E.ON's UK Consolidated Segmental Report

for the year ended 31 December 2016

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In accordance with the Electricity Generation Licence Condition 16B - Financial Information Reporting, and the Electricity Supply and Gas Supply Licence Conditions 19A - Financial Information Reporting (together the "Licence Conditions"), the E.ON companies (the "Relevant Licensees") listed below on page 4 have prepared this Consolidated Segmental Report for the year ended 31 December 2016. This Consolidated Segmental Report has five sections:

1. **E.ON's UK generators and suppliers**, which lists E.ON's Relevant Licensees.
2. Trading, which provides an explanation of how any electricity and gas trading associated with licence supply and generation activities in Great Britain is carried out within the E.ON SE Group (the group containing the ultimate parent company, E.ON SE, and its subsidiary companies) and reported in this Consolidated Segmental Report;
3. The Consolidated Segmental Statement (the "CSS") as defined in the Licence Conditions and within which is:
   - A. **E.ON's** UK Consolidated Segmental Statement for the year ended 31 December 2016 (Table 1), which provides information relating to the revenues, costs and profits of the Relevant Licensees' activities in the generation of electricity and the supply of electricity and gas to any premises, where Table 1 is one of the two tables that form the CSS;
   - B. The Notes to Table 1 and basis of preparation, which provide an explanation of how the Relevant Licensees define the terms: revenues, costs and profits used in E.ON's UK Consolidated Segmental Statement;
   - C. Table 2 Business Function, which provides an explanation of where individual business functions are captured in E.ON's UK Consolidated Segmental Statement, as specified by Appendix 2 of the Guidelines, where Table 2 is the second of the two tables that form the CSS;
   - D. The Notes to Table 2 and basis of preparation, which provide an explanation of how the Relevant Licensees define the terms used in Table 2; and
   - E. Independent Auditors' report, which is set out in Annex 1 and is the Independent Auditors' report to the Directors of E.ON's Relevant Licensees. This report, from the Relevant Licensees' Auditor, gives an audit opinion as to whether the Relevant Licensees have prepared this Consolidated Segmental Report and the CSS within it, in accordance with the requirements of the Licence Conditions and the basis of preparation.

4. Reconciliation of Table 1 to the Annual Report of E.ON SE, which comprises of:

    A. Table 3 Reconciliation, because none of the UK statutory accounts of E.ON's nine Relevant Licensees were prepared or published before 30 April 2017, this is a reconciliation of the Revenues and EBITDA contained within Table 1 to the audited data published in the Annual Report of E.ON SE for the year ended 31 December 2016, where the Annual Report of E.ON SE is prepared under International Financial Reporting Standards; and

    B. Notes to Table 3 and basis of preparation, which provide an explanation of the definitions used and reconciling items in the Reconciliation.

    This reconciliation of Table 1 to the Annual Report of E.ON SE does not form part of the CSS.

5. Transfer Pricing and basis of preparation, within which is:

    A. The transfer pricing methodology used by the Relevant Licensees, which is an explanation of the transfer pricing methodology used by the Relevant Licensees and how this relates to the revenues, costs and profits information in Table 1 of the CSS; and

    B. **Compliance with the Licence Conditions' requirements in respect of Transfer Pricing**, which is an explanation of how the Relevant Licensees meet the Licence Conditions' requirements for ensuring that the transfer pricing methodology they operate is appropriate and up to date.

The Relevant Licensees have published the CSS within this Consolidated Segmental Report on the website http://www.eonenergy.com/About-eon/our-company/at-a-glance/company-reporting.

1. **E.ON's UK generators and suppliers**

The Relevant Licensees

1. Relevant Electricity Supply licensees (electricity supply licensees that supply electricity and are, or have Affiliates that are, holders of an electricity generation licence, as set out in the Licence Conditions):
   - E.ON Energy Solutions Limited
   - E.ON UK plc

2. Relevant Gas Supply licensees (gas supply licensees that supply gas and are, or have Affiliates that are, holders of an electricity generation licence, as set out in the Licence Conditions):
   - E.ON Energy Gas (Eastern) Limited
   - E.ON Energy Gas (North West) Limited
   - E.ON Energy Solutions Limited
   - E.ON UK plc
   - Economy Power Limited

3. Relevant Generation licensees (a generation licensee that supplies electricity and gas, or its Affiliates supply electricity or gas, as set out in the Licence Conditions):
   - Citigen (London) Limited
   - E.ON Climate & Renewables UK Humber Wind Limited
   - E.ON UK plc
   - Rampion Offshore Wind Limited
   - Uniper UK Limited

All the Relevant Licensees are wholly owned subsidiaries of E.ON SE except for Rampion Offshore Wind Limited and Uniper UK Limited. E.ON Climate & Renewables UK Limited has a 50.1% equity interest in Rampion Offshore Wind Limited. Uniper UK Limited is part of the Uniper SE Group ("Uniper"). Uniper SE was listed on the Frankfurt Stock Exchange's Prime Standard on 12 September 2016. At that point E.ON's allotment of 53.35% of Uniper SE shares to E.ON SE shareholders became effective, with the remaining 46.65% of Uniper SE shares retained by E.ON. All the Relevant Licensees are fully consolidated in E.ON's UK CSS for the whole of 2016.

Major operational generation plant of the Relevant Licensees in 2016

E.ON Plant classed as Conventional in Tables 1 and 2 below:

- Citigen (natural gas fired combined heat and power plant)

Uniper Plant classed as Conventional in Tables 1 and 2 below:

- Cottam Development Centre (natural gas fired combined cycle gas turbine plant)
- Connah's Quay (natural gas fired combined cycle gas turbine plant)
- Enfield (natural gas fired combined cycle gas turbine plant)
- Grain (natural gas fired combined cycle gas turbine plant and gasoil open cycle gas turbine plant)
- Killingholme (natural gas fired combined cycle gas turbine plant).
- Ratcliffe (coal fired steam plant and gasoil open cycle gas turbine plant)
- Taylor's Lane (gasoil open cycle gas turbine plant)

E.ON Plant classed as Renewable in Tables 1 and 2 below:

- Humber Gateway (off-shore wind farm)
- Out Newton (on-shore wind farm)
- Steven's Croft (biomass fired steam plant)

Joint Ventures and Associates

Under the Guidelines to Licence Conditions, in preparing the CSS the Relevant Licensees should account for Joint Ventures and Associates (which hold a generation or electricity/gas supply licence in the UK). E.ON has one UK Associate that holds a generation licence, London Array Limited, which is 30% owned by a subsidiary of E.ON UK plc, the major operating plant covered by this generation licence is the London Array wind farm. Consequently, Table 1 includes:

- The revenues arising from E.ON's 30% interest in the London Array wind farm;
- The EBITDA arising from E.ON's 30% interest in the London Array wind farm; and
- 30% of London Array's generation volume.

London Array Limited's activities do not form part of the transfer pricing methodology used by the Relevant Licensees and are not covered in Table 2.

The Relevant Licensees also have Affiliates, Associates and Joint Ventures that are not licensees, but carry out generation and supply activities in Great Britain. As these companies are not licensees their activities are not included in the CSS.

Classification of Generation and Supply Activities

For this Consolidated Segmental Report:

- the combined electricity generation activities of the Relevant Licensees are "Generation", which forms the Generation segment in Table 1, and comprises the Relevant Licensees' generation activities managed in 2016 by the E.ON Management Units Renewables and Customer Solutions UK and Uniper; and

- the combined supply (electricity and gas) activities of the Relevant Licensees are "Supply", which forms the Supply segment in Table 1, and comprises the Relevant Licensees' supply activities managed by the E.ON Management Unit Customer Solutions UK.

<u>2016 generation volumes of E.ON's Great Britain generation plant</u>

Relevant Licensees, including 30% of London Array, which is the volume reported in Table 1	19.7TWh
Licence Exempt generation by Affiliates and Associates of the Relevant Licensees	1.7TWh
Total volume of E.ON's Great Britain generation plant	21.4TWh

2. Trading

Uniper Global Commodities SE ("UGC") (formerly E.ON Global Commodities SE ("EGC")), was established to centralise all of the E.ON SE Group's European trading operations, it is not a Relevant Licensee. As such, UGC's activities are not included in Table 1. UGC's activities include purchasing generation from the Relevant Licensees and providing electricity and gas for supply activities by the Relevant Licensees. These arrangements are covered by cross border contracts, which are prepared on an arm's length basis (meaning that although the transactions are between two related or affiliated parties, they are conducted as if the two parties were unrelated) and are subject to examination by the tax authorities in both Germany and the UK. These arrangements are described in the explanation of the transfer pricing methodology used by the Relevant Licensees on pages 20 to 23 of this Consolidated Segmental Report.

The Relevant Licensees' generation activities do not engage in the trading of electricity or gas, other than in transfer pricing arrangements with UGC to sell electricity and procure gas. These arrangements mean that income related to the production capacity, fuel and emission allowances of conventional plant, for the Generation segment in Table 1 is based on market prices. Any profit or loss from trading, including balancing activities, by UGC does not affect Generation's income and therefore, if there was an entry for trading in the Generation segment of Table 1, it would be zero.

Electricity and gas supply activities forming Supply do not actively engage in the trading of electricity or gas, other than in contracting for the necessary volume of electricity and gas for supply to our customers. Nearly all of the procurement is from UGC using transfer pricing arrangements. These arrangements mean that the cost of energy purchased from UGC by Supply is based on wholesale market prices. Any profit or loss from trading by UGC, or any other companies in the E.ON organisation, does not affect costs for Supply and therefore if there was an entry for trading in the Supply segment of Table 1, it would be zero.

There are differences between the income rate for the Generation segment and the electricity expenditure rate of the Supply segment in Table 1, but none of these are due to trading activities of UGC or any other E.ON businesses. The differences are because the electricity volumes generated and supplied by activities forming Generation and Supply respectively, are different, as are their respective load profiles and the times at which they contract. These factors, together with the effects of transaction costs and the activities forming Supply that are not purchasing all their volumes from UGC, mean that although activities of Generation and Supply are contracting at wholesale market prices, Generation's average income rate per KWh generated will be different to Supply's average expenditure rate per KWh of electricity supplied. Also, in Table 1, the weighted average input cost of all fuel shown in the Generation segment is different to the weighted average input cost of gas shown in the Supply segment. This is because the generation plants of the Relevant Licensees use a mixture of fuels and use different volumes, load profiles and contracting times to that of the Supply activities.

3. The CSS - **E.ON's UK Consolidated Segmental Statement for the year ended 31 December** 2016 (Table 1)

Table 1	Note	Unit	Electricity Generation		Aggregate Generation business	Electricity Supply		Gas Supply		Aggregate Supply business
			Conventional (See note 14)	*Renewable (See note 15)*	(see Note 16)	*Domestic (See note 17)*	*Non-domestic (See note 18)*	*Domestic (See note 17)*	*Non-domestic (See note 18)*	(see Note 19)
			2016	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**
Revenue from sales of electricity and gas	1	£'m	835.9	87.2	**923.1**	2,158.1	2,166.6	1,457.4	332.5	**6,114.6**
Other revenue	2	£'m	1.2	152.7	**153.9**	-	-	-	-	**-**
Total revenue		£'m	**837.1**	**239.9**	**1,077.0**	**2,158.1**	**2,166.6**	**1,457.4**	**332.5**	**6,114.6**
Direct fuel costs	3	£'m	(448.3)	(14.5)	**(462.8)**	(810.5)	(1,034.6)	(639.8)	(209.2)	**(2,694.1)**
Transportation costs	4	£'m	(22.6)	(15.6)	**(38.2)**	(607.2)	(540.7)	(370.1)	(66.2)	**(1,584.2)**
Environmental and social obligations	5	£'m	(180.5)	-	**(180.5)**	(327.6)	(412.9)	(15.4)	-	**(755.9)**
Other direct costs	6	£'m	(77.4)	(9.5)	**(86.9)**	(26.8)	(27.4)	(16.8)	(6.6)	**(77.6)**
Indirect costs	7	£'m	(113.2)	(29.8)	**(143.0)**	(317.9)	(83.1)	(232.4)	(26.4)	**(659.8)**
Total operating costs		£'m	**(842.0)**	**(69.4)**	**(911.4)**	**(2,090.0)**	**(2,098.7)**	**(1,274.5)**	**(308.4)**	**(5,771.6)**
EBITDA	8	£'m	**(4.9)**	**170.5**	**165.6**	**68.1**	**67.9**	**182.9**	**24.1**	**343.0**
Depreciation and amortisation (DA)	9	£'m	(432.5)	(57.3)	**(489.8)**	(3.0)	(0.7)	(2.0)	(0.2)	**(5.9)**
EBIT	10	£'m	**(437.4)**	**113.2**	**(324.2)**	**65.1**	**67.2**	**180.9**	**23.9**	**337.1**
Volume	11	TWh	17.9	1.8	**19.7**	15.4	21.0	-	-	**-**
		therms (m)	-	-	**-**	-	-	1,260.1	432.5	**-**
WACO F/E/G	12	£/MWh	35.1	8.1	**32.7**	52.6	49.3	-	-	**-**
		p/th	-	-	**-**	-	-	50.8	48.4	**-**
Customer accounts	13	Thousands accounts	-	-	**-**	4,062	437	2,676	118	**7,293**

Indirect costs and DA include restructuring costs and impairments respectively. See notes 7 and 9 on page 12 for further information of these items.

Notes to Table 1 and basis of preparation

1. *Revenue from sales of electricity and gas*

   a. For the Generation segments, this means revenue received from UGC for sales of the Relevant Licensees' net generation and includes revenues received from capacity payments and remuneration for fuel and EU emissions trading system (EU-ETS) allowances used. The revenue received from UGC reflects UGC's market participation costs, including Elexon/Xoserve administration costs.

   b. For the respective Supply segments, this means electricity and gas sales by the Relevant Licensees. Revenue for domestic supply is less discounts including dual fuel and customer rewards as recorded in the company's books of account; this includes the customer rebate for the Warm Home Discount (WHD). Where revenues are not recorded as fuel specific, they are allocated on the basis of customer numbers.

2. *Other revenue* - this means other segmental revenues of the licensees not covered in Revenue from sales of electricity and gas.

   a. For the Generation segment this includes any ancillary services, ash sales, Renewables Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs). For Citigen (London) Limited, this also includes heat and cooling.

   b. For the Supply segment, Table 1 only includes licensed supply activity, as all other activities have been adjusted on the reconciliation in Table 3.

3. *Direct fuel costs*

   a. For the Generation segment, this is just the cost of fuel (e.g. gas, coal, etc.) consumed by the Relevant Licensees during the financial year. As all emissions costs such as EU-ETS allowances and Carbon Price Floor (CPF) are included in Environmental and social obligation costs, they are excluded from Direct fuel costs.

   b. For the Supply segment, this is the cost of electricity and gas used by the Relevant Licensees' Supply activities. This includes the wholesale energy costs, losses, the energy element of Reconciliation-by-Difference (RBD), the cost of securing derivative hedging instruments and balancing and shaping costs.

4. *Transportation costs*

a. For the Generation segment, this includes all network costs and Balancing Services Use of System (BSUoS) charges relating to Generation.

b. For the Supply segment, this includes use of system charges, transportation costs, BSUoS, the transport element of RBD and other network costs relating to Supply. Costs are as recorded in the company's books of account and supporting documents.

5. *Environmental and social obligation costs*

a. For the Generation segment, this includes the cost of EU-ETS allowances and CPF related taxes. The volume of granted free carbon allowances for the Relevant Licensees under the National Allocation Plan, as reported in this Table 1, was 1,599 tonnes.

b. For the Supply segment the costs directly attributable to it were Electricity Market Reform (EMR), Feed-in Tariffs (FIT), ROCs, the Energy Companies Obligation (ECO), LECs and Assistance for Areas with High Electricity Distribution Costs (AAHEDC). EMR, FIT, ROCs, LECs and AAHEDC are included as recorded in the company's books of account and supporting documents for domestic and non-domestic supply. ECO costs are as recorded in the company's books of account and supporting documents for the domestic supply customer group – further split to allocate into electricity and gas using the number of customer accounts. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.

A further more detailed analysis of the Environmental and social obligation costs which reconciles to and represents the amounts disclosed in Table 1 has been submitted directly to Ofgem.

6. *Other direct costs*

a. For the Generation segment, this includes the cost of electricity imported to the sites, ash disposal costs and Generation's cost of compliance with the Generation Licence Special Condition 'Secure and Promote'. Generation does not incur market participation costs, including Elexon/Xoserve administration costs.

b. For the Supply segment, this includes market participation costs, including Elexon/Xoserve administration costs, brokers' costs, intermediaries' sales commissions, any 'wider' smart metering programme costs (e.g. Data Communications Company (DCC) related costs) and Supply's cost of compliance with the Generation Licence Special Condition 'Secure and Promote'.

7. *Indirect costs*

a. For the Generation segment, this includes general office costs and repairs and maintenance. Also included are restructuring costs of £10.4m, which are resources engaged on a business process review that management considers relates to the reporting period in full and relate directly to the operation of the Generation segment, thus they form part of the total cost of resources employed in the business; they are not capital in nature.

b. For the Supply segment this means the Relevant Licensees' own internal operating costs including sales and marketing costs, bad debt, costs to serve, IT, staffing costs, head office costs that are attributable to Supply, billing and all meter costs including smart meter costs (e.g. linked to rollout or asset rental, but not DCC). Also included are restructuring costs of £5.2m, which are resources engaged on a business process review that management considers relates to the reporting period in full and relate directly to the operation of the Supply segment, thus they form part of the total cost of resources employed in the business; they are not capital in nature. Costs are as recorded in the company's books of account and are allocated where possible as a direct allocation to a particular customer group, i.e. there is an allocation between domestic and non-domestic, and then, within each of those two customer groups, between electricity and gas. Unless stated otherwise, where a direct allocation cannot be made to a particular customer group, the allocation between domestic and non-domestic and then electricity and gas has been made on a reasonable endeavours basis using the number of customer accounts in each category. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.

8. *EBITDA* – this means earnings before interest, tax, depreciation, amortisation and impairments. *EBITDA* is *Total Revenue* less *Total operating costs*.

9. *DA* – this means depreciation and amortisation. The Generation segment also includes relevant impairments that relate directly to the operation of the Generation businesses. This includes a net £334.6m impairment of Tangible Fixed Assets during the year in respect of the generation portfolio.

10. *EBIT* – this means earnings before interest and tax. *EBIT* is *EBITDA* less *DA*. In accordance with the Guidelines to Licence Conditions, the Consolidated Segmental Statement does not include the mark to market adjustment of derivatives. This is the notional profit/loss incurred through changes in valuation of contracts with future delivery dates, due to changes in market price. As these contracts have not been realised in cash terms, they do not form part of the performance measures used by management to make strategic decisions and have therefore been excluded.

11. *Volume*

    a. For the Electricity Generation segments, this is the volume of electricity that can actually be sold in the wholesale market, i.e. generation volumes after the losses up to the point where power is received under the Balancing and Settlement Code (BSC) but before subsequent losses. This is a different basis for measuring volume to that used for the Supply segment. The Electricity Generation Renewable segment includes generation by the Relevant Licensees that does not have "Direct fuel costs", e.g. wind generation.

    b. For the Supply segment, this is the volume of electricity, measured in TWh to 1 decimal place, and gas, measured in millions of therms to 1 decimal place, as recorded at the meter point (i.e. supplied under BSC net of losses). This is a different basis for measuring volume to that used for the Generation segment.

12. *WACO F/E/G*

    a. For the Generation segment, this is the "*Direct fuel costs*" (Note 3 above) and *"Environmental and social obligation costs" (Note 5 above)*, added together and divided by the "*Volume"* (Note 11 above), and means the weighted average input cost of all fuel (e.g. gas and coal) used by the Relevant Licensees and the cost of EU-ETS allowances and the CPF related taxes.

    b. For the Supply segment, this is solely the "*Direct fuel costs*" (Note 3 above) divided by the *Volume* (Note 11 above) and means the weighted average cost of electricity (shown as £/MWh), or gas (shown as p/therm) used by the Relevant Licensee's Supply activities.

13. *Customer accounts* - means the average number of electricity and gas, domestic and non-domestic meter points (Meter Point Administration Numbers and Meter Point Reference Numbers) during the reporting year. The average number has been calculated by summing the month end number of meter points and dividing by 12. The customer numbers are rounded to the nearest 1,000.

14. *Electricity Generation Conventional* – means generation plant that is eligible to participate in the Capacity Market under EMR.

15. *Electricity Generation Renewable* – means generation plant that is not eligible to participate in the Capacity Market under EMR.

16. *Aggregate Generation business* – this column sums the horizontal figures of the Electricity Generation columns.

17. *Domestic* - means supply to Domestic Customers, where Domestic Customers are customers supplied or requiring to be supplied with electricity at Domestic Premises. These are premises at which a supply of electricity is taken wholly or mainly for a domestic purpose except where those premises are Non-domestic Premises, but excluding such customers insofar as they are supplied or require to be supplied at premises other than Domestic Premises, where Non-domestic Premises have the meaning given in and are interpreted as in accordance with the Electricity Supply and Gas Supply Licence Conditions 6 (Classification of premises). These columns of the Table form the Domestic supply business segment.

18. *Non-domestic* - means supply to Non-domestic Customers, being those customers who are not Domestic Customers. These columns of the Table form the Non-domestic supply business segment.

19. *Aggregate Supply business* – this column sums the horizontal figures of the Electricity Supply and Gas Supply columns. Both the Electricity Supply and Gas Supply columns are each further divided into two columns to provide a Domestic and Non-domestic supply market breakdown. Where possible a direct allocation has been made to a particular customer group, i.e. there is an allocation between electricity and gas, and then, within each of those two groups, between domestic and non-domestic sales. Unless stated otherwise, where a direct allocation cannot be made to a particular customer group, the allocation between electricity and gas and then between Domestic and Non-domestic sales has been made on a reasonable endeavours basis using the number of customer accounts in each category. Using an allocation based on the number of customer accounts provides a consistent approach for allocating such costs across all customer accounts.

Table 2 Business Function	Generation		Supply	Another part of the business[1]
	Conventional	Renewable		
Operates and maintains generation assets	√	√		
Responsible for scheduling decisions		√		√[2]
Responsible for interactions with the Balancing Market				√
Responsible for determining hedging policy	P/L[3]	P/L[3]	√[4]	F[5]
Responsible for implementing hedging policy/makes decisions to buy/sell energy			√	√
Interacts with wider market participants to buy/sell energy[6]				√
Holds unhedged positions (either short or long)[7]	√	√	√	√
Procures fuel for generation		√		√[2]
Procures allowances for generation				√[2]
Holds volume risk on positions sold (either internal or external)	√	√	√	
Matches own generation with own supply[8]				
Forecasts total system demand[9]				
Forecasts wholesale price				√
Forecasts customer demand			√	
Determines retail pricing and marketing strategies			√	
Bears shape risk after initial hedge until market allows full hedge			√	√
Bears short term risk for variance between demand and forecast			√	

Key

√ Indicates that the business function and the profits or losses reside in the same business.

F Indicates where the business function resides in cases where it is not in the same business as where the profit or loss is recorded.

P/L Indicates where the profit and loss is recorded in cases where the business function does not reside in the same business.

Notes to Table 2 and basis of preparation

1. Excluding generation and supply by E.ON SE group companies that are not licensees.
2. Electricity generation from the Relevant Licensees' conventional plant that is scheduled by UGC. Fuel and allowances for conventional generation are procured by UGC.
3. The Relevant Licensees' Generation activities are not responsible for determining hedging policy. However, the impact of the E.ON Group's overall hedging policy on the generation licensees' Generation activities is reflected in any profit or loss recorded in the Generation segments of Table 1.
4. The impact of the E.ON Group's overall hedging policy is also reflected in any profit or loss recorded by the Supply segment of Table 1. In addition, the Relevant Licensees' Supply activities are responsible for determining their hedging policies within the E.ON Group's overall hedging policy.
5. While the E.ON Group's overall hedging policy is determined by another part of the business to the Relevant Licensees' Generation and Supply activities, the impact of the strategy on the Generation and Supply segments in Table 1 is reflected in any profit or loss recorded by them.
6. The Relevant Licensees' Supply activities do purchase small volumes from embedded generation and industry mechanisms. As this accounts for less than 5% of the total electricity supply volume reported in the Supply segment of Table 1, to avoid overcomplicating this Table 2, it is not shown. If it was included there would be a tick in the Supply column for this business function.
7. The Relevant Licensees' Generation capacity that is not, or has not yet been, contracted with UGC. The Relevant Licensees' Supply activities forecast sales, the energy for which has not yet been contracted and their residual exposure to volume changes.
8. E.ON's transfer pricing arrangements mean that there is no matching of the Group's, or Relevant Licensees', own generation with own supply.
9. The Transmission System Operator forecasts the total system demand.

4. Reconciliation of Table 1 to the Annual Report of E.ON SE

Reconciliation to E.ON SE 2016 Annual Report

Table 3 Reconciliation	External Sales in €m	Inter-segment Sales in €m	Revenue €m	Revenue £m	Note	Adjusted EBIT £m	Adjusted EBIT €m
E.ON SE Group	38,173.0		38,173.0		1		3,112.0
less: Energy Networks - Germany	11,622.0	1,583.0	13,205.0				894.0
Energy Networks - Sweden	1,014.0	15.0	1,029.0				398.0
Energy Networks - CEE/Turkey	698.0	960.0	1,658.0				379.0
Customer Solutions - Germany	7,707.0	74.0	7,781.0				232.0
Customer Solutions - Other	6,552.0	244.0	6,796.0				215.0
Renewables (E.ON Climate and Renewables)	890.0	467.0	1,357.0		2		430.0
Non-core business	1,538.0	-	1,538.0				553.0
Corporate functions/other	439.0	685.0	1,124.0				(369.0)
Consolidation	24.0	(4,130.0)	(4,106.0)				15.0
	30,484.0	(102.0)	30,382.0				2,747.0
Customer Solutions - UK (E.ON Regional Unit UK)	7,689.0	102.0	7,791.0 =	6,384.6	3	299.1 =	365.0
Other Regional Unit UK activities				(148.8)	4	2.9	
Reallocation of other Retail business				(121.2)	5	40.3	
Restructuring costs					6	(5.2)	
CSS Revenue and EBIT (Aggregate Supply business) per Table 1				6,114.6	8	337.1	
Total Renewables above			1,357.0		2		430.0
Less Non-UK components			(658.1)		9		(206.0)
UK Renewables			698.9 =	572.7	10	183.6 =	224.0
Reallocation of generation activities				504.3	11	(162.8)	
Impairment					7	(334.6)	
Restructuring costs					6	(10.4)	
CSS Revenue and EBIT (Aggregate Generation business) per Table 1				1,077.0	12	(324.2)	

Notes to Table 3 and basis of preparation

1 *E.ON SE Group* figures are taken from pages 204 and 205 of the 2016 E.ON SE Group Annual Report, which show the Financial Information by Business Segment disclosed in millions of Euros or €m. Adjusted EBIT means earnings before interest and tax, adjusted for extraordinary effects.

2 *Renewables* segment is also taken from pages 204 and 205 of the 2016 E.ON SE Group Annual Report, and covers the E.ON SE Group's worldwide renewables activities, including the generation licensees' component, in €m.

3 *Customer Solutions UK* is also taken from pages 204 and 205 of the 2016 E.ON SE Group Annual Report. These have been translated into £m using an average exchange rate of £1 = €1.2203.

4 *Other Regional Unit UK activities* are the other activities carried out by E.ON Regional Unit UK, including the Corporate Centre functions, which do not form part of the Relevant Licensees' Supply activities.

5 *Reallocation of other Retail business* is E.ON Regional Unit UK's Supply activities that do not form part of the Supply segment in Table 1, e.g. licence exempt supply by Affiliates of the Relevant Licensees.

6 *Restructuring costs* are the resources engaged in restructuring E.ON Regional Unit UK's Supply activities (£5.2m) and the generation licensee's Generation activities (£10.4m). The costs relate directly to the operation of the Supply and Generation segments and were excluded from adjusted EBIT reported by E.ON SE.

7 *Impairment* is the amount of impairments of Tangible Fixed Assets in respect of the generation portfolio during the year following an updated impairment assessment.

8 *CSS Revenue and EBIT (Aggregate Supply business)* figures are the Aggregate Supply business figures presented in Table 1 of this report.

9 *Non-UK components* are E.ON's other worldwide generation activities.

10 *UK Renewables* represents the activities associated with wind generation plant accounted for within the E.ON UK plc Group. These have been translated into £m using an average exchange rate of £1 = €1.2203.

11 *Reallocation of generation activities* predominantly relates to the inclusion of licensed Uniper conventional generation activities accounted for as discontinued operations within the 2016 E.ON SE Group Annual Report and exclusion of unlicensed renewables generation.

12 *CSS Revenue and EBIT (Aggregate Generation business)* figures are the Aggregate Generation business figures presented in Table 1 of this report.

5. Transfer Pricing and basis of preparation

The transfer pricing methodology used by the Relevant Licensees

All of the Relevant Licensees operate within E.ON's transfer pricing methodology as described below.

Arrangements between generators and UGC for conventional generation plant scheduled by UGC
In 2016 all of the Relevant Licensees' conventional generation plant was scheduled by UGC.

These arrangements mean that the key risks for the Relevant Licensee are the potential for unscheduled power station outages and not delivering the dispatch profile scheduled by UGC, for which it would incur financial penalties.

Income arrangements

The Relevant Licensee has arm's length contracts to receive payment from UGC for the production capacity of its generation plant that is scheduled by UGC. These contracts allow UGC the right to schedule that generation plant and to take all the electricity produced by it. UGC undertakes to provide all the fuel and EU-ETS allowances required for the plant to operate. UGC can then trade this production capacity on the market. Under these arm's length contracts, the Relevant Licensee sells its forecast economic electricity generation capability (capacity) to UGC ahead of time. The corresponding forward prices of electricity, fuel and EU-ETS allowances, at the time of the sale, determine the value of the availability performance related capacity payment that the generator receives from UGC. These payments form part of the "*Revenue from sales of electricity and gas*" for the Generation segment within Table 1. These Generation Conventional segment activities do not receive any revenue from external sales of electricity.

In addition to the availability performance related capacity payment, the Relevant Licensee also receives payment from UGC for the fuel and the value of emission allowances used in generating the volumes scheduled by UGC. The price paid by UGC for the predicted fuel requirement of E.ON UK plc is the corresponding market price for the fuel at the time the fuel is used, with the power station retaining the benefit, or cost, from any changes from the predicted fuel requirement due to operational changes in the plant's efficiency. These payments also form part of the "*Revenue from sales of electricity and gas*" for the Generation segment within Table 1. Ancillary services are also covered by the contracts and form part of the Generation Conventional segment within "*Other revenue*" in Table 1.

Expenditure arrangements

The price paid by the generator for the fuel it receives is the corresponding market price at the time the fuel is delivered to the power station. This payment forms part of the "*Direct fuel costs*" for the Generation segment within Table 1. Also, these direct fuel costs, together with the EU-ETS allowances shown in the "*Environmental and social obligation costs*" within the Electricity Generation Conventional segment of Table 1 are included in the costs used for the "*WACO F/E/G"* for the Electricity Generation Conventional segment within Table 1.

Arrangements between the Relevant Licensees and UGC for renewables generation plant that is not scheduled by UGC

Relevant Licensees' generation plant that is not eligible to participate in the Capacity Market under EMR is classed as Renewables. E.ON has no UK renewables generation plant scheduled by UGC.

These arrangements mean that the key risks for the Relevant Licensees are the potential for unscheduled power station outages, for which they would incur financial penalties, and in their management of fuel procurement.

Income arrangements

The Relevant Licensees have arm's length contracts to receive payment from UGC for the output from the licensees' renewables generation plant. These arrangements are primarily for delivery of electricity, with UGC not scheduling the generation. The prices are market based with imbalances between contracted and outturn covered by a balancing fee. These payments form part of the "*Revenue from sales of electricity and gas*" for the Electricity Generation Renewable segment within Table 1.

Expenditure arrangements

Any payment for fuel by the generator is direct to the supplier and does not form part of the transfer pricing methodology. For the Relevant Licensee, these payments are the "*Direct fuel costs*" within Table 1; they only cover the cost of the fuel used in generation and do not cover any fuel delivered to site that has not been used. These costs are included in the "WACO F/E/G" for the Electricity Generation Renewable segment within Table 1.

E.ON's transfer pricing methodology for the Relevant Licensees' Supply activities

Income arrangements

The revenues from Supply sales of electricity and gas do not form part of the contracts between the Relevant Licensees and UGC.

Expenditure arrangements for energy procurement

The Relevant Licensees buy nearly all of their required supply of electricity and gas from UGC on arm's length contracts using traded market instruments, including derivative financial instruments. The arm's length arrangements are secured through the instruments using a price that is directly derived from visible wholesale market prices at the time when the transaction takes place. This means that prices paid for the electricity and gas correspond to the current open market price for the particular product. A small volume is also purchased from embedded generation and industry mechanisms. Variations between final contract commitments and outturn customer demand are settled using the corresponding short term prices in the electricity and gas markets. There are no other costs relating to the contracts with UGC. Thus, to the extent that a Relevant Licensee procures energy from other E.ON companies, the transfer pricing methodology reflects how they actually acquire energy. The total price paid by the Relevant Licensees for electricity or gas, used for supply, is the "*Direct fuel costs*" for the Supply segment in Table 1. This is the cost used for the "*WACO F/E/G*" for the Supply segment within Table 1.

The required supply is based on forecast demand and the timing of purchases. These are determined by an assessment of competitive market dynamics and represent the key commodity risks for the Relevant Licensees' Supply activities. As explained above, the full costs of these purchases are included in "*Direct fuel costs*" in Table 1. However, any notional profit or loss, through changes in valuation due to changes in market price, of contracts with future delivery dates, is excluded. The exclusion of this notional profit or loss reflects the fact that these contracts have not been realised in cash terms and do not form part of the performance measures used by management to make strategic decisions. Excluding such notional profit or loss in Table 1 supports Ofgem's requirements for consistency in reporting and so supports meaningful comparison of statements.

A number of purchasing strategies are operated to address the various characteristics and requirements of our customers and reflect the competitive market conditions. These strategies range from flexible purchase arrangements for some large corporate customers, to longer term hedges for most tariff customers. This can produce different WACO E/G for the different electricity and gas Supply segments of Table 1.

Arrangements between the Relevant Licensees and other parts of E.ON

The treatment of services taken from other parts of E.ON by the Relevant Licensees' Generation and Supply activities are covered by Service Level Agreements (SLAs). These Generation and Supply costs are included in *"Indirect costs"* within Table 1.

E.ON's Great Britain supply activities, other than by the Relevant Licensees, are by companies that are licence exempt. These companies supply electricity direct to customers; using electricity they generate themselves or have purchased from a licensed supplier, which can be one of E.ON's Relevant Licensees. Sales by the Relevant Licensee to the licence exempt supplier are included in "*Revenue from sales of electricity and gas*" within Table 1.

The Relevant Supply Licensees procure ROCs and LECs from a number of sources, including E.ON companies. Any such procurement from E.ON companies is through an arm's length agreement.

Compliance with the Licence Conditions' requirements in respect of Transfer Pricing

During 2016 the Relevant Licensees operated in accordance with E.ON's Group Policy KR15 - Transfer Pricing, version 2.0 and Uniper's equivalent. In 2016 Uniper continued with E.ON's Group Policy KR15 - Transfer Pricing, version 2.0, but as a Uniper policy. For both Groups, the policy remained in force on 31 December 2016. There were no material changes to E.ON's Group Policy KR15.

As described above, all of the Relevant Licensees operate within their Group's transfer pricing methodology. Where trading is between the Relevant Licensees and other companies within their Group, it is through arm's length contractual arrangements. These contracts are in the form of SLAs. With the SLAs forming part of the Relevant Licensees' normal trading activities, they are kept under review to ensure that they are appropriate, up to date, compliant with the requirements of their Group's Transfer Pricing policy and compliant with the requirements of the tax authorities in both Germany and the UK. This ongoing review process did result in amendments being made to some of the SLAs during 2016. In addition, as part of the Relevant Licensees' normal trading activities, transactions under the SLAs are subject to normal financial controls, checks, record keeping and audit.

To ensure compliance with paragraph 8 of the Licence Conditions, commencing 13 February 2015 the Relevant Licensees notify the Authority as soon as reasonably practicable of any material changes (new versions coming into force) of E.ON's Group Policy KR15 - Transfer Pricing, or Uniper's equivalent.

Annex 1 - Independent auditors' report to the Directors of E.ON UK PLC, Uniper UK Limited and their Licensees

Opinion

We have audited the statement (E.ON's UK Consolidated Segmental Report for the year ended 31 December 2016, the "CSR", which includes the Consolidated Segmental Statement, the "CSS", as defined in the Licence Conditions) of E.ON UK plc's and Uniper UK Limited's Relevant Licensees (as listed in footnote ii) for the year ended 31 December 2016 in accordance with the terms of our agreement dated 2 December 2016. E.ON's UK Consolidated Segmental Report has been prepared by the Directors of E.ON's Relevant Licensees based on the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences (together, the 'Licences') and the basis of preparation on pages 10-14, 16, 18-19 and 20-23.

In our opinion the accompanying CSR of E.ON UK plc's and Uniper UK Limited's Relevant Licensees for the year ended 31 December 2016 is prepared, in all material respects, in accordance with:

(i) the requirements of Ofgem's Standard Condition 19A of the Gas and Electricity Supply Licences and Standard Condition 16B of the Electricity Generation Licences established by the regulator; and
(ii) the basis of preparation on pages 10-14, 16, 18-19 and 20-23

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the CSR section of our report. We are independent of E.ON UK plc's and Uniper UK Limited's Relevant Licensees in accordance with the ethical requirements that are relevant to our audit of the CSR in the United Kingdom, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to pages 10-14, 16, 18-19 and 20-23 of the CSR, which describes the basis of preparation. The CSS is prepared in order for E.ON UK plc's and Uniper UK Limited's Relevant Licensees to meet the Licence requirement of Regulator Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 10-14, 16, 18-19 and 20-23. This basis of preparation is not the same as segmental reporting under IFRS and /or statutory reporting. As a result, the schedule may not be suitable for another purpose.

E.ON's UK Consolidated Segmental Report for the year ended 31 December 2016

This report, including our opinion, has been prepared solely for the Board of Directors of E.ON UK plc's and Uniper UK Limited's Relevant Licensees in accordance with the agreement between us, to assist the Directors in reporting on the CSS to the Regulator Ofgem.

We permit this report to be disclosed in the Company reporting section of the E.ON UK plc website(i), www.eonenergy.com, to enable the Directors of E.ON UK plc's and Uniper UK Limited's Relevant Licensees to show how they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors of E.ON UK plc's and Uniper UK Limited's Relevant Licensees for our work or this report except where terms are expressly agreed between us in writing.

Responsibilities of Management and those charged with governance for the CSS

Management is responsible for the preparation of the CSR in accordance with the Licences and the basis of preparation on pages 10-14, 16, 18-19 and 20-23 and for maintaining the underlying accounting records and such internal control as management determine is necessary to enable the preparation of the CSR that is free from material misstatement, whether due to fraud or error.

In preparing the CSR, management is responsible for assessing E.ON UK plc's and Uniper UK Limited's Relevant Licensees' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate E.ON UK plc's and Uniper UK Limited's Relevant Licensees or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing E.ON UK plc's and Uniper UK Limited's Relevant Licensees' financial reporting process.

Auditors' responsibilities for the audit of the CSR

Our objectives are to obtain reasonable assurance about whether the CSR as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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 this CSS. The materiality level that we used in planning and performing our audit is set at £15 million for each of the segments.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the CSR, 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 opinion. 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's 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 E.ON UK plc's and Uniper UK Limited's Relevant Licensees' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the CSR or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause E.ON UK plc's and Uniper UK Limited's Relevant Licensees to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

East Midlands

26 April 2017

i) The maintenance and integrity of E.ON UK plc website is the responsibility of the Directors of E.ON UK plc; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.

ii) Licensees: Electricity supply licensees: E.ON Energy Solutions Limited and E.ON UK plc. Gas supply licensees; E.ON Energy Gas (Eastern) Limited, E.ON Energy Gas (North West) Limited, E.ON Energy Solutions Limited, E.ON UK plc and Economy Power Limited. Generation licensees; Citigen (London) Limited, E.ON UK plc, E.ON Climate & Renewables UK Humber Wind Limited, Rampion Offshore Wind Limited and Uniper UK Limited.