation for the entire year and because of proceeds from asset sales.

Renewables

	Onshore Wind/Solar		Offshore Wind/Other		Total	
€ in millions	2016	2015	2016	2015	2016	2015
Fourth quarter						
Sales	161	219	174	229	335	448
Adjusted EBITDA	79	101	133	176	212	277
Adjusted EBIT	26	47	95	120	121	167
Full year						
Sales	728	957	629	524	1,357	1,481
Adjusted EBITDA	308	422	488	328	796	750
Adjusted EBIT	92	189	338	202	430	391

Non-Core Business (PreussenElektra)
Below we report on a number of important non-financial key figures for this segment, such as generating capacity, power generation, and power sales volume.

Fully Consolidated and Attributable Generating Capacity
The segment's fully consolidated and attributable generating capacity remained unchanged at 4,471 MW and 4,129 MW, respectively.

Power Generation and Sales Volume
This segment's power procured (owned generation and purchases) declined by 10.7 billion kWh year on year. The reduction in owned generation is principally attributable to the fact that Grafenrheinfeld nuclear power station produced power for part of the prior year (until its decommissioning at the end of June 2015) and to unplanned production outages at Grohnde nuclear power station due to a damaged secondary cooling pump and repairs to a sensor line. The expiration of delivery contracts to Belgium, the Netherlands, and France led to a reduction in power procurement in 2016. Owned generation in the fourth quarter of 2016 increased slightly (by 0.4 billion kWh) because Grohnde nuclear power station had been decommissioned, as planned, in October 2015.

The decline in power sales resulted chiefly from a reduction in owned generation and in marketable power procurement due to the expiration of supply contracts in Belgium, the Netherlands, and France.

Power Generation

	PreussenElektra	
Billion kWh	2016	2015
Fourth quarter		
Owned generation	9.3	8.9
Purchases	0.8	2.1
Jointly owned power plants	*0.3*	*0.4*
Third parties	*0.5*	*1.7*
Total power procurement	**10.1**	**11.0**
Station use, line loss, etc.	–	–
Power sales	**10.1**	**11.0**
Full year		
Owned generation	32.4	37.6
Purchases	4.3	9.8
Jointly owned power plants	*1.3*	*1.3*
Third parties	*3.0*	*8.5*
Total power procurement	**36.7**	**47.4**
Station use, line loss, etc.	-0.1	-0.1
Power sales	**36.6**	**47.3**

Sales and Adjusted EBIT
The significant decline in this segment's sales (-€752 million) mainly reflects lower sales prices, the decommissioning of Grafenrheinfeld nuclear power station at the end of June 2015, and the expiration of deliveries to Belgium, the Netherlands, and France.

Adjusted EBIT was €10 million lower, principally because of the absence of earnings streams from Grafenrheinfeld and lower sales prices. Lower expenditures for the nuclear-fuel tax had a positive impact on adjusted EBIT in 2016, as did the non-recurrence of adverse effects recorded in 2015 in conjunction with an arbitration procedure. Fourth-quarter adjusted EBIT improved by €93 million because lower sales prices in the fourth quarter were more than offset by positive effects in conjunction with the nuclear-fuel tax and the non-recurrence of adverse effects recorded in 2015 in conjunction with an arbitration procedure.

Non-Core Business

	PreussenElektra	
€ in millions	2016	2015
Fourth quarter		
Sales	470	430
Adjusted EBITDA	234	193
Adjusted EBIT	208	115
Full year		
Sales	1,538	2,290
Adjusted EBITDA	644	760
Adjusted EBIT	553	563

Net loss

We recorded a net loss of €16 billion in 2016 compared with a net loss of €6.4 billion in 2015. This substantial negative figure is primarily attributable to a loss from discontinued operations, which principally reflects impairment charges on Uniper operations and Uniper's realized loss in conjunction with the deconsolidation of Uniper. In addition, we recorded negative items in conjunction with the law Germany's two houses of parliament passed in December 2016 to reassign responsibility for the country's nuclear waste. By contrast, adjusted net income, which does not include non-operating effects, totaled €0.9 billion, which was just €0.2 billion below the prior-year figure. The decline is mainly attributable to the non-recurrence of positive one-off effects and the absence of earnings streams from divested operations.

The net loss attributable to shareholders of E.ON SE of -€8.5 billion and corresponding earnings per share of -€4.33 were below the respective prior-year figures of -€7 billion and -€3.60. The 2016 figure is after the completion of the Uniper spinoff.

Pursuant to IFRS, income/loss from discontinued operations, net, is reported separately in the Consolidated Statements of Income and includes Uniper's earnings until derecognition (-€14.1 billion). The significant loss reported is mainly attributable to impairment charges recorded primarily in previous quarters, provisions for contingent losses, and Uniper's realized loss in conjunction with the deconsolidation of Uniper. The line item also includes the earnings of the Spain regional unit (2016: €0.2 billion). Note 4 to the Consolidated Financial Statements contains more information about these matters.

We had a tax expense of €0.4 billion compared with €0.7 billion in the prior-year period. Despite our negative earnings before taxes, we incurred a tax expense and consequently had a negative tax rate of 25 percent (prior year: 49 percent). Expenditures that do not reduce taxes and significant effects resulting from the change in the value of deferred tax assets in 2016 were the main reasons for the change in our tax rate.

Net book gains were €358 million below the prior-year figure. In 2016 a book gain on the sale of securities was more than offset by a book loss on the sale of our U.K. E&P business. The prior-year figure includes book gains on the sale of securities, the remaining stake in Energy from Waste, operations in Italy, the E&P business in the Norwegian North Sea, and network segments in Germany.

Restructuring and cost-management expenditures declined by €100 million and, as in the prior year, resulted mainly from cost-cutting programs and the implementation of our new strategy.

Net Loss

	Fourth quarter		Full year	
€ in millions	2016	2015	2016	2015
Net loss	-6,708	-707	-16,007	-6,377
Attributable to shareholders of E.ON SE	*-4,502*	*-898*	*-8,450*	*-6,999*
Attributable to non-controlling interests	*-2,206*	*191*	*-7,557*	*622*
Income/Loss from discontinued operations, net	3,549	216	13,842	4,157
Income/Loss from continuing operations	**-3,159**	**-491**	**-2,165**	**-2,220**
Income taxes	-184	945	440	728
Financial results	123	410	1,314	1,480
Income/Loss from continuing operations before financial results and income taxes	**-3,220**	**864**	**-411**	**-12**
Income/Loss from equity investments	-10	–	-19	1
EBIT	**-3,230**	**864**	**-430**	**-11**
Non-operating adjustments	**4,031**	**281**	**3,542**	**3,574**
Net book gains (-)/losses (+)	*-62*	*-72*	*-63*	*-421*
Restructuring and cost-management expenses	*53*	*124*	*274*	*374*
Marking to market of derivative financial instruments	*-164*	*-67*	*-932*	*134*
Impairments (+)/Reversals (-)	*350*	*180*	*394*	*3,356*
Other non-operating earnings	*3,854*	*116*	*3,869*	*131*
Adjusted EBIT	**801**	**1,145**	**3,112**	**3,563**
Impairments (+)/Reversals (-)	44	6	48	119
Scheduled depreciation and amortization	454	511	1,779	2,162
Adjusted EBITDA	**1,299**	**1,662**	**4,939**	**5,844**

We use derivatives to shield our operating business from price fluctuations. Marking to market of derivatives at December 31, 2016, resulted in a positive effect of €932 million (prior year: -€134 million). The change is mainly attributable to Customer Solutions.

Impairment charges in 2016 were recorded in particular on Renewables' operations in the United States and Italy, Customer Solutions' assets in the United Kingdom, and Energy Networks' gas-storage capacity in Germany. In the prior year we recorded impairment charges primarily at our nuclear energy business in Germany, at Renewables, and at E&P operations in the North Sea and generation operations in Italy that have since been sold.

Other non-operating earnings in 2016 mainly reflected items in conjunction with the law Germany's two houses of parliament passed in December 2016 to reassign responsibility for the country's nuclear waste; these items, along with the related impairment charges, are fully included here. Other non-operating earnings in 2015 includes numerous small positive and negative effects, such as impairment charges on securities.

Adjusted Net Income

Like EBIT, net income also consists of non-operating effects, such as the marking to market of derivatives. Adjusted net income is an earnings figure after interest income, income taxes, and non-controlling interests that has been adjusted to exclude non-operating effects. In addition to the marking to market of derivatives, the adjustments include book gains and book losses on disposals, restructuring expenses, other material non-operating income and expenses (after taxes and non-controlling interests), and interest expense/income not affecting net income, which consists of the interest expense/income resulting from non-operating effects. Adjusted net income also does not include income/loss from discontinued operations.

The E.ON Management Board uses this figure in conjunction with its dividend policy. The goal for the 2016 financial year was to pay out to E.ON shareholders 40 to 60 percent of adjusted net income as dividends.

Adjusted Net Income

	Fourth quarter		Full year	
€ in millions	2016	2015	2016	2015
Income/Loss from continuing operations before financial results and income taxes	**-3,220**	**864**	**-411**	**-12**
Income/Loss from equity investments	-10	–	-19	1
EBIT	**-3,230**	**864**	**-430**	**-11**
Non-operating adjustments	4,031	281	3,542	3,574
Adjusted EBIT	**801**	**1,145**	**3,112**	**3,563**
Interest expense shown in the consolidated statements of income	-113	-410	-1,295	-1,481
Interest expense (+)/income (-) not affecting net income	-221	24	-157	-4
Operating earnings before interest and taxes	**467**	**759**	**1,660**	**2,078**
Taxes on operating earnings	-91	-266	-478	-710
Operating earnings attributable to non-controlling interests	-113	-116	-278	-292
Adjusted net income	**263**	**377**	**904**	**1,076**

Financial Situation

E.ON presents its financial condition using, among other financial measures, economic net debt, debt factor, and operating cash flow.

Finance Strategy

Our finance strategy focuses on E.ON's capital structure. Ensuring that E.ON's access to capital markets is commensurate with its debt level is at the forefront of this strategy.

With our target capital structure we aim to sustainably secure a strong BBB/Baa rating.

We manage E.ON's capital structure using our debt factor, which is equal to our economic net debt divided by adjusted EBITDA; it is therefore a dynamic debt metric. Economic net debt includes not only our financial liabilities but also our provisions for pensions and asset-retirement obligations.

The interest-rate environment at the balance-sheet date led in some cases to negative real interest rates on asset-retirement obligations. As a result, our provisions exceed the amount of our asset-retirement obligations as they stood at year-end 2016 without factoring in discounting and cost-escalation effects. This limits the relevance of our economic net debt as a key figure. We want economic net debt to continue to serve as a useful key figure that aptly depicts our debt situation. In the case of material provisions affected by negative real interest rates, we henceforth use the aforementioned actual amount of the obligation instead of the balance-sheet figure to calculate our economic net debt.

Germany's two houses of parliament enacted a law to fund the country's phaseout of nuclear energy. This altered the nature and scope of E.ON's remaining nuclear asset-retirement obligations. In addition, the deconsolidation of Uniper led to substantial changes in our debt line items. The comparability of our 2016 and 2015 economic net debt is therefore limited. In view of these structural changes, it did not make sense to adjust the prior-year figures. Consequently, we apply our new methodology effective January 1, 2016, and have left the prior-year figures unadjusted.

We aim to reduce our debt factor to about 4 over the medium term.

Economic Net Debt

The comparability of our economic net debt in 2016 and 2015 is subject to a number of significant restrictions. First, the spinoff and deconsolidation of Uniper significantly reduced the amount of several line items of our Consolidated Balance Sheets, in particular our net financial position. Second, the accounting treatment of the measures to fund Germany's nuclear energy phaseout involved a revaluation of the remaining provisions and a substantial increase in asset-retirement obligations due to the inclusion of the risk surcharge.

These and other factors led to a net financial position of approximately just €0.9 billion at year-end 2016. By contrast, the provisions included in our economic net debt rose by €2.3 billion owing to the above-described revaluation of these provisions.

Economic Net Debt

	December 31	
€ in millions	2016	2015
Liquid funds	8,573	8,190
Non-current securities	4,327	4,724
Financial liabilities	-14,227	-17,742
FX hedging adjustment	390	218
Net financial position	**-937**	**-4,610**
Provisions for pensions	-4,009	-4,210
Asset-retirement obligations	-21,374[1]	-18,894
Economic net debt	**-26,320**	**-27,714**
Adjusted EBITDA	4,939	7,557[2]
Debt Factor	**5.3**	**3.7[2]**

[1]This figure is not the same as the asset-retirement obligations shown in our Consolidated Balance Sheet (€22,515 million). This is because we calculate our economic net debt in part based on the actual amount of our obligations with reasons for this being explained above.
[2]Not adjusted for Uniper; figure as reported in the 2015 Annual Report.

Funding Policy and Initiatives

The key objective of our funding policy is for E.ON to have access to a variety of financing sources at all times. We achieve this objective by basing our funding policy on the following principles. First, we use a variety of markets and debt instruments to maximize the diversity of our investor base. Second, we issue bonds with terms that give our debt portfolio a balanced maturity profile. Third, we combine large-volume benchmark issues with smaller issues that take advantage of market opportunities as they arise. In the past, external funding was generally carried out by our Dutch finance subsidiary, E.ON International Finance B.V. ("EIF"), under guarantee of E.ON SE or by E.ON SE itself, and the funds were subsequently on-lent in the Group. E.ON issued no new bonds in 2016.

Financial Liabilities

€ in billions	December 31 2016	2015
Bonds[1]	11.9	13.8
EUR	*4.7*	*6.0*
GBP	*4.0*	*4.7*
USD	*2.8*	*2.8*
JPY	*0.2*	*0.2*
Other currencies	*0.2*	*0.1*
Promissory notes	0.4	0.4
Commercial paper	–	–
Other liabilities	1.9	3.5
Total	**14.2**	**17.7**

[1]Includes private placements.

With the exception of a U.S.-dollar-denominated bond issued in 2008, all of E.ON SE and E.ON International Finance B.V.'s currently outstanding bonds were issued under our Debt Issuance Program ("DIP"). The DIP enables us to issue debt to investors in public and private placements. It was last extended for one year in April 2015 with a total volume of €35 billion, of which about €9.7 billion was utilized at year-end 2016. After the DIP expired in April 2016 we did not extend it because of the Uniper spinoff. E.ON SE intends to renew the DIP in 2017.

In addition to our DIP, we have a €10 billion European Commercial Paper ("CP") program and a $10 billion U.S. CP program under which we can issue short-term liabilities. We had no CP outstanding at year-end 2016 (prior year: €0 million).

E.ON also has access to an originally five-year, €5 billion syndicated revolving credit facility, which was concluded with 24 banks on November 6, 2013, and which includes two options to extend the facility, in each case for one year. In 2014 E.ON exercised the first option and extended the facility for one year to 2019. In 2015 E.ON, with the banks' agreement, postponed until 2016 a possible exercise of the second option to extend the facility for one more year. We did not exercise this second option. Effective September 13, 2016, we reduced the credit facility from €5 billion to €3.5 billion in connection with the Uniper spinoff. This facility has not been drawn on and instead serves as a reliable, ongoing general liquidity reserve for the E.ON Group. Participation in the credit facility indicates that a bank belongs to E.ON's core group of banks.

Alongside financial liabilities, E.ON has, in the course of its business operations, entered into contingencies and other financial obligations. These include, in particular, guarantees, obligations from legal disputes and damage claims, current and non-current contractual, legal, and other obligations. Notes 26, 27, and 31 to the Consolidated Financial Statements contain more information about E.ON's bonds as well as liabilities, contingencies, and other commitments.

Standard & Poor's ("S&P") and Moody's long-term ratings for E.ON are BBB+ and Baa1, respectively. Moody's downgraded E.ON's long-term rating from A3 to Baa1 in March 2015, S&P from A- to BBB+ in May 2015. In February 2016 both rating agencies placed E.ON's long-term ratings on review for possible downgrades. The actions were based on a number of factors, including a sector-wide review of European utility companies with exposure to commodity and power price developments. The decisions were also based on the uncertainties surrounding the policy discussions on the possible funding of German nuclear provisions. In May 2016 both S&P and Moody's concluded their reviews and affirmed their long-term ratings of BBB+ and Baa1, respectively. The outlook for both ratings is negative. The short-term ratings are A-2 (S&P) and P-2 (Moody's).

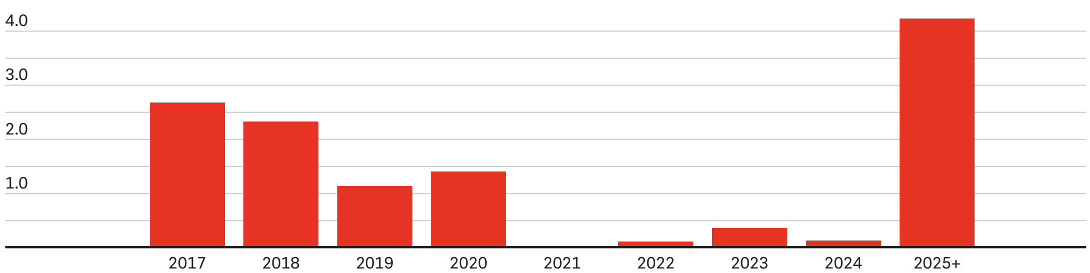
E.ON SE Ratings

	Long term	Short term	Outlook
Moody's	Baa1	P-2	negative
Standard & Poor's	BBB+	A-2	negative

Providing rating agencies and bond investors with timely, comprehensive information is an important component of our creditor relations. The purpose of our creditor relations is to earn and maintain our investors' trust by communicating a clear strategy with the highest degree of transparency. To achieve this purpose, we hold E.ON debt investor updates in major European financial centers, conference calls for debt analysts and investors, and informational meetings for our core group of banks.

Maturity Profile of Bonds and Promissory Notes Issued by E.ON SE, E.ON International Finance B.V., and E.ON Beteiligungen GmbH

€ in billions — December 31, 2016



Investments

Investments in our core business were €57 million above, total investments €58 million below, the prior-year level. We invested €3,035 million in property, plant, and equipment and intangible assets (prior year: €2,982 million). Share investments totaled €134 million versus €245 million in the prior-year period.

Investments

€ in millions	2016	2015	+/- %
Energy Networks	1,419	1,521	-7
Customer Solutions	580	531	+9
Renewables	1,070	1,010	+6
Corporate Functions/Other	98	65	+51
Consolidation	-21	-38	–
Investments in core business	**3,146**	**3,089**	**+2**
Non-Core Business (PreussenElektra)	15	16	-6
Other (divested operations)	8	122	-93
E.ON Group investments	**3,169**	**3,227**	**-2**

Energy Networks' investments were €102 million, or 7 percent, lower than the prior-year level due to a significant reduction in investments at the East-Central Europe/Turkey reporting unit. The responsibility for implementing the energy transition in Germany is shared across society by policymakers and companies, academics and consumers. The expansion of our distribution networks provides important support to the energy transition and contributes substantially to its success. The rapid growth of renewables makes it necessary to expand and upgrade the distribution network so that it can accept and transport increased renewables output. This is the only way to continue to ensure supply security for energy customers into the future. In 2016 our services territories around Germany again saw an increase in the number of generating facilities subsidized under the Renewable Energy Law ("REL"). The number of REL facilities rose by 3 percent year on year to around 375,000. Installed REL capacity in our distribution networks increased from 31 GW to 34 GW. The increase in the number of network connections for REL facilities led to significant construction activity in our distribution networks. Our Energy Networks segment invested €846 million in Germany in 2016, significantly more (+6 percent) than in the prior year. In addition, the connection of new residential developments led to an increase in customer connections in Germany in 2016. Investments in Sweden were up slightly.

Customer Solutions invested €49 million more than in the prior-year period, principally because of higher investments in the United Kingdom, in Sweden, at E.ON Connecting Energies, and in the Czech Republic. Investments in the United Kingdom went toward metering and efficiency projects. Investments in Sweden served to maintain, upgrade, and expand existing assets as well as the heat distribution network. The increase in E.ON Connecting Energies' investments principally reflects the expansion of its business of providing energy-efficiency solutions to industrial and commercial customers in Germany and the initial consolidation of a business in Italy. The completion of combined-heat-and-power units and higher investments in network-services equipment were among the reasons for the increase in the Czech Republic.

Investments at Renewables increased by €60 million. Onshore Wind/Solar's investments rose by €243 million, primarily because of the completion of a wind farm in the United States. Offshore/Other's investments declined by €183 million owing to a reduction in expenditures for new-build projects.

Investments at Non-Core Business (nuclear energy operations in Germany) were slightly below the prior-year level.

Cash Flow

Our operating cash flow of €3 billion was €1.2 billion below the prior-year figure of €4.2 billion, primarily because of higher net tax payments and the absence of cash inflow from the E&P business, which has now been divested. In addition, an increase in working capital was only partially offset by countervailing effects, such as lower interest payments.

Cash Flow[1]

€ in millions	2016	2015
Cash provided by (used for) operating activities of continuing operations (operating cash flow)	2,961	4,191
Operating cash flow before interest and taxes	3,974	4,749
Cash provided by (used for) investing activities	-3,041	1,443
Cash provided by (used for) financing activities	-1,152	-3,912

[1]From continuing operations.

Cash provided by investing activities of continuing operations amounted to around -€3 billion compared with €1.4 billion in the prior year. Of this -€4.4 billion change, -€3.5 billion resulted from lower cash inflows from disposals, mainly relating to the non-recurrence of proceeds on the sale of the business in Spain, certain operations in Italy (solar, hydro, and conventional generation), the E&P business in Norway, and the remaining 49-percent stake in the former E.ON Energy from Waste. Investments were almost unchanged. We recorded net cash outflows from sale or purchase of securities, financial liabilities, and fixed investments of -€0.8 billion compared with +€0.2 billion in 2015.

Cash provided by financing activities of continuing operations amounted to -€1.2 billion compared with -€3.9 billion in the prior year. The change of roughly +€2.7 billion is mainly attributable to a €2.7 billion reduction in the net repayment of financial liabilities. A €0.3 billion increase in the dividend payout to E.ON SE shareholders was almost entirely offset by net cash inflows from changes in capital (changes in minority ownership interests in fully consolidated Group companies).

Asset Situation

Our asset situation reflects the deconsolidation of Uniper's operations effective December 31, 2016, which led to a significant reduction in our total assets and liabilities relative to year-end 2015. This affects both our non-current and current assets. Effective the balance-sheet date, E.ON SE's remaining Uniper stake is recorded under financial investments as a company accounted for using the equity method.

Our equity ratio (including non-controlling interests) at year-end 2016 was 2 percent, which is substantially below the year-end 2015 figure of 17 percent. The decline reflects the transfer of Uniper stock to E.ON shareholders, our net loss, the remeasurement of defined-benefit plans due to lower actuarial interest rates, and the dividend payout. Our net loss primarily reflects a loss from discontinued operations of approximately €13.8 billion and items in the amount of €3.6 billion in conjunction with Germany's law to reassign responsibility for the country's nuclear waste. The loss from discontinued operates includes the €7 billion impairment charge on Uniper's book value to reflect its lower market capitalization and an additional deconsolidation loss of €3.6 billion resulting mainly from previously unrealized currency-translation effects that had been recorded in equity. The E.ON Group's equity at year-end was €1.3 billion. Equity attributable to shareholders of E.ON SE was -€1 billion.

Non-current liabilities declined by 36 percent from the figure at year-end 2015. As on the asset side, the reduction reflects the deconsolidation of Uniper's operations. In addition, provisions for the final storage of nuclear waste were reclassified as non-current liabilities.

Current liabilities declined by 31 percent relative to year-end 2015. The deconsolidation of Uniper's operations was partially offset by the reclassification of non-current provisions for the final storage of nuclear waste.

Consolidated Assets, Liabilities, and Equity

€ in millions	Dec. 31, 2016	%	Dec. 31, 2015	%
Non-current assets	46,296	73	73,612	65
Current assets	17,403	27	40,081	35
Total assets	**63,699**	**100**	**113,693**	**100**
Equity	1,287	2	19,077	17
Non-current liabilities	39,287	62	61,172	54
Current liabilities	23,125	36	33,444	29
Total equity and liabilities	**63,699**	**100**	**113,693**	**100**

Additional information about our asset situation (including information on the above-mentioned impairment charges) is contained in Notes 4 to 26 to the Consolidated Financial Statements.

E.ON SE's Earnings, Financial, and Asset Situation

E.ON SE prepares its Financial Statements in accordance with the German Commercial Code (in version included in the Accounting Directive Implementation Act, which took effect on July 23, 2015), the SE Ordinance (in conjunction with the German Stock Corporation Act), and the Electricity and Gas Supply Act (Energy Industry Act).

Balance Sheet of E.ON SE (Summary)

	December 31	
€ in millions	2016	2015
Intangible assets and property, plant and equipment	14	18
Financial assets	37,368	47,986
Non-current assets	**37,382**	**48,004**
Receivables from affiliated companies	8,089	22,919
Other receivables and assets	1,734	1,764
Liquid funds	4,664	4,343
Current assets	**14,487**	**29,026**
Accrued expenses	30	37
Asset surplus after offsetting of benefit obligations	15	1
Total assets	**51,914**	**77,068**
Equity	5,384	12,469
Provisions	2,578	2,661
Liabilities to affiliated companies	43,102	60,892
Other liabilities	845	1,036
Deferred income	5	10
Total equity and liabilities	**51,914**	**77,068**

E.ON SE is the parent company of the E.ON Group. As such, its earnings, financial, and asset situation is affected by income from equity interests. The positive figure recorded for this item in 2016 reflects, in particular, a withdrawal from the capital reserves of E.ON Beteiligungen GmbH in the amount of €3,784 million and a profit transfer of €216 million from E.ON Iberia Holding GmbH. The main countervailing factors were a loss transfer of €1,186 million from E.ON Beteiligungen GmbH and a loss transfer of €722 million from E.ON Energie AG.

E.ON SE und Uniper SE concluded a Spinoff and Takeover Agreement on April 18, 2016. Under this agreement, E.ON SE transferred by means of a spinoff its entire ownership interest in Uniper Beteiligungs GmbH, with all rights and obligations, as an entirety to Uniper SE in return for the transfer of Uniper SE stock to E.ON SE shareholders (the transaction was therefore a spinoff through transfer within the meaning of Section 123, Paragraph 2, Item 1 of the German Reorganization Act). The spinoff and stock-market listing of Uniper SE were successfully concluded in September 2016. As a result, Uniper Beteiligungs GmbH in the amount of €6,968.6 million was removed from the line item interest in affiliated companies. The decline in financial assets principally reflects a withdrawal from the capital reserves of E.ON Beteiligungen GmbH in the amount of €4,916 million and an intragroup loan of €1,233 million to E.ON UK Holding Company Limited.

Liabilities to affiliated companies at year-end 2016 declined primarily owing to the spinoff of a majority stake in Uniper companies and the resulting cancellation of cash-pooling with these companies and to the conclusion of a transfer-of-control agreement with Uniper SE and its subsidiaries.

Note 19 to the Consolidated Financial Statements contains information about treasury shares.

Income Statement of E.ON SE (Summary)

€ in millions	2016	2015
Income from equity interests	2,134	-1,639
Interest income	-546	-678
Other expenditures and income	-551	-569
Taxes	-160	755
Net income	**877**	**-2,131**
Withdrawal from capital reserve	3,357	–
Withdrawals from retained earnings	3,612	3,107
Income reduction from spinoff	-6,969	–
Net income transferred to retained earnings	-425	–
Net income available for distribution	**452**	**976**

The negative figure recorded under other expenditures and income results primarily from expenditures of €205 million for consulting and auditing services, personnel expenditures of €146 million, and additions of €117 million to provisions for mining-related damages.

Income taxes shown for 2016 consist mainly of tax income for previous years. No income taxes were incurred for the 2016 financial year owing to the net loss from a tax perspective.

At the Annual Shareholders Meeting on May 10, 2017, management will propose that net income available for distribution be used to pay a cash dividend of €0.21 per ordinary share. Remaining income available for distribution will be brought forward as retained earnings.

Management's proposal for the use of net income available for distribution is based on the number of ordinary shares on March 13, 2017, the date the Financial Statements of E.ON SE were prepared. The number of ordinary shares could change between this date and the date of the Annual Shareholders Meeting. In this case, the Annual Shareholders Meeting will be presented with an adjusted proposed resolution for the use of net income available for distribution. The dividend in the adjusted proposed resolution will be unchanged at €0.21 per ordinary share. In this case, however, the total dividend payout and the amount brought forward as retained earnings will be adjusted accordingly.

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

Other Financial and Non-financial Performance Indicators

ROCE and Value Added

Cost of Capital

The cost of capital is determined by calculating the weighed-average cost of equity and debt. This average represents the market-rate returns expected by stockholders and creditors. The cost of equity is the return expected by an investor in E.ON stock. The cost of debt equals the long-term financing terms that apply in the E.ON Group. The parameters of the cost-of-capital determination are reviewed on an annual basis.

Our review of the parameters in 2016 led us to adjust our after-tax cost of capital from 4.9 percent to 4 percent, mainly because of a lower risk-free interest rate resulting from the persistently low interest-rate environment. The table below shows the derivation of cost of capital before and after taxes.

Cost of Capital

	2016	2015
Risk-free interest rate	0.5%	1.25%
Market premium[1]	6.75%	6.75%
Debt-free beta factor	0.50	0.52
Indebted beta factor[2]	0.92	0.90
Cost of equity after taxes	**6.70%**	**7.30%**
Average tax rate	31%	27%
Cost of equity before taxes	9.7%	10.0%
Cost of debt before taxes	2.6%	3.4%
Marginal tax rate	31%	27%
Cost of debt after taxes	**1.80%**	**2.40%**
Share of equity	45%	50%
Share of debt	55%	50%
Cost of capital after taxes	**4.00%**	**4.90%**
Cost of capital before taxes	**5.80%**	**6.70%**

[1]The market premium reflects the higher long-term returns of the stock market compared with German treasury notes.
[2]The beta factor is used as an indicator of a stock's relative risk. A beta of more than one signals a higher risk than the risk level of the overall market; a beta factor of less than one signals a lower risk.

Analyzing Value Creation by Means of ROCE and Value Added

In 2016 we replaced ROACE with ROCE as key performance indicator for assessing the value performance of our operating business. ROCE is a pretax total return on capital and is defined as the ratio of our EBIT to annual average capital employed. An important difference between ROCE and ROACE lies in how they factor in assets. With ROACE, depreciable assets are recorded at half of their original acquisition or production cost; with ROCE, depreciable assets are recorded at their book value.

Annual average capital employed represents the interest-bearing capital invested in our operating business. It is calculated by subtracting non-interest-bearing available capital from non-current and current operating assets. Goodwill from acquisitions is included at acquisition cost, as long as this reflects its fair value. Changes to E.ON's portfolio during the course of the year are factored into capital employed.

Annual average capital employed does not include the marking to market of other share investments. The purpose of excluding this item is to provide us with a more consistent picture of our ROCE performance.

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

Value added = (ROCE – cost of capital) x annual average capital employed.

ROCE Performance in 2016

ROCE declined from 10.9 percent in 2015 to 10.4 percent in 2016, primarily because of the reduction in our adjusted EBIT. An increase in average capital employed was another factor. This resulted mainly from the capitalization of costs relating to dismantling obligations at PreussenElektra. Our ROCE of 10.4 percent was above our pretax cost of capital, which declined relative to the prior year. This resulted in added value of €1.4 million.

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

E.ON Group ROCE and Value Added

€ in millions	2016	2015
Goodwill, intangible assets, and property, plant, and equipment[1]	31,034	30,470
Shares in affiliated and associated companies and other share investments	4,486	4,251
Non-current assets	**35,520**	**34,721**
Inventories	785	816
Other non-interest-bearing assets/liabilities, including deferred income and deferred tax assets[2]	-4,929	-5,156
Current assets	**-4,144**	**-4,340**
Non-interest-bearing provisions[3]	-1,402	-1,264
Capital employed in continuing operations (at year-end)	**29,974**	**29,117**
Capital employed in continuing operations (annual average)[4]	29,546	29,117
Adjusted EBIT[5]	**3,083**	**3,168**
ROCE[6]	**10.4%**	**10.9%**
Cost of capital before taxes	**5.8%**	**6.7%**
Value added[7]	**1,370**	**1,217**

[1]Depreciable non-current assets are included at their book value. Goodwill from acquisitions is included at acquisition cost, as long as this reflects its fair value.
[2]Examples of other non-interest-bearing assets/liabilities include income tax receivables and income taxes as well as receivables and payables relating to derivatives.
[3]Non-interest-bearing provisions mainly include current provisions, such as those relating to sales and procurement market obligations. They do not include provisions for pensions or for nuclear-waste management.
[4]In order to better depict intraperiod fluctuations in average capital employed, annual average capital employed is calculated as the arithmetic average of the amounts at the beginning of the year and the end of the year. In 2015 the annual average and the year-end figure were the same.
[5]Adjusted for non-operating effects, discontinued operations, and divested operations.
[6]ROCE = adjusted EBIT divided by annual average capital employed; for 2015, ROCE = adjusted EBIT divided by annual capital employed.
[7]Value added = (ROACE – cost of capital) x annual average capital employed; for 2015, value added = (ROACE – cost of capital) x annual capital employed.

Corporate Sustainability

Many and diverse stakeholders—customers and suppliers, policymakers and government agencies, employees and trade unions, nongovernmental organizations and regional interest groups, equity analysts and investors—have high expectations of us and the entire energy industry. Their demands include more renewables and innovative and energy-efficient customer solutions as well as a diverse workforce and a safe and healthy workplace. We take these demands seriously and strive systematically to make our company more sustainable.

We have conducted a materiality analysis at regular intervals since 2006. Its purpose is to identify our stakeholders' expectations of us. Our annual online Sustainability Report describes the issues that are material to our stakeholders and to us as a company as well as how we address these issues. Our reporting is based on the Global Reporting Initiative's G4 sustainability reporting guidelines.

We successfully completed our most recent sustainability work program in 2015. E.ON spun off Uniper in 2016 and now focuses on renewables, energy networks, and customer solutions. This transformation makes sustainability a centerpiece of our corporate strategy, thereby raising stakeholders' expectations for us to operate sustainably. To meet these expectations, we revised our sustainability effort. Our objective is to continually improve our performance and, looking further ahead, to become one of the leading sustainable companies in our industry. We therefore defined five main sustainability focus areas for E.ON, which we describe below under "Highlights in 2016." Each E.ON unit designs a sustainability improvement plan consisting of specific measures and targets. The units' sustainability improvement plans, the progress toward their respective targets, and the results of the materiality analysis are presented to, and discussed by, the Sustainability Governance Council on a regular basis.

Our commitment to transparency includes subjecting our sustainability performance to independent, detailed assessments by investors and rating agencies. The results of these assessments provide important guidance to investors and to us. They help us identify our strengths and weakness and further improve our performance. We are therefore very pleased to be listed in the Multi and Water Utilities category in the 2016 Dow Jones Sustainability Europe Index and World Index; we also earned a higher score for our economic and environmental performance. In 2016 we were again included in the RobecoSAM Sustainability Yearbook and, as a leading company, received a bronze rating.

In addition, the Carbon Disclosure Project ("CDP") awarded E.ON a high grade of A- for the quality, processes, and transparency of our reporting on our carbon emissions and climate change as well as a grade of B for our corporate water disclosures. The CDP is one of the world's largest investor organizations. It helps investors assess whether a company adequately addresses climate change in its decisions and business processes. Furthermore, E.ON continues to be listed in the Euronext Vigeo Europe 120 sustainability index and, in 2016, was for the first time included in the Euronext Vigeo World 120.

Highlights in 2016

The purpose of our sustainability activities has long been to achieve a reasonable balance in addressing environmental, social, and governance issues. Increasingly, sustainability issues influence value drivers such as our sales, reputation, attractiveness as an employer, efficiency, costs, and innovativeness.

At the start of 2016, we therefore conducted workshops to articulate what sustainability means for E.ON. The workshops consisted of more than 60 employees from different departments and hierarchy levels. We discussed their findings with external stakeholders. The result is five new focus areas toward which we will direct our sustainability activities going forward. These focus areas are consistent with our corporate strategy, our vision, and our brand.

We listen to our customers and treat them fairly.

We identify and understand customers' needs. We serve all members of society fairly and with respect.

We help customers optimize their energy usage.

We help customers reduce their energy consumption, costs, and carbon emissions. We develop innovative solutions to drive continuous reduction. We help customers understand their consumption profile so they can identify potential savings.

We build and integrate renewable generating capacity.

We are increasing installed renewables capacity and working to reduce the cost of renewables. Our distribution networks bring power to customers and are therefore the platform for them to use renewable energy.

We protect the health and safety of our customers and colleagues.

We provide a safe and healthy workplace for our employees and our contractors. We look out for our people's mental well-being. We also strive to protect the health and safety of customers who use our energy solutions.

We foster diversity and inclusion in our workforce.

We are committed to building a diverse workforce. We ensure that our recruitment processes are inclusive and that we value every employee and respect difference.

Shared Framework, Individual Implementation
These five focus areas are valid for our entire company. They serve as the starting point for all E.ON units and functions to design their own measures and set their own targets. The units and functions also factor in other sustainability issues that are important for their respective activities. For example, our procurement organization develops measures that promote sustainable supply chain management and embeds sustainability key performance indicators into its management model.

The same applies to our PreussenElektra subsidiary. It too will design its own sustainability improvement plan to address our sustainability focus areas by, for example, developing measures to ensure the continued protection of the environment and of its employees' health and safety.

Carbon Emissions
Following the transfer to Uniper SE of entities that operate fossil-fueled generating units, our carbon emissions from power and heat production totaled 1.2 million metric tons in 2016. As in the prior year, we included all combustion plants covered by the EU Emissions Trading Scheme (plants with a capacity of more than 20 MW). Due to the spinoff, which was part of our new strategy, a comparison with the prior-year figure of 76.8 million metric tons would have no informational value.

Our 2016 Sustainability Report, which will be published online in early May, will contain detailed information about our emissions. This report is not part of the Combined Group Management Report.

Employees

People-Strategy
An organization's business strategy and its products and services can be copied. What cannot be easily copied are an organization's people, its culture, and its capabilities. The successful delivery of any business strategy depends on an organization having available highly qualified and motivated employees as well as a strong and diverse talent pipeline.

Great companies execute their People Strategy with the same energy and determination they apply to the business strategy. A key success factor is for HR functions to be business-integrated.

The One2two project led to changes in E.ON's organizational setup. Other changes have resulted from E.ON's focus on the new energy world. In response, we decided to review the basic structure of our People Strategy and to identify any modifications that might be necessary.

For this purpose, our HR team conducted a survey and an analysis of the business requirements of our various units.

The result is a People Strategy that emphasizes even more clearly and explicitly the five values of the E.ON vision and that provides the right support for our employees as they implement E.ON's radical focus on the new energy world. The focus areas for this support are Preparing our People for the Future, Providing Opportunities, and Recognizing Performance.

These focus areas are therefore unchanged and will continue to guide all our HR activities for the next three to five years. This demonstrates that our existing People Strategy provides an excellent foundation for meeting the challenges resulting from the spinoff.

The spinoff has brought with it some new work patterns as E.ON pursues ambitious goals while operating in demanding market environments. The focus areas of our People Strategy will enable us to continue to put the needs of our employees and executives at the center of what we do.

One2two and the Involvement of Employee Representation
The main focus of our HR work in 2016 was on preparing to take the final employee-related steps for the Uniper spinoff. The close, constructive working relationship between management and employee representatives was again an important success factor for the implementation of the One2two project, just as it had been in the previous year. It continued in the spirit the Joint Declaration and Framework Agreement of the Management Board of E.ON SE, the Executive Committee of the SE Works Council of E.ON SE and the Executive Committee of the Group Works Council of E.ON SE, which was agreed on in 2014. In particular, the Joint Declaration sets the main social framework for any One2two measures and for the involvement of employee representatives in One2two.

A Project Council consisting of leading employee representatives was created in 2015. In 2016 it was continuously informed in advance of decisions pending in the Project Steering Committee. It had the opportunity to discuss the decisions with the E.ON Management Board and to make alternative recommendations. Employee representatives were at all times actively involved in One2two decision-making processes and implementation projects at an early stage.

The Uniper spinoff led to the decision to separate the support functions as well (IT, HR, and Financial Services). Employees were assigned on the basis of the One2two rules and guidelines which had been negotiated with the works councils and specified in the Partnership Agreement between E.ON, Uniper, and E.ON Business Services.

Phoenix and the Involvement of Employee Representatives
In the fourth quarter of 2016 E.ON launched a restructuring program called Phoenix. It will be conducted in keeping with our well-established tradition of working closely with employee representatives and involving them early. A Joint Declaration and Framework Agreement of the Management Board of E.ON SE, the Executive Committee of the SE Works Council of E.ON SE and the Group Works Council of E.ON SE was concluded in November and thus at an early stage of Phoenix. This document will serve as the foundation for management and employee representatives to work together openly and constructively throughout Phoenix. A Project Council consisting of leading employee representatives was created, as it had been with One2two. It met for the first time in December, marking the beginning of employee representatives' continual involvement in Phoenix.

Collaborative Partnership with Employee Representatives
E.ON places a strong emphasis on working with employee representatives as partners. This collaborative partnership is integral to our corporate culture. At a European level, E.ON management works closely with the SE Works Council of E.ON SE, whose members come from all European countries in which E.ON operates. Under the SE Agreement, the SE Works Council of E.ON SE is informed and consulted about issues that transcend national borders.

Alongside the forms of codetermination required by law in European countries outside Germany, the involvement of employee representatives in these countries is fostered by the SE Agreement, by collaboration at the Group level, and by the Agreement on Minimum Standards for Restructuring Measures, which was concluded between management and the European Works Council (the forerunner of the SE Works Council of E.ON SE) in 2010.

Prior to E.ON's adoption of a functionally oriented management model, in 2014 management and the Group Works Council in Germany concluded the Agreement on Future Social Partnership in the Context of the Functionally Oriented Management Model. The agreement, which stipulates the principles of the future social partnership at E.ON's operations in Germany, manifests a shared responsibility for the company and its employees and represents a special milestone in the history of codetermination at E.ON.

Talent Management
The purpose of our talent management is to hire highly qualified people and to foster our employees' ongoing personal and professional development.

In 2016 E.ON's status as a top employer was again confirmed by prestigious rankings.

This recognition was one of the reasons we were able to attract outstanding talent, including recent university graduates. The E.ON Graduate Program remained one of the most coveted ways of joining our company. Participants are assigned a mentor, receive special training, and gain experience during placements at their home E.ON unit as well as at other units in the same country and elsewhere. Sixty-four graduates entered the program in 2016. Their backgrounds and interests reflect the emphasis E.ON places on diversity:

- They will work in a wide range of job families (including engineering, IT, sales, finance, corporate development, and HR).
- They come from around the world (including the United Kingdom, Germany, Azerbaijan, Pakistan, Vietnam, Nigeria, China, India, Hungary, Romania, Spain, and Sweden).
- At 33 percent, the proportion of women participants remains high.

The foundation of our strategic, needs-oriented talent management is the Management Review Process, which we conducted again in 2016. It helps ensure the continued professional development of managers and executives, our various units and job families, and the entire organization. It also creates transparency about our current talent situation and our needs for the future.

In 2016 we conducted more events for talented employees. The main purpose of these events is for the participants to get to know each other, to network, and to share information across organizational boundaries. In addition, participants discuss thoroughly issues that are important to our business.

In 2016 we also completely revised our talent landscape. The new landscape, which will be introduced in 2017, will enable us to continue to meet our business units' changing needs and requirements. A key criterion during the design phase was to increase the ways in which we identify and develop talent at the various levels of our company. In addition, the new talent landscape encompasses not only the typical executive career path but also those of project managers and experts. It offers greater variation in each career path, promotes flexibility, and tailors an individual development program for each talented employee. In short, it puts our people at the center and facilitates career planning that meets the highest standards of today's business world.

Professional Development
We launched our HR Online Learning App, a new learning management system, in 2016. It better integrates our formal learning and training offerings into our peoples' workday. Additional user-friendly improvements to the new learning platform are on the way. They will enable our people access learning offerings on their mobile devices and will supplement our formal offerings with informal learning opportunities, such as the use of additional learning resources alongside our course offerings. In 2016 we also began the Group-wide rollout of 2020 Leadership, a new program whose purpose is to systematically prepare our leaders for the new leadership requirements in the digital age.

Our catalog of formal training courses was supplemented by other projects and initiatives specifically tailored to our company, such as the Change Cube and Learning Take-Away Days.

Our central Learning Management System recorded 109,036 enrollments in our formal courses (which do not include our online learning programs) in 2016. This equals 72,805 days of classroom training, which accounts for 70 percent of our total training offerings. On average, each employee received 1.7 days of training in 2016. We do not record the duration of use of our online learning programs.

Diversity

Diversity will remain a key element of E.ON's competitiveness. Diversity and an appreciative corporate culture promote creativity and innovation. This is a central aspect of the E.ON vision as well. E.ON brings together a diverse team of people who differ by nationality, age, gender, disability, religion, and/or cultural and social background. Diversity is a key success factor. Numerous studies have shown that heterogeneous teams outperform homogenous ones. Diversity is equally crucial in view of demographic trends. Going forward, only those companies that embrace diversity will be able to remain attractive employers and be less affected by the shortage of skilled workers. In addition, a diverse workforce enables us to do an even better job of meeting our customers' needs and requirements. More than a decade ago, in 2006, we issued a Group Policy on Equal Opportunity and Diversity, which we updated in 2016 in cooperation with the European Works Council. In June 2008 we publicly affirmed our long-standing commitment to fairness and respect by signing the German Diversity Charter, which now has about 2,400 signatories. E.ON therefore belongs to a large network of companies committed to diversity, tolerance, fairness, and respect.

Our approach to promoting diversity is holistic, encompassing all dimensions of diversity. It ensures equal opportunity for all employees and fosters and harnesses diversity in an individual way.

In 2016 we again implemented numerous measures to promote diversity at E.ON. An important purpose of these measures is to foster the career development of female managers. Each unit has specific targets, and progress towards these targets is monitored at regular intervals. We have Group-wide recruiting and hiring guidelines for management positions. These guidelines require that least one male and one female must be on the short list for a vacant management position. As a result, in 2016 we again increased the proportion of women in leadership positions. This proportion rose from just over 11 percent in 2010 to 19.6 percent at year-end 2016 for the Group as a whole and from 9 percent to 15.7 percent for Germany. Our units have had support mechanisms for female managers in place for a number of years. These mechanisms include mentoring programs for female next-generation managers, coaching, unconscious-bias training, the provision of daycare, and flexible work schedules. Significantly increasing the percentage of women in our internal talent pool is a further prerequisite for raising, over the long term, their percentage in management and top executive positions.

We conducted activities and initiatives throughout 2016 to enable all of our employees to experience difference and diversity and to raise their awareness of the contribution made by each individual. For example, we hosted an exhibition on disability and commemorated International Women's Day across our company.

Many of these measures are already having an impact. Our progress is receiving recognition outside our company as well. For example, E.ON received the Total E-Quality Seal for exemplary HR policies based on equal opportunity and diversity for the third year in a row.

More information about E.ON's compliance with Germany's Law for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector can be found in the Management's Statement regarding this law.

Workforce Figures

At year-end 2016 the E.ON Group had 43,138 employees worldwide, roughly the same number as at year-end 2015. E.ON also had 971 apprentices in Germany and 124 board members and managing directors worldwide. These numbers have been adjusted to exclude Uniper employees.

Employees[1]

	December 31		
Headcount	2016	2015	+/- %
Energy Networks	16,814	14,932	+13
Customer Solutions	19,106	20,860	-8
Renewables	1,082	913	+19
Corporate Functions/Other[2]	4,102	4,237	-3
Core business	**41,104**	**40,942**	**–**
Non-core Business (PreussenElektra)	2,034	1,998	+2
Other (divested operations)	–	222	-100
E.ON Group	**43,138**	**43,162**	**–**

[1]Does not include board members, managing directors, or apprentices.
[2]Includes E.ON Business Services.

The hiring of apprentices in Germany as full-time employees and, in particular, the transfer of service employees in Romania from Customer Solutions were the main reasons for the increase in Energy Networks' headcount. This was partially offset by restructuring in Romania.

The transfer of service employees in Romania to Energy Networks along with restructuring were the main reasons for the decline in Customer Solutions' headcount.

The filling of vacancies and business expansion in the United States led to an increase in the number of employees at Renewables.

Transfers to Uniper as part of the spinoff project led to a significant decline in headcount at Corporate Functions/Other. This does not include divested operations.

Non-Core Business currently consists of our nuclear energy business in Germany. The separation of this business in conjunction with the Uniper spinoff led to a need to add staff in some departments, resulting in a slight increase in the number of employees.

The decline in headcount at Other resulted from the sale of exploration and production operations.

Geographic Profile

At year-end 2016, 25,899 employees, or 60 percent of all staff, were working outside Germany, slightly less than the 61 percent at year-end 2015.

Employees by Country[1]

	Headcount		FTE[3]	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Germany	17,239	16,882	16,695	16,324
United Kingdom	9,850	9,694	9,363	9,210
Romania	5,464	6,175	5,415	5,681
Hungary	5,000	4,903	4,992	4,896
Czechia	2,401	2,331	2,387	2,317
Sweden	1,999	1,980	1,967	1,955
USA	475	351	475	351
Other[2]	710	846	702	837

[1]Figures do not include board members, managing directors, or apprentices.
[2]Includes Poland, Italy, Denmark, and other countries.
[3]Full-time equivalent.

Gender and Age Profile, Part-Time Staff

At the end of 2016, 32.1 percent of our employees were women, incrementally higher than the figure of 32 percent at the end of 2015.

Proportion of Female Employees

Percentages	2016	2015
Energy Networks	20	21
Customer Solutions	43	39
Renewables	21	23
Corporate Functions/Other[1]	45	45
Core business	**33**	**33**
Non-Core Business (PreussenElektra)	13	12
Other (divested operations)	–	36
E.ON Group	**32.1**	**32.0**

[1]Includes E.ON Business Services.

The average E.ON Group employee was about 42 years old and had worked for us for about 14 years.

Employees by Age

Percentages at year-end	2016	2015
30 and younger	18	18
31 to 50	55	56
51 and older	27	26

A total of 3,517 employees, or 8 percent of all E.ON Group employees, were on a part-time schedule. Of these, 2,898, or 82 percent, were women.

Part-time Rate

Percentages	2016	2015
Energy Networks	4	7
Customer Solutions	11	10
Renewables	3	3
Corporate Functions/Other[1]	12	12
Core business	**8**	**9**
Non-Core Business (PreussenElektra)	5	5
Other (divested operations)	–	2
E.ON Group	**8**	**9**

[1]Includes E.ON Business Services.

The turnover rate resulting from voluntary terminations averaged 5.3 percent across the organization, significantly higher than in the prior year (3.5 percent). The increase was due to voluntary terminations as part of restructuring programs in Romania along with an increase in voluntary terminations in the United Kingdom.

Turnover Rate

Percentages	2016	2015
Energy Networks	4.1	1.5
Customer Solutions	6.0	4.4
Renewables	8.1	10.5
Corporate Functions/Other[1]	7.7	6.2
Core business	**5.5**	**3.6**
Non-Core Business (PreussenElektra)	1.7	2.0
Other (divested operations)	1.4	1.4
E.ON Group	**5.3**	**3.5**

[1]Includes E.ON Business Services.

Occupational Health and Safety

Occupational health and safety have the highest priority at E.ON. A key performance indicator ("KPI") for our safety is total recordable injury frequency ("TRIF")—which measures the number of reported fatalities, lost-time injuries, restricted-work injuries, and medical-treatment injuries that occur on the job—per million hours of work. Our TRIF figures also include E.ON companies that are not fully consolidated but over which E.ON has operational control. E.ON employees' TRIF in 2016 was 2.5, the same low level as in the prior year. The change is partly a result of a further improvement in our reporting culture.

Regrettably, three employees died on the job in 2016, and another suffered fatal injuries in a traffic accident. The accidents occurred in Germany, the United Kingdom, and the Czech Republic.

To continually improve their safety performance, our units have in place certified health, safety, and environment ("HSE") management systems that meet international standards. To ensure improvement is continuous, our units develop HSE improvement plans based on a management review of their performance in the prior year. In addition, in 2016 the top executives of all units were required to participate in a specially designed HSE leadership training module.

The healthcare systems of the countries we operate in differ considerably in terms of their delivery of medical care, their health-insurance and pension systems, and their legal requirements for occupational health and safety. Nevertheless, the most common illnesses that make employees unable to work are the same in all countries: musculoskeletal disorders, psychological problems, and respiratory infections. The leading causes of death are the same as well: heart disease and cancer. E.ON's health policies focus on preventing these diseases. We strive to prevent psychological problems by providing mental-health training and by conducting a program that gives employees access to outside counselors. Check-ups and preventive care by our company doctors help reduce general and workplace-specific risks. We also conduct campaigns to raise awareness of bowel cancer and the importance of detecting cancer early. Flu vaccination programs help prevent dangerous respiratory illnesses. Together, these programs address the increasingly important issue of maintaining our employees' capacity to work.

Compensation, Pension Plans, Employee Participation

Attractive compensation and appealing fringe benefits are essential to a competitive work environment. The compensation plans of nearly all our employees contain an element that reflects the company's performance. This element is typically based on the same key figures that are also used in the Management Board's compensation plan.

Company contributions to employee pension plans represent an important component of an employee's compensation package and have long had a prominent place in the E.ON Group. They are an important foundation of employees' future financial security and also foster employee retention. E.ON companies supplement their company pension plans with attractive programs to help their employees save for the future.

Apprenticeships

E.ON continues to place great emphasis on vocational training for young people. The E.ON Group had 971 apprentices and work-study students in Germany at year-end 2016. This represented 5.3 percent of E.ON's total workforce in Germany, compared with 5.5 percent at the end of the prior year. The number of apprentices as well as their proportion of our total workforce declined relative to the prior year. This is mainly attributable to a reduction in the number of apprentices taken on at our nuclear power stations.

Established in 2003 as part of a pact between industry and the German federal government, the E.ON training initiative to combat youth unemployment was extended for three more years and will now continue through 2020. In 2015 it helped more than 460 young people in Germany get a start on their careers through internships that prepare them for an apprenticeship as well as school projects and other programs. The number of participants declined from 550 in 2015 owing to a tighter budget and a redesign of the initiative.

Apprentices in Germany

	Headcount		Percentage of workforce	
At year-end	2016	2015	2016	2015
Energy Networks	821	799	8.4	8.4
Customer Solutions	17	13	0.6	0.5
Renewables	–	–	–	–
Corporate Functions/Other	63	89	2.0	2.6
Core business	**901**	**901**	**5.6**	**5.7**
Non-Core Business (PreussenElektra)	70	89	3.3	4.3
E.ON Group	**971**	**990**	**5.3**	**5.5**

Forecast Report

Business Environment

Macroeconomic Situation

The OECD forecasts a gradual acceleration of global economic growth in 2017 and 2018. It expects the global economy to grow by 3.3 percent in 2017 and by 3.6 percent in 2018. The corresponding figures for the United States are 2.3 percent and 3 percent, where weaker growth (1.6 percent and 1.7 percent) is forecast for the euro zone. The OECD sees substantial political uncertainty and financial risks. It believes that fiscal initiatives and structural reforms should lead to stronger growth.

Employees

The number of employees in the E.ON Group (excluding apprentices and board members/managing directors) will decline going forward.

Anticipated Earnings Situation

Forecast Earnings Performance

Our forecast for full-year 2017 earnings continues to be significantly influenced by the difficult business environment in the energy industry. Examples include the British pound's weakness following the Brexit vote, interventionist remedies proposed by Britain's Competition and Markets Authority, and the foreseeable reduction of network returns in Germany. In addition, the current low-interest-rate environment and increasingly fierce competition are putting downward pressure on achievable returns.

For our 2017 earnings forecast, we adjusted our internal financial key figures with respect to the treatment of nuclear asset-retirement obligations. Effects resulting from the valuation of these provisions at the balance-sheet date are now reported under non-operating earnings; however, this does not apply to the accruals on these provisions. This change, which improves the depiction of E.ON's underlying earnings strength, takes effect on January 1, 2017. In view of the fundamental change in our business and its structure in 2016, it did not make sense to adjust the prior-year figures.

We expect the E.ON Group's 2017 adjusted EBIT to be between €2.8 and €3.1 billion and its 2017 adjusted net income to be between €1.20 and €1.45 billion. In addition, we expect the E.ON Group to achieve a cash-conversion rate of at least 80 percent and ROCE of 8 to 10 percent.

Our forecast by segment:

Adjusted EBIT[1]

€ in billions	2017 (forecast)	2016
Energy Networks	significantly above prior year	1.7
Customer Solutions	significantly below prior year	0.8
Renewables	at prior-year level	0.4
Corporate Functions/Other	significantly below prior year	-0.4
Non-Core Business	at prior-year level	0.6
E.ON Group	**2.8 – 3.1**	**3.1**

[1]Adjusted for extraordinary effects.

We expect Energy Networks' 2017 adjusted EBIT to be significantly above the prior-year figure. The principal positive factors in Germany are special regulatory effects relating to the delayed repayment of personnel costs from 2015 along with non-recurring items stemming from the conversion to the amended incentive-regulation scheme. German lawmakers are currently debating the Grid Fee Modernization Act, which, if enacted, could lead to an earnings improvement in 2017, which, however, would be offset again in the year 2019 to 2021. In addition, improved power tariffs in Sweden and in the Czech Republic will increase earnings. In Hungary we will benefit from the new regulation period in 2017.

We anticipate that Customer Solutions' adjusted EBIT will be significantly below the prior-year level. Earnings in Germany will be lower due primarily to competition-related factors. In addition, startup costs in the customer-solutions business will have an adverse impact on earnings and will not generate positive earnings streams until subsequent years. The intervention of the U.K. Competition and Markets Authority and rising costs for customer acquisition as part of our new marketing strategy will impact our earnings in the United Kingdom. Earnings there will also be adversely affected by the planned Brexit and the development of the British pound. Earnings will be lower in Romania primarily because of narrowing margins due to keener competition in the wake of market liberalization.

We expect Renewables' adjusted EBIT to be at the prior-year level. Significant new-build projects (such as Radford Run, Bruenning Breeze, Arkona, and Rampion wind farms) will not enter service and contribute to earnings until the end of 2017 or in subsequent years.

We anticipate that adjusted EBIT at Corporate Functions/Other will be significantly below the prior-year level, primarily because of the non-recurrence of positive derivative earnings reported in 2016 and the dividend on our stake in Nord Stream, because we intend to place this stake in a contractual trust arrangement in 2017.

At Non-Core Business we expect PreussenElektra's adjusted EBIT to be at the prior-year level.

Anticipated Financial Situation

Planned Funding Measures

In addition to our investments planned for 2017 and the dividend for 2016, in 2017 we will likely make payments in conjunction with the law Germany's two houses of parliament passed in December 2016 to reassign responsibility for the country's nuclear waste. These payments will be funded primarily with available liquid funds, the sale of securities as well as the issuance of commercial paper and bonds.

Dividend

In line with our consistent dividend policy, our goal is to pay out to E.ON shareholders 50 to 60 percent of our adjusted net income. E.ON plans to propose the payment of a fixed dividend of €0.30 per share for the 2017 financial year.

Planned Investments

Our medium-term plan calls for investments of €3.6 billion in 2017. Our capital allocation will of course continue to be selective and disciplined. At the present time, the market is not sufficiently pricing in risks, which adversely affects the long-term profitability of investments. In light of these factors, we will manage our current investment budget flexibly.

Cash-Effective Investments: 2017 Plan

	€ in billions	Percentages
Energy Networks	1.4	39
Customer Solutions	0.7	19
Renewables	1.5	42
Non-Core Business	–	–
Corporate Functions/Other	–	–
Total	**3.6**	**100**

Energy Networks' investments will consist in particular of numerous individual investments to expand our intermediate- and low-voltage networks, switching equipment, and metering and control technology as well as other investments to ensure the reliable and uninterrupted transmission and distribution of electricity. Our investments provide important support to the energy transition, particularly in Germany, and therefore make a substantial contribution to supply security.

Investments at Customer Solutions will go toward metering, upgrade, and efficiency projects as well as to heat and biomass projects in Sweden and the United Kingdom.

The main focus of Renewables' investments will be on offshore wind farms in Europe (such as Rampion and Arkona) and onshore farms in the United States (such as Radford Run and Bruenning Breeze).

General Statement on E.ON's Future Development

Over the last two years we have laid the foundation for E.ON to have a successful future. But our transformation has only just begun, and 2017 will be another year of change for E.ON. We defined five goals for this year against which we all will measure our progress in the remainder of the year:

We will strengthen our balance sheet and make the company financially sustainable. This is the key prerequisite for us to grow in the future. Although our markets offer many opportunities, our financial resources are limited. Over the medium and long term, we want to establish a sustainable financial foundation from which to invest in E.ON's future.

We are putting our customers first. Our new brand idea—"Let's create a better tomorrow"—makes a clear commitment. In everything we do we need to ask how it benefits our customers, what they want, and what will make their lives better.

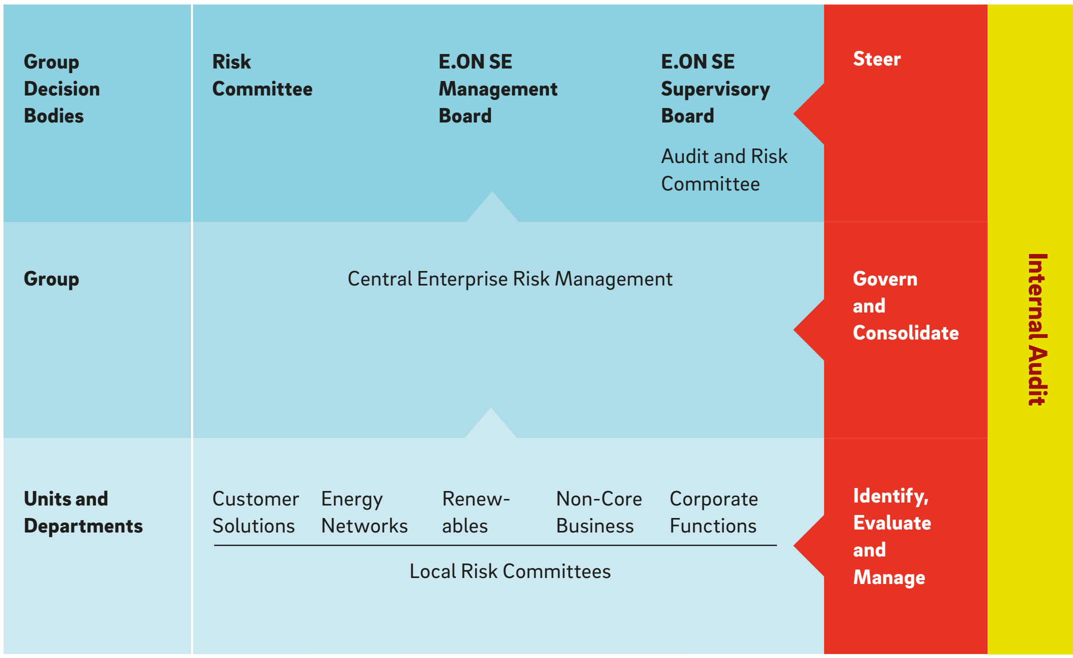
The latest generation of energy products is digitally integrated. We intend to be a pacesetter in the digitalization of the energy business. Increasingly, digitalization will be a defining feature of the solutions we offer our customers. We already have a successful smartphone app that enables customers to manage their energy consumption and all their communications with us. Other exciting products are on the way this year.

We are convinced that the new E.ON is active in the right markets. The energy future is green, distributed, and digital. But this market is more fragmented than the conventional energy world, and we face different competitors. We therefore need to make E.ON more entrepreneurial and ensure that our offerings get to market faster. To help us achieve this, we intend reduce our bureaucracy this year, to make our organizational setup more customer-centric, and to become leaner, more decentralized, and more agile.

Leadership and cultural adaptation are now among our most important tasks. E.ON has a very knowledgeable and dedicated team of employees who work hard each day to transform our company. We want to inspire them, because we will only be successful on the road ahead by working together.

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

Enterprise Risk Management System in the Narrow Sense



Objective

Our Enterprise Risk Management ("ERM") provides the management of all units as well as E.ON Group with a fair and realistic view of the risks and chances resulting from their planned business activities. It provides:

- meaningful information about risks and chances to the business and to the financial community enabling the business to derive individual risks/chances as well as aggregate risk profiles within the time horizon of the medium-term plan (three years)
- transparency on risk exposures in compliance with legal regulations including KonTraG, BilMoG, and BilReG.

Our ERM is based on a centralized governance approach which defines standardized processes and tools covering the identification, evaluation, countermeasures, monitoring, and reporting of risks and chances. Overall governance is provided by Group Risk Management on behalf of the E.ON SE Risk Committee.

All risks and chances have an accountable member of the Management Board, have a designated risk owner who remains operationally responsible for managing that risk/chance, and are identified in a dedicated bottom-up process.

Scope

Our risk management system in the broader sense has a total of four components:

- an internal monitoring system
- a management information system
- preventive measures
- a risk management system in the narrow sense.

The purpose of the internal monitoring system is to ensure the proper functioning of business processes. It consists of organizational preventive measures (such as policies and work instructions) and internal controls and audits (particularly by Internal Audit).

The E.ON internal management information systems identifies risks early so that steps can be taken to actively address them. Reporting by Controlling, Finance, and Accounting departments as well as Internal Audit reports are of particular importance in early risk detection.

General Measures to Limit Risks

We take the following general preventive measures to limit risks.

Managing Legal and Regulatory Risks
We engage in intensive and constructive dialog with government agencies and policymakers in order to manage the risks resulting from the E.ON Group's policy, legal, and regulatory environment. Furthermore, we strive to conduct proper project management so as to identify early and minimize the risks attending our new-build projects.

We attempt to minimize the operational risks of legal proceedings and ongoing planning processes by managing them appropriately and by designing appropriate contracts beforehand.

Manging Operations and IT Risks
To limit operational and IT risks, we will continue to improve our network management and the optimal dispatch of our generation assets. At the same time, we are implementing operational and infrastructure improvements that will enhance the reliability of our generation assets and distribution networks, even under extraordinarily adverse conditions. In addition, we have factored the operational and financial effects of environmental risks into our emergency plan. They are part of a catalog of crisis and system-failure scenarios prepared for the Group by our incident and crisis management team.

Our IT systems are maintained and optimized by qualified E.ON Group experts, outside experts, and a wide range of technological security measures. In addition, the E.ON Group has in place a range of technological and organizational measures to counter the risk of unauthorized access to data, the misuse of data, and data loss.

Managing Health, Safety, Security, and Environmental ("HSSE"), Human Resources ("HR"), and Other Risks
Furthermore, the following are among the comprehensive measures we take to address HSSE, HR, and other risks (also in conjunction with operational and IT risks):

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

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

Managing Market Risks
We use a comprehensive sales management system and intensive customer management to manage margin risks.

In order to limit our exposure to commodity price risks, we conduct systematic risk management. The key elements of our risk management are, in addition to binding Group-wide policies and a Group-wide reporting system, the use of quantitative key figures, the limitation of risks, and the strict separation of functions between departments. Furthermore, we utilize derivative financial instruments that are commonly used in the marketplace. These instruments are transacted with financial institutions, brokers, power exchanges, and third parties whose creditworthiness we monitor on an ongoing basis. Our local sales units and the remaining generation assets have set up local risk management under central governance standards to monitor these underlying commodity exposures and reduce them to acceptable levels through forward hedging.

Managing Strategic Risks

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

Managing Finance and Treasury Risks

This category encompasses credit, currency, tax, and asset-management risks and chances. We use systematic risk management to monitor and control our interest-rate and currency risks and manage these risks using derivative and non-derivative financial instruments. Here, E.ON SE plays a central role by aggregating risk positions through intragroup transactions and hedging these risks in the market. Due to E.ON SE's intermediary role, its risk position is largely closed.

We use a Group-wide credit risk management system to systematically measure and monitor the creditworthiness of our business partners on the basis of Group-wide minimum standards. We manage our credit risk by taking appropriate measures, which include obtaining collateral and setting limits. The E.ON Group's Risk Committee is regularly informed about all credit risks. A further component of our risk management is a conservative investment strategy and a broadly diversified portfolio.

Note 30 to the Consolidated Financial Statements contains detailed information about the use of derivative financial instruments and hedging transactions. Note 31 describes the general principles of our risk management and applicable risk metrics for quantifying risks relating to commodities, credit, liquidity, interest rates, and currency translation.

Enterprise Risk Management ("ERM")

Our risk management system, which is the basis for the risks and chances described in the next section, encompasses:

- systematic risk and chance identification
- risk and chance analysis and evaluation
- management and monitoring of risks and chances by analyzing and evaluating countermeasures and preventive systems
- documentation and reporting.

As required by law, our ERM's effectiveness is reviewed regularly by Internal Audit. In compliance with the provisions of Section 91, Paragraph 2, of the German Stock Corporation Act relating to the establishment of a risk-monitoring and early warning system, E.ON has a Risk Committee for the E.ON Group and for each of its segments. The Risk Committee's mission is to achieve a comprehensive view of our risk exposure at the Group and unit level and to actively manage risk exposure in line with our risk strategy.

Our ERM applies to all fully consolidated E.ON Group companies and all companies valued at equity whose book value in E.ON's Consolidated Financial Statements is greater than €50 million. We take an inventory of our risks and chances at each quarterly balance-sheet date.

As part of the continuous development of our risk management system, at the start of 2016 we initiated a project within the broader Finance Excellence program to ensure that our risk management reflects the Uniper spinoff and E.ON's changed risk profile. In this project we developed E.ON's enterprise risk management from a compliance-oriented model to a significantly more value-oriented Group-wide model. This model was successfully implemented in the course of 2016. The changes encompass a more stringent identification process for risks and chances (including unit-specific thresholds), a more realistic evaluation of risks and chances, and integrated and focused reporting of the individual risk profiles of each segment to ensure the risk information is considered in line with the planning and forecasting process. Furthermore, the risk categories were adjusted to support E.ON's changed business profile.

Risks and Chances

Methodology

Our IT-based system for reporting risks and chances has the following risk categories:

Risk Category

Risk Category	Examples
Legal and regulatory risks	Policy and legal risks and chances, regulatory risks, risks from public consents processes
Operational and IT risks	IT and process risks and chances, risks and chances relating to the operation of generation assets, networks, and other facilities, new-build risks
HSSE, HR, and Other	Health, safety, and environmental risks and chances
Market risks	Risks and chances from the development of commodity prices and margins and from changes in market liquidity
Strategic risks	Risks and chances from investments and disposals
Finance and treasury risks	Credit, foreign-currency, tax, and asset-management risks and chances

E.ON uses a multistep process to identify, evaluate, simulate, and classify risks and chances. Risks and chances are generally reported on the basis of objective evaluations. If this is not possible, we use internal estimates by experts. The evaluation measures a risk/chance's financial impact on our current earnings plan while factoring in risk-reducing countermeasures. The evaluation therefore reflects the net risk.

We then evaluate the likelihood of occurrence of quantifiable risks and chances. For example, the wind may blow more or less hard at a wind farm. This type of risk is modeled with a normal distribution. Modeling is supported by a Group-wide IT-based system. Extremely unlikely events—those whose likelihood of occurrence is 5 percent or less—are classified as tail events. Tail events are not included in the simulation described below.

This statistical distribution makes it possible for our IT-based risk management system to conduct a Monte Carlo simulation of quantifiable risks/chances. This yields an aggregated risk distribution that is quantified as the deviation from our current earnings plan for adjusted EBIT.

We use the 5 and 95 percent percentiles of this aggregated risk distribution as the best case and worst case, respectively. Statistically, this means that with this risk distribution there is a 90-percent likelihood that the deviation from our current earnings plan for adjusted EBIT will remain within these extremes.

The last step is to assign, in accordance with the 5 and 95 percent percentiles, the aggregated risk distribution to impact classes—low, moderate, medium, major, and high—according to their quantitative impact on adjusted EBIT. The impact classes are shown in the table below:

Impact Classes

low	x < €10 million
moderate	€10 million ≤ x < €50 million
medium	€50 million ≤ x < €200 million
major	€200 million ≤ x < €1 billion
high	x ≥ €1 billion

General Risk Situation

The table below shows the average annual aggregated risk position (aggregated risk position) across the time horizon of the medium-term plan for all quantifiable risks and chances (excluding tail events) for each risk category based on our most important key figure, adjusted EBIT.

Risk Category

Risk Category	Worst Case (5 percent percentil)	Best Case (95 percent percentil)
Legal and regulatory risks	Major	Moderate
Operational and IT risks	Major	Low
HSSE, HR, and Other	Low	Low
Market risks	Major	Medium
Strategic risks	Medium	Low
Finance and treasury risks	Medium	Medium

The E.ON Group has a major risk positions in the following categories: legal and regulatory risks, operational and IT risks, and market risks. As a result, the aggregate risk position of E.ON SE as the Group is major. In other words, the E.ON Group's average annual adjusted EBIT risk ought not to exceed -€200 million to -€1 billion in 95 percent of all cases.

Risks and Chances by Category

E.ON's major risks and chances by risk category are described below. Also described are major risks and chances stemming from tail events as well as major qualitative risks that would impact adjusted EBIT by more than €200 million. Risks and chances that would affect net income and/or cash flow by more than €200 million are included as well.

Legal and Regulatory Risks

The political, legal, and regulatory environment in which the E.ON Group does business is also a source of external risks, such as decisions by governments to phase out power generation using certain fuels. In view of the economic and financial crisis in many EU member states, policy and regulatory intervention—such as additional taxes, additional reporting requirements (for example, EMIR, REMIT, MiFiD2), price moratoriums, regulatory price reductions, and changes to support schemes for renewables—is becoming increasingly apparent. Such intervention could pose a risk to E.ON's operations in these countries. In particular, the refinancing situation of many European countries could have a direct impact on the E.ON Group's cost of capital. Besides governmental risks and chances this also includes the risk of litigation, fines, and claims, governance- and compliance-related issues as well as risks and chances related to contracts and permits. Changes to this environment can lead to considerable uncertainty with regard to planning and, under certain circumstances, to impairment charges but also can create chances. This results in a major risk position and a chance position.

PreussenElektra

PreussenElektra's business is substantially influenced by regulation. In general, regulation can result in risks for its remaining business activities. One example is the Fukushima nuclear accident. Policy measures taken in response to such events could have a direct impact on further operation of a nuclear power plant ("NPP") or trigger liabilities stemming from solidarity obligation agreed on among German NPP operators. Furthermore, new regulatory requirements, such as additional mandatory safety measures, could lead to production outages and higher costs. Regulation can also require an increase in provisions for dismantling and storage. This could pose major risks for E.ON.

In 2003 Section 6 of Germany[1]s Atomic Energy Act granted consent for Unterweser NPP to store radioactive spent nuclear fuel in an on-site intermediate storage facility. Lawsuits were filed against the consent. The complainants asked that the court rescind the consent on the grounds that the storage facility is not sufficiently protected against terrorist attacks. A ruling is expected in 2017. If the court rules in favor of the complainants, nuclear fuel could not be removed from Unterweser NPP on schedule. This would significantly prolong dismantling, thereby leading to higher costs. This could pose a major risk.

On December 6, 2016, Germany's Federal Constitutional Court in Karlsruhe ruled that the thirteenth amended version of Germany's Atomic Energy Act ("the Act") is fundamentally constitutional. The Act's only unconstitutional elements are that certain NPP operators will be unable to produce their electricity allotment from 2002 and that it contains no mechanism for compensating operators for investments to extend NPP operating lifetimes. Lawmakers have until June 30, 2018, to pass legislation that redresses these elements. E.ON filed a suit against Lower Saxony, Bavaria, and the Federal Republic of Germany to seek approximately €380 million in damages for the nuclear-energy moratorium ordered in the wake of the Fukushima nuclear accident. PreussenElektra's appeal is pending before the State Superior Court in Celle. These matters could pose major risks and yield major chances.

Customer Solutions

The E.ON Group's operations subject it to certain risks relating to legal proceedings, ongoing planning processes, and regulatory changes. These risks relate in particular to legal actions and proceedings concerning contract and price adjustments to reflect market dislocations or (including as a consequence of the transformation of Germany's energy system) an altered business climate in the power and gas business, price increases, alleged market-sharing agreements, and anticompetitive practices. This could pose major risks.

Energy Networks

The operation of energy networks in Germany is subject to a large degree of regulation. New laws and regulation periods cause uncertainty in this business. In addition, matters related to the Renewable Energy Law, such as issues regarding solar energy, can cause temporary fluctuations in our cash flow and adjusted EBIT. This could create chances and pose major risks.

In January 2017 the German Federal Ministry for Economic Affairs and Energy published a revised draft of the Grid Fee Modernization Act. If the act takes effect retroactively to January 1, 2017, grid operators will not be able to adjust their grid fees retroactively to reflect lower avoided grid fees. For E.ON grid operators in Germany, it would have a positive effect on earnings 2017. This amount would be passed through to grid customers as credits in 2019 to 2021, which would result in a corresponding reduction in earnings. This could result in major risks as well as chances.

In Germany, the fourth regulation period for gas and power begins in 2018 and 2019, respectively. The regulatory agency will set the revenue caps based on a cost review and efficiency benchmarking. If this process results in revenue caps that are lower than anticipated, it would have an adverse impact on our anticipated earnings and lead to major risks.

The awarding of network concessions for power and gas is extremely competitive in Germany. This creates a risk of losing concessions, particularly in urban areas with good infrastructures. If a concession is lost, the network is sold to the new concessionaire at a negotiated price. Lawmakers intend to make changes in 2017 in the modalities of how a network is relinquished after a network concession has been lost. This will likely result in a legally mandated stipulation of the purchase price. This could make competition even keener.

Operational and IT Risks

The operational and strategic management of the E.ON Group relies heavily on complex information technology. This includes risks and chances arising from information security.

Technologically complex production facilities are used in the production and distribution of energy, resulting in risks from procurement and logistics, construction, operations and maintenance of assets as well as general project risks. In case of PreussenElektra, this also includes dismantling activities. One specific example here is the risk of contamination of individual facility parts. Our operations in and outside Germany could experience unanticipated operational or other problems leading to a power failure or shutdown and/or higher costs and additional investments. Operational failures or extended production stoppages of facilities or components of facilities as well as environmental damage could negatively impact our earnings, affect our cost situation, and/or result in the imposition of fines. In unlikely cases, this could lead to a high risk. Overall, it results in a major risk position and a chance position.

General project risks can include a delay in projects and with that increased capital requirements. For our Renewables segment, a project delay could lead to the loss of government subsidies and cause potential partners to exit the project, which could, in unlikely cases, likewise lead to a high risk.

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

HSSE, HR, and Other Risks

Health and safety are important aspects of our day-to-day business. Our operating activities can therefore pose risks in these areas and create social and environmental risks and chances. In addition, our operating business potentially faces risks resulting from human error and employee turnover. It is important that we act responsibly along our entire value chain and that we communicate consistently, enhance the dialog, and maintain good relationships with our key stakeholders. We actively consider environmental, social, and corporate-governance issues. These efforts support our business decisions and our public relations. Our objective is to minimize our reputation risks and garner public support so that we can continue to operate our business successfully. These matters do not result in a major risk or chance position.

In the past, predecessor entities of E.ON SE conducted mining operations, resulting in obligations in North Rhine-Westphalia and Bavaria. E.ON SE can be held responsible for damage. This could lead to major individual risks that we currently only evaluate qualitatively.

Market Risks

Our units operate in an international market environment that is characterized by general risks relating to the business cycle. In addition, the entry of new suppliers into the marketplace along with more aggressive tactics by existing market participants and reputational risks have created a keener competitive environment for our electricity business in and outside Germany which could reduce our margins. Market developments could however also have a positive impact on our business. Such factors include wholesale and retail price developments, higher customer churn rates, and temporary volume effects in the network business. This results in a major risk position and a chance position.

The demand for electric power and natural gas is seasonal, with our operations generally experiencing higher demand during the cold-weather months of October through March and lower demand during the warm-weather months of April through September. As a result of these seasonal patterns, our sales and results of operations are higher in the first and fourth quarters and lower in the second and third quarters. Sales and results of operations for all of our energy operations can be negatively affected by periods of unseasonably warm weather during the autumn and winter months. We expect seasonal and weather-related fluctuations in sales and results of operations to continue. Periods of exceptionally cold weather—very low average temperatures or extreme daily lows—in the fall and winter months can create chances due to higher demand for electricity and natural gas.

The E.ON portfolio of physical assets, long-term contracts, and end-customer sales is exposed to major risks from fluctuations in commodity prices. The principal commodity prices to which E.ON is exposed relate to electricity, gas, and emission allowances. In view of the Uniper spinoff, E.ON is establishing procurement capabilities for its sales business and for its remaining energy production in order to ensure market access and manage the remaining commodity risks accordingly.

Strategic Risks

Our business strategy involves acquisitions and investments in our core business as well as disposals. This strategy depends in part on our ability to successfully identify, acquire, and integrate companies that enhance, on acceptable terms, our energy business. In order to obtain the necessary approvals for acquisitions, we may be required to divest other parts of our business or to make concessions or undertakings that affect our business. In addition, there can be no assurance that we will be able to achieve the returns we expect from any acquisition or investment. Furthermore, investments and acquisitions in new geographic areas or lines of business require us to become familiar with new sales markets and competitors and to address the attending business risks.

In the case of planned disposals, E.ON faces the risk of disposals not taking place or being delayed and the risk that E.ON receives lower-than-anticipated disposal proceeds. In such projects, it is not possible to determine the likelihood of these risks. In addition, after transactions close we could face liability risks resulting from contractual obligations.

The risk and chance position in this category was not major at the balance-sheet date.

Finance and Treasury Risks

E.ON is exposed to credit risk in its operating activities and through the use of financial instruments. Credit risk results from non-delivery or partial delivery by a counterparty of the agreed consideration for services rendered, from total or partial failure to make payments owing on existing accounts receivable, and from replacement risks in open transactions. In addition, in unlikely cases joint and several liability for jointly operated power plants lead to a high risk.

E.ON's international business operations expose it to risks from currency fluctuation. One form of this risk is transaction risk, which occurs when payments are made in a currency other than E.ON's functional currency. Another form of risk is translation risk, which occurs when currency fluctuations lead to accounting effects when assets/liabilities and income/expenses of E.ON companies outside the euro zone are translated into euros and entered into our Consolidated Financial Statements. Currency-translation risk results mainly from our positions in U.S. dollars, pounds sterling, Swedish kronor, Czech krona, Romanian leus, Hungarian forints, and Turkish lira. Positive developments in foreign-currency rates can also create chances for our operating business.

E.ON faces earnings risks from financial liabilities and interest derivatives that are based on variable interest rates.

In addition, E.ON also faces major risks from price changes and uncertainty on the current and non-current investments it makes to cover its non-current obligations, particularly pension and asset-retirement obligations. Furthermore, E.ON owns a minority stake in Uniper. A high degree of uncertainty attends this minority stake due to fluctuations in Uniper's stock price and earnings effects from Uniper's net income.

Furthermore, uncertainties regarding investment partners and projects could lead to higher-than-anticipated investment expenditures.

Declining or rising discount rates could lead to increased or reduced provisions for pensions and asset-retirement obligations, including long-term liabilities. This can create a high degree of uncertainty for E.ON.

In principle, E.ON could also encounter tax risks and chances that unlikely cases could be high. Specifically, the new administration in the United States could propose legislative changes that could, in particular, significantly reduce corporate tax rates, accelerate depreciation, and limit the tax deductions on imported economic goods. Such changes could pose major risks for our Renewables segment's future U.S. renewables projects resulting from a significant reduction in tax-equity demand.

A favorable court ruling regarding Germany's nuclear-fuel tax would create a high chance for a refund. Similarly, PreussenElektra is involved in arbitration proceedings with contract partners regarding long-term supply contracts and nuclear fuel elements. These proceedings could present major chances as well as risks.

This category's risk and chance position is not major.

Management Boards's Evaluation of the Risk Situation

The risk situation of the E.ON Group's operating business at year-end 2016 had been changed for two main reasons. First, the Uniper spinoff reduced our overall risk exposure and changed our risk profile itself. The risks related to conventional generation, exploration and production, and global commodity trading were transferred to Uniper. Second, our Group-wide Enterprise Risk project enabled us to make significant changes to our methodology to reflect E.ON's new business profile. Although the average annual risk for the E.ON Group's adjusted EBIT is classified as major, from today's perspective we do not perceive any risk position that could threaten the existence of the E.ON Group or individual segments.

Disclosures Pursuant to Section 289, Paragraph 5, and Section 315, Paragraph 2, Item 5, of the German Commercial Code on the Internal Control System for the Accounting Process

General Principles

We apply Section 315a (1) of the German Commercial Code and prepare our Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") and the interpretations of the IFRS Interpretations Committee that were adopted by the European Commission for use in the EU as of the end of the fiscal year and whose application was mandatory as of the balance-sheet date (see Note 1 to the Consolidated Financial Statements). Energy Networks (Germany, Sweden, and East-Central Europe/Turkey), Customer Solutions (Germany, United Kingdom, Other), Renewables, Non-Core Business, and Corporate Functions/Other are our IFRS reportable segments.

E.ON SE prepares its Financial Statements in accordance with the German Commercial Code, the SE Ordinance (in conjunction with the German Stock Corporation Act), and the German Energy Act.

We prepare a Combined Group Management Report which applies to both the E.ON Group and E.ON SE.

Accounting Process

All companies included in the Consolidated Financial Statements must comply with our uniform Accounting and Reporting Guidelines for the Annual Consolidated Financial Statements and the Interim Consolidated Financial Statements. These guidelines describe applicable IFRS accounting and valuation principles. They also explain accounting principles typical in the E.ON Group, such as those for provisions for nuclear-waste management, the treatment of financial instruments, and the treatment of regulatory obligations. We continually analyze amendments to laws, new or amended accounting standards, and other pronouncements for their relevance to and consequences for our Consolidated Financial Statements and, if necessary, update our guidelines and systems accordingly.

Group Management defines and oversees the roles and responsibilities of various Group entities in the preparation of E.ON SE's Financial Statements and the Consolidated Financial Statements. These roles and responsibilities are described in detail in a Group Policy document.

E.ON Group companies are responsible for preparing their financial statements in a proper and timely manner. They receive substantial support from Business Service Centers in Regensburg, Germany, and Cluj, Romania. The financial statements of subsidiaries belonging to E.ON's scope of consolidation are audited by the subsidiaries' respective independent auditor. E.ON SE then combines these statements into its Consolidated Financial Statements using uniform SAP consolidation software. The E.ON Center of Competence for Consolidation is responsible for conducting the consolidation and for monitoring adherence to guidelines for scheduling, processes, and contents. Monitoring of system-based automated controls is supplemented by manual checks.

In conjunction with the year-end closing process, additional qualitative and quantitative information is compiled. Furthermore, dedicated quality-control processes are in place for all relevant departments to discuss and ensure the completeness of relevant information on a regular basis.

E.ON SE's Financial Statements are also prepared with SAP software. The accounting and preparation processes are divided into discrete functional steps. Bookkeeping processes are handled by our Business Service Centers: Cluj has responsibility for processes relating to subsidiary ledgers and several bank activities, Regensburg for those relating to the general ledgers. Automated or manual controls are integrated into each step. Defined procedures ensure that all transactions and the preparation of E.ON SE's Financial Statements are recorded, processed, assigned on an accrual basis, and documented in a complete, timely, and accurate manner. Relevant data from E.ON SE's Financial Statements are, if necessary, adjusted to conform with IFRS and then transferred to the consolidation software system using SAP-supported transfer technology.

The following explanations about our Internal Control System, and our general IT controls apply to the Consolidated Financial Statements and E.ON SE's Financial Statements.

Internal Control System

Internal controls are an integral part of our accounting processes. Guidelines define uniform financial-reporting requirements and procedures for the entire E.ON Group. These guidelines encompass a definition of the guidelines' scope of application; a Risk Catalog ("ICS Model"); standards for establishing, documenting, and evaluating internal controls; a Catalog of ICS Principles; a description of the test activities of our Internal Audit division; and a description of the final Sign-Off process. We believe that compliance with these rules provides sufficient certainty to prevent error or fraud from resulting in material misrepresentations in the Consolidated Financial Statements, the Combined Group Management Report, and the Interim Reports.

COSO Framework
Our internal control system is based on the globally recognized COSO framework, in the version published in May 2013 (COSO: The Committee of Sponsoring Organizations of the Treadway Commission). The Central Risk Catalog (ICS Model), which encompasses company- and industry-specific aspects, defines possible risks for accounting (financial reporting) in the functional areas of our units and thus serves as a check list and provides guidance for the establishment, documentation, and implementation of internal controls.

The Catalog of ICS Principles is a key component of our internal control system, defining the minimum requirements for the system to function. It encompasses overarching principles for matters such as authorization, segregation of duties, and master data management as well as specific requirements for managing risks in a range of issue areas and processes, such as accounting, financial reporting, communications, planning and controlling, and risk management.

Scope
Each year, we conduct a process using qualitative criteria and quantitative materiality metrics to define which E.ON units must document and evaluate their financial-reporting-related processes and controls in a central documentation system.

Central Documentation System
The E.ON units to which the internal control system applies use a central documentation system to document key controls. The system defines the scope, detailed documentation requirements, the assessment requirements for process owners, and the final Sign-Off process.

Assessment
After E.ON units have documented their processes and controls, the individual process owners conduct an annual assessment of the design and the operational effectiveness of the processes as well as the controls embedded in these processes.

Tests Performed by Internal Audit
The management of E.ON units relies on the assessment performed by the process owners and on testing of the internal control system performed by Internal Audit. These tests are a key part of the process. Using a risk-oriented audit plan, Internal Audit tests the E.ON Group's internal control system and identifies potential deficiencies (issues). On the basis of its own evaluation and the results of tests performed by Internal Audit, an E.ON unit's management carries out the final Sign-Off.

Sign-Off Process
The final step of the internal evaluation process is the submission of a formal written declaration called a Sign-Off confirming the effectiveness of the internal control system. The Sign-Off process is conducted at all levels of the Group before E.ON SE, as the final step, conducts it for the Group as a whole. The Chairman of the E.ON SE Management Board and the Chief Financial Officer make the final Sign-Off for the E.ON Group.

Internal Audit regularly informs the E.ON SE Supervisory Board's Audit and Risk Committee about the internal control system for financial reporting and any significant issue areas it identifies in the E.ON Group's various processes.

General IT Controls
An E.ON unit called E.ON Business Services and external service providers provide IT services for the majority of the units at the E.ON Group. The effectiveness of the automated controls in the standard accounting software systems and in key additional applications depends to a considerable degree on the proper functioning of IT systems. Consequently, IT controls are embedded in our documentation system. These controls primarily involve ensuring the proper functioning of access-control mechanisms of systems and applications, of daily IT operations (such as emergency measures), of the program change process, and of E.ON SE's central consolidation system.

Disclosures Pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4, of the German Commercial Code

Composition of Share Capital

The share capital totals €2,001,000,000.00 and consists of 2,001,000,000 registered shares without nominal value. Each share of stock grants the same rights and one vote at a Shareholders Meeting.

Restrictions on Voting Rights or the Transfer of Shares

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

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

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

Pursuant to the Company's Articles of Association, the Management Board consists of at least two members. The Supervisory Board decides on the number of members as well as on their appointment and dismissal.

The Supervisory Board appoints members to the Management Board for a term not exceeding five years; reappointment is permissible. If more than one person is appointed as a member of the Management Board, the Supervisory Board may appoint one of the members as Chairperson of the Management Board. If there is a vacancy on the Management Board for a required member, the court makes the necessary appointment upon petition by a concerned party in the event of an urgent matter. The Supervisory Board may revoke the appointment of a member of the Management Board and of the Chairperson of the Management Board for serious cause (for further details, see Sections 84 and 85 of the AktG).

Resolutions of the Shareholders Meeting require a majority of the valid votes cast unless mandatory law or the Articles of Association explicitly prescribe otherwise. An amendment to the Articles of Association requires a two-thirds majority of the votes cast or, in cases where at least half of the share capital is represented, a simple majority of the votes cast unless mandatory law explicitly prescribes another type of majority.

The Supervisory Board is authorized to decide by resolution on amendments to the Articles of Association that affect only their wording (Section 10, Paragraph 7, of the Articles of Association). Furthermore, the Supervisory Board is authorized to revise the wording of Section 3 of the Articles of Association upon utilization of authorized or conditional capital.

Management Board's Power to Issue or Buy Back Shares
Pursuant to a resolution of the Shareholders Meeting of May 3, 2012, the Company is authorized, until May 2, 2017, to acquire own shares. The shares acquired and other own shares that are in possession of or to be attributed to the Company pursuant to Sections 71a et seq. of the AktG must altogether at no point account for more than 10 percent of the Company's share capital.

At the Management Board's discretion, the acquisition may be conducted:

- through a stock exchange
- by means of a public offer directed at all shareholders or a public solicitation to submit offers
- by means of a public offer or a public solicitation to submit offers for the exchange of liquid shares that are admitted to trading on an organized market, within the meaning of the German Securities Purchase and Takeover Law, for Company shares
- by use of derivatives (put or call options or a combination of both).

These authorizations may be utilized on one or several occasions, in whole or in partial amounts, in pursuit of one or more objectives by the Company and also by affiliated companies or by third parties for the Company's account or its affiliates' account.

With regard to treasury shares that will be or have been acquired based on the above-mentioned authorization and/or prior authorizations by the Shareholders Meeting, the Management Board is authorized, subject to the Supervisory Board's consent and excluding shareholder subscription rights, to use these shares—in addition to a disposal through a stock exchange or an offer granting a subscription right to all shareholders—as follows:

- to be sold and transferred against cash consideration
- to be sold and transferred against contribution in kind
- to be used in order to satisfy the rights of creditors of bonds with conversion or option rights or, respectively, conversion obligations issued by the Company or its Group companies
- to be offered for purchase and transferred to individuals who are employed by the Company or one of its affiliates.

These authorizations may be utilized on one or several occasions, in whole or in partial amounts, separately or collectively by the Company and also by Group companies or by third parties for the Company's account or its affiliates' account.

In addition, the Management Board is authorized to cancel treasury shares, without such cancellation or its implementation requiring an additional resolution by the Shareholders Meeting.

In each case, the Management Board will inform the Shareholders Meeting about the reasons for and the purpose of the acquisition of treasury shares, the number of treasury shares acquired, the amount of the registered share capital attributable to them, the portion of the registered share capital represented by them, and their equivalent value.

By shareholder resolution adopted at the Annual Shareholders Meeting of May 3, 2012, the Management Board was authorized, subject to the Supervisory Board's approval, to increase until May 2, 2017, the Company's capital stock by a total of up to €460 million through one or more issuances of new registered no-par-value shares against contributions in cash and/or in kind (with the option to restrict shareholders' subscription rights); such increase shall not, however, exceed the amount and number of shares in which the authorized capital pursuant to Section 3 of the Articles of Association of E.ON AG still exists at the point in time when the conversion of E.ON AG into a European Company ("SE") becomes effective pursuant to the conversion plan dated March 6, 2012 (authorized capital pursuant to Sections 202 et seq. AktG). Subject to the Supervisory Board's approval, the Management Board is authorized to exclude shareholders' subscription rights. The authorized capital increase was not utilized.

At the Annual Shareholders Meeting of May 3, 2012, shareholders approved a conditional increase of the capital stock (with the option to exclude shareholders' subscription rights) in the amount of €175 million, which is authorized until May 2, 2017. The conditional capital increase will be implemented only to the extent required to fulfill the obligations arising on the exercise by holders of option or conversion rights, and those arising from compliance with the mandatory conversion of bonds with conversion or option rights, profit participation rights and income bonds that have been issued or guaranteed by E.ON SE or a Group company of E.ON SE as defined by Section 18 AktG, and to the extent that no cash settlement has been granted in lieu of conversion and no E.ON SE treasury shares or shares of another listed company have been used to service the rights. However, this conditional capital increase only applies up to the amount and number of shares in which the conditional capital pursuant to Section 3 of the Articles of Association of E.ON AG has not yet been implemented at the point in time when the conversion of E.ON AG into a European Company ("SE") becomes effective in accordance with the conversion plan dated March 6, 2012. The conditional capital increase was not utilized.

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

Debt issued since 2007 contains change-of-control clauses that give the creditor the right of cancellation. This applies, inter alia, to bonds issued by E.ON International Finance B.V. and guaranteed by E.ON SE, promissory notes issued by E.ON SE, and other instruments such as credit contracts. Granting change-of-control rights to creditors is considered good corporate governance and has become standard market practice. Further information about financial liabilities is contained in the section of the Combined Group Management Report entitled Financial Situation and in Note 26 to the Consolidated Financial Statements.

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

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

A change-of-control event would also result in the early payout of virtual shares under the E.ON Share Matching Plan.

Corporate Governance Declaration in Accordance with Section 289a and Section 315, Paragraph 5, of the German Commercial Code

Declaration Made in Accordance with Section 161 of the German Stock Corporation Act by the Management Board and the Supervisory Board of E.ON SE

The Board of Management and the Supervisory Board hereby declare that E.ON SE will comply in full with the recommendations of the "Government Commission German Corporate Governance Code," dated May 5, 2015, published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger).

The Board of Management and the Supervisory Board furthermore declare that E.ON SE has been in compliance in full with the recommendations of the "Government Commission German Corporate Governance Code," dated May 5, 2015, published by the Federal Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) since the last declaration on April 15, 2016, with the exception of Section 4.2.3, Paragraph 2, Sentence 8 of the German Corporate Governance Code.

According to Section 4.2.3, Paragraph 2, Sentence 8 of the German Corporate Governance Code, there should be no retroactive changes to the performance targets or the comparison parameters of the Management Board's compensation. In April 2016 the E.ON SE Supervisory Board decided to adjust the performance targets for performance matching of the tranches of the long-term incentive granted in 2013 to 2015 under the E.ON Share Matching Plan. In view of the Uniper spinoff, this adjustment was necessary for three reasons. First, the performance targets for performance matching were linked to ROACE, which, from the start of 2016, the Company no longer uses as a key performance indicator. Second, the calculations were based on old budget numbers, which did not foresee the Uniper spinoff. Third, the anticipated reduction in E.ON's stock price resulting from the Uniper spinoff had to be factored in.

Essen, December 16, 2016

For the Supervisory Board of E.ON SE:
Dr. Karl-Ludwig Kley
(Chairman of the Supervisory Board of E.ON SE)

For the Management Board of E.ON SE:
Dr. Johannes Teyssen
(Chairman of the Management Board of E.ON SE)

The declaration is continuously available to the public on the Company's Internet page at www.eon.com.

Relevant Information about Management Practices

Corporate Governance

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

In 2016 the Management Board and Supervisory Board paid close attention to E.ON's compliance with the German Corporate Governance Code's recommendations and suggestions. They determined that E.ON fully complies with all of the Code's recommendations, with the above-mentioned exception, and with nearly all of its suggestions.

Transparent Management

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

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

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

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

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

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