E.ON Kraftwerke GmbH

2014 Annual Report

This is a translation of the German original of the annual financial statements of E.ON Kraftwerke GmbH. Only the German version of the annual financial statements shall be legally binding and final.

Content

E.ON Kraftwerke GmbH, Hanover

2014 Management Report

1. Business and framework conditions

1.1 Business activities

E.ON Kraftwerke GmbH (EKW) operates 128 coal, natural gas, fuel as well as water power plants that are owned or managed by it, representing almost the entire national conventional power plant portfolio and the water power plants within E.ON Group with a capacity of about 9,000 megawatts. In addition, it provides services primarily in the area of operation management. All shares in EKW are held by E.ON Beteiligungen GmbH, Düsseldorf.

Pursuant to section 6b (7) sentence 4 EnWG, which applies to EKW as a vertically integrated power supply company as defined in section 3 no. 38 EnWG (*Energiewirtschaftsgesetz* – German Energy Industry Act), all activities pursuant to section 6b (3) sentence 1 EnWG are also to be addressed. As a power generation company, EKW exclusively conducts other activities as defined in section 6b (3) sentence 3 EnWG within the electricity industry.

1.2 Strategy

The dramatic changes in the global energy markets, technical innovations and increasing and more individual customer expectations call for a bold new start. The current broad business model of E.ON SE, Düsseldorf (E.ON), is no longer suitable to meet the new challenges. Therefore, it is intended to realign the company group. In the future, E.ON will focus on renewable energies, energy networks and customer solutions and will transfer the business areas conventional generation, global energy trading and exploration & production to a new, independent company, with the majority interest in that company to be spun off to the shareholders of E.ON SE. These future structure results from the new group strategy, which the Supervisory Board of E.ON SE unanimously approved after intensive deliberations at the end of November 2014.

In 2015, E.ON will lay the foundations for the stock exchange listing of the new company. As per today, our company will be part of the new company in the future. As of now, any potential effects resulting therefrom are not yet discernible.

The group-wide programme E.ON 2.0 for the improvement of performance that was started in 2011 within E.ON Group was fully implemented in the course of the financial year. Building on the very successful results regarding cost savings, the project “Working Capital Excellence” was initiated, in particular, in the course of the E.ON 2.0 programme, which is aimed at the reduction of the working capital.

In 2014, E.ON initiated the “Next Generation” project with the objective of making the power generation capacities of the group fit for the future. For this purpose, shop agreements and reconciliations of interests were agreed with the employee representatives. At the turn of the year we began to relocate staff functions from Hanover to Essen.

1.3 Technology and innovation

Through E.ON, the company is represented in different organisations engaging in research projects. In addition, other enterprises are commissioned in collaboration with E.ON to conduct research and development work. EKW focuses on the standardisation of state-of-the-art technology and on improving the flexibility of electricity generation as an integrated overall process.

2. Business report

2.1 Overall economic framework

In 2014, the global economy continued to grow at moderate growth rates. According to OECD information, at 3.3 percent the increase of the global gross domestic product was slightly above the previous year's rate of 3.1 percent. However, in the last few years it was one percentage point below the long-term average of the years 2000 - 2007, i.e. the time before the financial crisis. The increase of the global trade volume of 3.0 percent was also below the average of previous years. The OECD considers the still existing uncertainty in many economies a cause for the continuing weak growth. However, different developments in the individual countries can be identified in this respect.

In the U.S. and Great Britain, the relaxed monetary policy resulted in a robust demand for consumer goods and to an additional demand for capital goods. Within the euro area, on average the economy has almost come to a halt. The situation is defined by uncertainty among investors, high unemployment as well as deflationary trends. Some support is provided here by the continued very expansive monetary policy as well as a lessening consolidation pressure from fiscal policy.

Germany realised a moderate increase, in particular due to stable consumption, the strong export as a result of the low euro exchange rate and the decline of the oil price. The stable job market contributed significantly to the robust domestic demand.

2.2 Energy policy environment

At the 20th climate summit in Lima / Peru from 1 – 13 December 2014, progress was made regarding details for an international climate protection treaty. An agreement on a new treaty had not been expected before the summit. However, in contrast to the past summits, expectations were somewhat more optimistic about being able to sign a treaty at the next climate summit at the end of 2015 in Paris. One important step in this respect would be the announcement of national target values for reductions of greenhouse gases at the beginning of 2015. Prior to the climate summit, the International Energy Agency published its most recent World Energy Outlook 2014 which, among other things, expects a further global increase in energy consumption.

The energy policy discussion at the European level in 2014 focused, inter alia, on the discussion regarding the reform of the trading system for CO2 emission allowances, on the one hand, and the future direction of the energy and climate protection policy, on the other hand. With the decision to temporarily remove a certain amount of emission allowances, the reduction of the amount of auctioned emission allowances has started in 2014. In January, the European Commission presented proposals for the introduction of a market stability reserve, which in the medium term is expected to bring about a balancing of offer and demand on the market for CO2 emission allowances. Furthermore, the Commission presented proposals for a climate protection and energy package for the year 2030. While the legislative proposal for the introduction of the market stability reserve is still in the discussion in the newly elected European Parliament and the member states, the European Council of the heads of state or government adopted a resolution at the end of October on the climate protection and energy package 2030. It was decided with binding effect that until 2030 greenhouse gas emissions are to be reduced by at least 40 percent compared to 1990. Furthermore, at the EU level the share of renewable energies in energy consumption is to be increased to at least 27 percent and energy efficiency is to be increased by 27 percent compared to the trend. These two targets are not of a binding nature. Now, the European Commission is requested to translate these resolutions into proposals for statutes in 2015. It is expected for 2015 that the new EU Commission will address – more than before – the issues of capacity market models and the security of supply in the area of electricity.

In the last year, too, the energy policy debate in Germany focused primarily on the further implementation of the energy transition. In addition to the discussion regarding the promotion of renewable energies and their assumption of market and system responsibility, possible solutions for the stabilisation of security of supply, in particular of conventional generation, played a key role in the debate. It is expected that there will be additional regulatory interventions in order to increase the security of supply: In the medium term, capacity mechanisms are to be developed, in order to create sufficient incentives to keep existing plants in the market and to prompt required new constructions. To this end, the Federal Minister for Economy published a number of expert opinions and launched a broad discussion process regarding the future design of the electricity market in the autumn of 2014 with the publication of a Green Book.

The reform of the promotion of renewable energies was at the centre of the energy policy discussion of the first six months of 2014. Numerous E.ON activities are affected by the adopted amendments. On aggregate, the provisions in the offshore and water power areas can be seen positively, new business opportunities may arise in the area of energy services. Negative effects have to be expected regarding new business in the area of bio-natural gas. In autumn, the Federal Government adopted an "Action Programme Climate Protection" by which the national climate protection target for the year 2020 is to be achieved. Among other things, this programme also provides for additional reductions of emissions in the electricity sector, in addition to the already existing measures. The measures for the achievement of this additional CO_2 reduction are to be presented in 2015.

2.3 Industry situation

According to first calculations of the *Arbeitsgemeinschaft Energiebilanzen* (Working Group on Energy Balances), at 446.5 mn tons of coal equivalents the energy consumption in Germany in 2014 was 4.8 percent below the previous year's figure. The largest contribution to this came from the mild weather. The decrease concerned all fossile energy sources, whereas consumption of renewable energies increased slightly. Therefore, the *Arbeitsgemeinschaft Energiebilanzen* expects a reduction of the energy-related CO_2´emissions by slightly more than 5 percent. About half thereof is attributable to electricity generation.

Mineral oil consumption decreased in 2014 by 1.3 percent and was at 156.2 mn tons of coal equivalents. Natural gas consumption decreased by approx. 14 percent to 91.2 mn tons of coal equivalents. The use of natural gas decreased both for the purpose of generating heat and combined heat and power. The consumption of hard coal fell by 7.9 percent to 56.2 mn tons of coal equivalents. This is also attributable to the increased use of renewable energies. The use in power plants for the generation of electricity and heat went down by 11.7 percent to 36.9 mn tons of coal equivalents. The consumption of lignite, which is mostly used in electricity generation, fell by 2.3 percent in 2014 to 54.0 mn tons of coal equivalents. The contribution of nuclear energy decreased by 0.4 percent to 36.1 mn tons of coal equivalents.

The renewable energies recorded an increase, on aggregate, by 1.4 percentage points to 49.4 mn tons of coal equivalents. Their share in the overall primary energy consumption rose from 10.4 percent to 11.1 percent. The electricity generation from water power (without pump storage) recorded a decrease of 9 percent, electricity generation from wind power increased slightly by somewhat more than one percent. Photovoltaics achieved an increase of almost 14 percent. On aggregate, electricity generation from renewable energies increased by 3.3 percent.

2.4 Energy price develompent

In 2014, the electricity and gas markets in Europe were affected by four key factors:

- the international prices for raw materials, in particular for oil, gas and coal as well as for CO2-allowances,
- the general economic and political development,
- the weather conditions, and
- the extension of capacities in the area of renewable energies.

In this respect, the raw materials markets were affected significantly over the entire period by the mild weather in Europe and the decline in prices for almost all fuels. The strong decrease in energy prices also influenced the development of inflation, which in the December was negative again for the first time since October 2009. The US dollar further improved over the euro.

In particular, the oil price made a remarkable development in the 2014 financial year. In the first six months of the year, the negative price development resulting from increased production in non-OPEC-countries was still overcompensated by the uncertainty related to the crisis in the Middle East, with a corresponding stable price development. In the second six months, a weaker global demand, a further increase in production as well as the resumption of production in Libya then resulted in a sharp fall of prices by 40 percent and, thus, in a five-year low. The situation was further exacerbated by the fact that the OPEC, more specifically Saudi Arabia, refused to assume its historical role of market stabilisation and that in spite of falling prices the Russian and Iraqi production was increased even further.

Coal prices also continued to fall almost unabated in 2014 ($ 67/t; prev. yr. $85/t). Similar to the previous year, the market suffered from an excess supply and weak demand, which put pressure on prices in particular in the first quarter. Only some uncertainties in respect of the production in Colombia led to a brief stabilisation of prices at the beginning of the year. Over the entire course of the winter, above-average temperatures resulted in a substantial decrease of the import demand in the Atlantic Basin. In the fourth quarter, the coal market started to move again. The slump in oil prices as well as the upward revaluation of the U.S. dollar against the currencies of all large coal-exporting countries led to a new four-year low.

For the European gas market, the past year was characterised by a relatively high volatility of prices and a price level which, on the whole, was falling. The negative price trend resulted from the mild weather in the first quarter and the declining oil prices in the second half of the year. Besides, the LNG spot market showed first signs of an excess supply in the fourth quarter because of high LNG storage levels in East Asia and a struggling global industrial demand. Only during the summer months the prices stabilised for some time, since the expected excess supply did not materialise in spite of the good storage situation. The price for supplies in the following year reacted with strong fluctuations, at times, to the news regarding the developments in the Ukraine.

On the market for CO2 allowances in the Europe-wide trading system EU-ETS (EU Allowances – EUA) the political agreement on a Directive for the reduction of the available allowances (“Back-loading”), followed by its implementation in March, caused significant price fluctuations because of speculative conduct. From May to December, the instruments introduced produced an effect and led to a steady price increase (€ 7/t; prev. yr. € 5/t). The discussions regarding the proposed market stability reserve (a method for dealing with excess supplies in the EU-ETS in the long term) was an important price driver in the last quarter.

The declining price trend of the previous year regarding German electricity prices for baseload supplies in the following year also continued in the course of 2014 (€ 32.5/MWh; prev. yr. € 37.5/MWh). The reasons for this were still the constantly increasing capacities for renewable energies as well as the low price forecast for coal. After the steady decrease in prices in the first six months, the second half of the year was characterised by significant price fluctuations, which were mostly attributable to the development of the underlying fuel prices as well as the increasing uncertainty concerning regulatory changes.

2.5 Course of business

Power generation and energy supply agreements

In the financial year, EKW generated 23,204 GWh of electricity (conventional power plants division: 20,619 GWh (previous year: 31,451 GWh); water power division: 2,585 GWh (previous year: 2,991 GWh)). Taking into account the electricity procured and the own requirements, a net amount of 30,677 GWh (conventional power plants division: 26,344 GWh (previous year: 35,760 GWh); water power division: 4,333 GWh (previous year: 4,993 GWh)) was marketed primarily to E.ON Global Commodities SE, Düsseldorf (conventional power plants division: 10,748 GWh (previous year: 17,270 GWh); water power division: 3,067 GWh (previous year: 3,694 GWh)). Furthermore, energy was supplied to RuhrEnergie GmbH, EVR, Gelsenkirchen, (conventional power plants division: 11,209 GWh (previous year: 13,068 GWh)) and other special contract customers (conventional power plants division: 4,387 GWh (previous year: 5,422 GWh); water power division: 1,266 GWh (previous year: 1,299 GWh)).

The agreement entered into in 2008 on the intra-group energy supply relationships with the main take-off party, E.ON Global Commodities SE (EGC), which is based on the offsetting of commercial market prices for future supplies, was adjusted in details.

The company continues to hold and/or enter into long-term energy supply agreements with major customers through its wholly-owned subsidiary, RuhrEnergie GmbH, EVR (REG). REG is responsible, in particular, for the distribution of the electricity generated in the power plants in the Ruhr region.

Plant operation

The operation of the conventional power plants was mostly reliable. However, with regard to individual power plant block-units damages occurred during operation, which resulted in unplanned longer downtimes. For example, a generator damage in the Heyden power plant resulted in a downtime of more than 4 months in 2014. Furthermore, on 12 May 2014 there was a failure of a pressure-bearing wall in the circulation system of block-unit 5 in the Staudinger power plant. As a consequence of the significant damages, the recommissioning only took place on January 15, 2015. Following the acceptance of the electric converter facilities at the Datteln 4 location at the end of February 2014, the Datteln1-3 traction power plant ceased operation and was decommissioned. After the expiry of the energy supply agreements with RWE, at the end of December 2014 the electricity and heat generation of the power plant block-units Knepper C, Scholven D, E and F with an overall capacity of 1,700 MW was discontinued.

With regard to the water power plants, operations were affected in the year 2014 by a number of scheduled maintenance measures, unscheduled repair measures and a rather dry water year.

Planned inspection and maintenance measures were also conducted in this year with regard to the terminal connections where a fatigue fracture is imminent in the generators at the Waldeck 2 power plant (no availability of the M6 until Oct. 2014) and in the Walchensee power plant. Furthermore, the reconstruction measures in the traction power switching facilities at the Aufkirchen, Eitting and Ingolstadt power plants caused significant restrictions. As a consequence, the amount of traction power to be supplied was not achieved in the summer months. However, until the end of the year the gap was almost closed again.

The inevitable maintenance and repair measures at the Mid-Isar-Canal following the actual canal rehabilitation still caused restrictions also in 2014, which impeded, in particular, the optimum utilisation of the storage operation. In the course of the continuous automation / modernisation project “ZEW Technology”, additional power plants at Lech and Main were connected to the current process network and to the new ZEW control system.

The Happurg pumped storage power station has ceased operation in January 2011 due to damage to the floor of the upper reservoir. Based on the extensive exploration works conducted in the years 2011 to 2014, measures were developed for the reconstruction of the subsoil and for the renewal of the sealing in the area of the upper reservoir. In the completed year the dialogue with the competent approval and technical authorities and the required approval proceedings were continued. In addition, there were further considerations regarding the optimisation of the reconstruction measures.

The water year 2014 was characterised by the lacking snow reserve on the north side of the Alpes and little precipitation. Because of the deep lowering of the Forggensee for inspection measures at the Roßhaupten hydro dam and the scarce supply during the filling phase, only an extremely reduced operation was possible in the months of April and May, which brought down the production at Lech and Danube significantly below the expected values. In the further course of the year, there were mostly average outflows with 2 uncritical peaks in August and in October. However, the shortfalls of the spring could not be compensated any more.

E.ON is currently building a coal-fired power plant with an electric net capacity of about 1,055 MW in Datteln and already invested more than €1 billion in connection therewith. By judgement confirmed by the Federal Administrative Court (BVerwG) in Leipzig, the Oberverwaltungsgericht (Higher Administrative Court) Münster (OVG) declared the development plan of the city of Datteln to be invalid. Therefore, new development plan proceedings were conducted, in order to reestablish the planning basis for the Datteln 4 power plant. On April 3, 2014, the 7th amendment of the regional plan for the Münster Administrative District was published in the North-Rhine Westfalia (NRW) Gazette of Statutes and Ordinances. The new development plan and the amended land utilisation plan of the city of Datteln entered into force on September 1, 2014. In view of the approval proceedings to be conducted, the current political environment and pending as well as expected further lawsuits, we currently expect further delays compared to the originally scheduled commissioning date. We still assume that the power plant will be commissioned. In principle, such risks may also occur in the context of other new construction projects in the area of electricity and gas.

Construction of the Amrumbank offshore wind farm (288 MW) continues according to plan; the majority of the foundations could already be installed. The offshore transformer was also installed already. The turbines will be installed according to plan from the beginning of 2015. There are no identifiable delays affecting the commissioning scheduled for the autumn of 2015.

Emissions trading

The 2013 emissions reports, which document the actual emissions for the plants of EKW subject to emissions trading for the year 2013 vis-à-vis the public authority granting the permit, were submitted in due time on March 31, 2014, as was the required number of emission allowances in the time thereafter.

Besides, the beginning of the year 2014 was also characterised by the commencement of the third trading period (2013-2020), in the course of which – in contrast to the second trading period – there will be no more free-of-cost allocation for the product electricity. For example, the final allocations for the existing plants only occurred at the beginning of 2014; they substantially corresponded to our applications. For 2014, the allocation is at almost 600,000 EUAs, in the next year this amount is scheduled to fall to almost 500,000. Besides, the annual allocation amount may be further reduced for a specific plant as a result of the ex-post correction mechanism, if the heat production of a plan eligible for allocation falls below 50%. The action for a declaratory judgement regarding the claim for information of the DEHSt (German Emissions Trading Authority) in the course of the communication regarding operation has not yet been ruled on. The objections lodged against the allocations (FWK

Recklinghausen, FWK Marl, HW Westerholt) with regard to the cross-sectoral correction factor have also been suspended, until the model case proceedings in this respect have been concluded. For EKW, this involves, at most, the possibility of a subsequent additional allocation of allowances in the lower four-digit range.

Material developments at participation companies

Gemeinschaftskraftwerk Staudinger Verwaltungs-GmbH was merged onto EKW. The liquidation of Kraftwerk Buer GmbH was completed in the 2014 financial year.

At the subsidiaries E.ON Erömüvek Kft. (Hungary) and E.ON Elektrarne s.r.o. (Slovakia), impairments (€141.6 mn) were conducted at the end of the year in view of the difficult economic situation of the gas-fired power plants. Besides, a capital increase (€91.0 mn) was conducted at E.ON Elektrarne s.r.o.

The participations E.ON Energy Projects GmbH and E.ON Fernwärme GmbH were sold to E.ON Beteiligungen GmbH in accordance with their functional control and in view of the future strategic positioning of E.ON.

2.6 Result of operations, financial position and net assets

In the reporting period EKW achieved an annual profit of €424.7 mn (previous year: €217.4 mn) and transferred it to E.ON Beteiligungen.

Sales amounted to €2,265.7 mn (previous year: €2,706.5 mn).

In the costs of material, corresponding expenses have to be recorded in this respect.

Personnel expenses amounted to €303.1 mn (previous year: €296.9 mn)

The other operating expenses amounted to €413.9 mn (previous year: €236.7 mn). The deviation from the previous year is primarily attributable to proceeds from the retirement of financial assets.

The other operating expenses amounted to €180.8 mn (previous year: €254,0 mn).

The financial result comprising the investment income, interest income and expenses as well as write-downs of long-term financial assets amounted to – €139.4 mn. Charges resulted primarily from write-downs of long-term financial assets in an amount of €142.0 mn.

The financial position is characterised by the integration into E.ON. The access to liquidity is ensured by an agreement with E.ON. The cashflow from operating activities amounts to €264.7 mn in the financial year, the cashflow from investing activities is at €-322.9 mn and the cashflow from financing activities at €-213.4 mn. Accordingly, the cash and cash equivalents vis-à-vis E.ON amount to €2,965.2 mn (previous year: €3,236.8 mn).

The capital structure is characterised by an equity ratio of 71%. The net assets are primarily characterised by receivables against affiliated enterprises and long-term provisions.

The investments of E.ON Kraftwerke GmbH in intangible fixed assets and tangible fixed assets amounted to €342.1 mn. The majority is attributable to the new construction projects described above. In addition, a total amount of €91.0 mn was paid into the capital reserves of a subsidiary.

2.7 Performance indicators

EBITDA

E.ON Kraftwerke GmbH is included in the company group of E.ON SE, which controls its companies at segment level in accordance with IFRS key indicators. For purposes of internal controlling and as an indicator for the sustainable profitability, E.ON Group uses earnings before interest, taxes and depreciations (EBITDA), adjusted for extraordinary effects, which is determined on the basis of the International Financial Reporting Standards (IFRS). This earnings parameter is not affected by investment and depreciation cycles and at the same time acts as an indicator of the cash-effective earnings contribution. The EBITDA according to IFRS is the central performance indicator for E.ON Kraftwerke GmbH. For 2014, the IFRS EBITDA adjusted for extraordinary effects amounts to €594.8 mn. Deviations from the result from ordinary business activity in accordance with the German Commercial Code (*Handelsgesetzbuch* – HGB) primarily result – with the exception of depreciations, amortizations and write-downs as well as interest income and expenses – from the extraordinary effects adjusted in accordance with IFRS as well as different recognition and valuation methods of the accounting regulations. The latter are attributable, in particular, to the determination of pension provisions and the valuation at market value of assets and debt. The projected value for 2014 (budgeted with €0.5 to 0.6 billion) has thus been fully achieved with about €0.6 billion.

Availability of plants

Due to damages, the availability of the fossile power plants amounted to approx. 80% (prev. yr. 88%). For 2015, the current level is targeted again, in the medium term a slight increase. The usage level of the available water at the run-of-river and storage power plants amounted to 98.9%, which is expected to remain constant in the coming years. The availability of the Waldeck 1 and 2 pump storage power plants was at 59%. It is expected that the low availability of the pump storage power plants, which was due to maintenance work, will increase in the coming years.

Industrial safety

For the operation of all plants, strict occupational safety, environmental and health standards apply, in order to reduce the risk of accidents and to avoid work-related illnesses.
The consequent implementation of HSE improvement plans and the introduction of across-plan reviews have resulted in a further improvement of occupational safety. The sustainability of the measures taken was confirmed by various independent audits. The goal is to further reduce the total number of all recorded accidents. The index value has improved compared to the previous year (3.2 TRIF) and for 2014 amounts to 3.0 (TRIF = Total Recordable Injury Frequency).

3. Employees

As per December 31, 2014, EKW employed a total of 2,510 (prev. yr. 2,756) persons (without suspended employment relationships); thereof 284 (prev. yr. 300) trainees and 1 (prev. yr. 3) intern. The decrease in employed staff is mostly attributable to the reductions in the course of E.ON 2.0 and the effects of Next Generation.

4. Supplementary report

No events of special significance have occurred after the end of the financial year.

5. Forecast report

For 2015 and 2016, the OECD sees moderate growth rates of the global economy with a high probability, which can be expected to continue to be below those before the crisis. This positive development is distributed differently over the large economies. In the next two years, risks are identified rather than opportunities, the former regarding the stability of the financial system as well as the lack of trust in future growth. These risks apply, in particular, to the euro area.

The prospects for growth in the U.S. and Great Britain are good. A supportive monetary policy, lessening consolidation pressure from public budgets as well as an increasing trust stabilise the U.S. economy. The euro area suffers from the high unemployment. Here, too, the expansive monetary policy as well as a lessening consolidation pressure act as a relief. An equally positive effect results from the foreign trade position improved by the euro devaluation, supported also by the lower oil prices. No risk of inflation is expected for the OECD countries. For the euro area, deflationary trends cannot be excluded if growth continues to stagnate.

While the OECD sees short-term risks regarding the volatilities in the financial system, it is the burdens resulting from the financial crisis and the monetary expansion that are referred to in the medium term. In the long term, the OECD is concerned about the small growth of the production potential, i.e. the generally weak investments.

On aggregate, a higher volatility has to be expected in the markets for electricity and fuels in the years 2015 and 2016, since these markets continue to be significantly affected by developments of the overall economy and political decisions.

The expectation on the oil market is that the recent low price period will result in a decrease in investments in new projects, as well as in addition to a reduction of volumes, since possibly a number of producers will no longer be able to produce profitably. In addition, as a result of the low prices which are advantageous for the economy an increased demand in particular in the transportation sector also has to be expected; however, simultaneously a significant increase in production in non-OPEC-countries is still expected, inter alia, regarding oil from shale and tar sands in North America, which possibly could even overcompensate the higher demand in 2015 and 2016.

The sharp fall of the oil prices and the devaluation the currencies of the most important coal exporting countries, in particular of the Russian ruble, brought some relief for the producers, who in recent years had suffered strongly from the declining coal prices. However, on the basis of the current price movements it can be assumed that this situation will only be of a short duration and that the nature of an oversupplied market will soon begin to prevail again. The further price development, in particular in the short to medium term, depends mostly on a possible recovery of the oil market and the exchange rates ab. However, from a fundamental perspective the excess supply can be expected to continue and to improve only gradually, if the supply side is newly adjusted.

The prices for CO2 allowances in the Europe-wide trading system EU-ETS (EU Allowances – EUA) will likely continue to be affected most in the next two years by the “back-loading” process. As a result of this measure, the number of allowances that can be acquired per auction will be further reduced significantly, even though the reduction in 2015 will already be lower than in 2014 and will be less again in 2016. Nonetheless, the scarcity increases the pressure on the market and will presumably result in the prices also increasing further. The political discussion regarding the market stability reserve will be a further important price driver in the first six months of 2015.

Electricity rates in Germany in the short and medium term will continue to be determined largely by the prices for hard coal and CO2 allowances. However, in particular the additional construction of capacities for renewable energies as well as the planned commissioning of numerous new and modern coal-fired power plants in 2015 could exert further downward pressure on prices. This trend is counteracted by the increasing export of cost-efficient electricity from renewables, which thus supports the domestic electricity rates, as well as the speculations regarding possible closures of coal-fired power plants because of environmental regulations.

The future development of EKW and the pertaining opportunities are dependent on a disruption-free operation of the plants. Besides, the future net assets, financial position and results of operations also has to be seen in connection with the development of E.ON. In particular, it has to be taken into account, that the generation is primarily controlled via EGC. As a consequence of the difficult framework conditions in the energy industry as well as the adopted changes to the power plant portfolio, the earnings situation is expected to deteriorate in 2015 compared to the current financial year.

For E.ON Kraftwerke GmbH, an EBITDA is expected in 2015 in an amount of €0.4 to 0.5 billion. This forecast takes into account the discontinuation of earnings contributions as a result of the decommissioning of power plant block-units as well as the expected effects from the E.ON 2.0 efficiency programme.

6. Risk report

EKW is part of the group-wide risk management system. The risk management system primarily includes provisions on uniform planning and controlling processes, policies and reporting systems as well as risk reporting. In addition, the group-wide credit risk management is an integral part of the risk management system. The objective of the risk management system is to enable the company management to be in a position to identify risks early and take counter-measures in time. The effectiveness of the risk management system is monitored by independent internal and external audits.

For EKW, the following key risks exist:

- external risks in connection with the political and legal framework conditions as well as the regulatory environment (e.g. approval risks Datteln 4),
- strategic risks and market risks or, respectively, risks of a change in market prices (e.g. long-term agreements),
- operational risks from the operation of the plants as well as closure risks (e.g. submission of CO_2 allowances, unplanned downtimes, plant damages, natural disasters),
- financial risks.

As a key risk, it has to be pointed out that E.ON is currently building a coal-fired power plant with an electric net capacity of about 1,055 MW in Datteln and has already invested more than €1 billion in connection therewith.

As a consequence of the court decisions on the invalidity of the development plan and the cancellation of partial licenses, a comprehensive restoration of the legal basis under planning law and a new design at the approval level became necessary for the new construction project. The amendment of the regional plan was resolved in December 2013 and published in April 2014. At the level of land-use planning, the council of the city of Datteln on May 14, 2014 adopted the statutory resolution for the project-related development plan no. 105a and for amendment 8a of the land utilisation plan. An agreement under public law (implementation agreement) has been entered into between E.ON Kraftwerke GmbH as the party carrying out the project and the city of Datteln on the realisation of the Datteln 4 power plant.

The approval under the German Federal Immission Control Act (BImSchG) is currently expected for October 2015. In view of the pending approval and planning processes as well as potential further lawsuits and of the current political environment, risks continue to exist.

Furthermore, the EnWG amended at the end of 2012 – together with the *Reservekraftwerksverordnung* (Ordinance on Power Plant Reserve) adopted in 2013 – implements additional regulatory restrictions also for the power plant sector in Germany (in particular, decommissioning restrictions as well as requirements of safeguarding system-relevant power plants). These restrictions may also affect the profitability of E.ON's power generation facilities.

In 2013, EKW entered into an agreement with TenneT in respect of power plant block-units 4 and 5 in Irsching for the specification of a performance portion regarding redispatch measures. The agreement has a term from 01/04/2013 until 31/03/2016 and will as usual be reviewed from a legal perspective by the Federal Cartel Office and the Federal Network Agency (inter alia, regarding interpretation issues concerning contractual provisions).

EKW is taking, inter alia, following measures, in order to avert these risks:

- detailed instructions regarding business and procedures,
- programmes for training and further education for employees,
- maintenance and revision of the plants,
- taking out of suitable insurance,
- constructive collaboration with supervisory and approval authorities,
- monitoring of legislation and case-law,
- futures contracts for the limitation of currency risks.

At the end of the 2014 financial year, the risk situation of EKW in the operational business – including the new or changed risks – has not changed significantly compared to the end of the year 2013. In future, political and regulatory interventions as well as possible delays in new construction projects may have a detrimental effect on the earnings situation. However, from today's perspective, no risks are discernible for the future that could jeopardise the continued existence of the company.

E.ON Kraftwerke GmbH, Hanover

Balance Sheet

Assets

in € million	Note	Dec. 31, 2014	Dec. 31, 2013
Fixed assets			
Intangible fixed assets	(1)	30.5	32.2
Tangible fixed assets	(1)	2,625.4	2,365.2
Long-term financial assets	(2)		
Shares in affiliated companies		796.9	879.4
Other long-term financial assets		74.2	78.7
		3,527.0	**3,355.5**
Current assets			
Inventories	(3)	204.6	253.0
Receivables and other assets	(4)	3,739.4	3,921.8
Cash	(5)	(€ 1.8 thousand)	0.3
		3,944.0	**4,175.1**
Prepaid expenses	(6)	**191.5**	**200.6**
Excess of plan assets over pension liability	(7)	**11.0**	**15.0**
		7,673.5	**7,746.2**

Equity and liabilities

in € million	Note	Dec. 31, 2014	Dec. 31, 2013
Equity	(8)		
Subscribed capital		283.4	283.4
Capital reserves		5,113.2	5,113.2
Revenue reserves		15.8	15.8
		5,412.4	**5,412.4**
Grants	(9)	**3.5**	**20.9**
Provisions	(10)	**1,341.3**	**1,435.8**
Liabilities	(11)	**848.5**	**690.5**
Deferred income	(12)	**67.8**	**186.6**
		7,673.5	**7,746.2**

E.ON Kraftwerke GmbH, Hanover

Income Statement

in € million	Note	2014	2013
Sales	(15)	2,265.7	2,706.5
Increase or decrease in stock of finished goods and work in progress		0.0	-0.4
Other own work capitalized		2.1	1.9
Other operating income	(16)	413.9	236.7
Cost of materials	(17)	1,558.4	1,832.3
Personnel expenses	(18)	303.1	296.9
Depreciation, amortization and write-downs	(19)	75.3	81.4
Other operating expenses	(20)	180.8	254.0
Investment income	(21)	35.2	27.0
Interest income and expense	(22)	-32.6	-23.4
Write-downs of long-term financial assets	(23)	142.0	233.9
Result from ordinary activities		**424.7**	**249.8**
Extraordinary result	(24)	0.0	-32.4
Taxes on income and profit	(25)	(€ -1.6 thousand)	(€ -19 thousand)
Net income for the year before profit transfer		**424.7**	**217.4**
Profit transferred on the basis of a profit transfer agreement	(26)	424.7	217.4
Net income for the year		**0.0**	**0.0**

E.ON Kraftwerke GmbH, Hanover

Notes to the Annual Financial Statements

A. Preliminary Remarks

Annual financial statements

The annual financial statements have been prepared in accordance with the accounting principles for large corporations set out in the German Commercial Code (*Handelsgesetzbuch*, "HGB"), the German Limited Liability Companies Act (*GmbH-Gesetz*, "GmbHG") and the German Energy Industry Act (*Energiewirtschaftsgesetz*, "EnWG"). The income statement has been prepared using the nature of expense method. Unless otherwise specified, figures are presented in millions of euros (€ million). The accounting policies applied in the previous year were retained in the year under review.

To enhance the clarity of presentation, the statutory disclosures on the items of the balance sheet and the income statement as well as the information that can be disclosed optionally in the balance sheet or the income statement, or in the notes to the annual financial statements, are disclosed in full in the notes to the annual financial statements. Individual items that have been combined in the balance sheet or income statement are broken down in the notes to the financial statements. The fiscal year corresponds to the calendar year.

Group affiliation

In accordance with section 291 of the HGB, E.ON Kraftwerke GmbH is exempt from the requirement to prepare consolidated financial statements and a group management report in accordance with sections 290 et seq of the HGB.

E.ON Kraftwerke GmbH and its subsidiaries are included in the consolidated financial statements of E.ON SE, Düsseldorf (HRB 69043), which provide the basis for the exemption. E.ON SE is the parent company that prepares the consolidated financial statements and the group management report for the largest and smallest group of companies. In accordance with section 325 of the HGB, the consolidated financial statements and the group management report are submitted electronically to the operator of the Federal Gazette (*Bundesanzeiger*), where they are made public. These documents can be accessed online under www.bundesanzeiger.de or www.eon.com.

Pursuant to section 315a of the HGB, E.ON SE prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Commission for use in the European Union.

B. General Accounting Policies

ASSETS

Fixed assets

Purchased intangible and tangible fixed assets are measured at cost less depreciation and amortization, to the extent that these have a finite useful life. Both the straight-line and declining balance methods of depreciation are used. The retention option in accordance with article 67 (4) sentence 1 of the Introductory Act to the German Commercial Code (*Einführungsgesetz zum Handelsgesetzbuch*, "EGHGB") was exercised and the declining balance method retained for assets already held as of January 1, 2010 and depreciated using the declining balance method. Additions from fiscal year 2010 onwards are exclusively depreciated on a straight-line basis in accordance with the expected useful life.

Depreciation of tangible fixed assets is generally based on the following useful lives:

- Intangible fixed assets (rights of water use based on individual agreements) — *3 to 91 years*
- Buildings, including buildings on third-party land — *10 to 60 years*
- Technical equipment and machinery — *8 to 40 years*
- Other equipment, operating and office equipment — *3 to 20 years*

The production costs of internally generated tangible fixed assets include directly attributable production and material costs, as well as an appropriate share of indirect material costs, indirect production costs, and depreciation of fixed assets. The production costs for the Pleinting plant include borrowing costs.

Due to their negligible significance, finite-lived assets costing between €150 and €1,000 are combined and reported as a single item, and are depreciated over five years on a straight-line basis. Finite-lived assets costing less than €150 are expensed in full in the year of acquisition.

Long-term financial assets are recorded at cost, taking into account the principle of lower of cost or market value.

Interest-bearing loans are carried at their principal amount; non- or low-interest-bearing loans are carried at their present value.

Fixed assets are written down if the carrying amount calculated in accordance with the above principles is higher than the fair value on the reporting date.

Current assets

Inventories are measured at the lower of cost, market value or fair value. Raw materials, consumables and supplies are generally measured at the lower of average amortized or market prices.

Emission rights are recognized on the date of issue or acquisition. 565,302 certificates were issued to the Company free of charge in the fiscal year. Certificates are only measured if there is a purchase price. The Company holds 1.7 million certificates. The fair value of each certificate was €6.54 per ton of $C0_2$ as of the reporting date (source: Carbix).

Receivables and all miscellaneous other assets as well as cash-in-hand and bank balances are measured at their principal amounts. Appropriate valuation allowances are recognized for identifiable default risks.

Plan assets

The obligations to employees arising from occupational pension and partial retirement schemes are covered by corresponding funds invested in fund units and fixed-term deposits; in addition, there are claims from reinsured pension obligations against Versorgungskasse Energie VVaG, Hanover (VKE). The fund units are managed in trust on behalf of EKW by E.ON Pension Trust e.V. and by Pensionsabwicklungstrust e.V., both domiciled in Düsseldorf, and the fixed-term deposits for partial retirement schemes are managed in trust on behalf of EKW by Energie-Sicherungstreuhand e.V., Hanover. The relevant assets are ringfenced from all other creditors.

Plan assets are measured at fair value and are offset against the respective underlying obligations in accordance with section 246 (2) of the HGB. The associated expenses and income from interest effects and from the assets to be offset are treated in the same way. The resulting accumulated benefit obligation is reported under provisions. The fair value of the plan assets exceeding the obligation is recognized under "Excess of plan assets over pension liability" on the assets side of the balance sheet.

EQUITY AND LIABILITIES

Provisions

(Provisions for pensions and similar obligations)

Pensions and similar obligations are measured using the internationally recognized projected unit credit method. According to this method, pension obligations are calculated on the basis of the pension entitlements as of the reporting date, taking into account future salary increases. Pension obligations are discounted at the average market interest rate for the past seven years published by the Deutsche Bundesbank assuming a remaining maturity of 15 years. Salary and pension trends are also taken into account. The actuarial calculation of provisions is based on K. Heubeck's 2005 G mortality tables. The retirement age for measurement purposes is generally the earliest possible age limit under the statutory retirement pension system in Germany, taking into account the provisions of the Act to Adapt the Standard Retirement Age (*RV-Altersgrenzenanpassungsgesetz*) dated April 20, 2007. The contractually agreed retirement age is taken into account for employees who have signed early retirement or partial retirement agreements. Fluctuation probabilities are also applied.

Effective December 31, 2006, MEON assumed the obligation to settle the Company's benefit obligations to current employees and their surviving dependents as the debtor by way of an agreement on the assumption of debt. MEON internally indemnifies the Company against the benefit obligations set out in this agreement. In return for this indemnification, the Company has transferred assets of an equivalent value to MEON. Indemnification receivables are measured in the same way as the underlying benefit obligations.

Indemnification receivables are offset openly against pension provisions.

In 2014, EKW established a further Contractual Trust Arrangement (CTA) in order to protect the pension claims. To that end, the Company entered into a trust agreement with the independent trustees E.ON Pension Trust e.V. (administrative trustee) and Pensionsabwicklungstrust e.V. (security trustee) and pledged €121.1 million to the security trustee as collateral. The administrative trustee manages the assets. EKW remains liable for the direct pension commitments. This CTA protects the pension obligations arising after December 31, 2006. The pension obligations arising prior to January 1, 2007 have already been transferred to MEON Pensions GmbH & Co. KG (MEON) with effect from December 31, 2006 by way of an agreement on the assumption of debt. For its part, in 2006 MEON also entered into a CTA trust agreement in order to protect payment obligations transferred to it. Accordingly, the administrative trustee must reimburse EKW for future pension obligations arising and settled after December 31, 2006.

The first-time funding of EKW means that as of the reporting date, plan assets of €125.6 million were offset for the first time against pension obligations in accordance with section 246 (2) of the HGB. The fair value of the plan assets exceeds their cost by €4.5 million. This additional amount is covered by sufficient freely available reserves. There are therefore no restrictions on transfers in accordance with section 268 (8) of the HGB.

(Provisions for anniversaries and similar obligations)

Anniversary obligations are also measured using the internationally recognized projected unit credit method. As for pension obligations, the discount rate published by the Deutsche

Bundesbank assuming a remaining maturity of 15 years is applied to anniversary and long-service leave obligations as well as to death benefit and benefit in kind obligations. A salary trend is also taken into account. The actuarial calculation of provisions is based on K. Heubeck's 2005 G mortality tables.

(Provisions for partial and early retirement schemes)

Durations of 1.2 years and 3.1 years are assumed for partial retirement and early retirement obligations, respectively. The interest rate applicable to these durations is interpolated on a straight-line basis from the interest rates published by the Deutsche Bundesbank. A salary trend is also taken into account. The actuarial calculation of provisions is based on K. Heubeck's 2005 G mortality tables.

(Miscellaneous other provisions)

Miscellaneous other provisions include all identifiable risks and uncertain obligations. They are recognized at the necessary settlement amount dictated by prudent business judgment. Long-term provisions (with a remaining maturity of over one year) are discounted at the average market interest rate for the past seven years in line with their remaining maturity. Provisions with a remaining maturity of less than one year as of the reporting rate that were originally long-term provisions are also discounted.

Income and expenses from the discounting of provisions and the unwinding of the discount on provisions, as well as from changes to the interest rates, are reported separately under "Other interest and similar income" and "Other interest and similar expenses".

Liabilities

Liabilities are carried at their settlement amount as of the reporting date.

Prepaid expenses and deferred income

Prepaid expenses and deferred income were recognized for expenses and income attributable to future periods.

Foreign currency translation

Receivables and payables denominated in foreign currencies are translated at the middle rate on the date of the transaction. They are subsequently translated at the middle spot rate.

Deferred taxes

Deferred taxes are recognized in the consolidated financial statements of E.ON SE as the tax group parent due to the existing profit transfer agreement.

C. Balance Sheet Disclosures

(1) Intangible and tangible fixed assets

The changes to the individual fixed asset items in 2014 are presented in the statement of changes in fixed assets in Annex 1, which forms part of the notes to the financial statements. All intangible fixed assets have been purchased.

Additions to fixed assets mainly relate to assets in construction as well as power and district heating generation assets.

(2) Long-term financial assets

The list of shareholdings of E.ON Kraftwerke GmbH can be found in Annex 2, which forms part of the notes to the financial statements.

Loans to affiliated companies are exclusively attributable to loans to Kraftwerk Schkopau GbR.

(3) Inventories

in € million	Dec. 31, 2014	Dec. 31, 2013
Raw materials	107.5	153.5
Consumables and supplies	96.3	99.5
Emission rights	0.8	0.0
	204.6	**253.0**

(4) Receivables and other assets

in € million	Dec. 31, 2014		Dec. 31, 2013	
	Total	due after more than one year	Total	due after more than one year
Trade receivables	112.0	86.8	122.0	84.2
Receivables from affiliated companies	3,570.2	41.6	3,759.1	0.0
of which from shareholders	(203.3)	(0.0)	(0.2)	(0.0)
of which trade receivables	(283.9)	(0.0)	(401.8)	(0.0)
of which from allocation and financial transactions	(3,083.0)	(41.6)	(3,357.1)	(0.0)
Receivables from other long-term investees and investors	(€ 3.0 thousand)	0.0	(€ 1.3 thousand)	0.0
Other assets	57.2	0.0	40.7	0.0
	3,739.4	**128.4**	**3,921.8**	**84.2**

Receivables from affiliated companies are mainly due to intragroup cash pooling with E.ON SE, Düsseldorf.

(5) Cash

Cash comprises cash-in-hand.

(6) Prepaid expenses

Prepaid expenses are primarily attributable to contractual payments for energy supply contracts, which are economically attributable to subsequent years and will be recognized over the term of the contract.

(7) Excess of plan assets over pension liability

The offsetting of plan assets as well as the reinsured pension obligation and the outstanding settlement amount from partial retirement arrangements has led to an excess of plan assets over pension liability, which is broken down as follows:

in € million	Dec. 31, 2014	Dec. 31, 2013
Benefit obligations reinsured with VKE		
Settlement amount/pension obligations before offsetting		
(gross amount)	40.3	27.5
Fair value of plan assets		
Pension liability insurance claims	50.1	39.8
Net amount	**9.8**	**12.3**
Outstanding settlement amount from partial retirement arrangements		
Settlement amount	15.9	27.4
Fair value of the plan assets (fixed-term deposits)	17.1	30.1
Net amount	**1.2**	**2.7**
Total excess of plan assets over pension liability	**11.0**	**15.0**

The fair values of the pension liability insurance claims correspond to the actuarial reserve documented by the insurer and thus their cost. The fair value of the fixed-term deposits is equal to their cost.

(8) Equity

As previously, the Company's subscribed capital amounts to €283.4 million. 100% of the subscribed capital is held by E.ON Beteiligungen GmbH, Düsseldorf.

The revenue reserves relate to other revenue reserves.

(9) Grants

Reversals of €0.4 million were recognized in the year under review. A €17.0 million capital expenditure grant was reclassified under other liabilities due to a different use.

(10) Provisions

in € million	Dec. 31, 2014	Dec. 31, 2013
Provisions for pensions and similar obligations (offset against VKE's reinsurance claims and plan assets)	331.2	407.7
Indemnification claims against MEON	-314.4	-280.3
Remaining provisions for pensions	16.8	127.4
Provisions for taxes	4.1	4.8
Other provisions	1,320.4	1,303.6
	1,341.3	**1,435.8**

Provisions for pensions and similar obligations cover the benefit obligations to former and current employees. These are partially financed by the employer and partially by the employee as part of a salary sacrifice scheme.

The benefit obligations to retirees, former employees and their surviving dependents at the end of 2006 were transferred to MEON as of December 31, 2006.

Collateral for the obligations from pension commitments has been provided in part in the form of fund units managed in trust by E.ON Pension Trust e.V. and Pensionsabwicklungstrust e.V., both domiciled in Düsseldorf. In part, collateral is provided in the form of pension liability insurance claims against VKE. The assets invested serve exclusively to satisfy pension obligations and are ringfenced from all other creditors. In accordance with section 246 (2) of the HGB, they must be offset against the respective underlying obligations. The fair values of the plan assets presented in the table below, to the extent these are fund units, were derived as of the reporting date by the management companies on the basis of stock market prices and generally accepted valuation techniques. The fair values of the pension liability insurance claims correspond to the actuarial reserve documented by the insurer and thus their cost.

Of the remaining pension obligations, the pension liability insurance claims are offset as follows:

in € million	Dec. 31, 2014	Dec. 31, 2013
Benefit obligations not reinsured with VKE/via CTA		
Settlement amount	440.2	392.1
Pension obligations before offsetting (gross amount)	442.6	394.1
Fair value of plan assets		
Fund units	125.6	0.0
Net amount	**317.0**	**394.1**
Benefits in kind (electricity) (settlement amount)	**14.2**	**13.6**
Total provisions	**331.2**	**407.7**

The cost of the plan assets (fund units) amounted to €121.1 million (previous year: €0.0 million).

The pension obligations and the provisions for benefits in kind (electricity) reported are offset openly with the indemnification claims against MEON.

The discount rate applied in the discounting of pension obligations was 4.54% p.a. in fiscal year 2014 (previous year: 4.91% p.a.). Furthermore, a salary trend of 2.5% p.a. and a pension trend of 1.75% p.a. (previous year: 2.0% p.a.) were assumed, as in the previous year.

Other provisions mainly comprise provisions for concession obligations, renewal obligations, emissions certificates required, personnel obligations, for environmental improvement and disposal obligations, for expenses in connection with construction projects not eligible for capitalization, as well as for unbilled goods and services.

The higher carrying amount was retained to the extent that the measurement rules set out in section 253 of the HGB that changed as a result of the BilMoG in the year of transition (2010) led to a reversal of other provisions and additions are expected by December 31, 2024 at the latest. The excess amount totaled €83.8 million as of December 31, 2014.

Based on a duration of 1.2 years (previous year: 1.5 years), a discount rate of 2.82% p.a. (previous year: 3.49% p.a.) and, as in the previous year, a salary trend of 2.5% p.a. was applied for partial retirement obligations. Based on a duration of 3.1 years (previous year: 3.4 years), a discount rate of 3.1% p.a. (previous year: 3.74% p.a.) was applied for early retirement obligations and potential obligations. Furthermore, as in the previous year, a salary trend of 2.5% p.a. was assumed.

(11) Liabilities

in € million	Dec. 31, 2014				Dec. 31, 2013	
		Due				Due
	Total	within 1 year	within 1 to 5 years	after more than 5 years	Total	after more than 1 year
Trade payables	72.8	71.4	1.1	0.3	66.3	1.6
Liabilities to affiliated companies	703.9	703.6	0.0	0.3	575.4	0.3
of which to shareholders	(430.6)	(430.6)	(0.0)	(0.0)	(230.8)	(0.0)
of which trade payables	(231.7)	(231.7)	(0.0)	(0.0)	(268.2)	(0.0)
of which from allocation and financial transactions	(41.6)	(41.3)	(0.0)	(0.3)	(76.4)	(0.3)
Liabilities to other long-term investees and investors	39.2	39.2	0.0	0.0	33.1	0.0
Other liabilities	32.6	26.4	5.9	0.3	15.7	7.5
	848.5	**840.6**	**7.0**	**0.9**	**690.5**	**9.4**

Other liabilities relate to tax liabilities in the amount of €5.3 million (previous year: €3.9 million) and social security liabilities in the amount of €2.2 million (previous year: €2.8 million).

(12) Deferred income

This item is mainly attributable to payments received for energy supply contracts, which are economically attributable to subsequent years and will be recognized over the term of the contract.

(13) Contingent liabilities and other financial commitments

Contingent liabilities are as follows:

in € million	Total	Of which attributable to affiliated companies
Contingent liabilities from guarantees	36.0	35.7
Contingent liabilities from warranties	6.3	6.3
	42.3	**42.0**

Contingent liabilities from warranties also include letters of comfort, parent company guarantees and indemnity agreements, the amount of which cannot be quantified.

The Company's financial guarantees include the liquidity support guarantee to MEON in the amount of €1,131.9 million.

E.ON Kraftwerke GmbH is jointly and severally liable for its equity interests in Kraftwerk Schkopau GbR, Schkopau, Kraftwerk Buer GbR, Gelsenkirchen, as well as Volkswagen AG PreussenElektra AG oHG, Wolfsburg.

Electricity delivery, fuel supply and disposal, and the procurement of electricity are covered by long-term agreements customary to the industry. Other financial commitments relate to the usual commitments arising from rental and lease agreements, from purchase commitments for investments (€616.6 million, of which €70.2 million is attributable to affiliated companies), as well as from loans that have been granted but not yet drawn down.

EKW is obliged to make additional contributions to VKE and VAW -Innwerk Unterstützungsgesellschaft mbH, Bonn, if short-term compensatory payments are required in the case of an asset shortfall.

Under the asset swap agreement between the three E.ON group companies and other external contractual parties dated July 30, 2009, EKW is obliged to pay damages in various cases provided specific conditions have been met. Different time restrictions of up to ten years apply to the assertion of any future claims for damages. This liability to pay compensation is limited to the total purchase price achieved.

Contingent liabilities in accordance with the provisions of the German Reorganization Act (*Umwandlungsgesetz*, "UmwG") are due to the liabilities transferred in connection with reorganizations under company law in previous years.

The risk of utilization is considered low for each of the contingent liabilities. This opinion is based mainly on the credit assessments of the primary liable parties as well as on past experience.

(14) Financial instruments

The Company is exposed to currency risk as part of its business activities. This is managed using a systematic risk management system. As of the reporting date, there were no currency swaps.

D. Income Statement Disclosures

(15) Sales

in € million	2014	2013
Power generation	2,106.6	2,539.7
Management fee	147.6	151.7
Other sales	11.5	15.1
	2,265.7	**2,706.5**

Sales were generated almost exclusively in Germany.

(16) Other operating income

Other operating income primarily comprises income from recharged goods and services, from recharged personnel and administrative expenses, from the disposal of fixed assets as well as from the reversal of provisions. Significant prior-period income in the amount of €26.2 million was attributable to the reve rsal of provisions. The item also includes currency translation gains of €29.7 thousand (previous year: €0.9 million).

(17) Cost of materials

in € million	2014	2013
Cost of raw materials, consumables and supplies	1,257.7	1,539.4
Cost of purchased services	300.7	292.9
	1,558.4	**1,832.3**

(18) Personnel expenses

in € million	2014	2013
Wages and salaries	252.9	235.4
Social security, post-employment and other employee benefit costs	50.2	61.5
of which for post-employment benefits	(18.3)	(22.6)
	303.1	**296.9**

Amounts resulting from the unwinding of the discount on personnel provisions, in particular pension provisions, are not recorded under personnel expenses; rather, these are reported under interest income.

An average of 2,292 people were employed in the year under review. These are broken down as follows:

	2014	2013
Waged employees	890	1,284
Salaried employees	1,154	1,400
Part-time employees	248	185
	2,292	**2,869**

The decrease in the aver age employee headcount was due primaril y to the spin-off of the Buschhaus power plant, employee departures in relation to E.O N 2.0 and the implications of Next Generation.

(19) Depreciation, amortization and write-downs

Depreciation, amortization and write-downs are solely attributable to amortization and write-downs of inta ngible fixed assets, and depreciation and write -downs of tang ible fixed assets.

(20) Other operating expenses

Other operating expenses primarily comprise losses on the disposal of tang ible fixed assets and current assets, expenses for consulting and other services, as well as general administration costs and currency losses of €0.5 million (previous year: €0.2 million).

(21) Investment income

in € million	2014	2013
Income from long-term equity investments	5.3	3.4
of which from affiliated companies	(4.3)	(2.4)
Income from profit transfer agreements	55.7	61.1
of which from affiliated companies	(55.7)	(61.1)
Cost of loss absorption	-25.8	-37.5
of which from affiliated companies	(-25.6)	(-37.3)
	35.2	**27.0**

(22) Interest income and expense

in € million	2014	2013
Income from long-term loans		
	42.4	**4.6**
- of which from affiliated companies	(42.4)	(4.6)
Other interest and similar income	3.5	12.9
- of which from affiliated companies	(3.5)	(2.6)
Income from the discounting of provisions	0.0	4.7
	3.5	**17.6**
Interest and similar expenses	-5.1	-7.3
- of which due to affiliated companies	(-4.9)	(-3.9)
Expenses from the unwinding of the discount on provisions	-73.4	-38.3
	-78.5	**-45.6**
	-32.6	**-23.4**

Expenses from the unwinding of the discount on provisions also include a net expense of €54.4 million from the unwinding of the discount (including changes to the interest rate) on pension and long-term personnel provisions (€61.1 million) after offsetting against income from the corresponding plan assets (€6.7 million). The Wind, Water and Conventional Generation divisions are financed via separate cash accounts at E.ON SE.

(23) Write-downs of long-term financial assets

This item mainly relates to write-downs on the shares in affiliated companies, which totaled €141.6 million due to expected permanent impairments.

(24) Extraordinary result

in € million	2014	2013
Extraordinary income	0.0	52.7
Extraordinary expenses	0.0	-85,1
	0.0	**-32.4**

(25) Taxes on income and profit

Income tax has not been collected since 2011. Tax refunds of € 1.6 th ousand were recorded outside the tax group.

(26) Profit transferred on the basis of a profit transfer agreement

The net income for the year of €424.7 million was transferred to the parent company on the basis of the profit transfer agreement with E.ON Beteiligungen GmbH.

Other disclosures

Transactions with related parties

EKW exchanges goods and services with a large number of companies, including related parties, as part of its continuing operations. These transactions are summarized as follows:

in € million	2014	2013
Income	171.3	177.6
Expenses	171.0	226.6
Receivables	111.1	108.3
Liabilities	188.0	195.1

Expenses from transactions with related parties primarily relate to the procurement of electricity and operational expenses at jointly operated power plants. These are settled on a cost plus return on equity basis in accordance with the cost transfer agreements. Receivables from related parties include trade receivables.

Liabilities to related parties are due to cash transfers and from the ongoing electricity business with jointly operated power plants.

Significant transactions with affiliated or associated companies (section 6b (2) of the EnWG)

Significant contractual relationships exist in particular with:

- E.ON SE on the investment/borrowing of cash funds (cash pooling agreement). Receivables in the amount of €2,965.1 million were recognized as of the reporting date.
  Interest income of €3.5 million and an interest expense of €4.8 million were recognized in this connection.
- E.ON Anlagenservice GmbH on the provision of support and other services in the area of technical maintenance and plant service (€36.9 million).
- E.ON Technologies GmbH on technical project management and planning services (€21.4 million).

Remuneration of the Supervisory Board and the managing directors

Remuneration of the members of the Supervisory Board amounted to €97 thousand. In accordance with section 286 (4) of the HGB, the remuneration of the managing directors is not disclosed since only Mr. Jost and Mr. Gattermann receive remuneration from E.ON Kraftwerke GmbH.

Obligations from pension commitments to former managing directors and their surviving dependents as well as the necessary plan assets were transferred to MEON as of December 31, 2006. MEON recognized a provision in the amount of €30,557 thousand for the obligations to former managing directors and their surviving dependents assumed by it. The current remuneration of this group is €2,395 thousand.

The members of the Supervisory Board and the managing directors are listed on page 38. The audit fees are not disclosed since this information is included in the notes to the consolidated financial statements of E.ON SE.

Hanover, January 19, 2015

E.ON Kraftwerke GmbH

The management

Jost | Dr. Klostermann

Members of the Supervisory Board of E.ON Kraftwerke GmbH

Dr. E. h. Bernhard Fischer, Hanover	Chairman of the Supervisory Board E.ON Generation GmbH
Holger Grzella, Gelsenkirchen	Deputy Chairman of the Supervisory Board E.ON Kraftwerke GmbH Power Plant Group West, Gelsenkirchen
Anton Baumgartner, Finsing	Plant Manager Isar, Finsing E.ON Kraftwerke GmbH
Alexander Gröbner, Regensburg	District Manager ver.di Oberpfalz District
Dr. Walter Hohlefelder, Munich	Former member of the Board of Management of E.ON Energie AG
Matthias Hube, Maasvlakte (Belgium)	Head of Maasvlakte Power Plant
Hermann Ikemann, Düsseldorf	formerly E.ON SE
Josef Irlesberger, Landsberg/Lech	Plant Manager Lech, Landsberg/Lech E.ON Kraftwerke GmbH
Dr. Ingo Luge, Essen	Chairman of the Board of Directors of E.ON Deutschland
Peter Obramski, Gelsenkirchen	Head of Ruhr-Mitte District IG Bergbau, Chemie und Energie
Dr. Nanna Rapp, Düsseldorf	Managing Director E.ON Inhouse Consulting GmbH
Andreas Reichwald, Petershagen	Headquarters Works Council E.ON Kraftwerke GmbH
Eberhard Schomburg, Petershagen	Chairman of the Division Works Council E.ON Kraftwerke GmbH
Dirk Steinheider, Hanover	E.ON Generation GmbH
Dr. Marc Spieker, Düsseldorf	Head of Investor Relations E.ON SE
Dr. Patrick Wolff, Düsseldorf	Head of Group Corporate & Governance E.ON SE

Board of Directors

Dirk Jost, Hanover	Chairman
Christof Gattermann, Hanover	Coordination Regional Units (until 30/04/2014)
Dr. Ulf Klostermann, Hanover	Finance, Materials and Energy

Statement of changes in fixed assets

Annex 1 to Notes

in € million	as of Jan. 1, 2014	Additions	Disposals	Transfers	as of Dec. 31, 2014	Cumulative depreciation, amortization and write-downs as of Dec. 31, 2014	Carrying amounts as of Dec. 31, 2014	Carrying amounts as of Dec. 31, 2013	Depreciation, amortization and write-downs in fiscal year 2014
Intangible fixed assets									
Purchased concessions and similar rights	150.7	0.2	0.1	0.0	150.8	120.3	30.5	32.2	2.0
	150.7	**0.2**	**0.1**	**0.0**	**150.8**	**120.3**	**30.5**	**32.2**	**2.0**
Tangible fixed assets									
Land, land rights and buildings, including buildings on third-party land	863.9	4.3	4.1	5.8	869.9	549.9	320.0	324.0	12.7
Technical equipment and machinery	6,425.1	18.8	1.4	83.7	6,526.2	5,996.0	530.2	484.7	56.9
Other equipment, operating and office equipment	87.1	2.8	3.6	0.3	86.6	72.4	14.2	14.9	3.7
Prepayments and assets under construction	1,541.6	316.0	6.8	-89.8	1,761.0	0.0	1,761.0	1,541.6	0.0
	8,917.7	**341.9**	**15.9**	**0.0**	**9,243.7**	**6,618.3**	**2,625.4**	**2,365.2**	**73.3**
Long-term financial assets		91.0	31.9	0.0	1,646.3	849.4	796.9	879.4	141.6
Shares in affiliated companies	1,587.2								
Loans to affiliated companies	66.3	0.0	4.0	0.0	62.3	0.0	62.3	66.3	0.0
Equity investments	19.5	0.0	0.0	0.0	19.5	7.8	11.7	12.1	0.4
Other loans	0.4	0.0	0.2	0.0	0.2	0.0	0.2	0.3	0.0
	1,673.4	**91.0**	**36.1**	**0.0**	**1,728.3**	**857.2**	**871.1**	**958.1**	**142.0**
	10,741.8	**433.1**	**52.1**	**0.0**	**11,122.8**	**7,595.8**	**3,527.0**	**3,355.5**	**217.3**

List of shareholdings as of December 31, 2014

Annex 2 to Notes

	Registered office	Interest in capital in %	Equity (2013) in € '000	Net profit/loss (2013) in € '000
Affiliated companies				
BauMineral GmbH	Herten	100.00	4,591	0 [1]
E.ON Achtzehnte Verwaltungs GmbH	Düsseldorf	100.00	23	0
E.ON Anlagenservice GmbH	Gelsenkirchen	100.00	43,100	0 [1]
E.ON Elektrárne s.r.o.	Trakovice	100.00	54,007	-100,847
E.ON Erömüvek Kft.	Budapest	100.00	36,611	-132,522 [2]
E.ON Kraftwerke 6. Beteiligungs-GmbH	Hanover	100.00	23	0
Gemeinschaftskraftwerk Irsching GmbH	Vohburg	50.20	268,861	3,479
Gemeinschaftskraftwerk Veltheim Gesellschaft mit beschränkter Haftung	Porta Westfalica	66.67	9,649	631
Kraftwerk Schkopau Betriebsgesellschaft mbH	Schkopau	55.60	28	2
Kraftwerk Schkopau GbR	Schkopau	58.10	108,434	6,176 [3, 4]
MEON Pensions GmbH & Co. KG	Grünwald	31.78	1,942,974	49,528
Netz Veltheim GmbH	Porta Westfalica	66.67	14,299	5,836
Offshore Trassenplanungs GmbH	Hanover	50.00	168	78
RuhrEnergie GmbH, EVR	Gelsenkirchen	100.00	12,783	0 [1]
Untere Iller AG	Landshut	60.00	1,135	41
Equity investments				
Gemeinschaftskraftwerk Kiel Gesellschaft mit beschränkter Haftung	Kiel	50.00	16,873	-464
Kraftwerk Buer GbR	Gelsenkirchen	50.00	5,113	-362 [3, 4]
Volkswagen AG Preussen Elektra AG Offene Handelsgesellschaft	Wolfsburg	95.00	-1,535	296 [3]

1) After profit transfer
2) Translated at the closing rate/average rate
3) E.ON Kraftwerke GmbH is the general partner
4) Before profit transfer

Auditor's Report

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of E.ON Kraftwerke GmbH, Hanover, for the business year from January 1 to December 31, 2014. According to section 6b (5) EnWG ("Energiewirtschaftsgesetz", "German Energy Industry Law"), the audit also included the company's observance of obligations for the accounting according to section 6b (3) EnWG, which require separate bookkeeping for activities stated in section 6b (3) EnWG. The maintenance of the books and records, the preparation of the annual financial statements and management report in accordance with German commercial law for corporations, as well as the observance of the obligations pursuant to section 6b (3) EnWG are the responsibility of the Company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report as well as the observance of obligations for the accounting according to section 6b (3) EnWG based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance and to obtain reasonable assurance about whether, in all material respects, the obligations pursuant to section 6b (3) EnWG have been observed. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report, as well as the observance of obligations for the accounting according to section 6b (3) EnWG are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report and assessing whether the amounts stated and the classification of accounts in accordance with section 6b (3) EnWG are appropriate and comprehensible and whether the principle of consistency has been observed. We believe that our audit provides a reasonable basis for our opinion.

Our audit of the annual financial statements, together with the bookkeeping system, and of the management report has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

The audit of the observance of obligations for the accounting according to section 6b (3) EnWG, which require separate bookkeeping for activities stated in section 6b (3) EnWG, has not led to any reservations.

Hanover, January 23, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Norbert Versen
Wirtschaftsprüfer

Thorsten Wesch
Wirtschaftsprüfer