Strategy and Objectives

Our Strategy: Leading Partner for the New Energy World

Decarbonization, decentralization, and digitization profoundly shaped the energy market in 2019 and will continue to do so in the decade ahead. We use these trends to enhance our position as a leading player in Europe's energy market, to successfully tap new businesses, and to make our processes more efficient.

Our objective is to systematically focus the Company on the new energy world of increasingly empowered and proactive customers. We will create new markets for our customers by providing them with new products, services, and technologies. We will be policymakers and regulators' partner of choice for the energy transition. Our efforts will be guided by our principles of integration, focus, efficiency, and growth.

We began integrating innogy SE last year and, after the squeeze-out and acquisition of its remaining stock, will accelerate this process in the current year. Our focus is on combining the respective organizational entities in line with our Target Operating Model. We will use benchmarking analyses to further optimize business units' core processes or reorganize them to reflect best practices.

Going forward, our business operations will focus on the key segments of the new energy world: regulated, highly efficient energy networks and innovative customer solutions. The acquisition of innogy SE significantly strengthened these segments. After the transaction is completed, the new E.ON will be the first European player to focus exclusively on municipal, commercial, and residential customers and will generate a large part of its EBIT with regulated businesses. The combination of energy networks and customer solutions fits with the trend that, in an increasingly distributed and digital energy world, these business segments are converging. For example, smart meters make it possible to improve the coordination of energy networks and provide the basis for new sales offerings, such as time-based electricity tariffs and energy-trading options for distributed generating units.

In addition to strengthening our core businesses, the innogy takeover will enable us to leverage substantial synergies of about €740 million by 2022, thereby making important progress toward our efficiency targets. We expect the systematic optimization and digitization of our business processes to deliver additional efficiency gains.

Our growth strategy calls for extensive investments in both business segments. The main focus will be on Energy Networks, in which we will invest about €3.2 billion in 2020. We plan to invest about €0.9 billion in Customer Solutions. Here, funds will mainly go toward City Energy Solutions and our business of providing solutions to industrial customers. We expect additional growth to come from the innovation activities in our retail and network operations as well as investments in startups (these are described in greater detail in the Innovation chapter of the Combined Group Management Report).

Energy Networks

The integration of innogy will result in E.ON operating regulated distribution networks in eight European countries, making it one of Europe's biggest distribution system operator ("DSO"). Excluding innogy, E.ON has a regulated asset base ("RAB") of €21 billion. Energy Networks' principal objectives are to continually enhance its efficiency and to increase its RAB. All four of E.ON's DSOs in Germany achieved efficiency rates of 100 percent. innogy's DSOs had a weighted-average efficiency rate of 98.4 percent.

The further increase in the investment budget for our networks will secure their asset integrity and expend their RAB. Distribution networks connect our customers with one another and provide the backbone for a successful energy transition. Our focus is on evolving from a pure DSO to a smart platform provider. The digitization of distribution networks plays an important role here. For example, around 2,700 smart substations entered service at E.ON and innogy's DSOs in Germany. They will help ensure that tomorrow's smart grid operates reliably despite increasing complexity and variable feed-in. A cooperative arrangement with a startup called envelio gives E.ON the ability to transmit information about a network connection directly to market participants, which will greatly simplify the planning of distributed generating units.

Together with innogy, E.ON will also make significant investments to expand its broadband activities. By expanding its network of fiber-to-the-home broadband connections, E.ON will bring high-speed Internet with broad bandwidth to rural areas as well.

Customer Solutions

The integration of innogy will give the new E.ON a customer base of 40 million (including 19 million innogy customers), making it one of Europe's biggest end-customer suppliers. Enerjisa Enerji, our equity interst in Turkey, supplies an additional 10 million customers.

Our objective in power and gas sales is to further strengthen our competitive position through maximal cost-efficiency, innovation, and relentless customer orientation. Digitization will be decisive here as well: going forward, highly efficient digital systems will make it possible for us to achieve lasting reductions in our operating costs.

Our objective for new customer solutions that go beyond power and gas sales is to continually improve and renew our portfolio of products and services for innovative heat solutions, energy efficiency, distributed generation and storage, and sustainable mobility solutions. This will enable E.ON to become the partner of choice for public, commercial, and residential customers:

Several projects exemplified how E.ON is implementing its strategy of helping customers become more sustainable. An international paper manufacturer chose E.ON to install a biomass-fired combined-heat-and-power ("CHP") plant in Hürth, a suburb of Cologne, Germany. The plant will supply heat to the paper mill and feed renewable power into the public grid. We also installed an advanced material and energy recycling system in Högbytorp outside Stockholm, Sweden. It will help ensure that one of Sweden's fastest-growing regions can be supplied with climate-neutral heat, power, and biogas. In addition, a multinational packaging producer awarded E.ON a major contract to install a CHP plant at its facility in Kent in the United Kingdom. The plant, which is expected to enter service in 2021, will reduce carbon emissions by 36,000 metric tons per year.

Sustainability

Good corporate governance, corporate social responsibility, and environmental responsibility are essential for E.ON to generate sustainable business value over the long term. E.ON has therefore decided to be climate-neutral with regard to Scope 1 and Scope 2 emissions by 2040. To underscore E.ON's commitment to sustainability, the Management Board has also pledged E.ON's support for the UN Sustainable Development Goals ("SDGs"). Our success at embracing sustainability is reflected in our performance in environmental, social, and governance ("ESG") ratings. Leading sustainability rating agencies like MSCI and Sustainalytics gave us high ratings.

A sustainable energy supply is also the objective of Green Gas from Green Power, an E.ON initiative to reduce carbon emissions in heat generation, transport, and industry. The German Federal Ministry for Economic Affairs and Energy selected the initiative for funding under its Real-life Laboratory for the Energy Transition project. Our energy-transition laboratory will involve installing and operating a power-to-gas ("P2G") plant. The purpose is to test and refine intelligent combinations of various technologies for renewable energy production, conversion, storage, and distribution in order to further propel decarbonization (for further details about sustainability, see the Separate Combined Non-Financial Report).

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 79,000 employees. Led by corporate headquarters in Essen, our operations are segmented into four operating units: Energy Networks, Customer Solutions, innogy, 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 power and gas networks, which frequently involves adding customer connections. innogy's network business is not reported here in the 2019 financial year.

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 categories: 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 Business Solutions, which provides customers with turn-key distributed-energy solutions, is also part of this segment. innogy's sales business is not reported here in the 2019 financial year.

innogy

This segment consists in particular of the network and sales businesses as well as the corporate functions and internal services of the innogy Group, which E.ON took over in September 2019. innogy operates its network business primarily in Germany, Poland, Hungary, and Croatia. Its sales business is engaged principally in Germany, the United Kingdom, the Netherlands, Belgium, Hungary, and Poland. This segment does not contain innogy's renewables and gas-storage businesses or its stake in Austrian energy utility KELAG, which are still to be transferred to RWE.

Renewables

This segment consists of onshore wind, offshore wind, and solar farms. E.ON planned, built, operated, and managed renewable generation assets. Their output was marketed 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 were classified as discontinued operations effective June 30, 2018, and deconsolidated effective September 18, 2019 (more information is available on pages 15, 27, and 28 of the Combined Group Management Report and in Note 4 to the Consolidated Financial Statements). Certain business operations of e.disnatur in Germany and Poland as well as a 20-percent stake in Rampion offshore wind farm in the United Kingdom were not transferred to RWE and continued to be reported here in the 2019 financial year.

Non-Core Business

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

Special Events in the Reporting Period

Acquisition of RWE's innogy Stake Closed

The 76.8-percent stake in innogy previously held by RWE was transferred to E.ON on September 18, 2019. In late September E.ON also completed the voluntary public takeover offer to innogy's minority shareholders, thereby acquiring a further 9.4 percent of innogy stock. Together with the 3.8 percent of innogy stock acquired on-market, E.ON holds 90 percent of all innogy stock and thus fulfills the necessary requirement for a merger squeeze-out (Note 4 to the Consolidated Financial Statements contains additional details of the transaction).

Renewables

Pursuant to IFRS 5, the operations in the Renewables segment transferred as part of the transaction with RWE were reported as discontinued operations effective June 30, 2018. For the purpose of internal management control, these operations were fully included in the relevant key performance indicators until September 18, 2019. In addition, the scheduled depreciation charges required by IFRS 5 and the carrying amount of these discontinued operations were recorded in equity and disclosed accordingly.

This Annual Report's presentation of sales and the key performance indicators relevant for management control therefore also includes the results of discontinued operations in the Renewables segment. Pages 27 and 28 of the Combined Group Management Report and Note 34 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.

E.ON Supervisory Board Enlarged, Composition of E.ON Management Board Unchanged

As decided at E.ON's Annual Shareholders Meeting in May 2019, after the closure of the innogy takeover E.ON increased the E.ON Supervisory Board to 20 members. E.ON appointed RWE CEO Rolf Martin Schmitz, entrepreneur Ulrich Grillo, and U.S. management consultant Deborah B. Wilkens as shareholder representatives. In addition, Monika Krebber, Stefan May, and René Pöhls joined the E.ON Supervisory Board as employee representatives. The leadership of the new E.ON remains in the hands of the current members of the Company's Management Board.

Restructuring Measures Initiated, including in Germany and the United Kingdom

In conjunction with the innogy takeover, E.ON announced that it would make up to 5,000 jobs redundant Group-wide. Before this backdrop, in May 2019 the Collective Bargaining Agreement for the Future and Job Security was concluded with employee representatives and two trade unions, ver.di and IGBCE. The collective bargaining agreement will initially apply to personnel changes and adjustment initiatives carried out in Germany as a result of the integration of the innogy Group into the E.ON Group. Among other things, it includes provisions for severance payments for employees who leave voluntarily, early retirement arrangements, and the possibility of transfer to a special company for further employment and qualifications. These measures were further specified by the end of the year 2019 and they have been available for selection at selected locations since February 2020.

In late November 2019 E.ON announced proposals to restructure npower. These proposals call for npower's residential and small and medium-size enterprise customers ("B2C") to be gradually combined with E.ON UK's B2C customers on a shared IT platform. In addition, in February 2020 npower and E.ON UK concluded an agreement on the sale of npower's B2C customer contracts. Furthermore, the plan is for npower's business with industrial and commercial customers to be carved out. npower's remaining operations will be restructured over the next two years. This includes closing most npower offices and thus reducing staff.

Framework Agreement Signed with MVM and Opus to Reorganize Business in Hungaria

In early October 2019 E.ON acquired EnBW's 27-percent stake in ELMŰ Nyrt. ("ELMŰ") and ÉMÁSZ Nyrt. ("ÉMÁSZ"). Subsequently, E.ON, MVM Magyar Villamos Művek Zrt. ("MVM," a shareholder of ELMŰ and ÉMÁSZ), and Opus Global Nyrt. ("Opus") signed a framework agreement. Under the agreement, E.ON intends to give itself a balanced and optimized portfolio in Hungary that will also make it possible to swiftly integrate innogy's operations there.

The agreement is expected to be fully implemented in 2021. This will give MVM 100 percent of distribution operator ÉMÁSZ and a 25-percent stake in E.ON Hungária, which will then be ELMŰ's sole owner. In addition, Opus will be owner of current E.ON subsidy E.ON Tiszántúli Áramhálózati Zrt. ("E.ON ETI").

Syndicated Credit Facility with ESG Component Concluded

In October 2019 E.ON concluded a new €3.5 billion syndicated credit facility with a term of five years and two options to extend the maturity by one year each. In addition, the volume can be increased by up to €0.75 billion during the facility's lifetime. The facility replaced two previously existing syndicated credit facilities: E.ON SE's €2.75 billion facility and innogy SE's €2 billion facility. The credit margin is linked in part to the development of certain ESG ratings, which also gives E.ON financial incentives to pursue a sustainable corporate strategy.

Green Bonds Issued

In August 2019 E.ON issued two €750 million Green Bonds that mature in 2024 and 2030, respectively. High investor demand enabled E.ON to secure favorable interest terms with coupons of 0 percent and 0.35 percent per year, respectively. A Green Bond is a fixed-interest security whose issuance proceeds are used to fund sustainable infrastructure and energy-efficiency projects.

More Corporate Bonds Issued

In October 2019 E.ON issued two more €750 million bonds. High investor demand enabled E.ON to secure favorable interest terms for both maturities (2022 and 2026) with coupons of 0 percent and 0.25 percent per year, respectively. Following the first Green Bond in August, this was another placement of a bond with a zero-percent coupon.

In addition, in November 2019 E.ON issued a €500 million bond with a 12-year maturity and a coupon of 0.625 percent per year.

In December 2019 E.ON issued another €500 million bond with a three-year maturity and a coupon of 0 percent per year.

Coromatic Acquisition

On July 11, 2019, E.ON concluded the acquisition of 100 percent of Coromatic, a leading Sweden-based provider of facility-critical services. The EQT Group was the seller. Coromatic has its headquarters in Stockholm and about 500 employees. The company has more than 5,000 customers in Scandinavia in a wide variety of sectors, such as data centers, healthcare, the public sector, transportation, manufacturing, telecommunications, finance, and retail. The parties agreed not to disclose the purchase price. For the E.ON Group as a whole, the transaction volume is insignificant.

Nord Stream Stake Transferred to Contractual Trust Arrangement

E.ON Beteiligungen GmbH held all of the shares of PEG Infrastruktur AG ("PEGI") and thus an indirect, 15.5-percent stake in Nord Stream AG. Nord Stream AG, a project company founded in 2005, owns and operates two offshore gas pipelines, each with a length of 1,224 kilometers, that transport natural gas from Russia to Germany. In a contract dated December 18, 2019, E.ON Beteiligungen GmbH sold all of its PEGI shares and thus its indirect stake in Nord Stream AG to E.ON Pension Trust e.V. ("EPT") with effect and for the account of the trust assets of MEON Pensions GmbH & Co. KG ("MEON"). The shares were transferred at the end of the year (for more information, see Note 4 to the Consolidated Financial Statements).

Transfer of Residual Power Output Rights

In July 2019, 10 TWh of residual power output rights was acquired from Krümmel nuclear power station and transferred to Grohnde nuclear power station, which is operated by PreussenElektra. The legal framework ensures that Grohnde and the other nuclear power stations operated by E.ON have a supply of other residual power output rights.

IFRS 16 *Leases*

We apply IFRS 16 *Leases* for the first time effective the start of 2019. It supersedes IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*. The application of IFRS 16's main impact on our Consolidated Balance Sheets is an increase in fixed assets (due to the capitalization of right-of-use assets) and of financial liabilities (due to the disclosure of the corresponding lease liabilities). Initial application resulted in lease liabilities of €0.8 billion and right-of-use assets of roughly €0.8 billion, based on existing accruals and deferrals. In each case, €0.3 billion of the amount was recorded at the discontinued operations at Renewables. In the Consolidated Statements of Income, the application of IFRS 16 in the year under review resulted in depreciation charges on right-of-use assets of €0.1 billion and a decline in other operating expenses of likewise €0.1 billion. The resulting earnings effect was insignificant (Note 2 to the Consolidated Financial Statements contains more information about the aforementioned reclassification effects resulting from the initial application of IFRS 16).

Right-of-use assets and corresponding leasing liabilities both totaled €3.1 billion at December 31, 2019. Leasing liabilities are recorded under economic net debt. In addition, leasing agreements resulted in cash outflow of €0.4 billion in 2019. Of this, €0.1 billion was recorded under operating cash flow, €0.3 billion under cash provided by financing activities. Note 32 to the Consolidated Financial Statements contains more information about the effects of the initial application of IFRS 16.

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 embed these expectations progressively more deeply into our organization—across all organizational entities and all processes—by means of binding Group-wide policies that set minimum standards (for more information, see the Separate Combined Non-Financial Report on pages 88 to 101).

Key Performance Indicators

For the 2019 financial year, E.ON's most important key performance indicators ("KPIs") for managing its 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 sales and the KPIs relevant for management control also includes the results of discontinued operations in the Renewables segment that were deconsolidated effective September 18, 2019 (for more information, see page 15 of the Combined Group Management Report). Pages 27 and 28 of the Combined Group Management Report and Note 34 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. E.ON plans to make changes to the KPIs for the 2020 financial year. These are likewise described below.

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 and reversals, the marking to market of derivatives, and other non-operating earnings (see the explanatory information on pages 27 and 28 of the Combined Group Management Report and in Note 34 to the Consolidated Financial Statements). In addition, the effects of the subsequent valuation of hidden reserves and liabilities that were identified as part of the purchase-price calculation and allocation for the innogy transaction are disclosed separately.

Cash-effective investments are equal to the investment expenditures shown in the E.ON Group's Consolidated Statements of Cash Flows. These include the investments of discontinued operations in the Renewables segment until they were deconsolidated effective September 18, 2019.

Cash-conversion rate is equal to operating cash flow before interest and taxes divided by adjusted EBITDA. It indicates whether E.ON's operating earnings are generating enough liquidity. From the 2020 financial year onward, the expenditures for the dismantling of nuclear power stations that are included in operating cash flow before interest and taxes will no longer be factored into cash-conversion rate. To balance out fluctuations that result primarily from payments around the balance-sheet date, E.ON will manage its cash-conversion rate by means of a target figure over the three years of the medium-term plan.

Return on capital employed ("ROCE") assesses the value performance of E.ON's operating business. ROCE is a pretax total return on capital and is defined as the ratio of adjusted EBIT to annual average capital employed. From the 2020 financial year onward, ROCE will not be factored into components of the E.ON SE Management Board's compensation. In the 2020 financial year, ROCE is therefore no longer one of E.ON's most important KPIs. In the future, it will instead be reported as one of E.ON's other KPIs.

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 pages 27 and 28 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 29). Debt factor is equal to economic net debt divided by adjusted EBITDA and is therefore a dynamic debt metric. Economic net debt includes net financial debt as well as 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 present the performance of E.ON's operating business and part of E.ON's responsibility for all our stakeholders: our employees, customers, shareholders, bond investors, and the countries in which we operate. Operating cash flow, power and gas passthrough, and selected employee information are examples of other KPIs.

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 company's 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. The innovation activities in the Group therefore have the following focus areas:

- Retail and end-customer solutions: develop new business models for distributed-energy supply for end-customers and industry, energy efficiency, sustainable city and city-district solution, and mobility

- 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

- Renewables generation: increase the cost-effectiveness of existing wind and solar assets and study new renewables technologies; E.ON's renewables business along with its innovation activities regarding renewables was transferred to RWE in September 2019.

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 2019 we invested in Vinli and HoloBuilder and made a number of follow-up investments in our portfolio.

Vinli, a U.S.-based startup, has developed software and a data analysis platform for mobility solutions. The software solution not only collects and clearly structures data from vehicles connected to the system. It can also generate results-oriented insights that enable large vehicle fleet operators, automakers, and service providers to make the advantages of eMobility economical.

HoloBuilder, a startup with roots in Aachen and based in San Francisco, has developed a cloud solution that not only enables virtual construction site inspections and 360° live streaming from construction sites but also time travel: construction managers, business customers, and contractors can fast-forward and rewind at any time and thus better track construction progress. Another feature is the virtual measurement of distances at a construction site. The images for the software are provided by a 360° camera in conjunction with the JobWalk app, which employees can use on site to activate the camera and document the project.

Going forward, E.ON will use HoloBuilder's solution for projects to install network equipment (such as substations and switchgears) and for large city energy projects. We believe the digitization of construction projects offers significant, as yet untapped potential.

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. Collaborative work in the E.ON Energy Research Center at RWTH Aachen University focuses on technologically advanced electricity networks, innovative heat solutions for buildings and city districts, and new solutions for residential customers and industrial enterprises.

Business Report

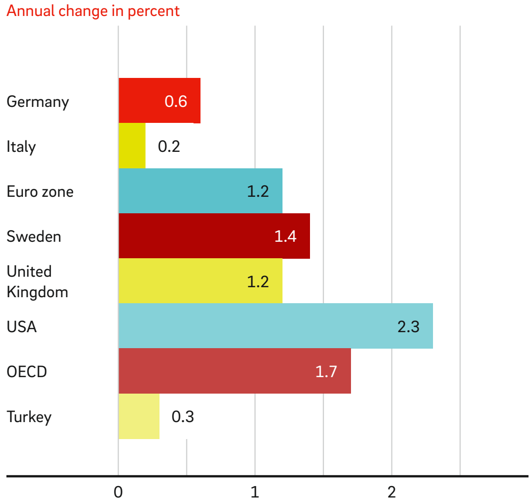
Macroeconomic and Industry Environment

Macroeconomic Environment

After peak growth in 2018, the world economy experienced a downturn in 2019. Ongoing uncertainty about Brexit and increasing trade tensions between the United States and China were the dominant features of 2019. As a result, almost all economies slowed, and world trade stagnated. Global economic growth in 2019 is estimated to have declined by 0.8 percentage points year on year to 2.9 percent.

GDP Growth in Real Terms in 2019

Annual change in percent



Source: OECD, 2019.

COVID-19 (Coronavirus)

The outbreak and spread of the novel coronavirus has major global implications, including economic and financial implications. E.ON is aware of its responsibility as an operator of critical infrastructure in this context as well. It has established a crisis team which is monitoring current developments so that the Company can, if necessary, expand the measures it has already taken.

Energy Policy and Regulatory Environment

Global

On November 4, 2019, the U.S. government under President Donald Trump gave notice that it intends to withdraw from the Paris climate agreement. The one-year transition period until the formal exit will end on November 3, 2020, one day after the upcoming presidential election.

The 25th UN climate change conference, held in Madrid from December 2 to 15, 2019, was largely without result. The delegates from just under 200 countries were only able to reach agreement on a minimal compromise. In the final document, countries agreed to review the gap between their existing voluntary climate targets and what would be necessary to limit the increase in global temperatures to below 2 degrees Celsius as foreseen in the Paris agreement. Consequently, key decisions—such as a voluntary commitment by all countries to more climate protection and the design of a global market mechanism for trading in climate-protection certificates—were postponed until the next climate summit, which will be held in Glasgow later this year.

Europe

Following the elections to the European Parliament in May 2019, the European Union elected a new Commission. Commission President Ursula von der Leyen resolved to make climate and environmental issues her top priority by launching the European Green Deal. Its centerpiece is a legally binding commitment by the EU to achieve climate neutrality by 2050. In addition, the new Commission intends to consider raising the 2030 carbon-reduction targets to 50 to 55 percent. To help achieve them, the Commission will make proposals for an EU emissions trading scheme for the transport and construction sectors (which will eventually be merged with the existing emissions trading scheme), introduce a carbon border tax that conforms with World Trade Organization rules, and review the Energy Tax Directive.

The European Green Deal will include a Just Transition Mechanism to support regions dependent on fossil fuels. In addition, the Commission will launch a Sustainable Europe Investment Plan, mobilizing investments of €1 trillion over the next decade. As part of this effort, it will seek to transform parts of the European Investment Bank into a climate bank and double its funding for climate investment by 2025. The new Commission also intends to present a new industrial policy and proposals for the ethical regulation of artificial intelligence. The proposals for relations, consultation, and legislation are expected to be published in 2020 and 2021.

Germany
The continuation of the grand coalition means that the climate targets contained in the coalition agreement that followed the 2017 Bundestag elections remain unchanged. One target is for renewables to meet about 65 percent of the country's gross electricity consumption by 2030. The ambitious action plan for upgrading and expanding energy networks also remains in place.

The package of climate legislation adopted by the German government at the end of 2019 focuses on four different areas for achieving the country's climate targets in 2030. One core element is the introduction of certificate trading to put a price on carbon emissions in the building and transport sectors. Another is a mixture of regulatory requirements, financial incentives, and socially motivated compensation mechanisms. The Cabinet Committee on Climate Protection, or Climate Cabinet, will assume responsibility for managing Germany's climate-protection strategy, assesses progress annually, and adjust measures as necessary.

Renewables expansion remains a controversial issue. The governing parties could not agree on additional measures in 2019. Although the Coal Commission presented its final report in January 2019, the federal cabinet did not adopt the corresponding draft legislation until January 2020. The Renewable Energy Sources Act (known by its German abbreviation, "EEG") is expected to be amended in the first half of 2020.

E.ON unequivocally supports the German federal government's 65-percent renewables target. To get there, renewables output would have to roughly double by 2030. Achieving growth of this magnitude requires making sufficient land available. To garner public support for the energy transition, however, land use is often limited. Examples include minimum setback restrictions for the siting of wind farms and limitations on the installation of solar farms. To ensure that targets are reached and that the energy transition as a whole is a success, E.ON advocates flexible and ambitious rules for the expansion of wind energy and the construction of solar facilities.

A ruling issued by the Federal Supreme Court on July 9, 2019, affects E.ON's core network business. It upheld the Federal Network Agency's reduction of the allowable pretax return on equity for operators of electricity and gas distribution networks from 9.05 percent to 6.91 percent for the third regulatory period. E.ON's distribution system operators ("DSOs") and roughly 1,100 other companies had filed administrative appeals against the reduction with the State Superior Court in Düsseldorf.

The Federal Ministry of Economics and Energy ("BMWi") plans to amend the Incentive Regulation Ordinance ("ARegV") by mid-2020. The amendment's principal purpose is to establish stronger economic incentives for efficient congestion management and grid expansion. E.ON could benefit from a revision of the amended ARegV's allowed return on equity.

In November 2019 the federal cabinet approved the master plan for charging infrastructure. It contains measures for rapidly establishing a nationwide, user-friendly charging infrastructure for up to 10 million electric vehicles by 2030. The objective is 1 million public charging points, with 50,000 being installed in the next two years. In addition, from 2020 onward €50 million will be made available for residential charging options.

Great Britain

2019 proved to be a politically turbulent year in Great Britain. Parliament's vote on the Brexit agreement, which was originally supposed to be held by March 29, was postponed several times. The exit agreement, known as an Article 50 procedure, was amended to include a "flextension," which extended the deadline again, this time to January 31, 2020. Amid the negotiation of a revised exit agreement, the new Prime Minister, Boris Johnson, was finally able to hold a general election on December 12. Brexit was the election's predominant issue, and a solution for it was foremost in voters' minds. Johnson and his party emerged as the election's clear winners. Afterward, Johnson carried out his conception of the Brexit deal and led Britain out of the European Union on January 31, 2020, as planned. The specter of a hard Brexit—that is, Britain exiting without an agreement—was forestalled. There is now a transition period until December 31, 2020. During this time, Britain can negotiate an exit agreement with the European Union but will continue to be treated as an EU member. In principle, both sides are interested in a far-reaching free-trade agreement and very close relations in all policy areas, especially in foreign and security policy. Given the very tight time-frame and the British government's decision not to extend the transition period under any circumstances, the exit negotiations will be a historic challenge for both sides.

In June 2019 the government formally amended the 2008 Climate Change Act to commit to net zero emissions by 2050. Net zero is at the top of the energy agenda. It is becoming increasingly important that measures be designed now to meet the ambitious target, which will help put Britain on the road to decarbonization.

Italy

In August 2019, 18 months after the election, Italy experienced a government crisis. A pro-environment center-left coalition formed a new government in September. The new government's energy policy aims to increase renewables generation (with particular emphasis on self-generation systems) and, as part of a Green New Deal, to phase out coal-fired power stations by 2025. In October the national regulatory agency presented a proposal for the transition to a fully liberalized electricity market for end-consumers. Regulated prices are currently scheduled to expire on July 1, 2020.

Sweden

Sweden's energy policy remains 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 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. Sweden will likely achieve its 2030 renewables target in the early 2020s. A new government was formed in January 2019. The coalition agreement contains plans to revise eco-taxes. They include increased taxation of fossil-fueled CHP plants and a planned tax on waste incineration. The new regulatory period for electricity grids began on January 1, 2020. It is anticipated that unused discretionary investments from previous regulatory periods can be carried over to the new period for a certain level of investment.

East-Central Europe

The Czech government still needs to present a draft law to transpose the EU electricity market directive. The Czech Republic's National Energy and Climate Plan ("NECP") will chart the future course of its energy sector in the years ahead.

In March 2019 Slovakia held presidential elections in which Zuzana Čaputová was elected the new president. An amended law on support for renewables and high-efficiency cogeneration that introduces feed-in tariffs for new power producers as well as the exemption of DSOs from the support mechanisms will impact E.ON's business in Slovakia.

Municipal elections held in Hungary on October 13, 2019, yielded significant gains for opposition parties. The incumbent mayor of Budapest, supported by the governing Fidesz party, lost to the opposition party candidate after nine years in office. It is unclear how the national government will cooperate with the opposition at the municipal level. The Hungarian government submitted its draft National Energy Strategy 2020 to parliament for approval. The strategy calls for Hungary's electricity sector to be 90 percent carbon-neutral by 2030 by adding more nuclear and renewables capacity, especially solar.

A new Romanian government led by the National Liberal Party was formed on November 4 after parliament's vote of no confidence against the former Social Democratic government. It reinstated residential customers' priority access to gas, to which the European Commission responded by opening infringement proceedings regarding the country's export ban.

Business Performance

E.ON's operating business delivered a positive performance in 2019. Sales of €41.5 billion were €11.4 billion above the prior-year figure. The increase resulted largely from the takeover of the innogy Group in September 2019.

Adjusted EBIT for the E.ON Group of €3.2 billion was €0.2 billion above the prior-year level and likewise above the range of €2.9 to €3.1 billion forecast in the 2018 Annual Report. This is principally attributable to the closing of the innogy transaction. Additional earnings streams from the innogy Group were partially offset by the absence of the Renewables segment's businesses that were transferred to RWE. Adjusted net income of €1.5 billion was at the prior-year level and thus within the range of €1.4 to €1.6 billion forecast in the 2018 Annual Report. Earnings per share, which are based on adjusted net income, amounted to €0.67 in the reporting period (prior year: €0.69). In addition, adjusted EBIT and adjusted net income were both within the forecast ranges that were adjusted in November 2019 owing to changes in E.ON's setup.

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 (€4.4 billion) divided by adjusted EBITDA (€5.6 billion). Our cash-conversion rate was therefore roughly 80 percent. Our ROCE was 8.4 percent, within our forecast range of 8 to 10 percent.

Investments of €5.5 billion were considerably above the prior-year figure of €3.5 billion and the €3.7 billion forecast for 2019 in the E.ON 2018 Annual Report. The deviation is likewise attributable to the innogy transaction. Additional investments resulted primarily from the acquisition of innogy SE stock and from the innogy Group since the closing of its takeover by E.ON. By contrast, investments at the Renewables segment declined because substantially all of it was transferred to RWE. In November 2019 E.ON adjusted its investment forecast to €6 billion. This figure was not achieved especially because certain payments for the acquisition of additional shares in subsidiaries had to be recorded in cash provided by financing activities.

Cash provided by operating activities of continuing and discontinued operations of €3 billion was at the prior-year level.

Acquisitions, Disposals, and Discontinued Operations in 2019

In 2019 E.ON executed the following significant transactions and made the following reclassifications pursuant to IFRS 5. Note 4 to the Consolidated Financial Statements contains detailed information about them:

- Closure of the innogy takeover
- Transfer of substantially all of the renewables business and two of PreussenElektra's minority stakes to RWE
- Transfer of PEG Infrastruktur AG ("PEGI"), the parent company of Nord Stream AG, into E.ON's Contractual Trust Arrangement ("CTA")
- Reclassification of innogy's sales business in the Czech Republic as a discontinued operation
- Reclassification of Tiszántúli Áramhálózati Zrt. as a disposal group.

Cash provided by investing activities of continuing operations includes cash-effective disposal proceeds totaling €256 million in 2019 (prior year: €4,306 million).

Earnings Situation

Sales

E.ON recorded sales of €41.5 billion in 2019, about €11.4 billion more than the prior-year figure. The increase is primarily attributable to the acquisition of the innogy Group in September 2019. In addition, the IFRS Interpretations Committee ("IFRS IC") clarified the accounting treatment of commodity futures transactions that are settled with physical delivery, that cannot be classified as own-use contracts pursuant to IFRS 9, and that are accounted for as derivatives (failed-own-use contracts). E.ON has applied this change in accounting methods from the start of the 2019 financial year and adjusted the prior-year figures accordingly. The adjustment's effects include volatility in reported sales (for more information, see Note 2 to the Consolidated Financial Statements).

Energy Networks' sales were at the prior-year level. Customer Solutions' sales increased by €1.3 billion. Higher power and gas sales volume in Germany was the primary factor. Sales also rose principally because of higher sales prices and sales volume in Italy, the Czech Republic, and Hungary.

Substantially all of the Renewables segment was transferred to RWE in September 2019 as part of the innogy transaction. Consequently, its sales declined by about €0.2 billion year on year to €1.6 billion.

Sales at Non-Core Business declined significantly to €1.2 billion owing to the expiration of supply contracts and the transfer of minority stakes in nuclear power stations to RWE.

Sales[1, 2]

	Fourth quarter			Full year		
€ in millions	2019	2018	+/- %	2019	2018	+/- %
Energy Networks	2,314	2,355	-2	8,870	8,769	+1
Customer Solutions	6,591	6,286	+5	23,279	21,987	+6
innogy	9,528	–	–	10,444	–	–
Renewables	293	541	-46	1,596	1,754	-9
Non-Core Business	307	411	-25	1,174	1,370	-14
Corporate Functions/Other	178	144	+24	622	644	-3
Consolidation	-1,238	-1,169	-6	-4,501	-4,440	-1
E.ON Group	**17,973**	**8,568**	**+110**	**41,484**	**30,084**	**+38**

[1]Includes the discontinued operations in the Renewables segment until September 18, 2019. Sales from continuing operations amounted to €41 billion in 2019 (prior year: €29.4 billion).
[2]Includes effects resulting from failed-own-use contracts; 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 €487 million (prior year: €394 million) mainly reflected the capitalization of work in IT projects and network investments. The increase is mainly attributable to the inclusion of innogy.

The aforementioned failed-own-use contracts also affect cost of materials as well as other operating income and expenses. See Note 2 to the Consolidated Financial Statements for more information.

Other operating income rose by €315 million, from €5,334 million to €5,649 million. The increase resulted mainly from higher income from the termination, as part of the initial innogy purchase-price allocation, of own-use contracts of €755 million recorded as liabilities. By contrast, the sale of equity interests and securities declined by €456 million to €612 million. In 2019 this includes €390 million from the sale of PEG Infrastruktur AG, the parent company of Nord Stream AG. Income from the sale of equity interests of €42 million was lower than in the prior year (€91 million).

Costs of materials of €32,126 million were significantly above the prior-year level of €22,635 million. The increase is principally attributable to the acquisition of the innogy Group.

Personnel costs of €4,101 million were €1,641 million above the figure of €2,460 million. The innogy takeover is the main reason for the increase. This also resulted in higher expenditures for staff restructuring.

Depreciation charges rose year on year, from €1,575 million to €2,502 million. The change mainly reflects the inclusion of innogy for the first time. The increase is also attributable to initial application of IFRS 16 and the resulting depreciation of right-of-use assets. In the year under review, E.ON recorded impairment charges in particular at Energy Networks in Germany for decommissioning costs of a gas storage facility and at Customer Solutions in the United Kingdom.

Other operating expenses increased by 54 percent, from €4,786 million to €7,355 million. In particular, expenditures relating to derivative financial instruments rose substantially, from €866 million to €2,270 million. Expenditures relating to currency-translation effects amounted to €1,775 million (prior year: €1,626 million). Other operating expenses also include expenditures of €725 million resulting from the termination, as part of the initial innogy purchase-price allocation, of own-use contracts recorded as liabilities.

Income from companies accounted for under the equity method of €421 million was considerably above the prior-year figure of €269 million. Equity income from the stake in Enerjisa Üretim Santralleri A.Ş. was €91 million above the prior-year level. Income also rose through the inclusion of innogy's equity interests for the first time.

Adjusted EBIT
In 2019 adjusted EBIT in our core business surpassed the prior-year figure by €262 million.

Energy Networks' adjusted EBIT of €1,888 million was at the prior-year level. An increase in adjusted EBIT in Germany and Sweden was partially offset by a decrease in East-Central Europe/Turkey.

Adjusted EBIT at Customer Solutions decreased significantly (-€100 million), particularly because of the new regulatory price caps and a smaller customer base in the United Kingdom.

The innogy segment recorded adjusted EBIT of €421 million from September 18 to December 31, 2019. These earnings are principally attributable to innogy's network business, primarily in Germany.

As already described, substantially all of the Renewables segment was transferred to RWE in September 2019. Consequently, its adjusted EBIT declined by €174 million year on year.

The E.ON Group's adjusted EBIT was €246 million above the prior-year figure. Its core business was characterized by the aforementioned items. Non-Core Business's adjusted EBIT declined slightly. PreussenElektra was adversely affected by higher depreciation charges, the transfer of minority stakes in nuclear power stations to RWE, and longer plant downtimes. These factors were largely offset by higher earnings from the generation business in Turkey.

Adjusted EBIT

€ in millions	Fourth quarter 2019	2018	+/- %	Full year 2019	2018	+/- %
Energy Networks	463	372	+24	1,888	1,844	+2
Customer Solutions	89	53	+68	313	413	-24
innogy	417	–	–	421	–	–
Renewables	19	238	-92	347	521	-33
Corporate Functions/Other	–	-73	–	-107	-153	–
Consolidation	-1	-21	–	7	-18	–
Adjusted EBIT from core business	**987**	**569**	**+73**	**2,869**	**2,607**	**+10**
Non-Core Business	40	68	-41	366	382	-4
Adjusted EBIT	**1,027**	**637**	**+61**	**3,235**	**2,989**	**+8**

E.ON generates a large 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 2019.

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 for the medium to long term. Examples include the operation of industrial customer solutions with long-term supply agreements and the operation of heating networks.

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

Net Income/Loss

In 2019 E.ON recorded net income attributable to shareholders of E.ON SE of €1.6 billion and corresponding earnings per share of €0.68. In the prior year E.ON recorded net income of €3.2 billion and earnings per share of €1.49.

Pursuant to IFRS 5, income/loss from discontinued operations, net, is reported separately in the Consolidated Statements of Income and, for 2019 and the prior year, includes primarily the earnings from the discontinued operations at Renewables, which were deconsolidated effective September 18, 2019. Alongside the operating earnings of discontinued operations, this figure contains items resulting from the deconsolidation. In this context, items previously recognized in equity were recorded in income. This figure also includes the earnings from the transitional consolidation of Rampion wind farm following the reduction in E.ON's stake to 20 percent. Deconsolidation resulted in income of €0.8 billion. Earnings from innogy's sales business in the Czech Republic are reported under this item as well.

E.ON's tax expense was €53 million (prior year: €46 million). E.ON's tax rate in 2019 was 7 percent (prior year: 1 percent). In particular, the release of tax provisions and liabilities for prior years led to a lower tax rate in the year under review and in 2018. In addition, higher tax-free income and/or income not subject to tax exposure reduced the tax rate in 2018.

The improvement in financial results relative to the prior year mainly reflects positive earnings effects from the marking to market of securities, which were partially offset by negative valuation effects relating to non-current provisions. Financial results also include a positive effect of €142 million resulting from the difference between the nominal and fair value of bonds issued by innogy and innogy Finance B.V.

Net book gains in the 2019 financial year declined significantly. They consist primarily of effects resulting from the deconsolidation of PEGI, the parent company of Nord Stream. The prior-year figure included book gains on the disposal of E.ON's remaining Uniper stake, Hamburg Netz, E.ON Gas Sverige, and, overall, a book loss on the initial public offering of Enerjisa Enerji. In addition, book gains on the sale of securities were below the prior-year figure.

Restructuring expenses were significantly higher than in the prior year and in 2019 consisted primarily of expenditures in conjunction with the acquisition of innogy. They also include expenditures for the restructuring measures instigated in Germany and, from the date of the acquisition's closing, at npower, innogy's U.K. sales business.

A non-operating effect of -€707 million resulted from derivative financial instruments in the 2019 financial year (prior year: +€610 million). Negative items in 2019 resulted primarily from hedging against price fluctuations, in particular at Customer Solutions, and from the marking to market of derivatives at the innogy segment. The figure for 2018 was mainly attributable to derivative financial instruments in conjunction with contractual rights and obligations relating to the sale of E.ON's Uniper stake. In addition, non-operating earnings includes, in the line item "Effects from derivative financial instruments," all effects resulting from failed-own-use contracts (for more information, see Note 2 to the Consolidated Financial Statements).

Net Income/Loss

	Fourth quarter		Full year	
€ in millions	2019	2018	2019	2018
Net income/loss	163	369	1,808	3,524
Attributable to shareholders of E.ON SE	*126*	*303*	*1,566*	*3,223*
Attributable to non-controlling interests	*37*	*66*	*242*	*301*
Income/Loss from discontinued operations, net	26	-116	-1,064	-286
Income/Loss from continuing operations	**189**	**253**	**744**	**3,238**
Income taxes	-306	-152	53	46
Financial results	32	215	554	669
Income/Loss from continuing operations before financial results and income taxes	**-85**	**316**	**1,351**	**3,953**
Income/Loss from equity investments	-3	-24	58	44
EBIT	**-88**	**292**	**1,409**	**3,997**
Non-operating adjustments	**1,115**	**110**	**1,526**	**-1,521**
Net book gains (-)/losses (+)	*-398*	*2*	*-366*	*-857*
Restructuring expenses	*640*	*12*	*819*	*64*
Effects from derivative financial instruments	*633*	*295*	*707*	*-610*
Impairments (+)/Reversals (-)	*273*	*61*	*275*	*61*
Carryforward of hidden reserves (-) and liabilities (+) from the innogy transaction	*113*	*–*	*252*	*–*
Other non-operating earnings	*-146*	*-260*	*-161*	*-179*
Reclassified businesses of Renewables[1] (adjusted EBIT)	–	235	300	513
Adjusted EBIT	**1,027**	**637**	**3,235**	**2,989**
Impairments (+)/Reversals (-)	64	27	66	45
Scheduled depreciation and amortization	725	414	1,986	1,475
Reclassified businesses of Renewables[1] (scheduled depreciation and amortization, impairment charges and reversals)	–	87	271	331
Adjusted EBITDA	**1,816**	**1,165**	**5,558**	**4,840**

[1]Deconsolidated effective September 18, 2019.

In 2019 E.ON recorded impairment charges in particular at Customer Solutions in the United Kingdom, Energy Networks in Germany, and innogy. In the prior year E.ON recorded impairment charges primarily at Customer Solutions in the United Kingdom and E.ON Business Solutions.

Items resulting from the subsequent valuation of hidden reserves and liabilities as part of the preliminary purchase-price allocation and newly recorded items resulting from the valuation of financial assets at the innogy segment are disclosed separately. The latter will be balanced out in subsequent reporting periods.

Other non-operating earnings were at the prior-year level. In 2019 they include, among other items, the positive effect of realized income from hedging transactions for certain currency risks.

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, certain 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. Other non-operating earnings and non-operating interest expense also include the subsequent valuation of hidden reserves and liabilities identified as part of the purchase-price calculation and allocation for the innogy transaction.

In addition, adjusted net income includes the earnings (adjusted to exclude non-operating effects) of the discontinued operations at Renewables, which were deconsolidated effective September 18, 2019, as if their disclosure and valuation had not been reclassified pursuant to IFRS 5. Pages 15 and 17 of the Combined Group Management Report and Notes 4 and 34 to the Consolidated Financial Statements contain more information.

Adjusted Net Income

	Fourth quarter		Full year	
€ in millions	2019	2018	2019	2018
Income/Loss from continuing operations before financial results and income taxes	**-85**	**316**	**1,351**	**3,953**
Income/Loss from equity investments	-3	-24	58	44
EBIT	**-88**	**292**	**1,409**	**3,997**
Non-operating adjustments	1,115	110	1,526	-1,521
Reclassified businesses of Renewables[1] (adjusted EBIT)	–	235	300	513
Adjusted EBIT	**1,027**	**637**	**3,235**	**2,989**
Net interest income/loss	-29	-191	-612	-713
Non-operating interest expense (+)/income (-)	-264	53	-66	174
Reclassified businesses of Renewables[1] (operating interest expense (+)/income (-))	–	-36	-123	-135
Operating earnings before taxes	**734**	**463**	**2,434**	**2,315**
Taxes on operating earnings	-206	-126	-586	-544
Operating earnings attributable to non-controlling interests	-169	-54	-316	-221
Reclassified businesses of Renewables[1] (taxes and minority interests on operating earnings)	1	14	4	-45
Adjusted net income	**360**	**297**	**1,536**	**1,505**

[1]Deconsolidated as of September 18, 2019.

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 debt factor, which is equal to economic net debt divided by adjusted EBITDA; it is therefore a dynamic debt metric. Economic net debt includes not only financial liabilities but also provisions for pensions and asset-retirement obligations. In addition, at year-end 2018 it included the reclassified operations at Renewables that were deconsolidated effective September 18, 2019, and the obligations in conjunction with PreussenElektra's divested minority stakes.

The low interest-rate environment continued. In some cases this led to negative real interest rates on asset-retirement obligations. As in prior years, provisions therefore exceeded the actual amount of asset-retirement obligations at year-end 2019 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 E.ON's 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 economic net debt since year-end 2016.

Pursuant to IFRS valuation standards, innogy's financial liabilities at the time of initial consolidation were recorded at their fair value. This fair value is significantly higher than the original nominal value because interest-rate levels have declined since innogy's bonds were issued. The purchase-price allocation yielded a difference between the nominal value and the fair value, which results in additional liabilities of €2.5 billion at year-end 2019. This amount will be recorded in financial earnings as a reduction in expenditures and spread out over the maturity period of the respective bonds. These balance-sheet and earnings effects do not alter the interest and principal payments. To manage economic net debt, we continue to use the nominal amount of financial liabilities, which deviates from the figure shown in E.ON's balance sheets.

E.ON aims to reduce the debt factor to around 5 over the medium term.

E.ON's debt factor at year-end 2019 of 7.1 was above our medium-term target of below 4. The informational value of this key figure at year-end 2019 is very limited, however, because following the closing of the innogy takeover it contains all of the relevant items of innogy's debt but only a portion of its adjusted EBITDA, namely from the closure of the takeover to year-end 2019.

Economic Net Debt

Compared with the figure recorded at December 31, 2018 (€16.6 billion), E.ON's economic net debt increased by €22.8 billion to €39.4 billion.

Economic net debt at the balance-sheet date mainly reflects special items. Debt rose in particular owing to the initial consolidation of innogy operations. This was partially counteracted by the deconsolidation of reclassified operations at Renewables and PreussenElektra that were still included in the figure at year-end 2018. In addition, the figure at the balance-sheet date includes cash-effective items relating to the innogy transaction (see pages 31 and 32 for more information).

Provisions for pensions rose, in part because of significantly lower actuarial interest rates, which led to an increase in defined benefit obligations despite the positive development of plan assets.

Economic net debt in the year under review was also affected by the initial application of IFRS 16 (see the section entitled Special Events in the Reporting Period on page 17). The initial application of IFRS 16 does not have a material impact on E.ON's debt-bearing capacity, because operating lease relationships were already included in its calculation prior to the introduction of IFRS 16.

Economic Net Debt

€ in millions	December 31, 2019	2018
Liquid funds	3,602	5,423
Non-current securities	2,353	2,295
Financial liabilities[1]	-29,482	-10,721
FX hedging adjustment	167	-28
Net financial position	**-23,360**	**-3,031**
Provisions for pensions	-7,201	-3,261
Asset-retirement obligations[2]	-8,869	-10,288
Economic net debt	**-39,430**	**-16,580**
Adjusted EBITDA	5,558	4,840
Debt factor	**7.1**	**3.4**

[1]Bonds issued by innogy are recorded at their nominal value. The figure shown in the Consolidated Balance Sheets is €2.5 billion higher.
[2]This figure is not the same as the asset-retirement obligations shown in the Consolidated Balance Sheet from continuing and discontinued operations (€10,571 million at December 31, 2019; €11,889 million at December 31, 2018). This is because we calculate economic net debt in part based on the actual amount of the obligations.

Reconciliation of Economic Net Debt

€ in millions	December 31 2019	2018
Economic net debt	**-39,430**	**-16,580**
Reclassified businesses of Renewables and PreussenElektra[1]	–	1,961
Economic net debt (continuing operations)	**-39,430**	**-14,619**

[1]Deconsolidated effective September 18, 2019.

Funding Policy and Initiatives

The key objective of our funding policy is for E.ON to have access to a variety of financing sources at all times. We achieve this objective by using different markets and debt instruments to maximize the diversity of our investor base. E.ON issues bonds with tenors that give its debt portfolio a balanced maturity profile. Moreover, large-volume benchmark issues may in some cases be combined with smaller issues, private placements, and/or promissory notes. Furthermore, in 2019 E.ON for the first time issued Green Bonds and, going forward, intends to continue issuing a portion of its bonds as Green Bonds. 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 and by innogy SE and innogy Finance B.V. under guarantee of innogy SE. In 2019 E.ON paid back in full maturities of €1.1 billion. E.ON issued new debt totaling €4 billion.

Financial Liabilities

€ in billions	December 31 2019	2018
Bonds[1]	24.6	9.0
EUR	*15.6*	*4.0*
GBP	*7.6*	*3.8*
USD	*0.9*	*0.9*
JPY	*0.3*	*0.2*
Other currencies	*0.2*	*0.1*
Promissory notes	0.0	0.1
Commercial paper	0.1	0.0
Other liabilities	4.8	1.6
Total	**29.5**	**10.7**

[1]Includes private placements.

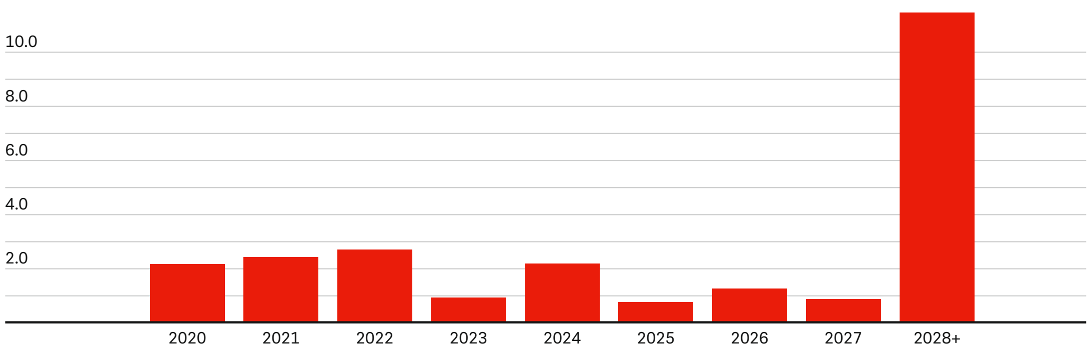
With the exception of a U.S.-dollar-denominated bond issued in 2008, all of E.ON SE and EIF's currently outstanding bonds were issued under a Debt Issuance Program ("DIP"). Similarly, innogy and innogy Finance B.V. bonds were issued under the innogy Group's DIP. A DIP simplifies a company's ability to issue debt to investors in public and private placements in flexible time frames. E.ON SE's DIP was last updated in March 2019 with a total volume of €35 billion, of which about €11.8 billion was utilized at year-end 2019. E.ON SE intends to renew the DIP in 2020.

In addition to its DIP, E.ON has a €10 billion European Commercial Paper ("CP") program and a $10 billion U.S. CP program under which it can issue short-term notes. At year-end 2019 E.ON had €50 million of CP outstanding (prior year: €0).

E.ON also has access to a five-year, €3.5 billion syndicated credit facility, which was concluded on October 24, 2019, and which includes two options to extend the facility, in each case for one year. The facility replaced two previously existing syndicated credit facilities: E.ON SE's €2.75 billion facility and innogy SE's

Maturity Profile of Bonds Issued by E.ON SE, E.ON International Finance B.V., innogy SE, and innogy Finance B.V.

€ in billions — At December 31, 2019



€2 billion facility. The credit margin is linked in part to the development of certain ESG ratings, which gives E.ON financial incentives to pursue a sustainable corporate strategy. The ESG ratings are set by three renowned agencies: ISS ESG, MSCI ESG Research, and Sustainalytics. The facility serves as a reliable, ongoing general liquidity reserve for the E.ON Group and can be drawn on as needed. The credit facility is made available by 21 banks which constitute E.ON's core group of banks.

In conjunction with the acquisition of innogy SE, on April 6, 2018, E.ON originally secured a €5 billion acquisition facility, but in August 2018 partially cancelled the facility down to €1.75 billion. This credit facility is undrawn and remains available to the Group.

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. In both cases the ratings were based on the expectation that, over the near to medium term, E.ON will be able 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 will continue to take into account the trust of rating agencies, investors, and banks by means of a clear strategy and transparent communications and therefore holds events that include an annual informational meeting for its core group of banks.

Investments

In 2019 investments in our core business and in the E.ON Group as a whole were significantly above the prior-year level. E.ON invested about €3.8 billion in property, plant, and equipment and intangible assets (prior year: €3 billion). Share investments totaled €1.7 billion versus €0.5 billion in the prior year.

Investments

€ in millions	2019	2018	+/- %
Energy Networks	1,655	1,597	+4
Customer Solutions	724	637	+14
innogy	878	–	–
Renewables	722	1,037	-30
Corporate Functions/Other	1,305	86	–
Consolidation	1	-3	–
Investments in core business	**5,285**	**3,354**	**+58**
Non-Core Business	207	169	+23
E.ON Group investments	**5,492**	**3,523**	**+56**

Energy Networks' investments were €58 million above the prior-year level. Investments in Germany rose primarily because of new connections as well as replacements and upgrades. IT investments in Sweden were lower than in 2018. Investments in East-Central Europe/Turkey were lower than in 2018, in particular because of the reassignment of investment projects in the Czech Republic between Customer Solutions and Energy Networks relative to the prior year.

Customer Solutions invested €87 million more than in the prior year. The increase resulted in part from the acquisition of Coromatic in Sweden. The aforementioned reassignment of investment projects in the Czech Republic was an additional reason for the increase in investments relative to the prior year. By contrast, investments in the United Kingdom declined, primarily because of lower investments in smart meters.

The innogy segment's investments totaled €878 million from September 18 to December 31, 2019. The biggest share of these funds went toward the expansion and upgrade of network infrastructure in Germany. Alongside maintenance, the focus was on the connection of distributed generating facilities and network expansion in conjunction with the energy transition.

Investments at Renewables were €442 million below the prior-year figure. The reason is the departure of those of this segment's businesses that were transferred effective September 18, 2019, as part of the transaction with RWE.

Corporate Functions/Other's investment rose significantly, in particular because of the innogy transaction. The 2019 figure primarily reflects expenditures for the completion of the public takeover offer and the acquisition of innogy stock on-market.

Investments at Non-Core Business were €38 million above the prior-year level. The 2019 figure consists in particular of expenditures by PreussenElektra in conjunction with the innogy transaction and the acquisition of residual power output rights. The prior-year figure primarily reflects a capital increase at Enerjisa Üretim in Turkey, which is accounted for using the equity method.

Cash Flow

Cash provided by operating activities of continuing and discontinued operations before interest and taxes of €4.4 billion was €0.3 billion above the prior-year figure. Negative working capital the 2019 financial year was more than offset by the inclusion of innogy for the first time. By contrast, cash provided by operating activities of continuing and discontinued operations was only slightly below the prior-year figure due to higher interest and tax payments.

Cash provided by investing activities of continuing and discontinued operations totaled -€5.8 billion versus +€1 billion in the prior year. The sale of the remaining stake in Uniper SE in the prior year was the main reason, accounting for €3.8 billion of the change. In particular, the acquisition of innogy stock reduced cash provided by investing activities in 2019. The purchase and sale of securities and the change in financial receivables and restricted funds resulted in net cash outflow of €0.6 billion in the 2019 financial year compared with net cash inflow of €0.2 billion in the prior year.

Cash Flow[1]

€ in millions	2019	2018
Operating cash flow	2,965	2,853
Operating cash flow before interest and taxes[2]	4,407	4,087
Cash provided by (used for) investing activities	-5,820	1,011
Cash provided by (used for) financing activities	792	-2,637

[1]From continuing and discontinued operations.
[2]Excludes the innogy business in the Czech Republic reclassified pursuant to IFRS 5.

Cash provided by financing activities of continuing and discontinued operations of +€0.8 billion was €3.4 billion above the prior-year figure of -€2.6 billion. This primarily reflects the repayment of bonds in 2018 and the issuance of bonds in 2019. The increase in the dividend payout from €0.9 billion in 2018 to €1.1 billion in 2019 was a countervailing factor.

Asset Situation

E.ON's asset situation in particular reflects the takeover of innogy operations. Total assets and liabilities of roughly €98.6 billion were €44.2 billion, or 81 percent, above the figure from year-end 2018. Non-current assets of €76.4 billion were €45.6 billion higher than at year-end 2018. The takeover led mainly to an increase in property, plant, and equipment in the amount of €17.8 billion. In addition, E.ON recorded preliminary goodwill of €15.5 billion in conjunction with the innogy takeover.

Current assets declined by €1.3 billion, or 6 percent, from €23.4 billion to around €22.1 billion. This principally reflects the departure of the Renewables segment from assets held for sale, which reduced current assets by €11.3 billion. A €8.9 billion increase in operating receivables and other operating assets had a countervailing effect. This figure includes €6.6 billion in operating receivables and other operating assets taken over from innogy.

E.ON's equity ratio (including non-controlling interests) at year-end 2019 was 13 percent, which is 3 percentage points lower than at year-end 2018.

A capital increase of subscribed capital was conducted in September 2019. Under preponderant utilization of authorized capital, E.ON increased its share capital 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 €3.5 billion change in capital reserves results from the valuation in connection with the capital increase against contributions in kind of innogy SE stock received in excess of the nominal value of the new E.ON SE stock that was issued (€440,219,800). Equity attributable to E.ON SE shareholders was €9.1 billion at year-end 2019. Equity attributable to non-controlling interests amounted to €4 billion.

Non-current debt almost doubled relative to year-end 2019. As on the asset side, the increase reflects the inclusion of innogy operations. In particular, bonds rose by €17.1 billion, of which about €14.3 billion is attributable to innogy. In addition, the initial consolidation of innogy companies and the reduction in actuarial interest rates let to an increase in provisions for pensions.

Current debt of €26 billion was 70 percent above the figure at year-end 2018. As part of the transaction, E.ON took on innogy debt in the amount of €14.5 billion. This increase was partially offset by the deconsolidation of the Renewables segment's debt of €2.7 billion that had previously been reclassified pursuant to IFRS 5.

Consolidated Assets, Liabilities, and Equity

€ in millions	Dec. 31, 2019	%	Dec. 31, 2018	%
Non-current assets	76,444	78	30,883	57
Current assets	22,122	22	23,441	43
Total assets	**98,566**	**100**	**54,324**	**100**
Equity	13,085	13	8,518	16
Non-current liabilities	59,464	60	30,545	56
Current liabilities	26,017	27	15,261	28
Total equity and liabilities	**98,566**	**100**	**54,324**	**100**

Additional information about E.ON's 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, 2019	2018
Intangible assets and property, plant, and equipment	10	10
Financial assets	45,067	33,241
Non-current assets	**45,077**	**33,251**
Receivables from affiliated companies	5,934	7,472
Other receivables and assets	1,522	1,932
Liquid funds	1,460	3,041
Current assets	**8,916**	**12,445**
Accrued expenses	35	28
Asset surplus after offsetting of benefit obligations	3	–
Total assets	**54,031**	**45,724**
Equity	9,728	9,432
Provisions	1,061	1,480
Bonds	6,000	2,000
Liabilities to affiliated companies	31,040	32,456
Other liabilities	6,195	354
Deferred income	7	2
Total equity and liabilities	**54,031**	**45,724**

Following the clearance issued by the European Commission and the relevant antitrust agencies on September 18, 2019, E.ON's earnings, financial, and asset situation in the 2019 financial year was influenced primarily by the agreement reached between E.ON and RWE on March 12, 2018, to transfer business operations.

The change in financial assets mainly reflects the addition of the 76.8-percent majority stake in innogy SE and its contribution to a subsidiary. The repayment of the procurement costs and the portion of the distribution of net income from E.ON Beteiligungen GmbH that was not recorded in earnings were countervailing factors.

The change in equity results mainly from the capital increase executed in the financial year. Net income in 2019 was lower than in the prior year.

Other liabilities consist primarily of the obligation to RWE relating to the future transfer of innogy's entire renewables business, its entire gas-storage business, and its 37.9-percent stake in Austrian energy utility KELAG.

The issuance of bonds with a total nominal value of €4,000 million and the €1,581 million reduction in liquid funds were the main items affecting the Company's financial situation.

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

Income Statement of E.ON SE (Summary)

€ in millions	2019	2018
Income from equity interests	1,620	1,171
Interest income/loss	-127	-140
Other expenditures and income	-763	-225
Taxes	59	247
Net income	**789**	**1,053**
Profit carryforward from the prior year	121	–
Net income transferred to retained earnings	300	–
Net income available for distribution	**1,210**	**1,053**

E.ON SE is the parent company of the E.ON Group. As such, its earnings situation is affected by income from equity interests. The increase in income from equity interests reflects, in particular, the in-phase distribution of net income from E.ON Beteiligungen GmbH, of which €664 million was recorded in earnings, and profit transfers of €979 million from E.ON Beteiligungen GmbH and of €210 million from E.ON Energie AG. Income from equity interests was adversely affected primarily by expenditures from loss transfers of €241 million.

The change in the negative figure recorded under other expenditures and income results predominantly from the transfer of E.ON's renewables business and two minority stakes in nuclear power stations to RWE. In addition, this figure contains personnel expenditures of €183 million, expenditures of €160 million for consulting and auditing services, and expenditures of €156 million for third-party services. The prior-year figure benefited from income of €271 million from a necessary adjustment for certain environmental remediation obligations of predecessor entities.

In the year under review, on balance the Company's income taxes yielded tax income of €59 million, which encompasses the year under review as well as prior years. Applying the minimum tax rate resulted in corporate taxes of €69 million, a solidarity surcharge of €4 million, and trade taxes of €33 million in 2019. For previous years the Company recorded tax income of €165 million.

At the Annual Shareholders Meeting in 2020, management will propose that net income available for distribution be used to pay a dividend of €0.46 per ordinary share and the remaining amount of €10 million to be brought forward as retained earnings. Management's proposal for the use of net income available for distribution is based on the number of ordinary shares on March 23, 2020, the date the Financial Statements of E.ON SE were prepared.

Pending the Supervisory Board's approval, the E.ON SE Management Board has decided on a dividend policy that foresees annual growth in the dividend per share of up to 5 percent through the dividend for the 2022 financial year. E.ON will aim for an annual increase in dividend per share after this as well.

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

Analyzing Value Creation

ROCE is a pretax total return on capital and is defined as the ratio of adjusted EBIT to annual average capital employed. In the 2020 financial year, ROCE is no longer one of E.ON's most important key performance indicators (see pages 17 and 18).

Annual average capital employed represents the interest-bearing capital invested in E.ON's 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. 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.

Changes to E.ON's portfolio during the course of the year are factored into average capital employed. Consequently, the innogy Group's assets and debt relevant for capital employed were included effective the end of September 2019. The components of capital employed attributable to the discontinued operations at Renewables transferred to RWE were included until the end of September 2019 (footnote 4 of the ROCE table below contains more information).

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 E.ON's ROCE performance.

ROCE Performance in 2019

ROCE decreased from 10.4 percent in 2018 to 8.4 percent in 2019 owing mainly to the increase in capital employed. The primary reasons are the inclusion of the innogy Group's assets (including preliminary goodwill from the purchase-price allocation) and debt for the first time and the inclusion of right-of-use assets from the start of 2019 due to the initial application of IFRS 16 *Leases*.

The table below shows the E.ON Group's ROCE and its derivation.

ROCE

€ in millions	2019	2018
Property, plant, and equipment, right-of-use assets, intangible assets, and goodwill[1]	60,590	30,915
Shares in affiliated and associated companies and other share investments	6,962	4,263
Non-current assets	**67,552**	**35,178**
Inventories	1,252	710
Other non-interest-bearing assets/liabilities, including deferred income and deferred tax assets[2]	-2,455	-4,862
Current assets	**-1,203**	**-4,152**
Non-interest-bearing provisions[3]	-3,557	-1,655
Capital employed in continuing and discontinued operations[4]	**62,792**	**29,371**
Annual average capital employed in continuing and discontinued operations[4]	38,726	28,811
Adjusted EBIT[5]	**3,235**	**2,989**
ROCE[6]	**8.4%**	**10.4%**

[1]Includes preliminary goodwill from the innogy purchase-price allocation.
[2]Examples of other non-interest-bearing assets/liabilities include income tax receivables and liabilities.
[3]Non-interest-bearing provisions include current provisions, such as those relating to sales and procurement market obligations. In particular, they do not include provisions for pensions or nuclear-waste management.
[4]As a rule, weighted capital employed is the arithmetical average of capital employed at the beginning and the end of the year. To adequately portray the innogy takeover in September 2019, capital employed in 2019 was weighted on the basis of a number of month-end figures. This calculation reflected the following parameters:
a) Capital employed of continuing operations at December 31, 2018: €29.4 billion (includes the discontinued operations at Renewables).
b) Capital employed of continuing operations at June 30, 2019, projected to September 30, 2019, on the basis of net investments and depreciation charges: €32.4 billion (includes the discontinued operations at Renewables).
c) Capital employed of continuing operations at September 30, 2019: €61.7 billion (includes innogy and excludes the discontinued operations at Renewables).
d) Capital employed of continuing operations at December 31, 2019: €62.8 billion (includes innogy and excludes the businesses transferred to RWE).
75 percent of the average of parameters a) and b) is factored into average capital employed, as is 25 percent of the mean of parameters c) and d).
[5]Adjusted for non-operating effects; for purposes of internal management control, adjusted EBIT includes the adjusted EBIT from the operations at Renewables classified as discontinued operations and deconsolidated in September 2019.
[6]ROCE = adjusted EBIT divided by average capital employed.

Employees

People Strategy

The year 2019 was characterized predominantly by the preparations for innogy's full integration into the E.ON Group. Accomplishing the integration of innogy's roughly 36,500 employees is of decisive importance for the transaction's success. Consequently, HR integration was one of the E.ON HR division's most important topics in 2019.

In 2019 we also focused our people strategy on supporting and shaping digital change. Our focus areas are digital culture and leadership, capabilities of the future, adaptation of HR processes and products, and employee development. We intend to work with our business units to shape the digital transformation through a number of Group-wide and unit-level projects.

In addition, we updated grow@E.ON, our Group-wide competency model for the professional and personal development of our employees and leaders, and E.ON's employee value proposition. We also adjusted them to reflect the changes brought about by the integration of innogy.

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, religion, sexual orientation and identity, and/or cultural and social background. We foster and utilize diversity in specific ways and create an inclusive work environment. This is important for our success. Studies show 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' specific needs and requirements. As far back as 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 Group 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.

In 2019 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. At the end of the appointment process that was part of the integration of innogy, we increased the proportion of women in management roles that report directly to the E.ON Management Board to 24 percent. 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 2018. After the integration of innogy is completed, the specific targets for each unit will be reviewed and, if necessary, adjusted.

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 the Corporate Governance Declaration.

Workforce Figures
At year-end 2019 the E.ON Group had 78,948 employees worldwide, substantially more (+82 percent) than at year-end 2018. E.ON also had 2,563 apprentices and 238 board members and managing directors worldwide.

Employees[1]

	December 31		
Headcount	2019	2018	+/- %
Energy Networks	20,438	17,896	+14
Customer Solutions	17,669	19,692	-10
innogy	36,537	–	–
Renewables	12	1,374	-99
Corporate Functions/Other[2]	2,414	2,447	-1
Core business	**77,070**	**41,409**	**+86**
Non-Core Business	1,878	1,893	-1
E.ON Group	**78,948**	**43,302**	**+82**

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

The main reason for the substantial increase in our headcount in the year under review was the takeover of innogy.

Energy Networks' headcount increased significantly relative to year-end 2018. This was mainly attributable to the reassignment of employees (primarily in the Czech Republic and Romania) from Customer Solutions to this segment. The filling of vacancies to expand the business (in Germany, predominantly with apprentices who had successfully completed their training) was another factor.

The decline in the number of employees at Customer Solutions mainly reflects the aforementioned reassignment of employees to Energy Networks. Headcount was also reduced by restructuring projects. The acquisition of Coromatic in Sweden had a countervailing effect.

In conjunction with the innogy takeover, nearly all of Renewables' employees were transferred to RWE.

Geographic Profile
At year-end 2019, 40,612 employees, or 51 percent of all employees, were working outside Germany, significantly fewer than the 63 percent at year-end 2018.

Employees by Country[1]

	Headcount		FTE[3]	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Germany	38,336	15,903	36,510	15,400
United Kingdom	14,368	9,502	13,737	9,077
Hungary	8,129	5,244	8,104	5,234
Romania	6,579	6,427	6,410	6,363
Czech Republic	2,930	2,771	2,913	2,758
Netherlands	2,888	–	2,628	–
Sweden	2,286	2,058	2,263	2,027
Poland	2,018	209	2,003	208
Other[2]	1,414	1,188	1,385	1,174
Total	**78,948**	**43,302**	**75,953**	**42,241**

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

Gender and Age Profile, Part-Time Staff
At the end of 2019, 33 percent of our employees were women, slightly higher than at the end of 2018 (32 percent).

Proportion of Female Employees

Percentages	2019	2018
Energy Networks	21	21
Customer Solutions	44	43
innogy	34	–
Renewables	31	20
Corporate Functions/Other[1]	47	49
Core business	**33**	**32**
Non-Core Business	13	13
E.ON Group	**33**	**32**

[1]Includes E.ON Business Services.

At year-end 2019 the average E.ON Group employee was about 42 years old and had worked for us for 14 years.

Employees by Age

Percentages at year-end	2019	2018
30 and younger	20	19
31 to 50	50	53
51 and older	30	28

A total of 8,520 employees, or 10 percent of all E.ON Group employees, were on a part-time schedule (prior year: 8 percent). Of these, 6,520, or 77 percent, were women.

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

Apprenticeships
E.ON continues to place great emphasis on vocational training for young people. The E.ON Group had 2,456 apprentices and work-study students in Germany at year-end 2019. This represented 6 percent of E.ON's total workforce in Germany, higher than at the end of the prior year (5.4 percent).

E.ON provides vocational training in more than 65 careers and also offers 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. In addition, E.ON offers young people the opportunity to receive training to qualify for an apprenticeship.

Apprentices in Germany

	Headcount		Percentage of workforce	
At year-end	2019	2018	2019	2018
Energy Networks	804	818	8.0	8.4
Customer Solutions	20	24	0.7	0.9
innogy	1,573	–	6.6	–
Renewables	–	–	–	–
Corporate Functions/Other	19	14	0.9	0.7
Core business	**2,416**	**856**	**6.2**	**5.8**
Non-Core Business	40	43	2.1	2.2
E.ON Group	**2,456**	**899**	**6.0**	**5.4**

Forecast Report

Business Environment

Macroeconomic Situation

Current economic and financial policy developments point to a prolonged period of subdued global growth. Due to the ongoing political uncertainty and the resulting downside risks, the global economic downturn will continue. The forecast for global GDP growth for 2020–2021 is again below 3 percent. Substantial uncertainty about the nature of future trade relations between the EU and the United Kingdom, the continued risk of a further escalation of bilateral trade tensions between the United States and China, and tensions in Iran are sources of considerable concern. GDP growth in the euro zone will stagnate, whereas growth in the United States, China, and Japan will actually slow down. The OECD forecasts a slight acceleration in GDP growth only for India and Brazil.

Anticipated Earnings Situation

Forecast Earnings Performance

In line with our corporate strategy as well as the macroeconomic and industry-specific environment, we continue to address the challenges in our operating business. We invest systematically in our energy networks, focusing in particular on innovative digital solutions at all of our network companies. As for customer solutions, we want to become even more cost-efficient and expand our market share.

In 2019 we successfully closed the innogy takeover. Our forecast for the E.ON Group and its segments therefore includes the innogy businesses that E.ON took over as part of a far-reaching transfer of business operations with RWE. From January 1, 2020, onward, innogy's operations will no longer be managed and disclosed as a separate segment but rather integrated into Energy Networks, Customer Solutions, and Corporate Functions/Other. innogy's network businesses will be assigned to Energy Networks. Its power and gas sales along with new customer solutions (such as eMobility services) will be reported at Customer Solutions. Corporate Functions/Other includes innogy's holding functions and internal services. After substantially all of the Renewables segment was transferred to RWE, its remaining businesses will be reported at Energy Networks in Germany, Customer Solutions in the United Kingdom, and Corporate Functions/Other.

Against this backdrop, we expect the E.ON Group's 2020 adjusted EBIT to be between €3.9 and €4.1 billion and its 2020 adjusted net income to be between €1.7 and €1.9 billion, or €0.65 to €0.73 per share (based on an average of 2,607 million shares outstanding). In addition, we expect the E.ON Group to achieve a cash-conversion rate of roughly 95 percent on average for the 2020 to 2022 financial years (without factoring in the expenditures for the decommissioning of nuclear power stations).

Our forecast by segment:

Adjusted EBIT[1]

€ in billions	2020 (forecast)
Energy Networks	3.3 to 3.5
Customer Solutions	0.5 to 0.7
Corporate Functions/Other	roughly -0.4
Non-Core Business	0.3 to 0.5
E.ON Group	**3.9 to 4.1**

[1]Adjusted for non-operating effects.

We expect Energy Networks' 2020 adjusted EBIT to be significantly higher than in the prior year due to the takeover of innogy's network business in Germany, Poland, Hungary, and Croatia. The network business in Germany will continue to benefit from investments in its regulated asset base. The new regulatory period in Sweden will have an adverse impact on earnings.

We anticipate that Customer Solutions' adjusted EBIT will be significantly above the prior-year level. The inclusion, for the first time, of innogy's customer solutions business—which has operations primarily in Germany, the United Kingdom, the Netherlands, Belgium, Hungary, and Poland—for the entire year will have a positive impact on earnings. The interventions of the U.K. Competition and Markets Authority will continue to have a negative effect on earnings.

Substantially all of the Renewables segment was transferred to RWE in September 2019. As described, its remaining activities will be assigned to other segments from January 1, 2020, onward. There is therefore no forecast for 2020.

We anticipate that adjusted EBIT at Corporate Functions/Other will be significantly below the prior-year figure, primarily because of the inclusion of innogy's corporate functions. By contrast, cost savings and synergy effects from combining E.ON and innogy's corporate functions will have a positive impact.

We expect Non-Core Business's adjusted EBIT to be slightly above the prior-year level. We expect PreussenElektra's earnings to reflect, in particular, rising sales prices that will be partially counteracted by expenditures for residual power output rights.

Anticipated Financial Situation

Planned Funding Measures

In addition to planned investments for 2020 and the dividend for 2019, in 2020 E.ON 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

Pending the Supervisory Board's approval, the E.ON SE Management Board has decided on a dividend policy that foresees annual growth in the dividend per share of up to 5 percent through the dividend for the 2022 financial year. E.ON will aim for an annual increase in dividend per share after this as well.

Planned Investments

We plan to make cash-effective investments of €4.5 billion in 2020. 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: 2020 Plan

	€ in billions	Percentages
Energy Networks	3.2	71
Customer Solutions	0.9	21
Corporate Functions/Other	0.2	3
Non-Core Business	0.2	5
Total	**4.5**	**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 IT, metering and upgrade projects, and integrated energy solutions. We will also invest in our heat business in Sweden, Germany, and the United Kingdom and in solutions for industrial and commercial customers.

Non-Core Business's investments will include investments to acquire residual power output rights. Those at Corporate Functions/Other will encompass investments in Group-wide IT infrastructure.

General Statement of E.ON's Future Development

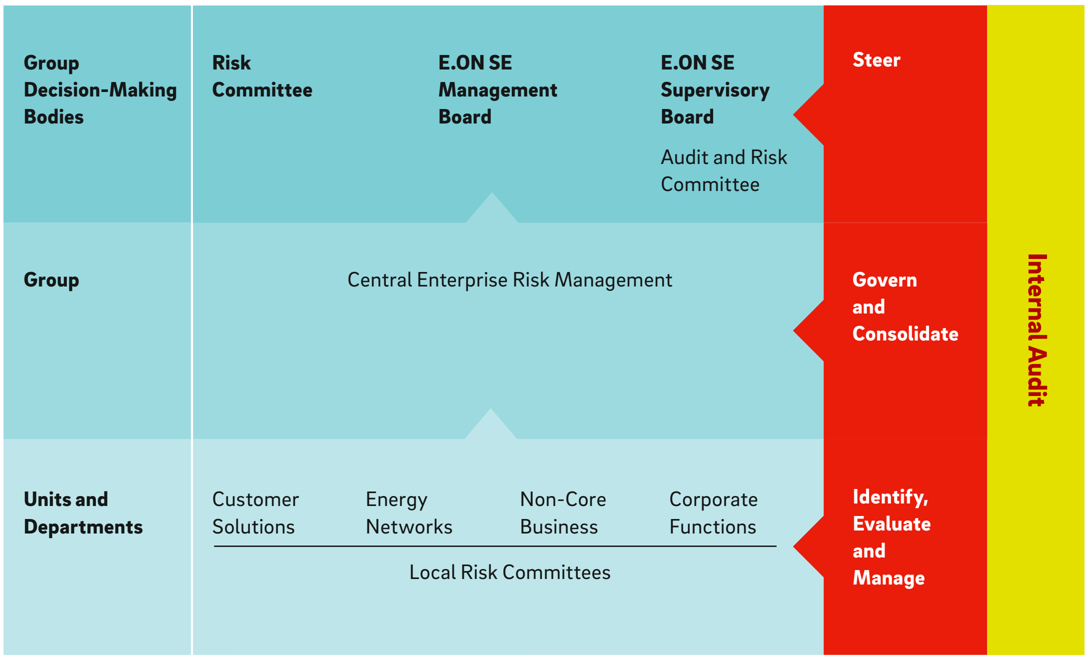
The E.ON Group's new setup, which now includes innogy, will be a dominant feature of the 2020 financial year. The integration of the enlarged E.ON Group is of particular importance. It is the prerequisite for developing the business, creating growth, and leveraging the promised synergies. E.ON will of course duly respect the interests of innogy's remaining minority shareholders.

In addition, there is the matter of restructuring and successfully returning the loss-making U.K. sales business to profitability. Further developing E.ON's IT and digital agenda for efficient and technologically advanced support systems is another task. Furthermore, there is the need for concessions in the network business in Germany to be renewed. The daily work to achieve these objectives and accomplish these tasks will take place amid a challenging business environment characterized by low interest rates, asset sales resulting from the antitrust clearance, and keen competition for networks and customers.

There is currently a high degree of uncertainty regarding the global spread of the coronavirus and the resulting economic repercussions. At present time, this does yet not permit a sufficiently precise estimate of the impact on the forecast for the Company's business development in 2020. That said, the E.ON Group anticipates for 2020 that the coronavirus will have financial impact in all markets in which E.ON is active with correspondingly significant impact on E.ON's key performance indicators. Current analyses of individual markets of the Energy Networks and Customer Solutions segments indicate that volume effects from the demand for electricity and gas will be a critical driver (volume risks). The Customer Solutions segment in particular could also face other market price risks that, driven by volume risks, could possibly impact the procurement of electricity and gas. Furthermore, in a prolonged crisis a reduction in the creditworthiness of customers and business partners could also become a risk in both segments. The short- and long-term effects on adjusted EBIT and other key performance indicators resulting from the spread of the coronavirus cannot currently be estimated and are therefore not included in the forecast.

Risk and Chances Report

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 such 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. 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 assess 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 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 consent 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.

For quantifiable risks and chances, we then evaluate the likelihood of occurrence and the potential loss or damage. In the commodity business, for example, commodity prices can rise or fall. 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 these 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 distribution) 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	Low
HSE, HR, and other	Low	Low
Market risks	Major	Medium
Strategic risks	Medium	Low
Finance and treasury risks	Moderate	Medium

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.

At the time this report was prepared, potentially adverse business effects of the outbreak of the coronavirus could not yet be sufficiently estimated. The possible implications of this matter are being analyzed on an ongoing basis. For more information, see Forecast Report.

Risks and Chances by Segment

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.

On December 6, 2016, Germany's Federal Constitutional Court in Karlsruhe ruled that the thirteenth amended version of the Atomic Energy Act ("the Act") is fundamentally constitutional. The Act's only unconstitutional elements are that certain NPP operators will be unable to produce their electricity allotment from 2002 and that it contains no mechanism for compensating operators for investments to extend NPP operating lifetimes. Lawmakers established a compensation mechanism in the sixteenth amended version of the Act. In addition, NPPs need to acquire residual power output rights 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 energy transition) an altered business climate in the power and gas business, alleged price-rigging, and anticompetitive practices. This could pose a major risk.

Energy Networks

The operation of energy networks is subject to a large degree of government regulation. New laws and regulatory periods cause uncertainty for this business. In addition, matters related to Germany's Renewable Energy Sources Act, 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 lead to court or regulatory proceedings.

innogy

The risk situation for the 2019 financial year encompasses innogy's existing portfolio, which consists of the business operations of the network and sales businesses as well as corporate functions and internal services. Thanks to a comprehensive framework for risk management, innogy is able to identify risks and opportunities at an early stage and act accordingly. Consequently, this framework satisfies the requirements of the German Law on Corporate Control and Transparency ("KonTraG"). Initially, this framework will remain in place unchanged.

In its risk governance functions delegated by the Management Board, the Controlling & Risk Department bears primary responsible for the implementation, further development and coordination of the innogy Group's risk management framework and strategy.

The innogy Group's risk situation depends to a considerable degree on the economic and regulatory environment. Its sales business, for example, faces the risk of additional interventionist regulations and, like E.ON, a competitive environment that remains very intense. For the period of the medium-term plan, the network business is currently confronted with minimal regulatory risks compared with the prior year relating to regulatory clarifications and to the disposal of innogy's stakes in its gas networks business in the Czech Republic and in Východoslovenská energetika Holding a.s. ("VSEH") in Slovakia.

As with E.ON, innogy's business operations and use of financial instruments expose it to credit risks. In addition, its historical interrelationship with RWE continues to pose a major, albeit unlikely risk.

A comprehensive risk position drawn from innogy's individual business units will be presented for subsequent financial years.

At the balance-sheet date, innogy's overall risk and chance position was major.

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 planned 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 risks, such as the continued uncertainty that Brexit poses for the collaboration between certain E.ON business units. This could confront E.ON with direct and indirect consequences that could lead to possible financial disadvantages. New risks—but also opportunities—arise from energy-policy decisions at the European and national level. Foremost among them are the European Commission's Green Deal presented at the end of 2019 and the German federal government's decision to phase out conventional, hard-coal- and lignite-fired power generation (the planned Coal Phaseout Law). The achievement of these objectives will require legal and regulatory implementation measures that themselves would pose new risks for certain E.ON Group business operations.

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 and additional reporting requirements (for example, EMIR, MAR, REMIT, MiFID2). The relevant agencies monitor compliance with these regulations closely. This leads to attendant risks for E.ON's operations. The same applies to price moratoriums, regulated price reductions, and changes to support schemes for renewables, which could pose risks to, as well as create opportunities for, E.ON's operations in the respective countries.

There may also be final risks from obligations arising from regulatory requirements following the Uniper split. This risk category also includes major risks arising from possible 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.

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 a power failure, power-plant shutdown, and higher costs and additional investments resulting from unanticipated operational disruption or other problems. 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 low chance position in this category. General project risks can include a delay in projects and increased capital requirements.

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 occupational 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. E.ON actively considers 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 medium 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. After the Uniper spinoff, E.ON established its own procurement organization 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 a major, albeit unlikely, risk. 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. 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 2019 remained nearly unchanged relative to year-end 2018. Although the average annual risk for the E.ON Group's adjusted EBIT is classified as major and despite the expansion of its risk and chance position through the innogy transaction, from today's perspective we do not perceive any risk profile that could threaten the existence of the E.ON Group or individual segments.

Business 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

	Germany		Sweden		East-Central Europe/ Turkey		Total	
Billion kWh	2019	2018	2019	2018	2019	2018	2019	2018
Fourth quarter								
Power	26.9	27.8	9.8	10.1	9.9	10.0	46.6	47.9
Line loss, station use, etc.	1.0	1.1	0.3	0.3	0.7	0.6	2.0	2.0
Gas	28.1	26.7	–	–	14.1	15.7	42.2	42.4
Full year								
Power	104.1	106.9	35.5	37.1	38.5	37.9	178.1	181.9
Line loss, station use, etc.	3.8	3.8	1.1	1.1	2.6	2.6	7.5	7.5
Gas	89.6	89.4	–	1.5	44.2	44.5	133.8	135.4

Power and Gas Passthrough

In 2019 power and gas passthrough of the segment as a whole, in Germany, and in East-Central Europe/Turkey was at the prior-year level.

Power passthrough in Sweden was slightly below the prior-year level owing to weather factors. There was no gas passthrough because of the sale of the gas distribution network in April 2018.

System Length and Connections

E.ON's power system in Germany was about 351,000 kilometers long, roughly the same as in 2018. As in the prior year, at year-end it had about 5.8 million connection points for power. E.ON's gas system was around 52,000 kilometers long and had 0.7 million connection points, essentially unchanged from 2018.

The length of E.ON's power system in Sweden was roughly 138,000 kilometers (prior year: 137,900 kilometers). The number of connection points in the power distribution system was unchanged at 1 million. The gas distribution network was sold in 2018.

System length in East-Central Europe/Turkey—about 232,000 kilometers for power and about 46,000 kilometers for gas—was almost unchanged from the prior year, as were the roughly 4.8 million connection points for power and the roughly 1.3 million for gas.

Sales and Adjusted EBIT

Energy Networks' 2019 sales were €101 million above the prior-year figure. Adjusted EBIT rose by €44 million.

Sales in Germany of €6.3 billion were at the prior-year level. Adjusted EBIT increased by €26 million to €921 million, primarily because of the expansion of the regulated asset base. By contrast, the non-recurrence of positive one-off items recorded in the prior year and a reduction in the allowed return on equity coinciding with the beginning of the third regulatory period for power led to a reduction in adjusted EBIT.

Sales in Sweden of €1 billion were slightly above the prior-year level. Higher power network fees led to an increase in sales, whereas the sale of the gas distribution business led to a decline. Currency-translation effects constituted another adverse factor. Adjusted EBIT was higher, in particular because of an improved gross margin in the power business. This was partially offset by a number of factors, including the aforementioned sale of the gas distribution business and adverse currency-translation effects.

Sales in East-Central Europe/Turkey were at the prior-year level. Adjusted EBIT declined by 5 percent year on year to €428 million. The reasons include a narrower gross margin in the gas business and higher costs in Romania. An example of the latter is the sales tax instituted in 2019, which is ultimately refunded through network fees but only after a delay.

Energy Networks

	Germany		Sweden		East-Central Europe/ Turkey		Total	
€ in millions	2019	2018	2019	2018	2019	2018	2019	2018
Fourth quarter								
Sales	1,617	1,683	276	260	421	412	2,314	2,355
Adjusted EBITDA	414	306	183	172	153	154	750	632
Adjusted EBIT	228	140	145	135	90	97	463	372
Full year								
Sales	6,263	6,243	1,024	989	1,583	1,537	8,870	8,769
Adjusted EBITDA	1,565	1,488	692	648	667	683	2,924	2,819
Adjusted EBIT	921	895	539	498	428	451	1,888	1,844

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]

	Germany Sales		United Kingdom		Other[2]		Total	
Billion kWh	2019	2018	2019	2018	2019	2018	2019	2018
Fourth quarter								
Residential and SME	4.2	4.3	4.2	4.7	6.1	6.0	14.5	15.0
I&C	3.8	2.5	3.1	3.1	6.7	6.3	13.6	11.9
Sales partners	–	–	–	–	0.2	0.2	0.2	0.2
Customer groups	**8.0**	**6.8**	**7.3**	**7.8**	**13.0**	**12.5**	**28.3**	**27.1**
Wholesale market	3.0	3.5	0.2	0.2	2.1	2.6	5.3	6.3
Total	**11.0**	**10.3**	**7.5**	**8.0**	**15.1**	**15.1**	**33.6**	**33.4**
Full year								
Residential and SME	15.0	14.9	15.5	17.7	22.9	22.5	53.4	55.1
I&C	13.8	10.2	12.0	13.7	26.4	25.6	52.2	49.5
Sales partners	–	–	–	–	0.7	0.7	0.7	0.7
Customer groups	**28.8**	**25.1**	**27.5**	**31.4**	**50.0**	**48.8**	**106.3**	**105.3**
Wholesale market	12.2	13.0	0.9	0.9	9.2	8.9	22.3	22.8
Total	**41.0**	**38.1**	**28.4**	**32.3**	**59.2**	**57.7**	**128.6**	**128.1**

[1]We harmonized E.ON and innogy's definitions of customer groups and adjusted the prior-year figures accordingly. Does not include innogy's power sales.
[2]Excludes E.ON Business Solutions.

Gas Sales[1]

	Germany Sales		United Kingdom		Other[2]		Total	
Billion kWh	2019	2018	2019	2018	2019	2018	2019	2018
Fourth quarter								
Residential and SME	6.2	5.9	10.9	11.7	9.1	9.9	26.2	27.5
I&C	4.2	3.5	2.9	2.3	5.6	6.3	12.7	12.1
Sales partners	–	–	–	–	0.6	0.7	0.6	0.7
Customer groups	**10.4**	**9.4**	**13.8**	**14.0**	**15.3**	**16.9**	**39.5**	**40.3**
Wholesale market	4.8	1.2	–	–	2.2	1.6	7.0	2.8
Total	**15.2**	**10.6**	**13.8**	**14.0**	**17.5**	**18.5**	**46.5**	**43.1**
Full year								
Residential and SME	18.2	17.3	31.8	35.9	27.6	28.2	77.6	81.4
I&C	13.5	11.1	9.0	8.2	21.9	22.3	44.4	41.6
Sales partners	–	–	–	–	1.6	1.7	1.6	1.7
Customer groups	**31.7**	**28.4**	**40.8**	**44.1**	**51.1**	**52.2**	**123.6**	**124.7**
Wholesale market	11.7	4.6	–	–	5.0	5.8	16.7	10.4
Total	**43.4**	**33.0**	**40.8**	**44.1**	**56.1**	**58.0**	**140.3**	**135.1**

[1]We harmonized E.ON and innogy's definitions of customer groups and adjusted the prior-year figures accordingly. Does not include innogy's gas sales.
[2]Excludes E.ON Business Solutions.

Power and Gas Sales Volume
This segment's power and gas sales rose by 0.5 billion kWh and 5.2 billion kWh, respectively.

E.ON's sales business in Germany increased its power sales by 8 percent to 41 billion kWh. Power sales to residential and small and medium enterprise ("SME") customers were at the prior-year level, whereas power sales to industrial and commercial ("I&C") customers were significantly higher thanks to successful customer acquisition. Power sales to the wholesale market declined owing to lower sales volume on already-contracted deliveries to some Uniper wholesale customers relative to 2018. Gas sales of 43.4 billion kWh were significantly (32 percent) above the prior-year level. This is partially attributable to the acquisition of new residential, SME, and I&C customers. The optimization of our procurement portfolio led to a significant increase in gas sales to the wholesale market.

Power sales in the United Kingdom declined by 3.9 billion kWh. Lower consumption and a decline in customer numbers were the principal negative factors for residential and SME customers. Power sales to I&C customers declined owing likewise to lower average offtake per customer. Gas sales decreased by 3.3 billion kWh. The decline in gas sales to residential and SME customers resulted mainly from weather factors. This was partially offset by a slight increase in gas sales to I&C customers due to a somewhat larger customer base.

Power sales at the Other unit (Sweden, Hungary, the Czech Republic, Romania, and Italy) were at the prior-year level for the unit as a whole, for each customer group, and for the wholesale market. Higher demand from I&C customers in the Czech Republic and Italy was the primary factor behind the increase in power sales. This was partially offset by the loss of customers in Sweden. The optimization of our procurement portfolio in the Czech Republic led to a significant increase in power sales to the wholesale market. This was offset, in part, by a decline in Sweden. Other's gas sales were at the prior-year level for the unit as a whole and for each customer group. A reduction in gas sales to I&C customers resulting from the sale of an equity interest in the second quarter of 2019 in Sweden and the loss of customers in Romania was partially offset by successful customer acquisition in Hungary. Gas sales to the wholesale market declined owing in part to a reduction in demand spikes in Romania relative to the prior year.

Customer Numbers
This segment had about 20.9 million customers at year-end 2019, fewer than the prior-year figure of 21 million. The number of customers in the United Kingdom declined from 6.6 to 6.1 million, with losses among power as well as gas customers. In Germany the customer base increased from 6 million in 2018 to around 6.2 million in 2019; of these, 5.2 million were power customers and 0.9 million gas customers (prior year: 5.1 million power customers, 0.9 million gas customers). This segment had a total of 8.6 million customers in the other countries where it operates (prior year: 8.5 million).

See page 54 for the innogy segment's customer numbers.

Sales and Adjusted EBIT
Customer Solutions' 2019 sales rose by €1,292 million. Its adjusted EBIT decreased by €100 million.

Sales in Germany rose primarily because of higher power and gas sales volume. As forecast during the year, adjusted EBIT was at the prior-year level.

Customer Solutions

€ in millions	Germany Sales 2019	Germany Sales 2018	United Kingdom 2019	United Kingdom 2018	Other 2019	Other 2018	Total 2019	Total 2018
Fourth quarter								
Sales	2,038	1,888	2,307	2,286	2,246	2,112	6,591	6,286
Adjusted EBITDA	78	45	-3	26	124	63	199	134
Adjusted EBIT	69	36	-40	-1	60	18	89	53
Full year								
Sales	7,313	6,798	7,683	7,633	8,283	7,556	23,279	21,987
Adjusted EBITDA	198	193	133	237	353	294	684	724
Adjusted EBIT	159	160	11	142	143	111	313	413

Sales in the United Kingdom were at the prior-year level. Adjusted EBIT was significantly lower, primarily because of the regulatory price cap that took effect in 2019 and a decline in customer numbers.

Other's sales rose by €727 million, primarily because of higher sales prices and higher sales volume in Italy, the Czech Republic, and Hungary. Adjusted EBIT increased significantly year on year, in part because of an improved gas margin in Romania and higher sales volume in Italy.

innogy

This segment consists in particular of the network and sales businesses as well as the corporate functions and internal services of the innogy Group, which E.ON took over in September 2019. The businesses still to be transferred to RWE are not included here (see page 14).

The network business encompasses the distribution of power and gas in Germany, gas distribution in Croatia, and power distribution in Poland and Hungary. The power and gas distribution business in Germany also includes the operations of innogy's fully consolidated regional utilities (including network operations, power generation, water) but not their sales operations, which are reported separately; minority stakes (such as in municipal utilities in Germany); and activities related to broadband expansion.

The sales business encompasses energy retail activities, which, in addition to the sale of power and gas, include the provision of innovative, needs-oriented energy solutions. The innogy Group operates principally in Germany, the United Kingdom, the Netherlands, Belgium, and Eastern Europe. innogy supplies a total of 14.4 million customers with power and 4.7 million with gas.

Sales and Adjusted EBIT

The innogy segment's sales totaled €10,444 million from September 18 to December 31, 2019, and resulted primarily from the sale of power and gas and from the power and gas distribution networks business.

The innogy segment recorded adjusted EBIT of €421 million from September 18 to December 31, 2019. The network business, primarily in Germany, was the principal source of earnings.

innogy

€ in millions	2019
Fourth quarter	
Sales	9,528
Adjusted EBITDA	711
Adjusted EBIT	417
Full year	
Sales	10,444
Adjusted EBITDA	756
Adjusted EBIT	421

Renewables

The Renewables segment significantly reflects the transfer of substantially all of its operations effective September 18, 2019, as part of the transaction with RWE.

At year-end 2019 this segment had no material fully consolidated generating capacity or attributable generating capacity to report. Its fully consolidated generating capacity was 5,334 MW at year-end 2018; its attributable generating capacity, 5,742 MW.

This segment's material power generation and power sales volume are attributable to the operations transferred effective September 18, 2019. Power sales volume from January 1 to the time of the transfer amounted to 13.2 billion kWh (prior year: 17.7 billion kWh). Owned generation totaled 10.9 billion kWh (prior year: 14.7 billion kWh). Power procurement amounted to 2.3 billion kWh (prior year: 3 billion kWh).

Sales and Adjusted EBIT

Renewables' sales and adjusted EBIT declined by €158 million and €174 million, respectively.

Renewables

€ in millions	2019	2018
Fourth quarter		
Sales	294	541
Adjusted EBITDA	22	327
Adjusted EBIT	19	238
Full year		
Sales	1,596	1,754
Adjusted EBITDA	628	861
Adjusted EBIT	347	521

The reduction in sales and adjusted EBIT resulted from the absence of operations due to their transfer effective September 18, 2019, as part of the transaction with RWE.

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

As part of the innogy takeover, E.ON's stakes in Gundremmingen and Emsland nuclear power stations were transferred to RWE (for more information, see Note 4 to the Consolidated Financial Statements). Consequently, PreussenElektra's fully consolidated and attributable generating capacity at year-end 2019 declined to 3,828 MW (prior year: 4,150 MW) and 3,319 MW (prior year: 3,808 MW), respectively.

Power Generation and Sales Volume

This segment's power procured (owned generation and purchases) of 32.5 billion kWh was significantly below the prior-year level. This is primarily attributable to the departure of Gundremmingen and Emsland nuclear power stations and the expiration of supply contracts. In addition, there was less need to purchase power to meet delivery obligation.

Power Generation

	PreussenElektra	
Billion kWh	2019	2018
Fourth quarter		
Owned generation	7.7	8.5
Purchases	0.2	2.1
Jointly owned power plants	*–*	*0.4*
Third parties	*0.2*	*1.7*
Total power procurement	**7.9**	**10.6**
Station use, line loss, etc.	–	–
Power sales	**7.9**	**10.6**
Full year		
Owned generation	30.1	31.2
Purchases	2.5	8.1
Jointly owned power plants	*0.9*	*1.4*
Third parties	*1.6*	*6.7*
Total power procurement	**32.6**	**39.3**
Station use, line loss, etc.	-0.1	-0.1
Power sales	**32.5**	**39.2**

Sales and Adjusted EBIT

PreussenElektra's sales were €196 million below the prior-year figure, mainly because of the expiration of supply contracts and the aforementioned transfer of minority stakes in nuclear power stations to RWE.

Adjusted EBIT in 2019 of €366 million was slightly below the prior-year figure of €382 million. PreussenElektra's adjusted EBIT declined owing to an increase in depreciation charges and the transfer of minority stakes in nuclear power stations. These factors were not offset by higher sales prices.

By contrast, adjusted EBIT at the generation business in Turkey improved, principally because its hydroelectric stations considerably increased their output relative to the prior year.

Non-Core Business

	PreussenElektra		Generation/Turkey		Total	
€ in millions	2019	2018	2019	2018	2019	2018
Fourth quarter						
Sales	307	411	–	–	307	411
Adjusted EBITDA	120	120	4	23	124	143
Adjusted EBIT	36	45	4	23	40	68
Full year						
Sales	1,174	1,370	–	–	1,174	1,370
Adjusted EBITDA	543	556	74	-17	617	539
Adjusted EBIT	292	399	74	-17	366	382

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), innogy, 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; Cluj, Romania; and Kraków, Poland. 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 ("ICS") and our general IT controls apply equally to the Consolidated Financial Statements and to E.ON SE's Financial Statements. Pages 58 to 59 contain information about the innogy Group's internal control system, which has not yet been adapted to E.ON's internal control system.

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 ICS 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 ICS, 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 ICS 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 ICS 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 ICS 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 ICS's effectiveness. 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 ICS 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.

innogy's Internal Control System

The set of rules for the design and monitoring of innogy SE's ICS remains in effect without any changes and has so far not been adapted to E.ON's ICS. The innogy SE CEO and CFO issued a formal written declaration (Sign-Off) for the 2019 Consolidated Financial Statements and their responsibility for, and the effectiveness of, the innogy Group's ICS.

Report on innogy SE's Accounting-related Internal Control System

Risks associated with financial reporting reflect the fact that the innogy Group's annual, consolidated and interim financial statements may contain misrepresentations that could have a significant influence on the decisions made by the reader. The innogy Group's accounting-based ICS aims to detect potential sources of error and limit the resulting risks. This enables innogy to ensure with sufficient certainty that the Consolidated Financial Statements are prepared in compliance with statutory regulations.

The foundations of the ICS are innogy's basic principles, which are set out in innogy's Code of Conduct and include the ambition to provide complete, objective, correct, intelligible and timely information, as well as the company's Group-wide guidelines. Building on this, the ICS quality standards for the accounting-related IT systems should ensure that the data are collected and processed reliably.

The organization of the innogy Group's accounting did not change compared to the previous year. Expert management of the innogy Group's accounting units and Shared Service Center in Kraków, in which the transaction-related accounting activities are pooled, is the responsibility of the Accounting department of innogy SE; this department is also responsible for preparing the Consolidated Financial Statements of the innogy Group.

A dedicated unit within Accounting is responsible for designing and monitoring the ICS of the innogy Group. It implements the ICS with support from the ICS Committee. The committee works to ensure that the ICS is implemented according to uniform principles across the Group and meets high standards for correctness and transparency. It consists of the heads of Accounting & Reporting, Tax, Controlling & Risk as well as Finance & Credit Risk, HR, procurement, IT, Tax, Retail Billing, Grid Billing, and Corporate Responsibility. The Group-wide set of rules for designing and monitoring the ICS remain in effect without any changes.

In order to verify that the ICS is effective, as a first step, with respect to the Accounting department, innogy examines whether the risk situation is presented appropriately and whether suitable controls are in place for the identified risks. In a second step, the effectiveness of the controls is verified. This task has been entrusted to employees in Accounting and Internal Audit as well as independent auditing companies, whose work is supported by the IT system. The officers in charge check whether the agreed ICS quality standards are complied with for the Finance, HR, Procurement, IT, Tax, Retail Billing, and, in 2019 for the first time, Grid Billing functions. The results of the checks are reported to the Management Board. The CEO and CFO of innogy SE formally confirm their responsibility for the effectiveness of the innogy Group's ICS.

Within the scope of external reporting, the members of the Management Board of innogy SE have signed the responsibility statement. They thus confirmed that the prescribed accounting standards have been adhered to and that the figures give a true and fair view of the net assets, financial position and results of operations. At its meetings, the Supervisory Board's Audit Committee regularly concerned itself with the effectiveness of the ICS. At the end of February 2020, the Management Board submitted a report on the appropriateness of the design and effectiveness of the ICS to innogy SE's Audit Committee.

The assessments and audits carried out in 2019 proved that the ICS was effective yet again in the Accounting, Finance, HR, Procurement, IT, and Tax functions. However, this merely reduces the risk of gross misrepresentations in accounting, as such cannot be eliminated completely.

Last year, the ICS was refined with a focus on accounting and IT in conjunction with the introduction of the new SAP HANA IT 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 €2,641,318,800 and consists of 2,641,318,800 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 2019.

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 affiliates' 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. of the 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, and that the Management Board concretized on September 18, 2019, 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 Executive Committee approved the capital increase on September 18, 2019. The capital increase took effect when it was entered into the Commercial Register on September 19, 2019. 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 Company's 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 been notified about the follwing direct or indirect interests in its share capital that exceed 10 percent of the voting rights:

- notification on October 2, 2019, by RWE Aktiengesellschaft for 15 percent of the voting rights
- notification on October 4, 2019, by The Capital Group Companies, Inc., for 10.16 percent of the voting rights.

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.