Half-year report 2014

Eneco Holding N.V.

Eneco

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Satisfactory first half of 2014

Eneco is developing, as planned, into a valued and often local partner for customers looking for an alliance to solve their energy-related issues. They may be customers who want to save on their energy bills, for example by buying a TOON, our smart thermostat. Or they may be businesses that want to have a stable energy company look after all or part of their energy affairs, as shown by our recently announced 10-year alliance with rail operators in the Netherlands. We will not only get all their trains running on power from wind farms but we will also work on greater sustainability throughout the rail industry. At the same time, we once again invested more in the first half of 2014 in quality and expanding our networks and in making our energy production more sustainable. We are continuing to do this to achieve our mission of 'sustainable energy for everyone'. Eneco's customers benefited from a mild winter, the fourth reduction in prices since 2012 and a cut in network tariffs. The emphasis that we place on safety at Eneco Group ensured that the number of safety incidents remained below the specified limit for the first six months of the year.

Our activities grew substantially. Compared with the first six months of 2013, we increased our investment in quality, expanding our networks and making our energy production more sustainable to €402 million. Projects include the Leiding over Noord pipeline for the transmission of sustainable heat and the construction of the Delfzijl Noord wind farm. Previous investment resulted in the Lochluichart and Tullo wind farms in the United Kingdom coming on line this year. The mild winter, lower energy prices and cuts in transmission tariffs led to falls of 16% in net profit and 15% in revenue to €155 million and €2,444 million respectively.

Result development

The gross margin on sales and transmission of gas, electricity and heating and related activities fell by €138 million (15%) to €777 million having been adversely affected by weather conditions and the reduction in regulated energy transmission tariffs. Furthermore, Eneco Group reduced its interest in gas-fired generation of electricity and in this connection recognised a non-recurring charge for buying out a power purchase contract. This will improve our margins in the coming years. Due to the improved outlook, we were able to reverse impairment recognised in previous years to give an operating profit (EBIT) of €263 million, down by €26 million (9%) on 2013.

Operating expenses totalled €628 million, €78 million lower than in the first half of 2013 (€706 million). Ignoring amortisation and depreciation, operating costs increased slightly by €18 million (3%). Net financial expense rose to €56 million (2013: €44 million).

Our production, trading and supply activities

The average temperature was well above normal during the first half of the year, while the first half of 2013 had been particularly cold, and consequently our customers' consumption of gas and heating dropped sharply. This led to a 27% reduction in sales of gas and heating despite an increase in the number of customers following the acquisition of DONG Energy Sales B.V. The loss of margin was made up somewhat by higher wind and solar energy revenues, partly from new solar and wind farms:

- Our solar energy generating capacity in Belgium grew from 24 MWp to 32 MWp (sustainable energy for 8,000 households) with the acquisition of the Prosolar portfolio. Eneco is now the second largest solar energy producer in Belgium;
- Handover of the Lochluichart wind farm (sustainable energy for 39,000 households) and expansion of the Tullo wind farm (sustainable energy for 24,000 households) in the United Kingdom.

Thanks to cost-saving measures and increased cost consciousness, operating expenses excluding depreciation were unchanged from last year, despite the expansion of our activities. At €109 million, operating profit (EBIT) from production, trading and supply activities in the first half of 2014 was in line with the figure of €112 million for the first half of 2013.

Our network and engineering activities

The new regulatory period for grid operators started in 2014. The effect on our network activities is that the tariffs we are permitted to charge customers for the transmission of electricity and gas will be reduced for three years. This is reflected in the revenue from our network activities, which fell by €27 million compared with the first half of 2013. Operating expenses for these activities remained fairly stable.

The average interruption in electricity supply due to faults in the network was 9.4 minutes per customer in the first six months, comparable to the result for the first six months of 2013.

The mild weather conditions resulted in less working time being lost in our engineering activities because of cold weather. This, along with an acceleration in grid management investment orders and an increase in commercial sales, led to higher levels of activity, productivity and capacity utilisation result. We are also seeing the benefits of an earlier productivity programme which has improved working processes and, consequently, increased the efficiency of our technicians. However, operating expenses increased slightly due to the increase in commercial sales.

The operating profit on network and engineering activities fell from €192 million in the first half of 2013 to €179 million in the first half of 2014.

Investments

Eneco Group's aim is to improve the sustainability of the energy supply and so we continue to make major investments in sustainable energy generation capacity, in energy saving and in a reliable, modern network. We invested €402 million in the first six months of this year, an increase of 24 percent compared with €324 million in the first half of 2013. Our investments included the development of wind farms (€100 million) and solar farms (€11 million) in the Netherlands, Belgium and the United Kingdom and heating networks (€51 million) including the Leiding over Noord pipeline, which will start transporting residual heat from the Botlek to Rotterdam and providing sustainable heating to households and businesses in the fourth quarter of 2014. We are also continuing to invest significant sums improving and expanding our electricity and gas networks (€221 million; 2013 €185 million).

Our customers

Customer numbers increased slightly, mainly as a result of the acquisition of DONG's Dutch customer portfolio in April and activities in Belgium. In January, Stedin started the large-scale provision of smart energy meters to 37,000 addresses in the Hoeksche Waard — the first area in the Netherlands where these new meters are being offered across the board. Sales of TOON smart thermostats increased further during the first six months and they are now in use by over 50,000 customers.

We entered into a number of pioneering alliances in the business market. We signed a long-term contract with NS and other rail operators to phase in sustainable power from wind farms between 2015 and 2018 for all rail traffic in the Netherlands. TenneT engaged Joulz to convert the 380 kV station in Beverwijk and we entered into an innovative 'Windflex' gas contract with GasTerra, under which the price and volume of gas depends in part on the strength of the wind.

In Belgium we introduced a bond for our customers of the Tivano wind farm in Gouvy in the province of Luxembourg, whose five wind turbines provide sustainable energy for 10,000 households. This has enhanced our Belgian customers' involvement in wind energy. Other notable milestones in the first six months were:

- Start of construction of the Delfzijl Noord wind farm (sustainable energy for 55,000 households);
- Stedin signed a letter of intent with Siemens, Gasunie, A.Hak, Torrgas, Hanzehogeschool and Energy Valley Foundation to develop the world's largest, fully-integrated Power2Gas installation in Delfzijl for the conversion of sustainable resources such as solar power and wind to gas;
- A 15-year purchase agreement with NOP Agrowind for power from the Noordoostpolder wind farm (sustainable energy for 180,000 households);
- The Bio Golden Raand biomass power station was fully operational during the half-year;
- The Consumentengids reported that Oxxio is the lowest priced provider of substantive power;
- Study by Ecofys for the municipality of Noordwijk into spatial planning opportunities for 'near shore' wind energy and the possible cost savings this could create.

Outlook for the second half

We are confident of further developments at Eneco Group, which, as planned, is becoming a business that is a partner for customers in the area of sustainable energy-related issues. For example, in the business market, by offering Esco (Energy Service Company) solutions in which Eneco enters into a long-term alliance with customers. Or, for consumers, by facilitating local generation of energy. At the same time, Eneco Group continues to invest fully in the generation and transport of sustainable energy to achieve its mission of sustainable energy for everyone. Nevertheless, market conditions are challenging and are expected to remain so for the time being. Against this background we are unable to present a results forecast for 2014.

Condensed consolidated interim financial statements 2014

Consolidated income statement

x € 1 million	Note	First half 2014	First half 2013
Revenues from energy sales and transmission and energy related activities	4	2,330	2,793
Purchases of energy and transmission and energy related activities		1,553	1,878
Gross margin		**777**	**915**
Other revenues		114	80
Gross margin and other operating revenues		**891**	**995**
Employee benefit expenses		203	191
Cost of contracted work and other external costs		315	301
Depreciation and impairment of property, plant and equipment	6	76	176
Amortisation and impairment of intangible assets	6	17	13
Other operating expenses		17	25
Operating expenses		**628**	**706**
Operating profit		**263**	**289**
Share of profit of associates		4	3
Financial income		8	3
Financial expenses	7	– 64	– 47
Profit before income tax		**211**	**248**
Income tax	8	– 56	– 60
Profit after income tax from continued operations		**155**	**188**
Profit after income tax from discontinued operations		–	– 4
Profit after income tax		**155**	**184**
Of which:			
Profit (loss) after income tax attributable to non-controlling interests		-	-
Attributable to shareholders of Eneco Holding N.V.		**155**	**184**

Unaudited.

Consolidated balance sheet

x € 1 million	Note	30 June 2014	31 December 2013	30 June 2013
Non-current assets				
Property, plant and equipment	10	7,348	6,978	6,725
Intangible assets		370	377	400
Financial assets [1]	11	250	210	230
Total non-current assets [1]		**7,968**	**7,565**	**7,355**
Current assets				
Assets held for sale	12	79	91	82
Intangible assets		11	11	19
Inventories		59	65	61
Trade receivables		706	854	902
Current income tax assets		–	2	–
Other receivables		213	212	275
Derivative financial instruments	13	239	147	104
Cash and cash equivalents		270	238	179
Total current assets		**1,577**	**1,620**	**1,622**
TOTAL ASSETS [1]		**9,545**	**9,185**	**8,977**
Equity	14			
Equity attributable to Eneco Holding N.V. shareholders		4,626	4,588	4,525
Non-controlling interests		5	5	3
Total Shareholders' equity		**4,631**	**4,593**	**4,528**
Non-current liabilities				
Provisions for employee benefits		30	29	27
Other provisions		82	89	70
Deferred income tax liabilities		433	413	378
Derivative financial instruments	13	161	157	139
Interest-bearing debt [1]	11, 15	1,738	1,718	1,778
Other liabilities		382	355	315
Total non-current liabilities [1]		**2,826**	**2,761**	**2,707**
Current liabilities				
Liabilities held for sale		2	1	5
Provisions for employee benefits		2	2	3
Other provisions		34	34	24
Derivative financial instruments	13	211	124	97
Interest-bearing debt	11, 15	456	175	338
Current income tax liabilities		28	-	32
Trade and other liabilities		1,355	1,495	1,243
Total current liabilities		**2,088**	**1,831**	**1,742**
TOTAL EQUITY AND LIABILITIES [1]		**9,545**	**9,185**	**8,977**

[1] 2013 figures restated for comparative purposes (see note 1.2 - IFRS 11).

Unaudited with the exception of 31 December 2013.

Consolidated statement of comprehensive income

x € 1 million	First half 2014	First half 2013
Profit after income tax	**155**	**184**
Unrealised gains and losses that will not be reclassified to profit or loss	**–**	**–**
Unrealised gains and losses that may be reclassified to profit or loss		
Exchange rate differences	11	– 5
Unrealised gains and losses on cash flow hedges	– 11	26
Deferred tax liabilities on cash flow hedges	3	– 7
Total other comprehensive income	**3**	**14**
Total comprehensive income	**158**	**198**
Of which attributable to:		
Non-controlling interests	-	-
Total comprehensive income attributable to shareholders of Eneco Holding N.V.	**158**	**198**

Unaudited.

Consolidated cash flow statement

x € 1 million	Note	First half 2014	First half 2013
Profit after income tax		**155**	**184**
Total adjustments for cash flow from business operations		231	– 72
Total of dividend received from associates, interest paid and received and income tax paid		– 46	– 39
Cash flow from operating activities		**340**	**73**
Cash flow from investing activities [1]	9	**– 426**	**– 337**
Dividend payments	14	– 119	– 117
Movements in non-controlling interests		–	–
Movement in non-current interest-bearing debt [1]		– 155	219
Movements in current interest-bearing debt		392	121
Cash flow from financing activities		**118**	**223**
Movements in cash and cash equivalents		**32**	**– 41**
Balance of cash and cash equivalents at 1 January		238	220
Balance of cash and cash equivalents at 30 June		**270**	**179**

[1] 2013 figures restated for comparative purposes (see note 1.2 - IFRS 11).

Unaudited.

Consolidated statement of changes in group equity

x € 1 million	Paid-up and called-up share capital	Share premium	Revaluation reserve	Translation reserve	Cash flow hedge reserve	Retained earnings	Undistri-buted profit	Total	Non-controlling interests	Total equity
	Equity attributable to Eneco Holding N.V. shareholders									
At 1 January 2013	**497**	**381**	**903**	**4**	**– 52**	**2,478**	**233**	**4,444**	**3**	**4,447**
Total other comprehensive income in the first half 2013	**–**	**–**	**– 21**	**– 5**	**19**	**21**	**–**	**14**	**–**	**14**
Profit (-loss) after income tax first half 2013	–	–	–	–	–	–	184	184	–	184
Total comprehensive income for the first half 2013	**–**	**–**	**– 21**	**– 5**	**19**	**21**	**184**	**198**	**–**	**198**
Profit appropriation 2012	–	–	–	–	–	116	– 116	–	–	–
Dividend payments relating to 2012	–	–	–	–	–	–	– 117	– 117	–	– 117
At 30 June 2013	**497**	**381**	**882**	**– 1**	**– 33**	**2,615**	**184**	**4,525**	**3**	**4,528**
Total other comprehensive income in the second half 2013	**–**	**–**	**– 21**	**5**	**1**	**21**	**–**	**6**	**–**	**6**
Profit (-loss) after income tax second half 2013	–	–	–	–	–	–	57	57	1	58
Total comprehensive income for the second half 2013	**–**	**–**	**– 21**	**5**	**1**	**21**	**57**	**63**	**1**	**64**
Movements in non-controlling interests	–	–	–	–	–	–	–	–	1	1
Reclassification	–	–	–	–	–	–	–	–	–	–
At 31 December 2013	**497**	**381**	**861**	**4**	**– 32**	**2,636**	**241**	**4,588**	**5**	**4,593**
Total other comprehensive income in the first half 2014	**–**	**–**	**– 20**	**11**	**– 8**	**20**	**–**	**3**	**–**	**3**
Profit (-loss) after income tax first half 2014	–	–	–	–	–	–	155	155	–	155
Total comprehensive income for the first half 2014	**–**	**–**	**– 20**	**11**	**– 8**	**20**	**155**	**158**	**–**	**158**
Profit appropriation 2013	–	–	–	–	–	120	– 120	–	–	–
Dividend payments relating to 2013	–	–	–	–	–	–	– 120	– 120	–	– 120
At 30 June 2014	**497**	**381**	**841**	**15**	**– 40**	**2,776**	**156**	**4,626**	**5**	**4,631**

Unaudited with the exception of 31 December 2013.

Selected notes to the condensed consolidated interim financial statements

1. Accounting policies 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, joint operations and joint ventures (referred to as a group as 'Eneco Group') and Eneco Group's interests in associates. Eneco Group's activities are in energy supply, including the production, purchase and sale, transmission, distribution and delivery of energy, heating and cooling and the construction, management and operation of networks, providing information on and promoting the effective and economic use of energy, and research and development into new energy products and services.

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

The interim financial statements have been prepared in compliance with IAS 34 'Interim Financial Reporting' and should be read in conjunction with the 2013 annual financial statements of Eneco Holding N.V., drawn up in accordance with IFRS-EU.

The Board of Management authorised the publication of these interim financial statements on 1 August 2014.

1.2 New or amended IFRS standards 2014

Effective from 1 January 2014, the European Commission has adopted the following new or amended IFRS standards that are relevant to Eneco Group and will be applied to the 2014 financial statements.

- IFRS 10 'Consolidated Financial Statements' partly replaces IAS 27 and interpretation SIC 12 in respect of determining the degree of control over other entities and the requirement to consolidate them. IFRS 10 introduces a 'single control model' to establish whether an investor exercises control over an entity. Under IFRS 10, 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. This standard has been applied from 1 January 2014 with retroactive effect to 1 January 2013. The impact analysis shows that Eneco is unaffected by this new standard as it does not lead to changes in control already established. Consequently, no new entities have been included in the consolidation structure in 2014 which were not consolidated in 2013 under the old IAS 27 or vice versa. As a result, the comparative figures for 2013 have not been restated.

- IFRS 11 'Joint Arrangements' restricts recognition of activities performed jointly to two types: joint operations and joint ventures. Joint operations are recognised on the basis of Eneco's interest in the assets, liabilities, revenues and expenses of those joint operations ('proportional recognition') and joint ventures are recognised using the equity method. This standard has been applied from 1 January 2014 with retroactive effect to 1 January 2013. The impact analysis shows that this new standard has a limited financial effect on Eneco as, for certain joint operations, the result using 'proportional recognition' (IFRS 11) differs from that using 'proportional consolidation' under the old standard IAS 31, since recognition or otherwise of rights to assets or obligations for liabilities of a joint operation depends on the contractual arrangements between the joint operators.

  The limited impact on the figures reported in the 2013 balance sheet is as follows and, although not material, has been incorporated in the 2013 comparative figures:

	At 31 December 2013		At 30 June 2013	
	Reported	Restated	Reported	Restated
Consolidated balance sheet				
Financial assets	228	210	235	230
Non-current liabilities: Interest-bearing debt	1,736	1,718	1,783	1,778

Unaudited.

The effect on the reported income statements for the first half of 2013 and the full year 2013 is not material and so the comparative figures in the income statement for 2013 have not been restated for the application of IFRS 11 at 1 January 2014.

- IFRS 12 'Disclosure of Interests in Other Entities' replaces the disclosure requirements in IAS 27, IAS 28 and IAS 31 and sets disclosure requirements for interests in other entities. This information is to assist users of financial statements in evaluating the nature of and risks associated with interests in other entities and their effect on the financial statements. Eneco Group has applied this standard since 1 January 2014 and it has not affected the half-year results. Additional information on interests in other entities will be presented in the 2014 financial statements to the extent applicable.

- 'Offsetting Financial Assets and Financial Liabilities': these amendments to IAS 32 'Financial Instruments: Presentation' clarify the rules on netting financial assets and financial liabilities in financial statements. They concern detailed disclosures when there is a legally enforceable right to set off amounts and when a financial asset is realised and a financial liability is settled simultaneously. These amendments have no material impact on offsetting these balance sheet amounts in the 2014 half-year report.

- 'Recoverable Amount Disclosures for Non-Financial Assets': these amendments to IAS 36 'Impairment of Assets' mean that only the recoverable amount of a cash-generating unit (CGU) or group of CGUs is disclosed in the financial statements to the extent that there is impairment or a reversal of impairment. In addition, the disclosure requirements on establishing the recoverable amount of a CGU using fair value less costs to sell have been made consistent with those based on value in use.

- 'Novation of Derivatives and Continuation of Hedge Accounting'. This amendment to IAS 39 provides for the continuation of hedge accounting in novations where a central counterparty takes the place (as a result of legislation or regulation) of a counterparty to a derivative designated as a hedging instrument. This amendment has no effect on the 2014 half-year figures as no such novation has occurred.

Other amendments and interpretations that are not relevant to Eneco or that have not yet been endorsed by the European Commission are not addressed further.

2. Accounting policies

2.1 Accounting policies

The accounting policies and basis of consolidation used in the interim financial statements are consistent with the accounting policies described in the 2013 annual financial statements, except for the possible effect of newly applied standards as set out in 1.2 'New or amended IFRS standards 2014'.

2.2 Assessments, estimates and assumptions

In preparing these interim financial statements, management used assessments, 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 economic life of property, plant and equipment, the fair value of relevant assets and liabilities, impairment of assets and the size of provisions. The assessments, estimates and assumptions that have been made are based on market information, knowledge and historical experience and other factors that can be deemed reasonable in the circumstances. Actual results could, however, differ from the estimates. Assessments, 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 or in the period under revision and subsequent periods if the revision affects both the current and future periods. Any points of special importance with regard to assessments, estimates and assumptions are set out in the notes to the income statement and balance sheet items.

3. Seasonal activity pattern

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

4. Segment information

Eneco Group's operations are managed through the core companies, which are the segments of the Eneco Group as defined in IFRS 8 'Operating Segments'.

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

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

4.1 Revenues and operating profit by segment

First half 2014	Segment Energy Company Eneco	Segment Stedin	Segment Joulz	Eliminations and non-allocated	Total
Revenues from energy sales and transmission, energy related activities and other operating revenues	1,826	545	71	2	2,444
Inter-segment operating revenues	15	7	218	– 240	–
Purchases of energy and energy related and other operating expenses	– 1,754	– 285	– 268	219	– 2,088
Operating profit before depreciation, amortisation and impairment	**87**	**267**	**21**	**– 19**	**356**
Annual depreciation and impairment	22	– 106	– 3	– 6	– 93
Operating profit	**109**	**161**	**18**	**– 25**	**263**
Share of profit of associates					4
Financial income and expenses					– 56
Profit before income tax					**211**

First half 2013	Segment Energy Company Eneco	Segment Stedin	Segment Joulz	Eliminations and non-allocated	Total
Revenues from energy sales and transmission, energy related activities and other operating revenues	2,243	577	52	1	2,873
Inter-segment operating revenues	23	2	205	– 230	–
Purchases of energy and energy related and other operating expenses	– 2,076	– 291	– 248	220	– 2,395
Operating profit before depreciation, amortisation and impairment	**190**	**288**	**9**	**– 9**	**478**
Annual depreciation and impairment	– 78	– 102	– 3	– 6	– 189
Operating profit	**112**	**186**	**6**	**– 15**	**289**
Share of profit of associates					3
Financial income and expenses					– 44
Profit before income tax					**248**

Unaudited.

4.2 Balance sheet by segment

30 June 2014	Segment Energy Company Eneco	Segment Stedin	Segment Joulz	Eliminations and non-allocated	Total
Assets					
Assets	4,468	4,978	388	– 339	9,495
Associates	50	–	–	–	50
Total assets	**4,518**	**4,978**	**388**	**– 339**	**9,545**
Liabilities					
Equity and non-current liabilities	3,291	4,616	58	– 508	7,457
Current liabilities	1,227	362	330	169	2,088
Total liabilities	**4,518**	**4,978**	**388**	**– 339**	**9,545**

31 December 2013	Segment Energy Company Eneco	Segment Stedin	Segment Joulz	Eliminations and non-allocated	Total
Assets					
Assets [1]	4,391	4,867	355	– 477	9,136
Associates	49	–	–	–	49
Total assets [1]	**4,440**	**4,867**	**355**	**– 477**	**9,185**
Liabilities					
Equity and non-current liabilities [1]	3,171	4,484	47	– 348	7,354
Current liabilities	1,269	383	308	– 129	1,831
Total liabilities [1]	**4,440**	**4,867**	**355**	**– 477**	**9,185**

[1] 2013 figures restated for comparative purposes (see note 1.2 - IFRS 11).

Unaudited with the exception of 31 December 2013.

5. Business combinations

On 1 April 2014, Eneco acquired DONG Energy Sales B.V. ('DONG') by purchasing the entire share capital and associated control in a cash transaction. The final purchase price is not yet known as it depends on settlement of specific items. The settlement may affect the allocation of the purchase price (based on fair value) to the identified assets and liabilities. The acquisition has been recognised provisionally in these interim financial statements. DONG is a supplier of energy to retail and business customers in the Netherlands. The acquisition reinforces Eneco's market position.

The assets and liabilities were recognised on the acquisition date at their provisional fair value and consisted of €18 million of intangible assets, €36 million of receivables, €22 million of cash and cash equivalents and €57 million of current liabilities. This acquisition has not yet led to the recognition of goodwill. The costs related to this transaction were €0.3 million. The acquisition has been effectively recognised in Eneco's consolidated figures from 1 January 2014, since when DONG has contributed €90 million to revenue and a small positive amount to the profit after income tax.

In addition, Eneco acquired a number of smaller businesses, including a solar farm in Belgium and a wind farm in the Netherlands, during the first half of 2014. In these cases too, the acquisition prices have not yet been finalised pending the settlement of specific items. The settlement may affect the allocation of the purchase price (based on fair value) to the identified assets and liabilities. Consequently, these acquisitions have also been recognised as 'provisional' in these half-year figures. The total amount paid in the first half of 2014 was some €2 million, relating mainly to property, plant and equipment. In view of the size of these acquisitions, the other disclosures pursuant to IFRS 3 'Business Combinations' are not regarded as material.

6. Reversal of impairment

During the first half of 2014, management performed an impairment analysis of the property, plant and equipment and intangible assets of the Netherlands and Belgium Electricity cash-generating unit, which includes all the electricity-related operations in these countries. The principal reason for performing this analysis was the restructuring of energy purchase contracts, including early settlement of a contract with a third party on 1 January 2015. The associated decisions must be regarded as positive triggers for performing an impairment analysis as they are expected to lead to an improvement in future results. A material non-recurring charge has been recognised for this early settlement under 'Purchases of energy and transmission and energy-related activities' in the income statement. In addition, amortisation of the associated contract, which is recognised as an intangible asset, has been accelerated in 2014. This has resulted in an additional amortisation charge of €19 million in the half-year figures. The analysis established that the value in use of the assets of this cash-generating unit, which was based on expected future cash flows in Eneco's long-term plans, was higher than their carrying amount. The pre-tax discount rate, which reflects the risks of the activities, was 9% (2013: 9%). No account was taken of long-term growth. Based on this analysis, management reversed €120 million and €20 million of an earlier impairment of the property, plant and equipment and intangible assets of the Netherlands and Belgium Electricity cash-generating unit. These amounts were credited to 'Depreciation and impairment of property, plant and equipment' and 'Amortisation and impairment of intangible assets' in the income statement.

7. Financial expenses

x € 1 million	First half 2014	First half 2013
Interest expense	44	44
Interest added to provisions	3	1
Impairment of financial fixed assets	12	1
Other	5	1
Total	**64**	**47**

8. Income tax

The effective tax burden amounted to 26.5% (first half of 2013: 24.2%). The increase was mainly a result of not being able to offset certain expenses under the participation exemption. This was partly counteracted by a lower tax charge as a result of tax incentives (Energy Investment Allowance).

9. Cash flow from investing activities

Investment in property, plant and equipment and intangible assets in the first half of the year amounted to €402 million (first half of 2013: €324 million) and related to new production capacity and the renovation and maintenance of energy networks.

10. Property, plant and equipment - regulated networks

Regulated networks

The regulated networks category, which is part of property, plant and equipment, relates to different types of assets at Stedin 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 (some 99% of the total fair value) is covered by 'level 1' in the fair value hierarchy as specified in IFRS 13 'Fair Value Measurement' (see Note 13 Derivative financial instruments). These measurement models use observable market prices, being Regulated Asset Value tariffs set by the government, and there is a principal market for purchasing and selling these types of assets at Regulated Asset Value tariffs.

The fair value of the regulated networks was determined at the start of the new regulatory period on 1 January 2014. This analysis did not indicate a need to revise the carrying amount (fair value less accumulated depreciation) at 1 January 2014. Consequently, no remeasurement of the regulated assets has been recognised. At 30 June 2014, the carrying amount of the regulated networks at historical cost was €3,785 million (31 December 2013: €3,629 million).

11. New financial rights and obligations

Two lease-and-leaseback transactions were terminated early during the first half of 2014. Consequently, the original conditional and unconditional contractual obligations and rights, which were then equal to each other and transferred to third parties, no longer have the same closely-related structure as in the original lease-and-leaseback transactions. The cash flows for these financial rights and obligations will be settled through Eneco Holding N.V. As a result, following the early termination, these financial rights and obligations are being recognised in the consolidated balance sheet at €27 million and €32 million respectively from April 2014. The negative difference of €5 million has been recognised as a financial expense in the income statement. This initial measurement is at fair value and covered by 'level 2' of the fair value hierarchy as specified in IFRS 13 'Fair Value Measurement' (see Note 13 Derivative financial instruments).

12. Assets held for sale

These mainly comprise high-voltage networks in Zuid-Holland, which it is still intended will be transferred to TenneT as required by law.

13. Derivative financial instruments

Derivative financial instruments

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

The table below shows the fair value of derivative financial instruments:

	At 30 June 2014		At 31 December 2013	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap contracts	–	8	–	7
Currency swap contracts	2	113	–	107
Energy commodity contracts	331	249	232	162
CO_2-emission rights contracts	16	2	13	5
Total	**349**	**372**	**245**	**281**
Classification				
Current / short-term	239	211	147	124
Non-current / long-term	110	161	98	157
Total	**349**	**372**	**245**	**281**

Unaudited with the exception of 31 December 2013.

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. Illiquid contracts are not recognised as instruments in this category.

Level 3

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

The hierarchy of derivative financial instruments measured at fair value at 30 June 2014 was as follows:

30 June 2014	Level 1	Level 2	Level 3	Total
Assets				
Energy commodity contracts	65	282	–	347
Interest rate and currency swap contracts	1	1	–	2
Total assets	**66**	**283**	**–**	**349**
Liabilities				
Energy commodity contracts	7	244	–	251
Interest rate and currency swap contracts	–	121	–	121
Total liabilities	**7**	**365**	**–**	**372**

31 December 2013	Level 1	Level 2	Level 3	Total
Assets				
Energy commodity contracts	41	204	–	245
Interest rate and currency swap contracts	–	–	–	–
Total assets	**41**	**204**	**–**	**245**
Liabilities				
Energy commodity contracts	4	163	–	167
Interest rate and currency swap contracts	–	114	–	114
Total liabilities	**4**	**277**	**–**	**281**

Unaudited with the exception of 31 december 2013.

14. Group equity

In the first half of 2014, Eneco Holding N.V. declared a dividend of €120 million payable to its shareholders (2013: €117 million), €119 million of which was paid in April 2014.

15. Interest-bearing debt

The fair value of the loans at 30 June 2014 was €2,494 million (31 December 2013: €2,092 million). 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 as specified in IFRS 13 'Fair Value Measurement' (see Note 13 Derivative financial instruments).

No long-term financing was raised in 2014, although short-term credit of some €400 million was drawn. In addition, interest-bearing debt increased by €32 million as a result of new financial obligations (see Note 11 New financial rights and obligations). Regular repayment of long-term liabilities in the first half of 2013 were some €150 million.

16. Contingent assets and liabilities

Lease-and-leaseback transactions

Between 1997 and 2000, lease-and-leaseback transactions were entered into for a large part of the gas, electricity and district heating networks. Two of the four transactions in force at 31 December 2013 were terminated early in April 2014 leaving two other transactions (for the electricity networks). Consequently, counterparty risk on banks was cut by $359 million and that on investments by $82 million and the strip exposure fell by $53 million.

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 that these matters are properly contested. The amounts claimed in some of these proceedings are 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.

17. Related party transactions

Subsidiaries, associates, joint operations and joint ventures included in these interim financial statements and the company's Management and Supervisory Boards are regarded as related parties. Shareholders in Eneco with significant influence are related parties.

	Sales		Purchases	
	First half 2014	First half 2013	First half 2014	First half 2013
Associates	51	57	12	11
Joint ventures	1	3	21	29
Other capital interests (>20%)	1	–	9	17

Unaudited.

Review report

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

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Eneco Holding N.V., Rotterdam, which comprises the consolidated balance sheet as at June 30, 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in group equity, and the selected notes to the condensed consolidated interim financial statements for the period of six months ended June 30, 2014. Management is responsible for the preparation and presentation of this condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at June 30, 2014 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Rotterdam, August 1, 2014

Deloitte Accountants B.V.

Signed on the original,

J.A. de Bruin

This report is available in the Dutch language as well. In the case of any discrepancy between language versions, the Dutch version prevails.

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Disclaimer

This half-year report contains statements related to the future. These statements can be recognised by the use of wording such as 'anticipated', 'expected', 'forecast', '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 confined 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 judgements and stipulations of regulatory bodies that affect the activities of Eneco Group. Future results could also be influenced by factors including, but not limited to, financial risks, such as foreign currency and 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.

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