Our Strategy: Partner for the New Energy World

E.ON's strategy focuses our company systematically on the new energy world of empowered and proactive customers, renewables and distributed energy, energy efficiency, local energy systems, the increasing electrification of energy consumption, and digital solutions. By seizing the initiative, E.ON can—for the benefit of customers, employees, business partners, shareholders, and society in general—take advantage of the significant opportunities created by the transformation of the energy world. Our strategy reflects three fundamental market developments and corresponding growth businesses: the global trend toward sustainable energy sources (particularly wind and solar), the use of energy networks as a platform for distributed-energy solutions, and customers' changing needs in an increasingly electrified and efficient energy world. We aim to add value in all of our businesses by delivering an outstanding performance in all areas and by putting customers at the center of everything we do. Examples include continual innovation, an unambiguous commitment to sustainability, the expansion of digital architecture across the organization, and a strong brand.

Objectives and Core Businesses

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

- Energy Networks: distribution grids link our customers together and are the backbone of the energy transformation. In Germany, 95 percent of all renewable energy is fed into regional, customer-proximate distribution grids, and about one third of distributed generating capacity subsidized by the Renewable Energy Law is connected to E.ON grids. The energy system is complex and increasingly characterized by distributed generation. It connects the electricity market, heat market, and transport sector. This complex system is not possible without smart distribution grids. This means that grids no longer just distribute power. They are evolving into smart platforms that integrate processes, data, and generating facilities. Physical infrastructure is now supplemented by a new digital layer. E.ON is already a leader in network efficiency and will continue to set new standards in the future.

- Customer Solutions: E.ON wants to become the partner of choice for municipal, public, industrial, commercial, and residential customers and to create added value for them. We intend to achieve this through a consistently convincing customer experience, a strong digital orientation, and high-quality service. In addition, we will continually improve or redefine our portfolio of products and services in response to customers' demand for energy efficiency, distributed generation and storage, and sustainable mobility solutions.

- Renewables: wind, solar, and other carbon-neutral technologies are indispensable ingredients in a climate-friendly power mix. E.ON's objective is to make a significant contribution. E.ON's increasingly international renewables business will therefore continue to invest in attractive target regions. Capabilities in project development and execution and in operational excellence already give us a competitive advantage in this business.

Resources and Capabilities

Each of these core businesses has its own viable business logic. But combining them in a single company offers significant advantages. It enables E.ON to acquire and leverage a comprehensive understanding of the transformation of the energy system and the interplay between the individual submarkets in regional and local energy supply systems. In an increasingly distributed and digital energy world, for example, we expect customer solutions and energy networks to converge going forward. Today, smart meters are already providing the basis for new energy-sales offerings, such as time-based electricity tariffs and energy-efficiency solutions.

In addition to our three core businesses, our portfolio includes a nuclear power business in Germany, which is not a strategic business segment for E.ON and is managed by a separate operating company, PreussenElektra of Hanover. On July 3, 2017, E.ON transferred the payment amount (including a risk premium) totaling approximately €10.3 billion to Germany's public fund to finance nuclear-waste disposal. This transferred the responsibility for the intermediate and final storage of E.ON's nuclear waste to the Federal Republic of Germany. As the phaseout moves forward, E.ON will continue to ensure that its nuclear assets are decommissioned and dismantled safely and cost-effectively.

The systematic focus on three core businesses will enable E.ON to retain its existing strengths and advantages and build on them. Examples include our success at developing and building an international renewables portfolio consisting of 5.1 GW of operational capacity (supplemented by an attractive development pipeline and an established service business for wind farms) and our outstanding record of managing a total of roughly 800,000 kilometers of energy networks. In 2017 our customer solutions business reached several milestones in energy storage, e-mobility, and heat supply. For the first time, we enabled owners of solar panels to store their output without a battery by feeding it directly into the E.ON SolarCloud, storing it there, and accessing it from any location. In Denmark, where our 1,300 charging points make us the country's leading operator, we surpassed one million charging transactions. We are expanding our charging infrastructure outside Denmark as well. Examples include a partnership with CLEVER to establish a network of 180 ultra-fast charging points in seven European countries.

Split of Enerjisa Joint Venture

In August 2017 E. ON and its joint-venture partner Sabanci decided to split Enerjisa, which operates in the Turkish market, into two separate entities: Enerjisa Enerji (distribution grids and sales) and Enerjisa Üretim (power generation and trading). The reason for the split was the realization that the two businesses are very different in terms of customer focus, degree of regulation, growth opportunities, and financial challenges. The split enables two independent management teams to focus specifically on the challenges of their respective businesses. On February 5, 2018, E. ON and Sabanci announced that 20 percent of their Enerjisa Enerji stock had been sold to international and Turkish investors. The stock (symbol: ENJSA) began trading on the Istanbul Stock Exchange on February 8, 2018.

Uniper Spinoff

Uniper has been an independent company since the beginning of 2016. In line with its intention to fully divest its Uniper stake over the medium term, E.ON signed an agreement with Fortum on September 26, 2017, to sell its Uniper stock. Under the agreement, Fortum would make a voluntary public takeover offer to Uniper's shareholders, including a cash payment of €22 per share. At the beginning of January 2018, E.ON decided to accept Fortum's voluntary takeover offer and sell its 46.65-percent stake in Uniper. The closure of the transaction is subject to regulatory approvals.

Corporate Initiatives

In 2017, the first year after the split-off of Uniper, E.ON moved forward with key corporate initiatives and launched new ones with the aim of enhancing its competitiveness and customer orientation. These initiatives lay an important foundation for E.ON's lasting success in the years ahead. All of them are designed for rapid results and implementation.

- Our strategic review has ensured that the entire E.ON Group uses its existing strengths to successfully shape the energy transition for the long-term benefit of its employees, customers, and shareholders. This includes focusing systematically on the electric energy world and on customers. The increased use of electricity will play a key role in the sustainable development of the energy world. Since the future energy world will not only be more distributed but also more customer-driven, we can only achieve lasting success if customers perceive E.ON as trustworthy and as their partner of choice. We intend to sharpen the focus of our three segments (Customer Solutions, Energy Networks, and Renewables) to enable them to respond appropriately to the trends in their respective businesses. We will transform our electricity grids into a smart platform for the energy transition, a platform on which a variety of market participants will make transactions in the future. At our renewables business, we intend to significantly enlarge our onshore wind position and to enter new markets. As for customer solutions, we will focus on rapidly expanding our solar and battery solutions for residential customers. In addition, E.ON is investing in e-mobility, including establishing a charging infrastructure in Europe.

- The Phoenix program is making the setup of E.ON's central and support functions closer to customers and reducing unnecessary bureaucracy. For example, we scrutinized company policies and made them much leaner. This gives our customer-proximate functions greater decision-making authority, enabling faster decision-making and implementation. In the future, support functions like IT and procurement will be more closely integrated with our operating business. In addition, the results of the program will improve our bottom line by €400 million from 2018 onward. The discontinuation or outsourcing of tasks is expected to affect up to 1,300 jobs across the Group. E. ON is working with employee representatives to find mutually acceptable solutions for employees whose jobs are being eliminated and in 2017 already implemented such solutions for a majority of the jobs affected.

Finance Strategy

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

People Strategy

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

Combined Group Management Report

- Adjusted EBIT in core business up slightly
- Adjusted net income considerably above prior-year figure
- Economic net debt reduced more significantly than expected, balance sheet strengthened
- €10.3 billion payment into Germany's public fund for financing nuclear-waste disposal completely relieves E.ON of liability
- Uniper stake tendered to Fortum at the start of 2018
- Management to propose dividend of €0.30 per share
- 2018 adjusted EBIT expected to be between €2.8 and €3 billion

Corporate Profile

Business Model

E.ON is an investor-owned energy company with approximately 43,000 employee. Led by Group Management in Essen, our operations are segmented into three operating units: Energy Networks, Customer Solutions, and Renewables. Our non-strategic operations are reported under Non-Core Business.

Group Management
The main task of Group Management is to lead the E.ON Group. This involves charting E.ON's strategic course and managing and funding its existing business portfolio. Group Management's tasks include optimizing E.ON's overall business across countries and markets from a financial, strategic, and risk perspective and conducting stakeholder management.

In view of our new strategy and the Annual Shareholders Meeting's vote to spin off Uniper, we reported Uniper activities as a discontinued operation in 2016. When the Control Termination Agreement took effect, Uniper was deconsolidated effective December 31, 2016. E.ON's remaining Uniper stake was recorded in our Consolidated Financial Statements as an associated company and accounted for using the equity method. Uniper's earnings were reported under non-operating earnings. In September 2017 E.ON and Finnish energy company Fortum concluded an agreement that gave E.ON the option to sell its 46.65-percent stake in Uniper to Fortum in early 2018 pursuant to a takeover offer (see the commentary in Note 4 to the Consolidated Financial Statements). Effective the end of September 2017, we classify our Uniper stake as an asset held for sale. In January 2018 E.ON decided to tender its 46.65-percent stake in Uniper pursuant to the takeover offer, thereby exercising its option. The closure of the transaction is subject to regulatory approvals.

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 all necessary maintenance and repairs, and expanding its networks, which frequently involves adding customer connections.

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

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

Non-Core Business
This segment consists of our non-strategic activities. This applies to the operation of our nuclear power stations in Germany (which is managed by our PreussenElektra unit).

Management System

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

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

Adjusted earnings before interest and taxes ("adjusted EBIT") is E.ON's most important key figure 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 key figure for assessing operating performance because it presents a business's operating earnings independently of non-operating factors, interest, and taxes. The adjustments include net book gains, certain restructuring expenses, impairment charges, and other non-operating earnings, which include, among other items, the marking to market of derivatives (see the explanatory information on pages 37 and 38 of the Combined Group Management Report and in Note 33 of the Consolidated Financial Statements).

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

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

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

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

E.ON manages its capital structure by means of its debt factor (see the section entitled Finance Strategy on page 33). Debt factor is equal to our economic net debt divided by adjusted EBITDA and is therefore a dynamic debt metric. Economic net debt includes our net financial debt as well as our pension and asset-retirement obligations.

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

Innovation

E.ON's innovation activities reflect its strategy of focusing systematically on the new energy world of empowered and proactive customers, renewables and distributed energy, energy efficiency, local energy systems, and digital solutions. E.ON therefore has the following Innovation Hubs:

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

Strategic Co-Investments

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

In 2017 these included Cuculus, a software company based in Ilmenau, Germany. We are partnering with Cuculus to develop solutions for the smart home of the future. The solutions are based on the Internet of Things ("IoT"), in which different devices and systems can communicate with and control each other via the Internet. Homes in the new energy world will typically have solar panels, battery storage systems (including virtual storage solutions like the E. ON SolarCloud), electric vehicles, and charging systems. All these systems have to be continuously automated and coordinated so that energy is used as efficiently as possible. This will make energy customers more independent of their energy supplier and also relieve them of the complex task of optimizing each individual system. Smart meters and IoT technology enable the communication necessary to coordinate the systems.

In 2017 we sold our stake in Greensmith, a battery solutions provider, to Wärtsilä of Finland, a global leader in advanced technologies for the marine and energy markets. E.ON began working with Greensmith in 2015 on a 10-MW energy-storage system in Tucson, Arizona. In September 2016 E.ON increased its stake in Greensmith and also began installing two more energy-storage systems in Texas.

Sample Projects from 2017

Customer Solutions

Since 2015 E.ON customers have been able to use E.ON Smart Check, an app that provides transparency on their energy use. Customers can use the app to compare and analyze their energy consumption on a regular basis and thus, for example, avoid unexpected supplementary payments.

The E.ON Smart Check's features have been enhanced continually since its launch. Consumers who participated in a pilot project in 2017 were able to automatically connect all electrical appliances in their household to the app and receive important information about them. In the project, for example, the app was capable of indicating whether a washing machine was calcified or living-room lighting was inefficient. E.ON Smart Check is already used by more than 120,000 customers.

Distributed Networks

E.ON is one of 20 partners in InterFlex, a European smart-grid project that is part of Horizon 2020, an EU framework program for research and innovation. The purpose of InterFlex is to find new ways to make the power supply more flexible and to optimize it at the local level. In 2017 we launched two major InterFlex initiatives in which we are testing a number of state-of-the-art solutions in three demonstration projects in Germany and Sweden. They include:

- islanding: operating and controlling autonomous microgrids in real time, including the integration of distributed generating units and energy-storage devices

- peer-to-peer energy trading: self-generating renewable power and trading it directly with a neighbor or another consumer

- demand response: flexibly managing the demand for power depending on how much of it is available on the market.

InterFlex is planned to run for three years. The E.ON Energy Research Center is also involved in the project.

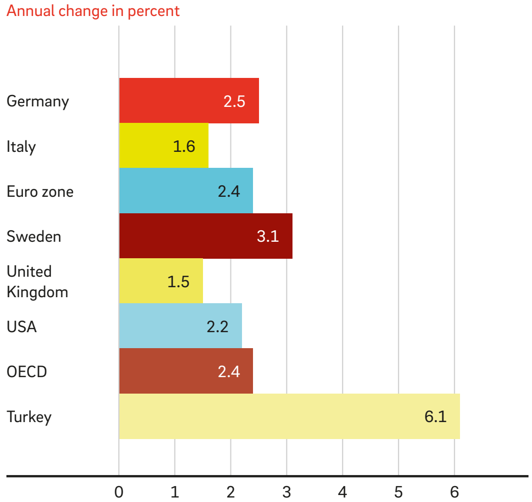
University Support

Our innovation activities include partnering with universities and research institutes to conduct research projects in a variety of areas. The purpose is to study ways to expand the horizons of energy conservation and sustainable energy and to draw on this research to develop new offerings and solutions for customers. This research is conducted primarily at the E.ON Energy Research Center, which focuses on renewables, technologically advanced electricity networks, and efficient technology for buildings.

Macroeconomic and Industry Environment

Macroeconomic Environment
The OECD considers global economic activity to be more robust. Monetary and fiscal incentives enabled most countries to achieve improved economic growth. Private investments, however, remain stagnant. The OECD estimates that the global economy grew at a rate of 3.6 percent in 2017.

2017 GDP Growth in Real Terms
Annual change in percent



Source: OECD, 2017.

Energy Policy and Regulatory Environment
Global
The 23rd United Nations climate change conference took place in Bonn, Germany, from November 6 to 17, 2017. It too focused on the practical implementation of the Paris Agreement. Based on scenarios developed by the World Energy Council and the International Energy Agency, the Paris Agreement's objective of limiting the increase in global temperatures to under 2 degrees Celsius can only be reached with greater efforts.

Europe
The European Union completed a two-year legislative process to reform the Emissions Trading System for the period 2021 to 2030. The new agreement calls for a steady decline in the oversupply of emission allowances, which should lead to an increase in the total carbon price. The agreement also includes new rules to support the introduction of national carbon prices. It enables member states to voluntarily withdraw allowances from the market in order to implement their own carbon-pricing policies.

The EU intends to enhance its position as the world's leading region for low-emission vehicles. It put forward legislative proposals aimed at reducing the carbon intensity of Europe's vehicle fleet. The proposals center on electrification with the goal of increasing the proportion of electric vehicles in the current fleet to 7 percent by 2025. This would result in a considerable expansion of, and demand for, the charging infrastructure for these vehicles.

The EU continued the process of enacting the proposals contained in the "Clean Energy for All Europeans" package of energy and climate legislation. With a number of proposals about to be enacted, it is clear that the EU will increase its targets for renewables use and energy efficiency. At the end of the legislative process, the EU will focus on ensuring that member states fulfill their obligations in the energy sector.

Germany
On June 30, 2017, the German Bundestag passed the Grid Fee Modernization Act which lays the legal foundation for transmission grid fees to be standardized nationwide and for changes to be made in the compensation for avoided grid fees pursuant to Section 18 of the Electricity Grid Charges Ordinance. The act, which will be implemented gradually, will yield considerable savings for our distribution-grid customers through 2023.

The German Federal Constitutional Court ruled that the nuclear-fuel tax was invalid. This entitled E.ON to a tax refund of approximately €2,850 million. The refund, which was paid in full in June 2017, is recorded as other operating income and as cash provided by operating activities of continuing operations.

Under the amended Combined-Heat-and-Power ("CHP") Act, compensation for CHP units between 1 and 50 MW is determined by competitive tenders conducted by the Federal Network Agency. This has intensified competition, reducing compensation from 7 cents per kWh to about 4 cents per kWh.

CHP plants that entered service after August 1, 2014, had paid 40 percent of the full renewables levy. The European Commission intends to rescind approval of this limitation. An enforcement ban has therefore been in effect since January 1, 2018, and Germany will have to enact new legislation for new CHP plants (Renewable Energy Law self-supply regulation pursuant to Section 61b, Item 2, of the Renewable Energy Law). Until such legislation is enacted and approved, all new CHP plants will have to pay the full renewables levy.

The provisions for "renters' power" introduced in the Renewable Energy Law of 2017 (the subsidization of electricity supplied directly from solar systems on apartment buildings) will enable both renters and property owners to benefit from the expansion of renewables, such as the installation of rooftop solar panels. This will create new growth opportunities for the distributed-energy business.

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

United Kingdom

The U.K. government published draft legislation to cap the standard tariff for residential customers by 2020. It is possible that this deadline could be extended to 2023. Parliament is currently considering the draft, which is expected to become law in 2019. While the political scene remains dominated by the Brexit negotiations, Britain's future stance with regard to EU energy policy and regulation remains uncertain. Nevertheless, Britain intends to fulfill its own commitments and continue its carbon-reduction policies. These include the further expansion of electric cars, renewables, energy efficiency, and new technologies.

Italy

The Italian Regulatory Authority for Electricity, Gas, and Water wants to spur competition in the end-customer market and intends to supplant regulated tariffs. In November 2017 the Italian government published a national energy strategy for the next ten years. The strategy seeks to promote energy-efficiency measures, expand renewables, enhance supply security, reduce Italy's energy price premium relative to the rest of Europe, promote sustainable mobility and environmentally friendly fuels, and phase out coal-fired generation.

Sweden

Sweden's energy policy is focused on the implementation of the targets and measures contained in the agreement on the country's energy future reached in 2016. The extension of the support scheme for renewables through 2030, the development of strategies for energy efficiency, solar energy, and demand flexibility will all play important roles. In addition, the Swedish government set ambitious climate targets for 2030 for the transport sector and put in place new mechanisms to promote e-mobility and gas-powered vehicles. Sweden's energy regulator presented proposals for new grid regulation starting in 2020 and a new market design for electricity suppliers.

East-Central Europe

In late August 2016, the Czech Republic announced that it will extend the current regulatory period for electricity and gas prices by two years to 2020. The next regulatory period starts in 2021. In it, the country's regulatory agency wants to promote cost efficiency while also stimulating grid investments through a mechanism that provides fair and stable returns on investment. Romania continued its liberalization program. The wholesale gas and power markets were fully liberalized on April 1 and July 1, 2017, respectively. Hungary's new electricity and gas regulatory periods began in 2017 and had a positive impact on the distribution-grid business. They introduced new methodologies for investments in power distribution networks, incentives to invest in renewables, and favorable tax treatment for investments in energy-efficiency projects. The government is also discussing ways to simplify and accelerate grid-connection processes.

Earnings Situation

Business Performance in 2017

In the 2017 financial year our operating business performed well. Our sales of €38 billion were at the prior-year level. Adjusted EBIT in our core business rose by €38 million to €2.6 billion.

Adjusted EBIT for the E.ON Group declined by €38 million to €3.1 billion (if disposals are factored out, adjusted EBIT was €9 million below the prior-year figure). Adjusted net income increased by about €0.5 billion to €1.4 billion. Our adjusted EBIT and adjusted net income were therefore at the upper end of our forecast range of €2.8 to €3.1 billion and €1.2 to €1.45 billion, respectively. In addition, our objective was to record a cash-conversion rate of 80 percent. Cash-conversion rate is equal to operating cash flow before interest and taxes divided by adjusted EBITDA (roughly €5 billion). Operating cash flow before interest and taxes, which was substantially affected by extraordinary items such as our payment into Germany's public fund for nuclear-waste disposal and the refund of nuclear-fuel taxes, amounted to -€2.2 billion in 2017. Adjusted for these effects, our cash-conversion rate surpassed 100 percent. Our ROCE was 10.5 percent, slightly higher than our forecast of 8 to 10 percent.

Our investments of €3.3 billion were slightly above the prior-year figure of €3.2 billion but below the €3.6 billion foreseen for 2017 in our medium-term plan. The deviation is principally attributable to our Renewables segment, which postponed certain payments to 2018.

Our operating cash flow of -€3 billion was substantially below the prior-year figure of €3 billion, primarily because of our payment into Germany's public fund for nuclear-waste disposal in July 2017.

Acquisitions, Disposals, and Discontinued Operations in 2017

We executed the following significant transactions in 2017. Note 4 to the Consolidated Financial Statements contains detailed information about them:

- Uniper stake
- Hamburg Netz
- E.ON Värme Lokala Energilösningar (small and medium-sized district-heating networks in Sweden).

Disposals resulted in cash-effective items totaling €770 million in 2017 (prior year: €836 million). This figure includes the sales price for Hamburg Netz which was paid in 2017.

Sales

Our sales declined by about €0.2 billion to €38 billion in 2017. Energy Networks' sales surpassed the prior-year figure by €1.1 billion, primarily because of higher costs charged by upstream grid operators in Germany that we passed through to customers. Its sales were slightly higher in Sweden and East-Central Europe/Turkey owing to volume and price factors. Customer Solutions' sales declined by €0.8 billion, principally because of lower sales volume and currency-translation effects in the United Kingdom as well as the expiration of supply contracts for the wholesale-customer business in Germany, which was transferred to Uniper. Sales at our Renewables segment were up by about €250 million year on year, primarily because of an increase in owned generation following the commissioning of new wind farms in the United States and favorable wind conditions in Poland, Germany, the United Kingdom, and Sweden. Non-Core Business's sales were at the prior-year level. The prior-year figure for Corporate Functions/Other includes E&P operations in the North Sea that were sold in 2016.

Sales

	Fourth quarter			Full year		
€ in millions	2017	2016	+/- %	2017	2016	+/- %
Energy Networks	4,123	3,685	+12	16,990	15,892	+7
Customer Solutions	6,088	6,289	-3	21,567	22,368	-4
Renewables	474	335	+41	1,604	1,357	+18
Non-Core Business	355	470	-24	1,585	1,538	+3
Corporate Functions/Other	234	279	-16	796	1,124	-29
Consolidation	-1,246	-1,083	–	-4,577	-4,106	–
E.ON Group	**10,028**	**9,975**	**+1**	**37,965**	**38,173**	**-1**

Other Line Items from the Consolidated Statements of Income

Own work capitalized of €524 million was at the prior-year level (€529 million) and predominantly reflects the completion of IT projects and grid investments.

Other operating income increased by 3 percent, from €7,448 million to €7,649 million, mainly because of the refund of nuclear-fuel taxes paid in previous years (€2,850 million). In addition, the sale of securities and the release of provisions resulted in higher income than in the prior year. By contrast, income from currency-translation effects declined from €5,039 million to €1,950 million, and income from derivative financial instruments decreased from €1,141 million to €613 million. Corresponding amounts resulting from currency-translation effects and derivative financial instruments are recorded under other operating expenses.

Costs of materials of €29,788 million were significantly below the prior-year level of €32,325 million. In the prior year this item was adversely affected by the provisions for nuclear-asset-retirement obligations that had to be recorded after Germany's Bundestag and Bundesrat passed the Act Reorganizing Responsibility for Nuclear Waste Management in December 2016.

Personnel costs of €3,162 million were €323 million above the prior-year figure of €2,839 million, mainly because of the costs of our reorganization program, which has been under way since the start of 2017. By contrast, personnel costs were reduced by lower past-service costs for pension plans.

Depreciation charges declined substantially year on year, from €3,823 million to €2,769 million. In particular, depreciation charges on capitalized dismantling costs for nuclear-waste disposal recorded in 2016 pursuant to Germany's Act Reorganizing Responsibility for Nuclear Waste Management did not recur. Impairment charges were higher than in the prior year and were recorded primarily at Renewables and Customer Solutions in the United Kingdom.

Other operating expenses declined by 18 percent, from €7,867 million to €6,475 million. This was principally because expenditures relating to derivative financial instruments decreased substantially, from €4,925 million to €1,663 million. By contrast, expenditures relating to currency-translation effects rose from €231 million to €1,838 million. In addition, other operating expenses increased owing to our obligation to pass on a portion (€327 million) of the refunded nuclear-fuel tax to minority shareholders of our jointly owned power stations.

Income from companies accounted for under the equity method of €716 million was substantially above the prior-year figure of €285 million. The increase in the amount of €431 million resulted primarily from the inclusion of our stake in Uniper SE as a company accounted for using the equity method during the first three quarters of 2017 (+€466 million). Since the end of September 2017, our Uniper SE stake has been recorded as an asset held for sale. Consequently, the book value of this stake was not recorded in equity in the fourth quarter of 2017.

Adjusted EBIT

In 2017 adjusted EBIT in our core business increased by €38 million year on year. Energy Networks' adjusted EBIT rose by €270 million, primarily because of the delayed repayment of personnel costs in Germany due to regulatory reasons along with an improved gross power margin due to higher tariffs in Sweden. Earnings at Energy Networks' East-Central Europe/Turkey unit were above the prior-year level. Adjusted EBIT in the Czech Republic and Hungary was higher in particular due to wider margins; this was partially offset by lower earnings from our stake in Turkey, which is accounted for using the equity method. Customer Solutions' adjusted EBIT declined by about €286 million year on year. The principal reasons were a weather-driven decline in sales volume and higher costs in the United Kingdom along with extraordinary items, lower gas sales prices, and persistently intense competitive and margin pressure in Germany. In addition, earnings were adversely affected by higher power and gas procurement costs (primarily in Romania) and lower sales prices and higher procurement costs in Hungary. Renewables' adjusted EBIT was €24 million higher, principally because of a decline in scheduled depreciation charges at Offshore Wind/Other due to improved asset availability and higher wind yield.

Adjusted EBIT for the E.ON Group declined by €38 million. In addition to the items mentioned above in the commentary on adjusted EBIT in our core businesses, other adverse factors included the unplanned outage of Brokdorf nuclear power station and lower sales prices at PreussenElektra and the absence of earnings streams from E&P operations in the North Sea divested in 2016.

E.ON generates a significant portion of its adjusted EBIT in very stable businesses. Regulated, quasi-regulated, and long-term contracted businesses accounted for the overwhelming proportion of our adjusted EBIT in 2017.

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

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

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

Adjusted EBIT

	Fourth quarter			Full year		
€ in millions	2017	2016	+/- %	2017	2016	+/- %
Energy Networks	524	475	+10	1,941	1,671	+16
Customer Solutions	173	264	-34	526	812	-35
Renewables	206	121	+70	454	430	+6
Corporate Functions/Other	-92	-261	–	-342	-398	–
Consolidation	-3	-6	–	-11	15	–
Adjusted EBIT from core business	**808**	**593**	**+36**	**2,568**	**2,530**	**+2**
Non-Core Business (PreussenElektra)	149	208	-28	506	553	-8
Other (divested operations)	–	–	–	–	29	–
Adjusted EBIT	**957**	**801**	**+19**	**3,074**	**3,112**	**-1**

Net Income/Loss

In 2017 we recorded net income attributable to shareholders of E.ON SE of €3.9 billion and corresponding earnings per share of €1.84. In the prior year we recorded a net loss of €8.5 billion and negative earnings per share of €4.33.

Pursuant to IFRS, income/loss from discontinued operations, net, is reported separately in the Consolidated Statements of Income and, in the prior year, primarily includes our earnings related to Uniper. Note 4 to the Consolidated Financial Statements contains more information.

As in the prior year, we had a tax expense of €0.4 billion. With positive pretax income, our tax rate in 2017 was 10 percent (2016: -25 percent). One-off items relating to the refund of the nuclear-fuel tax and the resulting income tax levied in Germany were the main reasons for the change in our tax rate. The effects relating to the nuclear-fuel tax, which led us to use tax loss carry-forwards, are subject to a minimum tax rate.

Net book gains were significantly above the prior-year figure and resulted in particular from the sale of securities, which were sold in preparation for the payment into Germany's public fund for financing nuclear-waste disposal which was due in July, and from the sale of an equity investment at Customer Solutions in Sweden. In 2016 we recorded book gains on the sale of securities and a book loss on the sale of our U.K. E&P business.

Restructuring and cost-management expenditures rose substantially year on year. As in the prior-year period, they resulted mainly from restructuring programs and the One2two project. The increase is primarily attributable to higher expenditures for restructuring programs, in particular for the Phoenix reorganization program.

Net Income/Loss

	Fourth quarter		Full year	
€ in millions	2017	2016	2017	2016
Net income/loss	277	-6,708	4,180	-16,007
Attributable to shareholders of E.ON SE	*219*	*-4,502*	*3,925*	*-8,450*
Attributable to non-controlling interests	*58*	*-2,206*	*255*	*-7,557*
Income/Loss from discontinued operations, net	–	3,549	–	13,842
Income/Loss from continuing operations	**277**	**-3,159**	**4,180**	**-2,165**
Income taxes	-164	-184	440	440
Financial results	134	123	44	1,314
Income/Loss from continuing operations before financial results and income taxes	**247**	**-3,220**	**4,664**	**-411**
Income/Loss from equity investments	-52	-10	-3	-19
EBIT	**195**	**-3,230**	**4,661**	**-430**
Non-operating adjustments	**762**	**4,031**	**-1,587**	**3,542**
Net book gains (-)/losses (+)	*-87*	*-62*	*-375*	*-63*
Restructuring and cost-management expenses	*368*	*53*	*541*	*274*
Marking to market of derivative financial instruments	*498*	*-164*	*951*	*-932*
Impairments (+)/Reversals (-)	*921*	*350*	*916*	*394*
Other non-operating earnings	*-938*	*3,854*	*-3,620*	*3,869*
Adjusted EBIT	**957**	**801**	**3,074**	**3,112**
Impairments (+)/Reversals (-)	33	44	75	48
Scheduled depreciation and amortization	425	454	1,806	1,779
Adjusted EBITDA	**1,415**	**1,299**	**4,955**	**4,939**

The marking to market of the derivatives we use to shield our operating business from price fluctuations and of other derivatives resulted in a negative effect of €951 million (prior year: +€932 million), mainly at Corporate Functions/Other, Customer Solutions, and Non-Core Business. The positive effect in the prior year was recorded primarily at Customer Solutions.

In 2017 we recorded impairment charges principally at Renewables and Customer Solutions in the United Kingdom. In the prior year we recorded impairment charges at Renewables and Customer Solutions in the United Kingdom and on a gas storage facility in Germany.

The significant increase in other non-operating earnings is attributable to effects resulting from the ruling by Germany's highest court on the invalidity of the nuclear-fuel tax and to the equity earnings on our Uniper stake, which were included in this item until the end of September 2017. In the prior year this line item was adversely affected by items resulting from the Act Reorganizing Responsibility for Nuclear Waste Management, which was passed by Germany's Bundestag and Bundesrat in December 2016. These items, including the concomitant impairment charges, were recorded fully in the prior year.

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. Adjusted net income also does not include income/loss from discontinued operations.

As a rule, the E.ON Management Board uses this figure generally in conjunction with its consistent dividend policy. E.ON will therefore aim for a payout ratio that is on par with its relevant peer companies. E.ON will propose a dividend of €0.30 per share for the 2017 financial year. In conjunction with the planned acquisition of innogy via a wide-ranging exchange of assets with RWE we decided to propose a fix dividend of €0.43 per share for the 2018 fiscal year.

Adjusted Net Income

	Fourth quarter		Full year	
€ in millions	2017	2016	2017	2016
Income/Loss from continuing operations before financial results and income taxes	**247**	**-3,220**	**4,664**	**-411**
Income/Loss from equity investments	-52	-10	-3	-19
EBIT	**195**	**-3,230**	**4,661**	**-430**
Non-operating adjustments	762	4,031	-1,587	3,542
Adjusted EBIT	**957**	**801**	**3,074**	**3,112**
Interest expense shown in the consolidated statements of income	-82	-113	-41	-1,295
Interest expense (+)/income (-) not affecting net income	-87	-221	-703	-157
Operating earnings before interest and taxes	**788**	**467**	**2,330**	**1,660**
Taxes on operating earnings	-227	-91	-613	-478
Operating earnings attributable to non-controlling interests	-99	-113	-290	-278
Adjusted net income	**462**	**263**	**1,427**	**904**

Financial Situation

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

Finance Strategy

Our finance strategy focuses on E.ON's capital structure. Ensuring that E.ON has unrestricted access to capital markets is at the forefront of this strategy.

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

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

The interest-rate environment remained extremely low. In some cases this led to negative real interest rates on asset-retirement obligations. As in the prior year, our provisions therefore exceeded the amount of our asset-retirement obligations as they stood at year-end 2017 without factoring in discounting and cost-escalation effects. This limits the relevance of economic net debt as a key figure. We want economic net debt to serve as a useful key figure that aptly depicts our debt situation. In the case of material provisions affected by negative real interest rates, we therefore used the aforementioned actual amount of the obligation instead of the balance-sheet figure to calculate our economic net debt since the 2016 financial year.

For the medium term, we target a debt factor of 4.

Economic Net Debt

Compared with the figure recorded at December 31, 2016 (€26.3 billion), our economic net debt declined significantly—by €7.1 billion—to €19.2 billion.

The change in our net financial position predominantly reflects the capital increase we conducted in March 2017 and our negative operating cash flow. The latter includes positive effects from the refund of the nuclear-fuel tax and from our continuing operations as well as negative effects from the payment into Germany's public fund for financing nuclear-waste disposal. However, because we removed provisions for nuclear-waste management in the same amount from our balance sheets, the payment into the fund had no effect on our economic net debt.

Economic Net Debt

	December 31	
€ in millions	2017	2016
Liquid funds	5,160	8,573
Non-current securities	2,749	4,327
Financial liabilities	-13,021	-14,227
FX hedging adjustment	114	390
Net financial position	**-4,998**	**-937**
Provisions for pensions	-3,620	-4,009
Asset-retirement obligations[1]	-10,630	-21,374
Economic net debt	**-19,248**	**-26,320**
Adjusted EBITDA	4,955	4,939
Debt factor	**3.9**	**5.3**

[1]These figures are not the same as the asset-retirement obligations shown in our Consolidated Balance Sheet (December 31, 2017: -€11,673; December 31, 2016: -€22,515 million). This is because we calculate our economic net debt in part based on the actual amount of our obligations.

Funding Policy and Initiatives

The key objective of our funding policy is for E.ON to have access to a variety of financing sources at all times. We achieve this objective through different markets and debt instruments to maximize the diversity of our investor base. We issue bonds with tenors that give our debt portfolio a balanced maturity profile. Moreover, we combine large-volume benchmark issues with smaller issues that take advantage of market opportunities as they arise. External funding is generally carried out by E.ON SE, and the funds are subsequently on-lent in the Group. In the past, external funding was also carried out by our Dutch finance subsidiary, E.ON International Finance B.V. ("EIF"), under guarantee of E.ON SE. In May 2017 E.ON SE issued a total of €2 billion in bonds with maturities of 4.25, 7, and 12 years. In 2017 we also paid back in full bonds of €0.9 billion and roughly €1.8 billion that matured in May and October, respectively.

Financial Liabilities

	December 31	
€ in billions	2017	2016
Bonds[1]	10.7	11.9
EUR	*4.0*	*4.7*
GBP	*3.9*	*4.0*
USD	*2.5*	*2.8*
JPY	*0.2*	*0.2*
Other currencies	*0.1*	*0.2*
Promissory notes	0.4	0.4
Commercial paper	–	–
Other liabilities	1.9	1.9
Total	**13.0**	**14.2**

[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 our Debt Issuance Program ("DIP"). The DIP enables us to issue debt to investors in public and private placements. E.ON SE's DIP was last updated in March 2017 with a total volume of €35 billion, of which about €9 billion was utilized at year-end 2017. E.ON SE intends to renew the DIP in 2018.

In addition to our DIP, we have a €10 billion European Commercial Paper ("CP") program and a $10 billion U.S. CP program under which we can issue short-term notes. As in the prior year, E.ON had no CP outstanding at year-end 2017.

E.ON also has access to a five-year, €2.75 billion syndicated revolving credit facility, which was concluded with 18 banks on November 13, 2017, and which includes two options to extend the facility, in each case for one year. This facility replaced the former €3.5 billion facility. This facility is undrawn on and rather serves as a reliable, ongoing general liquidity reserve for the E.ON Group. The 18 banks that were invited all participate in the credit facility and therefore constitute E.ON's core group of banks.

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

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. In March 2017 both S&P and Moody's downgraded E.ON's rating from BBB+ and Baa1 with a negative outlook, respectively. The outlook on both ratings is now stable. The new ratings reflect both agencies' anticipation that in the near to medium term E.ON will be able to maintain a leverage ratio as required for these ratings. E.ON's short-term ratings have been unchanged with A-2 (S&P) and P-2 (Moody's).

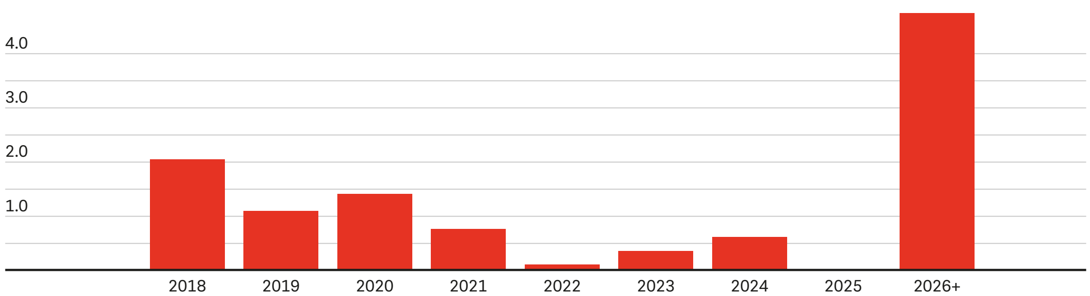
E.ON SE Ratings

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

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

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

€ in billions — December 31, 2017



Investments

Investments in our core business and the E.ON Group's total investments in 2017 were above the prior-year level. We invested €3.1 billion in property, plant, and equipment and intangible assets (prior year: €3 billion). Share investments totaled €232 million versus €134 million in the prior year.

Investments

€ in millions	2017	2016	+/- %
Energy Networks	1,418	1,419	–
Customer Solutions	595	580	+3
Renewables	1,225	1,070	+14
Corporate Functions/Other	53	98	-46
Consolidation	3	-21	–
Investments in core business	**3,294**	**3,146**	**+5**
Non-Core Business (PreussenElektra)	14	15	-7
Other (divested operations)	–	8	–
E.ON Group investments	**3,308**	**3,169**	**+4**

Energy Networks' investments were at the prior-year level. Investments of €345 million to upgrade and maintain networks in Sweden were €54 million above the prior-year figure. Investments at East-Central Europe/Turkey were €89 million higher due principally to the reassignment of investment projects (such as grid maintenance, repair, and connections) in the Czech Republic from Customer Solutions to Energy Networks. By contrast, Energy Networks' investments in Germany of €702 million were significantly lower than in the prior year (€846 million).

Customer Solutions' investments were slightly higher. In Sweden we invested significantly more in the maintenance, upgrade, and expansion of existing assets and in the heat distribution network. By contrast, the already-mentioned reassignment of investment projects in the Czech Republic from this segment to Energy Networks led to a significant decline in this segment's investments. In addition, investments at E.ON Connecting Energies were lower.

Investments at Renewables were €155 million higher. Onshore Wind/Solar's investments increased by €103 million, primarily because of expenditures for two large new-build projects (Radford's Run and Bruenning's Breeze), which entered service at the end of 2017. Offshore Wind/Other's investments increased by a total of €52 million owing to expenditures in line with our stake in the Arkona project.

Investments at Non-Core Business (nuclear energy operations in Germany) were €1 million below the prior-year level.

Cash Flow

Cash provided by operating activities of continuing operations of -€3 billion was €5.9 billion below the prior-year level. The decline resulted primarily from the €10.3 billion payment made in July 2017 into Germany's public fund for financing nuclear-waste disposal. This was partially offset by cash inflow in conjunction with the refund of nuclear-fuel taxes, which, after a portion of the refund was passed on to co-owners, amounts to €3.1 billion. An improvement in working capital was another positive factor.

Cash provided by investing activities of continuing operations of -€0.4 billion was substantially higher than the prior-year figure of -€3 billion. The +€2.6 billion change is mainly attributable to higher net cash inflow from the sale of securities and fixed deposits as well as the repayment of financial liabilities. Cash provided by investing activities of continuing operations was adversely affected by an increase in restricted funds to fulfill insurance obligations of Versorgungskasse Energie VVaG i.L. ("VKE i.L."). Cash-effective investments and disposals of -€2.5 billion were slightly (-€0.2 billion) above the prior-year level of -€2.3 billion. Disposals consisted mainly of the upcoming sale of the operations of Hamburg Netz GmbH at Energy Networks in Germany and the sale of E.ON Värme Lokala Energilösningar AB at Customer Solutions in Sweden.

Cash Flow[1]

€ in millions	2017	2016
Cash provided by (used for) operating activities of continuing operations (operating cash flow)	-2,952	2,961
Operating cash flow before interest and taxes	-2,235	3,974
Cash provided by (used for) investing activities	-391	-3,041
Cash provided by (used for) financing activities	540	-1,152

[1]From continuing operations.

Cash provided by financing activities of continuing operations amounted to +€0.5 billion compared with -€1.2 billion in the prior year. The change of +€1.7 billion is primarily attributable to measures to fund the payment we made in July into Germany's public fund for financing nuclear-waste disposal. The measures consisted mainly of the issuance of €2 billion in bonds, the €1.35 billion capital increase conducted by E.ON SE in March 2017, and a €0.6 billion reduction in the dividend payout to E.ON SE shareholders relative to the prior year. These items were offset by the repayment of bonds in the fourth quarter of 2017 (-€1.9 billion).

Asset Situation

Our total assets and liabilities of €56 billion were about €7.6 billion, or 12 percent, below the figure from year-end 2016, mainly because of developments at our nuclear energy business in Germany which were described above in the commentary on the change in our economic net debt.

Non-current assets of €40.3 billion were €6.1 billion lower relative to year-end 2016. The principal factors were the reclassification of the book value of our Uniper SE stake as an asset held for sale and the sale of non-current securities.

Current assets decreased by 9 percent, from €17.4 billion to €15.8 billion. A roughly €3.4 billion decline in liquid funds and a roughly €1 billion decline in operating receivables and other operating assets were largely offset, primarily by the reclassification of the book value of our Uniper SE stake as an asset held for sale. The decline in liquid funds is chiefly attributable to the payment of €10.3 billion into Germany's public fund for financing nuclear-waste disposal. To finance this payment, E.ON SE conducted a roughly €1.35 billion capital increase in the first quarter of 2017. Furthermore, liquid funds were increased by the €2 billion bond issuance in the second quarter and the refund of nuclear-fuel taxes paid in previous years plus interest.

Our equity ratio (including non-controlling interests) at year-end 2017 was 12 percent, which is about 10 percentage points higher than at year-end 2016. This change reflects the already-mentioned capital increase, the reduction in total assets and liabilities, as well as our positive net income in 2017. In particular, the refund of nuclear-fuel taxes paid in previous years had a positive impact on net income. Equity attributable to shareholders of E.ON SE was about €4 billion at year-end 2017. Equity attributable to non-controlling interests was roughly €2.7 billion.

Non-current liabilities decreased by €4.1 billion, or 10 percent, owing in particular to a reduction in liabilities relating to derivative financial instruments, lower pension obligations, and a decline in nuclear-asset-retirement obligations.

In line with Germany's Act Reorganizing Responsibility for Nuclear Waste Management, existing nuclear-asset-retirement obligations at the end of 2016 were met through payment, resulting in a substantial reduction—€9.1 billion—in current liabilities relative to year-end 2016.

Consolidated Assets, Liabilities, and Equity

€ in millions	Dec. 31, 2017	%	Dec. 31, 2016	%
Non-current assets	40,164	72	46,296	73
Current assets	15,786	28	17,403	27
Total assets	**55,950**	**100**	**63,699**	**100**
Equity	6,708	12	1,287	2
Non-current liabilities	35,198	63	39,287	62
Current liabilities	14,044	25	23,125	36
Total equity and liabilities	**55,950**	**100**	**63,699**	**100**

Additional information about our asset situation is contained in Notes 4 to 26 to the Consolidated Financial Statements.

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

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

Balance Sheet of E.ON SE (Summary)

	December 31	
€ in millions	2017	2016
Intangible assets and property, plant and equipment	12	14
Financial assets	37,358	37,368
Non-current assets	**37,370**	**37,382**
Receivables from affiliated companies	7,697	8,089
Other receivables and assets	1,349	1,734
Liquid funds	2,025	4,664
Current assets	**11,071**	**14,487**
Accrued expenses	36	30
Asset surplus after offsetting of benefit obligations	1	15
Total assets	**48,478**	**51,914**
Equity	9,029	5,384
Provisions	2,127	2,578
Bonds	2,000	–
Liabilities to affiliated companies	34,350	43,102
Other liabilities	970	845
Deferred income	2	5
Total equity and liabilities	**48,478**	**51,914**

E.ON SE is the parent company of the E.ON Group. As such, its earnings, financial, and asset situation is affected by income from equity interests. The positive figure recorded for this item in 2017 reflects, in particular, profit transfers of €3,414 million from E.ON Energie AG and €2,118 million from E.ON Beteiligungen GmbH. The main countervailing factors were loss transfers of €752 million from E.ON Finanzanlagen GmbH, €56 million from E.ON Climate & Renewables GmbH, and €47 million from E.ON US Holding GmbH.

The payment into Germany's public fund for financing nuclear-waste disposal in July and the concomitant financing were of central importance to E.ON SE's financial position last year. Two significant items in this context were the capital increase of €1,349 million in March 2017 and the issuance of euro-denominated bonds with a total nominal value of €2,000 million. The reduction of liquid funds in the amount of €2,639 million was another factor related to this matter. On balance, E.ON SE recorded positive income from equity interests of €4,676 million. Profit transfers and loss-transfer obligations yielding this figure led to a decline in liabilities to affiliated companies.

Equity, which most recently had been significantly reduced by the Uniper spinoff, was strengthened in the 2017 financial year. In addition to the aforementioned capital increase decided on by the Management Board and approved by the Supervisory Board on March 16, 2017, positive net income of €2,640 million contributed to this significant increase. The scrip dividend for the 2016 financial year enabled E.ON SE to meet €107 million of its dividend obligations through the issuance of treasury shares.

This increased equity by the same amount. By contrast, equity was reduced by the use of prior-year net income available for distribution in the amount of €452 million.

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

Income Statement of E.ON SE (Summary)

€ in millions	2017	2016
Income from equity interests	4,676	2,134
Interest income	-1,368	-546
Other expenditures and income	-497	-551
Taxes	-171	-160
Net income	**2,640**	**877**
Withdrawal from capital reserve	–	3,357
Withdrawals from retained earnings	–	3,612
Income reduction from spinoff	–	-6,969
Net income transferred to retained earnings	-1,320	-425
Net income available for distribution	**1,320**	**452**

The decline in interest income is primarily attributable to the payment of €754 million to compensate for market-value differences relating to the transfer of loans to E.ON Finanzholding SE & Co. KG for the purpose of restructuring liabilities within the Group.

The negative figure recorded under other expenditures and income results primarily from expenditures of €291 million for third-party services, personnel expenditures of €163 million, expenditures of €157 million for consulting and auditing services, and income of €88 million from a necessary adjustment for certain environmental remediation obligations of predecessor entities.

Tax expenses consist primarily of income taxes. Applying the minimum tax rate resulted in corporate taxes of €147 million, a solidarity surcharge of €8 million, and trade taxes of €167 million in 2017. Tax income for previous years amounted to €165 million. This item also includes an expense of €15 million for other taxes.

At the Annual Shareholders Meeting on May 9, 2018, management will propose that net income available for distribution be used to pay a cash dividend of €0.30 per ordinary share and remaining income available for distribution of €670 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 12, 2018, the date the Financial Statements of E.ON SE were prepared.

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

Other Financial and Non-Financial Performance Indicators

ROCE and Value Added

Cost of Capital

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

Our review of the parameters in 2017 led us to increase our after-tax cost of capital from 4 percent to 4.7 percent, mainly because of a higher risk-free interest rate which reflected the development of the overall interest-rate environment. By contrast, the accompanying decline in the market-risk premium reduced the cost of equity. The table below shows the derivation of cost of capital before and after taxes.

Cost of Capital

	2017	2016
Risk-free interest rate	1.25%	0.50%
Market premium[1]	6.25%	6.75%
Debt-free beta factor	0.50	0.50
Indebted beta factor[2]	1.01	0.92
Cost of equity after taxes	**7.50%**	**6.70%**
Average tax rate	27%	31%
Cost of equity before taxes	10.3%	9.7%
Cost of debt before taxes	2.4%	2.6%
Marginal tax rate	27%	31%
Cost of debt after taxes	**1.80%**	**1.80%**
Share of equity	50%	45%
Share of debt	50%	55%
Cost of capital after taxes	**4.70%**	**4.00%**
Cost of capital before taxes	**6.40%**	**5.80%**

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

Analyzing Value Creation by Means of ROCE and Value Added

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

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

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

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

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

ROCE Performance in 2017

ROCE increased from 10.4 percent in 2016 to 10.6 percent in 2017, primarily because of lower average capital employed. This resulted mainly from a reduction in the book value of property, plant, and equipment, in particular at Renewables, and the favorable development of working capital at our network business in Germany.

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

ROCE

€ in millions	2017	2016
Goodwill, intangible assets, and property, plant, and equipment[1]	30,345	31,034
Shares in affiliated and associated companies and other share investments	4,339	4,486
Non-current assets	**34,684**	**35,520**
Inventories	794	785
Other non-interest-bearing assets/liabilities, including deferred income and deferred tax assets[2]	-5,688	-4,929
Current assets	**-4,893**	**-4,144**
Non-interest-bearing provisions[3]	-1,541	-1,402
Capital employed in continuing operations (at year-end)	**28,250**	**29,974**
Capital employed in continuing operations (annual average)[4]	29,112	29,546
Adjusted EBIT[5]	**3,074**	**3,083**
ROCE[6]	**10.6%**	**10.4%**
Cost of capital before taxes	**6.4%**	**5.8%**
Value added[7]	**1,211**	**1,370**

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

Corporate Sustainability

Many and diverse stakeholders—customers and suppliers, policymakers and government agencies, employees and trade unions, non-governmental organizations and regional interest groups, equity analysts and investors—have high expectations of us and the entire energy industry. We have therefore conducted a systematic process at regular intervals since 2006. Its purpose is to identify our stakeholders' expectations of us. Our annual online Sustainability Report describes the issues that are material to our stakeholders and to us as a company as well as how we address these issues. Our reporting is based on the Global Reporting Initiative's most recent Sustainability Reporting Standards ("GRI SRS") from 2016.

In addition, this year we are disclosing, for the first time, a separate Combined Non-Financial Report ("CNFR"), which will be published as a separate document on our website. It too is based on the GRI SRS and describes how we address environmental, employee, and social matters as well as human rights and anti-corruption. The CNFR complies with the reporting requirements of the German CSR Directive Implementation Act (Sections 289b–e, Section 315b-c of the German Commercial Code).

Sustainability Ratings and Rankings

Our commitment to transparency includes subjecting our sustainability performance to independent, detailed assessments by specialized agencies and capital-market analysts. The results of these assessments provide important guidance to investors and to us. They help us identify our strengths and weaknesses and further improve our performance.

In 2017 we were again included in the RobecoSAM Sustainability Yearbook and, as a leading company, received a silver rating. In addition, CDP (formerly the Carbon Disclosure Project) awarded E.ON a high grade of A- for the quality, processes, and transparency of our reporting on our carbon emissions and climate change. The CDP is one of the world's largest international investor organizations. It helps investors assess whether a company adequately addresses climate change in its decisions and business processes. Furthermore, E.ON continues to be listed in both the European "Euronext Vigeo 120" indices.

Highlights in 2017

We conduct our sustainability activities to address environmental, social, and governance issues in a balanced way. Our objective is to achieve continual improvement, thereby becoming a leading sustainability company in our industry. We have defined five material areas that are the focus of our Group-wide sustainability activities:

- We listen to our customers and treat them fairly.
- We help customers optimize their energy usage.
- We build and integrate renewable generating capacity.
- We protect the health and safety of our customers and colleagues.
- We foster diversity and inclusion in our workforce.

These activities also support the achievement of the United Nations' Sustainable Development Goals. In particular, we help give access to affordable, reliable, sustainable, and clean energy and help protect the earth's climate.

Information about our sustainability approach, programs, and progress as well as detailed information about our emissions and climate-protection efforts can be found in our 2017 Sustainability Report and the CNFR, which were published online at eon.com/sustainabilityreport at the same time as this Annual Report.[1] The Sustainability Report and CNFR are not part of the Combined Group Management Report.

[1]Direct link to the separate Combined Non-Financial Report 2017: www.eon.com/content/dam/eon/eon-com/Documents/en/sustainability-report/nonfinancialreport2017.pdf.

Employees

People Strategy

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

The three focus areas of our People Strategy are: Preparing Our People for the Future, Providing Opportunities, and Recognizing Performance. In 2017 we continued to bring these focus areas to life. The initiatives we implemented during the year included:

- implementing grow@E.ON, a Group-wide framework for the personal and professional development of our employees and managers (Preparing for the Future)
- expanding our existing talent programs and establishing talent boards to ensure that the personal development plans of our employees and managers are optimally tailored to E.ON's needs (Providing Opportunities)
- introducing the YES! Awards, a way we recognize outstanding achievements as they happen and further motivate employees (Recognizing Performance).

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

In 2017 the HR team and the E.ON SE Management Board developed and approved People Commitments to adopt an appropriate approach to decentralization, which is a basic principle of the Phoenix program. The People Commitments establish twelve principles that articulate our values and how we treat our employees. These principles are binding for the entire E.ON Group. At the same time, we provide support to E.ON units so that they can adopt these principles in a way that reflects their particular legal, cultural, and business environment. The goal of the People Commitments is to create a workplace:

- where E. ON's values and leadership principles are put into practice
- where employees can achieve outstanding results and realize their potential
- where employees can develop their skills and talents
- that promotes a fair, diverse, and equitable work culture
- that systematically ensures that we comply with the law and meet our customers' needs.

Completion of Employee Assignments under One2two

As planned, the assignment of employees under the One2two program was completed in 2016. To ensure the continuity of IT support, however, E.ON Business Services was not divided until after the Uniper split. All employees of E.ON Business Services were assigned to E.ON or Uniper. In line with the rules worked out for One2two and by mutual agreement between management and local employee representatives, employees were transferred in two stages, on January 1 and July 1, 2017, respectively.

The employees assigned to E.ON remained at the same legal entities; those assigned to Uniper were transferred to the respective Uniper companies.

Phoenix and the Involvement of Employee Representatives
E.ON designed the Phoenix program in 2016 to make itself fit for the future in the wake of the Uniper spinoff. The program aims to optimize E.ON's organizational setup and processes, to reduce bureaucracy and complexity, to delegate authority, and to make us faster, more agile, and closer to our customers. This will give more decision-making authority to customer-proximate functions and integrate support functions like IT and Procurement more closely with our operating business. This restructuring is aimed at eliminating tasks and thus up to 1,300 jobs across E.ON, including up to 1,000 in Germany. In 2017 we negotiated about 700 staff reductions with employee representatives. To achieve these staff reductions we concluded individual, mutually acceptable agreements with employees. Negotiations for IT (outsourcing) and Procurement will be concluded in 2018. In the interest of all employees, new hiring will be actively limited during Phoenix.

Phoenix too has been conducted in keeping with our well-established tradition of working with employee representatives and involving them early. A Joint Declaration and Framework Agreement of the Management Board of E.ON SE, the Executive Committee of the SE Works Council of E.ON SE, and the Group Works Council of E.ON SE was agreed on in November 2016 and thus at a very early stage of Phoenix. This document will serve as the foundation for management and employee representatives to work together openly and constructively throughout Phoenix. A Project Council consisting of high-ranking employee representatives from the European SE Works Council of E.ON SE and the German Group Works Council of E.ON SE met periodically, was informed in advance of implementation measures, and was thus actively involved in the project. If the Project Council had suggestions about a measure, management discussed these suggestion with the council and evaluated and considered them before the measure was implemented.

In addition, the Company and the Group Works Council of E.ON SE concluded a Supplementary Agreement to the above-mentioned Joint Declaration and Framework Agreement of the Management Board of E.ON SE, the Executive Committee of the SE Works Council of E.ON SE, and the Group Works Council of E.ON SE. The Supplementary Agreement affects E.ON employees in Germany. It named the negotiators for the negotiation of reconciliations of interests, created a mechanism for early voluntary termination, established measures to ensure business continuity for Group companies affected by Phoenix, and defined principles for filling vacancies.

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

At a European level, E.ON management works closely with the SE Works Council of E.ON SE, which consists of representatives from all European countries in which E.ON operates. Under the SE Agreement, the SE Works Council of E.ON SE is informed and consulted about issues that transcend national borders. A special emphasis is placed on early and open discussion of employee matters.

Prior to E.ON's adoption of a functionally oriented management model, in 2014 management and the Group Works Council in Germany concluded the Agreement on Future Social Partnership in the Context of the Functionally Oriented Management Model. The agreement, which stipulates the principles of the social partnership at E.ON's operations in Germany, manifests a shared responsibility for the Company and its employees. It has proven its worth and remains to this day the foundation for a successful social partnership at E.ON.

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

Talent Management
In 2017 E.ON again took a variety of successful steps to hire highly qualified people and to foster our employees' ongoing personal and professional development.

E.ON's status as a top employer was again confirmed by "Top Employer" and other prestigious rankings.

This recognition was one of the reasons we were able to attract outstanding talent, including recent university graduates. The E.ON Graduate Program remained a very compelling offer for graduates to join our company. Participants are assigned a mentor, receive special training, and gain experience during placements at their home E.ON unit as well as at other units in the same country and elsewhere.

The foundation of our strategic, needs-oriented talent management is the Management Review Process, which we conducted again in 2017. It helps ensure the continued professional development of managers and executives, our various units and job families, and the entire organization. It also creates transparency about our current talent situation and our needs for the future.

In 2017 we also introduced grow@E.ON, our new Group-wide competency model, and embedded it into our processes. Feedback is an important part of our corporate culture and is now provided through grow@E.ON, which includes solutions to support our employees' development. Grow@E.ON also plays a role in filling vacancies, helping to ensure that the values of our vision continue to be translated into specific behaviors. In addition, we completely revised our talent landscape in order to give all parts of E.ON the flexibility to individually plan professional and career development and to provide them with tools to identify talented employees.

Professional Development
Following the announcement of the Phoenix reorganization program in March 2017, professional development at E.ON was also largely decentralized. Group HR supported the program with accompanying measures. For example, we adjusted the HR Online Learning App, our learning platform launched in 2016, and all its processes and data to meet the requirements of decentralization. We also introduced CrossKnowledge, a new Group-wide digital platform that makes selected e-Learning programs available to E.ON employees. Furthermore, HR supported the Phoenix change process by making an online change support package available to managers and employees. The package contains tools that help them deal with the special challenges of restructuring. Leadership 2020, a program launched in 2016 to systematically prepare our leaders for the new leadership requirements in the digital age, continued in 2017, as did a streamlined version of our Learning Take-Away Days.

Our central Learning Management System recorded 119,893 enrollments (prior year: 109,036) in formal learning offerings in 2017. This equals 91,503 days (prior year: 72,805 days) of classroom training, which accounted for 60 percent (prior year: 70 percent) of our total training offerings. On average, each employee received 2.1 days of training in 2017 (prior year: 1.7 days). We do not record the duration of use of our online learning programs.

Diversity

Diversity is a key element of E.ON's competitiveness. Diversity and an appreciative corporate culture promote creativity and innovation. This is a central aspect of the E.ON vision as well. E.ON brings together a diverse team of people who differ by nationality, age, gender, disability, religion, and/or cultural and social background. We foster and utilize diversity in specific ways and create an inclusive work environment. Diversity is a key success factor. Numerous studies have shown that heterogeneous teams outperform homogenous ones. Diversity is equally crucial in view of demographic trends. Going forward, only those companies that embrace diversity will be able to remain attractive employers and be less affected by the shortage of skilled workers. In addition, a diverse workforce enables us to do an even better job of meeting our customers' needs and requirements. In 2006 we issued a Group Policy on Equal Opportunity and Diversity. In 2016 E.ON along with the SE Works Council of E.ON SE renewed this commitment to diversity. In 2008 E.ON publicly affirmed its commitment to fairness and respect by signing the German Diversity Charter, which now has about 2,700 signatories. E.ON therefore belongs to a large network of companies committed to diversity, tolerance, fairness, and respect.

Our approach to promoting diversity is holistic, encompassing all dimensions of diversity. It ensures equal opportunity for all employees and fosters and harnesses diversity in an individual way. However, we prioritize three dimensions: gender, age, and internationality.

In 2017 we again implemented numerous measures to promote diversity at E.ON. An important purpose of these measures is to foster the career development of female managers. We set new, ambitious targets to increase the proportion of women in management positions. By year-end 2026, we want the proportion of women in management positions to be the same—32 percent—as the proportion of women in our overall workforce was at year-end 2016. Each unit has specific targets, and progress towards these targets is monitored at regular intervals. We also have Group-wide recruiting and hiring guidelines for management positions. These guidelines require that least one male and one female must be on the short list for a vacant management position. Through these measures, the proportion of women in management positions rose from just over 11 percent in 2010 to 19.6 percent at year-end 2017 for the Group as a whole and from 9 percent to 15.3 percent for Germany. Our units have had support mechanisms for female managers in place for a number of years. These mechanisms include mentoring programs for female next-generation managers, coaching, unconscious-bias training, the provision of daycare, and flexible work schedules. Increasing the percentage of women in our internal talent pool is a further prerequisite for raising, over the long term, their percentage in management and top executive positions.

We conducted activities and initiatives throughout 2017 to enable all of our employees to experience difference and diversity and to raise their awareness of the contribution made by each individual. For example, we hosted an exhibition on disability and commemorated International Women's Day across our company.

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

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

Workforce Figures
At year-end 2017 the E.ON Group had 42,699 employees worldwide, slightly less (-1 percent) than at year-end 2016. E.ON also had 942 apprentices in Germany and 129 board members and managing directors worldwide.

Employees[1]

	December 31		
Headcount	2017	2016	+/- %
Energy Networks	17,281	16,814	+3
Customer Solutions	19,222	19,106	+1
Renewables	1,206	1,082	+11
Corporate Functions/Other[2]	3,078	4,102	-25
Core business	**40,787**	**41,104**	**-1**
Non-Core Business (PreussenElektra)	1,912	2,034	-6
E.ON Group	**42,699**	**43,138**	**-1**

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

Energy Networks' headcount increased principally because of the transfer of employees from Customer Solutions in the Czech Republic and the filling of vacancies (in Germany, predominantly with apprentices who had completed their training).

The number of employees at Customer Solutions increased slightly. Although the transfer of employees to Uniper, to non-consolidated companies, and to Energy Networks in the Czech Republic reduced Customer Solutions' headcount, this was more than offset by the filling of vacancies in Hungary and Romania and the hiring of staff for our service business in the United Kingdom and for our sales business in Italy.

The expansion of Renewables' business in the United States led to a slight increase in its headcount.

In particular, the transfer of E.ON Business Services employees to Uniper led to the significant decline in the number of employees at Corporate Functions/Other.

Non-Core Business consists of our nuclear energy business in Germany. Its headcount decreased mainly because of retirements and the expiration of temporary employment contracts. This was partially counteracted by the hiring of apprentices who had completed their training.

Geographic Profile
At year-end 2017, 26,561 employees, or 62 percent of all staff, were working outside Germany, slightly more than the 60 percent at year-end 2016.

Employees by Country[1]

	Headcount		FTE[3]	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Germany	16,138	17,239	15,635	16,695
United Kingdom	9,975	9,850	9,504	9,363
Romania	5,711	5,464	5,648	5,415
Hungary	5,081	5,000	5,073	4,992
Czechia	2,563	2,401	2,549	2,387
Sweden	1,990	1,999	1,968	1,967
USA	585	475	585	475
Other[2]	656	710	647	702

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

Gender and Age Profile, Part-Time Staff
As at the end of 2016, 32 percent of our employees were women at the end of 2017.

Proportion of Female Employees

Percentages	2017	2016
Energy Networks	20	20
Customer Solutions	43	43
Renewables	21	21
Corporate Functions/Other[1]	45	45
Core business	**32**	**33**
Non-Core Business (PreussenElektra)	13	13
E.ON Group	**32**	**32**

[1]Includes E.ON Business Services.

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

Employees by Age

Percentages at year-end	2017	2016
30 and younger	18	18
31 to 50	54	55
51 and older	28	27

A total of 3,395 employees, or 8 percent of all E.ON Group employees, were on a part-time schedule. Of these, 2,794, or 82 percent, were women.

Part-Time Rate

Percentages	2017	2016
Energy Networks	5	4
Customer Solutions	11	11
Renewables	3	3
Corporate Functions/Other[1]	12	12
Core business	**8**	**8**
Non-Core Business (PreussenElektra)	6	5
E.ON Group	**8**	**8**

[1]Includes E.ON Business Services.

The turnover rate resulting from voluntary terminations averaged 4.6 percent across the organization, lower than in the prior year (5.3 percent).

Turnover Rate

Percentages	2017	2016
Energy Networks	1.7	4.1
Customer Solutions	6.7	6.0
Renewables	9.3	8.1
Corporate Functions/Other[1]	8.6	7.7
Core business	**4.8**	**5.5**
Non-Core Business (PreussenElektra)	2.1	1.7
E.ON Group	**4.6**	**5.3**

[1]Includes E.ON Business Services.

Occupational Health and Safety

Occupational health and safety have the highest priority at E.ON. A key performance indicator ("KPI") for our safety is total recordable injury frequency ("TRIF")—which measures the number of reported fatalities, lost-time injuries, restricted-work injuries, and medical-treatment injuries that occur on the job—per million hours of work. Our TRIF figures also include E.ON companies that are not fully consolidated but over which E.ON has operational control. E.ON employees' TRIF in 2017 was 2.3, the same low level as in the prior year (2.5).

Unfortunately, three E.ON employees, one of whom was an apprentice, died on the job in 2017, and another suffered fatal injuries in a traffic accident. In addition, a contractor employee died while working for us. The accidents occurred in Germany, the United Kingdom, and Romania; regrettably, two employees died in Turkey.

To continually improve their safety performance, our units have in place certified health, safety, and environment ("HSE") management systems in accordance with international standards. They also develop HSE improvement plans based on a management review. In addition, all units were required to participate in a specially designed HSE leadership training module developed in the prior year and to review risks posed by new customer solutions.

The healthcare systems of the countries we operate in differ considerably in terms of their delivery of medical care, their health-insurance and pension systems, and their legal requirements for occupational health and safety. Nevertheless, the most common illnesses resulting in an inability to work are the same in all countries: musculoskeletal disorders, psychological problems, and respiratory infections. The leading causes of death are the same as well: heart disease and cancer. E.ON's health management focuses on preventing these diseases. We strive to prevent psychological problems by providing mental-health training and by conducting employee-assistance programs. Check-ups and preventive care (fit-for-work examinations) by our company doctors help to reduce general and workplace-specific risks. We also conduct campaigns to raise awareness of diseases such as skin and bowel cancer and the importance of early cancer detection. Flu vaccination programs help to prevent dangerous respiratory illnesses. Together, these programs address the increasingly important issue of maintaining our employees' health and their ability to work.

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

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

Apprenticeships
E.ON continues to place great emphasis on vocational training for young people. The E.ON Group had 942 apprentices and work-study students in Germany at year-end 2017. This represented 5.5 percent of E.ON's total workforce in Germany, slightly higher than at the end of the prior year (5.3 percent).

E.ON provides vocational training in more than 20 careers and work-study programs in order to meet its own needs for skilled workers and to take targeted action to address the consequences of demographic change. In 2017 the E.ON training initiative to combat youth unemployment helped 250 young people in Germany get a start on their careers through internships that prepare them for an apprenticeship as well as school projects and other programs. The number of participants declined from 460 in 2016, owing mainly to the Uniper spinoff.

Apprentices in Germany

	Headcount		Percentage of workforce	
At year-end	2017	2016	2017	2016
Energy Networks	846	821	8.5	8.4
Customer Solutions	20	17	0.8	0.6
Renewables	–	–	–	–
Corporate Functions/Other	29	63	1.3	2.0
Core business	**895**	**901**	**5.9**	**5.6**
Non-Core Business (PreussenElektra)	47	70	2.4	3.3
E.ON Group	**942**	**971**	**5.5**	**5.3**

Forecast Report

Business Environment

Macroeconomic Situation

The OECD forecasts a further increase in global economic growth in 2018 and 2019. It expects the global economy to grow by 3.7 percent in 2018 and by 3.6 percent in 2019. The corresponding figures for the United States are 2.5 percent and 2.1 percent, whereas slightly weaker growth (2.1 percent and 1.9 percent) is forecast for the euro zone.

Employees

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

Anticipated Earnings Situation

Forecast Earnings Performance

Our forecasts for the 2018 financial year continue to be influenced by the business environment in the energy industry. Examples include regulatory intervention in Germany and the United Kingdom. The current low-interest-rate environment and increasingly fierce competition in our core markets continue to put downward pressure on achievable returns.

We continue to aim for our core businesses to actively shape tomorrow's energy world. At the beginning of 2018, we therefore made a number of reclassifications that are already factored into our earnings forecast for 2018. The generation business in Turkey is now reported under Non-Core Business. Customer Solutions' heat business in Germany is now reported at its Other unit. In addition, costs for the ongoing expansion of our business of providing new digital products and services as well as innovative projects, which were previously allocated to Corporate Functions/Other, are now allocated to the appropriate operating units at Customer Solutions. We adjusted the prior-year figures accordingly.

We expect the E.ON Group's 2018 adjusted EBIT to be between €2.8 and €3 billion and its 2018 adjusted net income to be between €1.3 and €1.5 billion. In addition, we expect to achieve a cash-conversion rate of at least 80 percent and ROCE of 8 to 10 percent.

Indications relating to possible future effects resulting from the acquisition of innogy via a wide-ranging exchange of assets with RWE are currently not included, since the transaction is also subject to customary antitrust clearances.

Our forecast by segment:

Adjusted EBIT[1]

€ in billions	2018 (forecast)	2017 pro forma
Energy Networks	Below prior year	2.0
Customer Solutions	Below prior year	0.5
Renewables	Above prior year	0.5
Corporate Functions/Other	Significantly above prior year	-0.3
Non-Core Business	Significantly below prior year	0.4
E.ON Group	**2.8 to 3**	**3.1**

[1]Adjusted for non-operating effects.

We expect Energy Networks' 2018 adjusted EBIT to be below the prior-year figure. Operating earnings in Germany will be stable. On balance, however, the positive regulatory one-off item recorded in 2017 relating to the delayed repayment of personnel costs and the deconsolidation of Hamburg Netz will lead to a substantial decline in earnings. The next regulatory period for gas networks in Romania will have an adverse impact as well. By contrast, improved power and gas tariffs in Sweden will have a positive impact.

We anticipate that Customer Solutions' adjusted EBIT will be below the prior-year level. Earnings in the United Kingdom will be lower, primarily because of the intervention of the U.K. Competition and Markets Authority and restructuring expenditures. Earnings in Germany will be higher amid keen competition in the power and gas retail market owing to the non-recurrence of adverse items recorded in the prior year.

We expect Renewables' adjusted EBIT to be above the prior-year level. In particular, Rampion offshore wind farm will contribute to earnings after it enters service.

We anticipate that adjusted EBIT at Corporate Functions/Other will improve and thus significantly exceed the previous year's level, primarily because of cost savings delivered by the Phoenix reorganization program as well as the restructuring of the pension scheme in Germany.

At Non-Core Business we expect PreussenElektra's adjusted EBIT to be significantly lower than the prior-year level due to declining sales prices.

Anticipated Financial Situation

Planned Funding Measures

In addition to our investments planned for 2018 and the dividend for 2017, in 2018 we will make payments for bonds that have matured. Over the course of the year, these payments will be funded primarily with available liquid funds, the anticipated sale of Uniper SE stock, and the sale of securities.

Dividend

E.ON will propose a dividend of €0.30 per share for the 2017 financial year. In conjunction with the planned acquisition of innogy via a wide-ranging exchange of assets with RWE we decided to propose a fix dividend of €0.43 per share for the 2018 fiscal year.

Planned Investments

Our medium-term plan calls for investments of €3.8 billion in 2018. 2017 was a successful year for us. We reduced our debt faster than planned and strengthened our equity. E.ON can therefore invest more and achieve lasting growth. Our capital allocation will of course continue to be selective and disciplined.

Cash-Effective Investments: 2018 Plan

	€ in billions	Percentages
Energy Networks	1.7	45
Customer Solutions	1.0	26
Renewables	1.1	29
Corporate Functions/Other	–	–
Non-Core Business	–	–
Total	**3.8**	**100**

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

Investments at Customer Solutions will go toward metering, upgrade, and efficiency projects. We will also invest in our heat business in Sweden, the United Kingdom, and Germany.

The main focus of Renewables' investments will be on offshore wind farms in Europe (such as Rampion and Arkona) and onshore wind farms in the United States (such as Stella). Other investments will go toward solar projects.

General Statement on E.ON's Future Development

The business environment in the energy industry—regulatory interventions in Germany and the United Kingdom, the low-interest-rate environment, and increasingly fierce competition in our core markets, to name some examples—will continue to adversely affect our operating business. But E.ON can look into the future with optimism, even though we have forecast a decline in the E.ON Group's 2018 adjusted EBIT. We're on the right track. 2017 demonstrated this. We significantly reduced our debt and strengthened our equity. We can invest more. We can do so because we not only achieved our various financial targets, we surpassed them by a wide margin. These are our priorities in 2018:

A tangible improvement in our safety performance will help us prevent serious accidents and, especially, fatalities among our employees and contractors. We will therefore conduct safety initiatives across E.ON. For example, all managers will receive special HSE training. Managers bear a great deal of responsibility for the health and safety of their employees.

"Let's create a better tomorrow" and "Improve people's lives" are our promises for a better future. We want our customers to feel that they are in better hands with us than with our competitors. In addition, E.ON needs to be perceived as an even more attractive employer by current and future employees. To get there, we will continue to work together closely, including with our employee representatives.

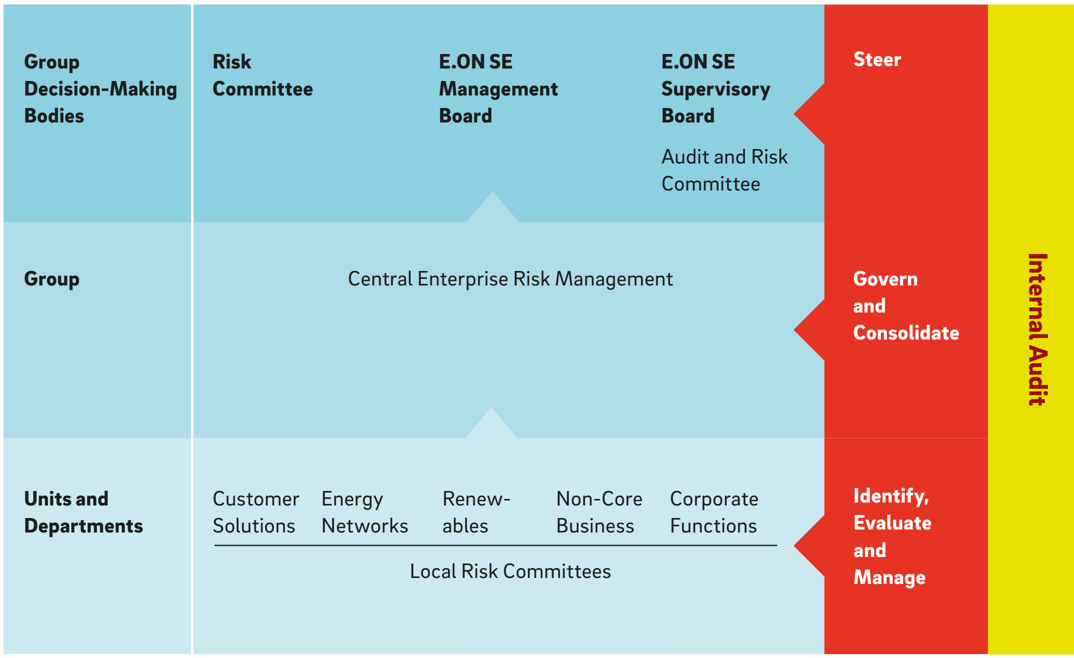
The planned sale of our Uniper stake is another important step in the consolidation of our balance sheet. We now see an opportunity to surpass our debt-reduction target and invest in growth.

Our growth targets for E.ON and our strategy for achieving them will enable our core businesses to continue to actively shape tomorrow's energy world: by making electricity grids smarter, by designing individually tailored energy solutions for our customers, and by adding more renewables. Each of these businesses has a lot of potential. As we move forward, we intend to make clearer what E.ON will stand for in the future.

Indications relating to possible future effects resulting from the acquisition of innogy via a wide-ranging exchange of assets with RWE are currently not included, since the transaction is also subject to customary antitrust clearances.

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

Enterprise Risk Management System in the Narrow Sense



Objective

Our Enterprise Risk Management ("ERM") provides the management of all units as well as 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
- 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 will continue to 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, Security, and Environmental ("HSSE"), Human Resources ("HR"), and Other Risks

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

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

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

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

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

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

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

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

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

Enterprise Risk Management ("ERM")

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

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

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

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

To promote uniform financial reporting Group-wide, in 2017 we put in place a central, standardized system that enables effective and automated risk reporting. Company data are systematically collected, transparently processed, and made available for analysis both centrally and decentrally at the units.

Risks and Chances

Methodology

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

Risk Category

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

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

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

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

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

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

Impact Classes

Low	x < €10 million
Moderate	€10 million ≤ x < €50 million
Medium	€50 million ≤ x < €200 million
Major	€200 million ≤ x < €1 billion
High	x ≥ €1 billion

General Risk Situation

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

Risk Category

Risk Category	Worst Case (5 percent percentile)	Best Case (95 percent percentil)
Legal and regulatory risks	Major	Moderate
Operational and IT risks	Medium	Moderate
HSSE, HR, and other	Low	Low
Market risks	Major	Major
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.

Risks and Chances by Category

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

Legal and Regulatory Risks

The policy, legal, and regulatory environment in which the E.ON Group does business is also a source of external risks, such as decisions by governments to phase out power generation using certain fuels. As a result of the economic and financial crisis in many EU member states, policy and regulatory intervention—such as additional taxes, additional reporting requirements (for example, EMIR, REMIT, MiFID2), price moratoriums, regulatory price reductions, and changes to support schemes for renewables—is becoming increasingly apparent. Such intervention could pose a risk to E.ON's operations in these countries. There may also be final but major risks from obligations arising from regulatory requirements following the Uniper split. Besides these governmental risks and chances, this also includes the risk of litigation, fines, and claims, governance- and compliance-related issues as well as risks and chances related to contracts and permits. Changes to this environment can lead to considerable uncertainty with regard to planning and, under certain circumstances, to impairment charges but also can create chances. This results in a major risk position and a moderate chance position.

PreussenElektra

PreussenElektra's business is substantially influenced by regulation. In general, regulation can result in risks for its remaining business activities. One example is the Fukushima nuclear accident. Policy measures taken in response to such events could have a direct impact on 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, 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. This could pose major risks for E.ON.

In 2003, Section 6 of Germany's Atomic Energy Act granted consent for Unterweser NPP to store radioactive spent nuclear fuel in an on-site intermediate storage facility. Lawsuits were filed against the consent. The complainants asked that the court rescind the consent on the grounds that the storage facility is not sufficiently protected against terrorist attacks. Settlement talks are currently under way between the complainants and the defendant agency. If the court rules definitively in favor of the complainants, nuclear fuel could not be removed from Unterweser NPP on schedule. This would significantly prolong dismantling, thereby leading to higher costs. This could pose a major risk.

On December 6, 2016, Germany's Federal Constitutional Court in Karlsruhe ruled that the thirteenth amended version of Germany's Atomic Energy Act ("the Act") is fundamentally constitutional. The Act's only unconstitutional elements are that certain NPP operators will be unable to produce their electricity allotment from 2002 and that it contains no mechanism for compensating operators for investments to extend NPP operating lifetimes. Lawmakers have until June 30, 2018, to pass legislation that redresses these elements. In addition, NPPs need to have production rights, also known as a residual electricity allotment, in order to operate until their closure dates prescribed by law. These matters could yield a major chance and a major risk.

Customer Solutions

The E.ON Group's operations subject it to certain risks relating to legal proceedings, ongoing planning processes, and regulatory changes. For example, the current discussion about price caps in the United Kingdom is causing additional uncertainty in the marketplace. But these risks also relate in particular to legal actions and proceedings concerning contract and price adjustments to reflect market dislocations or (including as a consequence of the transformation of Germany's energy system) an altered business climate in the power and gas business, price increases, alleged market-sharing agreements, and anticompetitive practices. This could pose a major and a high risk.

Energy Networks

The operation of energy networks in Germany, in Sweden, but also in other countries is subject to a large degree of regulation. New laws and regulatory periods cause uncertainty in this business. For example, matters related to Germany's Renewable Energy Law, such as issues regarding solar energy, can cause temporary fluctuations in our cash flow and adjusted EBIT. This could create major chances and pose major risks.

Renewables

Regulatory and legal risks attend our renewables business as well. For example, legal proceedings and approvals could pose a major risk.

Operational and IT Risks

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

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

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

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

HSSE, HR, and Other Risks

Health and safety are important aspects of our day-to-day business. Our operating activities can therefore pose risks in these areas and create social and environmental risks and chances. In addition, our operating business potentially faces risks resulting from human error and employee turnover. It is important that we act responsibly along our entire value chain and that we communicate consistently, enhance the dialog, and maintain good relationships with our key stakeholders. We actively consider environmental, social, and corporate-governance issues. These efforts support our business decisions and our public relations. Our objective is to minimize our 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, higher customer churn rates, and temporary volume effects in the network business. This results in a major risk position and a major chance position in this category.

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

E.ON's portfolio of physical assets, long-term contracts, and end-customer sales is exposed to uncertainty resulting from fluctuations in commodity prices. This yields a major risk and a major chance, although only for PreussenElektra. After the Uniper spinoff, E.ON established procurement capabilities for its sales business and thus ensured market access for 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 liability risks resulting from contractual obligations.

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

Finance and Treasury Risks

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

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

E.ON faces earnings risks from financial liabilities and interest-rate derivatives that are based on variable interest rates and from asset-retirement obligations.

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

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

In principle, E.ON could also encounter tax risks and chances; in individual cases, the chances could be high.

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

Management Board's Evaluation of the Risk Situation

The overall risk situation of the E.ON Group's operating business at year-end 2017 remained nearly unchanged relative to year-end 2016. Although the average annual risk for the E.ON Group's adjusted EBIT is classified as major, from today's perspective we do not perceive any risk position that could threaten the existence of the E.ON Group or individual segments.

Energy Networks
Below we report on a number of important non-financial key figures 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	2017	2016	2017	2016	2017	2016	2017	2016
Fourth quarter								
Power	35.6	35.1	9.6	9.8	9.7	9.5	54.9	54.4
Line loss, station use, etc.	1.1	1.1	0.3	0.4	0.7	0.8	2.1	2.3
Gas	35.1	31.8	0.8	1.0	15.2	16.7	51.1	49.5
Full year								
Power	119.2	117.2	36.9	37.3	37.3	36.3	193.4	190.8
Line loss, station use, etc.	3.8	3.7	1.1	1.1	2.8	2.8	7.7	7.6
Gas	110.6	106.8	3.9	4.9	45.2	44.3	159.7	156.0

Power and Gas Passthrough
Power passthrough in 2017 was about 2.6 billion kWh above the prior-year level. Unlike in the prior year, power passthrough in 2017 includes the 110 kV level of the network. This also applies to system losses and station use. We adjusted the prior-year figures accordingly. Gas passthrough rose by 3.7 billion kW.

Power passthrough and system losses in Germany of 119.2 billion kWh and 3.8 billion kWh, respectively, were at the prior-year level. Gas passthrough was also at the prior-year level.

Power passthrough in Sweden was at the prior-year level, whereas gas passthrough declined owing to the closure of a power station in Malmö and the transfer of a company to Customer Solutions.

At East-Central Europe/Turkey, power passthrough in the Czech Republic, Romania, and Hungary was at the prior-year level.

System Length and Connections
System length in Germany—about 350,000 kilometers for power and about 60,000 kilometers for gas—was roughly at the prior-year level. At year-end we had about 5.7 million connection points for power and about 0.9 million for gas.

The length of our power system in Sweden was roughly 136,900 kilometers, slightly higher than the prior-year figure of 136,400 kilometers. The length of the gas distribution system was 1,900 kilometers, less than the prior-year figure of 2,100 kilometers. The number of connection points in the power distribution system was unchanged at roughly 1 million.

System length in East-Central Europe/Turkey—about 232,000 kilometers for power and about 45,000 kilometers for gas—was at the prior-year level, as were the roughly 4.7 million connection points for power and the roughly 1.3 million for gas.

Sales and Adjusted EBIT
Energy Networks' sales and adjusted EBIT rose by €1,098 million and €270 million, respectively.

Sales in Germany were above the prior-year level, primarily because of higher costs charged by upstream power grid operators that we passed through to customers. These passthrough costs do not affect earnings. By contrast, the amount of electricity delivered onto our network in conjunction with the Renewable Energy Law (including generation management) was slightly lower. Sales in the gas business were roughly at the prior-year level. Adjusted EBIT of €1,050 million was significantly above the prior-year figure, primarily because of the delayed repayment of personnel costs due to regulatory reasons.

Sales in Sweden were slightly higher due to price factors. Adjusted EBIT was significantly higher thanks to an improved gross margin in the power business, which resulted from tariff increases.

Sales at East-Central Europe/Turkey were €61 million above the prior-year level due to volume and price effects in the Czech Republic as well as higher sales volume in Hungary. Adjusted EBIT was €38 million higher. Wider margins and lower costs for services provided by our Customer Solutions segment led to higher earnings in the Czech Republic. Improved margins along with higher sales volume and a regulation-driven increase in prices led to higher earnings in Hungary as well. These positive developments were partially offset by lower earnings on our equity stake in Turkey, which principally reflect a book loss on the sale of a hydroelectric station and adverse currency-translation effects. The earnings decline was partially counteracted by higher regulated prices.

Energy Networks

	Germany		Sweden		East-Central Europe/ Turkey		Total	
€ in millions	2017	2016	2017	2016	2017	2016	2017	2016
Fourth quarter								
Sales	3,402	2,917	241	293	480	475	4,123	3,685
Adjusted EBITDA	424	423	165	151	203	182	792	756
Adjusted EBIT	262	256	129	110	133	109	524	475
Full year								
Sales	14,199	13,205	1,072	1,029	1,719	1,658	16,990	15,892
Adjusted EBITDA	1,641	1,507	632	562	654	610	2,927	2,679
Adjusted EBIT	1,050	894	474	398	417	379	1,941	1,671

Customer Solutions

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

Power Sales

	Germany		United Kingdom		Other[1]		Total	
Billion kWh	2017	2016	2017	2016	2017	2016	2017	2016
Fourth quarter								
Residential and SME	4.7	5.1	5.2	5.7	5.9	5.9	15.8	16.7
I&C	1.6	2.4	3.7	3.8	6.9	7.0	12.2	13.2
Sales partners	0.1	0.1	–	–	0.5	0.6	0.6	0.7
Customer groups	**6.4**	**7.6**	**8.9**	**9.5**	**13.3**	**13.5**	**28.6**	**30.6**
Wholesale market	4.5	4.7	0.5	0.4	2.8	1.9	7.8	7.0
Total	**10.9**	**12.3**	**9.4**	**9.9**	**16.1**	**15.4**	**36.4**	**37.6**
Full year								
Residential and SME	17.0	18.0	18.9	21.2	21.7	21.0	57.6	60.2
I&C	8.3	9.4	14.8	15.1	26.4	27.6	49.5	52.1
Sales partners	0.4	0.9	–	–	2.2	2.3	2.6	3.2
Customer groups	**25.7**	**28.3**	**33.7**	**36.3**	**50.3**	**50.9**	**109.7**	**115.5**
Wholesale market	14.2	18.0	1.1	1.1	9.5	7.2	24.8	26.3
Total	**39.9**	**46.3**	**34.8**	**37.4**	**59.8**	**58.1**	**134.5**	**141.8**

[1]Excludes E.ON Connecting Energies.

Gas Sales

	Germany		United Kingdom		Other[1]		Total	
Billion kWh	2017	2016	2017	2016	2017	2016	2017	2016
Fourth quarter								
Residential and SME	7.0	8.2	11.8	12.8	9.8	10.9	28.6	31.9
I&C	1.6	1.4	2.1	2.4	6.4	6.9	10.1	10.7
Sales partners	–	–	–	–	1.5	0.5	1.5	0.5
Customer groups	**8.6**	**9.6**	**13.9**	**15.2**	**17.7**	**18.3**	**40.2**	**43.1**
Wholesale market	3.5	3.5	–	–	1.2	0.5	4.7	4.0
Total	**12.1**	**13.1**	**13.9**	**15.2**	**18.9**	**18.8**	**44.9**	**47.1**
Full year								
Residential and SME	21.9	23.9	34.8	39.8	28.9	28.0	85.6	91.7
I&C	5.0	5.0	7.7	8.6	20.9	20.2	33.6	33.8
Sales partners	–	–	–	–	2.2	1.3	2.2	1.3
Customer groups	**26.9**	**28.9**	**42.5**	**48.4**	**52.0**	**49.5**	**121.4**	**126.8**
Wholesale market	17.0	12.0	–	–	2.7	4.0	19.7	16.0
Total	**43.9**	**40.9**	**42.5**	**48.4**	**54.7**	**53.5**	**141.1**	**142.8**

[1]Excludes E.ON Connecting Energies.

Power and Gas Sales Volume
In 2017 this segment's power and gas sales declined by 7.3 billion kWh and 1.7 billion kWh, respectively.

Power sales in Germany of 39.9 billion kWh were 14 percent below the prior-year level. Power sales to residential and small and medium enterprise ("SME") customers were lower due to keener competition. The decline in power sales to industrial and commercial ("I&C") customers resulted mainly from the transfer of the remaining wholesale customers to Uniper. Power sales to sales partners were lower, chiefly because of the end of deliveries to a municipal utility and changes in reporting. Power sales to the wholesale market were below the prior-year level due to the expiration of procurement contracts for wholesale customers, which were reassigned from E.ON to Uniper. Gas sales volume of 43.9 billion kWh increased by 7 percent. Gas sales to residential and SME customers were lower due to keener competition. Gas sales to the wholesale market were higher due to a change in how we classify resales to Uniper, which in 2016 were included on the procurement side.

Power sales in the United Kingdom decreased by 2.6 billion kWh. Declining customer numbers led to lower power sales to residential and SME customers. A reduction in sales volume and in the number of customer facilities served was the reason for the decline in power sales to I&C customers. Gas sales decreased by 5.9 billion kWh. Lower customer numbers and, in part, a weather-driven decline in demand were responsible for the reduction in gas sales to residential and SME customers. The reason for the decline in gas sales to I&C customers is the same as for power.

Power sales at the Other unit (Sweden, Hungary, the Czech Republic, Romania, and Italy) rose by 1.7 billion kWh, primarily because of the acquisition of new customers in Romania and Hungary. By contrast, power sales in Italy declined owing to lower demand. Gas sales were 1.2 billion kWh higher. This is chiefly attributable to a weather-driven increase in sales volume to residential and SME and I&C customers in Romania and slightly higher demand from I&C and sales-partner customers in Italy. By contrast, gas sales were lower in Sweden due to the end of deliveries to a large customer.

Customer Numbers
This segment had about 21.1 million customers at year-end 2017, fewer than the prior-year figure of 21.4 million. The number of customers in the United Kingdom declined from 7 to 6.8 million; power customers accounted most of the customer losses. In Germany they decreased from 6.1 million in 2016 to 5.9 million in 2017; of these, 5.1 million were power customers and 0.8 million gas customers (2016: 5.3 million power customers, 0.8 million gas customers). The positive trend in customer acquisition limited customer losses in an increasingly competitive marketplace.

Sales and Adjusted EBIT
Customer Solutions' sales and adjusted EBIT decreased by €801 million and €286 million, respectively.

Sales in Germany declined, primarily because of the expiration of procurement contracts of wholesale customers who were reassigned to Uniper. Lower power sales volume to residential customers and lower gas sales volume to residential and SME customers also had an adverse impact on sales. Adjusted EBIT was below the prior-year level, primarily because of extraordinary items. Earnings were also adversely affected by a reduction in gas sales prices in November 2016 and by persistently intense competitive and margin pressure.

Lower sales volume due to regulatory intervention, declining customer numbers, reduced demand, unfavorable weather conditions, and currency-translation effects caused sales in the United Kingdom to decline by €586 million. Adjusted EBIT decreased owing to a weather-driven decline in sales volume and higher costs in conjunction with regulatory energy-efficiency obligations.

Other's sales rose by €114 million, primarily because of a weather-driven increase in sales volume in Romania and the taking on of a company from Energy Networks in Sweden. Sales declined in Italy on lower price. Adjusted EBIT decreased by €57 million, principally because of higher power and gas procurement costs, primarily in Romania. In addition, lower sales prices and higher procurement costs adversely affected earnings in Hungary.

Customer Solutions

	Germany		United Kingdom		Other		Total	
€ in millions	2017	2016	2017	2016	2017	2016	2017	2016
Fourth quarter								
Sales	2,028	2,255	2,122	2,115	1,938	1,919	6,088	6,289
Adjusted EBITDA	45	107	135	163	83	77	263	347
Adjusted EBIT	25	88	106	138	42	38	173	264
Full year								
Sales	7,452	7,781	7,205	7,791	6,910	6,796	21,567	22,368
Adjusted EBITDA	192	299	353	460	302	351	847	1,110
Adjusted EBIT	118	232	250	365	158	215	526	812

Renewables

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

Fully Consolidated and Attributable Generating Capacity

December 31 MW	Fully Consolidated		Attributable	
	2017	2016	2017	2016
Wind	522	510	479	471
Solar	–	–	–	–
Germany	**522**	**510**	**479**	**471**
Wind	4,179	3,647	4,625	4,084
Solar	15	19	27	19
Outside Germany	**4,194**	**3,666**	**4,652**	**4,103**
Generating capacity	**4,716**	**4,176**	**5,131**	**4,574**

Generating Capacity

At year-end 2017 this segment's fully consolidated generating capacity rose by 13 percent to 4,716 MW (2016: 4,176 MW); its attributable generating capacity rose by 12 percent to 5,131 MW (2016: 4,574 MW). The principal reason for the increase was the commissioning of Bruenning's Breeze and Radford's Run wind farms at the end of 2017.

Power Generation and Sales Volume

This segment's owned generation rose by 0.9 billion kWh. Onshore Wind/Solar's owned generation was 0.7 billion kWh higher. The principal factors in the United States were the commissioning of Bruenning's Breeze and Radford's Run wind farms and the fact that in 2017 Colbeck's Corner wind farm was, for the first time, operational for the entire year. Output in Europe was higher due to favorable wind conditions, particularly in the United Kingdom, Sweden, Germany, and Poland. This unit's fourth-quarter owned generation rose year on year owing to favorable wind conditions in Poland and the United Kingdom and the addition of new wind farms in the United States. At 94.6 percent, asset availability in 2017 was at the prior-year level of 94.2 percent.

Offshore Wind/Other's owned generation increased compared with the prior year, mainly because of more favorable wind conditions and higher asset availability in the United Kingdom. Asset availability of 97.6 percent in 2017 surpassed the prior-year figure of 96.7 percent, in particular because of an improved performance by Amrumbank, Humber, and Robin Rigg.

Power Generation

	Onshore Wind/Solar		Offshore Wind/Other		Total	
Billion kWh	2017	2016	2017	2016	2017	2016
Fourth quarter						
Owned generation	2.6	2.2	1.2	0.9	3.8	3.1
Purchases	0.5	0.4	0.3	0.2	0.8	0.6
Jointly owned power plants	–	–	*0.3*	*0.2*	*0.3*	*0.2*
Third parties	*0.5*	*0.4*	–	–	*0.5*	*0.4*
Power sales	**3.1**	**2.6**	**1.5**	**1.1**	**4.6**	**3.7**
Full year						
Owned generation	8.9	8.2	3.6	3.4	12.5	11.6
Purchases	1.5	1.4	0.9	0.7	2.4	2.1
Jointly owned power plants	–	–	*0.9*	*0.7*	*0.9*	*0.7*
Third parties	*1.5*	*1.4*	–	–	*1.5*	*1.4*
Power sales	**10.4**	**9.6**	**4.5**	**4.1**	**14.9**	**13.7**

Sales and Adjusted EBIT
Renewables' sales and adjusted EBIT were up by €247 million and €24 million, respectively.

Onshore Wind/Solar's sales increased owing primarily to higher owned generation resulting from the commissioning of new wind farms and to favorable wind conditions in Poland, Germany, the United Kingdom, and Sweden. Its adjusted EBIT was significantly higher year on year.

Offshore Wind/Other's sales decreased by €48 million. Adjusted EBIT was at the prior-year level. The positive effect of favorable wind conditions in the United Kingdom was offset by the nonrecurrence of a book gain recorded in the prior year.

Renewables

	Onshore Wind/Solar		Offshore Wind/Other		Total	
€ in millions	2017	2016	2017	2016	2017	2016
Fourth quarter						
Sales	236	161	238	174	474	335
Adjusted EBITDA	90	79	187	133	277	212
Adjusted EBIT	55	26	151	95	206	121
Full year						
Sales	927	728	677	629	1,604	1,357
Adjusted EBITDA	299	308	486	488	785	796
Adjusted EBIT	117	92	337	338	454	430

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

Fully Consolidated and Attributable Generating Capacity
PreussenElektra's fully consolidated generating capacity declined to 4,150 MW from the prior year owing to the scheduled decommissioning of Gundremmingen B nuclear power station on December 31, 2017, as stipulated by Germany's Atomic Energy Act. Its attributable generating capacity declined to 3,808 MW for the same reason.

Power Generation and Sales Volume
This segment's power procured (owned generation and purchases) of 37.4 billion kWh was at the prior-year level. The reduction in owned generation is principally attributable to the unplanned extension of the overhaul at Brokdorf nuclear power station due to a thicker oxide layer on some fuel elements. The increase in power procured reflects the purchase of power to meet delivery obligations. Fourth-quarter power procured was also at the prior-year level. Power sales in 2017 and in the fourth quarter of 2017 were at the prior-year level as well.

Power Generation

	PreussenElektra	
Billion kWh	2017	2016
Fourth quarter		
Owned generation	8.6	9.3
Purchases	1.4	0.8
Jointly owned power plants	*0.3*	*0.3*
Third parties	*1.1*	*0.5*
Total power procurement	**10.0**	**10.1**
Station use, line loss, etc.	-0.1	–
Power sales	**9.9**	**10.1**
Full year		
Owned generation	27.5	32.4
Purchases	9.9	4.3
Jointly owned power plants	*1.3*	*1.3*
Third parties	*8.6*	*3.0*
Total power procurement	**37.4**	**36.7**
Station use, line loss, etc.	-0.2	-0.1
Power sales	**37.2**	**36.6**

Sales and Adjusted EBIT
This segment's sales were up €47 million year on year. The adverse impact of lower sales prices and the expiration of supply contracts was more than offset by higher sales volume to Uniper and one-off items, in particular in conjunction with a legal proceeding. The decline in fourth-quarter sales is attributable to lower sales prices.

Adjusted EBIT of €506 million was below the prior-year figure of €553 million. The adverse impact of the unplanned outage at Brokdorf, lower sales prices, and higher depreciation charges on fixed assets was partially offset by the expiration of the nuclear-fuel tax at the end of 2016 and by one-off items. The decline in fourth-quarter adjusted EBIT is attributable to lower sales prices.

Non-Core Business

	PreussenElektra	
€ in millions	2017	2016
Fourth quarter		
Sales	355	470
Adjusted EBITDA	157	234
Adjusted EBIT	149	208
Full year		
Sales	1,585	1,538
Adjusted EBITDA	654	644
Adjusted EBIT	506	553

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

General Principles

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

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

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

Accounting Process

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

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

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

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

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

The following explanations about our internal control system, and our general IT controls apply to the Consolidated Financial Statements and E.ON SE's Financial Statements.

Internal Control System

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

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

The Catalog of ICS Principles is another key component of our internal control system, defining the minimum requirements for the system to function. These principles encompass overarching principles for matters such as authorization, segregation of duties, and master data management as well as specific requirements for managing risks in a range of issue areas and processes, such as contractor management, project management, audit, and transactions.

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

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

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

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

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

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

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

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

Composition of Share Capital

The share capital totals €2,201,099,000.00 and consists of 2,201,099,000 registered shares without nominal value. In the 2017 financial year, the share capital was increased by €200,099,000.00, from 2,001,000,000.00 to €2,201,099,000.00, through partial use of Authorized Capital 2012. Information about the capital increase can be found in Note 19 to the Consolidated Financial Statements. Each share of stock grants the same rights and one vote at a Shareholders Meeting.

Restrictions on Voting Rights or the Transfer of Shares

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

Pursuant to Section 71b of the German Stock Corporation Act ("AktG"), the Company's 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 Removal of Management Board Members and Amendments to the Articles of Association

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

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

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

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

Management Board's Power to Issue or Buy Back Shares

Pursuant to a resolution of the Shareholders Meeting of May 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 use of derivatives (put or call options or a combination of both).

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

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

- to be sold and transferred against cash consideration
- to be sold and transferred against contribution in kind
- to be used in order to satisfy the rights of creditors of bonds with conversion or option rights or, respectively, conversion obligations issued by the Company or its Group companies or
- to be offered, with or without consideration, for purchase and transferred to individuals who are or were employed by the Company or one of its affiliates as well as to board members of affiliates of the Company
- to be used for the purpose of a scrip dividend where shareholders may choose to contribute their dividend entitlement to the Company in the form of a contribution in kind in exchange for new shares.

These authorizations may be utilized on one or several occasions, in whole or in partial amounts, separately or collectively, including with respect to treasury shares acquired by affiliated companies or companies majority-owned by the Company or by third parties for their account or the Company's account.

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

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

By shareholder resolution adopted at the Annual Shareholders Meeting of May 10, 2017, the Management Board was authorized, subject to the Supervisory Board's approval, to increase until May 9, 2022, the Company's share capital by a total of up to €460 million through one or more issuances of new registered no-par-value shares against contributions in cash and/or in kind (authorized capital pursuant to Sections 202 et seq. AktG, Authorized Capital 2017). Subject to the Supervisory Board's approval, the Management Board is authorized to exclude shareholders' subscription rights. Authorized Capital 2017 was not utilized.

At the Annual Shareholders Meeting of May 10, 2017, shareholders approved a conditional increase of the capital stock (with the option to exclude shareholders' subscription rights) in the amount of €175 million, which is authorized until May 9, 2022. The conditional capital increase will be implemented only to the extent that holders of option or conversion rights or persons obliged to conversion under option or convertible bonds, profit-participation rights or profit-participating bonds issued or guaranteed by the Company or a Group company of the Company as defined in Section 18 AktG exercise their option or conversion rights or, if they are obliged to conversion or exercise of the option, fulfill their conversion obligation or, as the case may be, their obligation to exercise the option. The conditional capital increase was not utilized.

Scrip Dividend in 2017

In 2017 E.ON SE shareholders were again given the option of exchanging a portion of their €0.21 dividend for shares of E.ON SE stock. Shareholders could exchange €0.15 of their per share dividend. The remaining €0.06 was paid out in cash or, if necessary, withheld to cover tax obligations. Shareholders' formal subscription rights were excluded. The acceptance rate was about 33 percent. A total of 14,653,833 shares of stock were used for the scrip dividend and issued to shareholders.

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

Debt issued since 2007 contains change-of-control clauses that give the creditor the right of cancellation. This applies, inter alia, to bonds issued by E.ON 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. Further information about financial liabilities is contained in the section of the Combined Group Management Report entitled Financial Situation and in Note 26 to the Consolidated Financial Statements.

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

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

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