E.ON SE Financial Statements pursuant to German GAAP and Combined Group Management Report for the 2017 Financial Year

E.ON SE's Financial Statements and Combined Group Management Report for the 2017 fiscal year will be published in the German Federal Gazette ("Bundesanzeiger").
E.ON SE's management report is combined with that of the Group.

Contents

Page references in the Combined Group Management Report refer to the 2017 E.ON Annual Report.

Combined Group Management Report

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.

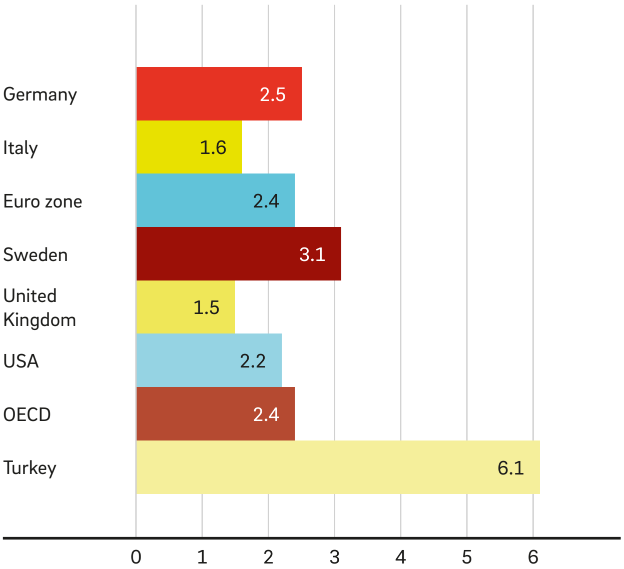
Macroeconomic and Industry Environment

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

€ in millions	Fourth quarter 2017	Fourth quarter 2016	+/- %	Full year 2017	Full year 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).

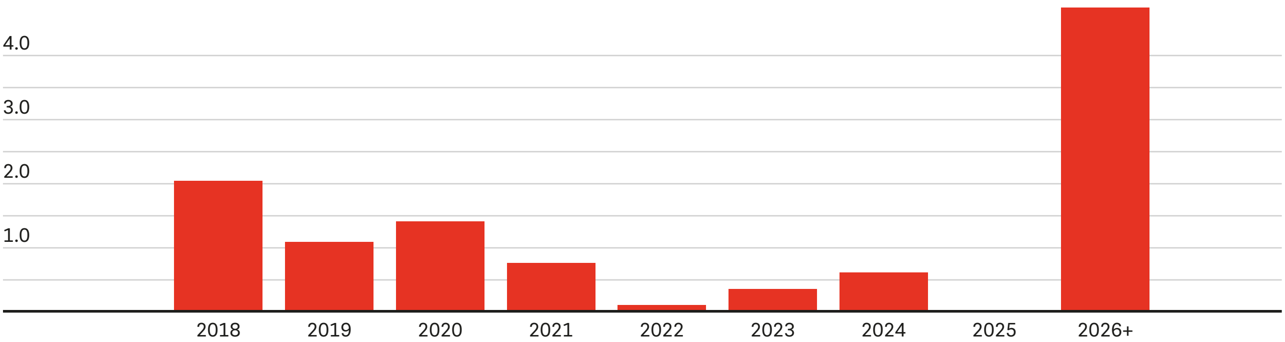
E.ON SE Ratings

	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 Dec. 31, 2017	Headcount Dec. 31, 2016	FTE[3] Dec. 31, 2017	FTE[3] 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.

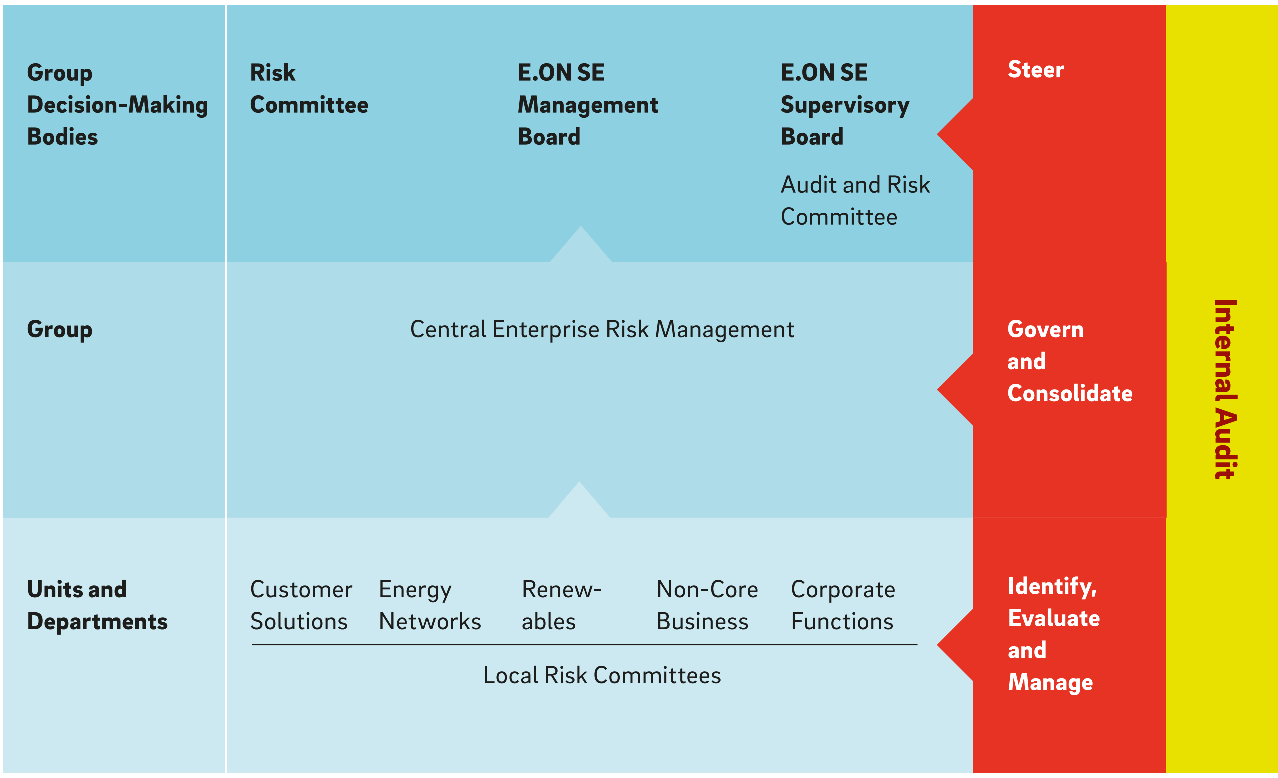
"Let's create a better tomorrow" and "Improve people's lives" are our promises for a better future. We want our customers to feel that they are in better hands with us than with our competitors. In addition, E.ON needs to be perceived as an even more attractive employer by current and future employees.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

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 non-recurrence 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.

Corporate Governance Declaration in Accordance with Section 289f and Section 315d of the German Commercial Code

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

The Board of Management and the Supervisory Board hereby declare that E.ON SE will comply in full with the recommendations of the "Government Commission German Corporate Governance Code," dated February 7, 2017, published by the Federal Ministry of Justice and for Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger).

The Board of Management and the Supervisory Board furthermore declare that E.ON SE has been in compliance in full with the recommendations of the "Government Commission German Corporate Governance Code," dated May 5, 2015, published by the Federal Ministry of Justice and for Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger) since the last declaration on December 16, 2016.

Essen, December 18, 2017

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

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

This declaration and those of the previous five years are continuously available to the public on the Company's Internet page at www.eon.com.

Relevant Information about Management Practices

Corporate Governance

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

In the past financial year the Management Board and Supervisory Board paid close attention to E.ON's compliance with the German Corporate Governance Code's recommendations and suggestions. They determined that E.ON SE fully complies with all of the Code's recommendations and with nearly all of its suggestions.

Transparent Management

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

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

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

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

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

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

Managers' Transactions
Persons with executive responsibilities, in particular members of E.ON SE's Management Board and Supervisory Board, and persons closely related to them, must disclose specific dealings in E.ON stock or bonds, related derivatives, or other related financial instruments pursuant to Article 19 of the EU Market Abuse Regulation in conjunction with Section 26, Paragraph 2, of the German Securities Trading Act. Such dealings that took place in 2017 have been disclosed on the Internet at www.eon.com.

Integrity
Our actions are grounded in integrity and a respect for the law. The basis for this is the Code of Conduct established by the Management Board. It emphasizes that all employees must comply with laws and regulations and with Company policies. These relate to dealing with business partners, third parties, and government institutions, particularly with regard to antitrust law, the granting and accepting of benefits, the involvement of intermediaries, and the selection of suppliers and service providers. Other rules address issues such as the avoidance of conflicts of interest (such as the prohibition to compete, secondary employment, material financial investments) and handling company information, property, and resources. The policies and procedures of our compliance organization ensure the investigation, evaluation, cessation, and punishment of reported violations by the appropriate Compliance Officers and the E.ON Group's Chief Compliance Officer. Violations of the Code of Conduct can also be reported anonymously (for example, by means of a whistleblower report). The Code of Conduct is published on www.eon.com.

Description of the Functioning of the Management Board and Supervisory Board and of the Composition and Functioning of Their Committees

Management Board
The E.ON SE Management Board manages the Company's businesses, with all its members bearing joint responsibility for its decisions. It establishes the Company's objectives, sets its fundamental strategic direction, and is responsible for corporate policy and Group organization.

In 2017 the Management Board consisted of five members initially and, after the end of Mr. Sen's service, effective April 1, 2017, of four members. It had one Chairman. No Management Board member has more than three supervisory board memberships in listed non-Group companies or on the supervisory bodies of non-Group companies that require a similar commitment. Someone who has reached the general retirement age should not be a member of the Management Board. The Management Board has in place policies and procedures for the business it conducts and, in consultation with the Supervisory Board, has assigned task areas to its members.

The Management Board regularly reports to the Supervisory Board on a timely and comprehensive basis on all relevant issues of strategy, planning, business development, risk situation, risk management, and compliance. It also submits the Group's investment, finance, and personnel plan for the next financial year as well as the medium-term plan to the Supervisory Board, generally at the last meeting of each financial year.

The Chairperson of the Management Board informs, without undue delay, the Chairperson of the Supervisory Board of important events that are of fundamental significance in assessing the Company's situation, development, and management and of any defects that have arisen in the Company's monitoring systems. Transactions and measures requiring the Supervisory Board's approval are also submitted to the Supervisory Board in a timely manner.

Members of the Management Board are also required to promptly report conflicts of interest to the Executive Committee of the Supervisory Board and to inform the other members of the Management Board. Members of the Management Board may only assume other corporate positions, particularly appointments to the supervisory boards of non-Group companies, with the consent of the Executive Committee of the Supervisory Board. There were no conflicts of interest involving members of the E.ON SE Management Board in 2017. Any material transactions between the Company and members of the Management Board, their relatives, or entities with which they have close personal ties require the consent of the Executive Committee of the Supervisory Board. No such transactions took place in the reporting period.

The Management Board has no board committees but has established a number of committees that support it in the fulfillment of its tasks. The members of these committees are senior representatives of various departments of E.ON SE whose experience, responsibilities, and expertise make them particularly suited for their committee's tasks. Among these committees are the following:

The Management Board has established a Disclosure Committee and an Ad Hoc Committee for issues relating to financial disclosures. These committees ensure that such information is disclosed in a correct and timely fashion.

A Risk Committee ensures the correct application and implementation of the legal requirements of Section 91 of the German Stock Corporation Act ("AktG"). This committee monitors the E.ON Group's risk situation and its risk-bearing capacity and devotes particular attention to the early-warning system to ensure the early identification of going-concern risks in order to avoid developments that could potentially threaten the Group's continued existence. In this context, the Risk Committee also deals with risk-mitigation strategies (including hedging strategies). In collaboration with relevant departments, the committee ensures and refines the implementation of, and compliance with, the Company's reporting policies with regard to commodity risks, credit risks, and enterprise risk management.

Supervisory Board

The E.ON SE Supervisory Board had eighteen members in the 2017 financial year. Pursuant to E.ON SE's Articles of Association, it is composed of an equal number of shareholder and employee representatives. The shareholder representatives are elected by the shareholders at the Annual Shareholders Meeting; the Supervisory Board nominates candidates for this purpose. As a rule, the Annual Shareholders Meeting decides on the elections by individual vote. Pursuant to the agreement regarding employees' involvement in E.ON SE, the other currently nine members of the Supervisory Board are appointed by the SE Works Council, with the provision that at least three different countries are represented and one member is selected by a trade union that is represented at E.ON SE or one of its subsidiaries in Germany. Persons are not eligible as Supervisory Board members if they:

- are already supervisory board members in ten commercial companies that are required by law to form a supervisory board,
- are legal representatives of an enterprise controlled by the Company,
- are legal representatives of another corporation whose supervisory board includes a member of the Company's Management Board, or
- were a member of the Company's Management Board in the past two years, unless the person concerned is nominated by shareholders who hold more than 25 percent of the Company's voting rights.

The members of the E.ON SE Supervisory Board fulfill these requirements. Pursuant to the AktG, at least one member of the Supervisory Board must have expertise in preparing or auditing financial statements. The Supervisory Board believes that, in particular, Dr. Theo Siegert and Andreas Schmitz meet this requirement. The Supervisory Board believes that its members in their entirety are familiar with the sector in which the Company operates.

The Supervisory Board oversees the Company's management and advises the Management Board on an ongoing basis. The Management Board requires the Supervisory Board's prior approval for significant transactions and measures, such as the Group's investment, finance, and personnel plans; the acquisition or sale of companies, equity interests, or parts of companies whose fair value or, in the absence of a fair value, whose book value exceeds €300 million; financing measures that exceed €1 billion and have not been covered by Supervisory Board resolutions regarding finance plans; and the conclusion, amendment, or termination of affiliation agreements. The Supervisory Board examines the Financial Statements of E.ON SE, the Management Report, and the proposal for profit appropriation and, on the basis of the Audit and Risk Committee's preliminary review, the Consolidated Financial Statements and the Combined Group Management Report and the separate Non-Financial Report and the separate Combined Non-Financial Report. The Supervisory Board provides to the Annual Shareholders Meeting a written report on the results of this examination.

The Supervisory Board has established policies and procedures for itself, which are available on the Company's Internet page. It holds at least four regular meetings in each financial year. Its policies and procedures include mechanisms by which, if necessary, a meeting of the Supervisory Board or one of its committees can be called at any time by a member or by the Management Board. Shareholder representatives and employee representatives can prepare for Supervisory Board meetings separately. In the event of a tie vote on the Supervisory Board, the Chairperson has the tie-breaking vote.

Furthermore, the Supervisory Board's policies and procedures gave it the option, if necessary, of holding executive sessions; that is, to meet without the Management Board.

Overview of the Attendance of Supervisory Board Members at Meetings of the Supervisory Board and Its Committees

Supervisory Board member	Supervisory Board Meetings	Executive Committee	Audit and Risk Committee	Investment and Innovation Committee[1]	Nomination Committee
Kley, Dr. Karl-Ludwig	6/6	10/10	1/5[3]	1/8[3]	1/1
Lehner, Prof. Dr. Ulrich	5/6	10/10	–	–	1/1
Clementi, Erich	6/6	–	–	3/8 (guest)	–
Dybeck Happe, Carolina	6/6	–	–	7/8[4]	–
Kingsmill, Baroness Denise	3/6	–	–	–	–
Schmitz, Andreas	6/6	–	4/5[2,4]	–	–
Segundo, Dr. Karen de	5/6	2/10 (guest)	–	8/8	1/1
Siegert, Dr. Theo	6/6	1/10 (guest)	5/5	–	–
Woste, Ewald	6/6	–	–	7/8[4]	–
Scheidt, Andreas	6/6	10/10	–	–	–
Broutta, Clive	6/6	–	–	6/8	–
Gila, Tibor	6/6	–	–	–	–
Hansen, Thies	6/6	–	5/5	–	–
Luha, Eugen-Gheorghe	6/6	–	–	8/8	–
Schulz, Fred	6/6	9/10	5/5	–	–
Šmátralová, Silvia	6/6	–	–	–	–
Wallbaum, Elisabeth	6/6	–	–	–	–
Zettl, Albert	6/6	1/10 (guest)	–	7/8[4]	–

[1]Until March 31, 2017: Finance and Investment Committee
[2]Thereof once as a guest.
[3]Member until March 31, 2017.
[4]Member since April 1, 2017.

In view of Item 5.4.1 of the German Corporate Governance Code and Section 289f, Paragraph 2, Item 6, of the German Commercial Code, in December 2017 the Supervisory Board defined targets for its composition, including a diversity concept and a competency profile, that go beyond the applicable legal requirements. They are as follows:

"The composition of the Supervisory Board of E.ON SE shall comply with the specific SE requirements and Germany's Stock Corporation Act, and with the recommendations of the German Corporate Governance Code.

a) In this context, the following general objectives shall be observed:

- *The Supervisory Board shall include a reasonable number of independent members. Members shall be deemed to be independent if they have no personal or business relationship with the Company, its corporate bodies, a major shareholder or any company affiliated with the latter, where such relationship may give rise to a material and not merely temporary conflict of interests. If the total number of Supervisory Board members is 12, a reasonable number of independent members will be eight. In this context, employee representatives will always be regarded as independent members.*
- *The Supervisory Board shall not include more than two former members of the Board of Management.*
- *Members of the Supervisory Board must not have seats on the boards of, or act as consultants for, any of the Company's major competitors.*
- *Supervisory Board membership shall usually be limited to no more than three full terms of office (15 years).*

- *All Supervisory Board members must have sufficient time available to perform their duties on the boards of various companies. Persons who are members of the board of management of a listed company shall only be eligible as members of E.ON's Supervisory Board if they do not have seats on a total of more than two supervisory boards of listed non-Group companies or of comparable supervisory bodies.*

b) In addition, the Supervisory Board has adopted the following diversity concept so as to ensure a balanced structure of the Supervisory Board in terms of age, gender, personality, educational background and professional experience.

- *In the search for qualified Supervisory Board members, due consideration shall be given to diversity. When preparing nominations for the election of Supervisory Board members, due consideration shall be given in each case to the question as to whether complementary academic profiles, professional and life experience, a balanced age mix, various personalities and a reasonable gender balance benefit the Supervisory Board's work. In this context, care shall be taken to ensure that a gender quota of 30 percent will be achieved; this shall apply to the Supervisory Board as a whole and to the shareholders' and employees' representatives separately.*

- *An upper age limit of 75 years shall apply to members of the Supervisory Board; candidates shall not be older than 72 years when they are elected.*

- *Four Supervisory Board members shall have international experience, i.e. they shall have spent, for instance, many years of their professional career outside Germany.*

c) In addition, the following skills profile shall apply; especially the Nominations Committee will strive to apply the skills profile when preparing nominations of candidates for the shareholders' representatives to be proposed to the Annual General Meeting.

- *The shareholders' representatives should have leadership experience in companies or other large organizations by the majority. At least four members shall have experience, as management or supervisory board members, in the strategic management or supervision of listed organizations and shall be familiar with the functioning of capital and financial markets.*

- *At least two members shall be familiar, in particular, with innovation, disruption and digitization and the associated new business models and cultural change.*

- *At least four members shall have specific expertise in the businesses and markets that are particularly relevant for E.ON. This includes in particular the energy sector, the sales and retail business, regulated industries, new technology as well as relevant customer sectors.*

- *At least two independent representatives of the shareholders shall have expertise in the fields of accounting, risk management and auditing of financial statements.*

- *At least two members shall be familiar with legal and compliance, HR, IT and sustainability."*

Current Composition
a) The Supervisory Board believes that all of its members are independent. No former Management Board member sits on the Supervisory Board. Furthermore, no member has a seat on the boards of, or acts as a consultant for, any of the Company's major competitors or has been on the Supervisory Board for more than three full terms of office (15 years). The Supervisory Board believes that in the case of no Supervisory Board member is there specific indications of relevant situations or relationships that could give rise to a conflict of interests. No management board member of a listed company sits on the Supervisory Board.

b) In its current composition the Supervisory Board meets the objectives of its diversity concept. The Supervisory Board's composition of women and men complies with the legal requirements for minimum percentages, although separate compliance with the statutory gender quota is not expected to occur until the Annual Shareholders Meeting in 2018. The age range of the Supervisory Board is currently between 42 and 71 years, with an average age of 59. At least four members have international experience.

c) The members bring a wide range of specific knowledge to committee work and have special expertise in one or more businesses and markets relevant to the Company.

Current CVs of Supervisory Board members are published on the Company's Internet page.

At the close of the 2018 Annual Shareholders Meeting, the Supervisory Board will be reduced to twelve members in accordance with Sections 8 and 8a of E.ON SE's Articles of Association. The Management Board and the Supervisory Board intend to propose to the Annual Shareholders Meeting that the number of Supervisory Board members be increased by two persons so that in the future the Supervisory Board can continue to fully meet the objectives for its composition, including the diversity concept and the competency profile, despite the end of service of long-standing members. In view of continually changing business requirements, the Supervisory Board will continue to identify necessary competencies early to ensure that it has them.

The Supervisory Board has established the following committees and defined policies and procedures for them:

The Executive Committee consists of four members: the Supervisory Board Chairperson, his or her two Deputies, and a further employee representative. It prepares the meetings of the Supervisory Board and advises the Management Board on matters of general policy relating to the Company's strategic development. In urgent cases (in other words, if waiting for the Supervisory Board's prior approval would materially prejudice the Company), the Executive Committee acts on the full Supervisory Board's behalf. In addition, a key task of the Executive Committee is to prepare the Supervisory Board's personnel decisions and resolutions for setting the respective total compensation of individual Management Board members within the meaning of Section 87, AktG. Furthermore, it is responsible for the conclusion, alteration, and termination of the service agreements of Management Board members and for presenting the Supervisory Board with a proposal for a resolution on the Management Board's compensation plan and its periodic review. In addition, it prepares the Supervisory Board's decision on the Group's investment, financial, and personnel plan for the next financial year. It also deals with corporate-governance matters and reports to the Supervisory Board, generally once a year, on the status and effectiveness of, and possible ways of improving, the Company's corporate governance and on new requirements and developments in this area.

The Audit and Risk Committee consists of four members. The Supervisory Board believes that, in their entirety, the members of the Audit and Risk Committee are familiar with the sector in which the Company operates. According to the AktG, the Audit and Risk Committee must include one Supervisory Board member who has expertise in accounting and/or auditing. The Supervisory Board believes that Dr. Theo Siegert and Andreas Schmitz fulfill these requirements. Pursuant to the recommendations of the German Corporate Governance Code, the Chairperson of the Audit and Risk Committee should have special knowledge and experience in the application of accounting principles and internal control processes. In addition, this person should be independent and should not be a former Management Board member whose service on the Management Board ended less than two years ago. The Supervisory Board believes that the Chairman of the Audit and Risk Committee, Dr. Theo Siegert, fulfills these requirements. In particular, the Audit and Risk Committee deals with accounting issues (including the accounting process), risk management, compliance, the necessary independence of the independent auditor, the issuance of the audit mandate to the independent auditor, the definition of the audit priorities, the agreement regarding the independent auditor's fees, and any additional services performed by the independent auditor. The committee's monitoring of risk management encompasses reviewing the effectiveness of the internal control system, internal risk management, and the internal audit system. The committee also prepares the Supervisory Board's decision on the approval of the Financial Statements of E.ON SE and the Consolidated Financial Statements. It is responsible for the preliminary review of the Financial Statements of E.ON SE, the Management Report, the Consolidated Financial Statements, the Combined Group Management Report and the proposal for profit appropriation of profits as well as—if these are not already part of the (Combined Group) Management Report—the separate Non-Financial Report and the separate Combined Non-Financial Report. It discusses the half-yearly reports and quarterly notifications or financial reports with the Management Board prior to their publication. The effectiveness of the internal control mechanisms for the accounting process used at E.ON SE and its units is tested on a regular basis by our Internal Audit division; the Audit and Risk Committee regularly monitors the work done by the Internal Audit division and the definition of audit priorities. The Audit and Risk Committee may commission an external review of the contents of the Non-Financial Statement or the separate Non-Financial Report or the Combined Non-Financial Statement or the separate Combined Non-Financial Report. In addition, the Audit and Risk Committee prepares the proposal on the selection of the Company's independent auditor for the Annual Shareholders Meeting. In order to ensure the auditor's independence, the Audit and Risk Committee secures a statement from the proposed auditor detailing any facts that could lead to the audit firm being excluded for independence reasons or otherwise conflicted.

In being assigned the audit task, the independent auditor agrees to:

- promptly inform the Chairperson of the Audit and Risk Committee should any such facts arise during the course of the audit unless such facts are resolved in a satisfactory manner

- promptly inform the Supervisory Board of anything it becomes aware of during the course of the audit that is of relevance to the Supervisory Board's duties

- inform the Chairperson of the Audit and Risk Committee, or to note in the audit report, if the audit has led to findings that contradict the Declaration of Compliance with the German Corporate Governance Code by the Management Board or Supervisory Board.

The Investment and Innovation Committee (until March 31, 2017: the Finance and Investment Committee) generally consists of four members; from April 1, 2017, to the end of the 2018 Annual Shareholders Meeting it consists of six members. It advises the Management Board on all issues of Group financing and investment planning as well as issues relating to market developments and innovation. It decides on behalf of the Supervisory Board on the approval of the acquisition and disposition of companies, equity interests, and parts of companies whose value exceeds €300 million but does not exceed €600 million. In addition, it decides on behalf of the Supervisory Board on the approval of financing measures whose value exceeds €1 billion but not €2.5 billion if such measures are not covered by the Supervisory Board's resolutions regarding finance plans. If the value of any such transactions or measures exceeds the above-mentioned thresholds, the committee prepares the Supervisory Board's decision.

The Nomination Committee consists of three shareholder-representative members. Its Chairperson is the Chairperson of the Supervisory Board. Its task is to recommend to the Supervisory Board, taking into consideration the Supervisory Board's targets for its composition, suitable candidates for election to the Supervisory Board by the Annual Shareholders Meeting.

All committees meet at regular intervals and when specific circumstances require it under their policies and procedures. The Report of the Supervisory Board (on pages 8 to 9) contains information about the activities of the Supervisory Board and its committees in 2017. Pages 222 and 223 show the composition of the Supervisory Board and its committees.

Shareholders and Annual Shareholders Meeting

E.ON SE shareholders exercise their rights and vote their shares at the Annual Shareholders Meeting. The convening of the Annual Shareholders Meeting and the reports and documents required by law for the Annual Shareholders Meeting, including the Annual Report, are published on the Company's Internet page together with the agenda and the explanation of the conditions of participation, shareholders' rights, and any countermotions and election proposals submitted by shareholders. The Company's financial calendar, which is published in the Annual Report, in the quarterly notifications or financial reports, and on the Internet at www.eon.com, regularly informs shareholders about important Company dates.

At the Annual Shareholders Meeting, shareholders may vote their shares themselves, through a proxy of their choice, or through a Company proxy who is required to follow the shareholder's voting instructions.

As stipulated by German law, the Annual Shareholders Meeting votes to select the Company's independent auditor.

At the Annual Shareholders Meeting on May 10, 2017, PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, was selected to be E.ON SE's independent auditor for the 2017 financial year and to audit the Condensed Consolidated Interim Financial Statements and Interim Group Management Report for the 2017 financial year and the first quarter of 2018. The independent auditors with signing authority for the Annual Financial Statements of E.ON SE and the Consolidated Financial Statements are Markus Dittmann (since the 2014 financial year) and Aissata Touré (since the 2015 financial year).

Women and Men in Leadership Positions Pursuant to Section 76, Paragraph 4, and Section 111, Paragraph 5, of the German Stock Corporation Act

In the reporting period, the Management Board consisted initially of five and subsequently of four men. In December 2016 the Supervisory Board set a new target of 20 percent for the proportion of women on the Management Board and a deadline of December 31, 2021, for implementation.

In 2015, for E.ON SE the Management Board set a target of 23 percent for the proportion of women in the first level of management below the Management Board and a target of 17 percent for the second level of management below the Management Board. The deadline for achieving both targets was June 30, 2017. At the time of the deadline, the proportion of women in first and second levels of management below the Management Board was 19 percent and 27 percent, respectively. During the implementation period, E.ON took specific steps to increase the proportion of women in management positions. However, turnover in management was lower than in previous years. Despite the positive trend, not yet all targets were achieved.

In May 2017 the Management Board set new targets of 30 percent for the proportion of women in the first level of management below the Management Board and a target of 35 percent for the second level of management below the Management Board. The deadline for achieving both targets is June 30, 2022.

For all other E.ON Group companies concerned, targets and deadlines pursuant to the Law for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector were set for the proportion of women on these companies' supervisory board and management board or team of managing directors as well as in the next two levels of management. The deadline for achieving these targets is June 30, 2022.

Diversity Concept for the Management Board

At its meeting in December 2017 the E.ON SE Supervisory Board passed a resolution on the following succession planning/diversity concept for the Management Board:

In cooperation with the Executive Committee and the Management Board, the Supervisory Board is in charge of long-term succession planning for the Management Board. With regard to the Management Board's composition, the Supervisory Board of E.ON SE has developed a diversity concept that is in line with the relevant recommendations of the German Corporate Governance Code.

Appointment Objectives

- When appointing members of the Management Board, the candidates' outstanding professional qualifications, long-term leadership experience and past performance, as well as value-driven management shall be of paramount importance. Members shall be capable of taking forward-looking strategic decisions. In particular, they shall be capable of managing businesses sustainably and of ensuring that they are consistently focused on customer needs.
- The Management Board as a whole must have expertise and experience in the energy sector as well as in the fields of finance and digitization.
- The members of the Management Board shall be leaders and as such shall act as role models for the employees through their own performance and conduct.
- Attention shall be paid to diversity when appointing members of the Management Board. For the Supervisory Board, diversity means, in particular, different complementary academic profiles, professional and personal experience, personalities, as well as internationality and a reasonable age and gender structure. The Supervisory Board has therefore adopted a target quota of 20 percent for the share of women on the Management Board; this target shall be achieved by December 31, 2021.
- The appointment period of a member of the Management Board shall generally end at the end of the month on which the Management Board member reaches the general retirement age but at the close of the subsequent Annual Shareholders Meeting at the latest.

Achievement of Objectives

With the exception of the target quota regarding the share of women, which is to be achieved by December 31, 2021, the current composition of the Management Board already meets the appointment objectives described above.

Compensation Report Pursuant to Section 289a, Paragraph 2, and Section 315a, Paragraph 2 of the German Commercial Code

This compensation report describes the basic features of the compensation plans for members of the E.ON SE Management Board and Supervisory Board and provides information about the compensation granted and paid in 2017. It applies the provisions of accounting standards for capital-market-oriented companies (the German Commercial Code, German Accounting Standards, and International Financial Reporting Standards) and the recommendations of the German Corporate Governance Code dated February 7, 2017.

Basic Features of the Management Board Compensation Plan

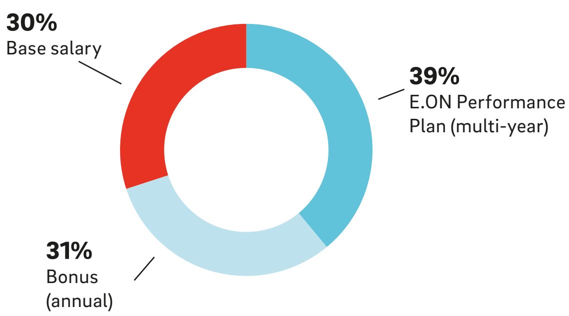
The Management Board's compensation plan was revised in 2016 in light of the E.ON Group's new direction. The purpose of the revision was to make the plan simpler and to reflect the Company's new strategy. The Management Board compensation plan that took effect on January 1, 2017, is supposed to create an incentive for successful and sustainable corporate governance and to link the compensation of Management Board members with the Company's short-term and long-term performance while also factoring in their individual performance. The new plan's parameters are therefore transparent, performance-based, and aligned with the Company's business success; variable compensation is based predominantly on multi-year metrics. In order to align management's and shareholders' interests and objectives, long-term variable compensation is based not only on the development of E.ON's stock price in absolute terms but also on a comparison with competitors. The introduction of share-ownership guidelines further strengthens E.ON's capital-market orientation and shareholder culture.

The Supervisory Board approves the Executive Committee's proposal for the Management Board's compensation plan. It reviews the plan and the appropriateness of the Management Board's total compensation as well as the individual components on a regular basis and, if necessary, makes adjustments. It considers the provisions of the German Stock Corporation Act and follows the German Corporate Governance Code's recommendations and suggestions. In its review of the compensation plan's market conformity and the appropriateness of compensation levels, the Supervisory Board was supported by an external compensation expert.

The compensation plan that took effect on January 1, 2017, was presented to the 2016 Annual Shareholders Meeting and approved by a majority of 91.14 percent.

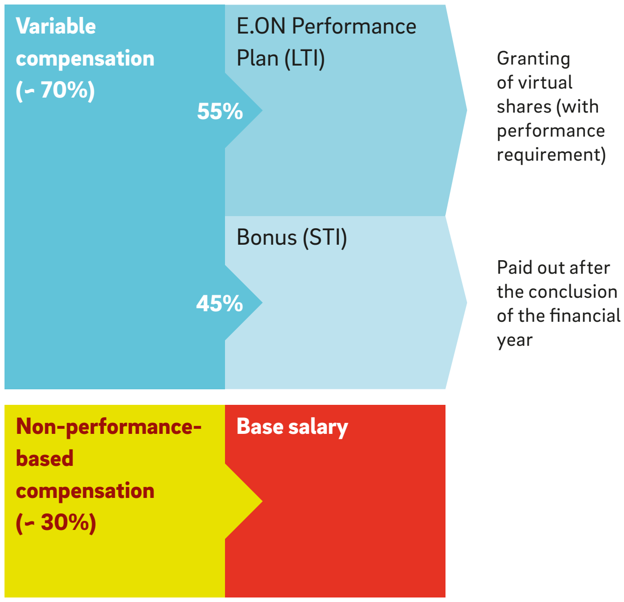
The compensation of Management Board members consists of a fixed base salary, an annual bonus, and long-term variable remuneration. The revision of the compensation plan left the sum of these components unchanged from the previous plan. The components account for the following percentages of total compensation:

Compensation Structure[1]



[1]Not including fringe, other, and pension benefits.

The following graphic provides an overview of the compensation plan for Management Board members:



In addition, a graphic on page 97 provides a summary overview of the individual components of the Management Board's compensation described below as well as their respective metrics and parameters.

Non-Performance-Based Compensation

No revisions were made to non-performance-based compensation.

Management Board members receive their fixed compensation in twelve monthly payments.

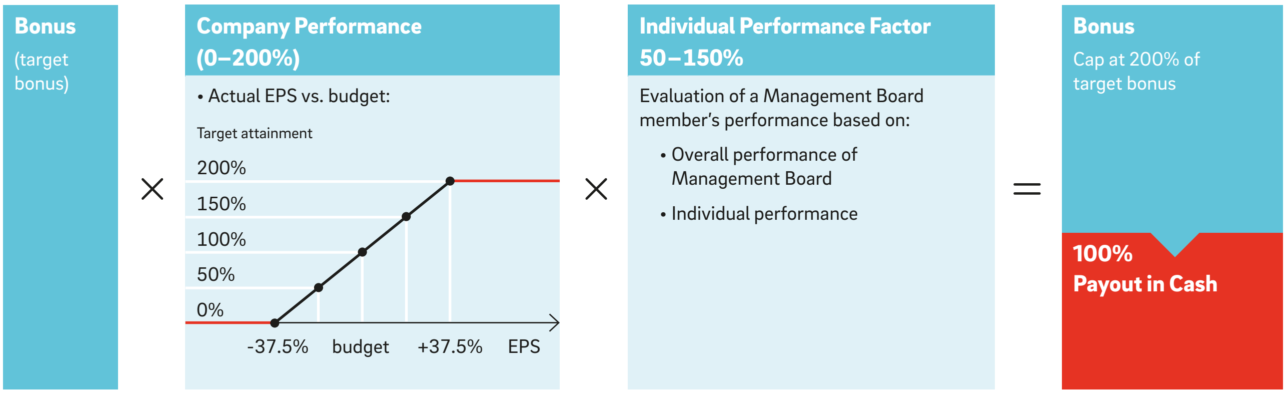
Management Board members receive a number of contractual fringe benefits, including the use of a chauffeur-driven company car. The Company also provides them with the necessary telecommunications equipment, covers costs that include those for a periodic medical examination, and pays the premium for an accident insurance policy.

Performance-Based Compensation
55 percent of performance-based compensation depends on the achievement of long-term targets, ensuring that the variable compensation is sustainable under the criteria of Section 87 of the German Stock Corporation Act.

Annual Bonus
Under the revised compensation plan, Management Board members' annual bonus (45 percent of the performance-based compensation) consists only of a cash payment made after the end of the financial year.

The amount of the annual bonus is determined by the degree to which certain performance targets are attained. The target-setting mechanism consists of company performance targets and individual performance targets.

Unlike the compensation plan that was in effect until December 31, 2016, the revised plan dispenses with the Supervisory Board's additional discretionary power in the assessment of the Company's performance.



Effective 2017, the Company's performance is assessed on the basis of earnings per share ("EPS"), E.ON's key performance indicator. EPS used for this purpose will be derived from adjusted net income as disclosed in this report. The EPS target for each year is set by the Supervisory Board, taking into account the approved budget. The target is fully achieved if actual EPS is equal to the target. If actual EPS is 37.5 percentage points or more below the target, this constitutes zero percent attainment. If actual EPS is 37.5 percentage points or more above the target, this constitutes 200 percent attainment. Linear interpolation is used to translate intermediate EPS figures into percentages.

The Supervisory Board determines the degree to which Management Board members have attained the targets of their individual performance factors, giving adequate consideration to their individual and collective contributions. The factors range between 50 and 150 percent. In addition, the Supervisory Board may, as part of the annual bonus, grant Management Board members special compensation for outstanding achievements. In assigning Management Board members their individual performance factors and in granting special compensation, the Supervisory Board pays attention to the criteria of Section 87 of the German Stock Corporation Act and of the German Corporate Governance Code.

As before, the maximum bonus that can be attained (including any special compensation) is 200 percent of the target bonus (cap).

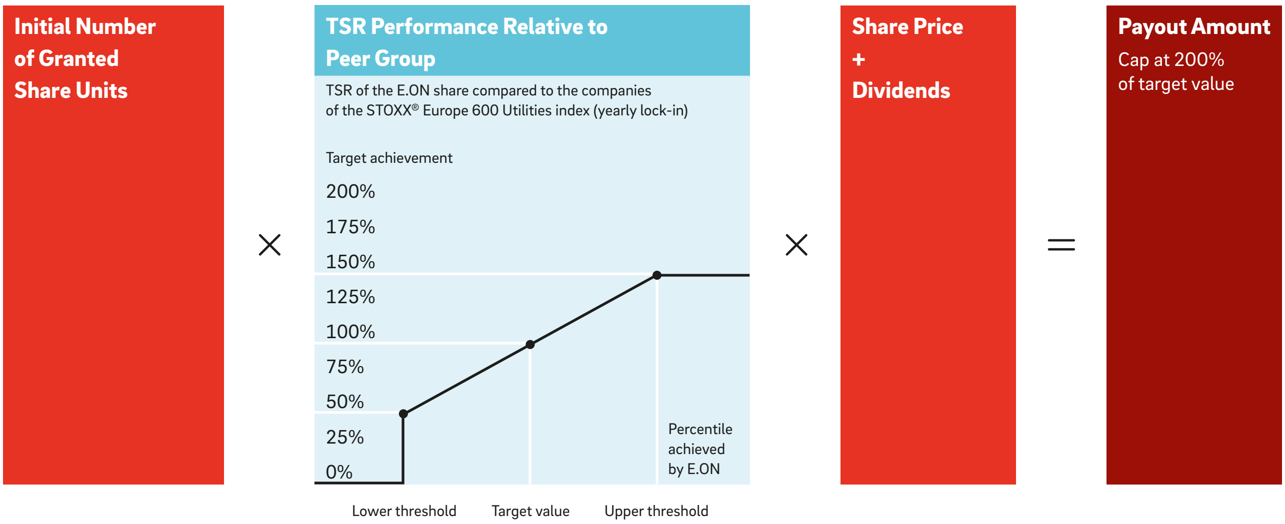
Long-Term Variable Compensation
The long-term variable compensation currently consists of tranches from several financial years granted under two different plans. First, the first tranche of the new E.ON Performance Plan—Performance Plan, first tranche (2017–2020)—was granted. It will be paid out in April 2021 on the basis of target attainment and E.ON's stock price. Second, there are still tranches of the E.ON Share Matching Plans outstanding. The last tranche of the E.ON Share Matching Plan—Share Matching Plan, fourth tranche (2016–2020) and the LTI components of the bonus from 2016 (Share Matching Plan, fifth tranche (2017–2021)—was granted in 2016.

E.ON's Performance Plan (Granted from 2017)
Management Board members receive stock-based, long-term variable compensation under the E.ON Performance Plan, which replaced the E.ON Share Matching Plan as the Company's new long-term compensation plan effective January 1, 2017. Each tranche of the E.ON Performance Plan has a vesting period of four years to serve as a long-term incentive for sustainable business performance. Vesting periods start on January 1.

The Supervisory Board grants virtual shares to each member of the Management Board in the amount of the contractually agreed-on target. The conversion into virtual shares is based on the fair market value on the date when the shares are granted. The fair market value is determined by applying methods accepted in financial mathematics, taking into account the expected future payout, and hence, the volatility and risk associated with the E.ON Performance Plan. The number of granted virtual shares may change in the course of the four-year vesting period depending on the total shareholder return ("TSR") of E.ON stock compared with the TSR of the companies in a peer group ("relative TSR").

TSR is the yield of E.ON stock. It takes into account the stock price, including the assumption that dividends are reinvested, and is adjusted to exclude changes in capital. The peer group used for relative TSR will be the other companies in E.ON's peer index, the STOXX® Europe 600 Utilities.

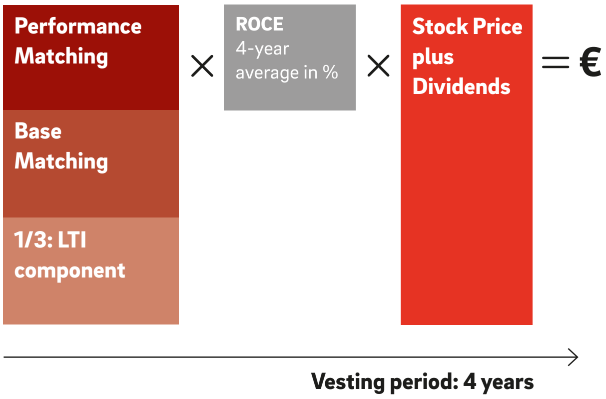
During a tranche's vesting period, E.ON's TSR performance is measured once a year in comparison with the companies in the peer group and set for that year. E.ON SE's TSR performance in a given year determines the final number of one fourth of the virtual shares granted at the beginning of the vesting period. For this purpose, the TSRs of all companies are ranked, and E.ON SE's relative position is determined based on the percentile reached. If target attainment in a year is below the threshold defined by the Supervisory Board at the time of granting, the number of virtual shares granted is reduced by one quarter. If E.ON's performance is at the upper cap or above, the quarter of virtual shares granted for that particular year increases to a maximum of 150 percent. Linear interpolation is used to translate intermediate figures into percentage.



The resulting number of virtual shares at the end of the vesting period is multiplied by the average price of E.ON stock in the final 60 days of the vesting period. This amount is increased by the dividends distributed on E.ON stock during the vesting period and then paid out. The sum of the payouts is capped at 200 percent of the contractually agreed-on target.

E.ON Share Matching Plan (Granted until 2016)

Until the introduction of the new compensation plan on January 1, 2017, Management Board members received stock-based compensation under the E.ON Share Matching Plan. At the beginning of each financial year, the Supervisory Board decided, based on the Executive Committee's recommendation, on the allocation of a new tranche, including the respective targets and the number of virtual shares granted to individual members of the Management Board. To serve as a long-term incentive for sustainable business performance, each tranche had a vesting period of four years. The tranche started on April 1 of each year.



Following the Supervisory Board's decision to allocate a new tranche, Management Board members initially received vested virtual shares equivalent to the amount of the LTI component of their bonus. The determination of the LTI component took into consideration the overall target attainment of the old compensation plan's bonus for the preceding financial year. The number of virtual shares was calculated on the basis of the amount of their LTI component and E.ON's average stock price during the first 60 days prior to the four-year vesting period. Furthermore, Management Board members could receive, on the basis of annual Supervisory Board decisions, a base matching of additional non-vested virtual shares in addition to the virtual shares that resulted from their LTI component. In addition, Management Board members could, depending on the company's performance during the vesting period, receive performance matching of up to two additional non-vested virtual shares per share that resulted from base matching. The arithmetical total target value allocated at the start of the vesting period, which began on April 1 of the year in which a tranche was allocated, was therefore the sum of the value of the LTI component, base matching, and performance matching (depending on the degree of attainment of a predefined company performance target).

For the purpose of performance matching, the company performance metric for tranches granted from 2013 to 2015 was initially E.ON's average ROACE during the four-year vesting period compared with a target ROACE set in advance by the Supervisory Board for the entire four-year period at the time it allocated a new tranche. Pursuant to a Supervisory Board resolution, from the 2016 financial year onward these performance targets were based on ROCE. In view of the Uniper spinoff, this adjustment was necessary because the ROACE targets were based on old planning figures that did not foresee the Uniper spinoff. Furthermore, from the start of 2016, the Company no longer used ROACE as a key performance indicator and it was therefore no longer available. In addition, the anticipated reduction in E.ON's stock price resulting from the Uniper spinoff had to be factored in by means of a conversion method.

Extraordinary events are not factored into the determination of target attainment for company performance. Depending on the degree of target attainment for the company performance metric, each virtual share resulting from base matching may be matched by up to two additional virtual shares at the end of the vesting period. If the predetermined company performance target is fully attained, Management Board members receive one additional virtual share for each virtual share resulting from base matching. Linear interpolation is used to translate intermediate figures.

At the end of the vesting period, the virtual shares held by Management Board members are assigned a cash value based on E.ON's average stock price during the final 60 days of the vesting period. To each virtual share is then added the aggregate per-share dividend paid out during the vesting period. This total—cash value plus dividends—is then paid out. Payouts are capped at 200 percent of the arithmetical total target value.

The last complete tranche of the E.ON Share Matching Plan (LTI components of prior-year bonus as well as base and performance matching) was granted in the 2016 financial year and runs through 2020 (Share Matching Plan, fourth tranche (2016–2020)). Because the old compensation plan was in effect until year-end 2016, in 2017 Management Board members were granted virtual shares based on the LTI components of their bonuses for the 2016 financial year under the terms of the E.ON Share Matching Plan. This tranche runs through 2021 (Share Matching Plan, fifth tranche (2017–2021)).

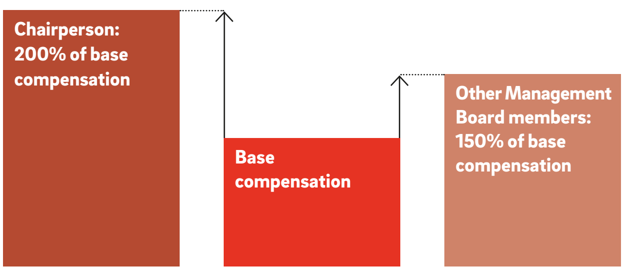
Overall Cap

In line with the German Corporate Governance Code's recommendation, Management Board members' annual compensation has an overall cap. This means that the sum of the individual compensation components in one year may not exceed 200 percent of the total agreed target compensation, which consists of base salary, target bonus, and the target allocation value of long-term variable compensation. The cap increases in accordance with the amounts of fringe benefits and pension benefits from the respective financial year.

Share-Ownership Guidelines

To further strengthen E.ON's capital-market focus and shareholder-oriented culture, E.ON introduced share-ownership guidelines effective 2017. The guidelines obligate Management Board members to invest in E.ON stock equaling 200 percent of base compensation (for the Management Board Chairperson) and 150 percent of base compensation (for the other Management Board members), to demonstrate that they have done so, and to hold the stock until the end of their service on the Management Board.

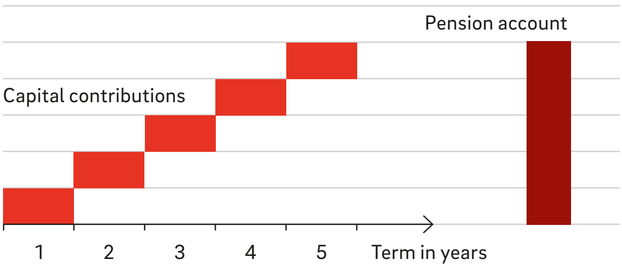
Until the required investment is reached, Management Board members are obligated to invest amounts equivalent to the net payouts from their long-term compensation in actual E.ON stock.



Pension Entitlements

Members appointed to the Management Board since 2010 are enrolled in the "Contribution Plan E.ON Management Board," which is a contribution-based pension plan.

Contribution-Based Plan



The Company makes virtual contributions to Management Board members' pension accounts in an amount equal to a percentage of their pensionable income (base salary and annual bonus). In April 2016 the Supervisory Board passed a resolution to increase the percentages of the virtual contributions under the contribution-based plan starting in 2017 in order to offset the reduction in the sum of base compensation and annual bonus under the new compensation plan that took effect in 2017 and to leave the amount of contributions essentially unchanged in absolute terms. Effective the 2017 financial year, the contribution percentage is at most 21 percent (formerly 18 percent). The annual contribution consists of a fixed base percentage (16 percent; formerly 14 percent) and a matching contribution (5 percent; formerly 4 percent).

The requirement for the matching contribution to be granted is that the Management Board member contributes, at a minimum, the same amount by having it withheld from his compensation. The company-funded matching contribution is suspended if and as long as the E.ON Group's ROACE is less than its cost of capital for three years in a row. The contributions are capitalized using actuarial principles (based on a standard retirement age of 62) and placed in Management Board members' pension accounts. The interest rate used for each year is based on the return of long-term German treasury notes. At the age of 62 at the earliest, a Management Board member (or his survivors) may choose to have the pension account balance paid out as a lifelong pension, in installments, or in a lump sum.

Individual Management Board members' actual resulting pension entitlement cannot be calculated precisely in advance. It depends on a number of uncertain parameters, in particular the changes in their individual salary, their total years of service, the attainment of company targets, and interest rates. For a Management Board member enrolled in the plan at the age of 50, the company-financed, contribution-based pension payment is currently estimated to be between 30 and 35 percent of his or her base salary (without factoring in pension benefits accrued prior to being appointed to the Management Board).

The Company has agreed to a pension plan based on final salary for the Management Board member, Dr. Johannes Teyssen, who was appointed to the Management Board before 2010. Following the end of his service for the Company, Dr. Johannes Teyssen is entitled to receive lifelong monthly pension payments in three cases: reaching the age of 60, permanent incapacitation, and a so-called third pension situation. The criteria for this situation are met if the termination or non-extension of Dr. Johannes Teyssen's service agreement is not due to his misconduct or rejection of an offer of extension that is at least on a par with his existing service agreement. In the third pension situation, Dr. Johannes Teyssen would receive an early pension as a transitional arrangement until he reaches the age of 60.

Dr. Johannes Teyssen's pension entitlements provide for annual pension payments equal to 75 percent of his annual base salary. The full amount of any pension entitlements from earlier employment is offset against these payments. In addition, the pension plan includes benefits for widows and widowers and for surviving children that are equal to 60 percent and 15 percent, respectively, of the deceased Management Board member's pension entitlement. Together, pension payments to a widow or widower and children may not exceed 100 percent of the deceased Management Board member's pension.

Pursuant to the provisions of the German Occupational Pensions Improvement Act, Management Board members' pension entitlements are not vested until they have been in effect for five years. This applies to both contribution-based and final-salary-based pension plans.

In line with the German Corporate Governance Code's recommendation, the Supervisory Board reviews, on a regular basis, the benefits level of Management Board members and the resulting annual and long-term expense and, if necessary, adjusts the payments.

Settlement Payments for Termination of Management Board Duties

In line with the German Corporate Governance Code's recommendation, the service agreements of Management Board members include a settlement cap. Under the cap, settlement payments in conjunction with a termination of Management Board duties may not exceed the value of two years' total compensation or the total compensation for the remainder of the member's service agreement.

In the event of a premature loss of a Management Board position due to a change of control, Management Board members are entitled to settlement payments. The change-of-control agreements stipulate that a change in control exists in three cases: a third party acquires at least 30 percent of the Company's voting rights, thus triggering the automatic requirement to make an offer for the Company pursuant to Germany's Stock Corporation Takeover Law; the Company, as a dependent entity, concludes a corporate agreement; the Company is merged with a non-affiliated company. Management Board members are entitled to a settlement payment if, within 12 months of the change of control, their service agreement is terminated by mutual consent, expires, or is terminated by them (in the latter case, however, only if their position on the Management Board is materially affected by the change in control). Management Board members' settlement payment consists of their base salary and target bonus plus fringe benefits for two years. To reflect discounting and setting off of payment for services rendered to other companies or organizations, payments will be reduced by 20 percent. In accordance with the German Corporate Governance Code, the settlement payments for Management Board members would be equal to 100 percent of the above-described settlement cap.

The service agreements of Management Board members include a non-compete clause. For a period of six months after the termination of their service agreement, Management Board members are contractually prohibited from working directly or indirectly for a company that competes directly or indirectly with the Company or its affiliates. Management Board members receive a compensation payment for the period of the non-compete restriction. The prorated payment is based on 100 percent of their contractually stipulated annual target compensation (without long-term variable compensation) but is, at a minimum, 60 percent of their most recently received compensation.

Management Board Compensation in 2017

The Supervisory Board reviewed the Management Board's compensation plan and the components of individual members' compensation. It determined that the Management Board's compensation is appropriate from both a horizontal and vertical perspective and passed a resolution on the performance-based compensation described below. It made its determination of customariness from a horizontal perspective by comparing the compensation with that of companies of a similar size. Its review of appropriateness included a vertical comparison of the Management Board's compensation with that of the Company's top management and the rest of its workforce. In the Supervisory Board's view, in the 2017 financial year there was no reason to adjust the Management Board's compensation.

Performance-Based Compensation in 2017

The annual bonuses of Management Board members for 2017 totaled €5.8 million (2016: €4.3 million). In determining the performance factor, the Supervisory Board discussed and assessed the Management Board's overall performance.

The Supervisory Board issued the first tranche of the E.ON Performance Plan (2017–2020) for the 2017 financial year and granted Management Board members virtual shares of E.ON stock. The present value assigned to the virtual shares of E.ON stock at the time of granting—€5.84 per share—is shown in the following tables entitled "Stock-based Compensation" and "Total Compensation." The value performance of this tranche will be determined by the performance of E.ON stock, per-share dividends, and E.ON stock's TSR relative to the TSR of the companies in its peer index, the STOXX® 600, for the years 2017 through 2020. The actual payments made to Management Board members in 2021 may deviate, under certain circumstances considerably, from the calculated figures disclosed here.

The long-term variable compensation of Management Board members resulted in the following expenses in 2017:

Stock-based Compensation

	Value of virtual shares at time of granting		Number of virtual shares granted		Cumulative expense (+)/income (-)[2]	
€	2017	2016[1]	2017	2016	2017	2016
Dr. Johannes Teyssen	1,732,500	1,827,516	296,661	138,762	3,423,608	1,008,670
Dr.-Ing. Leonhard Birnbaum	1,008,333	1,063,643	172,660	80,762	1,860,899	580,199
Michael Sen (until March 31, 2017)	–	300,000[3]	–	–	323,469	181,636
Dr. Marc Spieker (since January 1, 2017)	825,000	–	141,268	–	276,179	–
Dr. Karsten Wildberger	825,000	675,000	141,268	52,144	641,804	265,966
Total	**4,390,833**	**3,866,159**	**751,857**	**271,668**	**6,525,959**	**2,036,471**

[1]Consists of the LTI component (based on the target bonus) for the respective financial year for which at the time of granting no amount of shares can be determined.
[2]Expense/income pursuant to IFRS 2 for performance rights and virtual shares existing in the 2017 financial year.
[3]Target value for the virtual stock that was part of the LTI component of Mr. Sen's 2016 bonus. No other stock was granted under base or performance matching due to his resignation in 2017.

Long-term variable compensation granted for the 2017 financial year totaled €4.4 million. Note 11 to the Consolidated Financial Statements contains additional details about stock-based compensation.

Management Board Pensions in 2017

The following table provides an overview of the current pension obligations to Management Board members, the additions to provisions for pensions, and the cash value of pension obligations for the 2017 financial year. The cash value of pension obligations is calculated pursuant to IFRS and the German Commercial Code. An actuarial interest rate of 2.1 percent (prior year: 2.1 percent) was used for discounting; the actuarial interest rate pursuant to the German Commercial Code was 3.68 percent (prior year: 4.01 percent).

Pensions of Management Board Members Pursuant to IFRS

	Current pension entitlement at December 31				Additions to provisions for pensions				Cash value at December 31	
	As a percentage of annual base compensation		(€)		(€)		Thereof interest cost (€)		(€)	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Dr. Johannes Teyssen	75	75	930,000	930,000	1,369,019	1,338,260	504,248	558,800	24,767,846	24,011,814
Dr.-Ing. Leonhard Birnbaum[1]	–	–	–	–	398,343	407,044	26,775	26,455	1,329,403	1,275,012
Michael Sen (until March 31, 2017)[1, 3]	–	–	–	–	–	275,898	–	4,909	–	523,074
Dr. Marc Spieker (since January 1, 2017)[1, 2]	–	–	–	–	50,303	–	16,367	–	830,032	–
Dr. Karsten Wildberger[1]	–	–	–	–	356,636	292,555	6,144	–	518,162	292,555

[1]Contribution Plan E.ON Management Board.
[2]Dr. Spieker joined the E.ON SE Management Board effective January 1, 2017, but had been employed by the Company prior to that. Due to his previous years of service, the cash value of his pension entitlement was €779,388 at December 31, 2016.
[3]Under the termination agreement concluded with Mr. Sen, the benefit amount shown here expires at the conclusion of March 31, 2017.

Pensions of Management Board Members Pursuant to the German Commercial Code

	Current pension entitlement at December 31				Additions to provisions for pensions				Cash value at December 31	
	As a percentage of annual base compensation		(€)		(€)		Thereof interest cost (€)		(€)	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Dr. Johannes Teyssen	75	75	930,000	930,000	1,823,372	478,740	686,225	647,067	18,936,224	17,112,854
Dr.-Ing. Leonhard Birnbaum[1]	–	–	–	–	95,578	161,367	39,868	32,398	1,089,787	994,209
Michael Sen (until March 31, 2017)[1, 3]	–	–	–	–	–	249,034	–	6,039	–	404,266
Dr. Marc Spieker (since January 1, 2017)[1, 2]	–	–	–	–	148,005	–	19,481	–	633,809	–
Dr. Karsten Wildberger[1]	–	–	–	–	188,871	226,291	9,074	–	415,162	226,291

[1]Contribution Plan E.ON Management Board.
[2]Dr. Spieker joined the E.ON SE Management Board effective January 1, 2017, but had been employed by the Company prior to that. Due to his previous years of service, the cash value of his pension entitlement was €485,804 at December 31, 2016.
[3]Under the termination agreement concluded with Mr. Sen, the benefit amount shown here expires at the conclusion of March 31, 2017.

Pursuant to IFRS and the German Commercial Code, the cash values of Management Board pensions for which provisions are required increased slightly relative to year-end 2016. This resulted in part from increases in the number of years of service. In the case of the figures pursuant to the German Commercial Code, another reason is that the actuarial interest rate E.ON uses for discounting was significantly below the prior-year figure.

Total Compensation in 2017

The total compensation of the members of the Management Board in the 2017 financial year amounted to €14.0 million, about 1.5 percent above the prior-year figure of €13.8 million based on the Management Board's total compensation disclosed in the 2016 Annual Report.

Under a termination agreement concluded in December 2016, Mr. Sen's service agreement ended by mutual consent effective March 31, 2017, without payment of contractual claims for the remaining period of his agreement, because Mr. Sen ended his service on the E.ON SE Management Board on this date at his own request. Because Mr. Sen did not reach the five-year vesting period, he forfeited the company-funded entitlement to a company pension. He also forfeited the virtual stock granted to him in 2015 and 2016 as part of the E.ON Share Matching Plans with the exception of the virtual stock included in the LTI component of his 2015 and 2016 bonuses. The latter will continue until the normal end of the vesting period of their respective tranches. No bonus and no tranche under the E.ON Performance Plan were granted. The non-compete clause was waived without compensation.

The individual members of the Management Board had the following total compensation:

Total Compensation of the Management Board

	Fixed annual compensation		Bonus		Other compensation		Value of stock-based compensation granted[1]		Total	
€	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Dr. Johannes Teyssen	1,240,000	1,240,000	2,296,350	1,638,000	40,845	42,409	1,732,500	1,827,516	5,309,695	4,747,925
Dr.-Ing. Leonhard Birnbaum	800,000	800,000	1,336,500	953,333	27,117	25,138	1,008,333	1,063,643	3,171,950	2,842,114
Michael Sen (until March 31, 2017)	175,000	700,000	–	780,000	17,100	181,065	–	300,000	192,100	1,961,065
Dr. Marc Spieker (since January 1, 2017)	700,000	–	1,093,500	–	35,695	–	825,000	–	2,654,195	–
Dr. Karsten Wildberger	700,000	525,000	1,093,500	585,000	67,346	1,442,153	825,000	675,000	2,685,846	3,227,153
Total	**3,615,000**	**3,265,000**	**5,819,850**	**3,956,333**	**188,103**	**1,690,765**	**4,390,833**	**3,866,159**	**14,013,786**	**12,778,257**

[1]The present value assigned to the virtual shares of E.ON stock at the time of granting for the fourth tranche of the E.ON Share Matching Plan was €5.84 per share.

The following table shows the compensation granted and allocated in 2017 in the format recommended by the German Corporate Governance Code:

Table of Compensation Granted and Allocated

€	Dr. Johannes Teyssen (Chairman of the Management Board)					
			Compensation granted		Compensation allocated	
	2016	2017	2017 (min.)	2017 (max.)[1, 2]	2016	2017
Fixed compensation	1,240,000	1,240,000	1,240,000	1,240,000	1,240,000	1,240,000
Fringe benefits	42,409	40,845	40,845	40,845	42,409	40,845
Total	**1,282,409**	**1,280,845**	**1,280,845**	**1,280,845**	**1,282,409**	**1,280,845**
One-year variable compensation	**1,260,000**	**1,417,500**	**–**	**2,835,000**	**1,638,000**	**2,296,350**
Multi-year variable compensation	**1,827,516**	**1,732,500**	**–**	**3,465,000**	**758,278**	**1,635,221**
– Share Performance Plan, seventh tranche (2012–2015)	–	–	–	–	*758,278*	–
– Share Matching Plan, first tranche (2013–2017)	–	–	–	–	–	*1,635,221*
– Share Matching Plan, fourth tranche (2016–2020)	*1,197,516*	–	–	–	–	–
– Share Matching Plan, fifth tranche (2017–2021)	*630,000*	–	–	–	–	–
– Performance Plan, first tranche (2017–2020)	–	*1,732,500*	–	*3,465,000*	–	–
Total	**4,369,925**	**4,430,845**	**1,280,845**	**7,580,845**	**3,678,687**	**5,212,416**
Service cost	779,460	864,771	864,771	864,771	779,460	864,771
Total	**5,149,385**	**5,295,616**	**2,145,616**	**8,445,616**	**4,458,147**	**6,077,187**

[1]The maximum amount disclosed under benefits granted represents the sum of the contractual (individual) caps for the various elements of the compensation of Management Board members.
[2]The overall cap on Management Board compensation, which was introduced in the 2013 financial year and is described on page 89, applies as well.

Table of Compensation Granted and Allocated

	Dr.-Ing. Leonhard Birnbaum (member of the Management Board)					
			Compensation granted		Compensation allocated	
€	2016	2017	2017 (min.)	2017 (max.)[1, 2]	2016	2017
Fixed compensation	800,000	800,000	800,000	800,000	800,000	800,000
Fringe benefits	25,138	27,117	27,117	27,117	25,138	27,117
Total	**825,138**	**827,117**	**827,117**	**827,117**	**825,138**	**827,117**
One-year variable compensation	**733,333**	**825,000**	**–**	**1,650,000**	**953,333**	**1,336,500**
Multi-year variable compensation	**1,063,643**	**1,008,333**	**–**	**2,016,666**	**–**	**332,994**
– *Share Performance Plan, seventh tranche (2012–2015)*	–	–	–	–	–	–
– *Share Matching Plan, first tranche (2013–2017)*	–	–	–	–	–	*332,994*
– *Share Matching Plan, fourth tranche (2016–2020)*	*696,976*	–	–	–	–	–
– *Share Matching Plan, fifth tranche (2017–2021)*	*366,667*	–	–	–	–	–
– *Performance Plan, first tranche (2017–2020)*	–	*1,008,333*	–	*2,016,666*	–	–
Total	**2,622,114**	**2,660,450**	**827,117**	**4,493,783**	**1,778,471**	**2,496,611**
Service cost	380,589	371,568	371,568	371,568	380,589	371,568
Total	**3,002,703**	**3,032,018**	**1,198,685**	**4,865,351**	**2,159,060**	**2,868,179**

[1, 2]See footnotes on page 94.

Table of Compensation Granted and Allocated

	Michael Sen (member of the Management Board until March 31, 2017)					
			Compensation granted		Compensation allocated	
in €	2016	2017	2017 (min.)	2017 (max.)[1, 2]	2016	2017
Fixed compensation	700,000	175,000	175,000	175,000	700,000	175,000
Fringe benefits	181,065	17,100	17,100	17,100	181,065	17,100
Total	**881,065**	**192,100**	**192,100**	**192,100**	**881,065**	**192,100**
One-year variable compensation	**600,000**	**–**	**–**	**–**	**780,000**	**–**
Multi-year variable compensation	**300,000**	**–**	**–**	**–**	**–**	**–**
– *Share Performance Plan, seventh tranche (2012–2015)*	–	–	–	–	–	–
– *Share Matching Plan, first tranche (2013–2017)*	–	–	–	–	–	–
– *Share Matching Plan, fourth tranche (2016–2020)*	–	–	–	–	–	–
– *Share Matching Plan, fifth tranche (2017–2021)*	*300,000*	–	–	–	–	–
– *Performance Plan, first tranche (2017–2020)*	–	–	–	–	–	–
Total	**1,781,065**	**192,100**	**192,100**	**192,100**	**1,661,065**	**192,100**
Service cost	270,989	–	–	–	270,989	–
Total	**2,052,054**	**192,100**	**192,100**	**192,100**	**1,932,054**	**192,100**

[1, 2]See footnotes on page 94.

Table of Compensation Granted and Allocated

€	Dr. Marc Spieker (member of the Management Board since January 1, 2017)					
			Compensation granted		Compensation allocated	
	2016	2017	2017 (min.)	2017 (max.)[1, 2]	2016	2017
Fixed compensation	–	700,000	700,000	700,000	–	700,000
Fringe benefits	–	35,695	35,695	35,695	–	35,695
Total	**–**	**735,695**	**735,695**	**735,695**	**–**	**735,695**
One-year variable compensation	**–**	**675,000**	**–**	**1,350,000**	**–**	**1,093,500**
Multi-year variable compensation	**–**	**825,000**	**–**	**1,650,000**	**–**	**–**
– *Share Performance Plan, seventh tranche (2012–2015)*	–	–	–	–	–	–
– *Share Matching Plan, first tranche (2013–2017)*	–	–	–	–	–	–
– *Share Matching Plan, fourth tranche (2016–2020)*	–	–	–	–	–	–
– *Share Matching Plan, fifth tranche (2017–2021)*	–	–	–	–	–	–
– *Performance Plan, first tranche (2017–2020)*	–	*825,000*	–	*1,650,000*	–	–
Total	**–**	**2,235,695**	**735,695**	**3,735,695**	**–**	**1,829,195**
Service cost	–	33,936	33,936	33,936	–	33,936
Total	**–**	**2,269,631**	**769,631**	**3,769,631**	**–**	**1,863,131**

[1, 2]See footnotes on page 94.

Table of Compensation Granted and Allocated

€	Dr. Karsten Wildberger (member of the Management Board)					
			Compensation granted		Compensation allocated	
	2016	2017	2017 (min.)	2017 (max.)[1, 2]	2016	2017
Fixed compensation	525,000	700,000	700,000	700,000	525,000	700,000
Fringe benefits	1,442,153	67,346	67,346	67,346	1,442,153	67,346
Total	**1,967,153**	**767,346**	**767,346**	**767,346**	**1,967,153**	**767,346**
One-year variable compensation	**450,000**	**675,000**	**–**	**1,350,000**	**585,000**	**1,093,500**
Multi-year variable compensation	**675,000**	**825,000**	**–**	**1,650,000**	**–**	**–**
– *Share Performance Plan, seventh tranche (2012–2015)*	–	–	–	–	–	–
– *Share Matching Plan, first tranche (2013–2017)*	–	–	–	–	–	–
– *Share Matching Plan, fourth tranche (2016–2020)*	*450,000*	–	–	–	–	–
– *Share Matching Plan, fifth tranche (2017–2021)*	*225,000*	–	–	–	–	–
– *Performance Plan, first tranche (2017–2020)*	–	*825,000*	–	*1,650,000*	–	–
Total	**3,092,153**	**2,267,346**	**767,346**	**3,767,346**	**2,552,153**	**1,860,846**
Service cost	292,555	350,492	350,492	350,492	292,555	350,492
Total	**3,384,708**	**2,617,838**	**1,117,838**	**4,117,838**	**2,844,708**	**2,211,338**

[1, 2]See footnotes on page 94.

As in the prior year, E.ON SE and its subsidiaries granted no loans to, made no advance payments to, nor entered into any contingencies of behalf of the members of the Management Board in the 2017 financial year. Page 224 contains additional information about the members of the Management Board.

The following table provides a summary overview of the above-described components of the Management Board's compensation as well as their metrics and parameters:

Summary Overview of Compensation Components

Compensation component	Metric/Parameter
Fixed compensation	
Base salary	• Management Board Chairman: €1,240,000 • Management Board members: €700,000–€800,000
Fringe benefits	Chauffeur-driven company car, telecommunications equipment, insurance premiums, medical examination
Performance-based compensation	
Annual bonus	• Target bonus at 100 percent target attainment: – Target bonus for Management Board Chairman: €1,417,500 – Target bonus for Management Board members: €675,000–€825,000 • Cap: 200 percent of target bonus • Amount of bonus depends on – Company performance: actual EPS vs. budget – Individual performance factor: collective performance and individual performance • Annual bonus corresponds to 45 percent of performance-based compensation
Possibility of special compensation	May be awarded, at the Supervisory Board's discretion, for outstanding achievements as part of the annual bonus as long as the total bonus remains under the cap.
Long-term variable compensation: Share Matching Plan (granted until 2016)	• Granting of virtual shares of E.ON stock with a four-year vesting period: – Target value for Management Board Chairman: €1,260,000 (excluding LTI components from annual bonuses) – Target value for Management Board members: €600,000–€733,333 (excluding LTI components from annual bonuses) • Cap: 200 percent of the target value • Number of virtual shares: 1/3 from the annual bonus (LTI component) + base matching (1:1) + performance matching (1:0 to 1:2) depending on ROACE during vesting period • Value development depends on the 60-day average price of E.ON stock price at the end of the vesting period and on the dividend payments during the four-year vesting period
Long-term variable compensation: E.ON Performance Plan (granted from 2017)	• Granting of virtual shares of E.ON stock with a four-year vesting period: – Target value for Management Board Chairman: €1,732,500 – Target value for Management Board members: €825,000–€1,008,333 • Final number of virtual shares depends on E.ON stock's TSR relative to the TSR of companies in the STOXX® Europe 600 Utilities index; ¼ of TSR performance is locked in annually • Allocation limit; that is, the maximum number of virtual shares: 150 percent • Value development depends on the 60-day average price of E.ON stock price at the end of the vesting period and on the dividend payments during the four-year vesting period • Cap: 200 percent of the target value • Annual target allocation corresponds to 55 percent of performance-based compensation
Pension benefits	
Final-salary-based benefits[1]	• Lifelong pension payment equaling a maximum of 75 percent of fixed compensation from age of 60 • Pension payments for widows and children equaling 60 percent and 15 percent, respectively, of pension entitlement
Contribution-based benefits	• Virtual contributions equaling a maximum of 21 percent of fixed compensation and target bonus • Virtual contributions capitalized using interest rate based on long-term German treasury notes • Payment of pension account balance from age 62 as a lifelong pension, in installments, or in a lump sum
Other compensation provisions	
Share-ownership guidelines	• Obligation to buy and hold E.ON stock until the end of service on the Management Board • Investment in E.ON stock equaling a percentage of base compensation: – 200 percent (Management Board Chairperson) – 150 percent (other Management Board members) • Until the required investment is reached, obligation to invest net payouts from long-term compensation in E.ON stock
Settlement cap	Maximum of two years' total compensation or the total compensation for the remainder of the service agreement
Settlement for change-of-control	Settlement equal to two target salaries (base salary, target bonus, and fringe benefits), reduced by up to 20 percent.
Non-compete clause	For six months after termination of service agreement, prorated compensation equal to fixed compensation and target bonus, at a minimum 60 percent of most recently received compensation

[1]Only applies to Dr. Johannes Teyssen.

Payments Made to Former Members of the Management Board

Total payments made to former Management Board members and to their beneficiaries amounted to €12.4 million in 2017 (prior year: €11.6 million). Provisions of €159.0 million (prior year: €172.8 million)—pursuant to IFRS—have been provided for pension obligations to former Management Board members and their beneficiaries.

Compensation Plan for the Supervisory Board

The compensation of Supervisory Board members is determined by the Annual Shareholders Meeting and governed by Section 15 of the Company's Articles of Association. The purpose of the compensation plan is to enhance the Supervisory Board's independence for its oversight role. Furthermore, there are a number of duties that Supervisory Board members must perform irrespective of the Company's financial performance. Supervisory Board members—in addition to being reimbursed for their expenses—therefore receive fixed compensation and compensation for committee duties.

The Chairman of the Supervisory Board receives fixed compensation of €440,000; the Deputy Chairmen, €320,000. The other members of the Supervisory Board receive compensation of €140,000. The Chairman of the Audit and Risk Committee receives an additional €180,000; the members of the Audit and Risk Committee, an additional €110,000. Other committee chairmen receive an additional €140,000; committee members, an additional €70,000. Members serving on more than one committee receive the highest applicable committee compensation only. In contradistinction to the compensation just described, the Chairman and the Deputy Chairmen of the Supervisory Board receive no additional compensation for their committee duties. In addition, Supervisory Board members are paid an attendance fee of €1,000 per day for meetings of the Supervisory Board or its committees. Individuals who were members of the Supervisory Board or any of its committees for less than an entire financial year receive pro rata compensation.

Supervisory Board Compensation in 2017

The total compensation of the members of the Supervisory Board amounted to €4.5 million (prior year: €3.6 million pursuant to the total compensation of the Supervisory Board reported in the 2016 Annual Report). As in the prior year, no loans were outstanding or granted to Supervisory Board members in the 2017 financial year.

Supervisory Board Compensation

	Supervisory Board compensation		Compensation for committee duties		Attendance fees		Supervisory Board compensation from affiliated companies		Total	
€	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Dr. Karl-Ludwig Kley	440,000	256,667	–	–	13,000	7,000	–	–	453,000	263,667
Prof. Dr. Ulrich Lehner	320,000	320,000	–	–	12,000	10,000	–	–	332,000	330,000
Andreas Scheidt	320,000	320,000	–	–	13,000	10,000	170,853	–	503,853	330,000
Clive Broutta	140,000	140,000	70,000	70,000	8,000	8,000	–	–	218,000	218,000
Erich Clementi	140,000	70,000	–	–	7,000	2,000	–	–	147,000	72,000
Tibor Gila	140,000	70,000	–	–	6,000	2,000	–	2,705	146,000	74,705
Thies Hansen	140,000	140,000	110,000	110,000	10,000	10,000	17,700	17,700	277,700	277,700
Carolina Dybeck Happe	140,000	81,667	52,500	–	10,000	2,000	–	–	202,500	83,667
Baroness Denise Kingsmill CBE	140,000	140,000	–	–	3,000	6,000	–	–	143,000	146,000
Eugen-Gheorghe Luha	140,000	140,000	70,000	70,000	10,000	8,000	13,114	13,483	233,114	231,483
Andreas Schmitz	140,000	70,000	82,500	–	9,000	3,000	–	–	231,500	73,000
Fred Schulz	140,000	140,000	110,000	110,000	15,000	13,000	22,243	13,500	287,243	276,500
Silvia Šmátralová	140,000	70,000	–	–	6,000	2,000	24,367	32,452	170,367	104,452
Dr. Karen de Segundo	140,000	140,000	122,500	70,000	11,000	8,000	–	–	273,500	218,000
Dr. Theo Siegert	140,000	140,000	180,000	180,000	11,000	10,000	–	–	331,000	330,000
Elisabeth Wallbaum	140,000	140,000	–	–	6,000	6,000	–	–	146,000	146,000
Ewald Woste	140,000	70,000	52,500	–	10,000	2,000	8,000	–	210,500	72,000
Albert Zettl	140,000	70,000	52,500	–	11,000	2,000	20,000	20,000	223,500	92,000
Total	**3,180,000**	**2,518,333**	**902,500**	**610,000**	**171,000**	**111,000**	**276,277**	**99,841**	**4,529,777**	**3,339,174**

Other

The Company has taken out D&O insurance for Management Board and Supervisory Board members. In accordance with the German Stock Corporation Act and the German Corporate Governance Code's recommendation, this insurance includes a deductible of 10 percent of the respective damage claim for Management Board and Supervisory Board members. The deductible has a maximum cumulative annual cap of 150 percent of a member's annual fixed compensation.

Financial Statements of E.ON SE

Balance Sheet of E.ON SE

€ in millions	Note	2017	2017	2016	2016
					December 31
Intangible assets	(1)		0.1		–
Property, plant and equipment	(1)		11.5		14.1
Financial assets					
Shares in affiliated companies	(2)		35,394.8		35,394.7
Other financial assets	(3)		1,963.4		1,973.3
Fixed assets	(4)		**37,369.8**		**37,382.1**
Receivables and other assets					
Receivables from affiliated companies	(5)		7,697.2		8,089.3
Receivables from companies in which an interest is held	(6)		–		9.3
Other assets	(7)		335.9		636.6
Securities	(8)		1,013.3		1,087.3
Liquid funds	(9)		2,024.8		4,664.2
Current assets			**11,071.2**		**14,486.7**
Accrued expenses	(10)		**36.4**		**30.5**
Asset surplus after offsetting of benefit obligations	(11)		**0.5**		**15.0**
Total assets			**48,477.9**		**51,914.3**
Capital stock	(12)	2,201.1		2,001.0	
Accounting value of treasury shares		-33.9		-48.6	
Issued capital			2,167.2		1,952.4
Additional paid-in capital	(13)		3,657.1		2,508.6
Retained earnings	(14)		1,884.2		471.8
Net income available for distribution	(15)		1,320.3		452.0
Stockholders' equity	(16)		**9,028.8**		**5,384.8**
Provisions for pensions		312.3		300.1	
Right of recourse ("Freistellungsanspruch")		-301.6		-300.1	
	(17)		10.7		–
Provisions for taxes	(18)		1,067.0		1,320.4
Other provisions	(19)		1,049.7		1,258.0
Provisions			**2,127.4**		**2,578.4**
Bonds			2,000.0		–
Bank loans			665.4		776.4
Liabilities to affiliated companies			34,349.6		43,101.8
Liabilities to companies in which an interest is held			5.4		4.1
Miscellaneous liabilities			299.7		64.2
Liabilities	(20)		**37,320.1**		**43,946.5**
Deferred income			**1.6**		**4.6**
Total stockholders' equity and liabilities			**48,477.9**		**51,914.3**

Income Statement of E.ON SE

€ in millions	Note	January 1 to December 31 2017	2016
Income from equity investments	(21)	4,676.4	2,133.8
Interest income (net)	(22)	-1,367.5	-545.5
Revenues	(23)	53.6	43.8
Other operating income	(24)	2,395.4	3,798.3
Cost of materials	(25)	-14.8	-7.8
Personnel expenses	(26)	-162.9	-146.4
Depreciation of property, plant and equipment		-0.7	-0.7
Other operating expenses	(27)	-2,767.6	-4,238.7
Income taxes	(28)	-156.3	-163.4
After-tax results		**2,655.6**	**873.4**
Other taxes		-15.3	3.1
Net income/net loss		**2,640.3**	**876.5**
Profit carryforward from the prior year[1]	(15)	0.0	–
Withdrawal from additional paid-in capital	(13)	–	3,357.1
Withdrawals from retained earnings	(14)	–	3,611.5
Decrease in assets as a result of the spinoff		–	-6,968.6
Net income transferred to retained earnings	(14)	-1,320.0	-424.5
Net income available for distribution	(15)	**1,320.3**	**452.0**

[1]Profit carryforward from fiscal year 2016 in the amount of €210.

Notes to the Financial Statements of E.ON SE

Basis of Presentation

With its entry in the commercial register on June 9, 2017, E.ON SE moved its registered office from Düsseldorf to Essen and is now registered at Essen District Court under number HRB 28196. The resolution on the Company's registered office in accordance with the Articles of Association was adopted by the Annual General Meeting on May 10, 2017. Section 1(1) sentence 2 of the Company's Articles of Association was amended accordingly.

The annual financial statements have been prepared in accordance with the provisions of the German Commercial Code ("HGB") and the Directive on the status of the European Company (SE) in conjunction with the German Stock Corporation Act ("AktG"), and the German Energy Industry Act ("EnWG").

E.ON SE is a large corporation as defined in Section 267 (3) HGB.

Individual balance sheet and income statement items have been combined in order to improve the clarity of the presentation, in accordance with Section 265 (7) no. 2, HGB. These items are stated and explained separately in these Notes. The income statement is prepared using the nature-of-expense method. The structure of the income statement has been changed to improve the clarity of the presentation in accordance with Section 265 (6) HGB. In order to highlight the character of E.ON SE as a holding company, derogations from the classification scheme pursuant to Section 275 (2) HGB have been made in that the combined items of income from equity investments and interest income have been placed ahead of the remaining items.

The annual financial statements are prepared in euro (€) and amounts are stated in millions of euro. Rounded-off amounts of less than €0.1 million will be stated at €0.0 million and zero values at €– million.

Accounting and Disclosure Policies

Intangible assets acquired against payment recognized within non-current assets and property, plant and equipment are valued at acquisition or production cost, less scheduled depreciation. Unless otherwise specified, the useful lives applied correspond to the average useful lives. For property, plant and equipment that existed before January 1, 2010, and was depreciated using the declining-balance method, the retention option pursuant to Article 67 (4), sentence 1, of the Introductory Act to the German Commercial Code (EGHGB), was exercised and the declining-balance method continues to be applied. Additions to property, plant and equipment from the 2010 fiscal year forward are depreciated over their average useful lives using exclusively the straight-line method. Movable fixed assets are depreciated pro rata temporis.

Average useful life assumptions are as follows:

Useful Lives of Property, Plant and Equipment

Intangible assets	3 years
Buildings	7 to 33 years
Technical equipment and machinery	10 to 20 years
Other equipment, fixtures and office equipment	3 to 20 years

Low-value assets with costs of up to €150 are expensed in full in the year of acquisition. A collective item is created for assets whose cost of acquisition is more than €150 and less than €1,000. One fifth of the respective collective item is written down and recognized in income in the year it is created and in each of the subsequent four fiscal years.

Impairments are recognized in the event of a technical or economic impairment. Impairments are reversed if the reasons for the impairments no longer apply.

Shares in affiliated companies, equity interests and non-current securities are generally accounted for at cost or at their fair value, if lower. Acquisitions and mergers are recognized at book values or fair values. Interest-bearing loans are carried at their nominal values; long-term interest-free and low-interest loans and receivables are carried at present value. If the carrying amount of financial assets measured in accordance with these principles exceeds their fair value at the balance sheet date, impairments are recognized if the impairment is expected to be permanent. If the reason for the impairment no longer applies, the impairment is reversed.

The values of receivables and other assets are adjusted to account for identifiable individual risks. Receivables are recognized at their nominal values less appropriate valuation allowances for potential default risks (lower fair value). Current securities are accounted for at cost or at the lower of their market price or redemption value.

Occupational retirement benefit obligations toward employees and semiretirement pension credits and long-term working-time accounts are covered by corresponding funds invested in fund units and fixed-term deposits or liquid funds; in addition, there are claims arising from assets pledged to beneficiaries (2016: from reinsured pension obligations) against Versorgungskasse Energie VVaG i.L. ("VKE"), Hanover, Germany. The fund units are administered in trust for E.ON SE by E.ON Pension Trust e.V. (2016: by E.ON Pension Trust e.V. and Pensionsabwicklungstrust e.V., both registered in Düsseldorf, Germany), and the fixed-term deposits covering the semiretirement pension credits by Energie-Sicherungstreuhand e.V., Hanover, Germany. The assets concerned are designated exclusively for the fulfillment of pension obligations and are shielded from all other creditors.

In fiscal year 2017, a resolution was passed by the members of VKE to dissolve VKE at the end of December 30, 2017, and to terminate the (reinsurance) insurance relationships accordingly as of that date. The insurance assets will be transferred to a follow-on solution in 2018. This does not change the classification of the claim of the member company against VKE in respect of the guarantee fund assets. The claim against VKE represents a claim pledged to the beneficiaries.

Under the terms of the merger agreement dated July 10, 2017, E.ON Pension Trust e.V., Düsseldorf, was merged with Pensionsabwicklungstrust e.V., Düsseldorf, by registration in the commercial register on July 24, 2017, and renamed E.ON Pension Trust e.V. in November 2017, with the transfer of its registered office to Essen.

Guarantee fund assets are measured at fair value. They are offset against the respective underlying obligations pursuant to Section 246 (2) HGB. The associated expense and income from interest effects and from the assets to be offset is treated in a similar manner. The resulting accumulated benefit obligation is recognized under provisions. Any surplus in the fair value of the guarantee fund assets over the benefit obligations is recognized in a separate line on the balance sheet called "Asset surplus after offsetting of benefit obligations."

Liquid funds are measured at fair value. Cash, current bank accounts and contingencies denominated in foreign currency are translated at the exchange rates applicable on the balance sheet date. Pursuant to Section 256a HGB, assets and liabilities denominated in foreign currency and having a residual term of one year or less are translated at the mid-market spot rate applicable on the balance sheet date. Other foreign-currency items are measured at the rate applicable on the date of the business transaction, except that the rate on the balance sheet date is used if it produces a lower valuation. If hedged items are aggregated with hedges to form closed positions, the hedged rate is used for the valuation.

Amounts paid during the fiscal year for expenses incurred after the balance sheet date are recognized on the assets side as prepaid expenses. The option to capitalize loan discounts pursuant to Section 250 (3) HGB was exercised. Liabilities are amortized over their terms according to schedule.

Derivative financial instruments are used to hedge against interest and currency risks arising from booked, open and planned underlying transactions. Booked and open underlying transactions are aggregated with their associated hedges in portfolios that are separated by currency and interest hedging instrument for each currency (macro-hedges). Transactions contained in a portfolio are valued separately at the balance sheet date. The following valuation methods and assumptions are used to determine market values:

- Foreign exchange forwards and swaps are valued at the forward rate on the balance sheet date.
- Depending on their structure, currency options are measured using either the Black-Scholes model or binomial models.
- Instruments used to hedge interest risks are measured by discounting future cash flows using market interest rates over the remaining terms of the instruments. Interest rate swap amounts are recognized in the income statement on the date of payment or accrual on the balance sheet date.

The valuation of the portfolio is derived from the difference between market values and costs. According to accounting principles under the German Commercial Code (HGB), the negative valuation of a portfolio requires the establishment of a provision for anticipated losses from open transactions, while a positive valuation result is disregarded. In addition, hedging transactions may be allocated directly to booked and open underlying transactions and aggregated with them into hedges (micro-hedges). E.ON SE accounts for these hedges using the net hedge presentation method.

E.ON SE has established risk management guidelines for the use of derivative financial instruments. Credit risks arising from the use of derivative financial instruments are systematically monitored and controlled throughout the E.ON Group.

Pensions and similar obligations are measured using the internationally recognized projected unit credit method. In this method, the amount of the pension obligations is derived from the benefit entitlement earned as of the balance sheet date, taking into account future wage and salary increases. Because of the application of Section 253 (2) HGB, pension obligations and obligations similar to pensions that are valued as pension components are discounted using the mid-market interest rate for the past ten years as published by the Deutsche Bundesbank, with an assumed residual term of 15 years.

The wage and salary growth rate and pension increase rates are also taken into consideration. The basis for the actuarial calculations to determine the provisions is the 2005 G versions of the Klaus Heubeck biometric tables ("Richttafeln"). The final age used for measurement purposes is the earliest possible age limits under the statutory retirement pension system in Germany, taking into account the provisions of the Retirement Pension Age Limit Adjustment Act ("RV-Altersgrenzenanpassungsgesetz") of April 20, 2007. For employees who have concluded early-retirement or semiretirement arrangements, the contractually agreed final age is taken into account. Furthermore, fluctuation probabilities customary in the industry are also applied.

With effect from December 31, 2006, MEON Pensions GmbH & Co. KG, Grünwald, (MEON) entered into an agreement for the assumption of a collateral promise towards active employees and their beneficiaries, together with the assumption of benefit obligations towards the company (co-assumption of liability). MEON has indemnified the Company internally against liability for the benefit obligations specified in the agreement. In return for this right of recourse, the Company transferred assets of equivalent value to MEON. The indemnity claim is measured in the same manner as the underlying benefit obligation.

The indemnity claim is openly netted against the pension provisions.

In 2014, E.ON SE implemented a contractual trust arrangement (CTA) to hedge its pension obligations. To this end, E.ON SE entered into a trust agreement and transferred guarantee fund assets to the trustee. E.ON SE remains the immediate obligor under the pension commitments. No payments were made into the CTA in 2017.

Provisions for taxes and other provisions take into account all identifiable and uncertain obligations. These provisions are recognized at settlement amounts that are determined through reasonable commercial estimates. Future increases in prices and costs are also included in other provisions if sufficient objective indications are available concerning such increases. Provisions with a residual term of more than one year are discounted at the average market interest rate for the past seven years that corresponds to their residual term.

Liabilities are recognized at their settlement amount on the balance sheet date. Pension obligations are recognized at present value using a mid-market interest rate for the past seven fiscal years that is appropriate for the term. The values of liabilities from financial guarantee contracts correspond to the loan amounts as measured on the balance sheet date.

Foreign-currency liabilities with a residual term of more than one year are measured at the price at the time of their initial recognition or at the higher mid-market spot rate applicable on the balance sheet date. Short-term foreign-currency liabilities with a remaining term of one year or less were converted at the closing rate at the mid-market spot rate without taking into account the maximum or realization principle.

Income before the balance sheet date for income for a specific period after that date is recognized as deferred income.

Pursuant to Section 274 (1) HGB, deferred taxes are determined for temporary differences between valuations of assets, liabilities and accruals for financial accounting under HGB and for tax accounting purposes. E.ON SE takes into account not only the differences from its own balance sheet items, but also those carried by subsidiaries that are part of its tax group. In this respect, deferred taxes may be recognized for temporary differences of the tax group companies in the annual financial statements of E.ON SE only for as long as the tax group is expected to continue to exist.

In addition to these temporary differences, tax loss carryforwards and interest expense carryforwards are also taken into account. Deferred taxes are determined based on the combined income tax rate, currently 30 percent. The combined income tax rate includes corporate income tax, trade tax and the solidarity surcharge. For partnership interests, however, deferred taxes arising from temporary differences are calculated using a different combined income tax rate that includes only the corporate income tax and solidarity surcharge; this rate is currently 16 percent.

Deferred taxes are netted for presentation on the balance sheet (Section 274 (1), sentence 3, HGB). If the net result is a tax credit (asset overhang), the recognition option pursuant to Section 274 (1), sentence 2, HGB is not exercised. A net tax liability is presented on the balance sheet as a deferred tax liability. In the income statement, any change in the deferred taxes reported on the balance sheet is presented under “Income taxes” on a separate line. The net result for 2017 was a deferred tax asset, which was not included on the balance sheet.

Notes on the Balance Sheet

(1) Intangible Assets and Property, Plant and Equipment

The intangible assets recognized in the year under review relate to software licenses and rights of use acquired for consideration.

Property, plant and equipment declined by €2.6 million from the previous year. Additions of €0.5 million were offset by disposals at carrying amounts of €2.5 million. The reported disposals relate primarily to land and buildings. Scheduled depreciation of property, plant and equipment amounted to €0.6 million in the fiscal year.

(2) Shares in Affiliated Companies

By virtue of the shareholders’ agreement dated December 13, 2017, and entry in the commercial register on December 18, 2017, E.ON Finanzholding SE & Co. KG was founded with fixed capital of €52,000. E.ON SE holds 99.9 percent of the shares as general partner. The sole limited partner of E.ON Finanzholding SE & Co. KG, with a fixed capital share of €50 (0.1 percent) is E.ON Finanzholding Beteiligungs-GmbH. The cash contributions were paid in on January 10, 2018.

The income and losses from equity investments are described in detail in Note 21.

A list of the shareholdings of E.ON SE as of December 31, 2017, is included as part of these Notes on pages 110 et seq. Section 286 (3), no. 1, HGB has been applied in that only those holdings that are individually or collectively material to the overall assessment of assets, financial condition and earnings are listed.

(3) Other Financial Assets

Other financial assets consist of equity investments totaling €8.9 million and long-term loans amounting to €1,954.5 million, which did not change significantly in the fiscal year.

(4) Fixed Assets

The classification and development of the items summarized on the balance sheet are shown in the following table:

Development of Fixed Assets of E.ON SE

	Acquisition and production costs			
€ in millions	January 1, 2017	Additions	Disposals	December 31, 2017
Concessions acquired for consideration, commercial proprietary rights and similar rights	–	0.2	–	0.2
Intangible assets	**–**	**0.2**	**–**	**0.2**
Real estate, leasehold rights and buildings, including buildings on land owned by third parties	11.0	0.1	2.4	8.7
Technical equipment, plant and machinery	0.1	–	0.1	–
Other plant, fixtures, furniture and office equipment	13.7	0.4	0.5	13.6
Property, plant and equipment	**24.8**	**0.5**	**3.0**	**22.3**
Shares in affiliated companies	38,355.9	0.1	–	38,356.0
Long-term loans to affiliated companies	1,964.2	–	9.8	1,954.4
Equity investments	8.9	–	–	8.9
Other long-term loans	0.3	–	0.1	0.2
Financial assets	**40,329.3**	**0.1**	**9.9**	**40,319.5**
Fixed assets	**40,354.1**	**0.8**	**12.9**	**40,342.0**

(5) Receivables from Affiliated Companies

Receivables from affiliated companies primarily relate to claims from intragroup financing in the amount of €7,455.7 million (2016: €7,810.6 million). This item includes liabilities from profit and loss pooling agreements totaling €799.6 million. It also includes trade receivables of €10.6 million (2016: €– million) and other receivables of €230.9 million (2016: €278.7 million).

As in the previous year, all of the receivables have a residual term of up to one year.

(6) Receivables from Companies in Which an Interest Is Held

The receivables from Uniper SE reported in the prior year totaled €9.3 million.

(7) Other Receivables

The other receivables item comprises trade receivables and other assets. The item breaks down as follows:

Other Receivables

€ in millions	2017	2016
Trade receivables	2.2	–
Other assets	333.7	636.6
Total	**335.9**	**636.6**

Other assets mainly relates to corporate income tax refunds of €146.2 million for 2016 and €10.8 million for 2017, in addition to the solidarity surcharge. The reduction in tax receivables totaling €266.8 million is mainly due to the final payment of the corporation tax credit of around €86.6 million and refunds for the 2015 assessment year of around €189.1 million.

The other receivables have a residual term of up to one year.

	Write-downs				Book values	
	January 1, 2017	Additions	Disposals	December 31, 2017	December 31, 2017	December 31, 2016
	–	0.1	–	0.1	0.1	–
	–	**0.1**	**–**	**0.1**	**0.1**	**–**
	1.4	–	0.3	1.1	7.6	9.6
	0.0	0.0	0.0	0.0	0.0	0.1
	9.3	0.6	0.2	9.7	3.9	4.4
	10.7	**0.6**	**0.5**	**10.8**	**11.5**	**14.1**
	2,961.2	–	–	2,961.2	35,394.8	35,394.7
	–	–	–	–	1,954.4	1,964.2
	–	–	–	–	8.9	8.9
	0.1	–	–	0.1	0.1	0.2
	2,961.3	**–**	**–**	**2,961.3**	**37,358.2**	**37,368.0**
	2,972.0	**0.7**	**0.5**	**2,972.2**	**37,369.8**	**37,382.1**

(8) Securities

Reported under securities are exclusively other securities. The decline is due to limited and expired commercial paper in the year under review.

In addition, units in an equity fund and a bond fund totaling €10.0 million are presented here as well. These are domestic investment undertakings as defined by Section 1 (10) of the German Investment Code. E.ON SE holds more than 10 percent of the units of each of the funds.

Investment Fund Units

€ in millions	Book value (BV) Dec. 31, 2017	Fair value (FV) Dec. 31, 2017	Δ (FV–BV)	Distribution in 2017	Daily redemption possible
Equity funds	5,0	8.2	3.2	–	Yes
Bond funds	5.0	8.2	3.2	–	Yes
Total	**10.0**	**16.4**	**6.4**	**–**	

(9) Liquid Funds

Liquid funds of €2,024.8 million reported as of the balance sheet date consist mainly of cash at banks. Of liquid funds, €691.5 million is restricted. The decline in liquid funds is primarily attributable to the provision of funds for payments made in July into Germany's public fund for financing nuclear-waste disposal.

(10) Accrued Expenses

The item consists of €22.7 million in discounts (2016: €21.3 million), which mainly relate to various loans granted by E.ON International Finance B.V. and bonds issued in the year under review. A further €13.7 million resulted from the accrual of prepaid commitment fees and other expenses (2016: €9.2 million) during the period.

(11) Asset Surplus after Offsetting of Benefit Obligations

The offsetting of the guarantee fund assets against pension obligations secured by Versorgungskasse Energie VVaG (VKE) i.L. via claims pledged to the beneficiaries and the settlement backlog arising from semiretirement arrangements covered by these assets has produced a surplus of €0.5 million. In the prior year, this item also included the offsetting of the guarantee fund assets in connection with pension obligations not reinsured by VKE. In 2017, the corresponding offsetting amount is reported under pension provisions.

Receivables pledged to beneficiaries against VKE i.L. in the amount of €2.8 million represent guarantee fund assets and are netted against the corresponding portion of pension obligations (€2.3 million). The offsetting results in an asset surplus of €0.5 million (2016: €0.7 million). The fair values of the pledged receivables correspond to their acquisition cost. In the prior year, the pension liability insurance claims corresponded to the capital reserve documented by the insurer, which is the acquisition cost.

The settlement backlog from partial retirement agreements with Energie-Sicherungstreuhand e.V. in the amount of €0.3 million is offset against the fair value of the guarantee fund assets in the amount of €0.3 million. The offsetting of the guarantee fund assets against the settlement backlog arising from semiretirement arrangements covered by these assets has produced a minimal surplus (2016: €0.1 million). The fair values of the fixed-term deposits correspond to their acquisition cost.

(12) Capital Stock

By shareholder resolution adopted at the Annual Shareholders Meeting of May 3, 2012, the Management Board of E.ON SE was authorized under agenda item 7, subject to the Supervisory Board's approval, to increase the Company's capital stock by May 2, 2017, 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 2012). One of the components of the Authorized Capital 2012 was an authorization of the Management Board, with the approval of the Supervisory Board, to increase shareholders' subscription rights in accordance with Section 186 (3)(4) AktG in the case of capital increases against cash contributions, if the issue price of the new shares is not significantly lower than the stock exchange price and the shares issued in connection with this authorization to exclude subscription rights do not exceed a total of 10 percent of the share capital, either at the time the authorization becomes effective or at the time it is exercised.

On March 16, 2017, the Management Board decided, with the approval of the Supervisory Board, to make partial use of the Authorized Capital 2012 and to increase the Company's capital stock, excluding shareholder subscription rights, in accordance with Sections 203 (2) and 186 (3)(4) of the German Stock Corporation Act (AktG), from €2,001,000,000 by €200,099,000 to €2,201,099,000 through the issue of 200,099,000 new registered shares with no-par value with profit participation rights as of January 1, 2016, against cash contributions. This corresponds to an increase in the Company's existing capital stock of slightly less than 10 percent (1,000 shares less than 10 percent) both at the time the Authorized Capital 2012 becomes effective and at the time the Authorized Capital 2012 is used. Through the issue of the new shares with profit participation rights as from January 1, 2016, these shares will bear the same profit participation rights as existing shares when issued.

The capital increase became effective on March 20, 2017, when its implementation was entered in the Company's commercial register. The related transaction costs of €8.8 million are included in other operating expenses. The capital stock is now subdivided into 2,201,099,000 registered ordinary shares with no par value ("no-par-value shares") and amounts to €2,201,099,000. 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 the Company's capital stock by May 9, 2022, by a total of up to €460 million through one or more issuances of new registered no-par-value shares against contributions in cash and/or in kind (with the option to restrict shareholders' subscription rights). Subject to the Supervisory Board's approval, the Management Board is authorized to exclude shareholders' subscription rights. The Authorized Capital 2017 has not been used.

Pursuant to a resolution by the Annual Shareholders Meeting of May 10, 2017, the Company is authorized to purchase own shares until May 9, 2022. The shares purchased, combined with other treasury shares in the possession of the Company, or attributable to the Company pursuant to Sections 71 a et seq. AktG, may at no time exceed 10 percent of its capital stock. The Management Board was authorized at the aforementioned Annual Shareholders Meeting to cancel any shares thus acquired without requiring a separate shareholder resolution for the cancellation or its implementation.

The Company has further been authorized by the Annual Shareholders Meeting to buy shares using put or call options, or a combination of both. When derivatives in the form of put or call options, or a combination of both, are used to acquire shares, the option transactions must be conducted at market terms with a financial institution or on the market. No shares were acquired in 2017 using this purchase model.

To improve clarity, the following discussion of the development of the Company's treasury shares is presented using whole euro amounts.

Of the 48,603,400 E.ON treasury shares existing as of January 1, 2017, 7,572,944 shares originated from the share buyback program implemented in 2001 and 2002, and 38,993,113 shares came from the buyback program implemented in 2007. An additional 5,434 shares were acquired in 2010, while 30,446 shares stem from the intragroup purchase of EBY Port 1 GmbH in 2003. 2,001,463 shares stem from the intragroup purchase of E.ON Sechzehnte Verwaltungs GmbH in 2016.

As part of the scrip dividend for the 2016 financial year, shareholder cash dividend entitlements totaling €107.0 million were settled through the issue and distribution of 14,653,833 treasury shares. This corresponds to 0.67 percent or a computed share of €14,653,833 of the capital stock.

No additional E.ON shares were purchased and no E.ON shares were used for any other programs.

As of the balance sheet date, the Company held a total of 33,949,567 treasury shares. This corresponds to 1.54 percent or a computed share of €33,949,567 of the capital stock. This computed share of the capital stock is subtracted openly from the issued capital in the previous column.

At the Annual Shareholders Meeting of May 10, 2017, shareholders approved a conditional capital increase (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 required to fulfill the obligations arising on the exercise by holders of option or conversion rights, and those arising from compliance with the mandatory conversion of bonds with conversion or option rights, profit participation rights and income bonds issued or guaranteed by E.ON SE or a group company of E.ON SE as defined by Section 18 AktG, and to the extent that no cash settlement has been granted in lieu of conversion and no E.ON SE treasury shares or shares of another listed company have been used to service the rights. The conditional capital has not been used.

Information on Stockholders of E.ON SE

The following notices pursuant to Section 21 (1) of the German Securities Trading Act ("WpHG") concerning changes in voting rights have been received:

Information on Stockholders of E.ON SE

Stockholder	Date of notice	Threshold exceeded	Gained voting rights on	Allocation	Voting rights: Percentages	Voting rights: Absolute
BlackRock Inc., Wilmington, USA	Sep. 5, 2017	5%	Aug. 31, 2017	Indirect	7.21	158,672,779

(13) Additional Paid-in Capital

As a result of the capital increase described in Note 12, the capital reserve increased by €1,148.5 million in accordance with Section 272 (2) No. 1 HGB and amounted to €3,657.1 million (2016: €2,508.6 million) as of the balance sheet date.

(14) Retained Earnings

Retained earnings developed as follows:

Retained Earnings

€ in millions	As of Jan. 1, 2017	Withdrawal	Addition	Change in treasury shares	As of Dec. 31, 2017
Legal reserves	45.3	–	–	–	45.3
Other retained earnings	426.5	–	1,320.0	92.4	1,838.3
Total	**471.8**	**–**	**1,320.0**	**92.4**	**1,884.2**

In the year under review, €1,320.0 million (2016: €424.5 million) was transferred from net income of €2,640.3 million (2016: €876.5 million) to other retained earnings.

The change in other retained earnings from treasury shares is the result of the issue of shares in connection with the scrip dividend (see Note 12).

In order to fulfill retirement benefit obligations, funds have been invested as restricted, bankruptcy-remote assets in fund units administered in trust by E.ON Pension Trust e.V., registered in Essen, Germany. In accordance with Section 253 (1) HGB, they are measured at fair value, which stood at €260.4 million on the balance sheet date and, taking into account deferred tax liabilities of €2.1 million, exceeded the acquisition costs of €243.2 million by €15.1 million. The full amount of the €15.1 million difference is due to increases in value. Taking into account deferred tax assets, also in the amount of €2.1 million, which are based on uncertain earnings and which are taken into account by netting against deferred tax liabilities, this results in a dividend-restricted amount of €17.2 million.

The dividend-restricted amount of the difference between the recognition of provisions for pension obligations based on the corresponding average market interest rate for the past ten fiscal years (3.68 percent p.a.) and the recognition of these provisions based on the corresponding average market interest rate for the past seven fiscal years (2.80 percent p.a.) amounted to €87.4 million as of December 31, 2017, for E.ON SE.

Both of the dividend-restricted amounts totaling €104.6 million mentioned above are fully covered by a sufficient amount of available reserves.

Accordingly, there is no restriction preventing payment in 2018 of the proposed dividend distribution, which is projected to be in the amount of €650.1 million.

(15) Net Income Available for Distribution

Net income available for distribution includes profit carried forward of €210 from the 2016 financial year.

(16) Stockholders' Equity

The following table summarizes the changes in stockholders' equity:

Stockholders' Equity

€ in millions	Issued capital	Additional paid-in capital	Retained earnings	Net income available for distribution	2017 Total	2016 Total
January 1	1,952.4	2,508.6	471.8	452.0	5,384.8	12,469.4
Dividend of E.ON SE for the previous year	–	–	–	-452.0	-452.0	-976.2
Capital increase	200.1	1,148.5	–	–	1,348.6	–
Withdrawal from additional paid-in capital	–	–	–	–	–	-3,357.1
Withdrawal from retained earnings	–	–	–	–	–	-3,611.5
Transfers from net income to retained earnings	–	–	1,320.0	–	1,320.0	424.5
Change in treasury shares	14.7	–	92.4	–	107.1	-16.3
Net income available for distribution	–	–	–	1,320.3	1,320.3	452.0
As of December 31	**2,167.2**	**3,657.1**	**1,884.2**	**1,320.3**	**9,028.8**	**5,384.8**

(17) Provisions for Pensions

The pension obligations cover the benefit obligations towards former employees and employees still working. They are funded in part by the employer and, through deferral of compensation, in part by the employees.

Insofar as it relates to fund units, the fair value of guarantee fund assets stated in the table that follows was derived by the designated administration companies from market prices or with the aid of generally accepted valuation methodologies, such as discounted cash flow procedures using industry-specific assumptions for property valuations, as of the balance sheet date. The invested assets are designated exclusively for the fulfillment of pension obligations and are shielded from all other creditors. Section 246 (2) HGB requires that these assets be offset against the underlying obligations.

The reported pension obligations, as well as the provisions for electricity allowances, are offset on the balance sheet against the right of recourse against MEON Pensions GmbH & Co. KG, Grünwald, Germany, in the amount of €301.6 million.

Pension Reserves[1]

€ in millions	December 31 2017	December 31 2016
Settlement amount[2]	572.7	300.1
Fair value of guarantee fund assets		
Fund units	*260.4*	–
Total	**312.3**	**300.1**

[1]Pension obligations not hedged with VKE through receivables pledged to beneficiaries (2016: pension obligations not reinsured by VKE).
[2]In 2016, the offsetting of the netted portion of the pension obligations not reinsured by VKE (€235.3 million) against the CTA guarantee fund assets (€249.5 million) resulted in an asset surplus in the amount of €14.2 million; the settlement amount was correspondingly lower.

Acquisition costs of the guarantee fund assets totaled €243.2 million in the reporting year. The discount rate used for the pension obligation in 2017 was 3.68 percent p.a. (2016: 4.01 percent p.a.). Also underlying the obligation were a wage and salary growth rate of 2.5 percent p.a. (2016: 2.5 percent p.a.) and a benefit increase rate of 1.75 percent p.a. (2016: 1.75 percent p.a.).

Please see Note 14 for more information on the difference in accordance with Section 253 (6), sentence 3 HGB.

(18) Provisions for Taxes

Provisions for taxes relate primarily to taxes for previous years.

(19) Other Provisions

Other provisions break down as follows:

Other Provisions

	December 31	
€ in millions	2017	2016
Environmental remediation obligations	518.7	607.3
Tax-related interest	320.5	479.1
Other personnel reserves	114.7	72.4
Various other reserves	95.8	99.2
Total	**1,049.7**	**1,258.0**

The provision for environmental improvement obligations relates to possible remediation measures arising from the operation of abandoned mines of predecessor companies. A comprehensive review of the obligations was carried out in the fiscal year, which led to a reduction of €88.6 million in the provision.

Other personnel-related provisions also include the allocation to the Phoenix restructuring program in the amount of €24.7 million.

(20) Liabilities

In the fiscal year three bonds with a total nominal value of €2,000.0 million were issued.

Liabilities

	December 31, 2017				December 31, 2016		
		With a remaining term of				With a remaining term of	
€ in millions	Total	≤ 1 year	> 1 year	> 5 years	Total	≤ 1 year	> 1 year
Bonds	2,000.0	–	750.0	1,250.0	–	–	–
Banks	665.4	615.4	50.0	–	776.4	405.9	370.5
Secured by collateral pledges of other assets	–	–	–	–	*86.5*	*86.5*	–
Accounts payable	14.0	14.0	–	–	29.1	29.1	–
Affiliated companies	34,349.6	23,655.8	6,232.7	4,461.1	43,101.8	31,985.9	11,115.9
Liabilities to companies in which an interest is held	5.4	5.4	–	–	4.1	4.1	–
Other liabilities	285.7	285.7	–	–	35.1	35.1	–
Taxes	*284.0*	*284.0*	–	–	*2.7*	*2.7*	–
Social security	*0.3*	*0.3*	–	–	–	–	–
Total	**37,320.1**	**24,576.3**	**7,032.7**	**5,711.1**	**43,946.5**	**32,460.1**	**11,486.4**

Liabilities to affiliated companies mainly result from intragroup financing totaling €33,950.3 million (2016: €40,651.0 million). This item includes receivables from profit transfer totaling €5,532.2 million. In addition, trade payables of €189.4 million (2016: €210.2 million) and other liabilities of €209.8 million (2016: €2,240.6 million) are reported under liabilities to associates. The other liabilities include liabilities from existing profit and loss pooling agreements in the amount of €56.2 million (2016: €1,990.3 million).

Income from profit transfers and expenses from profit and loss pooling agreements are explained in Note 21.

The majority of liabilities in this connection were to E.ON Energie AG in the amount of €6,726.4 million (2016: €16,314.9 million), to E.ON International Finance B.V. in the amount of €5,956.2 million (2016: €9,834.0 million), to E.ON Finanzholding SE & Co. KG in the amount of €5,939.8 million (2016: €– million), to E.ON Beteiligungen GmbH in the amount of €3,990.0 million (2016: €3,056.4 million) and to E.ON Ruhrgas Portfolio GmbH in the amount of €1,598.1 million (2016: €1,599.2 million).

The significant decline in intragroup liabilities to E.ON Energie AG is primarily attributable to the profit transfer and the provision of funds for payments in July into Germany's public fund for financing nuclear-waste disposal by E.ON SE as part of cash pooling.

Long-term debt obligations were also restructured. Under agreements dated December 20, 2017, existing loan liabilities to E.ON International Finance B.V. and E.ON Finanzanlagen GmbH with a total nominal value of €5,098.5 million were transferred to E.ON Finanzholding SE & Co. KG within the framework of an indemnifying debt assumption. These loans were transferred at current market values which, due to the current low level of interest rates, exceeded the nominal values. The resulting €753.7 million in hidden liabilities at E.ON SE level was recognized in other interest and similar expenses.

The liabilities to companies in which an interest is held relate exclusively to other liabilities to Uniper SE.

Contingencies and Other Financial Obligations
Contingent liabilities consist of the following:

Contingencies

	December 31	
€ in millions	2017	2016
Contingent liabilities arising from abstract guarantees	18,836.1	23,482.6
Toward affiliated companies	*1,590.7*	*1,615.0*
Contingent liabilities arising from guarantees bound to a principal obligation (*Bürgschaften*)	333.8	402.0
Toward affiliated companies	–	–
Total	**19,169.9**	**23,884.6**

Of the contingent liabilities arising from abstract guarantees, an amount of €9,528.6 million relates to repayment guarantees made to holders of bonds issued by E.ON International Finance B.V. Bond liabilities of €2,668.9 million were repaid in the course of 2017, with the result that the outstanding guarantee volume was reduced by this amount. Furthermore, E.ON SE has provided guarantees in connection with the disposal of activities of the E.ON Group. Of these, €769.7 million relates to guarantees where a contractual restriction for specific guaranteed events such as indemnification for environmental damage, costs for remediation of damages or obligations arising from litigation applies. The decline in liabilities is due, among other factors, to the liquidation of collateral for former E.ON Group companies, which are now part of the Uniper Group.

The abstract guarantees of the Company also include the liquidity assistance guarantee toward MEON in the amount of €1,590.7 million arising from the implementation of the CTA.

In addition, there are liabilities as of December 31, 2017, from guarantees bound to a principal obligation under German law; these essentially consist of contractual obligations.

E.ON SE has entered into these contingencies in order to support Group companies in their operations, to secure the fulfillment of pension obligations toward active and former employees and to enable disposals of activities.

E.ON SE only enters into contingencies in connection with its own operations or the operations of affiliated companies, and then only after intensively evaluating the risks. E.ON SE currently issues collateral in the amount of €1,556.7 million for former Group companies, which, for the most part, will expire in the short to medium term or be repaid or assumed by the companies of the Uniper Group.

Up to the time the annual financial statements are prepared, the knowledge gained from the assessment of the risks is included in the assessment of the contingencies and their underlying obligations. E.ON SE assumes that the companies that originally assume them are able to meet all of their obligations. Accordingly, the risk of E.ON SE assuming responsibility is classified as unlikely for all of the contingencies described.

In accordance with the German Act on Continued Liability for Nuclear Decommissioning and Disposal Costs (Continued Liability Act), E.ON SE, as the controlling company, is liable for its public-law payment obligations for decommissioning, dismantling nuclear power plants and the expert handling of waste, if the operator it controls fails to meet its payment obligations.

Other financial obligations amounted to €306.7 million as of December 31, 2017. Of this amount, €254.8 million relates to obligations toward affiliated companies (2016: €251.1 million).

Derivative Financial Instruments

In the context of its international activities, E.ON SE is exposed to currency, interest and equity price risks. This risk is managed using a systematic risk management system. E.ON SE plays a central role as regards the management of currencies and interest rates, using internal transactions within the Group to bundle risk positions and hedge them in the external market. By taking these actions, E.ON SE largely eliminates risk positions.

Derivative Financial Instruments

€ in millions Instrument	December 31, 2017 Nominal volume	 Fair value (market value)	December 31, 2016 Nominal volume	 Fair value (market value)
Forward transactions with banks	12,778.5	71.5	17,419.8	-62.9
Forward transactions with affiliated companies	8,071.4	-61.6	8,589.5	94.1
Interest rate swaps with banks	4,530.0	-834.3	2,038.9	-807.4
Interest rate swaps with affiliated companies	1,160.0	89.0	1,168.9	113.3
Cross-currency and interest rate/cross-currency swaps with banks	6,383.3	-91.9	7,668.9	336.3
Cross-currency and interest rate/cross-currency swaps with affiliated companies	2,457.2	-907.8	3,614.8	-1,131.7
Interest rate options with banks	–	–	1,000.0	-203.1
Total	**35,380.4**	**-1,735.1**	**41,500.8**	**-1,661.4**

Foreign Exchange Risk

Cross-currency swaps and interest rate/cross-currency swaps with a total nominal value of €3,926.1 million were entered into to hedge Group loans in foreign currencies that were granted by E.ON International Finance B.V., Rotterdam, the Netherlands. For each of its micro-hedges, E.ON protects itself against the risk of variable cash flows arising from changes in exchange rates. As of December 31, 2017, Group loans with a maximum term of 20 years were recognized in corresponding valuation units. The net currency position (before hedging) resulting primarily from E.ON SE's short-term underlying financial and operating transactions is combined with the respective offsetting currency hedging transactions to form a macro-hedge valuation unit for each currency. The maximum term of the transactions is 7 years. The total nominal volume of all currency-specific portfolios was €26,275.4 million as of December 31, 2017 (of which €25,764.3 million related to open transactions, €10.5 million to assets and €500.6 million to liabilities). The foreign-currency portfolio of E.ON SE is nearly 100 percent hedged. As of the reporting date, the cumulative surplus on losses in currency hedging transactions was recognized in the form of a €1.7 million provision (2016: €22.7 million).

Interest Risk

In the context of cash flow hedging, the net interest position (before hedging) resulting from E.ON SE's underlying financial and operating transactions is aggregated with the offsetting interest rate hedging transactions into macro-hedges. The maximum term of the transactions is 29 years. Underlying and hedging transactions are valued for this purpose based on the underlying discounted cash flows. The total nominal volume was €3,690.1 million as of December 31, 2017 (all of which related to open transactions).

The interest rate from existing risk positions and bonds to be issued in the future was hedged by means of interest rate swaps with a total nominal volume of €2,000 million within the framework of micro-hedges. The corresponding expected borrowings relate, after the borrowings carried out in 2017, to the years after 2021, for terms of a maximum of 29 years, and are considered highly probable from a financial planning perspective.

The interest rate hedges had no valuation deficit in the form of provisions for contingent losses as of the reporting date.

The underlying transactions combined into the valuation units represent highly homogeneous risks. It is therefore to be expected that the opposing changes in value of the underlying transactions and their hedges will in future virtually offset, and that the hedges will thus be highly effective.

For micro-hedges, effectiveness is assessed using the critical-terms-match method, since the main parameters for the instruments used are identical. The amount of existing ineffectiveness is computed by cumulative application of the dollar-offset method. The existing risk management framework is used to constantly monitor the macro-hedge valuation units, confining them within corresponding limits.

The total volume of risk hedged in these valuation units is €3,919.1 million. Of this total, €3,004.3 million is attributable to foreign exchange risk and €914.8 million to interest risk.

Notes on the Income Statement

(21) Income from Equity Investments

The table below provides details of income from equity investments:

Income from Equity Investments

€ in millions	2017	2016
Income from companies in which equity investments are held	0.0	3,803.6
From affiliated companies	*0.0*	*3,803.6*
Income from profit and loss pooling agreements	5,532.2	369.6
Expense from the assumption of losses	-855.8	-2,039.4
Total	**4,676.4**	**2,133.8**

Income from investments is primarily derived from the withdrawal in the amount of €3,783.8 million from the additional paid-in capital of E.ON Beteiligungen GmbH.

Of the income from profit and loss pooling, €3,414.0 million came from E.ON Energie AG and €2,118.2 million from E.ON Beteiligungen GmbH. In the reporting year, income from the refund of the nuclear-fuel tax and the reversal of the impairment on Uniper equity interest held by E.ON Beteiligungen GmbH had a significant impact on income from profit transfers at these companies. This income from profit transfers is exceptionally large.

Losses from profit and loss pooling recognized in 2017 primarily relate to E.ON Finanzanlagen GmbH (€751.8 million), E.ON Climate & Renewables GmbH (€55.8 million), and E.ON US Holding GmbH (€47.2 million). The profit and loss pooling of E.ON Finanzanlagen GmbH is mainly due to the depreciation of the investment in Dutchdelta Finance S.à r.l. and is exceptionally large.

(22) Interest Income (Net)

Net interest income breaks down as follows:

Interest Income (Net)

€ in millions	2017	2016
Income from other securities and long-term loans included in financial assets	108.3	132.8
From affiliated companies	*106.9*	*132.6*
Other interest and similar income	486.0	105.4
From affiliated companies	*64.1*	*74.9*
Interest and similar expenses	-1,961.8	-783.7
Paid to affiliated companies	*-1,330.1*	*-637.0*
Accretion of discounted provisions	*-135.7*	*-35.4*
Total	**-1,367.5**	**-545.5**

The expense from the accretion of provisions is mainly accounted for by the accretion of provisions for environmental improvement and remediation obligations in the amount of €97.8 million and the net expense of €37.2 million arising from the unwinding of discounts (including effects of changes in interest rates) on provisions for pensions (€49.5 million) after offsetting against the income from the corresponding guarantee fund assets (€12.3 million).

Other interest and similar income includes negative interest of €12.3 million, €0.5 million of which is attributable to affiliated companies.

In 2017, by the transfer of euro loans to E.ON Finanzholding SE & Co. KG, an expense of €753.7 million was incurred as a result of market value adjustment, which is exceptionally large. In addition, negative interest expenses were incurred due to the cash pooling agreement between E.ON SE and its subsidiaries in the amount of €109.4 million. As in the prior year, these amounts are reported under interest and similar expenses.

(23) Revenues

Revenues mainly include income from operating management contracts of €20.0 million (2016: €28.0 million), income from the passthrough of personnel expenses for employees posted within the Group for €13.4 million (2016: €– million), income from the provision of intragroup marketing services of €8.2 million (2016: €– million) and rental income of €7.3 million (2016: €9.2 million).

(24) Other Operating Income

Other operating income breaks down as shown in the following table:

Other Operating Income

€ in millions	2017	2016
Exchange-rate differences	1,593.1	3,151.3
Cross-currency interest-rate swaps and currency options	427.6	513.7
Reversal of provisions	292.4	25.9
Miscellaneous	82.3	107.4
Total	**2,395.4**	**3,798.3**

Of the income from exchange rate differences reported, €572.9 million originated from relationships with affiliated companies and €1,020.2 million from external relationships.

Income from the reversal of provisions represents income not related to the reporting period. The change in the fiscal year results mainly from the release of a portion of the provision for environmental improvement and remediation obligations in the amount of €275.8 million and is exceptionally large.

(25) Cost of Materials

The cost of materials of €14.8 million (2016: €7.8 million) relates exclusively to purchased services and is directly related to the income recorded under revenues.

(26) Personnel Expenses

The following table shows the structure of personnel expenses:

Personnel Expenses

€ in millions	2017	2016
Wages and salaries	152.5	121.7
Social security contributions, pension costs and other employee benefits	10.4	24.7
For pensions	*0.5*	*15.1*
Total	**162.9**	**146.4**

Personnel expenses of €162.9 million were €16.5 million higher than in the prior year. This is primarily due to an increase in expenses from the long-term variable compensation models. As of the reporting date, a provision of €44.2 million has been recognized for share-based payment (2016: €24.5 million).

This effect is only partially offset by lower pension expenses of €0.5 million (2016: €15.1 million) compared to the previous year. Personnel expenses do not include amounts resulting from the accumulation of interest on personnel provisions, in particular pension provisions and the effects of interest rate changes. Both effects are recognized in net interest income.

(27) Other Operating Expenses

Other operating expenses break down as follows:

Other Operating Expenses

€ in millions	2017	2016
Exchange rate differences	1,626.8	3,036.5
Cross-currency/Interest rate swaps and currency option premiums	428.3	533.0
Professional fees	156.6	204.9
Miscellaneous expenses	555.9	464.3
Total	**2,767.6**	**4,238.7**

Of the expenses from exchange rate differences reported, €939.9 million originated from relationships with affiliated companies and €686.9 million from external relationships.

The addition to the provision for environmental improvement and remediation obligations of €94.1 million reported under other expenses is exceptionally large.

Other expenses also include expenses for the Phoenix restructuring program in the amount of €29.2 million.

(28) Income Taxes

The net tax expense reported for the 2017 fiscal year relates both to the current year and previous years.

For 2017, application of the minimum tax rate will result in corporation tax of €146.9 million plus a solidarity surcharge of €8.0 million and trade tax of €166.8 million. Tax income for prior years amounts to €165.4 million.

Deferred taxes are not included in tax expenses. Overall, as of December 31, 2017, E.ON SE expects future tax relief from temporary accounting differences—both its own and those of the companies in its consolidated tax group—as well as from tax loss carryforwards and interest expense carryforwards. The calculation of this amount took place on the basis of a combined income tax rate of 30 percent (E.ON SE and its consolidated tax group companies) and 16 percent (partnership interests; the tax rate only takes into account corporate income tax and the solidarity surcharge).

Deferred tax liabilities primarily result from valuation differences in property, plant and equipment. Because the pension obligations before offsetting with guarantee fund assets result in a higher obligation in financial statements as opposed to their valuation for tax purposes, the result of this difference is a deferred tax asset. Additional deferred tax assets result primarily from provisions that cannot be recognized for tax purposes, including those for anticipated losses and in the nuclear power segment, as well as from tax loss carryforwards. Overall, there is a surplus of deferred tax assets over deferred tax liabilities. The option under Section 274 (1), sentence 2, HGB was not exercised for this surplus, and therefore no deferred tax assets were recognized.

(29) Subsequent Events

On March 12, 2018, E.ON SE agreed with RWE AG on an acquisition of RWE's 76.8 percent stake in innogy SE. The acquisition will be carried out via a wide-ranging exchange of assets and participations.

In exchange for the 76.8 percent stake in innogy SE, E.ON will grant to RWE an effective participation of 16.67 percent in E.ON SE. The shares will be issued by way of a 20 percent capital increase against contribution in kind from existing authorised capital. Furthermore, E.ON will transfer to RWE most of E.ON's renewables business and also the minority interests currently held by E.ON's subsidiary PreussenElektra in the RWE-operated nuclear power plants Emsland and Gundremmingen. Furthermore, RWE will receive the entire innogy renewables business and the innogy gas storage businesses and the stake in the Austrian energy supplier Kelag. The transfer of businesses and participations would be conducted with economic effect as of January 1, 2018. The transaction further provides for a cash payment from RWE to E.ON in the amount of €1.5 billion.

E.ON will also make a voluntary public takeover offer in cash to the shareholders of innogy SE. This offer includes as of today a total value of €40 per share for the innogy shareholders. The total value consists of an offer price of €36.76 per share plus assumed dividends of innogy SE for the fiscal years 2017 and 2018 in the total amount of €3.24 per share. RWE will not participate in the offer.

The transaction will be implemented in several steps and is subject to customary antitrust clearances and is expected to close in mid 2019.

There are no effects on the E.ON SE Financial Statements for fiscal year 2017. Indications relating to possible future effects resulting from the acquisition of innogy SE via a wide-ranging exchange of assets with RWE AG are currently not included in the Combined Management Report, since the transaction is also subject to customary antitrust clearances.

Other Disclosures

Employees

The average number of persons employed in the 2017 fiscal year by E.ON SE at its Group Management, at the Centers of Competence and at the E.ON Deutschland unit was 872 (2016: 904). This average does not include four members of the Management Board and, with respect to the prior year, the apprentices. The employees are divided into Group Management (368 employees), Centers of Competence (394 employees) and E.ON Deutschland (110 employees).

Fees and Services of the Independent Auditor

During 2017, the following fees for services provided by the independent auditor of the Consolidated Financial Statements, PricewaterhouseCoopers ("PwC") GmbH, Wirtschaftsprüfungsgesellschaft, (domestic) and by companies in the international PwC network were recorded as expenses.

Auditor Fees

€ in millions	2017
Audit services	19
Germany	*14*
Attestation services	4
Germany	*3*
Tax consulting services	1
Germany	*0*
Other services	1
Germany	*1*
Total	**25**
Germany	*18*

In addition to the audit of the Consolidated Financial Statements and the legally mandated financial statements of E.ON SE and its affiliates, the auditor's fees also include fees for auditing reviews of the IFRS interim financial statements and other tests directly required by the audit. The fees for other auditing services include all attestation services that are not auditing services and are not used in connection with the audit. In 2017, about half of these costs will be for the legally required attestation services (e.g. as a result of the Renewable Energy Act and the KwKG) and the other half of the costs will be for other voluntary attestation services (primarily in connection with new IT systems). The fees for tax consulting services mainly relate to services in the area of tax compliance and tax consulting in connection with transfer pricing systems.

Fees for other services consist primarily of technical support in connection with the implementation of new requirements in the areas of IT, accounting and reporting.

Statement of Compliance Pursuant to Section 161 of the German Stock Corporation Act

On December 18, 2017, the Management Board and Supervisory Board of E.ON SE issued a statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act and published it on the Internet at www.eon.com to make it permanently accessible to the Company's stockholders.

Disclosures on Certain Business Transactions Pursuant to Section 6b (2) EnWG

In the 2017 fiscal year, E.ON SE has done business with affiliated and associated companies. Contracts with such entities have resulted in expenses totaling €329.4 million and income totaling €114.7 million. They primarily relate to research services (expenses: €13.3 million; income: €8.4 million), IT services (expenses: €192.6 million), property (expenses: €12.7 million; income: €5.3 million), provision of external personnel (expenses: €11.2 million) and other consulting and service agreements (expenses: €99.7 million; income €101.1 million).

Corporate financing activities resulted in expenses of €1,156.7 million, income of €782.3 million, interest expense of €1,330.1 million and interest income of €171.1 million.

Disclosures on the Boards

Board Compensation

Supervisory Board

The total compensation for 2017 of the members of the Supervisory Board amounts to €4.5 million (2016: €3.6 million).

The compensation system for the Supervisory Board is described in the Compensation Report.

As in 2016, there were no loans to members of the Supervisory Board in the 2017 fiscal year.

The members of the Supervisory Board, along with additional directorships held, are listed on pages 106 et seq.

Management Board

Total compensation of the Management Board amounts to €14.0 million (2016: €13.8 million, based on the total compensation of the Management Board reported in the 2016 annual report), which in addition to base salary, bonuses and other compensation elements, also includes a share-based component. The total compensation of the individual members of the Management Board breaks down as follows:

Compensation of the Management Board

	Fixed annual compensation		Bonus		Other compensation		Value of share-based payment[1]		Total	
€	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Dr. Johannes Teyssen	1,240,000	1,240,000	2,296,350	1,638,000	40,845	42,409	1,732,500	1,827,516	5,309,695	4,747,925
Dr.-Ing. Leonhard Birnbaum	800,000	800,000	1,336,500	953,333	27,117	25,138	1,008,333	1,063,643	3,171,950	2,842,114
Michael Sen (until March 31, 2017)	175,000	700,000	–	780,000	17,100	181,065	–	300,000	192,100	1,961,065
Dr. Marc Spieker (since January 1, 2017)	700,000	–	1,093,500	–	35,695	–	825,000	–	2,654,195	–
Dr. Karsten Wildberger	700,000	525,000	1,093,500	585,000	67,346	1,442,153	825,000	675,000	2,685,846	3,227,153
Total	**3,615,000**	**3,265,000**	**5,819,850**	**3,956,333**	**188,103**	**1,690,765**	**4,390,833**	**3,866,159**	**14,013,786**	**12,778,257**

[1]The fair value for the share-based compensation from the first tranche of the E.ON Performance Plan totaled €5.84 per virtual E.ON share.

The members of the Management Board of E.ON SE were granted fourth-tranche virtual shares under the E.ON Share Matching Plan in 2017 as follows: Dr. Teyssen received 296,661 shares valued at €1,732,500 (2016: €1,197,516/138,762 shares); Dr.-Ing. Birnbaum received 172,660 shares valued at €1,008,333 (2016: €696,976/80,762 shares); Mr. Sen received €0/0 shares (2016: €0/0 shares), Dr. Spieker received 141,268 shares valued at €825,000 (2016: €0/0 shares), and Dr. Wildberger received 141,268 shares valued at €825,000 (2016: €450,000/52,144 shares).

Further information on the compensation of active members of the Management Board, and on the compensation system for the Board, can be found in the Compensation Report.

As in 2016, there were no loans to members of the Management Board in the 2017 fiscal year.

The total compensation paid to former members of the Management Board and to their beneficiaries amounted to €12.4 million (2016: €11.6 million).

A provision of €133.9 million (2016: €140.5 million) is recognized for pension obligations toward former members of the Management Board and their beneficiaries. The right of recourse under the collateral promise agreement with MEON is offset against this provision on the face of the balance sheet.

The members of the Management Board, along with additional directorships held, are listed on page 108.

Supervisory Board (and Information on Other Directorships)

Dr. Karl-Ludwig Kley
Chairman of the E.ON SE Supervisory Board
→ BMW AG
→ Deutsche Lufthansa AG (Chairman since September 25, 2017)
→ Verizon Communications Inc.

Prof. Dr. Ulrich Lehner
Member of the Shareholders' Committee of Henkel AG & Co. KGaA
Deputy Chairman of the E.ON SE Supervisory Board
→ Deutsche Telekom AG (Chairman)
→ thyssenkrupp AG (Chairman)
→ Porsche Automobil Holding SE
→ Henkel AG & Co. KGaA

Andreas Scheidt
Deputy Chairman of the E.ON SE Supervisory Board
Member of National Board, Unified Service Sector Union, ver.di, Director of Utility/Waste Management Section
→ Uniper SE (until June 8, 2017)

Clive Broutta
Full-time Representative of the General, Municipal, Boilermakers, and Allied Trade Union (GMB)

Erich Clementi
Senior Vice President, Global Integrated Accounts and Chairman, IBM Europe

Tibor Gila
Chairman of the Combined Works Council of E.ON Hungária Zrt.
Deputy Chairman of the SE Works Council of E.ON SE
Chairman of the Works Council of E.ON Észak-dunántúli Áramhálózati Zrt.
→ E.ON Észak-dunántúli Áramhálózati Zrt.

Thies Hansen (until December 31, 2017)
Chairman of the Combined Works Council, HanseWerk AG
Chairman of the Works Council Hamburg of HanseWerk AG
→ HanseWerk AG
→ Schleswig-Holstein Netz AG
→ Hamburg Netz GmbH

Carolina Dybeck Happe
Chief Financial Officer of ASSA ABLOY AB
→ ASSA ABLOY Asia Holding AB (Chairperson)
→ ASSA ABLOY East Europe AB (Chairperson)
→ ASSA ABLOY Entrance Systems AB (Chairperson)
→ ASSA ABLOY Financial Services AB (Chairperson)
→ ASSA ABLOY Finans AB (Chairperson)
→ ASSA ABLOY IP AB (Chairperson)
→ ASSA ABLOY Kredit AB (Chairperson)
→ ASSA ABLOY Mobile Services AB (Chairperson)
→ Svensk Dörrinvest AB (Chairperson until September 6, 2017)

Baroness Denise Kingsmill CBE
Attorney at the Supreme Court
Member of the House of Lords
→ Monzo Bank Ltd. (Chairperson)
→ Inditex S.A.
→ International Consolidated Airlines Group S.A. (until June 16, 2017)
→ Telecom Italia S.p.A. (until May 10, 2017)

Eugen-Gheorghe Luha
Chairman of Romanian Federation of Gas Unions at Gaz România
Chairman of Romanian employee representatives

Andreas Schmitz
Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt AG
→ Börse Düsseldorf AG (Chairman until April 25, 2017)
→ HSBC Trinkaus & Burkhardt AG (Chairman)
→ Scheidt & Bachmann GmbH (Chairman)
→ KfW

Unless otherwise indicated, information is as of December 31, 2017, or as of the date on which membership in the E.ON SE Supervisory Board ended.
→ Directorships/supervisory board memberships within the meaning of Section 100, Paragraph 2 of the German Stock Corporation Act.
→ Directorships/memberships in comparable domestic and foreign supervisory bodies of commercial enterprises.

Fred Schulz
Chairman of the SE Works Council of E.ON SE
Deputy Chairman of the E.ON Group Works Council
Chairman of the General Works Council of E.DIS AG
Chairman of the Works Council of E.DIS Netz GmbH-Region East
→ E.DIS AG
→ Szczecińska Energetyka Cieplna Sp. z o.o.

Silvia Šmátralová
Chairperson of the Works Council of Západoslovenská energetika a.s. (ZSE)
Member of the SE Works Council of E.ON SE
→ Západoslovenská distribučná a.s.
→ Západoslovenská energetika a.s.

Dr. Karen de Segundo
Attorney

Dr. Theo Siegert
Managing Partner, de Haen-Carstanjen & Söhne
→ Henkel AG & Co. KGaA
→ Merck KGaA
→ DKSH Holding Ltd.
→ E. Merck KG

Elisabeth Wallbaum
Expert, SE Works Council of E.ON SE and E.ON Group Works Council

Ewald Woste
Management Consultant
→ TEAG Thüringer Energie AG (Chairman)
→ GASAG AG
→ GreenCom Networks AG (since August 3, 2017)
→ Deutsche Energie-Agentur GmbH (dena) (since October 20, 2017)
→ Energie Steiermark AG
→ TEN Thüringer Energienetze GmbH & Co. KG

Albert Zettl
Deputy Chairman of the SE Works Council of E.ON SE
Chairman of the E.ON Group Works Council
Chairman of the Division Works Council of Bayernwerk AG
Chairman of the Eastern Bavaria Works Council of Bayernwerk Netz GmbH
→ Bayernwerk AG
→ Versorgungskasse Energie VVaG i.L.

Supervisory Board Committees

Executive Committee
Dr. Karl-Ludwig Kley, Chairman
Prof. Dr. Ulrich Lehner, Deputy Chairman
Andreas Scheidt, Deputy Chairman
Fred Schulz

Audit and Risk Committee
Dr. Theo Siegert, Chairman
Fred Schulz, Deputy Chairman
Thies Hansen (until December 31, 2017)
Dr. Karl-Ludwig Kley (until March 31, 2017)
Andreas Schmitz (since April 1, 2017)
Elisabeth Wallbaum (since January 1, 2018)

Investment and Innovation Committee (until March 31, 2017 Finance and Investment Committee)
Dr. Karl-Ludwig Kley, Chairman (until March 31, 2017)
Dr. Karen de Segundo, Chairperson (Chairperson since April 1, 2017)
Eugen-Gheorghe Luha, Deputy Chairman (Deputy Chairman until August 1, 2017)
Albert Zettl, Deputy Chairman (since April 1, 2017, Deputy Chairman since August 2, 2017)
Clive Broutta
Carolina Dybeck Happe (since April 1, 2017)
Ewald Woste (since April 1, 2017)

Nomination Committee
Dr. Karl-Ludwig Kley, Chairman
Prof. Dr. Ulrich Lehner, Deputy Chairman
Dr. Karen de Segundo

Unless otherwise indicated, information is as of December 31, 2017, or as of the date on which membership in the E.ON SE Supervisory Board ended.
→ Directorships/supervisory board memberships within the meaning of Section 100, Paragraph 2 of the German Stock Corporation Act.
→ Directorships/memberships in comparable domestic and foreign supervisory bodies of commercial enterprises.

Management Board (and Information on Other Directorships)

Dr. Johannes Teyssen
Born in 1959 in Hildesheim, Germany
Chairman of the Management Board and CEO since 2010
Member of the Management Board since 2004
Strategy and Corporate Development, Turkey, HR,
Political Affairs and Communications, Legal and Compliance,
Corporate Audit, Reorganization Project
→ Deutsche Bank AG
→ Uniper SE (until June 8, 2017)
→ Nord Stream AG (since June 1, 2017)

Dr.-Ing. Leonhard Birnbaum
Born in 1967 in Ludwigshafen, Germany
Member of the Management Board since 2013
Regional Energy Networks, Renewables, Regulation Policy,
Health/Safety and Environment, Sustainability, Procurement
and Real Estate Management, Consulting, PreussenElektra
→ E.ON Czech Holding AG[1] (Chairman)
→ Georgsmarienhütte Holding GmbH
→ E.ON Sverige AB[2] (Chairman)
→ E.ON Hungária Zrt.[2] (Chairman)

Michael Sen (until March 31, 2017)
Born in 1968 in Korschenbroich, Germany
Member of the Management Board since 2015
Finance, Mergers and Acquisitions, Risk Management,
Accounting and Controlling, Investor Relations, Tax, Uniper

Dr. Marc Spieker
Born in 1975 in Essen, Germany
Member of the Management Board since January 1, 2017
Finance, Mergers and Acquisitions, Risk Management,
Accounting and Controlling, Investor Relations, Tax, Uniper
→ Uniper SE
→ Nord Stream AG (since June 1, 2017)

Dr. Karsten Wildberger
Born in 1969 in Gießen, Germany
Member of the Management Board since 2016
Regional Sales and Customer Solutions, Distributed Generation,
Energy Management, Marketing, Digital Transformation,
Innovation, IT
→ E.ON Business Services GmbH[1]
(Chairman since January 6, 2017)
→ E.ON Sverige AB[2]
→ E.ON Energie A.S.[2] (Chairman, since June 1, 2017)

Unless otherwise indicated, information is as of December 31, 2017, or as of the date on which membership in the E.ON Management Board ended.
→ Directorships/supervisory board memberships within the meaning of Section 100, Paragraph 2 of the German Stock Corporation Act.
→ Directorships/memberships in comparable domestic and foreign supervisory bodies of commercial enterprises.
[1]Exempted E.ON Group directorship within the meaning of Section 100, Paragraph 2, Sentence 2 of the German Stock Corporation Act. [2]Other E.ON Group directorship.

Dividend Proposal

The Management Board proposes to the Annual Shareholders Meeting that the €1,320,307,680.65 in net income available for distribution for the 2017 fiscal year be used as follows:

€	
Distribution of a dividend of €0.30 per share with dividend rights	650,144,829.90
Net income transferred to retained earnings	670,162,850.75
Total	**1,320,307,680.65**

The dividend proposal takes into account the dividend-paying shares at the time the annual financial statements were prepared on March 12, 2018.

Other Information

Disclosures pursuant to Section 285 No. 11 HGB of Companies in Which Equity Investments Are Held (as of December 31, 2017)

Name	Location	Stake %	Equity € in millions	Earnings € in millions
:agile accelerator GmbH[2, 9]	DE, Düsseldorf	100.0	0.1	–
Abfallwirtschaftsgesellschaft Rendsburg-Eckernförde mbH[6]	DE, Borgstedt	49.0	10.1	0.8
Amrum-Offshore West GmbH[1, 9]	DE, Düsseldorf	100.0	0.1	–
Anacacho Wind Farm, LLC[1]	US, Wilmington	100.0	129.0	-4.1
AV Packaging GmbH[1]	DE, Munich	0.0	17.7	3.8
Avacon AG[1]	DE, Helmstedt	61.5	1,323.5	226.2
Avacon Beteiligungen GmbH[1, 9]	DE, Helmstedt	100.0	61.0	–
Avacon Hochdrucknetz GmbH[1, 9]	DE, Helmstedt	100.0	14.5	–
Avacon Natur GmbH[1, 9]	DE, Sarstedt	100.0	17.8	–
Avacon Netz GmbH[1, 9]	DE, Helmstedt	100.0	907.6	–
AWE-Arkona-Windpark Entwicklungs-GmbH[4]	DE, Hamburg	50.0	186.2	0.2
Bayernwerk AG[1, 9]	DE, Regensburg	100.0	1,637.7	–
Bayernwerk Natur GmbH[1]	DE, Unterschleißheim	100.0	75.1	3.4
Bayernwerk Netz GmbH[1, 9]	DE, Regensburg	100.0	880.0	–
BMV Energie GmbH & Co. KG[6]	DE, Fürstenwalde/Spree	25.6	16.9	0.3
Celle-Uelzen Netz GmbH[1, 9]	DE, Celle	97.5	77.5	–
Champion WF Holdco, LLC[1]	US, Wilmington	100.0	116.6	-10.4
Champion Wind Farm, LLC[1]	US, Wilmington	100.0	116.6	-10.4
Charge-ON GmbH[1]	DE, Essen	100.0	14.9	-5.1
Citigen (London) Limited[1]	GB, Coventry	100.0	-26.6	-28.5
Colbeck's Corner, LLC[1]	US, Wilmington	100.0	243.3	-2.6
DD Turkey Holdings S.à r.l.[1]	LU, Luxembourg	100.0	2,744.9	-0.1
Delgaz Grid S.A.[1]	RO, Târgu Mureş	56.5	825.2	50.4
DOTI Deutsche Offshore-Testfeld- und Infrastruktur-GmbH & Co. KG[5]	DE, Oldenburg	26.3	159.7	3.8
Dutchdelta Finance S.à r.l.[1]	LU, Luxembourg	100.0	2,747.3	-0.4
E WIE EINFACH GmbH[1, 9]	DE, Cologne	100.0	50.0	–
E.DIS AG[1]	DE, Fürstenwalde/Spree	67.0	1,278.8	154.3
E.DIS Netz GmbH[1, 9]	DE, Fürstenwalde/Spree	100.0	817.0	–
e.discom Telekommunikation GmbH[2]	DE, Rostock	100.0	19.0	3.2
e.disnatur Erneuerbare Energien GmbH[1, 9]	DE, Potsdam	100.0	3.2	–
e.distherm Wärmedienstleistungen GmbH[1]	DE, Potsdam	100.0	29.9	2.0
e.kundenservice Netz GmbH[1]	DE, Hamburg	100.0	39.4	1.5
E.ON Asset Management GmbH & Co. EEA KG[1, 8]	DE, Grünwald	100.0	355.5	9.2
E.ON Beteiligungen GmbH[1, 8, 9]	DE, Düsseldorf	100.0	17,890.5	–
E.ON Bioerdgas GmbH[1, 9]	DE, Essen	100.0	0.0	–
E.ON Business Services Berlin GmbH[1, 9]	DE, Berlin	100.0	11.5	–
E.ON Business Services GmbH[1, 9]	DE, Hanover	100.0	557.2	–

[1]Consolidated affiliated company. · [2]Non-consolidated affiliated company for reasons of immateriality (valued at cost). · [3]Joint operations pursuant to IFRS 11. · [4]Joint ventures pursuant to IFRS 11. [5]Associated company (valued using the equity method). · [6]Associated company (valued at cost for reasons of immateriality). · [7]Other companies in which share investments are held. · [8]This company exercised its exemption option under Section 264, Paragraph 3 of the German Commercial Code or under Section 264b. · [9]Profit and loss pooling agreement (earnings after pooling). · [10]E.ON SE is an unlimited-liability partner. · [11]IFRS figures. · [12]Founded in 2017.

Disclosures pursuant to Section 285 No. 11 HGB of Companies in Which Equity Investments Are Held (as of December 31, 2017)

Name	Location	Stake %	Equity € in millions	Earnings € in millions
E.ON Business Services Regensburg GmbH[1, 9]	DE, Regensburg	100.0	7.5	-0.2
E.ON Česká republika, s.r.o.[1]	CZ, České Budějovice	100.0	340.6	19.0
E.ON Climate & Renewables Canada Ltd.[1, 11]	CA, Saint John	100.0	68.1	2.0
E.ON Climate & Renewables GmbH[1, 9]	DE, Essen	100.0	18.0	–
E.ON Climate & Renewables Italia S.r.l.[1]	IT, Milan	100.0	416.3	-7.1
E.ON Climate & Renewables North America, LLC[1, 11]	US, Wilmington	100.0	535.8	-63.0
E.ON Climate & Renewables Services GmbH[2, 9]	DE, Essen	100.0	0.0	–
E.ON Climate & Renewables UK Developments Limited[1]	GB, Coventry	100.0	47.3	32.8
E.ON Climate & Renewables UK Humber Wind Limited[1]	GB, Coventry	100.0	59.0	47.9
E.ON Climate & Renewables UK Limited[1]	GB, Coventry	100.0	48.1	120.1
E.ON Climate & Renewables UK London Array Limited[1]	GB, Coventry	100.0	82.7	35.6
E.ON Climate & Renewables UK Offshore Wind Limited[1]	GB, Coventry	100.0	46.3	7.3
E.ON Climate & Renewables UK Operations Limited[1]	GB, Coventry	100.0	23.0	1.3
E.ON Climate & Renewables UK Robin Rigg East Limited[1]	GB, Coventry	100.0	31.1	12.7
E.ON Climate & Renewables UK Robin Rigg West Limited[1]	GB, Coventry	100.0	33.4	5.9
E.ON Connecting Energies GmbH[1, 9]	DE, Essen	100.0	0.0	–
E.ON Connecting Energies Italia S.r.l.[1]	IT, Milan	100.0	40.4	-10.1
E.ON Connecting Energies Limited[1]	GB, Coventry	100.0	-13.6	-3.9
E.ON Czech Holding AG[1, 8, 9]	DE, Munich	100.0	552.9	–
E.ON Danmark A/S[1]	DK, Frederiksberg	100.0	10.1	0.2
E.ON Dél-dunántúli Áramhálózati Zrt.[1]	HU, Pécs	100.0	87.5	13.5
E.ON Distribuce, a.s.[1]	CZ, České Budějovice	100.0	1,621.0	97.4
E.ON edis Contracting GmbH[2, 9]	DE, Fürstenwalde/Spree	100.0	1.0	–
E.ON edis energia Sp. z o.o.[1]	PL, Warsaw	100.0	91.5	6.9
E.ON Elnät Stockholm AB[1]	SE, Malmö	100.0	18.5	0.0
E.ON Energia S.p.A.[1]	IT, Milan	100.0	131.2	16.3
E.ON Energiakereskedelmi Kft.[1]	HU, Budapest	100.0	34.7	16.8
E.ON Energiaszolgáltató Kft.[1]	HU, Budapest	100.0	-28.9	-18.8
E.ON Energidistribution AB[1]	SE, Malmö	100.0	42.4	0.7
E.ON Energie 25. Beteiligungs-GmbH[2, 9]	DE, Munich	100.0	0.0	–
E.ON Energie 38. Beteiligungs-GmbH[2, 9]	DE, Munich	100.0	0.0	–
E.ON Energie AG[1, 8, 9]	DE, Düsseldorf	100.0	3,258.0	–
E.ON Energie Deutschland GmbH[1, 9]	DE, Munich	100.0	595.1	–
E.ON Energie Deutschland Holding GmbH[1, 9]	DE, Munich	99.8	376.8	–
E.ON Energie Dialog GmbH[2, 9]	DE, Potsdam	100.0	2.5	–
E.ON Energie Kundenservice GmbH[1, 9]	DE, Landshut	100.0	6.0	–
E.ON Energie Odnawialne Sp. z o.o.[1, 11]	PL, Szczecin	100.0	-34.0	-80.3
E.ON Energie Real Estate Investment GmbH[2]	DE, Munich	100.0	20.5	-0.2
E.ON Energie România S.A.[1]	RO, Târgu Mureş	68.2	239.9	38.7

[1]Consolidated affiliated company. · [2]Non-consolidated affiliated company for reasons of immateriality (valued at cost). · [3]Joint operations pursuant to IFRS 11. · [4]Joint ventures pursuant to IFRS 11. [5]Associated company (valued using the equity method). · [6]Associated company (valued at cost for reasons of immateriality). · [7]Other companies in which share investments are held. · [8]This company exercised its exemption option under Section 264, Paragraph 3 of the German Commercial Code or under Section 264b. · [9]Profit and loss pooling agreement (earnings after pooling). · [10]E.ON SE is an unlimited-liability partner. · [11]IFRS figures. · [12]Founded in 2017.

Disclosures pursuant to Section 285 No. 11 HGB of Companies in Which Equity Investments Are Held (as of December 31, 2017)

Name	Location	Stake %	Equity € in millions	Earnings € in millions
E.ON Energie, a.s.[1]	CZ, České Budějovice	100.0	212.7	53.9
E.ON Energihandel Nordic AB[1]	SE, Malmö	100.0	67.2	0.0
E.ON Energilösningar AB[1]	SE, Malmö	100.0	106.2	12.0
E.ON Energy Projects GmbH[1, 9]	DE, Munich	100.0	21.6	–
E.ON Energy Solutions GmbH[2, 9]	DE, Unterschleißheim	100.0	0.8	–
E.ON Energy Solutions Limited[1]	GB, Coventry	100.0	2,046.3	903.0
E.ON Energy Trading S.p.A.[1]	IT, Milan	100.0	139.7	-0.3
E.ON Észak-dunántúli Áramhálózati Zrt.[1]	HU, Győr	100.0	151.4	20.9
E.ON Finanzanlagen GmbH[1, 8, 9]	DE, Düsseldorf	100.0	5,017.2	–
E.ON Finanzholding SE & Co. KG[1, 8, 10, 12]	DE, Essen	100.0	0.0	–
E.ON Fünfundzwanzigste Verwaltungs GmbH[1, 8, 9]	DE, Düsseldorf	100.0	6,935.2	–
E.ON Gas Mobil GmbH[2, 9]	DE, Essen	100.0	0.0	–
E.ON Gas Sverige AB[1]	SE, Malmö	100.0	138.7	-0.5
E.ON Gashandel Sverige AB[1]	SE, Malmö	100.0	14.9	14.1
E.ON Gruga Geschäftsführungsgesellschaft mbH[1, 9]	DE, Düsseldorf	100.0	92.1	0.0
E.ON Gruga Objektgesellschaft mbH & Co. KG[1, 8]	DE, Essen	100.0	212.3	2.0
E.ON Human Resources International GmbH[1, 8, 9]	DE, Hanover	100.0	3.5	–
E.ON Hungária Energetikai Zártkörűen Működő Részvénytársaság[1]	HU, Budapest	100.0	903.9	22.7
E.ON Iberia Holding GmbH[1, 8, 9]	DE, Düsseldorf	100.0	0.0	–
E.ON Inhouse Consulting GmbH[2, 9]	DE, Essen	100.0	1.0	–
E.ON Innovation Co-Investments Inc.[1, 11]	US, Wilmington	100.0	56.5	-2.4
E.ON Insurance Services GmbH[2, 9]	DE, Essen	100.0	0.0	0.0
E.ON INTERNATIONAL FINANCE B.V.[1]	NL, Amsterdam	100.0	568.4	275.4
E.ON IT UK Limited[2]	GB, Coventry	100.0	25.7	2.9
E.ON Italia S.p.A.[1]	IT, Milan	100.0	604.9	-28.1
E.ON Közép-dunántúli Gázhálózati Zrt.[1]	HU, Nagykanizsa	99.8	37.1	1.9
E.ON Metering GmbH[2, 9]	DE, Munich	100.0	10.0	–
E.ON NA Capital LLC[1, 11]	US, Wilmington	100.0	2,020.5	14.0
E.ON Nord Sverige AB[1]	SE, Malmö	100.0	207.4	0.3
E.ON Nordic AB[1]	SE, Malmö	100.0	6,952.5	0.1
E.ON North America Finance, LLC[1, 11]	US, Wilmington	100.0	1,795.9	19.0
E.ON Power Plants Belgium BVBA[2]	BE, Mechelen	100.0	20.3	-0.1
E.ON Produzione S.p.A.[1]	IT, Milan	100.0	183.6	-58.8
E.ON RE Investments LLC[1, 11]	US, Wilmington	100.0	55.7	11.8
E.ON Real Estate GmbH[2, 9]	DE, Essen	100.0	0.0	–
E.ON Rhein-Ruhr Ausbildungs-GmbH[2, 9]	DE, Essen	100.0	0.1	–
E.ON România S.R.L.[1]	RO, Târgu Mureş	100.0	502.4	112.8
E.ON Ruhrgas GPA GmbH[1, 8, 9]	DE, Essen	100.0	219.9	–
E.ON Ruhrgas Portfolio GmbH[1, 8, 9]	DE, Essen	100.0	1,827.6	–

[1]Consolidated affiliated company. · [2]Non-consolidated affiliated company for reasons of immateriality (valued at cost). · [3]Joint operations pursuant to IFRS 11. · [4]Joint ventures pursuant to IFRS 11. [5]Associated company (valued using the equity method). · [6]Associated company (valued at cost for reasons of immateriality). · [7]Other companies in which share investments are held. · [8]This company exercised its exemption option under Section 264, Paragraph 3 of the German Commercial Code or under Section 264b. · [9]Profit and loss pooling agreement (earnings after pooling). · [10]E.ON SE is an unlimited-liability partner. · [11]IFRS figures. · [12]Founded in 2017.

Disclosures pursuant to Section 285 No. 11 HGB of Companies in Which Equity Investments Are Held (as of December 31, 2017)

Name	Location	Stake %	Equity € in millions	Earnings € in millions
E.ON Sechzehnte Verwaltungs GmbH[1, 8, 9]	DE, Düsseldorf	100.0	90.7	–
E.ON Service GmbH[2, 9]	DE, Essen	100.0	3.4	–
E.ON Servisní, s.r.o.[1]	CZ, České Budějovice	100.0	21.9	2.0
E.ON Slovensko, a.s.[1]	SK, Bratislava	100.0	402.4	21.9
E.ON Sverige AB[1]	SE, Malmö	100.0	3,613.4	174.9
E.ON Tiszántúli Áramhálózati Zrt.[1]	HU, Debrecen	100.0	101.4	17.3
E.ON UK CoGeneration Limited[1]	GB, Coventry	100.0	-16.7	-22.3
E.ON UK Energy Markets Limited[1]	GB, Coventry	100.0	23.4	0.0
E.ON UK Holding Company Limited[1]	GB, Coventry	100.0	1,923.7	-46.4
E.ON UK plc[1]	GB, Coventry	100.0	2,814.8	0.2
E.ON US Corporation[1, 11]	US, Wilmington	100.0	3,760.7	-15.6
E.ON US Holding GmbH[1, 8, 9]	DE, Düsseldorf	100.0	1,168.9	–
E.ON Värme Sverige AB[1]	SE, Malmö	100.0	211.2	5.1
E.ON Wind Kårehamn AB[1]	SE, Malmö	100.0	36.6	10.6
E.ON Wind Service GmbH[2, 9]	DE, Neubukow	100.0	1.2	0.0
E.ON Wind Sweden AB[1]	SE, Malmö	100.0	47.3	2.0
E.ON Zweiundzwanzigste Verwaltungs GmbH[2, 9]	DE, Düsseldorf	100.0	0.0	–
EBY Port 1 GmbH[1, 8, 9]	DE, Munich	100.0	92.5	–
EBY Port 3 GmbH[1]	DE, Regensburg	100.0	141.6	0.2
EC&R Asset Management, LLC[1, 11]	US, Wilmington	100.0	-11.5	4.5
EC&R Canada Ltd.[1, 11]	CA, Saint John	100.0	80.9	0.0
EC&R Development, LLC[1, 11]	US, Wilmington	100.0	56.8	-4.8
EC&R Energy Marketing, LLC[1, 11]	US, Wilmington	100.0	-46.9	-14.6
EC&R Investco Mgmt II, LLC[1, 11]	US, Wilmington	100.0	316.3	0.3
EC&R Investco Mgmt, LLC[1, 11]	US, Wilmington	100.0	1,261.7	1.4
EC&R Magicat Holdco, LLC[1, 11]	US, Wilmington	100.0	68.5	8.0
EC&R NA Solar PV, LLC[1, 11]	US, Wilmington	100.0	26.1	-4.7
EC&R Panther Creek Wind Farm III, LLC[1, 11]	US, Wilmington	100.0	169.5	-4.4
EC&R Services, LLC[1, 11]	US, Wilmington	100.0	28.0	-27.5
EC&R Solar Development, LLC[1, 11]	US, Wilmington	100.0	10.8	-5.3
Economy Power Limited[1]	GB, Coventry	100.0	28.4	–
Elektrizitätswerk Schwandorf GmbH[2]	DE, Schwandorf	100.0	21.3	0.7
Elevate Wind Holdco, LLC[4, 11]	US, Wilmington	50.0	204.4	-1.5
ENACO Energieanlagen- und Kommunikationstechnik GmbH[6]	DE, Maisach	26.0	26.9	5.4
Energetyka Cieplna Opolszczyzny S.A.[6]	PL, Opole	46.7	63.2	8.8
Energie und Wasser Potsdam GmbH[5]	DE, Potsdam	35.0	93.3	6.5
Energie Vorpommern GmbH[6]	DE, Trassenheide	49.0	16.0	0.9
Energieversorgung Alzenau GmbH (EVA)[6]	DE, Alzenau	69.5	12.0	1.0
Enerjisa Enerji A.Ş.[4]	TR, Istanbul	50.0	2,087.1	71.3

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Disclosures pursuant to Section 285 No. 11 HGB of Companies in Which Equity Investments Are Held (as of December 31, 2017)

Name	Location	Stake %	Equity € in millions	Earnings € in millions
EPS Polska Holding Sp. z o.o.[1]	PL, Warsaw	100.0	17.5	-7.3
Ergon Overseas Holdings Limited[1]	GB, Coventry	100.0	972.9	–
e-werk Sachsenwald GmbH[7]	DE, Reinbek	16.0	27.6	4.2
EZV Energie- und Service GmbH & Co. KG Untermain[6]	DE, Wörth am Main	28.9	10.0	1.9
Forest Creek Investco, Inc.[1, 11]	US, Wilmington	100.0	-20.6	0.0
Forest Creek WF Holdco, LLC[1]	US, Wilmington	100.0	97.6	-2.8
Forest Creek Wind Farm, LLC[1]	US, Wilmington	100.0	97.6	-2.8
GASAG AG[5]	DE, Berlin	36.9	492.4	-34.8
Gasversorgung im Landkreis Gifhorn GmbH[1]	DE, Gifhorn	95.0	17.9	2.9
Gasversorgung Unterfranken Gesellschaft mit beschränkter Haftung[5]	DE, Würzburg	49.0	40.6	11.7
Gelsenberg GmbH & Co. KG[1, 8]	DE, Düsseldorf	100.0	143.5	–
Gelsenwasser Beteiligungs-GmbH[2, 9]	DE, Munich	100.0	0.0	–
Gemeindewerke Wedemark GmbH[6]	DE, Wedemark	49.0	12.7	0.5
Gemeinschaftskernkraftwerk Grohnde GmbH & Co. oHG[1]	DE, Emmerthal	100.0	413.0	125.3
Gemeinschaftskraftwerk Weser GmbH & Co. oHG.[1]	DE, Emmerthal	66.7	18.9	-104.9
Gesellschaft für Energie und Klimaschutz Schleswig-Holstein GmbH[6]	DE, Kiel	33.3	20.8	-1.6
GNS Gesellschaft für Nuklear-Service mbH[6]	DE, Essen	48.0	37.2	11.3
Grandview Wind Farm, LLC[4]	US, Wilmington	50.0	331.3	9.6
Hamburg Netz GmbH[1, 9]	DE, Hamburg	74.9	82.6	–
HanseGas GmbH[1, 9]	DE, Quickborn	100.0	66.1	0.0
HanseWerk AG[1]	DE, Quickborn	66.5	476.2	114.2
HanseWerk Natur GmbH[1, 9]	DE, Hamburg	100.0	59.0	–
Harzwasserwerke GmbH[5]	DE, Hildesheim	20.8	90.0	6.6
Herzo Werke GmbH[7]	DE, Herzogenaurach	19.9	12.8	–
HEW HofEnergie+Wasser GmbH[7]	DE, Hof	19.9	22.1	–
HGC Hamburg Gas Consult GmbH[2, 9]	DE, Hamburg	100.0	3.1	–
iamsmart GmbH[2, 9]	DE, Essen	100.0	0.5	–
Inadale Wind Farm, LLC[1, 11]	US, Wilmington	100.0	144.3	-3.5
Induboden GmbH[2]	DE, Düsseldorf	100.0	14.0	0.0
Induboden GmbH & Co. Grundstücksgesellschaft OHG[2, 10]	DE, Essen	100.0	12.0	–
Industriekraftwerk Greifswald GmbH[6]	DE, Kassel	49.0	26.2	1.0
infra fürth gmbh[7]	DE, Fürth	19.9	70.4	–
InfraServ - Bayernwerk Gendorf GmbH[6]	DE, Burgkirchen a.d.Alz	50.0	22.3	-0.1
Kalmar Energi Holding AB[4]	SE, Kalmar	50.0	18.5	0.0
Kernkraftwerk Brokdorf GmbH & Co. oHG[1]	DE, Hamburg	80.0	441.6	-60.5
Kernkraftwerk Brunsbüttel GmbH & Co. oHG[5]	DE, Hamburg	33.3	125.7	-97.0
Kernkraftwerk Gundremmingen GmbH[5]	DE, Gundremmingen	25.0	84.2	8.3
Kernkraftwerk Krümmel GmbH & Co. oHG[3]	DE, Hamburg	50.0	220.2	-179.9
Kernkraftwerk Stade GmbH & Co. oHG[1]	DE, Hamburg	66.7	53.0	-64.0

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Name	Location	Stake %	Equity € in millions	Earnings € in millions
Kernkraftwerke Isar Verwaltungs GmbH[1, 9]	DE, Essenbach	100.0	1.0	–
KGW - Kraftwerk Grenzach-Wyhlen GmbH[1, 9]	DE, Munich	100.0	9.2	1.1
Kraftwerk Burghausen GmbH[1, 9]	DE, Munich	100.0	4.8	–
Kraftwerk Hattorf GmbH[1, 9]	DE, Munich	100.0	0.0	–
Kraftwerk Marl GmbH[1, 9]	DE, Munich	100.0	0.1	0.0
Kraftwerk Plattling GmbH[1, 9]	DE, Munich	100.0	0.3	–
LandE GmbH[1]	DE, Wolfsburg	69.6	180.6	22.4
Lillo Energy NV[6]	BE, Brussels	50.0	12.9	2.3
LSW Holding GmbH & Co. KG[5]	DE, Wolfsburg	57.0	41.7	10.3
Magicat Holdco, LLC[5]	US, Wilmington	20.0	513.3	0.8
Matrix Control Solutions Limited[1]	GB, Coventry	100.0	16.7	2.2
MEON Pensions GmbH & Co. KG[1, 8]	DE, Grünwald	100.0	2,199.0	320.6
Munnsville Investco, LLC[1, 11]	US, Wilmington	100.0	13.5	0.0
Munnsville WF Holdco, LLC[1]	US, Wilmington	100.0	41.4	-1.5
Munnsville Wind Farm, LLC[1]	US, Wilmington	100.0	41.4	-1.5
Netzgesellschaft Hildesheimer Land GmbH & Co. KG[6]	DE, Giesen	49.0	17.4	1.4
Netzgesellschaft Schwerin mbH (NGS)[6]	DE, Schwerin	40.0	15.0	2.0
Neumünster Netz Beteiligungs-GmbH[1, 9]	DE, Neumünster	50.1	25.6	–
Nord Stream AG[5, 11]	CH, Zug	15.5	1,945.7	428.8
NordNetz GmbH[2, 9]	DE, Quickborn	100.0	0.2	0.0
Offshore-Windpark Delta Nordsee GmbH[2, 9]	DE, Hamburg	100.0	-1.4	0.2
OOO E.ON Connecting Energies[4]	RU, Moscow	50.0	30.3	0.6
Oskarshamn Energi AB[4]	SE, Oskarshamn	50.0	32.5	5.0
Panther Creek Wind Farm I&II, LLC[1]	US, Wilmington	100.0	270.1	-13.1
PEG Infrastruktur AG[1]	CH, Zug	100.0	694.4	46.2
Pioneer Trail Wind Farm, LLC[1]	US, Wilmington	100.0	169.8	-2.1
Portfolio EDL GmbH[1, 8, 9]	DE, Helmstedt	100.0	0.1	–
Powergen Holdings B.V.[1]	NL, Rotterdam	100.0	1,028.9	-2.1
PreussenElektra GmbH[1, 9]	DE, Hanover	100.0	245.2	–
Purena GmbH[1]	DE, Wolfenbüttel	94.1	44.9	4.2
Pyron Wind Farm, LLC[1, 11]	US, Wilmington	100.0	181.4	-4.8
Radford's Run Wind Farm, LLC[1, 11]	US, Wilmington	100.0	114.8	1.4
Rampion Offshore Wind Limited[1]	GB, Coventry	50.1	729.8	3.5
REWAG REGENSBURGER ENERGIE- UND WASSERVERSORGUNG AG & CO KG[5]	DE, Regensburg	35.5	110.2	23.0
Rødsand 2 Offshore Wind Farm AB[5]	SE, Malmö	20.0	149.4	7.9
Roscoe WF Holdco, LLC[1]	US, Wilmington	100.0	185.4	-11.7
Roscoe Wind Farm, LLC[1]	US, Wilmington	100.0	185.4	-11.7
Safetec Entsorgungs- und Sicherheitstechnik GmbH[2, 9]	DE, Heidelberg	100.0	2.2	–
Sand Bluff WF Holdco, LLC[1]	US, Wilmington	100.0	75.7	-11.5

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Name	Location	Stake %	Equity € in millions	Earnings € in millions
Sand Bluff Wind Farm, LLC[1]	US, Wilmington	100.0	75.7	-11.5
Schleswig-Holstein Netz AG[1, 9]	DE, Quickborn	81.6	458.3	61.6
Schleswig-Holstein Netz Verwaltungs-GmbH[1, 9]	DE, Quickborn	100.0	0.0	–
SERVICE plus GmbH[2, 9]	DE, Neumünster	100.0	32.2	–
Settlers Trail Wind Farm, LLC[1]	US, Wilmington	100.0	216.4	-8.1
ŠKO-ENERGO FIN, s.r.o.[5]	CZ, Mladá Boleslav	42.5	25.7	12.6
Sønderjysk Biogas Bevtoft A/S[6]	DK, Vojens	50.0	14.3	0.0
Städtische Betriebswerke Luckenwalde GmbH[6]	DE, Luckenwalde	29.0	14.9	3.0
Städtische Werke Magdeburg GmbH & Co. KG[5]	DE, Magdeburg	26.7	218.7	57.3
Stadtnetze Neustadt a. Rbge. GmbH & Co. KG[6]	DE, Neustadt a. Rbge.	24.9	13.2	2.1
Stadtwerke Bamberg Energie- und Wasserversorgungs GmbH[7]	DE, Bamberg	10.0	30.1	–
Stadtwerke Bayreuth Energie und Wasser GmbH[5]	DE, Bayreuth	24.9	29.6	–
Stadtwerke Blankenburg GmbH[6]	DE, Blankenburg	30.0	11.3	1.4
Stadtwerke Frankfurt (Oder) GmbH[5]	DE, Frankfurt (Oder)	39.0	33.3	–
Stadtwerke Garbsen GmbH[6]	DE, Garbsen	24.9	28.0	2.3
Stadtwerke Geesthacht GmbH[6]	DE, Geesthacht	24.9	22.1	–
Stadtwerke Husum GmbH[6]	DE, Husum	49.9	15.6	1.5
Stadtwerke Ludwigsfelde GmbH[6]	DE, Ludwigsfelde	29.0	12.9	2.1
Stadtwerke Schwedt GmbH[6]	DE, Schwedt/Oder	37.8	22.9	–
Stadtwerke Straubing Strom und Gas GmbH[7]	DE, Straubing	19.9	7.2	–
Stadtwerke Vilshofen GmbH[6]	DE, Vilshofen	41.0	10.3	1.0
Stadtwerke Wertheim GmbH[7]	DE, Wertheim	10.0	20.5	–
Stadtwerke Wismar GmbH[5]	DE, Wismar	49.0	38.4	6.0
Stadtwerke Wolfenbüttel GmbH[6]	DE, Wolfenbüttel	26.0	13.7	1.0
SVO Holding GmbH[1]	DE, Celle	50.1	45.5	22.3
SVO Vertrieb GmbH[1, 9]	DE, Celle	100.0	1.3	–
SWN Stadtwerke Neustadt GmbH[6]	DE, Neustadt bei Coburg	25.1	13.9	–
SWS Energie GmbH[5]	DE, Stralsund	49.0	15.4	–
Szczecińska Energetyka Cieplna Sp. z o.o.[1]	PL, Szczecin	66.5	43.6	7.4
Szombathelyi Távhőszolgáltató Kft.[6]	HU, Szombathely	25.0	11.6	0.2
Tishman Speyer Real Estate Venture VI Parallel (ON), L.P.[2]	US, New York City	99.0	11.7	1.0
Überlandwerk Leinetal GmbH[6]	DE, Gronau	48.0	12.3	0.6
Uniper SE[5]	DE, Düsseldorf	46.7	11,672.8	210.0
Uranit GmbH[4]	DE, Jülich	50.0	70.7	114.5
Valencia Solar, LLC[1, 11]	US, Tucson	100.0	15.1	1.5
Versorgungskasse Energie (VVaG) i.L.[1]	DE, Hanover	71.6	49.3	3.8
Visioncash[1]	GB, Coventry	100.0	301.5	–
WEVG Salzgitter GmbH & Co. KG[1]	DE, Salzgitter	50.2	25.1	7.9
Západoslovenská energetika a.s. (ZSE)[5, 11]	SK, Bratislava	49.0	334.7	50.9

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Declaration of the Board of Management

To the best of our knowledge, we declare that, in accordance with applicable financial reporting principles, the Annual Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Management Report of the Company, which is combined with the Group Management Report, provides a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Essen, Germany, March 12, 2018

The Management Board

Teyssen

Birnbaum

Spieker

Wildberger

To E.ON SE, Essen

Report on the Audit of the Annual Financial Statements and of the Management Report

Audit Opinions

We have audited the annual financial statements of E.ON SE, Essen, which comprise the balance sheet as at December 31, 2017, and the income statement for the financial year from January 1, to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of E.ON SE, which is combined with the Group management report, for the financial year from January 1, to December 31, 2017. We have not audited the content of those parts of the management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2017 and of its financial performance for the financial year from January 1 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the annual financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements and principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of shares in affiliated companies and net investment income
2. Financing activities

Our presentation of these key audit matters has been structured in each case as follows:

a. Matter and issue
b. Audit approach and findings
c. Reference to further information

Hereinafter we present the key audit matters:

1. Recoverability of shares in affiliated companies and net investment income

Recoverability of shares in affiliated companies

a. As of December 31, 2017, shares in affiliated companies amounting to EUR 35.4 billion (73% of total assets) are reported under E.ON SE's long-term financial assets. As of the reporting date, E.ON SE performed a scheduled impairment test on the recoverability of the material shares in affiliated companies. No write-downs or reversals of write-downs were required for the shares in affiliated companies of E.ON SE in the financial year 2017. Fair value is measured on the basis of the market price, provided the market price is available. Otherwise, the discounted cash flow method is used to determine a total enterprise value, which is adjusted by the net debt so that the equity value can be calculated for the purposes of comparing that against the carrying amount of the respective long-term equity investment. The result of these measurements depends to a large extent on the executive directors' estimates of future cash flows, the discount rate applied and the growth rate. The assumptions about the long-term development of the underlying prices and the relevant regulatory influencing factors are in particular also of importance. Due to the complexity of the measurement, the considerable uncertainties associated with the underlying assumptions and the importance for the assets, liabilities and financial performance of E.ON SE as a financial holding company, this matter was of particular significance during our audit.

b. As part of our audit, we assessed the recoverability of the carrying amounts of material long-term equity investments. This involved, among other things, assessing whether the respective measurement model used to determine the total enterprise value properly reflects the conceptual requirements of the relevant measurement standards and whether the calculations in the model were correctly performed. The critical assessment of the key assumptions underlying the measurements was the focal point of our audit. We evaluated the appropriateness of the future cash flows used for the measurement of the equity interests by reconciling this data against general and sector-specific market expectations and by comparing it with the current budgets in the Group investment, finance and HR plan for 2018 prepared by the executive directors and approved by the supervisory board on December 8, 2017 as well as the planning for the years 2019 and 2020 prepared by the executive directors and acknowledged by the supervisory board. Among other things, we assessed how the long-term growth rates used for perpetual annuities were derived from the market expectations. We also assessed the parameters used to determine the discount rate applied, and evaluated the measurement model. We also compared the assumptions about long-term price development and the relevant regulatory influencing factors against sector-specific expectations.

Furthermore, we assessed whether the respective total enterprise value was correctly calculated and whether the net finance position was correctly derived from the financial accounting records. We then assessed whether the value calculated in this way was properly compared against the carrying amount of the corresponding long-term equity investment in order to determine any impairment losses or reversals of impairment losses.

Taking into consideration the information available, according to our findings the measurement parameters and assumptions used by the executive directors to measure shares in affiliated companies are appropriate overall.

c. The Company's disclosures relating to shares in affiliated companies are contained in note 2 of the notes to the financial statements.

Net investment income

a. Net investment income of EUR 4.7 billion, which is characterized primarily by the profit transfers of two subsidiaries, is reported in the income statement of E.ON SE for the financial year 2017. Their profits are attributable, in particular, to the reversal of impairment of the investment in Uniper SE and to the refund of nuclear fuel tax recognized through profit or loss in the "Nuclear energy" segment as well as the reversal of provisions. Losses absorbed in the amount of EUR 0.9 billion, resulting mainly from write-downs on shares in affiliated companies at subsidiaries had the opposite effect.

From our point of view, this matter was of particular significance for our audit given the material importance of the amount involved for the Company's results of operations.

b. As part of our audit, we assessed the correct calculation and recognition of the net investment income. To this end, we assessed, among other things, the due and proper collection of the profit/loss transfers and the underlying profit and loss transfer agreements in place with the affiliated companies, as well as the underlying resolutions and proposals on the appropriation of net profit for the distributions collected. We verified the recognized amounts on the basis of the annual financial statements, for which unqualified auditors' reports had been issued, for the material affiliated companies. We were able to satisfy ourselves hat the net investment income had been appropriately recognized in the annual financial statements based on the available information.

c. The Company's disclosures relating to the material net investment income are contained in note 21 of the notes to the financial statements.

2. Financing activities

a. Due to the payment made to the fund for financing nuclear waste disposal in the amount of around EUR 10.3 billion in the financial year 2017, E.ON SE had additional financing requirements. These requirements were covered to a large extent using own funds, in particular also using the inflow of EUR 3.0 billion from the refund of nuclear fuel tax. In addition, the Company increased the share capital within the context of the authorized capital by around EUR 0.2 billion, resulting in an increase in equity of EUR 1.35 billion in total taking the agreed premium into account. In addition, three euro bonds with a total volume of EUR 2.0 billion were placed. The bonds are fixed-rate bonds and have a term running up to 2021, 2024 and 2029.

   The issuance of these bonds meant that, partially, there was no longer any hedged item for the previously designated interest rate hedging relationship for bonds to be issued in the future. As a result, newly concluded derivative financial instruments with terms and nominal amounts matching the newly issued bonds were added to the hedging relationship as further hedged items in the amount of the bonds issued. The hedging relationship still serves to provide interest rate hedging for bond issues expected in the future.

   As of December 31, 2017, the hedging instruments have a negative fair value of EUR 0.8 billion. The designated hedging relationship is accounted for using the net hedge presentation method. If a hedging relationship results in a loss, a provision for anticipated losses is recognized. There was no need for provisions as of the balance sheet date.

   From our point of view, these matters were of particular significance for our audit due to the volume of the financing activities, the complexity of the accounting treatment of the hedging relationships, the potential impact on profit or loss and the long term of the transactions.

b. As part of our audit, we assessed, in particular, the accounting treatment of the capital increase and the bonds issued, in the latter case focusing on the hedging relationships. Within this context, we first of all obtained an understanding of the contractual law, company law and financial bases and assessed these in terms of their accounting treatment. We also obtained and evaluated supporting documentation from the banks involved and excerpts from the commercial register.

   We assessed the continuation of the hedging relationships designated for the bonds regarding compliance with the requirements of German commercial law. In detail, this involved assessing whether the requirements for the designation of hedging relationships had been met, incl. the existence of corresponding effectiveness tests and hedge documentation. In addition, we verified - where applicable - the accounting entries to recognize relevant balance sheet items (provisions for anticipated losses resulting from net unrealized losses and ineffectiveness) and their reporting in the balance sheet and income statement, and assessed compliance with the applicable accounting requirements. With respect to the effectiveness of the hedging relationships, we mainly evaluated the retrospective and prospective assessment of hedge effectiveness performed by the Company. In doing so, we were able to satisfy ourselves that the capital increase and the bonds issued were presented appropriately in the financial statements and that the conditions for the designation and recognition of the hedging relationships are sufficiently reasonable and documented.

c. The Company's disclosures relating to equity, financial liabilities, derivative financial instruments and the recognition of hedging relationships are contained, in particular, in notes 16 and 20 of the notes to the financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate Governance Report" of the management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Audit of Compliance with the Accounting Obligations pursuant to § 6b Abs. 3 EnWG

We have audited the compliance with the accounting obligations pursuant to § 6b Abs. 3 EnWG [Energiewirtschaftsgesetz: German Energy Industry Act], which require separate accounts to be maintained for the activities pursuant to § 6b Abs. 3 EnWG.

In our opinion, the accounting obligations pursuant to § 6b Abs. 3 EnWG, which require separate accounts to be maintained for the activities pursuant to § 6b Abs. 3 EnWG, have been fulfilled in all material respects.

We conducted our audit in accordance with § 6b Abs. 5 EnWG and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described below and in section "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report."

The executive directors are responsible for the compliance with the obligations pursuant to § 6b Abs. 3 EnWG as well as for such arrangements and measures (systems) as they have considered necessary to comply with these obligations.

Our objectives are to obtain reasonable assurance about whether the accounting obligations pursuant to § 6b Abs. 3 EnWG have been fulfilled, in all material respects, as well as to issue a report that includes our audit opinion on the compliance with the accounting obligations pursuant to § 6b Abs. 3 EnWG. The audit comprises an assessment of whether the amounts stated and the classification of the accounts pursuant to § 6b Abs. 3 EnWG are appropriate and comprehensible and whether the principle of consistency has been observed.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 10, 2017. We were engaged by the supervisory board on May 23, 2017. We have been the auditor of the E.ON SE, Essen, without interruption since the company first met the requirements as a public-interest entity within the meaning of § 319a Abs. 1 Satz 1 HGB in the financial year 1965.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Emphasis of Matter—Supplementary Audit

We issue this auditor's report on the amended annual financial statements and the amended management report on the basis of our audit, duly completed as of 6 March 2018, and our supplementary audit completed as of 12 March 2018 related to the addition of disclosures regarding a matter that has become known subsequent to the preparation of the annual financial statements and the management report. We refer to the presentation of the amendments by the executive directors in the section "Subsequent Events" in the amended notes to the financial statements as well as in the section "Earnings Situation" and in the chapter "Forecast Report" in the amended management report.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Aissata Touré.

Düsseldorf, 6 March 2018/limited to the above mentioned adjustments: 12 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(Markus Dittmann) Wirtschaftsprüfer (German Public Auditor)	(Aissata Touré) Wirtschaftsprüferin (German Public Auditor)

Further information

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The German version of E.ON SE's Financial Statements and Combined Group Management Report is legally binding.

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