Notes to the consolidated financial statements

1. Accounting principles for financial reporting

1.1 General information

Eneco Groep N.V. (the company) was incorporated on 12 December 2016 by the then Eneco Holding N.V. (now Stedin Holding N.V.) to become the ultimate holding company of N.V. Eneco Beheer after unbundling. To this end, there was an informal capital contribution in Eneco Groep N.V. on 30 January 2017 by means of the contribution of the shares in N.V. Eneco Beheer at carrying amount. This transaction is regarded as a ‘business combination under common control’ and as continuation of the operations of N.V. Eneco Beheer. Eneco Groep N.V. has opted to use the pooling of interests method from the consolidation perspective and carry-over accounting for the company financial statements. Note 24 ‘Equity’ provides further information on the accounting treatment under the chosen methods.

Eneco Groep N.V. is a company incorporated under Dutch law, with its registered office in Rotterdam. It is the holding company of subsidiaries, interests in joint operations and joint ventures and associates (referred to jointly as ‘Eneco’ or the ‘Group’). The company is registered at the Chamber of Commerce under number 67470041.

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

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

The Group’s main strategic alliances are its investments and participating interests in onshore and offshore wind farms and start-ups, and memberships of co-operatives. These include the joint investment with Mitsubishi Corporation in the Luchterduinen offshore wind farm that came on stream in 2016 and the Norther wind farm being developed off the Belgian coast. The Group is also a member of the Enecogen VOF power station partnership and has interests in Groene Energie Administratie B.V. (Greenchoice) and since 2017 in Next Kraftwerke GmbH, a German virtual power plant operator.

The consolidated financial statements have been prepared by the company’s Board of Management. The 2017 financial statements were signed by the Board of Management during its meeting on 16 February 2018 and will be submitted for adoption by the General Meeting of Shareholders on 28 March 2018.
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 2017, as adopted by the European Commission, and with the provisions of Part 9, Book 2 of the Dutch Civil Code.

Where necessary, the accounting policies of joint operations, joint ventures and associates are brought into line with those of Eneco Groep N.V. The consolidated financial statements have been prepared on a going-concern basis using the accrual basis of accounting. Since 1 January 2017, a 50% interest in an alliance has been recognised in the consolidated financial statements as a joint venture and no longer as a joint operation following to a re-evaluation further to IFRS 11 ‘Joint Arrangements’.

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

1.2 New or amended IFRS standards

The following amendments to an existing IFRS standard are relevant to Eneco and had been adopted by the European Commission at 1 January 2017. They have been applied as appropriate when preparing these financial statements:

- IAS 7 ‘Statement of Cash Flows’: an amendment to revise disclosures in the financial statements as part of the IASB ‘Disclosure Initiative’ project. The amendments to IAS 7 are designed to enable users of financial statements to evaluate movements during the financial year related to liabilities arising from financing activities. To the extent necessary, the following changes in liabilities must be disclosed in the financial statements: 1) changes from financing cash flows; 2) changes arising from obtaining or losing control of subsidiaries or other businesses; 3) the effect of changes in foreign exchange rates; 4) changes in fair values; and 5) other changes. To this end, note 27 ‘Interest-bearing debt’ provides information on changes in liabilities arising from financing activities. In view of the prospective application of these amendments to IAS 7, these disclosures are not presented for 2016.

The following new IFRS standards are relevant to Eneco and had been adopted by the European Commission but are not mandatory for 2017. 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. Early adoption was permitted, but the Group did not do this. Eneco has analysed the potential effect on the consolidated financial statements from applying this standard.
  - The revised provisions on the classification of financial assets and liabilities will not have a material effect on Eneco’s consolidated figures.
  - The impact of ‘impairment’ on receivables will be limited by the large number of relatively small debtors, which spreads the risk, in combination with maintaining the current, strict assessment criteria and processes for the receivables portfolio as a whole. The application of the ‘expected loss approach’ under IFRS 9 rather than the ‘incurred loss approach’ may lead to a provision for doubtful debts being formed sooner, involving a shift of the cost between reporting periods, the impact of which on the consolidated figures is not material.
  - The provisions on hedge accounting have been amended in IFRS 9 to be more closely in line with businesses’ risk policy and are less rigid. Since Eneco also applies hedge accounting under IAS 39, implementation of the new standard is not expected to have a material impact on the consolidated figures.

- 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. Early adoption was permitted, but the Group did not do this. Eneco has analysed the potential effect on the consolidated financial statements from applying this standard. The areas examined were connection and transmission fees, discounts, taxes, other statutory charges, combined contracts and construction contracts and whether Eneco is regarded as the agent or principal for this revenue. Although implementing IFRS 15 will impact a number of these areas, the effect will be limited when compared to the Group’s total revenue.

- IFRS 16 ‘Leases’: under this standard no distinction is drawn between operating and finance leases for lessees and off-balance-sheet accounting is no longer permitted for operating leases. The right of use of an asset under an operating lease must be capitalised on the balance sheet while recognising a lease liability. Assets with a value of less than USD 5,000 or a lease term of less than 12 months are exempt from capitalisation under IFRS 16. This new standard replaces the existing rules in IAS 17 ‘Leases’. IFRS 16 is effective for reporting periods starting on or after 1 January 2019. Early adoption is permitted, but the Group will not do this. The Group expects to complete the analysis of the potential effects on the consolidated financial statements from applying this standard during the first half of 2018.

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 the Group are not addressed further in these financial statements.

1.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Eneco Groep 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

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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 method, in which initial recognition is at the cost of acquisition of the interest in the associate. The carrying amount is then adjusted by the share in the result less dividends received. The cost of acquisition of an associate is the amount at which an associate was acquired by Eneco. If this is higher than the value of the net identifiable assets acquired, it may include goodwill. 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 the Group 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 the cost of acquisition. 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 2017 financial statements are summarised below.

Since 2017, Eneco Groep N.V. has been required to perform a consolidation and applies the accounting policies in accordance with IFRS standards, except for the effect of new and amended standards as set out in 1.2 ‘New or amended IFRS standards’. The comparative figures for 2016 are presented using the pooling of interests method.

**Judgements, estimates and assumptions**

In preparing the financial statements, management applied 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 intangible assets and 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 applied 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 company 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 the Group’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.
2.2 **Revenues**

Revenues, less discounts granted, are recognised when it is probable that the economic benefits will be attributed to the Group and the revenues can be reliably measured. Amounts invoiced and collected for the company’s own risk (if Eneco acts as principal) are recognised as revenue. Amounts invoiced and collected for third parties (where Eneco is agent) are not recognised as revenue.

**Energy supply**

Revenues from the sale of energy to end-users are recognised at the time of supply, once the selling price has been agreed and collection of the sales proceeds is probable. Supply is when the rewards of ownership and risk of any impairment are transferred to the customer.

Sales to large-volume consumers are billed monthly based on meter readings. Billing for sales to retail consumers is based on meter readings taken throughout the year. The amount of energy supplied to retail consumers during the reporting period and the resulting revenues are, therefore, estimated in part on the basis of historical consumption information, standard customer profiles, weather conditions and applicable energy tariffs.

**Energy-related activities**

Revenues from the construction, maintenance and leasing of energy installations and equipment, 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.

**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 **Purchase cost of energy**

Purchases of energy comprise directly attributable costs for the sale of energy to end-users. The purchase cost of energy and commodities contracts entered into with the intention of actually acquiring energy (‘own use’) is recognised in the same period as that in which the sales revenue is realised.

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 the Group.

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**

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.

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

In 2016, the Group disposed of the networks and network-related assets for the unbundling on 31 January 2017 of the then Eneco Holding N.V. (now Stedin Holding N.V.).

**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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Useful life in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>25 - 50</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>10 - 50</td>
</tr>
<tr>
<td>Other operating assets</td>
<td>3 - 25</td>
</tr>
</tbody>
</table>

2.7 **Leases (Group as lessee)**

A lease where the Group, 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 operation, 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 in 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, trade names, other 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.

**Trade names**

If, for commercial reasons, the Group decides to retain the trade name of a party acquired as part of a business combination, it is recognised initially at fair value, determined using the ‘relief from royalty method’ on the acquisition date.

**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 following useful lives are applied:

<table>
<thead>
<tr>
<th>Category</th>
<th>Useful life in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer databases</td>
<td>6 - 20</td>
</tr>
<tr>
<td>Licences</td>
<td>3 - 30</td>
</tr>
<tr>
<td>Software</td>
<td>3 - 5</td>
</tr>
<tr>
<td>Brands</td>
<td>20</td>
</tr>
<tr>
<td>Concessions, permits and rights</td>
<td>3 - 30</td>
</tr>
<tr>
<td>Development costs</td>
<td>5 - 15</td>
</tr>
</tbody>
</table>

**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 CO₂ 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 unrelied 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...
the Group 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 and liabilities held for sale
Assets (and liabilities of an asset group) held for sale and discontinued operations 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 asset group or operations are available for immediate sale in their present condition and the sale is expected to be completed within one year. If activities to be disposed are classified as discontinued operations (e.g. significant business units), their results and the comparative figures in the income statement are presented on the discontinued operations line. Where necessary, eliminations for consolidation are made.

Assets and asset groups 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 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.

2.16 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.

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

2.18 Provisions for employee benefits
Defined-contribution pensions
Pension liabilities of almost all Dutch business units have been placed with the industry-wide pension funds: Stichting Pensioenfonds ABP (ABP) and the Stichting Pensioenfonds Metaal en Techniek (PMT). There is a state pension plan for employees in Germany; contributions are collected with the social security charges on the employee’s salary. A limited number of employees have individual plans insured with various insurance companies.
In the event of future shortfalls, the pension funds may only adjust future contributions and only within a limited range. Under IFRS, the ABP and PMT 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 income statement in the period to which they relate.

The amount of the pension in the Netherlands depends on age, salary and years of service. Employees may opt to retire earlier or (with the Group’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.

**Defined-benefit plans**

Defined-benefit plans are obligations to pay out future pension entitlements. The defined-benefit entitlements depend on age, years of service and salary. The liabilities under defined-benefit plans are calculated actuarially for each plan separately. This applies mainly for the pensions plans in Belgium, which are classified as defined-benefit plans since the employer has issued a certain guarantee on returns.

Liabilities for defined-benefit plans are based on the actuarial present value of the liability determined using the projected unit credit method that is based on a straight-line accrual of rights using projected salaries and takes into account aspects such as future salary increases and inflation. The net liabilities are determined as the net amount of the actuarial present value of the liabilities and the fair value of the fund assets according to actuarial reports. Service charges and net interest are included in employee benefits. Gains and losses on settlement of a defined-benefit plan are taken and recognised in the result at the time of settlement. Actuarial gains and losses on the revaluation of a net pension liability are recognised in the statement of comprehensive income.

**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 actuarially 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.

**2.19 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. If a subsequent assessment shows that the present value of the estimated decommissioning and restoration costs differs considerably from the provision, the difference is settled as an addition or release against the cost of the asset concerned. The adjusted cost is then depreciated over the remaining useful life of that asset. Interest is added regularly to the decommissioning provision. The discount rate for the present value of the provision takes account of current market interest rates and the specific risk profile of the liability. This means that if current market interest rates change during or at the end of the reporting period, the provision has to be recalculated using the changed interest rates.

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 contract.

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.

2.20 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.

2.21 Leases (Group as lessor)
A lease where the Group, 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 income is recognised in the income statement on a straight-line basis over the lease term unless a different allocation is more in line with the pattern of the revenues obtained from the leased asset. Any charges, for example for service and repairs, included in the lease instalments are recognised in accordance with the criteria for providing services.

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.

2.22 Trade and other payables
Trade and other payables are recognised at fair value and subsequently at amortised cost. Payables 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. Revenues from energy sales and energy-related activities

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>1,776</td>
<td>1,198</td>
</tr>
<tr>
<td>Gas</td>
<td>1,184</td>
<td>1,088</td>
</tr>
<tr>
<td>District heat</td>
<td>270</td>
<td>252</td>
</tr>
<tr>
<td>Energy-related activities</td>
<td>79</td>
<td>104</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,309</td>
<td>2,642</td>
</tr>
</tbody>
</table>

Total revenue for 2017 included transmission charges of some €200 million invoiced on behalf of grid operators and some €200 million of environmental and other levies and taxes from operations in Germany.

4. Other revenues

Other revenues are mainly proceeds from recharges of costs, sales of CO₂ rights and income from the disposal of interests in subsidiaries and joint operations.

5. Employee benefits

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>170</td>
<td>153</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>24</td>
<td>17</td>
</tr>
<tr>
<td>Pension contributions</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td>Other employee benefits</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>242</td>
<td>211</td>
</tr>
</tbody>
</table>

Total employee benefits were €258 million (2016: €236 million). €7 million (2016: €8 million) of employee benefits have been capitalised. As their nature is directly related to revenue, employee benefits of €9 million (2016: €17 million) have been recognised as part of the cost of energy sales and energy-related activities.

Headcount

The table below shows average headcount during the year of continued and discontinued operations expressed in full-time equivalents (FTE):

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy company Eneco (continued operations)</td>
<td>3,049</td>
<td>2,882</td>
</tr>
<tr>
<td>Stedin (discontinued operations)</td>
<td>-</td>
<td>1,455</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,049</td>
<td>4,337</td>
</tr>
<tr>
<td>of whom, working outside the Netherlands</td>
<td>792</td>
<td>266</td>
</tr>
</tbody>
</table>

1 from 1 July 2016, Stedin is no longer part of the Group