

# Half year report 2005

## Disclaimer

This half year report 2005 is a translation of the Dutch half year report of n.v. Nuon. Although this translation has been prepared with the utmost care, it may be possible that deviations from the Dutch half year report 2005 occur and, as a result, the information in this report may be misinterpreted or different conclusions may be drawn. In this case, the Dutch half year report 2005 is leading.

Parts of this report contain prospective information. These parts may include unqualified statements on future operating results, the impact of regulatory measures on Nuon's activities, Nuon's share and that of its subsidiary companies and joint ventures in existing and new markets, industrial and macro economic trends and Nuon's performance in them. This report may also contain statements preceded or followed by, or containing words such as 'believes', 'expects', 'anticipates' or similar expressions. These statements are based on assumptions concerning future activities and other factors, many of which are beyond Nuon's control, so that actual results may differ significantly from these statements.

This half year report has been prepared in accordance with the most significant International Financial Reporting Standards (IFRS) currently applicable. As a consequence, the comparative figures for 2004 have been restated. The most significant changes to accounting policies and the options exercised under IFRS, the impact on shareholders' equity at 1 January, 30 June and 31 December 2004, the impact on net profit for the first half and the whole of 2004 and the impact of IAS 32 and 39 on shareholders' equity as of 1 January 2005 are further described in the Annex: 'Impact of transition to International Financial Reporting Standards'.

As a consequence of changes to and interpretations of IFRS, the adoption of IFRS by the EU and altered views on IFRS, as well as the development of 'best practices' in general and within the energy industry in particular, statements made and amounts presented in this half year report may change later during 2005. The final impact of the implementation of IFRS will be presented in the financial statements for 2005. Because of the above, the financial data in this report are 'pro-forma'.

None of the information presented in this report or the Annex has been audited.

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## Profile

Nuon is a leading energy company that serves more than two million customers in the Netherlands, Belgium and Germany with electricity, gas, heating and related services. The company is active in the production, trading, transport and supply of (renewable) energy.

Nuon strives for balanced growth for all interested parties: shareholders, employees, customers, the environment and society.

The net turnover for the first half year 2005 amounted to EUR 2.6 billion. The number of employees as of 30 June 2005 was 9,603 full time equivalents (FTE). The largest shareholders of Nuon are the provinces of Friesland, Gelderland and Noord-Holland and the municipality of Amsterdam.

# Key figures

as of / for the six months ending

<i>(in millions of euros unless otherwise stated)</i>	<b>30-06-2005</b>	<b>30-06-2004</b>
Net turnover from continuing operations <sup>1)</sup>	2,620	2,524
Operating expenses – continuing operations <sup>1)</sup>	609	603
Operating profit (EBIT) from continuing operations <sup>1)</sup>	508	287
Unrealised fair value changes (IAS 32 en 39) included in operating profit	177	– <sup>2)</sup>
Operating profit (EBIT) from continuing operations excluding unrealized fair value changes (IAS 32 and 39)	331	287
Profit after taxation from continuing operations <sup>1)</sup>	325	156
Loss after taxation from discontinued operations <sup>1)</sup>	7–	10–
Profit after taxation attributable to n.v. Nuon shareholders	317	146
Earnings per share	2.46	1.13
Diluted earnings per share	2.32	1.07
Cash flow from operating activities	484	444
Cash flow used for investing activities	144–	82–
Cash flow used for financing activities	425–	51–
Gross investment in property, plant and equipment	219	244
Free cash flow <sup>3)</sup>	312	242
Property, plant and equipment	5,869	6,428
Shareholders' equity	4,192	3,634
Net debt <sup>4)</sup>	1,741	2,422
Balance sheet total	11,263	10,071
Shareholders' equity as a % of the balance sheet total (solvency)	37.2	36.1
Number of shares issued (x 1,000)	128,693	128,693
Number of shares issued plus maximum number to be issued under guarantees (x 1,000)	136,795	136,885
Number of employees (FTE) at the end of the first half year	9,603	9,211

1) IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' have been applied by Nuon with effect from 1 January, 2005. For this purpose, a distinction has been made between, on the one hand, the results and balance sheet items relating to continuing operations and, on the other hand, the results from activities held for sale. The comparative amounts in the Income Statement have been amended accordingly.

Non-current assets held for sale include Utilities Inc. in the United States and entities involved in power generation from wind in China, Germany and Spain.

2) IAS 32 and 39 relating to the recognition and disclosure of financial instruments and derivatives have been applied prospectively from 1 January, 2005. The comparative amounts for 2004 have therefore not been restated.

3) Free cash flow is defined as the cash flow from operating activities less the net investment in property, plant and equipment (the investments in property, plant and equipment less contributions received from third parties).

4) Net debt is interest-bearing debt less unrestricted cash and cash equivalents.

# Summary of significant events in the first half of 2005

## ■ Financials Highlights

Commencing in 2005, Nuon is reporting in accordance with International Financial Reporting Standards (IFRS). The comparative figures for 2004 have been restated. In addition, with effect from 1 January 2005, new reporting standards relating to financial instruments (IAS 32 and 39) are applicable, which have resulted in all unrealised changes in fair value of derivatives – including commodity contracts (electricity, gas, oil) – being accounted for in the income statement. These standards have had a significant impact on the result for the first half of 2005 and it is anticipated that they will have a major impact in the future on the magnitude and volatility of the results. Since IAS 32 and 39 have been applied prospectively with effect from 1 January 2005, the comparative amounts for 2004 have not been restated.

The net turnover from continuing operations for the first half of 2005 ended in EUR 2,620 million, representing an increase over the corresponding period in 2004 of 4%, or EUR 96 million. This increase is due, in the main, to a higher turnover in gas as well as unrealised fair value gains on commodity contracts amounting to EUR 177 million that must be recognised in the result from 2005. This increase was, for a great part, offset by a decrease in the electricity turnover in the segments Production & Trade and Distribution & Sales The Netherlands.

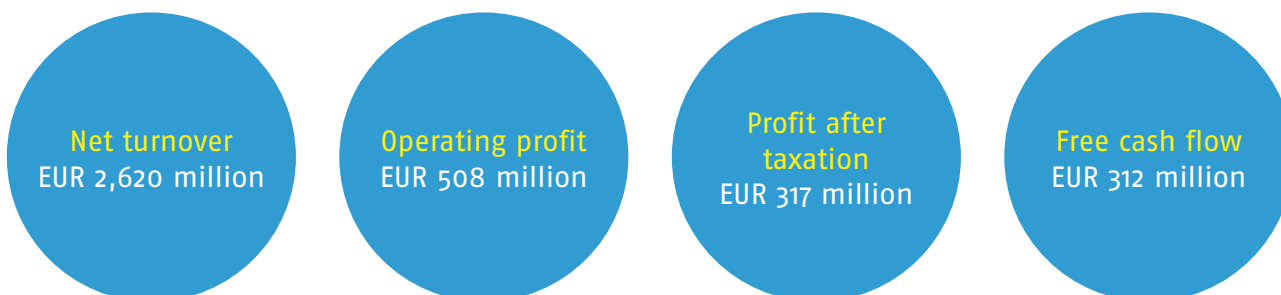
The operating profit from continuing operations rose from EUR 287 million in the first half of 2004 to EUR 508 million in 2005. In addition to the effect of unrealised gains on commodity contracts, the one-off result of EUR 120 million in 2005 from the transfer of the long-term purchase contract with InterGen to Eneco also contributed to this increase. Furthermore, the operating profit was adversely affected by costs from prior years, mainly relating to renewable energy for which the nature and amount can only be determined in 2005. Excluding these items, operating profit rose from EUR 287 million in the first half of 2004 to EUR 327 million in 2005.

The profit after taxation amounted to EUR 317 million in the first half of 2005 as opposed to EUR 146 million in the first half of 2004. Excluding the previously mentioned incidental items, the profit after taxation in the first half of 2005 amounted to EUR 193 million.

The cash flow from operating activities in the first half of 2005 amounted to EUR 484 million (2004 – EUR 444 million). The free cash flow in the first half of 2005 amounted to EUR 312 million - an increase of EUR 70 million over the corresponding period in 2004.

The net debt decreased in the first half year from EUR 1,822 million at the end of 2004 to EUR 1,741 million at the end of June 2005.

## Financial Highlights in the first half of 2005



### ■ Highlights – General

In 2005, it was announced that the government's proposed unbundling of energy companies will be delayed for one year to 1 January 2008. On 30 August 2005, the proposed legislation on the unbundling was sent to the Dutch Parliament. If the legislation is introduced, the energy companies will have a maximum of two years for the actual unbundling.

At the beginning of June, the long-term purchase contract with InterGen was transferred to Eneco. InterGen is the owner of the 800 MW generating station Rijnmond Energie in Rotterdam. As a result of this, Nuon has been finally relieved of the obligation placed on it by the Netherlands Competition Authority ('Nederlandse Mededingingsautoriteit' (NMa)) to auction production capacity. This obligation came into effect when the takeover of the Reliant European generating stations was approved by the NMa in November 2003.

As a consequence of the continuing rise in the prices of oil and gas on the global markets, Nuon has increased the prices of electricity and gas with effect from 1 August 2005.

At the start of 2005, Nuon entered into a contract with ABN AMRO to supply the new product 'Koude', a district cooling product, to the Zuidas district in Amsterdam from the spring of 2006. Because a natural source of cold water is used for 'Koude', the bank will achieve a 65% reduction in CO2 emissions compared to the current cooling system.

In April, Nuon brought the first wind turbines of a wind farm in the port of Antwerp into operation. This wind farm is Nuon Belgium's first production site for renewable energy.

In May, Shell and Nuon announced that in 2006 they will jointly develop the offshore wind farm Noordzee Wind at Egmond aan Zee. This will be the first wind farm off the coast of the Netherlands and it will be able to supply the electricity requirements of more than 100,000 homes.

As part of its disinvestment of non-core activities, Nuon reached agreement with Hydro Star in May relating to the sale of its subsidiary Utilities Inc. Due to the mandatory approval procedures in the United States, the sale is expected to be finalised in 2006. In August, Nuon reached agreement with Biwater Plc. on the sale of Nuon's 50% interest in Cascad. Through this, Biwater will again become the sole owner of Cascad. This transaction is also subject to approval from the relevant authorities. These sales are in line with Nuon's strategy of concentrating on core activities in the core countries of the Netherlands, Belgium and Germany.

After it became apparent at the beginning of 2005 that backlogs had arisen within the Dutch energy industry in the completion of a number of administrative processes, including the changes of address process, agreements to clear the backlogs before 1 July 2005 were made with the Minister of Economic Affairs. In the meantime, it has become clear that Nuon has complied with all obligations contained in the agreements.

As was expected, the full liberalisation of the energy market has led to an increase in competition in the market. As a consequence, the number of customers and market share in the Netherlands has decreased, although this has been less than previously anticipated.

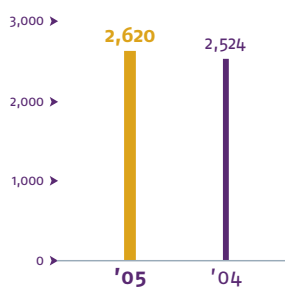
# Results for the first half of 2005

## ■ Net turnover from continuing operations

The net turnover from continuing operations increased by 4% to EUR 2,620 million in the first half of 2005.

### Net turnover

in millions of euros



This increase has been influenced to a great extent by the impact of the implementation of IAS 32 and 39 relating to the treatment of financial instruments and derivatives. Under IAS 32 and 39, with effect from 1 January 2005, (all) unrealised fair value changes in trading positions in commodity contracts (electricity, gas, oil and related foreign exchange positions) must be recognised in the results.

The continuing rise in oil and gas prices has led to an unrealised fair value gain in the first half of 2005 amounting to EUR 177 million being included in the net turnover.

Excluding this IFRS impact, turnover decreased by about 3%. The gas turnover has increased significantly as a result of the continuing price rises in the world market. However, this increase has been fully offset by a decrease in electricity turnover.

For further information on the impact of IAS 32 and 39, see page 11.

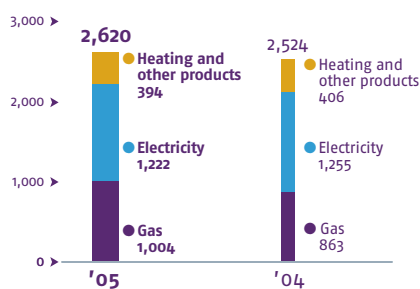
## ■ Net turnover by product

The electricity turnover from continuing operations compared to the first half of 2004 has decreased by EUR 33 million to EUR 1,222 million. The net turnover for the first half of 2005 includes unrealised fair value gains of commodity contracts amounting to EUR 177 million. Excluding this effect, the electricity turnover decreased by EUR 210 million, or 17%.

This decrease is due, on the one hand, to a lower external turnover in the segment Production & Trade, because a greater proportion of the energy generated was allocated to Nuon's own customers and, on the other hand, to a reduction in the number of customers in the consumer and business markets in the segment Distribution & Sales. This decrease has been offset by an increase in the turnover of Nuon Belgium as a result of an increase in the number of Nuon Belgium customers in the consumer market in Flanders. Nuon Germany's turnover also increased slightly in the first half of 2005.

## Turnover by product

in types of energy, in millions of euros



The gas turnover increased by EUR 141 million in the first half of 2005 (16%) to EUR 1,004 million. The turnover in the Netherlands rose. The continuing gas price increases, resulting from the rise in oil prices, led to an increase in net turnover. A decrease in the number of customers and a higher average temperature in the first half of 2005 had an adverse impact on net turnover. Nuon Belgium also made an important contribution to the increase in turnover, in particular from the increase in the number of customers.

## ■ Gross margin from continuing operations

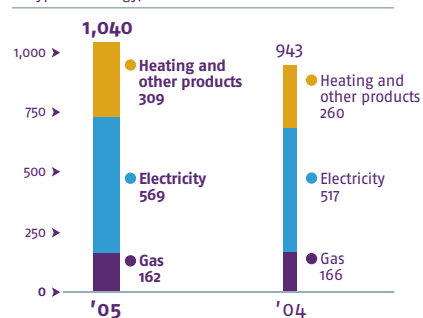
The gross margin (the net turnover less the cost of raw materials and supplies) from continuing operations amounted to EUR 1,040 million in the first half of 2005 compared to EUR 943 million in 2004.

The gross margin was favourably influenced by unrealised fair value gains in commodity contracts of EUR 177 million. Furthermore, the gross margin was adversely influenced by costs from prior years mainly for renewable energy, the nature and amount of which can only be determined in 2005.

Excluding these items, the gross margin increased to approximately EUR 979 million compared to EUR 943 million in 2004. The gross margins for electricity and gas fell slightly due to raw material price increases that could not be fully reflected in sales price increases. The gross margin for heating and other products increased due to, among other factors, an increase in the compensation received from the government for the cost of purchases related to heating.

### Gross margin

in types of energy, in millions of euros



### Other operating income

Other operating income includes all income and turnover from products that are not related to the delivery or transport of electricity, gas and heating and energy-related products. Furthermore, this includes the proceeds from the sale of assets and the release to income of deferred construction contributions and government grants received in connection with investment projects.

Other operating income amounted to EUR 188 million in the first half of 2005 (2004 – EUR 72 million) and includes the (one-off) result of EUR 120 million from the transfer of the 15-year purchase contract between Nuon and InterGen to Eneco. The total cash reimbursement received by Nuon from Eneco in 2005, including compensation for the use of the purchase contract up to the transfer date, amounted to EUR 150 million.

### Result on disposal of investments

The result on the disposal of investments amounting to EUR 16 million in 2004 relates to the sale of the 85.6% interest in North Coast Energy Inc.

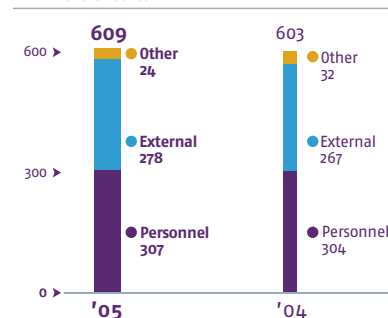
### Operating expenses – continuing operations

During the first half of 2005, operating expenses remained more or less at the same level as in 2004. The effect of cost-reduction activities within the organisation covered the extra costs incurred in improving customer processes and dealing with the backlog in the administrative processes, including the changes of address process. Work on further improvements will continue in the second half of the year.

In the first half of 2004 the operating expenses were adversely affected by an additional charge for a re-structuring provision amounting to EUR 26 million.

### Analysis of operating expenses

in millions of euros



### Depreciation and impairment losses – continuing operations

Depreciation and impairment losses of property, plant and equipment and intangible assets amounted to EUR 165 million in the first half of 2005 as opposed to EUR 188 million in 2004. The first half of 2005 includes EUR 10 million impairment losses on property, plant and equipment while, in 2004, EUR 19 million impairment losses on the goodwill of a number of non-European investments have been recognised.

### Operating profit from continuing operations

The operating profit from continuing operations in the first half of 2005 rose by EUR 221 million to EUR 508 million. In 2005, the operating profit from continuing operations was influenced by a number of significant items of an incidental character – the recognition of unrealised fair value gains, the result from the transfer of the InterGen contract and the prior year costs, mainly relating to renewable energy, for which the nature and amount can only be determined in 2005. Excluding these items, operating profit rose from EUR 287 million in the first half of 2004 to EUR 327 million in 2005.

### Finance charges – continuing operations

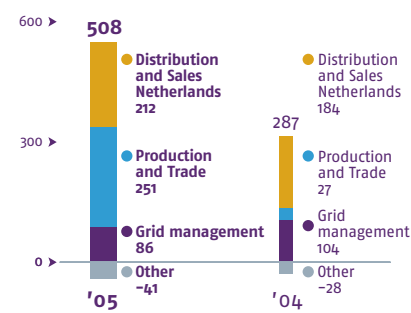
Net finance charges amounted to EUR 33 million in the first half of 2005 compared to EUR 47 million in the same period in 2004.

### Taxation – continuing operations

The effective tax rate (the current taxation charge expressed as a percentage of the result from continuing operations before taxation) was 33.5% in the first half of 2005 compared to 37.1% in the first half of 2004. This decrease is mainly due to the reduction in the statutory corporate tax rate in the Netherlands from 34.5% in 2004 to 31.5% in 2005.

### Operating profit by segment

in millions of euros



### Profit after taxation from continuing operations

The profit after taxation from continuing operations in the first half year amounted to EUR 325 million compared to EUR 156 million in the previous year.

Excluding the incidental items mentioned above, the profit after taxation from continuing operations for the first half of 2005 amounted to EUR 201 million.

### Loss after taxation from discontinued operations

The subsidiaries that, in all probability, will be disposed of in the short-term (including Utilities Inc. in the United States and a number of entities active in the production of wind energy in Europe and China), together realised a loss of EUR 7 million (2004 – EUR 10 million (loss)) in the first half of 2005.

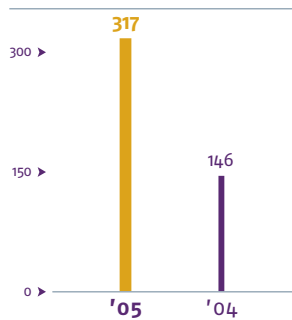
### Profit after taxation attributable to shareholders of n.v. Nuon

The profit after taxation that can be attributed to the n.v. Nuon shareholders – after deduction of the amount attributable to minority interest shareholders – amounted to EUR 317 million in the first half of 2005 compared to EUR 146 million in the same period of 2004.

Excluding the incidental items previously mentioned, the profit after taxation attributable to n.v. Nuon shareholders amounted to EUR 193 million compared to EUR 146 million in the same period of 2004.

### Profit after taxation

in millions of euros



### Cash flows and investments

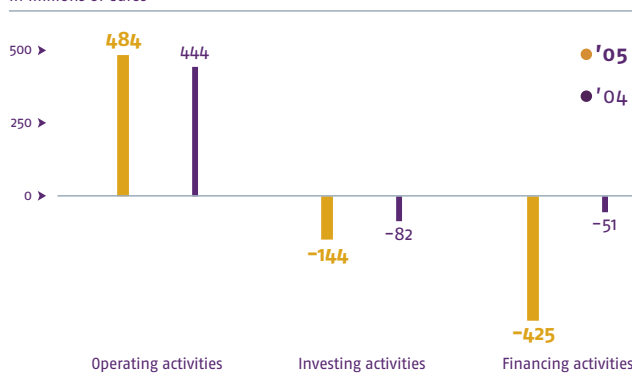
Cash flow from operating activities rose from EUR 444 million during the first half of 2004 to EUR 485 million in the first half of 2005. The increase in the operating profit – among other things due to the cash receipt of EUR 150 million from Eneco for the InterGen purchase contract – was one of the main reasons for this rise. This increase was partially offset by EUR 80 million lower dividend receipts from investments compared to 2004.

The cash flow used in investing activities amounted to EUR 144 million in the first half of 2005 compared to EUR 82 million in the first half of 2004. The cash flow from investing activities in 2004 was favourably influenced by the receipt of EUR 95 million from the sale of the 85.6% interest in North Coast Energy Inc.

The cash flow used in financing activities amounted to EUR 425 million in the first half of 2005 (2004 – EUR 51 million) and was mainly due to the repayment of short-term financing.

### Cash flows summary

in millions of euros



In the first half of 2005, the gross investment in property, plant and equipment amounted to EUR 219 million (2004 – EUR 244 million). The decrease is mainly attributable to a lower level of investment in generating plants and in renewable energy in the Production & Trade segment.

Investment in regulated activities rose to EUR 94 million compared to EUR 85 million in 2004.

The free cash flow – defined as the cash flow from operating activities less the net investment in property, plant and equipment (the gross investment in property, plant and equipment less contributions received from third parties, investment premiums and government grants) – amounted to EUR 312 million in the first half of 2005 compared to EUR 242 million in the corresponding period of 2004.

### ■ Net debt and financing

The net debt – the interest-bearing debt less cash and cash equivalents to which Nuon has unrestricted access – amounted to EUR 1,741 million at the end of June 2005 compared to EUR 1,822 million at the beginning of the year and EUR 2,422 million at the end of June 2004.

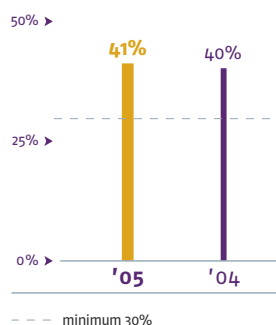
The gross debt position – the short and long-term interest-bearing debt – has fallen from EUR 2,539 million to EUR 2,411 million at the end of June 2005. Repayments have been made on commercial paper and medium term notes in the first half of 2005.

### ■ Financial position

Nuon's financial policy is part of its overall policy and strategy. The policy is directed towards an adequate return to shareholders and protection for debenture holders and other providers of capital whilst maintaining the flexibility to grow and invest in the company.

In addition to ensuring a balanced repayment schedule, sufficient liquid funds and a committed credit facility, as well as maintaining a solid A-rating profile, Nuon has defined a number of ratios that form its financial framework. The ratio FFO (Funds from Operations/ Net debt) comprises the net result – corrected for significant one-off items – plus depreciation and other impairment losses of property, plant and equipment and intangible assets divided by the net debt) stood at 41% as of 30 June 2005 and has improved since 31 December 2004 (40%).

### FFO/Net debt



### Interest cover



The interest cover ratio (the net result plus depreciation and other impairment losses of property, plant and equipment and intangible assets divided by the net financial income and expense) should have a minimum value of 5. As of 30 June 2005, the ratio stood at 7.5, representing an improvement on the position as of 31 December 2004 (6.7).

### ■ Credit worthiness

At the end of 2004, Standard & Poor's rated Nuon's long-term credit worthiness as A+ with a negative outlook and the short-term rating as A-1 while Moody's Investors Service has given Nuon a long-term rating of A2 with a stable outlook and a short-term rating of P-1. Moody's maintained the A2 rating during the first half of 2005 and has put Nuon under review for a possible upgrade in connection with a new rating methodology for enterprises with state-owned shareholdings.

### ■ Outlook for 2005

Due to the fundamental uncertainty about developments in the markets for raw materials, the possible future structure of Nuon as a consequence of the proposed legislation to unbundle the energy companies in the Netherlands, and the impact of IFRS, the Management Board considers it to be inappropriate at this time to present an outlook on the results for the whole of 2005.

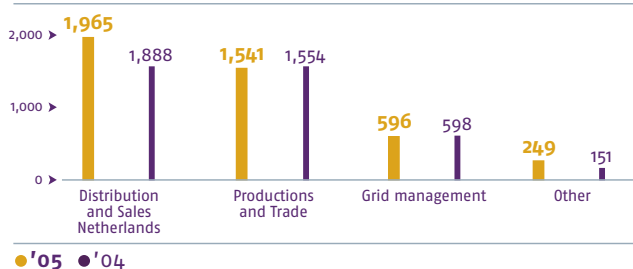
### ■ Dividends

As was announced at the General Meeting of Shareholders held in April 2005, the Supervisory Board and the Board of Management plan to propose to shareholders the payment of an extra dividend of EUR 13 million from reserves, at the next (extraordinary) General Meeting of Shareholders.

# Analysis by segment

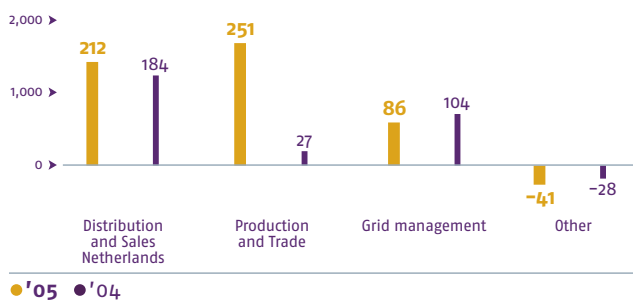
## Net turnover by segment

in millions of euros



## Operating profit by segment

in millions of euros



### ■ Distribution & Sales the Netherlands

The segment Distribution & Sales the Netherlands comprises all activities in the Netherlands relating to the construction, maintenance and management of the energy transport infrastructure within both regulated and non-regulated areas, as well as the supply of energy to the business market and the consumer market. In addition, this segment includes the activities connected with the supply of heating, purchasing & logistics and street lighting.

The net turnover of the Distribution & Sales the Netherlands segment increased in the first half of 2005 to EUR 1,965 million compared to EUR 1,888 million in the previous year. Gas turnover rose as a consequence of higher prices resulting from the rise in oil prices. A decrease in the number of customers and a higher average temperature in the first half of 2005 had an adverse impact on net turnover. The electricity turnover fell in the first half of 2005 as a consequence of a drop in the number of customers in both the business and consumer markets. The turnover of heating and other products showed a decrease.

The operating profit increased by EUR 28 million to EUR 212 million in the first half of 2005. This increase was due to an improvement in the customer portfolio within the business market and cost savings realised. However, this improvement served as cover for the additional costs incurred in connection with improving customer processes and the elimination of the backlog in the administrative processes.

### ■ Production & Trade

The Production & Trade segment covers the activities of generating, purchasing and trading in energy as well as the domestic and international activities pertaining to renewable energy.

The net turnover of the Production & Trade segment in the first half of 2005 amounted to EUR 1,541 million (2004 – EUR 1,544 million). The turnover for the first half of 2005 included unrealised fair value gains of EUR 177 million as a consequence of IAS 32 and 39. Disregarding this effect, the turnover is EUR 1,364 million – a decrease of EUR 190 million.

The operating profit rose from EUR 27 million in the first half of 2004 to EUR 251 million in 2005. The operating profit for the first half of 2005 includes the IFRS impact referred to above as well as the (one-off) EUR 120 million result from the transfer of the InterGen contract to Eneco. These items were, to an extent, offset by costs from prior years mainly for renewable energy, for which the nature and amount can only be determined in 2005.

### ■ Grid management

Grid management carries out the activities relating to connections to the electricity and gas networks, transport of electricity and gas and the supply of market facilitating services. The segment also supplies related services such as meter hire.

The net turnover of EUR 596 million for the first half of 2005 remained more or less at the same level as for the corresponding period for the previous year (EUR 598 million). The operating profit fell in the first half of 2005 to EUR 86 million compared to EUR 104 million in the same period in 2004 as a result of higher costs of goods and costs of capital for the transport network.

## ■ Other

The segment Other includes all other activities, including central staff and service functions and the activities of Nuon Belgium and Germany.

The net turnover increased in the first half year of 2005 to EUR 249 million from EUR 151 million a year earlier. This increase was mainly due to an increase of Nuon Belgium turnover as a result of an increase in the number of customers. Nuon Germany turnover rose slightly in the first half of 2005.

The operating profit decreased from a loss of EUR 28 million in the first half of 2004 to a loss of EUR 41 million in 2005.

## ■ IAS 32 and 39

Nuon has applied prospectively IAS 32 and 39 – the standards that relate to the reporting of financial instruments and derivatives – with effect from 1 January 2005. Under IAS 32 and 39, all derivatives must be valued at fair value and all unrealised changes in fair value are recognised in the result. The application of IAS 32 and 39 will (in all probability) lead to a greater volatility in the results than in the past as a consequence of price increases/decreases and/or changes in trading positions during the year. Up to the end of 2004, in principle, unrealised results were not recognised in the income statement unless there was a loss situation.

Nuon has purchase and sale positions in energy commodities (electricity, oil and gas). In addition, Nuon makes use of various foreign currency and interest rate derivatives to hedge foreign currency and interest rate risks. Commodity contracts can be entered into for differing purposes: for own use, to cover (price) risks and for trading within criteria and limits set by the Board of Directors.

Under IAS 32 and 39, commodity contracts must be treated as derivatives and all changes in fair value in the year recognised in the result.

There are two exceptions to this:

- For own-use contracts “accrual accounting” may be applied. This implies that purchase and sale contracts are recognised at cost at the time of delivery and interim fair value changes are not taken account of in the results.
- The second exception applies to contracts that are used as hedging instruments (“hedge accounting”). The changes in fair value of derivatives that are used as hedging instruments are recognised in shareholders’ equity and subsequently recognised in the result at the same time as the transactions that the hedging instrument was intended to cover (“cash flow hedges”). The effect of this is to limit the volatility of the result. An unrealised gain of hedging contracts amounting to EUR 88 million was added to the hedging reserve in shareholders’ equity.

During the first half of 2005, the unrealised gain in the trading position of commodity contracts recognised in the income statement amounted to EUR 177 million. This gain arises mainly from the rise in oil and gas prices on the world market and is included in electricity turnover. In addition, an unrealised fair value gain on hedging contracts amounting to EUR 88 million has been added to the hedging reserve in shareholders’ equity.

Nuon also applies hedge accounting to a number of interest and foreign currency derivatives. For fair value hedges, unrealised fair value changes of a derivative are offset by (opposing) changes in the fair value of the financial instruments for which the hedge contracts are entered into. The method described above is used for cash flow hedges.

## Consolidated Balance Sheet

in millions of euros

Assets	30-06-2005	01-01-2005 <sup>1)</sup>	30-06-2004
<b>Fixed assets</b>			
Property, plant and equipment	5,869	5,846	6,428
Intangible assets	267	262	439
Financial fixed assets including long-term derivatives	1,271	1,114	1,060
<b>Total fixed assets</b>	<b>7,407</b>	<b>7,222</b>	<b>7,927</b>
<b>Current assets</b>			
Inventories	51	47	51
Trade receivables, financial assets and derivatives	2,095	1,700	1,550
Cash and cash equivalents	762	844	543
<b>Total current assets</b>	<b>2,908</b>	<b>2,591</b>	<b>2,144</b>
Non-current assets held for sale	948	878	–
<b>Total assets</b>	<b>11,263</b>	<b>10,691</b>	<b>10,071</b>

Shareholders' equity and liabilities	30-06-2005	01-01-2005 <sup>1)</sup>	30-06-2004
<b>Shareholders' equity</b>			
Shareholders' equity	4,184	3,886	3,627
Minority interests	8	7	7
<b>Total shareholders' equity</b>	<b>4,192</b>	<b>3,893</b>	<b>3,634</b>
<b>Long-term liabilities</b>			
Financial liabilities	1,833	1,683	1,562
Derivatives	113	28	–
Construction contributions, investment allowances and government grants	1,276	1,447	1,415
Provisions	926	956	963
<b>Total long-term liabilities</b>	<b>4,148</b>	<b>4,114</b>	<b>3,940</b>
<b>Short-term liabilities</b>			
Trade payables and other short-term liabilities	1,846	1,600	1,229
Financial liabilities	256	448	1,268
Derivatives	222	138	–
<b>Total short-term liabilities</b>	<b>2,324</b>	<b>2,186</b>	<b>2,497</b>
Liabilities directly associated with non-current assets held for sale	599	498	–
<b>Total liabilities</b>	<b>11,263</b>	<b>10,691</b>	<b>10,071</b>

1) After adjustment for the effect of IAS 32 'Financial Instruments – Disclosure and Presentation', IAS 39 'Financial Instruments – Recognition and Measurement' and IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' as of 1 January 2005.

## Consolidated Income Statement

in millions of euros

	first half 2005	first half 2004
Net turnover from sale of goods and supply of services	2,443	2,524
Unrealised fair value gains (IAS 32 and 39)	177	-
Net turnover	2,620	2,524
Other income	188	72
Result on disposal of investments	-	16
<b>Total operating income</b>	<b>2,808</b>	<b>2,612</b>
Cost of energy, raw materials and supplies	1,580-	1,581-
Operating expenses	609-	603-
Amortisation and impairment of intangible assets	-	14-
Depreciation and impairment of property, plant and equipment	165-	174-
Less: Production capitalised for own use	54	47
<b>Total operating expenses</b>	<b>2,300-</b>	<b>2,325</b>
<b>Operating profit from continuing operations</b>	<b>508</b>	<b>287</b>
Finance costs	33-	47-
<b>Profit before taxation from continuing operations</b>	<b>475</b>	<b>240</b>
Taxation	159-	89-
Share of result after taxation of associates and joint ventures	9	5
<b>Profit after taxation from continuing operations</b>	<b>325</b>	<b>156</b>
<b>Profit after taxation from discontinued operations</b>	<b>7-</b>	<b>10-</b>
<b>Profit after taxation (Group result)</b>	<b>318</b>	<b>146</b>
Profit after taxation attributable to minority interests	1	-
<b>Profit after taxation attributable to n.v. Nuon shareholders</b>	<b>317</b>	<b>146</b>

## Consolidated Cash Flow Statement

in millions of euros

	first half 2005	first half 2004
<b>■ Cash flow from operating activities</b>		
Operating result	508	287
Adjustments for:		
Depreciation	165	188
Changes in working capital:		
Inventories	4-	49
Trade receivables and prepayments	210-	97
Short-term interest-bearing debt	121	164-
Accrued charges	71	31-
Total	22-	49-
Change in deferred tax assets	3-	13
Change in provisions and other	83-	2
Cash flow from operations	565	441
Finance costs	33-	47-
Share of result of associates and joint ventures	9	5
Dividends received	29	113
Result from discontinued operations	7	10
Taxation paid	93-	78-
Total	81-	3
<b>■ Cash flow from operating activities</b>	<b>484</b>	<b>444</b>
<b>■ Cash flow from investing activities</b>		
Investments in property, plant and equipment	219-	244-
Proceeds from sale of property, plant and equipment	28	25
Construction contributions received	47	42
Proceeds from sale of subsidiaries	-	95
<b>■ Cash flow from investing activities</b>	<b>144-</b>	<b>82-</b>
<b>■ Cash flow from financing activities</b>		
Increase/(decrease) in short-term interest-bearing debt	192-	224
New long-term loans	62	-
Repaid long-term loans	185-	175-
Dividends and special profit-sharing rights paid	110-	100-
<b>■ Cash flow from financing activities</b>	<b>425-</b>	<b>51-</b>
<b>■ Net cash flow</b>	<b>85-</b>	<b>311</b>
Cash and cash equivalents as of 1 January	844	232
Foreign exchange and translation differences on cash and cash equivalents	3	-
Net cash flow	85-	311
<b>■ Cash and cash equivalents as of 30 June</b>	<b>762</b>	<b>543</b>

## Consolidated Statement of Changes in Shareholders' Equity and Statement of Comprehensive Income

in millions of euros

	2005	2004
<b>Shareholders' equity as of 31 December in previous year</b>	<b>3,932</b>	<b>4,485</b>
Impact of implementation of IFRS after taxation	-	870-
Impact of implementation of IAS 32 & 39 after taxation	39-	-
	<b>39-</b>	<b>870-</b>
<b>Shareholders' equity as of 1 January</b>	<b>3,893</b>	<b>3,615</b>
Result after taxation (Group result)	318	146
Dividend and special profit rights paid	110-	100-
Foreign exchange translation differences and other movements	3	27-
Movements in hedging reserves	88	-
	<b>299</b>	<b>19</b>
<b>Shareholders' equity as of 30 June</b>	<b>4,192</b>	<b>3,634</b>
<b>Summary of comprehensive income</b>		
Net result after taxation for the first half year (Group result)	318	146
Exchange differences on translation of foreign operations	3	27-
Movements in hedging reserves	88	-
	<b>409</b>	<b>119</b>
<b>Total result for the first half year</b>	<b>409</b>	<b>119</b>

# Impact of transition to International Financial Reporting Standards

## ■ Introduction

Nuon has adopted International Financial Reporting Standards ('IFRS') as its primary accounting basis for its consolidated financial statements with effect from 1 January 2005.

Up to 2004, Nuon prepared its consolidated financial statements under Generally Accepted Accounting Principles in the Netherlands ('Dutch GAAP'). The Group's consolidated financial statements for the year ending 31 December 2005 and the comparative amounts for 2004 will be based on IFRS.

Although the restated information has been compiled with the same degree of care as is applied to the preparation of the annual consolidated financial information, it should be noted that the financial information presented has not been the subject of an independent audit.

As a consequence of changes to and interpretations of IFRS, the adoption of IFRS by the EU and altered views on IFRS, as well as the development of 'best practices' in general and within the energy industry in particular, statements made and amounts presented in this half year report may change later during 2005. The final impact of the implementation of IFRS will be presented in the financial statements for 2005. Because of the above, the financial data in this report are 'pro-forma'.

This annex is intended to give an insight into the impact of the change to IFRS on Nuon's previously reported performance and financial position.

## ■ First-time adoption of IFRS

IFRS 1 First-time adoption of International Financial Reporting Standards requires reporting entities to determine their accounting policies in compliance with IFRS and to apply these policies retrospectively when restating the consolidated opening balance sheet as of the transition date (1 January 2004). IFRS 1 also provides a number of exceptions (both mandatory and optional) to retrospective application of IFRS. These are described below.

### Fair value or revaluation as deemed cost

In the opening balance sheet, Nuon has chosen to adopt the approach allowed by IFRS 1 paragraph 16 whereby the fair values of generating stations and the networks have been determined and these fair values have been deemed to be the cost of networks as of 1 January 2004.

## Employee benefits

Nuon has elected not to use the so-called 'corridor' approach permitted by IAS 19 Employee Benefits whereby some actuarial gains and losses are not recognised at the transition date. As permitted under IFRS 1, all cumulative actuarial gains and losses relating to employee benefits have been recognised in shareholders' equity. For the determination of the pension expenses for 2004 and 2005 the so-called 'corridor' approach has been applied as allowed by IAS 19.

## Cumulative translation differences

Nuon has opted to use the exemption provided by IFRS 1 relating to IAS 21 The Effects of Changes in Foreign Exchange Rates, whereby:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of translation to IFRS (1 January 2004); and
- (b) the gain or loss on subsequent disposal of any foreign operation excludes translation differences arising before the transition date but includes later translation differences.

## ■ Significant changes in accounting policies impacting shareholders' equity

The impact of the transition from Dutch GAAP to IFRS on shareholders' equity as of 1 January 2004, 30 June 2004, and 31 December 2004 is summarised in the table below.

The following describes the most significant changes in accounting policies that have an impact on shareholders' equity.

### Intangible assets

Under Dutch GAAP, goodwill arising from the acquisition of subsidiaries and associates was amortised on a straight-line basis over the estimated useful life of the goodwill. Under IFRS, amortisation of goodwill is not permitted and goodwill must be tested, for impairment, at least annually, or more frequently as circumstances demand. Impairment losses are recognised in the income statement.

in millions of euros

	01-01-2004	30-06-2004	31-12-2004
<b>■ Shareholders' equity under Dutch GAAP</b>	<b>4,485</b>	<b>4,488</b>	<b>4,756</b>
Adjustments for:			
Property, plant & equipment	483-	460-	462-
Intangible assets	-	17	41
Construction contributions and government grants	94-	108-	103-
Provisions for employee benefits	251-	251-	238-
Other provisions	13	13	7-
Share of equity in associates and joint ventures	21-	21-	30-
Other adjustments	18-	24-	12-
Taxation	16-	20-	13-
<b>■ Total adjustments</b>	<b>870-</b>	<b>854-</b>	<b>824-</b>
<b>■ Shareholders' equity under IFRS</b>	<b>3,615</b>	<b>3,634</b>	<b>3,932</b>

### Property, plant and equipment

In addition to following the option allowed in IFRS 1 of using the fair value or revaluation as deemed cost as of the transition date, the following changes in accounting policies relating to property, plant and equipment have had an impact on shareholders' equity:

#### Component approach

IAS 16 Property, plant and equipment requires that significant parts (components) of an item of property, plant and equipment should be depreciated separately. This approach differs from the approach previously adopted whereby a complete complex of assets (e.g. an electricity generating station) was depreciated on the basis of the overall estimated useful life.

#### Hourly rates used for self-constructed assets

IAS 16 does not permit costs that are not directly attributable to an asset to be included in the cost of the asset. The hourly rates used to determine the amounts to be capitalised for self-constructed assets included amounts to cover such items as general overheads, etc. These amounts have been eliminated from the cost of property, plant and equipment in the IFRS balance sheets.

#### Capitalised interest

Under Dutch GAAP, interest and other costs attributable to the acquisition of property, plant and equipment were capitalised as part of the cost of the assets concerned. Under IAS 23 Borrowing Costs interest and other costs may be either expensed in the period in which they are incurred or capitalised. Under IFRS, borrowing costs will be expensed by Nuon as incurred, which is in accordance with the so-called 'benchmark treatment'.

### Construction contributions and government grants

The application of the component approach for property, plant and equipment has resulted in changes to the depreciation periods of certain assets for which construction contributions and government grants have been received. As a consequence, the periods over which contributions and grants are deferred and the amounts deferred at the balance sheet dates have changed.

### Provisions for employee benefits

#### Pensions and other post-employment benefits

Nuon has a number of pension schemes for current and former employees. The majority of employees participate in either the ABP Pension Fund ('Stichting Pensioenfonds ABP') or the Metal and Technical Industry Pension Fund ('Pensioenfonds Metaal en Techniek'). Both of these schemes are so-called defined benefit plans for which the pension benefits payable are based on the employees' length of service and average salary during the period of service. In addition to the two main schemes, there are a number of other defined benefit plans as well as defined contribution plans that are relatively insignificant.

The two main schemes can be categorised as multi-employer funds. IAS 19 provides that certain information should be disclosed in annual accounts for defined benefit plans. In particular, the net plan assets and liabilities should be recognised in the balance sheet as a liability or asset as appropriate. Both funds have stated that they are unable to furnish participating employers with the information relating to defined benefit plans required by IAS 19. Consequently, both funds have been treated as defined contribution plans and the pension costs have been expensed as incurred.

*Other long-term employee benefits*

Nuon has a number of long-term employee benefits that fall under the scope of IAS 19 'Employee benefits'. Nuon's terms of employment provide for the payment of the employer's portion of medical insurance premiums for retired employees. Under Dutch GAAP, the provision for premiums was established as employees reached retirement age. In addition, benefits are paid for long-term sickness and disability, unemployment and jubilees. Under Dutch GAAP, no provisions were made for these payments and the costs were expensed in the period in which they were incurred.

Under IFRS, the provisions are established throughout the employees' period of service and are determined using actuarial techniques. The provisions are discounted to their present values using the Projected Unit Credit Method.

As described above, at the transition date, Nuon has used the option to recognise all cumulative actuarial gains and losses relating to employee benefits in shareholders' equity. For the determination of the pension expenses for 2004 and 2005, the so-called 'corridor' approach has been applied as allowed by IAS 19.

**Investments in associates and interest in joint ventures**

Investments in associates and interest in joint ventures are accounted for using the equity method. Where necessary, the financial statements of the associates and joint ventures have been adjusted so as to comply with IFRS with a resultant adjustment to the carrying amount of these investments in the balance sheet. Under IFRS, goodwill paid for non-consolidated investments is no longer shown separately under intangible assets but forms part of the carrying amount of the non-consolidated investments. Also this goodwill is no longer amortised but, when necessary, impairment losses are recognised.

**Taxation**

The impact on the deferred tax position of adjustments to shareholders' equity described above has been reviewed and the deferred tax assets and liabilities recomputed. Certain deferred tax assets arising from timing differences for which there is uncertainty that they will reverse in the foreseeable future and that there will be taxable profits against which the differences can be utilised have not been recognised in the consolidated balance sheet.

**■ Impact of IFRS on net profit**

The impact of the transition from Dutch GAAP to IFRS on the net profit for the six months ending 30 June 2004, and the year ending 31 December 2004 is summarised in the table below.

<i>in millions of euros</i>	<b>30-06-2004</b>	<b>31-12-2004</b>
<b>■ Net profit under Dutch GAAP</b>	<b>122</b>	<b>387</b>
Adjustments for:		
Reversal of amortisation goodwill	29	5 7
Additional impairment loss	12-	16-
Depreciation of property, plant and equipment	26	47
Elimination of indirect overheads, etc. from capitalised costs	13-	26-
Deferred income – construction contributions and government grants	14-	9-
Employee benefits	-	13
Other provisions	-	20-
Share of results of associates and joint ventures	-	9-
Other adjustments	12	3
Taxation	4-	3
<b>■ Total adjustments</b>	<b>24</b>	<b>43</b>
<b>■ Net profit under IFRS</b>	<b>146</b>	<b>430</b>

### Amortisation and impairment of goodwill

Amortisation of goodwill previously booked under Dutch GAAP has been eliminated. However, additional impairment of certain subsidiaries/associates under IFRS was determined to be necessary.

### Employee benefits

The adjustment arises from a lower credit to the provision for restructuring costs as a consequence of using actuarial techniques in the determination of the provision and discounting to present value under IFRS. This has been partially offset by higher credits to the post-employment and other long-term employee benefit provisions.

### Other provisions

Adjustments to provisions have been made to reflect the interest accretion to provisions. Other provisions includes all provisions other than provisions for employee benefits (including restructuring) and deferred taxes.

### ■ Impact of IAS 32 and 39

With effect from 1 January 2005, Nuon has applied IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement. Financial instruments and derivatives have been included in the comparative figures in accordance with Dutch GAAP.

The implementation of IAS 32 and 39 has led to a different valuation of primary financial assets and liabilities than was the case under Dutch GAAP. These assets and liabilities are recognised under IAS 32 and 39 at amortised cost or fair value. In addition, all derivative financial instruments must be valued at fair value. Changes in fair value are recognised in the result unless hedge accounting, can be applied.

When using hedge accounting strict rules relating to documentation and effectiveness apply.

Nuon makes use of various foreign currency and interest rate derivatives to hedge foreign currency and interest rate risks. Furthermore, Nuon has purchase and sale positions in commodity contracts (electricity, oil and gas). Commodity contracts can be entered into for differing purposes: for own use, to cover (price) risks and for trading within criteria and limits set by the Management Board

Under IAS 32 and 39, commodity contracts must be treated as derivatives and all changes in fair value in the year recognised in the result.

There are two exceptions to this:

- For own-use contracts 'accrual accounting' may be applied. This implies that purchase and sale contracts are recognised at cost at the time of delivery and interim fair value changes are not taken into account in the results.
- The second exception applies to contracts that are used as hedging instruments ('hedge accounting'). The changes in fair value of derivatives that are used as hedging instruments are recognised in shareholders' equity and recognised in the result at the same time as the transactions that the hedging instrument was intended to cover ('cash flow hedges'). The effect of this is to limit the volatility of the result.

Nuon also applies hedge accounting to a number of interest and foreign currency derivatives. For fair value hedges, unrealised fair value changes of a derivative are offset by (opposing) changes in the fair value of the financial instruments for which the hedge contracts are entered into. The method described above is used for cash flow hedges.

*in millions of euros*

<b>■ Shareholders' equity under IFRS as of 31 December 2004</b>	<b>3,932</b>
Adjustments for:	
IAS 32 and 39	39-
<b>■ Shareholders' equity under IFRS as of 1 January 2005</b>	<b>3,893</b>

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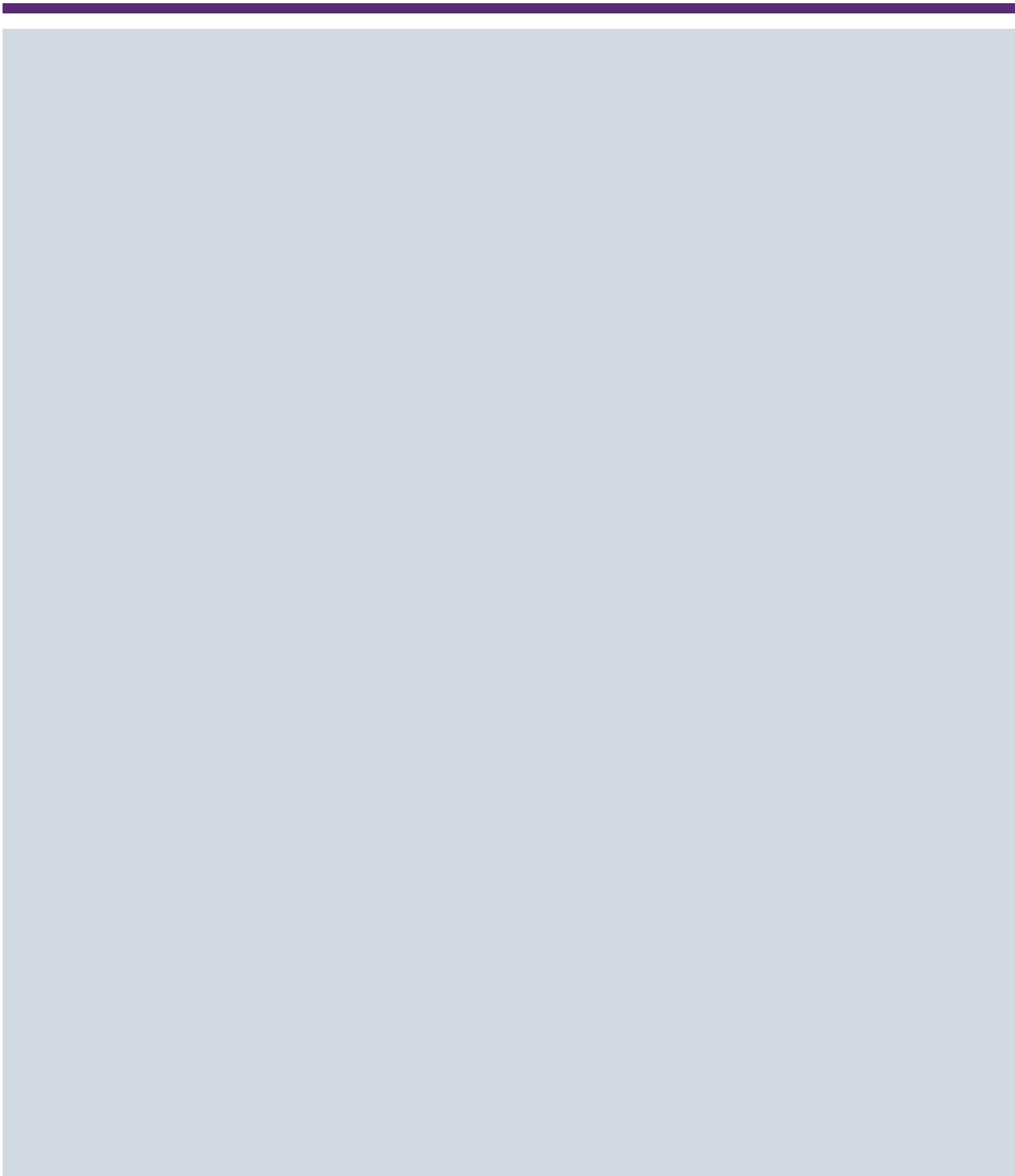
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