N.V. Nuon Energy Annual Report 2016

Power Climate Smarter Living

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Report of the Management Board

Nuon, part of Vattenfall

Vattenfall is one of Europe's major retailers of electricity and heat and one of the largest producers of electricity and heat. Vattenfall's main markets are Sweden, the Netherlands, Germany, Denmark, Finland and the UK. The Group has approximately 20,000 employees. The Parent Company, Vattenfall AB, is 100%- owned by the Swedish state, and its headquarters are located in Solna, Sweden. Vattenfall is organised in six cross-border Business Areas: Heat, Wind, Customers & Solutions, Generation, Markets and Distribution.

Vattenfall's operations in the Netherlands are carried out by N.V. Nuon Energy and its subsidiaries ('Nuon'). Nuon also has operations in Germany and the United Kingdom. It produces and supplies electricity, gas, heat and cooling, offering its customers a wide range of energy-saving products and services. Nuon has approximately 3,600 employees (FTEs) and serves 2.0 million customers in the Netherlands. With net sales of EUR 2.6 billion in 2016, Nuon holds a top-three position in the Dutch energy market.

Vattenfall has committed itself to the Swedisch Corporate Governance Code (SCGC). Within the Vattenfall Group focus on the SCGC is therefore emphasized. More information about Vattenfall can be found in the 2016 Annual and sustainability report of Vattenfall AB at www.vattenfall.com. As part of Vattenfall, Nuon's financial and sustainability results are included in this Vattenfall report. More detailed information about Vattenfall's work with sustainability is also available at www.vattenfall.com/sustainability.

Market Developments

Nuon is excited to see that the transformation of the energy sector continues and that customers and society are becoming more sustainable. Nuon is looking forward to continue to contribute in this transformation. This section identifies the key market trends driving this transformation.

From fossil fuels to renewables

A transformation from fossil fuels to renewables has been ongoing for many years, driven by climate change and growing sustainability demands from customers and society. The market share of oil, coal and gas power has dropped significantly in the last 10 years and now represents less than half of the electricity generation in Europe while the remainder is provided by hydro, nuclear and renewable energy production. Energy efficiency and smart consumption also adds to this trend, where new innovations help to reduce the total energy demand. Customer centricity and sustainability are key for attracting customers, talent and investors. Talented people look for employment with purpose, and capital is increasingly flowing to companies that support the energy transformation.

From large- scale to more decentralised generation

Technological development and the mass market adoption of small-scale generation have rapidly reduced the cost for anyone to produce their own electricity. Households as well as businesses and industries are increasingly installing roof-mounted solar panels, small wind power turbines and micro-CHPs. Solar and wind power may produce more electricity than is needed at certain times of day, but may not produce enough on windless or cloudy days. To cover such a deficit and produce energy on demand, today's system typically relies on fossil fuels. New technologies that allow the possibility to store energy are creating new opportunities. One systemic challenge is whether there will be solutions that can handle storage not only short-term (from one day to another) but also seasonally (from summer to winter). To be able to always meet customer demand for electricity, a mixed system with a large share of centralised generation will remain for a long time. However, the number of customers with their own electricity generation and batteries is likely to increase significantly.

Lean operations and digitalisation

A strong cost and efficiency focus remains key to staying competitive in Nuon's business. A large part of the value creation in the next five years will come from improving efficiency in the existing business. Digitalisation is an important enabler of increased operational efficiency and flexibility. Efficient operation requires better data on the state of different devices, sophisticated forecasting techniques, and more powerful and complex algorithms for turning data into intelligence and control. Digitalisation is also creating new opportunities for customer interaction, and new solutions can be made more visual and more understandable. This results in an increasingly competitive environment where competition comes not just from other utilities, but also from other industries such as IT, internet companies and small start-ups.

Electrification of everything

Electricity has changed the world fundamentally, and continues to drive change for many industries, making life easier and improving efficiencies in many industrial processes. Electrification will enable climate neutral energy to replace fossil fuels, and thereby reduce or eliminate emissions entirely in these industries. In the heating sector, energy efficiency can be achieved by switching from gas, oil or electric boilers to heat pumps or district heating. And with more renewable electricity in the system, heating can become virtually CO_2 neutral. The transport sector is set for an exciting transformation in the coming decades, as almost all manufacturers of cars, buses and trucks are looking to develop electrical models. Electric vehicles can not only reduce CO_2, but also have the potential to transform our urban environments by solving pollution and noise issues.

Markets and regulations

Climate change and sustainability issues are high on the political agenda globally. At the climate conference in Marrakech, the European Unions reaffirmed their commitment to the Paris Agreement, which came into force in 2016:

- a binding EU target of a minimum 40% reduction in greenhouse gas emissions by 2030 compared to 1990 and a reform of the existing EU Emissions Trading System (ETS);
- a binding EU target that at least 27% of energy consumed in the EU shall come from renewable energy sources by 2030;
- a non-binding EU target for improving energy efficiency by a minimum of 27% by 2030 compared to business as usual.

The following European regulations implementations are of relevance to Nuon:

- European Framework for Reduction of Greenhouse Gas Emissions – The adoption of the reviewed Emissions Trading Directive to improve the EU ETS system for the 4th trading period, which starts in 2021, is scheduled for the first half of 2017. The CO_2 prices is of relevance for the margins of our production assets.
- Reference Document on Best Available Techniques (BREF) – This is a cornerstone of the Industrial Emissions Directive (IED), and will set the framework for future emission thresholds for NO_x, mercury and particulates for large combustion plants (LCP) and will require many power plants to undergo major adaptation. Final adoption is expected for 2017.

The European framework is translated into national initiatives and in the Netherlands have led to the following initiatives that have impact on Nuon's business:

- Heat transition in the built environment – A national agenda for the phase out of gas as a heat source by 2050 is expected, which means that 8 million households and buildings will need a new heating system. As Nuon is a provider and developer of district heating and through Feenstra is also active in boilers and heat pump solutions, Nuon is supporting and driving this development.
- Climate Act & Energy Agreement 2.0 – The Climate Act, endorsed by Nuon among others, should provide the legal basis for an emissions reduction. A new energy agreement should make it operational. As mentioned above, the CO_2 price is of relevance for the margins of our production assets.
- Phasing out coal – In early 2016, the government started a process to investigate the phase-out of all remaining Dutch coal-fired power plants. Nuon owns one coal fired power plant, the Hemweg 8 in Amsterdam. Nuon is open to discuss early closure of the plant with the government.
- Energy efficiency agreement – Government, NGOs and the Dutch energy sector closed a voluntary agreement to improve energy efficiency by 2020. If there is insufficient progress obligatory measures will be implemented, potentially targeting suppliers. As one of the major energy companies in the Netherlands, Nuon is supporting our end-customers in this development.

Strategy

As a fully integrated part of the Vattenfall group, Nuon's strategy is identical to the Vattenfall strategy and therefore summarised below to the extent to which it is relevant for Nuon's activities. For further context and details, we kindly refer to Vattenfall's annual report.

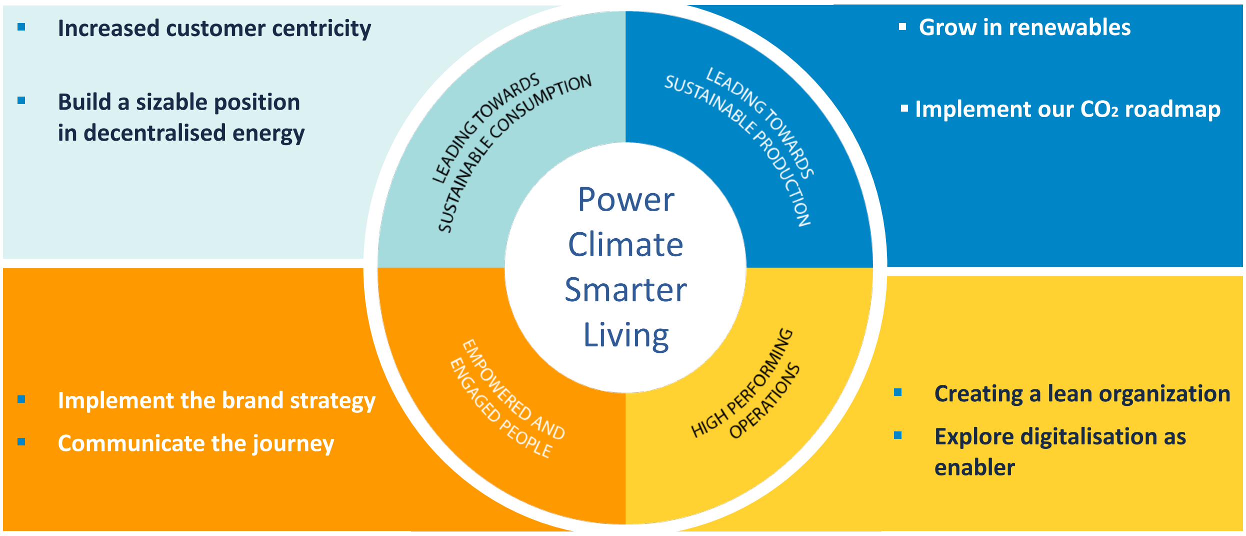
Our vision "Power climate smarter living", means being a dedicated partner to our customers, to provide convenient and innovative heat and electricity solutions. Vattenfall aims to be a leader in sustainable energy, ensuring reliable and cost-efficient energy supply. Vattenfall is committed to be fossil free within one generation. The strategic direction was confirmed in 2016 and is being acted upon – we have begun a sustainable journey and we are rapidly transforming to support our customers in the transition to a fossil-free world. We will capture value from new trends and continue to deliver results in a dynamic, rapidly-changing energy system.

Vattenfall's strategic objectives

Vattenfall's climate and sustainability ambitions, alongside the owner requirement to generate a market rate of return, are the basis of our strategy, which is reflected in our four strategic objectives as well as in our strategic targets. The commitment to being fossil free within one generation, entails a stepwise phase-out of fossil-based fuels in order for Vattenfall to meet its climate and sustainability ambitions. Through a strong commitment to efficient operations and engaged employees, Vattenfall focuses on developing customer-centric energy solutions and delivering a financial return in line with our owner's expectations.

To fulfil its purpose - to "Power climate smarter living" - Vattenfall's overarching strategy for the years ahead is based on four strategic objectives:

- Leading towards Sustainable Consumption
- Leading towards Sustainable Production
- High Performing Operations
- Empowered and Engaged Organisation



Operational Performance

Customers

Satisfied customer are prerequisite for the success of the business. Customer behaviour, driven by customer satisfaction and loyalty, has a significant effect on Nuon's result. Within the competitive consumer market we see a slight and promising increase of our electricity and gas customers in 2016. In addition the number of Heat and Business customers has grown as well.

Net Promoter Score (NPS) is a tool for measuring customer loyalty and for gaining and understanding of customers' perceptions of Nuon's products and services. Our focus of the last couple of years has been to put the customer first. Our campaigns "What can Nuon do for you?" and "Listening gives energy" is noted by our customers and resulted in an important increase in the NPS score in 2016.

In the area of e-mobility Nuon is focusing on charging solutions for the home, businesses and cities with a differentiated range of services. In 2016 we have won tenders for providing charging solution in Amsterdam en Utrecht.

Personnel and Safety

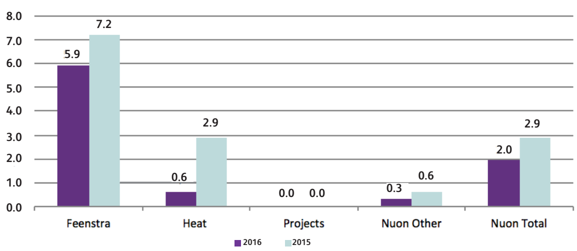
At year-end 2016, Nuon employed a total of 3,614 FTEs, an 11% decrease compared to 2015 (4,077 FTEs). This was mainly the result of the divestments of Feenstra Isolatie and Industry Parks and continuing focus on cost efficiencies and savings. Of Nuon's total workforce of 3,830 employees, 1,033 were female and 2,797 male.

Safety is one of Nuon's core values. We believe that all work-related injuries and occupational illnesses are preventable. Nuon continuously strives to ensure a safe and sound work environment. Our goal is to have zero accidents in the workplace, to have no workplace-related absences, and provide all employees with a safe and inspiring work atmosphere. This requires a systematic and proactive approach in all operations, where safety risks are reduced as far as possible.

Increased awareness, knowledge of safety and a focus on preventive measures are prerequisites for achieving a safe and healthy work environment. Therefore, in 2016 Nuon's management continued to set objectives in a number of areas. Among these are leadership in health and safety, further development of contractor management, work/life balance and health management, improvements in incident and accident reporting, and continuation of development activities for improving the safety culture within the company.

Lost time injury frequency (LTIF) is a measure of workplace-related absence. It shows the number of work-related injuries that results in absence per million hours worked. By systematically focusing on safety, Nuon aims to improve the safety culture and performance. The overall LTIF decreased this year, from 2.9 in 2015 to 2.0 in 2016.

Lost Time Injury Frequency (LTIF)
Number of incidents/million worked hours



Investing in sustainable energy

In 2016, Nuon continued investing in sustainable energy. Nuon invested in the development of Wind farms in the UK and Netherlands. The construction of the 228 MW Wind farm Pen y Cymoedd was almost finalised in 2016 and the first turbines were taken into operation. In addition, Nuon is developing the wind farms Slufterdam (29 MW) and Wieringermeer (180 MW), of which the construction is expected to start in 2017.

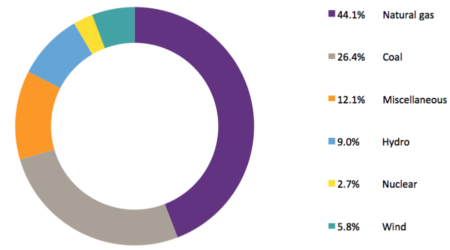
Nuon is planning to start the construction of 6 solar farms near existing wind farms in the near future, after a successful pilot executed by Vattenfall in 2015 and 2016. The combination of solar and wind energy at the same location provides several synergy benefits.

In addition, Nuon continues to invest in expanding its core district heating networks and connecting new customers to its district heating networks in collaboration with the different municipalities.

Fuel Mix supply Nuon 2016

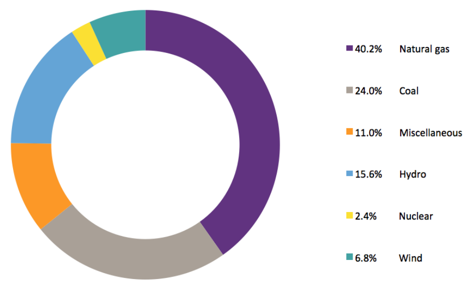
All electricity suppliers in the EU are legally required to publish the fuel mix of the electricity they supply to customers. Nuon's supply mix is shown in the figures on this page, which illustrate that the majority of supply in the Netherlands is sourced from natural gas. The share of renewable electricity represents the number of Guarantees of Origin (GoO) used for the green electricity supplied to end-customers. This share showed a decrease, from 16.8% in 2015 to 14.8% in 2016.

Fuel mix energy supply Nuon Group| RA-verified
%



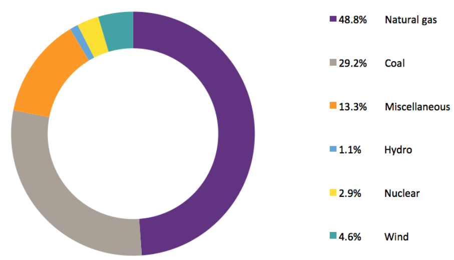
Fossil-based energy	85.2%
Renewable energy	14.8%
CO2 emissions rate	488.3 g/kWh
Radioactive waste rate	0.00008 g/kWh

Nuon fuel mix energy supply Business market| RA-verified
%



Fossil-based energy	77.6%
Renewable energy	22.4%
CO2 emissions rate	444.8 g/kWh
Radioactive waste rate	0.00007 g/kWh

Nuon fuel mix energy supply consumer market| RA-verified
%



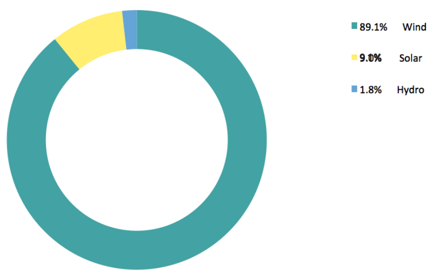
Fossil-based energy	94.3%
Renewable energy	5.7%
CO2 emissions rate	540.0 g/kWh
Radioactive waste rate	0.00009 g/kWh

Fuel Mix supply Powerpeers 2016

Powerpeers was launched in the summer of 2016 in the Netherlands. It is a new energy supplier in the Dutch consumer market that offers a sharing platform for green energy. Consumers can choose their own energy mix from suppliers that offer their sustainably produced power on the platform. These suppliers can be for example households with solar panels or farmers with windmills. Supply and demand is matched on 15-minute basis which gives customers a near real-time insight in the origin of the power they use at home. Powerpeers has its own supply license and acts independently. However it is legally part of the NV Nuon Energy group and therefore the fuel mix is published in this annual report.

Powerpeers gives its customers daily insight in their personal fuel mix on their own online energy dashboard. The figure below illustrates the fuel mix of all powerpeers customers together and shows that the mix consists of solar-, wind- and hydropower, all produced in the Netherlands.

Nuon fuel mix energy supply PowerPeers| RA-verified
%

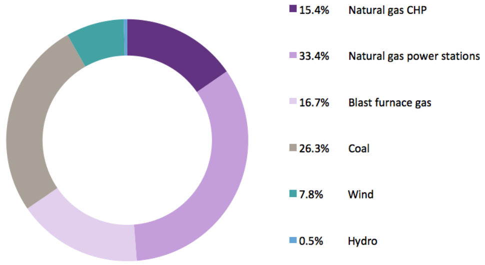


Fossil-based energy	0.0%
Renewable energy	100.0%
CO2 emissions rate	0.0 g/kWh
Radioactive waste rate	0.00000 g/kWh

Nuon energy production fuel mix

CO_2 emissions increased by 3.4% to 483 grams per kWh. Compared with 2016 the share of gas-fired power plants is higher, due to higher margins on electricity produced by gas-fired power plants. Renewable energy decreased from 12.4% in 2015 to 8.3% in 2016, due to poor wind conditions for a large part of 2016.

Nuon fuel mix energy production in the Netherlands
RA-verified
%



Fossil-based energy	91.7%
Renewable energy	8.3%
CO2 emission rate	482.7 g/kWh
Radioactive waste rate	0.00000 g/kWh

1. At our power plants in Velsen, the residual gas released during the steel production of Tata Steel is used as a fuel to produce electricity. In this way this blast furnace gas is put to good use by Nuon. The gas contains a high percentage of CO2. It has been agreed with the Office of Energy Regulation of the Dutch Competition Authority that Nuon is to adjust the CO2 emissions in the production fuel mix to avoid double counting. The CO2 emission factor of blast furnace gas is calculated in this mix on the basis of the use of natural gas.
2. The wind energy production means all electricity that Nuon, as producer and beneficial owner, feeds into the electricity grid via grid connection points.

Financial Performance

Income statement

The table below shows the results for 2016 compared to 2015.

Financial overview

Amounts in EUR million, 1 January - 31 December

	2016	2015
Net sales	2,610	2,893
Gross margin	1,223	993
Other operating income	13	18
Operating expenses	- 725	- 748
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	508	249
Depreciation, amortisation and impairments	- 470	- 188
Operating result (EBIT)	38	61
Net result	**1**	**44**

Net sales

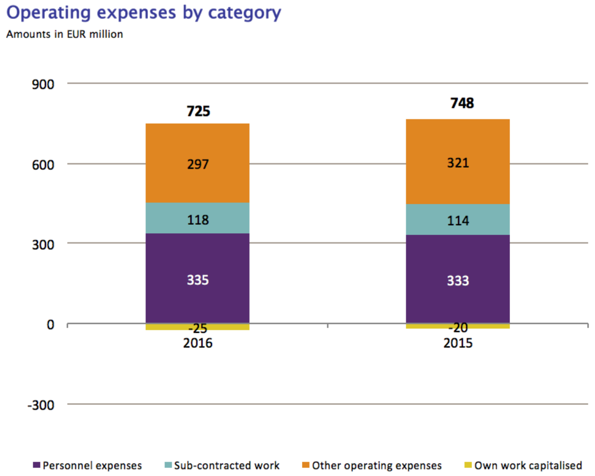
Net sales decreased by 10% to EUR 2,610 million in 2016. The electricity and gas prices decreased compared to 2015, affecting both the net sales and the related purchase costs. The total number of customers have increased slightly compared to 2015.

Gross margin

In 2016, the gross margin increased by 23% to EUR 1,223 million. The results relating to trading and asset optimisation improved significantly compared to 2015, explaining the significant increase in gross margin.

Operating expenses

Operating expenses decreased by 3.1% to EUR 725 million in 2016, mainly due to a continuing focus on efficiencies, cost savings and release of provisions. As a result of these efforts, and the divestment of Industry Parks and Feenstra Insulation, the number of own personnel decreased by 11.4% from 4,077 FTEs at the end of 2015 to 3,614 FTEs at the end of 2016. The realised savings are partly offset by provisions for restructuring expenses relating to the transfer of the market access, trading and power plant optimisation activities to Hamburg and the outsourcing of staff functions.



EBITDA/EBIT

EBITDA (earnings before interest, taxes, depreciation and amortisation) increased from EUR 249 million in 2015 to EUR 508 million in 2016, primarily due to a higher gross margin and cost savings.

Depreciation, amortisation and impairments increased from EUR 249 million to EUR 508 million in 2016 mainly driven by the higher impairments (EUR 306 million) in 2016 compared to 2015 (EUR 111 million). These higher impairments resulted in a lower EBIT (earnings before interest and taxes) in 2016 (EUR 38 million) compared to 2015 (EUR 61 million).

Balance sheet

Condensed balance sheet

Amounts in EUR million, as at 31 December

	2016	2015
Non-current assets	2,828	3,125
Current assets	2,726	2,936
Cash and cash equivalents	135	109
Assets held for sale	-	20
Total assets	**5,689**	**6,190**
Equity	2,758	2,671
Non-current liabilities	426	441
Current liabilities	2,505	3,062
Liabilities directly associated with assets held for sale	-	16
Total equity and liabilities	**5,689**	**6,190**

Non-current assets

Non-current assets decreased by 10% to EUR 2,828 million at the end of 2016. This is mainly due to impairment charges. The investments (EUR 284 million) in Property, plant and equipment and Intangible assets, mainly related to the investment in wind farm Pen y Cymoedd, were more than offset by the depreciation, amortisation and impairment charges (EUR 470 million).

Current assets

The current assets decreased by 7% to EUR 2,726 million. The decrease was caused mainly by lower derivative balances.

Cash and cash equivalents

Cash and cash equivalents increased by EUR 26 million to EUR 135 million at the end of 2016. An increase in interest-bearing debt (EUR 452 million) and positive EBITDA (EUR 508 million) was used to finance investments (EUR 277 million) and working capital movements (EUR 726 million) as well as dividend to the shareholders (EUR 85 million).

Non-current liabilities

Non-current liabilities decreased slightly by 3% to EUR 426 million at the end of 2016. The decrease was caused mainly by lower derivative balances.

Current liabilities

The current liabilities decreased by 18% to EUR 2,505 million. The decrease was caused mainly by lower trade payables and derivative balances partly offset by higher loans from Vattenfall.

Net cash position

Reconciliation net cash position

Amounts in EUR million, as at 31 December

	2016		2015	
Cash and cash equivalents	135		109	
Short-term investments	-		1	
In-house Vattenfall group cash pool	487		302	
Less: Restricted cash and cash equivalents [1]	-		- 1	
Total free cash		**622**		**411**
Non-current interest-bearing liabilities	23		25	
Current interest-bearing liabilities	616		196	
Finance lease payable	-		1	
Gross debt position		**639**		**222**
Net cash/(debt) position		**-17**		**189**

[1] Including clearing bank margin balances and collateral for certain bank guarantees issued but excluding bilateral margining cash balances.

The net debt position at the end of 2016 amounted to EUR 17 million, compared to a net cash position of EUR 189 million at the end of 2015. The decrease in the net cash position is mainly due to a large negative cash flow effect from changes in working capital related to internal derivative positions within the Vattenfall Group.

Business risks and Risk management

Risk management

Nuon is exposed to a number of risks that could have an adverse impact on operations and outcome. A better understanding of and control over these risks can potentially generate better results from the business activities. The Nuon Management Board is responsible for the company's risk management and control system. Nuon strives for transparency with regard to risk exposure and recognises all risks that may impact the company.

Nuon, as part of Vattenfall, applies the 'three lines of defence' model for the management and control of risks. The first line of defence consists of the business units, which own and manage risks. The risk organisation makes up the second line of defence and is responsible for monitoring and controlling risks. The internal and external audit functions are the third line of defence.

Three lines of defence

The following paragraphs describe the main risks that Nuon faces, as well as performed risk management efforts.

The Nuon Risk Management Framework

The objective of the Nuon Risk Management Framework is to provide reasonable assurance that the achievement of strategic and operational objectives is effectively monitored, that the financial reporting is reliable and that current laws and regulations are complied with.
The framework is part of Nuon's Governance and designed to ensure an acceptable risk exposure, based on a thorough and transparent analysis of Nuon's risks, thus facilitating the in-control situation and risk exposure based on an appropriate assessment of the risk-reward balance. The framework facilitates the monitoring of risks with a potential impact on the organisation and is based on a set of best practice policies, procedures and internal control mechanisms. Nuon has a limited risk appetite and all risks as reported and discussed are continuously reconciled with this risk appetite.

The Nuon Risk Management Framework focuses on ensuring that the most important risks are identified and that appropriate control measures are executed to manage these risks. The Nuon Risk Management Framework operates as part of the Vattenfall Risk Management Framework. The Framework is based on the COSO Enterprise Risk Management (ERM) Framework.

The ERM is executed as a continuous process for identifying, assessing, managing and following up on risks at all levels of the business at an early stage. An update of the risk situation is presented periodically for discussion at Management and Supervisory Board level.
Important components of the Nuon Risk Management Framework are:

- The Vattenfall Management System (VMS) which Nuon, as part of Vattenfall, implemented and which contains regulations, guidelines and procedures that are relevant for Vattenfall employees and for the relationship between Nuon and its subsidiaries, Business Units, Staff Functions and other Vattenfall companies. VMS includes the Vattenfall Code of Conduct and the Whistle-blower Policy, which are publicly accessible at www.nuon.com. VMS also comprises of the IFRS accounting manual and the reporting manual;
- The Vattenfall Code of Conduct, which sets the behavioural rules for all employees. The Code of Conduct fosters an honourable business culture in which the rules applicable to employees are clear. Breaches of the Code of Conduct are not tolerated. If they come to the attention of Vattenfall, they will be investigated and may lead to sanctioning;
- The Risk Management organisation, headed by the Chief Risk Officer of Vattenfall, supports Nuon in applying Vattenfall's risk framework. The Risk Management

organisation monitors market risk on a daily basis, manages credit risk, oversees compliance with policies and risk limits, and guides the group-wide reporting of significant business risks. Together with other specialist risk stakeholders (for example health and safety, information security), the Risk Management organisation supports the Business Units in the identification, quantification, mitigation, monitoring and reporting of risk;

- The Governance & Internal Control function, which is responsible for reporting on internal control aspects, such as the authorisation matrices, the internal financial control framework (including authorisations for key systems) and progress on the follow-up of audit findings;
- The Integrity function, which advises and reports on issues with regard to competition, anti-bribery/corruption, conflict of interest, the whistleblowing function and inside information. In addition, the function advises management on measures to enhance compliance and monitoring compliance risks, and it stimulates awareness of the Code of Conduct. The Nuon Integrity, Fraud and Incidents report is submitted semi-annually to the Nuon Management Board. This report focuses on integrity developments, fraud and other incidents reported in the Netherlands and is a combined report of Internal Audit and the Integrity department;
- The Legal department, which submits the Claims & Litigation report to the Management Board and Supervisory Board of Nuon. The report contains a summary of current and potential legal proceedings and disputes;
- The Vattenfall Internal Financial Control Framework (IFC), which reports on the effectiveness of the controls which aims to assure reliable financial reporting and which is partly based on the results of the Nuon Business Control Framework, which also contains the key controls for the primary processes within the different business areas;
- The planning & control cycle, in which annual budgets are assigned for each organisational unit and the outcome of which is subsequently discussed between the Management Board and the Business Units;
- The periodic reporting on Business Units' financial and operational performance, partly based on the system of Key Performance Indicators (KPIs);
- The risk reports, highlighting the risks identified as having a potentially significant impact on the business. These reports are challenged by Risk Management and further reviewed in semi-annually sessions with members of the Management Board. These Business Unit risk reports are used as the basis for Risk Managements' formulation of the semi-annually Enterprise Risk Report, which summarises the most significant risks facing the organisation. This report is discussed with the Supervisory Board;
- The Nuon governance reporting cycle, in which all aspects of governance, such as risk, compliance, claims & litigation, integrity, fraud and incidents, internal control, data security and tax are reported based on a COSO self-assessment of risk management and internal control and the Nuon Business Units' 'Statements on Business Control'. The Management Board discusses these statements annually with responsible management;
- The responsible management's confirmation at corporate and unit level of the reliability of the financial reporting through signed Letters of Representation;
- The execution of audits by the Internal Audit department in conformity with the annual plan, which is approved by the Management Board. The outcome of their audits are discussed with the Management Board;
- The follow-up of findings from internal and external audits by the Business Units, which are periodically reported on to the Management Board.

All risks are where possible quantified both with regard to (gross) exposure as well as with regard to probability. The Management Board periodically discusses all aspects of the framework, including all reported individual and aggregated quantified risks. This includes conclusions with regard to either the acceptance of the ultimate risks, or the instigation of actions to reduce risks, as well as with regard to the reconciliation with the risk appetite.

Main risks and mitigation

This section describes the most important risks within Nuon (Quantified risk = Total Financial Consequence (EUR mln) x Probability (%)).

- Market Price Risk Assets Netherlands. The revenues (Gross-Margin) from Nuon's generation assets are highly dependent on the pricing developments on the energy markets.
  Mitigation(s): Risk is actively managed and monitored via the Hedge Strategy Process on Vattenfall level.
- Decrease of sales volume. Developments in energy efficiency and decentralised generation could lead to lower consumption and demand for electricity and gas resulting in lower margins on commodities. Quantified risk is medium.
  Mitigation(s): Decrease operational costs and development of volume independent solutions (e.g. solar lease, energy roof, storage).
- CO_2 low energy generation. Early closure of coal-fired plants before end of life and replacement of gas used for heating by district heating systems based on renewable

sources might affect presently invested capital and required replacement investments.
Mitigation(s): Continuous monitoring of and acting on technical and regulatory developments.
- Increased competition. Missing profit due to increased competition, both on current customer base and innovation. Quantified risk is medium.
  Mitigation(s): Continuously monitor the market for competitive products & new developments; prioritise development areas (short term versus long term); develop non-traditional business models; decide on innovation strategy (e.g. make, buy, spin off, experiment) and actively work together with start-ups and other market entrants; attract right capability and create multi-disciplinary teams and foster customer co-creation.
- Temperature dependence of gross margin. Temperature is an important driver for gas volume. In warm winters the volume offtake will be lower with a negative impact on gross margin. Quantified risk is low.
  Mitigation(s): Temperature as well as impact on volume offtake is monitored. Explore product innovation to make Sales less temperature dependent.

Note [31] to the financial statements provides further qualitative and quantitative information on financial instruments and financial risk management.

Responsibility

Nuon's Management Board is responsible for the design and operation of Nuon's internal risk management and control system. During the year, the design and operation of this system was monitored and evaluated, mainly based on the business control information, the Internal Audit reports and the management letter from the external auditor.
The Nuon Enterprise Risk Management Framework does not provide absolute assurance as to the achievement of the corporate objectives, nor does it guarantee that material errors, losses, fraud or violations of laws and regulations will not occur in the operational processes and/or the financial reporting.
With due regard to the above, the Management Board is of the opinion that the internal risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance and that the risk management and control systems worked properly with regard to the financial reporting risks in the year under review.
The above was also discussed with the Supervisory Board in the presence of the internal and external auditors.

Outlook and Challenges

The ongoing change of our energy system is drastic – but also very exciting. The entire system will be transformed, where the roles between producers and customers become more diffuse and where entirely new business opportunities will arise. Vattenfall is confident, however, that the foundation that we have now laid in our new strategy and the adaptations we have made and must continue to make will leave us well prepared to secure our position as a reliable partner to our customers and society. Nuon, as part of Vattenfall, offers innovative energy solutions, is among the leaders in sustainable generation, and at the same time guarantees secure and cost-effective electricity and heat in the new energy landscape. We continue to grow our customer base and offerings towards our customers and we will continue to grow our district heating to new customers. We will continue to grow in renewables by developing, acquiring and participating in tenders for onshore and offshore wind farms, and by further leveraging our knowledge and experience in both the construction and operation of wind power. Identifying synergies between our existing operations will allow us to find attractive opportunities to accelerate and grow in solar energy and in storage solutions. At the same time Nuon is open to discuss to phase-out coal early and become fossil free within one generation.

The European energy sector continues to be faced with substantial challenges. The market situation is characterised by a surplus of production capacity, weak demand and low electricity prices. Forecasts for the coming years indicate that electricity prices, and thus the preconditions for a large share of the company's profitability, will continue to be at low levels. Given that a recovery of the energy price is not foreseen until sometime in the 2020s, we will remain focused on efficiency improvements.

Long-term financial stability and profitability are prerequisites for Nuon to be able to make necessary investments in the shift to a more sustainable production portfolio. Our strategy involves a complete integration of sustainability in the business operations. Our customers have shown a willingness to improve their environmental footprint and need a partner that can help make this happen.
Part of our assignment is to be a leader in this energy shift. We will live up to this commitment by investing in renewable energy and by offering our customers opportunities to participate in this transformation. Nuon strives to lead the development towards environmentally sustainable energy production. Currently, the majority of our growth

investments are being made in wind power.

Despite the more competitive market situation, Nuon's customer numbers (consumers) showed moderate and promising growth in 2016 and there was a growth in the business customers segment as well. In the coming years, we aim to further grow our customer base, both in the consumer and business markets. We will focus on long-term, sustainable relationships with our customers based on mutual benefits. This means we will help our customers increase their energy efficiency, thus reducing both their environmental footprint and their energy costs.

Vattenfall has decided to centralise activities relating to market access, trading and power plant optimisation in one central Continental hub in Hamburg for efficiency reasons. Business Area Markets Amsterdam will be a regional satellite of the Hamburg hub. As part of this intention, around 70 positions will be transferred from Amsterdam to Hamburg in 2017. The activities that serve and support Nuon's end-customer will remain to be executed in Amsterdam. The activities that serve and support Nuon's power plants and gas portfolio optimisation will be transferred to Hamburg, but will be executed on behalf of Nuon.

We are confident we will be able to implement the necessary changes needed to tackle the current challenges while capturing new opportunities. And we remain convinced that Nuon will contribute to the realisation of Vattenfall's strategic ambitions without losing sight of the interests of our Dutch stakeholders.

A final word

Despite a continuing challenging market environment in 2016 we see improved underlying financial results compared to former years. Our focus on cost savings and continuous improvement has led to an increase of EBITDA. We see a positive trend in customer loyalty scores (NPS) coupled with a slight increase of our customer base in a highly competitive environment. Without the commitment and hard work of our staff, we could not have achieved all that we have nor would we be in a position to overcome the challenges we face. We would therefore like to take this opportunity to express our gratitude to all our employees for their great work during an eventful and turbulent year.

Composition of the Management and Supervisory Board

In January 2013, the Act on Management and Supervision took effect. This legislation introduced a limitation on the number of Board positions, as well as Management Board positions held by an individual and target figures for a more even distribution of board seats between men and women. Currently there are no female members on the Management Board, which is mainly due to the small size of the board. The distribution of board seats between men and women in the Supervisory Board is in line with this Act.

Amsterdam, 12 Mei 2017

The Management Board
Peter Smink
Martijn Hagens

Financial statements

Consolidated accounts

Consolidated income statement

Amounts in EUR million, 1 January - 31 December

		2016		2015	Note
Net sales		**2,610**		**2,893**	[5]
Other operating income		13		18	[6]
Cost of energy	- 1,387		- 1,900		[7]
Cost of goods and materials	- 118		- 114		
Employee compensation and benefit expenses	- 335		- 333		[8]
Amortisation and impairments of intangible assets	- 10		- 6		[13]
Depreciation and impairments of property, plant and equipment	- 460		- 182		[14]
Other operating expenses	- 297		- 321		[9]
Gross operating expenses		**- 2,607**		**- 2,856**	
Own work capitalised		25		20	
Operating expenses		**- 2,582**		**- 2,836**	
Participations in the results of associated companies and joint ventures		- 3		- 14	[15]
Operating result (EBIT)		**38**		**61**	
Financial income		2		2	[10]
Financial expenses		- 26		- 6	[11]
Result before tax		**14**		**57**	
Income tax expense		- 13		- 13	[12]
Result for the year		**1**		**44**	
Attributable to:					
- Nuon shareholders		1		44	

Consolidated statement of comprehensive income

Amounts in EUR million, 1 January - 31 December

	2016		2015		Note
Result for the year		**1**		**44**	
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Changes in fair value of cash flow hedges	50		- 22		
Cash flow hedges dissolved against the income statement	207		- 18		
Transferred to cost of hedged item	-		-		
Tax attributable to cash flow hedges	- 64		10		
Total cash flow hedges		**193**		**- 30**	
Net period change in currency translation differences	- 22		2		
Total currency translation differences		**-22**		**2**	
Total comprehensive income for the year		**172**		**16**	
Attributable to:					
- Nuon shareholders		172		16	

Consolidated balance sheet

Amounts in EUR million, as at 31 December

Assets

	2016		2015		Note
Non-current assets					
Intangible assets	42		45		[13]
Property, plant and equipment	2,244		2,502		[14]
Participations in associated companies and joint ventures	38		56		[15]
Other shares and participations	1		21		[15]
Derivative assets	205		137		[17]
Deferred tax assets	248		324		[25]
Other non-current receivables	50		40		[16]
Total non-current assets		**2,828**		**3,125**	
Current assets					
Inventories	233		219		[18]
Trade receivables and other receivables	2,090		2,057		[19]
Derivative assets	381		636		[17]
Current tax assets	22		23		[19]
Short-term investments	-		1		[20]
Cash and cash equivalents	135		109		[20]
Total current assets		**2,861**		**3,045**	
Asset held for sale		-		20	[27]
Total assets		**5,689**		**6,190**	

Consolidated balance sheet

Amounts in EUR million, as at 31 December

Equity and liabilities

	2016		2015		Note
Equity attributable to Nuon shareholders					
Share capital	684		684		
Share premium	2,797		2,797		
Reserve for cash flow hedge	56		- 137		
Currency translation reserve	- 17		5		
Other reserves	- 763		- 722		
Result for the year	1		44		
Total equity attributable to Nuon shareholders		**2,758**		**2,671**	
Equity attributable to non-controlling interests		-		-	
Total equity		**2,758**		**2,671**	[21]
Non-current liabilities					
Interest-bearing liabilities	23		25		[22]
Provisions	96		73		[24]
Derivative liabilities	139		183		[17]
Deferred tax liabilities	4		1		[25]
Finance lease payable	-		1		[28]
Other non-interest-bearing liabilities	164		158		[23]
Total non-current liabilities		**426**		**441**	
Current liabilities					
Trade payables and other liabilities	1,528		2,193		[26]
Derivative liabilities	332		643		[17]
Interest-bearing liabilities	616		196		[22]
Provisions	29		30		[24]
Total current liabilities		**2,505**		**3,062**	
Liabilities directly associated with asset held for sale		**-**		**16**	[27]
Total equity and liabilities		**5,689**		**6,190**	

Consolidated statement of cash flows

Amounts in EUR million, 1 January - 31 December

	2016		2015		Note
Operating activities					
Result before tax		**14**		**57**	
Adjustments for:					
Financial income and expenses		24		4	[10,11]
Participations in the results of associated companies and joint ventures		3		14	[15]
Depreciation, amortisation and impairments		470		188	[13,14]
Changes in provisions and other		50		- 20	
Fair value movements derivatives		89		158	
Changes in working capital					
Inventories	- 15		11		[18]
Trade receivables and other receivables	- 48		- 266		[19]
Trade payables and other liabilities	-652		494		[26]
Total changes in working capital		**- 715**		**239**	
Cash flow from operations		**- 65**		**640**	
Financial expenses paid	- 3		3		
Financial income received	1		-		
Dividends received from associated companies and joint ventures	2		1		[15]
Income tax paid	- 1		- 20		
Total		**- 1**		**- 16**	
Cash flow from operating activities		**- 66**		**624**	
Investing activities					
Investments in property, plant and equipment	- 277		- 194		[14]
Investments in intangible assets	- 7		- 8		[13]
Investments in other shares and participations	-		- 2		[15]
Loans granted	- 11		- 5		
Loans repaid	1		-		
Proceeds from sale of other shares and participations	6		-		[15]
Repayment of capital associated companies and joint ventures	13		18		[15]
Proceeds from sales of (assets of) subsidiaries	2		55		
Cash flow from investing activities		**- 273**		**- 136**	
Financing activities					
Changes in short-term investments	-		6		
New interest-bearing debt	452		1		
Repaid interest-bearing debt	- 2		- 852		
Payment dividend liability class A shares	-		- 62		
Payment dividend to shareholders	-85		-		
Cash flow from financing activities		**365**		**- 907**	
Cash flow for the year		**26**		**- 419**	
Cash and cash equivalents at start of year	109		527		
Cash flow for the year	26		- 419		
Net foreign exchange difference	-		4		
Cash and cash equivalents attributable to assets held for sale	-		- 3		
Cash and cash equivalents at end of year		**135**		**109**	

Consolidated statement of changes in equity

Amounts in EUR million

	Equity attributable to shareholders[1]								
	Share capital	Share premium	Reserve for cash flow hedges[2]	Currency translation reserve	Other reserves	Unappropriated profit for the year[3]	Subtotal	Non-controlling interest	Total
As at 1 January 2015	**684**	**2,797**	**- 107**	**3**	**- 531**	**- 191**	**2,655**		**-2,655**
Profit appropriation 2014: dividend	-	-	-	-	-	-	-	-	-
Profit appropriation 2014: added to other reserves	-	-	-	-	- 191	191	-	-	-
Result for the year	-	-	-	-	-	44	44	-	44
Other comprehensive income	-	-	- 30	2	-	-	- 28	-	- 28
Comprehensive income 2015	**-**	**-**	**- 30**	**2**	**-**	**44**	**16**	**-**	**16**
As at 31 December 2015	**684**	**2,797**	**- 137**	**5**	**- 722**	**44**	**2,671**	**-**	**2,671**
Profit appropriation 2015: dividend	-	-	-	-	- 85	- -	- 85	-	- 85
Profit appropriation 2015: added to other reserves	-	-	-	-	44	- - 44	-	-	
									-
Result for the year	-	-	-	-	-	1	1	-	1
Other comprehensive income	-	-	193	- 22	-	-	171	-	171
Comprehensive income 2016	**-**	**-**	**193**	**- 22**	**-**	**1**	**172**	**-**	**172**
As at 31 December 2016	**684**	**2,797**	**56**	**- 17**	**- 763**	**1**	**2,758**	**-**	**2,758**

1) For further information in regard to equity attributable to shareholders, please refer to note [21].
2) The reserve for cash flow hedges and currency translation reserve cannot be distributed. The negative reserve for cash flow hedges lowers the distributable reserves accordingly.
3)During the year 2016, dividens amounting to EUR 85 million were distributed to shareholders. The dividends per share amounted to EUR 0.62.

Notes to the consolidated accounts

Note 1 Company information

N.V. Nuon Energy is a public limited liability company, registered in Amsterdam, the Netherlands. The most significant activities of Nuon and its subsidiaries comprise the production and supply of electricity, gas, heat and cooling to customers in the Netherlands, as well as a broad portfolio of energy-saving products and services.

'We', 'Nuon', 'the company', 'Nuon Energy group', 'the group' or similar expressions are used in these consolidated accounts as a synonym for N.V. Nuon Energy and its subsidiaries. N.V. Nuon Energy originated in 2009 from the unbundling of former parent company N.V. Nuon into a production and supply company, N.V. Nuon Energy, and a grid company, Alliander N.V.

On 1 July 2009, Vattenfall AB, owned by the Swedish government, acquired 49% of the shares of N.V. Nuon Energy. On 1 July 2011, 1 July 2012 and 1 July 2013, Vattenfall acquired respectively 15%, 3.04% and 11.96% of the shares in accordance with the 'Shareholders Agreement'. Vattenfall acquired the remaining 21% of the shares on 1 July 2015, as a result Vattenfall is now the sole shareholder of N.V. Nuon Energy. As Vattenfall effectively gained operational control over Nuon on 1 July 2009, the financial data of Nuon have been included in the consolidated accounts of Vattenfall since then.

These consolidated accounts for the financial year 2016 are authorised for publication by the Management Board and Supervisory Board on 12 May 2017. Subsequently, these consolidated accounts are scheduled to be adopted by the general meeting of shareholders on 12 May 2017.

As the company income statement for 2016 of N.V. Nuon Energy is included in the consolidated accounts, a condensed income statement has been disclosed in the company accounts in accordance with Section 402, Book 2, of the Dutch Civil Code.

Note 2 Accounting policies

Conformity with standards and regulations

The consolidated accounts of Nuon have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as the interpretations issued by the IFRS Interpretations Committee (IFRIC) as endorsed by the European Commission for application within the EU.

Basis of measurement

Assets and liabilities are reported at cost or amortised cost, with the exception of financial assets and liabilities recognised at fair value through profit or loss, all derivatives and inventories held for trading, which are measured at fair value.

Functional and presentation currencies

The functional currency is the currency of the primary economic environment in which each entity operates. Nuon's functional and presentation currency is the euro, which is also the presentation currency of the consolidated and company accounts.

Unless stated otherwise, all amounts reported in these consolidated accounts are in millions of euros.

Estimations and assessments

Preparation of the consolidated accounts in accordance with IFRS requires the company's Management Board to make estimations and assessments as well as to make assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Assessments made by the company's Management Board, when applying IFRS, that have a material effect on the consolidated accounts, and estimations that may result in substantial adjustments to the following year's consolidated accounts, are described in greater detail in note [3] to the consolidated accounts.

Accounting policies

The accounting policies of Nuon have been applied consistently for all periods presented in the consolidated accounts.

New IFRSs and interpretations effective as of 2016

The new standards and amendments to standards and interpretations described below, and endorsed by the EU, are applicable for Nuon and effective as of the 2016 financial year:

- Amendments to IAS 1 - Disclosure initiative encourage companies to exercise professional judgement when determining which information to be presented in the financial statements. The amendments clarify that the materiality aspect shall be applied for the report as a whole and that professional judgement will be exercised in determining where and in which order financial information is to be presented. The amendments and clarification did not result in significant changes in the financial statements;

- Amendments to IFRS 11 – Guidance for clarifying that when a part-owner of a joint operation acquires a business as defined in IFRS 3, the acquirer shall apply IFRS 3 when accounting for the acquisition. The change will not have any significant effect on Nuon's financial statements;
- New standards and amendments to standards and interpretations that are not applicable to Nuon and therefore do not have impact on the financial position and performance of Nuon or disclosures are not disclosed in detail.

New IFRSs and interpretations not yet adopted

A number of accounting standards and interpretations have been published, but have not become effective. Below are the changes in standards that will affect the Nuon financial statements. Other revised accounting standards and interpretations are not considered to have a material impact on the Nuon financial statements.

IFRS 9 – "Financial Instruments" pertains to recognition of financial assets and liabilities and replaces IAS 39 – "Financial Instruments: Recognition and Measurement". IFRS 9 will be effective as from 2018.

Nuon has been performing an analysis of the new standard since the start of 2016.

- The work with "Classification and Measurement" has been concluded, and the standard will not affect Nuon's financial statements;
- The effect of "impairment" for receivables will not have any material impact on Nuon's financial statements. This is because of the counterparties' good credit ratings;
- The work with "Hedge Accounting" is in progress, and its implementation is not expected to have any material impact on Nuon's financial statements. Nuon already applies hedge accounting under IAS 39 and plans to continue doing so to the same extent under IFRS 9.

IFRS 15 – "Revenue from Contracts with Customers" is a new revenue recognition standard that provides a single, principles-based model for all revenue recognition, regardless of the type of transaction or sector. IFRS 15 replaces all previously issued standards and interpretations that address revenue recognition, including IAS 11, IAS 18, IFRIC 13, IFRIC 15 and IFRIC 18. IFRS 15 is effective as from 2018. Nuon has been performing an analysis of the new standard since 2016. Areas being investigated are, for example, connection fees, discounts and variable fees, costs to obtain contracts, construction contracts and whether Nuon is considered to be the agent or principal for certain revenues. Even though Nuon is affected in some of these areas, our preliminary analysis indicates that the effect of implementing IFRS 15 is limited in relation to Nuon's total amount of revenues.

IFRS 16 – "Leases" is a new standard for reporting leases that requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or has a low value. IFRS 16 replaces IAS 17 – "Leases" along with the accompanying interpretations IFRIC 4, SIC-15 and SIC-27. IFRS 16 is expected to apply starting in 2019, assuming endorsement by the EU. Nuon is evaluating the effects of the new standard.

Principles for consolidation

Subsidiaries

The consolidated accounts comprise the financial data of Nuon and its subsidiaries. Subsidiaries are companies over which Nuon has control. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Nuon considers all relevant factors and circumstances in assessing whether it has power over an investee, including direct or indirect voting or similar rights, potential voting rights and contractual arrangements. Nuon re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the elements of control.

The assets, liabilities and results of subsidiaries are fully consolidated. The results of consolidated subsidiaries that have been acquired during the year are consolidated as of the date Nuon effectively acquired control over these subsidiaries. Consolidation of these subsidiaries ceases as of the moment Nuon no longer controls the subsidiary.

The acquisition method is applied in the case of an acquisition of a subsidiary by the group. The purchase price of an acquisition consists of the fair value of the assets transferred, the equity instruments that were issued and the assumed or acquired liabilities. The identifiable assets and liabilities and contingent liabilities that are acquired are initially recognised at fair value at the date of acquisition, irrespective of the amount that is attributable to non-controlling interests.

Intercompany transactions, balance sheet items and unrealised gains on transactions with and between subsidiaries are eliminated. Unrealised losses are also eliminated, unless the transaction gives rise to the recognition of impairment charges.

Where applicable, the accounting policies of subsidiaries have been adjusted in order to ensure the consistent application of accounting policies across the group.

Associated companies and joint ventures

Associated companies are entities over which Nuon has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Joint arrangements are agreements by which Nuon, together with one or more parties, conducts activities that are controlled jointly by all parties involved. Joint arrangements are classified as a joint operation or joint venture. A joint operation entails that the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture entails that the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The considerations made in determining significant influence or joint arrangements are similar to those necessary to determine control over subsidiaries.

Investments in associated companies and interests in joint ventures are accounted for using the equity method. Initial measurement is at cost. The carrying amount of the associated company or the joint venture includes the goodwill paid at the date of acquisition of the associated company or conclusion of the joint venture and Nuon's share in the movements in the equity of the associated company or joint venture after the date of the transaction. In the case that the (accumulated) losses exceed the carrying amount, these losses are no longer recognised unless Nuon has the obligation or has made payments to make up these losses. In this case, a provision is recognised.

In a joint operation, the respective owners recognise in relation to their interest in the joint arrangement:

- Their assets and liabilities as well as their respective share of assets and liabilities held or incurred jointly;
- Revenue from the sale of their respective shares of the output of the joint operation and their share of the revenue from the sale of the output of the joint operation; and
- Their expenses, including the share of any expenses incurred jointly.

Unrealised gains on transactions between the group and its associated companies or joint arrangements are eliminated on a pro rata share of the interest of the group in the associated company or joint arrangements. Unrealised losses are also eliminated, unless the transaction gives rise to the recognition of impairment charges. If appropriate, the accounting policies of associates and joint arrangements are adjusted in order to assure a consistent application of accounting policies.

Scope of consolidation

The significant subsidiaries, associates and joint ventures are listed in [30]. The information on the equity interests as referred to in sections 379 and 414, Book 2, Part 9 of the Dutch Civil Code has been filed separately with the Amsterdam Trade Register.

Foreign currency translation

Translation of transactions and balance sheet items denominated in foreign currency

Transactions denominated in foreign currency are translated into the functional currency at the exchange rates prevailing at that time. Monetary assets and liabilities in foreign currency are translated at the exchange rates as at the reporting date. Foreign currency exchange differences resulting from the settlement of transactions denominated in foreign currency or the translation at the reporting date are recognised in the income statement unless these exchange gains or losses are accounted for as cash flow hedges or net investment hedges in a foreign entity. Foreign currency exchange differences on non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Translation differences regarding the balance sheet positions and results of foreign subsidiaries

The assets and liabilities of subsidiaries of which the functional currency differs from the euro are translated at the exchange rate at the reporting date, whereas the results are translated at the average exchange rate for the period. The resulting exchange rate differences are recognised in *Other comprehensive income* and included in the *Currency translation reserve* within *Equity*.

Foreign currency exchange differences resulting from the translation of net investments in foreign entities, loans and other currency instruments that are used as hedges of net investments are recognised in *Other comprehensive income* and included in *Equity*. If a foreign entity is sold, the corresponding exchange rate differences are recognised in the income statement as part of the result on the sale.

Assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sales transaction rather than through continuing use. The assets are valued at the lower of their carrying amount and fair value less costs of disposal and are not subject to amortisation or depreciation.
Assets (and liabilities) held for sale are classified as current assets (current liabilities) if the sale transaction is expected to be settled within twelve months after the reporting date.

Net sales

Net sales comprises the following components:

- Supply of goods – electricity, gas, heating and cooling: net sales from electricity, gas, heating, cooling and other energy-related products are recognised at the moment of supply to the customer, when the sales price has been agreed and the receipt of the sales proceeds can be reasonably assumed. Value-added taxes (VAT) and regulating energy taxes (RET) are not included in net sales;
- Supply of goods – heating equipment and other equipment: net sales from the supply of heating and other equipment are recognised at the moment of supply or installation, when practically all risks and rewards with regard to the ownership have been transferred, the sales price has been agreed and the receipt of the sales proceeds can be reasonably assumed;
- Work in progress: this encompasses the proceeds from construction activities on behalf of third parties. Sales are determined based on the percentage of completion method;
- Income from operating leases: these proceeds are recognised on a straight-line basis over the term of the lease;
- Delivery of service/maintenance contracts: the amounts received for maintenance contracts are allocated to the periods to which they relate;
- Amortisation of construction contributions: please refer to the specific accounting policies for this item;
- Services to external parties such as activities of the Customer Service Center. Amounts received are allocated to the periods in which the service is provided.

Cost of energy

Cost of energy represents the direct and indirect expenses attributable to the supply of power to Nuon's customers, including the cost of electricity purchased from third parties and the raw materials used for the generation of power and heat.

Commodity contracts

Fair value movements of energy commodity contracts and net results of hedging instruments are included in cost of energy. This item consists of the following categories:

- Nuon actively trades in oil, gas, coal, biomass, emission allowances and energy commodity contracts and in options and swaps within set boundaries and risk limits. The trading portfolio is valued at fair value and fair value movements on the open energy commodity positions are recognised in the income statement;
- Nuon uses energy commodity contracts for the physical sale and purchase of raw materials and energy. Optimisation takes place due to uncertainties with regard to future production and, consequently, the expected and contracted purchases, sales and production deviate from the actual purchases, sales and production. These contracts are recognised at fair value and hedge accounting is applied where this is possible;
- Nuon uses derivatives, such as energy commodity contracts, swaps and options, in order to hedge financial risks (mainly price risks) of sales contracts. These contracts are recognised at fair value and hedge accounting is applied where this is possible;
- The non-effective part of hedges: Nuon uses commodity contracts in order to hedge price and other risks that arise from the future expected sales of electricity and gas and from the purchases necessary for covering the generation of power or the sourcing of sales. These contracts are designated as cash flow hedges, when the effectiveness tests demonstrate that the hedges, or part of the hedges, are highly effective. A hedge is highly effective when the result of effectiveness test is within a range of 80% - 125%. If this is the case the fair value movements of the non-effective parts of the cash-flow hedges are recognised in the income statement. If the hedge is not highly effective then the derivative is fully recognised in the income statement.

Other operating income

Other operating income includes the result from the disposal of assets (including subsidiaries, joint ventures and associates) and dunning fees. The result from the disposal of assets relates to the net proceeds from the disposal and the carrying amount of the disposed asset. Gains and losses from the disposal of assets are presented as a net amount.

Government grants, investment premiums and operating subsidies

Government grants, investment premiums and operating subsidies are recognised at fair value if there is reasonable certainty that the criteria for receiving the grant or premium are or will be met, and that the grant or premium will be received. Grants and premiums received relating to a non-current asset are recorded as a reduction of the asset.

Government grants and operating subsidies that do not relate to non-current assets are taken to income at the moment the associated costs are incurred.

Financial income and expenses

These items consist of the following:

- Interest income: this includes the interest income on financial interest-bearing assets being loans, receivables and cash and cash equivalents, determined using the effective interest method;
- Interest expense: this includes the interest expense on interest-bearing liabilities, determined using the effective interest method. In addition, expenses related to the time value of provisions are included. The costs of financing, such as costs of letters of credit, commitment fees, etc., are also reported under this item;
- Foreign exchange results: foreign exchange results arising from the translation of transactions denominated in foreign currencies and the translation of financial assets and liabilities and derivatives in foreign currencies are reported under this item. The exchange rate differences arising on cash flow hedges are initially recognised in *Equity*;
- Fair value movements of interest derivatives.

Intangible assets

Goodwill

Goodwill is the amount by which the purchase price exceeds the fair value of the identifiable assets and liabilities and contingent liabilities of the subsidiaries, joint ventures or associates acquired. Goodwill paid on the acquisition of subsidiaries is classified under intangible assets. Goodwill paid on the acquisition of joint ventures and associated companies is part of the value of the joint venture or associated company involved. If the purchase price is lower than the fair value of the identifiable assets and liabilities and contingent liabilities (negative goodwill), this difference is recognised in the income statement.

The carrying amount of goodwill consists of historical cost less accumulated impairments. Impairment tests are performed annually in order to determine whether the value of the goodwill has to be impaired. The goodwill is taken into account in the determination of the results on the disposal of entities or cash-generating units.

Concessions, permits and licences

Concessions, permits and licences are valued at historical cost less accumulated amortisation and accumulated impairments. These assets are amortised over their estimated useful life, using the straight-line method. The estimated useful lives of the concessions, permits and licences are between 1 and 60 years.

Research and development

Investments in research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognised in the income statement as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development investments are capitalised only if these costs can be measured reliably, the product or process is technically and economically feasible, future economic benefits are probable and Nuon intends to, and has sufficient resources to, complete development and to subsequently use or sell the asset. Capitalised investments are measured at cost less accumulated amortisation and accumulated impairment losses. Cost includes the cost of materials, direct labour, overhead costs that are directly attributable to the preparation of the asset for its intended use and, if applicable, borrowing costs. Other development investments are recognised in the income statement as incurred.

Property, plant and equipment

The item *Property, plant and equipment* is subdivided into the following categories:

- Land and buildings;
- Plants and other technical installations;
- Equipment, tools and fixtures and fittings;
- Construction in progress.

Property, plant and equipment are measured at historical cost less accumulated depreciation and impairments. Historical cost includes all expenditure directly attributable to the purchase of property, plant and equipment or the production of property, plant and equipment for own use. The cost of assets produced for the company's own use includes the direct costs of materials used, labour and other direct production costs attributable to the production of property, plant and equipment and the costs required to bring the assets into their current operational condition. The costs of loans associated with the purchase and/or construction of property, plant and equipment are capitalised if the asset is identified as a qualifying asset.

Costs incurred after the date on which the asset has been taken into use are only capitalised as property, plant and equipment if it can be assumed that these costs will generate future economic benefits and when these costs can be measured reliably. Depending on the circumstances, these costs form part of the carrying amount of the asset involved or are capitalised separately. Maintenance expenditure is charged directly to the income statement in the year these costs are incurred.

Historical cost also includes the net present value of the estimated costs of dismantling, site restoration and returning land to its original condition as far as there is a legal or constructive obligation to do so. These costs are capitalised at the moment of acquisition or at a later date when the obligation arises. In both cases, the capitalised costs are depreciated over the expected remaining useful life of the asset involved.

Property, plant and equipment are depreciated over the expected useful lives of the various components of the asset involved, taking account of the expected residual value, using the straight-line method.

The useful lives of the asset categories are as follows:

- Land is not depreciated;
- Buildings: 25-50 years;
- Plants and other technical installations: 5-40 years for combined heat and power (CHP) installations, 5-40 years for hydro power installations, 10-20 years for wind power installations;
- Equipment, tools and fixtures and fittings: 5-10 years;
- Construction in progress is not depreciated.

The expected useful lives, residual values and depreciation methods are reviewed annually and adjusted when deemed necessary. Gains or losses on disposals are determined based on the sales proceeds and the carrying amount on the date of the disposal.

Impairments

Assessments are made throughout the year for any indication that an asset may have decreased in value. If there is an indication of this kind, the asset's recoverable amount is estimated. For goodwill and other intangible assets with an indefinite useful life and for intangible assets that are still not ready for use, the recoverable amount is calculated at least annually or as soon as there is an indication that an asset has decreased in value. If the essentially independent cash inflow for an individual asset cannot be established for the assessment of any need for impairment, the assets must be grouped at the lowest level where it is possible to identify the essentially independent cash inflow (a so-called cash-generating unit). An impairment loss is reported when an asset or cash-generating unit's reported value exceeds the recoverable amount. Any impairment loss is recognised in the income statement.

Impairments of cash-generating units are initially allocated to the goodwill of these cash-generating units and are subsequently allocated on a pro rata basis to the carrying amount of the other assets of the cash-generating unit. The structure of the cash-generating units is unchanged compared to the preceding year.

The recoverable amount is the higher of fair value less costs of disposal and value in use. When calculating value in use, the future cash flow is discounted by a discounting factor that takes into consideration risk-free interest and the risk associated with the specific asset. For an asset that does not generate cash inflow independently of other assets, the recoverable amount is calculated for the cash-generating unit to which the asset belongs.

Impairment losses on goodwill are never reversed. Impairment losses on other assets are reversed if a change has occurred in the assumptions that formed the basis for the calculation of the recoverable amount. An impairment loss is reversed only if the asset's carrying amount after reversal does not exceed the carrying amount that the asset would have had if the impairment loss had not been recognised.

Financial instruments

General

IFRS requires that financial assets, which include derivative commodity contracts for trading purposes, are classified in one of the following categories: at fair value through profit or loss, held-to-maturity, loans and receivables and available-for-sale. Financial liabilities, which include derivative commodity contracts for trading purposes, have to be classified in one of the following categories: at fair value through profit or loss, or other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of financial assets and liabilities at initial recognition.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and Nuon has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and are recognised on the trade date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are categorised as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets carried at fair value through profit or loss are initially recognised at fair value and are subsequently carried at fair value. Transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within *Cost of Energy* or *Financial income* or *expenses* in the period in which they arise. Classification depends on the nature of the derivative contract (e.g. commodity contract or foreign exchange contract).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or floating receipts that are not quoted in an active market. They are included in current assets, except for instruments with maturities of more than 12 months after the end of the reporting period, which are classified as non-current assets. Nuon's loans and receivables comprise *Other non-current receivables*, *Trade receivables* and *other receivables*, *Cash and cash equivalents* and *Short-term investments* in the balance sheet (notes [16], [19] and [20]). Loans and receivables are initially recognised at fair value adjusted for transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets

Financial assets that are available for sale are carried at fair value on the balance sheet, with changes in value recognised in *Other comprehensive income*. On the date that the assets are derecognised from the balance sheet, any previously recognised accumulated gain or loss in *Other comprehensive income* is transferred to the income statement. Holdings in listed companies are measured based on the share price on the balance sheet date. *Other shares and participations* (note [15]) for which there are no balance sheet date quotations and for which a fair value cannot be established are valued at cost, after taking accumulated impairment losses into account.

Impairment of financial assets carried at amortised cost

Nuon assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets requires impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events impacting the estimated future cash flows of the financial asset that can be reliably estimated. Nuon uses criteria indicating the creditworthiness of the borrower to determine whether there is objective evidence of an impairment loss. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement. Previously recognised impairments may be reversed following changed conditions and/or changed estimates.

Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading and are recognised on the trade date. A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are categorised as held for trading unless they are designated as effective hedging instruments in accordance with IAS 39. Financial liabilities carried at fair value through profit or loss are initially recognised at fair value and are subsequently carried at fair value. Transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of the financial liabilities at fair value through profit or loss category are presented in the income statement within *Cost of Energy* or *Financial income* or *expenses* in the period in which they arise. Classification depends on the nature of the derivative contract (e.g. commodity contract or foreign exchange contract).

Other financial liabilities

This category includes interest-bearing and non-interest-bearing financial liabilities that are not held for trading. They are included in current liabilities, except for liabilities with maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities. Nuon's other financial liabilities comprise *Interest-bearing liabilities* and *Trade payables and other liabilities* in the balance sheet (notes [22] and [26]). Other financial liabilities are initially recognised at fair value adjusted for transaction costs and are subsequently carried at amortised cost using the effective interest method.

Derivatives and hedge accounting

General

Nuon uses different types of derivative instruments (forwards, futures and swaps) to hedge various financial risks (e.g. currency risks and electricity and fuel price risks).

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair values are derived from market prices that are listed in active markets or by using comparable recent market transactions or valuation methods, e.g. discounted cash flow models and option pricing models if there is no active market. The fair value also includes counterparty credit risk and/or own non-performance risk.

A derivative contract is classified as either current or non-current in the balance sheet based on the delivery month of the derivative contract.

Accounting for the movements in fair value of derivatives

The accounting treatment for the movements in fair value of derivatives depends on whether the derivative is designated as held for trading purposes or as a hedging instrument. In principle, all fair value movements of derivatives are recognised in the income statement, except when cash flow hedge accounting is applied.

Commodity contracts

Nuon uses energy commodity contracts for oil, gas, coal, biomass, emission allowances and electricity for the purpose of the production, sale and purchase of energy. The majority of these contracts, which can be settled as derivatives, are valued at fair value through profit or loss. Hedge accounting is applied for these contracts if possible.

Derivatives used for hedging

Nuon uses derivatives to hedge foreign exchange risks on assets and liabilities, and cash flow risks arising from energy commodity contracts. Nuon only applies cash flow hedge accounting. These hedge transactions hedge the risk of movements in (future) cash flows that may affect profit or loss. The hedges are attributable to a specific risk that is related to a balance sheet item or a future transaction that is highly probable. The effective part of the changes in the fair value of the hedge is recognised in other comprehensive income ('OCI') in the hedge reserve. For highly effective hedges, the non-effective part is taken to the income statement. If the hedge is not highly effective, no hedge accounting can be applied and fair value movements of derivatives are recognised in the income statement from the moment the hedge is no longer highly effective. The accumulated amounts that are taken to OCI are recycled to the income statement in the same period in which the hedged transaction is recognised in the income statement. However, if an anticipated future transaction that is hedged leads to the recognition of a non-financial asset or liability, the accumulated value movements of the hedges are included in the initial measurement of the asset or liability involved. If a hedge ceases to exist, or is sold, or if the criteria for hedge accounting are no longer being met, the accumulated fair value movements are held in equity until the anticipated future transaction is recognised in the income statement. If an anticipated future transaction is no longer expected to take place, the accumulated fair value movements that were recognised in OCI are recycled to the income statement.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Nuon reports mainly commodity derivatives and foreign exchange contracts in level 2.
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Leasing

Leases where Nuon acts as lessor

Finance leases

The lease is accounted as a finance lease in the event that all risks and rewards with regard to ownership of the assets have effectively been transferred to the lessee. The net present value of the lease payments, together with the residual value if appropriate, is recognised as the carrying amount on the balance sheet. The estimated residual values used in the determination of Nuon's gross investment that are not guaranteed by parties other than the lessee are reviewed periodically. If the residual value is expected to be lower, the decrease of the finance lease receivables is charged directly to the income statement. The lease payments received are treated as repayments of, and interest payments on, the investment of Nuon in the lease. The interest income reflects the effective interest on Nuon's net investment.

Operating leases

In addition to finance leases, Nuon has concluded a number of operating leases for energy-related installations. Operating leases are leases that are not designated as finance leases and where the risks and rewards with regard to the ownership of the assets have not been effectively transferred, or not completely transferred, to the lessee.

The assets that are leased to third parties under operating leases are classified under the item *Property, plant and equipment*. The proceeds from operating leases are recognised in the income statement on a straight-line basis over the lease term.

Leases where Nuon acts as lessee

Finance leases

If all risks and rewards with regard to the ownership have effectively been transferred to Nuon, the contract is accounted for as a finance lease. In this case, an asset and a liability are recognised on the balance sheet at the lower of the fair value and the net present value of the future lease payments. The asset is depreciated over the shorter of the useful life of the asset and the term of the lease contract. Consequently, the lease payments are regarded as repayment of principal amounts and interest expenses for the counterparty (lessor). The interest expenses reflect the effective interest on the investment made by the lessor.

The assets that Nuon holds under finance leases are recognised as *Property, plant and equipment*. The corresponding lease obligations are recognised as non-current liabilities.

Operating leases

Operating leases are leases that are not classified as finance leases and where the risks and rewards with regard to the ownership of these assets have effectively not been transferred, or not completely transferred, to the lessee. The cost of operating leases is charged to the income statement.

Inventories

General

Inventories, except for coal, oil, gas, biomass and emission allowances inventories, are valued at the lower of cost and net realisable value. These inventories consist of raw materials and consumables, inventories in process of production, finished goods and spare parts. The cost of inventories is determined by using the weighted average cost method. Net realisable value is determined using the estimated sales price under normal operating circumstances, less the estimated selling costs. In contrast to the above, coal, oil and gas inventories are valued at fair value less costs-to-sell, as these inventories form part of the trade position in this type of commodity. Movements in the fair value of coal, oil and gas inventories are recognised in the income statement in the period in which the movement takes place.

Emission allowances

With regard to the accounting for emission allowances, a distinction is made between emission allowances designated for own use, necessary to cover the number of rights required for the actual emissions, and emission allowances that are held for trading purposes.

Emission allowances designated for own use are recognised at cost. When actual emissions exceed the volume of emission allowances available, a liability is recognised for the deficit and charged to the income statement, measured at market prices. These liabilities are subsequently carried at fair value (market price) until additional emission allowances are purchased to offset the deficit. Gains or losses arising from changes in the fair value of these deficits are presented in the income statement within Cost of energy in the period in which they arise.

The trading position in emission allowances is accounted for at market prices at the reporting date and changes are recognised directly in the income statement. The possibility of converting Certified Emissions Reductions (CERs) or Emissions Reduction Units (ERUs), into (European) emission allowances is taken into account for the trading positions in CERs and ERUs.

Cash and short-term investments

Cash and short-term investments comprise all liquid financial instruments with a maturity date at inception of less than three months. *Cash and cash equivalents* include cash at hand, cash held in bank accounts, call money and other short-term deposits. Amounts owed to banks are only classified as cash and cash equivalents when Nuon has the right to offset amounts owed and due held in bank accounts with the same banks and Nuon has the intention to use this right.

Amounts owed to credit institutions are reported under the item *Interest-bearing liabilities*.

Other non-interest-bearing liabilities

Contributions to construction and payments received from customers, property developers and local and regional governmental bodies for the costs incurred for heating infrastructure of new housing projects and industrial estates are initially measured at their fair value and recognised as *Other non-interest-bearing liabilities* on the balance sheet. *Other non-interest-bearing liabilities* are amortised over the expected useful lives of the assets involved.

Income taxes and deferred taxes

Deferred tax assets and liabilities that arise from temporary differences between the carrying amount in the consolidated accounts and the carrying amount for tax purposes are determined based on the corporate income tax rates that are currently applicable or will be applicable, based on current legislation, at the time of settlement of the deferred tax asset or liability. Deferred tax assets are only recognised when it is probable that taxable profits will be available for utilising the deductible temporary differences . Deferred tax assets and liabilities are only offset if Nuon has a legal right to offset current tax assets and liabilities and the assets and liabilities relate to taxes that are levied by the same tax authority or governmental body. Deferred tax assets and liabilities are measured at nominal value.

The corporate income tax charge is determined based on the applicable rates for corporate income taxes and is measured at nominal (i.e. undiscounted) value. The effective tax rate is affected by permanent differences between the results for tax purposes and financial reporting purposes as well as the possibilities of the utilisation of tax losses carried forward, to the extent that no deferred tax assets can be recognised for these tax losses.

Provisions

Defined contribution pension plans

Defined contribution pension plans are post-employment benefit plans under which fixed fees are paid to a separate legal entity. There is no legal or constructive obligation to pay additional fees if the legal entity does not have sufficient assets to pay all benefits to the employees. Fees for defined contribution pension plans are reported as an expense in the income statement in the period they apply to.

Other long-term employee benefits

Other long-term employee benefits include plans, other than pension plans, that are not expected to be settled in full within 12 months after the end of the annual reporting period in which the employees render the related service. These plans consist of long-term sickness benefits, jubilee benefits, disability benefits for former employees, conditional bonuses and additional annual leave for older employees. These obligations have not been transferred to pension funds or insurance companies.

The obligation for other long-term employee benefits recognised in the balance sheet consists of the net present value of the vested benefits. If appropriate, estimates are used for example for future salary raises, employee turnover and similar factors. These factors are incorporated in the calculation of the provision. Changes in the provision resulting from changes in actuarial assumptions used and changes in the benefits are taken directly to the income statement.

The service costs attributable to the year of service and the accretion of interest to the provision are reported under the item *Employee compensation and benefit expenses* in the income statement.

Termination benefits

Termination benefits are benefits resulting from the decision of Nuon to terminate the employment contract before the retirement date, or resulting from the voluntary decision of an employee to accept an entity's offer of benefits in exchange for termination of employment. The nature and amount of the termination benefits are laid down in the Social Plan. The Social Plan is renegotiated periodically. A provision is only recognised when Nuon can no longer withdraw the offer of these benefits and has drawn up a detailed plan for the restructuring and has raised a valid expectation in those affected by starting the implementation of the plan or announcing the main features. The provision is measured at the present value of the expenditures expected to be required to settle the termination benefit obligation.

Other provisions

Provisions are recognised when:

- There is a legal or constructive obligation as at the reporting date, arising from events that occurred before the reporting date;
- It can be reasonably assumed that there will be an outflow of economic resources in order to settle the obligation;
- The obligation can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Policies for the consolidated statement of cash flows

The consolidated statement of cash flows is prepared in accordance with the indirect method. The movement in *Cash and cash equivalents* is derived from *Result before tax* according to the income statement. Exchange rate differences are eliminated as far as they do not lead to cash flows. In addition, non-cash transactions (such as finance leases) are excluded from the *Cash flows used in investing and/or financing activities*. The financial consequences of the acquisition or sale of subsidiaries, joint ventures and associates are shown separately in the *Cash flow from investing activities*. As a result, the cash flows presented do not necessarily reconcile with the movements in the items in the consolidated balance sheet.

The definition of *Cash and cash equivalents* used in the consolidated statement of cash flows and in the balance sheet includes bank overdrafts, if applicable, which are recognised under *Interest-bearing liabilities*.

Note 3 Important estimations and assessments in the preparation of the consolidated accounts

Preparation of the consolidated accounts in accordance with IFRS requires the company's Management Board to make estimations and assessments as well as to make assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimations and assessments are based on historic experience and other factors that seem reasonable under current conditions. The results of these estimations and assessments are then used to establish the reported values of assets and liabilities that are not otherwise clearly documented from other sources. The final outcome may deviate from the results of these estimations and assessments. The estimations and assessments are revised on a regular basis. The effects of changes in estimations are reported in the period in which the changes were made if the changes affected this period only, or in the period the changes were made and future periods if the changes affect both the current period and future periods.
Important estimations and assessments are described below.

Impairment testing for intangible assets and property, plant and equipment

Nuon has reported substantial values in the balance sheet regarding intangible assets and property, plant and equipment. These are tested for impairment in accordance with the accounting policies described in note [2] to the consolidated accounts, *Accounting policies*. The recoverable amount for cash-generating units is determined by calculating the value in use or fair value less costs of disposal. These calculations require certain estimates to be made regarding future cash flows and other assumptions for example, on the required rate of return.

For 2016, Nuon has reported impairment losses to the amount of EUR 303 million (2015: EUR 10 million). These impairment losses are further described in note [14] to the consolidated accounts.

Employee benefits and other provisions

For provisions, such as environmental restoration provisions, provisions for onerous contracts, personnel-related provisions for non-pension purposes, provisions for tax and legal disputes or other provisions, a discount rate of 1.8% (2015: 2.8%) was used for long-term provisions and 0.0% (2015: 0.3%) for short-term provisions.
For further information on these provisions, see note [24] to the consolidated accounts.

Income taxes and deferred taxes

Nuon reports deferred tax assets and liabilities that are expected to be realised in future periods. In calculating these deferred taxes, certain assumptions and estimates must be made regarding future tax consequences pertaining to the difference between assets and liabilities reported on the balance sheet and their corresponding tax values. The deferred tax assets and liabilities are measured based on the

business plan for the coming five years for Nuon's units and on the assumption that future earnings after five years will be consistent with the business plan, that applicable tax laws and tax rates will be unchanged in the countries in which Nuon is active, and that applicable rules for exercising tax loss carry forwards will not be changed. Nuon also reports future expenses arising from ongoing tax audits or tax disputes under Provisions. The outcome of these may deviate from the estimates made by Nuon.
For further information on taxes, see note [25] to the consolidated accounts.

Held for sale

According to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For that to be the case, certain criteria need to be fulfilled. The assets need to be available for immediate sale in their present condition subject only to usual and customary terms. Further, the sale must be highly probable, meaning that a plan for the disposal must have been prepared and approved at the appropriate level of management, an active program for the disposal must have been initiated and the asset must be marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to be completed within one year from the date of classification. For further information on non-current assets held for sale, see note [27] to the consolidated accounts.

Valuation of derivatives

Nuon uses energy commodity contracts for the purpose of the production, sale and purchase of energy or to hedge foreign currency risks or commodity risks. A number of these contracts include specific pricing and volumes clauses. In valuations of these contracts containing specific pricing and volumes clauses, the company's executive management must make certain estimations and assessments which could have a significant impact on Nuon's earnings and financial positions. For further information on the sensitivity of these contracts, see note [31] to the consolidated accounts.

Note 4 Acquired and divested operations

The following changes in consolidation are applicable for these consolidated accounts:

- In December 2016, Nuon sold its interest in 5 small heat grids;
- In December 2016, Nuon sold its interest in Emmtec Services B.V.;
- In May 2016, Nuon sold its interest in De Horn Beheer B.V.;
- In May 2016, the Nuon sold its interest in Nuon Energie and Service GmbH;
- In January 2016, Nuon sold its interest in Feenstra Isolatie B.V. ;
- In December 2015, Nuon dissolved its 50% interest in Nederstroom B.V.;
- In November 2015, Nuon dissolved its interest in Kraftwerkgeschellschaft Nuon Griesheim GmbH;
- In October 2015, Nuon sold its interest in Windpark Willem- Annapolder B.V.;
- In April 2015, Nuon sold its interest in the heat pumps;
- In January 2015, Nuon sold its interest the production facilities in Utrecht and the primary heat grid in the Utrecht region.

The changes in consolidation did not have a material impact on the results of Nuon.

Note 5 Net sales

Net sales

	2016	2015
Electricity	956	1,100
Gas	1,185	1,328
Heating and other products	469	465
Total	**2,610**	**2,893**

Note 6 Other operating income

Other operating income

	2016	2015
Other operating income	13	18
Total	**13**	**18**

Other operating income mainly relates to dunning fees received.

Note 7 Cost of energy

Cost of Energy

	2016	2015
Electricity	- 19	- 231
Gas	- 1,244	- 1,412
Heating and other products	- 124	- 257
Total	**- 1,387**	**- 1,900**

Cost of energy include the fair value movements of commodity derivatives. The total impact of these fair value movements was EUR 131 million positive in 2016 (2015: EUR 70 million negative). This EUR 131 million represents the net effect of accounting for derivatives at fair value through profit or loss. It consists of the combined effects of settled derivatives and fair value changes during the year.

Note 8 Employee compensation and benefit expenses

Employee compensation and benefit expenses

	2016	2015
Wages and salaries	- 241	- 261
Social security contributions	- 29	- 29
Pension expenses	- 27	- 31
Termination benefit expenses	- 22	- 2
Other long-term employee benefit expenses	- 7	- 2
Other personnel expenses	- 9	- 8
Total	**- 335**	**- 333**

The number of employees is shown in the following table.

Number of employees (FTEs)

	2016	2015
Average		
Employed FTEs	3,821	4,179
As at 31 December		
Employed FTEs	3,614	4,077
of which working in foreign countries	26	77

Overview of total remuneration Key Personnel

Amounts in EUR thousand, 1 January - 31 December

	Management Board		Supervisory Board		Total	
	2016	2015	2016	2015	2016	2015
Short-term employee benefits	1,419	1,255	18	150	1,437	1,405
Post-employment pension	59	177	-	-	59	177
Total	**1,478**	**1,432**	**18**	**150**	**1,496**	**1,582**

Note 9 Other operating expenses

Other operating expenses

	2016	2015
External hires and consultants	- 52	- 45
Marketing and sales expenses	- 54	- 55
Operating and maintenance expenses	- 43	- 49
Office and ICT expenses	- 118	- 137
Costs charged by Vattenfall and its subsidiaries	- 33	- 38
Other expenses	3	3
Total	**- 297**	**- 321**

Note 10 Financial income

Financial Income

	2016	2015
Other financial income	2	2
Total	**2**	**2**

Note 11 Financial expenses

Financial expenses

	2016	2015
Interest on loans and liabilities	-	- 1
Interest on loan and current account Vattenfall	- 7	- 2
Interest added to provisions	-	- 2
Other financial expenses	- 19	- 1
Total	**- 26**	**- 6**

Other financial expenses include the impairment of the investment in development-stage clean energy companies.

Note 12 Income tax expense

Income tax expenses

	2016	2015
Current taxes related to the period	- 4	- 4
Adjustment of current tax for prior periods	2	2
Deferred tax	- 11	- 11
Total	**- 13**	**- 13**

The following table provides a reconciliation between the corporate income tax rate in the Netherlands and the effective tax rate. The statutory tax rate is 25.0% (2015: 25.0%). The effect of the difference between the statutory tax rate and other (foreign) tax rates is disclosed in the corresponding line.

Reconciliation of effective corporate income tax rate

%

	2016	2015
Netherlands income tax rate at 31 December	**25.0**	**25.0**
Differences in tax rate in foreign operations	- 1.5	1.3
Tax adjustments for previous periods	7.8	- 12.7
Revaluation of previously non-valued losses and other temporary differences	- 4.4	- 0.5
Unrecognised tax loss carry forward from current year	0.7	4.8
Tax-exempt income	41.3	4.8
Non-deductible cost	24.2	0.4
Other	-	-
Effective tax rate	**93.1**	**23.1**

Note 13 Intangible assets

Intangible assets

	2016	2015
As at 1 January		
Historical cost	110	102
Accumulated amortisation and impairments	- 65	- 59
Carrying amount as at 1 January	**45**	**43**
Movements		
Investments and new consolidations	7	8
Amortisation	- 7	- 6
Impairment	- 3	-
Total	**- 3**	**2**
As at 31 December		
Historical cost	116	110
Accumulated amortisation and impairments	- 74	- 65
Carrying amount as at 31 December	**42**	**45**

Intangible assets mainly comprises concessions, permits and licences. Concessions, permits and licences are amortised over their term.

Note 14 Property, plant and equipment

Property, plant and equipment

	Land and buildings	Plants and other technical installations	Equipment, tools and fixtures and fittings	Construction in progress	Total
As at 1 January 2015					
Historical cost	120	5,043	905	242	6,310
Accumulated amortisation and impairments	- 83	- 3,041	- 670	- 17	- 3,811
Carrying amount as at 1 January 2015	**37**	**2,002**	**235**	**225**	**2,499**
Movements 2015					
Investments and new consolidations	-	6	16	172	194
Disposals	- 1	- 10	- 5	-	- 16
Depreciation	- 3	- 136	- 33	-	- 172
Impairment	-	- 10	-	-	- 10
Transfer to assets held for sale	- 3	-	- 2	-	- 5
Transfers and other movements	3	94	13	- 98	12
Total	**- 4**	**- 56**	**- 11**	**74**	**3**
As at 31 December 2015					
Historical cost	87	4,905	885	314	6,191
Accumulated amortisation and impairments	- 54	- 2,959	- 661	- 15	- 3,869
Carrying amount as at 31 December 2015	**33**	**1,946**	**224**	**299**	**2,502**
Movements 2016					
Investments and new consolidations	-	3	12	262	277
Disposals	- 2	- 3	- 15	-	- 20
Depreciation	- 1	- 129	- 27	-	- 157
Impairment	- 6	- 273	- 24	-	- 303
Transfer to assets held for sale	-	-	-	-	-
Transfers and other movements	-	32	50	- 137	- 55
Total	**- 9**	**- 370**	**- 4**	**125**	**- 258**
As at 31 December 2016					
Historical cost	55	4,857	747	424	6,083
Accumulated amortisation and impairments	- 31	- 3,281	- 527	-	- 3,839
Carrying amount as at 31 December 2016	**24**	**1,576**	**220**	**424**	**2,244**

Borrowing costs

The borrowing costs of Nuon that can be attributed to the acquisition, production or construction of qualifying assets amounted to EUR 3 million for the year 2016 (2015: EUR 2 million) and are included in the investment. The average interest rate for borrowing amounted to 1.1% (2015: 1.0%).

Operating leases

Property, plant and equipment includes EUR 203 million (2015: EUR 204 million) relating to assets for which operating lease contracts have been concluded with third parties and for which Nuon is the lessor.

Investments

Investments in 2016 mainly related to Pen y Cymoedd Wind Farm and the development of the Heat grid. Investments in 2015 mainly related to the construction of the Pen y Cymoedd Wind Farm, Heat Storage Diemen and refurbishment of power plant Velsen.

Government grants

Property, plant and equipment included government grants for an amount of EUR 21 million as of 31 December 2016 (2015: EUR 18 million). There are no unfulfilled conditions or contingencies attached to these grants.

Impairments and reversal of impairments

As part of the Vattenfall group, impairment testing has been conducted through calculation of the value in use for the Business Units, which is the basis for the cash-generating units (CGU).

During the year, an impairment loss of EUR 303 million was recognised in *Property, plant and equipment*. This impairment loss mainly related to CGU Thermal Power. The impairment of CGU Thermal Power was caused by a further deteriorated margins for our gas and coal assets and a decreased outlook for our gas assets to benefit from temporary swings in prices. Based on this forecast Nuon concluded that the book value of the Thermal assets exceeded the estimated value in use resulting in this impairment.

In 2015, an impairment loss of EUR 10 million was recognised. The impairment loss mainly related to the decision to cancel the development of several individual wind projects in the United Kingdom as a result of new legislation.

CGU Thermal Power

The Thermal Power assets have been impaired to their recoverable amount of EUR 1,167 million. The main assumptions used in calculating projections of future cash flows for CGU Thermal Power within the Generation segment are – for the power generating assets – based on forecasts of the useful life of the respective assets. In other respects, they are based on the business plan for the coming five years, after which their residual value is taken into account, based on a long-term market outlook. The calculated revenues in these forecasts are based on Vattenfall's long-term pricing projections, which are the result of a large number of simulations of the prices of oil, coal, gas, electricity and CO_2 emission allowances in the relevant commodity markets. In general, it can be stated that a further decrease of projected dark and spark spreads in the future is likely to result in additional impairments for the Thermal asset portfolio. In calculations of the value of power-generating assets in the Generation segment, a so-called flexibility value is taken into account. Most of the power-generating assets have a technical degree of flexibility that gives the owner the opportunity to adapt generation to current prices in the market.

Margins for the generation assets represent a major value driver. These margins are mainly the clean spark spread for gas-fired power plants and the clean dark spread for hard coal-fired power plants. Those spreads include electricity prices as well as the respective cost for fuel and CO_2 certificates to produce the electricity, considering fuel type and efficiency factors. A reduction of 5% in future margin would decrease the estimated value in use for the cash-generating unit Thermal Power in the Generation segment by 9% or EUR 110 million. Future cash flows have been discounted to value in use using a discount rate of 7.3% (2015: 7.4%) after tax (corresponding to 7.6% before tax), which is derived from the average discount rate used by peers. An increase in the discount rate of 0.5% would decrease the estimated value in use for the cash-generating unit Thermal Power in the Generation segment by EUR 77 million. A decrease in the discount rate of 0.5% would increase the estimated value in use by EUR 77 million.

Note 15 Participations in associated companies and joint ventures and other shares and participations

Participations in associated companies and joint ventures and other shares and participations

	Associated companies and joint ventures		Other shares and participations	
	2016	2015	2016	2015
Carrying amount as at 1 January	**56**	**89**	**21**	**21**
Investments	-	-	-	2
Capital repayment	- 13	- 18	-	-
Disposals	-	-	-1	- 2
Share in results	- 3	- 14	-	-
Dividends received	- 2	- 1	-	-
Impairments	-	-	- 19	- 0
Total	**- 18**	**- 33**	**- 20**	**-**
Carrying amount as at 31 December	**38**	**56**	**1**	**21**

The activities of the joint ventures and associated companies mainly relate to the construction and operations of wind farms and heat grid. Other shares and participations mainly include development-stage clean energy investments which were fully impaired in 2016.

Financial information of participations in joint ventures and associated companies

Balance sheet

	Non-Current assets	Other Current assets	Cash and cash equiva-lents	Other Non-current liabilities	Financial liabilities Non-current	Other Current liabilities	Financial liabilities Current	% Interest held	Carrying amount
2016									
NoordzeeWind C.V., the Netherlands (joint venture)	24	8	13	- 9	-	-	- 1	50	17
Westpoort Warmte B.V., the Netherlands (joint venture)	152	9	5	- 151	-	- 5	-	50	6
B.V. NEA, the Netherlands (associated company)	112	3	28	- 109	-	-	-	23	8
Other associated companies	6	3	8	- 1	-4	-	- 4		4
Other joint ventures	11	1	6	- 1	- 8	-	- 2		4
Total	**305**	**23**	**60**	**-271**	**- 12**	**- 5**	**- 7**		**38**
2015									
NoordzeeWind C.V., the Netherlands (joint venture)	48	11	14	- 13	-	-	- 1	50	29
Westpoort Warmte B.V., the Netherlands (joint venture)	121	6	10	- 126	-	- 5	-	50	3
B.V. NEA, the Netherlands (associated company)	110	3	22	- 71	-	-	-	23	14
Other associated companies	7	1	8	- 2	- 4	-	- 1		4
Other joint ventures	12	1	6	- 1	- 9	-	- 1		6
Total	**298**	**22**	**60**	**- 213**	**- 13**	**- 5**	**- 3**		**56**

Financial information of participations in joint ventures and associated companies

Income statement

	Net Sales	Other expenses	Depre-ciation	Financial income	Financial expenses	Income tax expense	Result for the year	Other compre-hensive income	Total compre-hensive income
2016									
NoordzeeWind C.V., the Netherlands (joint venture)	35	- 9	- 24	-	- 1	-	1	-	1
Westpoort Warmte B.V., the Netherlands (joint venture)	14	- 1	- 4	-	- 1	- 3	5	-	5
B.V. NEA, the Netherlands (associated company)	-	- 34	-	5	-	-	- 29	-	- 29
Other associated companies	4	- 2	- 1	-	-	-	1	-	1
Other joint ventures	3	- 1	- 2	-	- 1	-	- 1	-	- 1
Total	**56**	**- 47**	**- 31**	**5**	**- 3**	**- 3**	**- 23**	**-**	**- 23**
2015									
NoordzeeWind C.V., the Netherlands (joint venture)	45	- 9	- 63	-	- 1	-	- 28	-	- 28
Westpoort Warmte B.V., the Netherlands (joint venture)	12	- 5	- 5	-	- 1	-	1	-	1
B.V. NEA, the Netherlands (associated company)	-	-	-	5	- 3	- 1	1	-	1
Other associated companies	8	- 2	- 5	-	-	-	- 1	-	- 1
Other joint ventures	4	- 1	- 2	-	- 1	-	-	-	-
Total	**69**	**- 17**	**- 75**	**5**	**- 6**	**- 1**	**- 27**	**-**	**- 27**

The joint ventures and associated companies have no other significant contingent liabilities or commitments as at 31 December 2016 and 2015, except as disclosed in note [29]. These joint ventures and associated companies cannot distribute their profits without the consent of the other investors in the relevant joint venture or associated company.

Note 16 Other non-current receivables

Other non-current receivables consist mainly of loans and receivables with related parties.

Note 17 Derivatives

Derivatives

	Assets		Liabilities	
	2016	2015	2016	2015
Commodity contracts	3,162	4,259	3,049	4,317
Treasury contracts	3	13	1	8
Gross amount recognised derivatives	**3,165**	**4,272**	**3,050**	**4,325**
Effects from netting agreements	- 2,579	- 3,499	- 2,579	- 3,499
Net amount presented on the balance sheet	**586**	**773**	**471**	**826**
Current portion	381	636	332	643
Non-current portion	205	137	139	183
Amounts not set off on the balance sheet				
Effects from unrecognised netting agreements	-	- 6	-	- 6
Collateral	- 51	- 120	- 44	- 285
Net position	**535**	**647**	**427**	**535**

The commodity contracts mainly relate to forward contracts for oil, gas, coal, power, biomass and emission allowances. The majority of the commodity derivatives are held for trading purposes. The treasury contracts mainly relate to forward contracts for foreign currencies. The majority of the treasury derivatives are held for hedging of foreign currency positions.

Note 18 Inventories

Inventories

	2016	2015
Raw materials and consumables	31	34
Finished goods	-	1
Inventories at fair value	202	184
Total	**233**	**219**

Inventories at fair value include coal, gas, biomass, emission allowances and oil inventories. The fair value of these inventories are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. All significant inputs required for the valuation of these inventories are observable (level 2).

No inventories measured at the lower of cost and net realisable value were written down in 2016 (2015: EUR 2 million).

Inventories recognised as an expense in 2016 amount to EUR 3,811 million (2015: EUR 4,936 million).

Note 19 Trade receivables and other receivables

Trade receivables and other receivables

	2016		2015	
Trade receivables - regular sales	336		384	
Trade receivables - trade activities	182		184	
Provisions for allowance on trade receivables	- 26		- 37	
Trade receivables (net)		**492**		**531**
Receivables from related parties		1,420		1,140
Other receivables		61		311
Accrued income and prepayments		117		75
Total		**2,090**		**2,057**

The net balance of trade receivables from regular sales relate mainly to energy receivables in the business and consumer markets, as well as receivables related to Nuon's customers' use of the electricity grid. Receivables from trading activities have a maximum credit term of one month as they are normally settled in the month after invoicing.

At the end of 2016, the impairments on trade receivables totalled EUR 26 million (2015: EUR 37 million). An impairment charge on trade receivables of EUR 12 million (2015: EUR 17 million) was recorded in *Other operating expenses* in the income statement in 2016.

Current tax assets

	2016	2015
Coporate income tax	22	23
Total	**22**	**23**

Note 20 Cash and short-term investments

Cash and cash equivalents

	2016	2015
Cash and bank balances	135	109
Total	**135**	**109**

The effective interest rate on credit balances available on demand and short-term deposits was 0.0% (2015: 0.0%). Cash and cash equivalents are denominated almost entirely in euros. Cash and cash equivalents included cash and deposits of EUR 0.2 million (2015: EUR 1 million) to which Nuon does not have free access. This amount related to cash held at banks which is provided as collateral and for margin call payments to cover exchange-based commodity trades.

Note 21 Equity

Authorised, issued and paid-up share capital

The authorised share capital of Nuon amounts to EUR 1,500,000,000 consisting of 300,000,000 shares, each with a nominal value of EUR 5 per share. The total number of issued and paid-up shares amounts to 136,794,964 shares totalling a paid-up capital of EUR 683,974,820. All shares are held by Vattenfall.

The remaining class A shares outstanding as per 31 December 2014, representing a 21% stake in Nuon, are acquired by Vattenfall AB on 1 July 2015 and subsequently converted into class B shares. After the conversion there were no outstanding class A shares anymore. Subsequently the Articles of Association of N.V. Nuon Energy were revised and the distinction between class A shares and class B shares was removed.

Rights and obligations related to the shares

The 'one share, one vote' principle applies to the issued shares. The class A shareholders were entitled to an annual fixed preferred dividend on the remaining class A shares, amounting to 2% of the outstanding predetermined purchase price for the outstanding class A shares. As these payments qualify as a liability rather than equity in accordance with IAS 32, a liability of EUR 430 million was recognised as at 1 July 2009 as a charge to Other reserves. This represented the net present value of the fixed preferred dividend payable until 1 July 2015. As at 31 December 2015, the liability amount to nil.

Share premium

Share premium consists of the additional paid-up or contributed value to Nuon.

Reserve for cash flow hedges and currency translation reserve

The changes in the fair value of derivatives, net of taxes, which effectively hedge the risk of changes in future cash flows, are included in the *Reserve for cash flow hedges*.

The exchange rate differences resulting from the assets and liabilities of subsidiaries with a different functional currency being translated at closing rate, while their results are translated at an average rate are recognised in *Other comprehensive income* and included in the *Currency translation reserve* within *Equity*. Neither the *Reserve for cash flow hedges nor* the *Currency translation reserve* is freely distributable.

Other reserves

Other reserves consist mainly of retained earnings. Results which are not distributed as dividend to shareholders are in principle added to the *Other reserves*.

Note 22 Interest-bearing liabilities

Interest-bearing liabilities

	2016	2015
Carrying amount as at 1 January	**221**	**1,120**
Movements		
Additions and loans received	452	1
Loans repaid	- 1	- 852
Payment dividend liability class A shares	-	- 62
Other movements	- 33	14
Total	**418**	**- 899**
Carrying amount as at 31 December	**639**	**221**

The carrying amount of the interest-bearing liabilities was as follows.

Maturities of interest-bearing liabilities

2016	Effective interest rate	Variable/ Fixed	Carrying amounts Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Interest-bearing liabilities						
Current account Vattenfall	0.5%	Variable	339	-	-	339
GBP loans Vattenfall	3.2%	Fixed	271	-	-	271
Other	8.0%	Fixed	1	5	18	24
Other		Variable	5	-	-	5
Total interest-bearing liabilities			**616**	**5**	**18**	**639**
2015						
Interest-bearing liabilities						
Current account Vattenfall		Variable	-	-	-	-
GBP loans Vattenfall	2.4%	Fixed	188	-	-	188
Other	8.0%	Fixed	1	5	20	26
Other		Variable	7	-	-	7
Total interest-bearing liabilities			**196**	**5**	**20**	**221**

At year-end 2016 and 2015, the carrying amount of the interest-bearing liabilities was denominated in euros, except for the EUR 271 million (2015: EUR 188 million) British pounds loans from Vattenfall.

Note 23 Other non-interest-bearing liabilities

Other non-interest-bearing liabilities

	2016	2015
Carrying amounts as at 1 January	**158**	**161**
Contributions received	18	13
Amortisation recognised as income	- 7	- 7
Transfers and other	- 5	- 9
Carrying amount as at 31 December	**164**	**158**

Other non-interest-bearing liabilities related to construction contributions received. These amounts were mainly attributable to district heating grids. The amortisation periods of these amounts were equal to the depreciation periods of the underlying assets with a maximum of 30 years.

Note 24 Provisions

Provisions

	Employee benefits	Environment and dismantling	Onerous contracts	Other	Total
Carrying amount as at 1 January 2015	**57**	**58**	**12**	**17**	**144**
Movements 2015					
Additions	19	0	-	-	19
Withdrawals	- 21	- 1	- 7	- 2	- 31
Release to other expenses	- 9	- 9	- 3	- 2	- 23
Interest accretion	1	1	-	-	2
Other movements	-	3	-	-	3
Companies sold	-	-	-	-	-
Liabilities directly associated with assets held for sales	- 6	- 5	-	-	- 11
Total	**- 16**	**- 11**	**- 10**	**- 4**	**-41**
Carrying amount as at 31 December 2015	**41**	**47**	**2**	**13**	**103**
Current portion	17	10	-	3	30
Non-current portion	24	37	2	10	73
Movements 2016					
Additions	43	1	24	5	73
Withdrawals	- 13	-	-	- 1	- 14
Release to other expenses	- 16	- 4	-	- 6	- 26
Interest accretion	-	-	-	-	-
Other movements	-	- 16	-	6	- 10
Companies sold	-	-	-	- 1	- 1
Liabilities directly associated with assets held for sales	-	-	-	-	-
Total	**14**	**- 19**	**24**	**3**	**22**
Carrying amount as at 31 December 2016	**55**	**28**	**26**	**16**	**125**
Current portion	14	5	2	8	29
Non-current portion	41	23	24	8	96

An amount of EUR 24 million is expected to lead to a cash outflow after 2021.

Provisions for employee benefits

Nuon has various pension and similar plans for its current and former employees. The majority of the pension obligations has been transferred to the ABP pension fund and the 'Metaal en Techniek' pension fund. In addition to these two main pension plans, Nuon has a small number of defined benefit plans that are in aggregate not material. The ABP and 'Metaal en Techniek' plans have been classified as defined contribution plans and are reported as such. The coverage ratio of the ABP pension fund amounts to 96.6% (2015: 98.7%) and the pension premium for 2017 amounts to 21.5% (2016: 18.1%). The coverage ratio of the 'Metaal en Techniek' pension fund amounts to 97.2% (2015: 97.3%) and the pension premium for 2017 amounts to 29.0% (2016: 29.6%).

In addition Nuon operates a number of other employee benefit schemes, including the following:

- Jubilee benefits: this benefit covers the jubilee benefits paid to employees after 10, 20, 30, 40 and 50 years of service and after retiring upon reaching the retirement age;
- Long-term sickness benefits: this benefit covers the obligation to continue paying all or part of an employee's salary during the first two years of sick leave;
- Disability benefits: Nuon is the risk-bearer within the meaning of the Income and Employment Act (WIA); this benefit covers the obligation in respect of Nuon employees who have become partly or fully incapacitated for work;

- Unemployment benefits: Nuon is the risk-bearer within the meaning of the Unemployment Act (WW); if a Nuon employee becomes unemployed, the unemployment benefit they receive is borne by Nuon for a period of between three and thirty-eight months, depending on the employment history of the employee concerned;
- Reduction of working hours of older employees: in the light of the legal measures in relation to early retirement, it was agreed in the 2005 Collective Labour Agreement to create a transitional scheme in which older employees would work less in the future;
- Termination benefits: The provision covers payments and/or supplements to benefits granted to employees whose employment contract has been terminated. These benefits and supplements are based on the Social Plan operated by Nuon and individual arrangements (including Voluntary Leave Package). The Social Plan is periodically renegotiated and established during the Collective Labour Agreement negotiations. In 2016, a net amount of EUR 18 million (2015: EUR 8 million) was added to the provision for new restructuring programmes. The provision for termination benefits totalled EUR 22 million at the end of 2016 (2015: EUR 9 million).

The main assumptions used in determining the provisions for employee benefits are given below.

Assumptions

	2016	2015
Mortality table	Generation table 2014-2184/2016	Generation table 2014-2184/2015
Discount rate long-term provisions	1.8%	2.8%
Discount rate short-term provisions	0.0%	0.3%
Expected future salary increases	2.5%	2.5%
Expected increase in disability benefits	2.0%	2.0%

Environment and dismantling provisions

The environmental restoration provision, as included in *Environment and dismantling*, covers legal and constructive obligations related to soil pollution.

The provision for dismantling costs, as included in *Environment and dismantling,* is formed for legal and constructive obligations related to dismantling and removal of assets, including expenses to be incurred to restore certain sites to their original condition.

Onerous contracts

The provision for onerous contracts relates mainly to obligations in relation to gas capacity contracts.

Other provisions

The item Other includes provisions for various claims and litigation.

Note 25 Deferred tax assets and liabilities

The balances and gross movements of the deferred tax assets and deferred tax liabilities were as follows:

Deferred tax assets and liabilities

	Property, plant and equipment	Intangible assets	Non-settled derivatives	Settled derivatives	Tax losses	Provisions	Other	Total
Carrying amount as at 1 January 2015	**281**	**9**	**57**	**- 32**	**12**	**5**	**- 2**	**330**
Movements 2015								
Disposals	-	-	-	-	-	-	-	-
Charged to income	- 50	-	- 5	-	40	3	1	- 11
Charged to other comprehensive income	-	-	26	- 16	-	-	-	10
Reclassifications and other movements	- 4	-	-	-	-	-	- 2	- 6
Total	**- 54**	**-**	**21**	**- 16**	**40**	**3**	**- 1**	**- 7**
Carrying amount as at 31 December 2015	**227**	**9**	**78**	**- 48**	**52**	**8**	**- 3**	**323**
Of which:								
- Deferred tax asset	228	9	78	- 48	52	8	- 3	324
- Deferred tax liability	- 1	-	-	-	-	-	-	- 1
Movements 2016								
Disposals	- 4	-	-	-	-	-	-	- 4
Charged to income	56	-	- 25	-	- 46	3	1	- 11
Charged to other comprehensive income	-	-	- 93	29	-	-	-	- 64
Reclassifications and other movements	-	-	-	-	-	1	- 1	-
Total	**52**	**-**	**- 118**	**29**	**- 46**	**4**	**-**	**- 79**
Carrying amount as at 31 December 2016	**279**	**9**	**- 40**	**- 19**	**6**	**12**	**- 3**	**244**
Of which:								
- Deferred tax asset	284	9	- 41	- 19	6	12	- 3	248
- Deferred tax liability	- 4	-	-	-	-	-	-	- 4

The deferred tax positions for property, plant and equipment and intangible assets mainly represent the difference between the carrying value and the value for tax purposes of the assets of the power-generating facilities and are recorded at statutory rates.

The deferred tax positions in respect of derivatives reflect the temporary differences – measured at the prevailing tax rate – between the valuation of derivatives for tax purposes and the valuation in the consolidated accounts. The settled derivatives refer to cash-settled derivatives of which the fair value movements are not yet recognised in the income statement as cash flow hedge accounting is applied.

The deferred tax positions are recognised to the extent that the realisation of the related tax benefit through future taxable profits is assessed as probable. The recognition of the deferred tax assets is assessed annually. This assessment is mainly based on the business plan for the coming five years and on the assumption that future earnings after five years will be consistent with the business plan, that applicable tax laws and tax rates will be unchanged in the countries in which Nuon is active, and that applicable rules for exercising tax loss carry forwards will not be changed.

Unrecognised deferred tax assets

Unrecognised deferred tax assets relate to the temporary differences in the valuation of tax losses carried forward and amount to EUR 3 million (2015: EUR 9 million). These tax losses carried forward relate mainly to losses in foreign operations where insufficient taxable profit is considered to be available in the foreseeable future to recognise the losses carried forward. These tax losses on the foreign operations do not have an expiration date.

Note 26 Trade payables and other liabilities

Trade payables and other liabilities

	2016	2015
Trade payables	55	51
Invoices to be received from energy supplies and trading activities	391	413
Deposits received	51	117
Payables to related parties	404	891
Other payables	272	359
Other taxes and social securities	355	362
Total	**1,528**	**2,193**

Other payables included short-term employee benefit accruals of EUR 39 million at the end of 2016 (2015: EUR 49 million) relating to salaries to be paid, holiday allowances, bonuses payable and other personnel expenses to be paid.

Note 27 Disposal group held for sale

In December 2015, management signed an agreement to sell the shares of Feenstra Isolatie B.V. Accordingly the related assets and liabilities are classified as a disposal group held for sale. The control of Feenstra Isolatie B.V. was effectively transferred on 1 January 2016 to the purchaser based on the signed agreement.

In December 2015, management signed an agreement to sell the shares of Nuon Energie und Service GmbH Accordingly the related assets and liabilities are classified as a disposal group held for sale. The control of Nuon Energie und Service GmbH was transferred in Q2 2016 to the purchaser based on the signed agreement.

Disposal group held for sale

	2015
Assets	
Property, plant and equipment	5
Deferred tax assets	6
Other non-current receivables	2
Inventories	1
Trade receivables and other receivables	3
Cash and cash equivalents	3
Assets held for sale	**20**
Liabilities	
Provisions	- 11
Trade payables and other liabilities	- 4
Current tax liability	- 1
Liabilities directly associated with assets held for sales	**- 16**
	4

Note 28 Leasing

Leasing receivables

The total future minimum lease receipts from non-cancellable operating leases on property, plant and equipment were as follows:

Operating lease receivables

	2016	2015
Less than 1 year	109	113
Between 1 and 5 years	414	434
Over 5 years	380	489
Total	**903**	**1,037**

These operating lease receivables relate mainly to leases of production facilities and heating equipment to consumers.

Leasing payables

The total future minimum lease payments in respect of non-cancellable operating leases were as follows.

Operating lease payables

	2016	2015
Less than 1 year	30	32
Between 1 and 5 years	67	89
Over 5 years	9	16
Total	**106**	**137**

Nuon has off-balance operating lease payables in respect of district heating networks, buildings, company cars, IT assets and gas storage assets.

The district heating grids belonging to Alliander N.V. which had been placed within a cross-border lease, were subleased to N.V. Nuon Warmte, now part of Nuon, as of mid 2008 until 2020. This was done in connection with the implementation of the Independent Network Operation Act (WON) and preparations for the unbundling of our former shareholder N.V. Nuon. The strip risk (the part of the termination value – i.e. the possible compensation payable by Nuon to N.V. Alliander in the event of premature termination of the transaction – that cannot be settled from the deposits and investments held for this purpose) related to these subleased assets is borne by Nuon and amounted to USD 29 million as at year-end 2016 (2015: USD 27 million). As these subleases are still operational, no liability for this strip risk is included in the balance sheet.

The current year's leasing expenses amount to EUR 33 million (2015: EUR 75 million).

Note 29 Contingent assets and liabilities and licences

Rights and obligations arising from operating leases

Please refer to note [28] *Leasing* for a breakdown of the rights and obligations with regard to operating leases.

Capital expenditure and purchasing commitments

The outstanding capital expenditure commitments, which relate mainly to construction in progress, and other purchasing commitments at the end of the year are listed below:

Capital expenditure and purchasing commitments

	2016	2015
Capital expenditure commitments regarding property, plant and equipment and intangible assets	68	112
Total	**68**	**112**

Sales and purchase commitments

Nuon has concluded a number of long-term purchase contracts with terms varying from 2016 to 2022. In addition, Nuon has concluded long-term sales contracts on varying terms and conditions. Nuon enters into energy commodity contracts for the sale and purchase of electricity, oil, gas, coal, biomass and emission allowances. The energy commodity contracts that are held for trading purposes and the energy commodity contracts that are designated as hedging instruments are recognised on the balance sheet at fair value. These contracts are not generally settled by means of physical delivery but by concluding opposite transactions in which only the net cash flows are settled. The energy commodity contracts that are designated for own use are generally settled by physical delivery. The majority of these contracts are also valued at fair value. Hedge accounting is applied where possible. Please refer to note [31] for the liquidity overview, which shows the contractual terms of all financial obligations recognised.

Contingent liabilities

At the reporting date, Nuon (including its subsidiaries, associated companies and joint ventures) was involved in a number of legal proceedings and investigations by tax and other authorities. Provisions have been made as far as deemed necessary in accordance with management's estimate and the accounting principles. Nuon believes that the ultimate resolution of these claims and proceedings will not, in the aggregate, have a material adverse effect on Nuon's financial position, consolidated income or cash flows.

At 31 December 2016, no bank guarantees and letters of credit issued by Nuon were outstanding. Nuon has provided several parent guarantees for its subsidiaries, joint ventures or associated companies, part of which are uncapped.

N.V. Nuon Energy has issued declarations of joint and several liability pursuant to article 403, Part 9, Book 2 of the Dutch Civil code for a number of its subsidiaries. The significant group companies for which such a declaration has been issued are included in the list of subsidiaries, associated companies and joint ventures included in note [30] *Related party disclosures* of the consolidated accounts. As partners in a number of general partnerships, subsidiaries of Nuon are liable for the obligations of these partnerships. The exposure under these obligations is not considered to be significant.

N.V. Nuon Energy and the majority of its subsidiaries form a fiscal unity for both corporate income tax and VAT purposes. Consequently, every legal entity forming part of the fiscal unity is jointly and severally liable for the tax liabilities of the legal entities forming part of the fiscal unity.

Licences

Nuon has a licence for the supply of electricity, gas and heat and holds licences for constructing certain power and heat facilities.

Note 30 Related party disclosures

As of 1 July 2015, 100% of Nuon's shares are owned by Vattenfall AB. Vattenfall AB has a casting vote in the Supervisory Board and qualifies as a related party. Nuon also conducts transactions with subsidiaries within the Nuon group and with other entities in the Vattenfall group. Furthermore, the Nuon group has interests in various associated companies and joint ventures over which it exercises significant influence, but no control or only joint control of the operations and financial policy. Transactions with the parties classified as related parties are conducted at market conditions and prices that are not more favourable than the conditions and prices offered to independent third parties. The following list includes the significant subsidiaries, associated companies and joint ventures and the share that Nuon holds in these entities.

Shares and participations

	Registered office	Participations in % 2016
Subsidiaries		
N.V. Nuon Energy Sourcing *)	Amsterdam	100
Nuon Power Generation B.V. *)	Utrecht	100
Nuon Storage B.V.	Amsterdam	100
N.V. NUON Duurzame Energie *)	Arnhem	100
Nuon Wind Development B.V. *)	Rhenen	100
Nuon UK Ltd.	Long Rock, Penzance (United Kingdom)	100
Pen Y Cymoedd Wind Farm Ltd.	Long Rock, Penzance (United Kingdom)	100
Swinford Wind Farm Ltd.	Long Rock, Penzance (United Kingdom)	100
Nuon Windpark Wieringermeer B.V.	Amsterdam	100
ENW Duurzame Energie B.V. *)	Amsterdam	100
Nuon Power Projects I B.V. *)	Amsterdam	100
Vattenfall Energy Trading Netherlands N.V. *)	Amsterdam	100
N.V. Nuon Warmte *)	Amsterdam	100
N.V. Nuon Sales Nederland *)	Amsterdam	100
Ingenieursbureau Ebatech B.V. *)	Amsterdam	100
Yellow & Blue Clean Energy Investments B.V.	Amsterdam	100
N.V. Nuon Klantenservice *)	Arnhem	100
Nuon Epe Gasspeicher GmbH	Heinsberg (Germany)	100
Nuon Epe Gas Service B.V. *)	Amsterdam	100
Feenstra N.V. *)	Amsterdam	100
Feenstra Veiligheid B.V. *)	Amsterdam	100
Feenstra Verwarming B.V. *)	Lelystad	100
Zuidlob Wind B.V. *)	Amsterdam	100
Powerpeers B.V.*)	Amsterdam	100
Associated companies		
B.V. Nederlands Elektriciteit Administratiekantoor	Amsterdam	22.5
Joint ventures		
NoordzeeWind C.V.	IJmuiden	50
Westpoort Warmte B.V.	Amsterdam	50

*) N.V. Nuon Energy has issued a declaration of liability for these subsidiaries.
A complete list of subsidiaries, associated companies and joint ventures, as required by sections 379 and 414 of Book 2 Title 9 of the Dutch Civil Code, is filed with the Chamber of Commerce in Amsterdam.

The following transactions have taken place with related parties with regard to sales and purchases of goods and services, including leases.

Related parties transactions

	2016	2015
Sales of goods and services to Vattenfall and its subsidiaries	34	34
Sales of goods and services to associated companies and joint ventures	42	23
Costs charged by Vattenfall and its subsidiaries	- 46	- 38
Costs charged by associated companies and joint ventures	- 12	- 20

Various goods and services are bought or provided on normal commercial terms and conditions within Vattenfall. A cost-sharing programme is in place, which entails that certain costs within the group are recharged to the users within the Vattenfall group based on actual usage. Nuon, in the ordinary course of business, trades commodities with and via VET Germany. The results of these trading activities with VET Germany are reported net in *Net sales or Cost of energy*.

In the ordinary course of business, Nuon has outstanding payables and receivables with Vattenfall companies (note [19], note [22] and note [26]) as well as with its associated companies and joint ventures (note [15]). Nuon has also granted a limited number of loans to related parties. Where relevant, this has been disclosed in these consolidated accounts.

The members of the management board and supervisory board of Nuon have been identified as individuals who qualify as related parties. The employee benefits related to these individuals have been disclosed in note [8] Employee compensation and benefit expenses.

Note 31 Information on risks and financial instruments

General

The following risks can be identified with respect to financial instruments: market risk, credit risk and liquidity risk. Market risk is defined as the risk of loss due to an adverse change in market prices. Credit risk is the risk resulting from counterparty default, including suppliers, investments and trading counterparties. Liquidity risk is the risk that the company will not be able to meet its obligations associated with financial liabilities.

This note provides information on the above-mentioned financial risks to which Nuon is exposed, the objectives and the policy for the management of risks arising from financial instruments as well as the management of capital.

Market risk

Nuon is exposed to the following market risks:

- Electricity and fuel price risk: the risk that the value of a financial instrument will fluctuate due to changes in commodity prices;
- Currency risk: the risk that the value of a financial instrument will fluctuate due to changes in exchange rates;
- Interest rate risk: the risk that the value of a financial instrument will fluctuate due to changes in interest rates.

Nuon hedges market risks through the purchase and sale of derivatives. Nuon applies hedge accounting as far as possible in its consolidated accounts. All transactions are carried out within set boundaries and risk limits set.

Electricity and fuel price risk

Nuon is exposed to the impact of market fluctuations in the prices of a range of energy commodities including, but not limited to, electricity, coal, natural gas, oil, biomass and emission allowances. These risks are a result of ownership of physical assets (primarily gas- and coal-fired power plants in the Netherlands), sales positions in electricity and gas to both households and business customers in the Netherlands and the proprietary positions taken in the energy commodity markets.

It is Vattenfall's policy to centralise its exposures on group level and to hedge via different Market Access Points. Vattenfall Energy Trading Netherlands ('VET NL'), which is legally part of Nuon, is designated as Market Access Point for a number of commodities for Vattenfall and is also active in proprietary trading. Hedge contracts between VET Germany and VET NL as well as hedge contracts between VET NL and the market are treated as derivatives and recognised at fair value in the balance sheet.

All market risks associated with electricity and fuel price risk are measured using a Value at Risk (VaR) method on an aggregate Vattenfall level. VaR calculation quantifies potential changes in the value of commodity positions as a result of market price movements. The inputs to the VaR calculation are positions (open volumes), current market prices and the variability of prices (volatilities and correlations), all of which are updated daily. The risk limits are designed to prevent maximum loss to exceed SEK 4 billion (approximately EUR 419 million), which can be compared to a VaR of EUR 44 million, with a 99% confidence level and a 1-day holding period. Thus, the VaR measures the marked-to-market movement arising from a 1-day change in market prices, under normal market conditions, which should only be exceeded 1% of the time.

The VaR level for trading is:

Trading VaR levels

	2016	2015
As at 31 December	10.7	16.0
Average for the year	15.1	14.4

Vattenfall's risk management strategy is managed based on the actual operational structure instead of the legal structure. Part of the commodity exposures arising from assets and the customer book are hedged via VET Germany and as such do not result in direct positions for Nuon. Nuon treats the aforementioned contracts with VET Germany as derivatives which are valued at fair value on the balance sheet. If possible, hedge accounting is applied.

Currency risk
General

Nuon is exposed to currency risks on purchases, trading activities, cash and cash equivalents and other positions denominated in a currency other than the euro. Currency risks mainly arise in respect of positions in US dollars and, to a more limited extent, in respect of positions in Swiss francs and British pounds.

Nuon has an exposure-based currency policy. Nuon recognises three types of risk in relation to foreign currency:

- *Transaction risk* concerns the risk in respect of future cash flows in foreign currency and in relation to positions in foreign currency in the balance sheet. This risk is hedged. Subsidiaries report current positions and risks to the Treasury Department within Nuon. These positions and risks are principally hedged with counterparties through average rate options and spot and forward exchange contracts.
- *Translation risk* concerns the risk in respect of the translation of foreign subsidiaries with a functional currency other than the euro. The risk arising from this is only hedged if Nuon expects to terminate the business activities in question in due course. The net asset value of the subsidiary can be hedged in this case. If no decision has been taken to sell or close the subsidiary, the translation differences are accounted for via *Other comprehensive income* and included in the *Currency translation reserve* in *Equity*;
- *Economic risk* is related to a possible deterioration of the competitive position as a result of a change in the value of foreign currencies. This risk is generally not hedged but is considered on a case–by-case basis.

Exposure to currency risks and sensitivity analysis

Nuon's exposure to significant currency risks based on nominal values is included in the table below. This table indicates the pre-tax effect that a possible increase or decrease in the value of foreign currencies relative to the euro would have, assuming all other circumstances remain unchanged, on Nuon's financial income and expenses and equity. In relation to this, derivatives concluded to hedge currency risk are taken into account. The effects on equity and income are calculated using the closing rate at the reporting date.

Sensitivity analysis currency risk

	Position	Profit or loss		Equity	
		Decrease by 10% relative to the euro	Increase by 10% relative to the euro	Decrease by 10% relative to the euro	Increase by 10% relative to the euro
2016					
Total exposure in foreign currencies	- 37	3	- 4	-	-
Total hedged position in foreign currencies	41	- 4	5	-	-
Sensitivity cash flow in foreign currencies (net)	**4**	**- 1**	**1**	**-**	**-**
2015					
Total exposure in foreign currencies	- 61	6	- 7	-	-
Total hedged position in foreign currencies	54	- 5	6	-	-
Sensitivity cash flow in foreign currencies (net)	**- 7**	**1**	**- 1**	**-**	**-**

The tables include risk positions from any exposure in foreign currencies, whether arising from financial instruments or not, while the effects on income and equity have been presented taking into account financial instruments only.

The most important effects in the table in respect of the income statement exposure to currency risks are related to the Average Rate Options (AROs) and forward contracts concluded to hedge the currency risk on purchased commodities in US dollars and British pounds.

Interest rate risk

General

Nuon is exposed to interest rate risk on its interest-bearing liabilities note [22]).

Nuon makes limited use of derivatives such as interest rate swaps to mitigate the interest rate risk. Nuon had no interest rate derivatives outstanding at 31 December 2016 and 2015.

Sensitivity analysis in relation to cash flows for variable interest assets and liabilities

A change of 100 basis points in the interest rates as at 31 December 2016 would, assuming all other circumstances remain unchanged, have a pre-tax effect on Nuon's equity and financial income and expenses of EUR 3 million (2015: EUR 0 million) on an annual basis.

Hedging transactions

Cash flow hedging

Nuon hedges the price risks relating to the purchase of commodities for the company's production as well as the purchase of electricity and gas for direct supply to our customers. The prices for these commodity contracts are variable as they are indexed to the average price of the commodities over a preceding period.

The price risks arising from these purchases of commodities for the company are hedged by means of futures, forwards and swaps. The fair value movements of these derivatives recognised in the reserve for cash flow hedges in equity will be released from the reserve for cash flow hedges when the cash flows of the underlying item take place. For the contracts that were hedged as at 31 December 2016, all cash flows will take place and will have an effect on income within the subsequent six years.

As at 31 December 2016, the hedge reserve amounted to EUR 72 million positive (after tax: EUR 56 million positive) (2015: EUR 185 million negative (after tax: EUR 137 million negative)).

The hedge ineffectiveness recognised in the income statement in 2016 amounts to EUR 0 million (2015: EUR 1 million negative).

Credit risk

Credit risk can arise if a counterparty or contractor cannot or is not willing to fulfil its obligations and exists in Nuon's commodity trading, sales activities, treasury activities and investments. A consistent approach to credit analysis and management is applied throughout the organisation, with the degree of review undertaken varying depending on the magnitude of credit risk in a transaction.

In the trading segment, credit risk is calculated as a settlement plus replacement cost. The credit risk calculations are based on the marked-to-market value calculated by the Risk Analysis & Reporting Group within Risk Management and aggregated on a counterparty level. In cases where legally enforceable netting agreements have been reached, the exposure is monitored on a net basis. In some cases, credit protection has been purchased in the credit default swap market, but credit default swaps are not actively traded.

Credit risk is managed through established credit policies, regular monitoring of credit exposures and application of appropriate mitigation tools. While credit exposure is also managed at portfolio level, there are limitations to the extent to which diversification is possible as Nuon is exposed to concentration risk in the energy markets as well as to energy-intensive industries.

Credit quality

Treasury

Cash surpluses are to a large extent held within Vattenfall, by using both a (in-house) cash pool and deposits.

Trading

As a result of the application of high credit risk standards, the trading portfolio has remained at an acceptable credit quality throughout the last years. No write-offs linked to credit risk were made for the trading portfolio in 2016 or 2015.

Sales

The sales segment is exposed to credit risk in the case of non-payment by customers for energy delivered as well as the loss from the resale of energy previously committed to a customer at a fixed price. In the business segment, most trade debtors are rated by Graydon, Moody's and Standaard & Poors. Nuon considers the credit quality of this portfolio as satisfactory. Credit risk mitigation tools in this segment include parent company guarantees, bank guarantees, letters of credit and prepayments. Our debtors in the retail market are not rated. Nuon considers this portfolio to be comparable to the average credit quality of this segment for the Netherlands as a whole.

Maximum credit risk

The maximum credit risk is the value in the balance sheet of each financial asset, with the exception of the following instruments: trade receivables - trade activities, commodity derivatives, interest rate derivatives and currency derivatives. The credit risk for these trade debtors and derivatives is lower than their carrying amounts for several reasons. Firstly, there is a difference between the use of netting agreements by Nuon and the netting rules in accordance with IFRS. For example, Nuon uses Master Netting Agreements (MNAs) where legally enforceable. These MNAs allow netting over multiple classes and categories of financial assets and liabilities as well as non-financial assets and liabilities that are excluded under IFRS. Also, Nuon nets positions when calculating credit risk (close-out netting) even though in its daily operations Nuon does not intend to settle on a net basis or if it is practically not possible to settle on a net basis, for example due to timing differences. Secondly, there is a difference between the way Nuon calculates credit risk (the net settlement per counterpart plus replacement value) and the carrying amount of the derivatives in the balance sheet (fair value note [17]). Furthermore, the credit risk is mitigated through the use of collateral such as bank guarantees, letters of credit and cash. Nuon also uses bilateral margining agreements with many of the major trading counterparties. As a result of these agreements, but also due to other credit support received, Nuon held EUR 50 million in cash and EUR 967 million as collateral (including parent company guarantees) as at 31 December 2016 (2015: EUR 200 million and EUR 1,153 million respectively).

Overall, the group evaluates the concentration of credit risk, with respect to trade receivables, as low due to the use of bank guarantees and letters of credit and also as its customers are located in several industries and operate in largely independent markets.

Past due instalments

The provision for bad debts and uncollectible receivables exclusively concerns trade receivables from regular sales. The ageing of trade receivables, concerning trade receivables from regular sales and trade receivables from trade activities, was as follows on the reporting date (gross amounts).

Age analysis trade debtors

		2016			2015	
	gross	impaired	net	gross	impaired	net
Not past due	417	- 1	416	450	- 2	448
0 to 30 days	36	- 1	35	34	- 1	33
30 to 90 days	13	- 1	12	18	- 2	16
>90 days	52	- 23	29	66	- 32	34
Total	**518**	**- 26**	**492**	**568**	**- 37**	**531**

The movement of the provision for bad debt in relation to the trade debtors can be presented as follows.

Movement schedule provision for bad debt

	2016	2015
Balance as per 1 January	**37**	**61**
Use of allowance account (impairment trade receivables)	- 20	- 40
Addition to allowance account charged to income	12	17
Reversed impairment losses	- 1	- 1
Disposals	- 2	-
Balance as per 31 December	**26**	**37**

No collateral is held relating to past due and impaired debtors.

Liquidity risk

Liquidity risk comprises the risk that Nuon is not able to obtain the required financial resources for the timely fulfilment of its financial commitments. Nuon regularly assesses the expected cash flows over a period of one year. These cash flows include operational cash flows, dividends, payments of interest and repayments of debts, (replacement) investments, the consequences of changes in the creditworthiness of Nuon and 'margin calls' for trading activities. For the latter, Nuon makes use of a Margin-VaR as well as a Margin Stress Test tool. These tools allow Nuon to assess potential future margin calls under various scenarios based upon historic market price developments, stress tests and contractual agreements including rating thresholds on Nuon and its counterparties. The overall aim is to have sufficient funding at all times in order to secure the required liquidity in the coming year. Capital requirement planning is performed by Vattenfall for the Vattenfall group over a horizon of five years.

To provide insight into the liquidity risk, the following table shows the contractual terms of the financial obligations (translated at the reporting date rate), including interest payments. The contractual cash flows of non-current assets as well as current assets combined with the credit facilities available at Vattenfall cover the current need for liquidity as included in the table. The current amounts drawn on these Vattenfall facilities amount to 609 EUR million, of which EUR 338 million is in current account and EUR 271 million are loans.

Liquidity risk

		Contractual cash flows			
	Carrying amount	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
2016					
Interest-bearing liabilities					
Other interest-bearing debt - notional amounts	- 29	- 620	- 12	- 25	- 657
Finance lease payables	-	-	-	-	-
Trade payables	- 55	- 55	-	-	- 55
Other liabilities	- 1,473	- 1,473	-	-	- 1,473
Off-balance sheet commitments					
Operating lease payables		- 30	- 67	- 9	- 106
Derivatives1	115				
Buy		- 7,954	- 2,110	- 4	- 10,068
Sell		8,113	2,465	3	10,581
Total	**- 1,442**	**- 2,019**	**276**	**- 35**	**- 1,778**
2015					
Interest-bearing liabilities					
Other interest-bearing debt - notional amounts	- 33	- 14	- 12	- 28	- 53
Finance lease payables	- 1	- 1	-	-	- 1
Trade payables	- 51	- 51	-	-	- 51
Other liabilities	- 2,142	- 2,142	-	-	- 2,142
Off-balance sheet commitments					
Operating lease payables		- 32	- 89	- 16	- 137
Derivatives1	- 53				
Buy		- 11,792	- 3,208	- 107	- 15,107
Sell		12,016	3,493	-	15,509
Total	**- 2,280**	**- 2,016**	**183**	**- 151**	**- 1,983**

[1] Derivatives are settled on a gross basis with our counterparties. Payments and receipts coincide. To provide insight into the actual liquidity risk, both outgoing and incoming cash flows are presented for each contract.

Fair values

General

Nuon's financial assets and liabilities are valued at either amortised cost or fair value. The following table provides insight into the different IAS 39 categories, that Nuon presents its financial assets and liabilities in, the measurement principle used and the fair value of the financial assets and liabilities.

Fair value of financial assets and liabilities

	Carrying amount - IAS 39 categories				Fair Value - Level				
	Fair value through profit or loss/hedge accounting	Loans and receivables at amortised cost	Other financial liabilities at amortised cost	Total	1	2	3	Total	Note
2016									
Other non-current receivables		50		50		53		53	[16]
Derivative assets	586			586		566	20	586	[17]
Trade and other receivables		2.090		2.090		2.090		2.090	[19]
Short-term investments		-		-		-		-	[20]
Cash and cash equivalents		135		135		135		135	[20]
Current account Vattenfall			- 339	- 339		- 339		- 339	[22]
Interest-bearing debt			- 300	- 300		- 42		- 42	[22]
Derivative liabilities	- 471			- 471		- 471	-	- 471	[17]
Finance lease payables			-	-		-		-	[28]
Trade and other payables			- 1.528	- 1.528		- 1.528		- 1.528	[26]
2015									
Other non-current receivables		40		40		44		44	[16]
Derivative assets	773			773		743	30	773	[17]
Trade and other receivables		2,057		2,057		2,057		2,057	[19]
Short-term investments		1		1		1		1	[20]
Cash and cash equivalents		109		109		109		109	[20]
Current account Vattenfall			-	-		-		-	[22]
Interest-bearing debt			- 221	- 221		- 45		- 45	[22]
Derivative liabilities	- 826			- 826		- 770	- 56	- 826	[17]
Finance lease payables			- 1	- 1		- 1		- 1	[28]
Trade and other payables			- 2,193	- 2,193		- 2,193		- 2,193	[26]

Financial instruments valued at fair value through profit or loss/hedge accounting

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required for the valuation of an instrument are observable, the instrument is included in level 2.
If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of financial instruments includes counterparty credit risk and/or own non-performance risk and is further determined as follows:

- Currency and interest rate derivatives are recognised on the basis of the present value of the future cash flows, making use of the interbank rate (such as Euribor, or Euroswap for cash flows longer than one year) applicable on the reporting date for the remaining term of the contracts. The present value in foreign currency is translated at the spot rate applicable on the reporting date. These financial instruments are included in level 2;

- Commodity derivatives, for which quoted prices can be obtained (e.g. futures), are measured based on their marked-to-market valuation. Commodities, which are not listed in active markets, are valued using comparable recent market transactions or valuation methods;
- For certain commodities, delivery tenors and market instruments, no reliable market quotes are available for fair value calculation. In these cases, positions are marked-to-model. For some positions (e.g. illiquid commodities, long-dated tenors), the price of the commodity is modelled and positions are marked against this price (level 3):
  - **Virtual Gas Storage contracts**. A virtual gas storage contract is a contract, which allows Nuon to store gas without owning the physical gas storage facility. The virtual gas storage contracts include constraints on the maximum storage capacity and the maximum injection and withdrawal per day. The valuation of the contract is based on the storage, injection and withdrawal fees included in the contract, the observable expected spread between gas prices in the summer and winter and the optionality value, which is marked to model (level 3). The valuation methodology is based on a backward estimation of the value of the contracts under different price and operational scenarios and a forward step that selects the optimal exercise. The price scenarios are based on simulating the forward prices until the beginning of their respective delivery periods and the simulation of the daily spot prices during the delivery period. The spot prices are simulated using the forward prices as a starting point. Finally, the spot volatility is calibrated using three years of historical data. The valuation models and calibration of the valuation models are approved and validated by Risk Management. The net value as at 31 December 2016 has been calculated at EUR 20 million positive (2015: EUR 37 million negative) and is most sensitive to the optionality value. A change in the optionality value of +/- 5% would affect the total value by approximately +/- EUR 3.1 million;

The movement of the financial instruments categorised in Level 3 is as follows:

Level 3 Fair value of financial assets and liabilities

	2016	2015
Balance as at 1 January	**- 26**	**25**
Included in income statement	50	- 80
Settlements	- 4	29
Balance as at 31 December	**20**	**- 26**

The gains and losses of EUR 51 million (2015: EUR 81 million negative), relating to level 3 fair value measurements are recognised in the *cost of energy* line item of the consolidated income statement.

Deferred day 1 profits

The fair value of a financial instrument at inception is normally the transaction price. If the transaction price differs from the amount determined at inception using valuation techniques, the difference is recognised as a liability and amortised over the contract period of the relating financial instrument.

Level 3 Deferred day 1 profits

	2016	2015
Balance as at 1 January	**11**	**-**
New transactions	-	11
Recognised in profit or loss during the year	- 11	-
Balance as at 31 December	**-**	**11**

Fair value of other financial instruments valued at amortised cost

The fair value of all short-term financial instruments equals the carrying amount.

The fair value of financial instruments valued at amortised cost is determined as follows:

- Other non-current receivables are discounted at the appropriate market rate (Level 2);
- The fair value of financial liabilities is determined by making use of market quotes. As no market quotes are available for the majority of the loans, the fair value of current and non-current loans is determined by calculating their present value at the yield curve applicable to Nuon as at 31 December. This yield curve is derived from the zero coupon rate plus the credit spread applicable to Nuon (Level 2);
  - At year-end 2015 the following yield curve was applied:
    - 1-year 0.04% (2015: 0.08%)
    - 5-year 0.78% (2015: 0.99%)
    - 10-year 1.67% (2015: 2.04%)
    - 20-year 2.20% (2015: 2.72%)
- Finance lease payables: the fair value is estimated at the present value of the future cash flows, discounted at the interest rate applicable to comparable contracts on the reporting date (Level 2);
- The fair value of cash and cash equivalents, trade receivables and other receivables and current payable liabilities is, in view of their short-term nature, identical to the carrying amount (Level 2).

Capital management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, which is based on Vattenfall group policies, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

Nuon's financial policy, which is part of its general policy and strategy, is to obtain an adequate return for shareholders and lenders, while maintaining the flexibility to grow and invest in the business.

For information on the dividend policy, see page 79

Nuon's sole shareholder is Vattenfall AB.

Note 32 Subsequent events

Vattenfall has decided to centralise activities relating to market access, trading and power plant optimisation in one central Continental hub in Hamburg to stay competitive. Business area Markets Amsterdam will be a regional satellite of the Hamburg hub. As part of this intention, around 70 positions will be transferred from Amsterdam to Hamburg. The activities that serve and support Nuon's end-customer will remain to be executed in Amsterdam. The activities that serve and support Nuon's power plants and gas portfolio optimisation will be transferred to Hamburg, but will be executed on behalf of Nuon.

Company accounts

Company balance sheet

Amounts in EUR million, as at 31 December, before appropriation of result

Assets

	2016		2015		Note
Non-current assets					
Property, plant and equipment	29		35		[34]
Investments in subsidiaries	2,078		2,125		[35]
Derivative assets	1		3		[38]
Deferred tax assets	10		58		[37]
Receivables from group companies	881		928		[36]
Other non-current receivables	47		36		[37]
Total non-current assets		**3,046**		**3,185**	
Current assets					
Trade receivable and other receivables	3		2		
Derivative assets	3		19		[38]
Receivables from group companies	2,884		2,641		
Cash and cash equivalents	- 20		34		[39]
Total current assets		**2,870**		**2,696**	
Total assets		**5,916**		**5,881**	

Company balance sheet

Amounts in EUR million, as at 31 December, before appropriation of result

Equity and Liabilities

	2016		2015		Note
Equity					
Share capital	684		684		
Share premium	2,797		2,797		
Reserve for cash flow hedges	56		- 137		
Currency translation reserve	- 17		5		
Legal reserves	97		140		
Other reserves	- 860		- 862		
Unappropriated result for the year	1		44		
Total equity attributable to Nuon shareholders		**2,758**		**2,671**	[40]
Provisions		**56**		**41**	[41]
Non-current liabilities					
Derivative liabilities	-		1		[38]
Total non-current liabilities		**-**		**1**	
Current liabilities					
Trade payables and other liabilities	138		168		
Interest-bearing liabilities	-		3		[42]
Payables to group companies	2,960		2,977		
Derivative liabilities	4		20		[38]
Total current liabilities		**3,102**		**3,168**	
Total equity and liabilities		**5,916**		**5,881**	

Company income statement

Amounts in EUR million, 1 January - 31 December

	2016	2015	Note
Result after taxation from subsidiaries	- 28	24	
Other income less expenses after taxation	29	20	[44]
Result after taxation	**1**	**44**	

Notes to the company accounts

Note 33 Accounting policies

The company accounts have been prepared in accordance with the provisions of Part 9, Book 2 of the Dutch Civil Code. In the company accounts, Nuon uses the option provided for in Part 9, Book 2 of the Dutch Civil Code to prepare the company accounts in accordance with the IFRS accounting policies that are used in the preparation of the consolidated accounts. The company income statement is presented in abridged form, as allowed by section 402, Part 9, Book 2 of the Dutch Civil Code. In addition to the accounting policies for the consolidated accounts, specific accounting policies for the company accounts are presented below.

Nuon applies the exemption provided for by section 382, Part 9, book 2 of the Dutch Civil Code, that the audit fee does not need to be disclosed. The financial figures of Nuon are consolidated in the annual report of Vattenfall. In the Vattenfall annual report the total audit fee of Vattenfall, including Nuon, is disclosed.

Investments in subsidiaries

Investments in subsidiaries are valued at net asset value, which is determined on the basis of IFRS accounting policies as used in the consolidated accounts.

Legal reserve

A non-distributable legal reserve, in the form of a revaluation reserve, is recognised for unrealised fair value gains on financial instruments that are recognised in income, and for which no frequent market quotations are available (Level 2 and Level 3 financial instruments). With regard to Nuon, this relates to energy commodity contracts for oil, gas, coal, electricity, biomass and emission allowances that are not traded through recognised exchanges (e.g. Amsterdam Power Exchange, Endex), known as over-the-counter or OTC contracts. A legal reserve of EUR 59 million in total is held for the unrealised fair value movements of these contracts (2016: EUR 84 million), which is calculated on a collective basis.
In addition, a legal reserve participations of EUR 38 million (2015: EUR 56 million) is recognised. The legal reserve participations include the increases in net asset value of joint ventures and associates since their first inclusion, less any amounts that can be distributed without legal restrictions.

Note 34 Property, plant and equipment

Property, plant and equipment

	Land and buildings	Equipment, tools and fixtures and fittings	Construction in progress	Total
As at 1 January 2015				
Historical cost	15	195	5	215
Accumulated depreciation and impairments	- 2	- 166	-	- 168
Carrying amount as at 1 January 2015	**13**	**29**	**5**	**47**
Movements 2015				
Investments	-	3	2	5
Depreciation	- 2	- 15	-	- 17
Transfers and other movements	2	4	- 6	-
Total	**-**	**- 8**	**- 4**	**- 12**
As at 31 December 2015				
Historical cost	17	201	1	219
Accumulated depreciation and impairments	- 4	- 180	-	- 184
Carrying amount as at 31 December 2015	**13**	**21**	**1**	**35**
Movements 2016				
Investments	-	-	8	8
Depreciation	- 2	- 12	-	- 14
Transfers and other movements	-	3	- 3	-
Total	**- 2**	**- 9**	**5**	**- 6**
As at 31 December 2016				
Historical cost	16	203	6	225
Accumulated depreciation and impairments	- 5	- 191	-	- 196
Carrying amount as at 31 December 2016	**11**	**12**	**6**	**29**

For further disclosure, reference is made to note [14] *Property, plant and equipment* in the consolidated accounts.

Note 35 Investments in subsidiaries

Investments in subsidiaries

	2016	2015
Carrying amount as at 1 January	**2,125**	**2,125**
Movements		
Capital contributions	-	124
Dividends received	- 190	- 120
Result of the year	- 28	24
Other comprehensive income	171	- 28
Total	**- 47**	**-**
Carrying amount as at 31 December	**2,078**	**2,125**

A list of directly and indirectly held participations in subsidiaries is included in note [30] *Related party disclosures* in the consolidated accounts.

Note 36 Non-current receivables from group companies

Non-current receivables from group companies

	2016	2015
Carrying amount as at 1 January	**928**	**956**
Movements		
Loans repaid	- 47	- 28
Total	**- 47**	**- 28**
Carrying amount as at 31 December	**881**	**928**

The effective interest rate on the non-current receivables from group companies was 1.0% (2015: 4.2%).

Note 37 Deferred tax assets and other non-current receivables

Deferred tax assets and other non-current receivables

	Deferred tax assets	Other non-current receivables	Total
Carrying amount as at 1 January 2015	**21**	**31**	**52**
Movements 2015			
Loans granted	-	5	5
Temporary differences charged to profit or loss	37	-	37
Total	**37**	**5**	**42**
Carrying amount as at 31 December 2015	**58**	**36**	**94**
Movements 2016			
Loans granted	-	11	11
Temporary differences charged to profit or loss	- 48	-	- 48
Total	**- 48**	**11**	**- 37**
Carrying amount as at 31 December 2016	**10**	**47**	**57**

Other non-current receivables consist of loans and receivables (including incremental costs) with related parties.

Note 38 Derivatives

Derivatives

	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
	2016	2015	2016	2015	2016	2015	2016	2015
Treasury contracts	3	19	1	3	4	20	-	1
Total	**3**	**19**	**1**	**3**	**4**	**20**	**-**	**1**

Note 39 Cash and cash equivalents

The cash and cash equivalents at the end of 2016 included EUR 0.2 million restricted cash (2015: EUR 1 million). This amount relates to cash held at banks which is provided as collateral.

Note 40 Equity

The Consolidated statement of changes in equity and disclosures to that statement are included in the Consolidated accounts. In addition to the Consolidated statement of changes in equity, a legal reserve was formed within equity for the unrealised gains on OTC contracts for an amount of EUR 59 million (2015: EUR 84 million) and a legal reserve participations of EUR 38 million (2015: EUR 56 million). These legal reserves were charged against the *Other reserves*. The *Reserve for cash flow hedges, Legal reserve* and the *Currency translation reserve* are not freely distributable.

Note 41 Provisions

Provisions

	2016	2015
Carrying amount as at 1 January	**41**	**50**
Movements		
Releases to income	- 16	- 9
Additions	43	19
Interest accretion	-	1
Withdrawals	- 12	- 20
Total	**15**	**- 9**
Carrying amount as at 31 December	**56**	**41**
Current portion	14	18
Non-current portion	42	23

Note 42 Interest-bearing liabilities

Interest-bearing liabilities

	2016	2015
Carrying amount as at 1 January	**3**	**61**
Movements		
New loans	-	2
Payment dividend liability class A shares	-	- 62
Other movements	- 3	2
Total	**- 3**	**- 58**
Carrying amount as at 31 December	**-**	**3**

Note 43 Contingent assets and liabilities

Reference is made to note [29] *Contingent assets and liabilities and licences.*

Note 44 Other income less expenses after taxation

Other income less expenses after taxation was EUR 29 million positive (2015: EUR 20 million positive) and consists mainly of income and expenses of company-wide activities at holding company level.

Note 45 Average number of employees

The average number of employees in 2016 was 546 FTE based on a 38-hour working week (2015: 576 FTE), of which working in foreign countries 7 FTE (2015: 14 FTE).

The employee benefits related to the members of the Management Board have been disclosed in note [8] Employee compensation and benefit expenses.

Note 46 Subsequent events

For subsequent events, see note [32] Subsequent events, to the consolidated accounts.

Note 47 Proposed result appropriation

In accordance with the Articles of Association and the dividend policy, the Management Board, after consulting the Supervisory Board, proposes to add the profit after taxation of EUR 1 million to other reserves.

Dividend proposal

Amounts in EUR million

	2016
Dividend	
Dividend shareholders	-
Total dividend to be distributed	**-**
Profit after taxation	1
Dividend proposal: Dividend to be distributed	-
Amount to be deducted from the other reserves	**1**

Amsterdam, 12 May 2017

Supervisory Board
Magnus Hall
Anne Gynnerstedt
Jan Haars

Management Board
Peter Smink
Martijn Hagens

Other Information

Independent auditor's report

To: the shareholder and the management board of N.V. Nuon Energy

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of N.V. Nuon Energy, based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of N.V. Nuon Energy as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and company statement of financial position as at 31 December 2016;
- The following statements for 2016: the consolidated and company income statement, the consolidated statements of comprehensive income, changes in equity and cash flows;
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of N.V. Nuon Energy in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The report of the management board;
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements;
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities for the financial statements

Responsibilities of management for the financial statements

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

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.,:

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

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

Rotterdam, 12 May 2017
Ernst & Young Accountants LLP

Signed by
A.A. Heij

Assurance report of the independent auditor

To: the shareholder and the management board of N.V. Nuon Energy

Our Opinion

We have performed a reasonable assurance engagement on the graphs relating to the Fuel Mix of electricity supplied and/or produced marked with “RA-verified” (hereinafter: Fuel Mix) in the Annual Report 2016 of N.V. Nuon Energy (hereinafter: Nuon). Our scope is further explained in the section ‘Our Scope’.

In our opinion, the Fuel Mix is prepared, in all material respects, in accordance with the guidelines of EnergieNed on the calculation method of the Fuel Mix as established in 2004 and prescribed by the Autoriteit Consument en Markt - ACM (hereinafter: EnergieNed guidelines). We believe these guidelines are suitable criteria for the purpose of our assurance engagement.

Basis for our opinion

We conducted our assurance engagements on the Fuel Mix in accordance with Dutch law, including the Dutch Standard 3000, ‘Assurance engagements other than audits or reviews of historical financial information’. This assurance engagement is aimed to obtaining reasonable assurance. Our responsibilities under this standard are further described in the section ‘Our responsibilities’ in this assurance report.

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

Our Independence

We are independent of N.V. Nuon Energy in accordance with the ‘Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence)’ and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore, we have complied with the ‘Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)’.

Our Scope

Our assurance engagement is restricted to the Fuel Mix. We have not performed any assurance procedures on the remaining information in the Annual Report 2016 in light of this assurance engagement. The Fuel Mix is presented in the chapter “Operational Performance” in the Annual Report 2016. The data relating to the Fuel Mix on which we provide assurance are labelled as “RA-verified” in the Annual Report 2016.

The quantification of CO_2 emission factors related to the Fuel Mix is subject to inherent uncertainty due to the designed capability of measurement instrumentation and testing methodologies and incomplete scientific knowledge used in the determination of emissions factors and global warming potentials.

Responsibilities

Responsibilities of Management

The managing board of Nuon is responsible for the preparation of the Fuel Mix in accordance with the EnergieNed guidelines. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Fuel Mix that is free of material misstatements, whether due to fraud or error.

Our responsibilities

Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate evidence for our opinion.

We apply the ‘Nadere voorschriften accountantskantoren ter zake van assurance opdrachten RA’ and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this Selected Indicators. The materiality affects the nature, timing and extent of our procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagement, in accordance with the Dutch Standard 3000, ethical requirements and independence requirements.

Our assurance engagement included amongst others the following:

- Assessing the appropriateness of the reporting policies used and their consistent application, as well as reviewing significant estimates and calculations made in preparing the Fuel Mix.

- Identifying and assessing the risks of material misstatement of the Fuel Mix, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Interviewing relevant staff responsible for providing the information in the Fuel Mix, carrying out internal control procedures on the data and consolidating the data in the Fuel Mix.
- Evaluating the design and implementation and testing the operating effectiveness of the reporting systems and processes related to the information in the Fuel Mix.
- Evaluating the sufficiency of the Fuel Mix and its overall presentation against the criteria applied.
- Reconcile the overall mix of conventional electricity and the emission factors for import and trade in the Netherlands as published by the ACM with the figures used in the calculation of the Fuel Mix.
- Testing relevant data and internal and external documentation, on a sample basis, to determine the reliability of the source data to the information in the Fuel Mix such as:
  - The production of conventional and renewable electricity.
  - Conventional and green electricity (the latter based on Guarantees of Origin from CertiQ) supplied to end customers.
  - Purchased conventional electricity.
  - Imported conventional electricity.
  - Centralized purchased conventional electricity on the APX.
- Performing an analytical review of the data and trends submitted for consolidation at corporate level.

Rotterdam, 12 May 2017
Ernst & Young Accountants LLP

Signed by
R.T.H. Wortelboer

Declaration of Compliance with the Code of Conduct for Suppliers and Metering companies operating under their responsibility

(hereafter: Code of Conduct for energy suppliers and metering companies)

Regarding data available through metering devices to be read remotely (smart meters) from consumers and small and medium enterprises ('kleinverbruikers').

Name legal entity: N.V. Nuon Sales Nederland
Statutory place of business: Amsterdam
Period: 1 January 2016 – 31 December 2016

N.V. Nuon Sales Nederland in Amsterdam uses data obtained from small-scale consumption metering devices which are read remotely with the purpose to provide a good performance of its services.
In addition to the Dutch Privacy Act ('Wet bescherming persoonsgegevens'), suppliers and metering companies operating under their responsibility in the Dutch energy sector, set up a Code of Conduct on the use, the capturing, the sharing and the storing of data obtained from small scale consumption measuring devices which are read remotely.

Since April 2016 our external supplier collects smart meter data for Nuon customers based on the mandates provided by the individual customers to N.V. Nuon Sales Nederland.
In July 2016 Nuon learned that updates in Nuon's mandate register were incompletely exchanged with the register of our external supplier. Since 1 August 2016, through a change in processes, updates of the mandate registers are exchanged completely and continuously.

Except for the incident described above, we hereby confirm that N.V. Nuon Sales Nederland has fully complied with the rules and obligations as set out in the Code of Conduct for energy suppliers and metering companies during 2016.

Name legal entity: Powerpeers B.V.
Statutory place of business: Amsterdam
Period: 1 January 2016 – 31 December 2016

Powerpeers B.V.in Amsterdam uses data obtained from small-scale consumption metering devices which are read remotely with the purpose to provide a good performance of its services.
In addition to the Dutch Privacy Act ('Wet bescherming persoonsgegevens'), suppliers and metering companies operating under their responsibility in the Dutch energy sector, set up a Code of Conduct on the use, the capturing, the sharing and the storing of data obtained from small scale consumption measuring devices which are read remotely.

We hereby confirm that Powerpeers B.V. has fully complied with the rules and obligations as set out in the Code of Conduct for energy suppliers and metering companies during 2016.

Amsterdam, 12 May 2017

Signed by
Martijn Hagens

Annual Statement 2016 in the framework of the Heat Act

Introduction

Heat supply company N.V. Nuon Warmte (Nuon Warmte) is part of the energy production and supply company N.V. Nuon Energy (Nuon Energy).

Shareholders as at 31 December 2016

The shares of Nuon Warmte are fully owned by N.V. Nuon Energy Sourcing, a 100% subsidiary of N.V. Nuon Energy. From 1 July 2015 the Swedish state-owned Vattenfall AB owns 100% of the shares of N.V. Nuon Energy.

Supply areas

Nuon Warmte manages and operates large-scale heat networks in the provinces Gelderland, Flevoland, Noord-Holland and Zuid-Holland. Besides this, Nuon Warmte managed and operated until 1 April 2015 several small heat (pump) projects and smaller heat grids until the end of 2016 across the Netherlands.

License

Based on the Heat act, heat suppliers are required to register heating networks with the Authority Consumer & Market (ACM) and apply for a permit for the supply of heat at the ACM. Nuon Warmte has applied for a permit for the supply of heat at ACM on 3 September 2015. On 8 March 2016 the permit has been granted by ACM

Tasks

The tasks of Nuon Warmte, which are based on the Warmtewet 2014 (Heat act) and underlying ministerial regulations and decisions, have a regulated character and include: The distribution and delivery of heat to consumers with a connected load of up to 100kW at a legally established maximum price; ensuring the safety and reliability of the networks and connections.

Annual statement

This annual statement has been prepared based on the Heat act and the underlying ministerial regulations and decisions, which require to prepare separate financial information for each heat supply company as per 1 January 2014. Furthermore, these regulations require heat supply companies to publish an annual statement of their financial information. With this annual statement Nuon Warmte endorses this obligation.

The accounting policies and principles used in the annual statement are in accordance with the 2016 financial statements of Nuon Energy and only includes the financial information of the operation of Nuon Warmte to which the regulation of the Heat act applies; as Nuon Warmte also supplies non-regulated heat (supply of heat to consumers with a connected load capacity above 100kW). Nuon uses several allocation keys to allocate the total costs of Nuon Warmte to the regulated and non-regulated supply of heat. Variable purchase costs are allocated to the regulated and non-regulated activities based on the relative number of GJ sold to both customer groups. Fixed purchase costs and other costs are allocated based on the relative number of connection or the relative capacity of the connections.

The financial position and performance of Nuon Warmte have been included in the consolidated financial statements of Nuon Energy. EY has issued an audit opinion on the consolidated financial statements of Nuon Energy (see page 70). Based on Article 2 403 BW Nuon Warmte is exempted from publishing independent financial statements. In relation to this, a liability statement as referred to in Article 2: 403 BW, is filed at the Dutch Chamber of Commerce.

Financial information for 2016

The tables below represent the financial information for 2016, as far as it concerns the regulated supply of heat (heat to consumers with a connected load of up to 100kW).

Income statement heat-supply

Amounts in EUR million, 1 January - 31 December

	2016		2015	
Heating revenue	103.7		102.9	
Amortisation construction contributions	5.9		6.4	
Net sales		**109.6**		**109.2**
Other operating income		41.8		26.6
Cost of energy	-48.2		-52.5	
Cost of goods and materials	-35.9		-21.5	
Employee compensation and benefit expenses	-13.4		-14.1	
Depreciation and impairments of property, plant and equipment	-13.2		-12.7	
Operating and maintenance expenses	-3.9		-4.1	
Administration expenses	-4.0		-4.4	
Overhead expenses	-9.0		-5.5	
Other expenses	-21.3		-25.6	
Gross operating expenses		**-148.8**		**-140.4**
Own work capitalised		4.9		4.5
Operating expenses		**-144.0**		**-135.9**
Operating result		**7.4**		**-0.1**
Financial income		-		0.1
Financial expenses		-0.1		-
Result before tax		**7.5**		**0.0**
Income tax expense		-1.9		0.0
Result for the year		**5.6**		**0.0**

Balance sheet information heat-supply

Amounts in EUR million, as at 31 December

	2016	2015
Property, plant and equipment	288.0	299.9
Construction contributions	- 134.0	- 138.0

Explanation to the income statement

in EUR million, 1 January - 31 December

Amounts

	2016	2015
Breakdown of heating revenue	**103.7**	**102.9**
a1. Heat consumption	53.5	53.6
a2. Hot water consumption	6.5	7.1
b1. Fixed fee heat supply and metering services	25.8	24.7
b2. Delivery kit	17.8	17.4
Breakdown of cost of energy	**-48.2**	**-52.5**
Variable heat purchase costs	-19.4	-25.9
Fixed heat purchase costs	-27.2	-25.3
Other purchase costs	-1.6	-1.2
Supplies		
Amount of heating supplied in GJs	3,008,383	2,852,775
1. Number of connections (<49 kW)	111,464	109,661
2. Number of connections (50 kW-100kW)	458	461
Amount of hot water supplied in m3	1,480,904	1,382,343
Purchase		
Purchased heat in GJ	4,741,161	4,277,200
Purchased cold water in m3	1,482,115	1,395,206
Purchased gas in m3	-	2,180,467
Purchased electricity in kWh	-	21,576,345

Purchase contracts according to Heat Act article 8		**11**	**12**
Nuon Power Generation B.V. (formerly known as N.V. Energieproductiebedrijf UNA)			
Production and transport of heat		1	1
Vereniging voor christelijk wetenschappelijk onderwijs	Production of heat	1	1
N.V. Nuon Warmte afdeling Generation Operations	Production of heat	1	1
N.V. Nuon Duurzame Energie	Production of heat	1	1
AVR Afvalverwerking B.V.	Production of heat	1	1
Warmte/Kracht Centrale Kleefse Waard V.O.F.	Production of heat	-	1
ARN B.V.	Production of heat	1	1
Indigo B.V.	Transport of heat	1	1
Bio-Energie de Vallei B.V.	Production of heat	1	1
Bio-Warmte de Vallei B.V.	Transport of heat	1	1
Warmtebedrijf Infra N.V.	Production and transport of heat	1	1
Uniper Benelux N.V. (formerly known as E.ON Benelux N.V.)	Production of heat	1	1

In June 2014, Nuon Warmte management decided to divest the heat pumps portfolio. In December 2014, management signed an agreement to sell the assets relating to the heat pumps portfolio. The control of the heat pumps was effectively transferred in April 2015 to the purchaser based on the signed agreements. These assets will no longer be consolidated by Nuon Warmte as of these dates. The related loss of EUR 15.6 million with the sale of the heat pumps portfolio is not represented in the provided financial information.

In December 2016, Nuon sold its interest in 5 small heat grids. These assets will no longer be consolidated by Nuon Warmte as of these dates. The related loss of EUR 3.1 million with the sale of the heat grids is not represented in the provided financial information.

Nuon Warmte conducts transactions with subsidiaries within the Nuon group for the purchase of heat. Transactions with the parties classified as related parties are conducted at market conditions and prices that are not more favourable than the conditions and prices offered by independent external third parties. The transaction price of the purchase of heat from related parties is determined semi-annually in advance, based on forecasted commodity prices and related plant utilisation. The list with purchase contracts includes the significant subsidiaries Nuon Warmte has transactions with. In addition Nuon Warmte receives internal charges for services delivered by related parties within the Vattenfall group.

Nuon Warmte performs construction activities and exploitation services for third parties. Revenues and costs related to these activities are part of the presented income statement as 'Other Income' and 'Total cost of goods, material and services'. The margin resulting from the work for third parties is part of the regulatory activities and contributes to the coverage of overhead expenses.

Profit appropriation

Profit appropriation is governed the Articles of Association of N.V. Nuon Energy, which state that dividends shall be distributed with due observation of the dividend policy and that the dividend policy shall be discussed with the General Meeting of Shareholders.

Dividend policy

Nuon's dividend policy stipulates the following:

- The basis for dividend distribution shall be the net profit, adjusted for significant non-cash fair value movements on financial instruments;
- The remaining profit after taking into account the adjustments/pay out in point 1 above – is available for distribution to the Shareholder (Vattenfall AB), but this is subject to:
    - A gearing ratio (Interest Bearing Debt/(Interest Bearing Debt + Total Equity) of no more than 50%. This ratio is based on the guidance of S&P and Moody's as the maximum for investment grade companies.
    - Fulfillment of financial restrictions in Nuon Energy's financial documentation (i.e. covenants)
    - Sufficient sustainable cash position over the next 12 months as proven by the long term cash forecast of Nuon Energy .
    - Adequate liquidity lines available to Nuon Energy .