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CREDIT OPINION
22 May 2018

Update

Rate this Research

RATINGS

E.ON SE

Domicile	Germany
Long Term Rating	Baa2
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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E.ON SE

Update following a rating confirmation at Baa2

Summary

E.ON SE (E.ON)'s credit quality is currently underpinned by (1) the group's scale and diversification; (2) the high share of earnings from fairly low risk regulated and contracted businesses in networks and renewables under well-established regulatory regimes; and (3) the group's strong market position in energy supply, albeit in competitive markets. Whilst E.ON is exposed to power prices through its remaining nuclear generation fleet, earnings are well hedged over the next two years and account for a relatively small share of E.ON's cash flows. From a financial risk perspective, E.ON has implemented a number of balance sheet strengthening measures resulting in a decline in economic net debt/EBITDA to 3.9x as of end-December 2017.

In March 2018, E.ON agreed an acquisition of innogy SE (innogy) and a complex asset swap with RWE AG (RWE). If concluded, and this is not expected before the end of 2019, the transaction will transform E.ON's profile. Some 70% of group EBITDA will come primarily from the greatly enlarged electricity and gas distribution segment, with networks diversified across a number of relatively well-established regulatory regimes and exhibiting generally low business risk. The transaction will also result in a significantly increased regulated asset base (RAB), estimated on a pro-forma basis at €37 billion for the combined group, with a low single digit growth potential over the medium term on the back of increased investments. The remainder of cash flows will come primarily from the higher risk customer solutions.

The credit quality of E.ON will be constrained by the expected increase in debt, which is only partly mitigated by the anticipated improvement in the company's business risk profile. Whilst the expected synergies will support earnings growth potential, the retail markets remain competitive and the ability to grow regulated earnings is challenged by declining allowed regulatory returns, which makes the deleveraging prospects uncertain. We expect, however, that the company will manage its capital structure consistent with a strong credit quality and will implement measures, should these become necessary, to mitigate the burden of the transaction on E.ON's balance sheet.

Credit strengths

» Focus on regulated networks will underpin E.ON's future business risk profile

» Fairly strong financial position ahead of the execution of the transaction with RWE

» Commitment to a strong Baa rating and track record of delivery of balance-sheet strengthening measures

Credit challenges

» Expected weakening in financial profile post completion of the transaction with RWE

» Competitive markets in retail are challenging customer volumes and margins

» Nuclear decommissioning costs will continue to present a cash outflow over the long term

Rating outlook

The stable outlook reflects our expectation that E.ON will be able to navigate the challenges associated with the execution of the planned transaction. It further assumes that as the company's profile evolves, with an increased contribution of regulated low risk earnings, E.ON will exhibit a financial profile consistent with the Baa2 rating, namely funds from operations (FFO)/net debt at least comfortably in the low teens in percentage terms, and retained cash flow (RCF)/net debt at least in the high single digits in percentage terms. This guidance will be considered in the context of the evolution of the company's RAB and regulatory frameworks. Should the business risk profile of E.ON differ from what we currently expect, the financial ratios guidance will be revisited accordingly.

Factors that could lead to an upgrade

Given the planned transaction, there is limited potential for a rating upgrade. However, in the absence of the planned transaction with RWE and subject to E.ON's alternative strategy, we would consider an upgrade if E.ON's performance was likely to be consistent with the guidance for the higher rating on a standalone basis, which includes FFO/net debt at least in the high-teens in percentage terms and RCF/net debt at least in the mid-teens in percentage terms on a sustainable basis.

Factors that could lead to a downgrade

Downward rating pressure could develop if it appears unlikely that E.ON will be able to reduce its leverage over time and the change in the company's business risk profile was insufficient to mitigate the negative effects stemming from this higher leverage. In the absence of the planned transaction, E.ON's ratings could be downgraded if E.ON were unable to maintain a financial profile such that its FFO/net debt was at least in the mid-teens in percentage terms. In this context we would anticipate that RCF/net debt was consistently below the low-teens in percentage terms.

Key indicators

Exhibit 1

E.ON SE

	12/31/2017	12/31/2016	12/31/2015	12/31/2014
(CFO Pre-W/C + Interest) / Interest	4.4x	3.3x	4.3x	3.7x
(CFO Pre-W/C) / Net Debt	31.8%	13.1%	23.8%	23.4%
RCF / Net Debt	29.2%	9.3%	20.6%	19.8%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] The 2017 ratios were impacted by the nuclear fuel tax (NFT) compensation of €2.85 billion. If considered a one-off, CFO Pre-WC/ Net Debt and RCF/ Net Debt would be at 15.9% and 13.3% respectively.
Source: Moody's Financial Metrics™

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Profile

E.ON SE is a holding company for a large energy group focused on (1) Energy Networks - mainly electricity and gas distribution networks; (2) Customer Solutions - sales of electricity, gas and heat, and other energy solutions; and (3) Renewables - onshore and offshore wind and solar. In addition, E.ON retains the German nuclear generation assets as well as the associated decommissioning liabilities, managed by a separate subsidiary - PreussenElektra. In 2017, the group reported EBITDA of around €5 billion.

Through the acquisition of innogy SE via an asset swap with RWE AG, E.ON seeks to focus on the Energy Networks and Customer Solutions, which the company believes will be key in managing the energy transition.

E.ON is listed on the Frankfurt stock exchange. As of mid-May 2018, E.ON had a market capitalisation of some €20.5 billion.

Overview of the agreement between E.ON and RWE

On 12 March 2018, E.ON and RWE announced that they had concluded an agreement, under which E.ON will acquire RWE's 76.8% stake in innogy. In exchange, E.ON will transfer to RWE most of E.ON's renewables business, minority interests in the RWE-operated nuclear power plants, innogy's renewables business, certain other innogy assets and a 16.67% stake in the enlarged E.ON via a capital increase in kind of 20%. The transaction provides also for a cash payment from RWE to E.ON of €1.5 billion.

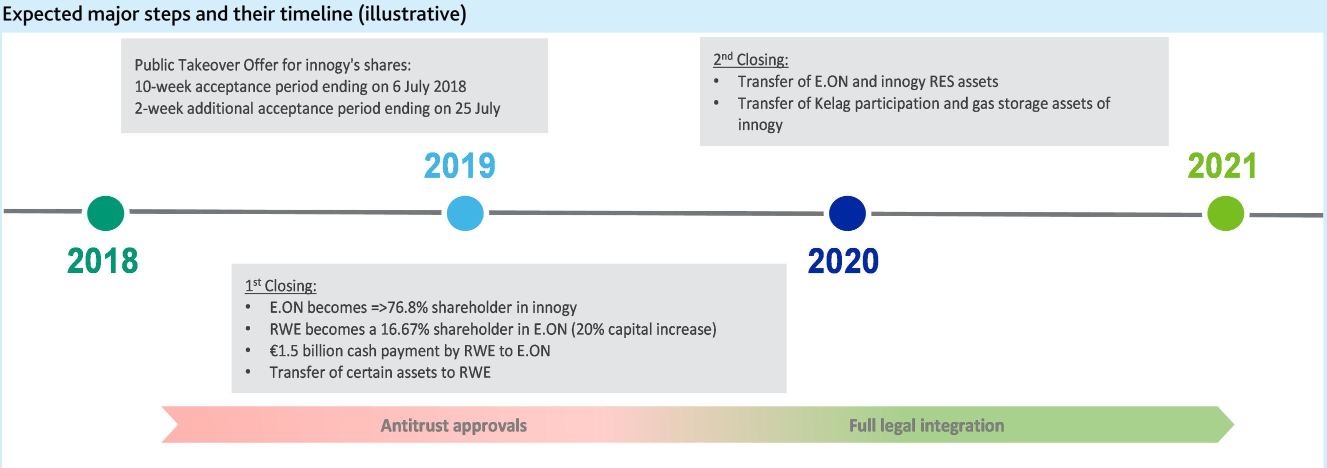
In conjunction with the transaction announcement, E.ON stated its intention to launch a voluntary public takeover offer (PTO) to all shareholders of innogy, in line with the provisions of German law. The PTO was launched on 27 April 2018 and the 10-week acceptance period will end on 6 July. The law provides for a two weeks extension of the acceptance period, in which case it would end on 25 July 2018.

Overall, there are a number of steps to this complex deal and completion of the transaction is not expected before the end of 2019.

Exhibit 2

Execution of the transaction will be completed in a number of steps

Expected major steps and their timeline (illustrative)



Source: E.ON and RWE, Moody's Investors Service

The planned transaction is subject to multiple antitrust clearances, at national and EU levels. We believe that whilst the approvals should be more straightforward in the case of monopolistic grids, it could be more difficult for the more competitive retail businesses.

The long execution period represents a risk and implementation of the transaction will consume significant management time. However, by acquiring the RWE's 76.8% stake in innogy, E.ON will gain control over innogy irrespective of the acceptance level of the PTO by other innogy shareholders.

Detailed credit considerations

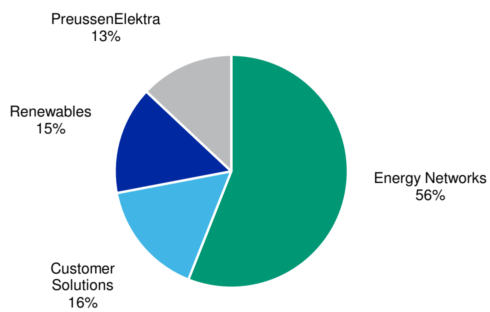
Transaction with RWE will transform E.ON's profile

If concluded, the asset swap with RWE and resulting assumption of certain innogy's assets will result in a significant increase in E.ON's size and bring further geographical diversification. Based on the 2017 data, we estimate the combined EBITDA at around €8 billion. The future evolution of E.ON's EBITDA will depend on the performance of individual segments and the ability to realise synergies from combining the networks and customer solutions activities, which management estimates at €600-800 million annually by 2022. The above estimate also does not factor in any disposals or implementation costs.

Exhibit 3

E.ON includes Renewables business today

EBITDA breakdown, in 2017



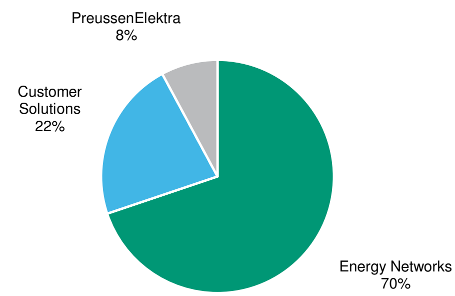
Note: Total EBITDA excludes corporate/other adjustments.

Source: Company's reports, Moody's Investors Service

Exhibit 4

E.ON will become focused on Networks and Customer Solutions

EBITDA breakdown pro-forma (based on 2017 data)



Note: Total EBITDA excludes corporate/other adjustments.

Source: Companies' reports, Moody's Investors Service

The group's scale and significant share of regulated low risk cash flows will make E.ON better placed to manage the challenges associated with energy transition, such as increasing complexity of grid management given growing intermittent renewable capacity, distributed generation and the evolution of new energy services (e.g. electrification of transport).

Leverage will increase but track record of balance sheet strengthening measures is supportive of E.ON's credit quality

In 2017, E.ON delivered a strong set of results despite a broadly flat EBITDA at €5 billion. The improvement in the company's financial profile was primarily driven by a reduction in E.ON's net debt owing to a number of balance-sheet strengthening measures, such as equity raising (€1.35 billion), asset disposals, cost cutting and other initiatives, combined with the positive effect from the refund of the nuclear fuel tax of €2.85 billion in June 2017.

With economic net debt of €19.2 billion as of end-2017, down from €26.3 billion a year before, and the sale of a 46.7% stake in Uniper SE to Fortum Oyj for €3.8 billion, expected to be completed in mid-2018, coupled with a transfer of NordStream 1 into contractual trust arrangements, E.ON currently enjoys a degree of financial flexibility.

The transaction with RWE will, however, increase E.ON's financial leverage. E.ON's economic net debt is estimated to grow to around €35 billion and we expect the company's economic net debt/EBITDA to reach around 4.5, which is above the previously communicated target of 4x for E.ON standalone. The ultimate financial leverage will depend, however, on the results of the public takeover offer to innogy's shareholders, which - at 100% acceptance level - would result in a cash payment by E.ON of around €5 billion.

More positively, we note E.ON's commitment to maintaining a strong Baa rating and the company's track record in implementation of balance sheet strengthening measures. The innogy transaction will be partially funded with equity (the reserved capital increase in kind of 20% expected in 2019) and the company's long-term dividend policy has yet to be set. As such, we believe that, should the achievement of the currently anticipated growth in earnings be challenged, E.ON will balance the interests of creditors and shareholders, and take steps, should these become necessary, to shore up its financial profile in line with the company's targeted credit quality.

Overall, we expect that as E.ON's profile evolves, the company will exhibit a financial profile such that its FFO/net debt is at least comfortably in the low teens in percentage terms and RCF/net debt in the high single digits in percentage terms. We note that given a number of asset swaps with RWE, E.ON's financials will be impacted by the accounting effects of the transaction, which may result in financial ratios falling outside of the range expected for the Baa2 rating. We will look through this interim period unless it appeared unlikely that E.ON was on track to complete the transaction and deliver a financial profile commensurate with our guidance. The above guidance will be considered in the context of the evolution of the company's regulated asset base (RAB) and regulatory frameworks and should the business risk profile of E.ON differ from what we currently expect, we will revisit our financial ratios guidance accordingly.

Regulated networks, in which E.ON already has a solid base, will account for the bulk of cash flows

E.ON has a solid base in regulated networks with a total regulated asset base of €23 billion. In 2017, some 80% of the Energy Networks division earnings (a total of €2.9 billion) was generated in Germany and Sweden, with the remainder coming from Central and Eastern Europe (CEE).

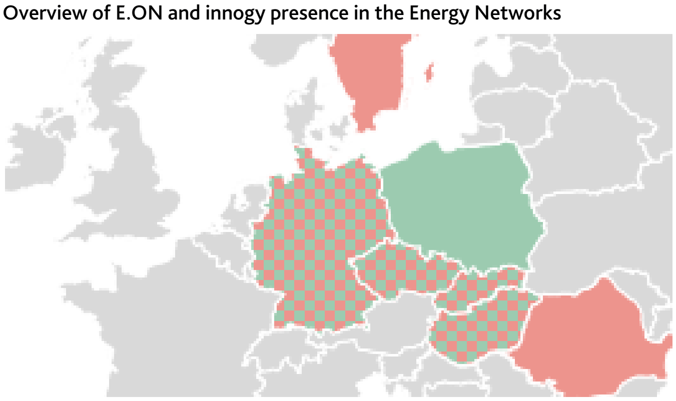
On a pro-forma basis, the addition of innogy's infrastructure business will result in a combined RAB for the group of €37 billion. Given that Germany is also innogy's biggest market, accounting for some 70% of the company's earnings (a total of €2.9 billion), we expect only a modest increase in E.ON's diversification in this segment as a result of the transaction. We note that innogy has initiated a due diligence process for the potential sale of the Czech business but we understand that E.ON does not see this as posing a risk to the execution of the overall transaction with RWE.

We estimate that over 80% of the combined Energy Networks' EBITDA will be derived from operations under fairly well-developed and transparent regimes in Germany, Sweden and the Czech Republic. The remaining earnings will be generated in other CEE countries, where regulatory regimes are either less developed, the tariff-setting process lacks transparency or is subject to a greater political risk. Operations under multiple regimes will provide, however, significant diversification of regulatory risk, a credit positive.

Exhibit 5

E.ON will have exposure to multiple regulatory regimes

Overview of E.ON and innogy presence in the Energy Networks



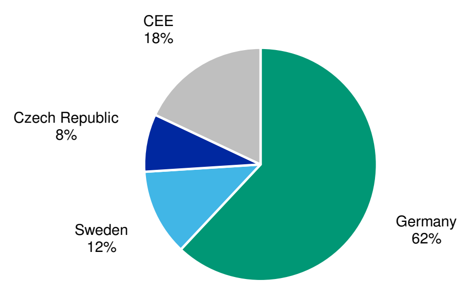
Legend: E.ON - area highlighted in pink, innogy - area highlighted in green

Source: Moody's Investors Service

Exhibit 6

Majority of EBITDA will be derived from stable regulatory regimes

Breakdown of estimated EBITDA (no divestitures assumed) by region



Source: Moody's Investors Service

In Germany, the incentive-based regulation continues to evolve, but the regulatory regime is also gaining more track record in its operation. Past decisions taken by the Federal Network Agency (Bundesnetzagentur, BNetzA), the economic regulator for the German energy networks, have been pragmatic and in support of the companies' investment requirements. Whilst the improving timeliness of investment recovery for distribution networks is positive, lower equity returns and/or tighter efficiency targets will reduce financial flexibility.

For the third regulatory period, starting in 2018 and 2019 for gas and electricity respectively, the German regulator lowered the equity returns to 6.91% (or 5.13% for pre-2006 assets) from 9.05% p.a. (nominal pre-corporate tax and post-trade tax; or 7.14% for assets built before 2006) in the previous period. BNetzA cited the materially lower risk-free rate and persistently low interest rate environment behind its decision to cut the returns. The level of allowed returns was appealed by the network operators, with the regional court in Düsseldorf ruling in favour of the companies in April 2018. This decision was, however, appealed by BNetzA in May

2018. Whilst the ongoing appeal process could result in a review of the equity returns, any impact may be offset by tighter overall efficiency targets for the sector. These have been already lowered for gas – to 0.49% from 1.5%, with sector-wide productivity factors for electricity yet to be published later this year. More generally, we note that lower equity returns will be partially offset by lower funding costs (when refinancing or raising incremental debt) as cost of debt is a pass through item.

In Sweden, where the electricity network tariffs are determined in the form of a revenue cap, the level of remuneration for the current regulatory period spanning 2016-19 was also subject to an appeal by both the Swedish Energy Markets Inspectorate (Ei) and the network operators. As a result of the appeal process, the weighted average cost of capital (WACC) was set at 5.85%. We expect a reduction in the allowed return for the next regulatory period starting in 2020, which coupled with adjustment of over-recoveries, will drive a reduction in Swedish electricity distribution earnings.

In the Czech Republic, distribution activities are in their fourth regulatory period and we note that the current regulatory period was extended by two years by the Czech Energy Regulatory Office (ERO) in January 2018, providing for a medium-term visibility to the networks' earnings. The existing regulatory parameters, including the 7.95% allowed return underpinning tariff decisions, will be thus maintained until 2020. Given the decline in interest rates, we expect a modest reduction in the allowed returns for the Czech networks in 2021.

We estimate that some 20% of the Energy Networks' EBITDA will be derived in a number of other CEE countries, where by-and-large the regulatory approach has been relatively benign and supportive of the networks' profitability. However, the regulatory regimes in those countries have a shorter track record of implementation and tariff decisions may have lacked transparency compared with some of the well-established Western European regimes. Moreover, some jurisdictions, including in Slovakia and Poland, have precedents of political interference, which weighs on our assessment of the stability and transparency of the regulatory framework.

Exhibit 7

Overview of major regulatory regimes for operations of E.ON and innogy

Upcoming regulatory periods, RAB in € billion

	Germany	Sweden	Czech Republic	Hungary	Poland	Slovakia	Romania
RAB - EON	10.7	4.0	1.6	4.3	-	0.6	0.8
RAB - innogy	9.7	-	1.7	0.9	0.7	0.5	-
Regime	Revenue cap	Revenue cap	Revenue cap	Price cap	Price cap	Price cap	Price cap
Regulatory period	5 years	4 years	5 years*	4 years	5 years	5 years	5 years
Electricity	2019-23	2020-23	2021-25*	2021-24	2021-25	2022-26	2019-23
Gas	2023-27	-	2021-25*	2021-24	-	-	2019-22

* estimated

Source: Moody's Investors Service

Overall, there is a fairly good visibility over this division's earnings, although the expected reduction in allowed returns will be only somewhat offset by a growing asset base (annual growth of around 3-4%) on the back of higher investments. E.ON is planning to scale up investments, with annual capex of around €1.6-1.7 billion each, which compares with some €1.4 billion spent in 2017. Investments will target growing demands on the grid from increasing renewables generation, grid maintenance, smart metering and digitalization, although the actual developments will vary by markets.

The significant presence of regulated network activities exhibiting robust credit strength will underpin E.ON's credit quality.

Diversification mitigates the renewal risk for concessions in Germany

The German electricity and gas distribution grid market is characterized by a large number of distribution system operators operating under concessions granted by municipalities for a maximum period of 20 years. As of end-2017, E.ON had some 5,400 concessions, which compares with some 3,800 concessions held by innogy.

We note the precedents of the municipalities taking over grid operations as concession contracts come up for review (e.g. E.ON's concession in the city of Hamburg). However, we view the renewal risk for E.ON and innogy as fairly limited at present. This takes account of the companies' (1) diversification of concessions; (2) remaining concession lives of around nine years; and (3) good track record of concession renewals.

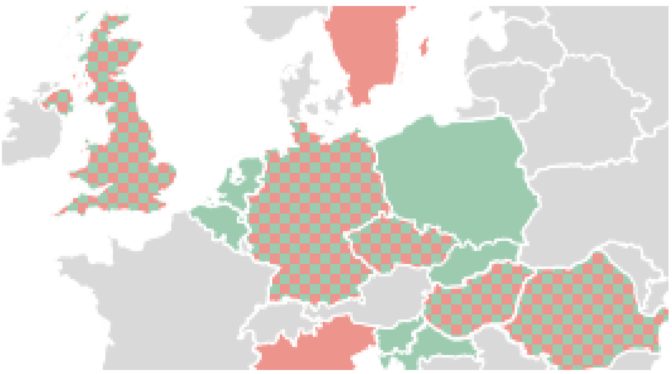
Customer solutions segment is competitive, with challenged volumes and margins

With some 22 million customers in Germany, UK and a number of CEE markets, E.ON has a well-diversified supply business, offering energy supply, gas, heat and other energy solutions. Through its JV, E.ON serves also nine million customers in Turkey. The majority of EON's earnings comes from the sale of electricity and gas to retail customers. At over 22 million, innogy's customer base is fairly similar in terms of size and there is a significant overlap in terms of geographical presence between E.ON and innogy.

Exhibit 8

E.ON will have exposure to different retail markets

Overview of E.ON and innogy presence in the supply segment



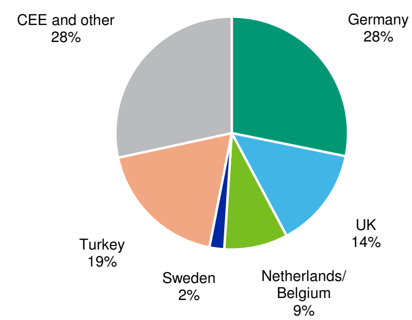
Legend: E.ON - area highlighted in pink, innogy - area highlighted in green

Source: Moody's Investors Service

Exhibit 9

Large and diversified customer portfolio

Breakdown of customer volumes (pro-forma, no divestitures assumed)



Source: Moody's Investors Service's estimate

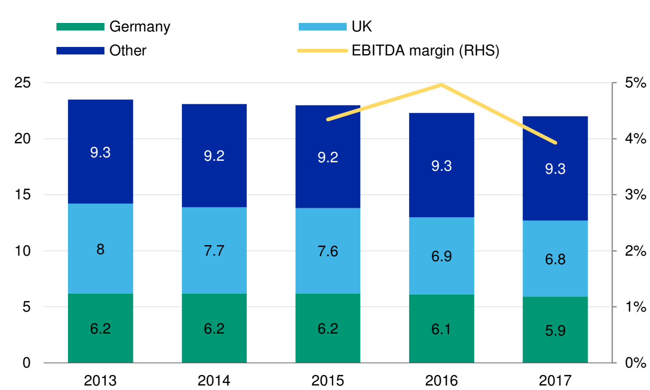
Whilst E.ON has indicated that its customer base will grow to around 50 million as a result of this transaction, we believe that the actual number may fall short of the management estimate. This view takes account of the challenges associated with acquisition of innogy's businesses that would lead to a material concentration of market share in certain countries. It further recognises the intensified competition that the large suppliers are facing from new entrants that, thanks to a typically lower cost base, have been able to enter the market with aggressive pricing models.

E.ON's customer base has decreased over the last few years, although the performance varied across the regions. Similarly, the company's profitability of this segment has been under pressure with the overall EBITDA margin falling to 3.9% in 2017. innogy's margins have been lower on average, with some varying performance across the different markets. Whilst the margins have held up well in the Netherlands/Belgium and East, the profitability of the UK business has been particularly challenged.

Exhibit 10

E.ON's volumes and margins have been under pressure

Customer volumes in million

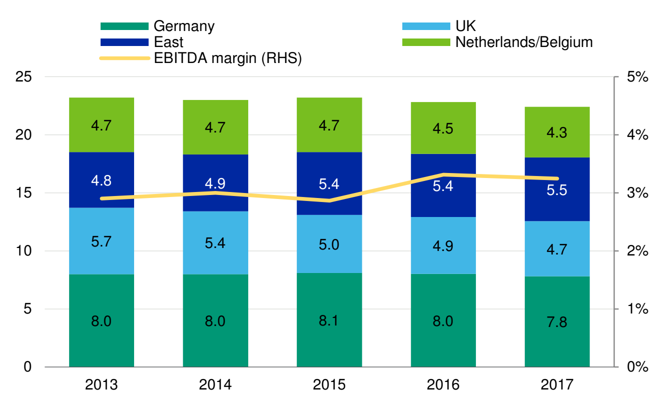


Source: E.ON's reports, Moody's Investors Service

Exhibit 11

... as have been those of innogy

Customer volumes in million



Source: innogy's reports, Moody's Investors Service

We note that innogy and SSE plc are looking to combine parts of their energy supply businesses in the UK to form a new listed company. The merger is subject to approval by the Competition and Markets Authority (CMA), which is expected at the end of 2018/ early 2019 at the latest. Assuming the transaction goes through and given that innogy is expected to hold a 34.4% stake in the new entity, E.ON may be spared antitrust challenges for its operations in the UK market. Creation of a larger player in the UK - the new company will become the country's largest electricity supplier and second-largest gas supplier, will add, however, to the competitive dynamics for the E.ON's business in the UK.

Overall, we expect the retail business to continue to be challenged in the context of evolving markets and regulatory developments, such as the price cap for customers on standard variable tariffs (SVTs) in the UK. Cost cutting initiatives should ultimately support profitability, but cash flows in the near term will be negatively affected. The longer term growth may be supported by the IT upgrades driving digital transformation and provision of other services, which will lead to greater diversification away from customer supply earnings. However, there is uncertainty regarding development of new customer solutions and their ability to generate positive cash flows from the outset (e.g. e-mobility), which may challenge E.ON's expected growth in earnings.

Diversified portfolio of renewables will be transferred to RWE as part of the transaction

E.ON has a large and well-diversified portfolio of renewable energy assets, with an installed capacity of 5.1 gigawatts (GW), on a pro-rata basis as of end-2017. The company is active in onshore wind and solar (4.1 GW) and offshore wind (1.1 GW), operating mainly in the US, UK and Germany.

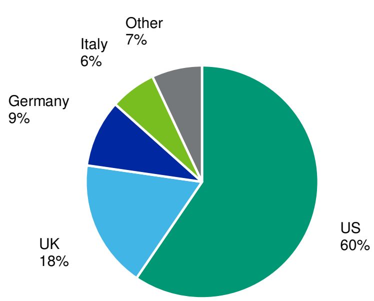
The renewables assets benefit, to varying degrees, from support schemes (i.e. subsidies, fixed feed-in tariffs, production tax credit, certificates or long term contracts) that provide a degree of earnings stability and insulation from wholesale power price volatility, a credit positive. In 2017, some 74% of the Renewables segment's EBITDA was generated from contracted or regulated earnings which were not exposed to merchant power risk. E.ON's remaining life of contracted earnings is around nine years.

Given the significantly higher subsidies for offshore wind (as an example - the average revenue/MWh for an offshore wind farm in Germany amounts to €184/MWh compared with €31/MWh for an onshore wind farm in the US) and higher load factors, offshore wind contributed majority of E.ON's Renewables EBITDA in 2017.

Exhibit 12

E.ON's RES portfolio is diversified

Installed capacity breakdown in 2017

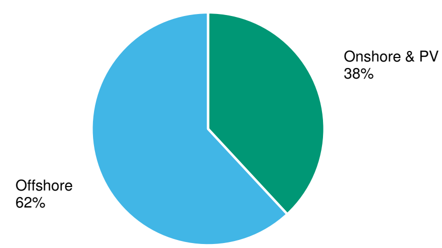


Note: Total capacity of 5.1 GW (pro-rata share).
Source: Company's reports, Moody's Investors Service

Exhibit 13

Offshore wind accounts for the majority of E.ON's earnings

EBITDA breakdown in 2017



Note: Total EBITDA of €786 million.
Source: Company's reports, Moody's Investors Service

We note that in April 2018, E.ON successfully commissioned the 400 MW Rampion offshore wind farm in the UK and the company's projects under construction include the 385 MW Arkona offshore wind farm in Germany to be commissioned in 2019. The positive contribution from additions in offshore wind will be, however, offset by the planned expiry of incentive schemes for certain wind parks in the US, weak power prices in the UK and the US and the partial sell down of wind farms.

Renewable assets are expected to be transferred to RWE in mid-2019.

Decreasing exposure to conventional generation market…

E.ON retains its German nuclear operations through PreussenElektra. In 2017, nuclear generation amounted to 27.5 TWh, contributing €654 million to the company's EBITDA.

German power prices have recovered from their lows in early 2016 on the back of higher coal and carbon prices. However, generation markets remain challenging, given current oversupply with new renewables coming on stream more than offsetting capacity closures. We expect the impact of changes in wholesale power prices on E.ON to be limited in the near term given that the company has largely locked in prices for the next two years.

Cash flows from this division will fall away as the remaining nuclear units are shut down in 2021-22.

… but nuclear decommissioning costs will continue to present a cash outflow over the long term

Following the July 2017 payment of around €10.3 billion, of which €2 billion related to the risk premium required for the externalisation of the liabilities, EON's nuclear obligations in Germany have been significantly reduced. The company has been released from the costs of transport and interim and final storage of waste from reactors and its obligations are now limited to dismantling of the plants and packaging of the low- and medium-level waste once the plants have been shut down.

E.ON's remaining nuclear liabilities amounted to around €10.5 billion as of end-2017. The amount of provisions will be gradually utilised, at an average of some €400-600 million annually. In this regard we note that E.ON's nuclear liabilities will decrease with the transfer of the minority stakes in Emsland and Gundremmingen plants and associated nuclear liabilities of around €0.9 billion to RWE as part of the transaction.

Adjusted debt impacted by high nuclear and pension liabilities

As of end-2017, E.ON's total adjusted debt of €27.1 billion included €14.2 billion in adjustments related primarily to pensions (€2.6 billion) and nuclear liabilities (€10.5 billion). The company's adjusted debt has been adversely impacted by the low interest environment. In particular, E.ON's amount of nuclear provisions recorded in the balance sheet reflects the effect of applying a negative real discount rate of 0.9%, which is unusual by historic standards, but reflecting the current market environment and the much lower duration of the residual nuclear liabilities.

Whilst we use the audited numbers in our debt calculations, we note that changing discount rates will continue to create some volatility in both nuclear and pension obligations. Our current macroeconomic view is that interest rates are likely to rise slowly over time, which could alleviate the pressure. However, as inflation is expected to remain above interest rates for some time in Germany, the effect is likely only to be gradual. In this regard we note that E.ON estimates its remaining nuclear liabilities at €9.5 billion using the “current money” approach. This presents a difference of around €970 million compared with the balance sheet amount.

Relatively low risk from decarbonisation of the power sector

The EU has committed to reduce greenhouse gas emissions by 40% from 1990 levels and to increase the contribution of renewables to energy demand to 27% by 2030. These targets, agreed in 2014, formed the basis of the EU's Nationally Determined Contributions incorporated into the Paris Agreement, and are designed to significantly decarbonise the region's economies. We believe that unregulated utilities, which account for 40% of EU carbon emissions, will need to deliver a significant share of the reductions, and that this will create a variety of risks and opportunities for individual utilities.

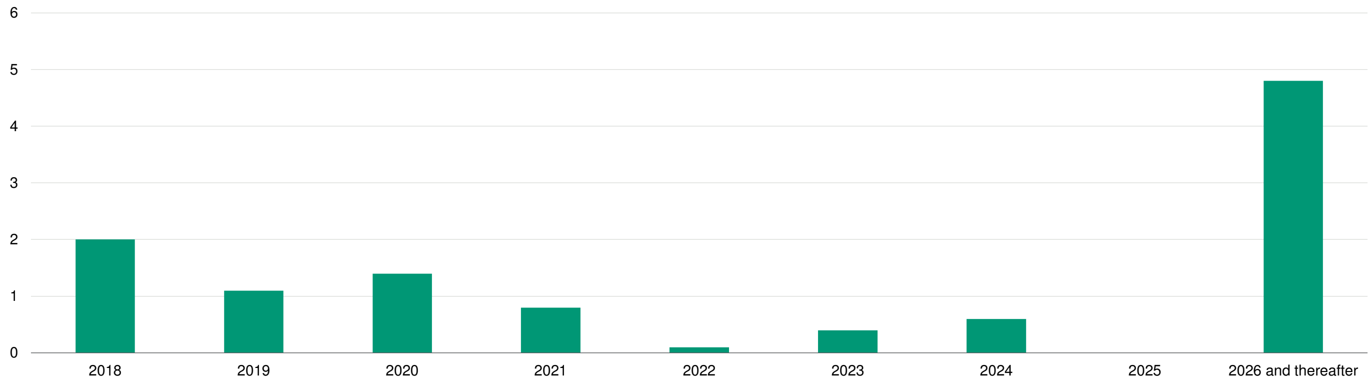
We believe that E.ON is well-positioned compared to peers, given its focus on regulated networks, clean power generation as well as customer solutions, which we expect would provide resilience to both policy direction and the development of potential disruptive technologies.

Liquidity analysis

E.ON's liquidity position is supported by (1) €3.4 billion of cash and short term investments, and (2) a committed Revolving Credit Facility (RCF) of €2.75 billion as of end-March 2018. The RCF, which is fully undrawn, expires in November 2022.

E.ON has also access to a total of €5 billion in committed facilities to finance the PTO to innogy's shareholders. The facility consists of two tranches. The €3 billion tranche has an initial term of 18 months, starting nine months after the conclusion of the facility agreement, and could be extended twice by six months in each case. The remaining €2 billion has a maturity of five years.

Exhibit 14
E.ON has a well spread debt maturity profile
Notes outstanding in € billion, as of end-March 2018



Source: Company, Moody's Investors Service

Structural considerations

E.ON's strategy is to raise external funding at E.ON SE, with funds subsequently on-lent within the group. However, in the past external financing was mainly carried out by E.ON International Finance B.V., which is a 100%-owned subsidiary of E.ON SE, under a guarantee of E.ON SE.

Subject to completion of the planned transaction with RWE, innogy's debt will be assumed by the E.ON group. Given a significant amount of debt outstanding at innogy, we expect that E.ON will manage its capital structure so that the presence of additional debt in the group does not weaken the position of E.ON's creditors. We also expect E.ON to be able to manage the risks associated with the change of control provisions included in innogy's debt documentation.

Rating methodology and scorecard factors

E.ON is currently rated in accordance with the rating methodology for Unregulated Utilities and Unregulated Power Companies, published in May 2017. As the company's profile evolves into more regulated networks activities, we will reconsider the use of this methodology grid accordingly.

Exhibit 15

Rating Factors

E.ON SE

Unregulated Utilities and Unregulated Power Companies Industry Grid [1][2]	Current FY 12/31/2017	
Factor 1 : Scale (10%)	**Measure**	**Score**
a) Scale (USD Billion)	Aa	Aa
Factor 2 : Business Profile (40%)		
a) Market Diversification	A	A
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa
c) Market Framework & Positioning	Baa	Baa
d) Capital Requirements and Operational Performance	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability	Aaa	Aaa
Factor 3 : Financial Policy (10%)		
a) Financial Policy	Baa	Baa
Factor 4 : Leverage and Coverage (40%)		
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	4.0x	Ba
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	22.0%	Baa
c) RCF / Net Debt (3 Year Avg)	18.7%	Baa
Rating:		
a) Indicated Rating from Grid		Baa1
b) Actual Rating Assigned		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2017. Source: Moody's Financial Metrics™
Source: Moody's Investors Service

Appendix.

Exhibit 16

Peer comparison table

(in EUR millions)	E.ON SE Baa2 Stable FYE Dec-15	E.ON SE FYE Dec-16	E.ON SE FYE Dec-17	innogy SE Baa2 Stable FYE Dec-15	innogy SE FYE Dec-16	innogy SE FYE Dec-17	RWE AG Baa3 Stable FYE Dec-15	RWE AG FYE Dec-16	RWE AG FYE Dec-17	Iberdrola S.A. Baa1 Stable FYE Dec-15	Iberdrola S.A. FYE Dec-16	Iberdrola S.A. FYE Dec-17
Revenue	42,656	38,173	37,965	43,456	41,549	41,119	45,848	43,590	42,434	31,419	28,759	31,263
EBITDA	6,163	2,714	9,179	4,713	4,192	3,995	6,325	2,167	6,361	8,008	8,089	6,913
Total Assets	113,575	63,081	55,516	58,763	47,617	47,480	80,261	77,285	70,001	105,236	107,582	111,727
Total Debt	35,966	39,526	27,065	25,046	23,737	22,806	34,983	38,817	30,910	31,846	34,027	40,378
Net Debt	25,033	28,497	20,938	22,602	19,670	19,482	25,024	24,416	22,084	30,675	32,590	37,168
FFO / Net Debt	23.8%	13.1%	31.8%	10.4%	16.4%	17.3%	11.4%	11.7%	23.8%	19.2%	18.1%	14.5%
RCF / Net Debt	20.6%	9.3%	29.2%	5.9%	11.4%	10.4%	7.0%	9.8%	20.9%	18.2%	15.7%	12.0%
(FFO + Interest Expense) / Interest Expense	4.3x	3.3x	4.4x	4.0x	5.2x	6.0x	2.7x	2.8x	4.3x	5.5x	5.7x	5.3x
Net Debt / EBITDA	4.1x	10.5x	2.3x	4.8x	4.7x	4.9x	4.0x	11.3x	3.5x	3.8x	4.0x	5.4x

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 17

E.ON's adjusted debt breakdown

(in EUR millions)	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported Total Debt	25,944	22,724	19,667	17,742	14,227	13,021
Pensions	4,924	3,401	5,574	4,210	4,009	3,620
Leases	1,458	1,524	1,310	1,266	828	756
Non-Standard Public Adjustments	10,146	11,909	10,880	12,748	20,462	9,668
Moody's Adjusted Total Debt	42,472	39,558	37,431	35,966	39,526	27,065
Cash & Cash Equivalents	(10,173)	(10,872)	(8,790)	(10,933)	(11,029)	(6,127)
Moody's Adjusted Net Debt	32,299	28,686	28,641	25,033	28,497	20,938

All figures & ratios calculated using Moody's estimates & standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 18

E.ON SE

Selected historic Moody's adjusted financial data

EUR millions	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
INCOME STATEMENT						
Revenue	132,093	119,688	113,095	42,656	38,173	37,965
EBITDA	11,158	7,718	7,624	6,163	2,714	9,179
EBIT	7,461	3,723	3,581	3,684	737	7,246
Interest Expense	2,755	2,363	2,444	1,827	1,598	1,971
Net income	3,386	782	(832)	(4,448)	(7,646)	4,885
BALANCE SHEET						
Net Property Plant and Equipment	55,323	51,407	42,421	40,155	26,033	25,479
Total Assets	140,670	132,953	125,810	113,575	63,081	55,516
Total Debt	42,472	39,558	37,431	35,966	39,526	27,065
Cash & Cash Equivalents	10,173	10,872	8,790	10,933	11,029	6,127
Net Debt	32,299	28,686	28,641	25,033	28,497	20,938
Total Liabilities	101,847	94,826	95,592	93,538	64,162	51,539
CASH FLOW						
Funds from Operations (FFO)	7,773	7,077	6,705	5,964	3,742	6,655
Cash Flow From Operations (CFO)	8,708	6,349	6,232	5,898	2,795	7,243
Dividends	(2,102)	(2,330)	(1,039)	(818)	(1,089)	(550)
Retained Cash Flow (RCF)	5,671	4,747	5,666	5,146	2,653	6,105
Capital Expenditures	(6,265)	(4,477)	(4,004)	(3,040)	(3,106)	(3,132)
Free Cash Flow (FCF)	341	(458)	1,189	2,040	(1,400)	3,561
INTEREST COVERAGE						
(FFO + Interest Expense) / Interest Expense	3.8x	4.0x	3.7x	4.3x	3.3x	4.4x
LEVERAGE						
FFO / Net Debt	24.1%	24.7%	23.4%	23.8%	13.1%	31.8%
RCF / Net Debt	17.6%	16.5%	19.8%	20.6%	9.3%	29.2%
FCF / Net Debt	1.1%	-1.6%	4.2%	8.1%	-4.9%	17.0%

All figures & ratios calculated using Moody's estimates & standard adjustments.
Source: Moody's Financial Metrics™

Ratings

Exhibit 19

Category	Moody's Rating
E.ON SE	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa2
Commercial Paper	P-2
E.ON INTERNATIONAL FINANCE B.V.	
Outlook	Stable
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

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