Half-year report 2016

Eneco Holding N.V.

Contents

Results for the first half of 2016

Eneco Group achieves stable financial results in the first half of 2016

The sustainable energy company Eneco Group recorded satisfactory results for the first six months of 2016. Profit after income tax was €139 million, slightly less than the €144 million made by the company in the same period last year. The grid operator (Stedin) and the energy company (Eneco) contributed more or less equally to the result. Revenue fell to €2,076 million (first half of 2015: €2,363 million), mainly as a result of lower prices for electricity and gas.

Guido Dubbeld, CFO of Eneco Group, regards the results as satisfactory: "We have now cut our tariffs for electricity and gas for the eighth time in a row. This is good news for our customers. Fortunately, we have been able to make this up to a large extent since purchase prices for energy have also fallen. A reduction of some 200 FTEs in our workforce meant that the employee benefits expenses were also lower. Against this, a higher level of operations, such as the roll-out of smart meters, the sale of the Toon intelligent thermostat and the construction of new wind farms, involved an increase in external costs."

Investments

Investment in the first half of the year amounted to €230 million, compared with €380 million for the first half of last year. The fall was a result of the completion of large wind projects and the acquisition of a heat plant in Utrecht in 2015. During this half year, we invested €17 million in new wind farms (United Kingdom and Belgium), €4 million in solar farms (Belgium and the Netherlands), €14 million in district heating grids and €7 million in generation (Bio Golden Raand and the heat plant in Utrecht). Stedin invested €182 million in the gas and electricity transmission networks (first half of 2015: €159 million). Most of the increase came from the accelerated roll-out of smart meters (total of €39 million compared with €17 million in the first half of last year). In the first six months of this year, Stedin offered smart meters to over 161,000 customers, resulting in about 130,000 being installed. The target is to offer 343,000 meters in the full year.

In March, Eneco Group and Mitsubishi Corporation agreed a refinancing of the Eneco Luchterduinen offshore wind farm, which they jointly own. Japan Bank for International Cooperation, BNP Paribas Fortis, Mizuho, Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank made some €450 million available for the refinancing of this wind farm, which is 22 kilometres off the coast at Noordwijk. Guido Dubbeld says this refinancing is a significant milestone: "Eneco and Mitsubishi Corporation constructed the farm using their own resources. With the refinancing, we have recovered a large portion of this and are using these funds to invest in new sustainable projects." Eneco and Mitsubishi Corporation both own 50% of the wind farm. The 43 wind turbines at Eneco Luchterduinen have been operational since August 2015. The farm has the capacity to generate 129 MW of green electricity, which is equivalent to the annual consumption of about 150,000 households.

In a joint project with the municipality of Ameland and the Amelander energy co-operative, Eneco has built a large solar farm on Ameland that is designed to provide sufficient energy for the island's population and businesses. This is part of the strategy to provide the island entirely with locally and mainly sustainably generated energy by 2020. The solar farm consists of 23,000 solar panels and so can generate sufficient power for the 1,500 households on the island.

Stedin took a new electricity sub-station in Oranjelaan Dordrecht into use. It allows Stedin to improve the reliability of the energy network in the region and also creates more capacity in the electricity network to enable customers to feed in increasing amounts of electricity. The Oranjelaan sub-station is part of a €31 million investment for modernising the electricity network in Dordrecht and Zwijndrecht.

There was a lot of media attention for the introduction of the HeatWinner (WarmteWinner), an innovative, compact heat pump that heats a house by drawing warmth from ventilating air. The appliance is about the same size as a storage box and is installed next to an existing central heating boiler. The HeatWinner takes over most of the provision of heat from the boiler, which uses much less gas as a result. Eneco developed the HeatWinner with Inventum, a company that has supplied household appliances, including heat pumps, for over a hundred years. Over 12,500 advance applications have now been received. Production of HeatWinners will start in September and we expect to have installed over 300 by the end of the year.

In May, Eneco announced it was taking a minority interest in software company Simaxx. With its investment in this company, Eneco is focusing more specifically on the market for energy saving in and smart management of buildings. Simaxx has developed a platform that gives property owners insight into the performance of their buildings. The platform can read and analyse data from many different sources in a building, such as climate management, solar panels or a smart meter. This allows the manager or owner to 'control' , for example, the energy consumption, air quality or lighting of a building. The software, which monitors the building 24 hours a day, is currently in use in over 200 buildings in the Netherlands. Simaxx has been able to reduce energy consumption in these buildings by an average of 20%, while the interior climate is demonstrably more comfortable and healthy for the occupants. For Eneco, this investment is a further step towards making the built environment more sustainable.

Customers

Delft University of Technology has entered into an alliance with Eneco to purchase only energy generated sustainably in the Netherlands from 2017. Opting for green energy is in line with the university's strategy of making its campus highly sustainable and to halve CO_2 emissions by 2020 compared with 2012. Using green electricity from Eneco's Luchterduinen wind farm cuts the university's CO_2 emissions by 60%.

In the United Kingdom, Mars announced that it would take power for a period of ten years from the Moy wind farm that Eneco put into operation in the spring. This farm has a capacity of 60 MW, equivalent to the consumption of 34,000 households. The power generated is sufficient to make all Mars offices and factories in the United Kingdom fully sustainable.

PostNL and Eneco have entered into an agreement to install 22,000 solar panels on 19 sorting offices. Together, these panels will generate green power equivalent to the consumption of 1,500 households each year. Eneco will install 1,160 panels at each site, which is sufficient to meet over 40% of the electricity consumption of an average parcel sorting office.

Result developments

Total revenue was €2,076 million in the first half of 2016. This represents a fall of €287 million (12%) compared with the same period in 2015 (€2,363 million), mainly as a result of the price cuts for energy. The gross margin on sales and transmission of gas, electricity and heating and related activities rose by €47 million to €894 million, mainly because a number of large wind farms came on stream during the second half of 2015. The weather had only a limited effect on the result: the temperature in 2016 has been slightly higher on average than in 2015 and, as in the previous year, wind conditions have been less favourable than the long-term average.

Total operating expenses rose by 7% to €793 million (first half of 2015: €738 million). We incurred additional costs from developing new innovative services, growth, roll-out of smart meters, tax for encroachments on or over public land charged by municipalities and preparations for the impending unbundling of Eneco Group into a grid operator and a production and supply company. Employee benefits fell because of a reduction in the number of staff, increased involvement of Eneco staff in investment projects where the costs are capitalised, and a non-recurring gain from updating employee provisions in line with current information.

With higher margins and costs, operating profit came out at the same level as last year: €215 million (first half of 2015: €218 million). Eneco Group's profit after income tax was also almost unchanged, falling slightly from €144 to €139 million.

Our production, trading and supply activities

Revenue fell, mainly as a result of lower prices for gas and, to a smaller extent, for electricity. In contrast the margin improved significantly. As well as better results from trading activities, this was mainly due to large wind farms such as Luchterduinen, Delfzijl Noord and Burn of Whilk that came on stream in 2015 and, more recently, Zeebrugge and Moy in 2016. This increase in our own sustainable energy generation cut external purchases and improved the margin but, at the same time, raised operating expenses and depreciation. The improvements in efficiency are, however, also bearing fruit. The number of staff fell by over 200 FTEs and so employee benefits were down. Despite the new farms, the depreciation charge fell since we wrote off development costs last year. Operating profit for the six months was €128 million, 47% higher than in the first half of 2015 (€87 million).

Our network and engineering activities

Revenue from regulated activities and the associated transmission purchase costs were fairly stable. Other revenues saw a slight increase from other commercial services. Total operating expenses rose by €21 million compared with the first half of 2015. The number of employees rose by about 50 FTE as a result of an increase in the Construction and Replacement and Metering services departments in particular. Employee benefits fell, however, in part because more of the company's staff worked on investment projects where the salary costs were capitalised.

Cost of contracted work and other external costs rose for various reasons including the rollout and telecommunications costs of smart meters, an increase in depreciation in maintenance and replacement, integration-related costs and the growth in commercial activities at Stedin Services. Other operating expenses rose mainly because of an increase in the tax for encroachments on or over public land that municipalities charge Stedin, and greater materials costs for maintenance. Depreciation was slightly lower.

The operating profit of our network and engineering activities fell by €22 million compared with the same period last year to €123 million.

Interruption duration

The average duration of each unforeseen interruption in our electricity networks was 81.0 minutes. The figure was 80.7 in the first half of 2015. This is six minutes above the target for 2016 of 75 minutes. It is expected that we will achieve the target of 75 minutes per interruption in the second half of the year as a result of all the ongoing improvement projects and initiatives.

The duration of interruptions in our gas networks in the first half of 2016 was 16 seconds compared with 29 seconds in the first half of 2015. This is an improvement compared with last year, mainly because we faced fewer large interruptions within Stedin's area of service in 2016. The gas networks interruption duration of 16 seconds is below our target of 60 seconds.

Safety

We pay a lot of attention to a safe (working) environment for our employees and for the (sub-)contractors that we hire as well as for our customers and the local residents. Over the past half year, our safety performance, expressed in the 'recordable incident rate (RIF)' score, exceeded our target. The number of accidents resulting in absenteeism (LTIs) was below target. Therefore, we can look back on a good safety performance in the first half of this year. We will continue to pay attention to the further improvement of our approach to safety.

Outlook

Eneco Group is well positioned to benefit from the turbulent and dynamic developments in the energy market. The company is developing into a valued partner for customers and now offers a comprehensive package of services and products that give customers control over their own energy supply. Nevertheless, the company is facing challenging market conditions and preparing for the unbundling from 31 January 2017 into a grid operator and a production and supply company as required by the Independent Network Management Act (Wet Onafhankelijk Netbeheer). Against this background, we are not forecasting a result for the full year 2016.

Condensed consolidated interim financial statements 2016

Consolidated income statement

x € 1 million	Note	First half 2016	First half 2015
Revenues from energy sales and transmission and energy related activities		1,962	2,254
Purchases of energy and transmission and energy related activities		1,068	1,407
Gross margin		**894**	**847**
Other revenues		114	109
Gross margin and other operating revenues		**1,008**	**956**
Employee benefit expenses		190	206
Cost of contracted work and other external costs		354	277
Depreciation and impairment of property, plant and equipment		216	224
Amortisation and impairment of intangible assets		17	17
Other operating expenses		16	14
Operating expenses		**793**	**738**
Operating profit		**215**	**218**
Share of profit of associates and joint ventures		3	7
Financial income		2	6
Financial expenses	6	–37	–40
Profit before income tax		**183**	**191**
Income tax	7	–44	–47
Profit after income tax from continued operations		**139**	**144**
Profit after income tax from discontinued operations		–	–
Profit after income tax		**139**	**144**
Allocation of profit:			
Profit after income tax attributable to holders of Eneco Holding N.V. perpetual subordinated bonds		6	6
Profit (loss) after income tax attributable to non-controlling interests		–	–1
Profit after income tax attributable to shareholders of Eneco Holding N.V.		133	139
Profit after income tax		**139**	**144**

Unaudited.

Consolidated balance sheet

x € 1 million	Note	At 30 June 2016	At 31 December 2015	At 30 June 2015
Non-current assets				
Property, plant and equipment		7,408	7,487	7,696
Intangible assets		303	315	325
Financial assets		254	292	245
Total non-current assets		**7,965**	**8,094**	**8,266**
Current assets				
Assets held for sale	8	334	325	15
Intangible assets		16	23	19
Inventories		61	71	81
Trade receivables		508	604	609
Other receivables		172	196	215
Derivative financial instuments	9	167	221	119
Cash and cash equivalents		302	367	133
Total current assets		**1,560**	**1,807**	**1,191**
TOTAL ASSETS		**9,525**	**9,901**	**9,457**
Equity	10			
Equity attributable to Eneco Holding N.V. shareholders		4,815	4,845	4,767
Perpetual subordinated bonds		509	501	509
Non-controlling interests		3	4	4
Total equity		**5,327**	**5,350**	**5,280**
Non-current liabilities				
Provisions for employee benefits		28	34	30
Other provisions		81	82	82
Deferred income tax liabilities		423	431	424
Derivative financial instruments	9	74	141	119
Interest-bearing debt	11	1,789	1,789	1,782
Other liabilities		470	438	428
Total non-current liabilities		**2,865**	**2,915**	**2,865**
Current liabilities				
Liabilities held for sale	8	20	18	3
Provisions for employee benefits		7	8	2
Other provisions		3	5	16
Derivative financial instruments	9	110	164	94
Interest-bearing debt	11	228	54	56
Current income tax liabilities		51	87	54
Trade and other liabilities		914	1,300	1,087
Total current liabilities		**1,333**	**1,636**	**1,312**
TOTAL EQUITY AND LIABILITIES		**9,525**	**9,901**	**9,457**

Unaudited with the exception of 31 December 2015.

Consolidated statement of comprehensive income

x € 1 million	First half 2016	First half 2015
Profit after income tax	**139**	**144**
Unrealised gains and losses that will not be reclassified to profit or loss		
Fair value adjustment regulated networks	–25	–
Unrealised gains and losses that may be reclassified to profit or loss		
Exchange rate differences	–30	34
Unrealised gains and losses on cash flow hedges	–11	19
Deferred tax liabilities on cash flow hedges and hedge of net investment in foreign operations	–	–5
Total other comprehensive income	**–66**	**48**
Total comprehensive income	**73**	**192**
Allocation of profit:		
Holders of Eneco Holding N.V. perpetual subordinated bonds (after income tax)	6	6
Non-controlling interests	–	–1
Shareholders of Eneco Holding N.V.	67	187
Total comprehensive income	**73**	**192**

Unaudited.

Consolidated cash flow statement

x € 1 million	Note	First half 2016	First half 2015
Profit after income tax		**139**	**144**
Adjusted for:			
Total adjustments for cash flow from business operations		83	19
Total of dividend received from associates, interest paid and received and income tax paid		–124	–75
Cash flow from operating activities		**98**	**88**
Cash flow from investing activities	13	**–232**	**–359**
Dividend payments	10	–98	–104
Movement in non-controlling interests		–	1
Movement in non-current interest-bearing debt	11	168	–29
Movement in current interest-bearing debt	11	–1	–70
Cash flow from financing activities		**69**	**–202**
Movements in cash and cash equivalents		**–65**	**–473**
Balance of cash and cash equivalents at 1 January		367	606
Balance of cash and cash equivalents at 30 June		**302**	**133**

Unaudited.

Consolidated statement of changes in equity

x € 1 million	Paid-up and called-up share capital	Share premium	Revaluation reserve	Translation reserve	Cash flow hedge reserve	Retained earnings	Undistributed profit	Total	Perpetual subordinated bonds	Non-controlling interests	Total equity
	Equity attributable to Eneco Holding N.V. shareholders										
At 1 January 2015	**497**	**381**	**821**	**23**	**– 35**	**2,791**	**205**	**4,683**	**501**	**4**	**5,188**
Total other comprehensive income in the first half 2015	**–**	**–**	**– 20**	**34**	**14**	**20**	**–**	**48**	**–**	**–**	**48**
Profit (loss) after income tax first half 2015	–	–	–	–	–	–	139	139	6	– 1	144
Total compresensive income	**–**	**–**	**–20**	**34**	**14**	**20**	**139**	**187**	**6**	**–1**	**192**
Profit appropriation 2014	–	–	–	–	–	102	– 102	–	–	–	–
Dividend payments relating to 2014	–	–	–	–	–	–	– 103	– 103	–	–	– 103
Capital contribution	–	–	–	–	–	–	–	–	–	1	1
Tax on coupon on perpetual subordinated bonds	–	–	–	–	–	–	–	–	2	–	2
At 30 June 2015	**497**	**381**	**801**	**57**	**–21**	**2,913**	**139**	**4,767**	**509**	**4**	**5,280**
Total other comprehensive income in the second half 2015	**–**	**–**	**– 22**	**– 12**	**40**	**22**	**–**	**28**	**–**	**–**	**28**
Profit (loss) after income tax second half 2015	–	–	–	–	–	–	57	57	6	1	64
Total comprehensive income	**–**	**–**	**–22**	**–12**	**40**	**22**	**57**	**85**	**6**	**1**	**92**
Coupon on perpetual subordinated bonds	–	–	–	–	–	–	–	–	– 16	–	– 16
Tax on coupon on perpetual subordinated bonds	–	–	–	–	–	–	–	–	2	–	2
Acquisition of non-controlling interests	–	–	–	–	–	– 8	–	– 8	–	–	– 8
Reclassification	–	–	–	–	–	1	–	1	–	– 1	–
At 31 December 2015	**497**	**381**	**779**	**45**	**19**	**2,928**	**196**	**4,845**	**501**	**4**	**5,350**
Total other comprehensive income in the first half 2016	**–**	**–**	**– 44**	**– 33**	**– 8**	**19**	**–**	**– 66**	**–**	**–**	**– 66**
Profit (loss) after income tax first half 2016	–	–	–	–	–	–	133	133	6	–	139
Total comprehensive income	**–**	**–**	**–44**	**–33**	**–8**	**19**	**133**	**67**	**6**	**–**	**73**
Profit appropriation 2015	–	–	–	–	–	98	– 98	–	–	–	–
Dividend payments relating to 2015	–	–	–	–	–	–	– 98	– 98	–	–	– 98
Tax on coupon on perpetual subordinated bonds	–	–	–	–	–	–	–	–	2	–	2
Reclassification	–	–	–	1	–	–	–	1	–	– 1	–
At 30 June 2016	**497**	**381**	**735**	**13**	**11**	**3,045**	**133**	**4,815**	**509**	**3**	**5,327**

Unaudited with the exception of 31 december 2015.

Selected notes to the condensed consolidated interim financial statements

1. Accounting principles for financial reporting

1.1 General information

Eneco Holding N.V. ('the company') is a two-tier company incorporated under Dutch law, with its registered office in Rotterdam. It is the holding company of subsidiaries, interests in joint operations and joint ventures and associates (referred to as a group as 'Eneco', 'Eneco Group' or the 'Group').

Eneco Group focuses on innovative energy services and products that allow customers to save energy or generate sustainable energy, jointly or alone, and feed it in to the energy network. Eneco also transmits energy (electricity, gas and heating). In line with its mission of 'sustainable energy for everyone', the Eneco Group is investing in making the supply chain more sustainable with the aim of keeping energy clean, available and affordable for customers into the future. In addition to the Netherlands, Eneco operates in Belgium, Germany, France and the United Kingdom.

Eneco's main strategic alliances are its investments and participating interests in onshore and offshore wind farms and start-ups, and memberships of co-operatives. Eneco is also a member of the Enecogen VOF power station partnership and has an interest in Groene Energie Administratie B.V. (Greenchoice).
There is more information on the composition of the Group in note 4 'Segment information'.

Unless otherwise stated, all amounts are in millions of euros.

The interim financial statements have been prepared in compliance with IAS 34 'Interim Financial Reporting' and present the consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity in condensed form. These figures should be read in conjunction with the 2015 annual financial statements of Eneco Holding N.V., which were prepared in compliance with the International Financial Reporting Standards (IFRS), as adopted by the European Commission, in force at 31 December 2015 and with the provisions of Part 9, Book 2 of the Dutch Civil Code.

The Board of Management authorised the publication of these interim financial statements on 4 August 2016.

1.2 New or amended IFRS standards 2016

Effective from 1 January 2016, the European Commission has adopted the following amended IFRS standards that are relevant to Eneco and have been applied where appropriate when preparing these interim figures:

- IFRS 11 'Joint Arrangements': this is an amendment that states that if a joint operation constitutes a 'business', the investment in that joint operation must be treated as a business combination applying the principles of IFRS 3 'Business Combinations'. This means that all assets and liabilities must be measured at fair value and, if applicable, goodwill must be recognised; no such transactions have occurred in the first half of 2016;

- IAS 1 'Presentation of financial statements': this is the first amendment to this standard as part of the IASB 'Disclosure Initiative' project and addresses revisions to notes to the financial statements. These amendments have been taken into account in general when preparing these interim figures and include:
  - Materiality and aggregation: an entity may not obscure significant information in the financial statements by, for example, aggregating material and non-material information or by aggregating certain material items that differ by nature or function. It is not necessary to present a specific note on an item if the information in this note is not material even if another IFRS standard requires a note on that item;

  - Clarification in the standard of the inclusion or omission of a separate line item in the balance sheet and income statement (and the statement of comprehensive income);

  - Statement of comprehensive income: clearer presentation of the share of equity-accounted joint ventures and associates in the statement of comprehensive income;

  - Notes: entities have flexibility in setting the order of the notes in the financial statements and these amendments demonstrate how a systematic order for the notes should be determined.

Other new IFRS standards, amendments to existing standards and new interpretations that will apply in later reporting periods and/or that have not yet been adopted by the European Commission and/or that are not relevant to Eneco are not addressed further in this half-year report.

2. Accounting policies

2.1 Accounting policies

The accounting policies and basis of consolidation used in the interim financial statements are consistent with the accounting policies described in the 2015 annual financial statements, except for the possible effect of new or amended standards and interpretations as set out in 1.2 'New or amended IFRS standards 2016'.

2.2 Judgements, estimates and assumptions

In preparing the half-year figures management used judgements, estimates and assumptions which affect the reported amounts and rights and obligations not disclosed in the balance sheet. In particular, they relate to the revenues from sales to retail customers, the useful life of property, plant and equipment, the fair value of the relevant assets and liabilities, impairment of assets and the size of provisions. The judgements, estimates and assumptions that have been made are based on market information, knowledge, historical experience and other factors that can be deemed reasonable in the circumstances. Actual results could, however, differ from the estimates. Judgements, estimates and assumptions are reviewed on an on-going basis. Changes in accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period.

If the revision also affects future periods, the change is made prospectively in the relevant periods. Any points of particular importance with regard to judgements, estimates and assumptions are set out in the notes to the income statement and balance sheet items.

3. Seasonal activity pattern

The supply, distribution and generation of energy vary with the seasons. In the winter season, there is a higher demand for energy required for heating. In the summer season, this higher need does not exist and is partially offset by a higher energy requirement for the cooling of buildings. The generation of electricity is determined by demand and by market prices. The generation of sustainable energy varies predominantly with the seasons. Under normal circumstances, there is a peak in the production of wind energy in the period from October to March and a peak in the production of solar energy during the summer months. The production of energy from biomass shows a stable pattern throughout the year.

4. Segment information

Business segments are based on Eneco's internal organisation and management reporting structure. Since 1 January 2016, Eneco's two main business segments have been the core businesses: Energy Company Eneco and Stedin. The Energy Company Eneco segment purchases, generates, trades and sells electricity, gas and district heating and constructs, maintains and manages district heating networks and offers consultancy services. The Stedin segment is the manager of the gas and electricity networks. In the first half of 2016, the activities relating to public spaces, such as public lighting (through the CityTec business unit), were transferred from the Energy Company to Stedin.

Furthermore, the Innovation segment, which includes all activities related to investment in start-ups, innovative energy projects and strategic partnerships, Energy consultancy segment, which includes the consultancy activities of Ecofys, and Infrastructure services segment, with the activities of Joulz Energy Solutions, were set up in 2015. These three business segments are non-reportable segments according to the criteria in IFRS 8 'Operating Segments'. Consequently, they are included in the Other activities segment that, since it is not material, is included in the 'Other activities, non-allocated and eliminations' column in the tables below.

The segment income statements do not include financial income and expenses, the share of profit of associates and joint ventures or tax expenses.

The comparative figures for the first half of 2015 have been restated where necessary in line with the new structure at the end of 2015. Furthermore, the comparative figures for 2015 have been restated for the transfer of CityTec to Stedin in the first half of 2016.

4.1 Revenues and operating profit by business segment

First half 2016	Segment Energy Company Eneco	Segment Stedin	Other activities, non allocated and eliminations	Total
Revenues from energy sales and transmission, energy related activities and other operating revenues	1,490	549	37	2,076
Inter-segment operating revenues	1	7	– 8	–
Purchase of energy and energy related and other operating expenses	– 1,246	– 323	– 59	– 1,628
Operating profit before depreciation, amortisation and impairment	**245**	**233**	**– 30**	**448**
Depreciation, amortisation and impairment	– 117	– 110	– 6	– 233
Operating profit	**128**	**123**	**– 36**	**215**
Share of profit of associates and joint ventures				3
Financial income and expenses				– 35
Profit before income tax				**183**

First half 2015	Segment Energy Company Eneco	Segment Stedin	Other activities, non allocated and eliminations	Total
Revenues from energy sales and transmission, energy related activities and other operating revenues	1,785	550	28	2,363
Inter-segment operating revenues	1	9	– 10	–
Purchase of energy and energy related and other operating expenses	– 1,577	– 302	– 25	– 1,904
Operating profit before depreciation, amortisation and impairment	**209**	**257**	**– 7**	**459**
Depreciation, amortisation and impairment	– 122	– 112	– 7	– 241
Operating profit	**87**	**145**	**– 14**	**218**
Share of profit of associates and joint ventures				7
Financial income and expenses				– 34
Profit before income tax				**191**

Unaudited.

4.2 Balance sheet by business segment

At 30 June 2016	Segment Energy Company Eneco	Segment Stedin	Other activities, non-allocated and eliminations	Total
Assets				
Assets	4,261	5,243	– 44	9,460
Associates and joint ventures	64	–	1	65
Total assets	**4,325**	**5,243**	**– 43**	**9,525**
Liabilities				
Equity and non-current liabilities	3,564	4,659	– 31	8,192
Current liabilities	761	584	– 12	1,333
Total equity and liabilities	**4,325**	**5,243**	**– 43**	**9,525**

At 31 December 2015	Segment Energy Company Eneco	Segment Stedin	Other activities, non-allocated and eliminations	Total
Assets				
Assets	4,642	5,147	50	9,839
Associates and joint ventures	61	–	1	62
Total assets	**4,703**	**5,147**	**51**	**9,901**
Liabilities				
Equity and non-current liabilities	3,491	4,723	51	8,265
Current liabilities	1,212	424	–	1,636
Total equity and liabilities	**4,703**	**5,147**	**51**	**9,901**

Unaudited with the exception of 31 december 2015.

5. Business combinations

There were no material business combinations during the first half of 2016 that have to be disclosed according to the criteria in IFRS 3 'Business Combinations'.

6. Financial expenses

	First half 2016	First half 2015
Interest expense	36	38
Interest added to provisions	1	2
Total	**37**	**40**

Unaudited.

7. Income tax

The effective tax burden amounted to 24.0% (first half of 2015: 24.6%). The reduction was mainly a result of lower losses brought forward compared with the previous year. The exempt income and use of tax incentives (Energy Investment Allowance) means the effective tax burden is lower than the nominal rate of Dutch corporate income tax.

8. Assets held for sale

The assets held for sale (and associated liabilities) at 1 January 2016 related to the expected sales of part of the gas and electricity networks of the Stedin segment and of half of the 50% interest of the Energy Company Eneco segment in the Belgian offshore Norther wind farm (joint operation) under development.

The gas and electricity networks in the Noordoost Friesland, Amstelland, Kennemerland and Midden Limburg regions consist chiefly of property, plant and equipment. The carrying amount of these networks at 30 June 2016 was €328 million. The associated liabilities were €18 million. No indications of impairment have been identified. The revaluation reserve in equity includes €93 million for these assets. The sale is expected to take place in the course of 2017.

The Norther assets consist primarily of capitalised development costs for the construction of the wind farm. In June 2016, an agreement was signed with an investor who will purchase half of our interest in Norther. It is expected that the transaction will be effected during the second half of 2016 if the conditions precedent are met. The associated assets and liabilities are recognised at carrying amount in the balance sheet.

As disclosed in the 2015 financial statements, the Authority for Consumers and Markets (ACM) issued an enforcement decree as a consequence of which Eneco Group must be unbundled by 31 January 2017. To this end, Eneco Holding N.V. drew up an unbundling plan which was submitted to the ACM in the first half of 2016. The ACM's response to this plan, which Eneco has now received, is still a subject of negotiation between the ACM and Eneco. Eneco is also awaiting a written response from the Minister of Economic Affairs. There are also proceedings at the Court of Appeal in Amsterdam on whether the forced unbundling is an infringement of the right to the protection of property (Article 1 of the First Protocol to the European Convention on Human Rights). The terms of the judgement in these proceedings may affect the period of the unbundling.

Given these circumstances, the criteria in IFRS 5 ‘Non-current assets held for sale and discontinued operations’ for presenting and disclosing the operations subject to unbundling seperately in this half-year report were not met at 30 June 2016.

See note12 'Contingent assets and liabilities' for more information on the ruling of the Dutch Supreme Court on unbundling and its consequences.

9. Derivative financial instruments

Derivative financial instruments

The table below shows the fair value of derivative financial instruments (full statement):

	At 30 June 2016		At 31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap contracts	–	10	–	5
Currency swap contracts	36	26	41	73
Energy commodity contracts	259	148	356	226
CO_2-emission rights	6	–	8	1
Total	**301**	**184**	**405**	**305**
Classification				
Current	167	110	221	164
Non-current	134	74	184	141
Total	**301**	**184**	**405**	**305**

Unaudited with exception of 31 december 2015.

Measurement

The following hierarchy was used for the measurement of the financial instruments:

Level 1

Level 1 recognises financial instruments whose fair value is measured using unadjusted quoted prices in active markets for identical instruments.

Level 2

Level 2 recognises financial instruments whose fair value is measured using market prices or pricing statements and other available information. Where possible, the measurement method uses observable market prices.

Level 2 energy commodity contracts are measured using market prices or pricing statements for periods in which an active market exists for the underlying commodities such as electricity, gas (title transfer facility), oil-related prices and emission rights. Other contracts are measured by agreement with the counterparty, using observable interest rate and foreign currency forward curves.

Level 3

Level 3 recognises financial instruments whose fair value is measured using calculations involving significant inputs that are not based on observable market data.

The hierarchy of derivative financial instruments measured at fair value at 30 June 2016 was as follows:

At 30 June 2016	Level 1	Level 2	Level 3	Total
Assets				
Energy commodity contracts	45	218	2	265
Interest rate and currency swap contracts	1	35	–	36
	46	**253**	**2**	**301**
Liabilities				
Energy commodity contracts	–	148	–	148
Interest rate and currency swap contracts	–	36	–	36
	–	**184**	**–**	**184**

At 31 December 2015	Level 1	Level 2	Level 3	Total
Assets				
Energy commodity contracts	69	295	–	364
Interest rate and currency swap contracts	–	41	–	41
	69	**336**	**–**	**405**
Liabilities				
Energy commodity contracts	–	227	–	227
Interest rate and currency swap contracts	–	78	–	78
	–	**305**	**–**	**305**

Unaudited with the exception of 31 December 2015.

10. Group equity

In the first half of 2016, Eneco Holding N.V. declared a dividend of €98 million (2015: €102.5 million), which was paid to the shareholders in April 2016.

In accordance with the accounting policies (set out in Section 2.1 General – Foreign currencies of the Notes to the 2015 consolidated financial statements), foreign currency exchange differences arising from translation of the investment in Eneco's activities in the United Kingdom, which use GBP (which is not Eneco's functional currency), are recognised in the translation reserve in equity. The GBP-EUR exchange rate risk in the GBP cash flows which are expected with a high degree of certainty to be repatriated to Eneco from the United Kingdom in the period 2016-2021 was hedged using derivatives in April 2016 and hedge accounting has been applied. This hedging relationship follows the principles of cash flow hedging in accordance with the accounting policies set out in Section 2.12 Derivative financial instruments of the Notes to the 2015 consolidated financial statements. These cash flows are not part of the investments referred to above with respect to accounting for the translation differences.

11. Interest-bearing debt

The fair value of the loans at 30 June 2016 was €2,379 million (31 December 2015: €2,083 million). The fair value of the loans is estimated using the present value method based on relevant market interest rates for comparable debt. Consequently, the information for establishing value is covered by 'level 2' in the fair value hierarchy as specified in IFRS 13 'Fair Value Measurement' (see note 9 ' Derivative financial instruments')

There was a refinancing of the Luchterduinen wind farm (a joint operation with Mitsubishi Corporation) in March 2016 in which long-term non-recourse project financing totalling €443 million was drawn (Eneco's share 50%: €221.5 million) from Japan Bank for International Cooperation, BNP Paribas Fortis, Mizuho, Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank. The funds drawn were used to repay the loans and capital provided to the wind farm by the two partners. The project financing will be repaid over 13.5 years with the final instalment being due on 31 December 2029. The loans carry a variable 6-month Euribor interest rate (with a minimum of 0%) and a substantial part of the variable interest-rate risk has been hedged through interest rate swaps. These derivatives and the variable interest payments have been included in a hedging relationship using the principles of a cash flow hedge.

No short-term financing was raised in the first half of 2016. Regular repayments of some €52 million (first half of 2015: €30 million) for long-term liabilities were made in the first half of the year.

12. Contingent assets and liabilities

Legal proceedings

Eneco Group is involved either as plaintiff or defendant in various legal and regulatory claims and proceedings related to its operations. Management ensures proper representation in these matters. The amounts claimed in some of these proceedings may be significant to the consolidated interim financial statements.

Liabilities and contingencies in connection with these claims and proceedings are assessed periodically based on the latest information available, usually with the assistance of lawyers and other specialists. A liability is only recognised if an adverse outcome is probable and the amount of the loss can be reasonably estimated. The actual outcome of proceedings or a claim may differ from the estimated liability and, consequently, could have a material adverse effect on the financial performance and position of the Group.

Supreme Court ruling on unbundling

The Eneco Group includes companies that manage electricity and gas networks and companies that focus on generating, delivering and trading in electricity and gas. This is not permitted under statutory provisions known as the group prohibition (or forced unbundling).

The Dutch Supreme Court issued a ruling on the forced unbundling of Dutch energy companies on 26 June 2015. The Supreme Court ruled that the provisions on the group prohibition in the Electricity and Gas Act do not conflict with European Union legislation on the free movement of capital and freedom of establishment. The Supreme Court referred judgement on whether the forced unbundling is an infringement of the right to the protection of property (Article 1 of the First Protocol to the European Convention on Human Rights), which Eneco (and Delta) also invoked, to the Court of Appeal in Amsterdam. The Court of Appeal in Amsterdam must examine whether the Act is in contravention of that Article of the First Protocol. The referral proceedings commenced during 2015. The Court of Appeal in Amsterdam is expected to deliver its judgement on 6 September 2016. Consequently, pending the outcome of the legal proceedings, there is still uncertainty about whether the group prohibition is legally valid.

The Netherlands Authority for Consumers and Markets (ACM) has issued an 'enforcement decree' under which Eneco Group must be unbundled by 31 January 2017 subject to a penalty of a default fine of €4.5 million per week, up to €90 million. Eneco Holding N.V. submitted an objection against this enforcement decree on 13 January 2016. This objection was rejected by the ACM. Eneco Holding N.V. is appealing against the rejection in the courts.
Eneco Holding N.V. submitted a revised unbundling plan to the ACM in May 2016. The ACM's response to this plan, which Eneco has now received, is a subject of negotiation between the ACM and Eneco. Eneco is also awaiting a written response from the Minister of Economic Affairs. Despite its continuing opposition to the forced unbundling, Eneco has been forced to start preparations for performing an unbundling on 31 January 2017 to meet the ACM's enforcement decree.

Other contingent liabilities

Eneco has energy purchase commitments of €5.7 billion (31 December 2015: €5.9 billion) against which there are sales commitments of €2.7 billion (31 December 2015: €2.6 billion) already entered into, mainly for the commercial market. These purchase and sale contracts relate to future supplies. There are commitments of €0.6 billion (31 December 2015: €0.8 billion) for the purchase of heat. The indefinite annual commitments for the sale of heat are €0.3 billion (31 December 2015: €0.3 billion).

Eneco has issued group and bank guarantees of €0.4 billion (31 December 2015: €0.4 billion) to third parties. Of these, €0.3 billion (31 December 2015: €0.3 billion) have been issued by Eneco Holding N.V. The remaining group and bank guarantees have been issued by subsidiaries for which Eneco Holding N.V. has issued a declaration of joint and several liability pursuant to Section 403(1)(f), Part 9, Book 2 of the Dutch Civil Code.

13. Cash flow from investing activities

Investment in property, plant and equipment and intangible assets in the first half of the year amounted to €230 million (first half of 2015: €328 million) and related to new production capacity, the extension and renovation of energy networks and the roll-out of smart meters.

Review report

To: the Supervisory Board and the Board of Management of Eneco Holding N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Eneco Holding N.V., Rotterdam, which comprises the consolidated income statement, consolidated balance sheet as at June 30, 2016, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity, and the selected notes to the condensed consolidated interim financial statements for the period of six months ended June 30, 2016. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at June 30, 2016, is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Rotterdam, August 4, 2016

Deloitte Accountants B.V.

Signed on the original,

J.A. de Bruin

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