Eneco Group

Half-year report 2017

Selected notes to the condensed consolidated interim financial statements

1. Accounting principles for financial reporting

N.V. Eneco Beheer ('the Company') is a 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 jointly as 'the Group').

In line with its mission of 'everyone's sustainable energy', the 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. The Group focuses on innovative energy services and products that allow customers to save energy or generate sustainable energy jointly or alone and feed it into the energy network. New services are being developed for this that form and shape the energy transition. These include the Toon® platform, innovative flexible services and services focusing on saving energy. In addition to the Netherlands, the Group operates in Belgium, France, Germany and the United Kingdom.

Until 1 July 2016, the Group also handled energy (electricity and gas) transmission but these activities were disposed of outside the Group on the unbundling of Eneco Holding N.V. (now Stedin Holding N.V.) into an energy company and a grid operator. The network activities were distributed as a 'dividend in kind' to shareholder Stedin Holding N.V. (see note 6).

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

Unless stated otherwise, all amounts in the financial statements 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 Group's 2016 annual financial statements, which were prepared in compliance with the International Financial Reporting Standards (IFRS), as adopted by the European Commission, in force at 31 December 2016, and with the provisions of Part 9, Book 2 of the Dutch Civil Code. From 1 January 2017, a 50% interest in an alliance has been recognised in the consolidated financial statements as a joint venture and no longer as a joint operation following to a re-evaluation further to IFRS 11 'Joint Arrangements'.

The Board of Management authorised the publication of these interim financial statements on 25 July 2017.

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 2016 annual financial statements.

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.

3. Seasonal activity pattern

The supply 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 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. Business combinations

There were five acquisitions during the first half of 2017. These were of an energy company, LichtBlick Holding AG, and four small solar farms which are not discussed as they are not material.

Acquisition of LichtBlick

The Group concluded the acquisition of a 50% holding in LichtBlick Holding AG on 28 February 2017, following the approval of the German competition authorities. LichtBlick is a leading green energy company based in Hamburg. It has 500 employees and provides renewable energy to over 645,000 customers. There is a strategic and cultural fit between the two companies. The new partnership reinforces the Group's strength in the western European energy market offering investment opportunities , combined experience in the main energy markets and a large customer base. The Group has also obtained the right to purchase the remaining holding in the company in the period to the end of 2018. Consequently, the Group has gained 'control' according to IFRS and has consolidated LichtBlick's figures in full since the acquisition date. Since that date, the Group has been entitled to 100% of LichtBlick's results, and interest will be paid on the holding not yet acquired. The contingent liability for the remaining purchase price of the holding still to be acquired is not presented as a non-controlling interest but has been recognised as 'Interest-bearing debt' in non-current liabilities.

If the Group does not exercise its right to purchase the remaining holding, it can be required to do so during January 2019 for the remaining purchase price less a discount. A provisional purchase price of €169 million has been paid in cash for shares already acquired. If the Group decides to purchase the remaining holding, this is expected to involve an investment of some €0.2 billion, which has been determined taking account of agreements on a provisional price that depends on LichtBlick achieving certain results in the financial years 2017 and 2018.

The final purchase price for the shares in LichtBlick depends in part on the settlement of specific items (in particular working capital) and had not been determined on the reporting date (30 June 2017). The settlement may to some extent affect the allocation of the purchase price to the identified assets and liabilities (based on fair value). Consequently, the acquisition has been recognised 'provisionally' in these 2017 interim financial statements. The goodwill arising from this business combination was justified mainly by the strategic and cultural fit between the two companies and possible synergy gains from the further development of energy-saving solutions for customers. The goodwill is not tax deductible. The fair value of the trade and other receivables acquired was €63 million. Their gross contractual value was €68 million, of which €5 million was assessed as uncollectible at the acquisition date.

The costs related to this transaction were some €5.5 million, of which €3.5 million has been charged to the 2017 result (Other operating expenses). Since the acquisition date, LichtBlick has contributed a total of some €222 million (including an allowance for grid fees for network managers and energy taxes) to the Group's revenues and a profit after tax of about €1 million. Had the acquisition taken place on 1 January 2017, the Group's revenues and profit after tax for the first half of 2017 would have been €1,741 million and €102 million respectively.

The following tables show the fair value of the provisional amounts of assets and liabilities acquired and the provisional calculation of goodwill.

x € 1 million	Total
Property, plant and equipment	16
Intangible assets	266
Inventories	1
Trade and other receivables	63
Cash and cash equivalents	56
Deferred tax liabilities	-85
Current tax liabilities	-9
Trade and other liabilities	-102
Total fair value of net assets acquired	**206**

x € 1 million	Total
Purchase price paid in cash and cash equivalents	169
Contingent liability for tranche 2 of the shares	179
Fair value of net assets acquired	-206
Goodwill (provisional)	**142**

5. Income tax

The effective tax burden amounted to 23.8% (first half of 2016: 22.2%). Use of tax incentives (Energy Investment Allowance) means the effective tax burden is lower than the nominal rate of Dutch corporate income tax.

6. Discontinued operations (and assets held for sale)

The network activities were classified as a discontinued operation in 2016 as a result of the preparations for the unbundling of Stedin Holding N.V. into an energy company and a grid operator from 31 January 2017. The network activities were transferred to Stedin Holding N.V. in July 2016. The results of the network activities for the first half of 2016 were presented net until the date of transfer as Profit after income tax from discontinued operations. The cash outflow from the discontinued operations in the first half of 2016 was €17 million, comprising a cash inflow of €165 million from operating activities and a cash outflow of €182 million from investing activities.

The assets held for sale (and associated liabilities) shown in the balance sheet related to district heating infrastructure and installations. See the Group's 2016 financial statements for further information.

7. Derivative financial instruments and fair value

The derivative financial instruments were as follows:

At 30 June 2017	Level 1	Level 2	Level 3	Total
Assets				
Energy commodity contracts	5	141	–	146
Interest rate and currency swap contracts	–	12	–	12
Total	**5**	**153**	**–**	**158**
Liabilities				
Energy commodity contracts	2	86	–	88
Interest rate and currency swap contracts	–	4	–	4
Total	**2**	**90**	**–**	**92**

At 31 December 2016	Level 1	Level 2	Level 3	Total
Assets				
Energy commodity contracts	1	229	5	235
Interest rate and currency swap contracts	1	9	–	10
Total	**2**	**238**	**5**	**245**
Liabilities				
Energy commodity contracts	6	166	–	172
Interest rate and currency swap contracts	–	13	–	13
Total	**6**	**179**	**–**	**185**

Unaudited with the exception of 31 December 2016.

Financial assets in the consolidated balance sheet included derivative financial instruments of €73 million at 30 June 2017 (31 December 2016: €90 million).

The fair value of the loans at 30 June 2017 was €617 million (31 December 2016: €432 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.

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.

8. Equity

In January 2017, N.V. Eneco Beheer declared a dividend of €351 million payable to Stedin Holding N.V. (shareholder until the unbundling of the energy and distribution companies; 2016: no dividend), in connection with the arrangements for the unbundling. An amount receivable by N.V. Eneco Beheer from this shareholder was reduced by this dividend.

The regulated network activities were transferred in the second half of 2016 and an interim dividend of €3,449 million was distributed to Stedin Holding N.V. The revaluation reserve of €735 million was released to retained earnings (within equity) as a result of the disposal of the regulated network activities.

9. Contingent assets and liabilities

Legal proceedings

The Group is involved either as plaintiff or defendant in various legal and regulatory claims and proceedings related to its operations. Management ensures that these matters are properly contested.

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.

The terms and conditions of the unbundling protocol as presented in the Group's 2016 financial statements, are unchanged.

Other contingent liabilities

The Group has energy purchase commitments of €5.0 billion (31 December 2016: €5.8 billion) against which there are sales commitments of €3.3 billion (31 December 2016: €3.0 billion) already entered into, mainly for the commercial market. These purchase and sale contracts relate to future supplies. There are commitments of €0.7 billion (31 December 2016: €0.7 billion) for the purchase of heat. The annual indefinite commitments for the sale of heat are €0.3 billion (31 December 2016: €0.3 billion).

The Group has issued group and bank guarantees of €0.3 billion (31 December 2016: €0.2 billion) to third parties. Of these, €0.2 billion (31 December 2016: €0.1 billion) have been issued by N.V Eneco Beheer. The remaining group and bank guarantees have been issued by subsidiaries for which N.V Eneco Beheer has issued a declaration of joint and several liability pursuant to Section 403(1)(f), Part 9, Book 2 of the Dutch Civil Code. The bank guarantee issued by Eneco Wind België B.V. on 31 March 2017 in connection with the purchase of Eni Gas & Power N.V. and Eni Wind N.V., both established in Belgium, was returned and cancelled on 10 July (effective date of the transaction).

10. Related party transactions

The Group has not been part of Stedin Holding N.V. since 1 February 2017, following the unbundling of the energy and distribution companies (see the 2016 financial statements). Stedin Holding N.V. and its subsidiaries have not been related parties of the Group since 1 February 2017. Consequently, the related party receivable of €838 million in the balance sheet at 31 December 2016 has fallen to nil.

11. Events after the reporting date

On 31 March 2017, Eneco België B.V. entered into a contract with the shareholders of Eni Gas & Power N.V. and Eni Wind N.V. (both established in Belgium) to purchase those companies. This acquisition took place on 10 July (after approval by the Belgian competition authorities) by acquiring the entire share capital and associated control of the companies and was paid for in full in cash. This was a significant step for the Group in its ambition to make energy provision in Belgium more sustainable and it wants to use its greater commercial strength to invest more in local wind and solar energy. Following the acquisition, the Group will soon have over a million retail and 55,000 business customers for electricity and gas in Belgium. The investment for this acquisition is some €0.2 billion excluding settlement of 'excess cash' as set out in the purchase contract. As this acquisition only took place in July, the purchase price has not yet been allocated to the fair value of the identified assets and liabilities. Consequently, only the limited disclosures required under IFRS 3 Business Combinations' (B64(a) – (d)) have been made in this half-year report.

On 22 June 2017, NV Eneco Beheer entered into an agreement for a GBP 100 million floating rate facility for a period of up to five years (22 June 2022). Early repayment is allowed. The full amount of GBP 100 million was drawn as a loan on 3 July.

Review report

To: the Board of Management of N.V. Eneco Beheer

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of N.V. Eneco Beheer, Rotterdam, which comprise the consolidated balance sheet as at June 30, 2017, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the period of six months ended June 30, 2017, and the selected notes. Management is responsible for the preparation and presentation of these 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 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, 2017 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Rotterdam, July 25, 2017

Deloitte Accountants B.V.

Signed on the original,

Drs. J.A. de Bruin