



HALF YEAR REPORT, 2016

NV Nederlandse Spoorwegen



Date 16 August 2016

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NV Nederlandse Spoorwegen Half year Report 2016

Condensed consolidated income statement
for the first half of the year, ending on 30 June 2016
NV Nederlandse Spoorwegen

(in millions of euros)

Disclosure	first half year	
	2016	2015
Revenue	2.573	2.369
Operating expenses	-2.509	-2.314
Share in result of investees recognises using the equity method	23	21
Result from operating activities	87	76
Net finance result	-7	-16
Result before income tax	80	60
Income tax expense 5)	-11	-4
Result for the period	69	56
Attributable to:		
Shareholder of the company	69	56
Minority interest	-	-
Result for the period	69	56



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Condensed consolidated statement of comprehensive income
for the first six months of 2016
NV Nederlandse Spoorwegen

(in millions of euros)

	first half year	
	2016	2015
Result for the period	69	56
Other comprehensive income items that are or may be classified to profit and loss	10	14
Other comprehensive income items that never be reclassified to profit and loss	5	3
Other comprehensive income	15	17
Total comprehensive income over the period	84	73
Attributable to:		
Shareholder of the company	84	73
Minority interests	-	-
Total comprehensive income	84	73



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Condensed consolidated balance sheet
ending as at 30 June 2016.
NV Nederlandse Spoorwegen

(in millions of euros)	Disclosure	30 June 2016	31 December 2015
Assets			
Property, plant and equipment		3.441	3.296
Investment property		186	194
Intangible assets		242	225
Investments recognised using the equity method		177	183
Other financial assets, including investments	1)	223	340
Deferred tax assets		268	278
Total non-current assets		4.537	4.516
Total current assets		2.015	1.770
Total assets		6.552	6.286
Equity and Liabilities			
Equity	2)	3.352	3.309
Deferred credits		288	263
Loans and borrowings, including derivatives	3)	380	440
Employee benefits		32	30
Provisions		164	155
Accruals		44	55
Deferred tax liabilities		174	168
Total non-current liabilities		1.082	1.111
Total current liabilities		2.118	1.866
Total liabilities		3.200	2.977
Total equity and liabilities		6.552	6.286



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Condensed consolidated statement of cash flows
for the first six months of 2016
NV Nederlandse Spoorwegen

(in millions of euros)

	first half year	
	2016	2015
Result for the period	69	56
Adjustments for:		
Depreciation	163	165
Impairment losses and reversals	-1	2
Other items	-5	-3
	226	220
Changes working capital	216	175
	442	395
Interest paid and income tax paid	-22	-18
Net cash from operating activities	420	377
Interest received	15	3
Dividends received and recognised using the equity method	29	20
Acquisition of intangible assets and property, plant and equipment	-333	-305
Acquisition of investment properties	-2	-2
Sale of intangible assets and property, plant and equipment	14	-
Receipts (payments) other investments	30	-76
Disposal of non-current financial assets, including investments	13	-
Acquisition of non-current financial assets, including investments	-26	-51
Net cash from investing activities	-260	-411
Net cash from operating and investing activities	160	-34
Repayments of liabilities	-159	-1
Non-current liabilities taken out	195	-
Dividends paid	-41	-48
Net cashflow from financing activities	-5	-49
Net increase/decrease in cash and cash equivalents	155	-83
Cash and cash equivalents as at 1 January	671	775
Effect of exchange rate fluctuations on cash held	-	-
Cash and cash equivalents as at 30 June	826	692



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Condensed consolidated statement of changes in equity for the first six months of 2016 NV Nederlandse Spoorwegen

(in millions of euros)

	Share capital	Other reserves	Retained earnings	Total	Minority interests	Total Equity
Balance as at 1 January 2015	1.012	-20	2.224	3.216	-	3.216
Comprehensive income						
Profit for the period			56	56	-	56
Other comprehensive income	-	17	-	17	-	17
Total comprehensive income over the period	-	17	56	73	-	73
Transactions with owners, directly recognised in equity						
Dividend paid to shareholder			-48	-48		-48
Balance as at 30 June 2015	1.012	-3	2.232	3.241	-	3.241

(in millions of euros)

	Share capital	Other reserves	Retained earnings	Total	Minority interests	Total Equity
Balance as at 1 January 2016	1.012	3	2.294	3.309	-	3.309
Comprehensive income						
Profit for the period			69	69	-	69
Other comprehensive income		15		15		15
Total comprehensive income over the period	-	15	69	84	-	84
Transactions with owners, directly recognised in equity						
Dividend paid to shareholder			-41	-41		-41
Balance as at 30 June 2016	1.012	18	2.322	3.352	-	3.352



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Notes to the condensed consolidated Half year report for 2016

General explanatory notes

Reporting entity

NV Nederlandse Spoorwegen has its registered office in Utrecht, Netherlands.

The company's consolidated Half year report for 2016 include the company and its subsidiaries (hereinafter collectively referred to as the 'Group') and the Group's share in associates and companies that it controls jointly with third parties. NV Nederlandse Spoorwegen is the holding company of NS Groep, which in turn is the holding company of the operating companies.

The Half year report is published in both English and Dutch. In the event of any discrepancies between the Dutch and the English version, the Dutch version will prevail

Statement of compliance

The condensed consolidated Half year report has been drawn up in accordance with IAS 34, *Interim Financial Reporting*. It does not contain all the information that is required for the complete annual financial statements and it should be read in conjunction with the Group's consolidated financial statements for 2015.

The condensed consolidated Half year report has been drawn up by the Executive Board and it was discussed and approved by the Supervisory Board on 16 August 2016. The condensed consolidated Half year report has been reviewed by Ernst & Young Accountants LLP, but it has not been formally audited.

Significant accounting policies

Unless stated otherwise below, the Group's financial reporting accounting policies as used in this condensed consolidated Half year report are the same as those used in the consolidated financial statements for the financial year 2015. The IFRS standards that were modified as of 1 January 2016 have had no material effect on the Half year figures.

Estimates and assessments

The preparation of the Half year report requires judgements by the Executive Board, including estimates and assumptions that affect the application of accounting policies and the reported value of assets and liabilities, and income and expenses. The estimates and corresponding assumptions are based on experiences from the past and various other factors that could be considered reasonable under the circumstances. The actual outcomes achieved may differ from these estimates.

Adjustment mechanism for the main rail network franchise

The implementation agreement with the Ministry of Infrastructure and the Environment includes a number of adjustment mechanisms for determining the franchise price. As a consequence of further insights, the adjustment mechanism relating to the average profitability over the franchise period will be included linearly over the term of the franchise instead of being accounted for at the moment that it becomes applicable. This is consistent with other (one-off) payments relating to the agreements. This change has no effect on the comparative figures, as no adjustment was accounted for in 2015.

Unless stated otherwise below, the key opinions formed by the management when applying the Group's accounting policies for financial reporting while drawing up the consolidated Half year report plus the key sources of estimates are the same as the opinions and sources that were used when drawing up the consolidated financial statements for the financial year 2015.



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Financial risk management

The objectives and the policy of the Group relating to financial risk management are in line with the objectives and the policy set out in the consolidated financial statements for 2015.

Fair value versus book value

The carrying amounts of the financial assets and liabilities recorded in the balance sheet do not differ materially from the fair values.

Update on strategic developments

During the first half of 2016, NS initiated with the implementation of the new strategy as defined in *Spoorslags beter – Strategie NS 2016 – 2019*. Three core activities are defined in the strategy: (1) delivering train services on the main rail network, (2) providing stations, and (3) contributing to the door-to-door journey. In the longer term, we will be saying farewell to Qbuzz and tenders will no longer be submitted for regional rail franchises. A choice has been made for targeted growth abroad in a limited number of countries. In addition, the longer term will see the retail and property businesses divested that are not directly involved in the transfers, journey chains or stays of passengers or the commercial facilities for them.

In line with the strategy that has been communicated, the sales process for the participating interest in Qbuzz was commenced on 11 July 2016. At this point in time, the process for that sale is still sufficiently uncertain that classification as a held-for-sale asset is not yet appropriate. By divesting Qbuzz, NS can focus more clearly in the coming years on its core activities and it will also make cooperation with regional carriers and local authorities less complicated.

A number of properties were sold during the first six months of 2016, yielding sales revenues of €12 million. That result has been accounted for in the share in result of equity-accounted investees, using the equity method.

As at 30 June 2016, the other strategic developments have not resulted in impairments or in any changes to the classification of the balance-sheet items.

No acquisitions or sales took place during the first six months of 2016.



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Notes to the consolidated balance sheet

1) Other financial assets, including investments

The other financial assets, including investments, can be specified as follows:

(in millions of euros)

	30 June 2016	31 December 2015
Other non-current financial assets, including investments		
Available-for-sale financial assets	94	132
Loans and receivables	66	149
Held-to-maturity investments	1	1
Financial leases	31	32
Other investments	31	26
Total	223	340
Other current financial assets	197	270
Deposits		
Total	197	270

As at 31 December 2015, the other financial non-current assets included a loan to HTM Personenvervoer NV in the form of cumulative preference shares, subdivided into the fair value of the loan (€26 million) and the fair value of an option of €4 million.

NS exercised the option on 30 June in the cooperative agreement with HTM Beheer B.V. As a consequence, the share capital in HTM Personenvervoer N.V. has been sold back to HTM Beheer B.V. The resulting receivable against HTM, consisting of the nominal value minus returns already received, has been included as at 30 June 2016 under the short-term receivables.

Cash and cash equivalents came to €826 million as at 30 June 2016 (€671 million as at 31 December 2015).

2) Shareholders' equity and dividend

The financial statements for 2015 and the profit appropriation were determined in the shareholders' meeting of 3 March 2016. In accordance with the proposal, the profit of €118 million over the reporting period plus a sum of €77 million were allocated to the reserves and a sum of €41 million was paid out as a dividend.

3) Loans and other financial liabilities, including derivatives

The total amount of loans and other financial liabilities can be specified as follows:



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(in millions of euros)

	30 June 2016	31 December 2015
Non - Current liabilities		
Private loans	299	340
Finance lease liabilities	58	59
Interest rate swaps used for hedging	-	17
Commodity derivatives	23	24
Total	380	440
Current liabilities		
Private loans	542	453
Finance lease	10	18
Interest rate swaps used for hedging	10	-
Commodity derivatives	-	17
Total	562	488
Total loans and other financial liabilities	942	928

When determining the value of interest rate swaps and commodity derivatives used for hedging, the Group uses valuation methods in which all the significant items of information required are derived from observable market data.

4) Off balance sheet commitments

Irregularities

Authority for Consumers and Markets (ACM)

In its judgement of 6 March 2015, the ACM concluded that NS had infringed articles 67 and 71 of the Railways Act by not making a reasonable offer in the Limburg tender for services and their locations at the stations, break locations, emergency stop facilities, check-in/check-out posts, or for energy costs, handling disruptions and journey information (Railways Act, Article 67). In addition, the ACM concluded that NS shared sensitive competitive information about Veolia and others with Abellio and Qbuzz (Railways Act, Article 71).

The ACM then carried out further investigations into the possible misuse by NS and its subsidiaries of their position of economic strength in the Limburg tender, based on the Competitive Trading Act and the European tendering regulations. At the start of July 2016, the ACM sent a report on the investigations to NS, in which the position adopted is that NS misused its position of power and thus infringed the competitive tendering regulations. NS is now being given an opportunity to express its opinion of the statements presented by the ACM in the investigative report and to state what it thinks, both verbally and in writing. The ACM will then take a decision.

The decision taken by the ACM may include imposing a penalty on NS. Any such penalty imposed by the ACM would be based on a percentage of the turnover involved, with a legal maximum of 10% of the consolidated turnover. The bandwidth for any such fine is this from zero to the said legal maximum. At this stage, NS is not in a position to make a reliable estimate of the size of any penalty and no provision has therefore been recognised for it. It is possible to object to a decision to impose a fine, to appeal against it and to take it to the higher appeals court.



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Veolia

Veolia issued a summons against NS (among others) and a number of its affiliated entities on 22 July 2016 in connection with the conduct of the parties involved in the 'Limburg Concession 2016-2031' tender. Veolia's claim in these proceedings, insofar as relevant for NS and its affiliated companies, is in brief: (i) a statement in law that they are jointly and severally liable with respect to Veolia because of the alleged unlawful actions against Veolia relating to the said tender, (ii) a judgement on compensation for the damages already suffered and yet to be suffered as a result of these actions, and (iii) a claim that forbids them to make use of any information that may have been stolen from Veolia. The evidence and the level of damages allegedly suffered by Veolia have not been made sufficiently concrete by Veolia. The outcome of the legal procedure (and thereby any potentially allowable claims for damages) cannot currently be estimated with certainty or reliably and therefore has not been provided for.

Public Prosecution Service

The Public Prosecution Service (specifically, the Office for Financial, Economic and Environmental Offences in s'-Hertogenbosch) started an investigation in 2015 into possible criminal acts in connection with the tendering process for public transport in Limburg. The investigation is focusing on the actions and circumstances surrounding an alleged arrangement regarding the disclosure of business secrets. The suspected parties include the companies NS Groep NV, Qbuzz BV, Abellio Transport Holding BV and Abellio Nederland BV. In February 2016, NS Groep NV received the final report of the criminal investigation. The public prosecution service has now decided to charge NS Groep NV. and to handle the cases against Qbuzz B.V., Abellio Transport Holding B.V. and Abellio Nederland B.V. outside the courts. How this will be done and what the financial consequences will be (level of penalties imposed, transaction, etc.) cannot be determined reliably at this point in time. As a result, no provision has been included.

Other

There is an inherent risk that additional claims will follow as a result of the irregularities that have been observed. The claims mentioned above could have a material impact on the results and equity position of NS. Because the outcome cannot be reliably estimated at this point in time, no provisions have been included for it.

Investment commitments

At the end of June 2016, the Group had outstanding investment commitments of €703 million (31 December 2015: €838 million), primarily for purchasing rolling stock and investments in the areas around the stations.

Obligations relating to energy in the Netherlands

In 2014, the Group signed a ten-year contract (2015-2024) with Eneco for the supply of green traction electricity for the rolling stock fleet in the Netherlands. The purchase obligation came to €224 million as at 30 June 2016 (€207 million as at 31 December 2015).



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Explanatory notes to the consolidated profit and loss account

5) Corporate income tax

(in millions of euros)

	first half year	
	2016	2015
Profit before tax	80	60
Income tax at Dutch tax rate for corporation tax (2016 and 2015: 25%)	-20	-15
Permanent differences	2	4
Effect of the tax rate in foreign jurisdictions	7	7
Other adjustments	0	0
	<u>-11</u>	<u>-4</u>

6) Seasonal influences

Seasonal influences have no materially relevant effect on the figures.

7) Employees

The number of staff (expressed as FTE) increased from 30,398 at the end of 2015 to 30,835 at the end of June 2016.

8) Related parties

The transactions with related parties are recorded on an arm's-length basis.

All issued shares are held by the State of the Netherlands. One significant transaction with an enterprise that has a relationship with the State (DUO, the Dutch Education Executive Agency) is the revenue from student railcards (first half of 2016: €235 million, first half of 2015: €234 million).

The following transactions took place with ProRail BV, an enterprise related to the State:

- The access charges for use of the Dutch rail infrastructure were €157 million in the first half of 2016 (€146 million in the first half of 2015).
- For the financial of commercial facilities at stations (New Key Projects), €8 million had been agreed to be paid to ProRail BV as at 30 June 2016 (€11 million as at 31 December 2015). In the first six months of 2016, €6 million was paid to ProRail BV (first half of 2015: €16 million).

The Group has a 5.8% interest in Eurofima. The following transactions and balance positions have been recorded relating to this party.



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(in millions of euros)	first half year 2016	first half year 2015
<i>transactions</i>		
Interest charges	0	1
	30 June 2016	31 December 2015
<i>balance sheet positions</i>		
Private loans (Current and non current)	449	449

There have been no other significant transactions with related parties.

Other information

Events after the balance sheet date

In line with the strategy that has been communicated, the sales process for the participating interest in Qbuzz was commenced on 11 July 2016 and further properties were sold and delivered in mid-July, with a sales result of €55 million.

On 15 July 2016, NS signed an investment obligation with Alstom relating to the purchase of rolling stock for a sum of €825 million.

Utrecht, 16 August 2016

Board of Directors

R.H.L.M. van Boxtel, Chairman and CEO
Ms S.M. Zijderveld, Risk Management Director
A.P. Schouws, Financial Director
Ms W.E.F. Rintel, Operations Director



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Review report

To: the shareholder of N.V. Nederlandse Spoorwegen

Introduction

We have reviewed the accompanying condensed consolidated interim financial information, as set out on page 2 to 13, over the period 1 January 2016 to 30 June 2016 (hereinafter: Interim financial information) of N.V. Nederlandse Spoorwegen, Utrecht, which comprises the condensed consolidated balance sheet as at 30 June 2016, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated cash flow statement, the condensed consolidated statement of changes of equity over the period 1 January 2016 to 30 June 2016 and the notes, including an overview of the significant accounting policies and other disclosures. The board of directors of the company is responsible for the preparation and presentation of this 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 Entity". 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 Dutch 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 interim financial information over the period 1 January 2016 to 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union.

Emphasis of an uncertainty related to the irregularities identified regarding the Limburg tender

We draw attention to paragraph Irregularities in the notes to the condensed consolidated interim financial information, which describes the uncertainty related to the identified irregularities regarding the Limburg tender. Our conclusion is not qualified in respect of this matter.

Rotterdam, 16 August 2016

Ernst & Young Accountants LLP

Drs J. Hetebrij RA