
# Eneco

# Moving into the future

**Annual report 2016** Eneco Holding N.V.

Photo cover:

**Stella Lux**

In the Netherlands, Eneco concluded an agreement with the Solar Team of Eindhoven Technical University. This Solar Team will participate in the 2017 World Solar Challenge in Australia with the most sustainable and practical family car. Eneco and the Solar Team have joined forces to bring sustainable mobility to the attention of the general public and, thus, accelerate the energy transition.

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# Main developments 2016

- Satisfactory net profit of € 199 million
- Nearly 300,000 Toon thermostats installed in the Netherlands since introduction
- Stedin internationally acclaimed as strongest grid operator brand
- Norther, largest offshore wind farm in Belgium, ready for construction
- Eneco part of winning consortium offshore wind farm Borssele III & IV
- Sustainable collaboration with TU Delft, Unilever, Mars and PostNL
- 766,000 Stedin customers accepted offer for installation smart meter since start project
- DELTA places wind and solar energy activities with Eneco
- Eneco acquires 50% holding in German company LichtBlick
- Eneco Group moves towards new energy company Eneco and new network company Stedin

# About this report

In view of the unbundling of Eneco Group in an energy company and a network company by 31 January 2017, the decision was taken to finalise the preparation of the 2016 annual report and financial statements of Eneco Holding N.V. and signing thereof by the Board of Management and the Supervisory Board, before that date. To this end, a concise annual report has been prepared instead of an integrated report that describes both financial and sustainability aspects in accordance with the Global Reporting Initiative guidelines, as was the case in previous years. This Management Report provides information on the activities of both the energy company and the network company. In connection with the preparation for the unbundling, which will involve distribution of the shares of the energy company to the shareholders, the netted results of the energy company are recognised in the financial statements as 'result after tax from discontinued operations'.

Foreword

# Sound basis for the future

Eneco Group ended the final full year of its existence as an integrated energy company with an encouraging result for both the energy company and the network company. Despite the attention that the company devoted to the unbundling of the group in accordance with the Independent Network Management Act (Wet Onafhankelijk Netbeheer, WON), customers, security of supply, innovation, employees, safety and the financial result continued to be the focal points.

Net profit after tax amounted to € 199 million, which is slightly less than the € 208 million in 2015. The network company (Stedin) and the energy company (Eneco) both contributed to the result. In particular due to lower prices for electricity and gas, total revenue decreased to € 3,900 million (2015: € 4,282 million).

## Unbundling of the organisation

As of 31 January 2017, Eneco Group will cease to be an integrated energy company in which network-related and production and supply activities exist side-by-side. This is the consequence of the WON Act of 2006, also known as the Unbundling Act. In November, the Court ruled against our appeal under the European Convention for Human Rights. As a result, unbundling was inevitable. In the meantime, the Board of Management focused on splitting the organisation in an orderly and diligent manner in order to safeguard the interests of shareholders, investment partners, business partners, customers and employees.

Starting point for Eneco Group is that the unbundling should result in two strong, independent and financially sound companies that have the ability to implement a solid sustainable strategy. On the one hand, this means a strong network company that has the capacity to invest in maintenance, replacement and expansion of its networks. On the other hand, this means a well-positioned energy company that continues to invest in the production of sustainable energy together with its customers and achieves growth by providing innovative products and services that give customers control over their energy supply. Not only in the Netherlands but also in Belgium, Germany, France and the United Kingdom.

The consequences of unbundling for the workforce will be limited.

## Services in order

In view of our aim that customers would notice little to nothing of the unbundling-related activities, these activities have mainly taken place in the background. Eneco and Stedin have produced good results in their daily operations, always with the interests of customers in mind and ensuring that the important criteria of sustainability, safety and security of supply are met. One Planet Thinking is the theme that determines our overarching objective, which is to keep our own energy consumption and that of our customers within the limits of a habitable planet. By providing innovative solutions that increase the sustainability of the energy consumption of our customers, we contribute to society and to the energy system as a whole, both in the Netherlands and abroad.

We have spared no effort to maintain our high standards with respect to customer service and security of supply. The increase in customer satisfaction scores shows that improvement measures implemented by both Eneco and Stedin have had the desired effect. Eneco further improved the alignment between its services and customer needs, for example in relation to the annual bill. Satisfaction among Eneco's consumer customers measured after contact by telephone rose to 7.5 in December 2016 (was 7.4 in December 2015). Using immediate feedback as input for making improvements contributed to a higher level of customer satisfaction at Stedin.

As in previous years, customers could rely on the virtually continuous reliable supply of energy. The measures that Stedin has taken to prevent and minimise the duration of interruptions have proven to be effective. Further information on these measures is provided in the section Reliable energy supply.

## Safety

Safety will always be a priority in view of the nature of our work. Despite the changes in our organisation, we succeeded in paying consistently high attention to safety. The business culture programme that we have introduced to ensure that safety risks are identified and discussed, contributed to this result. This way, safe behaviour is stimulated.

Our aim is to prevent occupational accidents as much as possible. The total of 34 occupational accidents in 2016 was significantly below the target of a maximum of 54. Occupational accidents are accidents that require medical attention and may or may not result in absence from work or the need for temporary alternative work. Although we achieved this year's target, we will continue to strive to reduce the number of occupational accidents even further.

## Strategy in progress

We continued with the implementation of our group strategy in 2016. The mission 'sustainable energy for everyone' forms our inspiring starting point. Everything that we undertake and every investment that we make must be relevant for our customers and contribute to and stimulate the acceleration of the energy transition. Eneco and Stedin have implemented these starting points on the basis of their own core activities in the Netherlands and, as far as Eneco is concerned, also abroad.

## Energy company Eneco

Eneco builds sustainable production facilities at the request of or in collaboration with its customers. As a result, the capacity of our own sustainable production facilities currently exceeds 1,000 MW. At the end of the year, we concluded a number of large contracts. The Eneco, Mitsubishi Corporation, Shell and Van Oord consortium won the tender for the construction of the offshore wind farms Borssele III & IV, located 22 kilometres off the coast of the province of Zeeland. It is expected that the wind farms will generate more than 3,200 GWh of electricity per year, which corresponds to the average consumption of around 825,000 households. As of 1 January 2017, all of Unilever's offices and production facilities in the Netherlands will use Eneco HollandseWind® energy generated by our Luchterduinen wind farm. This agreement is part of a broader collaboration aimed at supporting Unilever in achieving its sustainability objectives. We also acquired the sustainable assets of energy company DELTA in 2016.

In the municipality of Zeebrugge in Belgium, we put a wind farm consisting of four wind turbines into operation. Delft University of Technology and Eneco have agreed that, as of 2017, the university will only purchase electricity that has been produced in a sustainable manner within the Netherlands and that these purchases will take place via Eneco. PostNL and Eneco have entered into an agreement to install 22,000 solar panels on top of 19 sorting offices. In the United Kingdom, Mars announced that, for a period of ten years, it will purchase power from the Moy wind farm, which was put into operation by Eneco in the spring. A large solar farm on the Dutch island of Ameland came on stream. This solar farm was a joint project of the municipality of Ameland, the local Amelander energy co-operative and Eneco. In France, we have realised two large solar power projects: Renaud Extension consisting of solar panels on the roof of a construction company and Lycée Estat, where solar panels were installed on the roofs of an agricultural college.

In addition to supplying energy, we also develop services aimed at giving our customers full support and providing them with a better understanding of their energy consumption. In this context, Eneco acquired a non-controlling interest in Simaxx. This company develops software that increases energy efficiency by means of the management and smart control of installations in industrial buildings and offices. The smart Toon thermostat, developed by Eneco in collaboration with Quby, is a highly valued tool for monitoring and reducing the energy consumption of households. The possibilities of Toon are being further expanded and improved with the aid of and the input provided by customers. The sales figures are good; at the end of 2016 the installed base of Toon thermostats had grown to nearly 300,000 units.

The HeatWinner (WarmteWinner) is a promising innovation that was developed by Eneco in collaboration with Inventum and customers and was launched in January 2016. This innovative heat pump captures heat from ventilation air, as a result of which the amount of gas that is needed for heating purposes is reduced. 2016 was also the year in which Luminizer for Industry was introduced, a management and operating environment developed by Luminext for the safe, sustainable and energy-efficient operation of lighting on business premises. These examples are just a selection of our leading-edge solutions and the partnerships that Eneco has entered into with the aim to accelerate innovation. A more extensive overview can be found in the section Innovative products and services (page 13).

## Network company Stedin

It is the task of grid operator Stedin to implement the necessary adjustments to and increase the capacity of the networks in connection with the energy transition, at the lowest cost to society. In carrying out this task, Stedin strives to accelerate the energy transition and to guarantee that the infrastructure is reliable and affordable by implementing innovative solutions where possible. The grid operator connects customers, government bodies and market players with the aim to develop a comprehensive vision on the future local energy system in cooperation. An example is the close collaboration with the municipality of Utrecht in which both parties strive for a climate-neutral city and a reliable future energy network. Feeding energy into the grid is an important aspect for customers who generate their own power. Stedin is working on adapting the networks for this purpose. In April, the new electricity station Dordrecht Oranjelaan was put into operation and Stedin also expanded the grid with a new distribution station on Goeree Overflakkee. This increase in capacity enables customers to feed larger amounts of electricity into the grid.

The large-scale rollout of smart meters is in full progress. At the end of 2016, Stedin had sent an offer for the installation of a smart meter to around 903,000 customers, which corresponds to about 40% of its operating area.

## In conclusion

While it was a dynamic year from an organisational point of view, our focus was on attention for and co-development with our customers. We introduced the concept of agile working to maximise our flexibility and to be able to respond to what is happening in our surroundings and to customer needs. As a result, we are better equipped to achieve the acceleration required for the energy transition. All the shareholders of the company provided their support and cooperation, both with respect to the preparations for the unbundling and the realisation of the strategy.

We are proud that the unbundling of Eneco Group has resulted in two strong individual companies that are financially sound and robust. Both companies will be able to proceed independently and have the capacity to realise their mission, which continues to be 'sustainable energy for everyone'.

## Unbundling

# History and future

After many decades, sustainable energy company Eneco and grid operator Stedin part ways. Over the past year, we have made all the preparations necessary to ensure that on 31 January 2017, there will be two strong, independent and financially sound companies that are well-equipped to implement the mission 'sustainable energy for everyone'.

### Brief history

The Independent Network Management Act (Wet Onafhankelijk Netbeheer, WON) was passed in 2006. The 'group prohibition', which is part of this Act, means that regulated network management activities must be separated from activities in the area of energy production, supply and trading. Eneco Holding has always been opposed to this act and had started legal proceedings. The Supreme Court referred the cases of Eneco (and Delta) to the Court of Appeal in Amsterdam in 2015, for judgement on Eneco's appeal under the European Convention on Human Rights (ECHR). On 1 November 2016, the Court of Appeal ruled against Eneco. An enforcement decree issued by the Authority for Consumers and Markets (ACM), the supervisory authority that ensures that the WON is implemented, stipulated that the Eneco Holding N.V. group must be split by 31 January 2017 at the latest. Subsequently, we initiated the implementation of the unbundling plan that had been submitted to the ACM in May 2016 and was approved by them at beginning of July.

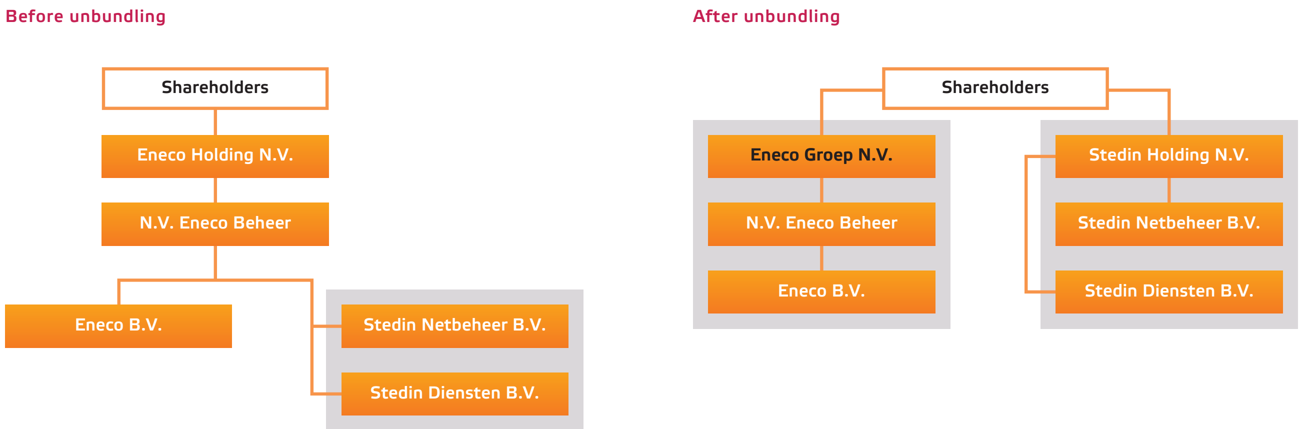
### Two strong, independent companies

Eneco Holding N.V. has made all the necessary preparations in 2016 to ensure that, on 31 January 2017, there will be two strong, independent and financially sound companies that have the ability to implement a sound sustainable strategy. Both companies will continue to be closely involved in society and their mission will be 'sustainable energy for everyone'. Thus, the companies will be well equipped to continue their sustainable course.

### Situation after unbundling

The sustainable energy company will be separated from Eneco Holding N.V. and placed in a newly established holding under the name Eneco Groep N.V. The network company will continue to be positioned under Eneco Holding N.V. Upon the unbundling, the name of Eneco Holding N.V. will be changed to Stedin Holding N.V. This means that the activities will be divided between the two separate companies from the moment

**STRUCTURE AND NAMES BEFORE AND AFTER UNBUNDLING**
(New name Eneco Holding N.V. after unbundling is Stedin Holding N.V.)



of unbundling. Everything that is related to electricity and gas infrastructure has been placed with the network company, including the activities of Joulz Energy Solutions and CityTec. The energy company focuses on enabling the energy transition by means of its sustainable energy production, supply and trading activities and by providing innovative services and solutions. The shareholders of Eneco Groep N.V. and Stedin Holding N.V. are the same as the shareholders of Eneco Holding N.V. before the unbundling.

## Separation of shared activities

In connection with the division of activities, the processes, systems and financing of Eneco and Stedin have been separated. This concerns the IT-landscape, office buildings and contracts with suppliers regarding shared services. Most of these activities were completed in December 2016. With respect to a few specific matters, collaboration will continue to be necessary after unbundling. An agreement has been prepared for this purpose, which specifies how the two companies will handle matters such as existing obligations like the 2016 tax return and the temporary provision of IT services. The division of activities also involved ensuring sufficient capacity at the staff departments of both companies after unbundling. In relation to this, the impact of unbundling on the workforce was limited.

## Two companies, each with a good credit rating

The A- rating that credit rating agency Standard & Poor's (S&P) assigned to the network company is the same as the rating of the integrated Eneco Group before unbundling. Stedin Netbeheer continues to be the grid operator of the regulated electricity and gas networks. Due to these regulated activities, the cash flows of the grid operator are stable and reasonably predictable. The rating assigned by S&P to the energy company is BBB+. According to the credit rating agency, Eneco has a strong portfolio of sustainable energy production, a steady customer base and a stable cash flow. This means that, from the point of view of capital providers, the individual operational and financial risk profiles of the network company and the sustainable energy company are relatively favourable. Consequently, the integrated group of Eneco Holding N.V. is able to put two strong, independent companies in place on 31 January 2017 that will be able to continue their sustainable strategy.

## Trends and developments

# Transition

We have been working on the realisation of our mission 'Sustainable energy for everyone' since 2007. The trends that we observe in the energy world reinforce our mission and our vision on how to achieve it. We will not achieve our mission until we have succeeded in reducing our customers’ and our own energy consumption to within the limits of a liveable planet (One Planet Thinking).

### The energy transition is accelerating

Our society is in the middle of the energy transition: the transition from the ‘old world’ based on a central fossil energy system to the ‘new world’ based on a system in which sustainable energy is produced, used, stored and shared locally. On the one hand, the energy transition is being slowed down due to the low prices of fossil fuels and electricity. On the other hand, it is accelerating as a result of changes in customer behaviour and local initiatives based on ideals and/or technological developments. Such initiatives are stimulated by government bodies at all levels: ranging from municipalities (phasing out gas in city districts) to the national government (stimulation of wind power), and from the EU to the global Paris climate agreement. Eneco strived to achieve growth in 2016 in the areas of solar power plants, offshore and onshore wind farms and new, smart innovations that increase the flexibility of the energy system. By doing so, we ensure that the energy system continues to be reliable and affordable in collaboration with our customers. The number of households that are reducing their energy consumption by means of the Toon smart thermostat is increasing rapidly. This contributes to lower energy bills for our customers and to the acceleration of the energy transition.

### New order: new needs, new markets

Even though the price of energy is still the main consideration for many people, the group of people that put an emphasis on other aspects is growing. An increasing number of business customers are opting for sustainable solutions to optimise their business processes and make them future-proof. Furthermore, research shows that a large group of consumers expect to be self-sufficient within ten years. More and more often, they select solutions that are not only smart and sustainable, but also reduce their dependency on energy companies and price fluctuations. As a result of these changes, we are faced with new market players in addition to the existing energy companies and with new revenue models.

### Emergence of new, decentralised organisational structures

Due to the changes in the energy system, more flexibility in the procurement, production and consumption of energy is required in order to balance supply and demand efficiently and safely. This calls for innovation in areas such as transmission, storage and revenue models. The current centralised system is not designed to deal with the situation in which large numbers of households make the transition to heat pumps, solar panels and electric cars within a short time frame. At present, these developments put significant pressure on the networks in neighbourhoods, districts and villages. This means that we must address local challenges together at the local level. The traditional boundaries between supplier, producer and customer are disappearing.

### Vision – ‘Decentralised Sustainable Together’

Sustainable energy for everyone will be achieved by focusing on the three aspects of our vision: Decentralised Sustainable Together. We are not the only one to opt for sustainability. We believe that the energy transition centres on the shift from a centrally organised energy system to a decentralised system in which we all have the role of customer, supplier, producer and grid operator. Together, we will make the energy transition a reality. Energy company Eneco and network company Stedin both embrace this vision and the previously stated mission and will develop their individual strategies in this respect in the future. These strategies will form the basis for the implementation of their core activities.

Progress

# Relevant for customers

We provide added value for our customers by supplying innovative products and services to meet their needs and by ensuring that their energy supply is affordable and reliable. The increase in smart technologies in the world of energy enables us to not only provide flexibility, but also add value for our customers in a growing number of different ways.

## Optimal service

### Energy company Eneco

**Consumers**

We have improved our service and strengthened our relationship with our customers in 2016. The service provided in the process that customers go through to inform us that they are moving to a new house, has been simplified significantly by placing the focus on the customer and his new home and visualising the moving process online. We make sure that everything is taken care of, inform the customer and send them a small gift on the day of the move.

Each year, customers send us their meter readings after which they receive their bill and a notification of what their new monthly payment will be. To make this process easier, faster and more transparent, we have redesigned this customer journey by introducing the real-time annual bill. Customers now receive their bill within 24 hours after submitting their meter readings. Communication regarding the annual bill has also been changed. Customers are now able to adjust their monthly payment amount directly in My Eneco and we show them where their electricity is actually produced. It is also possible for them to send us their meter readings easily and quickly by means of a Facebook Messenger chatbot. These improvements have reduced the number of customer inquiries significantly and also resulted in higher customer satisfaction.

In 2016, we recorded the 15,000$^{th}$ member of and the 100,000$^{th}$ response on the digital Eneco & Toon forum. This is the location where we discuss a variety of topics with our customers. In 2016, our forum members had the opportunity to meet in person at an event at Eneco World, during which various speakers introduced them to the new world. Our forum members also contributed to Eneco's position in the top five of the most progressive energy brands in the world in the Charge Energy Branding Awards.

Furthermore, we welcomed almost 35,000 loyal consumer customers and close to 6,000 loyal business customers and their families at our annual event in Rotterdam Zoo. This event allows us to strengthen our relationship with our customers and to engage them in sustainable development. Customers are very enthusiastic about this event.

**Oxxio**

'Super Smart and Inexpensive (Superslim Supervoordelig)' is the new slogan with which energy supplier Oxxio presents itself as a low-price provider with a smart app. Oxxio targets millennials, the price-oriented and internet-minded generation born between 1981 and 2000. The app provides information about their energy consumption to customers as well as non-customers and enables them to make changes and find answers to their questions. Every day, more than 7,500 people log into the highly appreciated Oxxio app.

**Business customers**

In 2015, we assigned dedicated account managers to a limited number of small and medium enterprise customers. In view of the resulting increase in customer satisfaction and loyalty among these customers, this initiative was continued in 2016. The dedicated account managers work together in sector teams. This means that they are familiar with the developments in their customers' sector, speak their language and are able to advise them in a manner that fits their type of operations. The times at which the different sector teams can be contacted correspond to the regular office hours in each of these sectors. Where appropriate, the dedicated account managers contact customers proactively, for example in case of deviations in their energy consumption or to inform them about possibilities to save energy.

The changes that we made to the annual bill in 2016 to make it easier to understand and more user-friendly are an important improvement according to our customers. Furthermore, we developed a consumption alert to proactively notify customers in the event of a significant increase or decrease in their energy consumption. Based on a successful pilot project in 2016, this alert will be implemented on a larger scale in 2017. We also developed new forms of communication in 2016, such as the live-chat functionality for direct online contact with one of our employees.

**Customer satisfaction**
Customer satisfaction was improved by means of closer collaboration with our business customers, for example via the Council of Entrepreneurs consisting of ten customers who contribute ideas on the further development and improvement of our service. This has resulted in better service, the development of propositions and extended opening hours. The chairman of this Council also holds the full-time position of Customer Happiness Manager, whose main task is to ensure that the interests of customers are taken into account. In addition, a results team was put in place in April 2016 that is responsible for increasing customer satisfaction. In December 2015, the customer satisfaction score relating to telephone contact awarded by Eneco's consumer customers was 7.4. In December 2016, this score had increased to 7.5. At Oxxio, customer service by telephone improved significantly, in part due to a focus on operational excellence and predictability. Consequently, the customer satisfaction score increased from 6.6 at the beginning of the year to a good final score of 7.4 at the end of the year. There was a slight increase in the total number of contracts in 2016 (+0.7%) to 4.3 million.

## Network company Stedin

The target for 2016 was that the score with respect to quality of the service provided awarded by at least 79% of the customers of Stedin Netbeheer would be 7 or higher. This target was achieved, as this was the score awarded by 80% of our customers. Compared with 2015, there was a significant increase in customer satisfaction in relation to the Customer Contact Centre and the Complaints Handling department. Similar to 2015, customer satisfaction with respect to the connection chain continues to be an attention point. We have specified and implemented improvement measures in this area in 2016.

The method used to measure customer satisfaction has been changed: customers are now asked to provide feedback within one day after their contact with us. This provides us with instant information on how customers experience our service and enables us to respond to developments more rapidly. The feedback that we received was also used to create visual representations of the contact moments between customers and Stedin. The thorough understanding that we obtain from mapping out the needs and experiences of our customers in this manner forms the basis for developing improvement measures.

**Energy Transition Desk**
Business customers as well as consumers who have questions relating to the energy transition can contact the Energy Transition Desk. This department is well equipped to answer these often non-standard questions.

**Large-scale rollout of smart meters**
Grid operators have the legal obligation to send an offer for the installation of a smart meter to all households in the Netherlands by 2020 at the latest. The Agreement on Energy for Sustainable Growth (Energieakkoord) states that the use of smart meters and energy consumption management systems linked to these meters should contribute substantially to a reduction in energy consumption. Stedin started to send out offers for the installation of a smart meter on a large scale at the beginning of 2015. The experience gained in that year has been used to make improvements in 2016. This resulted in a high level of customer satisfaction: 85% of the customers awarded Stedin a score of 7 or higher. No major safety incidents occurred during the installation of the meters. The planning submitted to the Ministry of Economic Affairs to send out 343,000 offers in 2016 was met. By the end of 2016, a total of 903,000 customers had received an offer for the installation of a smart meter, which corresponds to about 40% of the operating area. 766,000 Stedin customers have accepted this offer.

### Reliable energy supply

We aim to ensure uninterrupted availability of electricity and gas for our customers and any disruptions must be resolved quickly. To this end, we continuously work on preventing the occurrence and decreasing the duration of interruptions in the energy supply.

## Electricity and gas

**Reducing interruption duration**
There was a significant reduction compared with the previous year in the number of customers that were affected by an interruption in the electricity supply. However, the average duration of interruptions per affected customer did increase. This year's prognosis amounts to an average interruption duration of 90.9 minutes, which is more than 15 minutes above target. The estimated total duration of interruptions in the gas supply in 2016 is 52 seconds, which is 8 seconds below target.

Many initiatives were started in 2016 that were aimed at reducing the average duration of interruptions. Internal processes and working methods were improved, as was the data quality of our assets, and the number of defect indicators in the networks was expanded. In addition, the implementation of the Distribution Management System (DMS) was completed in 2016. This system forms the foundation for the operation of our entire medium-voltage grid and provides real-time information on the status of our (self-repairing) medium-voltage networks.

Short response times are also a crucial factor in reducing interruption duration. In 2016, we improved the planning and control processes relating to the period between the moment a notification of a defect is received and the arrival of a technician on site. Technicians were also equipped with good IT support tools in 2016 that enhanced their performance. All these improvements have contributed to the further increase in customer satisfaction with respect to the handling of network interruptions.

**Preventing interruptions resulting from excavation damage**
Various measures taken in 2016 resulted in further professionalization of the prevention of damage caused by excavation activities. ICT and data support have improved the reliability of the information contained in KLIC notifications (required notifications regarding mechanical excavation activities) and give us a better overview of when and where excavation activities are carried out in the vicinity of our networks. Use of the risk analysis matrix ensures that KLIC notifications are given priority and enables us to take action at an early stage to minimise potentially large risks. As a result of these measures, the number of interruptions in the medium-voltage grid due to excavation damage was reduced substantially.

**Safety of the gas network**
The script for handling incoming notifications regarding gas-related interruptions was adapted in 2016, with the aim to increase safety and to improve the handling of these notifications. The reason for this was an accident that happened at another grid operator. This adapted script was shared with and implemented by all the other grid operators in the Netherlands.

## Heating

The total duration of interruptions in the supply of heating amounted to 27 minutes, which is well below our target of a maximum of 49.5 minutes. In order to detect the early stages of leaks and insulation damages, aerial thermal images of the pipeline network in Rotterdam were taken in 2014. Based on these images, suspect pipelines were investigated more closely in 2015 and 2016 and repaired where necessary. Priority was given to the replacement of pipelines that have a greater impact on the supply of heating in the event of an interruption.

In the municipality of Utrecht, a number of transmission pipelines were out of operation simultaneously in 2016, due to planned and unplanned activities. This did not result in an interruption of the supply of heating, because redundancy of production and distribution assets was incorporated in the network at the design stage. Furthermore, a technique that is used in the oil and gas industry to pinpoint the exact location of any leaks was applied for the first time.

There were no irregularities in the municipality of The Hague. The network in the Ypenburg region was monitored and inspected more closely in connection with a number of leaks that occurred in 2015, which resulted in a number of replacements. Consequently, the number of unplanned interruptions was limited.

# Innovative products and services

## Energy company Eneco

The business unit Innovation & Ventures, which launches new products and services in collaboration with other business units, partners and ventures, entered its second year in 2016. By being flexible and taking small steps, we can respond quickly to developments and customer needs. This means that we are able to develop and launch new products and functionality within a short time frame, such as new features for the Toon thermostat and the energy saving HeatWinner.

**Toon, the smart home thermostat**
Toon brings having a smart and comfortable home within everyone's reach. This smart thermostat provides real-time information on energy consumption and possibilities to save energy. Using the Toon app, it is also possible to switch appliances on or off and to control the Philips Hue lighting system remotely. Further improvement of the Toon app is a continuous process. An example is the recently added possibility to use it to adapt the weekly programme. When people start to drive an electric car that they charge at their house, their energy consumption changes drastically. We have developed a Toon application that shows customers the share of the car in their total energy consumption and gives them more control over their energy system.

Toon offers added value for existing and new customers, because we continually strive to make improvements and develop new services in collaboration with customers. 'Ketelhulp' for example, a tool for monitoring the central heating installation. In case of a defect in this installation, Toon sends an SMS text message, email or notification to the customer and also sends a notification to Eneco automatically. New services are being developed in collaboration with a special group of Toon customers, our Toon innovators, on the basis of a short feedback cycle. These customers provide input and support by participating in pilot projects and by sharing their experience with and opinion on newly developed services.

The high customer satisfaction among users of the Toon thermostat means that they are our most important promoters. We reward them for this by means of a premium programme that was developed in a co-creation session with Toon customers via our forum. Satisfied customers who successfully advise others to purchase a Toon thermostat receive a premium, as do the new customers they bring in. Close to 300,000 thermostats had been installed at the homes of Eneco customers in the Netherlands by the end of 2016.

We have strengthened our partnership with Philips Lighting. New and existing Toon customers have the opportunity to purchase an attractively priced Philips Hue set that is not available elsewhere on the market.

**HeatWinner**

Extensive discussions with customers and good collaboration with our partner Inventum resulted in the development of the HeatWinner: a compact ventilation heat pump that enables households to reduce their gas consumption for heating purposes. In October, a number of HeatWinners were installed in the homes of the first pioneers, the other customers followed at a later stage. There is a possibility that the HeatWinner will also be introduced in other countries. In connection with this, a pilot project will be started in the United Kingdom. The Pezy Group awarded Eneco and Inventum the Collaboration Award for the HeatWinner.

**Tesla Powerwall and CrowdNett**

Eneco is a distributor of the Tesla Powerwall in the Benelux. As a follow-up, we developed CrowdNett, a network of home batteries that can be used to prevent imbalance on the network. Customers with solar panels can join CrowdNett by purchasing a Tesla Powerwall at a discount to store the energy that they generate. As the Powerwall owners that together form the Eneco CrowdNett share this stored energy, additional flexibility is created and the need to use coal plants to generate extra capacity is reduced. In this way, we are taking a step towards a new energy grid and reducing $CO_2$ emissions together with our customers.

**SolarHub**

A growing number of people want to generate their own energy, but many of them do not have a roof that is suitable for the installation of solar panels. On the other hand, there are numerous suitable roofs that are not being used. For this reason, we developed SolarHub ('Zonnehub'), a link between suitable roofs and interested people. We take care of the whole process, from installation to maintenance. The roof providers receive part of the revenues. In October, the roof of the Rabobank in Etten-Leur was the first roof that became available for registration. Installation will start as soon as all the solar panels have been reserved.

**Luminext**

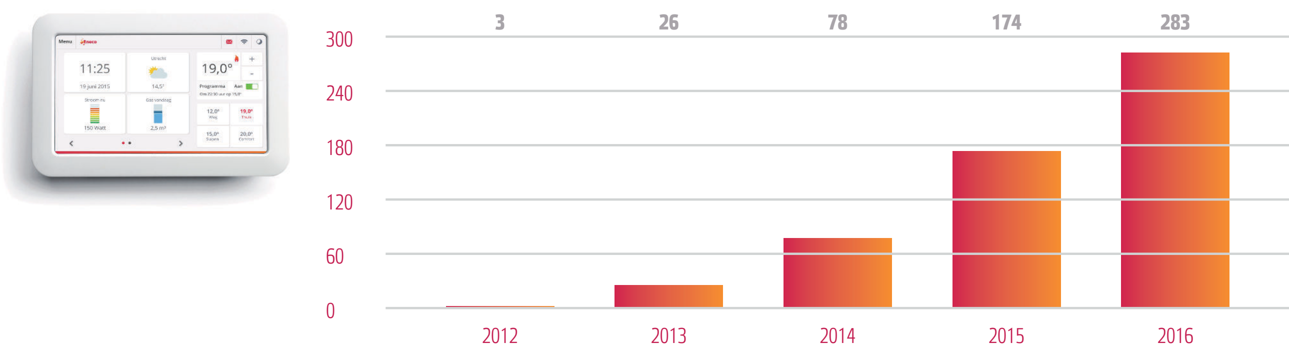
Luminizer is a management and operating environment developed by Luminext that contains all the necessary information for the safe, sustainable and energy-efficient operation and efficient maintenance of lighting. Luminizer is used by many municipalities, but in 2016 Luminizer for Industry was also introduced. Luminizer is now also used on large industrial sites such as the business premises of Chemelot and Heineken.

We believe that all public lighting will be smart in the future. As not every customer is able to implement smart lighting on a large scale, we have developed Lightscout, a solution that makes existing streetlights a bit smarter. The first pilot project is being carried out in the Utrechtse Heuvelrug area and will be completed in 2017.

**Simaxx**

Eneco acquired a non-controlling interest in software company Simaxx in 2016. The investment in this start-up increases our focus on the market of energy efficiency and smart control of buildings.

**NUMBER OF TOON INSTALLED**
(Cumulative x 1,000)



**Jedlix**
The #ichargesmart app of our spin-out Jedlix puts smart charging of electric cars into practice. This service is available at a growing number of public charging spots. Jedlix is also integrated in cars; the beta version of the 'Jedlix-Connected' Tesla was launched in 2016 and BMW will follow in the first quarter of 2017.

**Roamler Tech**
Eneco and tech company Roamler have joined forces with the aim to let users of the Roamler app carry out technical jobs in the homes of customers by means of the new Roamler Tech platform. The installation of the Toon thermostat is one of the jobs posted on the platform. This offers customers the advantages of lower costs and more flexibility in selecting the time at which the installation will take place.

**Peeeks**
Peeeks enables companies to purchase energy in a flexible manner and at the right times. As a result, energy is distributed more efficiently over the network. A new customer of this product in 2016 was SnowWorld. Cooling of the ski slopes in this indoor ski centre takes place at times when a lot of energy is available, for example when the wind is strong.

**Quby**
The Toon thermostat was developed by Quby, a 100% subsidiary of Eneco. In the past year, Quby made significant progress toward the international rollout of Toon. In Belgium, the intelligent thermostat was launched under the name Boxx by energy company Engie. In several other European countries, pilot projects are underway or will be started in 2017.

## Network company Stedin

The business entities of the network company innovate to ensure that customers can continue to make optimal use of the networks during the energy transition, to enable them to feed the energy that they generate into the grid and to guarantee the continuous safety, quality and reliability of energy transmission. To this end, we carry out various projects and field tests for which specific targets are specified.

**Infrastructural Footprint**
Choices made by customers may lead to grid overloads in one district, but not in another. And reducing carbon emissions could cost money in one area, but could generate money elsewhere. The Infrastructural Footprint developed by Stedin Netbeheer enables users to view situations from a local as well as an aggregate perspective before deciding on a fitting solution. Municipalities have had the opportunity to use this comprehensive area planning tool since 2016.

**Inspections with drones**
High-voltage power lines, transformer stations and wind turbines are inspected by Joulz mechanics with the aid of drones. This is safer for the mechanics and enables them to do the job in less time. Drones can be fitted with equipment such as a thermal camera, an HD video camera or a laser scanner and provide high-quality data without the need to de-energise the connection.

**Cycle path lighting**
CityTec is using streetlights powered by locally generated solar and wind energy for lighting a cycle path in the port district of Amsterdam. As the LED lamps in the 42 streetlights require direct current, no energy is lost on conversion to alternating current and vice versa. The field test with this autonomous system is the first of its kind. The ambition is to use this type of streetlights for lighting the entire port area.

# Impact on the planet

## On a worldwide scale, the amount of resources used exceeds the amount of resources the planet has to offer by one and a half times. The demand for energy plays an important role in this respect, as it accounts for 35% of the total emissions of greenhouse gasses such as $CO_2$. Our ambition is to fully bring our customers' and our own energy consumption to within the limits of the planet.

### Collaboration with WWF

Eneco Group and WWF have been working together on One Planet Thinking since 2010. One Planet Thinking helps companies to develop and implement a strategy aimed at staying within the limits of our planet. In its capacity of founding partner, Eneco Group has a seat in the programme's steering group. Eneco Group also participates actively in the community of practice. This allows us to share our knowledge and experience with other companies. Our ambition is to let One Planet Thinking develop into an international programme in which companies and scientists are committed to the concept of One Planet Thinking. In its One Planet Plan, Eneco Group has incorporated the One Planet Thinking philosophy in its own ambitions with respect to sustainability.

### Focus areas

Our main impacts on the planet are climate change, air pollution, loss of biodiversity and depletion of resources. Our footprint mainly results from the gas consumption of our customers and the use of gas in our gas-fuelled and combined heat and power plants. The combustion of natural gas produces emissions, which also cause air pollution and loss of biodiversity. For our investments in renewable energy, such as the construction of wind farms, we use non-renewable raw materials, the extraction of which causes damage to the environment. We strive to reuse materials and resources where possible and to create closed-loop resource chains. For these reasons, circularity is part of our ambition.

#### Climate change

Higher standards will be applied for the strategic One Planet-related key performance indicators (KPIs) that we have been monitoring over the past years. Our entire chain footprint will be part of our goal. This results in the new strategic objective of limiting the impact of our operations to well below the global warming ceiling of 2ºC. This objective is absolute and we are on track. Alternatives for the use of natural gas in existing homes are an important factor in this respect. The Eneco HeatWinner should play a significant role in reducing this gas consumption.

#### Air pollution and biodiversity

Research that we conducted in collaboration with Utrecht University shows that emissions from our gas and combined heat and power plants contribute to air pollution and the possibility of loss of biodiversity in Natura 2000 and other areas. Many nature areas are in a poor state. Traffic and agriculture are the main causes of nitrogen precipitation, but the nitrogen emissions from our plants are also a contributing factor. We are investigating technical possibilities to reduce our nitrogen emissions before considering compensation measures such as nature restoration.

#### Circularity

We are investigating the possibilities and opportunities of circular business operations. We strive to recycle materials and resources to create closed loops and prevent the need for new raw materials. Priorities will be specified on the basis of the results of this investigation. The success will depend on the level of cooperation that we will be able to achieve.

### Investment in sustainable capacity and production

Eneco invests in increasing sustainable energy production by means of wind farms and solar and biomass installations and in innovative techniques that accelerate this increase. Central aspects in asset development are our customers and obtaining maximum value from the developed assets.

We opt to develop our production facilities in the Netherlands and abroad in direct contact with our customers and with local stakeholders. They are involved in the developments where possible: in the role of customers, co-developers, suppliers, shareholders and participants. An example of this is Moy wind farm (60MW) in Scotland, which was completed in 2016 and now supplies renewable energy for the twelve Mars factories in the United Kingdom. Another example is our investigation in collaboration with the municipality of Utrecht, NGOs, local residents and other stakeholders into the possibilities of improving the sustainability of the municipality's district heating network by developing a biomass heating installation.

Stakeholders are informed about the progress that we make in the realisation of our mission 'sustainable energy for everyone'.

## Increase in sustainable capacity

As a result of our investment in a wind farm in the United Kingdom (Moy) and in a number of smaller wind farms, our wind energy capacity increased by 79 MW. This brings our own sustainable energy production capacity (wind, solar and biomass) to a total of more than 1,000 MW. In addition, we also have Power Purchase Agreements in place with other owners of sustainable production capacity.

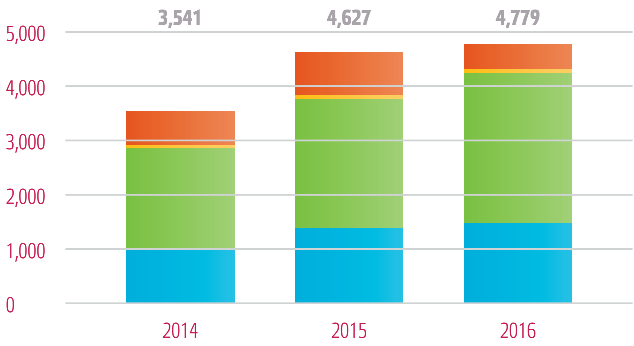
In October 2016, we acquired the wind and solar energy activities of energy company DELTA, consisting of operational wind farms with a production capacity of 29 MW, wind farms that are ready for construction and will have a capacity of 12 MW, and solar and wind energy development projects.

The Supervisory Board has approved our decision to invest in Norther wind farm, the largest offshore wind farm in Belgium that will produce around 370 MW for nearly 400,000 households. Based on a 50-50 partnership, Eneco and partner Mitsubishi Corporation together have a 50 percent interest in this wind farm. The other 50 percent is in the hands of Elicio. Norther wind farm will require a total joint investment of around 1.2 billion euros and is expected to start supplying renewable energy in 2019.

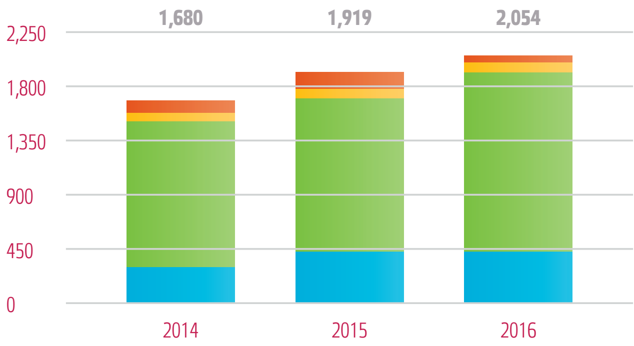
As part of a consortium with partners Shell, Van Oord and Mitsubishi Corporation, Eneco won the tender for the Borssele III and IV sites in December 2016. On these sites, the consortium can now start to develop, build and operate an offshore wind farm with a capacity of 700 MW. The wind farm will generate renewable energy for around 825,000 households as of 2021.

The share of sustainable energy obtained from our own production facilities and through power purchase contracts in the total volume of energy supplied, increased from 25% in 2015 to 30% in 2016.

**SUSTAINABLE PRODUCTION**
GWh (including purchased production)




**SUSTAINABLE CAPACITY**
MW (including controlled capacity third parties)




Biomass  Solar + Hydro  Onshore wind  Offshore wind

| | Production (GWh) *) | | Capacity (MW)**) | | Capacity (MW) per country**) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Technology | Total | | Total | | NL | | B | | UK | | F | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Biomass | 468 | 795 | 57 | 142 | 56 | 132 | 1 | 10 | 0 | 0 | 0 | 0 |
| Solar power | 70 | 66 | 81 | 76 | 6 | 3 | 45 | 49 | 17 | 10 | 13 | 14 |
| Hydro power | 2 | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| Onshore wind energy | 2,767 | 2,390 | 1,488 | 1,273 | 1,022 | 852 | 272 | 287 | 194 | 134 | 0 | 0 |
| Offshore wind energy | 1.472 | 1,374 | 427 | 427 | 249 | 249 | 178 | 178 | 0 | 0 | 0 | 0 |
| **Subtotal sustainable** | **4,779** | **4,627** | **2,054** | **1,919** | **1,333** | **1,236** | **496** | **524** | **211** | **144** | **14** | **15** |
| Conventional | 2,089 | 2,606 | 435 | 435 | 435 | 435 | 0 | 0 | 0 | 0 | 0 | 0 |
| Combined heat and power ***) | 2,157 | 1,600 | 507 | 622 | 507 | 622 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **9,025** | **8,833** | **2,996** | **2,976** | **2,275** | **2,293** | **496** | **524** | **211** | **144** | **14** | **15** |

*) Including purchased capacity.
**) Including controlled capacity third parties. The available capacity in the form of biomass energy, onshore wind energy in Belgium and solar energy in Belgium decreased due to the expiration of a number of power purchase agreements in 2016.
***) Part of the heat production capacity in Utrecht was shut down in 2016, as a result of which the installed combined heat and power capacity decreased by 115 MW.

# Dynamic employer

Our mission 'Sustainable energy for everyone' is at the top of the minds of our employees. The energy market is in the middle of a major transition and is characterised by a high level of dynamics and innovation. We aim for increasingly better performance and acceleration of the transformation. Furthermore, we seek to use working methods that are in line with our strategy and the situation of the business units with the aim to maintain a close relationship with our customers.

## Alignment and motivation

The better our employees carry out their work in alignment with our mission and strategy, the sooner we will be able to realise our strategy and the more ambassadors we have. Our performance in the area of alignment continues to improve. About two-thirds of our employees are fairly or fully familiar with our mission and contribute to the achievement thereof in their daily work. The alignment score increased from 58.4 % at the end of 2015 to 62.3% at the end of 2016.

Our employees are also motivated. This is measured every three months among a representative quarter of the workforce. The average motivation score was consistent, as we started the year with a 7.9 and ended with a score of 8.0. However, we are not satisfied yet. Alignment and motivation will continue to be attention points in 2017.

## Performance management

More attention was given to performance management in 2016 with the aim to ensure that our employees contribute to our mission, vision and strategy to the best of their ability and to be able to make adjustments quickly if necessary. We believe that 'constructive conversations' between managers and employees yield better results than a regular performance review cycle. Five central questions in these conversations are: Am I doing the right things? Am I doing them well? In what ways should I improve myself? What are my strengths? Am I still in the right place? Acknowledgement is also an important item in these regular conversations. Performance management applies to managers as well as employees, thus enabling the entire team to work on their performance and development together. Performance management has also been integrated in the New Leadership, which involved improvement of information and training programmes.

## Diversity

In addition to its more than 6,000 employees, Eneco Group also hires temporary employees and external specialists. Having well-balanced teams is important. In connection with our aim to achieve diversity in the Supervisory Board, the Board of Management and the management layers, we have increased our target of 23% for women in management positions to 30%, in consultation with the central works council. In 2016, the percentage of female employees in management positions was 26% at Eneco Group, 32% at Eneco and 21% at Stedin. Our objective with respect to external recruitment for management positions of department head and upwards is to achieve a 50-50 ratio of men and women.

## Personal development and external perspective

Being a leader involves giving direction, acknowledging and improving results and self-development. These aspects are being trained in the development programmes for managers. We started a transition process in 2016. Our aim is that managers are flexible and possess learning agility. Agility is also part of our working method, meaning that we can deal with developments that occur during the course of projects, in part to be able to quickly respond to customer needs. This is achieved through the development of our current management force and by hiring managers who have gained experience in other sectors and can offer a different perspective. We also expect employees to be flexible and stimulate their development. 70% of this development is the result of doing new things, 20% is the result of learning from others and 10% is the result of self-study.

For more information about the composition of our workforce and other details on this topic see Workforce (page 113).

## Modern employee participation

Employee participation is important at Eneco Group. This is also something that we do 'together' and in a modern way. Modern employee participation means that the works councils have a limited number of members and that members can only serve a limited number of terms. We use specific role profiles that specify what is expected from works council members and stimulate their development. For consultation processes, we create theme groups consisting of a few works council members in combination with a number of employees with a specific expertise.

The key to modern employee participation is for management to involve the works councils in participation processes at an early stage in order to establish a shared perception of the issue or opportunity. This results in a faster participation process, better decisions and wider support for the ultimate outcome. Employee participation bodies were involved in all of the important themes in 2016, including the unbundling process, major investments, organisational changes and labour conditions.

The Central Works Council works together with the management of Eneco Group on the implementation of ongoing changes in the company. More and more, we apply a gradual approach instead of major restructurings. This enables us to place more focus on our customers and our strategy. However, in some cases restructurings are inevitable due to rapid changes in the market as was the case with the restructurings at Eneco Installation Companies and Eneco Consumers. Because we had anticipated these organisational changes and actively strived to re-employ and retrain employees, the number of forced redundancies was limited.

# Safety

## Part of our values

In the changing energy world, safety continues to be part of our strategy. Working safely is a precondition for complying with our cultural values: customer first, together, instilling trust and taking responsibility.

We devoted a lot of attention to further improvement of safety awareness in 2016. Our goal was to permanently improve safety for everyone concerned. Based on the starting point that we do it safely or not at all, we introduced a programme aimed at stimulating identification and discussion of safety risks and further promotion of safe behaviour.

## Fewer occupational accidents

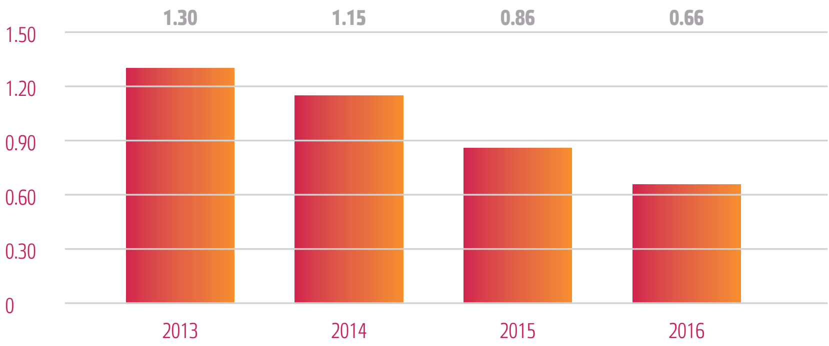
The total of 34 occupational accidents in 2016 was below the target of a maximum of 54. Occupational accidents are accidents that require medical attention and may or may not result in absence from work or the need for temporary alternative work. This result means that the Recordable Incidents Frequency (RIF), which is the number of occupational accidents per 200,000 hours worked, was reduced to 0.66. The target was 0.97.

The number of accidents registered by our contractors was approximately the same as last year. We will continue our efforts to reduce the number of accidents.

## Challenges

The energy sector is changing as a result of increased sustainability, further electrification and innovations. On the one hand, the use of conventional energy resources is decreasing while, on the other hand, there is an increase in the use of solar and wind energy and related forms of transmission and storage. Controlling safety aspects in current and new areas will pose a variety of challenges in the future. Identification of these aspects and timely implementation of adequate measures will continue to be important in order to significantly reduce the number of occupational accidents in the coming years.

**SAFETY PERFORMANCE**
(RIF)



# Financial result

## In 2016, Eneco Group, the sustainable energy and network company, made a net profit of € 199 million, slightly down on the figure of € 208 million for the previous year. Combined revenue fell to € 3,900 million (2015: € 4,282 million). The operating profit of the Network Company (Stedin) fell by 23% to € 214 million while its revenue rose to € 1,173 million. At the Energy Company (Eneco), operating profit rose by 93% to € 106 million[1] although revenue fell to € 2,746 million. Eneco Group speaks of a satisfactory result achieved despite difficult market conditions.

### Result development

Eneco Group's overall revenue was € 3,900 million, a fall of 9% compared with the previous year (2015: € 4,282 million) mainly as a result of lower purchase prices that we reflected in the prices we charge to our customers. The volume of energy delivered fell slightly (3%). Revenue from network activities was comparable with 2015 while that from engineering projects for third parties rose.

Despite the fall in revenue, gross margin rose by € 79 million (4%) to € 1,944 million. The margin on transmission activities was almost unchanged. The margin on wind farms went up as the number of farms in operation increased, although this growth was limited due to lower wind yields. The margin in the consumer market was stable, with a slight increase in the price for heating.

Eneco Group's total operating expenses rose by € 93 million (6%) to € 1,624 million, mainly as a result of investment in promising business activities and innovation and higher expenses for precario and activities related to the unbundling.

Investments related in part to supplying and installing smart meters for our network customers, increasing our third-party engineering activities and expanding sustainable production assets, in particular wind farms. Eneco Group is investing in the new world of energy by spending on research and development for new products and making acquisitions.

Employee benefits fell by over 4% and amortisation and depreciation expense was at the same level as in 2015.

The restructuring of business units that focus on existing markets also involved expense. In addition, the tax levied by municipalities on our underground cables and pipelines (precario) rose overall but these higher costs cannot be offset in transmission tariffs for about two years because of regulation of this market. In the meantime, this levy will adversely affect our result. The coming unbundling also inevitably involved costs, as we had to engage legal, financial and IT advisers to help prepare and implement it.

All in all, these developments led to an operating profit (EBIT) of € 320 million, € 14 million (4%) lower than in 2015.

Interest-bearing debt increased in 2016, largely as a result of an agreement with a banking consortium for the refinancing of the off-shore Eneco Luchterduinen wind farm, which has been in operation since 2015. In addition, many projects came on stream during 2015 and 2016 and so the amount of interest capitalised for projects under construction dropped significantly and interest expense recognised in the result increased.

After tax, Eneco Group generated a net profit of € 199 million, of which € 187 million is attributable to the shareholders of Eneco Holding N.V.

1 Both the operating profit and the revenue of the Energy Company are recognised as discontinued operations. Note 10 'Result after tax from discontinued operations' to the consolidated financial statements presents a summarised income statement of the Energy Company.

## Contracten

The total number of contracts rose slightly (0.7%) in 2016 to 4.3 million. While the number of retail customers fell slightly, they are increasingly taking several products and services from Eneco, such as a Toon thermostat or a maintenance contract, for example for their central heating boiler or solar panels.

There were various successes in the business market that will bear fruit over the next few years.

All Dutch office and manufacturing locations of the Unilever consumer goods group will run on wind energy from 1 January 2017. Each year, Unilever will purchase almost 70,000 MWh of green electricity generated by Eneco's Luchterduinen wind farm in the North Sea.

In co-operation with procurement organisation Intrakoop, no fewer than 240 healthcare organisations are participating in an energy deal with Eneco. From 2019, they will receive green electricity from wind farms. As well as enhancing the sustainability of the healthcare sector, the participants will also save € 2.8 million on supply costs. In total, this collective will purchase 1 million MWh of sustainable electricity and 200 million $m^3$ of gas each year.

Eneco installed a total of 4,613 solar panels on the roofs of the Kingspan factories in Tiel and Winterswijk in 2016 so that the Dutch arm of Kingspan, a manufacturer of sustainable construction materials, will be able to generate 1,140 MWh of green electricity per year.

In co-operation with Eneco, Wienerberger, market leader in innovation and production of ceramic construction and paving materials, created the largest roof-mounted solar installation in Limburg at its plant in Tegelen where 4,550 solar panels have been installed to generate some 1,100 MWh of solar power per year.

From January 2017, the Technical University Delft will only purchase sustainable electricity generated in the Netherlands. The choice of green electricity is part of the university's policy to of a highly-sustainable campus and to halve its $CO_2$ emissions by 2020 compared with 2012. By purchasing green electricity from Eneco's Luchterduinen wind farm, the university will reduce its $CO_2$ emissions by 60%.

## Investments

In 2016, Eneco Group invested a total of € 532 million. This is less than in 2015 (€ 715 million) because a number of large wind farms have come on stream in the Netherlands and the United Kingdom. Most of the capital expenditure in 2016 related to network activities (€ 410 million, up 11% compared with 2015), in the form of the installation of smart meters and renewing and expanding the electricity and gas networks. The Energy Company invested € 122 million in 2016, including in wind farms (completion of Moy in the UK and development of Norther in Belgium € 51 million), heating networks and production (€ 44 million), solar farms (€ 9 million) and the adaptation of the Bio Golden Raand power plant (€ 10 million) so that it can also supply steam to nearby businesses.

In addition to these investments, our sustainable assets increased € 44 million following various acquisitions, including solar farms in Belgium and the United Kingdom and the DELTA wind farms.

We sold Ecofys, our consultancy subsidiary, to Navigant, an American company, in 2016 having concluded that its activities would flourish better in an organisation with consultancy in its DNA.

Another noteworthy item is the 50% holding that Eneco has acquired since the reporting date in the German green energy and IT company, LichtBlick.

## Credit Rating

Now that the unbundling of the Group is approaching, Standard & Poor's assessed the plans and prospects for the two new autonomous businesses in 2016 and we were pleased that in November it maintained Eneco Holding N.V.'s A- rating for the future Network Company. The future Energy Company, N.V. Eneco Beheer, is rated BBB+. S&P describes the outlook for both the Network Company and the Energy Company as stable.

Eneco has no influence over the setting of the credit rating. S&P has published a report explaining how it arrived at it, and this is available on our corporate website.

## Network Company

The Network Company's operating profit for 2016 was € 214 million, which is € 65 million (23%) lower than the figure for 2015 because of an increase in expenses (up € 89 million). Revenue was € 991 million and was stable, as was the associated margin from the, largely regulated, transmission and metering activities. Other revenues were € 182 million, an increase of € 23 million on 2015, mainly because of an increase in engineering activities by Joulz Energy Solutions for external customers.

Employee benefits at the Network Company and the cost of outside staff rose, partly as a result of supplying and installing smart meters on a larger scale in 2016 than in 2015, growth in engineering activities, the increased level of construction and replacement of networks and an expansion of IT activities. The number of staff increased by 3% to 3,689 FTEs. The other main causes of the increase in expenses were the precario, direct expenses of Joulz Energy Solutions, the rollout of smart meters and the unbundling expenses, half of which were borne by the Network Company.

The cost of the tax levied by municipalities on our underground cables and pipelines (precario) went up, partly because the rate was increased and partly because more municipalities are levying this tax. This expense doubled from € 35 million in 2015 to € 70 million in 2016.

The large-scale rollout of smart meters progressed well in 2015 and accelerated in 2016 when 271,000 new smart meters were installed for customers compared with 181,000 in 2015 (50% increase). Other direct and indirect costs related to this process are the expansion of the vehicle fleet to visit all the locations, telecoms costs from the time the meters are connected, depreciation as a result of capital expenditure in recent years and disposal of ordinary meters which have not yet been fully depreciated.

## Energy Company

The Energy Company's[2] operating profit rose by € 51 million (93%) in 2016 to € 106 million. Although total revenue fell by € 390 million (12%) to € 2,746 million, total margin and other revenues rose by 8% to € 931 million (2015: € 859 million).

The price cuts for both gas and electricity that we passed on to our customers caused the fall in revenue. The regulated price for heating rose slightly as a result of an increase in the energy tax on gas. There was a slight fall in the number of customers. As our customers are better able to make savings, volumes were down a little. The restructuring of our portfolio in the business and installation markets was also a cause of the fall in revenue.

The higher gross margin was partly due to growth in the number of wind farms in operation. This raised the Energy Company's ability to generate its own energy, but growth in wind energy generation was limited as there was less wind than average in 2016 while there had been more than average wind in the previous year. The margin in the consumer market was stable, the price of heating rose slightly. Trading activities (Eneco Energy Trade) delivered good results and, in addition, a large energy purchase contract was restructured to improve its results over the next few years.

The increase of € 21 million (3%) in overall operating expenses to € 825 million was relatively limited. Employee benefits fell, partly as a result of an 8% decline in the average number of employees to 2,870 FTEs. In fact, the number of FTEs fell to 2,581 at year-end (year-end 2015: 3,021 FTEs) as a result of the sale of Ecofys in the fourth quarter. Although amortisation and depreciation expense went up in 2016 as a result of capital expenditure on and acquisition of assets and the restructuring of local generation, it was lower compared with 2015, when there had been a non-recurring charge following the cancellation of the development of Navitus Bay, a planned wind farm off the English coast. The increase in other expenses was a result of the growth in the number of wind farms, higher research costs, higher cost of hiring outside staff, more marketing and the unbundling expenses, half of which were borne by the Energy Company.

## Outlook

The preparations for the unbundling focused on creating two healthy independent businesses ready for a future in the new world of energy. We have confidence in the further development of both of these companies. Against this background, it would not be appropriate for the Board of Management of the integrated company to present a results forecast for 2017.

2 Note 10 'Result after tax from discontinued operations' to the consolidated financial statements presents a summarised income statement of the Energy Company.

# Risk management

Risk management contributes to the achievement of our strategic goals in a responsible manner. Our risk policy encompasses careful assessment of the risks that Eneco runs, the control measures that we implement to mitigate these risks and the manner in which we ensure the effectiveness of these measures.

## Risk governance

The Board of Management is responsible for risk management at the level of the organisation as a whole. Risk management is structured according to the 'three lines of defence' model. This structure ensures that we comply with the current Good Practices in the area of risk management. The Board of Management has delegated its responsibility for risk management primarily to the directors of the business units ('first line'), who are supported in this matter by the 'second line' consisting of Business Control and functional areas such as compliance and safety. The 'second line' also includes the Group Risk Management department, which is responsible for the policy framework and the coordination of the risk management process. The Internal Audit department ('third line') carries out audits and reports the results to the Board of Management and the Audit Committee of the Supervisory Board.

During the quarterly Business Unit Reviews, each business unit reports the main risks to the member of the Board of Management who is responsible for risk management. The consolidated risk reports of the business units are presented to the Board of Management and the Audit Committee of the Supervisory Board.

The risk assessments and the status of measures aimed at limiting and controlling risks are discussed periodically by the management teams of the different business segments. The main risks and measures are discussed by the Audit & Risk Committee of the Board of Management.

The Audit Committee of the Supervisory Board monitors the adequate functioning of the risk management activities as a whole. Enterprise-level risk limits have been specified in the form of various concrete policy statements, codes and guidelines for areas such as safety, trade mandates, authorisations and conduct. In this context, the Audit Committee devoted more specific attention in 2016 to the following topics: unauthorised access to systems and data and the related risk of cyber-attacks, in part in relation to the possibilities of 'bringing your own device' and the use of mobile devices in the field, the implementation of the new privacy legislation in the Personal Data Protection Act and the higher demands on assurance of key controls in the Eneco Control & Risk System (ECRS) as a result of the higher ambitions in this area.

## Risk and performance management framework

We have adapted the COSO-ERM framework, the worldwide standard for Enterprise Risk Management, to form Eneco's internal risk management and control system, the ECRS. Each year, the ECRS is adapted to keep up with the latest developments with respect to risks, business developments and external influences. The ECRS includes a risk assessment method, a set of control measures and a self-assessment method that enables management to determine the effectiveness of the control measures (see the In Control statement (page 32)).

Risk management is an iterative and continuous process and is part of the regular Business Planning Cycle. At least once a year, the business units carry out a thorough analysis of the threats and opportunities and determine the possible impact of each significant risk on the risk categories Financial, Reputation, Integrity and Safety. Our management is based on the financial and non-financial strategic KPIs. With respect to financial matters, we use the financial framework to manage the main financial restrictions on the strategy. This is done by means of financial-strategic projections supported by sensitivity analyses, including single event stress tests and scenario analyses. Risk control systems with specific mitigating measures are in place at each level of the organisation.

## Risk tolerance

Our risk tolerance is categorised by the types of risk distinguished by Eneco:

**Safety**

The construction and operation of (sustainable) energy production facilities and infrastructure/networks are a central aspect of our strategy. These activities lead to safety risks. We apply the principle of zero tolerance with respect to these risks. Accidents resulting in absence from work are considered to be significant incidents. More serious incidents (hospitalisation, fatal accident) are classified as critical or unacceptable.

**Financial**

Eneco pursues a growth and transformation strategy, which entails substantial investments in new and existing activities. This strategy is translated into long-term financial-strategic projections, which are updated every six months on the basis of the latest insights. Our financial risk tolerance is derived from the financial control framework that specifies a number of tolerance limits, such as the FFO/net debt ratio. Fitting measures are implemented for risks that may result in exceeding or not meeting limits specified in the financial control framework. Controlling risks relating to the provision of financial and non-financial information and reporting is important, because it concerns information that forms the basis for the management of our company.

**Integrity**

Unethical or fraudulent behaviour of management and employees is a major risk. As Eneco can only carry out its role properly if the highest standards of conduct are applied, our risk tolerance in the area of integrity is low. We strive for an environment in which no significant possibilities for fraud exist. The Eneco Code of Conduct and the underlying guidelines translate this low risk tolerance to daily practice and define desired conduct and how to act with integrity. Considerable attention is devoted to integrity awareness of management and employees during work meetings and workshops. There is an integrity hotline and employees can also contact one of the confidential counsellors for the adequate and confidential handling of integrity incidents.

**Reputation**

A good and reliable reputation is essential to the existence of our company. Consequently, our risk tolerance is low. A 'limited

FRAMEWORK RISK AND PERFORMANCE MANAGEMENT

negative image among stakeholders' is on the edge of what is considered to be acceptable. The risk of not achieving our strategic goal, which is the realisation of a sustainable and reliable energy supply, is also classified as a reputation risk. This is also true for not realising our commitments with respect to sustainability as agreed with WWF in the context of the Climate Savers Initiative and our own ambitions regarding One Planet Thinking.

## Developments 2016

More attention was devoted in 2016 to bringing the quality of the self-assessments to a higher level. A 'prove me' level was added to the self-assessment method with respect to the key controls. This level requires the business units to document instructions, such as sample size, frequency and evidence to be submitted, before carrying out the self-assessment. Furthermore, the business units now carry out the self-assessments twice a year instead of once as in previous years. The addition of the previously mentioned 'prove me' level as a requirement for self-assessments has improved awareness with respect to and the quality of supporting information on the structure and functioning of the controls and, in particular, to the controls relating to the supply of internal and external information.

Several control measures were taken in the areas of authorisation management and IT change management. A more structured approach is now applied for the management of asset projects and complex IT projects. In addition, more attention is given to business continuity and cyber security by means of the implementation of a number of risk mitigating measures and by providing training for and increasing the awareness of employees.

**Incidents**

A number of incidents occurred in 2016. Information on three of these incidents is provided below.

In October, there were two interruptions in the additional services of the Toon thermostat that affected a large number of Toon customers. The thermostat itself was functioning properly, but it was not possible to control the thermostat remotely by means of the Toon app as a result of a defect. Eneco and Quby, the company that developed the thermostat, tested several solutions and solved the problem within a week. Communication with Toon customers is a point of attention for Eneco. Quby is working on bringing the service centre to the cloud, which should prevent such problems in the future.

The Authority for Consumers and Markets has determined that there has been a violation of the Information Code Electricity and Gas in relation to Oxxio's low-volume customers. It concerns the specification of an end date in the Contract Termination Register for open-ended contracts. Oxxio submitted a statement of defence on 2 December 2016; a ruling is not expected until February 2017.

At Joulz, a data carrier containing various files with information on infrastructure production assets and personal data of former and current employees went missing. The crisis team, aided by a specialised investigation agency, started an investigation aimed at finding the data carrier and limiting the impact of the loss of data. Production chain partners, the National Cyber Security Centre, the Dutch Data Protection Authority and the persons whose information was stored on the data carrier were notified. The investigation revealed that the risk of abuse of the information on the data carrier is limited. Following the investigation, similar data carriers were located and taken out of use immediately. Extra information was provided to employees and management with the aim to increase awareness and vigilance. In addition, ISO27001/ISO27019 certification, relating to aspects such as physical and logical access control and asset registration for data security purposes, was obtained.

**Unbundling**

The main risks relating to the unbundling were failure to complete the unbundling on time, subject to a penalty payment imposed by the ACM, and disruption of business operations due to activities associated with preparation for the unbundling. As a result of a multidisciplinary programmatic approach in combination with the use of external expertise in the areas of governance, financing and accounting, the unbundling can take place on 31 January 2017 at the latest in accordance with our expectations.

Proper consultation with the various stakeholders during the unbundling process was a specific challenge. As a result of applying a customised approach for each group (shareholders, capital providers, trade partners and employees), all parties are satisfied with the consequences of the unbundling.

The starting point of the Board of Management has always been that the unbundling will result in two independent, sound companies that continue to be able to implement their strategy. An important element in this respect was the allocation of capital, which, as far as the new network company is concerned, must meet a number of specific requirements included in the Independent Network Management Act. The ultimate allocation, which has the approval of the stakeholders, is in compliance with the Act and also provides a stable starting position for both companies.

## Top risks

For consolidation and reporting purposes, all the top risks of Eneco have been divided into five clusters. The top risks associated with our strategic objectives and the measures we take in order to control these risks are numbered in the following figure and explained in more detail below.

**1) Spark spread**
Eneco's gas-fuelled plants are exposed to the spark-spread risk. Spark spread is the gross margin on the sale of electricity produced by a gas plant. A spark-spread risk exists if the production costs approximate the selling price of the electricity. This risk is mitigated in part by means of portfolio management and hedging. In addition, a gas plant can be shut down in case of a negative spark-spread. This risk was further reduced in 2016 as a result of the restructuring of a number of contracts. At present, this risk is estimated to amount to a maximum of € 5 to € 10 million.

**2) Weather risk**
Eneco's results are affected by weather conditions such as a mild winter or periods in which there is less wind than expected. The weather-related risk is hedged within the portfolio as much as possible. In addition, weather-related contracts and hedges are used to further reduce the sensitivity to weather conditions. The total weather conditions risk is estimated to amount to a maximum of € 20 to € 40 million.

**3) Credit rating**
The credit rating of Eneco Holding N.V. has been issued by credit rating agency Standard and Poor's (S&P). The risk of a downward adjustment of this credit rating resulting from a change in S&P's assessment of the financial outlook (in part as a possible consequence of unbundling) or from changes implemented by the rating agency with respect to the rating criteria, rating method and/or assumptions, could have consequences for both companies after unbundling (as well as Eneco Holding N.V.) with respect to access to capital and money markets, financing costs, and the terms and conditions imposed by parties in the business sector. The impact for the energy company of a downgrade after unbundling from BBB+ to BBB is approximately € 2.5 million per year. See also the section Unbundling (page 8).

By means of regular scenario planning and stress testing, assessments carried out and advice provided by experts and

RISK CLUSTERS ENECO

| Sustainable energy for everyone | | | | | |
|---|---|---|---|---|---|
| Level 1 | Market and financial | Strategic | Operational | Legislation and regulations | Safety & health |
| Level 2 | Reporting<br>Price & volume<br>Credit<br>Market liquidity<br>Competition<br>Interest & currencies<br>Investment<br>Liquidity | Macroeconomic/global changes<br>Disruptive technologies<br>Geopolitics<br>Sustainability | Interruptions<br>Business continuity<br>Transformation<br>Personnel<br>Projects<br>Supply chains<br>Failure systems and/or processes<br>Security | Future and existing laws and regulations<br>Governance<br>Legal<br>Integrity | Employee safety<br>Safety of third parties<br>Employee health and wellbeing |
| Top risks Eneco Group | Financial risks: including credit, price, counterparty and default risk<br>Spark spread (1)<br>Weather risk (2)<br>Credit rating (3)<br>Claims relating to connection and transmission tariffs (4)<br>Profit metering domain (5) | New, cheaper technologies during development of sustainable assets (6)<br>Decreasing energy prices during development of sustainable production assets (7)<br>Impact of energy transition on E/G infrastructure (8) (new in 2016) | Business continuity & ICT/cyber security (9)<br>Insufficient competencies to realise transformation (10)<br>Significant infrastructure defects (11)<br>Large-scale rollout of smart meters (12) | Non-compliance with legislation and regulations, including WON, REMIT, EMIR, MiFiD, IFRS, and privacy<br>Unclear government policy as regards energy transition (13)<br>Tariff regulation regulated domain (14) | Safety policy, awareness and behaviour<br>Projects risks<br>Safety of employees and subcontractors |

periodic information exchanges with S&P, we make every effort to prevent unexpected adjustments to the credit rating.

**4) Claims relating to connection and transmission tariffs**
Grid operator Stedin has received six claims from customers with private networks demanding restitution of connection and transmission charges. These claims relate to the ruling of the Trade and Industry Appeals Tribunal that, according to the legal definition of the term 'connection' that applied until 1 January 2014, direct current grid-to-grid connections did not qualify as a connection. This ruling has led to questions in relation to civil law that have not yet been answered. This matter is known as the 'Dobbestroom' case. Based on the recent ruling of the Trade and Industry Appeals Tribunal regarding the USG case, the Dobbestroom claims with the most potential are no longer valid. At present, Stedin is investigating three connections that could possibly qualify under the Dobbestroom definitions. Based, in part, on legal advice provided by a third party, Stedin does not consider it probable that these claims will have a negative outcome. Consequently, no provision has been formed.

**5) Profits in the metering domain**
The tariffs that grid operator Stedin charges for the rent of small volume meters are regulated and based on the ministerial regulation on metering tariffs. This regulation specifies how the ACM determines these tariffs. At present, the maximum tariffs that grid operators are allowed to charge are based of the tariffs of 2005 plus an annual adjustment for inflation using the consumer price index. The ACM has been monitoring the costs of carrying out the process of metering since 2011. The differences observed by the ACM each year between the tariff revenues on the one hand and the operating costs, depreciation and a reasonable return on asset value on the other hand are labelled as surplus profit. The minister and the grid operators expect that these surplus profits will be sufficient to cover the costs attributable to smart meters in the period until 2020. The ministerial regulation on metering tariffs ensures that the tariffs paid by consumers will not exceed the amount that is necessary to cover the costs. To achieve this, the ACM may include surplus profits in its future decisions on tariffs. Based on current estimates, the surplus profit realised by Stedin up to this moment is sufficient to finance the rollout of smart meters without tariff increases. For this reason, Stedin has kept the metering tariff at the same level since 2015 and has not made any corrections for inflation. It is possible that the ACM will adjust the tariff in connection with a difference between income and costs in previous years. Based on current knowledge, this will result in a tariff reduction due to surplus profits remaining at that moment. It is estimated that the surplus profits up to and including 2015 roughly amount to 160 million euros.

**6) Emergence of new, cheaper technologies during the development of sustainable assets**
The development of production facilities such as offshore wind farms can take several years to complete. This is why Eneco is very thorough in the development of large, capital-intensive projects. There is a risk that a lot of time and money are invested in a development project that, in the end, will not be implemented or that cheaper technologies become available while development is in progress. Eneco applies the 'Decision-Gate' method to mitigate development risks. This means that at each development stage, an assessment is carried out to determine if the projected costs and revenues are still in line with expectations. The results of these assessments form the basis for the decision to either stop or to continue to the next phase.

**7) Decreasing energy prices during the development of sustainable production assets**
Eneco is active in the area of developing sustainable energy producing assets and has concluded contracts for the purchase of sustainable energy produced by third parties. In connection with these activities, Eneco is exposed to the risk of a decrease in energy prices. This risk is partly mitigated by the structure of the subsidy scheme for the stimulation of sustainable energy (Stimulering Duurzame Energie (SDE+)), on the basis of which higher subsidies are granted when the electricity price is low. This means that a substantial part of the income is steady.

Eneco further mitigates this risk by monitoring the medium- to long-term buying and selling positions by means of stringent position management under the supervision of an independent Eneco Financial Risk Management department, which is part of the Group Risk Management department. In addition, risk analyses are carried out before concluding sustainable energy contracts and prior to new investments in sustainable assets, and the financial ratios of Eneco Group as a whole are analysed periodically.

**8) Impact of energy transition on E/G infrastructure**
We continuously monitor and analyse the main trends in relation to the energy transition. This knowledge enables electricity and gas grid operator Stedin to respond to developments in a timely manner, without having to make investments that prove to be unnecessary at a later stage.

The load on the electricity network is increasing due to further electrification and more local production. In the future, this could result in a network overload. Stedin is investigating possibilities to optimise the use of the electricity grids and to expand them as efficiently as possible where necessary. Flexibility, for example in the form of storage and controlling demand, plays an important role in this respect.

Gas networks are being displaced due to electrification of the supply of heating and collective heating networks. The risk of early depreciation of the gas networks (estimated to amount to a maximum of 5 to 10 million euros) and the risk of price increases for customers who continue to use gas are important areas of attention.

Stedin has implemented a number of measures to ensure that it will be successful in moving through the energy transition. Stedin's strategy department carries out trend and impact analyses on a regular basis. Furthermore, we respond to trends in the area of Asset Owner/Management and changes in current and draft EU legislation, and we carry out pilot projects to investigate technical and non-technical possibilities.

**9) Business continuity & IT/cyber security**

The continuity of the service that we provide could be threatened by situations such as large-scale interruptions in IT systems or unavailability of people or buildings. Such situations may affect our customers in the form of an interruption in the supply of energy, untimely invoices or a lower level of service. Furthermore, interruptions in the systems that we use for energy trading or cyber-attacks aimed at Eneco Group could result in financial damage.

To mitigate these risks, energy-trade related activities and the activities of our infrastructure and asset operation centres are run on a separate, duplicated ICT platform and periodic recovery tests are carried out for critical systems. Creating awareness among Eneco employees with respect to the importance of information security and increasing the security of the basic infrastructure and our information systems have our ongoing attention. In these areas, we collaborate with our suppliers and with external organisations such as NCSC and EDSN. In addition, specialised companies are engaged to carry out investigations and for the operational monitoring of the IT systems. Additional assurance with respect to the effectiveness of implemented measures is obtained by means of activities such as audits and certification.

**10) Insufficient competencies to realise the transformation**

The success of the transformation of the organisation, which is necessary for the realisation of our strategy, depends for a large part on the competencies and versatility of management and employees. Insufficient availability of suitable employees forms a risk with respect to the company's ability to adapt and, thus, its transformation speed. This risk is controlled by attracting top talent from other sectors, investing in management and employee development programmes and letting people go if necessary.

**11) Significant infrastructure defects**

Our highest priority with respect to the electricity grids is preventing interruptions in supply through measures such as station automation for grid control, replacement of fault-sensitive components and preventing damage resulting from excavation. In addition, we replace components that will no longer be available in the near future and we ensure the reliability of public lighting networks.

With respect to the gas networks, maintenance has the highest priority in order to prevent gas leaks and guarantee the supply of gas. This maintenance focuses primarily on the replacement of connections that are in substandard condition and the replacement of brittle distribution pipelines. The replacement of pipelines prevents gas leaks and costly repairs. To prevent inconvenience and significantly reduce total costs, activities are carried out simultaneously with work on other infrastructure (roads, railways, sewers), where possible.

**12) Large-scale rollout of smart meters**

Just like the other grid operators, Stedin is required to have presented all of its customers with an offer for the installation of a smart meter and to have installed such a meter at 80% or more of its customers before 2020. The smart meter is a digital, remotely readable energy meter that provides customers with a better understanding of their energy consumption, thus making it easier for them to save energy. The large-scale rollout of smart meters has led to a public discussion on issues such as privacy and actual reductions in energy consumption. This poses a reputation risk for Stedin. The Large-Scale Rollout programme ensures that the process of presenting customers with an offer for the installation of a smart meter and the installation itself are carried out in a controlled manner and in accordance with the requirements. As part of this programme, customers are informed about the advantages of the smart meter. Furthermore, we monitor public opinion by means of customer research and through social media.

**13) Uncertainty with respect to future government policy on the energy transition**

The energy market is strongly affected by government interventions. Tariff regulation by the government mainly relates to the network tariffs. The subsidy policy affects the profitability of assets. An example of this is the competitive disadvantage for gas-fuelled plants as a result of the decision to subsidise co-firing of biomass in coal-fuelled plants. The profitability of onshore and offshore assets for the production of sustainable wind energy, for which the government has already decided that subsidy will be granted, is less sensitive to fluctuations in government policy.

Eneco's new products and services are exposed to the risk associated with fluctuations in government policy. These new products and services are affected by regulations relating to the grid operator, consumers and privacy policies, but these types of government interventions are of a different order of magnitude than those relating to investments in large-scale sustainable energy production facilities.

Eneco seeks to convince government bodies in various ways of the importance of a stable investment and financing climate. In addition, Eneco spreads its sustainable investments across several countries, subsidy regimes and sustainable technologies (such as wind energy, solar energy and energy storage). Furthermore, we will only construct sustainable energy production facilities in collaboration with and at the request of customers (Client Sources), in accordance with our strategy.

**14) Tariff regulation in the regulated domain**

The tariff that the grid operator is allowed to charge (regulated domain pricing), is important in connection with the ability to finance all the costs and investments associated with ensuring the reliability of the grid. As grid operation activities relate to the long term, they require a stable regulation method. Unexpected deviations create an unstable investment climate. The company's management participates proactively in consultation bodies and addresses government bodies with the aim to arrive at a regulation that is fitting in relation to the required expenses and investments.

The method decisions for the new regulatory period published by the ACM at the end of 2016 apply for the longest possible period of 5 years. By opting for this long term, the ACM aims to stimulate grid operators to operate efficiently and to also offer customers as much tariff stability as possible.

# In control statement

The Board of Management is aware of its responsibility for the adequate and effective implementation of internal control within Eneco Group. The Eneco Control & Risk System (ECRS) is one of the instruments used by the Board of Management to guarantee that the realisation of strategic, operational and financial objectives is monitored, that reporting with respect to financial and non-financial information and KPIs is reliable and that legislation and regulations are complied with.

Risk reports are prepared each quarter at the business unit and the group level. These reports are discussed by the Board of Management and subsequent action is taken where necessary. The business units carry out self-assessments twice a year, which are subjected to random inspections by the Internal Audit department. This department also conducts internal audits independently, the results of which are discussed in the business units. If necessary, they are also discussed by the Board of Management and/or the Supervisory Board/Audit Committee. In connection with the results of the self-assessments carried out by the business units, the internal audits and recent internal and external developments, the Board of Management is devoting extra attention to business continuity management, cyber security, authorisation and change management and the unbundling. Another point of attention is demonstrating the continuous effectiveness at the 'prove me' level of the key controls relating to the supply of information. This also includes ensuring that the quality of the process descriptions is up to standard.

Based on the combined measures taken, the Board of Management is of the opinion that the main risks have been adequately controlled in 2016. The inherent limitations that apply to each internal risk management and control system must, however, be taken into account. We will therefore never be able to absolutely guarantee that we will achieve our company objectives or that no material errors, losses, fraud or violations of legislation and regulations will occur.

## Forward-looking statement

It is the opinion of the Board of Management that, following the unbundling, the Eneco Control & Risk System will continue to form a good basis for both companies for further development of the In Control activities and the concept of Enterprise Risk Management.

After unbundling, attention must be devoted to the risk tolerance and financial control framework of both companies. Furthermore, it will be necessary to carry out validations to ensure that there are no shortcomings in internal control as a result of the unbundling. It is also important that the previously mentioned areas that require extra attention continue to be high priority topics. There is no reason to assume, also after unbundling, that the ECRS will not function properly in 2017.

Governance

# Tasks and responsibilities

As Eneco has neither shares nor depositary receipts for shares listed on a stock exchange, the Dutch Corporate Governance Code (hereafter referred to as Code) does not apply for Eneco. With the exception of a number of stipulations (see eneco.nl/corporate) in 2016 Eneco did, nevertheless, comply with the Code that applied until 31 December 2016.

In view of amendments that have been made to the Code, after unbundling both companies will decide to what extent they will adopt the new Code, as soon as it will be designated as the code of conduct in accordance with Article 2:391 section 5 of the Dutch Civil Code.

## Governance roles

**Board of Management**

The Board of Management is ultimately responsible for the performance of Eneco Group and the Group companies. The Board of Management is appointed by the Supervisory Board and is accountable to the Supervisory Board and to the General Shareholders' Meeting.

Eneco's Board of Management consists of four members. Personal information on the members of the Board of Management can be found on Eneco's corporate website.

**Supervisory Board**

The Supervisory Board of Eneco Group provides advice to the Board of Management, operates independently and supervises the policy of the Board of Management and the general performance of Eneco Group and the Group companies. Personal information on the members of the Supervisory Board can be found on Eneco's corporate website.

The Supervisory Board of Eneco consists of seven members and has appointed three committees:

- The Remuneration Committee provides advice with respect to the remuneration of the members of the Board of Management. Chairman of this committee is Mirjam Sijmons. The other members are Edo van den Assem, Marieke van Lier Lels and Atzo Nicolaï.
- The Selection and Appointment Committee provides advice with respect to the selection and appointment of members of the Supervisory Board and Board of Management. Chairman of this committee is Mirjam Sijmons. The other members are Edo van den Assem and Rob Zandbergen.
- The Audit Committee supervises the integrity of financial and non-financial reporting, internal control and risk management as well as the internal and external audit process. The members of this committee are Henk Dijkgraaf (Chairman), Marco Keim and Rob Zandbergen.

**Shareholders**

The shares of Eneco Group are held by 53 municipalities. Eneco organises a General Shareholders' Meeting within six months after the closing of the financial year, or more frequently if deemed necessary by the Supervisory Board or Board of Management. During this annual General Shareholders' Meeting, the annual report is discussed and the financial statements are adopted. The General Shareholders' Meeting is also responsible for the appointment and dismissal of members of the Supervisory Board, the Board of Management remuneration policy and amendments to the articles of association (see also the section Shareholder information (page 34)).

**Code of Conduct**

The behaviour and integrity standards published on Eneco's corporate website apply for everybody working at Eneco. Employees can report any integrity-related issues to the three confidential counsellors appointed by Eneco Group (see also the section Integrity and compliance (page 35)).

# Shareholder information

## Local connection

Like no other energy company, we are connected with and focused on society. Together with our customers, shareholders and partners we strive to foster sustainability in our society. With the support of our shareholders, 53 Dutch municipalities, Eneco and Stedin are able to dedicate their attention to their sustainable course.

## Municipalities holding more than 2% of the shares

Rotterdam 31,69%,
The Hague 16,55%
Dordrecht 9,05%
Leidschendam-Voorburg 3,44%
Lansingerland 3,38%
Delft 2,44%
Zoetermeer 2,34%
Nissewaard 2,14%
Pijnacker-Nootdorp 2,10%

## Municipalities holding less than 2% of the shares

| | | |
|---|---|---|
| Aalsmeer | Giessenlanden | Oud-Beijerland |
| Achtkarspelen | Goeree-Overflakkee | Papendrecht |
| Alblasserdam | Gorinchem | Ridderkerk |
| Albrandswaard | Haarlemmerliede & Spaarnwoude | Rijswijk |
| Ameland | Hardinxveld-Giessendam | Schiedam |
| Amstelveen | Heemstede | Schiermonnikoog |
| Barendrecht | Hellevoetsluis | Sliedrecht |
| Binnenmaas | Hendrik Ido Ambacht | Strijen |
| Bloemendaal | Kollummerland c.a. | Uithoorn |
| Brielle | Korendijk | Vianen |
| Capelle aan den IJssel | Krimpen aan den IJssel | Westvoorne |
| Castricum | Krimpenerwaard | Zandvoort |
| Cromstrijen | Leerdam | Zederik |
| Dongeradeel | Lingewaal | Zwijndrecht |
| Ferwerderadiel | Molenwaard | |

# Integrity and compliance

Eneco can only play a leading role in the area of sustainability if it operates in accordance with the highest standards of conduct and always complies with the applicable legislation and regulations. To this end, we implement an active and proactive integrity and compliance policy.

## Integrity

The Eneco Code of Conduct, which describes the rules, standards and values that apply at Eneco, constitutes the framework for our actions. The integrity component is not only considered to be a trigger for intervention in case of undesired behaviour. In our view, integrity also means creating a positive culture that provides the safety and stimulation to employees that they need to promote our standards and values to the best of their ability. Our cultural values are: customer first, together, instilling trust and taking responsibility. In 2016, significant attention was also devoted to ensuring that these values are applied correctly from the perspective of integrity. This included workshops for our employees, in which we encouraged them to frequently discuss the importance of integrity and compliance with our values in their daily activities, and put this into practice.

Close attention was also paid to handling integrity issues. We have an integrity hotline and there were five confidential counsellors in 2016. After several years in which the number of incidents reported to the hotline and the confidential counsellors increased, the number of 269 incidents reported in 2016 was virtually at the same level as 2015 and appears to have stabilised.

## Compliance with legislation and regulations

Non-compliance with legislation and regulations entails risks relating to our 'license to operate' and customer reputation and also has financial consequences in the form of fines and invalid agreements. Eneco has a compliance policy in place and carries out an annual compliance programme, which are both supported by the Compliance Officer. Each year, we identify the main compliance and integrity risks and implement mitigating measures where necessary as part of the compliance programme. The Compliance Officer cooperates closely with the Legal and Regulatory Affairs departments. In addition, each business unit has its own compliance contact point.

Internal compliance assurance is obtained through the In Control statement and audits. External supervisory bodies that monitor compliance with legislation include the Authority for Consumers and Markets (ACM). In this capacity, the ACM started an investigation into compliance with the information code at one of our subsidiaries. This investigation will be completed in 2017.

An attention point in 2016 in the area of privacy was the integration of the European Privacy Regulation. Furthermore, we introduced a Data Leaks Hotline. A data leak exists if third parties inadvertently obtain personal information. Of the 196 notifications received in 2016, 118 related to a data leak. 21 data leaks were reported to the Data Protection Authority.

# Moving into the future

Now that the unbundling is a fact, we wish to thank our shareholders, customers and employees for their confidence. As two ambitious companies that have placed sustainability at the heart of their mission, strategy and core activities, we are well positioned to move into the future. Our shared vision for the future 'Decentralised Sustainable Together' will continue to form the foundation for the strategies of Eneco and Stedin. Both companies will strive to achieve what is best for customers, the local environment and society as we have done over the past years. Sustainable energy for everyone, that is the ultimate goal.

Rotterdam, 30 January 2017

Board of Management Eneco Holding N.V.

J.F. (Jeroen) de Haas, chairman
C.J. (Kees-Jan) Rameau
G.A.J. (Guido) Dubbeld
M.W.M. (Marc) van der Linden

## Report of the Supervisory Board

# Towards the new world

The Supervisory Board hereby presents the 2016 Annual Report and Financial Statements for Eneco Holding N.V., as prepared by the Board of Management.

According to the Supervisory Board, Eneco proved in 2016 that it is a solid company with a steady course, also under exceptionally dynamic (market) conditions. Despite busy work schedules in connection with the preparations for unbundling, Eneco not only succeeded in 'keeping the show on the road', but was also able to take significant steps towards the realisation of its redefined sustainable strategy and worked on creating a solid starting position for two companies with a healthy future. The Supervisory Board compliments management and employees with these achievements.

## Redefined strategy put into practice

During the past year, Eneco further embedded its redefined sustainable strategy in the organisation. The Supervisory Board closely monitored the progress of the realisation of this strategy, which centres on innovation, acceleration and collaboration. The translation of this strategy into concrete business plans for the period 2016-2020 was an important topic for the Supervisory Board. Other topics that were discussed at length during Supervisory Board meetings were (potential) acquisitions, investment proposals and restructurings that support the strategy. A recurring attention point was the balance between sufficient acceleration on the one hand and taking sufficient time to implement the required internal organisational and cultural changes on the other hand.

## Unbundling

Following the ACM's decision in December 2015, Eneco actively started to prepare for the unbundling of the energy and network company as of 31 January 2017. The Supervisory Board respects the thoroughness and diligence of everybody at Eneco who was involved in the preparation for the unbundling. In its capacity, the Supervisory Board has been closely involved in the preparations for the unbundling, including the unbundling plan and two important aspects in particular: the governance and the management and supervision following the unbundling. Edo van den Assem monitored the team of Supervisory Board members involved in the preparation of the articles of association and the shareholders’ covenant that specify how the governance of the network company and the energy company will be organised after the unbundling. Led by Mirjam Sijmons, the members of the Supervisory Board addressed the organisation of the management and supervision that will secure the future performance and continuity of both companies after the unbundling.

In addition to the previously mentioned implementation of the strategy and preparation for the unbundling, the Supervisory Board also devoted attention to improvement of performance, the financial results and (the mitigation of) company-related risks, safety, HRM themes, compliance and integrity.

## Supervisory Board composition and working method

**Consultations and attendance**

The ten regular meetings held by the Supervisory Board in 2016 were attended frequently by management representatives. The 2015 annual report and financial statements were discussed in the presence of Deloitte Accountants. The Supervisory Board members took part in the consultation meetings of the Central Works Council in turn. The chairman of the Supervisory Board and the chairman of the Board of Management met once a month and members of both boards discussed matters regularly either in person or by telephone. In addition to attending the regular meetings, the chairman and other members of the Supervisory Board were also closely involved in the important themes in 2016.

## Committees

Working with committees that specialise in specific areas proved to be especially valuable during this busy year. With a clear division of tasks, mutual trust and good communication, the Supervisory Board was able to provide its full support to the management of Eneco.

**Selection and Appointment Committee**

The Supervisory Board said goodbye to Klaas de Vries, who stepped down from the Board in March 2016, and wishes to express its appreciation for his significant contribution to Eneco over the past nine years. In March 2016, Edo van den Assem was reappointed by the General Shareholders' Meeting as chairman of the Supervisory Board for a period of four years. With the assistance of an external consultancy agency and in close consultation with the shareholders, the Selection and Appointment Committee gave shape in 2016 to the future organisation of the Boards of Management and Supervisory Boards of the network company and the energy company. For this purpose, the committee held five meetings and this matter was also regularly discussed by the members outside the context of these meetings.

**Audit Committee**

In 2016, the Audit Committee actively assisted the Board of Management of Eneco with respect to the financial consequences of the unbundling. The Audit Committee held nine meetings, one of which by telephone, all of which with the participation of Deloitte Accountants and in the presence of the internal auditor. In the presence of Deloitte Accountants, the Audit Committee also discussed and assessed annually recurring topics such as the 2015 annual report and financial statements, the independent auditor’s report for 2015, the 2016 half-year report, the 2016 audit plan, the 2016 management letter and the 2016 treasury charter. The reports of the Internal Audit department were discussed and attention was paid to the follow-up of the findings. Other attention points were the review of risks, risk management, IT policy and security.

**Remuneration Committee**

The Remuneration Committee met four times in 2016, in part in connection with the unbundling. The pension policy for the Board of Management was adapted in accordance with changes in legislation and adopted. In connection with the unbundling, the agenda item of the remuneration policy, which was updated in consultation with the shareholders, has been moved to September 2017 at the request of the shareholders. The remuneration report is available on Eneco’s corporate website. The remuneration of the members of the Board of Management and the Supervisory Board is described in further detail in the section Remuneration 2016 (page 40).

**Attendance overview Supervisory Board meetings**

| Meeting date | Edo van den Assem | Mirjam Sijmons | Klaas de Vries | Henk Dijkgraaf | Marike van Lier Lels | Marco Keim | Rob Zandbergen | Atzo Nicolaï |
|---|---|---|---|---|---|---|---|---|
| 22 January 2016 | x | x | x | x | x | x | x | x |
| 19 February 2016 | - | x | x | x (chmn) | x | x | - | x |
| 23 March 2016 | x | x | x | x | x | _ | x | x |
| 15 April 2016 | x | x | -* | x | x | _ | x | _ |
| 27 May 2016 | x | x | _* | x | _ | x | x | x |
| 30 June 2016 | x | x | _* | _ | x | x | x | x |
| 23 September 2016 | x | x | _* | x | x | x | x | x |
| 10 October 2016 | x | x | _* | x | x | x | x | x |
| 25 November 2016 | x | x | _* | - | x | x | x | x |
| 12 December 2016 | x | x | _* | x | x | - | x | x |
| | | | | | | | | |
| _* (stepped down as of 23 March 2016) | | | | | | | | |

## Internal and external connections

In order to properly perform its role as sparring partner, the Supervisory Board maintains regular direct contact with the business, both within and outside the context of the Supervisory Board meetings. The Supervisory Board also took time to gain a deeper understanding of ‘the new world’. There were many discussions with the shareholders in 2016 on topics such as the transformation of Eneco, a variety of developments and the implementation of the unbundling. The shareholders' support with respect to Eneco's sustainable strategy and their constructive attitude towards the unbundling are widely appreciated.

## Self-assessment

The Supervisory Board also critically monitors its own performance, the performance of the individual members and the performance of its committees. The insights obtained in 2015 resulted in an efficient division of tasks in 2016; this contributed to the ability of the management of the company to devote sufficient attention to the day-to-day business operations and the realisation of the strategy in addition to preparing for the unbundling. The Supervisory Board will continue this open, critical approach in 2017, which results in healthy, transparent and constructive cooperation. In that year, the Supervisory will also again have sufficient time and opportunity for an extensive self-assessment.

## Advice

The Supervisory Board would like to thank all the employees, the management, the shareholders and other partners of Eneco. Their efforts, commitment, cooperation and achievements contributed to the satisfactory result with which Eneco concluded 2016 and to the solid basis for a healthy and independent energy company and network company. The Supervisory Board views the future of both companies with confidence and fully supports Eneco and Stedin in the realisation of their sustainable course.

The Supervisory Board advises the shareholders to adopt the 2016 Financial Statements.

On behalf of the Supervisory Board of Eneco Holding N.V.

E.H.M. van den Assem
Rotterdam, 30 January 2017

# Remuneration 2016

## Board of Management remuneration policy

In determining the remuneration for members of the Board of Management, Eneco takes account of its specific position in society by applying the market principle and the moderation principle.

## Starting point

The Board of Management's primary terms of employment are determined on the basis of the 'Board of Management Remuneration Policy', which was adopted by the Eneco Group General Shareholders' Meeting on 20 May 2005.

The remuneration of the Board of Management must enable Eneco to attract and retain qualified management. The desired market position for the terms of employment of Board of Management members is the median level in the General Market for Managers. In this case, two policy principles are guiding: the market principle and the moderation principle.

## Market and moderation principles

The market principle means that Eneco should be regarded as a normal, commercial and market-oriented company. The moderation principle means that the Supervisory Board should implement a restrained remuneration policy in keeping with Eneco's history and with the fact that 100% of its shares are held by public shareholders (municipalities). Thus the benchmark of companies of a comparable scope and complexity in the private sector is not fully translated into the current remuneration of Eneco's managers.

For the determination of the remuneration policy, the Supervisory Board applies the reference framework of the general employment conditions for senior executives, which is drawn up based on the remuneration data of over 200 senior executives. In order to do justice to the market principle, Eneco Group has opted for a position around the median of the reference framework. We thus focus on the medium-large companies in the reference group and we avoid a comparison with the largest companies.

In view of the moderation principle, we apply a reduction to the median outcome. In accordance with the remuneration policy approved by the General Meeting of Shareholders, Eneco applies a bandwidth of plus or minus 20% around the reference on the median. The most recent salary reference shows that the current moderation is more than 30% below the median.

## Social results determine remuneration

In 2016 again, the remuneration of members of the Board of Management depended on performance criteria, including socially-relevant results. The four main criteria for the variable remuneration largely corresponded to the strategic themes and were:

1. financial result (EBIT);
2. revenue from new products (including Toon, WarmteWinner, Jedlix);
3. unbundling of Eneco Group;
4. projects.

Each year, Eneco publishes a remuneration report with details of the Board of Management's remuneration on the corporate website, eneco.nl/corporate.

# Financial statements

# Consolidated financial statements 2016

## Consolidated income statement

| x € 1 million | Note | 2016 | 2015 |
|---|---|---|---|
| **Continued operations** | | | |
| Net sales | 3 | 991 | 989 |
| Cost of sales | | 143 | 142 |
| **Gross margin** | | **848** | **847** |
| Other revenues | 4 | 182 | 159 |
| **Gross margin and other operating revenues** | | **1,030** | **1,006** |
| Employee benefit expenses | 5 | 155 | 166 |
| Cost of contracted work and other external costs | | 400 | 312 |
| Depreciation and impairment of property, plant and equipment | 11 | 243 | 234 |
| Amortisation and impairment of intangible assets | 12 | 2 | 2 |
| Other operating expenses | | 16 | 13 |
| **Operating expenses** | | **816** | **727** |
| **Operating profit** | | **214** | **279** |
| Financial income | | 2 | 1 |
| Financial expenses | 8 | –77 | –78 |
| **Profit before income tax** | | **139** | **202** |
| Income tax | 9 | –34 | –51 |
| **Profit after income tax from continued operations** | | **105** | **151** |
| **Discontinued operations** | | | |
| Profit after income tax from discontinued operations | 10 | 94 | 57 |
| **Profit after income tax** | | **199** | **208** |
| | | | |
| **Profit distribution:** | | | |
| Profit after income tax attributable to holders of Eneco Holding N.V. perpetual subordinated bonds | | 12 | 12 |
| Profit (loss) after income tax attributable to non-controlling interests | | – | – |
| Profit after income tax attributable to shareholders of Eneco Holding N.V. | | 187 | 196 |
| **Profit after income tax** | | **199** | **208** |

## Consolidated statement of comprehensive income

| x € 1 million | 2016 | 2015 |
|---|---|---|
| **Profit after income tax** | **199** | **208** |
| | | |
| **Unrealised gains and losses that will not be reclassified to profit or loss** | | |
| Fair value adjustment for regulated networks | –40 | – |
| | | |
| **Unrealised gains and losses that may be reclassified to profit or loss** | | |
| Exchange rate differences | –35 | 22 |
| Unrealised gains and losses on cash flow hedges | –65 | 72 |
| Deferred tax liabilities on cash flow hedges and hedge of net investment in foreign operations | 12 | –18 |
| | | |
| **Total other comprehensive income** | **–128** | **76** |
| **Total comprehensive income** | **71** | **284** |
| | | |
| **Profit distribution:** | | |
| Holders of Eneco Holding N.V. perpetual subordinated bonds (after income tax) | 12 | 12 |
| Non-controlling interests | – | – |
| Shareholders of Eneco Holding N.V. | 59 | 272 |
| **Total comprehensive income** | **71** | **284** |

## Consolidated balance sheet

| x € 1 million | Note | At 31 December 2016 | At 31 December 2015 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 5,205 | 7,487 |
| Intangible assets | 12 | 10 | 315 |
| Associates and joint ventures | 14 | – | 61 |
| Deferred income tax assets | 15 | – | 5 |
| Financial assets | | | |
| - Derivative financial instruments | 16 | 42 | 184 |
| - Other financial assets | 17 | 6 | 42 |
| **Total non-current assets** | | **5,263** | **8,094** |
| **Current assets** | | | |
| Assets held for distribution to shareholders | 19 | 4,234 | – |
| Assets held for sale | 18 | 64 | 325 |
| Intangible assets | | – | 23 |
| Inventories | | 29 | 71 |
| Trade receivables | 20 | 105 | 604 |
| Current tax receivable | | 6 | – |
| Other receivables | 21 | 34 | 196 |
| Derivative financial instruments | 16 | – | 221 |
| Cash and cash equivalents | 22 | 77 | 367 |
| **Total current assets** | | **4,549** | **1,807** |
| **TOTAL ASSETS** | | **9,812** | **9,901** |
| | | | |
| **Equity** | | | |
| Equity attributable to Eneco Holding N.V. shareholders | 23 | 4,806 | 4,845 |
| Perpetual subordinated bonds | 23 | 501 | 501 |
| Non-controlling interests | 23 | 3 | 4 |
| **Total equity** | | **5,310** | **5,350** |
| **Non-current liabilities** | | | |
| Provisions for employee benefits | 24 | 18 | 34 |
| Other provisions | 25 | 13 | 82 |
| Deferred income tax liabilities | 15 | 207 | 431 |
| Derivative financial instruments | 16 | 47 | 141 |
| Interest-bearing debt | 26 | 1,394 | 1,789 |
| Other liabilities | 27 | 395 | 438 |
| **Total non-current liabilities** | | **2,074** | **2,915** |
| **Current liabilities** | | | |
| Liabilities held for distribution to shareholders | 19 | 1,896 | – |
| Liabilities held for sale | 18 | 5 | 18 |
| Provisions for employee benefits | 24 | 2 | 8 |
| Other provisions | 25 | – | 5 |
| Derivative financial instruments | 16 | – | 164 |
| Interest-bearing debt | 26 | 250 | 54 |
| Current income tax liabilities | | – | 87 |
| Trade and other liabilities | 27 | 275 | 1,300 |
| **Total current liabilities** | | **2,428** | **1,636** |
| **TOTAL EQUITY AND LIABILITIES** | | **9,812** | **9,901** |

## Consolidated cash flow statement

| x € 1 million | 2016 | 2015 |
|---|---|---|
| **Profit after income tax** | **199** | **208** |
| Adjusted for: | | |
| · Financial income and expense recognised in profit or loss | 81 | 74 |
| · Income tax recognised in profit or loss | 47 | 61 |
| · Share of profit of associates and joint ventures | –7 | –9 |
| · Depreciation, amortisation and impairment | 495 | 495 |
| · Result from sale of tangible and intangible assets | 12 | 5 |
| · Movements in working capital | –121 | –88 |
| · Movements in provisions, derivative financial instruments and other | 24 | 34 |
| **Cash flow from business operations** | **730** | **780** |
| | | |
| Dividend received from associates and joint ventures | 8 | 2 |
| Interest paid | –83 | –75 |
| Interest received | 3 | 7 |
| Income tax paid | –154 | –25 |
| **Cash flow from operating activities** | **504** | **689** |
| | | |
| Issued loans granted | –4 | –18 |
| Repayments of loans granted | 18 | 27 |
| Acquisition of subsidiaries | –27 | –50 |
| Disposal of subsidiaries | 3 | – |
| Acquisition of joint operations, joint ventures and associates | –2 | –1 |
| Disposal of joint operations, joint ventures and associates | – | 3 |
| Investments in property, plant and equipment | –525 | –706 |
| Disposal of property, plant and equipment | 7 | 21 |
| Investments in intangible assets | –7 | –9 |
| Disposal of assets held for sale | – | 34 |
| **Cash flow from investing activities** | **–537** | **–699** |
| | | |
| Dividend payments | –98 | –104 |
| Coupon on perpetual subordinated bonds | –16 | –16 |
| Repayment of non-current interest-bearing debt | –63 | –37 |
| Repayment of current interest-bearing debt | –75 | –70 |
| Non-current interest-bearing debt issued | 216 | 6 |
| Current interest-bearing debt issued | 124 | – |
| Acquisition of non-controlling interests | – | –8 |
| **Cash flow from financing activities** | **88** | **–229** |
| | | |
| **Movements in cash and cash equivalents:** | **55** | **–239** |
| Balance of cash and cash equivalents at 1 January | 367 | 606 |
| Translation gains and losses on cash and cash equivalents of subsidiaries | –1 | – |
| Balance of cash and cash equivalents in acquired subsidiaries | 1 | – |
| Balance of cash and cash equivalents on disposed subsidiaries and disposal of consolidated entities | –2 | – |
| **Balance of cash and cash equivalents at 31 December** | **420** | **367** |

The consolidated cash flow statement includes the cash flows for both continued operations and discontinued operations. See section 1.2 'Preparations for the unbundling of Eneco Group on 31 January 2017' and note 19 'Assets/liabilities held for distribution to shareholders' for further information. At 31 December 2016, the balance of cash and cash equivalents relating to continued operations was € 77 million and that for discontinued operations was € 343 million.

# 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** |
| Reclassification depreciation regulated networks (after tax) | – | – | – 42 | – | – | 42 | – | – | – | – | – |
| Translation result | – | – | – | 22 | – | – | – | 22 | – | – | 22 |
| Unrealised gains and losses on cash flow hedges | – | – | – | – | 72 | – | – | 72 | – | – | 72 |
| Deferred tax liabilities on cash flow hedges | – | – | – | – | – 18 | – | – | – 18 | – | – | – 18 |
| **Total other comprehensive income** | **–** | **–** | **– 42** | **22** | **54** | **42** | **–** | **76** | **–** | **–** | **76** |
| Profit after income tax 2015 | – | – | – | – | – | – | 196 | 196 | 12 | – | 208 |
| **Total comprehensive income** | **–** | **–** | **– 42** | **22** | **54** | **42** | **196** | **272** | **12** | **–** | **284** |
| Profit appropriation 2014 | – | – | – | – | – | 102 | – 102 | – | – | – | – |
| Dividend payments relating to 2014 | – | – | – | – | – | – | – 103 | – 103 | – | – | – 103 |
| Capital contribution | – | – | – | – | – | – | – | – | – | 1 | 1 |
| Coupon on perpetual subordinated bonds | – | – | – | – | – | – | – | – | – 16 | – | – 16 |
| Tax on coupon on perpetual subordinated bonds | – | – | – | – | – | – | – | – | 4 | – | 4 |
| 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** |
| Fair value adjustment for regulated networks | – | – | –40 | – | – | – | – | –40 | – | – | –40 |
| Reclassification depreciation regulated networks (after tax) | – | – | –37 | – | – | 37 | – | – | – | – | – |
| Translation result | – | – | – | –35 | – | – | – | –35 | – | – | –35 |
| Unrealised gains and losses on cash flow hedges | – | – | – | – | –65 | – | – | –65 | – | – | –65 |
| Deferred tax liabilities | – | – | – | –4 | 16 | – | – | 12 | – | – | 12 |
| **Total other comprehensive income** | **–** | **–** | **–77** | **–39** | **–49** | **37** | **–** | **–128** | **–** | **–** | **–128** |
| Profit after income tax 2016 | – | – | – | – | – | – | 187 | 187 | 12 | – | 199 |
| **Total comprehensive income** | **–** | **–** | **–77** | **–39** | **–49** | **37** | **187** | **59** | **12** | **–** | **71** |
| Profit appropriation 2015 | – | – | – | – | – | 98 | – 98 | – | – | – | – |
| Dividend payments relating to 2015 | – | – | – | – | – | – | – 98 | – 98 | – | – | – 98 |
| Coupon on perpetual subordinated bonds | – | – | – | – | – | – | – | – | – 16 | – | – 16 |
| Tax on coupon on perpetual subordinated bonds | – | – | – | – | – | – | – | – | 4 | – | 4 |
| Change in non-controlling interests | – | – | – | – | – | – | – | – | – | – 1 | – 1 |
| **Per 31 december 2016** | **497** | **381** | **702** | **6** | **– 30** | **3,063** | **187** | **4,806** | **501** | **3** | **5,310** |

# Notes to the consolidated 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').

In line with its mission of 'sustainable energy for everyone', 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. The sustainable Energy Company generates, trades and supplies electricity and gas and covers the entire supply chain. 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 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. Eneco Group also transmits energy (electricity, gas and heating), shaping regional network management of electricity and gas, and there are other activities related to infrastructure, such as public lighting and the installation of medium and high voltage networks. In addition to the Netherlands, Eneco operates in Belgium, France, Germany 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. One example is the joint investment with Mitsubishi Corporation in the Luchterduinen offshore wind farm that came on stream in 2016. Eneco is a member of the Enecogen VOF power station partnership and has an interest in Groene Energie Administratie B.V. (Greenchoice). Eneco has also entered into alliances with the National Cyber Security Centre (NCSC) and Energy Data Services Netherlands (EDSN) to enhance the security of its basic infrastructure and information systems.

There is more information on the composition of Eneco Group and classification under IFRS in the 'Segment information', note 10 'Result after tax from discontinued operations' and 'List of principal subsidiaries, joint operations, joint ventures and associates ' section.

The consolidated financial statements have been prepared by the company's Board of Management. The 2016 financial statements were signed by the Supervisory Board and the Board of Management during the meeting on 30 January 2017 and will be presented for adoption by the General Shareholders' Meeting on 17 March 2017.

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

The company's consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) in force at 31 December 2016, as adopted by the European Commission, and with the provisions of Part 9, Book 2 of the Dutch Civil Code. Where necessary, accounting policies of joint operations, joint ventures and associates have been aligned with those of Eneco Holding N.V. The consolidated financial statements have been prepared on a going-concern basis using the accrual basis of accounting.

The company income statement is presented in abridged form pursuant to the provisions of Section 402, Part 9, Book 2 of the Dutch Civil Code.

## 1.2 Preparations for the unbundling of Eneco Group on 31 January 2017

**Supreme Court ruling on unbundling/definitive unbundling plan/consequences for the financial statements 2016**

On 1 November 2016, the Court of Appeal in Amsterdam confirmed judgement of the Court in The Hague of 11 March 2009 and rejected Eneco Holding N.V.'s grounds for appeal against the statutory provisions known as the group prohibition (or forced unbundling) that were based on Article 1 of the First Protocol to the European Convention on Human Rights. The Dutch Supreme Court had previously issued a ruling on the forced unbundling of Dutch energy companies on 26 June 2015, which stated that the group prohibition in the Electricity and Gas Act does not conflict with European Union legislation on the free movement of capital and freedom of establishment.

Pursuant to the 'enforcement decree' issued by the Netherlands Authority for Consumers and Markets (ACM) on 3 December 2015 and the ACM's ruling on the appeal against it of 20 June 2016, Eneco Group (with Eneco Holding N.V. as the ultimate holding company) must be unbundled by 31 January 2017 into a 'Network Group' (with the grid operator) and an 'Energy Company' (with operations including energy supply, trading and production). Eneco Holding N.V. is complying with the decree by separating the Energy Company from the current ultimate holding company, Eneco Holding N.V., whereas Stedin Netbeheer B.V. and certain subsidiaries continue to be positioned under that holding company. To this end, all the shares held by Eneco Holding N.V. in the future Energy Company will be distributed to the shareholders of Eneco Holding N.V as a dividend in kind on 31 January 2017. The two companies will have 53 municipal shareholders who until the unbundling were shareholders in the then integrated Eneco Holding N.V. group.

To prepare for the forced unbundling of Eneco Group on 31 January 2017, its effects have been incorporated in these 2016 consolidated financial statements of Eneco Holding N.V. in accordance with the applicable IFRS and other provisions as follows:

1. The actual unbundling of the Group into a 'Network Group' and a sustainable 'Energy Company' will take place by the distribution of the shares that Eneco Holding N.V. holds in Eneco Groep N.V. to the shareholders on 31 January 2017. Ahead of the unbundling, N.V. Eneco Beheer will be contributed to Eneco Groep N.V.
2. The Network Group will comprise Eneco Holding N.V., Stedin Netbeheer B.V. (including its subsidiaries and other associates), Stedin Diensten B.V. (including its subsidiaries and other associates), CityTec B.V., Joulz Energy Solutions B.V. and Utility Connect B.V.; hereafter referred to as the 'Network Group'.
3. The sustainable Energy Company will comprise Eneco Groep N.V. (the new ultimate holding company of the Energy Company), N.V. Eneco Beheer, Eneco B.V. (including its subsidiaries and other associates) and Eneco Innovation & Ventures B.V. (including its subsidiaries and other associates); hereafter referred to as the 'Energy Company'.
4. As a result of the application of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the consolidated balance sheet at 31 December 2016 includes an asset 'Assets held for distribution to shareholders' and a liability 'Liabilities held for distribution to shareholders'. These include all the assets and liabilities (excluding equity and intercompany financing) of the Energy Company respectively.
5. The figures in the consolidated income statement for 2016 have been separated into continued operations and discontinued operations. Continued operations include the results of the Network Group for the full year 2016 and the comparative figures for 2015 have been restated. Discontinued operations include the results of the Energy Company for the full year 2016. In this case also, the comparative figures for 2015 have been restated. The restatements are in accordance with the Accounting policies as set out in section 2.1 under 'Discontinued operations'.
6. The consolidated statement of comprehensive income includes the figures for Eneco Group for the full year 2016. Note 19 sets out the amounts that relate to the Energy Company.
7. The consolidated cash flow statement includes the figures for Eneco Group for the full year 2016. Note 10 sets out the amounts for operating, investing and financing cash flows related to the Energy Company.
8. The consolidated statement of changes in equity includes the figures for Eneco Group for the full year 2016 and the balance at 31 December 2016.

## 1.3 New and amended IFRS standards

The following amendments to existing IFRS standards are relevant to Eneco and had been adopted by the European Commission at 1 January 2016. They have been applied as necessary when preparing these financial statements:

- 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. This amendment does not affect the Group's results or equity. No such transactions occurred in 2016;

- IAS 1 'Presentation of financial statements': this is the first amendment to this standard as part of the IASB 'Disclosure Initiative' project that addresses revisions to notes to the financial statements. These amendments have been taken into account in general when preparing these financial statements 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 it is not material even if another IFRS standard requires a note on that item;

  - 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.

The amendments to IAS 1 apply to disclosures and so do not affect the Group's results or equity.

The following new IFRS standards are relevant to Eneco and have been adopted by the European Commission but are not mandatory for 2016. They will be applied from 1 January 2018:

- IFRS 9 'Financial Instruments': this standard sets a comprehensive framework for the classification, presentation, recognition and measurement of all financial assets and liabilities and replaces the existing regulations in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 with early adoption permitted, but the Group will not do this. This standard includes amended provisions on the classification of financial assets and liabilities that are closer to the business model and on impairment of financial assets based on an 'expected loss' model rather than an 'incurred loss' model. The provisions on hedge accounting have also been amended to be more closely in line with businesses' risk policy and are less rigid. The Group does not intend to amend the basis of its measurement of those financial instruments when implementing this standard. Eneco expects to complete the analysis of the potential effect on the consolidated financial statements from applying this standard during the first half of 2017.

- IFRS 15 'Revenue from Contracts with Customers': this standard provides a framework for revenue recognition. This new standard replaces the existing regulations on revenue recognition, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 18 'Transfers of Assets from Customers'. IFRS 15 is effective for reporting periods beginning on or after 1 January 2018 with early adoption permitted, but the Group will not do this. Eneco expects to complete the analysis of the potential effect on the consolidated financial statements from applying this standard during the first half of 2017.

Other new IFRS standards, amendments to existing standards and new interpretations that will apply in later reporting periods but that have not yet been adopted by the European Commission and/or that are not relevant to Eneco are not addressed further in these financial statements.

## 1.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Eneco Holding N.V., its subsidiaries and the relevant proportion of the joint operations, non-consolidated joint ventures, associates and other capital interests.

**Subsidiaries**

A subsidiary is an entity where the company exercises control. This means that the company controls, directly or indirectly, that entity's financial and business operations with the purpose of gaining economic benefits from the activities of that entity. Control is based on whether the investor (1) exercises control over the entity, (2) is exposed, or has rights, to variable returns from the investment in the entity and (3) has the ability to affect those returns through its control. In general, the company holds more than half the shares in its subsidiaries.

The financial statements of a subsidiary are recognised in the consolidated financial statements according to the full consolidation method from the date on which control is obtained until the date on which that control no longer exists. Potential voting rights which can be exercised immediately are also taken into account when determining whether control exists. Pursuant to the full consolidation method, 100% of the assets, liabilities, income and expenses from subsidiaries are recognised in the consolidated financial statements. Intercompany balance sheet positions, transactions and results on such transactions between subsidiaries are eliminated.

Non-controlling interests consist of the capital interests of minority shareholders in the fair value of the identifiable assets and liabilities when a subsidiary is acquired and the non-controlling interest in subsequent changes to the equity. Non-controlling interests in the equity and results of subsidiaries are disclosed separately.

**Joint operations / Joint ventures**

Joint operations and joint ventures are entities for alliances in respect of which there are contractual undertakings with one or more parties under which they have joint decisive control over that entity. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Only the Group's share of assets, liabilities, income and expenses of joint operations are consolidated, in accordance with the accounting policies of the Group. Joint ventures are recognised using the equity method in accordance with the accounting policies of the Group. Interests in joint operations and joint ventures are recognised from the date on which joint control is obtained until that joint control no longer exists.

**Associates**

An associate is an entity where there is significant influence over the financial and operating strategy, but not control. In general, 20% to 50% of the voting rights are held in an associate.

The share in associates is recognised in the consolidated financial statements using the equity accounting method, in which initial recognition is at historical cost with the carrying amount being adjusted for the share in the result. Dividends received are deducted from the carrying amount. Associates are recognised from the date on which significant influence has been obtained until the date on which that influence no longer exists. Results on transactions with associates are eliminated in proportion to the interest in the associate. Impairment losses on associates are not eliminated.

Losses on associates are recognised up to the amount of the net investment in the associate, including both the carrying amount and any loans granted to the associate. A provision is only formed for the share in further losses if Eneco has assumed liability for those losses.

**Other capital interests**

Other capital interests are investments in entities in which the Group has an interest but where neither control nor significant influence can be exercised. These interests are carried at fair value with movements recognised through profit or loss. If its fair value cannot be reliably measured, a capital interest is carried at historical cost. Dividends are recognised through the income statement when they fall due.

# 2. Accounting policies

## 2.1 General

The principal accounting policies used when preparing the 2016 financial statements are summarised below.

The accounting policies used in these financial statements are consistent with the accounting policies applied in the 2015 financial statements, except for the effect of new and amended standards as set out in 1.3 New and amended IFRS standards'.

The accounting policies presented in this section have been applied to both continued and discontinued operations.

**Judgements, estimates and assumptions**

In preparing the financial statements 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.

**Impairment of assets**

There is evidence of an impairment when the carrying amount of an asset is higher than the recoverable amount. The recoverable amount of an asset is the higher of the sale price less costs to sell and the value in use. An asset's value in use is based on the present value of estimated future cash flows calculated using a pre-tax discount rate which reflects the time value of money and the specific risks of the asset. The recoverable amount of an asset which does not independently generate a cash flow and is dependent on the cash flows of other assets or groups of assets is determined for the cash-generating unit of which the asset is part.

A cash-generating unit is the smallest identifiable group of assets separately generating cash flows that are significantly independent of the cash flows from other assets or groups of assets. Cash-generating units are distinguished on the basis of the economic interrelationship between assets and the generation of external cash flows and not on the basis of separate legal entities.

Goodwill is allocated on initial recognition to one or more cash-generating units in line with the way in which the goodwill is assessed internally by the management.

Impairment tests are performed each half year. If there is evidence of impairment, the recoverable amount of the relevant asset or cash-generating unit is determined. The recoverable amount of goodwill is determined each year.

When the carrying amount of assets allocated to a cash-generating unit is higher than the recoverable amount, the carrying amount is reduced to the recoverable amount. This impairment is recognised through the income statement. Impairment of a cash-generating unit is first deducted from the goodwill attributed to that unit (or group of units) and then deducted proportionately from the carrying amount of the other assets of that unit (or group of units).

Impairment may be reversed through the income statement if the reasons for it no longer exist or have changed. Impairment is only reversed up to the original carrying amount less regular depreciation. Impairment losses on goodwill are not reversed.

**Foreign currencies**

The euro (€) is Eneco's functional currency and the currency in which the financial statements are presented. Transactions in foreign currencies are translated into euros at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies on the reporting date are translated into euros at the exchange rate prevailing on the reporting date. Foreign currency exchange differences that arise on translation are recognised through the income statement.

If the functional currency of a foreign subsidiary, joint operation, joint venture or associate is not the euro, foreign currency exchange differences arising from translation are recognised as translation differences in equity. The accumulated translation difference is recognised through the income statement when a foreign subsidiary, joint operation, joint venture or associate is sold. Translation differences on monetary items that are or were part of the net investment in such foreign operations are also accumulated in the translation reserve and released to profit or loss on sale of the foreign operation.

**Netting off**

Receivables and payables with a counterparty are netted off if there is a contractual right and the intention to settle net. In the absence of an intention or actual netted settlement, the existence of an asset or liability is determined for each contract.

**Segment information**

Business segments are based on Eneco's internal organisation and management reporting structure. The results of business segments are reviewed regularly by the Board of Management ('chief operating decision maker') to make decisions about resources to be allocated to a segment and assess its performance.
Transfer prices for internal products and services are on arm's length terms. The group accounting policies are also applied in the segment reports. The results of individual segments do not include financial income and expense, share of profit of associates and joint ventures or the tax charge.

**Discontinued operations**

A discontinued operation is a component of the Group's operations that is being sold or disposed of or that has been classified as 'held for sale' and whose activities and cash flows can be clearly distinguished from the rest of the Group and that meets one of the following conditions:

- it represents a separate major line of business or geographical area of operations;
- is part of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation takes place on the first date of sale/disposal of the business unit or when the operations meet the criteria for 'assets and liabilities held for sale'/'assets and liabilities held for distribution to shareholders'.

The net result on a discontinued operation is recognised in the income statement as a single amount as 'Profit after income tax from discontinued operations' and consequently does not form part of the operating profit. The comparative figures in the income statement have been restated accordingly as if these operations had been discontinued at the start of the previous financial year.

Where necessary, eliminations for consolidation have been made when preparing the figures for the 'result from discontinued operations' compared with the 'result from continued operations'.

## 2.2 Revenues

Revenues are recognised when it is probable that the economic benefits will be attributed to Eneco and the revenues can be reliably measured. Revenues are recognised less discounts, taxes and levies, such as energy tax and value added tax. Amounts that are invoiced and collected for third parties are not recognised as revenues.

**Energy supply**

Revenues from the sale of energy and transmission services to end users are recognised at the time of supply, when the rewards of ownership and risk of any impairment are transferred to the customer.

**Net sales**

Regulated sales of electricity, gas and metering services to large-volume consumers are billed monthly based on meter readings. The mandatory suppliers model for retail consumers has been in place since 1 August 2013. Transmission revenues are billed to the grid operator by energy suppliers with a one month delay.

Actual costings under the applicable regulatory method settled through regulated tariff decisions are recognised as revenue in the year in which the tariff is actually generated on the basis of the service provided in that year.

**Energy-related activities**

Revenues from the construction, maintenance and leasing of energy installations and equipment and, for example, the sale of solar panels and rental of smart thermostats are recognised as revenues from energy-related activities.

**Services and construction contracts**

Revenues are recognised through the income statement using the percentage of completion method when they become sufficiently certain. The extent to which performance has been delivered is determined on the basis of either the relationship between the costs incurred and the total expected costs or an analysis of the work performed.

**Trading of energy commodities and CO2 emission rights**

When sale and purchase contracts for energy commodities and emission rights not concluded for the company's own use but for trading purposes are entered into, countervailing sales and purchase contracts are concluded at virtually the same time. Gains and losses arising from such trading transactions are netted and recognised as Other revenues from the time the relevant transactions are concluded. Gains and losses arising from the revaluation to fair value of a trading contract are recognised directly through the income statement as Other revenues.

**Government grants**

Government grants are recognised when it is reasonably certain that the conditions related to receiving the grants have been or will be met and that the grants have been or will be forthcoming. Grants related to income as a contribution to costs are recognised as revenues in the period in which those costs are incurred.

## 2.3 Cost of sales

The purchase cost of energy contracts and commodities intended for the company's own use is recognised in the same period as that in which the revenues from the sale are realised. This also applies to the costs of transmission and the cost of compensation for technical and administrative network losses.

## 2.4 Financial income and expenses

Financial income and expenses comprise interest income from outstanding investments, dividend revenues from other capital interests, interest charges on borrowings, foreign exchange rate gains and losses and gains and losses on financial hedge instruments recognised through the income statement. Interest income and expenses are recognised using the effective interest method. Dividend revenues from other capital interests are recognised when they fall due.

## 2.5 Income taxes

Income taxes comprise current taxes and movements in deferred taxes. These amounts are recognised through the income statement unless they concern items that are recognised directly through equity.

Current tax is the likely amount of income taxes payable or recoverable in respect of the taxable profit or loss for the year under review and is calculated on the basis of applicable tax legislation and rates.

Income taxes comprise all taxes based on taxable profits and losses, including taxes which subsidiaries, associates or joint ventures must pay on distributions to Eneco Holding N.V.

Additional income taxes on the result before dividend distributions are recognised at the same time as the obligation to distribute that dividend is recognised.

## 2.6 Property, plant and equipment

**Networks and network-related assets in the regulated domain**

Stedin's networks and network-related assets in the regulated domain have been revalued and are measured at the revaluation, which is the fair value at the date of the revaluation less accumulated depreciation and impairment.

The fair value of these network assets is measured at the beginning of each regulatory period. If in the interim the fair value differs significantly from the carrying amount, the revaluation will be adjusted. An increase in the carrying amount as a result of a revaluation of networks and network-related assets in the regulated domain is recognised directly in equity through the revaluation reserve. A reduction in the carrying amount is also recognised directly in equity through the revaluation reserve up to the amount of any previous increase in the same asset. If that figure is exceeded, the excess is recognised as a charge in the income statement.

The difference between depreciation based on the revalued carrying amount and depreciation based on the original cost, less deferred tax, is transferred periodically from the revaluation reserve to retained earnings.

### Other property, plant and equipment

Other property, plant and equipment is recognised at cost less accumulated depreciation and impairment. Cost comprises the initial acquisition price plus all directly attributable costs. Cost of assets constructed by the company comprises the cost of materials and services, direct labour and other directly attributable costs. Contributions towards cost from third parties and government grants are deducted from the cost, provided they are not contributions from customers. Cost includes an estimate of the present value of the cost of dismantling, demolishing and removing the item when it ceases to be used and of restoring the site on which it is located, if there is a legal or constructive obligation to do so. Financing costs (interest) directly attributable to the purchase, construction or production of an eligible asset are recognised in cost. If an asset comprises multiple significant components with differing useful lives, these components are recognised separately.

### Government grants

Government grants are recognised when it is reasonably certain that the conditions related to receiving the grants have been or will be met and that the grants have been or will be forthcoming. Grants contributing to the cost of an asset are deducted from the asset's cost and reflected in the depreciation throughout the useful life of the asset.

### Expenditure incurred subsequent to initial recognition

Expenses incurred at a later date are only added to the carrying amount of an asset if and to the extent that the condition of the asset is improved compared to the originally formulated performance standards. Repair and maintenance are recognised through the income statement in the period in which the costs are incurred.

### Depreciation

The depreciation charge for each period is recognised through the income statement using the straight-line method based on estimated useful life, taking into account the estimated residual value. Useful lives and residual values are reassessed annually and any changes are recognised prospectively. Land, sites and assets under construction are not depreciated.

The following useful lives are applied:

| Category | Useful life in years |
|---|---|
| Buildings | 25 - 50 |
| Machinery and equipment | 10 - 50 |
| Networks, regulated | 10 - 50 |
| Other operating assets | 3 - 25 |

## 2.7 Leases (Eneco as lessee)

A lease where Eneco, as lessee, has in fact all the benefits and risks of ownership is designated as a finance lease; otherwise, such agreements are recognised as operating leases.

Property, plant and equipment acquired on a finance lease are recognised, when the lease commences, at the lower of fair value of the leased asset and the present value of the lease instalments. These assets are then recognised pursuant to the accounting policies for property, plant and equipment. Lease instalments are broken down into interest and repayment components. The interest component is based on a constant periodic rate of interest on the carrying amount of the investment. The interest component is recognised through the income statement in the relevant period. The repayment component is deducted from the lease obligation.

Operating lease instalments are recognised in equal amounts through the income statement over the term of the lease.

## 2.8 Goodwill

The acquisition price of a subsidiary, joint venture or associate is equal to the amount paid to purchase the interest. If the acquisition price is higher than the share in the fair value at the date of acquisition of the identifiable assets, liabilities and contingent liabilities, the excess is recognised as goodwill. Any shortfall is recognised as a gain (bargain purchase) through the income statement.

Goodwill is measured at cost less impairment. Goodwill is allocated to one or more cash-generating units. Goodwill is tested for impairment annually.

Goodwill purchased on acquisition of subsidiaries and joint operations is recognised in the balance sheet as intangible assets. Goodwill paid to acquire an interest in a joint venture or associate is included in the cost of acquisition.

## 2.9 Other intangible assets

Other intangible assets comprise customer databases acquired with acquisitions, software and licences, concessions, permits, rights and development costs. The related costs are capitalised if it is probable that these assets will have an economic benefit and their costs can be reliably measured. Other intangible assets are recognised at cost less accumulated amortisation and impairment.

**Customer databases**

A customer database obtained from an acquiree is initially recognised at fair value. This value is determined on the date of acquisition on the basis of the most recent comparable transactions if the economic conditions are comparable or, if they are not, the fair value is determined from the present value of the estimated future net cash flow from this asset.

**Software**

Software is capitalised at cost. Cost of standard and customised software comprises the one-time costs of licences plus the costs of making the software ready for use. All costs attributable to software which qualifies as an intangible asset are recognised at cost. Costs of software maintenance are recognised as an expense in the period in which they are incurred.

**Development costs**

Development costs are the costs of applying knowledge acquired through research by the company or a third party for a plan or design for the manufacture or application of improved materials, products, processes, systems or services, prior to the commencement of commercial manufacture or use. Development costs are only capitalised if they can be regarded as intangible assets. If this is not the case, they are recognised as an expense in the period in which they are incurred. Research costs are the costs of research aimed at the acquisition of new scientific or technical knowledge and understanding and are recognised through the income statement in the period in which they are incurred.

**Amortisation**

Amortisation is recognised as an expense on the basis of the estimated useful life from the time that the relevant asset is taken into use. Other intangible assets are amortised using the straight-line method. The residual value of these assets is nil.

The following useful lives are applied:

| Category | Useful life in years |
|---|---|
| Customer databases | 6 - 20 |
| Licences | 3 - 30 |
| Software | 3 - 5 |
| Concessions, permits and rights | 3 - 30 |
| Development costs | 5 - 15 |

## 2.10 Emission rights

Emission rights are categorised on initial recognition either as rights intended for the company's own use or as rights destined to be traded.

Emission rights held for periodic redeeming to the government for actual $CO_2$ emissions (company's own use) are recognised as intangible assets and recognised at cost. Rights of a current nature are presented as intangible assets. A provision, also carried at cost, is formed for this redemption obligation. If a shortfall in the quantity required for redeeming is expected, an addition, charged through the income statement, is made to this provision for the lower of the market value of that shortfall or the penalty expected to be due for that shortfall.

Emission rights held for trading purposes are recognised as derivative financial instruments. The profit or loss arising from revaluing these rights to fair value is recognised directly through the income statement as Other revenues.

## 2.11 Deferred taxes

Deferred taxes are calculated using the balance sheet method for the relevant differences between the carrying amount and taxable value of assets and liabilities. Deferred taxes are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on applicable tax rates and tax laws. Deferred taxes are recognised at face value.

Deferred tax assets are recognised for temporary differences available for relief, tax losses carried forward and the settlement of unused tax credits if and to the extent it is probable that future taxable profit will become available, so enabling an offset of unrelieved tax losses and unused taxed credits.

Deferred tax assets for all temporary differences available for relief relating to investments in subsidiaries, joint operations and interests in associates and joint ventures are only recognised if it is probable that the temporary difference will be settled in the near future and that future taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences arising from investments in subsidiaries, joint operations and interests in associates and joint ventures, unless Eneco can determine the time at which the temporary difference will be settled and it is probable that the temporary difference will not be settled in the near future.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off tax assets against tax liabilities and where the deferred tax assets and liabilities relate to taxes levied by the same tax authority on the same fiscal unity.

## 2.12 Derivative financial instruments

There is exposure to risks in operational and financing activities arising from developments in market prices of energy commodities (electricity, gas, oil, etc.), foreign currencies, interest rates and emission rights. Derivative financial instruments such as financial option, future and swap contracts are used to manage these risks. In the case of commodity contracts, the instruments are categorised as for own use, trading or hedging when the transaction is entered into. Derivative financial instruments other than commodity contracts are generally only entered into to hedge risk.

**Measurement and recognition**

Derivative financial instruments are measured at fair value, which is based on listed bid prices for assets held or for liabilities to be issued and current offer prices for the assets to be acquired or the obligations held (mark-to-market). Derivative financial instruments for energy commodity contracts are measured using mid-prices.

Derivative financial instruments with a positive value are recognised as current (settlement within one year) or non-current (settlement after one year) assets. Instruments with a negative value are recognised as current or non-current liabilities. Assets and liabilities with each counterparty are netted off if there is a contractual right and the intention to settle the contracts net.

Movements in the fair value of derivative financial instruments are recognised directly through the income statement, unless the derivative financial instruments are for own use or risk hedging.

**Own use**

Contracts are classified for own use if they are settled by physical delivery or receipt of energy commodities or emission rights in line with the company's needs. Transactions based upon these contracts are recognised through the income statement in the period in which delivery or receipt takes place (accrual accounting).

**Hedge accounting**

Contracts are classified as hedging instruments if the risk of fluctuations in current or future cash flows which could affect the result is hedged. If the hedge can be attributed to a particular risk or to the full movement in the transaction (energy contracts) associated with an asset, liability or highly probable forecast transaction, the attributed derivative financial instruments are recognised as hedging instruments.

If the conditions for hedge accounting are met, the effective portion of the changes to the fair value of the derivative financial instruments concerned are recognised directly in the equity through the cash flow hedge reserve. The ineffective portion is recognised through the income statement.

Amounts recognised through equity are recognised through the income statement when the hedged asset or liability is settled. When a hedge instrument expires, is sold, terminated or exercised, or when the conditions for hedge accounting are no longer met, although the underlying future transaction has yet to take place, the accumulated result remains in equity (in the cash flow hedge reserve) until the forecast future transaction has taken place. If the forecast future transaction is no longer likely to take place, the cumulative result is transferred directly from equity to the result.

Net investment hedge accounting is applied to mitigate translation differences on foreign non-euro operations. Application of this type of hedge accounting means that foreign currency exchange differences arising from translation of foreign operations and those on financial instruments (such as loans) allocated to them are recognised through the translation reserve (taking into account deferred tax) until the end of the hedging relationship or earlier termination.

## 2.13 Other financial assets

Other financial assets are mainly long-term items with a term of more than one year, such as loans, receivables and prepayments due from associates, joint ventures or third parties. Long-term receivables, loans and prepayments are measured at amortised cost using the effective interest method.

## 2.14 Assets/liabilities held for sale

Assets/liabilities held for sale and operations for disposal are classified as held for sale when the carrying amount will be recovered through a sale transaction rather than through continuing use. The classification is only made if it is highly probable that the assets/ liabilities or operations are available for immediate sale in their present condition and the sale is expected to be completed within one year.

Assets/liabilities held for sale are measured at the lower of the carrying amount preceding classification as held for sale and fair value less costs to sell.

## 2.15 Assets/liabilities held for distribution to shareholders

Assets and liabilities held for distribution to shareholders are presented separately if Eneco has committed to issue shares in the entity(ies) that will be distributed to the shareholders. The assets and liabilities of that/those entity(ies) are presented separately. This applies if:

- the assets and liabilities are available/ready for immediate distribution in their current condition; and
- distribution is highly probable.

Assets and liabilities held for distribution to shareholders are measured at the lower of the carrying amount preceding classification as held for distribution to shareholders and fair value less the cost of distribution.

## 2.16 Inventories

Inventories are recognised at the lower of weighted average cost and net recoverable amount. Cost of inventories is the purchase price including directly attributable costs incurred to bring the inventories to their current location and state. Net recoverable amount is the estimated sales price in the ordinary course of business less forecast costs of sale. Impairment of inventories is recognised through the income statement if the carrying amount exceeds the net recoverable amount.

## 2.17 Trade and other receivables

Trade and other receivables have a term of less than one year. These receivables also include the net amounts that on the reporting date have yet to be billed for energy supplied or transmission services rendered. Receivables are measured at fair value and thereafter at amortised cost less impairment losses. Receivables with a term of less than one year are not discounted on initial recognition. In view of their short-term nature, the carrying amount of trade and other receivables at the reporting date is equal to their fair value.

## 2.18 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and deposits with a maturity of no more than three months.

## 2.19 Perpetual subordinated bonds

The perpetual subordinated bonds are measured at face value. The discount and transaction costs relating to the issue of the bonds, the annual coupon interest and associated tax effects are recognised through equity.

## 2.20 Provisions for employee benefits

**Pensions**

Pension liabilities of almost all business units have been placed with the industry-wide pension funds: Stichting Pensioenfonds ABP (ABP) and Stichting Pensioenfonds Metaal en Techniek (PMT). A limited number of employees have individual plans insured with various insurance companies.

The amount of the pension depends on age, salary and years of service. Employees may opt to retire earlier or (with Eneco's agreement) later than the state retirement age, in which case their pension is adjusted accordingly. At ABP this is between 60 and the state retirement age plus 5 years and at PMT between 5 years before and 5 years after the state retirement age.

In the event of future shortfalls, the pension funds may only adjust future contributions and only within a limited range. Under IFRS these plans are classified as multi-employer defined-contribution plans. A defined-contribution plan is a plan in which a fixed contribution is paid for the benefit of an employee without any further claim by or liability to that employee. Liabilities in respect of contributions to pension and related plans on the basis of available contributions are recognised as an expense in the period to which they relate.

**Other provisions for employee benefits**

A provision is recognised for the obligation to pay out amounts related to long-service benefits and on the retirement of employees. A provision is also recognised for the obligation to contribute towards the health insurance premiums of retired employees, salary payments in the event of illness and the employer's risk under the Unemployment Act. Where appropriate, these liabilities are calculated at the reporting date using the projected unit credit method, using a pre-tax discount rate which reflects the current market assessment of the time value of money.

## 2.21 Other provisions

A provision is recognised when, due to a past event, there is a present legal or constructive obligation that is of an uncertain size or that will occur at an uncertain future date, and where its settlement will probably lead to outgoings of an economic nature.

Provisions that will be settled within one year of the reporting date, or that are of limited material significance, are recognised at face value. Other provisions are recognised at the present value of the expected expenditure. The specific risks inherent to the relevant obligation are taken into account when determining this expenditure. The present value is calculated using a pre-tax discount rate which reflects the current market valuation of the time value of money. The determination of the expected expenditure is based on detailed plans in order to limit the uncertainty regarding the amount.

**Decommissioning**

A provision is recognised that equals the present value of the expected costs where there is an obligation to dismantle, demolish or remove an item of property, plant or equipment when it ceases to be used. The initial recognition of the decommissioning provision for an asset is included in the cost of that asset. Interest is added periodically to the decommissioning provision.

**Onerous contracts**

A provision for onerous contracts is recognised when it is probable that the unavoidable costs of meeting the contractual obligations exceed the economic benefits to be derived from the contracts.

**Restructuring**

A restructuring provision is recognised if a formal plan for the restructuring has been approved and its main features have been announced to those affected by it and there is a valid expectation that the restructuring will be carried out. A restructuring provision only includes the expenditures necessarily entailed by the restructuring and not those relating to continuing activities.

## 2.22 Interest-bearing debt

On initial recognition, interest-bearing debt is carried at fair value plus the transaction costs directly attributable to this debt. Subsequent to initial recognition, interest-bearing debt is recognised at amortised cost using the effective interest method.

## 2.23 Leases (Eneco as lessor)

A lease where Eneco, as lessor, has in fact all the benefits and risks of ownership is designated as an operating lease; otherwise, such agreements are recognised as finance leases.

Property, plant and equipment made available to third parties by means of an operating lease is recognised in accordance with the accounting policies for property, plant and equipment. Lease instalments are allocated to the various periods so that a constant annual return is made on the net investment.

Property, plant and equipment made available to third parties by means of a finance lease is recognised as a receivable for the net investment in the assets. Lease instalments are then broken down into interest and repayment components based on a constant periodic rate of interest. The interest component is recognised through the income statement in the relevant period. The repayment component is deducted from the lease obligation.

## 2.24 Trade and other payables

Trade payables and other financial liabilities are recognised at fair value and subsequently at amortised cost. Liabilities with a term of less than one year are not discounted on initial recognition. In view of their short-term nature, the carrying amount of trade and other payables at the reporting date is equal to their fair value.

# Notes to the consolidated income statement

All amounts in millions of euros unless stated otherwise.

## 3. Net sales

| | 2016 | 2015 |
|---|---|---|
| Electricity transmission and connections | 655 | 637 |
| Gas transmission and connections | 238 | 255 |
| Electricity and gas metering | 98 | 97 |
| **Total** | **991** | **989** |

## 4. Other revenues

| | 2016 | 2015 |
|---|---|---|
| Operation of street lighting | 51 | 50 |
| Infrastructural works | 80 | 69 |
| Other | 51 | 40 |
| **Total** | **182** | **159** |

## 5. Employee benefits

| | 2016 | 2015 |
|---|---|---|
| Wages and salaries | 115 | 124 |
| Social security contributions | 15 | 15 |
| Pension contributions | 14 | 15 |
| Other employee benefits | 11 | 12 |
| **Total** | **155** | **166** |

Total employee benefits were € 270 million (2015: € 262 million). € 115 million (2015: € 96 million) of employee benefits have been capitalised.

Total employee benefits (including capitalised employee benefits) consist of wages and salaries, social security contributions, pension contributions and other employee benefits for continued and discontinued operations and together were € 387 million (2015: € 380 million), € 47 million (2015: € 50 million), € 41 million (2015: € 43 million) and € 41 million (2015: € 44 million) respectively.

## Headcount

The table below shows average headcount for continued and discontinued operations expressed in full-time equivalents (FTE) for 2016 and 2015.

| FTE | 2016 | 2015 |
|---|---|---|
| Network Group (continued operations) | 3,679 | 3,570 |
| Energy Company (discontinued operations) | 2,882 | 3,141 |
| **Total** | **6,561** | **6,711** |
| of whom, working outside the Netherlands | 266 | 314 |

## 6. Remuneration of the Board of Management and Supervisory Board

The remuneration policy for the Board of Management (see 'Remuneration 2016' in the annual report) proposed by the Supervisory Board was approved at the General Shareholders' Meeting on 20 May 2005. The remuneration of the Board of Management is set by the Supervisory Board on the recommendation of the Remuneration Committee. The Remuneration Report for 2016 is published on Eneco Holding N.V.'s website.

The remuneration of the members of the Board of Management consists of a fixed salary and a variable salary. The variable salary amounts to 20% of the total salary. In 2016, remuneration was again dependent on performance criteria including socially-relevant results. The four main criteria for the variable salary are largely in line with the strategic themes and are:

- Financial results (EBIT);
- Revenue from new products and services (including Toon, HeatWinner, Jedlix);
- Unbundling of Eneco Group; and
- Projects.

The pension entitlements of the members of the Board of Management come under Eneco's standard pension plan. Since 1 January 2015, tax facilities for accrual of pension entitlements have been limited to a maximum gross annual salary of € 100,000 (excluding indexation in 2016). As a result, the short-term contribution to pensions for the part of the gross salary over € 100,000 (excluding indexation in 2016) has taken a different form and is presented in the Other column.

The current employment contracts with the members of the Board of Management are for an unlimited time with a period of notice for the company of four months. Except for Mr van der Linden, each member of the Board of Management has been appointed for a period of four years. Mr van der Linden was appointed with effect from 1 December 2016 for a period of two months to 1 February 2017. Messrs Rameau, Dubbeld and van der Linden are entitled to a payment[1] of 12 months and Mr de Haas to a payment of 24 months[2] if dismissed by the company. The latter arrangement has been applied to Mr Van der Linden.

Total remuneration was as follows:

### Remuneration of the Board of Management

| x € 1,000 | Gross salary | Variable remuneration[3] | Pension contributions | Other | Total 2016 |
|---|---|---|---|---|---|
| J.F. de Haas | 520 | 97 | 24 | 53 | 694 |
| C.J. Rameau | 388 | 86 | 21 | 36 | 531 |
| G.A.J. Dubbeld | 388 | 86 | 21 | 36 | 531 |
| M.W.M. van der Linden | 379 | 77 | 20 | 32 | 508[4] |
| **Total** | **1,675** | **346** | **86** | **157** | **2,264** |

3 Paid during the reporting period and based on the performance criteria of the preceding reporting period.

4 Excluding the arrangement (€ 423,000).

| x € 1,000 | Gross salary | Variable remuneration[5] | Pension contributions | Other | Total 2015 |
|---|---|---|---|---|---|
| J.F. de Haas[6] | 424 | 96 | 28 | 51 | 599 |
| C.J. Rameau | 377 | 71 | 23 | 35 | 506 |
| G.A.J. Dubbeld | 377 | 71 | 23 | 35 | 506 |
| M.W.M. van der Linden | 337 | 58 | 21 | 26 | 442 |
| **Total** | **1,515** | **296** | **95** | **147** | **2,053** |

5 Paid during the reporting period and based on the performance criteria of the preceding reporting period.

6 Remuneration adjusted in connection with special leave during 2015.

The expected allocation of the variable remuneration to be paid in 2017 depending on the performance criteria in 2016 is € 82,000 for Mr de Haas, € 64,000 for Mr Rameau, € 53,000 for Mr Dubbeld and € 56,000 for Mr van der Linden.

1 Gross salary including holiday pay, employer's pension contribution and compensation for capping of pension contribution.

2 Part of the original contract of employment.

### Remuneration of the Supervisory Board

The remuneration of the chairman of the Supervisory Board is € 36,500 per year. The other members of the Supervisory Board each receive an annual fee of € 28,700. Members of committees each receive an additional annual payment as follows:

| Committee | 2016 | 2015 |
|---|---|---|
| Audit committee | 5,200 | 5,200 |
| Remuneration committee | 3,150 | 3,150 |
| Selection and appointments committee | 3,150 | 3,150 |

The fixed expense allowance is € 1,150 per annum.

## 7. Remuneration of executives of Stedin Netbeheer B.V.

The Ministers of Economic Affairs and of the Interior and Kingdom Relations notified the Board of Stedin Netbeheer B.V. (Stedin) by a decree of 16 August 2016 (the 'Decree'), that the Act on the Standardisation of the Remuneration of Senior Executives in the Public and Semi-Public Sector (Wet Normering Topinkomens - WNT) applied to Stedin with effect from 1 January 2013. From earlier correspondence, the Group believed that the WNT would apply to Stedin from the time that Eneco Group was unbundled. Consequently, only the mandatory information for 2016 is presented below (Sections 4.1 and 4.2 of the WNT).

Transitional arrangements for Stedin under the WNT started on 1 January 2013. Under the transitional arrangements in Section 7.3 of the WNT, agreements on remuneration above the maximum figures set by law are respected for a period of four years after the Act comes into force. Thereafter, the remuneration must be reduced over three years to the maximum for senior executives. Remuneration of senior executives over the WNT threshold will be respected to 1 January 2017 and must then be reduced over three years to the WNT threshold that applied on 31 December 2014 (in WNT-1). Thereafter the remuneration must be reduced over two years to the then applicable threshold (in WNT-2).

Currently, senior executives at Stedin are the three members of the Board and the six members of the Supervisory Board.

The senior executives include Mr P. Trienekens, who has been a senior executive not in employment since 27 October 2014. Under the WNT, the statutory maximum of € 179,000 applicable to senior executives in employment applied to him in 2016. His remuneration exceeded this maximum. The contractual arrangements on his remuneration predate the Decree of 16 August 2016 and are tolerated by the transitional arrangements.

The second senior executive, Mr F. van de Noort, is seconded to Stedin by Stedin Operations B.V. as operations director. His remuneration exceeded the maximum of € 179,000. The contractual arrangements on his remuneration predate the Decree of 16 August 2016 and are tolerated by the transitional arrangements.

The third senior executive, Mr G. Vesseur, has a permanent contract of employment and his remuneration exceeds the maximum of € 179,000. The contractual arrangements on his remuneration predate the Decree of 16 August 2016 and are tolerated by the transitional arrangements.

The fourth senior executive, Ms I. Rutgers, died in mid-2016. She did not perform any executive duties in 2016. Her remuneration exceeded the maximum on the basis of full-time employment for a full year of € 179,000. The contractual arrangements on her remuneration predate the Decree of 16 August 2016 and are tolerated by the transitional arrangements.

Stedin has six directors/managers whose remuneration in 2016 was higher than the maximum on the basis of full-time employment for a full year of € 179,000 in 2016. The contractual arrangements predate the Decree of 16 August 2016.

## Remuneration of senior executives

| x € 1,000 | P.E.G. Trienekens | F.C.W. van de Noort | G. Vesseur | I. Rutgers |
|---|---|---|---|---|
| Position information | Managing Director | Operations Director | Finance Director | Finance Director |
| Start and end of period of office in 2016 | 1 Jan. - 31 Dec. 2016 | 1 Jan. - 31 Dec. 2016 | 1 Jan. - 31 Dec. 2016 | 1 Jan. - 17 Jul. 2016 |
| Scope of employment (FTE) | 1.0 | 1.0 | 1.0 | 1.0 |
| Former senior executive | No | No | No | No |
| Actual (or deemed) employment | No | No | Yes | Yes |
| **Individual WNT maximum** | **179** | **179** | **179** | **179** |
| Remuneration | 338 | 271 | 263 | 99 |
| Variable remuneration for 2015 paid in 2016 | – | 56 | 56 | 19 |
| Deferred remuneration | – | 17 | 17 | 9 |
| **Total remuneration** | **338** | **344** | **336** | **127** |

## Remuneration of members of the Supervisory Board

| Name | Position | Period | 2016 remuneration | Maximum remuneration |
|---|---|---|---|---|
| R.S. Cazemier | Chairman | 1 Jan. - 31 Dec. 2016 | 16,000 | 26,850 |
| D. van Well | Member | 1 Jan. - 31 Dec. 2016 | 12,500 | 17,900 |
| T. Bahlmann | Member | 1 Jan. - 31 Dec. 2016 | 12,500 | 17,900 |
| J.T.H.M. Kortenhorst | Member | 1 Jan. - 31 Dec. 2016 | 10,000 | 17,900 |
| G.A.J. Dubbeld[1] | Member | 1 Jan. - 31 Dec. 2016 | 12,500 | 17,900 |
| C.J. Rameau[1] | Member | 1 Jan. - 31 Dec. 2016 | 10,000 | 17,900 |

1 Remuneration paid to N.V. Eneco Beheer.

## Remuneration of other executives above the maximum

| x € 1,000 | Head-office departmental manager | Line manager | Head-office director | Line director | Operations manager | Head-office departmental manager |
|---|---|---|---|---|---|---|
| Start and end of period of office in 2016 | 1 Jan. - 31 Dec. 2016 | 1 Jan. - 31 Dec. 2016 | 1 Jan. - 31 Dec. 2016 | 1 Jan. - 31 Dec. 2016 | 1 Jan. - 29 Feb. 2016 | 1 Jan. - 31 Jan. 2016 |
| Scope of employment (FTE) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Former senior executive | No | No | No | No | No | No |
| Actual (or deemed) employment | Yes | Yes | Yes | Yes | Yes | Yes |
| **Individual WNT maximum** | **179** | **179** | **179** | **179** | **179** | **179** |
| Remuneration | 148 | 148 | 149 | 140 | 22 | 14 |
| Variable remuneration for 2015 paid in 2016 | 23 | 22 | 19 | 24 | 13 | 9 |
| Deferred remuneration | 15 | 15 | 15 | 15 | 2 | 1 |
| **Total remuneration** | **186** | **185** | **183** | **179** | **37** | **24** |

# 8. Financial expenses

Financial expenses are exclusively interest on external financing.

## 9. Income tax on the result from continued operations

The company and almost all its Dutch subsidiaries form a fiscal unity for corporate income tax purposes. The table below shows the income taxes on the result from continued operations:

| | 2016 | 2015 |
|---|---|---|
| Current tax expense | 35 | 48 |
| Movements in deferred taxes | –1 | 3 |
| **Income tax on the result from continued operations** | **34** | **51** |

The table below shows the current tax expense on the result from continued operations:

| | 2016 | 2015 |
|---|---|---|
| **Profit before income tax** | **139** | **202** |
| Participation exemption | – | – |
| Non tax-deductible expenses | 1 | 3 |
| Depreciation at non-statutory rates | 4 | –13 |
| Addition to provisions treated differently for tax purposes | – | – |
| Disallowable losses | – | – |
| Adjustment prior years results | –6 | –2 |
| **Taxable profit** | **138** | **190** |
| Carry forward of losses | – | – |
| **Taxable amount** | **138** | **190** |
| Nominal tax rate | 25.0% | 25.0% |
| **Current tax expense** | **35** | **48** |

The table below shows the effective tax burden expressed as a percentage of the profit before income tax from continued operations:

| | 2016 | 2015 |
|---|---|---|
| Nominal tax rate | 25.0% | 25.0% |
| Effect of: | | |
| - Participation exemption | 0.0% | 0.0% |
| - Non tax-deductible expenses | 0.2% | 0.4% |
| - Tax incentives (Energy Investment Allowance, EIA scheme) | –0.1% | –0.1% |
| - Adjustment prior years | –1.4% | –0.2% |
| - Other | 0.8% | 0.1% |
| **Effective tax rate** | **24.5%** | **25.2%** |

## 10. Result after tax from discontinued operations

In connection with the preparations for the forced unbundling of Eneco Group by 31 January 2017 under which the shares in the Energy Company will be distributed to the shareholders, the results of the Energy Company have been recognised as a net figure for the 'result after tax from discontinued operations' in these 2016 financial statements. This is in accordance with the provisions of IFRS 5 'Non-current Assets held for Sale and Discontinued Operations'. The regular amortisation and depreciation charges have been included in the result for the full financial year 2016.

### 10.1 Result from discontinued operations

The table below shows the income statements for the Energy Company for 2016 and 2015.

| x € 1 million | 2016 | 2015 |
|---|---|---|
| Revenues from energy sales and energy related activities | 2,642 | 3,070 |
| Purchases of energy and energy related activities | 1,815 | 2,277 |
| **Gross margin** | **827** | **793** |
| Other revenues | 124 | 94 |
| **Gross margin and other operating revenues** | **951** | **887** |
| Employee benefit expenses | 221 | 227 |
| Cost of contracted work and other external costs | 365 | 333 |
| Depreciation and impairment of property, plant and equipment | 218 | 227 |
| Amortisation and impairment of intangible assets | 32 | 32 |
| Other operating expenses | 9 | 13 |
| **Operating expenses** | **845** | **832** |
| **Operating profit** | **106** | **55** |
| Share of profit of associates and joint ventures | 7 | 9 |
| Financial income | 3 | 5 |
| Financial expenses | –9 | –2 |
| **Profit before income tax** | **107** | **67** |
| Income tax | –13 | –10 |
| Profit from discontinued operations | – | – |
| **Profit after income tax from discontinued operations** | **94** | **57** |

### 10.2 Cash flows from discontinued operations

Operating, investing and financing cash flows from discontinued operations for 2016 and 2015 are also shown.

| x € 1 million | 2016 | 2015 |
|---|---|---|
| Cash flow from operating activities | 159 | 584 |
| Cash flow from investing activities | –148 | –399 |
| Cash flow from financing activities | 184 | –39 |
| **Cash flow from discontinued operations** | **195** | **146** |

# Notes to the consolidated balance sheet

All amounts in millions of euros unless stated otherwise.

## 11. Property, plant and equipment

| | Land and buildings | Machinery and equipment | Regulated networks | Other operating assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 1 January 2015** | **90** | **2,953** | **7,852** | **182** | **420** | **11,497** |
| Investments | 1 | 37 | 350 | 4 | 314 | 706 |
| Acquisitions | 20 | 27 | – | – | – | 47 |
| Disposals | – | – 19 | – 33 | – 21 | – | – 73 |
| Reclassification from / to assets held for sale | – | – | – 516 | – 1 | – 4 | – 521 |
| Reclassification other | 3 | 611 | – 87 | – 1 | – 528 | – 2 |
| Translation differences | – | 12 | – | – | 7 | 19 |
| **At 31 December 2015** | **114** | **3,621** | **7,566** | **163** | **209** | **11,673** |
| Investments | – | 36 | 400 | 6 | 83 | 525 |
| Acquisitions | – | 40 | – | – | 4 | 44 |
| Disposals | – | – 27 | – 47 | – 21 | – 1 | – 96 |
| Fair value adjustment for regulated networks | – | – | – 50 | – | – | – 50 |
| Reclassification from / to assets held for sale | – 1 | – 46 | 408 | – | 3 | 364 |
| Reclassification to assets held for distribution to shareholders | – 84 | – 3,704 | – | – 42 | – 98 | – 3,928 |
| Reclassification other | 2 | 239 | – | 16 | – 185 | 72 |
| Translation differences | – | – 50 | – | – | – 13 | – 63 |
| **At 31 December 2016** | **31** | **109** | **8,277** | **122** | **2** | **8,541** |
| **Accumulated depreciation and impairment** | | | | | | |
| **At 1 January 2015** | **25** | **969** | **2,867** | **109** | **1** | **3,971** |
| Annual depreciation and impairment | 3 | 194 | 223 | 14 | 27 | 461 |
| Disposals | – | – 5 | – 22 | – 21 | – 1 | – 49 |
| Reclassification from / to assets held for sale | – | – | – 196 | – 1 | – | – 197 |
| Reclassification other | 1 | 38 | – 37 | – 2 | – | – |
| **At 31 December 2015** | **29** | **1,196** | **2,835** | **99** | **27** | **4,186** |
| Annual depreciation and impairment | 4 | 216 | 229 | 12 | – | 461 |
| Disposals | – | – 23 | – 38 | – 15 | – | – 76 |
| Fair value adjustment for regulated networks | – | – | – 17 | – | – | – 17 |
| Reclassification from / to assets held for sale | – 1 | – 36 | 170 | – | – | 133 |
| Reclassification to assets held for distribution to shareholders | – 18 | – 1,364 | – | – 24 | – 23 | – 1,429 |
| Reclassification other | 1 | 56 | 13 | 16 | – | 86 |
| Translation differences | – | – 4 | – | – | – 4 | – 8 |
| **At 31 December 2016** | **15** | **41** | **3,192** | **88** | **–** | **3,336** |
| **Carrying amount** | | | | | | |
| At 31 December 2015 | 85 | 2,425 | 4,731 | 64 | 182 | 7,487 |
| **At 31 December 2016** | **16** | **68** | **5,085** | **34** | **2** | **5,205** |

The depreciation charges in 2016 for property, plant and equipment relating to continued operations were € 243 million and € 218 million related to discontinued operations. These amounts were € 234 million and € 227 million respectively in 2015.

## Regulated networks

The regulated networks category relates to different types of Stedin’s assets in the regulated domain such as the electricity and gas networks, gas connections and meters required for gas and electricity distribution and transmission activities. Regulated network activities are subject to regulation by the Office of Energy Regulation of the Netherlands Authority for Consumers and Markets (ACM).

## Fair value of regulated networks

The information for measuring the regulated networks is covered by ‘level 1’ in the fair value hierarchy as specified in IFRS 13 ‘Fair Value Measurement’ (see note 16 'Derivative financial instruments'). These measurement models use observable market prices, being the Standardised Asset Value tariffs set by the government.

At 31 December 2016, the carrying amount of the regulated networks at historical cost was € 4,160 million (31 December 2015: € 3,685 million).

## Capitalised interest

During the reporting period, € 10 million (2015: € 18 million) of attributable interest was capitalised for property, plant and equipment (in total for the Network Group and Energy Company) as required by the relevant reporting standards. The capitalisation rate for interest in 2016 was 4.8% (2015: 4.8%).

## Assets under construction

Assets under construction were mainly the standard investment in gas and electricity networks within the Network Group and in wind farms and district heating networks that form part of the Energy Company classified as ‘Assets held for distribution to shareholders’ at 31 December 2016.

## 12. Intangible assets

| | Goodwill | Customer databases | Licences and software | Concessions, permits and rights | Development costs | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 1 January 2015** | **171** | **198** | **95** | **231** | **3** | **698** |
| Investments | – | – | 7 | 1 | 1 | 9 |
| Disposals | – 10 | – | – 14 | – 150 | – | – 174 |
| Translation differences | 1 | – | – | 1 | – | 2 |
| Reclassification from / to assets held for sale | – | – | – 1 | – | – | – 1 |
| Reclassification other | – 1 | 1 | 1 | 1 | – | 2 |
| **At 31 December 2015** | **161** | **199** | **88** | **84** | **4** | **536** |
| Investments | – | – | 4 | 1 | 2 | 7 |
| Disposals | – | – | – 2 | – 1 | – 2 | – 5 |
| Translation differences | – 1 | – | – | – 2 | – | – 3 |
| Reclassification from / to assets held for sale | – | – | 1 | – | – | 1 |
| Reclassification to assets held for distribution to shareholders | – 160 | – 199 | – 83 | – 73 | – 4 | – 519 |
| Reclassification other | – | – | 11 | – | – | 11 |
| **At 31 December 2016** | **–** | **–** | **19** | **9** | **–** | **28** |
| **Accumulated depreciation and impairment** | | | | | | |
| **At 1 January 2015** | **10** | **103** | **76** | **170** | **1** | **360** |
| Annual depreciation and impairment | – | 20 | 9 | 5 | – | 34 |
| Disposals | – 10 | – | – 14 | – 150 | – | – 174 |
| Reclassification from / to assets held for sale | – | – | – 1 | – | – | – 1 |
| Reclassification other | – | – | 1 | 1 | – | 2 |
| **At 31 December 2015** | **–** | **123** | **71** | **26** | **1** | **221** |
| Annual depreciation and impairment | – | 20 | 9 | 4 | 1 | 34 |
| Disposals | – | – | – 3 | – 1 | – 1 | – 5 |
| Reclassification to assets held for distribution to shareholders | – | – 143 | – 66 | – 27 | – 1 | – 237 |
| Reclassification other | – | – | 5 | – | – | 5 |
| **At 31 December 2016** | **–** | **–** | **16** | **2** | **–** | **18** |
| **Carrying amount** | | | | | | |
| At 31 December 2015 | 161 | 76 | 17 | 58 | 3 | 315 |
| **At 31 December 2016** | **–** | **–** | **3** | **7** | **–** | **10** |

The amortisation charge in 2016 for intangible assets relating to continued operations was € 2 million and was € 32 million for discontinued operations. These figures were € 2 million and € 32 million respectively in 2015.

## Goodwill

Goodwill is allocated to one or more cash-generating units which independently or in aggregate form a business segment. The goodwill of € 160 million at 31 December 2016 (2015: € 161 million) was fully attributable to the Energy Company (as explained in section 1.2) and has been presented separately in the consolidated balance sheet at 31 December 2016 in 'Assets held for distribution to shareholders'. Consequently, only the information relating to 2015 is set out below.

The goodwill of € 161 million at 31 December 2015 was fully attributable to the group of cash-generating units which form the Eneco Energy Company segment. An impairment analysis was performed on this goodwill which showed that the recoverable amount (in this case, value in use) of this group of cash-generating units was higher than their carrying amount. The following assumptions were used to establish the value in use: the value in use of the cash-generating units which make up the Eneco Energy Company segment was based on expected future cash flows for five years as in Eneco's long-term plans (based in part on historical figures) and thereafter extrapolated on the expected life of the assets of these cash-generating units, which is generally longer than the five-year period; long-term growth of 1% was taken into account. The pre-tax discount rates, which reflect the risks of the activities of the relevant cash-generating units, were 6%-7%. The discount rates are based on the weighted average cost of capital (WACC), whose parameters are derived from data from a peer group and market information. The calculation of the value in use of these assets is sensitive to the following assumptions: the discount rate, the growth figure applied for extrapolating cash flows beyond the 5-year plan and the average life of the assets. Of these factors, the discount rate is the most sensitive and an adjustment of 0.5 percentage points would change the value in use by some € 0.2 billion but would not lead to impairment.

## Customer databases

Customer databases relate mainly to DONG Energy Sales (acquired in 2014), Oxxio (acquired in 2011) and REMU N.V. (acquired in 2003). These solely relate to the Energy Company and were recognised in 'Assets held for distribution to shareholders' at 31 December 2016.

## Concessions, permits and rights

Concessions, permits and rights consist mainly of capitalised permits granted for existing and future wind farms in Belgium and the United Kingdom. These largely relate to the Energy Company and are recognised as 'Assets held for distribution to shareholders' at 31 December 2016.

# 13. Business combinations

There were four acquisitions in 2016, relating mainly to the acquisition of part of the sustainable energy production and development activities of DELTA in the Netherlands on 31 October 2016. In 2016, Eneco also acquired two solar farms in Belgium (March and November) and one solar farm in the United Kingdom (December). These acquisitions were effected by purchasing the entire share capital and associated control in a cash transaction. Payment for the solar farm in the United Kingdom was made in early 2017.

The purchase price for the acquisition of the Belgian solar farms was finalised in the second half of 2016. The final purchase price for DELTA's assets and development activities depends in part on the settlement of specific items and had not been determined on the reporting date. The settlement may to some extent affect the allocation of the purchase price to the identified assets and liabilities (based on fair value). In addition, the solar farm in the United Kingdom was acquired shortly before the reporting date and so the allocation of the purchase price did not take place in 2016. For these reasons, both acquisitions have been recognised 'provisionally' in these 2016 financial statements. These acquisitions fit Eneco's strategy of investing in the development and production of sustainable energy and so reinforce Eneco's market position.

The total acquisition price of all these businesses was some € 24 million. The assets and liabilities were recognised on the acquisition date at their (provisional) fair value and consisted of some € 44 million of property, plant and equipment, € 4 million of current assets, € 4 million of provisions, € 9 million of non-current liabilities and € 11 million of current liabilities. These acquisitions are very unlikely to lead to the recognition of goodwill. The costs related to these transactions were some € 0.5 million.

The purchased businesses have contributed a total of some € 2 million to the revenue of the Energy Company since the acquisition date and are making a limited positive contribution to the profit after income tax. Pro rata, the revenues of the Energy Company including these acquisitions would be € 4 million higher per year (for the full year 2016).

In 2016, the 'provisional' recognition in Eneco's figures of the electricity/district heating production sites and the associated heat distribution network in Utrecht acquired in 2015 was finalised. The provisional purchase price was not adjusted and was set definitively at € 50 million.

The purchased businesses have been recognised as 'Assets/liabilities held for sale' in the balance sheet of the Energy Company at 31 December 2016 and presented as 'Result after tax from discontinued operations' in the results for 2016 (and the restated comparative figures for 2015).

## 14. Associates and joint ventures

Eneco participates with one or more parties in businesses in the form of an associate or joint venture to perform shared operations. These are part of the Energy Company and have been presented in the consolidated balance sheet at 31 December 2016 in 'Assets held for distribution to shareholders'. Consequently, the second table only shows the breakdown for 2015.

Movements in the value of associates and joint ventures[1] were as follows in 2016:

| | 2016 | 2015 |
|---|---|---|
| **Carrying amount at 1 January** | **61** | **58** |
| Investments | 2 | 1 |
| Share in net profit of associates (as part of Net profit on discontinued operations) | 5 | 7 |
| Dividend received | – 8 | – 2 |
| Impairment | – | – 1 |
| Reclassification to assets held for distribution to shareholders | – 60 | – |
| Reclassification other | – | – 2 |
| **Carrying amount at 31 December** | **–** | **61** |

The table below summarises the financial data of the associates and joint ventures of the Energy Company:

| | At 31 December 2015[2] |
|---|---|
| Property, plant and equipment | 17 |
| Current assets | 171 |
| Non-current liabilities | 2 |
| Current liabilities | 117 |
| **Net assets (100%)** | **69** |
| Eneco's share of net assets | 39 |
| **Carrying amount of interest in associates and joint ventures (incl. acquired goodwill)** | **61** |
| | |
| Revenues (100%) | 442 |
| Profit after income tax (100%) | 27 |
| Total other comprehensive income (100%) | – |
| Total comprehensive income (100%) | 27 |
| **Eneco's share of total comprehensive income** | **7** |
| **Eneco's share of profit after income tax and total comprehensive income** | **7** |

2 These figures have been prepared using the most recently published/available financial information of these associates and joint ventures.

1 Non-material joint ventures which have been combined with the associates for presentation purposes.

## 15. Deferred taxes

The table below shows the deferred tax assets and liabilities[1]:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | At 31 December 2016 | At 31 December 2015 | At 31 December 2016 | At 31 December 2015 |
| Property, plant and equipment | – | – | 226 | 413 |
| Intangible fixed assets | – | – | – 1 | 15 |
| Cash flow hedges | – | – | – 20 | 8 |
| Loss carry forwards | – | 5 | – | – 19 |
| Losses at non-resident participating interests | – | – | – | 20 |
| Provisions | – | – | – 2 | – 6 |
| Interest-bearing debt | – | – | 4 | – |
| **Total** | **–** | **5** | **207** | **431** |

Deferred tax assets and liabilities related to cash flow hedges have been recognised through equity. The regulations for preventing double taxation create the deferred tax liability presented for losses at non-resident participating interests.

Movements in deferred taxes during 2016 were as follows:

| | Net balance at 1 January 2016 | Recognised in profit or loss continued operations[2] | Recognised in profit or loss discontinued operations[3] | Recognised in other comprehensive income | Re-classification[4] | Net balance at 31 December 2016 | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | – 413 | 1 | 9 | 13 | 164 | – 226 | – | – 226 |
| Intangible fixed assets | – 15 | – | 1 | – | 15 | 1 | 1 | – |
| Cash flow hedges | – 8 | – | – | 16 | 12 | 20 | 20 | – |
| Loss carry forwards | 24 | – | – 1 | – | – 23 | – | – | – |
| Losses at non-resident participating interests | – 20 | – | 2 | – | 18 | – | – | – |
| Provisions | 6 | – | – | – | – 4 | 2 | 2 | – |
| Interest-bearing debt | – | – | – | – 4 | – | – 4 | – | – 4 |
| **Tax assets (liabilities) before set-off** | **– 426** | **1** | **11** | **25** | **182** | **– 207** | **23** | **– 230** |
| Set-off of tax | | | | | | | – 23 | 23 |
| **Net tax assets (liabilities)** | | | | | | | **–** | **– 207** |

2 This amount is included in the 'Movements in deferred taxes' as part of 'Income tax on the result'. See note 9 'Income tax on the result from continued operations'.

3 This amount is included in the 'Income tax on the result from discontinued operations'. See note 10 'Result after tax from discontinued operations'.

4 Reclassification to 'Assets/liabilities held for distribution to shareholders'.

1 Figures for Network Group only at 31 December 2016; the figures for the Energy Company are presented in 'Assets/liabilities held for distribution to shareholders', see note 19.

Movements in deferred taxes during 2015 were as follows:

| | Net balance at 1 January 2015 | Recognised in profit or loss continued operations[5] | Recognised in profit or loss discontinued operations[6] | Recognised in other comprehensive income | Net balance at 31 December 2015 | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | – 419 | – 3 | 9 | – | – 413 | 1 | – 414 |
| Intangible fixed assets | – 16 | – | 1 | – | – 15 | 1 | – 16 |
| Cash flow hedges | 10 | – | – | – 18 | – 8 | 24 | – 32 |
| Loss carry forwards | 19 | – | 5 | – | 24 | 24 | – |
| Losses at non-resident participating interests | – 21 | – | 1 | – | – 20 | – | – 20 |
| Provisions | 7 | – | – 1 | – | 6 | 6 | – |
| **Tax assets (liabilities) before set-off** | **– 420** | **– 3** | **15** | **– 18** | **– 426** | **56** | **– 482** |
| Set-off of tax | | | | | | – 51 | 51 |
| **Net tax assets (liabilities)** | | | | | | **5** | **– 431** |

[5] This amount is included in the 'Movements in deferred taxes' as part of 'Income tax on the result'. See note 9 'Income tax on the result from continued operations'.

[6] This amount is included in the 'Income tax on the result from discontinued operations'. See note 10 'Result after tax from discontinued operations'.

The table below shows the expiry periods for temporary differences available for relief at 31 December 2016:

**Expiry periods for differences available for relief after 31 December 2016**

| | |
|---|---|
| Property, plant and equipment | 1 - 50 jr |
| Intangible fixed assets | 1 - 25 jr |
| Cash flow hedges | 1 - 30 jr |
| Losses available for relief | 1 - 10 jr |
| Provisions | 1 - 10 jr |

## 16. Derivative financial instruments

The table below shows the fair value of derivative financial instruments (in all tables, the figures for 31 December 2016 relate only to the Network Group):

| | At 31 December 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Interest rate swap contracts | – | – | – | 5 |
| Currency swap contracts | 42 | 47 | 41 | 73 |
| Energy commodity contracts | – | – | 356 | 226 |
| $CO_2$ emission rights | – | – | 8 | 1 |
| **Total** | **42** | **47** | **405** | **305** |
| **Classification** | | | | |
| Current | – | – | 221 | 164 |
| Non-current | 42 | 47 | 184 | 141 |
| **Total** | **42** | **47** | **405** | **305** |

The table below shows the fair value of derivative financial instruments for which movements in fair value have been recognised through the income statement for continued operations:

| | At 31 December 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Currency swap contracts | – | – | – | – |
| Energy commodity contracts | – | – | 222 | 222 |
| $CO_2$ emission rights | – | – | 8 | 1 |
| **Total** | **–** | **–** | **230** | **223** |
| **Classification** | | | | |
| Current | – | – | 165 | 160 |
| Non-current | – | – | 65 | 63 |
| **Total** | **–** | **–** | **230** | **223** |

The table below shows the fair value of derivative financial instruments for which movements in fair value have been recognised in equity through the Cash flow hedge reserve:

| | At 31 December 2016 | | At 31 December 2015 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Interest rate swap contracts | – | – | – | 5 |
| Currency swap contracts | 42 | 47 | 41 | 73 |
| Energy commodity contracts | – | – | 134 | 4 |
| **Total** | **42** | **47** | **175** | **82** |
| **Classification** | | | | |
| Current | – | – | 56 | 4 |
| Non-current | 42 | 47 | 119 | 78 |
| **Total** | **42** | **47** | **175** | **82** |

The derivative financial instruments in this table are used in cash flow hedge transactions to hedge interest rate, currency and energy price risks.

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 derived financial instruments measured at fair value was as follows:

| 31 December 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Energy commodity contracts | – | – | – | – |
| Interest rate and currency swap contracts | – | 42 | – | 42 |
| | **–** | **42** | **–** | **42** |
| **Liabilities** | | | | |
| Energy commodity contracts | – | – | – | – |
| Interest rate and currency swap contracts | – | 47 | – | 47 |
| | **–** | **47** | **–** | **47** |

| 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** |

Note 23 'Equity' presents the movements in the cash flow hedge reserve.

The cash flow hedge instruments are derivative financial instruments that are subject to net settlement between parties. The table below shows the periods in which the cash flows from the cash flow hedges are expected to be realised:

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| **Expected cash flow** | | |
| Within 1 year | – 6 | 132 |
| From 1 to 5 years | – 17 | 203 |
| After 5 years | – 101 | – 99 |
| **Total** | **– 124** | **236** |

The total cash flow hedges (from continued operations) recognised through the income statement in the future are recognised in the Cash flow hedge reserve after deduction of taxes. The table below shows the periods in which the cash flows from the cash flow hedges are expected to be realised:

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| **Expected recognition in result after tax** | | |
| Within 1 year | – | 28 |
| From 1 to 5 years | – 7 | 27 |
| After 5 years | – 56 | – 36 |
| **Total** | **– 63** | **19** |

## 17. Other financial assets

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Other capital interests | – | 1 |
| Related party receivables | 5 | 7 |
| Other receivables | 1 | 34 |
| **Total** | **6** | **42** |

Figures at 31 December 2016 relate only to the Network Group.

## 18. Assets/liabilities held for sale

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Buildings | 4 | 7 |
| Assets for disposal | 60 | 318 |
| **Total assets** | **64** | **325** |
| | | |
| Liabilities for disposal | 5 | 18 |
| **Total liabilities** | **5** | **18** |
| | | |
| **Total held for sale** | **59** | **307** |

At 31 December 2015, the assets held for sale (and associated liabilities) related to the expected sale of part of the Stedin segment's gas and electricity networks and to the sale of half of our 50% interest in the Belgian offshore Norther wind farm (joint operation) that is not yet under construction and is part of the Energy Company.

The process of selling the gas and electricity networks in the Noordoost Friesland, Amstelland and Kennemerland regions stalled in the second half of 2016. Consequently, it is no longer 'highly probable' under the criteria in IFRS 5 'Assets held for sale and discontinued operations' that these gas and electricity networks will be sold within a year. As a result, it has been decided to reclassify this property, plant and equipment (and the associated liabilities) at 31 December 2016 to Property, plant and equipment and to non-current liabilities at amounts of € 241 million (before depreciation in 2016) and € 13 million respectively. Regular depreciation of these assets of € 12 million has also been recognised in the 2016 result from continued operations with retroactive effect to 1 January 2016.

The gas and electricity networks in Midden Limburg remained classified as 'assets/liabilities held for sale at 31 December 2016 since it is still expected that they will be sold within a period of one year. The carrying amount of these networks at 31 December 2016 was € 63 million and of the associated liabilities was € 5 million. No indications of impairment have been identified. The revaluation reserve in equity includes € 13 million for these assets.

In 2016, agreement was reached with Mitsubishi Corporation, which has purchased half of Eneco's participating interest in the Norther wind farm. This transaction was effected in December 2016 and so these 'assets/liabilities held for sale' are no longer classified as such in the Energy Company's balance sheet.

In the second half of 2016, the project portfolio was re-evaluated and it was decided to dispose of certain heating infrastructure and installations. This process has now started. Measurement is at the lower expected fair value less selling costs. Classification as assets held for sale has led to a downward revaluation of € 12 million, presented in the result from discontinued operations. These assets and the associated liabilities are part of the Energy Company and so have been recognised in 'Assets/liabilities held for distribution to shareholders' at 31 December 2016.

## 19. Assets/liabilities held for distribution to shareholders

As explained in section 1.2 'Preparations for the unbundling of Eneco Group on 31 January 2017', the actual unbundling of Eneco Group into a Network Group and an Energy Company will be done by the distribution of the shares that Eneco Holding N.V. holds in the Energy Company as a 'dividend in kind' to the shareholders of Eneco Holding N.V. It is expected that the shareholders will pass a formal resolution on this on 30 January 2017.

Eneco Group has applied the provisions of IFRS 5 'Non-current assets held for sale and discontinued operations' to present and disclose the business units that will be unbundled separately. Consequently, pending that unbundling, the consolidated balance sheet at 31 December 2016 includes an asset 'Assets held for distribution to shareholders' and a liability 'Liabilities held for distribution to shareholders'. These include all the assets and liabilities (excluding equity and intercompany financing) of the Energy Company respectively. The assets and liabilities are recognised at carrying amount in the consolidated balance sheet after regular amortisation and depreciation charges. As the fair value of the Energy Company is higher than the carrying amount, there is no impairment.

The summarised consolidated balance sheet at 31 December 2016 of the Energy Company to be distributed is as follows:

| x € 1 million | At 31 December 2016 |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 2,499 |
| Intangible assets | 282 |
| Derivative financial instruments | 90 |
| Other non-current assets | 141 |
| **Total non-current assets** | **3,012** |
| **Current assets** | |
| Trade receivables | 496 |
| Derivative financial instruments | 155 |
| Other receivables | 162 |
| Other current assets | 66 |
| Cash and cash equivalents | 343 |
| **Total current assets** | **1,222** |
| **TOTAL ASSETS - held for distribution to shareholders** | **4,234** |
| | |
| **Non-current liabilities** | |
| Provisions | 79 |
| Deferred income tax liabilies | 187 |
| Derivative financial instruments | 56 |
| Interest-bearing debt | 388 |
| Other non-current liabilities | 111 |
| **Total non-current liabilities** | **821** |
| **Current liabilities** | |
| Derivative financial instruments | 129 |
| Provisions, trade and other (interest-bearing) liabilities | 946 |
| **Total current liabilities** | **1,075** |
| **TOTAL LIABILITIES - held for distribution to shareholders** | **1,896** |

Equity (part of 'Total other comprehensive income') includes the following amounts (net, after adjustment for deferred taxes) for the 'Assets/liabilities held for distribution to shareholders':

- Translation reserve: € 6 million (credit); and
- Cash flow hedge reserve: € 0.4 million (credit).

## 20. Trade receivables

Trade receivables include amounts receivable from customers and neighbouring grid managers for the provision of transmission services. The figures at 31 December 2016 only relate to trade debtors of the Network Group; the trade debtors of the Energy Company at 31 December 2016 are included in 'Assets held for distribution to shareholders'.
The table below shows the trade receivables:

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Energy receivables | 76 | 595 |
| Transmission: retail | 35 | 40 |
| Transmission: wholesale | 1 | 11 |
| Other trade receivables | 5 | 48 |
| Less: impairments | – 12 | – 90 |
| **Total** | **105** | **604** |

The table below shows the aged analysis of the outstanding receivables:

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Prior to due date | 81 | 445 |
| After due date | | |
| - under 3 months | 17 | 88 |
| - 3 to 6 months | 4 | 20 |
| - 6 to 12 months | 5 | 43 |
| - over 12 months | 10 | 98 |
| **Face value** | **117** | **694** |
| Less: impairments | – 12 | – 90 |
| **Total** | **105** | **604** |

The table below shows the aged analysis of the impaired receivables:

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Prior to due date | 1 | 3 |
| After due date | | |
| - under 3 months | 1 | 5 |
| - 3 to 6 months | 2 | 6 |
| - 6 to 12 months | 2 | 17 |
| - over 12 months | 6 | 59 |
| **Total** | **12** | **90** |

Movements in the impairment losses on receivables were as follows:

| | 2016 | 2015 |
|---|---|---|
| **At 1 January** | **90** | **101** |
| Additions | 12 | 16 |
| Withdrawals | – 24 | – 26 |
| Reclassification to assets held for distribution to shareholders | – 66 | – |
| Other movements | – | – 1 |
| **At 31 December** | **12** | **90** |

€ 4 million of the addition to impairment related to continued operations and € 8 million to discontinued operations.

## 21. Other receivables

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Prepayments and accrued income | 13 | 121 |
| Margin calls | – | 25 |
| Other receivables | 21 | 50 |
| **Total** | **34** | **196** |

The figures at 31 December 2016 only relate to other debtors of the Network Group; the other debtors of the Energy Company at 31 December 2016 are included in 'Assets held for distribution to shareholders'.

## 22. Cash and cash equivalents

Cash and cash equivalents comprise bank balances, cash and deposits. At 31 December 2016, these were € 77 million (2015: € 367 million). Term deposits and blocked accounts which are not freely available were € 1 million at 31 December 2016 (2015: € 50 million). The figures at 31 December 2016 relate only to cash and cash equivalents of the Network Group; the cash and cash equivalents of the Energy Company at 31 December 2016 are recognised in 'Assets held for distribution to shareholders'.

## 23. Equity

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Share capital | 497 | 497 |
| Share premium | 381 | 381 |
| Revaluation reserve | 702 | 779 |
| Translation reserve | 6 | 45 |
| Cash flow hedge reserve | – 30 | 19 |
| Retained earnings | 3,063 | 2,928 |
| Undistributed result for the financial year | 187 | 196 |
| **Equity attributable to Eneco Holding N.V. shareholders** | **4,806** | **4,845** |
| Perpetual subordinated bonds | 501 | 501 |
| Non-controlling interests | 3 | 4 |
| **Total equity** | **5,310** | **5,350** |

The figures at 31 December 2016 relate to the equity of Eneco as a whole (consolidated position of the Network Group and the Energy Company).

### Share capital

Eneco Holding N.V.'s authorised share capital is € 2 billion, divided into 20 million shares with a nominal value of € 100 each. At 31 December 2016, 4,970,978 shares had been issued and fully paid. There were no changes in 2016. Eneco Holding N.V. has only issued ordinary shares.

### Share premium

Eneco Holding N.V. was incorporated in 2000. Shareholders then holding shares in N.V. Eneco acquired a shareholding in the company by contributing their interests in N.V. Eneco to Eneco Holding N.V. Insofar as the value of that interest exceeded the nominal value of the shares in Eneco Holding N.V. that excess value was taken to share premium. The share premium can be considered as paid-up share capital.

### Revaluation reserve

The revaluation reserve relates to the measurement of networks and network-related assets at the revaluation amount. The difference between depreciation based on the revalued carrying amount and depreciation based on the original historical cost, less deferred tax, has been transferred from the revaluation reserve to retained earnings. The revaluation reserve is not freely at the disposal of the shareholders.

## Translation reserve

Assets and liabilities of foreign group companies denominated in foreign currency and foreign-currency funding of those subsidiaries relating to long-term loans denominated in foreign currency, after tax, are translated into euros at the reporting date at the exchange rate prevailing on the reporting date. Foreign currency exchange differences arising on this are recognised in the translation reserve in equity. In addition, as a result of the application of net investment hedge accounting from April 2015, foreign currency exchange differences on attributed financial instruments are included with an opposite effect in this reserve. The results of foreign group companies are translated into euros at the average rate. The difference between the profit after income tax at the average rate and based on the exchange rate prevailing on the reporting date is recognised through equity in the translation reserve. If an investment in a foreign operation is ended or reduced, the related accumulated translation differences are recognised through the income statement. The translation reserve is not freely at the disposal of the shareholders.

## Cash flow hedge reserve

The cash flow hedge reserve recognises gains and losses in the fair value of the effective portion of derivative financial instruments designated as cash flow hedges for which the hedge transaction has not yet been settled. Consequently, Eneco meets the conditions for cash flow hedge accounting. The cash flow hedge instruments are mainly forward and swap contracts agreed with other market parties in order to cover the market price risks of purchasing and selling energy commodities. This reserve also recognises the effective portion of hedging with interest rate and currency swap contracts. The cash flow hedge reserve is not freely at the disposal of the shareholders.

The movements in the cash flow hedge reserve were as follows. The figures are for Eneco for 2015 and 2016, i.e. the Network Group and the Energy Company:

| | Energy commodities | Interest rate swap contracts | Currency swap contracten | Total |
|---|---|---|---|---|
| **At 1 January 2015** | **60** | **– 5** | **– 90** | **– 35** |
| Newly defined cash flow hedges in financial year | 26 | – | – 1 | 25 |
| Movements in fair value cash flow hedges | 39 | 2 | 25 | 66 |
| Deferred income tax liabilities | – 11 | – 1 | – 6 | – 18 |
| Non-effective portion of cash flow hedges | – 6 | – | – | – 6 |
| Discontinued cash flow hedges | – 12 | – | – 1 | – 13 |
| **At 31 December 2015** | **96** | **– 4** | **– 73** | **19** |
| Newly defined cash flow hedges in financial year | – | – 6 | 1 | – 5 |
| Movements in fair value cash flow hedges | – 46 | 1 | 13 | – 32 |
| Deferred income tax liabilities | 18 | 2 | – 4 | 16 |
| Non-effective portion of cash flow hedges | 6 | – | – | 6 |
| Discontinued cash flow hedges | – 34 | – | – | – 34 |
| **At 31 December 2016** | **40** | **– 7** | **– 63** | **– 30** |

## Perpetual subordinated bond

On 1 December 2014, Eneco Holding N.V. issued a perpetual subordinated bond ('Perpetual Fixed Rate Reset Securities') with a total nominal amount of € 500 million at an annual interest coupon of 3.25% and an issue price of 99.232% resulting in proceeds of € 496 million. Directly attributable costs of € 3 million were deducted from this, so that € 493 million was added to group equity in 2014. The bond is listed on the Euro MTF Market of the Luxembourg stock exchange.

The perpetual subordinated bond is regarded as equity and is subordinated to all of Eneco's creditors but has certain preference compared with the shareholders in the event of the company's winding up. Eneco has no contractual obligation to redeem the loan. Any payment of current or deferred coupon interest is conditional and dependent on distributions to shareholders. Consequently, the bondholders cannot force Eneco to pay the coupon interest or to redeem all or part of the loan.

## Non-controlling interests

These are third-party shares in the equity of subsidiaries of which Eneco Holding N.V. is not the sole shareholder.

## 24. Provisions for employee benefits

| | Long-service benefits | Other | Total |
|---|---|---|---|
| **At 1 January 2015** | **34** | **1** | **35** |
| Additions | 1 | 8 | 9 |
| Withdrawals | –1 | –3 | –4 |
| Reclassification | – | 2 | 2 |
| **At 31 December 2015** | **34** | **8** | **42** |
| Additions | – | 8 | 8 |
| Withdrawals | –3 | –6 | –9 |
| Release | –10 | –2 | –12 |
| Reclassification to liabilities held for distribution to shareholders | –5 | –8 | –13 |
| Reclassification | – | 4 | 4 |
| **At 31 December 2016** | **16** | **4** | **20** |
| | | | |
| **Classification** | | | |
| Current | 1 | 1 | 2 |
| Non-current | 15 | 3 | 18 |
| **At 31 December 2016** | **16** | **4** | **20** |

The figures at 31 December 2016 only relate to the provisions for employee benefits of the Network Group. € 2 million of the addition to provisions for employee benefits in 2016 related to continued operations and € 6 million to discontinued operations (2015: € 3 million and € 6 million respectively). € 5 million of the release to the 2016 result related to continued operations and € 7 million to discontinued operations (2015: not applicable).

### Long-service benefits

This provision covers the obligation to pay amounts on achieving a certain number of years of employment and on the retirement of employees.

The following actuarial assumptions were used for the provisions:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Discount rate at reporting date | 1.4% | 1.8% |
| Future salary increases | 1.0% - 1.9% | 1.0% - 1.9% |
| Mortality table | GBM & GBV 2009-2014 | GBM & GBV 2005-2010 |

Expenditures from the provisions for employee benefits are made over the long term. The provisions are remeasured annually using current employee information and properly reflect the expected cash flows.

### Other provisions for employee benefits

The other provisions for employee benefits include the obligations for salary payments in the event of illness and unemployment benefits since Eneco bears this risk under the Unemployment Act. In view of their predominantly short-term nature, these provisions are measured at nominal value.

## 25. Other provisions

| | Decommissioning provision | Onerous contracts | Restructuring | Other | Total |
|---|---|---|---|---|---|
| **At 1 January 2015** | **62** | **5** | **30** | **19** | **116** |
| Additions | 13 | – | 6 | 2 | 21 |
| Withdrawals | – | – 5 | – 20 | – 3 | – 28 |
| Release | – 8 | – | – 8 | – 3 | – 19 |
| Reclassification | – | – | – | – 3 | – 3 |
| **At 31 December 2015** | **67** | **–** | **8** | **12** | **87** |
| Acquisitions | 4 | – | – | – | 4 |
| Additions | 3 | – | 11 | 7 | 21 |
| Withdrawals | – | – | – 8 | – 4 | – 12 |
| Release | – 3 | – | – 2 | – 4 | – 9 |
| Translation differences | – 1 | – | – | – | – 1 |
| Reclassification to liabilities held for sale | – 5 | – | – | – | – 5 |
| Reclassification to liabilities held for distribution to shareholders | – 65 | – | – 8 | – 6 | – 79 |
| Reclassification | – | – | – | 7 | 7 |
| **At 31 December 2016** | **–** | **–** | **1** | **12** | **13** |
| | | | | | |
| **Classification** | | | | | |
| Current | – | – | – | – | – |
| Non-current | – | – | 1 | 12 | 13 |
| **At 31 December 2016** | **–** | **–** | **1** | **12** | **13** |

The figures at 31 December 2016 only relate to the other provisions of the Network Group. € 4 million of the addition to the other provisions in 2016 related to continued operations and € 17 million to discontinued operations (2015: € 4 million and € 17 million respectively). € 3 million of the release to the 2016 result related to continued operations and € 6 million to discontinued operations (2015: € 8 million and € 11 million respectively).

Interest in a range of 0.6% to 2.3% has been added to the provisions in 2016 (2015: 2.5% to 4.8%). In view of its normally short-term nature, no interest is added to the restructuring provision.

### Decommissioning

The decommissioning provision is of a long-term nature. The cash flows will generally occur after ten years and within twenty years. The amounts are the best estimate and are reviewed annually for expected future movements in the cost of removing assets. The decommissioning provision relates entirely to the Energy Company.

### Restructuring provision

In 2016, € 11 million (2015: € 6 million) was added to the restructuring provision that relates mainly to the restructuring of the operations of the Energy Company.

### Other

The other provisions are several provisions of different kinds, including legal matters. Expenditure on the other provisions is expected to be made over a longer period. This expenditure is difficult to estimate. The current amounts are the best estimate on the reporting date.

## 26. Interest-bearing debt

Interest-bearing debt was:

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Private loans | 1,644 | 1,625 |
| Green loans | – | 101 |
| Non-recourse / subordinated loans | – | 117 |
| **Total** | **1,644** | **1,843** |

The figures at 31 December 2016 only relate to the interest-bearing debt of the Network Group. The figures at 31 December 2015 relate to Eneco Group (i.e. the Network Group and the Energy Company).

See note 31 for details of the repayment periods.

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| **Classification** | | |
| Current | 250 | 54 |
| Non-current | 1,394 | 1,789 |
| **Total** | **1,644** | **1,843** |

No collateral has been provided for the interest-bearing debt.

The private loans are predominantly loans from institutional investors and banks and included € 308 million in US dollars (2015: € 338 million), € 162 million in Japanese yen (2015: € 153 million) and € 88 million in pounds sterling (2015: € 102 million).

Borrowings of € 1,588 million (2015: € 1,726 million) are fixed rate (fair value risk). Variable interest rates that track market rates apply to the other borrowings (cash flow/interest rate risk). Repayment obligations for the first year after the reporting date are recognised under current liabilities.

The credit facilities are explained in note 31.

The table below shows the average interest rate (excluding capitalised interest) for Eneco Group and the fair value of the loans (Network Group only):

| | 2016 | 2015 |
|---|---|---|
| Average interest rate (excl. money market loans)[1] | 4.4% | 4.9% |
| Average interest rate (total interest-bearing debt)[1] | 4.4% | 4.8% |
| Fair value of loans | 1,911 | 2,083 |

1 Calculated for Eneco Group, i.e. for the Network Group and the Energy Company.

The average interest rate in 2016 was calculated as the weighted average monthly interest expense directly related to the interest-bearing debt, excluding other financial expense.

The fair value of the loans is estimated using the present value method ('income approach') 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.

## 27. Trade and other payables

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Trade creditors | 72 | 712 |
| Accruals and deferred income | 160 | 348 |
| Pension contributions | 3 | 4 |
| Other liabilities | 435 | 674 |
| **Total** | **670** | **1,738** |
| | | |
| **Classification** | | |
| Current | 275 | 1,300 |
| Non-current | 395 | 438 |
| **Total** | **670** | **1,738** |

The figures at 31 December 2016 only relate to the trade and other payables of the Network Group.

## 28. Operating leases

### Costs and liabilities of operating leases

Eneco has operating lease agreements for IT facilities and the vehicle fleet. There are also rental agreements for land and a number of business premises. A cost of € 55 million (2015: € 54 million) has been recognised through the income statement in this respect of which € 25 million related to continued operations (2015: € 21 million) and € 30 million to discontinued operations (2015: € 33 million).

The minimum obligations under these agreements fall due as follows:

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Within 1 year | 51 | 54 |
| From 1 to 5 years | 143 | 176 |
| After 5 years | 189 | 208 |
| **Total** | **383** | **438** |

€ 255 million of these liabilities relate to the Energy Company (2015: € 325 million).

### Revenues from operating leases

Equipment and energy installations are leased for periods of 5 to 15 years while the assets concerned remain the property of Eneco. The lease covers making the equipment available to users and maintenance. Revenues of € 28 million (2015: € 30 million) have been recognised through the income statement. € 5 million of this relates to continued operations (2015: € 3 million) and € 23 million to discontinued operations (2015: € 27 million).

The minimum receivables from non-terminable lease agreements fall due as follows:

| | At 31 December 2016 | At 31 December 2015 |
|---|---|---|
| Within 1 year | 26 | 27 |
| From 1 to 5 years | 85 | 91 |
| After 5 years | 66 | 68 |
| **Total** | **177** | **186** |

€ 125 million of these receivables relate to the Energy Company (2015: € 149 million).

## 29. Contingent assets and liabilities

Contingent assets and liabilities other than guarantees are measured at present value, calculated using a discount rate that reflects current market assessments of the time value of money.

### Energy purchase and sale commitments

The Energy Company has energy purchase commitments of € 5.8 billion (2015: € 5.9 billion) under contracts relating to 2017 and later years. The purchase commitments comprise energy contracts for the company's own use with various energy generators. Against these, there are sales commitments, mainly for the commercial market, of € 3.0 billion (2015: € 2.6 billion) for 2017 and later years.

The Energy Company has commitments of € 0.7 billion (2015: € 0.8 billion) for the purchase of heat until 2043. The perpetual commitments for the sale of heat are € 0.3 billion per year (2015: € 0.3 billion).

### Investment obligations

At 31 December 2016 Eneco Group had entered into investment obligations with a total amount of € 0.4 billion (2015: € 0.2 billion). Of these € 0.2 billion related to the Energy Company (2015: € 0 billion) and € 0.2 billion to the Network Group (2015: € 0.2 billion).

### Other contingent obligations

At 31 December 2016 there were other contractual obligations of € 0.5 billion (2015: € 0.5 billion), mainly under maintenance contracts relating, therefore, mostly to the Energy Company.

### Guarantees

Eneco Group has issued group and bank guarantees of € 0.4 billion (2015: € 0.4 billion) to third parties. Of these, € 0.2 billion (2015: € 0.3 billion) have been issued by Eneco Holding N.V. The remaining group 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. Of these group guarantees, € 0.3 billion related to the Energy Company (2015: € 0.3 billion) and € 0.1 billion to the Network Group (2015: € 0.1 billion).

### Fiscal unity

Eneco Holding N.V. is a fiscal unity for corporate income tax purposes. There is a fiscal unity for VAT purposes that includes Eneco Holding N.V. and the Energy Company. Stedin Netbeheer B.V. and its subsidiaries form a separate fiscal unity for VAT purposes. All the companies in these fiscal unities, including Eneco Holding N.V., are jointly and severally liable for the tax obligations of the fiscal unity.

**Corporate income tax**

Pending the unbundling of Eneco Group on 31 January 2017, the fiscal unity for corporate income tax purposes was dissolved on 31 December 2016 with respect to the Energy Company. Since 1 January 2017, the companies in the Energy Company have formed a new, separate fiscal unity for corporate income tax purposes headed by N.V. Eneco Beheer. As previously, the Network Group forms a fiscal unity for corporate income tax purposes with Eneco Holding N.V.

**VAT**

The two fiscal unities for VAT purposes have been changed. With effect from 1 January 2017, Eneco Holding N.V. is no longer head of the Energy Company fiscal unity but is head of the Network Group fiscal unity. N.V. Eneco Beheer is head of the other fiscal unity, i.e. that of the Energy Company.

Past liability under a joint fiscal unity continues even after a change in that fiscal unity.

### Cash pool

Under its participation in the Network Group cash pool, Eneco Holding N.V., like the other participants, is jointly and severally liable for deficits in that pool. N.V. Eneco Beheer, like the other participants, is jointly and severally liable for deficits in the Energy Company cash pool.

## 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 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.

## Unbundling Protocol between the Network Group and the Energy Company

For a period of 6 years from 31 January 2017, N.V. Eneco Beheer will indemnify Eneco Holding N.V. (renamed Stedin Holding N.V. from the unbundling date of 31 January 2017) and its associated companies for:

- all liability, claims and costs suffered or to be suffered by Stedin Holding N.V. and its associated companies, if and to the extent that such liability, claims and costs relate to the activities of or companies in the group of N.V. Eneco Beheer and its associated companies, irrespective of whether the legal relationship for such claim arises from a relationship that relates to a period before or after the unbundling; and
- the right of recourse of third parties against Stedin Holding N.V. or an associated company relating to liabilities as referred to in the preceding paragraph, excluding any liability, claims, costs or right of recourse in respect of tax matters.

Furthermore, for a period of 6 years from 31 January 2017, Stedin Holding N.V. will indemnify N.V. Eneco Beheer and its associated companies for:

- all liability, claims and costs suffered or to be suffered by N.V. Eneco Beheer and its associated companies, if and to the extent that such liability, claims and costs relate to the activities of or companies in the group of Stedin Holding N.V. and its associated companies, irrespective of whether the legal relationship for such claim arises from a relationship that relates to a period before or after the unbundling; and
- the right of recourse of third parties against N.V. Eneco Beheer or an associated company relating to liabilities as referred to in the preceding paragraph, excluding any liability, claims, costs or right of recourse in respect of tax matters.

# 30. Related party transactions

Associates, joint ventures and the company's Management and Supervisory Boards are considered as related parties. Shareholders in Eneco with significant influence are also related parties.

Sales to and purchases from related parties are on terms of business normally prevailing with third parties. Receivables and liabilities are not covered by collateral and are paid by bank transactions.

All the principal related parties – associates and joint ventures – relate to the Energy Company classified as the discontinued operations. No details of the trading transactions with these related parties are presented in these financial statements since this disclosure is not required for discontinued operations.

Note 6 'Remuneration of the Board of Management and Supervisory Board' provides details of the remuneration of members of the Management and Supervisory Boards. There is no other relationship between the members of the Management and Supervisory Boards and Eneco except that of customer and supplier on normal arm's length terms and conditions. Eneco applies the exemption from disclosures on related party transactions with government-related entities. The Municipality of Rotterdam has significant influence. There is no relationship other than the shareholder relationship, except that of customer and supplier on normal arm's length terms and conditions.

## 31. Financial risk management

Normal business activities involve exposure to credit, commodity market, interest rate and liquidity risk. Eneco's policy is designed to minimise the adverse consequences of unforeseen circumstances on its financial results. The aims formulated to this end are derived from the company's strategic objectives. Procedures and guidelines have been drawn up in accordance with these objectives and are evaluated at least once a year and, if required, adjusted.

The Board of Management is responsible for risk management. In this context, it sets out procedures and guidelines and ensures they are complied with. Authority to commit Eneco is specified in the Corporate Authority Manual. Mandates have also been drawn up for all business units, including Eneco's purchasing and trading department and sales channels, to manage the above risks such as commodity (electricity, gas, heating, emission rights and fuels) risks.

The Board of Management and senior business unit management regularly review the results, key figures such as changes in working capital and the trading position, the principal risks (or concentration of certain risks) and the measures to manage them. Stress tests are developed for the principal identified risks and incorporated in the long-term financial plan. This clarifies the impact of risk on operations. Senior business unit management reports to the Board of Management by means of an In Control Statement every year.

The internal Audit & Risk Committee, Commodity Risk Committee and Investment Risk Committee are in charge of the formulation and application of the company's risk policy and advise the Board of Management accordingly.

The Supervisory Board exercises supervision over the course of business and risk management by conducting reviews of strategic plans, budgets, critical performance indicators, forecasts and results.

### 31.1 Credit risk

Credit risk is the risk of a loss if a counterparty or its guarantor cannot or will not meet its obligations. For the purposes of managing this risk, a distinction is drawn between debtor risk and counterparty risk.

**Debtor risk**
Debtor risk is the risk that a debtor fails to pay a receivable. Most receivables are of limited size and there are a great number of debtors. There is, therefore, no concentration of risk.

Policy is designed not to provide customers with any credit going beyond normal supplier credit as set out in the applicable conditions of supply. Policy is also formulated at a decentralised level within the organisation. The effectiveness of that policy is monitored at the corporate level and adjustments are made as required.

Measures in place to limit debtor risk are:

- an active debt collection policy;
- credit limits, bank guarantees and/or margining (cash collateral) for business customers;
- recourse to debt collection agencies and different collection methods for current and former customers.

The amount of a receivable is adjusted pursuant to a set procedure. The adjustment depends on the time that the receivable has remained outstanding and the probability that it will not be paid in full. There are also individual reviews for business customers.

**Counterparty risk**
Counterparty risk is the risk that a trading partner cannot or will not meet its delivery or payment obligations. This risk is primarily encountered in trading in energy commodities, emission rights and interest rate and foreign currency hedge transactions. The basis for the management of this risk is set out in the Counterparty Mandate (part of the Eneco Energy Trade commodity mandate) and the Treasury Charter drawn up by the Board of Management.

The size of the counterparty risk is primarily determined by the replacement value of the future deliveries and the commodity delivered which has not yet been paid for. The replacement value is calculated each day for each counterparty based on current market prices for future deliveries. The risk position is measured against the risk tolerance. That tolerance is drawn up for each contract party on the basis of an assessment of the creditworthiness of that counterparty derived from a public or internal rating and/or alternative assessment methods.

Counterparty risk is limited by:

- setting financial limits based on the financial strength of the counterparty;
- setting trading volume restrictions for each counterparty (position management);
- use of standard agreements, in particular based on EFET and ISDA terms;
- use of third-party margining and clearing;
- use of bilateral margining agreements with counterparties;
- executing risk-reducing transactions with counterparties leading to partly-offsetting positions;
- requiring additional guarantees from counterparties, e.g. bank guarantees;
- credit insurance taken if necessary to cover exposures exceeding the limits.

Third-party margining and clearing is in place for futures. This transfers the counterparty risk of a futures contract to a clearing bank. This bank is linked to a clearing house that facilitates settlement of futures transactions through exchanges such as ICE ENDEX (InterContinental Exchange European Energy Derivatives Exchange N.V.), EEX (European Energy Exchange A.G.) and the ECX (European Climate Exchange). Every day, the clearing house settles interim changes in market value with its clearing banks which in turn settle with the market parties concerned (margin calls). This neutralises counterparty risk for each party to the contract. Bilateral margining implies similar daily settlement directly with the counterparty to the transaction. The contract with the counterparty sets an initial minimum value (threshold). Bilateral margining is only applied if the threshold is exceeded.

The margining system creates liquidity risk and so risk policy is designed to monitor and match counterparty risk by forward trading and liquidity risk by margining. There is a system for monitoring internal limits using regular reports, to manage both risks.

The maximum credit risk is equal to the carrying amount of the financial assets, including derivative financial instruments.

Where Eneco meets the IFRS criteria for netting, financial assets and financial liabilities are netted and recognised net in the balance sheet. Transactions in derivative financial instruments use standardised terms and conditions and contract types such as the master netting agreements based on ISDA and EFET terms. Most of Eneco's contracts for derivative financial instruments meet netting criteria since there is a legally enforceable right to set off the recognised amounts and in addition all amounts relating to netted financial assets and financial liabilities are settled as a single sum.

The table below with the 2015 figures (for the entire Group) sets out only the financial assets and financial liabilities netted in the balance sheet in accordance with the criteria in IAS 32. As the table does not include all the financial assets and liabilities in the balance sheet, it is not possible to reconcile these figures with the net amounts presented in the balance sheet.

Netting of the financial assets and financial liabilities is not applicable for the 2016 figures as there are no financial assets and financial liabilities in the Network Group that may be netted pursuant to IAS 32. Consequently, no table with the 2016 figures is included in this note.

| 31 December 2015 | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position |
|---|---|---|---|
| **Assets** | | | |
| Derivative financial instruments | 1,483 | 1,119 | 364 |
| Cash and cash equivalents | 367 | – | 367 |
| Other financial instruments | 600 | 439 | 161 |
| | **2,450** | **1,558** | **892** |

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position |
|---|---|---|---|
| **Liabilities** | | | |
| Derivative financial instruments | 1,346 | 1,119 | 227 |
| Current liabilities to credit institutions | – | – | – |
| Other financial instruments | 813 | 439 | 374 |
| | **2,159** | **1,558** | **601** |

**Financing instruments**

Management of financing instruments is set out the Treasury Charter drawn up by the Board of Management and Supervisory Board. Counterparty risk on borrowing money is very limited. The risk tolerance formulated in the Treasury Charter is taken into account when lending money. The risk position of a counterparty is measured against the risk tolerance. Risk tolerance is set for each contracting party using an assessment of the counterparty's creditworthiness according to a public credit rating. Counterparty risk is further reduced by dispersion across a number of parties, predetermined limits for each counterparty and maximum lending terms.

The counterparty risk for financial instruments (swap contracts) is limited by:

- the use of framework agreements on ISDA terms;
- procedures for regular assessment of counterparty risk;
- margining as a result of the agreed credit support agreements.

The margining system based on credit support agreements creates liquidity risk. The risk policy is designed to monitor this through regular reporting.

## 31.2 Market risk

Market risk is the exposure to changes in value in current or future cash flows and financial instruments arising from changes in market prices, market interest rates and exchange rates.

**Price risk**

Exposure to market price risk on the commodity portfolios for purchasing and supply to customers is initially limited by back-to-back transactions for purchase and sales obligations, for which derivative financial instruments are also used. Structured hedging strategies are used where back-to-back hedging is not possible, or only with excessively high transaction charges. In these cases, positions are hedged temporarily in other countries, commodities and/or periods which have an historically strong correlation with the price risks to be hedged. These instruments are deployed within a conservative mandate and limit structure that includes on-going registration, monitoring and analysis of trading positions and market value.

The market price risk on the company's own generation and long-term structured commodity purchase contracts is also limited through back-to-back transactions and structured hedging strategies as described above. It should be noted that there is no liquid energy trading market for exposures that lie further in the future and they are difficult or impossible to hedge.

Price risks inherent to energy commodity trading portfolios and emission rights are managed using position limits, MtM limits, Value at Risk (VaR) measures and stop-loss limits. The limits that can best be applied to manage risks are determined for each business activity. VaR represents the potential loss on a portfolio in the event of a poor scenario over a 10-day period, at a 95% confidence level. VaR calculations are based on price history and include data such as correlations between products, markets and time periods. Retrospective testing is conducted to check the calculated VaR values and the model used is checked. The risk managers and energy traders are notified each day of the VaR, the MtM and positions in relation to the limit. Limit infringements are reported immediately, in accordance with the Eneco Energy Trade commodity mandate. The VaR in the trading portfolio at 31 December 2016 was € 2.0 million (2015: € 2.1 million). The average VaR in 2016 was € 1.7 million (2015: € 1.7 million).

**Foreign currency risk**
Foreign currency risk is the exposure to changes in value of financial instruments arising from changes in exchange rates. The Treasury department is responsible for managing the Group's other foreign currency risk. Companies included in the consolidation are not permitted to maintain open positions in foreign currencies in excess of € 250,000 without the Treasury department's approval. Based upon the aggregate foreign currency position and the associated limit set for open positions, the Treasury department determines whether hedging is desirable and the strategy to be followed. Foreign currency risk attaching to commodity-related financial instruments is managed in accordance with the price risk.

Loans were entered into in 2009 in US dollars, Japanese yen and pounds sterling to meet the Group's funding requirements. Eneco has hedged the foreign currency risk in the dollar and yen loans for their full term using cross-currency swap contracts. Before net investment hedging was applied (see note 23 'Equity'), the foreign currency risk in the sterling loans was also hedged using cross-currency swap contracts. These were settled during the first half of 2015. As a result of the net investment hedge, the sterling loans (£75 million) have been allocated as a partial ('natural') hedge for the translation differences resulting from the net investment in the United Kingdom.

In accordance with the accounting policies (set out in Section 2.1 'General – Foreign currencies'), 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 reporting 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 the Energy Company from the United Kingdom in the period 2016-2021 was hedged using derivatives in April 2016 and hedge accounting has been applied. These cash flows are not part of the investments referred to above with respect to accounting for the translation differences. This hedging relationship was ended during the second half of 2016 as a result of applying IFRS 5 'Non-current assets held for sale and discontinued operations' when preparing the 2016 financial statements as set out in section 1.2 'Preparations for the unbundling of Eneco Group on 31 January 2017'.

The sensitivity of the Translation reserve in equity to a 1% movement in the sterling/euro exchange rate in 2016 was € 2.6 million (2015: € 3.3 million).

**Interest rate risk**
Interest rate risk is the exposure to changes in value in financial instruments arising from changes in market interest rates. The Treasury department manages interest rate risk. The interest rate risk policy is aimed at managing the net financing liabilities through fluctuations in market interest rates. A specified range for the proportions of loans at fixed and variable interest rates serves as the base tool. Eneco may use derivative financial instruments such as interest rate swap contracts to achieve the desired risk profile. If all other variables remain constant, it is estimated that a general increase of 1 percentage point in Euribor (for a period of twelve months) would lead to a decrease in profit before tax of € 0.1 million (at 31 December 2015: € 0.1 million).

## 31.3 Liquidity risk

Eneco is a capital-intensive business. Its financing policy is aimed at the development and retention of an optimum financing structure taking into account its current asset base and investment programme. The criteria are access to the capital market and flexibility at acceptable financing costs.

Financing is drawn centrally and apportioned internally. Subsidiaries are financed by a combination of equity and intercompany loans.

A specific liquidity risk arises from margining through clearing houses and contracts with bilateral margin obligations. Risk limits have been set in the Counterparty Mandate to cover both the outstanding balance and price change sensitivity for the purposes of managing this. This risk is the subject of at least weekly reports to senior management and six-monthly reports to the Commodity Risk Committee, which includes two members of the Board of Management. The sensitivity of the margin call to a 1% price change was € 0.7 million in 2016 (2015: € 1.5 million). Another liquidity risk arises from the margining of the market value of the cross-currency swap contracts entered into with a number of banks. If the market value of these contracts exceeds the contractual limits, Eneco has to deposit the excess with these banks. At 31 December 2016 Eneco had deposited a total of € 0 million (2015: € 0 million) for these contracts.

Great importance is attached to managing all the above risks to avoid Eneco finding itself in a position in which it could not meet its financial obligations. In addition, liquidity needs are planned on the basis of long, medium and short-term cash flow forecasts. The cash flow forecasts incorporate operating and investing cash flows, dividends, interest payable and debt redemption. The Treasury department sets this capital requirement against available funds. A report is submitted to the Board of Management every month.

**Uncommitted credit and guarantee facilities**

Uncommitted credit and guarantee facilities totalling € 504 million have been agreed for Eneco Group with a number of banks (2015: € 251 million). Of these, € 65 million relate to the Network Group and € 439 million to the Energy Company. This includes an uncommitted guarantee and letter of credit facility agreement for € 185 million entered into by Eneco Holding N.V. and N.V. Eneco Beheer on behalf of the Energy Company on 12 December 2016. The amount of the facility will be reduced to € 110 million and Eneco Holding N.V. will withdraw from this agreement on 31 January 2017. A total of € 102 million had been drawn at year-end 2016 (of which € 12 million was for the Network Group and € 90 million for the Energy Company).

**Committed credit and bridging facilities**

There is also a committed credit facility available to Eneco Group up to an amount of € 1.25 billion up to October 2018 (2015: € 1.25 billion). Of this, € 750 million will relate to the Network Group and € 500 million to the Energy Company from the unbundling date. This facility had not been drawn on at year-end 2016.

On 26 September 2016, Eneco Holding N.V. and N.V. Eneco Beheer entered into a committed guarantee and letter of credit facility agreement of € 200 million on behalf of the Energy Company. Eneco Holding N.V. will withdraw from this agreement on 31 January 2017. This agreement ends on 30 June 2017. This facility had not been drawn on at year-end 2016.

In addition to the above, on 2 November 2016 Eneco Holding N.V. entered into two committed revolving bridge facility agreements with two banks for € 300 million and € 200 million at a variable Euribor interest rate. Under the contract, the first facility ends on 2 August 2017 with a renewal option of three months. The other facility also ends on 2 August 2017 with two renewal options of three months each. These facilities had not been drawn on at year-end 2016.

**Cash outflows on financial instruments**

The table below shows forecast nominal cash outflows and any interest arising from financial instruments over the coming years. The cash flows from derivatives are based on the prices and volumes in the contracts. The figures at 31 December 2016 only relate to the Network Group.

| At 31 December 2016 | Within 1 year | From 1 to 5 years | After 5 years | Total |
|---|---|---|---|---|
| Derivative financial instruments | 6 | 17 | 101 | 124 |
| Interest-bearing debt | 327 | 840 | 979 | 2,146 |
| Trade and other payables | 275 | 55 | 340 | 670 |
| **Total** | **608** | **912** | **1,420** | **2,940** |

| At 31 December 2015 | Within 1 year | From 1 to 5 years | After 5 years | Total |
|---|---|---|---|---|
| Derivative financial instruments | 158 | 50 | 99 | 307 |
| Interest-bearing debt | 137 | 1,177 | 1,119 | 2,433 |
| Trade and other payables | 1,300 | 91 | 347 | 1,738 |
| **Total** | **1,595** | **1,318** | **1,565** | **4,478** |

## 32. Capital management

The primary aim of capital management at Eneco is to maintain good creditworthiness and healthy solvency to support operations and minimise the cost of debt. Eneco regards both capital (including the perpetual subordinated bonds issued in 2014) and net debt as relevant elements of its financing and so of its capital management. Eneco can influence its capital structure by altering the proportions of equity and debt. Net interest-bearing debt (excluding discontinued operations) is defined as long-term and current interest-bearing debt less cash and cash equivalents.

No changes were made to the aims, policy and processes for capital management in 2016.

Eneco monitors its capital using the 'Financial Management Framework', which sets out various ratios that have to be regularly monitored by the Board of Management. One of these ratios is equity/total assets. Eneco's policy until the date of the forced unbundling of the company by 31 January 2017 is to keep this above 45%. At year-end 2016, it was 54.1% (2015: 54.0%). Management within this Framework includes ratios relevant to the credit rating. In this context, the perpetual subordinated bonds issued in 2014 are classified by Standard & Poor's as an instrument with 50% equity credit and a 50% debt component ('intermediate basket'), which is in contrast to IFRS, under which the perpetual subordinated bonds are regarded entirely as equity.

## 33. Events after the reporting date

- On 6, 24 and 26 January 2017, Eneco Holding N.V. issued commercial paper for a total amount of € 0.3 billion with maturity dates of 6 and 22 December 2017 and 27 November 2017 respectively. This will relate entirely to the Network Group after the unbundling date. The paper carries a variable Euribor interest rate.

- On 17 January 2017, N.V. Eneco Beheer signed a contract with the shareholders of LichtBlick Holding AG, with its registered office in Hamburg, Germany, to purchase a 50% holding in that company. LichtBlick is the largest independent energy and IT company in Germany. It is a leading green energy company with 500 employees, providing renewable energy to over 645,000 customers. There is a strategic and cultural fit between the two companies, expressed firstly in their missions. Secondly, Eneco and LichtBlick are sure of the trends that are changing global energy markets. The new partnership reinforces Eneco's strength in the European energy market with opportunities for investment, combined experience in the main energy markets and a large customer base.
  This acquisition is expected to take place in the first quarter of 2017 provided the German competition authorities give their approval.The total amount involved in this purchase is some € 0.2 billion. Under the terms of the purchase contract, Eneco is expected to obtain control as meant by IFRS 10 'Consolidated Financial Statements'.

- On 19 January 2017, N.V. Eneco Beheer entered into a committed bridging facility with a bank for € 0.3 billion at a variable Euribor interest rate. This will relate entirely to the Energy Company after the unbundling date. This contract runs from 1 February 2017 to 1 November 2017.

- On 24 January 2017, an agreement was signed on the financing of the 'USPP 2007 B notes' with a redemption date in March 2017 by means of 7-year and 10-year loans of € 0.2 billion.

- On 27 January 2017, Eneco Holding N.V. and N.V. Eneco Beheer (as lender) entered into a financing agreement for loans on arm's length terms for a total of € 0.2 billion that Eneco Holding N.V. will repay to N.V. Eneco Beheer in two tranches (in 2018 and 2020).

- On 27 January 2017, Eneco Holding N.V. entered into cross-currency swap contracts to hedge the foreign currency risk in the sterling loans (£ 75 million). This was related to its termination of the net investment hedge on that date. See also notes 23 'Equity' and 31.2 'Market risk'.

- On 30 January 2017, the shareholders will very probably resolve during an Extraordinary General Meeting to distribute the Energy Company to the shareholders as a 'dividend in kind' on 31 January 2017. This will actually be done by distributing the shares that Eneco Holding N.V. owns in Eneco Groep N.V. Ahead of the unbundling on 31 January 2017, N.V. Eneco Beheer will be contributed to Eneco Groep N.V. Implementing this resolution will create two new companies: the sustainable Eneco Energy Company with Eneco Groep N.V. as its parent and the Network Group with Eneco Holding N.V. (to be renamed as Stedin Holding N.V. from 31 January 2017) as its holding company.

- From 31 January 2017, all declarations of joint and several liability pursuant to Section 403(1)(f), Part 9, Book 2 of the Dutch Civil Code that had been issued by Eneco Holding N.V. to entities within the Energy Company at the 2016 reporting date will be withdrawn. This will be done in compliance with the provisions in Section 404, Part 9, Book 2 of the Dutch Civil Code.

After the companies concerned (part of the Energy Company) have been placed outside the Eneco Holding N.V. group, Eneco Holding N.V. (then renamed Stedin Holding N.V.) intends to end its remaining liability pursuant to Section 2:404(3) Part 9, Book 2 of the Dutch Civil Code.

- On 31 January 2017, € 0.1 billion of group guarantees and the remaining bank guarantees of Eneco Holding N.V. will be transferred to N.V. Eneco Beheer. See note 29, under 'Guarantees' for more information.

# Notes to the consolidated cash flow statement

The consolidated cash flow statement has been prepared using the indirect method. To reconcile the movement in cash and cash equivalents, the result after tax is adjusted for items in the income statement and movements in balance sheet that did not affect receipts and payments during the year.

The cash flow statement distinguishes between cash flows from operating, investing and financing activities. The cash flow from operating activities includes interest and income tax payments and interest and dividend receipts. Development costs, investments in and disposals of non-current assets (including financial interests) are included in cash flow from investing activities. Dividends paid out are recognised as outgoing cash flow from financing activities.

The consolidated cash flow statement includes the cash flows for the continued operations and for the discontinued operations. See section 1.2 'Preparations for the unbundling of Eneco Group on 31 January 2017' of these financial statements for further information.

## Movements in working capital

Working capital consists of inventories and current receivables less short-term non-interest-bearing debt. The table below shows movements in working capital recognised in the cash flow from operating activities:

| | 2016 | 2015 |
|---|---|---|
| Movements in intangible current assets | – | –12 |
| Movements in inventories | 13 | –6 |
| Movements in trade receivables | – | 112 |
| Movements in other receivables | –11 | 62 |
| Movements in non-interest bearing debt | –123 | –244 |
| **Total** | **–121** | **–88** |

# Segment information

## Segment information

Business segments are based on Eneco Group's internal organisation and management reporting structure. Since 1 January 2016, Eneco Group's business segments have been the two core businesses, Energy Company Eneco and Stedin, and there are three segments that were formed in 2015 and not regarded as independent 'reportable segments' according to the criteria in IFRS 8 'Operating Segments'.

The Energy Company Eneco segment purchases, generates, trades and sells electricity, gas, district heating and services and constructs, maintains and manages district heating networks and offers consultancy services. The Stedin segment is the manager of the gas and electricity networks. The three non-reportable segments are:

- the Innovation segment for all activities related to investment in start-ups, innovative energy projects and strategic partnerships;
- the energy consultancy activities of Ecofys; and
- the Infrastructure services segment containing the activities of Joulz Energy Solutions.

The Infrastructure services segment is not regarded as an independent reportable segment according to the criteria in IFRS 8 'Operating Segments'. Consequently, it is included in the Other activities segment that, since it is not material, is included in the 'Other activities, non-allocated, discontinued operations and eliminations' column in the tables for 2016 and 2015 below.

The Energy Company Eneco and Innovation segments are part of the discontinued operations of the Energy Company as explained in section 1.2 'Preparations for the unbundling of Eneco Group on 31 January 2017'. The segment with the energy consultancy activities is also included in the discontinued operations as a result of the sale of Ecofys Investments B.V. on 4 November 2016. Consequently, the results of these three segments are not included in this Segment information section. The balance sheet figures of the Energy Company are, however, included in this note in connection with the reconciliation of total assets and liabilities and are included in the 'Other activities, non-allocated, discontinued operations and eliminations' column. See notes 10 'Result after tax from discontinued operations' and 19 'Assets/liabilities held for distribution to shareholders' for more information on the Energy Company.

This results in a single reportable segment for continued operations, the Stedin segment, and one non-reportable segment for continued operations, Other activities. The comparative figures for 2015 have been restated as necessary.

The group accounting policies are also applied in the segment reports.

Transfer prices for internal products and services are on arm's length terms.

## Revenues and profit by business segment

| 2016 | Segment Stedin | Other activities, non-allocated and eliminations | Total |
|---|---|---|---|
| Revenues from energy transmission and other operating revenue | 1,116 | 57 | 1,173 |
| Inter-segment operating revenues | 9 | – 9 | – |
| Purchases of energy and other operating expenses | – 670 | – 44 | – 714 |
| **Operating profit before depreciation, amortisation and impairment** | **455** | **4** | **459** |
| Depreciation, amortisation and impairment | – 237 | – 8 | – 245 |
| **Operating profit** | **218** | **– 4** | **214** |
| Share of profit of associates and joint ventures | | | – |
| Financial income and expenses | | | – 75 |
| **Profit before income tax (from continued operations)** | | | **139** |

| 2015 | Segment Stedin | Other activities, non-allocated and eliminations | Total |
|---|---|---|---|
| Revenues from energy transmission and other operating revenue | 1,116 | 32 | 1,148 |
| Inter-segment operating revenues | 10 | – 10 | – |
| Purchases of energy and other operating expenses | – 611 | – 22 | – 633 |
| **Operating profit before depreciation, amortisation and impairment** | **515** | **–** | **515** |
| Depreciation, amortisation and impairment | – 226 | – 10 | – 236 |
| **Operating profit** | **289** | **– 10** | **279** |
| Share of profit of associates and joint ventures | | | |
| Financial income and expenses | | | – 77 |
| **Profit before income tax (from continued operations)** | | | **202** |

## Balance sheet by business segment

| At 31 December 2016 | Segment Stedin | Other activities, non-allocated, discontinued operations and eliminations | Total |
|---|---|---|---|
| **Assets** | | | |
| Assets | 5,311 | 4,501 | 9,812 |
| **Total assets** | **5,311** | **4,501** | **9,812** |
| | | | |
| **Liabilities** | | | |
| Equity and non-current liabilities | 4,757 | 2,627 | 7,384 |
| Current liabilities | 554 | 1,874 | 2,428 |
| **Total liabilities** | **5,311** | **4,501** | **9,812** |

| At 31 December 2015 | Segment Stedin | Other activities, non-allocated, discontinued operations and eliminations | Total |
|---|---|---|---|
| **Assets** | | | |
| Assets | 5,166 | 4,735 | 9,901 |
| **Total assets** | **5,166** | **4,735** | **9,901** |
| | | | |
| **Liabilities** | | | |
| Equity and non-current liabilities | 4,735 | 3,530 | 8,265 |
| Current liabilities | 431 | 1,205 | 1,636 |
| **Total liabilities** | **5,166** | **4,735** | **9,901** |

## Other data by business segment

| 2016 | Segment Stedin | Other activities, non-allocated and eliminations | Total |
|---|---|---|---|
| Investments in property, plant and equipment and intangible assets | 409 | 1 | 410 |
| Depreciation/amortisation of property, plant and equipment and intangible assets | 237 | 8 | 245 |

| 2015 | Segment Stedin | Other activities, non-allocated and eliminations | Total |
|---|---|---|---|
| Investments in property, plant and equipment and intangible assets | 365 | 1 | 366 |
| Depreciation/amortisation of property, plant and equipment and intangible assets | 225 | 10 | 235 |

## Revenues by country

All of the revenues of the Stedin and Other activities segments are generated in the Netherlands.

## Property, plant and equipment by country

The property, plant and equipment of the Stedin and Other activities segments relate in full to entities registered in the Netherlands.

# List of principal subsidiaries, joint operations, joint ventures and associates

A full list of companies has been filed with the trade registry in Rotterdam pursuant to Section 379 of Part 9, Book 2 of the Dutch Civil Code.

## Continued operations

### Subsidiaries

| Name | Seat | Share |
|---|---|---|
| CityTec B.V.* | Rotterdam | 100% |
| Joulz Energy Solutions B.V.* | Rotterdam | 100% |
| N.V. Stedin Amstelland* | Rotterdam | 100% |
| N.V. Stedin Midden-Kennemerland* | Rotterdam | 100% |
| N.V. Stedin Netten Weert* | Rotterdam | 100% |
| N.V. Stedin Noord-Oost Friesland* | Rotterdam | 100% |
| N.V. Stedin Zuid-Kennemerland* | Rotterdam | 100% |
| Stedin Diensten B.V. | Rotterdam | 100% |
| Stedin Infradiensten B.V. | Rotterdam | 100% |
| Stedin Meetbedrijf B.V.* | Rotterdam | 100% |
| Stedin Netbeheer B.V.* | Rotterdam | 100% |
| Stedin Netten B.V.* [previously: Stedin Netten Zuid-Holland B.V.] | Rotterdam | 100% |
| Stedin Operations B.V.* | Rotterdam | 100% |
| Stedin Stoomnetwerken B.V. | Rotterdam | 100% |

** Eneco Holding N.V. has issued a declaration of joint and several liability for the subsidiaries marked with an *.*

### Joint operations

| Name | Seat | Share |
|---|---|---|
| Tensz B.V. | Rotterdam | 50% |
| Utility Connect B.V. [previously: CDMA Utilities B.V.] | Houten | 50% |

Discontinued operations
## Subsidiaries

| Name | Seat | Share |
|---|---|---|
| AgroPower B.V.* | Delft | 100% |
| BioEnergieCentrale Delfzijl B.V. | Rotterdam | 100% |
| CEN B.V.* | Hilversum | 100% |
| Eneco B.V.* | Rotterdam | 100% |
| Eneco België B.V.* | Rotterdam | 100% |
| Eneco Consumenten B.V.* | Rotterdam | 100% |
| Eneco Consumenten Nederland B.V.* | Rotterdam | 100% |
| Eneco Energy Sales B.V.* | Rotterdam | 100% |
| Eneco Energy Trade B.V.* | Rotterdam | 100% |
| ENECO France SAS | Avignon (F) | 100% |
| Eneco Gasspeicher B.V.* | Rotterdam | 100% |
| Eneco Groep N.V. | Rotterdam | 100% |
| Eneco Innovation & Ventures B.V. | Rotterdam | 100% |
| Eneco Installatiebedrijven B.V.* | Rotterdam | 100% |
| Eneco Installatiebedrijven Groep B.V.* | Rotterdam | 100% |
| Eneco Installatiebedrijven TI B.V.* | Rotterdam | 100% |
| Eneco Services B.V.* | Rotterdam | 100% |
| Eneco Solar Belgium N.V. | Gent (B) | 100% |
| Eneco Solar, Bio & Hydro B.V.* | Rotterdam | 100% |
| Eneco UK Limited [previously: Eneco Wind UK Limited] | London (UK) | 100% |
| Eneco Warmte & Koude B.V.* | Rotterdam | 100% |
| Eneco Warmte & Koude Leveringsbedrijf B.V.* | Rotterdam | 100% |
| Eneco Warmtenetten B.V.* | Rotterdam | 100% |
| Eneco Warmteproductie Utrecht B.V. | Rotterdam | 100% |
| Eneco Wind B.V.* | Rotterdam | 100% |
| Eneco Wind Belgium SA | Wavre (B) | 100% |
| Eneco Windpark Delfzijl Noord v.o.f. | Rotterdam | 100% |
| Eneco Windmolens Offshore B.V. | Rotterdam | 100% |
| Eneco Zakelijk B.V.* | Rotterdam | 100% |
| Eneco Zakelijk Nederland B.V. | Rotterdam | 100% |
| Jedlix B.V. | Rotterdam | 100% |
| Luminext B.V. | Amsterdam | 100% |
| N.V. Eneco Beheer* | Rotterdam | 100% |
| Oxxio Nederland B.V.* | Hilversum | 100% |
| Quby B.V. | Amsterdam | 100% |
| Sprint B.V.* | Rotterdam | 100% |
| Windpark de Beemden B.V. | Rotterdam | 100% |
| Windpark Houten B.V. | Rotterdam | 100% |
| Windpark van Pallandt B.V.* | Rotterdam | 100% |

** Eneco Holding N.V. has issued a declaration of joint and several liability for the subsidiaries marked with an *.*

## Discontinued operations

### Joint operations

| Name | Seat | Share |
|---|---|---|
| Enecogen v.o.f. | Rotterdam | 50% |
| Norther S.A. | Brussels (B) | 25% |
| Q10 Offshore Wind B.V. | Rotterdam | 50% |
| Zonnepark Ameland B.V. | Ameland | 33.3% |

### Joint ventures

| Name | Seat | Share |
|---|---|---|
| PVNED Holding B.V. | Middelburg | 50% |

### Associates

| Name | Seat | Share |
|---|---|---|
| Groene Energie Administratie B.V. | Rotterdam | 30% |
| Peeeks B.V. | Delft | 50% |

# Company financial statements

## Company income statement

| x € 1 million | 2016 | 2015 |
|---|---|---|
| Share of profit of subsidiaries | 246 | 264 |
| Other results after income tax | –47 | – 56 |
| **Profit after income tax** | **199** | **208** |
| | | |
| **Profit distribution:** | | |
| Profit after income tax attributable to holders of Eneco Holding N.V. perpetual subordinated bonds | 12 | 12 |
| Profit after income tax attributable to shareholders of Eneco Holding N.V. | 187 | 196 |
| **Profit after income tax** | **199** | **208** |

## Company balance sheet
### Before profit appropriation

| x € 1 million | Note | At 31 December 2016 | At 31 December 2015 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 12 | – |
| Financial assets | 2 | 7,559 | 8,622 |
| **Total non-current assets** | | **7,571** | **8,622** |
| **Current assets** | | | |
| Receivables from group companies | | 329 | 42 |
| Current income tax assets | | 13 | – |
| Other receivables | | 2 | 1 |
| Cash and cash equivalents | | 1 | 156 |
| **Total current assets** | | **345** | **199** |
| **TOTAL ASSETS** | | **7,916** | **8,821** |
| **Equity** | | | |
| Share capital | | 497 | 497 |
| Share premium | | 381 | 381 |
| Revaluation reserve | | 702 | 779 |
| Translation reserve | | 6 | 45 |
| Cash flow hedge reserve | | – 30 | 19 |
| Reserve for undistributed profit of associates | | 34 | 36 |
| Reserve for research and development expenses | | 4 | 2 |
| Retained earnings | | 3,025 | 2,890 |
| Undistributed profit | | 187 | 196 |
| **Equity attributable to Eneco Holding N.V. shareholders** | | **4,806** | **4,845** |
| Perpetual subordinated bonds | | 501 | 501 |
| **Total equity** | 3 | **5,307** | **5,346** |
| Non-current liabilities | | | |
| Provisions | | 4 | – |
| Deferred income tax liabilities | | 24 | 10 |
| Interest-bearing debt | 4 | 1,394 | 1,691 |
| Other liabilities | | 47 | 72 |
| **Total non-current liabilities** | | **1,469** | **1,773** |
| **Current liabilities** | | | |
| Interest-bearing debt | 4 | 276 | 35 |
| Liabilities to group companies | | 844 | 1,565 |
| Current tax liabilities | | – | 82 |
| Other liabilities | | 20 | 20 |
| **Total current liabilities** | | **1,140** | **1,702** |
| **TOTAL EQUITY AND LIABILITIES** | | **7,916** | **8,821** |

# Notes to the company financial statements

All amounts in millions of euros unless stated otherwise.

## 1. Accounting policies

The company financial statements have been prepared in accordance with the provisions of Part 9, Book 2 of the Dutch Civil Code, and the same accounting policies have been applied as in the consolidated financial statements as permitted by Section 362(8), Part 9, Book 2 of the Dutch Civil Code, except that subsidiaries are carried at net asset value determined on the basis of the IFRS accounting policies used in the consolidated financial statements. The descriptions of the activities and structure of the enterprise as stated in the 'Notes to the consolidated financial statements' also apply to the company financial statements.

## 2. Financial assets

| | Subsidiaries | Receivables from subsidiaries | Other receivables | Derivative financial instruments | Deferred income tax assets | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2015** | **6,177** | **2,040** | **26** | **8** | **4** | **8,255** |
| Share of profit of subsidiaries | 264 | – | – | – | – | 264 |
| Movements in deferred tax assets | – | – | – | – | – 4 | – 4 |
| Movements in loans to subsidiaries | – | 50 | – | – | – | 50 |
| Movements in other loans | – | – | – 26 | – | – | – 26 |
| Movements in fair value of derivative financial instruments in equity | 35 | – | – | 45 | – | 80 |
| Sale of derivative financial instruments | – | – | – | – 13 | – | – 13 |
| Acquisition of non-controlling interests | – 8 | – | – | – | – | – 8 |
| Translation differences | 6 | 15 | 3 | – | – | 24 |
| **At 31 December 2015** | **6,474** | **2,105** | **3** | **40** | **–** | **8,622** |
| Share of profit of subsidiaries | 246 | – | – | – | – | 246 |
| Fair value adjustment for regulated networks | – 40 | – | – | – | – | – 40 |
| Investments | 40 | – | – | – | 1 | 41 |
| Dividend received | – 300 | – | – | – | – | – 300 |
| Movements in deferred tax assets | – | – | – | – | – 1 | – 1 |
| Movements in loans to subsidiaries | – | – 886 | – | – | – | – 886 |
| Movements in other loans | – | – | – 2 | – | – | – 2 |
| Movements in fair value of derivative financial instruments in equity | – 60 | – | – | 2 | – | – 58 |
| Translation differences | – 14 | – 49 | – | – | – | – 63 |
| **At 31 December 2016** | **6,346** | **1,170** | **1** | **42** | **–** | **7,559** |

'Subsidiaries' includes the Energy Company classified as 'held for distribution to shareholders'. See note 19 'Assets/liabilities held for distribution to shareholders' to the consolidated financial statements for further information.

## 3. Equity

Details of changes in equity are set out in the Consolidated statement of changes in equity in the consolidated financial statements. The individual components of equity are disclosed in note 23 'Equity' to the consolidated financial statements.

Statutory reserves are recognised pursuant to Part 9, Book 2 of the Dutch Civil Code. Eneco Holding N.V.'s statutory reserves are a revaluation reserve, translation reserve, cash flow hedge reserve, retained earnings, reserve for undistributed profit of associates and a reserve for research and development costs.

### Distributable results

A dividend of € 19.72 per share was paid in 2016 (2015: € 20.62). In 2016, Eneco made € 98 million available to its shareholders (2015: € 102.5 million). This was distributed in April 2016.

The non-distributable capital attributable to Eneco Holding N.V. shareholders was € 854 million at 31 December 2016 (2015: € 1,032 million). The individual method was used for the cash flow hedge reserve.

## 4. Interest-bearing debt

Interest-bearing debt is mainly the private loans obtained from institutional investors as set out in note 26 to the consolidated financial statements.

## 5. Contingent assets and liabilities

### Liability

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 for the principal subsidiaries marked with an * in the List of principal subsidiaries, joint operations, joint ventures and associates .

### Fiscal unity

Eneco Holding N.V. and almost all its subsidiaries form a fiscal unity for corporate income tax purposes. Eneco Holding N.V. is also a member of a fiscal unity for VAT purposes, covering part of the Group. In both cases, all companies in a fiscal unity are jointly and severally liable for the tax obligations of that fiscal unity. See note 29 ‘Contingent assets and liabilities’ to the consolidated financial statements for more information the changes in these fiscal unities in connection with the unbundling on 31 January 2017.

### Cash pool

As a result of its participation in the Network Group cash pool, Eneco Holding N.V., like the other participants, is jointly and severally liable for deficits in the pool.

### Contingent assets and liabilities

**Guarantees**

See note 29 'Contingent assets and liabilities' to the consolidated financial statements for group guarantees issued by Eneco Holding N.V.

**Other liabilities**

Eneco Holding N.V. had other contingent liabilities at 31 December 2016 of € 28 million (2015: € 15 million). These sums are included in notes 28 'Operating leases' and 29 'Contingent assets and liabilities' to the consolidated financial statements.

## 6. Auditor’s fees

The fees below relate to audit and consultancy services by Eneco’s external auditor, Deloitte Accountants B.V., as defined in Section 1.1 of the Audit Firms Supervision Act (Wet toezicht accountantsorganisaties - Wta), and include those charged by entities associated with the auditor in the Deloitte network.

| x € 1,000 | 2016 | 2015 |
|---|---|---|
| Audit of the financial statements | 1,523 | 945 |
| Other audit engagements | 2,203 | 973 |
| Other non-audit services | 44 | 331 |
| **Total** | **3,770** | **2,249** |

The fee for the audit of the Eneco Holding N.V. financial statements included audit work on the consolidated and company financial statements of this company.

Other audit engagements are the audit of the statutory financial statements of subsidiaries and related engagements. Other non-audit services are those permitted by Wta and include those charged by entities associated with the auditor in the Deloitte network (2016 € 44,000 and 2015 € 331,000).

## 7. Events after the reporting date

On 27 January 2017, the financing totalling € 0.8 billion made available by N.V. Eneco Beheer to Eneco Holding N.V. was repaid. The remaining liability to N.V. Eneco Beheer was refinanced by a new arm’s length loan of € 0.2 billion granted to Eneco Holding N.V. by N.V. Eneco Beheer. See note 33 ‘Events after the reporting date’ to the consolidated financial statements for more information.

See note 33 to the consolidated financial statements for other events after the reporting date.

## 8. Profit appropriation

### Proposal for appropriation of profit for 2016

A proposal will be put to the Extraordinary General Meeting on 30 January 2017 to pay an interim dividend of € 100 million from the profit after income tax attributable to the shareholders of Eneco Holding N.V. This would represent a total distribution of for 2016 of € 20.12 per share. The dividend will be distributed as an interim dividend on 30 January 2017.

Rotterdam, 30 January 2017

Eneco Holding N.V.

Board of Management

J.F. (Jeroen) de Haas, chairman
C.J. (Kees-Jan) Rameau
G.A.J. (Guido) Dubbeld
M.W.M. (Marc) van der Linden

Supervisory Board

E.H.M. (Edo) van den Assem, chairman
H.G. (Henk) Dijkgraaf
M.B.A. (Marco) Keim
M. (Marike) van Lier Lels
A. (Atzo) Nicolaï
M. (Mirjam) Sijmons
R. (Rob) Zandbergen

# Other information

## 1. Profit appropriation pursuant to the articles of association

According to the company's articles of association the Board of Management may, with the approval of the Supervisory Board, increase the reserves by an amount equal to, at most, half of the profit available for distribution. The remaining portion is at the disposal of the General Shareholders' Meeting. The General Shareholders' Meeting can decide to distribute all or part of the remaining portion. Undistributed profit is added to the reserves.

The articles of association also state that the General Shareholders' Meeting may decide to make interim distributions with due regard for the provisions of the articles of association. There are no restrictions in the articles of association on the size of interim distributions, only the legal restrictions that apply to public limited liability companies. A decision to distribute an interim dividend from the profit for the current financial year can also be taken by the Board of Management, with the approval of the Supervisory Board.

# 2. Independent auditor's report

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

## Report on the financial statements 2016 included in the annual report 2016

### Our opinion

We have audited the financial statements 2016 of Eneco Holding N.V. in Rotterdam (the "Company"). The financial statements comprise the consolidated and the company financial statements.

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of the Company as at December 31, 2016 and of its result and cash flows over 2016 in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRS") and with Part 9 Book 2 of the Dutch Civil Code and are in accordance with provisions of the Senior Executives in the Public and Semi-Public Sector (Standards for Remuneration) Act ('Wet normering bezoldiging topfunctionarissen publieke en semipublieke sector' – "WNT"); and
- the company financial statements give a true and fair view of the financial position of the Company as at December 31, 2016 and of the result over 2016 in accordance with Part 9 Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. the consolidated balance sheet as at December 31, 2016;
2. the following statements over 2016: the consolidated profit and loss account, the consolidated statement of realized and unrealized results, the consolidated statements of movements in the group equity and the consolidated cash flow statement; and
3. the notes comprising a summary of the main accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as at December 31, 2016;
2. the company profit and loss account over 2016; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

### Basis for our opinion

We have performed our audit in accordance with Dutch law, including the Dutch Standards on Auditing and the WNT Audit Protocol. Our responsibilities in this respect are set out in the section "Our responsibilities for the financial statements audit".

We are independent of the Company as required under the Regulation on Auditor Independence in Assurance Engagements ('Verordening inzake de onafhankelijkheid van accountants') and other relevant independence requirements in the Netherlands relevant to the engagement. Furthermore, we have complied with the Regulation Code of Conduct and Professional Practice Auditors ('Verordening gedrags- en beroepsregels accountants').

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 30 million. This materiality is based on a weighing of several factors, the most significant of which are the following:

- 0,8% of the revenues from energy sales and transmission and energy related activities over the last 3 years; and
- 10% of the profit before tax over the last 3 years.

We also take into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 1.5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

## Scope of the group audit

Eneco Holding N.V. heads a group of entities. The financial information of this group is included in the consolidated financial statements of Eneco Holding N.V.

The group audit has particularly focused on significant business units. We have:

- audited the financial accounts of Stedin Netbeheer, Consumenten, Zakelijk and Energy Trade; and
- at other business units we have performed an audit of specific account balances, classes of transactions or disclosures, or we have performed specific audit procedures. For Eneco Belgium we used the work of other auditors within the Deloitte network.

By performing the procedures referred to above at business units (of the group), combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Company to provide a basis for our opinion on the consolidated financial statements.

## Our key audit matters

The key audit matters for our financial statements audit are those matters that, in our professional judgment, were of most significance in our financial statements audit. We have communicated the key audit matters to the Supervisory Board, but they are not a comprehensive reflection of all matters discussed.

We have addressed these key audit matters in the context of our financial statements audit as a whole. Our findings on the individual audit matters should be considered in that context and should not be regarded as separate opinions on these audit matters.

**Unbundling**

| Description of the key audit matter | How we have audited this key audit matter |
|---|---|
| The unbundling of the Company into a network group and an energy company under the Independent Network Operator Act ('Wet Onafhankelijk Netbeheer') as from January 31, 2017 at the latest (the "Unbundling") has far-reaching financial and other consequences for the years to come. The organization's Unbundling in 2016 also carried risks in terms of the disruption of the business operations and the weakening of the internal controls. Likewise, it involved complex reporting issues for the financial statements 2016. Important matters forming part of the Unbundling are the legal restructuring, financing adjustments, and amendments of contracts with trade partners, and the application of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" in the financial statements 2016.<br><br>To this end, we refer to the following disclosures in the financial statements: note 1.2 'Preparations for the unbundling of Eneco Group on 31 January 2017', note 10 'Result after tax from discontinued operations' and note 19 'Assets/liabilities held for distribution to shareholders'. | We have evaluated the design of the project organization aimed at realizing the Unbundling in accordance with the unbundling plan as approved by the Netherlands Authority for Consumers and Markets ('Autoriteit Consument & Markt'). By attending relevant meetings with the Audit Committee of the Supervisory Board, reading minutes and taking note of critical progress reports, we have obtained knowledge of major developments for our financial statements audit. We have evaluated the reasonableness of the cash flow forecasts for the coming years. We have also performed specific substantive procedures on significant transactions that formed part of the Unbundling, including the legal restructuring, financing adjustments, and amendments of contracts with trade partners. As regards to recognition and disclosure of the Unbundling in the financial statements 2016 in accordance with IFRS 5, we have called in reporting experts and performed specific substantive procedures. |

### Impairment of (in)tangible fixed assets

| Description of the key audit matter | How we have audited this key audit matter |
|---|---|
| The (in)tangible fixed assets constitute a significant part of the balance sheet of the Company. Regulatory developments and circumstances on the energy markets may lead to impairment of (in)tangible fixed assets.<br>Both (1) the examination of possible impairment triggers relating to the cash flow generating units ("CGU's") of the assets, and (2) testing for an impairment - which the Company is obliged to perform under EU-IFRS in respect of cash flow generating units to which goodwill has been allocated - are significant to our audit given the volatility of electricity and gas prices and because to some extent the estimation process is complex and subjective and it is based on assumptions, among which the discount rate ("WACC").<br><br>The regulated assets form the main part of (in)tangible fixed assets. The regulated networks are valued in accordance with the EU-IFRS revaluation model, in which a periodical reconciliation is made with the standardized assets value (['gestandaardiseerde activawaarde'], "SAV"). Within the regulation, a grid operator is given the opportunity to recover the SAV through a (regulated) yield. Hence, the risk of impairment for this category of assets is limited.<br><br>The non-regulated assets mainly comprise sustainable production assets. If necessary or required, immediately prior to these assets being classified as "Assets held for distribution to shareholders", they have been assessed for any impairment. Since these assets do not generate a cash inflow that is largely independent of other assets, these assets are reviewed for possible impairments together, at the level of the CGU's. | We have assessed the management's examination of impairment triggers relating to the cash flow generating units of the assets. Using our own valuation experts, we have performed an impairment test on the goodwill, which is allocated to the group of CGU's that forms the segment Energiebedrijf Eneco, and we have also assessed whether the aggregate fair value of the non-regulated assets of the energy company exceeds the carrying amount.<br><br>We have reviewed the design and the existence of internal control measures focused on the realization of the management's impairment test. We have verified the reliability of the information on which the expectations have been based and assessed the reasonableness, relevance and consistency of the assumptions applied. In this respect we have specifically focused on the WACC applied and the forecast of the cash flows in the value-in-use model. Furthermore, we have examined the notes to the assumptions and the outcome of the impairment tests as included in note 12 'Intangible assets' of the financial statements, which specifically states that the recoverable amount (value in use) of this group of CGU's exceeds the carrying amount. |

### Reliability and continuity of the automated data processing

| Description of the key audit matter | How we have audited this key audit matter |
|---|---|
| The Company heavily depends on the IT infrastructure for the reliability and continuity of the business operations and for the realization of reliable financial reporting. The financial and accounting processes on which the financial reporting is based are fed and supported by a large number of systems, applications and interfaces (the "IT-infrastructure"), which to some extent are mutually dependent on each other. The design, existence and operating effectiveness of the IT controls through which these systems and applications are managed are critical for the continuous reliability and continuity of Eneco's processes and, thus, for the realization of the financial statements.<br><br>An example of this regards the IT-infrastructure supporting the customer processes: this infrastructure processes large volumes of transactions. Impairment of the integrity of customer and other data or downtime may lead to the invoicing and the estimation of revenues not being performed correctly, in full, and on time. Any recovery process may be complex and drastic. Another critical component regards the IT-infrastructure supporting Eneco's trade activities. This is due to the large volume, the significance for the financial results, and the complexity. This is why change management and data protection were among the major focus areas when performing our procedures. | We have tested the reliability and continuity of the IT-infrastructure, solely to the extent necessary within the scope of our financial statements audit. To this end, we have included specialized IT auditors in our audit team. Our procedures comprised the assessment of the IT-infrastructure developments relevant to the financial statements audit, and subsequently testing the design, the existence and the operating effectiveness of IT control measures. Our management letter to the Board of Management and the Supervisory Board reports the deficiencies that we have identified and our recommendations for further improvements. Following additional, substantive procedures we have established that the deficiencies identified have not resulted in material misstatements in the financial statements. We refer to paragraph 'Toprisks' on pages 28 and 29. |

### Estimation uncertainty when determining the Energy Reconciliation

| Description of the key audit matter | How we have audited this key audit matter |
|---|---|
| The Energy Reconciliation for electricity and gas is where purchases and sales are reconciled. The following processes play a key part in preparing the Energy Reconciliation: allocation, reconciliation, gross margin modelling, reconciliation records, and grid loss estimation. The Energy Reconciliation forms the basis for (the completeness of) the revenues from energy sales and the related balance sheet items included in "Result after tax from discontinued operations", "Assets held for distribution to shareholders" and "Liabilities held for distribution to shareholders".<br><br>The estimation of revenues within the Energy Reconciliation was one of our key audit matters, because to some extent the estimation process is complex and subjective and it is based on assumptions, among which the customers' consumption of electricity and gas. In this respect we also refer to note 3 'Net sales' and note 10 'Result after tax from discontinued operations' in the consolidated profit and loss account, where the estimation of the revenues is explained in more detail. | We have tested the design and the implementation of internal control measures of the Company in respect of the process for preparing the Energy Reconciliation. In addition, we have verified the arithmetic integrity of the Energy Reconciliation model, we have verified the reliability of the information on which the estimation of revenues has been based and we have assessed the reasonableness, relevance and consistency of the assumptions applied. In this respect we have specifically focused on the standard annual consumption and the estimation of the influence of weather conditions on this consumption. In addition, we have performed audit procedures on the revenues still to be invoiced after year-end, including subsequent review testing in 2017. |

## Report on the other information recorded in the annual report

In addition to the financial statements and our audit opinion, the annual report includes other information. This comprises:

- Management report; and
- the other information.

Based on the following procedures we believe that the other information:

- is consistent with the financial statements and does not contain any material misstatements; and
- contains all information required under Part 9 Book 2 Dutch Civil Code.

We have read the other information and based on our knowledge and our understanding, obtained from the financial statements audit or otherwise, considered whether the other information contains material misstatements.

Through our procedures we have complied with the requirements under Part 9 Book 2 Dutch Civil Code and Dutch Accounting Standard 720. These procedures do not have the same depth as our audit procedures as regards the financial statements.

The Board of Management is responsible for preparing of the other information, among which the Board of Management's report and the other information, in conformity with Part 9 Book 2 Dutch Civil Code.

## Report on other legal and regulatory requirements

**Engagement**

We were engaged by the general meeting of shareholders as auditor of the Company for the financial year 1997 and have operated as statutory auditor since that year.

# Description of responsibilities relating to the financial statements

## Responsibilities of the Board of Management and the Supervisory board for the financial statements

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the provisions of and under the WNT. In this respect the Board of Management is responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the Report and the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board of Management should prepare the financial statements using the going concern basis of accounting unless the Board of Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

## Our responsibilities for the financial statements audit

Our responsibility is to plan and perform the audit that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which makes it possible that we did not detect all errors or frauds.

Misstatements may arise due to fraud or errors. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Materiality influences the nature, timing and scope of our audit procedures and the evaluation of the impact of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements, independence requirements and the WNT Audit Protocol.

Our audit included, e.g.:

- Identifying and assessing the risks of material misstatements of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.
- Concluding on the appropriateness of the Board of Mangement's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in out auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Given our responsibility for the opinion on the financial statements, we are responsible for managing, supervising, and performing the audit of the Group. As part of this responsibility we have determined the nature and scope of the procedures to be performed for the business units of the Group. Relevant factors we considered in this respect are the scope and/or the risk profiles of the business units or the business operations. Based on this we selected the business units for which an audit or a review of the full financial information or of specific items was necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal controls that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Rotterdam, January 30, 2017

Was signed,

J.A. de Bruin

# Supplier Code of Conduct

## Supplier Code of Conduct compliance statement

regarding remotely readable small-volume metering systems.

Names legal entities: Eneco Consumenten B.V. and Eneco Zakelijk B.V., hereinafter jointly referred to as 'Eneco', and Oxxio Nederland B.V. and CEN B.V., hereinafter jointly referred to as 'Oxxio'.

Statutory seats: Rotterdam (Eneco) and Hilversum (Oxxio)

Period: 1 January 2016 to 31 December 2016

For the proper performance of services, Eneco and Oxxio use metering data obtained from remotely readable small-volume metering systems. In addition to the provisions in the Personal Data Protection Act, suppliers and metering companies operating under responsibility of these suppliers in the Dutch energy sector, have drawn up a code of conduct relating to the use, recording, exchange and storage of data obtained from remotely readable small-volume metering systems.

Eneco B.V., in this matter represented by its director M.W.M. (Marc) van der Linden, in the capacity of director of Eneco Consumenten Nederland B.V. and, as such, director of Eneco Consumenten B.V., Oxxio Nederland B.V. and CEN B.V., also in the capacity of director of Eneco Zakelijk Nederland B.V., and, as such, director of Eneco Zakelijk B.V., hereby declares that, during the period specified above, Eneco and Oxxio have complied with the rules and stipulations contained in the Smart Meters Suppliers Code of Conduct 2012.

Rotterdam, 18 January 2017

M.W.M. (Marc) van der Linden, member of the Board of Management Eneco Holding N.V.

# Workforce

Eneco strives for a balanced composition of the workforce. This not only requires a good balance between men and women, on which we report below. There is a place in the organisation for people with a different view, background or personality, and for the challenged.

### Number of employees

| Average in FTE | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Total number of employees Eneco Group | 6,561 | 6,711 | 7,023 | 7,018 |

### Male to female ratio

| Percentage of men and women in relation to total number of employees in FTE | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Men | 76 | 76 | 75 | 78 |
| Women | 24 | 24 | 25 | 22 |

### Age groups

| Percentage FTE per age group in relation to total FTE | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| ages 15-24 | 2 | 2 | 3 | 4 |
| ages 25-34 | 24 | 24 | 25 | 26 |
| ages 35-44 | 25 | 25 | 24 | 24 |
| ages 45-54 | 24 | 25 | 25 | 25 |
| ages 55+ | 25 | 24 | 23 | 21 |

### Diversity

| Percentage | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Women in management positions | 26 | 25 | 26 | 23 |

### Employment agreement

| Percentage | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Indefinite duration contract | 91 | 93 | 88 | 89 |
| Employees in collective employment | 85 | 83 | 85 | 86 |
| Employees on full-time contracts | 83 | 82 | 82 | - |

### Absence due to illness

| Percentage | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| | 5.5 | 4.9 | 4.1 | 3.9 |

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**Disclaimer**

This annual report contains statements relating to the future. These statements can be recognised by the use of wording such as 'anticipated', 'expected', 'forecasts', 'intends', and similar expressions. These statements are subject to risks and uncertainties and the actual results and events can differ considerably from the current expectations. Factors that could lead to this include, but are not limited to, the general economic situation, the situation in the markets in which Eneco Group operates, the behaviour of customers, suppliers and competitors, technological developments and legal provisions and stipulations of regulatory bodies that affect the activities of Eneco Group. Future results can also be influenced by factors including, but not limited to, financial risks, such as foreign currency risks, interest risks and liquidity and credit risks. Eneco Group does not accept any liability or obligation related to the adjustment or revision of the current forecasts on the basis of new information or future events or for any other reason.



This annual report is only published in Dutch-language and English-language versions. In the case of any discrepancy between language versions, the Dutch version prevails.

**Eneco Holding N.V.**

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