Strategy and Objectives

Our Strategy: Partner for the New Energy World

E.ON's strategy focuses the Company systematically on the new energy world of increasingly empowered and proactive customers. The planned acquisition of innogy and the planned sale of the renewable energy business to RWE strengthens this strategy. The energy world is becoming more electric and customer-driven. Going forward, we intend to focus on energy networks in a distributed energy world and more on customer solutions that emphasize sustainability and energy efficiency.

Through the planned acquisition of innogy, E.ON is seizing the initiative and—for the benefit of customers, employees, business partners, shareholders, and society in general—taking advantage of the significant opportunities created by the transformation of the energy world. Examples include continual innovation, an unambiguous commitment to sustainability, the expansion of digital architecture across our organization, and a strong brand. Health and safety remain indispensable corporate values. Our unequivocal objective is to avoid accidents and to minimize adverse health impacts on our employees.

Transaction with RWE

In March 2018 E.ON and RWE reached an extensive asset-swap agreement under which E.ON will acquire RWE's 76.8-percent stake in innogy and transfer to RWE substantially all of its renewable energy business. In response to a voluntary public takeover offer, innogy's other shareholders tendered 9.4 percent of innogy stock to E.ON (for more details on the planned transaction, see pages 22 and 23 of the Combined Group Management Report).

After the transaction closes, E.ON will focus on two business segments: regulated, highly efficient energy networks and innovative customer solutions. We will be able to combine our expertise and innovativeness in these two segments with innogy's. The takeover of innogy will also enable us to achieve significant cost advantages.

The planned acquisition is a fundamental step in the implementation of our strategy and offers the opportunity to achieve our strategic objectives within the constraints of our balance sheet. Success in energy networks and customer solutions can only be ensured through a systematic customer focus (municipalities, residential customers, and commercial customers). New distributed customer solutions are based on a deep understanding of the customer business as well as energy networks. Regulated network assets together with growth opportunities in customer solutions create an attractive and balanced portfolio.

Increasingly, the renewable energy business worldwide is exposed to market price risks and needs to interact with the wholesale market. Moreover, it is becoming more global, and critical mass is becoming a more important factor. Combining innogy and E.ON's renewables businesses at RWE will create a bigger platform, one that has the critical mass that is indispensable for successful business development on an international scale.

Objectives and Core Businesses

Going forward, E.ON will concentrate on energy networks and customer solutions. With a clear focus on two strong core businesses, we aim to become the partner of choice for energy and customer solutions.

- Energy Networks: distribution grids link our customers together and are the backbone of the energy transformation. After the integration of innogy, E.ON will operate distribution grids in eight European countries with a regulated asset base of €34 billion. The energy system is complex and increasingly characterized by distributed generation. It connects the electricity market, heat market, and mobility. This complex system is not possible without smart distribution grids. This means that grids no longer only distribute power. They are evolving into smart platforms that integrate processes, data, and generation assets. E.ON is already a leader in network efficiency and will continue to set new standards in the future.

- Customer Solutions: the integration of innogy's customer-solutions business will expand our customer base to around 50 million. Thus strengthened, E.ON intends to become the partner of choice for public, commercial, and residential customers and to create added value for them. We will continually improve or redefine our portfolio of products and services for innovative heating solutions, energy efficiency, distributed generation and storage, and sustainable mobility solutions. We intend to achieve this through a consistently convincing customer experience, a strong digital orientation, and high-quality service.

Resources and Capabilities

Each of these core businesses has its own viable business logic. But combining them in a single company offers significant advantages. It enables 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. In an increasingly distributed and digital energy world, customer solutions and energy networks are already beginning to converge. For example, smart meters are already providing the basis for new energy-sales offerings, such as time-based electricity tariffs and energy-efficiency solutions.

Focusing on two core businesses will enable E.ON to retain its existing strengths and advantages and to build on them. Examples include our outstanding record of managing energy networks and systematically developing customer solutions. In 2018 our customer solutions business compiled several achievements in heat supply, e-mobility, energy efficiency, and energy storage. For example, E.ON and Berliner Stadtwerke were awarded the concession to provide heat and cooling to an urban development project at the site of Tegel airport in Berlin thanks to a plan featuring an innovative low-temperature network. The European Spallation Source ("ESS"), a major research institute in Lund, Sweden, chose E.ON as its partner for sustainable cooling, heat, and compressed air.

On the e-mobility side, at year-end 2018 E.ON could already offer its customers 4,000 charging points in Germany. In late 2018 E.ON joined EV100, a global initiative to accelerate the transition to electric vehicles ("EVs"), and pledged to convert all company vehicles under 3.5 metric tons to EVs by 2030. In other e-mobility milestones in 2018, we entered the Norwegian market, forged a strategic partnership with Nissan, and introduced a digital platform that makes our charging network easier to access and use. To promote energy efficiency, E.ON partnered with European banks to offer standardized loans that make it easier for property owners to finance energy-efficiency improvements. This creates additional incentives for efficient energy use. In energy storage, in early 2018 we launched E.ON SolarCloud, which enables customers with solar panels to use 100 percent of the green power they produce, even if they do not have a battery.

The network business achieved advances in 2018 as well. Avacon, an E.ON subsidiary in north-central Germany, is testing a smart grid hub that can control equipment like solar panels and battery storage devices remotely. Part of the EU's Interflex project, the hub is a cost-effective way to help ensure stable network operations. In the Czech Republic E.ON launched a project called ACON, which stands for "again connected networks." Its purpose is to enhance the distribution networks in the regions along the Czech-Slovak border and to upgrade them using smart-grid technology.

Corporate Initiatives

The agreement with RWE was the dominant event of 2018. Yet E.ON also moved forward with key corporate initiatives and launched new ones with the aim of enhancing its competitiveness and customer orientation. These initiatives lay an important foundation for E.ON's lasting success in the years ahead. All of them are designed for rapid results and implementation. Below are two examples of such initiatives.

- Launched at the end of 2016, the Phoenix program redesigned the setup of E.ON's corporate and support functions to make them closer to customers and to reduce unnecessary bureaucracy and inefficiency. We are giving our customer-proximate functions greater decision-making authority, enabling faster decision-making and implementation. We successfully completed the program in 2018, substantially reducing our cost base.

- Sustainability is not only an important criterion in the design of our corporate strategy, but also for our actions. In 2018 the Management Board pledged E.ON's support for the UN Sustainable Development Goals ("SDGs"), thereby underscoring our commitment to sustainability. E.ON's business operations contribute directly to the achievement of SDG 7 (affordable and clean energy), 11 (sustainable cities and communities), and 13 (climate action). In 2018 E.ON also launched a climate-protection initiative and set a target of making all its buildings climate-neutral by 2030.

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.

Corporate Profile

Business Model

E.ON is an investor-owned energy company with approximately 43,000 employees. Led by corporate headquarters 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.

Corporate Headquarters

Corporate headquarters' main task is to lead the E.ON Group. This involves charting E.ON's strategic course and managing and funding its existing business portfolio. Corporate headquarters' tasks include optimizing E.ON's overall business across countries and markets from a financial, strategic, and risk perspective 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 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. Substantially all of the operations in this segment are classified as discontinued operations effective June 30, 2018 (for more information, see pages 22 and 23 of the Combined Group Management Report and Note 4 to the Consolidated Financial Statements).

Non-Core Business

This segment consists of our non-strategic activities. This applies to the operation of our nuclear power stations in Germany (which is managed by our PreussenElektra unit) and the generation business in Turkey.

Special Events in the Reporting Period

Asset Swap with RWE

On March 12, 2018, E.ON SE and RWE AG reached an agreement under which E.ON will acquire RWE's 76.8-percent stake in innogy SE as part of an extensive asset swap. As part of this swap, E.ON will transfer to RWE substantially all of its renewables business as well as the minority stakes, held by its subsidiary PreussenElektra, in Emsland und Gundremmingen nuclear power stations, which are operated by RWE. However, the E.ON Group will retain certain assets reported in its Renewables segment, namely: businesses operated by e.disnatur in Germany and Poland as well as a 20-percent stake in Rampion offshore wind farm. In return for its innogy stake, RWE will receive a 16.67-percent stake in E.ON. The stock will be issued by means of a 20-percent capital increase against contributions in kind from E.ON SE's existing authorized capital. In addition, RWE will make a cash payment of €1.5 billion to E.ON. Furthermore, RWE will receive innogy's gas storage business and its stake in Kelag, an Austria-based energy supplier. The transaction, which was filed with the European Commission in January 2019, will take place in several steps and is subject to the usual antitrust approvals.

Renewables
Pursuant to IFRS 5, the operations in the Renewables segment that will be transferred are reported as discontinued operations effective June 30, 2018 (for more information, see Note 4 to the Consolidated Financial Statements). Until their final transfer to RWE, however, these operations will be managed as before. For the purpose of internal management control, their results will therefore be fully included in the relevant key performance indicators. In addition, the scheduled depreciation charges required by IFRS 5 and the carrying amount of these discontinued operations will be recorded in equity and disclosed accordingly. The Combined Group Management Report's presentation of the key performance indicators relevant for management control and of sales therefore includes the results of discontinued operations in the Renewables segment. Pages 32 to 34 of the Combined Group Management Report and Note 33 to the Consolidated Financial Statements contain reconciliations of these indicators to the disclosures in the E.ON SE and Subsidiaries Consolidated Statements of Income, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows.

Minority Stakes in Nuclear Power Stations
Under the agreement with E.ON, RWE will acquire not only substantially all of E.ON's renewables business but also its minority stakes in Kernkraftwerke Lippe-Ems GmbH and Kernkraftwerk Gundremmingen GmbH nuclear power stations, which are operated by RWE. These minority stakes and the associated debt, which had previously been reported at Non-Core Business, were reclassified as a disposal group effective June 30, 2018.

Voluntary Public Takeover Offer for innogy SE Stock
Following approval of the offer documents by the German Federal Financial Supervisory Authority (known by its German acronym, "BaFin"), on April 27, 2018, E.ON published its voluntary public takeover offer ("PTO") for innogy SE stock. The PTO's extended acceptance period ended on July 25, 2018. In addition to the 76.8-percent stake to be acquired from RWE, 9.4 percent of innogy stock was tendered under the PTO.

To finance the PTO, E.ON originally secured a €5 billion acquisition facility, which will fund the acquisition of innogy stock not held by RWE. Considering the tender ratio under the PTO, E.ON reduced the facility to €1.75 billion.

innogy's Agreements in Principle with E.ON and RWE
On July 18, 2018, innogy concluded two legally binding agreements—one with E.ON, another with RWE—on the planned integration of innogy into E.ON and the planned integration of innogy's renewables business into RWE. The agreements call for the planned transaction to be implemented in a transparent process in which all employees will be treated fairly and as equally as possible, regardless of which company they currently work for. In addition, the integrations will take into account the companies' respective strengths. Essen will remain the registered office and headquarters of the new E.ON. innogy will play a positive role in supporting the swift implementation of the planned transaction between RWE and E.ON.

Sale of Uniper Stake
In September 2017 E.ON and Fortum Corporation of Espoo, Finland, concluded an agreement under which E.ON had the right to sell its 46.65-percent stake in Uniper to Fortum in early 2018. Until the end of September 2017 we classified this stake as an associated company and accounted for it using the equity method. We then reclassified it as an asset held for sale. In January 2018 E.ON decided to exercise its option to tender its Uniper stake. After all the necessary antitrust approvals were obtained, the transaction closed on June 26, 2018, with E.ON receiving liquid funds totaling €3.8 billion. The disposal of the stake and the derecognition of the associated derivative financial instruments resulted in income totaling €1.1 billion. Note 4 to the Consolidated Financial Statements contains more information.

Changes in Segment Reporting
At the beginning of 2018 we made a number of reclassifications. The generation business in Turkey is now reported under Non-Core Business. Customer Solutions' heat business in Germany is no longer reported at its Germany unit but rather at its Other unit. In addition, costs for the ongoing expansion of our business of providing new digital products and services as well as innovative projects, which were previously allocated to Corporate Functions/Other, are now allocated to the appropriate operating units at Customer Solutions. We adjusted the prior-year figures accordingly. These reclassifications were already factored into the earnings forecast for 2018 contained in our 2017 Annual Report.

IFRS 9, "Financial Instruments," and IFRS 15, "Revenue from Contracts with Customers"
We apply IFRS 9, "Financial Instruments," and IFRS 15, "Revenue from Contracts with Customers," for the first time effective the start of 2018. The impact of the initial application of these standards on E.ON SE and Subsidiaries Consolidated Financial Statements as of December 31, 2018—in particular, on sales, costs of materials, and a reduction in the value of financial assets—is explained in detail in Note 2 to the Consolidated Financial Statements.

Sale of E.ON Elektrárne
On July 26, 2018, E.ON sold its stake in E.ON Elektrárne s.r.o. to Západoslovenská energetika a.s. ("ZSE"). The parties agreed not to disclose the sales price. The transaction included the repayment of shareholder loans. ZSE is owned jointly by the Slovakian state (51 percent) and the E.ON Group (overall, 49 percent). The assets of E.ON Elektrárne s.r.o. include primarily Malženice combined-cycle gas turbine.

Sale of E.ON Gas Sverige
On April 25, 2018, the E.ON Group closed the sale of E.ON Gas Sverige AB, its gas distribution network company in Sweden, with retroactive economic effect to January 1, 2018. The buyer was the European Diversified Infrastructure Fund II.

Sale of Hamburg Netz
In 2017 E.ON agreed to sell its 74.9-percent stake in Hamburg Netz GmbH to the Free and Hanseatic City of Hamburg. The transaction closed on January 1, 2018. The payment was received in 2017.

Initial Public Offering of Enerjisa Enerji
A 20-percent stake (E.ON's share: 10 percentage points) of Enerjisa Enerji A.Ş. was successfully placed on the stock market on February 8, 2018. The issuance price was TRY 6.25 per 100 shares. Enerjisa Enerji A.Ş. continues to be a joint venture between E.ON and Sabanci, each of which holds 40 percent. The book gain on this transaction was more than offset by cumulative adverse currency-translation effects.

Management System

Our corporate strategy aims to deliver sustainable growth in shareholder value. We have 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 organizational entities and all processes—by means of binding company policies and minimum standards.

Key Performance Indicators
Our most important key performance indicators ("KPIs") for managing our operating business are adjusted EBIT and cash-effective investments. Other KPIs for managing the E.ON Group are cash-conversion rate, ROCE, adjusted net income, earnings per share (based on adjusted net income), and debt factor. The Combined Group Management Report's presentation of the KPIs relevant for management control includes the results of discontinued operations in the Renewables segment (for more information, see pages 22 and 23 of the Combined Group Management Report).

Adjusted earnings before interest and taxes ("adjusted EBIT") is E.ON's most important KPI for purposes of internal management control and as an indicator of its businesses' long-term earnings power. The E.ON Management Board is convinced that adjusted EBIT is the most suitable KPI 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, certain restructuring expenses, impairment charges, the marking to market of derivatives, and other non-operating earnings (see the explanatory information on pages 31 to 33 to 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. These include the investments of discontinued operations in the Renewables segment.

Cash-conversion rate is equal to 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 adjusted EBIT to annual average capital employed.

Adjusted net income is an earnings figure after interest income, income taxes, and non-controlling interests that has likewise been adjusted to exclude non-operating effects (see the explanatory information on page 33 of the Combined Group Management Report).

E.ON manages its capital structure by means of its debt factor (see the section entitled Finance Strategy on page 34). Debt factor is equal to our economic net debt divided by 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.

Other KPIs

Alongside our most important financial management KPIs, the Combined Group Management Report includes other financial and non-financial 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. Our sustainability KPIs include total recordable frequency index ("TRIF"), which measures reported work-related injuries and illnesses. The section entitled Employees contains explanatory information about this KPI.

In addition, some KPIs are important for E.ON as a customer-focused company. For example, we see our ability to acquire new customers and retain existing ones as crucial to our success. Net promoter score ("NPS") measures customers' willingness to recommend E.ON to a friend or colleague. Our Sustainability Report and the Separate Combined Non-Financial Report describe how NPS fits into our management approach.

However, these other KPIs are not the focus of the ongoing management of our businesses.

Innovation

E.ON's innovation activities reflect its strategy of focusing systematically on the new energy world of empowered and proactive customers, renewables and distributed energy, energy efficiency, local energy systems, and digital solutions. E.ON therefore 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 distributed 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 want to identify 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 toward distributed, sustainable, and innovative energy offerings. These arrangements benefit new technology companies and E.ON, since we gain access to their new business models and have a share in the value growth.

In 2018 we invested in Sight Machine, Lumenaza, tado°, and Virta.

Sight Machine is a software startup based in the United States that has created an Internet of Things digital manufacturing platform that uses artificial intelligence, machine learning, and advanced analytics, which will help our B2B customers address critical challenges in quality, productivity, and visualization.

Lumenaza is a German software provider for the new, distributed, and digitized energy world. Its modular software platform functions as a utility-in-a-box, offering all the functionalities needed in the energy market. Lumenaza can connect and intelligently manage all participants in the new energy world in a single digital marketplace. It provides the platform for a peer-to-peer energy market.

Germany-based tado° is redefining how households use energy by enhancing comfort, savings, and well-being. Its smart wall and radiator thermostats along with the Climate Assistant app offer functions like geofencing, weather adaption, open-window detection, air comfort, and repair service for boilers.

Virta is a Finnish company with a powerful IT platform for connecting electric vehicles to charging infrastructures and energy grids. E.ON uses the platform as the digital backbone for its offerings to B2B customers and for supplementing billing with vehicle-to-grid and other value-added services.

Partnerships with Universities

Our innovation activities include partnering with universities and research institutes to conduct research projects in a variety of areas. The purpose 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. This research is conducted primarily at the E.ON Energy Research Center at RWTH Aachen University, which focuses on renewables, technologically advanced electricity networks, and efficient technology for buildings.

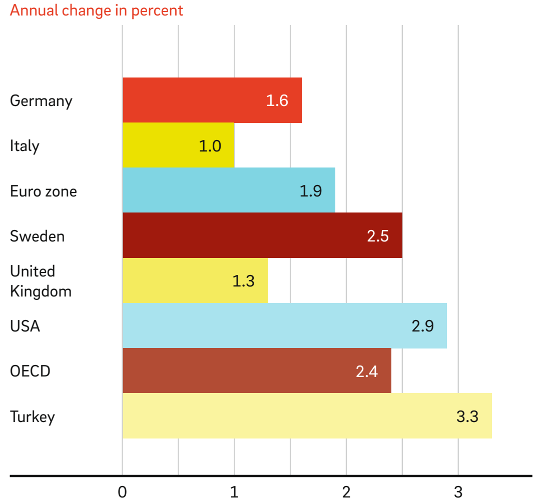
Macroeconomic and Industry Environment

Macroeconomic Environment

The OECD believes the global economy experienced a growth spike in 2018. Labor market growth remained stable, whereas risks relating to international trade and private investments served as a slight damper. The OECD estimates that the global economy grew at a rate of 3.7 percent in 2018.

2018 GDP Growth in Real Terms

Annual change in percent



Source: OECD, 2018.

Energy Policy and Regulatory Environment

Global

The 24th United Nations climate change conference took place in Katowice, Poland, from December 2 to 15, 2018. It too focused on defining measures to limit the increase in global temperatures to under 2 degrees Celsius. The conference agreed on a rulebook for the implementation of the Paris Agreement and for countries' reporting obligations.

Europe

In 2018 the EU made important progress in enacting the proposals contained in the Clean Energy for All Europeans package of energy and climate legislation. The adoption of the governance regulation introduced a new instrument for monitoring the member states' climate policies. It obliges them to submit, by the end of 2019, national energy and climate plans for 2021 to 2030. The new versions of the Energy Efficiency and Renewable Energy Directives set new binding EU-wide targets for 2030. The EU intends to achieve energy savings of 32.5 percent relative to forecast primary energy consumption and for renewables to meet 32 percent of gross final energy consumption in the electricity, heat, and transport sectors. Both targets could be reviewed and, if necessary, revised upward in 2023.

By contrast, the EU did not revise its binding decarbonization targets. The newly adopted targets for energy efficiency and the share of renewables are expected to raise the emission reduction to 45 percent compared with 1990. At the end of 2018 the EU set an emission-reduction target for personal transport. The discussion between the European Parliament, the European Commission, and the member states resulted in a target of reducing these emissions by 37.5 percent by 2030 compared with 2021.

Germany

Following the 2017 Bundestag elections, the CDU, CSU, and SPD decided to continue the grand coalition. The coalition agreement affirmed the climate targets for 2030 and 2050. One target is for renewables to meet about 65 percent of the country's gross electricity consumption by 2030. The agreement also foresees an ambitious action plan for upgrading and expanding energy networks, recognizing the increased importance of distribution networks. The scope for digital business models is to be expanded, with data protection to be a top priority.

On June 6, 2018, the German federal government appointed a Commission for Growth, Structural Change, and Employment to assist with its climate-protection plans. The commission came up with economic-development measures for lignite mining regions in Germany and worked out a timetable and, in particular, a target date for the phaseout of coal-fired power generation. On January 26, 2019, the commission issued its final report, in which it recommends to the German federal government that the country completely phase out coal-fired generation by 2038 at the latest. The commission calls for the phaseout to be gradual. It proposes that in 2022 a total of no more than 15 GW of lignite-fired generating capacity and 15 GW of hard-coal-fired capacity should be operational. By 2030 the figures are to decline to 9 GW for lignite and 8 GW for hard coal. The phaseout plan is to be reviewed at regular intervals. In addition, the commission recommends leaving the option open in 2032 to move the complete phaseout of coal-fired generation forward to 2035.

Effective January 1, 2018, the preferential treatment of self-supply combined-heat-and-power ("CHP") units that entered service after August 1, 2014, was rescinded. After the European Commission and the German federal government reached an agreement in principle during the year, the rescission was reversed with retroactive effect for CHP units of less than 1 MW and more than 10 MW, which received EU state aid approval. These units will continue to pay 40 percent of the renewables levy. Depending on their number of full-use hours, newer CHP units between 1 and 10 MW will have to pay between 40 and 100 percent of the renewables levy unless they are used for self-supply by specially approved enterprises.

At the end of 2018 the Bundestag and the Bundesrat passed the Omnibus Energy Act, which makes various amendments to energy legislation, such as the Renewable Energy Act and the CHP Act. The Omnibus Energy Act extends the aforementioned preferential treatment of self-supply for new CHP plants and establishes special tenders for 4 GW of onshore wind and solar capacity, as foreseen by the coalition agreement. The special tenders will be conducted between 2019 and 2021. Furthermore, the Omnibus Energy Act gradually reduces the remuneration for solar arrays between 40 kW and 750 kW to 8.9 cents per kWh by April 2019.

Great Britain
Following a period of negotiations, on November 25, 2018, the U.K. Government and the European Union formally approved the Withdrawal Agreement and Political Declaration on the future relationship between the U.K. and the EU. If approved by the House of Commons, the agreement will be transposed into U.K. law and then ratified by the EU before March 29, 2019. If the agreement is rejected by the House of Commons, a number of scenarios are possible. They include a revised deal, a second Brexit referendum, and a disorderly no-deal exit. There remains substantial uncertainty over the details of Brexit.

The Court of Justice of the European Union ruled the European Commission's approval of the introduction of a capacity market in the United Kingdom invalid. The market is therefore suspended. Until state aid approval is again obtained, no capacity auctions can be held and no capacity payments can be made to market participants holding contracts from previous auctions. The U.K. government is working with the European Commission to support its investigation and ensure a timely relaunch of the capacity market. It is unclear at this stage what impact Brexit could have on the European Commission's jurisdiction over the U.K. capacity market.

Italy
The Italian government aims for renewables to meet 55 percent of the country's electricity consumption by 2030. To achieve this goal, the government intends to put in place a direct subsidy scheme based on bilateral contracts for differences in the short term and a market for efficient power purchase agreements in the long term. Alongside growth in renewables, the Italian market faces a decline in installed thermal capacity. To ensure supply security and system stability and to continue the phaseout of coal-fired generation, the Italian government proposed establishing a capacity market. Although the European Commission approved the most recent version of the proposal in February 2018, the timetable for implementation remains uncertain. This is because the Italian government temporarily suspended implementation in September 2018 owing to the potential risk that the proposed capacity market will favor carbon-intensive generation technologies such as coal.

Sweden
Sweden's energy policy is focused on the 2016 cross-party energy agreement that foresees a fully renewable electricity system over the long term. The agreement features a number of climate policies, including a target of 100 percent renewable electricity generation by 2040. The main policy instrument, the elcertificate market scheme, has resulted in substantial growth in wind power and the conversion of fossil fuel to biomass. With nearly 9.5 TWh of new wind power capacity under construction as of October 2018, Sweden will likely achieve its 2030 renewables target in the early 2020s. General elections were held in September 2018. A government was formed in January 2019.

East-Central Europe
The Romanian electricity market has been fully liberalized since January 1, 2018. However, a government ordinance took effect on December 29, 2018, that places the residential power supply under the oversight of the Romanian Energy Regulatory Authority from March 1, 2019, to February 28, 2022. In addition, in September 2018 the Romanian Energy Ministry presented its draft energy strategy for 2018–2030 looking toward 2050. It identifies a number of projects of strategic national interest, including significant investments in nuclear and hydroelectric capacity. Hungary announced that it will phase out coal-fired generation by 2030. The gap will be made up by an existing nuclear power plant ("NPP") and two new units at Paks II NPP, which are in the preparatory phase of construction. Slovakia is preparing a national 2050 low-carbon strategy aided by the World Bank, which may include the commissioning of two NPPs. The Czech Republic is also considering nuclear as part of the transition from coal-fired generation. It intends to decide in the near future whether to build, and how to finance, a new unit at one of its existing NPPs.

Business Performance

E.ON's operating business continued to deliver a positive performance in 2018. Nevertheless, our sales of €30.3 billion were €7.7 billion below the prior-year figure. The decline resulted largely from changes in the accounting treatment of certain renewables-support payments pursuant to IFRS 15, which was applied for the first time in 2018. These payments are no longer reported in full but rather are netted against the corresponding costs of materials.

Adjusted EBIT for the E.ON Group declined by €0.1 billion to €3 billion. Adjusted net income increased by about €0.1 billion to €1.5 bllion. Adjusted EBIT and adjusted net income were therefore at the upper end of our forecast range of €2.8 to €3 billion and €1.3 to €1.5 billion, respectively. In addition, our objective was to record a cash-conversion rate of at least 80 percent. Cash-conversion rate is equal to operating cash flow before interest and taxes (€4.1 billion) divided by adjusted EBITDA (roughly €4.8 billion). Our cash-conversion rate was therefore 84 percent. Our ROCE was 10.4 percent, slightly higher than our forecast of 8 to 10 percent.

Our investments of €3.5 billion were slightly above the prior-year figure of €3.3 billion but below the €3.8 billion forecasted for 2018. The deviation is principally attributable to changes in project planning at our Customers Solutions and Renewables segments.

Cash provided by operating activities of continuing and discontinued operations of €2.9 billion was substantially above the prior-year figure of -€3 billion, primarily because of our payment into Germany's public fund for nuclear-waste disposal in July 2017. The non-recurrence of the nuclear-fuel-tax refund recorded in 2017 was an adverse factor.

Acquisitions, Disposals, and Discontinued Operations in 2018

We executed the following significant transactions in 2018. Note 4 to the Consolidated Financial Statements contains detailed information about them:

- Reclassification of substantially all of our Renewables segment as discontinued operations in conjunction with the planned transaction with RWE
- Sale of our 46.65-percent Uniper stake
- Sale of E.ON Gas Sverige
- Sale of Hamburg Netz.

Cash provided by investing activities of continuing operations includes cash-effective disposal proceeds totaling €4,306 million in 2018 (prior year: €750 million).

Earnings Situation

Sales

We recorded sales of €30.3 billion in 2018, €7.7 billion less than the prior-year figure. The initial application of IFRS 15 reduced sales by €7.9 billion. Energy Networks' sales declined by €8.2 billion, primarily because of the aforementioned netting effects in conjunction with IFRS 15 in Germany and the Czech Republic and by the sale of gas operations in Sweden and Germany. Customer Solutions' sales rose by about €0.6 billion, in particular owing to price increases and a weather-driven increase in gas sales volume in the United Kingdom. Higher sales prices in Sweden, Italy, and Hungary along with the transfer of the gas business in Sweden from Energy Networks were also positive factors. By contrast, sales were adversely affected by netting effects pursuant to IFRS 15 in the Czech Republic and the expiration of sales contracts to certain wholesale customers in Germany that were transferred to Uniper. Renewables' sales rose by €150 million year on year, owing primarily to an increase in owned generation. This was because in 2018 some wind farms in the United States were, for the first time, operational for the entire year and because a wind farm came online in the United Kingdom. Sales at Non-Core Business declined by €186 million, principally because of lower sales prices and the absence of one-off items in conjunction with legal proceedings. Sales recorded under Corporate Functions/Other resulted mainly from intragroup IT, finance, and HR services. The decline relative to the prior year is due in part to the expiration of a service contract with Uniper.

Sales[1]

€ in millions	Fourth quarter 2018	2017	+/- %	Full year 2018	2017	+/- %
Energy Networks[2]	2,355	4,123	-43	8,769	16,990	-48
Customer Solutions	6,320	6,091	+4	22,127	21,576	+3
Renewables	541	474	+14	1,754	1,604	+9
Non-Core Business	416	355	+17	1,399	1,585	-12
Corporate Functions/Other	144	234	-38	644	796	-19
Consolidation	-1,169	-1,249	–	-4,440	-4,586	–
E.ON Group	**8,607**	**10,028**	**-14**	**30,253**	**37,965**	**-20**

[1]Includes the discontinued operations in the Renewables segment. Sales from continuing operations amounted to €29.6 billion in 2018 (prior year: €37.3 billion).
[2]Income and expenses resulting from the Renewable Energy Law's feed-in scheme have been netted out; we adjusted the prior-year quarters accordingly (see Note 2 to the Consolidated Financial Statements).

Other Line Items from the Consolidated Statements of Income

Own work capitalized of €394 million (2017: €513 million) resulted mainly from the capitalization of IT projects and network investments.

Other operating income declined by 31 percent, from €7,371 million to €5,107 million, mainly because of the refund of roughly €2.85 billion in nuclear-fuel taxes recorded in the prior year. In addition, the sale of securities resulted in lower income than in the prior year. Income from currency-translation effects of €1,607 million declined by 18 percent, whereas income from derivative financial instruments rose by 120 percent, from €593 million to €1,303 million. Corresponding amounts resulting from currency-translation effects and derivative financial instruments are recorded under other operating expenses. In addition, 2018 income from derivative financial instruments includes the derecognition of a derivative in conjunction with contractual rights and obligations relating to the sale of our Uniper stake. The sale of equity interests yielded income of €899 million, which includes €593 million from the sale of our remaining Uniper stake to Fortum as well as €154 million and €134 million from the sale of Hamburg Netz and E.ON Gas Sverige AB, respectively.

Costs of materials of €22,813 million were significantly below the prior-year level of €29,961 million. The decline is mainly attributable to the aforementioned netting effects in conjunction with the initial application of IFRS 15 in 2018.

Personnel costs of €2,460 million were €573 million below the prior-year figure of €3,033 million. The decline resulted mainly from lower expenditures for strategic renewal and reorganization programs from prior years. In addition, an adjustment to pension commitments in the United Kingdom resulted in negative past service costs.

Depreciation charges declined significantly, from €1,700 million to €1,575 million, primarily because of a reduction in impairment charges. In 2018 scheduled depreciation charges were recorded in particular at Energy Networks. In 2018 impairment charges were recorded primarily at Customer Solutions' business in the United Kingdom.

Other operating expenses of €4,550 million were 28 percent below the prior-year level of €6,279 million. This is chiefly because expenditures relating to derivative financial instruments decreased substantially, from €1,828 million to €630 million. Expenditures relating to currency-translation effects totaled €1,626 million (prior year: €1,668 million). The prior-year figure was adversely affected by our obligation to pass on a portion of the refunded nuclear-fuel tax to the minority shareholders of our jointly owned power stations (€327 million).

Income from companies accounted for under the equity method of €269 million was below the prior-year figure of €720 million. In 2018 we recorded no equity earnings from our Uniper stake (prior year: €466 million). This effect was partially counteracted by overall higher earnings from our equity investments in Turkey (Enerjisa Enerji: -€56 million; Enerjisa Üretim: +€96 million).

Adjusted EBIT

In 2018 adjusted EBIT in our core business was €74 million below the prior-year figure. Energy Networks' adjusted EBIT declined by €190 million. The principal reasons were the non-recurrence of a positive one-off item involving the delayed repayment of personnel costs for regulatory reasons, the sale of Hamburg Netz, and the beginning of the third regulatory period for gas in Germany. A reduction in earnings at the East-Central Europe/Turkey unit resulting from lower equity earnings on our stake in Enerjisa Enerji in Turkey was another adverse factor. These items were partially offset by an improved gross margin in the power business in Sweden, which resulted from tariff increases. Adjusted EBIT at Customer Solutions declined by €66 million. The principal causes were persistently challenging market conditions, a weather-driven reduction in power sales volume, regulatory effects and higher restructuring expenditures in the United Kingdom, and the unavailability of a cogeneration plant that Customer Solutions' Other unit operates for a customer. By contrast, the transfer of the gas business in Sweden from Energy Networks had a positive effect on earnings. Adjusted EBIT in Germany was significantly higher primarily because of a wider gross margin in the power and gas business. Renewables' adjusted EBIT rose by €67 million, owing in particular to an increase in owned generation. This was because in 2018 some wind farms in the United States were, for the first time, operational for the entire year and because a new wind farm came online in the United Kingdom.

The E.ON Group's adjusted EBIT was €85 million below the prior-year figure. In addition to the aforementioned factors affecting adjusted EBIT in our core businesses, PreussenElektra's earnings were adversely impacted by lower sales prices and one-off effects. This was almost completely offset by higher earnings from the generation business in Turkey.

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 2018.

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.

Adjusted EBIT

	Fourth quarter			Full year		
€ in millions	2018	2017	+/- %	2018	2017	+/- %
Energy Networks	372	531	-30	1,844	2,034	-9
Customer Solutions	53	137	-61	413	479	-14
Renewables	238	206	+16	521	454	+15
Corporate Functions/Other	-73	-43	–	-153	-275	–
Consolidation	-21	-3	–	-18	-11	–
Adjusted EBIT from core business	**569**	**828**	**-31**	**2,607**	**2,681**	**-3**
Non-Core Business	68	129	-47	382	393	-3
Adjusted EBIT	**637**	**957**	**-33**	**2,989**	**3,074**	**-3**

Net Income/Loss

We recorded net income attributable to shareholders of E.ON SE of €3.2 billion and corresponding earnings per share of €1.49. In the prior year we recorded net income of €3.9 billion and earnings per share of €1.84.

Pursuant to IFRS 5, income/loss from discontinued operations, net, is reported separately in the Consolidated Statements of Income and includes the earnings from the discontinued operations at Renewables. Note 4 to the Consolidated Financial Statements contains more information.

The tax expense in 2018 amounted to €46 million (2017: €803 million). In 2018 the tax rate was 1 percent (2017: 16 percent). In the year under review, an increase in tax-free and tax-exempt earnings components and the reversal of tax provisions for previous years led to a reduction in the tax rate. Significant changes in the tax rate relative to the prior year also reflect one-off items relating to the refund of the nuclear-fuel tax and the resulting increase in income taxes in Germany. The effects relating to the nuclear-fuel tax led to the utilization of tax loss carryforwards and were subject to a minimum tax.

Financial results declined by €0.7 billion year on year, mainly because interest pending during legal proceedings was paid back in the prior year in conjunction with the refund of the nuclear-fuel tax.

Net book gains in 2018 were substantially above the prior-year figure, mainly because of the disposal of our Uniper stake, Hamburg Netz, and E.ON Gas Sverige. Overall, the initial public offering of Enerjisa Enerji in Turkey resulted in a book loss. By contrast, the prior-year figure contains the proceeds from the sale of a shareholding at Customer Solutions in Sweden as well as significantly higher book gains on the sale of securities.

Restructuring expenses declined substantially year on year. The decrease is in part attributable to considerably lower expenditures in conjunction with Group-wide cost-reduction programs.

Net Income/Loss

	Fourth quarter		Full year	
€ in millions	2018	2017	2018	2017
Net income/loss	369	277	3,524	4,180
Attributable to shareholders of E.ON SE	*303*	*219*	*3,223*	*3,925*
Attributable to non-controlling interests	*66*	*58*	*301*	*255*
Income/Loss from discontinued operations, net	-116	127	-286	-23
Income/Loss from continuing operations	**253**	**404**	**3,238**	**4,157**
Income taxes	-152	263	46	803
Financial results	215	111	669	-28
Income/Loss from continuing operations before financial results and income taxes	**316**	**778**	**3,953**	**4,932**
Income/Loss from equity investments	-24	-48	44	-5
EBIT	**292**	**730**	**3,997**	**4,927**
Non-operating adjustments	**110**	**27**	**-1,521**	**-2,293**
Net book gains (-)/losses (+)	*2*	*-87*	*-857*	*-375*
Restructuring expenses	*12*	*367*	*64*	*539*
Marking to market of derivative financial instruments	*295*	*471*	*-610*	*954*
Impairments (+)/Reversals (-)	*61*	*171*	*61*	*171*
Other non-operating earnings	*-260*	*-895*	*-179*	*-3,582*
Reclassified businesses of Renewables (adjusted EBIT)	235	200	513	440
Adjusted EBIT	**637**	**957**	**2,989**	**3,074**
Impairments (+)/Reversals (-)	27	33	45	72
Scheduled depreciation and amortization	414	356	1,475	1,488
Reclassified businesses of Renewables (scheduled depreciation and amortization, impairment charges and reversals)	87	69	331	321
Adjusted EBITDA	**1,165**	**1,415**	**4,840**	**4,955**

By contrast, in 2018 we for the first time recorded expenditures in conjunction with the planned acquisition of innogy.

At December 31, 2018, the marking to market of the derivatives we use to shield our operating business from price fluctuations as well as other derivatives resulted in a positive effect of €610 million (prior year: -€954 million). The positive figure in 2018 is mainly attributable to the derecognition, in the second quarter, of derivative financial instruments in conjunction with contractual rights and obligations relating to the sale of our Uniper stake. As in the prior year, there were also effects resulting from hedging against price fluctuations, in particular at Customer Solutions.

In 2018 we recorded impairment charges principally at Customer Solutions' operations in the United Kingdom and at E.ON Connecting Energies. In the prior year we recorded impairment charges primarily at Customer Solutions' operations in the United Kingdom.

The substantial decline in other non-operating earnings is chiefly attributable to our receipt of the refund of the nuclear-fuel tax in the prior year, which also includes the equity earnings on our Uniper stake. This stake was reclassified as an asset held for sale as of the end of September 2017. Since this date, its book value is no longer recorded in equity.

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 includes the earnings (adjusted to exclude non-operating effects) of the discontinued operations at Renewables as if they had not been reclassified and valued pursuant to IFRS 5. Pages 22 and 23 of the Combined Group Management Report and Notes 4 and 33 of the Consolidated Financial Statements contain more information.

As a rule, the E.ON Management Board uses this figure in conjunction with its consistent dividend policy and aims for a continual increase in dividend per share. In view of the planned acquisition of innogy as part of an extensive asset swap with RWE, we intend to propose to the Annual Shareholders Meeting that E.ON pay a dividend of €0.43 per share for the 2018 financial year. Furthermore, in line with the current dividend policy, the E.ON Management Board and Supervisory Board will propose paying shareholders a dividend of €0.46 per share for the 2019 financial year.

Adjusted Net Income

	Fourth quarter		Full year	
€ in millions	2018	2017	2018	2017
Income/Loss from continuing operations before financial results and income taxes	**316**	**778**	**3,953**	**4,932**
Income/Loss from equity investments	-24	-48	44	-5
EBIT	**292**	**730**	**3,997**	**4,927**
Non-operating adjustments	110	27	-1,521	-2,293
Reclassified businesses of Renewables (adjusted EBIT)	235	200	513	440
Adjusted EBIT	**637**	**957**	**2,989**	**3,074**
Net interest income/loss	-191	-62	-713	33
Non-operating interest expense (+)/income (-)	53	-87	174	-703
Reclassified businesses of Renewables (operating interest expense (+)/income (-))	-36	-20	-135	-74
Operating earnings before taxes	**463**	**788**	**2,315**	**2,330**
Taxes on operating earnings	-126	-631	-544	-970
Operating earnings attributable to non-controlling interests	-54	-93	-221	-278
Reclassified businesses of Renewables (taxes and minority interests on operating earnings)	14	398	-45	345
Adjusted net income	**297**	**462**	**1,505**	**1,427**

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 has unrestricted access to capital markets 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. For the purpose of internal management control, economic net debt includes the discontinued operations at Renewables as well as the waste-disposal and dismantling obligations associated with E.ON's stakes in Emsland and Gundremmingen nuclear power stations at PreussenElektra, which are classified as a disposal group (see Note 4 to the Consolidated Financial Statements).

The low interest-rate environment continued. In some cases this led to negative real interest rates on asset-retirement obligations. As in prior years, our provisions therefore exceeded the amount of our asset-retirement obligations at year-end without factoring in discounting and cost-escalation effects. This limits the relevance of economic net debt as a key figure. We want economic net debt 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 have therefore used the aforementioned actual amount of the obligations instead of the balance-sheet figure to calculate our economic net debt since the 2016 financial year.

Without factoring in the innogy takeover, we target a debt factor of 4 for the medium term. After the innogy transaction closes, we will adjust the debt factor for the future E.ON.

Due to the development of our economic net debt described in the next paragraph, our debt factor at year-end 2018 was 3.4, which is below our medium-term target of 4.

Economic Net Debt

Compared with the figure recorded at December 31, 2017 (€19.2 billion), our economic net debt declined by €2.7 billion to €16.6 billion, in particular because of the proceeds from the sale of our Uniper stake. In addition, liquid funds were used to repay €2 billion in financial liabilities on schedule.

Our net financial position at the balance-sheet date was also influenced by the dissolution of Versorgungskasse Energie VVaG i.L. ("VKE i.L.") in the first quarter of 2018 and the transfer of these assets to other investment vehicles. Because most of these assets were transferred to our contractual trust arrangement ("CTA"), this affected our economic net debt only slightly, since our provisions for pensions were reduced by the nearly same amount. The impact on our economic net debt of the transfer of the remaining VKE i.L. assets to other share investments and third parties was offset by positive effects from the sale of Hamburg Netz.

Economic Net Debt

	December 31,	
€ in millions	2018	2017
Liquid funds	5,423	5,160
Non-current securities	2,295	2,749
Financial liabilities	-10,721	-13,021
FX hedging adjustment	-28	114
Net financial position	**-3,031**	**-4,998**
Provisions for pensions	-3,261	-3,620
Asset-retirement obligations[1]	-10,288	-10,630
Economic net debt	**-16,580**	**-19,248**
Adjusted EBITDA	4,840	4,955
Debt factor	**3.4**	**3.9**

[1]These figures are not the same as the asset-retirement obligations shown in our Consolidated Balance Sheet from continuing and discontinued operations (December 31, 2018: €11,889 million; December 31, 2017: €11,673 million). This is because we calculate our economic net debt in part based on the actual amount of our obligations.

Reconciliation of Economic Net Debt

	December 31,	
€ in millions	2018	2017
Economic net debt	**-16,580**	**-19,248**
Reclassified businesses of Renewables and PreussenElektra	1,961	–
Economic net debt (continuing operations)	**-14,619**	**-19,248**

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 through different markets and debt instruments to maximize the diversity of our investor base. We issue bonds with tenors that give our debt portfolio a balanced maturity profile. Moreover, we combine large-volume benchmark issues with smaller issues that take advantage of market opportunities as they arise. External funding is generally carried out by E.ON SE, and the funds are subsequently on-lent in the Group. In the past, external funding was also carried out by our Dutch finance subsidiary, E.ON International Finance B.V. ("EIF"), under guarantee of E.ON SE. In 2018 we paid back in full maturities of €2 billion. We issued no new debt.

Financial Liabilities

	December 31,	
€ in billions	2018	2017
Bonds[1]	9.0	10.7
EUR	*4.0*	*4.0*
GBP	*3.8*	*3.9*
USD	*0.9*	*2.5*
JPY	*0.2*	*0.2*
Other currencies	*0.1*	*0.1*
Promissory notes	0.1	0.4
Other liabilities	1.6	1.9
Total	**10.7**	**13.0**

[1]Includes private placements.

With the exception of a U.S.-dollar-denominated bond issued in 2008, all of E.ON SE's and EIF's currently outstanding bonds were issued under our Debt Issuance Program ("DIP"). The DIP simplifies our ability to issue debt to investors in public and private placements in flexible time frames. E.ON SE's DIP was last updated in April 2018 with a total volume of €35 billion, of which about €9 billion was utilized at year-end 2018. E.ON SE intends to renew the DIP in 2019.

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 notes. At year-end 2018 E.ON again had no CP outstanding.

E.ON also has access to a five-year, €2.75 billion syndicated revolving credit facility, which was concluded on November 13, 2017, and which includes two options to extend the facility, in each case for one year. The first option to extend the credit facility was exercised in November 2018. The facility is undrawn and rather serves as a reliable, ongoing general liquidity reserve for the E.ON Group. The credit facility is made available by 18 banks which constitute E.ON's core group of banks.

To finance the voluntary public takeover offer for innogy SE stock, E.ON originally secured a €5 billion acquisition facility to fund the acquisition of innogy stock not held by RWE. Considering the tender ratio under the voluntary public takeover offer, E.ON reduced the facility to €1.75 billion.

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, as well as 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.

E.ON's creditworthiness has been assessed by Standard & Poor's (S&P) and Moody's with long-term ratings of BBB and Baa2, respectively. The outlook for both ratings is stable. Both S&P and Moody's anticipate that over the near and medium term E.ON will be able to take over innogy and to maintain a debt ratio commensurate with these ratings. S&P's and Moody's short-term ratings are unchanged at A-2 and P-2, respectively.

E.ON SE Ratings

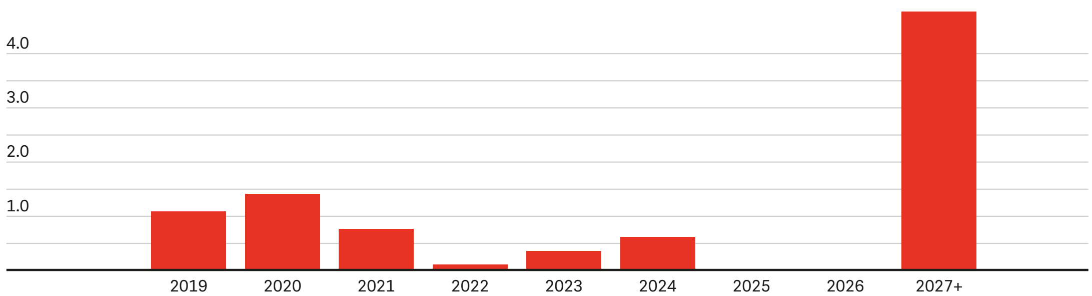
	Long term	Short term	Outlook
Moody's	Baa2	P-2	Stable
Standard & Poor's	BBB	A-2	Stable

E.ON strives to maintain rating agencies and investors' trust by means of a clear strategy and transparent communications. To achieve this purpose, we hold E.ON debt investor updates in major European financial centers and an annual informational meeting for our core group of banks.

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

€ in billions

December 31, 2018



Investments

In 2018 investments in our core business and in the E.ON Group as a whole were above the prior-year level. We invested about €3 billion in property, plant, and equipment and intangible assets (prior year: €3.1 billion). Share investments totaled €493 million versus €232 million in the prior year.

Investments

€ in millions	2018	2017	+/- %
Energy Networks	1,597	1,419	+13
Customer Solutions	637	596	+7
Renewables	1,037	1,225	-15
Corporate Functions/Other	86	53	+62
Consolidation	-3	1	–
Investments in core business	**3,354**	**3,294**	**+2**
Non-Core Business	169	14	–
E.ON Group investments	**3,523**	**3,308**	**+6**

Energy Networks' investments were substantially above the prior-year level. Investments in Germany of €802 million were significantly above the prior-year figure of €703 million, primarily because of expansion, upgrades, and replacements in our power grids there. Investments in Sweden were at the prior-year level. Investments in East-Central Europe/Turkey were €83 million higher, in particular because of the transfer of investment projects (especially for replacement investments) in the Czech Republic from Customer Solutions to Energy Networks.

Customer Solutions invested €41 million more than in the prior year. Investments in Sweden were significantly higher, particularly for the maintenance, upgrade, and expansion of existing assets and for the heat distribution network. By contrast, the aforementioned transfer of investment projects from Customer Solutions to Energy Networks led to significantly lower investments in the Czech Republic. In addition, E.ON Connecting Energies invested in embedded power plants at customers' facilities. On balance, investments in Germany and the United Kingdom were at the prior-year level.

Investments at Renewables were €188 million lower. Investments in property, plant, and equipment and intangible assets declined by €286 million year on year, primarily because of the completion of large new-build projects (Radford's Run, Bruenning's Breeze, and Rampion); the first two entered service at the end of 2017, the third in April 2018. By contrast, investments in shareholdings were €98 million higher, due principally to expenditures for the Arkona project.

Investments at Non-Core Business were €155 million above the prior-year level, primarily because of a capital increase at Enerjisa Üretim in Turkey, which we account for using the equity method. The capital increase was covered by cash inflow from the initial public offering of Enerjisa Enerji.

Cash Flow

Cash provided by operating activities of continuing and discontinued operations before interest and taxes of €4.1 billion was €6.3 billion above the prior-year level. The main reason for the increase is that in July 2017 we paid about €10.3 billion into Germany's public fund to finance nuclear-waste disposal. This amount was partially offset by the roughly €2.85 billion nuclear-fuel-tax refund we received in June 2017 and positive working-capital effects in 2017. The adverse factors affecting cash provided by operating activities of continuing and discontinued operations included higher interest and tax payments.

Cash provided by investing activities of continuing and discontinued operations totaled approximately +€1 billion versus -€0.4 billion in the prior year. The sale of our stake in Uniper SE was the principal factor (+€3.8 billion). This was partially offset by a year-on-year reduction in the net cash inflow from the sale of securities and changes in financial liabilities (-€1.9 billion) and an increase in cash-effective investments (-€0.2 billion).

Cash Flow[1]

€ in millions	2018	2017
Cash provided by (used for) operating activities (operating cash flow)	2,853	-2,952
Operating cash flow before interest and taxes	4,087	-2,235
Cash provided by (used for) investing activities	1,011	-391
Cash provided by (used for) financing activities	-2,637	540

[1]From continuing and discontinued operations.

Cash provided by financing activities of continuing and discontinued operations of -€2.6 million was €3.1 billion below the prior-year figure of +€0.5 billion. This is principally attributable to the issuance of €2 billion in bonds in the first half of 2017 and the roughly €1.35 billion capital increase conducted in March 2017. In addition, E.ON SE's dividend payout was about €0.3 billion higher than in the prior year. These items were partially offset by a reduction in cash outflow to repay bonds.

Asset Situation

Our total assets and liabilities of €54.3 billion were about €1.6 billion, or 3 percent, below the figure from year-end 2017. Non-current assets of €30.9 billion were €9.3 billion lower than at year-end 2017, in particular because of the reclassification of operations at Renewables that are to be transferred to RWE. This resulted in the reclassification of non-current assets as assets held for sale, which are reported under current assets. This reclassification led, in particular, to a significant reduction in fixed assets.

Current assets increased by 48 percent, from €15.8 billion to €23.4 billion, mainly because of the aforementioned reclassification of assets at Renewables in the amount of €11.3 billion. The derecognition of our Uniper stake in the amount of €3 billion, which had been classified as an asset held for sale, had a countervailing effect.

Our equity ratio (including non-controlling interests) at December 31, 2018, was 16 percent, which is 4 percentage points higher than at year-end 2017. This change primarily reflects our positive net income in 2018. The dividend payout of €0.9 billion and the revaluation of pension obligations in the amount of €0.5 billion due to altered actuarial assumptions were countervailing factors. Equity attributable to shareholders of E.ON SE was about €5.8 billion at year-end 2018. Equity attributable to non-controlling interests was roughly €2.8 billion.

Non-current debt decreased by €4.7 billion, or 13 percent. This was likewise attributable to the aforementioned reclassification of operations at Renewables as discontinued operations. In addition, the waste-disposal and dismantling obligations associated with our stakes in Emsland and Gundremmingen nuclear power stations, which are to be transferred to RWE, were reclassified as current debt. A decline in provisions for pensions was another reason that non-current debt was lower.

Current debt of €15.3 billion was 9 percent above the figure at year-end 2017, due mainly to the aforementioned effects of the reclassification of debt at Renewables and PreussenElektra. By contrast, the repayment of a dollar-denominated bond in the amount of roughly €1.7 billion in April 2018 and a decline in operating liabilities served to reduce current debt.

Consolidated Assets, Liabilities, and Equity

€ in millions	Dec. 31, 2018	%	Dec. 31, 2017	%
Non-current assets	30,883	57	40,164	72
Current assets	23,441	43	15,786	28
Total assets	**54,324**	**100**	**55,950**	**100**
Equity	8,518	16	6,708	12
Non-current liabilities	30,545	56	35,198	63
Current liabilities	15,261	28	14,044	25
Total equity and liabilities	**54,324**	**100**	**55,950**	**100**

Additional information about our asset situation is contained in Notes 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, 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)

€ in millions	December 31, 2018	2017
Intangible assets and property, plant, and equipment	10	12
Financial assets	33,241	37,358
Non-current assets	**33,251**	**37,370**
Receivables from affiliated companies	7,472	7,697
Other receivables and assets	1,932	1,349
Liquid funds	3,041	2,025
Current assets	**12,445**	**11,071**
Accrued expenses	28	36
Asset surplus after offsetting of benefit obligations	–	1
Total assets	**45,724**	**48,478**
Equity	9,432	9,029
Provisions	1,480	2,127
Bonds	2,000	2,000
Liabilities to affiliated companies	32,456	34,350
Other liabilities	354	970
Deferred income	2	2
Total equity and liabilities	**45,724**	**48,478**

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 2018 reflects, in particular, the in-phase distribution of net income available for distribution from E.ON Beteiligungen GmbH resulting from the release of capital reserves, of which €2,320 million was recorded in earnings, and a profit transfer of €725 million from E.ON Beteiligungen GmbH. The primary countervailing factors were the expenditures from loss transfers of €1,017 million from E.ON Finanzanlagen GmbH and of €787 million from E.ON US Holding GmbH.

The change in liabilities resulted mainly from the aforementioned distribution of net profit from E.ON Beteiligungen GmbH, as well as, by contrast, from the sale of Uniper stock to energy company Fortum Corporation, Espoo, Finland, by E.ON Beteiligungen GmbH in June 2018 (€3.8 billion). Due to cash pooling, this led to an increase in intragroup liabilities. Considering these items as well as the repayment of mature bonds and the €650 million dividend payout, on balance liquid funds increased by €1,016 million.

In addition, the aforementioned repayment of €755 million in bonds and the €3,480 million of the distribution of net income from E.ON Beteiligungen GmbH that was not recorded in earnings were the main factors in the reduction in financial assets.

The change in equity results from net income and the divided payout in 2018.

Information on treasury shares can be found in Note 19 to the Consolidated Financial Statements.

Income Statement of E.ON SE (Summary)

€ in millions	2018	2017
Income from equity interests	1,171	4,676
Interest income/loss	-140	-1,368
Other expenditures and income	-225	-497
Taxes	247	-171
Net income	**1,053**	**2,640**
Net income transferred to retained earnings	–	-1,320
Net income available for distribution	**1,053**	**1,320**

The increase in interest income/loss is primarily attributable to the market-value adjustment carried out in the previous year, which resulted from the intragroup restructuring of liabilites due to the transfer of loans to E.ON Finanzholding SE & Co. KG.

The negative figure recorded under other expenditures and income results primarily from expenditures of €171 million for third-party services, personnel expenditures of €138 million, net currency translation losses of €106 million, expenditures of €93 million for consulting and auditing services, and income of €271 million from a necessary adjustment for certain environmental remediation obligations of predecessor entities.

The Company recorded total income taxes of roughly €248 million (income) in 2018. Applying the minimum tax rate resulted in corporate taxes of €14 million, a solidarity surcharge of about €1 million, and trade taxes of €10 million in 2018. Tax income for previous years amounted to €273 million.

At the Annual Shareholders Meeting on May 14, 2019, management will propose that net income available for distribution be used to pay a dividend of €0.43 per ordinary share and the remaining amount of €121 million to be brought forward as retained earnings.

Management's proposal for the use of net income available fordistribution is based on the number of ordinary shares on February 28, 2019, the date the Financial Statements of E.ON SE were prepared.

Furthermore, in line with the current dividend policy, the E.ON Management Board and Supervisory Board will propose paying shareholders a dividend of €0.46 per share for the 2019 financial year.

The complete Financial Statements of E.ON SE, with an 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 weighted-average cost of equity and debt. This average represents the market-rate returns expected by stockholders and creditors. The cost of equity is the return expected by an investor in E.ON stock. The cost of debt equals the long-term financing terms 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 2018 led to no change in the after-tax cost of capital, which remained 4.7 percent. This was mainly because general interest-rate levels were almost unchanged, resulting in a stable risk-free interest rate and a constant market-risk premium. The table below shows the derivation of cost of capital before and after taxes.

Cost of Capital

	2018	2017
Risk-free interest rate	1.25%	1.25%
Market premium[1]	6.25%	6.25%
Debt-free beta factor	0.48	0.50
Indebted beta factor[2]	0.95	1.01
Cost of equity after taxes	**7.20%**	**7.50%**
Average tax rate	27%	27%
Cost of equity before taxes	9.9%	10.3%
Cost of debt before taxes	2.9%	2.4%
Marginal tax rate	27%	27%
Cost of debt after taxes	**2.10%**	**1.80%**
Share of equity	50%	50%
Share of debt	50%	50%
Cost of capital after taxes	**4.70%**	**4.70%**
Cost of capital before taxes	**6.40%**	**6.40%**

[1]The market premium reflects the higher long-term returns of the stock market compared with government bonds.
[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

ROCE is a pretax total return on capital and is defined as the ratio of our adjusted EBIT to annual average capital employed.

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. 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. Changes to E.ON's portfolio during the course of the year are factored into average capital employed. For purposes of internal management control, average capital employed includes activities at Renewables classified as discontinued operations.

Annual average capital employed does not include the marking to market of other share investments and derivatives. The purpose of excluding these items 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 2018

ROCE decreased from 10.6 percent in 2017 to 10.4 percent in 2018 owing to the decline in adjusted EBIT and the increase in capital employed. Overall, ROCE of 10.4 percent surpassed pretax cost of capital, which was unchanged relative to the prior year, yielding value added of about €1.15 billion.

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

ROCE

€ in millions	2018	2017
Goodwill, intangible assets, and property, plant, and equipment[1]	30,915	30,345
Shares in affiliated and associated companies and other share investments	4,263	4,339
Non-current assets	**35,178**	**34,684**
Inventories	710	794
Other non-interest-bearing assets/liabilities, including deferred income and deferred tax assets[2]	-4,862	-5,688
Current assets	**-4,152**	**-4,893**
Non-interest-bearing provisions[3]	-1,655	-1,541
Capital employed in continuing and discontinued operations (at year-end)[4]	**29,371**	**28,250**
Capital employed in continuing and discontinued operations (annual average)[4]	28,811	29,112
Adjusted EBIT[5]	**2,989**	**3,074**
ROCE[6]	**10.4%**	**10.6%**
Cost of capital before taxes	**6.4%**	**6.4%**
Value added[7]	**1,145**	**1,211**

[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 nuclear-waste management.
[4]For purposes of internal management control, average capital employed includes activities at Renewables classified as discontinued operations.
[5]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.
[6]Adjusted for non-operating effects; for purposes of internal management control, adjusted EBIT includes the earnings from activities at Renewables classified as discontinued operations.
[7]ROCE = adjusted EBIT divided by annual average capital employed.
[8]Value added = (ROCE – cost of capital) x annual average capital employed.

Employees

People Strategy

We developed our People Strategy to enable E.ON to maintain continuity in times of change, regardless of how the organization structures its business or how we adjust our strategic priorities in order to meet customer needs.

The three focus areas of our People Strategy are: Preparing Our People for the Future, Providing Opportunities, and Recognizing Performance. In 2018 we continued to bring these focus areas to life through a combination of local unit-level activity and Group-wide projects:

- Continuing to implement grow@E.ON, a Group-wide framework for the personal and professional development of our employees and managers (Preparing for the Future)

- Developing and rolling out a Group-wide employee value proposition (Providing Opportunities)

- Embedding YES! Awards, a way we recognize outstanding achievements as they happen and further motivate employees (Recognizing Performance).

In addition, we continued the process of digitizing our HR offerings. In particular, the basic components of grow@E.ON consist of modern applications harnessing the potential of advanced IT solutions, such as Cloud-based platforms that can be accessed from anywhere.

Collaborative Partnership with Employee Representatives

Working with employee representatives as partners has a long tradition at E.ON. This collaborative partnership is integral to our corporate culture.

At a European level, E.ON management works closely together with the SE Works Council of E.ON SE, which consists of representatives 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. A special emphasis is placed on the early and open discussion of employee matters.

In 2014 management and the Group Works Council in Germany concluded the Agreement on the Future Social Partnership. The agreement stipulates key principles of the social partnership between the Company and its employee representatives and thus manifests a shared responsibility for the Company and its employees. It has proven its worth and remains to this day the foundation for a successful social partnership at E.ON.

Consequently, the mechanisms are in place for mutually trustful, respectful, and transparent dialog between management and employee representatives at a European and national level. For the benefit of our employees and our company, management and employee representatives' shared objective is for this proven collaborative partnership to continue and further develop in the future.

innogy Integration and the Involvement of Employee Representatives

Social partnership is particularly important in times of change. The planned integration of innogy into the E.ON Group also will be conducted in a close, collaborative partnership between the Company and its employee representatives. In July the E.ON Management Board, the SE Works Council, and the Group Works Council therefore concluded a Framework Agreement, which applies to all E.ON companies in Europe.

In essence, the Framework Agreement provides that the close cooperation and partnership which the Company and its employee representatives have practiced for many years in Group-wide transformation projects will be continued in the planned integration of innogy. In addition, the Agreement lays down key principles for the social protection of employees affected by changes. It also defines the key elements of a binding operational framework for the future involvement of employee representatives and for change management related to the integration process during the years ahead.

Specific points covered by the Agreement include:

- ensuring early and comprehensive transparency regarding the project

- placing a strong and comprehensive focus on providing the required training to employees

- mutually agreeing that management and employee representatives will seek to reach consensus-based solutions to necessary organizational changes

- taking into account the interests of severely disabled employees when allocating jobs and filling positions

- generally ensuring economically equivalent working conditions when transferring employees
- continuing to place a particular emphasis on training young people
- retaining current social support agreements, unless they are superseded by other agreements.

In November innogy's Group Works Council and SE Works Council acceded to the Agreement. This now establishes that the Agreement will apply to all employees of the future E.ON, regardless of which company they work for prior to the planned integration. It reflects the close and trusting collaboration between E.ON and innogy's codetermination councils. As soon as legally permissible, innogy employee representatives will be involved in the project work and in shaping overarching strategic processes.

Employee Development and Working Conditions

We aim to attract talented people to our company and provide them with a work environment that enables them to do their best. Our People Strategy helps us do this, especially in times of change. Its three focus areas—Preparing Our People for the Future, Providing Opportunities, and Recognizing Performance—are crucial for maintaining attractive working conditions and fostering our employees' personal and professional development. A key enabler for the latter is Grow@E.ON, a Group-wide competency framework that is integrated into all our HR mechanisms. It helps ensure that we recruit, retain, and develop the people who will continue to drive E.ON's success. We offer a range of career paths. This ensures that we are an attractive employer to people who wish to pursue a specialist or a generalist career.

In 2018 we decentralized our HR activities to be closer to the business. One important function of Group HR is the HR management of our company's top 100 leaders. These tasks include executive development, placement, succession planning, and talent pipeline management. Each unit must have in place its own mechanisms to identify and develop talent and to conduct succession planning. Its management's responsibilities include ensuring that all new employees receive a company orientation as well as training on essential topics like health and safety. For this purpose, the units may use standardized E.ON e-learning modules. These and other virtual learning tools as well as courses and training programs are offered by the HR Business Solutions team in Group HR. E-Learning is an effective, flexible, and up-to-date way of delivering learning to our employees.

The Senior Vice President for HR is periodically invited to attend Management Board meetings to talk about employee issues. The Management Board discusses the current status of our talent pool each time a top executive position is filled. Once or twice a year, it gets an overview of our entire talent pool, including lower levels of management.

To ensure our people have a consistent framework within our decentralized management approach, the HR team and the E.ON Management Board developed and approved our People Commitments in 2017. They establish twelve principles that articulate our values and how we treat our employees. These principles are binding for the entire E.ON Group and are fully supported by the SE Works Council of E.ON SE. Units have adopted these principles in a way that reflects their particular legal, cultural, and business environment. Our People Guidelines and our People Commitments encompass a number of policies and guidelines. Examples include agreements on remote working and flexible work arrangements, such as sabbaticals, part-time work, and special holidays. Our international transfer policy governs the temporary foreign deployment of our employees. The average length of a foreign deployment is between two and three years.

We have in place a wide range of measures to make working at E.ON attractive and to develop our employees. E.ON offers vocational training in numerous careers and work-study programs. One example is the E.ON training initiative in Germany, which helps school-leavers get a start on their careers through internships that prepare them for an apprenticeship as well as school projects and other programs. The E.ON Graduate Program ("EGP") recruits highly qualified university graduates for a 24-month program during which they receive a broad overview of our business through three to six deployments in different E.ON units and departments. In 2018 we offered the EGP in the United Kingdom, Sweden, the Czech Republic, Hungary, and Romania.

We use a single management hiring process throughout the Group. It is designed to improve how we fill senior management positions, make hiring more transparent, and ensure equal opportunity. Its main component is a biweekly placement conference at which HR managers from around our company discuss vacancies and potential candidates. We also conduct an annual management review. These mechanisms ensure that our managers are engaged in ongoing professional development and that we have a transparent view of our current talent situation and our needs for the future.

We believe that an attractive compensation package including appealing fringe benefits is essential for rewarding our employees. 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 performance indicators that are also used in the Management Board's compensation plan.

E.ON has a long tradition of maintaining a constructive, mutually trusting partnership with employee representatives (see the section above entitled Collaborative Partnership with Employee Representatives). Our relationship with employees and their representatives is founded on a social partnership.

Diversity

Going forward, 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. We foster and utilize diversity in specific ways and create an inclusive work environment. Diversity is a key success factor. 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. In 2006 we issued a Group Policy on Equal Opportunity and Diversity. In late 2016 E.ON along with the SE Works Council of E.ON SE renewed this commitment to diversity.

In April 2018 the E.ON Management Board, the German Groups Works Council, and the Group representation for severely disabled persons signed the Shared Understanding of Implementing Inclusion at E.ON, creating a strong foundation for integrating people with disabilities into our organization.

In 2008 E.ON publicly affirmed its commitment to fairness and respect by signing the German Diversity Charter, which now has about 2,700 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. However, we prioritize three dimensions: gender, age, and internationality.

In 2018 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. We set new, ambitious targets to increase the proportion of women in management positions. By year-end 2026, we want the proportion of women in management positions to be the same—32 percent—as the proportion of women in our overall workforce was at year-end 2016. Each unit has specific targets, and progress towards these targets is monitored at regular intervals. We also have Group-wide recruiting and hiring guidelines for management positions. These guidelines require that at least one male and one female must be on the short list for a vacant management position. Through these measures, the proportion of women in management positions rose from just over 11 percent in 2010 to 21.2 percent at year-end 2018 for the Group as a whole and from 9 percent to 15.9 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, training to prevent unconscious bias, the provision of daycare, and flexible work schedules. 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.

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 management's statement regarding this law.

Workforce Figures

At year-end 2018 the E.ON Group had 43,302 employees worldwide, slightly more (+1.4 percent) than at year-end 2017. E.ON also had 899 apprentices in Germany and 132 board members and managing directors worldwide.

Employees[1]

	December 31,		
Headcount	2018	2017	+/- %
Energy Networks	17,896	17,379	+3
Customer Solutions	19,692	19,519	+1
Renewables	1,374	1,206	+14
Corporate Functions/Other[2]	2,447	2,683	-9
Core business	**41,409**	**40,787**	**+2**
Non-Core Business	1,893	1,912	-1
E.ON Group	**43,302**	**42,699**	**+1**

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

The main reason for the increase in Energy Networks' headcount was the filling of vacancies (in Germany, predominantly with apprentices who had successfully completed their training) to expand the business and the integration of formerly outsourced activities in Romania. In the Czech Republic, employees were transferred to this segment from Customer Solutions. These effects were partially offset by the sale of Hamburg Netz GmbH.

The increase in the number of employees at Customer Solutions mainly reflects the transfer of employees who were previously reported under Corporate Functions/Other and new hiring in the Czech Republic, Romania, and Sweden. The increase was partially offset by the impact of restructuring projects in Germany and, in particular, the United Kingdom.

The expansion of onshore operations (particularly in the United States), offshore operations in Germany and the United Kingdom, and support functions led to an increase in Renewables' headcount.

The transfer of employees to other segments, in particular Customer Solutions, was the main reason for the significant decline in the number of employees at Corporate Functions/Other. The Phoenix reorganization program also led to staff reductions.

Non-Core Business consists of our nuclear energy business in Germany. Its headcount decreased because of the ongoing transition from power generation to asset dismantling, which requires fewer employees.

Geographic Profile
At year-end 2018, 27,399 employees, or 63 percent of all employees, were working outside Germany, slightly more than the 62 percent at year-end 2017.

Employees by Country[1]

	Headcount		FTE[3]	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Germany	15,903	16,138	15,400	15,635
United Kingdom	9,502	9,975	9,077	9,504
Romania	6,427	5,711	6,363	5,648
Hungary	5,244	5,081	5,234	5,073
Czech Republic	2,771	2,563	2,758	2,549
Sweden	2,058	1,990	2,027	1,968
USA	681	585	679	585
Other[2]	716	656	703	647

[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
As at the end of 2017, 32 percent of our employees were women at the end of 2018.

Proportion of Female Employees

Percentages	2018	2017
Energy Networks	21	20
Customer Solutions	43	43
Renewables	20	21
Corporate Functions/Other[1]	49	45
Core business	**32**	**32**
Non-Core Business	13	13
E.ON Group	**32**	**32**

[1]Includes E.ON Business Services.

At year-end 2018 the average E.ON Group employee was about 42 years old and had worked for us for just under 14 years.

Employees by Age

Percentages at year-end	2018	2017
30 and younger	19	18
31 to 50	53	54
51 and older	28	28

A total of 3,328 employees, or 8 percent of all E.ON Group employees, were on a part-time schedule. Of these, 2,673, or 80 percent, were women.

Part-Time Rate

Percentages	2018	2017
Energy Networks	5	5
Customer Solutions	10	11
Renewables	3	3
Corporate Functions/Other[1]	12	12
Core business	**7**	**8**
Non-Core Business	8	6
E.ON Group	**8**	**8**

[1]Includes E.ON Business Services.

The turnover rate resulting from voluntary terminations averaged 4.8 percent across the organization, slightly higher than in the prior year (4.6 percent).

Turnover Rate

Percentages	2018	2017
Energy Networks	1.8	1.7
Customer Solutions	7.2	6.7
Renewables	8.7	9.3
Corporate Functions/Other[1]	7.6	8.6
Core business	**4.9**	**4.8**
Non-Core Business	1.6	2.1
E.ON Group	**4.8**	**4.6**

[1]Includes E.ON Business Services.

Occupational Health and Safety

Occupational health and safety have the highest priority at E.ON. E.ON employees' total recordable injury frequency ("TRIF") was 2.5 in 2018, similarly low as in the prior year (2.3).

TRIF measures the number of reported fatalities and occupational injuries and illnesses per million hours of work. It includes injuries that occur during work-related travel that result in lost time or no lost time and/or that lead to medical treatment, restricted work, or work at a substitute workstation.

Unfortunately, three E.ON employees died on the job in 2018. In addition, two contractor employees died while working for us. The accidents occurred in Germany, Romania, Sweden, the Czech Republic, and Hungary.

To continually improve their safety performance, our units have in place health, safety, and environmental ("HSE") management systems certified to internationally recognized standards. They also develop HSE improvement plans based on a management review. Centrally mandated HSE activities for all E.ON companies in 2018 included conducting one-day HSE culture workshops for our 100 most senior executives including other culture initiatives, rolling out a Group-wide software solution for reporting and investigating incidents (PRISMA), and refining our processes for incident management through stricter standards and special training in root-cause analysis for investigators. In addition, all units were required to continue conducting the HSE leadership training begun in 2017 and to review risks posed by new customer solutions.

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 resulting in an inability 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 management focuses on preventing these diseases. We strive to prevent psychological problems by providing mental-health training and by conducting an employee-assistance program, which gives employees free access to outside health consultants and social counseling. Checkups and preventive care (fit-for-work examinations) by our company doctors help to reduce general and workplace-specific risks. We also conduct campaigns to raise awareness of diseases such as bowel cancer and the importance of early cancer detection. Flu vaccination programs help to prevent dangerous illnesses. Together, these programs address the increasing significance of health and well-being for maintaining our employees' ability to work, in particular by focusing on their mental health.

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 performance indicators 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.

Apprenticeships

E.ON continues to place great emphasis on vocational training for young people. The E.ON Group had 899 apprentices and work-study students in Germany at year-end 2018. This represented 5.4 percent of E.ON's total workforce in Germany, slightly less than at the end of the prior year (5.5 percent).

E.ON provides vocational training in more then 20 careers and work-study programs in order to meet its own needs for skilled workers and to take targeted action to address the consequences of demographic change.

Apprentices in Germany

	Headcount		Percentage of workforce	
At year-end	2018	2017	2018	2017
Energy Networks	818	846	8.4	8.5
Customer Solutions	24	20	0.9	0.8
Renewables	–	–	–	–
Corporate Functions/Other	14	29	0.7	1.3
Core business	**856**	**895**	**5.8**	**5.9**
Non-Core Business	43	47	2.2	2.4
E.ON Group	**899**	**942**	**5.4**	**5.5**

Forecast Report

Business Environment

Macroeconomic Situation

In November 2018 the OECD predicted that global economic growth will remain strong in 2019 and in 2020, although it will be slightly below the peak of 2018. It expects the global economy to grow by 3.5 percent in 2019 and 2020. The corresponding figures for the United States are 2.7 percent and 2.1 percent, whereas weaker growth (1.8 percent and 1.6 percent) is forecast for the euro zone.

Anticipated Earnings Situation

Forecast Earnings Performance

In line with our corporate strategy as well as the macroeconomic and industry-specific environment, we are addressing the challenges in our operating business. We want to make Energy Networks even more high-performing, in particular through innovative digital solutions at all of our network companies. We want to expand Customer Solutions' market share and make it more profitable.

Against this backdrop, we expect the E.ON Group's 2019 adjusted EBIT to be between €2.9 and €3.1 billion and its 2019 adjusted net income to be between €1.4 and €1.6 billion. In addition, we expect to achieve a cash-conversion rate of at least 80 percent and ROCE of 8 to 10 percent.

At this time, we are issuing no statements about the possible future implications of the acquisition of innogy as part of a extensive asset swap with RWE, in particular because it is subject to the usual antitrust approvals.

Our forecast by segment:

Adjusted EBIT[1]

€ in billions	2019 (forecast)	2018
Energy Networks	Slightly above prior year	1.8
Customer Solutions	Significantly below prior year	0.4
Renewables	Above prior year	0.5
Corporate Functions/Other	Above prior year	-0.2
Non-Core Business	At prior-year level	0.4
E.ON Group	**2.9 to 3.1**	**3.0**

[1]Adjusted for non-operating effects.

We expect Energy Networks' 2019 adjusted EBIT to be slightly above the prior-year figure. The network business in Germany will deliver a positive performance and benefit from additional investments in its regulated asset base. In addition, higher power tariffs in Sweden will increase earnings. The new regulatory period for gas networks in Romania will have an adverse impact.

We anticipate that Customer Solutions' adjusted EBIT will be significantly below the prior-year level. The intervention of the U.K. Competition and Markets Authority will be the primary negative factor.

We expect Renewables' adjusted EBIT to be above the prior-year level. The completion of Arkona offshore wind farm in December 2018 and the expansion of onshore wind capacity in North America will have a positive impact on earnings.

We anticipate that adjusted EBIT at Corporate Functions/Other will improve and thus exceed the previous year's level, primarily because of additional cost savings.

We expect Non-Core Business's adjusted EBIT to be at the prior-year level. We anticipate positive operating developments at the generation business in Turkey accompanied by a deterioration of the exchange rate. We expect PreussenElektra's earnings to reflect rising market prices counteracted by higher depreciation charges in conjunction with our dismantling obligations along with the absence of one-off items recorded in 2018.

Anticipated Financial Situation

Planned Funding Measures

In addition to our investments planned for 2019 and the dividend for 2018, in 2019 we will make payments for bonds that have matured. We also expect to have increased funding needs due to the innogy acquisition. Over the course of the year, these payments will be funded with available liquid funds and debt.

Dividend

E.ON will propose paying its shareholders a dividend of €0.43 per share for the 2018 financial year in view of the planned acquisition of innogy as part of an extensive asset swap with RWE. In addition, in line with the current dividend policy, the E.ON Management Board and Supervisory Board intend to propose paying shareholders a dividend of €0.46 per share for the 2019 financial year.

Planned Investments

For the 2019 financial year we plan cash-effective investments of €3.7 billion. E.ON will continue its strategy aimed at delivering sustainable growth. Our capital allocation will of course continue to be selective and disciplined.

Cash-Effective Investments: 2019 Plan

	€ in billions	Percentages
Energy Networks	1.7	46
Customer Solutions	0.8	22
Renewables	1.1	29
Corporate Functions/Other	0.1	3
Non-Core Business	–	–
Total	**3.7**	**100**

Energy Networks' investments will consist in particular of numerous individual investments to expand our networks, switching equipment, and metering and control technology as well as other investments to continue to ensure the reliable and uninterrupted transmission and distribution of electricity.

Investments at Customer Solutions will go toward metering and upgrade projects as well as the expansion of our e-mobility activities. We will also invest in our heat business in Sweden, Germany, and the United Kingdom.

Renewables' investments in onshore wind will serve primarily to expand its business in the United States. In addition, it will continue to maintain and expand its offshore-wind and solar portfolio.

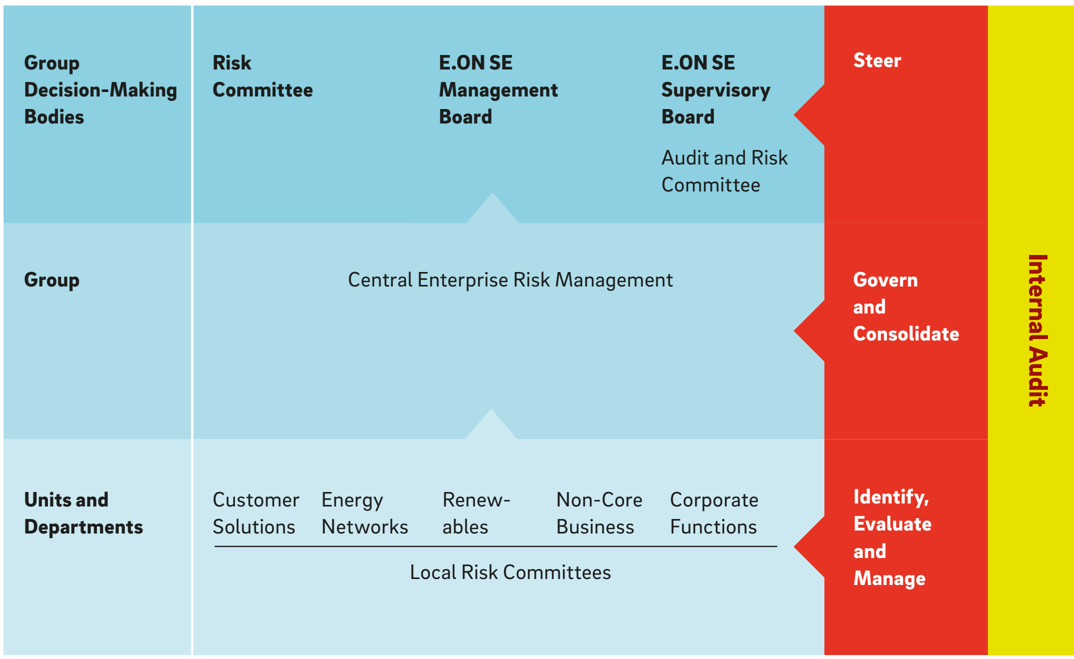
Employees

The number of employees in the E.ON Group (excluding apprentices and board members/managing directors) will increase slightly to meet the demands of the business.

General Statement of E.ON's Future Development

The 2019 financial year too will reflect our high proportion of regulated businesses and our clear commitment to a consistent dividend policy. On balance, we expect a stable performance and want to be even better at seizing the opportunities of the green, distributed, and digital energy world. Our ambition is and will remain to do the best job possible of making the great opportunities in the new energy world available to our customers and shareholders.

Enterprise Risk Management System in the Narrow Sense



Objective

Our Enterprise Risk Management ("ERM") provides the management of all units as well as the 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, thereby 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 requirements 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
- the ERM, which is 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 system identifies risks early so that steps can be taken to actively address them. Reporting by the 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.

Managing Operational and IT Risks

To limit operational and IT risks, we continually improve our network management and the optimal dispatch of our 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, and Environmental ("HSE"), Human Resources ("HR"), and Other Risks

The following are among the comprehensive measures we take to address HSE, HR, and other risks (also in conjunction with operational and IT risks):

- systematic employee training, advanced training, and qualification programs for our employees
- 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 operations have set up local risk management under central governance standards to monitor these underlying commodity risks and to minimize them through 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, interest-rate, 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 for financial funds 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 business units. 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.

To promote uniform financial reporting Group-wide, we have in place a central, standardized system that enables effective and automated risk reporting. Company data are systematically collected, transparently processed, and made available for analysis both centrally and decentrally at the units.

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
HSE, 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, interest-rate, 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 5th and 95th percentiles of this aggregated risk distribution as the worst case and best 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 5th and 95th 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 financial key performance indicator, adjusted EBIT.

Risk Category

Risk category	Worst case (5th percentile)	Best case (95th percentile)
Legal and regulatory risks	Major	Medium
Operational and IT risks	Medium	Moderate
HSE, HR, and other	Low	Low
Market risks	Major	Major
Strategic risks	Medium	Low
Finance and treasury risks	Medium	Moderate

The E.ON Group has major risk positions in the following categories: legal and regulatory risks and market risks. As a result, the aggregate risk position of E.ON SE as a 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 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 a source of external risks, such as the uncertainty surrounding Brexit and the possibility that the United Kingdom could leave the European Union without an agreement. This would confront E.ON with direct and indirect consequences that could potentially lead to financial disadvantages. Other risks result from decisions by governments to phase out power generation using certain energy sources. In the recent past, these decisions have been supplemented by energy-policy decisions at the European and national level. These include, in particular, the EU package of climate-protection measures and the recommendations regarding the phaseout of hard-coal- and lignite-fired power generation made by the commission appointed by the German federal government. In addition, in the wake of the economic and financial crisis in many EU member states, interventionist policies and regulations have been adopted in recent years, such as additional taxes, additional reporting requirements (for example, EMIR, REMIT, MiFID2), price moratoriums, regulatory price reductions, and changes to support schemes for renewables. Such intervention could pose major risks to, as well as opportunities for, E.ON's operations in these countries. There may also be final risks from obligations arising from regulatory requirements following the Uniper split. This risk category 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 can also create chances. This results in a major risk position and a medium chance position.

PreussenElektra

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

In 2003, Section 6 of Germany's Atomic Energy Act ("the 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. Settlement talks are currently under way between the complainants and the defendant agency. If the court rules definitively 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 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 established a new compensation mechanism in the sixteenth amended version of the Act. In addition, NPPs need to acquire production rights, also known as a residual electricity allotment, in order to operate until their closure dates prescribed by law. These matters could yield major chances and major risks.

Customer Solutions

The E.ON Group's operations subject it to certain risks relating to legal proceedings, ongoing planning processes, and regulatory changes. But these risks also 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 a major risk.

Energy Networks

The operation of energy networks in Germany, in Sweden, but also in other countries is subject to a large degree of regulation. New laws and regulatory periods cause uncertainty as well as chances in this business. For example, matters related to Germany's Renewable Energy Law, such as issues regarding solar energy, can cause temporary fluctuations in our cash flow and adjusted EBIT. This could create major chances as well as pose a major risk. The rapid growth of renewables is also creating new risks for the network business. For example, insolvencies among renewables operators or feed-in tariffs unduly paid by grid operators could lead to court or regulatory proceedings.

Renewables

Regulatory and legal risks attend our renewables business as well. For example, legal proceedings and approvals could pose a major risk. Furthermore, the various national regulatory regimes in Europe can in some cases undergo considerable change. Changes to legislation and regulations sometimes have a considerable impact on subsidy and remuneration mechanisms, which result in a major chance and a major risk. New and amended laws can themselves become the subject of administrative or court proceedings.

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 major risks from procurement and logistics, construction, operations and maintenance of assets as well as general project risks. In the case of PreussenElektra, this also includes dismantling activities. Our operations in and outside Germany face major risks of 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 medium risk position and a moderate chance position in this category.

General project risks can include a delay in projects and 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 likewise lead to risks.

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.

HSE, 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 reputational 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 Risk

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. However, market developments could also have a positive impact on our business. Such factors include wholesale and retail price developments, customer churn rates, and temporary volume effects in the network business. This results in a major risk position and a major chance position in this category.

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 have a positive impact owing to higher demand for electricity and natural gas.

E.ON's portfolio of physical assets, long-term contracts, and end-customer sales is exposed to uncertainty resulting from fluctuations in commodity prices. This yields a major risk and a major chance, although only for PreussenElektra. After the Uniper spinoff, E.ON established procurement capabilities for its sales business and ensured market access for the output of its remaining energy production in order to 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. It is also possible that we will not be able to realize our strategic ambition of enlarging our investment pipeline and that significant amounts of capital could be used for other opportunities. 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 addition, after transactions close we could face major liability risks resulting from contractual obligations.

The overall 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 owed on existing accounts receivable, and from replacement risks in open transactions. For example, E.ON's historical connection with Uniper continues to pose major, albeit unlikely, risks. In addition, in unlikely cases joint and several liability for jointly operated power plants could lead to a major risk.

E.ON's international business operations expose it to risks from currency fluctuation. One form of this risk is transaction risk, which arises when payments are made in a currency other than E.ON's functional currency. Another form of risk is translation risk, which arises 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-rate derivatives that are based on variable interest rates and from asset-retirement obligations.

In addition, the price changes and other uncertainty relating to the current and non-current investments E.ON makes to cover its non-current obligations (particularly pension and asset-retirement obligations) could, in individual cases, be major.

Declining or rising discount rates could lead to increased or reduced provisions for pensions and asset-retirement obligations, including non-current liabilities. This can create a high risk for E.ON.

In principle, E.ON could also encounter tax risks and chances; in one case, the chance could be high.

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

Management Board's Evaluation of the Risk and Chances Situation

The overall risk and chances situation of the E.ON Group's operating business at year-end 2018 remained nearly unchanged relative to year-end 2017. 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.

Energy Networks

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

Energy Passthrough[1]

	Germany		Sweden		East-Central Europe/ Turkey		Total	
Billion kWh	2018	2017[2]	2018	2017	2018	2017	2018	2017
Fourth quarter								
Power	27.8	27.7	10.1	9.6	10.0	9.7	47.9	47.0
Line loss, station use, etc.	1.1	1.0	0.3	0.3	0.6	0.7	2.0	2.0
Gas	26.7	35.1	–	0.8	15.7	15.2	42.4	51.1
Full year								
Power	106.9	107.6	37.1	36.9	37.9	37.3	181.9	181.8
Line loss, station use, etc.	3.8	3.8	1.1	1.1	2.6	2.8	7.5	7.7
Gas	89.4	110.6	1.5	3.9	44.5	45.2	135.4	159.7

[1]Includes passthrough not recorded in sales pursuant to IFRS 15 (for more information, see Note 2 to the Consolidated Financial Statements).
[2]Power passthrough, line losses, and so forth, not including power fed back into upstream systems (2017 adjusted retroactively).

Power and Gas Passthrough

Power passthrough in 2018 of 181.9 billion kWh was at the prior-year level. Gas passthrough declined by 24.3 billion kWh.

Power passthrough and line losses in Germany of 106.9 billion kWh and 3.8 billion kWh, respectively, were at the prior-year level. Gas passthrough declined by 21.2 billion to 89.4 billion kWh, owing primarily to the sale of Hamburg Netz effective January 1, 2018.

Power passthrough in Sweden was at the prior-year level. Gas passthrough declined because of the sale of the gas distribution network in April 2018.

On balance, power and gas passthrough at East-Central Europe/ Turkey were at the prior-year level in the Czech Republic, Romania, and Hungary.

System Length and Connections

Our power system in Germany was about 350,000 kilometers long, roughly the same as in the prior year. At year-end we had about 5.8 million connection points for power (prior year: 5.7 million). The sale of Hamburg Netz shortened our gas system from about 60,000 to about 51,000 kilometers and reduced the number of connection points from 0.9 to 0.7 million.

The length of our power system in Sweden was roughly 137,900 kilometers, slightly more than the prior-year figure of 136,900 kilometers. The number of connection points in the power distribution system was unchanged at roughly 1 million. We sold our gas network in 2018.

System length in East-Central Europe/Turkey—about 231,000 kilometers for power and about 45,000 kilometers for gas—was almost unchanged from the prior year, as were the roughly 4.7 million connection points for power and the roughly 1.3 million for gas.

Sales and Adjusted EBIT

Energy Networks' sales were €8.2 billion below the prior-year figure. Adjusted EBIT declined by €190 million.

Sales in Germany declined by 56 percent, from €14.2 billion to €6.2 billion. They were reduced primarily by netting effects in conjunction with IFRS 15 (€7.6 billion). In addition, sales in gas distribution were reduced by the sale of Hamburg Netz. Adjusted EBIT declined by €135 million year on year to €895 million. The principal reasons were the non-recurrence of a positive one-off item involving the delayed repayment of personnel costs in Germany for regulatory reasons, the sale of Hamburg Netz, and the beginning of the third regulatory period for gas. These factors were partially offset by a positive one-off item in 2018.

Sales in Sweden were below the prior-year level due to adverse currency-translation effects, the transfer of the gas business to Customer Solutions, and the sale of the gas distribution network in April 2018. Adjusted EBIT rose owing to an improved gross margin in the power business, which resulted from tariff increases. This was partially offset by adverse currency-translation effects.

Sales in East-Central Europe/Turkey declined significantly, primarily owing to netting effects in conjunction with IFRS 15 in the Czech Republic (€0.2 billion). Adjusted EBIT fell significantly—by €79 million—year on year, in particular because of a decline in equity earnings on our stake in Enerjisa Enerji in Turkey. Higher operating earnings were more than offset, primarily by higher refinancing costs. The initial public offering reduced our stake by 10 percentage points, which also adversely affected earnings relative to the prior year. In addition, adjusted EBIT in Romania was significantly lower, mainly because of higher costs (primarily for maintenance) and lower prices.

Energy Networks

	Germany		Sweden		East-Central Europe/ Turkey		Total	
€ in millions	2018[1]	2017	2018	2017	2018	2017	2018	2017
Fourth quarter								
Sales	1,683	3,402	260	241	412	480	2,355	4,123
Adjusted EBITDA	306	411	172	165	154	223	632	799
Adjusted EBIT	140	249	135	129	97	153	372	531
Full year								
Sales	6,243	14,199	989	1,072	1,537	1,719	8,769	16,990
Adjusted EBITDA	1,488	1,621	648	632	683	767	2,819	3,020
Adjusted EBIT	895	1,030	498	474	451	530	1,844	2,034

[1]Income and expenses resulting from the Renewable Energy Law's feed-in scheme in Germany have been netted out; we adjusted the prior-year quarters accordingly (see Note 2 to the Consolidated Financial Statements).

Customer Solutions

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

Power Sales[1]

Billion kWh	Germany Sales 2018	Germany Sales 2017	United Kingdom 2018	United Kingdom 2017	Other[2] 2018	Other[2] 2017	Total 2018	Total 2017
Fourth quarter								
Residential and SME	4.8	4.6	4.7	5.2	6.0	5.9	15.5	15.7
I&C	2.0	2.0	3.1	3.7	6.3	7.1	11.4	12.8
Sales partners	–	–	–	–	0.2	0.2	0.2	0.2
Customer groups	**6.8**	**6.6**	**7.8**	**8.9**	**12.5**	**13.2**	**27.1**	**28.7**
Wholesale market	3.5	4.1	0.2	0.5	2.6	2.7	6.3	7.3
Total	**10.3**	**10.7**	**8.0**	**9.4**	**15.1**	**15.9**	**33.4**	**36.0**
Full year								
Residential and SME	16.7	17.0	17.7	18.9	22.5	21.7	56.9	57.6
I&C	8.4	8.3	13.7	14.8	25.6	26.6	47.7	49.7
Sales partners	–	–	–	–	0.7	0.8	0.7	0.8
Customer groups	**25.1**	**25.3**	**31.4**	**33.7**	**48.8**	**49.1**	**105.3**	**108.1**
Wholesale market	13.0	14.2	0.9	1.1	8.9	9.8	22.8	25.1
Total	**38.1**	**39.5**	**32.3**	**34.8**	**57.7**	**58.9**	**128.1**	**133.2**

[1]Includes passthrough not recorded in sales pursuant to IFRS 15 (for more information, see Note 2 to the Consolidated Financial Statements).
[2]Excludes E.ON Connecting Energies.

Gas Sales[1]

Billion kWh	Germany Sales 2018	Germany Sales 2017	United Kingdom 2018	United Kingdom 2017	Other[2] 2018	Other[2] 2017	Total 2018	Total 2017
Fourth quarter								
Residential and SME	7.4	7.0	11.7	11.8	9.8	9.8	29.0	28.6
I&C	2.0	1.6	2.3	2.1	6.3	6.4	10.6	10.1
Sales partners	–	–	–	–	0.7	1.5	0.7	1.5
Customer groups	**9.4**	**8.6**	**14.0**	**13.9**	**16.9**	**17.7**	**40.3**	**40.2**
Wholesale market	1.2	4.2	–	–	1.6	1.2	2.8	5.4
Total	**10.6**	**12.8**	**14.0**	**13.9**	**18.5**	**18.9**	**43.1**	**45.6**
Full year								
Residential and SME	22.0	21.9	35.9	34.8	28.2	28.9	86.1	85.6
I&C	6.4	5.0	8.2	7.7	22.3	20.9	36.9	33.6
Sales partners	–	–	–	–	1.7	2.2	1.7	2.2
Customer groups	**28.4**	**26.9**	**44.1**	**42.5**	**52.2**	**52.0**	**124.7**	**121.4**
Wholesale market	4.6	17.0	–	–	5.8	2.7	10.4	19.7
Total	**33.0**	**43.9**	**44.1**	**42.5**	**58.0**	**54.7**	**135.1**	**141.1**

[1]Includes passthrough not recorded in sales pursuant to IFRS 15 (for more information, see Note 2 to the Consolidated Financial Statements).
[2]Excludes E.ON Connecting Energies.

Power and Gas Sales Volume

This segment's power and gas sales declined by 5.1 billion kWh and 6 billion kWh, respectively.

Power sales in Germany of 38.1 billion kWh were 4 percent below the prior-year level. Power sales to the wholesale market declined owing to lower sales volume on already-contracted deliveries to some Uniper wholesale customers relative to 2017. By contrast, buybacks through the direct marketing of output in conjunction with Germany's Renewable Energy Law were higher. Power sales to residential and small and medium enterprise ("SME") customers and to industrial and commercial ("I&C") customers were at the prior-year level. Gas sales of 33 billion kWh were 25 percent below the prior-year level. The reason for the significant decline in gas sales to the wholesale market (-12.4 billion kWh) is the same as for power. Residential and SME customers consumed about as much gas as in the prior year. By contrast, gas sales to I&C customers rose.

Power sales in the United Kingdom declined by 2.5 billion kWh. Lower average consumption and lower customer numbers were the principal factors for residential and SME customers. Power sales to I&C customers likewise decreased owing to lower average offtake per customer. By contrast, gas sales rose by 1.6 billion kWh. Gas sales to residential and SME customers and to I&C customers increased mainly because of weather factors.

Power sales at the Other unit (Sweden, Hungary, the Czech Republic, Romania, and Italy) declined by 1.2 billion kWh. Power sales to I&C customers in the Czech Republic declined owing primarily to keener competition. The expiration of a sales contract in the Czech Republic was the principal factor in the significant decline in power sales to the wholesale market. This was partially offset by increased deliveries to existing wholesale customers in Hungary. Power sales to residential and SME customers were higher, due in particular to the acquisition of new customers in Italy and Sweden. Gas sales were 3.3 billion kWh higher. Gas sales to I&C customers rose mainly because of the transfer of the gas business in Sweden, which in the prior year was reported at Energy Networks. This was partially offset by a weather-driven decline in gas sales to I&C customers in Romania. The increase in gas sales to the wholesale market is attributable to weather-driven demand spikes in Romania and the advent of direct market access in Italy. By contrast, gas sales to residential and SME customers declined owing to weather factors, particularly in Romania.

Customer Numbers

This segment had about 21 million customers at year-end 2018, fewer than the prior-year figure of 21.1 million. The number of customers in the United Kingdom declined form 6.8 to 6.6 million; power customers accounted for most of the customer losses. In Germany they increased from 5.9 million in 2017 to 6 million in 2018; of these, 5.1 million were power customers and 0.9 million gas customers (2017: 5.1 million power customers, 0.8 million gas customers). We had a total of 8.5 million customers in the other countries where this segment operates, about as many as in 2017.

Sales and Adjusted EBIT

Customer Solutions' sales rose by €551 million. Its adjusted EBIT decreased by €66 million.

Sales in Germany declined primarily because of the expiration of sales contracts to certain wholesale customers that were transferred to Uniper. Price adjustments and a decline in power sales to residential and SME customers were additional adverse factors. These effects were partially offset by an increase in gas sales to I&C customers. Adjusted EBIT was significantly above the prior-year level, primarily because of a wider gross margin in the power and gas sales business.

Sales in the United Kingdom were higher due to price increases and a weather-driven increase in gas sales volume. This was partially offset by a reduction in power sales volume and adverse currency-translation effects. Adjusted EBIT declined owing to persistently challenging market conditions, higher restructuring expenditures, regulatory effects, and a weather-driven decline in power sales volume.

Sales at this segment's Other unit rose by €244 million, principally because of higher sales prices in Sweden, Italy, and Hungary. The transfer of the gas business in Sweden from Energy Networks and higher sales volume in Italy were also positive factors. Sales in the Czech Republic declined, mainly because of netting effects pursuant to IFRS 15. Adverse currency-translation effects in Sweden had a negative impact as well. Adjusted EBIT declined year on year, in particular because of the unavailability of a cogeneration plant at E.ON Connecting Energies that this unit operates for a customer. In addition, an improved gross power margin in Romania was more than offset by a narrower gas margin resulting from higher procurement costs. By contrast, the aforementioned transfer of the gas sales business in Sweden had a positive impact on adjusted EBIT.

Customer Solutions

	Germany Sales		United Kingdom		Other		Total	
€ in millions	2018	2017	2018	2017	2018	2017	2018	2017
Fourth quarter								
Sales	1,876	1,892	2,326	2,122	2,118	2,077	6,320	6,091
Adjusted EBITDA	45	33	26	137	63	57	134	227
Adjusted EBIT	36	26	-1	108	18	3	53	137
Full year								
Sales	6,768	7,014	7,758	7,205	7,601	7,357	22,127	21,576
Adjusted EBITDA	193	132	237	351	294	312	724	795
Adjusted EBIT	160	102	142	248	111	129	413	479

Renewables

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

Fully Consolidated and Attributable Generating Capacity

December 31 MW	Fully consolidated		Attributable	
	2018	2017	2018	2017
Wind	523	523	672	479
Solar	–	–	–	–
Germany	**523**	**523**	**672**	**479**
Wind	4,776	4,178	5,023	4,625
Solar	35	15	47	27
Outside Germany	**4,811**	**4,193**	**5,070**	**4,652**
Total	**5,334**	**4,716**	**5,742**	**5,131**

Generating Capacity

At 5,334 MW, this segment's fully consolidated generating capacity at year-end 2018 was by 13 percent higher (prior year: 4,716 MW); its attributable generating capacity of 5,742 MW was 12 percent higher (prior year: 5,131 MW). The principal reason for the increase was the commissioning of Stella and Arkona wind farms at the end of 2018.

Power Production and Sales

This segment's sales volume rose by 2.8 billion kWh.

Owned generation was 2.2 billion kWh higher, in particular because Bruenning's Breeze and Radford's Run onshore wind farms in the United States were for the first time operational for the entire year, Stella onshore wind farm in the United States entered service in December 2018, and Rampion offshore wind farm in the United Kingdom entered service in April 2018. Unfavorable wind conditions, especially in Germany, had an adverse impact on owned generation.

Power procurement increased, principally because of new power supply contracts at our onshore business in the United Kingdom. This was partially offset by a reduction in power procurement due to adverse wind conditions in Denmark.

Onshore Wind/Solar's availability factor of 94.8 percent was at the prior-year level of 94.6 percent. Offshore Wind/Other's availability factor declined from 97.6 to 96.8 percent because of lower availability at Amrumbank West in Germany and certain assets in the United Kingdom.

Power Generation

Billion kWh	Renewables 2018	Renewables 2017
Fourth quarter		
Owned generation	4.2	3.8
Purchases	1.0	0.8
Jointly owned power plants	*0.2*	*0.3*
Third parties	*0.8*	*0.5*
Power sales	**5.2**	**4.6**
Full year		
Owned generation	14.7	12.5
Purchases	3.0	2.4
Jointly owned power plants	*0.7*	*0.9*
Third parties	*2.3*	*1.5*
Power sales	**17.7**	**14.9**

Sales and Adjusted EBIT

Renewables' sales and adjusted EBIT were up by €150 million and €67 million, respectively.

Renewables

€ in millions	2018	2017
Fourth quarter		
Sales	541	474
Adjusted EBITDA	327	277
Adjusted EBIT	238	206
Full year		
Sales	1,754	1,604
Adjusted EBITDA	861	785
Adjusted EBIT	521	454

This segment's sales and adjusted EBIT rose year on year, in particular owing to an increase in owned generation. This was because Bruenning's Breeze and Radford's Run onshore wind farms in the United States were for the first time operational for the entire year and Rampion offshore wind farm in the United Kingdom entered service. This was partially offset by adverse price effects in the United States and Europe.

Non-Core Business

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

Fully Consolidated and Attributable Generating Capacity

PreussenElektra's fully consolidated and attributable generating capacity of 4,150 MW and 3,808 MW, respectively, were unchanged from the prior year.

Power Generation and Sales Volume

This segment's power procured (owned generation and purchases) of 39.3 billion kWh was slightly above the prior-year level. The increase in owned generation is principally attributable to the unplanned outage of Brokdorf nuclear power station in 2017. Consequently, less power was purchased to meet delivery obligations than in the prior year. The increase in sales volume relative to 2017 resulted primarily from the aforementioned outage at Brokdorf.

Power Generation

	PreussenElektra	
Billion kWh	2018	2017
Fourth quarter		
Owned generation	8.5	8.6
Purchases	2.1	1.4
Jointly owned power plants	*0.4*	*0.3*
Third parties	*1.7*	*1.1*
Total power procurement	**10.6**	**10.0**
Station use, line loss, etc.	–	-0.1
Power sales	**10.6**	**9.9**
Full year		
Owned generation	31.2	27.5
Purchases	8.1	9.9
Jointly owned power plants	*1.4*	*1.3*
Third parties	*6.7*	*8.6*
Total power procurement	**39.3**	**37.4**
Station use, line loss, etc.	-0.1	-0.2
Power sales	**39.2**	**37.2**

Sales and Adjusted EBIT
PreussenElektra's sales declined by €186 million, mainly because of lower sales prices and the absence of one-off items in conjunction with legal proceedings.

Adjusted EBIT decreased from €393 million to €382 million. The decline is mainly attributable to lower sales prices and the absence of one-off items at PreussenElektra. This was partially offset by lower expenditures to procure power to cover delivery obligations due to the increase in owned generation.

By contrast, adjusted EBIT at the generation business in Turkey was higher because prior-year equity earnings on our stake in Enerjisa Üretim were adversely affected in particular by a book loss on the sale of a hydroelectric station. In addition, Enerjisa Üretim recorded a volume- and price-driven increase in earnings in 2018.

Non-Core Business

	PreussenElektra		Generation/Turkey		Total	
€ in millions	2018	2017	2018	2017	2018	2017
Fourth quarter						
Sales	416	355	–	–	416	355
Adjusted EBITDA	120	157	23	-20	143	137
Adjusted EBIT	45	149	23	-20	68	129
Full year						
Sales	1,399	1,585	–	–	1,399	1,585
Adjusted EBITDA	556	654	-17	-113	539	541
Adjusted EBIT	399	506	-17	-113	382	393

Disclosures Pursuant to Section 289, Paragraph 4, and Section 315, Paragraph 4 of the German Commercial Code on the Internal Control System for the Accounting Process

General Principles

We apply Section 315e, Paragraph 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.

Corporate headquarters 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 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. E.ON SE combines the financial statements of subsidiaries belonging to its scope of consolidation into its Consolidated Financial Statements using standard consolidation software. Group Accounting is responsible for conducting the consolidation and for monitoring adherence to the 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 relevant for accounting 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 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 equally to the Consolidated Financial Statements and to 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 Financial Statements, the Combined Group Management Report, the Half-Year Financial Report, and the Quarterly Statements.

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, which is another key component of our internal control system, defines the minimum requirements for the system to function. These principles encompass overarching principles for matters such as authorization, the separation of functions, and master data management as well as specific requirements for managing risks in a range of issue areas and processes, such as contractor management, project management, audit, and transactions.

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 the 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
A functionally managed digital organization and third-party service providers provide digital and IT services for the E.ON Group. IT systems used for accounting are subject to provisions of the internal control system, which encompasses the general IT controls. These include access controls, the separation of functions, processing controls, measures to prevent the intentional and unintentional falsification of the programs, data, and documents as well as controls related to contractor management. The documentation of the general IT controls is stored in our documentation system.

Disclosures Pursuant to Section 289a, Paragraph 1, and Section 315a, Paragraph 1, of the German Commercial Code and Explanatory Report

Composition of Share Capital

The share capital totals €2,201,099,000.00 and consists of 2,201,099,000 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. The employee stock purchase program was not offered in 2018.

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

Legal Provisions and Rules of the Company's Articles of Association Regarding the Appointment and Dismissal 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 10, 2017, the Company is authorized, until May 9, 2022, to acquire treasury shares. The shares acquired and other treasury 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 the 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 its affiliated companies or by third parties for the Company's account or one of its affiliate's account.

With regard to treasury shares that will be, or have been, acquired based on the aforementioned 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 contributions 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, with or without consideration, for purchase and transferred to individuals who are or were employed by the Company or one of its affiliates as well as to board members of affiliates of the Company
- to be used for the purpose of a scrip dividend where shareholders may choose to contribute their dividend entitlement to the Company in the form of a contribution in kind in exchange for new shares.

These authorizations may be utilized on one or several occasions, in whole or in partial amounts, separately or collectively, including with respect to treasury shares acquired by affiliated companies or companies majority-owned by the Company or by third parties for their account or the Company's 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 utilization of the aforementioned authorization, in particular 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 10, 2017, the Management Board was authorized, subject to the Supervisory Board's approval, to increase until May 9, 2022, the Company's share capital 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 (authorized capital pursuant to Sections 202 et seq. AktG; Authorized Capital 2017). Subject to the Supervisory Board's approval, the Management Board is authorized to exclude shareholders' subscription rights.

With the Supervisory Board's approval, the Management Board adopted a resolution that took effect on March 12, 2018, to utilize almost all of Authorized Capital 2017, which had been resolved by the Annual Shareholders Meeting of May 10, 2017, to increase E.ON SE's share capital—excluding shareholders' subscription rights pursuant to Section 203, Paragraph 2, and Section 186, Paragraph 3 of the AktG—from €2,201,099,000 to €2,641,318,800 through the issuance of 440,219,800 new registered no-par-value shares against contributions in kind. The capital increase and its implementation have not yet been filed for entry into the Commercial Register. This is to take place after certain conditions precedent are met. The capital increase and the issuance of new stock will not take effect until the capital increase has been implemented and entered into the Commercial Register of E.ON SE. Note 19 to the Consolidated Financial Statements contains more information about Authorized Capital 2017.

At the Annual Shareholders Meeting of May 10, 2017, shareholders approved a conditional increase of the share capital (with the option to exclude shareholders' subscription rights) up to the amount of €175 million (Conditional Capital 2017). Note 19 to the Consolidated Financial Statements contains more information about Conditional Capital 2017.

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

The underlying contracts of debt issued since 2007 contain change-of-control clauses that give the creditor the right of cancellation. This applies, inter alia, to bonds issued by E.ON SE and 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. More 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).

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

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

Other Disclosures Relevant to Takeovers

The Company has not been informed about, nor is it aware of, any direct or indirect interests in its share capital that exceed 10 percent of the voting rights. Note 19 to the Consolidated Financial Statements contains more information about the planned acquisition of E.ON SE stock by RWE Downstream Beteiligungs GmbH. Stock with special rights granting power of control has not been issued. In the case of stock given by the Company to employees, employees exercise their rights of control directly and in accordance with legal provisions and the provisions of the Articles of Association, just like other shareholders.