Half year report 2016

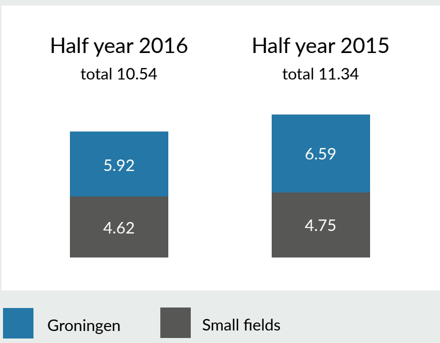
Highlights

In the first half year of 2016, EBN's sales amounted to EUR 1.6 billion versus EUR 2.9 billion in 2015. The decline in sales was caused by both lower realised sales volumes of natural gas (12%) as a result of the production ceiling of the Groningen field and lower realised sales prices (39%). Oil and condensate sales prices were also lower than in the first half of 2015.

The net profit for the first half year of 2016 amounts to EUR 287 million compared to EUR 696 million in the first half of 2015. The expected payments to the State, ie. levies, corporate income taxes and the distribution of net profits, amount to EUR 860 million for the first half of 2016 (2015: EUR 2,033 million).

Given the uncertainty regarding the settlement of the price revision between Eni and GasTerra per 1 October 2012 as a result of the arbitral ruling of 23 June 2016, any positive effect on EBN's sales and net profit has not been included in the half year figures.

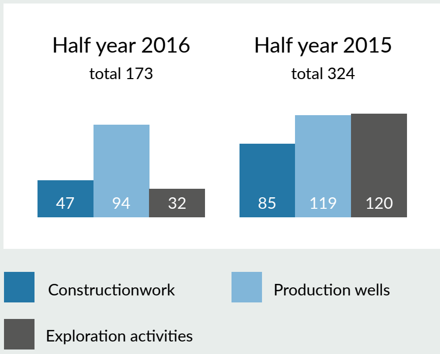
Production (BCM EBN-share)



Operational costs decreased from EUR 630 million in the first half of 2015 to EUR 496 million in 2016, mainly due to lower additions to the provision for earthquake-related costs, lower costs for exploration (write-offs and exploration costs) and lower transportation costs due to less volume. This positive effect is partly offset by an addition to the provision per 30 June 2016 for expected costs resulting from a restructuring at an operator.

Capital expenditure in the first half of 2016 amounted to EUR 173 million (2015: EUR 324 million). Large projects are the development of field A18 and M07 and investments in production and exploration wells.

Capital expenditure (in EUR million)



The above chart lists capital expenditure including changes arising from commencement of operations.

In the first half of 2016, nine production wells have been drilled. All wells showed gas though one well showed amounts of natural gas that are not commercial. In addition, two exploration and appraisal wells were drilled and both showed gas.

One new exploration license and one new production license have been granted. Eight new exploration licenses have been applied for. One gas field has been taken into development in the first half year, as well as three offshore fields.

Key developments in the first half year

Energy report and dialogue

In mid-January of this year, the Energy Report - Transition to Sustainability was published, outlining a strategic and long-term vision for our energy supply. The Dutch government aims to achieve a CO_2 neutral energy supply by 2050 that is safe, reliable and affordable. This requires a transition from using fossil fuels to using renewable energy sources. This change affects us all in our daily lives. That is why the government organised the so-called Energy Dialogue from April to July, during which numerous meetings (about 130 in all) were held to discuss various aspects of (future) energy. The opinions, ideas and proposals that were put forward during the Energy Dialogue will be used in the autumn in drawing up an agenda for a long term energy policy. The KVGN (Royal Dutch Gas Association), with EBN's involvement, contributed to the Energy Dialogue in the form of three dialogue tables, where they discussed the themes Built Environment, Process Heat and Power & Light with various stakeholders. The goal is to produce, taking into account the results of these session, a vision document that explains the contribution of the gas and gaseous energy sector to the energy transition.

Decommissioning and recycling high on the agenda

One of the pillars of EBN's renewed strategy is "decommissioning and recycling". We believe it is important to use our existing infrastructure (platforms, wells, pipelines) in a responsible and sustainable manner. In the coming years more and more platforms (at onshore and offshore) will need to be decommissioned as they reach the end of their useful life. During such decommissioning and the possible recycling it is essential that all the parties involved work together. EBN therefore calls for the establishment of a National Decommissioning Platform, which would bring together all the knowledge on this topic. In the first six months of 2016 the industry has demonstrated its readiness to face this challenge. The forthcoming decommissioning of three gas production platforms of ENGIE E&P Nederland BV in block L10 (L10-C, L10-D and L10-G) offers the opportunity to field test whether reusing those platforms will have a positive impact on the environment. The purpose of this pilot is to contribute to restoring and enhancing the precious environment of the North Sea. We are currently also involved in a project which looks at giving a new, sustainable life to old platforms in the North Sea. Together with TNO, Siemens and Shell, EBN is studying the opportunities to make a connection between the oil and gas industry in the North Sea and offshore wind farms.

Gas production of Groningen field limited

In late June, the Dutch Minister of Economic Affairs Kamp presented a draft decision in which the gas production from the Groningen field will be limited to 24 billion cubic meters per year for the next five years. The aim is distribution of extraction as flat as possible, with as few fluctuations as possible. Only in cold winters and, if necessary for the security of supply, additional gas may be produced. In this, the government follows the advice of the State Supervision of Mines of the Netherlands (SodM) and the Mining Council. The establishment of the new, lower production level is in line with the approach over recent years aimed at limiting safety risks and loss to the people of Groningen as far as possible. The number of earth tremors and their intensity has fallen significantly. SodM anticipates that a reduction in production level to 24 billion cubic metres per year combined with an avoidance of fluctuations in the extraction of the natural gas will lead to a further reduction in the number of earth tremors. SodM considers an even lower production level unwise, because in cold winters the risk of fluctuations and thus the probability of earthquakes would increase. This decision has halved gas production since the appointment of the government in 2012. The definitive natural gas exploitation decree must be drafted by 1 October 2016.

Exploration of geothermal energy

The Minister examines a possible role of EBN in accelerating the further development of geothermal energy in the Netherlands. In early June, the Ministry of Economic Affairs, TNO and EBN held a workshop on ultra-deep geothermal energy (UDG). Over 160 attendees participated in this workshop, which investigated opportunities for starting one or more UDG pilots in the Netherlands. This development is consistent with the sustainability objectives set out in the Energy Agreement, which states that 16 per cent of the Dutch energy supply must come from renewable sources by 2023. As a result of the workshop, several parties have been investigating these opportunities further.

Drilling

The plan is to carry out a total of 21 drillings in 2016, of which 11 were realised in the first half of the year: two exploration and appraisal wells and nine production wells. All wells showed gas though one well showed amounts of natural gas that are not commercial.

Focus on Dutch Oil & Gas

The Focus on Dutch Oil & Gas 2016 was presented in Utrecht in mid-June. In this annual report, EBN describes the status of the Dutch oil and gas industry, identifies trends and considers their longer term effects. Despite the industry's current difficult situation due to low prices and the low level of investment, EBN also sees opportunities. CEO Jan Willem van Hoogstraten: 'We are undeniably going through a period of strong headwinds. We are acutely aware of this as we are having to deal with it every day. Nevertheless, we still see plenty of opportunities to responsibly explore and develop small fields. More than ever, however, this requires creativity, innovation and entrepreneurship. When these are present, the North Sea still has plenty of development potential.' The northern part of the Dutch Continental Shelf is being studied continuously. Research has shown that there is about 150 billion cubic metre of natural gas potentially present in this part of the North Sea.

Condensed consolidated interim financial information for the six month period ended 30 June 2016

Condensed consolidated statement of comprehensive income

in EUR million

	NOTE	1ST HALF YEAR 2016		1ST HALF YEAR 2015	
sales	1		**1,646**		2,919
levies	2	**508**		1,112	
operational costs	3	**496**		630	
depreciation and amortisation	6	**265**		281	
operating expenses			**1,269**		2,023
operating profit			**377**		896
financial income	4		**36**		275
financial expense	4		**-54**		-268
share of profit from associates			**17**		18
profit before tax			**376**		921
taxes			**-89**		-225
net profit			**287**		696
other comprehensive income			**-**		-
total comprehensive income			**287**		696

Condensed consolidated balance sheet

in EUR million

ASSETS	NOTE	30 JUNE 2016	31 DECEMBER 2015	LIABILITIES	NOTE	30 JUNE 2016	31 DECEMBER 2015
non-current assets				**shareholder's equity**			
property, plant and equipment	6	**3,754**	3,860	share capital		**128**	128
financial fixed assets		**101**	109				
derivatives		**231**	206	retained earnings		**287**	56
		4,086	4,175			**415**	184
				non-current liabilities			
				provisions	7	**3,219**	3,174
				deferred tax liabilities		**44**	44
				borrowings	5	**1,247**	1,239
				other		**17**	17
						4,527	4,474
current assets				**current liabilities**			
inventories		**34**	33	borrowings		**404**	888
receivables		**140**	860	tax		**-**	1
tax receivables		**10**	69	trade payables		**63**	88
derivatives		**30**	30	other		**378**	193
cash and cash equivalents		**1,487**	661				
		1,701	1,653			**845**	1,170
total		**5,787**	5,828	**total**		**5,787**	5,828

Condensed consolidated statement of changes in equity

in EUR million	**2016**	**2015**
balance at 1 January	**184**	**199**
net profit	287	696
other comprehensive income	-	-
total comprehensive income	287	696
final dividend	-56	-
interim dividend	-	-664
balance at 30 June	**415**	**231**

Condensed consolidated statement of cash flows

in EUR million			**1ST HALF YEAR 2016**		**1ST HALF YEAR 2015**	
Cash from operating activities						
net profit from continuing activities				287		696
conversion to net cash from operating activities						
- income from participations			-17		-18	
- depreciation and impairment		6	265		281	
- write-offs		6	12		48	
- change in provisions		7	77		186	
- change fair value CCIRS			-25		-252	
- revaluation of borrowings			8		211	
- other financial income and expense	- charged to comprehensive income		32		30	
- taxes	- charged to comprehensive income		89		225	
- change in working capital	- inventories		-1		-	
	- receivables		720		380	
	- other liabilities (excluding loans, debts to credit institutions and profit distribution)		123		517	
- withdrawal from provisions			-53		-71	
- interest	- received		11		15	
	- paid		-20		-16	
- corporate tax	- received		69		433	
	- paid		-101		-675	
				1,189		1,294
Net cash from operating activities				1,476		1,990
property, plant and equipment		6	-173		-324	
dividend received			25		26	
Net cash from investing activities				-148		-298
profit distribution			-56		-695	
loans taken up			574		878	
loans repaid			-1,020		-1,020	
Net cash from financing activities				-502		-837
Change in cash and cash equivalents				826		855
Balance cash and cash equivalents at 1 January				661		126
Balance cash and cash equivalents at 30 June				1,487		981

Notes to the condensed consolidated interim financial information for the six month period ended 30 June 2016

General information

EBN B.V. ('EBN'), having its registered office in Utrecht, the Netherlands, was incorporated on 2 January 1973 in Maastricht. All shares in EBN are held by the Dutch State.

EBN focuses on oil and gas exploration and production activities in the Netherlands and the Dutch Continental Shelf. In addition, EBN participates in underground gas storages and in transport and gas processing facilities.

All amounts in these explanatory notes are in millions of euros unless otherwise stated.

Basis for the presentation

This condensed interim financial information for the first half of 2016 (including comparative figures) is unaudited but a review report thereon has been issued.

The accounting policies followed in the preparation of this condensed interim financial information are consistent with those followed in the preparation of the consolidated financial statements for 2015 and the condensed interim financial information is prepared in accordance with IAS 34 'Interim Financial Reporting', as endorsed by the European Union. It does not include all the information required for a full set of IFRS annual financial statements. However, notes are provided of specific events and transactions of significant importance for gaining insight into the changes in financial position and performance since the previous financial statements for the year ended 31 December 2015.

This condensed interim financial information should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2015. The 2015 consolidated financial statements of EBN are available on www.ebn.nl.

Key accounting estimates and judgements

For the preparation of the interim financial information estimates and judgements must be made. These have consequences for the amounts reported for assets and liabilities, income and expenditure items and the related reporting of contingent assets and liabilities at the date of the condensed consolidated interim financial information. Results can be influenced by such estimates and judgements. The estimates and judgements that management considers most important, among others due to intrinsic uncertainties, are arrived at according to the same methodology used in the consolidated financial statements for the financial year 2015, but with up-to-date information. The estimate of the costs of restructuring for an operator, formed in 2016, is based on the expected average age, years of service and annual salary and the legislation concerning transition allowances effective as of 1 July 2015.

Investigation of impairments

The company investigates, if appropriate, whether there is (a reversal of) an impairment of tangible and financial fixed assets. An impairment is recognised if the carrying amount of a fixed asset exceeds its recoverable amount (higher of fair value less costs of disposal and value in use). In that case, an analysis is carried out to identify a possible impairment.

If an asset does not generate sufficient independent cash flows, the recoverable amount is determined for the cashgenerating unit to which the asset belongs. In general, in tangible fixed assets, EBN's cash-generating unit is a sales contract. The estimated future cash flows are discounted at a pre-tax rate, on the basis of the market interest rate, plus a mark-up for the asset's specific risks.

In conducting a study if an impairment exists (impairment testing) management makes assumptions, it estimates future cash flows and determines the discount rate. These assumptions, estimates and judgements have a significant impact on the value in use.

In determining whether any impairment testing needs to be carried out, management investigated if there are any events per 30 June 2016 that triggers impairment testing. Based on the available information and investigation, management sees no reason to carry out a more extensive numerical investigation of possible impairments.

Notes to the condensed consolidated statement of comprehensive income

(1) Sales

EBN performs one main activity: the exploration for and production of natural gas and oil. All sales are realised in the Netherlands. The assets in which EBN participates are also located in the Netherlands.
The decline in sales was caused by both lower realised sales volumes of natural gas (12%) as a result of the production ceiling of the Groningen field and lower realised sales prices (39%). Oil and condensate sales prices were also lower than in the first half of 2015.

Given the uncertainty regarding the settlement of the price revision between Eni and GasTerra per 1 October 2012 as a result of the arbitral ruling of 23 June 2016, any positive effect on EBN's sales (EUR 367 million) has not been included in the half year figures.

(2 and 3) Levies and operational costs

Levies mainly comprise the special payments made to the Dutch State in respect of production from the Groningen field in 2016, i.e. the MOR (yield increase regulations) payments and the State's share. The decrease in payments in the first half of 2016 is the result of lower volumes sold and lower realised sales prices from the Groningen field.

The operational costs include EUR 75 million (2015: EUR 185 million) for costs and addition to the provision related to the consequences of earthquakes in the province of Groningen (claims, preventive reinforcement of buildings and other costs). This decrease in operational costs is partly offset by an amount recognised for expected costs resulting from a restructuring at an operator (addition to the provision). This provision is new compared to 2015.

(4) Financial income and expense

in EUR million	1ST HALF YEAR 2016	1ST HALF YEAR 2015
interest income from cash and cash equivalents	-	1
interest income on derivatives	10	10
revaluation income on derivatives	25	258
other financial income	1	6
total financial income	**36**	**275**
interest expenses on borrowings	-10	-10
interest expenses on derivatives	-14	-14
revaluation expenses on other financial instruments	-7	-217
interest expenses on discounted provisions	-23	-26
other financial expense	-	-1
total financial expense	**-54**	**-268**
net financing costs	**-18**	**7**

The interest expense on derivatives is equal to the first half year of 2015. Since 30 June 2015, EBN did not enter into new long-term derivative contracts and no long-term derivative contracts have been terminated. The balance of the revaluation gains and losses on derivatives and other financial instruments primarily comprises the revaluation results on the non-current borrowings and the directly related derivatives. In the first half year of 2016, this produced, on balance, a positive result of EUR 18 million (2015: EUR 41 million positive), of which EUR 25 million revaluation income on derivatives is part of the financial income and EUR 7 million revaluation expenses on other financial instruments are part of the financial expenses. The revaluation of current and non-current borrowings is driven by developments in the exchange rates of CHF and JPY against the EUR. The decrease in the revaluation expenses compared to the first half of 2015 is due to the relatively strong currency effects in the first half of 2015 because of a sharp rise in the CHF against the EUR. This was due to the release of the ceiling for the CHF exchange rate against the EUR by the Swiss National Bank in January 2015. These exchange effects have been relatively minor in 2016. The revaluation of derivatives is driven by developments in the interest rate curves of the CHF and JPY against the EUR interest rate curve and the currency effects described above. In 2015, both effects were relatively strong due to the aforementioned measure taken by the Swiss National Bank. This caused a major increase in the value of the derivatives in 2015. Both effects have been relatively minor in 2016.

Notes to the condensed consolidated balance sheet

(5) Risk management

Every year, EBN commits itself to realise its strategic objectives for the short term and the long term. It is inevitable that risks and uncertainties occur that affect the actual realisation of these objectives and plans to some degree or other. The current most important strategic risks are as follows:

- Disasters and other undesirable effects on health, safety, nature and the living environment
- Long-term low prices, insufficient potential resources in the Netherlands or an unfavourable investment climate
- A poor competitive position for gas.

In addition to these strategic risks, there are also financial risks. The main financial risks for EBN are the liquidity risk, the credit risk and the market risk (consisting of interest rate risk and currency risk).

EBN's financial policy focuses on limiting the effects of currency and interest rate fluctuations on assets and liabilities. EBN uses financial derivatives to manage interest and currency risks, specifically those relating to the funding of its operations. The company does not take any speculative positions with financial derivatives.

Currency risks on non-current borrowings in foreign currencies (CHF 1,610 million and JPY 10 billion) are hedged with cross currency interest rate swaps.

Current and non-current borrowings are recognised at amortised cost. Derivatives are recognised at fair value. Fair values of listed non-current borrowings are based on published rates (Level 1 according to IFRS). The other fair values are calculated on the basis of the available market information including current interest and currency rates (Level 2 according to IFRS). All financial assets and liabilities at fair value with changes in value recognised in comprehensive income are classified at Level 2. These valuation techniques have not been modified in the first half of 2016. The fair value of non-current borrowings amounts to EUR 1,677 million on 30 June 2016. Of this, EUR 1,586 million is valued according to Level 1 and EUR 91 million in accordance with Level 2. The carrying amount of aforementioned borrowings amounts to EUR 1,567 million.

For more information on risk management, please see pages 75 to 81 of the 2015 consolidated financial statements.

(6) Property, plant and equipment

in EUR million	**2016**	**2015**
cumulative cost	15,424	14,673
cumulative depreciation and impairments	11,564	10,349
carrying amount at 1 January	**3,860**	**4,324**
- capital expenditure	173	324
- (release) / capitalisation of decommissioning and storage costs	-2	135
- write-offs	-12	-48
- depreciation and amortisation	-265	-281
	- 106	130
Balance at 30 June		
cumulative cost	15,583	15,084
cumulative depreciation and impairments	11,829	10,630
carrying amount	**3,754**	**4,454**

The write-offs concern dry wells.

(7) Provisions

Provisions for decommissioning and restoration costs cover obligations with terms of 1 to 60 years. Provisions for ground subsidence also cover obligations with terms of 1 to 60 years. The term of the provision for claims resulting from earthquakes before reporting date depends on the speed at which claims are submitted and settled. The expected term of the provision for restructuring costs for an operator is 1 to 2 years.

The provision for decommissioning and restoration costs is based on 31 December 2015 information from the operators and EBN's own analysis and is determined by estimating the costs on the basis of the current price level, without allowing for inflation, and discounted with a real interest rate of 0% (30 June 2015: 0,09%). The equivalent of the discounted provision is recognised under property, plant and equipment and depreciated on the basis of the UOP method. Accretion of the provision is based on the nominal interest rate of 1,78% (30 June 2015: 2,2%).

The total for provisions is increased by EUR 45 million, which is the balance of the changes shown below:

in EUR million	**2016**	**2015**
balance at 1 January	**3,174**	**2,549**
additions	95	295
revision	- 20	-
withdrawals	-53	-71
interest	23	26
balance at 30 June	**3,219**	**2,799**

The provision as per 30 June relates to decommissioning and restoration costs for EUR 2,686 million, ground subsidence for EUR 108 million, costs resulting from earthquakes in the Groningen province for EUR 373 million and expected restructuring costs at an operator. The lower addition to the provision relative to the first half of 2015 is caused by an addition for strengthening buildings due to earthquakes in the province of Groningen (EUR 27 million in the first half of 2016 compared to EUR 158 million in the same period in 2015). The increase in the addition of the provision for restructuring costs is partially offset by the lower addition to the provision for decommissioning and restoration costs in the first half of 2016 due to reduced capital expenditure compared to the same period last year. In addition, the discount rate for the first half of 2016 remained unchanged. In the first half of 2015, the impact of the change in the discount rate of the provision amounted to EUR 90 million.

Other notes

(8) Contingencies

EBN's (in)direct share in proven and probable gas reserves in fields in which EBN participates amounts to 329 billion cubic metre on 30 June 2016.

It is usual practice in the industry that the prices of sales contracts are constantly renegotiated, both at EBN and GasTerra. The results of these negotiations can have a significant positive or negative impact on EBN's results. On 23 June 2016, the arbitral tribunal has given a final ruling in the arbitration initiated by Eni on a long-term gas supply agreement between GasTerra and Eni. In its arbitral ruling the tribunal has fully rejected Eni's claims for a price revision per 1 October 2012. As a result, GasTerra charged Eni the difference between the provisional price and the contract price (EUR 918 million including interest).

Eni disputes this invoice and considers that GasTerra is obliged to renegotiate the price despite the arbitration ruling. GasTerra does not agree with Eni's position and has initiated arbitration proceedings to recover the amount owed by Eni. It has seized Eni's assets in the Netherlands to secure its claim. Given the uncertainty regarding the settlement of this arbitration procedure, any positive effect on EBN's presented sales (EUR 367 million) has not been included in the half year figures.

As a consequence of the Cabinet decision of 17 January 2014 regarding gas production in Groningen and the earthquakes caused hereby, future obligations have been created. These obligations primarily concern damage repair, preventive reinforcement of buildings and compensation measures to improve the safety and liveability of the earthquake area. A provision has been included for claims ensuing from earthquakes and committed preventive reinforcement of buildings (see note 7). The execution and costs of some of these measures cannot yet be reliably estimated. As a result, no provision has been formed for these costs. The total scope of the costs could therefore be higher. Pursuant to its participation in the license Groningen, EBN will contribute 40% of these costs.

(9) Related parties

GasTerra and EBN are related parties. EBN has 82 gas sales contracts with GasTerra.

Of the net sales of EUR 1,646 million, EUR 484 million was achieved through direct gas sales to GasTerra and EUR 961 million, being indirect gas sales, through the operators. The receivables at 30 June 2016 include an amount of EUR 65 million for supplies to GasTerra.

Together with Nederlandse Aardolie Maatschappij BV (NAM), EBN has entered into a Deposit and Loan Facility Agreement with GasTerra. Under this agreement, GasTerra can propose to EBN and NAM (as joint parties) placing a sum of money with EBN and NAM for a period of from 3 days to 3 months as a fixed term deposit. GasTerra can also request a loan from EBN and NAM (as joint parties) for a similar term under this agreement.

The Dutch State, being the shareholder, can be regarded as a related party. All levies, corporate income taxes and net profits are paid to the State.

(10) Post balance sheet events

There were no material events after the balance sheet date requiring further disclosure.

Utrecht, 22 August 2016

Executive Board
Ir. J.W. van Hoogstraten

Review report

To: the shareholder of EBN B.V.

Introduction
We have reviewed the accompanying condensed consolidated interim financial information for the six-month period ended 30 June 2016 of EBN B.V., Utrecht, which comprises the condensed consolidated balance sheet as at 30 June 2016, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows for the period then ended and the selected explanatory notes. The directors are 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.

The Hague, 22 August 2016
PricewaterhouseCoopers Accountants N.V.

Original signed by I.J.C. Lefebure RA

Note: This review report is an unofficial translation of the report issued with the Dutch version of the Half year report 2016 of EBN B.V. ("Halfjaarbericht 2016 EBN B.V.").

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