

Semi-annual report 2016

N.V. Nederlandse Gasunie

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Key figures

<i>In millions of euros</i>	First half of 2016	First half of 2015
Profit and loss account		
Revenues	814	876
EBITDA	584	626
EBIT	433	481
Result after taxation	300	326
Cash flow statement		
Cash flow from operating activities	564	525
Cash flow from investing activities	(149)	(180)
Cash flow from financing activities	(435)	(361)
Net cash flow	(20)	(16)
Non-financial key figures		
Transported volume (TWh)	613	607
Reportable frequency index	4.1	3.5
Pipeline damages	0	3
Security of supply (non-deliveries or late deliveries)	1	-

<i>In millions of euros</i>	30 June 2016	31 December 2015
Balance sheet		
Fixed assets	10,035	10,061
Equity	5,682	5,718
Balance sheet total	10,263	10,362
Invested capital	9,719	9,739
Net debt including guarantees	4,422	4,540
Credit ratings		
Standard & Poor's	AA-	AA-
Moody's Investors Service	A2	A2

Definitions relating to the key figures

EBITDA	Earnings before deduction of interest, taxes, depreciations and amortisation.
EBIT	Earnings before deduction of interest and taxes.
Reportable frequency index	The number of reportable incidents (incidents resulting in absence, medical treatment, replacement work or fatalities) per one million hours worked (including third parties).
Invested capital	Total of tangible fixed assets, investments in joint ventures, investments in associates and other equity interests, corrected for assets under construction for which no compensation has yet been received.
Net debt including guarantees	Total of long-term interest-bearing loans, current financing liabilities, guarantees and pension provision less cash and cash equivalents.

Semi-annual report

Financial results

Key figures (reported)

<i>In millions of euros</i>	First half of 2016	First half of 2015
Revenues	814	876
Total expenses	(381)	(395)
Operating result	433	481
Financial income and expenses	(68)	(66)
Share in result of joint ventures, associates and dividend on other equity interests	31	20
Result before taxation	396	435
Taxes	(96)	(109)
Result after taxation	300	326

Revenues

Revenues achieved in the first half year were approximately € 62 million lower than in the same period last year. This decrease is mainly due to efficiency discounts as determined by the regulators in the Netherlands and Germany and to less capacity sold. In addition, at the beginning of this year, some long-term agreements in the non-regulated business expired and were renewed at lower contract values.

The tariffs that Gasunie Transport Services B.V. (GTS) and Gasunie Deutschland (GUD) are allowed to charge their customers are regulated. They are determined by the regulators in the Netherlands and Germany respectively on the basis of the expected permitted revenues and the expected capacity bookings. If the actual revenues deviate from the permitted revenues, the difference is settled in the tariffs of later years. For the energy costs of gas transport, a settlement mechanism also applies. In the revenue tariffs 2016 GTS will receive € 22 million and GUD will repay € 24 million. Based on the forecast 2016 and given the regulatory framework Gasunie expects on balance a repayment of about € 46 million through future tariffs (2018 and beyond). For a more detailed explanation of our revenue model, we refer to the section 'Business model' in this semi-annual report and our 2015 annual report.

Operating result

The lower revenues in the first half year compared to the same period last year are partly offset by a decrease in expenses. On balance, the operating result consequently decreased by € 48 million. The decrease in expenses is mainly due to the fact that, in the first half of 2015, an additional provision of € 22 million was taken in order to make our infrastructure in the Groningen area more earthquake-proof. Despite the increased use of nitrogen, to convert high-calorific into low-calorific gas, as a result of the further decline in production from the Groningen field, total energy costs for gas transport were lower in the first half of 2016. This was mainly due to lower energy prices compared to last year.

Result after taxation

The financial income and expenses were at the same level as in the first half year of 2015. The share in the result of joint ventures, associates and dividend on other equity interests increased from € 20 million in the first half of 2015 to € 31 million in the first half of 2016. This was due to the receipt of interim dividend from Nord Stream. As a result of the developments mentioned above, the result before taxation decreased by € 39 million, and the tax expenses by € 13 million. The net result after taxation in the first half year amounted to € 300 million, which is € 26 million lower than in the same period last year.

Financial outlook

We expect revenues for the full year 2016 to be approximately € 1.5 billion. The result after taxation from ordinary operating activities is expected to be approximately € 500 million. The method decision 2017–2021 by the Dutch regulator (ACM) may have a significantly negative effect on the valuation of our Dutch regulated assets. For more details on the draft method decision 2017–2021, as well as the possible consequences for the valuation of our assets, see the section 'Gasunie Transport Nederland' in this semi-annual report and note 1 to the condensed consolidated financial statements. Investment expenditures for the full year 2016 are expected to be between € 300 and € 350 million, which will result in a slightly lower investment level compared to last year.

Financing

On 11 May 2016, Gasunie issued a 10-year bond loan totalling € 650 million. The effective interest rate on this bond is 1.015%. The revenues were used to pay off the bond loan that expired on 20 June 2016. Besides the issue of the bond loan, short-term loans were contracted on the money market in the form of private loans and Euro Commercial Paper (ECP). No use was made of the € 750 million stand-by facility. In March 2017, a bond loan of € 750 million will need to be repaid. The necessary financing will possibly be contracted in the second half of 2016 or in the first few months of 2017.

Credit ratings

In June 2016, rating agency Standard & Poor's Rating Services reconfirmed our long-term credit rating of AA- with a stable outlook. The short-term rating has also remained unchanged and is A-1+. Moody's Investors Service has also reconfirmed our long-term credit rating, which remains A2 with a stable outlook. The short-term rating remains P-1.

Business model

Our revenues are entirely generated from activities relating to our gas infrastructure. The activities of the business units Gasunie Transport Nederland¹ and Gasunie Deutschland are regulated, in contrast to those of the Participations & Business Development business unit, which are not or only partly regulated.

¹ Since the split on 1 January 2016, Gasunie Transport Services B.V. and Gasunie Grid Services B.V. together form the business unit Gasunie Transport Nederland (GTN). During 2016, GTS will remain the designated transmission system operator for both the national main transport system and the regional high-pressure system.

Regulated business model of Gasunie Transport Nederland (GTN) and Gasunie Deutschland (GUD)

The core service provided by GTN and GUD is offering gas transport services in a customer-oriented and transparent way. We do this by selling available capacity in a reliable network on competitive terms. The gas can be fed into the network at entry points, and a customer can retrieve gas from the network at exit points. Customers enter into contracts whereby they book capacity at certain entry or exit points in the network for a certain period (year, quarter, month or day). Our network competes with networks in other countries with regard to the transport of international gas flows. GTN and GUD are responsible for the management and maintenance of the operating assets.

The tariffs that GTS and GUD charge customers are regulated. They are determined once a year by the regulator, which reviews the method of regulation every 3 to 5 years. The regulator in the Netherlands is Autoriteit Consument & Markt (ACM), and in Germany it is Bundesnetzagentur (BNetzA).

At the moment, a system of revenue regulation applies to GTS and GUD: the tariffs are calculated by dividing the permitted revenues by the estimated capacity bookings in a particular year. If the actual capacity bookings in that year deviate from the estimate and thereby the actual revenues deviate from the permitted revenues, the difference will be settled in later years. Differences between expected and actual energy costs relating to gas transport are also settled in future tariffs.

The revenues permitted by the regulator consist of a capital cost allowance for the invested capital, a reimbursement for the annual depreciation costs (calculated on the basis of the depreciation periods determined by the regulator) and a reimbursement for the operating costs. In addition, the regulator may impose an efficiency discount and reduce the tariffs accordingly.

Business model of Participations & Business Development (P&BD)

The participations are responsible for the sale and delivery of gas infrastructure services and for the management and maintenance of the assets. Customers buy capacity, which entitles them to use the relevant infrastructure during a certain period. The tariffs for these services are mainly determined by the market of supply and demand. These participations support the proper functioning of the energy market, and position the Netherlands as a hub in the international gas flows.

One of the focal points of the P&BD business unit is to maintain Gasunie's leading position as gas infrastructure company in Europe by leveraging growth opportunities in north-west Europe and other parts of Europe. In this regard, we focus on infrastructure projects that promote the supply of gas from various sources to and within Europe. In taking on such projects, Gasunie will at all times ensure that investments are based on a business case that is healthy in a business-economic sense.

Another important focal point for the Participations & Business Development business unit is the facilitation, enhancement and development of the transition to a sustainable energy system. Our focus here is on facilitating clean applications of natural gas, increasing the feed-in of various kinds of sustainable gas, and good interaction between gas and other energy carriers, such as heat and electricity. We particularly focus on the innovative application of our infrastructure (e.g., in the field of renewable gas and storage of sustainable energy), as well as new product/market combinations for natural gas, such as the deployment of LNG in the maritime and road transport sectors.

The business risks and return targets of this business unit's activities are higher than those of our fully regulated activities. This is because most participations compete in the free market.

Risk management

The main risks mentioned in the 'Risk management' section of the Annual Report 2015 are still relevant. Of course, our assessment of these risks changes along with both internal and external developments. Much attention is paid to the developments relating to regulation, which may have a large impact on the future revenues and value of Gasunie. Gasunie will continue to work on reducing the regulation risk. Chances that this risk will materialise remain high and in line with the classification in the annual report 2015.

Main results with regard to safety

In the first six months of the year, our safety performance with regard to the prevention of pipeline damage improved significantly. So far, there have been no reports of pipeline damage (in the same period last year: 3).

Our safety performance with regard to preventing accidents requiring medical attention and accidents resulting in more serious injury was below our target. For 2016, the signal value of the reportable frequency index had been lowered to 3.7 (from 4.0 in 2015). The actual score for the period July 2015 to June 2016 is 4.1. One of the objectives of the improvement programme Safe@Gasunie is to structurally lower the reportable frequency index to < 3.0. The programme focuses on improving the safety structure, safety awareness and behaviour.

Business unit results

Gasunie Transport Nederland

Gas transport

In the first half of 2016, the volume of energy transported rose by 2.1% to 508 TWh, up from 497 TWh in the first half of 2015. The months of January and February showed a decline compared to the previous year, while the other months, by contrast, showed a rise.

The further decline in production from the Groningen field meant that much more high-calorific gas (H gas) was fed into our system. To make this H gas suitable for use by households (low-calorific gas), nitrogen is added. Nitrogen use rose in the first half year from 429 million m³ in 2015 to 740 million m³ in 2016.

Only one short transport interruption occurred in the Dutch network.

Production ceiling Groningen

On 24 June, the Minister of Economic Affairs announced his intention to allow an annual production of 24 billion m³ from gas year 2016–2017 (starting in October 2016). This will apply for a period of 5 years. This volume may rise by a maximum of 6 billion m³ in case of a colder than average winter. This permitted production volume means that security of supply for the low-calorific-gas market remains guaranteed.

GTS is preparing for an expansion of its capacity to convert high-calorific into low-calorific gas. We will take an investment decision in the second half of 2016.

Gas trading platform (Title Transfer Facility)

The gas in our gastransportnetwork in The Netherlands can be traded by market parties via the virtual gas trading platform TTF. The amount of gas traded again rose significantly in the first half of 2016. In the period from January to May 2016, market parties traded a total of 9,338 TWh gas, compared to 7,003 TWh in the same period in 2015. Due to the decline of production from the Groningen field, the role of TTF as a gas exchange has grown. This underlines the importance of there being a liquid hub to help meet market demand.

Regulation

In 2015, ACM started preparing for the new regulatory period, which starts on 1 January 2017. ACM has meanwhile published a draft method decision in two parts, the first, which deals with the regulatory framework, on 6 April 2016, and the second, which specifically deals with determining static efficiency, on 3 June 2016. The draft decision contains a number of drastic changes compared to the current method decision (2014–2016). The changes having the highest impact on the revenues of GTS relate to the imposing of a discount based on GTS's static efficiency and to the recovery of pension and energy cost.

In the event that ACM adopts the views in the draft decision in full in its final decision, this will have significant negative financial consequences for GTS and Gasunie.

GTS is of the opinion that it put forward valid arguments in its responses to the draft decision. These arguments are supported by European and national legislation and relate to the requirements of verifiability and due care.

The final decision is expected in October 2016, after which it will be possible to appeal against the decision to the Trade and Industry Appeals Tribunal (CBb).

Split of GTS

As of 1 January 2016, GTS has been split into two separate companies: GTS for the national main transport system (HTL) and Gasunie Grid Services B.V. (GGS) for the regional high-pressure system (RTL). This split aims to enable a further move in serving the market more effectively. During 2016, GTS will remain the designated transmission system operator for both the HTL and the RTL networks. Together, GTS and GGS form the business unit Gasunie Transport Nederland (GTN).

Gasunie Deutschland

Gas transport

In the first half of 2016, GUD transported 105 TWh (2015: 111 TWh). The North Stream entry point in Greifswald was largely utilised at maximum capacity. Compared to the previous year, transport of North Sea gas was relatively low. The capacity bookings at the cross-border points Emden and Oude Statenzijl are significantly lower than expected.

The trend of shippers to book mainly short-term capacity at cross-border points has continued unchanged into 2016. Neither the multipliers re-introduced for short-term bookings (to promote longer-term bookings), nor the significantly lower discount for interruptible capacity have led to any noticeable change in shippers' booking behaviour.

No transport interruptions occurred in the German network.

Projects

The last projects of the Integrated Open Seasons projects are entering the final phase of their construction. The new compressor station at Quarnstedt has been successfully completed and commissioned. Combined with, among other things, the new Fockbek-Ellund pipeline, the transport capacity towards Denmark and Schleswig-Holstein has been expanded significantly.

The Elbe Culvert project has also almost been completed, and the remaining activities are expected to be finalised in the third quarter of 2016.

Gas trading platform GASPOOL

In the period from January to June 2016, the volumes traded on the virtual gas trading platform GASPOOL reached a level of 760 billion kWh, similar to the same period in 2015 (755 billion kWh). The churn rate is calculated as the total trade volume divided by the physically traded volume. This rate for L gas was on average 2.35 (2015: 2.36). The churn rate for H gas decreased to 3.8 (2015: 4.42).

L-gas conversion

Due to the decline in the production of low-calorific gas in both Germany and the Netherlands, GUD is organising the market conversion from low-calorific gas (L gas) to high-calorific H gas. The first project in the GUD network has been completed successfully. New conversion projects have already been announced, and the relevant agreements have been entered into with the adjacent network operators, in line with the German network development plan (NEP).

Regulation

In June 2016, BNetzA published its decision on the allocation of costs between TSOs. As a result, entry tariffs will be the same for all TSOs within a given market area. This is likely to stabilise bookings and capacity management for GUD. The tariff system will be implemented as of 1 January 2018.

In 2014, BNetzA evaluated the effects of revenue regulation, recommending that the general regulatory framework be kept stable. Meanwhile, the German government has submitted a draft amendment to the Incentive Regulation to the German Federal Council (Bundesrat). Only smaller changes are proposed for TSOs. A final decision by the Bundesrat is expected in the third quarter of 2016.

At the end of the second quarter of 2016, GUD submitted to BNetzA its estimated costs relating to its gas transport network for the period 2018–2022. Approved costs will be taken as the starting point for the upcoming efficiency benchmark. The whole process of determining permitted revenues for the period 2018–2022 needs to be finalised by the end of 2017.

Participations & Business Development

Gasunie New Energy

Together with Torrgas, we are working on the development of a technology to produce green gas from torrefied biomass. Torrefied biomass is biomass (mainly wood) that has undergone a pre-treatment and as a result can be gasified in a well manageable way, delivering an attractive energetic yield. At the moment, the first tests are taking place at a 0.7 MW pilot plant in Hoogkerk. Gasunie contributes to the development of the technology and the infrastructure.

In Twente (a region in the east of the Netherlands), a 7-kilometre-long biogas pipeline is currently being prepared to enable locally produced biogas to be upgraded to green-gas quality in a central location, after which it will be fed into the local Cogas network. In this project, we are working together with Cogas and Gebroeders Oude Lenferink. The pipeline will be the first part of the planned biogas ring around the town of Almelo, which will be available for more biogas producers to feed in their gas.

On 21 March 2016, an agreement was entered into with SCW Systems BV regarding a collaboration to extract biogas from wet biomass by means of supercritical water gasification. The technology is currently being tested in a pilot plant and a demonstration installation is being developed in the Energy Innovation Park in Alkmaar. Gasunie's contribution is limited to the realisation of the infrastructure.

On 18 March 2016, Gasunie signed a Memorandum of Understanding to develop, together with several partners, a heat grid in the Westland area. This project is one of the initiatives to arrive at efficient and sustainable system solutions for energy supply. In addition, we have been engaged in extensive negotiations with WarmteStad Groningen in order to be able to participate in the infrastructure part of a geothermal project, which has already been approved by the municipal council and the local water company.

EnergyStock (fast cycle gas storage)

The entire available capacity for storage service has been sold for the calendar year 2016, albeit the available capacity is sold at lower contract values than in previous years, given the current situation on the gas storage market.

Gate terminal (LNG terminal on the Maasvlakte)

The new harbour basin for the LNG break-bulk facility has been completed, and the construction of the installation is close to completion. This transshipment installation facilitates the small-scale LNG distribution to different kinds of ships. The position of Gate terminal as European LNG hub will be strengthened by the break-bulk facility.

The existing truck-loading functionality of Gate terminal is being used so much that a decision has been taken to expand its capacity.

Peakshaver

As of 1 January 2017, Gasunie intends to transfer the Peakshaver installation on the Maasvlakte to the GTN business unit. This installation is intended for use on days when severe frost necessitates extra gas for domestic consumers.

Expansion of Executive Board

On 1 May 2016, Annie Krist (CEO of Gasunie Transport Nederland) and Ulco Vermeulen (Director of Participations & Business Development) joined the Executive Board as 'titular members'. Han Fennema (CEO) and René Oudejans (CFO) remain statutory members of the Executive Board.

Statement of the Executive Board

(as defined by Section 5:25d, paragraph 2(c) of the Dutch Financial Supervision Act)

The members of the Executive Board hereby declare that, to the best of their knowledge,

1. the semi-annual financial statements give a true and fair view of the assets, liabilities, financial position and result of the company and the undertakings included in the consolidation taken as a whole; and that
2. the semi-annual financial report gives a true and fair view of material events that occurred in the first six months of the year and the impact of such events on the semi-annual financial statements, and provides a description of the principal risks and uncertainties faced in the remaining six months of the reporting period.

J.J. Fennema*, Chairman

I.M. Oudejans*

A.J. Krist

U. Vermeulen

Groningen, the Netherlands, 22 July 2016

* Statutory director

Consolidated semi-annual financial statements

Condensed consolidated balance sheet (before profit appropriation)

<i>In millions of euros</i>	Notes	30 June 2016	31 December 2015
Assets			
Fixed assets			
- tangible fixed assets		9,115.3	9,134.0
- intangible fixed assets		-	-
- investments in joint ventures		154.3	157.4
- investments in associates		11.9	12.4
- other equity interests	5	441.8	434.9
- deferred tax assets		311.8	322.5
Total fixed assets		10,035.1	10,061.2
Total current assets		227.6	300.6
Total assets		10,262.7	10,361.8
Equity and liabilities			
Total shareholder's equity		5,682.3	5,717.5
Long-term liabilities			
- interest-bearing loans	2	2,875.0	2,985.7
- employee benefits	3	98.5	92.6
- other long-term liabilities	4	277.2	277.8
Total long-term liabilities		3,250.7	3,356.1
Current liabilities			
- current financing liabilities		1,009.3	1,001.6
- trade and other payables		320.4	286.6
Total current liabilities		1,329.7	1,288.2
Total equity and liabilities		10,262.7	10,361.8

Condensed consolidated profit and loss account

<i>In millions of euros</i>	Notes	First half of 2016	First half of 2015
Continuing operations			
Revenues	6	814.4	875.9
Capitalised expenditure		50.6	43.1
Staff costs and other operating expenses		(281.4)	(293.4)
Depreciation		(150.0)	(144.8)
Total expenses		(380.8)	(395.1)
Operating result	6	433.6	480.8
Finance income and costs		(68.3)	(65.8)
Share in result of joint ventures		15.9	19.3
Share in result of associates			
Dividend received on investments in other equity interests		1.9	1.0
		13.2	0.0
Result before taxation		396.3	435.3
Taxes		(96.5)	(109.4)
Result after taxation		299.8	325.9
Result for the period		299.8	325.9
Result attributable to shareholder		299.8	325.9

Consolidated statement of comprehensive income

<i>In millions of euros</i>	Notes	First half of 2016	First half of 2015
<i>Result after taxation as recognised in the consolidated profit and loss account</i>		299.8	325.9
<i>Balance of actuarial gains and losses on employee benefits, of which corporate income tax</i>	3	(3.9) 1.2	8.9 (2.5)
Total of results taken to equity which will not be reclassified subsequently to the profit and loss account		(2.7)	6.4
Movements in equity interests stated at fair value	5	6.9	17.3
Movements in the reserves concerning joint ventures and associates at net asset value		(6.8)	9.4
Movement in cash flow hedge reserve		(0.9)	(0.9)
of which corporate income tax		0.2	0.2
<i>Total of results taken to equity which will be reclassified subsequently to the profit and loss account</i>		(0.6)	26.0
Total of comprehensive income		296.5	358.3
Attributable to the shareholder		296.5	358.3

Consolidated statement of movements in equity

<i>In millions of euros</i>	Share capital	Cash flow hedge reserve	Fair value reserve	Other reserves	Unappropriated result	Total
First half of 2016						
Balance as at 1 January	0.2	(46.2)	262.1	4,948.5	552.9	5,717.5
Total of comprehensive income for the period	-	(7.5)	6.9	(2.7)	299.8	296.5
Dividend paid for 2015	-	-	-	-	(331.7)	(331.7)
Added to other reserves	-	-	-	221.2	(221.2)	-
Balance as at 30 June	0.2	(53.7)	269.0	5,167.0	299.8	5,682.3
First half of 2015						
Balance as at 1 January	0.2	(54.3)	251.6	4,704.1	603.5	5,505.1
Total of comprehensive income for the period	-	8.6	17.3	6.5	325.9	358.3
Dividend paid for 2014	-	-	-	-	(362.1)	(362.1)
Added to other reserves	-	-	-	241.4	(241.4)	-
Balance as at 30 June	0.2	(45.7)	268.9	4,952.0	325.9	5,501.3

Condensed consolidated cash flow statement

<i>In millions of euros</i>	Notes	First half of 2016	First half of 2015
Cash flow from business operations		724.1	704.7
Interest, corporate income tax and other		(160.4)	(179.4)
Cash flow from operating activities		563.7	525.3
Cash flow from investing activities		(148.5)	(180.3)
Repayment of long-term loans	2	(710.7)	(10.7)
New long-term loans	2	650.0	-
Movement in short-term financing		(42.3)	11.4
Dividend paid		(331.7)	(362.1)
Cash flow from financing activities		(434.7)	(361.4)
Movement in cash and cash equivalents		(19.5)	(16.4)
Cash and cash equivalents at previous year-end		64.7	47.5
Cash and cash equivalents at end of period		45.2	31.1
		(19.5)	(16.4)

Notes to the condensed consolidated financial statements

The financial statements in English are a translation of the official Dutch version prepared by the Executive Board on 22 July 2016. In the event of differences and/or inconsistencies between the English version of the financial statements and the original Dutch financial statements, the latter will take precedence.

Nature of business operations

N.V. Nederlandse Gasunie (Gasunie) is a European gas infrastructure company. Gasunie's network ranks among Europe's largest high-pressure gas transport networks and consists of some 15,500 kilometres of pipelines in the Netherlands and northern Germany, dozens of installations and approximately 1,300 gas-receiving stations. The annual gas throughput totals approximately 1,250 TWh (125 billion m³). Gasunie serves the public interest in the markets in which it operates and seeks to maximise value creation for its stakeholders. Gasunie provides gas transport services through its subsidiaries, Gasunie Transport Services B.V. in the Netherlands and Gasunie Deutschland Transport Services GmbH in Germany. Gasunie also provides other gas infrastructure services, including gas storage, LNG storage and the certification of green gas through its subsidiary Vertogas. Gasunie seeks to deploy its infrastructure and knowledge for the ongoing development and integration of renewable energy sources, particularly green gas.

The company has its registered office at Concourslaan 17, Groningen, the Netherlands, and is registered with the Chamber of Commerce under number 02029700.

All shares outstanding as at the balance sheet date are held by the Dutch State.

Seasonal influence

The core activity of Gasunie Transport Services B.V., Gasunie Grid Services B.V., Gasunie Deutschland Transport Services GmbH and BBL Company V.O.F. is the transport of gas through their gas transport network. The revenues consist of the sale of the available transport capacity and transport-related services. Our customers can enter into contracts that allow them to book capacity at certain entry or exit points in the gas transport network for a certain period (year, quarter, month or day). There is a seasonal pattern in the regional transport capacity contracted by our customers in the Netherlands: in the winter, more capacity is contracted than in the summer. The revenues are realised through the transport capacity sold and are independent of the actual transported volume. In contrast, particularly the costs of network operations do depend on the transported volume.

Basis of preparation

On the grounds of Regulation (EC) No. 1606/2002 of the European Parliament, the company is required to prepare its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

The accounting policies adopted in the preparation of the consolidated semi-annual financial statements 2016 are consistent with those followed in the preparation of the consolidated financial statements 2015, except for the adoption of new standards and interpretations effective as of the financial year 2016.

The following new standards and interpretations, which have been endorsed within the European Union, became effective as of the financial year 2016:

- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs: 2012–2014 Cycle
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 16 & IAS 38 Revaluation method proportionate restatement of accumulated depreciation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 41: Bearer Plants
- IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)
- Annual Improvements to IFRSs 2010–2012 Cycle

The adoption of the aforementioned standards and interpretations has no material effect on the company's equity and result, and will not require additional disclosures.

Statement of compliance

The semi-annual financial statements have been prepared in accordance with the IFRS 'Interim Financial Reporting' standard (IAS 34), as adopted by the European Union and applicable as at 30 June 2016.

The semi-annual statements have not been audited, but have been reviewed by the independent auditor.

Management judgements and estimates

In preparing the semi-annual financial statements, management makes estimates and assessments which affect the assets and liabilities presented as at the balance sheet date and the result for the reporting period.

The judgements and estimates have a significant effect on the valuation of fixed assets, the provision for clearance costs and redevelopment, deferred taxation, pensions and other equity interests, and on the classification of equity interests in the context of IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements.

Notes

1. Impairment tests

Whenever there is a triggering event, the company tests whether there is any impairment of tangible, intangible and financial fixed assets.

Both in the Netherlands and in Germany, the carrying amount and the recoverable amount of the gas transport network are almost equal. This means that material downward changes in the recoverable amount as a result of, for example, method decisions for a next regulatory period can only be accommodated to a limited degree and may lead to an impairment loss.

In April and June, the Dutch regulator (ACM) published its draft method decision. This decision forms the basis of GTS's permitted revenues in the regulatory period 2017–2021. ACM's draft decision contains a few fundamental changes compared to the current method decision (2014–2016). The changes with the highest impact on GTS's revenues relate to the imposing of a discount based on GTS's static efficiency and to the recovery of pension and energy costs.

In the event that ACM adopts the views in the draft decision in full in its final decision, this will have significant negative financial consequences for GTS and Gasunie.

GTS is of the opinion that it put forward valid arguments in its responses to the draft decision. These arguments are supported by European and national legislation and relate to the requirements of verifiability and due care.

The final decision is expected in October 2016, after which it will be possible to appeal against the decision to the Trade and Industry Appeals Tribunal (CBb).

2. Interest-bearing loans

The total amount of € 2,875.0 million (year-end 2015: € 2,985.7 million) of long-term loans comprises € 2,250.0 million (year-end 2015: € 2,350.0 million) of long-term bonds and € 625.0 million (year-end 2015: € 635.7 million) of private loans.

The movements in interest-bearing loans are as follows:

In millions of euros	First half of 2016	2015
Balance as at 1 January	2,985.7	3,407.1
Long term bonds contracted	650.0	300.0
Repayment obligations in next financial year	(760.7)	(721.4)
Balance as at 30 June/31 December	2,875.0	2,985.7

The future repayments are as follows:

In millions of euros	30 Jun. 2016	31 Dec. 2015
Repayment obligations in		
2016	10.7	721.4
2017	771.4	771.4
2018	321.4	321.4
2019	21.5	21.5
2020	21.4	21.4
After 2020	2,500.0	1,850.0
Total repayment obligations	3,646.4	3,707.1

The company has a current account facility of € 25 million (year-end 2015: € 25 million) and a committed credit facility of € 750 million (year-end 2015: € 750 million). As at 30 June 2016 and year-end 2015, no funds were drawn under these facilities. The interest payable on the funds drawn under these facilities is based on prevailing market rates.

In addition to the above-mentioned facilities, the company has a € 750 million Commercial Paper programme (year-end 2015: € 750 million) and a € 7.5 billion Medium Term Note (MTN) programme (year-end 2015: € 7.5 billion). Under the MTN programme, € 3.8 billion is available for new issues as at 30 June 2015.

No securities have been provided by N.V. Nederlandse Gasunie for the interest-bearing loans and other facilities.

3. Employee benefits

The pension liabilities are valued annually in the second half of the year in accordance with IAS 19 Employee Benefits (Revised). As at the balance sheet date, an indicative calculation of pension liabilities has been made, taking into account currently available data.

Compared to the financial statements 2015, the assumptions underlying the calculation of the pension liabilities were changed as follows: inflation 1.7% (year-end 2015: 1.8%), expected annual salary increase for the pension scheme 1970 2.0% (year-end 2015: 2.8%) and for the pension scheme 1988-2002 2.7% (ultimo 2015: 2.8%), and the expected pension increase for retirees 1.7% (year-end 2015: 1.8%). The changes in the above parameters are caused by lower inflation expectations in Germany.

The provision for pension liabilities relates to the pension scheme of employees who joined Gasunie Deutschland before 2012. It is treated as a defined benefit pension scheme.

The provision for pension liabilities for employees in Germany concerns the present value of the pension entitlements as at 30 June 2016 of € 83.8 million (year-end 2015: € 78.0 million).

The total actuarial result for the first half of 2016 taken directly to equity is € 3.9 million negative (first half 2015: € 8.9 million positive).

As at 30 June 2016, the accumulated actuarial gains and losses taken directly to equity total € 27.7 million negative (year-end 2015: € 23.8 million negative).

4. Other long-term liabilities

The 'other long-term liabilities' consist of 'deferred tax liabilities' and 'provisions'. Until 30 June 2016, there has been no substantial addition to or release of provisions.

5. Financial instruments

The following methods are applied by N.V. Nederlandse Gasunie to determine the approximate fair values of financial instruments:

- For trade receivables, tax and social security contributions, other receivables, cash and cash equivalents, current financing liabilities excluding repayment obligations on long-term loans, trade payables, tax liabilities, and other liabilities, accruals and deferred income, the carrying amount approximates the fair value because of the short period to the due date for each of these instruments;
- The other equity interests are stated at fair value, which is based on the present value of the expected cash flows. In determining the discount rate, the risk profile, including the credit risk, of the other equity interests has been taken into account;
- The interest-bearing loans and repayment obligations on long-term loans are bonds with a listing on the Amsterdam stock exchange, and private loans. The fair value of the bonds is the market value at the year-end closing price. The fair value of the private loans has been calculated by discounting the future cash flows against the current yield curve. In determining the discount rate, the company's own risk profile, including the credit risk, has been taken into account; and
- The derivative financial instruments that oblige the company to deliver financial assets at a predetermined price are stated at the fair value of the underlying financial assets, determined on the basis of the present value of the expected cash flows, taking into account the contractual provisions agreed between the parties about the valuation technique and other important input data. The counterpart risk is also taken into account.

N.V. Nederlandse Gasunie uses the following hierarchy of methods to determine and measure the fair value of the derivative financial instruments for presentation in the balance sheet:

- Level 1: Based on prices in active markets for the same instrument;
- Level 2: Based on prices in active markets for comparable instruments, or based on other measurement methods, with all required key data being derived from publicly available market information; and
- Level 3: Based on other measurement methods, with all required key data not being derived from publicly available market information.

The assets and liabilities presented at fair value in the balance sheet are determined in accordance with the following hierarchy:

<i>In millions of euros</i>	Total	Level 1	level 2	Level 3
30 Jun. 2016				
- other equity interests	441.8	-	-	441.8
- derivative financial instruments	10.0	-	-	10.0
31 Dec. 2015				
- other equity interests	434.9	-	-	434.9
- derivative financial instruments	10.2	-	-	10.2

The other equity interests concern an interest of 9% in Nord Stream AG, an interest of 12.7% in PRISMA European Capacity Platform GmbH, and an interest of 12.5% in Energie Data Services Nederland (EDSN) B.V.

The interest in Nord Stream AG is stated at fair value, taking account of a 7.5% post-tax discount rate (year-end 2015: 7.5% post-tax) on the expected cash flows. The expected cash flows are based on contractual agreements. As an indication, all things being equal, if the discount rate changes by 0.5% points, this will result in a change in the fair value amount of € 27.4 million (year-end 2015 € 27 million).

The valuation is based on the present value of the cash flows, using a calculation model which is updated by Nord Stream AG every year in the context of the business plan. This model is presented for assessment and approval to the shareholders of Nord Stream AG. The model is subsequently tested by the management of N.V. Nederlandse Gasunie on the basis of Nord Stream AG's periodic reports.

The interests in PRISMA European Capacity Platform GmbH and Energie Data Services Nederland (EDSN) B.V. are stated at fair value. Given the relatively limited materiality of these equity interests, a sensitivity analysis of the fair value calculation has not been included.

The movements in other equity interests are as follows:

<i>In millions of euros</i>	First half of 2016	2015
Balance as at 1 January	434.9	424.4
Movement in fair value taken directly to equity	6.9	10.5
Disposals	-	-
Balance as at 30 June/31 December	441.8	434.9

N.V. Nederlandse Gasunie has an interest of 20.9% in the associate ICE Endex Holding B.V. Together with the other shareholder of ICE Endex Holding B.V., N.V. Nederlandse Gasunie has entered into a 5-year option agreement, which came into effect on 26 March 2015. On the grounds of this agreement, the company has the right to sell its 20.9% interest to the other shareholder on the basis of the value of the shares at that time, to which a minimum and a maximum value apply. In addition, it has been agreed that the other shareholder has the right to buy the 20.9% interest from N.V. Nederlandse Gasunie at the value of the shares at that time, to which a minimum and a maximum value also apply. The value of the shares in ICE Endex Holding B.V. is based on the present value of the expected cash flows, taking into account the contractual provisions agreed between the parties about the valuation technique and other important input data. As at the balance sheet date, the value of the shares in ICE Endex Holding B.V. exceeds the agreed maximum selling price. As a result, as at 30 June 2016, the option agreement has a negative value of € 10.0 million (year-end 2015: € 10.2 million). This value is included in 'derivative financial instruments' under 'trade and other payables' on the balance sheet. The change in value of the option agreement of € 0.2 million positive (first half of 2015: € 0.9 million negative) is included under 'finance income and costs' in the profit and loss account.

If the other shareholder uses its right to buy the 20.9% interest from N.V. Nederlandse Gasunie, settlement of the value of the option agreement will be recognised in the profit and loss account.

The table below compares the carrying amount and fair value of those financial instruments whose carrying amount does not approximate the fair value:

<i>In millions of euros</i>	30 Jun. 2016		31 Dec. 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing loans	2,875.0	3,298.5	2,985.7	3,361.7
Repayments on long-term loans	771.4	801.0	721.4	735.0

6. Financial information by segment

The information is segmented in line with the Group's activities. The operating segments reflect the management structure of the Group. The following segments are distinguished:

- Gasunie Transport Netherlands*
This segment covers network management in the Netherlands and is responsible for managing transport, developing the pipeline network and related plants, as well as promoting market forces. This segment comprises the entities Gasunie Transport Services B.V. and Gasunie Grid Services B.V.
- Gasunie Deutschland*
This segment covers network management in Germany and is responsible for managing transport, developing the pipeline network and related plants, as well as promoting market forces.
- Participations & Business Development*
This segment focuses on facilitating access to the new gas flows for north-west Europe using an LNG connection and long-distance pipelines, and on utilising the geological infrastructure for the purpose of storing natural gas. Participation in national and international projects relating to the natural gas infrastructure in the Netherlands and Germany is another activity of this segment. This segment also includes joint arrangements relating to pipelines that connect the Gasunie transport network with foreign markets, such as the BBL pipeline to the United Kingdom.

Information on revenues and result

<i>In millions of euros</i>	Revenues		Segment result	
	First half of 2016	First half of 2015	First half of 2016	First half of 2015
Segments				
- Gasunie Transport Netherlands	650.3	653.0	328.6	330.2
- Gasunie Deutschland	115.1	142.1	49.7	74.8
- Participations & Business Development	108.9	113.5	55.2	75.8
Inter-segment	(59.9)	(32.7)		
Segment total	814.4	(875.9)	433.5	480,8
Financial income and expenses			(37.2)	(45.5)
Result before taxation			396.3	435,3
Taxes			(96.5)	(109.4)
Revenues and result after taxation for the period	814.4	875.9	299.8	325.9

During the first half of 2016, the Gasunie Transport Services segment provided inter-segment services to the value of € 16.6 million (first half of 2015: € 0.6 million), the Gasunie Deutschland segment provided inter-segment services to the value of € 0.1 million (first half of 2015: € 0.1 million) and the Participations & Business Development segment provided inter-segment services to the value of € 43.2 million (first half of 2015: € 32.0 million).

The Executive Board,

J.J. Fennema*, Chairman
 I.M. Oudejans*
 A.J. Krist
 U. Vermeulen

Groningen, the Netherlands, 22 July 2016

* Statutory director

Review report

To: The Executive Board of N.V. Nederlandse Gasunie

Introduction

We have reviewed the accompanying condensed consolidated interim financial information for the six-month period ended 30 June 2016 as included in the semi-annual report 2016 of N.V. Nederlandse Gasunie, Groningen, which comprises the condensed consolidated balance sheet as at 30 June 2016, the condensed consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of movements in equity, the condensed consolidated cash flow statement for the six-month period ended 30 June 2016 and the selected explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the six-month period ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Groningen, 22 July 2016

PricewaterhouseCoopers Accountants N.V.

Original has been signed by: drs. J. van Hoof RA