


annual report 2010

connected

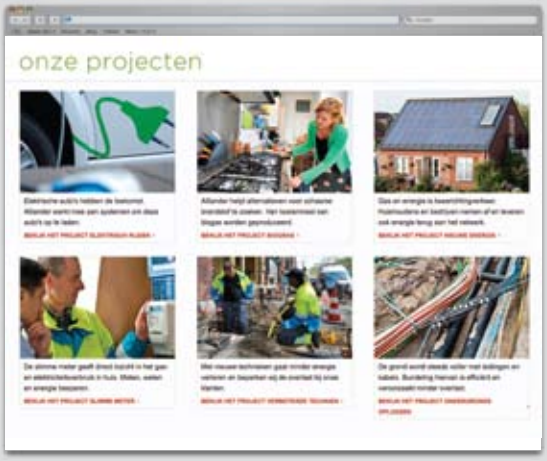



alliander

contents

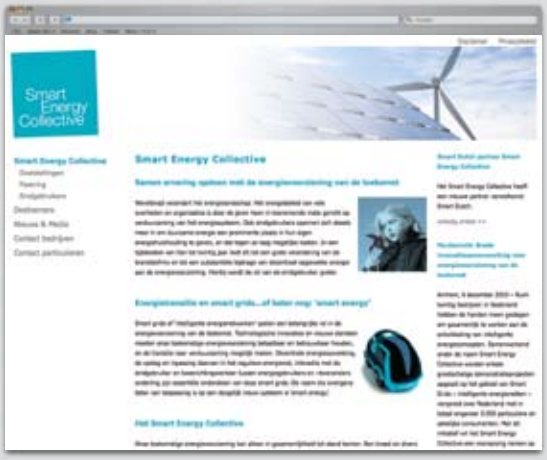
NETHERLANDS BECOMES GREEN

Towards the end of 2010, Alliander launched the labour market campaign 'Netherlands becomes green'. The campaign highlights Alliander's sustainable nature and was started up to improve the company's name recognition and image as a top employer. Students and ICT graduates are mainly approached via online media, such as the campaign site, Facebook and YouTube.
www.alliander.com/groenland



OUR PROJECTS

Over the next ten years, our concepts of living, working and mobility are set to change beyond recognition. That's why Alliander is looking ahead. We guarantee reliable transportation of gas and electricity for everyone and at any time. Examples of our innovative projects can be found at www.alliander.com. Alliander is working with drive and enthusiasm on a sustainable future.
www.alliander.com/nl/alliander/innovatie/onze-projecten



SMART ENERGY COLLECTIVE

The Smart Energy Collective is all about jointly innovating and gaining experience with sustainable energy. Together with 20 companies in the Netherlands, Alliander is working to develop intelligent energy concepts. We carry out practical experiments with 'smart energy' and 'smart grids'. We also test technologies and learn about the future energy behaviour of end users.
www.smartenergycollective.com

alliander online

Various projects and initiatives described in this annual report can also be viewed online. A selection can be found below. The texts on the websites are available in Dutch only.

GREEN DREAM DISTRICT

Liander sponsors Green Dream District, a TV programme on the National Geographic Channel. In this programme, young inventors compete to come up with the most sustainable invention of the year. Liander encourages these young talents. Together, we are looking for sustainable solutions for our society and the environment. Liander is also sponsoring Green Dream District in 2011.
www.greendreamdistrict.nl

ENERGY AND SAFETY

The www.energieveilig.nl website is a joint initiative of the grid managers who are united in Netbeheer Nederland. This website provides answers to all sorts of questions and offers information on the theme of energy and safety. Here consumers can also find holiday, lightning and DIY safety tips.
www.energieveilig.nl

BONNY AND BLITZ

Liander is investing in the energy future and awareness of children. Two animated characters, Bonny and Blitz, enter into a dialogue with 9- to 10-year-old schoolchildren, discussing such questions as: What is clean energy? and How do electric cars work? In 2010, Bonny and Blitz were invited to present a sustainability teaching programme at several primary schools. There was also lots to see and experience online: new animated films, games and ‘Monstermaker’.
www.debliksems.nl

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disclaimer

'We', 'Alliander', 'the company' or similar expressions are used in this annual report as synonyms for Alliander N.V. and its subsidiaries. Liander refers to the grid manager Liander N.V. and its subsidiaries. The name Endinet refers to the Endinet Group that included three grid managers in 2010: Endinet Haarlemmermeer B.V., Endinet Oost-Brabant N.V. and Endinet Regio Eindhoven B.V. In this report, the name Stam refers to Stam Heerhugowaard Holding B.V. with its subsidiaries, and the name Liandon refers to Liandon B.V. Alliander N.V. is the sole shareholder of Liander N.V., Endinet-Groep B.V., Liandon B.V. Alliander Finance B.V., Alliander Telecom N.V., Alliander Participaties B.V., Alliander AG and Stam Heerhugowaard Holding B.V.

Parts of this annual report contain prospective information. These parts – without exceptions – may include unqualified statements on future operating results, government measures, the impact of other regulatory measures on all of Alliander's activities as a whole, Alliander's shares and those of its subsidiaries and joint ventures in existing and new markets, industrial and macro-economic trends and Alliander's performance in these trends.

Such statements contain or are preceded or followed by words such as 'believes', 'expects', 'thinks', 'anticipates' or similar expressions. These prospective statements are based on the current assumptions concerning future activities and are subject to known and unknown factors and other uncertainties, many of which are beyond Alliander's control, such that actual future results may differ significantly from these statements.

The annual report contains four interviews in the section entitled 'Connected'. Views expressed in these interviews are not necessarily shared by Alliander and no rights may be derived from the contents thereof.

This annual report 2010 is a translation of the Dutch annual report of Alliander N.V. for the financial year 2010. Although this translation has been prepared with the utmost care, deviations from the Dutch annual report might nevertheless occur such that the information in this annual report may be misinterpreted or different conclusions may be drawn. In this case, the Dutch annual report 2010 prevails.

about this report

This is the annual report for 2010 of the network company Alliander. As in 2009, the Corporate Social Responsibility Report and the financial report have been integrated into a single document. In this way, we can show the cohesion between our operational, financial and social actions.

Financial and corporate social responsibility reporting

The financial reporting takes place in accordance with International Financial Reporting Standards (IFRS) and relevant provisions in the Dutch Civil Code. The Corporate Social Responsibility Report was drawn up in compliance with the guidelines of the Global Reporting Initiative (GRI). As in the previous year, we are striving to achieve the B+ application level and aim to realise the A+ application level in 2012. We accomplish this by disclosing and explaining all material GRI key and sector indicators.

Transparency Directive

In November 2010, Alliander issued a perpetual subordinated bond. The issue of this hybrid form of finance means Alliander must comply with the Transparency Directive as well as certain parts of the Decree on Corporate Governance 2009. Among other things, the Transparency Directive has consequences for the publication dates of annual reports and interim reports, and prescribes the compulsory inclusion of a management statement. In addition, in line with European regulations, the Management Board's Corporate Governance statement must contain a description of the most important characteristics of Alliander's risk management and control system.

Consolidation

The consolidated annual report comprises the financial and non-financial information of Alliander and its subsidiaries. In 2010, the most important subsidiaries were Liander N.V., Endinet B.V. and Liandon B.V.
The assets, liabilities, results and non-financial information of the subsidiaries are wholly (100%) consolidated. The results of consolidated companies which were acquired in 2010 are included from the date on which Alliander obtained control over these companies.

CSR reporting scope

The scope of the Corporate Social Responsibility (CSR) Report comprises all entities of Alliander, of which network company Endinet became a part in 2010. In this report the name Endinet refers to the Endinet Group.

The non-financial KPIs concerning important grid management information (page 8) include the grid manager Endinet. These data are stated for the full year 2010. The FTEs and staff numbers stated in the section on employees include acquired companies. The other non-financial data exclude acquisitions. The comparative figures for 2009 exclude data for Endinet.

Transparency Benchmark

Each year the government asks a broad group of Netherlands-based companies and organisations to be transparent about their policy and activities in the field of corporate social responsibility (CSR). We endorse the importance of good CSR reporting. The Transparency Benchmark of the Ministry of Economic Affairs, Agriculture and Innovation provides a good measure of the efforts undertaken in this field. The Transparency Benchmark is performed each year and in 2010 the benchmarked group was expanded to almost 500 companies. The Alliander Annual Report 2009 came 42nd in the league table. Alliander is aiming to be in the leaders group in the reporting year 2011.

Materiality

The contents of the CSR section of the report were determined on the basis of an internal and external analysis. Subjects were selected and prioritised according to their impact on our stakeholders and the organisation. Topics and themes with a high materiality level are explained on page 157 in the annual report.

Facts and figures

The financial statements, which form a separate part of this report, received an unqualified audit opinion from PricewaterhouseCoopers Accountants N.V., which is included on page 153 in the report.

One section of this report is devoted to the activities undertaken and results achieved in shaping our corporate social responsibility programme.
PricewaterhouseCoopers Accountants N.V. has reviewed this information. The Assurance Report provides limited assurance and is contained on page 164 in the report.

key data alliander[1]

	Unit	2010	2009
Customers			
Percentage of satisfied consumers	per cent	91	89
Percentage of satisfied business customers	per cent	87	87
Average power outage duration per customer	min. per year	31.2	27.4
Employees			
Number of own employees at year-end (in FTEs)	number	5,316	4,633
Number of temporarily hired employees at year-end (in FTEs)	number	728	1,083
Absenteeism	per cent	3.9	4.3
Employee satisfaction	rating	8.1	8.2
Shareholders and lenders			
Operating profit	€ million	330	491
Capital expenditures on property, plant and equipment	€ million	368	397
Solvency	per cent	48.5	41.6
ROIC	per cent	6.9	7.8
Society			
CO_2 emissions	ktonnes	780	705
Employees with a disadvantage on the labour market	number	71	71
Waste	ktonnes	12	11

1 Key data on FTEs and financial KPIs are shown including companies acquired in 2010. The other KPIs are shown excluding acquistions.

introduction by the chairman of the management board

The year 2010 was one of development, growth and financial stability for Alliander. Growth in value for our customers, shareholders and employees, and also growth in our contribution to society. We are proud of the fact that our customers were satisfied with our services in 2010. And thanks to the integration of grid manager Endinet, we were able to welcome new customers and colleagues. In 2010 we, together with our stakeholders, devoted considerable attention to the themes of sustainability and energy saving. Our open dialogue makes us genuinely 'connected'. This is a positive sign for the future.

In 2010 we also made further operational improvements, including optimising our customer chains in order to raise our services to an even higher level. In addition, we invested substantially in employee development with a view to making the organisation even more professional and mature. And with virtually unchanged revenue, we managed to reduce our operating expenses. One setback was the increased electricity outage duration, which, due to several major disruptions, rose to above thirty minutes in 2010. This is consequently an important operational issue for 2011.

We see that the transition to a more sustainable energy supply is continuing unabated. We want to make an important contribution to this process on the strength of our conviction and commitment. The results for 2010 provide us with a solid basis for pursuing this aim. This is vital because, as a network company, we face major challenges. More and more customers are embracing renewable energy sources and want to use energy more consciously. We also see a growing market for electric transport. This calls for a smarter and more flexible network, while we naturally also have to continue guaranteeing the reliability of the energy supply. For our part, this means that Alliander will invest more in our grids in the coming period. Not just in replacing cables and pipes, but above all in making our infrastructure more intelligent. In addition, we are working with other grid managers to prepare the introduction of smart meters that will give our customers better insight into their energy consumption.

Alliander is a company that wants to be connected to its surroundings. We believe that cooperation and co-creation are key to realising a sustainable and reliable energy supply. And in our relationship with you, we want to be recognisable as an open, transparent, expert and professional partner.

The results and experiences of 2010 inspire us with confidence for the coming years. Our thanks go out to everyone inside and outside Alliander who helped our company to pursue its ambitions and activities in the past year.

Peter Molengraaf
Chairman of the Management Board

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profile

As a network company, Alliander is responsible for the transportation of gas and electricity to 38% of all energy customers in the Netherlands. This makes us the largest network company in the country.

The grid managers Liander and Endinet transport electricity to 3.0 million customers and gas to 2.6 million customers nationwide. Alliander, which employs about 6,000 people, consists of various companies including Liander N.V., Endinet-Groep B.V. and Liandon B.V. In 2010 Alliander generated annual revenue of € 1.43 billion.

Core activities

Energy grid management

The core tasks of Liander and Endinet comprise the construction, maintenance and management of electricity and gas grids (the energy grids), the realisation of connections to the electricity and gas grids and the transportation of electricity and gas. These tasks are defined in the Electricity Act 1998 and the Gas Act. The grid managers also facilitate the free energy market by helping customers switch to another energy supplier upon request.

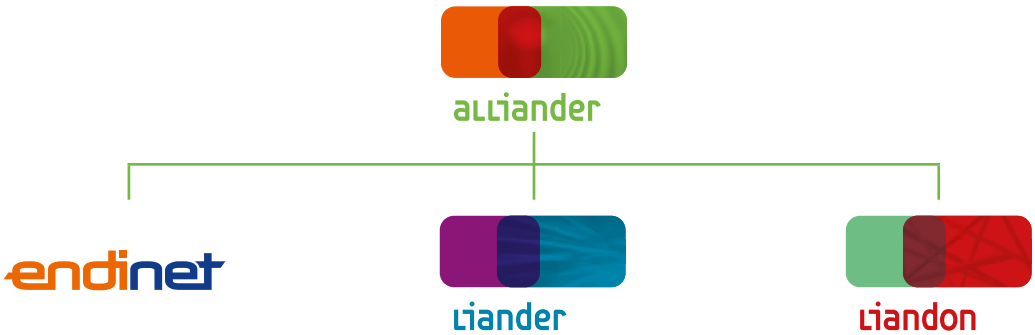
Within their service areas, Liander and Endinet are the owners of the electricity grids up to and including 50 kilovolts (kV) and the gas grids up to and including 8 bar. The energy grids with a higher voltage or pressure are owned by the national electricity grid manager TenneT TSO B.V. and the national gas grid manager GTS B.V. (Gas Transport Services, part of Gasunie), with the exception of our high-voltage grids in Flevoland and Noordwest-Veluwe (Randmeren) which are subject to a cross-border lease.

The energy chain constitutes a succession of links from energy production through to energy consumption. The production, trading and sale of energy to customers takes place in a free market, where customers can select the supplier of their choice. The transportation of energy, by contrast, is the exclusive responsibility of network companies.

Alliander, the constituent companies

Grid manager Liander

Liander is responsible for the construction, maintenance and management of electricity and gas grids in the province of Gelderland and parts of the provinces of



Noord-Holland, Flevoland, Friesland and Zuid-Holland. Liander transports electricity to 2.9 million and gas to 2.1 million households, businesses and institutions. The activities of grid manager Liander account for the larger part of Alliander's annual revenue.

Grid manager Endinet

Endinet is responsible for the construction, maintenance and management of electricity and gas grids in the Eindhoven and Oost-Brabant region. In addition, the company is active in the construction and maintenance of public lighting, traffic control systems and fibreglass networks. Endinet transports electricity to 106,000 and gas to 451,000 households, businesses and institutions.

Since 1 July 2010, the network company Endinet has formed part of Alliander. The combination with Endinet, which has about 300 employees, strengthens Alliander's position in the Netherlands.

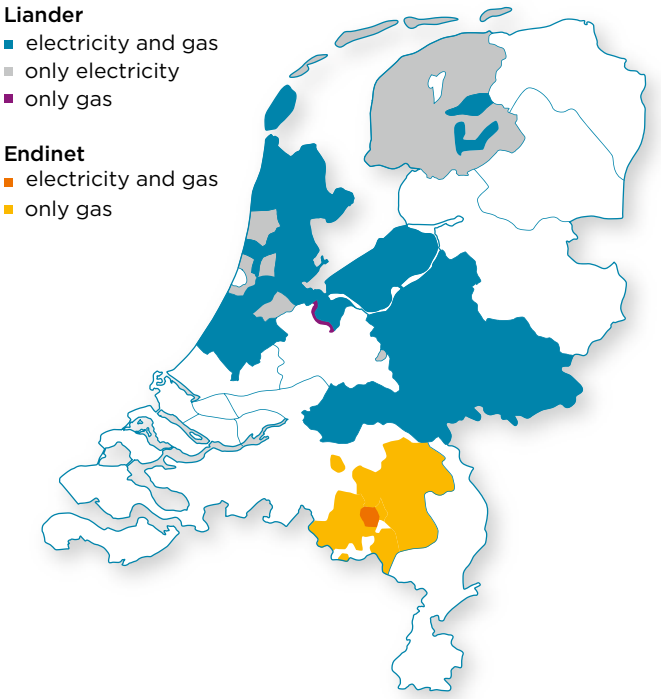
Liandon: specialist in sustainable energy technology

Liandon designs, constructs and manages energy technology in the field of electricity, gas, heating, cooling and renewable energy. Liandon is Alliander's knowledge centre and largely responsible for its innovations in such areas as smart grids. The largest customers of Liandon are Liander and the national grid manager TenneT TSO. In addition, Liandon works for other companies such as Agriport, ProRail, Nuon and Ericsson.

Shareholders

The shares in Alliander N.V. are government-owned. The largest shareholders are the provinces of Gelderland, Noord-Holland and Friesland (via B.V. Houdstermaatschappij Falcon) and the municipality of Amsterdam.

Liander and Endinet service areas as at 1 January 2011



Important grid manager data			
	Unit	2010[1]	2009
Number of electricity customers	in thousands	3,020	2,861
Number of gas customers	in thousands	2,607	2,137
Number of new electricity connections	in thousands	40	41
Number of new gas connections	in thousands	26	23
Number of disconnections[2]	in thousands	9.6	8.2
Transported electricity volumes	GWh	30,940	29,408
Transported gas volumes	million m³	8,746	6,138
High-voltage (110/150 kV)	kilometres	551	538
Intermediate-voltage (50 kV)	kilometres	2,285	2,289
Medium-voltage (3/10/20 kV)	kilometres	36,453	35,341
Low-voltage (0.23 kV)	kilometres	49,390	47,730
Size of electricity transport network	**kilometres**	**88,679**	**85,898**
High-pressure (greater than 0.2 bar)	kilometres	7,148	6,077
Low-pressure (less than 0.2 bar)	kilometres	35,415	28,987
Size of gas transport network	**kilometres**	**42,563**	**35,064**

1 Concerns consolidated data of the grid managers Liander and Endinet.

2 The number of connections relates to the number of disconnected buildings due to e.g. termination of delivery, non-payment and fraud.

mission, vision, ambitions and core values

Energy is indispensable to our society. Our customers count on a safe, reliable, affordable and clean supply of energy. Alliander caters to this need.

Working together for a better society

Our society is engaged in a transition to sustainable energy. Over the coming years and decades, the energy flowing through the grids will change. An increase in renewable, small-scale, locally-generated energy will cast consumers in the dual role of consumer and producer. Renewable energy will add the dynamics of sun, wind and biomass to our energy flows. We are thus facilitating the transition to a sustainable energy supply and are actively contributing to a better society.

MISSION

We want to promote a better society in the regions in which we operate.

VISION

Our close connections with society enable the fast, innovative and reliable delivery of our services, so that customers perceive the network company Alliander as the best in class.
Thanks to an ongoing dialogue with our stakeholders and our ambition to continuously improve, we are able to make a balanced contribution towards realising growth for all our stakeholders.

In the regions in which we operate, we work with energy and drive to create a better society.

AMBITIONS

Drawing on our ongoing dialogue with our stakeholders, we have defined the following ambitions:

Customers
We are the number one service provider in the eyes of customers in the regions in which we operate
Employees
We are an innovative, successful company that works with energy and drive to create a better society
Shareholders and lenders
We are a robust, socially and economically responsible investment
Society
We are the natural partner in the development and implementation of energy policy

CORE VALUES

Our core values are: committed, reliable, the best. Our customers can rely on us as the most committed, reliable and best network company to develop and manage the crucial energy infrastructure.

strategy

Alliander remains a strong, reputable and financially healthy network company. We continuously improve the management of energy and data flows. We also help our customers gain insight into their energy consumption and the dynamics of that consumption.

We work closely with our customers to support them in the transition to renewable energy sources. And we improve our operations on an ongoing basis. To this end, we continually encourage our employees to develop their personal and professional skills. Corporate social responsibility comes naturally to us and we work together with other grid managers wherever possible.

Our strategy in brief:
- Continuously outperform the sector on service, security of supply and costs;
- Improve the control of energy flows and insight into energy consumption;
- Help customers save energy and switch to renewable energy sources.

STRATEGIC THEMES

In order to give direction to our day-to-day operations, we have translated our ambitions and strategy into five strategic themes. Within Alliander, these themes form an integral part of our business plans and year plans.

Customer first

Our customers are our first priority. In addition to the connected households, businesses, municipalities and provinces, these also include parties in the energy chain, such as energy suppliers. Our services are designed to give our customers optimal support, whereby security of supply is the cornerstone. It is our ambition to surprise customers with innovative products, services and service delivery. Our objective is ambitious: we want to be the number one service provider in the eyes of our customers.

Operational excellence

Our customers expect us to deliver quality – which is why we continuously invest in our processes and systems. Our working practices must be uniform, simple and as standardised as possible and increasingly digital. Digital channels are gaining an increasingly prominent role.

Modern employer

People are pivotal to Alliander's work and our staff are our human capital. Committed, highly-trained and motivated employees make the difference through their professionalism and skills. Flexibility and a healthy work-life balance are crucial, as are permanent learning and innovation. We aim to be a good and modern employer, both for current and new colleagues. Enabling our employees to use their talents to maximum effect allows us to continually develop.

Sector optimisation

We actively seek cooperation within the sector. Cooperation means jointly developing and sharing knowledge and expertise to ensure the sector achieves maximum synergy for the Netherlands as a whole. We also actively approach our chain partners in an effort to work together and improve the chain. Optimisation also includes exchanging geographically dispersed service areas between network companies. This enables grid managers to operate more efficiently and gives customers and other stakeholders a single point of contact in their area.

Facilitating the energy transition

The energy landscape is changing. As solar panels, wind turbines and biogas become more widespread, the share of renewable – often locally-generated – energy continues to grow. This is increasingly creating a two-way energy flow in our grids. We transport energy to our customers, but our customers also feed energy back. In other words, they are suppliers as well as users. The advent of electric transport is another important development in this respect. Clearly, these technological advances have important consequences for our grids. By applying information technology in our energy grids, we are better able to match the supply of and demand for energy as well as monitor and control the energy flows. In the coming years, we will vigorously pursue the development and application of smart grids.

Preparing for new forms of energy production and consumption, while calculating the implications of future scenarios, means we can smooth the transition to a more sustainable and cleaner energy supply. We see our role as facilitating and encouraging this energy transition at the pace that society sets. We connect key parties in the market; together we can resolve the policy, organisational and technological challenges that present themselves. By studying the impact of new technologies on the energy grids, we can play a meaningful and significant role in this process.

BUSINESS AND CSR STRATEGY: TWO SIDES OF THE SAME COIN

Corporate social responsibility is a big part of our 'licence to operate'. We want our social engagement to shine through in all we do and pursue. The engagement and attitude of our employees underpins this commitment, as does the constant ambition to boost our performance through innovation.

We have summarised our CSR objectives in three main goals, which are derived from our business strategy:

1. Optimising the energy transition;
2. Guaranteeing responsible business operations;
3. Supporting community initiatives that fit with our role.

Managing corporate social responsibility

Alliander involves its employees wherever possible in efforts to improve the company's CSR performance. We ensure that our CSR responsibilities always have a close bearing on our daily work.

The careful management and reporting of our CSR performance forms part of our planning and control cycle, our corporate governance and our remuneration policy. CSR is also an integral part of our management and improvement programmes.

Mission	We want to promote a better society in the regions in which we operate			
Stakeholders	**Customers**	**Employees**	**Shareholders and lenders**	**Society**
Ambitions	We are the number one service provider in the eyes of customers in the regions in which we operate	We are an innovative, successful company that works with energy and drive to create a better society	We are a robust, socially and economically responsible investment	We are the natural partner in the development and implementation of energy policy
CSR strategy	**Socially responsible organisation**	**Responsible operations**	**Facilitate energy transition**	

Alliander ambitions per stakeholder

Ambitions per stakeholder	Activities	Objective 2010	Result 2010	Long-term objective
Customers				
Improving customer satisfaction.	Introduction of text messaging service. Improvements to proposal processes. Introduction of customer/ contact evaluations. Chain optimisation.	Improvement in customer satisfaction versus the benchmark of Dutch grid managers. Objective for consumers and for the business market is to outperform the benchmark by 1%.	Customer satisfaction among consumers and small business customers exceeded the benchmark by 3%. Customer satisfaction among business customers was 13% better than the benchmark.	Number one service provider in the eyes of our customers.
Increasing the reliability of energy supply.	Set up a taskforce to monitor disruption minutes. Optimisation of the process for recording interruptions.	Target is 24 minutes for low voltage and medium voltage.	Average number of interruption minutes per electricity customer connected by Liander Grid Management increased to 31.2.	20 minutes in 2015.
Employees				
Employee satisfaction.	Insight via periodic employee satisfaction surveys. Training and development programmes.	Objective was an employee satisfaction score of 8.0.	Achieved employee satisfaction score of 8.1.	Realise a minimum score of 8.0 over a longer period.
Safe working environment for employees.	Internal 'I work safely' campaign. Recognition of good employment practices. Obtain Safety, Health & Environment certificates for Alliander units.	Strengthen safety management based on recognised standards, with a Lost Time Injury Frequency (LTIF) of 2.9.	LTIF is 3.1.	Reduce the LTIF to 2.1 by 2013.
Shareholders and lenders				
Offer the right balance between protection for providers of (debt) capital and shareholder returns.	To operate within Alliander's financial framework.	To outperform the sector in respect of costs and operational excellence (service, reliability of supply). To maintain a solid A-rating profile.	Based on the provisional information available to date, we expect to have performed in line with the sector average. A solid A-rating profile at the 2010 year-end.	To continually outperform the sector in respect of costs and operational excellence (service, reliability of supply).
Society				
Climate-neutral operations and reduction of impact on natural resources and emissions.	Available investment funding for CO_2 reduction determined. CO_2 forms part of planning and budget cycle. Start of grid loss reduction programme. Plugwise pilots at two office locations. Purchase of 20 electric vehicles.	CO_2 footprint of 744k tonnes.	CO_2 footprint is 780k tonnes.	Climate-neutral operations by 2015.
Support people with a disadvantage in the labour market.	Group-wide Step2Work programme. Objective is placement within Alliander and at partners. Programme launched in cooperation with Mariëndaal (special needs education).	Placement of 70 people with a disadvantage in the labour market.	Step2Work: 71 placements realised; Introduction programme.	80 placements by 2013; 100 by 2015.

management board

Peter Molengraaf, MBA

(1965) has been chairman of the Management Board and Chief Executive Officer of Alliander since 30 June 2009.

Career

From 2005 to 2009 Peter Molengraaf held various management positions at Nuon. His most recent position was chairman of the management board of the network company. Prior to 2005 he was active in various positions at Shell, including Manager of the European Customer Service Centre, Cross-Business IT Manager and Commercial Director at Shell Nederland Verkoopmaatschappij.

Peter Molengraaf studied information technology at TU Delft and obtained his MBA at Erasmus University's Rotterdam School of Management. Peter Molengraaf is a Dutch national.

Supervisory Board memberships/other positions

- Member of the Supervisory Board of N.V. Kema
- Member of the Supervisory Board of Ziut B.V.
- Board member for the employers' association for Energy, Cable & Telecom and Waste & Environment Businesses (WENb)

Mark van Lieshout

(1963) has been a member of the Management Board and Chief Financial Officer of Alliander since 1 January 2010.

Career

From 2008 to 2010 Mark van Lieshout was Director of Finance, Treasury and Fiscal Affairs of Alliander. Between 2003 and 2008 he was financial director of N.V. Nuon Business. Prior to 2003 he worked in various roles, including Chief Financial Officer for ABB Benelux.

Mark van Lieshout studied Business Economics at VU University Amsterdam and attended various Business Programmes at the International Institute for Management Development (IMD) in Lausanne, Switzerland. Mark van Lieshout is a Dutch national.

Photo: left Mark van Lieshout, right Peter Molengraaf

review of the year

january

Opening of the Alliander Technical Training Centre

At Alliander's new Technical Training Centre in Haarlem our new colleagues learn a variety of technical skills. They receive training in gas and electricity skills from Alliander professionals. Employees of other energy companies and intermediate vocational students are also welcome to attend courses here. The Centre is one of Alliander's initiatives to assure a sufficient supply of expert and good-quality staff for the company and sector.

march

Alliander acquires the contractor Stam

In March 2010, Alliander took over the contracting company Stam. The acquisition ensures that Alliander – which was already working with Stam – has sufficient qualified technicians in the Noord-Holland region.

may

1200 electric cars and boats in Friesland

At the end of 2012 there will be 500 electric cars on the roads, 700 electric boats on the waterways and 800 loading points in the province of Friesland. The initiative to achieve these goals arose in May 2010 from the partnership of, among others, the province of Friesland, the municipality of Leeuwarden, Liander, Essent, EnergyValley and Stifting Elektrysk Farre Fryslân. Electric transport may have a major impact on the electricity grid in the future. Liander is therefore already exploring the effects of this development. Liander wants to do what it can to support customers who have electric cars or electric boats and is therefore working hard – often in collaboration with other parties – to create recharging points for electric transport.

june

Court decides on WON

On 22 June 2010, The Court of Appeal in The Hague ruled that two parts of the Dutch Independent Network Operation Act (WON, also known as the 'Unbundling Act') are not binding on the grounds that they are allegedly in conflict with European law. This concerns the prohibition on integrated energy companies (i.e. the obligation of integrated energy companies to unbundle) and the ban on allowing grid managers to carry out ancillary activities. The decision means that the energy companies which have not yet unbundled, i.e. Eneco and Delta, are (for the time being) not obliged to unbundle into a production and supply company, and a network company. The Dutch State has appealed this decision in the Supreme Court. Alliander is awaiting the outcome of the appeal and will subsequently decide on any follow-up steps in consultation with the Supervisory Board and shareholders.

july

Endinet becomes part of Alliander

On 1 July 2010, Endinet was taken over by Alliander. The company employs about 300 people and is responsible for the construction, management and maintenance of the gas and electricity networks in the Eindhoven and Oost-Brabant region. Endinet transports gas and electricity to about 560,000 customers. After the takeover, all external debts of the Endinet-group were repaid.

august

New tariffs in 2011

In what is referred to as a 'method decision', the Netherlands Competition Authority (NMa) indicates how the efficiency and quality discounts (the x and q factors) for electricity and gas are determined. The grid managers are required to use these factors to calculate their tariffs in the next regulation period. On 26 August 2010, the NMa announced its method decisions for the regulation period from 2011 to 2013. As a consequence of these decisions, the income of the grid managers, and hence the average tariff levels, are permitted to rise in the coming three years by an average of 5 to 7% per year (above annual inflation).

september

Innovation: CityCable

Thanks to 'CityCable', it is no longer necessary to always dig up the street to upgrade energy cables. Using an innovative method, the old energy cable is replaced with a CityCable. The CityCable is a three-core 150 kV cable whose high voltage makes it a world first. The cable was developed by Liandon in cooperation with cable supplier NKT Cables.

november

Upper and Lower Houses approve 'smart meter' bill

The smart meter provides customers with insight into their energy consumption. As part of a smart energy network, the smart meter gives us detailed information on energy flows.

On 9 November 2010, the Lower House unanimously voted in favour of the amended bills on the introduction of the smart meter in the Netherlands. The proposals paid extra attention to the consumer's freedom of choice and privacy safeguards. The bills were adopted by the Upper House on 22 February 2011.

Bond issue

On 4 November 2010 Alliander N.V. strengthened its capital structure by issuing a subordinated perpetual bond. The bond was issued at a nominal value of € 500 million, an issue price of 99.495% and an interest rate of 4.875%. The success of this transaction signals that Alliander has good access to the debt capital market.

december

Participation in Smart Energy Collective

Over twenty companies in the Netherlands, including Alliander, have started up a partnership for the development of intelligent energy concepts. The Smart Energy Collective sets up large-scale smart grid demonstrations throughout the country. Smart grids provide insight into energy consumption and energy flows. The objectives of the Smart Energy Collective are to promote energy sustainability and accelerate commercial product innovation. The participating parties include Alliander, TenneT, Enexis, Gasunie, IBM, Heijmans, Imtech and Philips.

Participation in Plugwise

Alliander has taken an 8.5% interest in Plugwise. This company develops and produces energy management and control systems, which give consumers and companies insight into their energy behaviour. Alliander wants to make the energy supply more sustainable, while keeping it reliable and affordable. The innovative Plugwise technology helps to achieve these aims. By taking an interest in Plugwise, Alliander stimulates the technological development of energy management and control systems. Alliander paid around € 1.5 million for the stake.

connected

customers

Alliander is literally connected with its customers. As a regional network company, we know better than anyone that we fulfil a vital social role in the regions in which we operate. Energy is indispensable.

Customer satisfaction is the most important measure of the success of our services

The most important measure of the success of our services is the degree to which customers value our services. This applies to our large corporates, SMEs, consumers and municipalities as well as to our other customer segments. Their opinion of our services matters. By maintaining an ongoing dialogue, we are able to continue optimising and adjusting our products, services and processes to their wishes.
This is why we are always open to answering questions via our customer service desk, testing propositions with our customer panel and customer council, and learning lessons from complaints and comments. In addition, independent surveys are conducted several times a year among our customers to keep track of our customer satisfaction ratings.

Society is changing and so are our customers

Our customers are increasingly aware of the world around them, pay more attention to sustainability and feel closely involved in our common energy future. Energy-saving and the reduction of CO_2 emissions are now topics of everyday conversation. And we notice that our customers are increasingly keen to become actively involved in addressing these issues.
Technological developments, the transition to new forms of (renewable) energy supply and local energy feed-in make it possible to work – both individually and collectively – on a better environment for everyone. All these changes are creating new challenges and demands for us as regional grid manager, and require us to adopt a different customer perspective. In response, we are developing new innovative services to meet the evolving needs and wishes of our customers and society as a whole.

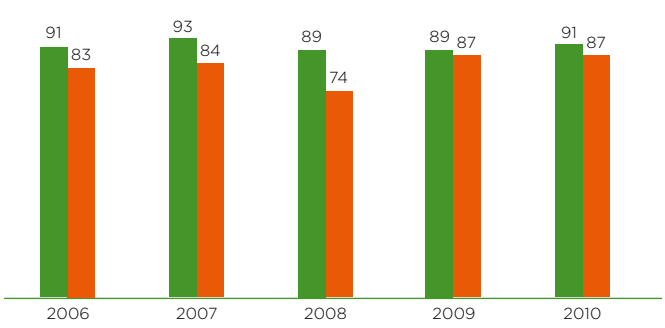
New products and services to meet evolving needs

By making our networks smarter and more intelligent, we are increasingly able to respond to changing needs. The daily maintenance and renewal of our network includes installing new measuring installations and recording consumption data on a more frequent basis. By giving our customers a more detailed breakdown of their energy consumption patterns, as well as providing advice on energy-saving and innovative instruments, we help them to achieve their ambitions.

CUSTOMER SATISFACTION

Consumers were more satisfied with our services in 2010 compared to 2009. We are proud of this result, which proves that our efforts to improve customer satisfaction are paying off. In the past year, for instance, we redesigned our complaints handling process, introduced a text messaging service and adopted a more active relationship manager approach to municipal customers.

Customer satisfaction trend[1, 2]
in percentages



1 Concerns fourth quarter measurement.

2 Consumer market: Electricity capacity connections up to 3x80 Ampere and gas consumption up to 170,000 m^3 / year.
Business market: Electricity capacity connections greater than 3x80 Ampere and/or gas consumption above 170,000 m^3 / year.

Alliander is continuing to look for further improvements in order to raise its services to an even higher level. As part of these efforts, we started working in 2010 on the basis of 'customer chains'. These chains have been defined independently of the organisation's functional set-up and are specifically designed to handle customer requests from start to finish. Within the chains, clear arrangements have been made about working practices and objectives, thus ensuring that we can now provide customers with an even better service. In 2010, we conducted four customer satisfaction surveys. These surveys are closely aligned with the customer chains, enabling both our strategy and operations to be focused more effectively on customer satisfaction.

Our customer satisfaction surveys include a benchmark with other grid managers. In the coming years, we will compare our performance with that of service providers in other sectors. After all, as a grid manager we also want to be a benchmark for excellent customer service beyond our own sector. The customer satisfaction surveys are carried out periodically by an external research agency.

CUSTOMER SERVICE

Complaints handling

There is room for improving our handling of complaints, as our customers told us in the customer satisfaction survey. We therefore adopted a more comprehensive approach to the complaints process in 2010. Complaints teams were set up and clear arrangements were made between different departments to enhance the complaints handling process by, for example, improving the recording and reporting of complaints. This will give us better insight into the underlying causes of the complaints we receive and enable us to take remedial action in order to reduce these causes and to raise our complaints handling to a higher level.

Input from customers is key to enhancing the quality of our complaints handling. For this reason, asking customers for feedback is standard procedure. Such feedback helps us to understand, resolve and, ideally, prevent complaints wherever possible. In 2010, the overall customer satisfaction ratings for our complaints handling improved.

Digital service

We believe it is important that customers are always able to reach us and know exactly what to do in case of disruptions or, for instance, when they smell gas. Unfortunately, disruptions cannot be entirely avoided and we are very aware that they are annoying and can have far-reaching consequences for our customers. So we always try to inform our customers effectively. Liander is the first Dutch grid manager to notify customers of disruptions via text message. About a year ago, we set up a text messaging service as a fast, effective and convenient means of informing consumers and business customers of any grid disruptions due to maintenance or technical failures. Liander now also uses text messaging to confirm service appointments.

In 2010, over 35,000 customers (80% consumers and 20% businesses) used the text messaging service. More than nine out of ten users rated the service as 'good'. Research shows that customers using the text messaging service are more satisfied with the handling of disruptions than those who have not signed up for the service.

RELIABILITY OF SUPPLY

Reliable access to energy: this is what Alliander wants to offer. Nevertheless, customers are sometimes left without electricity and gas for a period of time. The average electricity outage duration at Liander increased in 2010 from 27.4 to 31.2 minutes. This was largely due to a higher number of low-voltage interruptions and a major power failure at Doetinchem in July 2010. The outage

Electricity interruption frequency[1, 2]

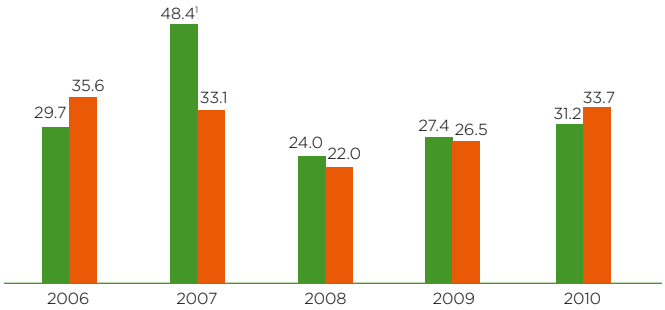
by year

2010	2009	2008	2007	2006
0.40	0.35	0.37	0.39	0.38

1 Interruption frequency, defined as SAIFI = System Average Interruption Frequency Index.

2 Concerns grid connections.

Annual electricity interruption duration
in minutes



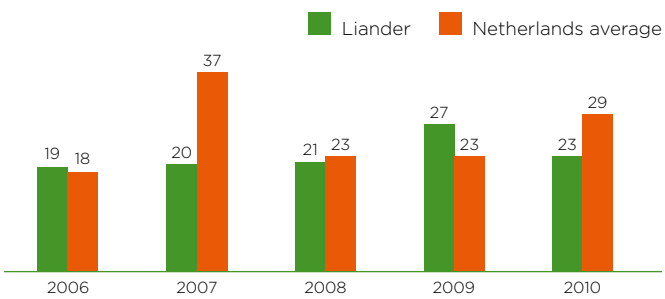
1 Annual interruption duration, defined as customer average interruption duration (CAIDI = Customer Average Interruption Duration Index). The value for 2007, excluding the Bommelerwaard interruption, amounted to 23.5 minutes for Liander and 23.8 minutes for the Netherlands average.

duration for gas decreased from 27 to 23 seconds. In 2010, Liander's network operated effectively during 99.994% of the year.

Improvement initiatives

Liander wants to reduce the average outage duration in 2011. Technical failures are analysed daily in all our service areas. In 2010, new ideas for improvements were gathered, leading to further initiatives to reduce the average outage duration. One such initiative is aimed at preventing excavation-related outages. Damage to cables and pipelines caused during excavation work have a major impact on the number of consumer outage minutes. Furthermore, Liander is going to place some 1900 short-circuit detectors at strategic points in the grid. These will help to spot the exact location of any disruption. This used to be more difficult and led to precious time being lost tracing the source of the problem. Short-circuit detectors automatically report interruptions. In addition, our internal processes are being tightened up. Liander is aiming to reduce the number of consumer outage minutes by about five minutes in 2011 compared to 2010.

Annual gas interruption duration
in seconds



ACCESS TO ENERGY

To help customers avoid running up (permanent) payment arrears, Alliander works closely with various debt assistance agencies. If an invoice is not paid on time, customers first receive a reminder, followed by a letter demanding payment if they still fail to pay. Disconnection only takes place if both the reminder and the warning fail to elicit payment. We consider a careful invoice collection and disconnection policy an important part of our social responsibility. Energy is a basic necessity of life, and so reconnections are given high priority.

To prevent customers with special requirements from being disconnected from the energy network, Liander has concluded information exchange covenants with debt assistance agencies and municipal health departments in ten regions. If the customer has a medical certificate proving that disconnection may have very serious health risks, we will not cut off the energy supply. In such cases, we confer with the customer and the energy supplier to come up with measures to prevent mounting debt.

Since 2006, a ministerial decree has been in force concerning the disconnection of small users (consumers and small business customers). Under this decree, customers can only be disconnected in the period from 1 October to 1 April at their own request, if they refuse debt assistance, are guilty of fraud or do not have a contract with an energy supplier. In addition, a special cold weather rule stipulates that customers with payment arrears cannot be disconnected if the temperature falls below zero during several consecutive days. Liander not only complies with the decree, but actually goes a step further by actively seeking to resolve payment problems at an early stage of the process by advising customers of the possibility of agreeing repayment arrangements or arranging debt assistance with external parties. If necessary, Liander also allows the cold weather rules to be applied preventively in the event of long periods of cold weather being expected. This was the main reason for the lower number of disconnections in 2010.

SAFETY AND ENERGY USAGE

Safe energy usage by customers

Energy and safety are inextricably linked. Good information is an important aspect of this. Alliander therefore provides customers with detailed information and advice on how to use energy safely and responsibly at home and at work. We also refer customers to energieveilig.nl, an energy safety website that provides information on energy and safety issues. Energieveilig.nl is a joint initiative of the grid managers, including Liander and Endinet, who are united in Netbeheer Nederland. Apart from this website, two national information campaigns were developed in 2010. The first campaign was specifically designed to alert students to possible hazards and improve safety in student housing. During the holiday season, Liander launched a light-hearted campaign calling attention to safety issues concerning festive lighting.

In 2011, Alliander will continue to highlight the energy and safety theme in various ways, both via energieveilig.nl as well as through our own campaigns and resources.

The Alliander crisis organisation

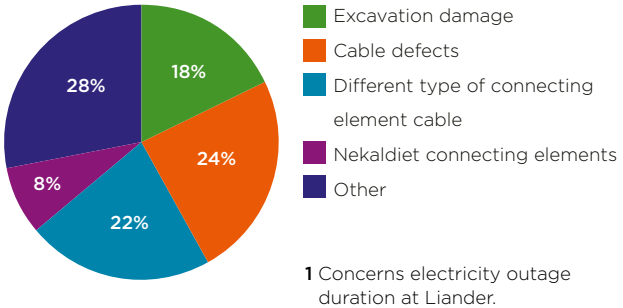
A crisis cannot be anticipated. Fortunately, we can prepare for the worst. Alliander has a crisis organisation, which is available 24/7 for all business divisions. This organisation is strongly focused on crises arising from disruptions to the energy supply. Other focal issues are office evacuations and ICT failures.

Working in a crisis organisation is particularly demanding. Its members therefore receive thorough training and carry out regular drills on the basis of fictitious crisis scenarios to practise their skills. Naturally, other authorities and parties we encounter in real crisis situations, such as municipalities and provinces, are also invited to take part in these drills.

Regional power failure workshops

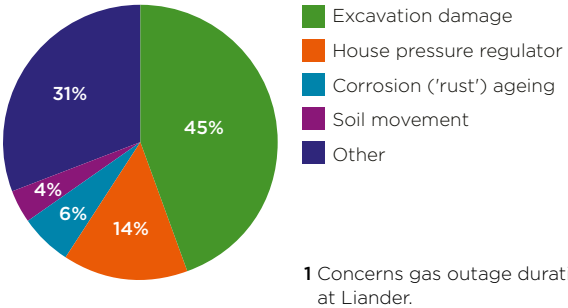
In 2010, Alliander carried out special power failure workshops in certain regions. The aim was to give each region insight into the consequences of a lengthy or widespread power failure in their area and then to work together on how to optimise our cooperation in respond-

Causes of electricity interruption duration[1]



1 Concerns electricity outage duration at Liander.

Causes of gas interruption duration[1]



1 Concerns gas outage duration at Liander.

ing to such incidents. Many municipalities also took part in this workshop. The reactions to the workshops were positive.
A national covenant was agreed with the regional security coordination authorities in 2010. The covenant sets out how to respond during crisis situations and who is responsible for what. This helps us to respond more quickly and effectively in emergencies. The covenant will be implemented in 2011.

INSIGHT INTO ENERGY CONSUMPTION

Energy in Focus

The Dutch government has set several energy targets for the year 2020: 14% of all energy must be sustainably generated, energy consumption must be cut by 20% and CO_2 emissions must be reduced by at least 20%. The responsibility for devising and implementing measures to achieve these objectives rests with the local authorities. Our role is to help the municipalities to attain their climate and energy objectives by providing detailed and reliable information.

The grid managers Liander and Enexis have developed 'Energy in Focus', a new online web service that gives municipalities insight into current energy consumption levels and patterns. Energy in Focus charts gas and electricity consumption visually and in detail at municipal and neighbourhood level. The project was developed in cooperation with other grid managers to work towards a national standard for providing insight into energy consumption levels.
Energy in Focus was launched on 10 January 2011, and has been available to municipalities since then.

Plugwise

Many of our customers use energy economically. To help them achieve even greater savings, we started a pilot with the 'Plugwise' energy management system in 2010. Plugwise shows customers exactly how much energy is consumed by each plugged-in appliance. Smart software allows them to keep track of their consumption online and to switch appliances on and off remotely. The system therefore allows customers to see at a glance where they can save energy and money.

Plugwise was tested in 2010 with the specific intention of finding out whether insight into energy consumption would actually lead to energy savings. So far, the evidence suggests that correct usage does indeed lead to savings. Pilots are substantiated by scientific research. In offering Plugwise, we help our customers use energy more efficiently.

COOPERATION

One-stop-shop for connections

The underground infrastructure is used for various purposes, including electricity, gas, water and telecom. In order to improve the processes involved in all these connections for customers, grid managers (including Liander and Endinet) decided early in 2010 to intensify cooperation within the sector. Customers can turn to a single point of contact (www.aansluitingen.nl) for all their connections. Working together, we can enhance customer satisfaction, reduce the costs for all parties in the chain and optimally fulfil our corporate social responsibility.

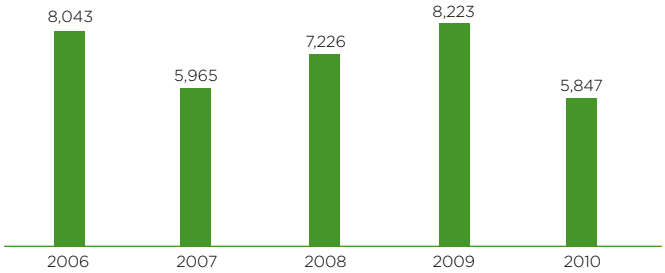
We believe that we can achieve more together than alone; for instance, by learning from each other and harmonising our processes and systems. Meanwhile, the starting points for an improved connection process have been worked out within the sector, including several proposals for the delivery times of various types of connections. In 2011, Alliander will continue to play a leading role in this collaborative initiative.

Energy suppliers

Customers still find it hard to understand the division of tasks between grid managers and energy suppliers. Who is responsible for what? Every year, our relationship managers meet with each energy supplier to discuss how the contacts with the customers are to be managed. In this way, we help to improve the process for the customer.

Consumers, in particular, have problems understanding this division of roles. They have a contract with the energy

Number of disconnections[1]



1 The number of disconnections by Liander (excluding Endinet in connection with acquisition during 2010) relates to the number of properties disconnected as a result, for example, of supply being disconnected, payment arrears and fraud.

supplier, while the grid manager usually remains invisible in the background. Customers only have direct contact with the grid manager if there are disruptions or if their consumption is exceptionally high. In these cases, Liander contacts the energy supplier. Each party has its own role but good cooperation enables us to provide the shared customers with a better service.

Amsterdam Smart City

In Amsterdam we have been working with Amsterdam Innovation Motor (AIM) since 2009. In the Amsterdam Smart City project we are jointly working on energy-saving innovations. More and more businesses and institutions are latching on to these initiatives and are creating new opportunities in the process. Amsterdam Smart City is strongly focused on innovations in a large urban agglomeration. The cooperation is proving to be a great success for all parties concerned.

Stedendriehoek Partnership

In 2010, Liander signed a letter of intent with Stedendriehoek, a region comprising seven municipalities including Apeldoorn, Deventer and Zutphen, and local businesses (the employers' organisation VNO/NCW and the Chamber of Commerce). Stedendriehoek is aiming to be Europe's first energy-neutral region and we can play a role here. Liander will implement projects together with SOEN, an organisation dedicated to energy-neutral entrepreneurship. Local government authorities and businesses are also involved. We gather data and make knowledge available. Projects are designed to help achieve the regional objective and reinforce the local economy. In 2011, the project agency will be further and more concretely shaped, and the first projects will be carried out.

National Connection Register

Regional grid managers are working together to set up a national connection register. This makes it easier to change energy suppliers and encourages free market forces. At present, each grid manager maintains its own register, while in future the relevant characteristics of connections will be recorded in a central national database.

In 2010, we started transferring data to this central register. Liander will be the first grid manager to change over, with full implementation scheduled for 2011. This migration comprises the current data as well as all historical data for these connections.

ADJUSTMENT OF TARIFFS IN 2011

In a so-called 'method decision', the Netherlands Competition Authority (NMa) indicates how the efficiency and quality discounts (the x and q factors) for electricity and gas are determined. The grid managers must use these to calculate their end-user tariffs in the next regulation period. On 26 August, the NMa announced the method to be applied for the regulation period from 2011 to 2013. As a consequence, the income of the grid managers, and hence the average tariff levels, are permitted to increase in the coming three years by an average of 5 to 7% per year (above annual inflation). In the preceding years, the sector's average tariff level was below its average cost level.

LOOKING AHEAD TO 2011

Various developments in the energy sector will bring changes for our customers. Two examples are the introduction of the smart meter and the compulsory supplier model.

Smart meter

The introduction and roll-out of the smart meter is one of the pillars under the new market model, where customers can also act as producers of energy. In 2010, steps were taken to start replacing the existing meters with smart meters on a larger scale in the years from 2011 onwards. Now that the relevant bill has been approved by the Upper House, Alliander is aiming to equip more than 80% of consumers with smart meters by no later than 2020. Assuring privacy will be a major priority for Alliander in this respect.

Supplier model

Alliander is working alongside other market parties on the introduction of a new supplier model. The introduction of this model – which is expected in 2013 – is the direct consequence of new laws and regulations and new arrangements committed to within the sector.
In the new supplier model, the costs of regional transportation to the consumer will be charged by the energy supplier instead of the grid manager. The energy supplier will also be able to determine the customer's energy consumption. This is currently done by the grid manager.

In 2011, Alliander will continue with its preparations for the supplier model. In addition to internal changes in processes and systems, this means we must also be able to provide the correct data to relevant parties at any time. To fulfil this duty, we will further strengthen our relationships with the suppliers. Our aim is to ensure that customers' experience of this change is positive.

interview

“A wind turbine costs money when it’s not running”

Many hundreds of farmers in the Netherlands have invested in wind turbines. But when technical faults bring them to a halt, the farmers lose money. This happened to the Van Bakel family in 2010. So let’s rewind to find out what went wrong, and how a bad situation had a good ending.

Jan van Bakel is retired now, but for many years he ran a profitable dairy farm with over 100 cows near Zeewolde. His son Stan has since taken over and Jan has moved to the village with his wife. But he still regularly visits what was once his farm; partly to see his 18-month-old granddaughter, but also to keep an eye on the wind turbine which he owns together with his family. The 70-metre Vestas, which was erected next to the farm in 2004, has three blades (52 metres in diameter) and a total generation capacity of 850 kW. That’s enough to power eight hundred households. “I’ve been told that the theme for this year’s annual report is ‘connected’. That aptly sums up what I think about our wind turbine,” Van Bakel remarks at the start of our talk. “The turbine belongs to me, my wife and our three children. So it connects us as a family. And when it’s not working, we are all affected.”

Failure

After six trouble-free years, the turbine was hit by a fault in late June 2010 when a switch exploded in the transformer kiosk. A rare event and tricky to repair, so we are told by Renger Geurts, senior grid manager at Alliander. The turbine could have been down for months.
Geurts: “When the problem is in the cables, you can usually patch things up. But in the Van Bakel’s case, the damage was more serious. The switch needed to be replaced and we don’t have parts like that ready to hand.”

Van Bakel: “The day it happened we suddenly noticed a Liander van parked next to the turbine. And then we looked up and saw that our turbine had stopped, while the other turbines in the area were still spinning. That was a shock. As a family, we’ve invested a lot in the wind turbine. Every day it’s not running costs us money.”
Geurts: “The uncertainty was obviously worrying for the Van Bakels. But as the grid manager, we didn’t want to give false hope. Ordering the switch usually takes a month or two but we did everything we could to find a faster solution. Thanks in part to our good contacts with the supplier, we managed to get the switch delivered within a week and our technicians immediately set to work.”

Van Bakel: “A week without wind power means we lose income. Fortunately, Alliander compensated us. It took them a little longer than expected to pay us, so I had to call and ask about the delay. Evidently, there had been an internal misunderstanding at Alliander. They apologised, which was good enough for me. Throughout the process I always felt these people were doing everything to help us.”

Photo: left Jan van Bakel, right Renger Geurts

Listening

The Van Bakel's wind turbine delivers power to the main grid and not to the farm – which is just as well, because a week without power would have been disastrous to their dairy business.

Van Bakel: "We milk the farm's 150 cows with a milking robot. The robot won't work without power, which immediately leads to problems with the cows. That's why we have an emergency power unit just in case there's a power failure. Even so, an outage is always a fairly tense experience."

Geurts: "As the grid manager, we are obviously aware of the importance of reliability of supply to customers. But walking through the stables has made it even clearer to me how much farmers depend on power."

In 2010, Alliander's customers were left without power for an average of 30 minutes. The company is working hard to reduce this. We take technical measures and provide better instructions. Naturally, we also do our best to understand things from the customer's perspective. This starts with listening to their wishes and complaints.

Renger Geurts assures us that grid managers have always listened to customers. "The difference between then and now is that customers have become much more demanding. I remember one past power failure when a customer called us after three days to ask when we were going to restore the outage. But we had already fixed the problem days ago! It then turned out the customer had a short circuit in his home, which explained why he was still without power. The point is: it took three days before he ventured to call us. That would be inconceivable these days when customers want power 24/7. Alliander is investing in the grid on various fronts in order to meet these demands. One area where things often go wrong is excavation work. So strict procedures have been arranged with contractors and special technology is used to trace cables more easily. We are also equipping distribution stations with GSMs that enable us to locate and repair

"Today's customers want power 24/7"

failures more quickly. In 2010, we improved the complaints handling procedure as well. And we are busy expanding our network with extra cables. This reduces the risk of failures because when a fault occurs in one cable, another cable can take over. Customers will certainly notice the benefits of this improvement in the longer term."

Always wind?

The Van Bakel's turbine is up and running again – at least when the wind is blowing. Unfortunately, this is not always the case, even in the windy polders of Flevoland.

Van Bakel: "Our farm is called Floret Ubique, which is Latin for 'Flourishes Everywhere'. So we named the wind turbine Ventus Ubique, which means 'Always Wind'. That was a little too optimistic. We have less wind than we were led to believe when we bought the wind turbine. Last year, the wind rate was as much as 15 to 20% lower than projected. In years like that, the turbine is not a big earner. But I'm still a firm believer in wind energy. It's clean and sustainable. And I don't find the turbines ugly. You certainly won't catch me grinding my teeth in frustration when there's no wind and the turbine isn't making us money. After all, that means other turbines are lying idle too. And shared sorrow is half sorrow."

network

The networks of Liander and Endinet literally and figuratively constitute the connection with our customers. Our aim is to facilitate a reliable, affordable, safe and sustainable energy supply - now and in future.

Energy provision and networks

The tasks of the grid managers flow from the Electricity Act 1998 and the Gas Act and have a regulated character. These tasks comprise:

- Maintenance, construction, renewal and management of electricity and gas networks, including connections;
- Transportation of electricity and gas through these networks;
- Assuring the safety and the reliability of these networks;
- Facilitating the liberalised energy market.

In carrying out these tasks, we continuously work on the quality, capacity, safety and renewal of our networks. In order to facilitate the current and future energy supply, we have defined objectives in 2010 in various fields, including:

- Reducing disruptions;
- Removing or replacing materials that no longer meet current requirements;
- Improving our quality system;
- Increasing the quality of our operating asset records;
- Further innovation and digitalisation of our networks.

QUALITY OF THE NETWORKS

Every two years, we provide insight into the quality, capacity and safety of the networks in our quality and capacity documents (electricity and gas KCDs). The current KCDs were completed in November 2009. In the KCDs we report to our regulators and describe various aspects of our operations, such as the principal risks, planned investments and maintenance in our networks for the coming years. The KCDs are open to the public and are assessed by the regulators.

The KCDs show that our networks are of good quality and among the most reliable in the world. This is partly thanks to the robust design of our infrastructure.

Brittle gas mains

Grey cast iron is one of the materials we want to replace in phases. After many years of use, it has proved in certain cases to be a brittle material that is not very flexible. Together with our regulator, SodM (State Supervision of Mines), a plan has been drawn up for the step-by-step replacement of our brittle cast iron gas pipes. An outline plan has been drawn up for the entire service area for the coming thirty years, while a detailed plan has been made for the coming five years. In 2010, 154 kilometres of brittle gas pipes were replaced.

Environmental performance Operations

	Unit	2010	2009
Brittle gas pipe replacement[1]	km	154	108

1 The definition of brittle gas pipes, as applied by SodM, comprises grey cast iron and asbestos cement. In 2010 the definition changed compared to 2009. The total length of 'brittle pipes' in Liander's service area comprised 2,742 km at year-end 2010. The 2009 figure (102km) has been adjusted for comparison purposes.

Innovative pipe liner method

Using the pipe liner method, we can replace old gas pipes in a responsible manner. The inside of the pipe is equipped with a strong, woven gas-tight liner. This means the old pipes can be re-used and there is no need to dig up the street. The pipe liner method is mainly used at locations where excavation is difficult and in situations where there is a risk of extensive underground damage. The first projects were started up in 2010.

QUALITY OF PROCESSES AND SYSTEMS

Grid managers, regulators and certifying institutions all agree that a national standard for network safety, quality and capacity is desirable. To this end, they have decided to work out these aspects in a Netherlands Technical Asset Management Arrangement (NTA8120). The standard can be applied as an instrument for self-regulation. Its aims

include assuring the safety of staff and the public (society), protecting the industrial and built-up environment and nature, ensuring the security of electricity and gas transportation and distribution, safeguarding the availability, capacity and reliability of electricity and gas networks, and the effective and optimal management of the networks during their entire life cycle. In 2010, Liander completed preparations for certification and the certification process started early in 2011.

To ensure the high-quality management of existing and new networks, we record a vast amount of data. Over the coming years, the importance and impact of data management is set to rise considerably for Alliander. Information management, data and data quality are key factors in the quality of our processes.

NETWORK CAPACITY

Our customers' energy behaviour and consumption are leading to changes in the capacity demand. The demand for energy can increase in the summer months, for instance, when more use is made of air-conditioning systems. Alliander gathers information on developments in the regions in which we operate. We combine this data with information on political, economic, social and technological trends. The outcomes are then used to sketch future scenarios that take account of electricity and gas generation patterns (centralised or decentralised) and load (higher or lower demand).

Drawing on these future scenarios, we updated our network strategy and vision in 2010. Towards the end of the year, we translated this into themes and objectives for the coming years. One of the themes involves carrying out our decision to realise an integrated telecom infrastructure as a 'third network'. This means that we are now also taking an integrated management approach to telecom alongside the electricity and gas networks. Our decision to do this relates to the increasingly prominent role of telecommunication in our business processes.

NETWORK SAFETY

About 200 network-related incidents were recorded in 2010. The main incidents concerned leaks in cables, explosion risks in current transformers, flooding, replacements of old cables, inaccessible stations and reports of subsidence. All these incidents were recorded and resolved.

Sanctions - regulation			
by category	Unit	2010	2009
Financial sanctions	number	2	-
Size of financial sanctions	€ thousands	40	-
Other sanctions[1]	number	1	-

1 Sanctions imposed by the regulator including binding directions and cease and desist orders.

Lampposts

In 2010, the Office of Energy Regulation imposed a binding directive on Liander on the grounds that, according to present insights, the current is not broken quickly enough in the event of short circuits at certain locations in Amsterdam. In addition, there is a small risk that lampposts will become electrically charged. Liander will measure the voltage of about 100,000 lampposts in Amsterdam and will make any necessary safety improvements. Work began in 2010 and will take several years to complete.

COOPERATION

We are continuing to do our utmost to facilitate new developments in the market and among our customers, both on our own initiative and in cooperation with other stakeholders.
One example is the new North/South metro line in Amsterdam. The underground route is being drilled using two tunnel-boring machines. Liander connected these machines, including the heavy connections at the Central Station and Station South which required a customised approach. In order to carry out this project competently and safely, we are working together with

district authorities, municipal departments, police, the fire brigade, telecom providers and contractors.

The expansion and maintenance of our networks takes place in close cooperation with municipalities and project developers. We jointly plan and coordinate to ensure that the network continues to meet future demand. Within the industry organisation Netbeheer Nederland, we are working together with our fellow grid managers in various areas, including efforts to obtain NTA8120 certification and the joint procurement of materials. Innovations are pursued in cooperation with various knowledge institutes and universities. We also collaborate in carrying out studies in this connection.

LOOKING AHEAD TO 2011

In 2011, our efforts to improve the quality, capacity and safety of our networks, processes and systems will continue as vigorously as ever. We are aspiring to attain NTA8120 certification. Since designating telecom as our third network, we have been working hard to improve our competences in this area. The realisation of the data improvement plan and the further reduction of disruptions remain high on the agenda.

Our network is increasingly becoming a two-way system. Liander and Endinet transport gas and electricity to customers while customers also feed energy into the network, for instance via their rooftop solar panels. In the future, energy will flow through the networks, and to and from homes, like the ebb and flow of the tide. We have set ourselves challenging objectives, including the further digitalisation of the network, the introduction of 20kV as the standard for the medium voltage grid and the placement of extra medium voltage fields in order to realise faster connections for large customers.

Digitalisation of the network

Liander has introduced an innovative solution for the electricity network, whereby the nodal points – the distribution stations – are being entirely digitalised with the aid of sensors. The innovation was developed on behalf of Liander by Locamation and Liandon. It is the first major investment in intelligent medium voltage networks in the Netherlands. Liander is leading the international field with this innovation, which enables large power failures to be more rapidly located and repaired. Once the system – dubbed the SASensor – is installed, the average duration of power disruptions will be 30 per cent shorter. Within one minute, the system pinpoints the cause of the disruption, allowing the technician to start restoring the electricity supply almost immediately. Early in 2011, Liander will start installing the SASensor at key nodal points in the electricity network. The digitalisation of the distribution stations throughout the network will take seven years. It is the first step on the road to a further digitalisation of the network.

Introduction of 20kV

One of Liander's strategic choices is to apply 20kV as the medium-voltage standard when replacing and expanding the high-voltage and medium-voltage networks. This not only brings us into line with the international standard but offers various advantages, including flexibility and speed. Liander will introduce 20kV at an accelerated pace in locations where an increase in the grid load is expected. In 2010, three projects were already realised in the province of Noord-Holland, namely in Heerhugowaard-Noord, Alkmaar-Noord and Alkmaar-Boekelermeer. In 2011, we will continue to prepare and implement the replacement and expansion of our network with 20 kV cables. In the coming years, we will set up new 150/20 kV transformers in order to be able to supply these networks. The first steps towards equipping the 20 kV networks with about 120 intelligent distribution units will be made in 2011.

Extra medium-voltage fields

In the coming years, extra medium-voltage fields will be set up to accommodate new customer connections. The intelligent distribution units are already equipped to accommodate these reserve fields. Existing medium-voltage units can be operated at a distance and we are currently studying the possible advantages of already installing remote observation systems for some of these units. This means we can respond flexibly to developments and further reduce the outage duration per disruption.

Dealing with unpredictability

What the future holds for the low-voltage networks is still hard to predict. How will the load be influenced by electric car charging, electric heat pumps, air-conditioning and electric cooking? What will be the impact of energy generation via solar cells, fuel cells and micro-CHP boilers? We are carefully monitoring these evolving trends. The smart meter can provide us with valuable insights in this connection.

Gas developments

There is some uncertainty regarding the future use of natural gas and alternative gases. Conflicting technological developments are coming to the fore. In the case of spatial heating, for instance, we see electric heat pumps and geothermal heating at one extreme and mini- or micro-CHPs at the other. Natural gas is also being used as a transport fuel. In 2011, we will continue to keep close track of such developments, which will probably vary between regions. When it comes to alternative gases, and particularly biogas (both crude and upgraded) and synthetic gas and biogas, Alliander is playing a stimulating and proactive role wherever possible.

interview

“We are working together to train people”

Anton Ruymgaart of the Regional Training Centre ROC Leiden trains aspiring technicians. And Geertjan de Kruif, who works for the contractor Van Voskuilen Woudenberg, does on-the-job training. As former technicians themselves, both men know what they’re doing and are now actively promoting technical occupations in times of skills shortages.

“It’s incredible how Dennis has suddenly caught on.”
“Absolutely. He’s really growing into the role.”
Names of the students fly across the table in the ROC classroom in Leiden. De Kruif and Ruymgaart are no strangers to each other. Both are in the business of readying new technicians for employment in the field: Ruymgaart as a teacher in data/electricity, De Kruif as head foreman at a pipe laying and maintenance contractor. The two have seen the labour market go through radical changes in the past ten years.

De Kruif: “Around 2000 our volume of work suddenly plummeted. We didn’t have enough jobs and stopped training people, as did other contractors. Many technicians switched over to home construction. When our work picked up again, we found ourselves desperately short of good people.”

Ruymgaart: “And there were other problems too, such as an ageing staff and a sharp shift in interest among young people. ICT and the internet have made outdoor manual work a lot less popular. And I think the introduction of Competence-Based Education also caused a temporary dip. Around that time, we briefly saw an extra decline in the number of newly qualified trainees.”

De Kruif: “These skills shortages were a real headache for quite some time. We simply didn’t have enough people to accept all the work coming our way. Fortunately, things have been looking up recently.”

Ruymgaart: “But the skills shortages haven’t yet come to an end. The recent improvement mainly concerns level 2 technicians, which Van Voskuilen needs. Meanwhile, we’re still having trouble finding top level 3 technicians who have the qualifications companies like Alliander are looking for. That’s a crucial category, particularly for the future because these employees can manage other people and are qualified to work independently.”

Company car and a laptop

In recent years, many measures have been taken to resolve the shortages. Schools and companies are doing their best to make technical careers more attractive to young people and to lure workers from other sectors.

Photo: left Anton Ruymgaart, right Geertjan de Kruif

Modern training programmes are more practice-based. And the teaching materials are more competence-based, which means they are more specifically tailored to the needs of the student's future employer.

Ruymgaart: "This new educational approach involves working with concrete themes, such as 'public lighting'. It gives secondary school students at intermediate level a clearer picture of what they'll be doing on the job. They have a better idea of what their choices are. We still need to work on coordinating the various courses. It would be great if a single diploma qualified you to work for any company. Grid managers are moving in the right direction. They're agreeing on standards, so technicians will soon be able to work all over the country. You have to remember: what you are offering in essence is security.

The prospect of a secure future often determines young people's choice of training. What really appeals to them about working for companies like Alliander and Joulz is that they get paid from the outset. They work and earn while they learn. And if they do well, they'll get a job. Plus, if that job is at Alliander, they'll get a company car and a laptop. That's very tempting."

De Kruif: "Our segment doesn't offer the same type of incentives. We operate at a lower level, so the salary and other benefits are lower too. But we're also going to great lengths to get young people interested in a technical training. Unlike in the past, we promote our work on a fairly regular basis, such as at open days."

Ruymgaart: "Together with the employer, we also take advantage of these events to bring alive the fascinating world behind electricity and gas. Grid managers are still quite invisible, so they need to project a face people can recognise. Given this, I'm not thrilled with the new name for the ROC training course: data/electricity sounds more like ICT than power or gas."

De Kruif: "During these open days we show aspiring students all sorts of materials to give them an idea of

what the job actually entails. And I also try to convey my enthusiasm for working outdoors.”

Working together

Cooperation is crucial to boosting the image of technical careers. As noted, this is already being done by coordinating the various courses, and the sector has launched a campaign with the catchy slogan: ‘Watt? Everything about working in energy’.

De Kruif: “And I’m really delighted about our close relationship with Alliander We’re working together to train people. After all, our people need to know what’s happening in their organisation, and vice versa. Moreover, staff exchanges with Alliander can also be really useful. Our work here is somewhat different: students can work here without tension, while at Alliander everything is under tension. These conditions call for a different type of employee. You have to be used to dealing with safety rules.”

Ruymgaart: “The cooperation between the schools and employers has also intensified. The new training approach demands more frequent mutual contacts, but also more intensive coaching from the employers. That’s something Alliander needs to work on. The labour supply has picked up, but they’re still struggling to free up enough people to help the new recruits.”
Besides more coaching from employers, both men agree that the teaching materials are out of date and need to be revised, with a much stronger emphasis on practical assignments.

De Kruif: “I would like students to learn more about how to use PDAs at work and smart meters, for instance.
Ruymgaart: “A joint effort by employers and schools would certainly be a great help in these areas.”

employees

Alliander invests in its employees. Motivated employees determine the quality and success of Alliander as a company. They do their best for our customers and clearly enjoy their work.

Working together on our HRM policy

We seek to ensure that our employees are committed to their profession, to Alliander and to the stakeholders. But even more importantly, that they see and are provided with sufficient opportunities to develop their personal and professional skills.

Key themes in 2010 included modern employment practices, the New World of Work, the labour market approach, safety and vitality and diversity and cooperation with training institutes. In pursuing these themes, we consistently sought to connect with our employees and with external parties.

Alliander faces major HRM challenges. We want to encourage our employees to get the best out of themselves. And we want to discover new talent and stimulate their enthusiasm for our profession. In 2010 we were delighted to welcome 466 new colleagues at Alliander as well as about 300 employees from Endinet following our acquisition of the company.

The number of temporarily hired employees within Alliander decreased in 2010. Though external employees improve our flexibility and expand available knowledge, depending on external employees in critical positions can pose a risk. For this reason, Alliander decided to fill critical positions with permanent employees insofar as possible and to reduce the number of external employees. In line with this objective, the number of temporarily hired employees was reduced from about 1100 in January 2010, to about 800 in December 2010.

In 2010, we implemented a number of initiatives. Examples include the introduction of the Personal Budget Employment Conditions, the employment initiative in the energy industry and the labour market campaign entitled 'Netherlands becomes green'. These initiatives contribute to our ambition to make Alliander a top employer!

EMPLOYEE SURVEY

Alliander believes that committed employees lead to satisfied customers. Therefore, our employees and managers work together insofar as possible according to the chain concept. Everyone does their bit to make the processes surrounding the customer more efficient and effective.

Four times a year, we measure our employees' satisfaction in respect of a number of subjects, such as employee commitment, employee satisfaction, scope for personal responsibility, employment conditions, safety and working conditions, cooperation and trust and integrity. And once a year, each employee is requested to fill in the employee survey.

This independent employee survey is carried out by an external consultancy and the results are tested against the benchmark for large corporations. Our objective for 2010 was to score 8.0 in the employee survey. The result was 8.1 (2009: 8.2).

MODERN EMPLOYER

Being a modern employer is one of our strategic themes. Alliander aims to be an attractive employer. Knowledge sharing and individualisation are important building blocks for achieving this aim.

The New World of Work at Alliander

Alliander believes in the New World of Work approach. Society is changing and we are changing with it. The New World of Work means we will be organising our work differently, whereby employees and managers will make more explicit working arrangements with one another. It will also change the dynamics between employee and manager, with more emphasis on a trust- and results-driven approach. In addition, to smooth the way towards the New World of Work at Alliander, changes will be needed in buildings and facilities – such as flexible and mobile workstations, meeting rooms and consultation areas as well as state-of-the-art communication, ICT and support tools.
Alliander is aiming to create a pleasant and inspiring working environment – an environment that encourages people to work, meet and cooperate. With this in mind, we carried out a survey in 2010 and asked employees about their current workstation, their working practices and their activities. The survey showed that employees are keen to see more knowledge sharing, more flexible use of different workstations, and a more inspiring and creative working environment.
In 2011, Alliander will initiate a special programme with a view to developing and implementing its New World of Work vision in close cooperation with our employees.

Modern remuneration policy for maximum freedom of choice

A modern company requires flexible employment conditions. Since 2010, Alliander's employees can largely determine their own benefits package to suit their wishes and life stage. Employees on a fixed-term or indefinite employment contract are annually awarded a personal budget. The budget is comprised of a percentage of the salary and leave entitlement and makes the benefits package transparent. Employees are free to decide how they use their personal budget. They can, for instance, opt to buy extra leave or in fact exchange leave time for cash.

Training, development and competences

Alliander is a knowledge organisation, which is why we invest in the personal development of employees. In January 2010, Alliander opened a new Technical Training Centre in Haarlem. At this centre, new colleagues receive training from teachers who have practical experience working with gas and electricity.

Alliander College is our centre for learning and personal development. The College develops and organises courses, training programmes and workshops for all Alliander employees. These training options cover a broad range of professional and behavioural skills and competences to meet the specific needs of our employees.

Here are a few examples of the training courses provided in 2010:

A. Safety Training

Employees must be properly qualified to ensure they can work safely with low, medium and high voltages. In 2010, more than 2000 employees successfully attended a safety training course.

Number of safety training courses[1]

by category	2010	2009
Own employees	2,051	1,550
Contractor employees	1,114	751
Other third parties	236	60

1 Concerns the number of safety training courses that were successfully completed.

B. Leadership development

Leadership development is facilitated within Alliander by a transition team. This team helps managers to continue developing their leadership competences within Alliander. Various types of support are provided, including the organisation of leadership and team leader days and departmental development. In addition, new managers are improving their personal skills and broadening their knowledge of Alliander and its operations through the Senior Management Programme, the Professional Team Leader Programme and the Starting Manager Programme.

C. PRD workshops in dialogue

All managers received support in connection with the Personal Result and Development (PRD) cycle that started on 1 January 2011.

D. CSR workshops

Various teams set to work to embed corporate social responsibility in their daily work.

EMPLOYMENT AND THE LABOUR MARKET

Developments

Alliander had 612 vacancies in 2010, 466 of which were filled. As most jobseekers start their search for work online, Alliander is stepping up its focus on online recruitment.

Professionals are increasingly interested in sustainability. Working in the energy sector is also gaining in popularity. This opens up opportunities for Alliander.

Important labour market trends and challenges are:
- The demand for technical and ICT staff is greater than the supply. We expect this situation to deteriorate as older employees retire;
- Technical skills are becoming scarce;
- Alliander is still insufficiently known as an employer to large sections of our target groups.

Age structure of employees

	2010	2009
Under 25	3%	3%
25 - 35	21%	20%
35 - 45	21%	22%
45 - 55	31%	32%
Over 55	24%	23%

Segmentation by number of own employees

	2010	2009
Province of residence of employees		
Gelderland	51%	54%
Noord-Holland	29%	31%
Friesland	5%	5%
Zuid-Holland	5%	5%
Noord-Brabant [1]	5%	0%
Flevoland	2%	2%
Other provinces in the Netherlands	1%	1%
Germany	2%	2%

1 Change versus 2009 is due to takeover of the Endinet-group.

Employees by type of employment contract

	2010	2009
Number of own and temporarily hired employees (in numbers)		
Employees with permanent contract	5,124	4,444
Employees with fixed-term contract	404	375
Total number of own employees	**5,528**	**4,819**
Temporarily hired	793	1,137
Total number of own and temporarily hired employees	**6,321**	**5,956**
Percentage of full-time/part-time employees		
Employees with a full-time employment contract or temporary contract	85%	83%
Employees with a part-time employment contract or temporary contract	15%	17%
Number of own and temporarily hired employees (FTEs)		
Total number of own employees	5,316	4,633
Temporarily hired	728	1,083
Total number of own and temporarily hired employees	**6,044**	**5,716**

Incoming and outgoing own employees		
	2010	2009
Total incoming staff (in numbers)		
Incoming male staff	353	452
Incoming female staff	113	225
Total incoming staff	**466**	**677**
Total outgoing staff (in numbers)		
Outgoing male staff	144	190
Outgoing female staff	48	51
Total outgoing staff	**192**	**241**
Incoming staff due to consolidation of new companies	435	35
Outgoing staff due to deconsolidation of companies	0	282
Percentage of outgoing staff versus total number of employees	3.5%	5%
Average duration of employment (in years)	15	16

Top employer

Alliander aims to be a top employer. Clearly, this will help us to recruit qualified talent. The Intermediair career platform annually carries out an independent survey into the Best Employer of the Netherlands. The survey consists of two studies: an employment conditions study and a job satisfaction survey. In 2010, a total of 77 (profit and non-profit) organisations with a minimum of 100 employees took part in the Best Employer Survey. Alliander came in 25th.

'Netherlands becomes green' campaign

In an effort to improve Alliander's name recognition and image as a top employer, the company launched a labour market campaign 'Netherlands becomes green' in late 2010. The campaign is continuing in 2011.

'Netherlands becomes green' emphasises Alliander's sustainable character. The campaign shows that our innovative projects and solutions make a concrete contribution to promoting a sustainable energy supply in the Netherlands. The message for jobseekers is that Alliander is an ambitious employer with a sustainable mission.

The campaign is aimed at trainees (ICT, technical and management trainees) and ICT professionals. These target groups make above average use of online and social media as part of their job-hunting efforts. The campaign was therefore 85% focused on online media via the internet site www.alliander.com/groenland, banners, e-mailing, advertorials, Facebook, YouTube and billboards. The 'Netherlands becomes green' campaign site was visited more than 15,000 times, well above the targeted 12,755 visits.

Initiatives in the sector

Energy CAO

The new Energy CAO, which covers all employees in the energy sector, came into force on 1 May 2010. The Energy CAO, which is valid for one year, was concluded between the energy employers' association WENb and the trade unions Abvakabo FNV, CNV Publieke Zaak and VMHP-N. Over 27 energy companies, including Alliander, are affiliated with the energy employers' association WENb.

The CAO stipulates that during the term of the agreement the energy companies will allocate an extra 0.5% of the wage sum towards job creation, (re)training and the provision of apprenticeships and on-the-job training placements. The energy companies attach great importance to these social themes, both now and in future.

The employment initiative has proved a success. Between May 2009 and May 2010, 140 new youth work placements and 105 extra work experience placements were realised. The energy sector invested over 0.7% of the wage sum in the development of training courses, coaching and job creation. Within Alliander, we placed 71 people with a disadvantage on the labour market. These are people from diverse sections of society who have lost touch with the labour market and/or lack the right entry-level education, such as disabled young people (Wajong benefit claimants), employees with a physical or mental handicap, people from outside the energy sector and senior citizens.

Sector Scheme

Employers, trade unions, the Association of Netherlands Municipalities (VNG) and the Benefits Agency (UWV WERKbedrijf) have agreed on a sector scheme to provide better job opportunities for young people who lack experience and/or qualifications. One example through

which Alliander has gained good experience is the 'Step2Work' scheme. Under this scheme, companies in the sector train young people to meet their own staffing requirements in the years ahead. Young people are taught via in-house training programmes and through cooperation with conventional vocational education institutions.

EMPLOYMENT CONDITIONS AND VITALITY: HIGH-ENERGY EMPLOYEES

Vitality is an indispensable part of our HRM policy. Employees who are healthy and fit usually feel happier and are more satisfied with their work and personal life. Developing and maintaining vitality is an important priority for Alliander. For this reason, we have set up the High-Energy Employees programme consisting of various components: lifestyle and exercise, a medical examination, absenteeism and treatment plan.

Number of participants in occupational health programmes

	2010	2009
Number of participants	1,130	1,051

Periodic Medical Examination

Alliander offers all employees an opportunity to test their physical and mental health through a Periodic Medical Examination. Early identification of health risks makes it possible to prevent or mitigate health complaints. The survey consists of a questionnaire and a medical check-up, followed by a personal advisory meeting in which employees are given suggestions for maintaining or improving their health. The Periodic Medical Examination is voluntary.

Number of accidents recorded in 2010

Over the past years, Alliander's safety policy has been increasingly focused on raising safety awareness among employees. In 2010, the number of accidents associated with absenteeism increased at Liander. A total of 117 occupational accidents involving our own employees were reported during the year, up from 80 in 2009. Of the accidents reported in 2010, 29 led to absenteeism (2009: 26). This rise is due to increased accident recording. Alliander employees are increasingly aware of safety issues and the importance of reporting incidents.

Safety is an important priority for Alliander. Staff safety is expressed in terms of lost time injury frequency (LTIF).

Lost Time Injury Frequency (LTIF)[1]

		2010	2009
LTIF	value	3.1	3.1

1 LTIF value concerns absenteeism due to accidents.

Absenteeism figures 2010

Illness-related absenteeism at Alliander is on the decline. The moving average fell from 4.3% in 2009 to 3.9% in December 2010, which was well below the targeted 4.1%.

DIVERSITY

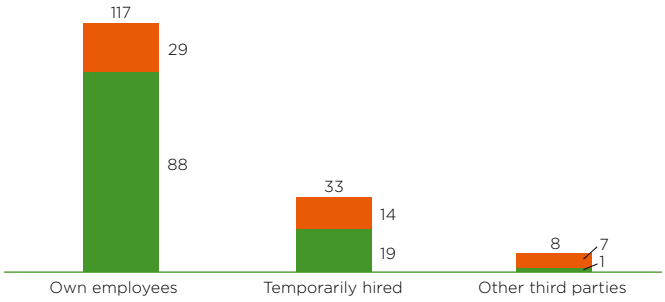
Alliander operates at the heart of society, which is also reflected in the diversity of our staff. The mix of different cultures, backgrounds, age groups and genders gives rise to a wide variety of new perspectives.

Diversity also helps us to respond to demographic developments. Alliander wants to think ahead and is seeking to connect with prospective employees and customers. We believe we have a moral obligation to enable everyone to play a full and fulfilling role in society. A diverse staff base provides innovative ways to work together as well as ideas for new products and services.

When putting together teams, Alliander increasingly focuses on female competencies, such as sensitivity and empathy. One way we do this is by using team scans. In 2010, 19% of Alliander's employees were female, the same percentage as in 2009.

The progression of female staff into leadership positions has been improved through the use of specialised recruitment and selection agencies. The number of women in

Number of recorded accidents in 2010[1, 2]



1 The other third-party category concerns persons with whom Alliander has no direct or indirect contractual relationship, i.e. 'passers-by'.

2 In 2010 there were no accidents resulting in fatalities.

leadership positions was 17% in 2010, up from 16% in 2009. At least one female candidate is sought in the job application procedure for each external leadership vacancy in order to promote the advancement of women into leadership positions.

Diversity employees	2010	2009
Diversity own employees by gender		
Male	81%	81%
Female	19%	19%
Female/male average salary ratio	87%	85%
Diversity of management by gender[1, 2]		
Male share with leadership position	83%	84%
Female share with leadership position	17%	16%

1 Concerns all employees in leadership positions. The definition of leadership position was changed in 2010 compared to 2009 allowing a better view of the development in the leadership position. In 2010 the only criterion is 'leadership position' as opposed to 'leadership position' and salary scale of 10 or higher as in 2009. The 2009 percentage has been adjusted according to the 2010 criterion for comparison purposes.

2 In 2010, 9% of the total number of employees had a leadership position.

In 2010, 71 employees with a disadvantage on the labour market found jobs at Alliander. These individuals help us look at our work from a different and more appreciative angle. In addition, we were able to provide 100 new trainees and graduates at intermediate vocational, higher vocation and university level with work-based learning placements.

In 2011, we will continue to intensively pursue the theme of diversity. Some concrete objectives in this field are:

- 18% women in leadership positions;
- 100 new traineeships and graduation placements;
- engage 70 employees with a disadvantage on the labour market.

COOPERATION

As in 2009, we entered into a number of fruitful collaborative partnerships with training institutes in 2010. We engage in these partnerships for various reasons.

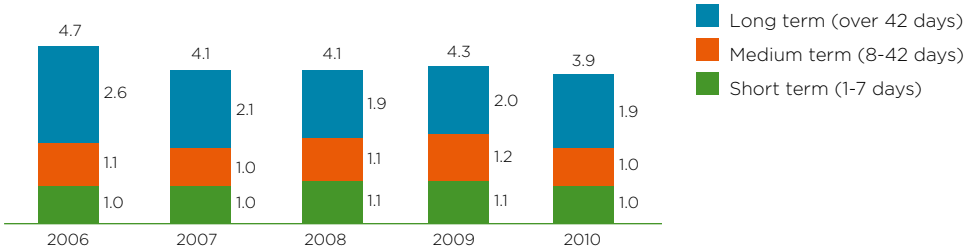
Future labour capacity

The number of registrations for technical training courses at the ROCs (Regional Training Centres) is decreasing, particularly in the field of electricity. Alliander is therefore looking to recruit people from outside the energy sector. Retraining programmes will be set up with vocational educational institutions for this purpose.
Vocational education does not sufficiently meet the demands of the labour market. In future, new competences will be necessary to properly facilitate the energy transition and digitalisation of the networks. We see close cooperation with educational institutions as vital to ensure that vocational education matches our staffing requirements. In addition, we want to further support the regions in which we operate by actively developing teaching materials together with the educational institutions, providing guest lectureships and offering traineeships.

One example is the 'Backstage trip for Energy VIPs'. In view of the outflow of older technicians in the coming years alongside the current skills shortages in the labour market for young technicians, Alliander is seeking to interest young people in technical training and/or a job as a technician. We offer two free teaching packages to teachers of second and third-year intermediate vocational students. The teaching packages give youngsters a taste of what a technician's work involves. The teaching package includes an additional assignment where the class can win an Alliander backstage trip as Energy VIPs. A special backstage trip to the Alliander Technical Training Centre was also organised for student counsellors. In 2010, 700 schools were approached and 270 schools applied for the teaching package.

Alliander is also involved in PhD research that is currently being carried out at various Dutch Technical Universities and Higher Educational Colleges. The PhD research projects relate to such subjects as gas distribution and decentralised energy generation.

Absenteeism trend
in percentages



Social networking

We not only stimulate external cooperation, but are equally keen to encourage internal networking. Alliander therefore supports a number of internal social communities aimed at specific groups, such as young people (Tension) and women (Lianne). In 2010, themes such as labour market issues, New World of Work and diversity were highlighted within the social networks.

Employee representation

At Alliander, employee representation has a layered structure. This structure consists of a Central Works Council, the Alliander, Liander and Endinet Works Councils, and various working groups.

There is intensive cooperation and knowledge sharing among the employee representatives. This is partly achieved by the employee representation days, to which all employee representatives within Alliander are invited. The employee representatives also work together when responding to requests for advice or approval. The Works Council provides input for preliminary advice from working groups. If a request for advice involves several business units, a temporary working group is formed in which two or more business units prepare preliminary advice.

The Central Works Council members meet twice a year with Alliander's Supervisory Board to discuss various themes. In 2010, they addressed the themes of diversity and safety. These meetings provide the Supervisory Board with insight into the perceptions of employees and offer the Central Works Council information on the Supervisory Board's ideas about these issues.

Alongside their internal cooperation, Alliander's employee representatives also seek contacts with the employee representation bodies of other companies. For example, the Central Works Council is co-founder of the employee representation platform of network companies in the Netherlands. Nearly every employee representation body of the network companies in the Netherlands is represented in this platform. The employee representatives share knowledge about their work and the platform takes joint standpoints about such issues as the new CAO. In 2010, the employee representatives also shared knowledge and experiences with representatives of the Works Councils of Vitens and Ziggo. The new employee representation structure was explained at a conference for civil servants.

In the coming year, the employee representation bodies will focus on increasing their visibility to the employees and on elections.

LOOKING AHEAD

Many of the themes addressed in 2010 will be continued in 2011. Other key issues in 2011 will include being a top employer, the New World of Work, career progression and career paths, diversity and Alliander's dialogue with society.

“Strength in numbers”

Math Wijnen is the man in charge of procurement at grid manager Enexis. And Maurice Adriaensen is among those responsible for KEMA’s projects in such areas as smart grids. Both recognise that smooth interactions between grid managers are vitally important for society at large. ‘Sharing knowledge is essential.’

Wijnen: “Since the energy companies were unbundled, we no longer need to compete. We now treat each other like colleagues. This works well for all of us, and in some cases we even act on each other’s behalf. Not only do we want to do things together, we must do things together. Grid managers have a social duty to keep costs as low as possible. Joint procurement is one way to achieve this.”

KEMA, the consulting, testing and certification organisation where Maurice Adriaensen works as Regional Director Management and Operations Consulting, advises on this procurement process. As an energy knowledge organisation, KEMA is closely involved in drawing up the standards for smart grids and smart meters.
Adriaensen: “For example, we are currently representing our country in international forums to define standards for transformers. These are large pieces of equipment whose standardisation is already extremely advanced. So this is truly a world market.”

Wijnen: “Joint procurement is a must in these markets. By global standards, our procurement volume in the Netherlands is very small. When Alliander and I visited the Chinese grid manager China State Grid, they pointed out that we jointly represented only one per cent of their procurement volume.”

Adriaensen: “Clearly, if Dutch grid managers didn’t work together in this field, their position would be weaker.”
Wijnen: “Fortunately, we are really working well together. We maintain very close ties during procurement, and regularly synchronise our procurement activities with Alliander, Stedin/Joulz and Delta Netwerkbedrijf. Via a tendering calendar we all share our procurement plans and with each decision we assess whether to do it alone or together. Thanks to this collective, we won a Dutch Sourcing Award (Sustainability category) in 2010 for our joint tender for distribution transformers. In our decision we let performance prevail over short-term cost savings. In this way we realise enormous energy savings, which will also translate into financial savings in the long term.”

Smart meters

Another area where grid managers are pooling their resources concerns the development and procurement of smart meters. This device provides greater insight into our energy consumption. The idea is to equip every Dutch home with such a meter. Needless to say, it would be

Photo: left Maurice Adriaensen, right Math Wijnen

extremely undesirable for each grid manager to come up with an entirely different device – which is why grid managers are joining forces. KEMA is smoothing the development of smart meter standards by taking part in all sorts of forums at national and international level.

As a result, Adriaensen is well-informed of the progress made so far. "The Dutch grid managers are on the right track. They have teamed up in a project group dedicated to the roll-out of smart meters. This project group has defined the Dutch Smart Meter Requirements (DSMR), mainly to facilitate the smooth exchange of data among the energy companies. Our cooperation has accelerated in recent years. Only recently, the grid managers drew up a joint tendering document for smart meters."

Wijnen: "We are right on top of this issue. We don't want to let the smart meter suppliers set the price. That's why we're doing our own audits, so that we can estimate for ourselves what a device like this should cost. Here too, we're working together with other grid managers."

Smart grids

Smart grids are arguably an even bigger future challenge than smart meters. These are intelligent networks which are easier to control and create all sorts of new opportunities, such as connections with electric cars as users or suppliers. The development of smart grids depends partly on unpredictable breakthroughs in renewable energy.

Wijnen: "Many uncertainties remain in this area, but we all face the same task: we must facilitate greater flexibility in supply and demand with the aid of ICT. That is a big challenge for the coming decades."

Adriaensen: "The grids have a long history, dating back some 60 to 100 years. People have gotten used to working with these structures; you can't change that overnight."

Wijnen: "This is a real voyage of discovery. We've just gotten used to switching off the grid remotely, and now we're already moving on to self-management."

“Our cooperation has accelerated in recent years”

Adriaensen: “And we haven’t even touched on all types of new parties who are getting involved in these markets. So it doesn’t make sense to carry on this debate behind closed doors and exclusively with energy companies. Working with partners from other sectors is definitely something you need to consider for the future. One recent step in this direction concerned the launch of the Smart Energy Collective, a cross-sector open innovation initiative of grid managers including Alliander, ICT companies, installers, a bank, builders and KEMA. We’re working together to realise smart energy demonstration projects with around 5,000 end users. This collaboration is the biggest of its kind in Europe and one of the biggest worldwide.”

Customer interest

Wijnen and Adriaensen insist that knowledge sharing is not a game for technical nerds who sit around philosophising about the future.

Adriaensen: “First and foremost it’s about the customer’s interests.”

Wijnen: “We’re working with Alliander on a technique for detecting heat leaks at municipal buildings. This will enable us to detect where insulation is needed. If you consult professional colleagues, you always come up with better ideas.”

society

To Alliander, entrepreneurship is about more than transporting energy. We are the natural partner for developing and implementing the energy policy of the future.

Dialogue and cooperation with stakeholders

As such, we maintain an active dialogue with our stakeholders and wider society. Our efforts are aimed at facilitating the energy transition, guaranteeing responsible operations and fulfilling our role as a socially involved network company. On the strength of this approach, we establish a connection between Alliander and our stakeholders.

Alliander takes its stakeholders and their expectations extremely seriously. For this reason, we regularly invest in stakeholder meetings at different levels. It is Alliander's task to consistently and carefully cater to the interests of all stakeholders and to clearly communicate the choices we make in fulfilling our operational responsibilities. Some examples are given below.

Alliander dialogue session: seeking common interests

On 19 March 2010, Alliander organised a dialogue session for stakeholders. Representatives of customers, shareholders, regulators, the government, other grid managers and our own employees entered into a dialogue to seek ways of working together to meet the needs of the future. Topics discussed in our dialogue included the tariff-setting process, the regulatory framework for grid managers, support within society for investments in the grids, sustainable energy and shareholdings in network companies. The participants in the dialogue welcomed our initiative to start looking for common interests. The meeting did not immediately result in solutions, but that was not the objective. Alliander has expressed its intention to arrange a follow-up to this first dialogue session.

Future Panorama Day

During the 'Future Panorama Day' we took a look ahead to the 2020 – 2030 period. The approach involved 'looking from the outside in', from the fresh perspective of stakeholders. Participants included: energy suppliers, other suppliers, energy network companies, governments (including the Ministry of Economic Affairs and several provinces), knowledge partners (such as universities and specialists in the field) and customers. The focus was on the most important trends that are relevant to our operations, including certain social themes that are already making themselves felt, such as privacy, ageing and sustainable mobility.

Working visits for shareholders

Early in September 2010, two working visits were held for politicians, public administrators and civil servants from Alliander's circle of shareholders. These working visits were well-attended. It was the first time that Alliander gave its shareholders a behind-the-scenes look at the company. The initiative was greatly appreciated, as was the opportunity to discuss topical issues such as the smart meter, 'Energy in Focus' and electric transport. Thanks to these working visits, which will be repeated in 2011, our shareholders now have a broader understanding of our company and playing field.

Cooperation with knowledge institutions

Alliander has a partnership agreement with Radboud University Nijmegen. The university is the initiator of 'Our Common Future 2.0' (OCF 2.0), an interactive programme in which more than 300 experts worked together to develop a future vision for sustainability. Alliander led the energy theme within the OCF 2.0 programme. The results of the project will be published in a report aimed at a broad audience in May 2011.

Stakeholder-initiated themes

When we started developing our corporate social responsibility (CSR) policy back in 2008, we invited our stakeholders to jointly explore the themes that matter most to Alliander. The themes we discussed were: sustainability, climate change, chain responsibility, labour participation, quality of life, aggression and violence, privacy and ageing. These themes have since become an integral part of our business plans and targeted policies. The approach we take in tackling these themes is decided in consultation with stakeholders. In 2010, we held joint discussions on our approach to a number of key themes.

AMBITIONS AND RESULTS

Facilitating energy transition

The Government, municipalities and provinces have set objectives for clean energy, sustainability and the climate. Alliander has an important part to play in achieving these objectives, and is therefore investing in technology and measures so that we can jointly accelerate our transition to a clean, smart and efficient energy supply. To ensure that our infrastructure gives maximum support to the progress towards sustainable and decentralised energy, Alliander is mobilising all its available knowledge and staff resources, including a separate department for experimental transition projects.

Our ambitions for facilitating energy transition:
- Make a maximum contribution towards integrating sustainable and decentralised generation into our energy network through cooperation with our stakeholders;
- Help reduce energy consumption by providing our stakeholders with relevant information;
- Promote innovations and their practical application through cooperation with knowledge institutes and the energy sector.

These ambitions are now being vigorously implemented, particularly through investments in a flexible and intelligent network. Two pilots have been prepared via the I-net programme to strengthen our 10 kV grid, and we are also preparing for the large-scale roll-out of smart meters. In addition, we are maintaining a permanent dialogue with municipal and provincial authorities in a joint effort to realise the set energy and climate objectives. Thanks to our fruitful cooperation with these authorities, the potential added value of our organisation is being harnessed to maximum effect. Examples of this cooperation are:
- Together with the province of Gelderland, four municipalities and project developers, we are exploring the opportunities for building energy-efficient homes as part of the 'Woonparken Gelderland' project;
- In the municipality of Zutphen we are conducting an investigation into the effects of heat pumps on the electricity grid;
- In the municipality of Apeldoorn we are working with various parties on a large-scale experiment in the field of high-efficiency boilers;
- Together with the 'De Zonvogel' association, we are developing a model for calculating the amount of solar energy generated by customers;
- In the province of Friesland we are working with the provincial authorities, residents of the Alde Feanen nature reserve in Friesland, the municipality of Boarnsterhim, the water board ('Wetterskip Fryslân') and the nature preservation organisation It Fryske Gea to find the most favourable and sustainable solution for providing energy to the area's recreational homes;
- In Amsterdam we are participating in numerous sustainable projects, such as the Smart City Project and Klimaatstraat, in which we promote people's energy awareness with the aid of smart meters;
- 102 municipalities in our service area are affiliated with Stichting e-laad.nl to promote a good electric transport recharging network.

Guaranteeing socially responsible entrepreneurship

Now that more and more employees are taking an active interest and role in green issues, the number of environment, safety and sustainability initiatives is also steadily expanding. Together with our employees and other stakeholders in our chain, we are pursuing our ambitions.

Our ambitions in the area of responsible business operations are:
- Employees contribute towards socially responsible entrepreneurship and innovation;
- Work towards climate-neutral operations in 2015 and reduce our impact on natural resources and emissions;
- Increase the share of socially responsible procurement to 30% and expand our chain responsibility;
- Safe operations;
- Environmental management based on recognised guidelines.

Communication

In 2010, we called our employees' attention to our social role through the following initiatives, among others:
- Three master classes about the sustainable city in 2040;

- Three company-wide campaigns to promote awareness of diversity, energy consumption and chain responsibility;
- Introduction cards for new employees and visitors about CSR.

Reducing our CO_2 emissions

Alliander is striving to be climate-neutral by 2015 and in 2010 we developed our climate-neutral vision in greater detail. Our CO_2 strategy follows the three-step trias energetica approach: the first step is to save energy, the next is to use renewable energy, and finally to use fossil fuels in the most efficient and effective possible way. Offset certificates are only purchased as a last resort.

- Alliander has a continuous programme for reducing grid losses. The 'technical' grid losses are entrusted to Asset Management. Meanwhile, a separate study was started up in September to achieve further reductions in the 'administrative' grid losses. The results will be known in 2011;
- Alliander has purchased 20 electric cars for its fleet. Alliander's lease policy already requires that cars have at least a C label. A further tightening of our lease policy and expansion of the number of electric cars is foreseen in 2011;
- Pilots with the Plugwise energy monitoring system have been started at our locations in Haarlem and Harderwijk, and various energy installations have been replaced in our buildings.

Despite these measures, we failed to achieve our reduction target for 2010. This was mainly due to the increased grid losses, which account for more than 80% of our footprint. As the grid losses are mainly attributable to the amount of electricity consumed by the end users, these are more difficult for Alliander to influence. The backgrounds are stated on page 159 in this report.

In a further effort to curb CO_2 emissions, Alliander has earmarked an extra investment budget for CO_2 reducing measures, which is linked to specific reduction targets.

CO_2 footprint 2010[1]

In CO_2 tonnes	2010		2009	
	Emissions	Offset	Emissions	Offset
Scope 1 (direct emissions from in-house activities)				
Gas consumption buildings	2,955	-	2,704	-
Gas grid leakage loss (total)[2]	89,151	-	91,292	-
SF_6 emissions from electricity grid[3]	1,520	-	3,107	-
Total scope 1	**93,626**	**-**	**97,103**	**-**
Scope 2 (indirect emissions from in-house activities)				
Electricity consumption buildings[4, 5]	7,118	7,118	7,453	7,453
Electricity transmission/distribution grid loss[5]	632,084	-	585,436	-
Total scope 2	**639,202**	**7,118**	**592,889**	**7,453**
Scope 3 (chain emissions from product usage and direct and indirect emissions from contracted-out activities)				
Electricity grid construction and replacement[6]	28,270	-	-	-
Gas grid construction and replacement[6]	314	-	-	-
Commuter, business, air travel	1,616	-	1,651	-
Lease and commercial vehicles	13,810	-	13,738	-
Waste[6, 7]	3,145	-	-	-
Total scope 3	**47,155**	**-**	**15,389**	**-**
Total	**779,983**	**7,118**	**705,381**	**7,453**

1 Alliander calculates and reports the CO_2 emissions according to the Greenhouse Gas Protocol (GHG Protocol).

2 Methane emissions from gas pipe network.

3 SF_6 concerns leakages from high-voltage switch installations.

4 From 2010 the Dutch production mix is used as the emissions coefficient; in 2009 the Nuon fuel supply mix was used. The 2009 CO_2 emissions figure for the electricity consumption of buildings (7,173 tonnes of CO_2) and the grid loss (562,946 tonnes) have been adjusted according to the 2010 criterion for comparison purposes.

5 In 2009 and 2010 "natuurstroom" (solar, wind and hydro power) was used for the electricity consumption in office buildings occupied by Alliander (excluding rented premises).

6 Not measured in 2009.

7 Waste CO_2 concerns the balance of standard CO_2 emissions and savings according to the SITA statement.

In the Netherlands, various methods are used to calculate the CO_2 footprint, none of which are accepted as the standard. In this annual report we use the Dutch production mix from 2009 to convert the grid losses and electricity consumption of buildings into CO_2 emissions. A more uniform method at sector level is clearly desirable, and we will take an initiative to this end in 2011.

Chain responsibility and suppliers

Alliander's annual procurement of products and services amounts to about € 976 million. One of our priorities is to continuously discuss and improve our CSR results in cooperation with partners. This calls for a sustainable tendering policy. Wherever possible, we also initiate partnership projects in the chain in order to achieve sustainable innovations.

We contract suppliers on the basis of a Socially Responsible Procurement (SRP) statement, which stipulates which generic and specific sustainability criteria are applicable to each individual contract. This set of commitments is supplemented with special conditions that we find relevant from a social perspective. A 'Suppliers Code of Conduct' is applicable in all cases. The code requires that the supplier adheres to ethical and fair business practices. Additional social conditions can be included in the contract alongside this code of conduct. For our cleaning services, for instance, we have made additional agreements about the quality, management and minimum time expenditure in order to protect the cleaners' position. Similarly, arrangements have been made with our caterers about providing a certain percentage of organic/healthy food and hiring people with a disadvantage on the labour market. In 2010, 28% of the signed contracts met the SRP criteria, thus exceeding our 20% target for 2010.

Chain cooperation has also been given shape in a number of joint research programmes with partners. For example, we assessed the life-cycle pros and cons of using aluminium versus copper for our cables. The detailed findings of this analysis may have major sustainability implications.

Environmental management

Alliander is eager to offer a safe and clean working environment while limiting the impact on the environment insofar as possible. Departments must therefore stick to strict working arrangements and to environmental laws and regulations. We also want to understand, control and minimise the environmental impact of our current and former activities in the most responsible way possible. Our environmental management is set up in accordance with the international ISO 14001 standard and we are also seeking to comply with ISO 26000. Wherever useful, Alliander has its environmental management system certified according to ISO 14001.

Alliander's environmental policy is aimed at:
- Complying with laws and regulations;
- Ensuring our activities are executed in a demonstrably clean way;
- Working according to the best methods and with the best technologies that are reasonably possible ('best practice').

We communicate our environmental policy to our employees via all suitable and relevant internal communication channels, such as staff meetings and the intranet. We actively encourage employees to observe the policy guidelines at all times. We aim to reduce greenhouse emissions such as CO_2, CH_4 and SF_6 in order to contribute to the realisation of Dutch and European objectives for 2020. All our waste materials are collected and removed in a safe and environmentally responsible manner. We minimise the environmental effects of residual and waste flows by promoting useful application and re-use. In addition, we control and reduce the other environmental risks and impact of our activities.

Environmental incidents

The vast majority of these incidents concern oil leakages and soil pollution. Reported incidents are always followed up and acted on. In 2010, 100% of incidents were resolved incidents. Wherever required by law, the incidents are reported to the competent authorities.

Environmental incidents

by category	Unit	2010	2009
Recorded environmental incidents	number	49	62
Resolved environmental incidents	per cent	100	100
Incidents reported to competent authorities	number	26	21

In 2010, no monetary fines or non-financial sanctions were imposed for environmental incidents.

Checking and replacing oil pressure cables that carry environmental risks

About 1000 kilometres of oil pressure cables are in use in Liander's grid management area. In order to minimise the environmental risks, we determine which replacement investments are necessary in the coming period. We do this based on investigations according to the type, age and environmental risks related to the various oil pressure cable routes. Good management prevents unnecessary leakages in oil pressure pipes. Any pollution resulting from leakages is traced and cleaned up.

In 2010, we explored the opportunities for applying 'tracer technology', where a tracer is added to the cable oil to facilitate the detection of small leaks. More attention will be devoted to this technology in 2011. Ground penetrating radar technology was also tested for its ability to locate soil pollution, and particularly to detect

small leakages (less than 5 litres per day) at an earlier stage. In 2011, parts of the cable trenches will be dug open in order to verify the results of this ground radar study. In compliance with the duty of care pursuant to the Soil Protection Act, 13 minor soil clean-up operations were carried out to remove cable oil pollution in 2010.

Social initiatives that deserve our support

Apart from facilitating the energy transition and taking measures to ensure its operations are safe and responsible, Alliander is committed to promoting a better society in the regions in which it operates. More specifically, we do this by extending a helping hand to people and initiatives that are most in need of support. We have translated our community involvement into the following ambitions:

- We support employees who serve society as volunteers of the Alliander Foundation;
- We give financial support to community initiatives via our sponsorship policy.

Alliander Foundation

Alliander has its own foundation for organising voluntary activities. Our employees are entirely free to choose whether they want to volunteer. It is our belief, however, that voluntary work not only makes a contribution to society, but also benefits the volunteers in broadening their personal development. In order to interest as many employees as possible in occasional or permanent voluntary work, the Foundation works together with providers of fresh concepts such as Stichting Nederland Cares, which organises 'hands on' voluntary work. In addition, employees are encouraged to use their specific skills for good causes, such as helping people to manage their home finances or assisting entrepreneurs from developing countries in making business plans. In this context, the Foundation works closely with organisations like Humanitas and Bidnetwork.

In 2010, 65 Alliander volunteer projects received financial support from the Alliander Foundation. About € 180,000 was donated to these projects, with 974 employees volunteering either as individuals or in teams. One of these projects involved 25 Alliander employees spending a week in Russia to renovate a shelter for children from Chernobyl. Other colleagues helped immigrants taking citizenship courses to practise their Dutch language skills. Various children's farms were given a makeover and senior citizens were taken on outings to the Keukenhof flower garden, the zoo and other attractions. These are just a few examples. The employees decide for themselves what kind of voluntary work best suits their inclination and skills.

Sponsorship

Sponsorship is one way Alliander can demonstrate its community engagement, while also increasing the recognition of its brands. To qualify for sponsorship, the most important criteria are a social dimension and/or a certain relevance to our core activities. In 2010, the most significant donations went to the Introdans dance company and the Vakcollege educational institution for financing an intermediate vocational course. Both are long-term partnerships. The majority of our sponsorship funding was granted on a one-off basis, such as our contribution to an initiative in Alkmaar focused on teaching children to play an instrument and to Valid People, an organisation that sets up initiatives to help the physically disabled fully participate in the work process.

LOOKING AHEAD TO 2011

Social responsibility is always our central focus. We find that keeping an open mind to our surroundings is instrumental in improving our overall performance and makes us more attractive as an employer. A diverse and multiform organisation with a good balance between men, women and cultural backgrounds is a more talented organisation. An organisation that pursues CO_2 reduction has an even better understanding of the improvements that need to be made to its business processes. An organisation that challenges its employees to adopt more sustainable working practices motivates its people.

In 2011, Alliander will continue to encourage all its employees to keep an open mind to their surroundings in order to achieve our ambitions. We aim to continue implementing and embedding more of our social objectives in the processes and practices of our business units. To this end, Alliander has set measurable targets for 2011 in the areas of safety, energy transition, women in leadership positions, people with a disadvantage on the labour market and CO_2 reduction.

interview

“Energy storage is the challenge of the future”

One gives lectures about the future while the other leads a team dedicated to the future of energy and technology. Paul Ostendorf is a futurologist, John Post is Chief Technology Officer at IBM Benelux. They share a fascination with energy transition; the changeover from fossil to renewable. Their hopeful conclusion: the energy problem can already be solved in the laboratory.

Energy is clearly a burning issue for someone whose profession involves the future. “In 2050, the world will use three times more energy than today,” says Paul Ostendorf. “China, India, Russia and Brazil will surpass us in wealth. They are now in their most energy-guzzling phase of development. At the same time, fossil fuels are becoming steadily more expensive, are harming the environment and are becoming scarcer.”

John Post sees daunting energy challenges as well. “Technology innovations and a radical new way of thinking are imperative to avert a global energy crisis. We need a major breakthrough. The problems are big, but they can be solved and a great deal of research is being done. Basically, the transition is already under way. In the coming years this will become increasingly clear in our daily lives.”

Self-sufficient

It is a gradual process of change. But one thing is certain: people living in the Netherlands in 2050 will barely recognise the energy landscape of 2010.

Ostendorf: “We are used to large coal- and gas-fired power stations. But a few decades from now, people will generate their own power with renewables such as wind, solar and geothermal energy. Biogas will be purchased on contract from local farmers. This development is partly being driven by the depletion of fossil fuels. But there is also another factor at work: the more the world globalises, the greater people’s need to form small communities. The advantage is that smaller groups are better able to adapt to changing circumstances. Coal- and gas-fired power stations are built to last 40 years, while local energy generation is much more flexible.”

Post: “Large power stations are not very efficient – it takes a lot of energy to generate energy – and losses occur during the transmission of electricity. That’s not the case when you generate power in your own home or neighbourhood. The decentralisation trend could therefore have a favourable effect on our overall energy consumption.”

Ostendorf: “The trend towards entirely self-sufficient communities can go very far. Japanese architects are

Photo: left John Post, right Paul Ostendorf

already busy drafting plans for gigantic climate-neutral residential complexes. These buildings are up to four kilometres high and can accommodate more than one million people. Another less futuristic concept is vertical farming, where food is cultivated under fully controlled conditions in greenhouses that are tens of metres high."

Smart grids

Post: "Decentralised energy generation calls for smart grids. Residential areas that produce a surplus of electricity will want to feed this into the network. So we need a two-way system. Smart grids can also detect unnecessary energy leaks and predict peak loads. So the energy revolution is also an ICT revolution. Chips are key to making grids smart."

This revolution is truly going to make itself felt in the coming years. Smart energy meters, for instance, are set to make their debut. These will provide detailed insight into our energy consumption and help match the supply and demand of electricity. This improved matching will be crucial in facilitating the switch to electric cars.

Ostendorf: "If everyone recharges their car at the same time, the network will become overloaded. A smart meter can ensure that the cars in a particular neighbourhood are recharged at different times, while the batteries of cars that are not used much feed energy into the network. ICT helps to manage the demand for power and gas."

Post: "Once all the high-voltage grids in Europe are connected – which is a trend we're already seeing – computers will be able to send wind energy from North Europe to low-wind regions and solar power from warmer countries to the chilly North. This highly complex pan-European smart grid can only function thanks to ICT."

Storing energy

Still, virtually all renewables have one drawback: they cannot meet the total energy demand. Supply problems can arise if there is too little sun and wind, while production surpluses will result when both are abundant.

“Decentralised energy generation calls for smart grids”

Post: “The key to energy transition lies in energy storage. We must find ways of storing renewable power in times of overproduction for periods of scarcity. A lot of research is being carried out into new storage methods, including at IBM.”

Ostendorf: “In a few years’ time, electric car batteries will last ten times longer than today. And they will recharge in a few minutes instead of the hours required by current versions. Fast recharging technology is already available. The only snag is that these batteries gobble up as much power as an entire residential area. The research into chemical and biological technologies for storing energy is also promising. Plants and bacteria can be adapted to convert sunlight into pure hydrogen, which is a renewable fuel. This is already being done in the laboratory. And the super solar cell, which is so efficient it can also be used in northern countries, already exists in the laboratory environment.”

Post: “One important question involves how we can re-use energy. Data centres and office buildings are known for being high users of energy, most of which escapes in the form of heat. Reclaiming that heat would be yet another form of energy storage.”

New role

If residential neighbourhoods and homes become energy self-sufficient, what role would the current grid managers play?

Ostendorf: “Less centralised generation means less need for transmission. Against this, we need expert parties to supervise and facilitate the energy transition. For instance, grids must be adapted for new forms of energy generation. Grid managers can provide the necessary people and expertise.”

Post: “Innovation is often associated with new products. But the biggest innovations take place in business models. IBM used to make computers. Now we mainly deliver services. And I’m certain that grid managers will adapt as well. Besides distributing power and gas, they will also increasingly act as service providers in the field of energy and energy transition.”

the future

The world of energy is in the process of rapid change. While both the demand for and production of renewable energy are on the rise, new conventional power stations are still being built in considerable numbers. Shifts in our use of energy are also evident.

Alliander facilitates the future

Gas is being used less for spatial heating, while it is increasingly being used for the production of electricity. The advent of electric transport is another factor that may reshape the energy mix of the future, with oil making way for electricity from multiple renewable sources. Alliander is facilitating all these developments. Our role is not to favour any energy source over another or to drive trends in a specific direction. That is the market's job – though we will provide transparency on the social costs attached to this freedom of choice wherever possible. Our responsibility lies in preparing our grids for our customers' future needs and we are therefore innovating and investing now to pave the way for the choices of the future. Alliander is committed to ensuring that everyone has access to energy. For this reason, we are in continuous contact with market parties and other stakeholders, and are helping to advance developments wherever possible. This pro-active and participative approach keeps us flexible and prepared for the future.

EUROPEAN DEVELOPMENTS IN THE ENERGY SECTOR

In 2009, the European Union outlined its renewable energy commitments in a first step towards a European Union with 80 to 95% less CO_2 emissions and achieving an almost renewable-only energy supply in 2050.

Major efforts are also being undertaken to bolster the European Union's competitiveness, with a particular focus on low costs and transparency.

Society is clearly becoming increasingly dependent on energy. Even brief power failures can cause major problems in the form of e.g. disrupted trains and computer outages.

DEVELOPMENTS IN THE DUTCH ENERGY SECTOR

The way energy is generated and the types of energy we use are changing. The Netherlands not only needs clean energy, but energy that is and remains safe, reliable and affordable. The focus in the sector is on sustainable energy generation, energy saving, facilitating developments in the market, grid adaptations and clustering grid managers. Alliander is actively engaged in all these aspects.

Sustainable energy generation

In 2010, only 4% of the energy used in the Netherlands came from renewable sources. The remaining 96% was therefore from fossil (oil, natural gas, coal) and nuclear sources. By 2050, this ratio is to be reversed. Our first milestone is to achieve 14% renewable energy in 2020, which means more than tripling the share of renewable generation in the Dutch energy mix within the next ten years. Various institutions, including the International Energy Agency, expect the costs of fossil energy to continue rising, driven by growing world demand as well as rising production expenditures and higher environmental costs. Meanwhile, the costs associated with energy from renewable sources, such as wind and solar, are falling.

Energy saving

The Dutch government has set itself the objective of becoming 20% more energy-efficient in the coming decade. This is twice the energy saving achieved in recent years. A power station is much more efficient at generating energy than a car engine, so electric cars are clearly more energy-efficient than their petrol-driven counterparts. Electric cars also offer the added advantage of reducing our dependence on oil and improving our air quality. In this light, it is hardly surprising that one of the government's energy objectives is to have about 200,000 electric cars on Dutch roads by the year 2020 and no less than one million five years later.

The periodic tightening of the energy performance coefficient (EPC) for buildings will also help lower our energy consumption. Measures include requiring new-build homes to be energy-neutral by 2020 and the energy consumption of all buildings in the Netherlands to be halved by 2030. This can be partly achieved through the use of insulation and more efficient equipment, such as heat pumps and micro-CHP boilers. Apart from using less energy, the home of the future will also have a different energy consumption ratio. Whereas gas currently covers 80% of current residential energy demand, a new neighbourhood with heat pumps will be 100% electricity-powered. The gas grid will then be redundant. The reverse is also possible. If customers start generating a portion of their own electricity using a micro-CHP boiler, it may no longer be profitable to construct new power grids. Clearly, both developments can have major consequences for both the gas grid and the electricity grid.
Close cooperation is key to achieving an affordable and reliable energy supply. Alliander is therefore working intensively with all parties involved, including municipalities, project developers, contractors, installers, housing associations and residents.

Market development

All these technological advances and changing energy wishes clearly call for a new market model and service approach. If everyone switches to electric vehicles, the domestic demand for oil will fall sharply. And instead of petrol stations, we will need a vehicle recharging infrastructure to power the vast numbers of electric cars. This will have consequences for the electricity grids as well as for the regulation of the electricity market. Vital questions will need to be answered, such as: Who owns the recharging infrastructure? Who pays who and how? How can we keep track of customers who have no fixed connections? Together with other grid managers and energy suppliers, we carried out a study in 2010 to explore the possible future shape of this market. In the years ahead, in cooperation with several parties, we will test how the various recharging options and new customers can be integrated into the existing energy market.

International forecasts indicate that the Netherlands will achieve grid parity for solar power between 2015 and 2020. This means it will cost consumers the same amount to generate their own power as to buy it from the grid (including taxes). Once this is the case, the number of households that are prepared to generate their own power may grow rapidly. Individual customers can then join forces to set up their own local energy company or cooperative, either independently or together with the municipality or housing association. This means they generate (part of) their own energy. This self-generation capability will give a further impulse to the production of renewable energy, while also encouraging greater civic involvement and local support for renewable energy. Alliander is already working together with several parties to establish how customers can use their self-generated power as easily and efficiently as possible.

Grid adaptations

The Netherlands is becoming more and more dependent on energy. This also increases the quality requirements imposed on the grid. In addition, our customers' new energy mix will make different demands on the gas and power grids. The grid will adapt accordingly. We are constantly making the grids smarter and more flexible in response to these evolving needs.

Sector optimisation

The sector will also change. In the past 25 years, the number of energy companies in the Netherlands has declined from several hundred to several tens of suppliers and grid managers. Further clustering of these grid managers is anticipated in the coming years. By forming clusters, the grid managers can achieve the financial strength they need to facilitate the changes that lie ahead. Closer cooperation will also lead to more standardisation and lower costs.

ALLIANDER'S ROLE

In the coming years we will continue our efforts to make our grids smarter, more flexible and more reliable. In addition, we will encourage the growth of sustainable and local energy production, the application of more energy-efficient and more sustainable alternatives and the adaptation to a more complex energy market. We believe this is

the best way to assist the transition to a clean energy supply that remains available and affordable for everyone.

Alliander expects the grids to remain a critical link in the energy chain, but the demands on the energy supply to change. We believe that this change will ultimately lead to a more energy-efficient society that is largely powered by sustainable and affordable energy. By means of research, innovations, pilots and cooperation, we aim to facilitate the energy transition and accelerate this process wherever possible. In this way, we can also keep close track of our customers' changing wishes and adapt our grids accordingly. Alliander is already bringing the future closer by promoting (the generation of) renewable energy and energy saving and by adapting its grids.

A. Energy saving

We facilitate energy saving. Spatial heating is one example of this. The wider use of insulation has already significantly reduced the need for energy. We aim to meet the remaining demand as efficiently as possible. The heat pump can help achieve this and is being increasingly used in new-build houses. Alliander is connecting with developers and users to ensure the optimal utilisation of heat pumps.

B. Generating renewable energy

Our knowledge is constantly advancing. The majority of the wind turbines in the Netherlands are in our service area, which means we are familiar with the effects of this type of renewable generation. Wind turbine energy is already mature and (almost) commercially viable. Other forms of renewable energy are still small-scale and require further incentives. By cooperating with customers and knowledge institutions, we are helping these other forms to grow as well. In the coming years, our attention will be specifically focused on customers who are interested in producing biogas or solar power.

C. Grid adaptation

The challenge is to facilitate all future developments, while ensuring the grids remain reliable and affordable. We are constantly making our grids smarter and more flexible through the application of innovative technologies. As a result, we are increasingly well-informed of what is happening in and to our grid. In addition, our growing flexibility makes us better able to facilitate new developments. In the future, this will allow us to serve more customers at the same costs while causing minimum inconvenience and disturbance.

THE FUTURE CALLS FOR INNOVATION

Micro-CHP boilers

One potential major development concerns the arrival of the micro-CHP boiler, which may evolve into the successor of the existing high-efficiency boiler. The micro-CHP boiler not only produces heat but also electricity, thus allowing consumers to partly generate their own electricity. This leads to lower energy bills, while helping the Netherlands use natural gas more efficiently. The heat produced at large power stations is rarely put to good use. This is not the case with in-home energy stations. In conjunction with the municipality, boiler supplier and housing association, Alliander is currently carrying out a pilot with 170 micro-CHP boilers in Apeldoorn. The objective is to study the effects of such boilers. The initial aim is to find out how these boilers operate in practice and what the consequences are for the grid. At a later stage, tests will be carried out to see whether further financial and environmental savings can be made, without compromising the customer's comfort.

Heat pumps

Spatial heating is the biggest energy user in many homes, so reductions in this area are a big priority. Insulation has already helped reduce energy needs. The next step is to meet the remaining demand as efficiently as possible. Heat pumps provide a solution, which is increasingly being used in new-build houses. Good coordination between the grid manager, developer and user is vital to ensure optimal utilisation of this device. Neighbourhoods that are equipped with heat pumps do not require a gas grid, but many do need a stronger electricity grid – how much stronger depends on the type of device and how the homeowner uses it. By making arrangements at an early stage, the right energy provision can be developed from the outset. This will ensure we keep our future energy supply reliable and affordable.

Biogas grids

The production of biogas is growing and provides a sustainable alternative to natural gas. One problem is that upgrading biogas to natural gas quality is often expensive. In some situations the construction of a biogas grid can solve this problem. After all, as several biogas producers are connected to a biogas grid, they do not need to upgrade the gas individually, which permits substantial cost savings. This gas can then be mixed with natural gas and supplied to customers. As natural gas acts as the back-up fuel when the supply of biogas is insufficient, this also saves fossil energy and reduces CO_2 emissions. Customers who use this gas need a special boiler that is able to burn a mixture of biogas and natural gas.
In 2010, Alliander developed the concept of biogrids and is now preparing a practical trial in cooperation with a boiler manufacturer. The results of the test should provide an indication of the feasibility of such grids. This is yet another way in which Alliander is helping make the Netherlands progressively greener.


Amsterdam elektrisch
Oplaadpunt
PUUR MAKELAARS
Liander
100% elektrisch

financial

financial

The financial year saw two significant financial events for Alliander: the acquisition of the shares in network company Endinet on 1 July 2010 and the issue of the subordinated perpetual bond on 4 November 2010.

Further, the x factors (efficiency rebates) for the coming regulation period were set by the Dutch Office of Energy Regulation in September 2010, allowing an annual increase in the maximum tariffs over the coming regulation period.

Takeover and integration of Endinet

In December 2009, agreement in principle was reached with the former shareholders of network company Endinet on the proposed acquisition of the shares in the company. After examination of the books in January 2010, the final purchase contract was drawn up and was signed by the parties on 4 March 2010. On 1 July 2010, Alliander acquired the entire share capital of Endinet for € 136 million. The purchase price was paid out of cash reserves. Following the acquisition, Alliander also settled all Endinet's external loans and an interest rate swap contract with cash, involving a total amount of € 682 million. Further information on the treatment of these transactions can be found on page 104 of the financial statements. Endinet's financial information has been included in the Alliander consolidation with effect from 1 July 2010.

Endinet has annual revenues of around € 110 million and employs a workforce of around 300. Joining forces with Endinet has strengthened Alliander's position. The takeover of Endinet is fully in line with the strategic framework established by the Kist Committee (set up to look into the public ownership of energy companies). In the Kist Committee's view, a redistribution of areas served by grid managers is called for. The Committee recommends reducing the existing number of grid managers to between three and five companies with a logical regional coverage.

On 1 January 2011, Liander integrated the activities of Endinet's gas grid manager Endinet Haarlemmermeer B.V. into its existing activities. This means that, with effect from 1 January 2011, customers in the municipality of Haarlemmermeer will be dealing with Liander as grid manager for both electricity and gas. The grid managers Endinet Oost-Brabant N.V. and Endinet Regio Eindhoven B.V. were merged to form Endinet B.V. on 1 January 2011. It has been agreed with the vendors that Endinet will continue to operate as a grid manager within Alliander at least until 30 June 2015.

Takeover of Stam

On 16 March 2010, Alliander acquired the shares in the contractor Stam Heerhugowaard Holding B.V. (Stam). The purchase price was € 11 million. Stam has annual revenues of around € 24 million and employs approximately 150 people. The takeover assures Alliander of sufficient field engineering capacity in Noord-Holland. The financial information of Stam has been included in the Alliander consolidation with effect from 16 March 2010 (date of acquisition). See page 104 of the financial statements for further details.

Financing

On 4 November 2010, Alliander issued a subordinated perpetual bond with a nominal value of € 500 million (issue price 99.495%) and a coupon rate of 4.875%. In accordance with IFRS requirements, the subordinated perpetual bond is recognised as equity in the balance sheet. The issue gives Alliander more financial latitude, aimed at maintaining a solid A rating profile. The key figures on page 4 have been prepared on the basis of IFRS. On page 61 of the annual report the ratios have also been calculated – where applicable – on the basis of Alliander's financial policy, which treats the subordinated perpetual bond as being 50% equity.

Regulatory developments

In August 2010, the Dutch Office of Energy Regulation finalised the electricity and gas regulation method decisions for the regional grid managers relating to the regulatory period (2011–2013). These decisions establish the methods used to compute the efficiency rebates (x factors) and the quality factors (q factors). Compared with the method used in the preceding regulatory period (2008–2010),

the main changes of a general nature concern an increase in the sector-wide maximum permitted return to 6.2% (from 5.5%) and small consumer output measurement based on notional capacities (instead of volume). In the case of gas, the connections are also included in the regulation with effect from 2011. In the case of electricity, output measurement has now been extended to include feed-in to the regional networks and quality regulation is now based on two indicators, i.e. outage duration and outage frequency (was average outage).

The x factor and q factor values for the years 2011–2013 were fixed in September 2010. The x factors for nearly all the regional grid managers are negative, which means that the maximum tariffs may rise each year during the present regulatory period. The reasons for these negative factors are the alignment of incomes in the sector with the level of sector-wide costs, the increase in the real WACC (sector-wide permitted return) and the relatively slight rise in the sector's costs in recent years.

Rating

On 6 August 2010, Standard & Poor's reaffirmed its long-term and short-term ratings of A/Stable/A-1. Moody's upgraded its long-term rating to Aa3 and reaffirmed its short-term rating of Prime-1 in the first half of 2010. These ratings and the outlooks were again reaffirmed on 29 December 2010.

Events after balance sheet date

There are no events after balance sheet date with a material impact on the 2010 financial statements.

FINANCIAL POLICY

Alliander's financial policy is aimed at achieving a balance between protection of bond holders and other capital providers and an adequate shareholders' return while preserving the necessary flexibility to enable the company to grow and invest. The general principles of the financial policy are to ensure a balanced repayment schedule and to have available committed credit facilities and sufficient cash and cash equivalents. By operating within the financial framework and in accordance with the general principles, a solid A rating profile is maintained.
The financial framework within which Alliander operates and under which, in a departure from IFRS, the subordinated perpetual bond issued in 2010 is treated as being 50% equity and 50% borrowed capital, is based on the following ratios:

- funds from operations (FFO) /net debt >20%;
- interest cover >3.5;
- net debt /(net debt + shareholders' equity) <60%;
- shareholders' equity/balance sheet total less deferred income >30%.

Further, a solid A rating profile and compliance with the regulatory criteria for grid managers Liander and Endinet.

Investment policy

The investment policy is consistent with the financial policy which is part of Alliander's strategy. Elements of investment policy include social acceptance and support, compliance with regulatory requirements relating to investments in the regulated domain and generation of an adequate return on investment. Investment proposals are tested against minimum return requirements and criteria as set out in the financial policy. As well as quantitative requirements, investment proposals must also meet qualitative requirements, such as consistency with the corporate strategy and stakeholder interests. It should also be noted that freedom of action is severely restricted in the case of investments in the regulated domain due to the grid manager's statutory task.

Dividend policy

The dividend policy provides for a pay-out of 45% of the profit after tax, adjusted for non-cash incidental items, unless the investments required by regulators or the financial criteria demand a higher profit retention percentage and unless the solvency falls below 30% after payment of dividend. A maximum dividend limit of 45% has been imposed in connection with the unbundling. This dividend limit applies until 1 January 2014.

ANALYSIS OF RESULTS

Incidental items

Alliander's results can be influenced by incidental items and fair value gains and losses. Alliander defines incidental items as items which – in the opinion of management – do not derive directly from the ordinary activities and/or whose nature and size are so significant that they must be considered separately to provide proper analysis of the underlying results.

Net incidental items and fair value movements in 2010 totalled an income item of € 48 million after taxation (2009: income item of € 152 million). The table on page 57 contains an overview of the reported figures and the figures excluding incidental items and fair value gains and losses.

NOTES TO INCIDENTAL ITEMS

Other income

(2010: nil, 2009: income item of € 178 million)
The incidental income in 2009 consists of the gross book profit on the sale of the HV grids to TenneT (€ 168 million) and the sale of the shares in Liandyn B.V. to Ziut B.V. (€ 10 million).

Reported figures and figures excluding incidental items and fair value gains and losses						
€ million	Reported		Incidental items and fair value gains and losses		Excluding incidental items and fair value gains and losses	
	2010	2009	2010	2009	2010	2009
Revenue	1,432	1,446	-	-	1,432	1,446
Other income	93	304	-	178	93	126
Purchase costs, costs of sub-contracted work and operating expenses	-1,078	-1,162	-7	-22	-1,071	-1,140
Depreciation and impairments	-241	-214	-	-	-241	-214
Own work capitalised	124	117	-	-	124	117
Operating profit (EBIT) from continuing operations	**330**	**491**	**-7**	**156**	**337**	**335**
Finance income (and expense)	-108	-128	7	4	-115	-132
Share in results of associates and joint ventures	8	20	-	13	8	7
Profit before tax from continuing operations	**230**	**383**	**-**	**173**	**230**	**210**
Tax	-8	-71	48	-21	-56	-50
Profit after tax from continuing operations	**222**	**312**	**48**	**152**	**174**	**160**
Profit before tax from discontinued operations	**-**	**226**	**-**	**-**	**-**	**226**
Profit after tax	**222**	**538**	**48**	**152**	**174**	**386**

Purchase costs, costs of sub-contracted work and normal operating expenses

(2010: expense item of € 7 million, 2009: expense item of € 22 million)

The incidental expense item in 2010 relates to cross-border lease costs, including the revaluation of and formation of a provision for an investment relating to a cross-border lease contract as a consequence of the credit crisis. The incidental expense item of € 22 million in 2009 relates partly to the special staff bonus in connection with the unbundling of N.V. Nuon Energy.

Finance income

(2010: income item of € 7 million, 2009: income item of € 4 million)

The incidental income item of € 7 million in 2010 mainly concerns the gain of € 18 million relating to fair value movements of an interest rate swap connected with the Endinet acquisition and incidental interest expenses totalling € 11 million in connection with pre-hedging the interest rate risk on the subordinated perpetual bond. The incidental income item in 2009 of € 4 million was the interest received in connection with refunds of provisional corporate income tax assessments.

Share in results of associates and joint ventures

(2010: nil, 2009: income item of € 13 million)

The incidental income item of € 13 million in 2009 related to non-recurring proceeds from the sale of an associated company by N.V. Kema. Alliander has a 25% interest in N.V. Kema.

Tax

(2010: income item of € 48 million, 2009: expense item of € 21 million)

Incidental income of € 55 million was recognised in 2010, reflecting an increase in the deferred tax asset due to an adjustment in the projected long-term results. An amount of € 7 million was also recognised as an incidental expense in 2010, relating to an adjustment in the deferred tax asset in connection with the reduction in the standard rate of corporate income tax from 25.5% to 25% with effect from 2011. Tax on incidental items in 2009 amounted to € 33 million. Additionally, incidental income of € 12 million was recognised in 2009 in connection with the release of a provision for estimated corporate income tax payable in respect of preceding years.

2010 INCOME STATEMENT

Revenue

Revenue for 2010 was down € 14 million (–1%) compared with 2009, at € 1,432 million. The decrease of € 16 million in the case of electricity was due to the combined effect of lower transport tariffs imposed by the regulator (€ 31 million negative) and the consolidation of Endinet revenue with effect from 1 July 2010 (€ 15 million positive). The increase of € 31 million in the case of gas was mainly due to the consolidation of Endinet with effect from 1 July 2010. The decrease of € 41 million for other products mainly reflected the loss of revenue due to the deconsolidation of Liandyn B.V. (included in Ziut B.V.) totalling € 63 million, which was only partly offset by the consolidation of revenue from acquisitions (€ 29 million).

Other income

Other income in 2010 came in at € 93 million (2009: € 304 million). The drop of € 211 million is largely explained by the book profit before tax of € 168 million on the sale of the HV grids to TenneT recognised in 2009 plus lower income from N.V. Nuon Energy (€ 36 million) for services provided by corporate staff departments and service units following the legal unbundling of N.V. Nuon Energy on 30 June 2009, as well as the book profit on the sale of Liandyn B.V. in 2009 (€ 10 million).

Operating expenses

Total operating expenses (purchase costs, costs of subcontracted work and operating expenses, depreciation and capitalised production) for 2010 amounted to € 1,195 million (2009: € 1,259 million). The reduction of € 64 million compared with 2009 was essentially due to:

- lower corporate staff costs (€ 25 million) and lower grid losses (€ 19 million) in 2010, compared with unbundling costs, additions to provisions and costs for strategic projects totalling € 79 million in 2009; and
- an increase of € 53 million in electricity purchase costs from TenneT following the sale of HV grids to TenneT plus the effect of the normal increases in transport tariffs.

Employee compensation and benefit costs were € 6 million lower in 2010 despite the higher number of employees, reflecting the non-recurring expense of staff bonuses amounting to € 23 million in 2009. Contract staff costs were also down as a result of switching from contract staff to permanent staff.

Operating profit

The operating profit for 2010 was down € 161 million at € 330 million. Excluding incidental items and fair value gains and losses, the operating profit in 2010 was marginally higher than in 2009, at € 337 million (2009: € 335 million). The explanation of these figures has been given above.

Finance income and expense

Finance income and expense in 2010 resulted in a net expense of € 108 million (2009: € 128 million). The difference of € 20 million compared with 2009 can be attributed mainly to the refinancing in 2009 of the current account with Nuon Energy at lower interest rates and a reduction in average net debt due to repayments. Net finance income and expense excluding incidental items and fair value gains and losses in 2010 was € 115 million (2009: € 132 million).

Associates and joint ventures

The share in the results of associates and joint ventures after tax in 2010 amounted to € 8 million (2009: € 20 million) and is chiefly made up of the share in the profits of the associates Ziut B.V. and N.V. Kema. The 2009 figure includes incidental income of € 13 million connected with the sale of an investment by N.V. Kema.

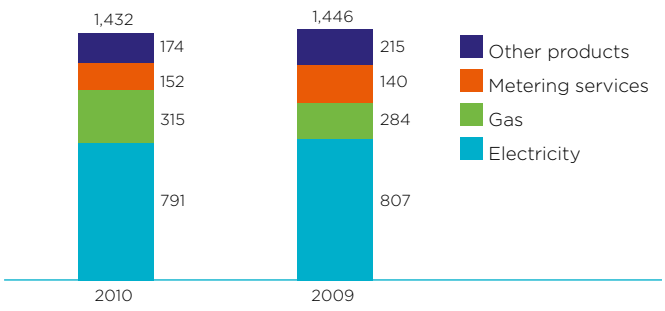
Taxation

The effective tax rate (the tax rate expressed as a percentage of profit before taxation from continuing operations excluding the share in the results after tax of associates and joint ventures) for the 2010 financial year was 3.6% (2009: 19.6%). The large difference between the standard tax rate and effective tax rate is mainly due to the € 55 million increase in deferred tax assets recognised as a consequence of an adjustment in the projected long-term results. There was, however, also a downward adjustment of € 7 million in the recognised deferred tax asset in connection with the reduction in the standard rate of corporate income tax from 25.5% to 25% with effect from 2011. The lower tax burden in 2009 compared with standard rate of 25.5% was mainly due to the release of € 12 million from provisions recognised on the basis of estimates of the corporate income tax payable in respect of preceding years. Additionally, a deferred tax asset not recognised at face value was realised in 2009 in connection with the sale of HV grids.

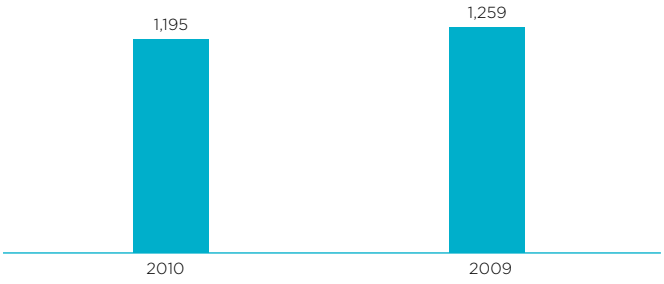
Profit after tax from continuing operations

The profit after tax for the year came in at € 222 million (2009: € 312 million). As already explained, this lower figure is largely accounted for by the absence of the book profit recorded in 2009 on the sale of HV grids to TenneT (€ 130 million after tax), partially offset by the increase in the deferred tax assets in 2010. The result after tax excluding incidental items and fair value gains and losses for 2010 was € 174 million, compared with € 160 million in 2009.

Revenue
€ million



Total operating expenses
€ million



Profit after tax from discontinued operations

The profit after tax from discontinued operations (2009: € 226 million) consists of the net profit of N.V. Nuon Energy, to which the unbundled production and supply activities of n.v. Nuon have been transferred. The 2009 figure refers to a half-year, because N.V. Nuon Energy was unbundled from n.v. Nuon (now Alliander N.V.) on 30 June 2009.

SEGMENT REPORTING

General

Alliander has applied IFRS 8 (Operating segments) with effect from the 2010 financial year. Alliander identifies the following segments:
- grid manager Liander
- network company Endinet
- other activities within the Alliander group.

The figures for each reporting segment, excluding incidental items and fair value gains and losses, are shown in the table below. These figures directly reflect the regular internal reporting. Detailed information on segment reporting can be found on page 106 of the financial statements.

Grid manager Liander

The grid manager Liander segment consists of the legal entity Liander N.V. which, as designated grid manager within network company Alliander, has a statutory duty to manage the electricity and gas grids and related assets in the provinces of Gelderland, Friesland, Noord-Holland, parts of Zuid-Holland and Flevoland. Liander connects customers to the electricity and gas grids, through which it transports electricity and gas. External operating income was down € 44 million in 2010 compared 2009, at € 1,305 million, mainly due to lower regulated transport tariffs in 2010. Total operating expenses decreased with € 8 million due to lower operating expenses. Operating profit was € 46 million lower compared with 2009 at € 342 million.

Network company Endinet

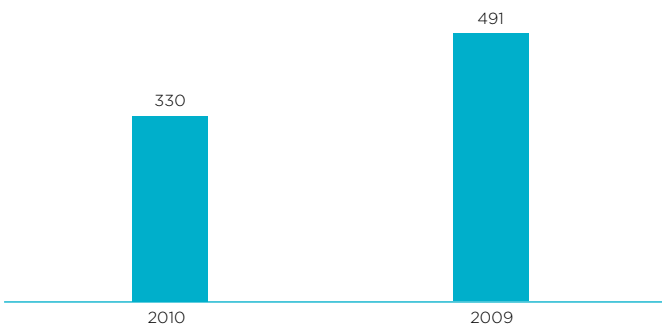
The network company Endinet segment consists of the Endinet-group, which included three grid managers in 2010: Endinet Haarlemmermeer B.V., Endinet Oost-Brabant N.V. and Endinet Regio Eindhoven B.V., which, as designated grid managers within network company Endinet, have a statutory duty to manage the electricity and gas grids and associated plant in parts of Noord-Holland and Noord-Brabant and connect customers to the electricity and gas grids, through which they transport electricity and gas. Endinet was acquired by Alliander on 1 July 2010.

As mentioned above, Liander integrated the activities of Endinet Haarlemmermeer B.V. into its existing activities on 1 January 2011. On the same date, the grid managers Endinet Oost-Brabant N.V. and Endinet Regio Eindhoven B.V. were merged to form Endinet B.V. External operating income for the period 1 July–31 December 2010 was € 64 million. The operating profit for the same period was € 19 million.

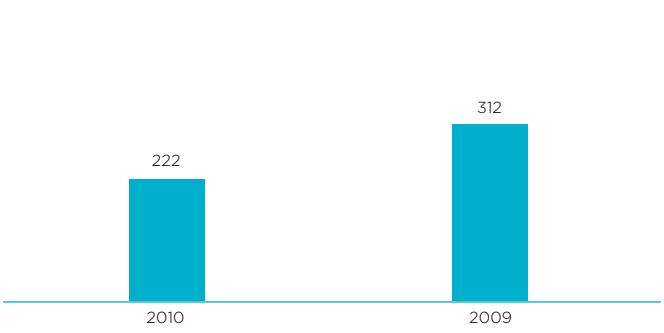
Primary segmentation

€ million	Grid manager Liander		Network company Endinet		Other		Eliminations		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Operating income										
External income	1,305	1,349	64	-	156	223	-	-	1,525	1,572
Internal income	11	21	-	-	262	285	-273	-306	-	-
Total operating income	**1,316**	**1,370**	**64**	**-**	**418**	**508**	**-273**	**-306**	**1,525**	**1,572**
Operating expenses										
Total operating expenses	974	982	45	-	442	561	-273	-306	1,188	1,237
Operating profit	**342**	**388**	**19**	**-**	**-24**	**-53**	**-**	**-**	**337**	**335**

Operating profit
€ million



Profit after tax
€ million



Other

The Other segment comprises all the other operational segments within the Alliander group, including the activities of Liandon, Stam, Alliander AG, the corporate departments and the service units. External operating income in 2010 was down € 67 million compared with 2009, at € 156 million. This decrease was due partly to lower income generated by corporate departments and service units from services to N.V. Nuon Energy following the legal demerger of N.V. Nuon Energy with effect from 30 June 2009 and the deconsolidation of Liandyn B.V. The operating result for 2010 was € 24 million negative. The improvement of € 29 million compared with 2009 mainly reflected lower expenses at the corporate departments.

BALANCE SHEET

The abridged balance sheet as at 31 December 2010 is shown below.

The following notes explain the significant changes in the balance sheet as at 31 December 2010 relative to the situation as at 31 December 2009. Detailed information on balance sheet items is given in the financial statements.

Non-current assets

The non-current assets as at 31 December 2010 were € 817 million higher compared with 31 December 2009, mainly due to changes in property, plant and equipment and intangible assets. In the case of property, plant and equipment, most of the increase (totalling € 764 million) can be attributed to the acquisition of Endinet on 1 July 2010. Investments also exceeded amortisation and depreciation in 2010. The € 111 million increase in intangible assets reflects the goodwill purchased with Endinet and Stam and the consolidation of Endinet's intangible assets. The main change affecting the other non-current assets concerns the reduction of € 119 million in the deferred tax assets. This reduction results mainly from utilisation of the tax break permitting accelerated depreciation of investments. Partially offsetting this reduction was an adjustment in the projected long-term results, which had the positive effect of lifting the deferred tax assets by € 55 million. In addition, Endinet had deferred tax liabilities totalling € 59 million, which have been set against Alliander's existing deferred tax assets, given the ability to net the tax position within the tax group of which Endinet forms part with effect from 1 July 2010.

Current assets

The decrease in current assets by € 173 million compared with the position as at 31 December 2009, to € 952 million, is largely a consequence of the decrease in the cash and financial assets (time deposits) position connected with the acquisition of Endinet, which was paid from cash reserves. This effect was partially offset by the proceeds from the issue of the subordinated perpetual bond in November 2010. The balance of trade receivables also declined, following the receipt of several large amounts in 2010.

Equity

Equity as at 31 December 2010 increased by € 661 million compared with the level as at year-end 2009, to € 2,906 million. A summary of the movements can be found on page 93 of the financial statements. The subordinated perpetual bond has a nominal value of € 500 million and the issue price was 99.495%, making the amount received € 498 million. From this, directly attributable costs totalling € 4 million were deducted, leaving an increase in equity of € 494 million.

Non-current liabilities

The non-current liabilities are almost unchanged compared with the position as at 31 December 2009.

Current liabilities

Current liabilities as at 31 December 2010 were down by € 63 million compared with the position as at year-end 2009, at € 592 million, mainly due to lower trade payables, a reduction in the tax liabilities and repayment of current interest-bearing liabilities.

Consolidated balance sheet

€ million	Alliander N.V.	
Assets	**31 December 2010**	**31 December 2009**
Non-current assets	6,448	5,631
Current assets	952	1,125
Total assets	**7,400**	**6,756**
Equity and liabilities		
Total equity	2,906	2,245
Non-current liabilities	3,965	3,919
Current liabilities	529	592
Total equity and liabilities	**7,400**	**6,756**

CASH FLOWS

The following abridged cash flow statement for 2010 relates only to Alliander. The figures for N.V. Nuon Energy for the first half of 2009 have been excluded to facilitate comparison.

Consolidated cash flow statement		
€ million	2010	2009[1]
Cash flow from operating activities	508	448
Cash flow from investing activities	-340	72
Cash flow from financing activities	-118	-306
Net cash flow	**50**	**214**

1 Pro forma.

The cash flow from operating activities in 2010 amounted to € 508 million (2009: € 448 million). The increase of € 60 million is partly the effect of the restatement for comparison purposes of the non-cash income of € 130 million relating to the book profit after tax on the sale of HV grids to TenneT in 2009. The cash flow from investing activities in 2010 was € 340 million (outflow) compared with an inflow of € 72 million in 2009. The decrease of € 412 million is largely explained by the proceeds from the sale of HV grids to TenneT in 2009, amounting to € 368 million, contrasting with the expenditure - totalling € 56 million - for the acquisition in 2010 of Endinet and Stam, allowing for the cash and cash equivalents acquired with these companies. The figure of € 56 million is made up of € 47 million relating to Endinet (amount paid € 136 million; cash acquired € 89 million) and € 9 million relating to Stam (amount paid € 11 million; cash acquired € 2 million).

Investment in property, plant and equipment		
€ million	2010	2009
Electricity, regulated	192	199
Gas, regulated	54	41
Gas connections/installations	45	40
Meters and InfoStroom	30	33
Buildings, ICT etc.	47	84
Total	**368**	**397**

The cash flow from financing activities over 2010 was a cash outflow of € 118 million, compared with a cash outflow in 2009 of € 306 million. The difference of € 189 million is mainly accounted for by the repayment of the current account with N.V. Nuon Energy in 2009 (€ 1,499 million), the issue of the EMTN programme in 2009 (€ 1,250 million), the issue of a subordinated perpetual bond in 2010 (€ 494 million) and the settlement of Endinet credit lines totalling € 682 million. The latter item relates to the repayment by Alliander of a total amount of € 625 million in external loans contracted by Endinet and the cancellation fee of € 57 million in respect of an interest rate swap contracted by Endinet.

Free cash flow in 2010

The free cash flow in 2010 amounted to € 168 million (2009: € 152 million). The increase of € 16 million compared with 2009 was the net product of higher cash flow from operating activities and the acquisition of Endinet and Stam.

Reconciliation of free cash flow		
€ million	2010	2009[1]
Cash flow from operating activities	508	448
Investments in non-current assets	-371	-397
Investments in associates	-56	-
Construction contributions received from third parties	87	101
Free cash flow	**168**	**152**

1 Pro forma.

FINANCIAL POSITION

Net debt

The net debt as at 31 December 2010 amounted to € 1,425 million, compared with € 1,382 as at 31 December 2009. Treating 50% of the subordinated perpetual bond as borrowed capital, in accordance with Alliander's financial policy, the net debt as at 31 December 2010 amounted to € 1,672 million.

Ratios

The FFO/net debt ratio refers to the 12-month profit after tax, adjusted for the movements in the deferred tax assets and liabilities and incidental items and fair value movements plus depreciation of property, plant and equipment and amortisation of intangible assets less accrued income divided by the net debt. On 31 December 2010 the ratio amounted to 31.9 % (year-end 2009: 25.4%). The increase was mainly due to the movement in the deferred tax position and therefore also the FFO in connection with agreements reached with the tax authorities relating to prior years and the use of tax breaks in 2010 retroactively. Alliander's financial policy stipulates that this ratio should be a minimum of 20%.

The interest cover ratio concerns the 12-month profit after tax, adjusted for deferred tax assets and liabilities and incidental items and fair value gains and losses plus depreciation of property, plant and equipment and amortisation of intangible assets and deferred income, plus net finance income and expense divided by net finance income and expense adjusted for incidental items and fair value gains and losses. On 31 December 2010 this ratio came out at 5.5 (year-end 2009: 3.7). The higher

Reconciliation of net debt position as at 31 December				
€ million	31 December 2010		31 December 2009	
Long-term interest-bearing debt	2,152		2,152	
Short-term interest-bearing debt	32		73	
Finance lease payables	128		120	
Gross debt position		**2,312**		**2,345**
Cash and cash equivalents	501		451	
Non-current financial assets	123		115	
Current financial assets	125		301	
Investments held for lease obligations related to cross-border leases	138		125	
Less: Restricted cash and cash equivalents (notably guarantee deposits relating to collateral)	-		-29	
Total cash and cash equivalents and investments		**887**		**963**
Net debt position according tot the financial statements (IFRS)		**1,425**		**1,382**
50% of subordinated perpetual bond		247		-
Net debt position on basis of financial policy Alliander		**1,672**		**1,382**

figure is mainly due to the movement in the deferred tax position, as referred to in the note to the previous ratio. Alliander's financial policy stipulates that this ratio should be a minimum of 3.5.

The ratio of net debt/sum of net debt and equity as at 31 December 2010 amounted to 39.3% (year-end 2009: 38.7%). Alliander's financial policy stipulates that this ratio should not exceed 60%.

The solvency ratio, i.e. equity including the profit for the period divided by the balance sheet total less deferred income, as at 31 December 2010 amounted to 44.3% (year-end 2009: 41.6%). Alliander's financial policy stipulates that this ratio should be a minimum of 30%.

2010 profit appropriation

The Management Board has determined, with the approval of the Supervisory Board, to add € 141.3 million of the profit to other reserves. The remaining profit of € 80.4 million is at the disposal of the General Meeting of Shareholders. This equates to 45% of profit after taxation, excluding net incidental items that did not generate cash flows in the 2010 financial year except those related to hedge accounting.

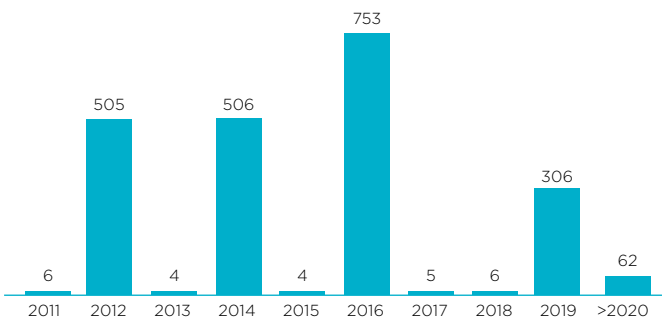
Financing

Early in 2010, Alliander replaced the committed revolving credit facility (RCF) of € 875 million (expiring in November 2011) with a new RCF totalling € 600 million and running up to March 2015. In addition, Alliander has an EMTN programme of € 3 billion, of which € 2.05 billion was issued as at 31 December 2010 (31 December 2009: € 2.05 billion) and an ECP programme of € 1.5 billion, which had not been drawn on at all as at 31 December 2010.

Credit rating

On 11 March 2010, Moody's revised the long-term rating of Alliander N.V. and Alliander Finance B.V. upward from A2 to Aa3. The short-term rating of Prime-1 was reaffirmed. The outlook for all ratings remains stable. The ratings and the outlooks were again reaffirmed on 29 December 2010. On 6 August 2010, after taking account of the acquisition of Endinet B.V., Standard & Poor's reaffirmed the existing long-term and short-term ratings.

Repayment schedule for interest-bearing debt
€ million



At the end of December 2010, Alliander's credit ratings were as follows:

Credit ratings		
	long term	short term
Standard & Poor's	A (Stable outlook)	A-1
Moody's	Aa3 (Stable outlook)	P-1

OUTLOOK FOR 2011

Investment

Gross investment, primarily in network replacement and expansion, averages € 300–400 million annually. We expect this figure to increase slightly in the coming years, with additional investment in SAS sensors and charging stations for electric vehicles. The pace of development of decentralised generation and feed-in to the decentralised network is taken into account in determining the level of our medium-term investment. One specific investment project that will supplement our regular investment programme is the phased roll-out of smart meters. Based on current estimates, Alliander will invest € 80–100 million per year in smart meters over the period 2013–2020.

Financing

Alliander's financial policy aims to preserve financial strength and flexibility and good access to the capital market at all times by maintaining a solid A rating profile. This is achieved by ensuring a balanced repayment schedule, having access to committed credit facilities, maintaining adequate reserves of cash and cash equivalents and operating within the financial framework of credit matrices.

Results

Given that the majority of Alliander's operations are regulated and in the light of the prohibition on privatisation, the current regulation methodology and the consolidation of Endinet and Stam, our expectation is that, barring unforeseen and non-recurring developments, the operating profit will be higher in 2011 than in 2010.

transparency

risk management and risk factors

Alliander sees risk management as an integral part of effective management and internal control of the organisation. We define risk as the probability of the occurrence of an event that would have a negative impact on the achievement of the objectives, the corporate values or the existence of our company.

Risk management within Alliander

The purpose of risk management is to reinforce the degree of assurance that the company is able to realise its objectives. The most important outcome of risk management is the insight obtained into the main opportunities and risks for Alliander and the control measures needed to achieve the objectives, taking account of these risks and opportunities.
We have defined the most important objectives in the following ambitions.

- For our customers: to be the best service provider;
- For our employees: to be an innovative and successful company that works with energy and drive towards a better society;
- For the regulator and society: to be the natural partner in the development and implementation of energy policy;
- For our shareholders and debt providers: to be a robust and socially and economically responsible investment while maintaining a solid A rating profile.

Risk management is an integral part of the day-to-day operations and essential for the successful implementation of the corporate strategy.

RISK APPETITE

Our company is responsible for safeguarding the continuity of the electricity and gas grids as well as minimising the occurrence of interruptions in our service area. In addition, we want to reduce the safety and environmental risks as far as possible.
The business units are expected to adhere to the following rules in order to control any risks relating to their business operations:

- Inclusion of an explicit consideration and assessment of all risks in the business and year plan;
- Periodic review of all relevant risks and risk management activities, including those relating to projects and programmes;
- Compliance with laws and regulations;
- Adherence to the internal procedures and the Alliander Code of Conduct.

MOST IMPORTANT RISKS AND UNCERTAINTIES

Within Alliander's risk management process, the risks are ranked at all management levels by means of an impact and probability analysis and with the aid of scenarios. The most significant uncertainties and risks that we have currently identified are described below. These have been ranked in conformity with the COSO framework. In addition, we have indicated how we view the risk and what (combination of) measures are applied to control the risk.

Strategic risks

We define strategic risks as uncertainties that can affect the core of our operations.
The most important strategic risks are currently:

Energy transition

Energy transition is a broadly defined concept. It comprises the changing use of gas and electricity grids as a result, for example, of the growth of decentralised generation and feed-in power, electric transport and the emergence of two-way energy management. The rise and application of new technologies (intelligent grids and smart meters) enable active energy management to be applied at various levels in the grids. This is, in fact, necessary as traditional grid security methods and power quality maintenance will no longer be sufficient if decentralised generation and feed-in continue to increase. In this case, new situational grid designs will be necessary to facilitate the changes.
There is a risk that we will fail to implement the required infrastructure adjustments in a proper or timely manner.

Risk type	Risk/uncertainty	Impact on Alliander
Strategic	Energy transition	Adaptation and changes in our infrastructure, primairy processes and ICT systems to facilitate the transition.
	Strategic planning of staff resourcing	Shortage of staff with specific knowledge and experience.
	Reputation and image	Occurrence of an event that has a negative effect on the reputation of Alliander.
Financial	Credit risk	Financial loss resulting from a counterparty's failure to meet its financial commitments.
	Financing and liquidity risk Currency and interest risk	Inability to finance planned investments. Transactional loss and volatile interest costs.
	US cross-border leases	The potential obligation to pay the 'termination value'.
Operational	Large scale grid incident	Threat to continuity of energy supply.
	Large scale incident affecting ICT systems	Temporary interruption of customer-related administrative processes.
	Control over the process chains	Changes in procedures and interfaces to manage the processes in a controlled way.
Regulation/Compliance	Regulatory changes	Impact on cashflow. Operational impact on implementation of the smart meter. Possible fines.

Note: The above overview is not exhaustive.

The adaptations to the grid and installed meters require major investments from Alliander. These investments are surrounded by uncertainties, such as the obligations the regulator will impose on grid managers to safeguard the privacy and security of metering data and the actual developments in customers' energy demand and supply. Political decision-making can play an important role in this respect.

Risk control measures
Our ambition is to fulfil an active role in the energy transition. We aim to minimise the uncertainties and risks surrounding this process insofar as possible. The control measures include:
- Development of knowledge and competences for all aspects of intelligent grids, from grid design to the application of controlling (ICT) components. In addition, we are involved in determining industry and interoperability standards;
- Pilot projects to gain experience with new technologies. Amongst other things, this concerns participation in Stichting e-laad.nl, Smart City Amsterdam and energy management initiatives;
- The Alliander intelligent grid programme. This programme comprises a large number of projects and sub-projects that are being carried out within Alliander in the field of intelligent grids. These promote a company-wide coordinated approach to the various initiatives;
- As regards the smart meter we have developed several risk management activities, with a specific focus on the protection of the privacy and security of the metering data;
- Participation in initiatives such as the intelligent grids task force. This task force was set up in 2009 by the Minister of Economic Affairs. The task force is responsible for drawing up a broad-based vision and action programme for the realisation of intelligent grids in the Netherlands.

Strategic staff planning
A large number of our employees are set to retire in the medium term. A shortage of technically skilled employees will erode our knowledge and experience base if not dealt with in time. In parallel with this development, new competencies are needed so that we can effectively prepare for the energy transition and for digitalisation of the grids. There is a risk that staff shortages in key positions could undermine the continuity of the grids.

Risk control measures
Our objective is to prevent structural staff shortages. The control measures include:
- Implementation of strategic staff planning by exploring how we can meet our quantitative and qualitative demands for staff;
- Cooperation with training institutes (ROCs) and the provision of training through our in-house training centre;
- Replacement of externally hired FTEs with in-house staff to safeguard our continuity and knowledge accumulation. In 2010, a large number of employees were engaged on a permanent basis, particularly within ICT.

Reputation and image

As a company operating at the heart of society, it is vitally important for us to build and maintain good relationships with our surroundings. There is a risk that the reputation we have built will be damaged as a result of specific events.

Risk control measures

Although it is our aim to prevent situations that potentially result in reputational damage, occasional negative publicity can never be entirely ruled out. Whenever such situations arise, it is important to continue communicating clearly with our stakeholders and wider society. The control measures include:

- Enforcement of good corporate governance and observance of codes of conduct and (disclosure) procedures;
- Diligent application of our communication policy in all reputation management and monitoring activities, including the use of company spokespersons (during disruptions and other events), brand management and stakeholder and issue management;
- The existence of a crisis communication organisation.

Financial risks

Alliander defines financial risks as uncertainties that may affect the company's financing and its interest rate, currency, liquidity and tax positions. A strong financial base, access to capital and reliable reporting are essential for Alliander. Failure to achieve our financial management objectives will have a direct negative impact on both Alliander and its stakeholders.

Regarding the financial risks and financial instruments, we refer to note 35 in the financial statements.

Credit risk

Credit risk is the risk of incurring a loss because a counterparty is unwilling or unable to meet its obligations.

Risk control measures

Our objective is to prevent situations in which a loss is incurred. The control measures include:
The consistent implementation of credit analysis and credit management throughout the organisation. The magnitude of the credit risk arising from a transaction determines the depth of the analysis we perform. The Credit Risk Manual specifies how we deal with credit risks.
The credit crisis and subsequent recession prompted us to tighten up our measures for controlling credit risks even further. In 2010, extra attention was devoted to our investments, including those at financial institutions. We suffered no credit losses during the year. However, the fair value of cross-border lease investments showed a negative development.

Currency risk

Currency risks occur in relation to purchases, cash and cash equivalents, loans obtained and other balance sheet positions in currencies other than the euro.
Alliander distinguishes two types of currency risks: transaction risks and translation risks.
Transaction risks concern risks in respect of future cash flows and balance sheet positions in foreign currencies.
Translation risks occur when converting currencies of foreign subsidiaries to the euro.

Risk control measures

Alliander applies an 'exposure-based' currency policy. This entails that, in conformity with the treasury charter, positions in foreign currency are hedged. Currency positions and risks are hedged with external parties by means of forward transactions. We currently have no foreign subsidiaries with other functional currencies than the euro.

Interest rate risk

Interest rate risk pertains to the risk that changing interest rates will negatively affect the fair value of fixed-rate loans granted and fixed-rate debt issued or future cash flows from floating rate loans and debts.

Risk control measures

Our interest rate risk policy is aimed at limiting our floating rate position to a maximum of 40% of our total interest-bearing debts.
We use interest rate instruments to manage our interest rate position.

Liquidity and financing

Liquidity and financing risks are the risk that Alliander will be unable to obtain the required financial resources to meet its financial commitments on time.

Risk control measures

In order to secure good access to the capital market, Alliander's financial policy is aimed at maintaining a solid A rating profile. We manage liquidity and financing risks by means of a tight financial policy and careful liquidity planning. Measures taken in this connection include a committed revolving credit facility (RCF), sufficient liquidity reserves and a phased repayment schedule for loans obtained.

US cross-border leases

In the years 1998-2000, various energy companies in the Netherlands, including Alliander, entered into cross-border leases (CBL) for the networks. These are long-term complex financial transactions with long durations which have been structured in such a way that the payments received at the start of the contract (including interest received), which are placed on deposit and invested in securities, will in principle generate sufficient revenues

to meet the future payment obligations (lease instalments and amounts payable upon the possible exercise of the purchase option). The most important risk consists of an early termination of the transaction as a result of certain contractual conditions ('events of default' or 'events of loss'), where Alliander would be liable to pay the termination value.

Risk control measures
This risk is carefully and proactively monitored, partly through a CBL Committee that is chaired by the CFO. A clear policy for the cross-border leases has been set out, which is mainly aimed at the targeted mitigation of risks.

Operational risks

Operational risks are related to the functioning of the business processes (process design, staffing and systems). As our activities involve the commercial operation of physical assets, we face operational risks. We have a low tolerance for incidental risk from the failure of operational processes. We seek whenever possible to mitigate the operational risk by striving for operational excellence wherever possible.

Occurrence of a large-scale incident

This is the risk that a large-scale incident will have an impact on essential parts of Alliander and causes damage to the network infrastructure or other fixed assets. Large-scale incidents include serious interruptions to the energy supply.

Risk control measures
Our measures are mainly focused on the prevention of incidents and the limitation of any resulting damage. These control measures include:
- Accounting for the risk of disruption in the design of the energy grids. Minimising the number of nodal points limits the scale of disruptions;
- An Alliander Crisis Plan describing the set-up of the crisis organisation and the upscaling phases in the event of a serious incident. This plan also includes the protocol for responding to a terrorist threat.

Occurrence of a large-scale ICT incident

A large-scale ICT incident concerns the risk that essential parts of the information and communication infrastructure become unavailable or malfunction due to an incident. Availability can be lost if physical hardware becomes damaged or unusable. A system landscape can also become partly or wholly unavailable due to software instability.

Risk control measures
Our measures are mainly focused on the prevention of ICT incidents and the limitation of any consequences of an incident. These control measures include:
- Setting up duplicate systems and the presence of two data centres at various locations;
- Structural monitoring and development of risk management measures via the COBiT framework;
- Integration of a company-wide Business Continuity Plan in the ICT services.

Process chain control

Alliander has set up chains for the most important processes, including customer management, market facilitation, realisation, interruptions and maintenance and grid planning. These chains are increasingly managed in cooperation with external parties, such as contractors and other service providers. There is a risk that managing aspects such as quality of service and timeliness of delivery in the chains will become increasingly difficult.

Risk control measures
We do not avoid partnerships but we do assess whether they are necessary to operate efficiently or to achieve a better product. The control measures include:
- Cooperation with grid managers in other sectors (water and telecom) during the joint implementation of new-build projects or replacement applications for licences via aansluitingen.nl;
- Cooperation with energy grid managers for the realisation of the 'National Connection Register'. The joint management of this register is part of the new market model;
- Ensuring that our own process chains are properly set up for the timely, complete and reliable delivery of data to third parties. Performance is measured by means of chain Key Performance Indicators. Specific workshops on assessing risks in chain management have also been organised.

Regulatory and compliance risks

Regulatory and compliance risks are uncertainties concerning the regulatory framework. Changes in laws and regulations, particularly related to the Electricity Act 1998 and the Gas Act, have a direct impact on our operations as a large share of our revenue comes from regulated activities. In addition, we aim to comply with all relevant laws and regulations in all areas, including safety, working conditions and sector arrangements with the Office of Energy Regulation.

Regulatory changes

The majority of our activities are regulated. These activities primarily concern our grid management, as carried out within Liander and Endinet. The regulations pertain to electricity and gas connection and transportation services and electricity metering services for small users. There is a risk that substantial regulatory changes will put pressure on our future income.

Risk control measures:

It is important that we and our stakeholders ensure that sufficient resources are available to make the necessary investments in the infrastructure. The control measures include:

- Efforts by the Regulation, Compliance and Legal Affairs Departments to maintain an ongoing dialogue with the government, both by proactive lobbying and by responding to regulatory developments in the field of grid management;
- Control of the regulatory risks at three levels, namely by means of the four-eyes principle (calculations), expert judgement (interpretation) and 'thought leadership' (influence);
- Assurance of reliable data in the processes;
- Availability of position papers representing our vision;
- Information exchange to increase the regulatory awareness.

THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Alliander's risk management and internal control system is designed to identify and control risks rather than eliminate them entirely. The purpose of the system is to obtain a greater degree of assurance that we are able to realise our strategic objectives. It does not offer an absolute guarantee against the occurrence of risks and uncertain events, but ensures that the management of risks forms an integral part of the management of the organisation, so that we increase the degree of assurance that our objectives will be achieved. In order to optimally control risks, we are seeking to harmonise the risk management process and the internal control system as described below.

Internal control environment

The Management Board exercises pro-active control in relation to risk management and internal control, corporate governance and ethics. The following activities, among others, seek to ensure this:

- A periodic evaluation with those responsible within the business units of the most important risks they have reported;
- Risks where the profile and impact transcend the individual business units are evaluated in meetings with directors and the Management Board;
- Each quarter, the Management Board discusses the Alliander Risk Report, as drawn up by the Risk Management Department.

On the basis of the information thus obtained, the Management Board has continuous insight into the current risks and control measures. If necessary, the Management Board applies additional control measures.

We are aware of our social and ethical responsibilities and strive to ensure that the entire company operates in accordance with the internal values and applicable laws and regulations.
Relevant rules and guidelines are laid down in documents such as the Alliander Governance Manual, the Alliander Code of Conduct and the Whistleblower Policy. The latter two documents are publicly accessible via alliander.com.

Risk reports

The risk analyses and accompanying risk management activities that are reported by the business units are discussed in the periodic meetings between all business units and the CEO or CFO. A risk analysis of each business unit is carried out at least once a year. The Risk Management Department supports these analyses with specific methods and techniques.
At the end of the year, the management of the business unit prepares a Letter of Representation indicating whether the unit has complied with the governance manual and its internal control principles.

The Alliander Business Control Framework

Alliander's Business Control Framework (BCF) is a component of the corporate governance structure. The BCF supports reporting and tax compliance processes. The key controls are aimed at ensuring reliable financial reports as well as compliance with reporting laws and regulations. In 2010, the system of financial key controls was reviewed and improved in consultation with the external auditors. The ambition for 2011 is to further reinforce the BCF by including operational and compliance-related controls.

Financial risk management

The financial risks relating to the use of specific financial instruments are primarily controlled by the Treasury

Department. Treasury identifies, evaluates and mitigates financial risks. The Credit Risk Section of the Risk Management Department advises Treasury on the risk profile of counterparties, sectors or countries by providing risk analyses and forecasts.
The treasury policy is laid down in the treasury charter. Treasury acts in accordance with this policy and with the limits and controls set out therein. The charter is adopted by the Management Board and is part of the BCF. The charter contains the applicable Alliander policy in such fields as currency risk, interest rate risk, credit risk and liquidity risk.

MONITORING OF THE RISK MANAGEMENT FRAMEWORK

The Alliander risk governance framework

Within the risk governance framework, we distinguish various lines of defence to promote a strong culture of risk awareness within our organisation.
The line managers are the first line of defence. They carry primary responsibility for the management of risks within the normal conduct of our operations. They take actions aimed at controlling and/or accepting risks on a daily basis. The line organisation receives support from the second line of defence, being the corporate staff departments which manage specific risks, such as the Safety, Environment and Quality, Legal Affairs and Compliance Departments.
Alliander's Risk Management Department also forms part of the second line of defence. This department is responsible for the development and implementation of Alliander's risk policy and risk management framework. In addition, it supports the management in setting out the risk management strategy, including adequate risk controls. Finally, as a third line of defence, the Internal Audit Department forms an independent judgement of the quality of the risk management. Outside our organisation, the external auditor and regulator can also alert the organisation to any risks that come to their attention.

Risk governance bodies

Within the organisation, Alliander's risk management is also assured by means of various bodies, each of which has its own responsibility:

- The Risk Management Committee advises the Management Board on the implementation of and compliance with the risk management policy in relation to the corporate objectives. Among other things, it assesses risk reports and the progress of actions taken on audit recommendations;
- The Transaction Review Committee assesses applications for investments and divestments, operational projects, and sales and purchasing contracts and advises the Management Board on these issues;
- The Cross-Border Lease Committee (CBL Committee) provides the Management Board with information and advice on CBL issues. The purpose of this body is to ensure that decisions on CBLs are taken in accordance with the policy and strategy, and to regularly determine the CBL-related strip risk and credit risk on banks and investment instruments;
- The Internal Audit Department monitors the functioning of the risk management framework and internal control system by initiating and performing audits, and making recommendations based on the audit findings;
- The Disclosure Committee supports the company's management in fulfilling its responsibilities in relation to correct, timely and adequate external disclosures;
- The Management Board actively monitors the risk management framework, which it regularly tests against the expectations of and developments among our most important stakeholders;
- The Supervisory Board supervises the risks related to the business activities as well as the design and effectiveness of Alliander's internal risk management and control systems.

corporate governance

The updated Dutch Corporate Governance Code ('the Code') entered into force on 1 January 2009. This Code, which is also referred to as the 'Frijns Code' and which represents a tightening of the 2003 Tabaksblat Code, contains rules for good, responsible corporate governance for listed companies.

The Code has been designated a code of conduct, by order in council, within the meaning of Article 391.5 of Book 2 of the Dutch Civil Code, whereby companies are required by law to account for their compliance with the Code in their annual report in accordance with the principle of 'apply or explain'. In other words, companies are permitted to depart from the provisions of the Code, providing they explain their reasons for doing so.

In this section, we discuss Alliander's compliance with the Code and the main outline of its corporate governance structure.

COMPLIANCE WITH THE CODE

Alliander is required to comply with parts of the Governance Code Decree 2009, and has chosen to apply the Code on a voluntary basis. The decision to do so was taken for reasons of transparency and reflects the responsibilities we have to society as a result of being an energy distributor and manager of energy grids, as well as the size of Alliander. Detailed information on how the Code is applied within Alliander, as well as on various other relevant rules and regulations, can be found on www.alliander.com under 'Corporate Governance'.

The Management Board and Supervisory Board are responsible for Alliander's corporate governance structure and its compliance with the Code. They account for this to the General Meeting of Shareholders. Alliander included the main outline of its corporate governance structure and its compliance with the Code as a separate agenda item for discussion at the annual General Meeting of Shareholders held on 10 May 2010. No changes have been made in the company's corporate governance structure since then. In 2010, we also decided to start implementing best practice provision III.1.7 (on annual assessment of the Supervisory Board) and best practice provision IV.3.13 (on providing an outline of the policy on bilateral contacts with shareholders, and publication of this policy on the website).

In accordance with the requirements of the Code, we have set out below why and to what extent Alliander has departed from the principles and best practice provisions contained in the Code (the 'apply or explain' principle).

Code	Departure and reason for departure
II. Management Board	
Best practice provision II.1.1: Management Board members are appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time.	The employment contracts of current members of the Management Board were entered into in the past for an indefinite period.
Best practice provision II.2.8: A severance payment will not amount to more than one year's salary (the 'fixed' element of the remuneration). If the maximum of one year's salary for a director who is dismissed in his first period of appointment appears unreasonable, such director will be eligible for a severance payment of up to two years' salary.	In the event of severance by Alliander, the director's severance payment will be based on the 'subdistrict court formula', subject to a minimum of twelve times the prevailing monthly salary. The same will also apply in the event of a change of control or an irreconcilable difference of opinion on company policy.
Best practice provision II.2.14: After signing, the main elements of the contract between a director and the company will be published by the date on which the general meeting at which the director is to be proposed for appointment is convened. The information will, in any event, include the salary level, the structure and amount of the variable element of the remuneration, any severance and/or departure arrangements agreed, any contractual conditions applying in respect of a change of control and any other elements of remuneration, pension arrangements and applicable performance criteria promised to the director.	Alliander's Management Board members are appointed by the Supervisory Board. The Supervisory Board notifies the General Meeting of Shareholders of the proposed appointment. The salary components of Management Board members' employment contracts are accounted for transparently and published in the Remuneration Report.
III. Supervisory Board	
Principle III.5: If the Supervisory Board consists of more than four members, it will appoint from among its members an Audit Committee, a Remuneration Committee and a Selection and Appointment Committee.	The Supervisory Board of Alliander has appointed an Audit Committee, while the tasks of the Remuneration Committee and the Selection and Appointment Committee, since these are closely linked, have been combined in a joint Selection, Appointment and Remuneration Committee.
Best practice provision III.6.5: The company will draw up regulations governing ownership of and transactions in securities by Management and Supervisory Board members, other than securities issued by their 'own' company.	Alliander follows this provision, but has not drawn up separate regulations for this purpose. For practical reasons, the rules governing ownership of and transactions in securities by Management and Supervisory Board members have been integrated into the Management Board and Supervisory Board Charters.
Best practice provision III.6.6: A delegated Supervisory Board member is a Supervisory Board member who has been assigned a special duty. The delegation may not extend beyond the duties of the Supervisory Board itself and may not include management of the company. It may entail more intensive supervision and advice and more regular consultation with the Management Board. The delegation will be of a temporary nature only. The delegation may not detract from the role and power of the Supervisory Board. The delegated Supervisory Board member remains a member of the Supervisory Board.	In principle, the Supervisory Board has no delegated Supervisory Board members. However, the Supervisory Board may decide in special circumstances to appoint a delegated Supervisory Board member, in which case best practice provision III.6.6 of the Code will apply in full.
IV. Shareholders/General Meeting of Shareholders	
Principle IV.1: The company will, in so far as possible, give shareholders the opportunity to vote by proxy and to communicate with all other shareholders.	In view of the high attendance (average: > 80%) at the General Meeting of Shareholders, there is no need to apply this principle. Alliander also includes proxy forms with the notice convening the meeting. In addition, its shares are registered shares.

Code	Departure and reason for departure
IV. Shareholders/General Meeting of Shareholders	
Best practice provision IV.3.I: Analysts' meetings and presentations, presentations to institutional and other investors and press conferences will be announced beforehand on the company's website and in press releases. All shareholders can follow these meetings and presentations simultaneously by webcast, telephone or some other means. Presentations are posted on the company's website after meetings.	Alliander is not a listed company, but has issued five listed bonds. We organise meetings with bond investors, institutional investors and shareholders after publication of the interim and full-year figures. Investor Relations announces these meetings in advance by e-mail. Alliander also organises a press conference after publication of the full-year and interim figures. These are announced in advance on the website. Alliander also organises annual (and, if necessary, ad hoc) one-to-one meetings with rating agencies after publication of the full-year figures. Alliander subscribes to the principle of simultaneous provision of information to all shareholders, but views it as too costly to give all shareholders the opportunity, via webcasts, special telephone lines and so on, to simultaneously follow meetings and presentations, as referred to in the Code. Alliander ensures, however, that presentations are published on its website immediately after meetings.

A number of best practice provisions are not applicable to Alliander as Alliander is an unlisted Dutch public limited company with (lower) public authorities as direct or indirect shareholders and is subject to the two-tier regime as laid down in the Dutch Civil Code. In addition, our Articles of Association impose quality requirements on shareholdership and contain no specific anti-takeover measures to prevent other parties from acquiring control of Alliander. The issuance of depositary receipts is also not permitted and Alliander has no financing preference shares. Lastly, Alliander has a two-tier model, where the Management Board and the Supervisory Board are two separate bodies. For the above reasons, the following best practice provisions are not applicable:

- II.2.4 to II.2.7: options;
- II.2.13: information in the Remuneration Report on shares, options and/or other share-based remuneration components granted to members of the Management Board;
- III.7.1 and III.7.2: shares as a component of Supervisory Board remuneration;
- III.8.1 to III.8.4: one-tier management structure;
- IV.1.1: quorum requirements for resolutions to cancel the binding nature of nominations at companies not having statutory two-tier status;
- IV.1.2: voting rights on financing preference shares;
- IV.1.7: registration date for exercising voting and meeting rights;
- IV.2.1 to IV.2.8: certification of shares;
- IV.3.11: list of existing anti-takeover measures in annual report;
- IV.4.1 to IV.4.3: institutional investors.

OUTLINE OF CORPORATE GOVERNANCE STRUCTURE

Alliander's management structure comprises three bodies: the Management Board, the Supervisory Board and the General Meeting of Shareholders. The internal and external auditors also play an important role in the corporate governance model.

The Management Board

The Management Board is in charge of the management of Alliander. The Management Board is responsible for, amongst other things, the realisation of Alliander's objectives, the strategy with the accompanying risk profile, the performance and results and social aspects of entrepreneurship relevant to Alliander. The Management Board is also responsible for ensuring compliance with all relevant legislation and regulations, managing the risks associated with Alliander's business activities and for financing Alliander. Certain Management Board resolutions are subject to approval by the Supervisory Board and/or the General Meeting of Shareholders.

The Management Board is collectively accountable for the performance of its tasks to the Supervisory Board and the General Meeting of Shareholders. In fulfilling its responsibilities, the Management Board acts in the interests of Alliander and the companies forming part of the Alliander group, while taking account of the interests of all parties (stakeholders) concerned. The Management Board acts in accordance with its own Charter, which has been approved by the Supervisory Board and includes the procedures governing the composition of the Board, as well as details of tasks, powers, meetings and decision-making.

The members of the Management Board are appointed by the Supervisory Board. The Supervisory Board notifies the General Meeting of Shareholders of the proposed appointment of a member of the Management Board. In 2010, the Management Board consisted of two members: the chairman/CEO and a member/CFO.

The Supervisory Board

The Supervisory Board is responsible for supervising the policy of the Management Board and Alliander's operations in general. The Supervisory Board's supervision focuses on the strategy, the design and operation of the internal risk management and control systems, a proper financial reporting process and compliance with legislation and regulations. The Board also provides advice to the Management Board.

The Supervisory Board is collectively responsible for performing its tasks. In fulfilling these tasks, the Supervisory Board acts in the interests of Alliander and the companies forming part of the Alliander group, while taking into account the interests of all parties concerned. In so doing, the Supervisory Board also considers social aspects of entrepreneurship relevant to Alliander. The Supervisory Board acts in accordance with its own Charter, which includes the rules governing the composition of the Board, as well as details of tasks, powers, meetings and decision-making.

The members of the Supervisory Board are appointed by the General Meeting of Shareholders upon nomination by the Supervisory Board. The General Meeting of Shareholders and the Central Works Council have an enhanced right of recommendation in respect of nominations for one third of the members of the Supervisory Board.

The Supervisory Board has drawn up a profile, reflecting its size and composition and taking account of the specific nature of Alliander, its activities and the desired expertise and background of the Supervisory Board members. This profile describes the qualities that each of the Supervisory Board members and the Supervisory Board as a whole must have. Appointments and reappointments are made with due regard to the profile. The Supervisory Board must be compiled in such a manner that its members are able to function critically and independently, both of each other and of the Management Board. The profile of and any changes to the Board are discussed by the Supervisory Board at the General Meeting of Shareholders and with the Central Works Council.

In 2010, the Supervisory Board consisted of seven members. It has been agreed that members will retire periodically by rotation in accordance with a schedule that is designed to prevent too many members of the Supervisory Board retiring at the same time.

Members of the Supervisory Board may be appointed for a maximum of three periods of four years, with the general principle being that a member of the Supervisory Board will retire no later than twelve years after first being appointed.

The Supervisory Board has two standing committees: an Audit Committee and a combined Selection, Appointment and Remuneration Committee. All committee members are members of the Supervisory Board and are responsible for preparing the Supervisory Board's decision-making in their areas. The Supervisory Board bears collective responsibility for decisions prepared by the committees. The rules on the composition, tasks, powers and procedures of the committees are laid down in terms of reference.

Detailed information about the activities of the Supervisory Board and its committees can be found in the Report of the Supervisory Board in this annual report.

The General Meeting of Shareholders

Alliander organises a General Meeting of Shareholders within six months of the end of each financial year. Subjects on the agenda include the discussion of the annual report, the adoption of the financial statements and the dividend, the discharge of the members of the Management Board and the Supervisory Board and decisions on any vacancies on the Supervisory Board.

Other General Meetings of Shareholders are held as often as the Supervisory Board or the Management Board consider necessary. One or more shareholders representing at least ten percent of the issued capital may also request the Management Board or Supervisory Board to convene a General Meeting of Shareholders, stating the subjects to be discussed.

The agenda for the General Meeting of Shareholders is determined by the Management Board and the Supervisory Board. One or more shareholders representing at least one per cent of the issued capital may propose items for inclusion on the agenda of the General Meeting of Shareholders. A shareholder can only exercise this right to include items on the agenda after consultation with the Management Board.

All shareholders have the right to attend and speak at the General Meeting of Shareholders and to exercise their voting rights, either in person or by proxy. Each share entitles the holder to cast one vote at the General Meeting of Shareholders. All resolutions require an absolute majority of votes cast, unless the law or the Articles of Association require a larger majority. In addition to members of the Supervisory and Management Boards, the members of the Central Works Council have access to the General Meetings of Shareholders. The General

Meetings of Shareholders of Alliander are not public meetings, unless the General Meeting of Shareholders resolves otherwise.
The main powers of the General Meeting of Shareholders by law or under the company's Articles of Association are to:

- Adopt the financial statements and the annual dividend;
- Discharge the members of the Management Board;
- Discharge the members of the Supervisory Board;
- Adopt the Management Board's remuneration policy on the recommendation of the Supervisory Board;
- Determine the remuneration of the Supervisory Board;
- Exercise the enhanced right of recommendation in respect of one third of the members of the Supervisory Board;
- Appoint members of the Supervisory Board upon nomination by the Supervisory Board;
- Withdraw confidence in the Supervisory Board as a whole;
- Approve resolutions on any subject resulting in a major change in the identity or nature of Alliander and its group companies;
- Appoint external auditors to audit the annual financial statements;
- Adopt resolutions to amend the Articles of Association, dissolve the company or have the company merge or demerge pursuant to a proposal submitted by the Management Board and approved by the Supervisory Board;
- Approve the issue of shares on a proposal of the Management Board that has been approved by the Supervisory Board;
- Authorise the Management Board to buy back the company's own shares.

For practical reasons, certain powers of the General Meeting of Shareholders relating to the recommendation, appointment and dismissal of members of the Supervisory Board have been delegated to a Committee of Shareholders. Under the Articles of Association and the Management Board Charter, the Committee also has various other powers relating to the appointment and dismissal of members of the Management Board.

External auditors

The external auditors are entrusted with auditing Alliander's annual financial statements. The external auditors report on their audit activities in an identical manner to the Management Board and to the Supervisory Board. Based on the audit, the auditors raise the subjects they wish to draw to the attention of the Management and Supervisory Board.

The external auditors are appointed by the General Meeting of Shareholders. The Supervisory Board nominates a candidate, on the advice of both the Audit Committee and the Management Board. The Management Board and the Audit Committee report annually to the Supervisory Board on developments in the relationship with the external auditors, specifically in relation to the question of independence. Based on these and other factors, the Supervisory Board prepares its motion to the General Meeting of Shareholders on the appointment of external auditors. At least once every four years, the performance of the external auditors is thoroughly evaluated and reviewed by the Management Board and the Audit Committee. The main conclusions of this review are communicated to the General Meeting of Shareholders for the purpose of assessing the nomination for the appointment of the external auditors.

In principle, the external auditors attend the meetings of the Audit Committee. The external auditors also attend the Supervisory Board meeting at which the external auditors' report on the financial statements is discussed and the financial statements are signed, as well as the meeting at which the interim figures are discussed. Lastly, the external auditors attend the General Meeting of Shareholders at which financial statements are adopted and can be asked to elaborate on the audit activities and their opinion on the financial statements.

Internal auditors

Alliander has an Internal Audit Department. This department has an independent function and provides Alliander's management, specifically the Management Board, with additional assurance on the control, effectiveness, efficiency and compliance of the business processes. Internal Audit systematically evaluates the control, risk management and governance processes. In doing so, it complies with the procedures laid down in the Internal Audit Charter that has been approved by the Management Board and assessed by the Audit Committee. Audit objects include, for example, the reliability and integrity of the information provided (including the financial reporting), the effectiveness of decision-making, the effectiveness and efficiency of business processes and compliance with legislation and regulations and contractual obligations.
Every year, Internal Audit draws up a plan after consultation with the chairman of the Management Board and the CFO. This annual plan, which focuses on the most important business processes and risks, is adopted by the Management Board and sent to the Audit Committee for information purposes.

Internal Audit operates under the responsibility of the chairman of the Management Board. The Internal Audit Director is accountable to the Management Board and has access to the external auditors and the chairman of the Audit Committee. In principle, the Internal Audit Director also attends Audit Committee meetings.

statements by the management board

IN CONTROL STATEMENT

As the Management Board, we are responsible for the design and operation of our internal risk management and control system. We evaluated the design and operation of the risk management framework in 2010 based on, for example, the business control information, the Internal Audit reports and the management letter from the external auditors.

The risk management framework cannot provide absolute assurance on the achievement of the corporate objectives, nor can it give any absolute guarantee that material errors, losses, fraud or violations of legislation and regulations cannot occur in the processes or in the financial reporting.

With due regard to the above, the Management Board is of the opinion that Alliander's internal risk management and control systems operated effectively in the reporting year in relation to management objectives regarding financial reporting and that they provide a reasonable degree of assurance that the financial reporting contains no inaccuracies of material significance.

STATEMENT OF RESPONSIBILITY BY THE MANAGEMENT BOARD

As the Management Board we state, to the best of our knowledge, that:

1. The financial statements provide a true and fair view of the assets, liabilities, financial position and profit of Alliander N.V. and its consolidated group companies;
2. The additional information provided by the Management Board, as included in this annual report, provides a true and fair view of the position as at 31 December 2010 and of the business during the 2010 financial year of Alliander N.V. and its group companies, the results of which are included in the financial statements, and that
3. All substantial risks to which Alliander N.V. is exposed are described in the annual report.

Arnhem, 24 March 2011

Management Board
Peter Molengraaf, chairman
Mark van Lieshout, member

report of the supervisory board

Throughout the financial year, the Supervisory Board performed its responsibilities in accordance with applicable legislation and regulations and Alliander's Articles of Association. It also provided ongoing supervision of and advice on Management Board policy and the general progress of Alliander's activities.

The year 2010

The year 2010 was the first full year in which the Supervisory Board, in its current composition, acted as a body providing supervision and advice to the Management Board of Alliander. It was an intensive year, in which our Board and its committees met on many occasions in order to ensure sufficient and specific knowledge of the company and discuss topics in the required degree of depth. In addition, time was devoted to developing our ability to work as a team. The year 2010 also saw the takeover of Endinet, which marked an important step along the route set for the company's strategy. This acquisition has strengthened Alliander's position as the largest network company in the Netherlands, while the successful perpetual subordinated € 500 million bond issue has created extra scope within the framework that is designed to ensure the company retains a solid A-rating profile and a strong financial basis. Alliander's position as the largest network company in the Netherlands, its strong financial position, the good relationship between the company and its stakeholders, the good relationship with the Management Board and the specialised knowledge, experience and enthusiasm of Alliander's staff mean we can look to the future with confidence.

COMPOSITION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Since January 2010, the Management Board has comprised two members. There were no changes on the Management Board during the year. More information about the members of the Management Board can be found on page 13. No transactions involving possible material conflicts of interest were conducted with members of the Management Board in 2010.

The composition of the Supervisory Board is in line with the profile that has been compiled for the Board and which is published on Alliander's website. As well as general requirements for each member, the profile also includes specific requirements for knowledge and experience of individual members, as well as provisions designed to achieve a mixed composition of the Supervisory Board. The Supervisory Board has a diversity of knowledge, experience, backgrounds, gender and ages. Three of its seven members are women, and the ages of its members range from 52 to 67. There were no changes on the Supervisory Board during the year under review. More information on the individual members of the Supervisory Board can be found at the end of this report.

All the members of the Supervisory Board, with one exception, are independent within the meaning of the Electricity Act 1998 and the Gas Act. None of the members has any direct or indirect link with any organisational entity involved in generating and/or supplying and/or trading in electricity as referred to in the Electricity Act 1998 or with any organisational entity involved in generating, purchasing or supplying gas as referred to in the Gas Act. Throughout the year, all members of the Supervisory Board were also independent as referred to in the Dutch Corporate Governance Code: the composition of the Supervisory Board is such that the members are able to act critically and independently of one another, the Management Board and any particular interests.

As no member of the Supervisory Board has more than five supervisory board memberships at listed Dutch companies, we also comply with this requirement of the Dutch Corporate Governance Code.

No transactions involving possible material conflicts of interest were conducted with members of the Supervisory Board in 2010. Neither were any transactions conducted between the company and natural or legal persons holding at least ten per cent of the shares in Alliander.

Members of the Supervisory Board retire periodically by rotation in accordance with a fixed retirement schedule, which is published on Alliander's website. Under this schedule, the first period of appointment of Franswillem Briët and Jos Van Winkelen will end after the General Meeting of Shareholders to be held on 12 May 2011. Both gentlemen are eligible for reappointment and will stand for appointment for a further period of four years. Mr Briët is chairman of the Selection, Appointment and Remuneration Committee, while Mr Van Winkelen is chairman of the Audit Committee. The two vacancies are not subject to an enhanced right of recommendation. Both the Central Works Council and the Committee of Shareholders have an enhanced right of recommendation for one third of the seats on the Supervisory Board. In other words, the Supervisory Board will include a person recommended by the Central Works Council or Committee of Shareholders for nomination. This enhanced right of recommendation applies, unless the Supervisory Board objects to the recommendation on the grounds that it believes the recommended person to be unsuitable to fulfil the responsibilities of a Supervisory Board member or that the appointment of such person would not result in a properly compiled Board. The Central Works Council and the Committee of Shareholders have been notified of the vacancies and the relevant profiles. Both have confirmed that they do not wish to use their enhanced right of recommendation on this occasion. Given the experience to date of working with Mr Briët and Mr Van Winkelen, both as Supervisory Board members and as committee chairmen, the Supervisory Board wishes to nominate both for reappointment as Supervisory Board members for a further four years. After reappointment, Mr Briët and Mr Van Winkelen will continue to chair the Selection, Appointment and Remuneration Committee and the Audit Committee respectively.

MEETINGS OF THE SUPERVISORY BOARD

The Supervisory Board met on seven occasions in 2010, with six of these meetings being in accordance with an agreed schedule and one extra meeting being arranged to discuss subjects such as the financing and strategy of the company. No member of the Supervisory Board was absent on a regular basis. Absence is deemed to be regular if a Supervisory Board member fails to attend meetings on more than two occasions. All the meetings were attended by the Management Board. Mr J. Reezigt, Director of General Affairs, and Ms M.M.A. de Bliek, Manager of the Management Board Secretariat, are the secretary and deputy secretary respectively of the Supervisory Board. The chairman of the Supervisory Board consistently prepared the agenda of the meetings in consultation with the chairman of the Management Board and the secretary. The chairman of the Supervisory Board held regular consultations with the chairman of the Management Board during the year, while the chairman of the Audit Committee maintained close contacts with the CFO.

The meetings covered strategic, financial and operational issues, with subjects discussed including internal quarterly reports, external interim and full-year reports, the annual plan, the auditors' report, the management letter, internal risk management and control systems, cross-border leases, energy transition, employee and customer satisfaction, remuneration policy and the remuneration of members of the Management and Supervisory Boards. The discussions of the interim and full-year reports were attended by the external auditors.

Senior management representatives gave presentations on various subjects during these meetings, including the HRM Director (on staff policy), the Strategy Director (on future scenarios for the grid manager in 2020) and the CSR Manager (on Alliander's policy on corporate social responsibility).

Considerable time was also spent during the meetings on discussing the company's strategy, with the Supervisory Board approving the takeover of Endinet B.V. In addition, the strategy discussions considered the consequences of the ruling announced by the Court of Appeal in The Hague on 22 June 2010 in respect of the Dutch Independent Network Operation Act (WON).

The Supervisory Board arranged to be provided with detailed information on the company's financing during the year. This subsequently resulted in the Supervisory Board's approval of a € 500 million subordinated hybrid loan.

Based on, among other things, the assessment by the Management Board and the Audit Committee of the performance of the external auditors, the Supervisory Board has proposed to the General Meeting of Shareholders that PricewaterhouseCoopers Accountants N.V. be appointed to audit the financial statements for the financial years to the end of 2012.

SUPERVISORY BOARD COMMITTEES

As stated in the 'Corporate Governance' section, the Supervisory Board is supported by two committees: the Audit Committee and the Selection, Appointment and Remuneration Committee. The main task of these committees is to prepare the Supervisory Board's decision-making on specific delegated subjects. Both these committees consist of members of the Supervisory Board. The chairmen of the committees reported verbally at the next Supervisory Board meeting on the main subjects discussed at their committee meetings. The committees also sent written reports of their meetings to the Supervisory Board during the year.

Audit Committee

In 2010, the Audit Committee consisted of Jos Van Winkelen (chairman), Gerrit Ybema and Ada Van der Veer-Vergeer. The composition of the Audit Committee is in accordance with the provisions of the Dutch Corporate Governance Code. The Audit Committee met on nine occasions in 2010, with meetings being attended by the CFO and the Internal Audit Director. Eight of these meetings were also attended by the external auditors, while the chairman of the Management Board attended two meetings. The Audit Committee also held one meeting, not attended by the Management Board, to discuss its own performance. The Committee also always meets the external auditors separately. This annual meeting, which is not attended by the Management Board, was held on 7 February 2011.

The Audit Committee discussed the following subjects during the year: the results for the 2009 financial year, the quarterly and interim figures for 2010, the 2011 annual plan, reports from the internal and external auditors, the sufficiency of the internal risk management and control systems, the effectiveness of the risk management measures, tax planning, the funding of the company, managing the risks of information and communication technology and the performance and independence of the external auditors.

In view, not least, of the financial crisis, the Audit Committee spent considerable time and energy in 2010 on the cross-border leases still in place. In view of the size of the transactions and the related risks, Internal Audit conducted an investigation into the quality of the management of these leases during the year. Internal Audit believes that the internal management of the compliance and financial risks relating to the cross-border lease portfolio is of a sufficient level.

The Audit Committee also discussed the agreement to acquire Endinet, based on the due diligence report. The Audit Committee advised the Supervisory Board to approve the proposed acquisition.

The Audit Committee also conducted an assessment of the performance of the external auditors during the year and subsequently advised the Supervisory Board to propose to the General Meeting of Shareholders that PricewaterhouseCoopers Accountants N.V. should be reappointed as Alliander's external auditors.

Selection, Appointment and Remuneration Committee

In 2010, the Selection, Appointment and Remuneration Committee consisted of Franswillem Briët (chairman) and Ed d'Hondt and Bea Irik. The composition of the Committee is in accordance with the Dutch Corporate Governance Code. The Committee met on five occasions in 2010, with some of the meetings also being attended by the chairman of the Management Board. The HRM Director attended all the meetings.

During the year, the Selection, Appointment and Remuneration Committee discussed the extent to which the short- and long-term objectives established in respect of the variable remuneration of the members of the Management Board were achieved in 2009, and advised the Supervisory Board accordingly. A proposal was also made to the Supervisory Board in respect of the objectives for the short-term variable remuneration for 2010 and for the long-term variable remuneration for the period 2010 - 2012. This proposal was discussed with the Committee of Shareholders. The Selection, Appointment and Remuneration Committee also compiled the Remuneration Report.

In addition, the Selection, Appointment and Remuneration Committee discussed the policy on Management Board remuneration, the remuneration and employment contracts of the individual members of the Management Board and the fees paid to the Supervisory Board, and made recommendations on these subjects to the Supervisory Board. The Committee was also provided with information about the company's position in respect of management development and held performance appraisal discussions with both members of the Management Board.

The Selection, Appointment and Remuneration Committee did not use any external advisers in 2010.

ANNUAL ASSESSMENT OF PERFORMANCE

During the year, the Supervisory Board held a meeting, not attended by the Management Board, to discuss its own performance, as well as that of its committees and its members, and also to discuss the performance of the Management Board and its members, based on self-assessment. The Supervisory Board also discussed the desired profile and the composition of and competences

required by the Supervisory Board. In preparation for the self-assessment, the Supervisory Board members were each sent an extensive questionnaire and asked to rate their performance, both at a group and an individual level. The secretariat summarised the results of the questionnaires and the main observations, with the summary subsequently being used as input in the self-assessment.

The way in which the performance of the Management Board and its members was assessed was partly based on discussions that the Selection, Appointment and Remuneration Committee held with each member of the Management Board.

These thorough preparations helped to ensure that the assessment process resulted in useful discussions. The general conclusion was that the relationship between the Supervisory Board and the Management Board continued to develop well in 2010, as reflected in the high degree of mutual appreciation and respect and with due regard for each Board's roles and responsibilities. A number of aspects, however, need a more defined focus. These include the Supervisory Board's wish to devote greater attention in the coming year to developing leadership and the organisational culture at Alliander. A preference was also expressed for meeting agendas to include certain items, which arise each year, on a standard basis. Holding a regular meeting of the Supervisory Board, without the Management Board, immediately before the joint meeting is also considered useful, as is the decision each year to arrange a separate strategy day at which the Management and Supervisory Boards can together discuss the company's strategy in an informal setting.

The Supervisory Board believes that drawing up separate profiles for its members has proved positive and has resulted in both a balanced division of responsibilities on the Board and in good, pleasant relationships between the individual members.

CONTACTS WITH THE SHAREHOLDERS

The Supervisory Board is keen to promote an active dialogue with shareholders and ensure that it is aware of the views of its shareholders, particularly those with larger holdings. Contacts with shareholders are primarily at shareholder meetings, but Alliander also consults with shareholders in various ways other than in the formal surroundings of such meetings. In accordance with the Dutch Corporate Governance Code, the Management and Supervisory Boards established a policy in 2010 on bilateral contacts with shareholders. This policy is published on Alliander's website.

On 1 March 2010, several members of the Supervisory Board attended an Extraordinary General Meeting of Shareholders at which the takeover of Endinet was approved. Prior to the annual General Meeting of Shareholders, the Selection, Appointment and Remuneration Committee and the Committee of Shareholders met to discuss the 2009 Remuneration Report. All the members of the Supervisory Board attended the annual General Meeting of Shareholders on 10 May 2010, while a rotating delegation from the Supervisory Board attended various 'Major Shareholder Consultations'. These consultations discussed subjects such as the proposed takeover of Endinet, the Articles of Association of Alliander N.V., the regulatory system, shareholdership at Alliander and the 2011 annual plan.

CONTACTS WITH THE CENTRAL WORKS COUNCIL

The Supervisory Board attaches great importance to a good relationship with the Central Works Council as this enables it to keep in touch with the issues that matter to Alliander's employees. During the financial year, the Supervisory Board had regular contacts, both formal and informal, with the Central Works Council. One or more members of the Supervisory Board took turns attending the consultative meetings between the Management Board and the Central Works Council, including those arranged to discuss the general progress of the company's activities.

The Supervisory Board members and members of the Central Works Council also held two informal meetings during the year to discuss topical issues such as customer satisfaction, diversity and safety.

MAIN POINTS OF THE REMUNERATION POLICY

The remuneration policy is designed to enable Alliander to recruit, motivate and retain qualified and expert directors. In order to ensure, as far as possible, that short- and long-term objectives are achieved, the remuneration package of the Management Board members comprises five elements: a gross annual salary, a short-term variable remuneration component, a long-term variable remuneration component, a pension and other remuneration elements. Full details of the remuneration policy can be found in the 'Remuneration Report' section.

FINANCIAL STATEMENTS AND DIVIDEND PROPOSAL

The financial statements for 2010 have been audited and approved by PricewaterhouseCoopers Accountants N.V., whose unqualified opinion is included in this report.

The Audit Committee discussed the financial statements at length with the Management Board and the external auditors. The financial statements and the findings of the external auditors were subsequently discussed at a meeting of the Supervisory and Management Boards that was also attended by the external auditors. Based on these discussions, the Supervisory Board is of the opinion that the financial statements meet the requirements for transparency and form a good basis for the Supervisory Board to account for its supervision during the year. In conformity with the obligation contained in Article 101(2) of Book 2 of the Dutch Civil Code, the members of the Supervisory Board have signed the financial statements.

The Supervisory Board recommends that the General Meeting of Shareholders:
- adopt the financial statements for 2010, including the proposed profit appropriation;
- adopt the dividend proposal for 2010 of € 80.4 million;
- discharge the members of the Management Board for their management in 2010;
- discharge the members of the Supervisory Board for their supervision in 2010.

Word of appreciation

Lastly the Supervisory Board would like to take this opportunity to express its gratitude and appreciation to the Management Board and all Alliander employees for their efforts and achievements in 2010.

Arnhem, 24 March 2011

Supervisory Board
Ed d'Hondt, Chairman
Gerrit Ybema, Deputy Chairman
Franswillem W. Briët
Bea Irik
Coby van der Linde
Ada van der Veer-Vergeer
Jos van Winkelen

MEMBERS OF THE SUPERVISORY BOARD

Chairman

E.M. d'Hondt (1944)
Dutch, first appointment: 30 June 2009
Current term ends in: 2013

Alliander committees
Member of Selection, Appointment and Remuneration Committee

Previous relevant positions
- Chairman of VSNU (Association of Universities in the Netherlands)
- Mayor of Nijmegen

Relevant ancillary positions
- Supervisory Board Chairman of Brink Groep B.V.
- Supervisory Board Chairman of De Goudse Verzekeringen N.V.
- Member of Supervisory Board of BMC Group
- Member of Supervisory Board of the Police Academy
- Board Chairman of the Netherlands Association of Municipal Health Departments
- Vice-chairman of the Dutch Red Cross
- Member of Advisory Board of Netherlands Health Insurers

Deputy Chairman

G. Ybema, Deputy Chairman (1945)
Dutch, first appointment: 25 April 2005
Current term ends in: 2013

Alliander committees
Member of Audit Committee

Profession/Chief position
Director of Ybema Economy Solutions B.V.

Previous relevant position
State Secretary for Economic Affairs in the second Cabinet led by Wim Kok

Relevant ancillary positions
- Member of international Supervisory Board of ARCADIS N.V.
- Supervisory Board Chairman of Stichting Zorggroep Noorderbreedte
- Supervisory Board Chairman of Noordelijke Hogeschool, Leeuwarden
- Member of Supervisory Board of ROC Friese Poort

Members

F.C.W. Briët (1947)
Dutch, first appointment: 30 June 2009
Current term ends in: 2011

Alliander committees
Chairman of Selection, Appointment and Remuneration Committee

Previous relevant positions
- Chairman of Management Board of De Goudse Verzekeringen N.V.
- Member of Management Board of Koninklijke Hoogovens/Corus
- Board Chairman of Unilever Netherlands

Relevant ancillary positions
- Supervisory Board Chairman of FloraHolland
- Member of Supervisory Board of DSW Zorgverzekeraar
- Member of Supervisory Board of Monuta Holding N.V.
- Member of Advisory Board of Boval B.V.

Ms J.B. Irik (1956)
Dutch, first appointment: 8 June 2001
Current term ends in: 2012

Alliander committees
Member of Selection, Appointment and Remuneration Committee

Profession/Chief position
Independent adviser and project manager at Irik Advies consultancy

Previous relevant position
Councillor (Utilities) at Municipality of Amsterdam

Relevant ancillary positions
- Member of Supervisory Board of Gemeentelijke Kredietbank Amsterdam
- Supervisory Board Chairman of CentraM

Ms J.G. van der Linde (1957)
Dutch, first appointment: 29 October 2009
Current term ends in: 2013

Alliander committees
None

Profession/Chief position
Director of Clingendael International Energy Programme

Relevant ancillary positions
- Professor of Geopolitics and Energy, University of Groningen
- Member of the General Energy Council
- Member of Supervisory Board of Wintershall Noordzee B.V.
- Member of Advisory Council of Rotterdam Climate Initiative
- Member of International Advisory Council of KAPSARC.

Mrs A.P.M. van der Veer-Vergeer (1959)
Dutch, first appointment: 30 June 2009
Current term ends in: 2012

Alliander committees
Member of Audit Committee

Profession/Chief position
Independent management adviser on strategy and governance/Director of Stranergy B.V.

Previous relevant positions
- CEO of Currence Holding
- CEO of KPN Business Solutions division
- Member of Executive Board of Achmea Bank Holding
- Board Chairman of Staalbankiers N.V.

Relevant ancillary positions
- Adviser for National Register of Supervisory Directors and Regulators
- Member of Supervisory Board of LeasePlan Corporation N.V.
- Member of Supervisory Board of the Netherlands Public Broadcasting Company
- Member of Supervisory Board of the Stomach, Liver and Bowel Foundation
- Board Member of Stichting Preferente Aandelen Nedap

J.C. van Winkelen (1945)
Dutch, first appointment: 30 June 2009
Current term ends in: 2011

Alliander committees
Chairman of Audit Committee

Previous relevant positions
- Chairman of Management Board of Vitens N.V.
- Director of N.V. Nuon Water

Relevant ancillary positions
- Chairman of Supervisory Board of Douma Staal B.V.
- Vice-chairman of Supervisory Board of Wetsus (Centre of Excellence for Sustainable Water)
- Adviser to Hak N.V.

Alliander's Supervisory Board (from left to right): Gerrit Ybema, Bea Irik, Ada van der Veer, Ed d'Hondt, Franswillem Briët, Coby van der Linde and Jos van Winkelen

remuneration report

The Remuneration Report of the Supervisory Board comprises the current remuneration of the Management Board of Alliander and a description of the implementation of this policy in 2010, as well as the remuneration of the Supervisory Board members in 2010.

The report ends with a brief preview of 2011. The notes to the consolidated financial statements for 2010 contain an itemisation of the remuneration of the members of the Management Board and members of the Supervisory Board. This report has been compiled in accordance with best practice provisions II.2.12 and II.2.13 of the Dutch Corporate Governance Code and will be posted on the company's website.

Throughout the 2010 reporting year, Alliander's Management Board consisted of Peter Molengraaf (chairman of the Management Board/CEO) and Mark van Lieshout (member of the Management Board/CFO).

The level and structure of the remuneration and other terms of employment of the Management Board members are adopted by the Supervisory Board following a proposal by the Selection, Appointment and Remuneration Committee. This proposal is based on information such as scenario analyses and takes due account of remuneration relationships within Alliander. The process is conducted in line with the terms of the remuneration policy adopted in 2004 by the General Meeting of Shareholders and subsequently amended in 2006. The remuneration policy for the Management Board remained unchanged in 2010. Any proposed changes in the remuneration policy will be put to the General Meeting of Shareholders for approval, while also simultaneously being submitted in writing to the Central Works Council for informational purposes.

REMUNERATION POLICY

The remuneration policy is designed to enable Alliander to recruit, motivate and retain qualified and expert directors. At the same time, the company's short- and long-term interests also have to be protected and promoted. The Supervisory Board aims to account clearly, thoroughly and transparently for the Management Board remuneration policy pursued and to be pursued.

The remuneration policy is geared to the median of the relevant remuneration market and includes the associated fixed and performance-related components. The median is the level at which 50% of companies in the relevant target group pay higher remuneration and 50% pay lower remuneration. The relevant reference market is defined as the Dutch employment market for the management boards of companies with comparable levels of turnover, staff and complexity.

REMUNERATION COMPONENTS

The total remuneration package for members of the Management Board consists of:

a. Annual gross base salary;
b. Short-term variable remuneration;
c. Long-term variable remuneration;
d. Pension benefits;
e. Other emoluments.

(a) Annual gross base salary

Management Board members receive an annual gross base salary commensurate with the level of their responsibilities and tasks. This is based on the median of the above reference group of comparable companies.

(b) Short-term variable remuneration

The short-term variable remuneration (one year) is aimed at achieving quantified, controllable and challenging objectives within the current year. The maximum that can be paid in the form of such remuneration is 30% of the annual gross base salary.

(c) Long-term variable remuneration

The long-term variable remuneration is aimed at achieving quantifiable, controllable and challenging objectives in the medium term (three years). The scheme is also intended as a means of retaining the services of the individuals concerned. The maximum payable amount in the form of long-term variable remuneration is 30% of the annual gross base salary.

The specific objectives for the short- and long-term variable remuneration are recorded annually in a scorecard. The performance criteria and the relationships within and between these criteria are defined by the Selection, Appointment and Remuneration Committee at the start of each year, in consultation with the Management Board. These are then adopted by the Supervisory Board. Progress is monitored throughout the year. After the end of the year, the extent to which the defined objectives have been achieved is determined by the Supervisory Board on the recommendation of the Selection, Appointment and Remuneration Committee. The extent to which objectives have been achieved is partly determined on the basis of independent external audits and the financial statements audited by the external auditors.

If less than the agreed minimum for a specific objective is achieved, no variable remuneration whatsoever is paid in respect of that component. If the agreed maximum for an objective component is exceeded, the score will be set at the maximum agreed for that component. Neither the short nor the long-term remuneration will exceed 30% of the annual gross base salary.

The Supervisory Board is entitled to claw back any variable remuneration paid on the basis of incorrect financial or other information. The Supervisory Board also has discretionary powers to adjust the value of a variable remuneration component granted in a previous financial year if failing to adjust the component would produce an unfair result because of exceptional circumstances in the period during which the pre-determined performance criteria were or were supposed to be achieved ('test of fairness'). Internal Audit verifies the achievements on the scorecard before the level of the variable element of the Management Board members' remuneration is adopted.

(d) Pension benefits

The company's policy is for members of the Management Board to participate in the pension scheme that is also applicable to the company's staff. This scheme is currently operated through the Stichting Pensioenfonds ABP. Since 1 January 2004, this has consisted entirely of an average pay scheme, with a retirement age of 65. Early retirement is possible. In accordance with current practice in the energy sector, pension entitlement is built up on the annual gross base salary, and members of the Management Board pay an individual contribution for participation in the pension scheme.

(e) Other emoluments

In addition to the usual social security charges paid by the company, Management Board members are also entitled to an allowance for health insurance, an expense allowance and the use of a company car. In addition, the company has arranged accident insurance, as well as director's liability insurance, for Management Board members. The company does not provide any personal loans, advances or guarantees to members of the Management Board. A restrictive policy is in place for ancillary positions in that the Supervisory Board has to approve any supervisory board memberships at listed or other companies, while other significant ancillary positions have to be reported to the Chairman of the Supervisory Board.

EMPLOYMENT CONTRACTS

Each member of the Management Board has an employment contract with the company. These contracts are entered into for an indefinite period of time. This is not in accordance with best practice provision II.1.1. of the Dutch Corporate Governance Code, which states that appointments and reappointments of Management Board members should be limited to a period of four years. Given the aim of maintaining long-term, sustainable relationships between the Management Board and the company and also in view of the nature of Alliander's business activities, with many long-term projects and investments, the Supervisory Board does not consider appointments for periods of four years to be in the interest of the company.

If the company terminates a Management Board member's employment contract, it is company policy to award a severance payment of at least one year's salary, based on the provisions contained in the individual's employment contract in this respect. In certain circumstances, this lump sum may also be paid if a member of the Management Board resigns in a situation in which the individual cannot reasonably be expected to continue the employment contract, such as in the event of a change in control of the company or an irreconcilable difference of opinion on company policy. This is not in accordance with best practice provision II.2.8. of the Dutch Corporate Governance Code, which states that the maximum severance payment in the event of involuntary redundancy should be limited to one year's salary (the 'fixed' element of the remuneration). The Supervisory Board believes it important in such a situation for one year's salary to reflect the contractually agreed conditions.

IMPLEMENTATION OF REMUNERATION POLICY IN 2010

(a) Annual gross base salary

In 2010, Mr Molengraaf's salary amounted to € 220,000 (including an 8% holiday allowance), while Mr Van Lieshout's salary for the same period amounted to € 207,000 (including an 8% holiday allowance).

(b) Short-term variable remuneration

The objectives set for 2010 were a combination of financial objectives (40% of the total), customer-related objectives (30% of the total) and objectives relating to corporate social responsibility (30% of the total). The financial objectives included the operating result (EBIT) and net operating expenditure (OPEX). Customer-related objectives included, for example, customer satisfaction in the consumer and commercial (including municipalities) markets, while the objectives relating to corporate social responsibility included objectives focusing on the participation of certain vulnerable groups in the labour market and efforts to promote staff commitment and satisfaction. Based on the extent to which the objectives were achieved, the short-term variable remuneration for Messrs Molengraaf and Van Lieshout in 2010 came out at the maximum of 30% of the annual gross base salary.

(c) Long-term variable remuneration

The objectives for 2008 - 2010 related to the following three performance criteria:

- Return on invested capital (ROIC): 40% weighting;
- Frequency of accidents (LTIF): 30% weighting;
- Outage duration of electricity: 30% weighting.

Based on the extent to which these objectives were achieved, the long-term variable remuneration for 2008 - 2010 for Messrs Molengraaf and Van Lieshout came out at 70% of the applicable percentage, which is a maximum of 30% of the annual gross base salary.

(d) Pension benefits

The pension provisions for Mr Molengraaf and Mr Van Lieshout are held within the company pension scheme operated by the Stichting Pensioenfonds ABP. Pension costs relate to payments of the standard ABP contributions, which are based on annual gross base pensionable salary. As contractually agreed, variable remuneration is not pensionable. The contributions paid for old age pension and surviving dependants' pensions in the reporting year amounted to € 35,000 for Mr Molengraaf and € 31,000 for Mr Van Lieshout.

(e) Other emoluments

In 2010, the total amount of social security charges, the employer's health insurance contribution and the fixed expense allowance amounted to € 17,000 in the case of Mr Molengraaf and € 12,000 in the case of Mr Van Lieshout.

For the remuneration of the members of the Management Board in 2010, reference is made to notes to the consolidated financial statements (page 127).

Remuneration of the Supervisory Board

The remuneration policy is designed to create conditions conducive to attracting and retaining qualified and expert members of the Supervisory Board.
The remuneration of the Supervisory Board is determined by the General Meeting of Shareholders and is not dependent on the results of the company. No personal loans, guarantees and so forth are provided by the company to the members of the Supervisory Board.

The General Meeting of Shareholders has set the annual gross remuneration for the Supervisory Board as follows:

- Chairman of the Supervisory Board: € 35,000;
- Members of the Supervisory Board who are also a member of the Audit Committee and/or Selection, Appointment and Remuneration Committee: € 28,000;
- Other members: € 23,500.

The remuneration paid to each Supervisory Board member in 2010, as disclosed in the notes to the consolidated financial statements (page 128), were in line with the amounts mentioned above.

LOOKING AHEAD TO 2011

In 2010, the remuneration policy for the Management Board was assessed, with an appropriate labour market reference group being established to reflect Alliander's position as the largest network company in the Netherlands. Partly based on this evaluation and the forthcoming legislation on standards for top salaries in the public and semi-public sector, the Supervisory Board decided not to propose to the 2011 General Meeting of Shareholders any amendments to the policy set in respect of Management Board remuneration.

The remuneration of the Supervisory Board was also assessed in 2010, taking account of Alliander's changed status as the largest network company in the Netherlands, as well as legislation and regulations (including the stricter Dutch Corporate Governance Code) and developments in society in respect of the visibility of Supervisory Board members, as well as their responsibilities and commitment to the company, the remuneration paid to Supervisory Board members at comparable companies and the amount of time required to be spent on these activities. The results of this evaluation were used as input for a proposal to amend the remuneration of the Supervisory Board. This revised remuneration will be submitted for approval to the General Meeting of Shareholders on 12 May 2011.

On 14 January 2011, Piet Hein Donner, Minister of the Interior and Kingdom Relations, submitted the legislative proposal regulating top salaries in the public and semi-public sectors to the Lower House. The relevant proposal will replace the 2006 Act governing the Disclosure of Top Income Earners in Publicly Funded Sectors (Wopt). This legislative proposal provides for transitional arrangements whereby existing contracts of employment will be respected.Under the above Act, network companies are regarded as semi-public sector entities. Consultations will be arranged with the shareholders in 2011, in the normal way, to discuss the possible consequences of this legislative proposal.

facts and figures

financial statements

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

€ million	Note	2010		2009	
Assets					
Non-current assets					
Property, plant and equipment	[3]	5,402		4,638	
Intangible assets	[4]	320		209	
Investments in associates and joint ventures	[5]	57		50	
Available-for-sale financial assets	[6]	261		240	
Other financial assets	[7]	40		7	
Deferred tax assets	[17]	368		487	
			6,448		**5,631**
Current assets					
Inventories	[9]	27		24	
Trade and other receivables	[10]	279		338	
Derivatives	[8]	1		11	
Tax assets		19		-	
Other financial assets	[7]	125		301	
Cash and cash equivalents	[11]	501		451	
			952		**1,125**
Total assets			**7,400**		**6,756**
Equity & liabilities					
Equity	[12]				
Share capital		684		684	
Share premium		671		671	
Subordinated perpetual bond		494		-	
Hedge reserve		-12		-8	
Revaluation reserve		-7		-10	
Other reserves		854		596	
Profit after tax		222		312	
Total equity			**2,906**		**2,245**
Liabilities					
Non-current liabilities					
Interest-bearing debt	[13]	2,152		2,152	
Derivatives	[8]	95		105	
Finance lease liabilities	[19]	128		120	
Deferred income	[14]	1,474		1,436	
Deferred tax liabilities	[17]	1		2	
Provisions for employee benefits	[15]	63		60	
Other provisions	[16]	52		44	
			3,965		**3,919**
Current liabilities					
Trade and other payables	[18]	99		133	
Tax liabilities		67		76	
Interest-bearing debt	[13]	32		73	
Derivatives	[8]	7		4	
Provisions for employee benefits	[15]	56		52	
Accrued liabilities		268		254	
			529		**592**
Total liabilities			**4,494**		**4,511**
Total equity and liabilities			**7,400**		**6,756**

Consolidated income statement

€ million	Note	2010	2009
Revenue	[21]	**1,432**	**1,446**
Other income	[22]	93	304
Total income		**1,525**	**1,750**
Operating expenses			
Purchase costs and costs of subcontracted work	[23]	-427	-407
Employee benefit expenses	[24]	-355	-361
External personnel costs	[24]	-102	-156
Other operating expenses	[25]	-194	-238
Total purchase costs, costs of subcontracted work and operating expenses		**-1,078**	**-1,162**
Depreciation and impairment of non-current assets	[26]	-241	-214
Less: own work capitalised		124	117
Total operating expenses		**-1,195**	**-1,259**
Operating profit		**330**	**491**
Finance income	[27]	32	23
Finance expense	[28]	-140	-151
Share in results of associates and joint ventures after tax	[5]	8	20
Profit before tax from continuing operations		**230**	**383**
Tax	[29]	-8	-71
Profit after tax from continuing operations		**222**	**312**
Profit after tax from discontinued operations	[33]	**-**	**226**
Profit after tax		**222**	**538**
Profit after tax attributable to Alliander shareholders		**222**	**312**

The profit after tax for 2010 is entirely attributable to the shareholders Alliander. As the profit from discontinued operations was seperated on 30 June 2009, the 2009 profit after tax attributable to Alliander's shareholders was € 312 million (€ 538 million less € 226 million).

The comprehensive income was as follows:

Consolidated statement of comprehensive income

€ million	2010	2009
Profit after tax	**222**	**538**
Other elements of comprehensive income		
Revaluation of available-for-sale assets	3	3
Movement in fair value cash flow hedges	-4	-118
Currency translation differences	-	5
Other movements	-	-1
Comprehensive income	**221**	**427**

Consolidated cash flow statement

€ million	Note	2010		2009	
Cash flow from operating activities	[30]				
Profit after tax			**222**		**538**
Adjustments for:					
- finance income and expense			108		116
- tax			8		157
- profit after tax from associates and joint ventures			-8		-26
- depreciation and impairment less amortisation			200		308
Changes in working capital:					
- inventories		-3		16	
- trade and other receivables		58		-179	
- trade and other payables and accruals		-44		-209	
Total changes in working capital			**11**		**-372**
Changes in deferred tax, provisions, derivatives and other			52		-308
Cash flow from operations			**593**		**413**
Interest paid		-132		-173	
Interest received		26		57	
Dividends received from associates and joint ventures		5		26	
Corporate income tax received		16		49	
Total			**-85**		**-41**
Cash flow from operating activities			**508**		**372**
Cash flow from investing activities	[30]				
Acquisitions, excluding acquired cash and cash equivalents		-56		-	
Investments in property, plant and equipment		-368		-637	
Construction contributions received		87		114	
Investments in intangible assets		-		-7	
Investments in financial assets (associates and joint ventures)		-3		-	
Proceeds from sales of subsidiaries		-		368	
Disposals of financial assets (associates and joint ventures)		-		9	
Cash flow from investing activities			**-340**		**-153**
Cash flow from financing activities	[30]				
New current interest-bearing debt and current portion of long-term debt		-74		-15	
Long-term debt issued		24		1,298	
Long-term debt repaid		-684		-7	
Change in current deposits		176		-301	
Subordinated perpetual bond issued		494		-	
Unbundled cash and cash equivalents		-		-1,388	
Dividend paid		-54		-350	
Cash flow from financing activities			**-118**		**-763**
Net cash flow			**50**		**-544**
Cash and cash equivalents as at 1 January			451		995
Net cash flow			50		-544
Cash and cash equivalents as at 31 December			**501**		**451**

Consolidated statement of changes in equity

€ million	Equity attributable to shareholders and other providers of equity										
	Share capital	Share premium	Perpetual sub-ordinated bond	Hedge reserve	Currency translation reserve	Reva-luation reserve	Other reserves	Profit for the year	Subtotal	Minority interests	Total
As at 1 January 2009	**684**	**671**	**-**	**320**	**-4**	**-13**	**3,845**	**765**	**6,268**	**2**	**6,270**
Unbundling of Nuon Energy as at 30 June 2009	-	-	-	-210	-1	-	-3,663	-226	-4,100	-2	-4,102
Movement in fair value cash flow hedges	-	-	-	-118	-	-	-	-	-118	-	-118
Currency translation differences	-	-	-	-	5	-	-	-	5	-	5
Revaluation of available-for-sale financial assets	-	-	-	-	-	3	-	-	3	-	3
Other movements	-	-	-	-	-	-	-1	-	-1	-	-1
Profit after tax 2009	-	-	-	-	-	-	-	538	538		538
Comprehensive income 2009	**-**	**-**	**-**	**-118**	**5**	**3**	**-1**	**538**	**427**	**-**	**427**
Dividend for 2008	-	-	-	-	-	-	-	-350	-350	-	-350
Profit appropriation 2008	-	-	-	-	-	-	415	-415	-	-	-
As at 31 December 2009	**684**	**671**	**-**	**-8**	**-**	**-10**	**596**	**312**	**2,245**	**-**	**2,245**
Movement in fair value cash flow hedges	-	-	-	-4	-	-	-	-	-4	-	-4
Revaluation of available-for-sale financial assets	-	-	-	-	-	3	-	-	3	-	3
Profit after tax 2010	-	-	-	-	-	-	-	222	222	-	222
Comprehensive income 2010	**-**	**-**	**-**	**-4**	**-**	**3**	**-**	**222**	**221**	**-**	**221**
Issue of subordinated perpetual bond	-	-	494	-	-	-	-	-	494	-	494
Dividend for 2009	-	-	-	-	-	-	-	-54	-54	-	-54
Profit appropriation for 2009	-	-	-	-	-	-	258	-258	-	-	-
As at 31 December 2010	**684**	**671**	**494**	**-12**	**-**	**-7**	**854**	**222**	**2,906**	**-**	**2,906**

ACCOUNTING POLICIES

Alliander N.V. is a public limited liability company, registered in Arnhem, the Netherlands. The principal activities of Alliander and its subsidiaries (also referred to here by 'Alliander', 'the Alliander group', 'the group' or similar expressions) are the management of electricity and gas grids covering roughly one third of the Netherlands and the provision of related services.

The 2010 financial statements were signed by the members of the Management Board and the members of the Supervisory Board on 24 March 2011. The Supervisory Board will submit the financial statements for adoption by the General Meeting of Shareholders on 12 May 2011.

Unbundling

On 30 June 2009, N.V. Nuon Energy was unbundled from Alliander by means of a legal demerger. The relevant assets and liabilities and equity components as well as the result attributable to N.V. Nuon Energy were consequently deconsolidated with effect from that date. The unbundling of N.V. Nuon Energy's result for the first half of 2009 reflects the fact that, financially, the unbundling had retroactive effect from 1 January 2009. Transfer of control, however, was on 30 June 2009 (date of legal demerger) so that, for the purposes of the comparative figures in these financial statements, all balance sheet items of N.V. Nuon Energy were demerged using the carrying amount as at 30 June 2009 and not the carrying amount as at 1 January 2009. This also explains the unbundling of the N.V. Nuon Energy result for the first half of 2009. All amounts relating to equity components concerned with the unbundling are presented in the 2009 statement of changes in equity. Where applicable, the relevant unbundled balance sheet items are disclosed in the separate statements of movements commencing with note [3] in these financial statements. Note [33] on assets and liabilities held for sale and discontinued operations is also relevant as regards the comparative figures.

New consolidations

On 16 March 2010, Alliander acquired the shares of contractors Stam Heerhugowaard Holding B.V. ('Stam'), Heerhugowaard, and, on 1 July 2010, the group acquired the shares of network company Endinet B.V. (now known as Endinet Groep B.V., 'Endinet'), Eindhoven. The figures for Stam and Endinet have been included in the Alliander consolidation with effect from 16 March 2010 and 1 July 2010, respectively. For further disclosures concerning the two acquisitions, see note [1].

Deconsolidations

On 30 June 2009, N.V. Nuon Energy was unbundled from the parent company n.v. Nuon, whose name was changed to Alliander N.V. on the same date. The results of N.V. Nuon Energy ceased to be consolidated in Alliander's results on that date. In accordance with IFRS 5, the result of N.V. Nuon Energy for the period 1 January to 30 June 2009 are presented as 'Profit from discontinued operations'.

At the end of November 2009, the shares of Liandyn B.V. were transferred to Ziut B.V. Ziut B.V is a joint venture incorporated by Alliander and Enexis on 1 October 2009, in which Alliander has a 53% interest. In addition to the shares of Liandyn B.V., the shares of Enexis Lighting were transferred to Ziut B.V. at the end of November 2009.

IFRS

Alliander's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December 2010, as adopted by the European Union (EU). IFRS consists of the IFRS standards as well as the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the interpretations of IFRS and IAS standards issued by the IFRS Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), respectively.

The significant accounting policies used in the preparation of the consolidated financial statements are set out below. The historical cost convention applies. However, certain assets and liabilities, including derivatives, are measured at fair value. Unless stated otherwise, these accounting policies have been applied consistently to the years covered in these financial statements.

The preparation of financial statements requires the use of estimates and assumptions based on experience and considered appropriate by management given the specific circumstances. These estimates and assumptions have an impact on the valuation and presentation of the reported assets and liabilities, the off-balance-sheet rights and obligations and the reported assets and liabilities during the year. The actual outcomes may differ from the estimates and assumptions used. Note [35] to the financial statements gives further information on the areas and items in the financial statements where estimates and assumptions are used.

Unless stated otherwise, all amounts reported in these financial statements are in millions of euros.

New and/or amended IFRS standards applicable in 2010

The IASB and the IFRIC have issued new and/or amended standards and interpretations which are applicable to Alliander with effect from the 2010 financial year. The standards and interpretations below have been endorsed by the European Commission.

IFRS 1 '*First-Time Adoption of IFRS*' was amended to include further exemptions relating to oil and gas assets and arrangements containing a lease. As the company already applies IFRS, these changes have no effect on Alliander.

IFRS 2 '*Share-Based Payment*' has been amended to incorporate IFRIC 8 Scope of IFRS 2, and IFRIC 11 IFRS 2 Group and Treasury Share Transactions and further guidelines in IFRIC 11 on the classification of group arrangements. The amended standard makes it explicit that, in the case of a share-based payment, the entity receiving the goods or services must recognise them as an equity-settled share-based payment when the awarded payments are in the form of its own equity instruments or the entity does not have any obligation to settle the share-based payment. In all other cases, the entity receiving the goods or services must recognise them as a cash-settled, share-based payment. This amendment does not affect Alliander.

IFRS 3 '*Business Combinations*' has been revised to incorporate a number of significant changes, including accounting for the consideration for an acquisition. Acquisitions must be recognised at acquisition-date fair value, with contingent consideration classified as debt, subsequently remeasured through the income statement. Acquirers may also recognise non-controlling interests in an acquiree either at the proportionate share of the non-controlling interest in the net assets or at fair value. The costs associated with an acquisition must be expensed. In this connection, IAS 27 Consolidated and Separate Financial Statements has been amended, the most important amendment being that changes in the ownership interest that do not lead to a loss of control are recognised as equity transactions. Alliander has applied the revised IFRS 3.

IAS 39 '*Financial Instruments: Recognition and Measurement*', amendment on eligible hedged items. IAS 39 has been amended to clarify the way in which hedge accounting should be applied in relation to the inflation portion of financial instruments and to option contracts used as hedging instruments. This amendment does not affect Alliander.

IFRIC 16 '*Hedges of a Net Investment in a Foreign Operation*' has been amended. The amendment states that in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. This interpretation does not currently affect Alliander as it does not currently use hedge accounting for hedged risks of net investments in foreign operations.

IFRIC 17 '*Distributions of Non-Cash Assets to Owners*' clarifies and gives guidance on the accounting treatment of distributions of non-cash assets to the owners of an entity. In connection with this, IFRS 5 includes the requirement that assets are only classified as held for distribution to the owners if the assets are available for immediate distribution and distribution is highly probable. IFRIC 17 does not apply to Alliander.

The IASB '*Annual Improvements Process 2009*' resulted in corrections and minor amendments to a number of IFRS standards. These have no material impact on Alliander and are therefore not mentioned separately here.

Expected changes in accounting policies

In addition to the above-mentioned new and amended standards, the IASB and the IFRIC have issued new and/or amended standards and/or interpretations in the period up to the end of 2010 which will be applicable to Alliander with effect from the 2011 financial year. These standards and interpretations can only be applied if adopted by the European Commission.

IFRS 1 '*First-Time Adoption of IFRS* and IFRS 7 *Financial Instruments: Disclosures*' have been amended to give first-time adopters of IFRS the same relief from comparative disclosures as is available for existing users under the transitional provisions connected with the amendment of IFRS 7 in 2009. The changes do not affect Alliander.

IFRS 1 '*First-Time Adoption of International Financial Reporting Standards*' has been amended concerning references made to the date of transition and severe hyperinflation. These changes are not applicable to Alliander.

IFRS 9 '*Financial Instruments*' is a new standard which introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013, with early adoption permitted. In 2010, new requirements were added to IFRS 9 concerning the classification and measurement of financial liabilities and so IFRS 9 may entirely replace IAS 39. It is currently not known whether or to what extent the European Commission will adopt IFRS 9. The impact on Alliander has not yet been determined.

IAS 12 '*Income Taxes*' has been amended, introducing an exception to the general rule that deferred tax liabilities relating to investment property must be measured at fair value, as a result of which SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets has been withdrawn. This amendment is not expected to have any effect on Alliander and will be effective from annual periods beginning on or after 1 January 2012.

IAS 24 '*Related Party Disclosures*' has been amended. The changes clarify the definition of a related party and reduce disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government. IAS 24 does not have a metrial effect on Alliander.

The IASB '*Annual Improvements Process 2010*' resulted in corrections and various amendments to six standards and one interpretation. The changes are effective from 1 January 2011. They have no material impact on Alliander and are therefore not mentioned separately here.

IFRIC 14 '*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, Prepayment of a Minimum Funding Requirement*' has been amended to correct an unintended consequence of IFRIC 14 that in certain circumstances prevents recognition of certain prepayments for the minimum funding requirement as an asset. The amendment, which is effective from 1 January 2011, is not expected to have an impact on Alliander.

IFRIC 19 '*Extinguishing Financial Liabilities with Equity Instruments*'. This interpretation addresses the different ways in which entities account for the issue of equity instruments in full or partial settlement of a financial liability. The interpretation, which is effective from 1 January 2011, is not expected to have any impact on Alliander.

BASIS OF THE CONSOLIDATION

Subsidiaries

The consolidated financial statements comprise the financial data of Alliander and its subsidiaries. Subsidiaries are companies over which Alliander, either directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In determining whether Alliander has control, actual and potential voting rights that are currently exercisable or convertible are taken into account, along with the existence of other agreements enabling Alliander to control financial and operating policies.

The assets, liabilities and results of subsidiaries are fully consolidated. The results of consolidated subsidiaries that have been acquired during the year are consolidated from the date Alliander obtains control over those subsidiaries. Consolidation of subsidiaries ceases from the date Alliander no longer controls the subsidiary.

The acquisition method is used to account for acquisitions of subsidiaries by Alliander. The purchase price of an acquisition is determined by measuring the fair value of the acquired assets, the issued equity instruments and the assumed or acquired liabilities. The consideration paid includes the fair value of all assets or liabilities arising out of contingent consideration arrangements. The identifiable assets and liabilities and contingent liabilities that are acquired are initially measured at fair value at the date of acquisition, irrespective of the amount that is attributable to minority interests (see also the accounting policies for goodwill). For each business combination, it is determined whether any minority interest in the acquiree is measured at fair value or at the proportionate share of the minority interest in the acquiree's identifiable net assets. The interests of third parties in group equity and the group's profit after tax are presented separately as minority interests and profit after tax attributable to minority interests.

Investments in subsidiaries are measured at cost less impairments. The cost is adjusted for changes in the consideration arising out of adjustments in the amounts of contingent consideration payable.

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

If appropriate, the accounting policies of subsidiaries are adjusted to ensure the consistent application of accounting policies throughout the Alliander group.

Accounting policies for the company financial statements

Alliander uses the option in Part 9, Book 2, of the Netherlands Civil Code to prepare the company financial statements in accordance with the IFRS accounting policies that are used in the preparation of the consolidated financial statements. The company income statement is presented in abridged form, as permitted by Section 402, Part 9, Book 2, of the Netherlands Civil Code.

Associates and joint ventures

Associates are entities where Alliander, directly or indirectly, exercises significant influence, but not control, over the financial and operational policies. Significant influence is assumed when Alliander can exercise between 20% and 50% of the voting rights.

Joint ventures are agreements by which Alliander, together with one or more parties, conducts activities that are controlled jointly by all parties involved.

The financial statements include a list of the principal associates and joint ventures.

Investments in associates and interests in joint ventures are measured using the equity method. Initial measurement is at historical cost. The carrying amount of the associate or the joint venture includes the goodwill paid at the date of acquisition of the associate or entering into the joint venture and Alliander's share in the changes in the equity of the associate or joint venture after the date of the transaction. The share in the realised results of the entities concerned since the date on which they were acquired is recognised in the income statement and the share in the change in unrealised results of the entities concerned since acquisition date is included in the comprehensive income. If the accumulated losses exceed the carrying amount, they are not recognised unless Alliander has an obligation or has made payments to defray them, in which case, a provision is recognised and charged to income.

Unrealised gains on transactions between the Alliander group and its associates and joint ventures are eliminated in proportion to the group's interest in the associate or joint venture. Unrealised losses are also eliminated, unless the transaction gives rise to the recognition of impairment losses. If appropriate, the accounting policies of associates and joint ventures are adjusted to ensure the consistent application of accounting policies throughout the Alliander group.

Scope of the consolidation

The financial statements include a list of the principal subsidiaries, associates and joint ventures. A list of information on the equity interests has been filed with the Arnhem Trade Register pursuant to Sections 379 and 414, Part 9, Book 2 of the Netherlands Civil Code.

On 30 June 2009, N.V. Nuon Energy was demerged from n.v. Nuon, now Alliander N.V. On 2 October 2009, Alliander and Enexis established the joint-venture Ziut B.V., over which Alliander and Enexis exercise joint control despite the fact that Alliander's interest is 53%. As part of this operation, Alliander transferred the shares of Liandyn B.V. to Ziut B.V. at the end of November 2009. On 16 March 2010, Alliander acquired all the shares of the contractors Stam Heerhugowaard Holding B.V. (Stam), Heerhugowaard and, on 1 July 2010, all the shares of Endinet B.V. (now Endinet Groep B.V.), Eindhoven.

Segment reporting

The reporting of segment information reflects the basis on which management information is reported to the Chief Operating Decision-Maker (CODM). The Management Board is identified as the most senior officer (CODM) responsible for the allocation of resources and for evaluating segment performance. Internal reporting is based on the same accounting policies as are used for the consolidated financial statements. The internally reported results are on a comparable basis, i.e. excluding incidental items and fair value movements.

Foreign currency translation

Functional and presentation currency

The items in the financial statements of the entities forming part of the Alliander group are recorded in the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are prepared in euros, Alliander's functional and presentation currency.

Translation of transactions and balance sheet items denominated in foreign currency

Transactions denominated in foreign currency are translated into the functional currency at the exchange rates prevailing at that time. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rates at the balance sheet date. Currency translation differences resulting from the settlement of transactions denominated in foreign currency or the translation at the balance sheet date are recognised in the income statement, unless these exchange gains or losses are recognised directly in comprehensive income as cash flow hedges or net investment hedges in a foreign entity.

Currency translation differences on financial assets and liabilities measured at fair value through profit or loss are accounted for as part of the movement in the fair value of the item involved.

Translation differences regarding with the balance sheets and results of foreign subsidiaries

The assets and liabilities of subsidiaries whose functional currency is not the euro are translated at the exchange rate at the balance sheet date, whereas the results are translated at the average exchange rate for the period. The resulting exchange differences are recognised as currency translation differences in comprehensive income.

Foreign currency exchange differences resulting from the translation of net investments in foreign entities, loans and other foreign-currency instruments that are used as hedges of net investments are recognised in comprehensive income. If a foreign entity is sold, the corresponding exchange differences are recognised through profit or loss as part of the result on the sale.

Goodwill resulting from the acquisition of a foreign entity is regarded as an asset of the foreign entity and is translated at the exchange rate at the balance sheet date.

Impairment

Goodwill is tested annually for impairment by comparing the recoverable amount and the carrying amount. Impairment losses – the difference between carrying amount and recoverable amount – are recognised in the income statement. If certain events or changes in circumstances necessitate such action, an impairment test is performed in order to determine whether the value of property, plant and equipment, intangible assets or financial assets has been impaired. Each year and when interim results are published, a test is carried out to establish whether such events or changes have occurred.

Assets are allocated to the lowest possible level at which they generate separately identifiable cash flows (cash-generating units). Goodwill is allocated to a level that is consistent with the manner in which goodwill is internally reviewed by management. Impairment of cash-generating units is initially allocated to the goodwill of the cash-generating unit (or group of cash-generating units) and is subsequently allocated proportionately to the carrying amount of the other assets of the cash-generating unit.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. In measuring the value in use, the estimated future cash flows are discounted at a pre-tax discount rate. The discount rate reflects the time value of money and the specific risks that are associated with the assets involved. If certain assets do not generate cash flows independently, the value in use is measured for the cash-generating unit to which the asset involved belongs.

If a previously recognised impairment loss ceases to apply, it is reversed to the original carrying amount less regular depreciation and amortisation up to the date of reversal. Impairments of goodwill are not reversed.

Assets held for sale and discontinued operations

Non-current assets and assets forming part of individually significant activities that are held for sale, together with the associated liabilities, are presented separately in the balance sheet. Assets are designated as being held for sale if Alliander has committed itself to the sale of the asset involved, if the sales process has started and if the sale is expected to occur within one year of the asset being classified as held for sale. These assets are no longer depreciated, but are recognised at fair value less costs to sell if this amount is lower than the carrying amount. If the sale has not taken place within one year, the asset and associated liabilities are no longer presented separately in the balance sheet unless the failure to meet the one-year time limit is due to events or circumstances beyond Alliander's control and Alliander still intends to sell the asset in question.

Assets held for sale and the associated liabilities are presented as such in the balance sheet from the time that they are designated as held for sale. The comparative figures in the balance sheet are not restated. The results from discontinued operations consist of the results for the full financial year up to the closing date, irrespective of the date when the operations were classified as discontinued. The comparative figures are restated in this respect.

Property, plant and equipment

Property, plant and equipment is subdivided into the following categories:
- land and buildings;
- power generation facilities;
- networks;
- other plant and equipment;
- assets under construction/prepaid assets.

Property, plant and equipment is measured at historical cost, less accumulated depreciation and impairment. At the time of transition to IFRS on 1 January 2004, Alliander decided to use the option in IFRS 1 'First-Time Adoption of International Financial Reporting Standards' to recognise networks and power generation facilities at their deemed cost on that date.

Historical cost includes all expenditure directly attributable to the purchase of an item of property, plant and equipment or the production of an item of property, plant and equipment for own use. The cost of production for the company's own use includes the direct costs of materials used, labour and other direct production costs attributable to the production of the item of property, plant and equipment and the costs required to bring it into its operational condition.

With effect from 1 January 2009, the costs of loans associated with the purchase of an item of property, plant and equipment or assets under construction are capitalised insofar as they can be directly attributed to the acquisition, production or construction of a qualifying asset. For Alliander, this entails the obligatory capitalisation of interest costs for all qualifying assets whose initial capitalisation date falls on or after 1 January 2009.

Costs incurred after the date on which an item of property, plant and equipment has been taken into use are only capitalised if it can be assumed that these costs will generate future economic benefits and if they can be measured reliably. Depending on the circumstances, these costs form part of the carrying amount of the asset involved or are capitalised separately. The carrying amount of the original asset is derecognised on replace-

ment. Maintenance expenditure is charged directly to the income statement in the year these costs are incurred.

Historical cost also includes the net present value of the estimated dismantling and removal costs and, if applicable, the costs of restoring the site to its original condition insofar as there is a legal or constructive obligation to do so. These costs are capitalised at the time of acquisition or at a later date when the obligation arises. In both cases, the capitalised costs are depreciated over the expected remaining useful life of the asset concerned.

With the exception of the gas fields and platforms category recognised as other plant and equipment until 30 June 2009, property, plant and equipment is depreciated using the straight-line method over the expected useful lives of the various components of the asset concerned, taking account of the expected residual value. Gas fields and platforms are depreciated on the basis of the 'unit of production' method. The basis for depreciation is the expected remaining production volume and is determined annually on the basis of recognised industry practice. New discoveries during production activities can also cause interim changes in the expected remaining production volume. The depreciation amount per unit is thus adjusted for the coming period to the new expected remaining production volume.

The useful lives of the asset categories are as follows:
- land: not depreciated;
- buildings: 20-50 years;
- power generation facilities: 20-35 years;
- networks: 5-60 years;
- gas fields and platforms: determined annually on the basis of the expected remaining production volume;
- other plant and equipment; 3-63 years;
- assets under construction: not depreciated.

Assets with a short useful life (5 years) forming part of the networks mainly concern electronic equipment. The networks themselves (pipes and cables) generally have a useful life of 40 to 60 years. The expected useful lives, residual values and depreciation methods are reviewed annually and adjusted as necessary. Gains or losses on disposal are determined from the sales proceeds and the carrying amount on the date of disposal. Gains are recognised in other income.

Intangible assets

Goodwill

Goodwill is the amount by which the purchase price exceeds the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiaries or associates acquired. Goodwill paid on the acquisition of subsidiaries is classified under intangible assets. Goodwill paid on the acquisition of associates is included in the cost of the investment concerned. If the purchase price is lower than the fair value of the identifiable assets, liabilities and contingent liabilities (negative goodwill), this difference is recognised directly through the income statement.

The carrying amount of goodwill consists of historical cost less accumulated impairment. Impairment tests are performed annually in order to determine whether the carrying amount of the goodwill has been impaired. On the disposal of entities or cash generating units, the goodwill attributable to the entity or unit is taken into account in determining the result on disposal.

Exploration and evaluation assets

Exploration and evaluation assets are the capitalised costs relating to the exploration for and evaluation of gas reserves. Costs that may be eligible for capitalisation include exploration rights, geological and other studies, and exploration drillings in relation to either prospective or possible reserves under evaluation or prospective deposit sites. Costs that are not eligible for capitalisation are those incurred before the acquisition of exploration rights and other general costs that are not related to a specific exploration well. Exploration and evaluation assets are measured at cost less accumulated impairment. Exploration and evaluation assets are not amortised.

Alliander applies the 'successful efforts' method to exploration and appraisal expenditure. This means that when a specific well is designated as technically feasible and economically viable and a management decision to proceed with development has been taken or will be taken within a year according to the most recent business plan, the capitalised costs are reclassified from intangible assets to property, plant and equipment – assets under construction. A well that does not satisfy these criteria is designated as unsuccessful and any costs already capitalised are recognised as an impairment loss.

Concessions, permits and licences

Concessions, permits and licences were recognised in the balance sheet until 30 June 2009 (date of unbundling of N.V. Nuon Energy) and measured at historical cost less accumulated amortisation and accumulated impairment. These assets are amortised over their estimated useful life, using the straight-line method. The term of validity of the concessions, permits and licences is taken as the useful life.

CO_2 emission rights

CO_2 emission rights were recognised in the balance sheet until 30 June 2009 (date of unbundling of N.V. Nuon Energy). In the treatment of these CO_2 emission rights, a distinction was made between rights designated for own use and rights held for trading.

Emission rights designated for own use and granted by the government are measured at nil, as they were granted

at zero cost. Purchased emission rights designated for own use are measured at cost. When actual CO_2 emissions exceed the amount of CO_2 emission rights available, a liability for the deficit is recognised through the income statement, measured at the expected market price of the additional emission rights that have to be purchased.

The trading position in emission rights is accounted for at market prices and any changes are recognised directly through the income statement. The ability to convert Certified Emission Rights (CERs) into European emission rights is taken into account in the trade position in CERs.

Other

Purchased lease contracts are recognised in the balance sheet as intangible assets, measured at the net present value of the future cash flows. Amortisation is calculated over the average period of the purchased contracts.

Financial assets

Financial assets are classified as current if the remaining term to maturity is less than 12 months at the balance sheet date. They are classified as non-current if the remaining term to maturity is longer than 12 months. Financial assets - mostly investemts in loans and shares - are classified into the categories described hereinafter. Measurement depends on the classification of the financial asset.

Loans and receivables

Loans and receivables are primary financial instruments with fixed or floating payments that are not listed on active markets. Initial measurement of these loans and receivables is at fair value, generally being the cost of the financial asset. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

If the fair value of these financial assets has been hedged, the amortised cost is adjusted for the gain or loss attributable to the hedged risk. These adjustments are recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value on initial recognition and for the period that the asset is held. Changes in fair value are recognised through equity. When these assets are sold, the accumulated changes in value recognised through equity are recognised in the income statement. Interest income is recognised in the income statement in the period to which it is attributable. Investments in shares or other equity instruments not listed on an active market and whose fair value cannot be estimated reliably are recognised at cost subsequent to initial recognition.

Derivatives and hedge accounting

Derivatives are measured at fair value. The fair values are derived from market prices that are listed on active markets or by using comparable recent market transactions or valuation methods, e.g. discounted cash flow models and option pricing models if there is no active market.

Derivatives are classified as current or non-current assets if the fair value is positive and as current or non-current liabilities if the fair value is negative. Derivative receivables and payables with the same counterparty are netted if there is a contractual or legal right to do so and Alliander has the intention to settle the transaction on a net basis.

Accounting for movements in fair value of derivatives

The accounting treatment for the movements in the fair value of derivatives depends on whether the derivative is designated as held for trading or as a hedge (and recognised as such for accounting purposes in an effective hedge), and if the latter is the case, the risk that is being hedged.

In principle, all movements in the fair value of derivatives are recognised in the income statement and, until 30 June 2009 (date of unbundling of N.V. Nuon Energy), all energy commodity contracts (oil, gas, coal, electricity, CO_2 emission rights and the related foreign currency exposures) were treated as derivatives. There are two exceptions to the general principle that movements in fair value are to be recognised in the income statement:
- commodity contracts designated for own use; and
- hedge accouting.

Commodity contracts designated for own use

Alliander uses energy commodity contracts for physical purchases of electricity, for grid losses occuring in the transport of electricity. Accrual accounting is applied for these contracts and transactions are recognised at the delivery date at the then applicable prices. Until 30 June 2009, Alliander used energy commodity contracts for physical purchases of oil, coal, gas and electricity for the production, purchase and sale of energy. Accrual accounting is applied for these contracts and transactions are recognised at the delivery date at the then applicable prices. Contracts are designated as own-use contracts, as contracts for trading or as hedges at the date on which they are entered into.

Hedge transactions

Alliander uses derivatives to hedge foreign exchange risks on assets and liabilities, interest rate risks on long-term loans and, until 30 June 2009, (date of unbundling of N.V. Nuon Energy) price risks arising from energy commodity contracts. These hedge transactions can be divided into three categories:

- fair value hedges: these are instruments hedging the risk of movements in the fair value of assets and/or liabilities, or a part thereof, carried on the face of the balance sheet, or firm commitments, or a part thereof, that may affect profit or loss. A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. Fair value movements of derivatives that are designated as fair value hedges are recognised in the income statement, together with the movements in the fair value of the assets or liabilities or groups thereof, that are attributable to the hedged risk.
- cash flow hedges: these are instruments hedging the risk of movements in future cash flows that may affect profit or loss. The hedges are attributable to a specific risk that is related to a balance sheet item or a future transaction that is highly probable. The effective part of the changes in the fair value of the hedge is recognised in shareholders' equity under the hedge reserves. The non-effective part is taken to the income statement. The accumulated amounts recognised in equity are transferred to the income statement in the period in which the hedged transaction is recognised in the income statement. However, if a forecast transaction that is hedged leads to the recognition of a non-financial asset or liability, the accumulated gains and losses on the hedges are included in the initial measurement of the asset or liability involved. If a hedge ceases to exist or is sold, or when the criteria for hedge accounting are no longer being met, the accumulated fair value movements are held in equity until the forecast transaction is recognised in the income statement. If a forecast transaction is no longer expected to occur, the accumulated fair value movements that were recognised in equity are recognised through the income statement.
- hedges of a net investment in a foreign operation: these are instruments hedging the risk of movements in the value of net investments in a foreign operation whose functional currency is not the euro, resulting from movements in foreign exchange rates. If the hedge is effective, the fair value movement of the hedge is recognised in the currency translation reserve in shareholders' equity. If this is not the case, the fair value movements are recognised through the income statement. On the disposal of a foreign entity, the accumulated exchange differences of the hedge that were recognised in equity are recognised through the income statement.

Leases where Alliander acts as lessor

Operating leases

Alliander has entered into operating leases for district heating grids, energy-related installations and office space. Operating leases are leases that are not designated as finance leases. Risks and rewards incidental to ownership of the assets concerned are not, or not substantially, transferred to the lessee.

The assets that are leased to third parties under operating leases are classified as property, plant and equipment. The proceeds from operating leases are recognised through the income statement as operating income over the lease period.

Inventories

Inventories, except for coal inventories held prior to 30 June 2009 (date of unbundling of N.V. Nuon Energy), are measured at the lower of cost and net realisable value. These inventories consist of raw materials and consumables, inventories in process of production and finished goods. The cost of inventories is determined using the FIFO (first-in, first-out) method. Net realisable value is measured using the estimated sales price in normal operating circumstances, less the estimated costs to sell. Coal inventories were measured at fair value less costs to sell, as these inventories formed part of the trading position in this type of commodity. Movements in the fair value of the coal inventories were recognised in the result in the period in which the movement took place.

Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently at amortised cost less impairment. Due to the usually short term of these liabilities, the fair value and amortised cost are generally equal to the face value. Impairment losses are recognised through the income statement when it can be determined objectively that an amount is not collectible.

Cash and cash equivalents

Cash and cash equivalents comprise all liquid financial instruments with a maturity date at inception of less than three months. Cash and cash equivalents include cash in hand, bank balances, money market loans and short-term deposits. Overdrafts are only classified as cash and cash equivalents if Alliander has the right to net debit and credit balances, the debit and credit balances are held with the same bank and Alliander has the intention to exercise this right and also actually does so.

Cash and cash equivalents are measured at fair value on initial recognition and subsequently at amortised cost, which in general equals the face value. Cash and cash equivalents also include cash and cash equivalents to which Alliander does not have free access. Amounts owed to credit institutions are recognised as interest-bearing debt.

Interest-bearing debt

Interest-bearing debt consists primarily of loans and is initially measured in the balance sheet at the fair value of the consideration receivable, less transaction costs. With the exception of derivatives, it is subsequently measured at amortised cost. Where the interest-bearing debt is hedged by means of a fair value hedging instrument, the amortised cost of the interest-bearing debt is adjusted

for the movement in fair value attributable to the hedged risk. These adjustments are recognised in the income statement.

Leases where Alliander acts as lessee

Finance leases

Alliander has concluded a number of leases. If substantially all risks and rewards incidental to ownership of the assets are transferred to Alliander, the lease is recognised as a finance lease. In that case, an asset and a liability are recognised equal to the lower of the fair value and the net present value of the related future lease obligations when the lease is entered into. The asset is depreciated over the shorter of the useful life of the asset and the term of the lease contract. Consequently, the lease instalments are treated as the repayment of principal and interest to the counterparty (lessor). The interest expenses reflect the effective interest on the investment made by the lessor.

The assets that Alliander holds under finance leases are classified under the item property, plant and equipment. The corresponding lease obligations are recognised as current and non-current liabilities, depending on whether the lease instalments are due within or after 12 months of the balance sheet date.

Operating leases

Operating leases are leases that are not classified as finance leases and where the risks and rewards incidental to ownership of the assets have not, or not substantially, been transferred to the lessee.

The cost of operating leases is recognised through the income statement.

Construction contributions, government and investment grants

Construction contributions

Construction contributions and payments received from customers, property developers and local and regional authorities for the costs incurred for the electricity and gas infrastructure of new housing projects and industrial estates are recognised as deferred income in the balance sheet. Deferred income is amortised over the expected useful lives of the assets involved. The amortisation is recognised through the income statement as other income.

Government subsidies and investment grants

Government subsidies and investment grants are recognised if there is reasonable certainty that the criteria for receiving the grant are or will be met, and that the grant will be received. Grants received for capital expenditure on property, plant and equipment are reported as deferred income in the balance sheet and are amortised over the expected useful lives of the assets involved through the income statement as other income.

Government grants and operating subsidies that do not relate to capital expenditure on property, plant and equipment or other non-current assets are taken to income when the associated costs are incurred.

Tax

Deferred tax assets and liabilities that arise from temporary differences between the carrying amount in the financial statements and the carrying amount for tax purposes are determined using the corporate income tax rates that are currently applicable or will be applicable, under current legislation, at the time of settlement of the deferred tax asset or liability. Deferred tax assets, arising, for example, from operating losses, are only recognised if it is probable that sufficient future taxable profits will be available. Deferred tax assets and liabilities are only set off if Alliander has a legal right to offset and the assets and liabilities relate to taxes that are levied by the same authority. Deferred tax assets and liabilities are measured at nominal value.

The corporate income tax charge is determined using the applicable rates for corporate income tax and are recognised at face value. Permanent differences between the results for tax purposes and financial reporting purposes and the ability to utilise tax losses carried forward are taken into account if deferred tax assets have not been recognised for these tax losses.

Provisions for employee benefits

Multi-employer plans

Alliander has a number of defined benefit plans and defined contribution plans for which contributions are generally paid to pension funds or insurance companies. The most significant pension plans have been transferred to the ABP and Metaal en Techniek pension funds. These plans can be characterised as multi-employer plans. Although the pension plans offered by these funds are, in fact, defined benefit plans both plans are treated as defined contribution plans as Alliander does not have access to the required information and its participation in the multi-employer plans exposes it to actuarial risks that relate to the present and former employees of other entities. The pension contributions paid during the financial year are accounted for as pension costs in the financial statements. Where there is a contractual agreement for a multi-employer plan that specifies how a surplus is distributed to the participants or a deficit is to be financed and where the plan is accounted for as a defined contribution plan, a receivable or a liability arising from the agreement is recognised in the balance sheet. The resulting gains or losses are recognised in the income statement. The pensions of the majority of Alliander's workforce are managed by the ABP pension fund and do not have such contractual agreements. As a result, no asset or liability has been recognised in the balance sheet.

Pensions and other post-employment benefits

Pensions and other post-employment benefits includes, amongst other things, the medical benefit scheme for retired employees. This scheme has not been transferred to an external insurance company or pension fund. The amount of the liability carried on the face of the balance sheet in respect of the medical and other post-employment benefits is made up of the net present value of the gross liability in respect of the defined medical benefit obligation plus or less actuarial gains and losses and less past-service costs not yet recognised as at balance sheet date. These components are computed actuarially.

The present value of the medical benefit obligation is determined using the projected unit credit method which takes into account the accrued entitlements at the balance sheet date and changes in the entitlements. The costs for the medical benefit scheme attributable to the year of service and the accretion of interest to the provision are recognised in employee benefits in the income statement.

Other long-term employee benefits

Other long-term employee benefits include plans, other than pension plans, in which payment does not occur within 12 months after the end of the period in which the employees render the related service. These plans consist of long-term sickness benefits, long-service benefits, payments on reaching retirement age and incapacity benefits for former employees, conditional bonuses and additional annual leave for older employees. These obligations have not been transferred to pension funds or insurance companies. The obligation for other long-term employee benefits in the balance sheet consists of the net present value of the vested benefits. If appropriate, estimates are made of future salary rises, employee turnover and similar factors. These factors form part of the calculation of the provision. Changes in the provision resulting from changes in actuarial assumptions and benefits are taken directly to the income statement. The service costs attributable to the year of service and the accretion of interest to the provision are recognised in employee benefits in the income statement.

Termination benefits/restructuring

Termination benefits are benefits resulting from a decision by Alliander to terminate the employment contract before the normal retirement date or the voluntary decision of an employee to agree to the termination of the employment contract. The nature and the amount of the termination benefits are laid down in the Social Plan. The Social Plan is renegotiated periodically. A provision is only recognised if Alliander has drawn up a detailed restructuring plan which has been approved and communicated and it is not probable that the plan will be withdrawn at a later date. The provision is measured at the fair value of the obligation. If the payment is expected to occur more than 12 months after the balance sheet date, the provision is stated at net present value.

Other provisions

Provisions are recognised when:
- there is a legal and/or constructive obligation at the balance sheet date arising from events that occurred before the balance sheet date;
- it can be reasonably assumed that an outflow of economic resources will be required to settle the obligation; and
- the obligation can be reliably estimated.

Provisions are measured at the nominal value of the amounts deemed necessary to settle the obligation, unless the time value of money is significant. In that case, the provision is stated at net present value. The accretion of interest is recognised as finance expense in the income statement.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost. Due to the usually short term of these liabilities, the fair value and amortised cost are generally equal to the face value.

Revenue recognition

Revenue is recognised at the fair value of the transaction in the period in which the supply of goods and services takes place. In addition, revenue is only recognised when the risks and rewards of ownership have been transferred to the customer, it is probable that the economic benefits will flow to Alliander and the proceeds can be measured reliably.

Revenue

This is made up of income from:
- regulated revenue, i.e. revenue from the transport of electricity and gas to customers, including fixed components, referred to as the capacity tariff. For the provision of these services in the retail market in the period from the final statement for the year up to the balance sheet date, estimates are made of revenue to be billed.
- free domain revenue such as for metering services, standing charges for gas and other connections, transformer rental charges and charges for the construction and maintenance of complex energy infrastructures.

Other income

Other operating income consists, amongst other things, of the following items:
- amortisation construction contributions, government and investment grants; for details, reference is made to the relevant accounting policies.
- results on the disposal of property, plant and equip-

ment, i.e. the balance of the net proceeds from the sale and the carrying amounts of the assets disposed of. Gains and losses on the disposal of assets are presented net.

Purchase costs and costs of sub-contracted work

This includes the costs of grid losses, including the expected effects of reconciliation, the costs of transport capacity and transport restrictions and the costs of compensation payments. It also includes the costs of raw materials, consumables and supplies used for the supply of goods and services and the cost of subcontracted work such as billing and payment collection and engagement of subcontractors.

Own work capitalised

This item includes the costs of Alliander staff incurred on capital expenditure projects.

Finance income

This item consists of the interest income on financial interest-bearing assets, i.e. loans, receivables, money market loans and deposits, measured using the effective interest method, and income from foreign currency results and movements in the fair value of interest rate derivatives.

Finance expense

This item consists of the following:

- interest expenses: this includes the interest expenses on interest-bearing liabilities, measured using the effective interest method. Interest-bearing liabilities consists of loans, liabilities under the Euro Medium Term Notes programme, subordinated and green loans and commercial paper. The costs of financing such as charges for letters of credit, commitment fees etc. are also reported under this item;
- Foreign exchange differences: foreign exchange differences arising from the translation of transactions denominated in foreign currencies, financial assets and liabilities and derivatives in foreign currencies, except for the results of cash flow hedges, which are initially recognised in equity;
- fair value movements of interest rate derivatives that are used as fair value hedges, and the corresponding adjustment of the amortised cost of hedged financial assets and liabilities for the movement in the value of the hedged risk; and
- results on terminating cross-border leases or other financing contracts.

Policies for the consolidated cash flow statement

The cash flow statement is prepared using the indirect method. The movement in cash and cash equivalents is derived from profit after tax according to the income statement. Exchange differences and all other movements not resulting in cash flows are eliminated. The financial consequences of the acquisition or sale of associates and subsidiaries are shown separately in the cash flow from investing activities. As a result, the cash flows presented are not reconcilable with the changes in the consolidated balance sheets.

The definition of cash and cash equivalents in the cash flow statement is the same as used in the balance sheet.

Available-for-sale assets and liabilities are disclosed in note [33].

NOTE 1 BUSINESS COMBINATIONS

General

On 1 July 2010 Alliander acquired all the shares of Endinet. Endinet has annual revenues of some € 110 million and more than 300 employees. In 2010, Endinet's principal activities concerned network management in the Eindhoven, Oost-Brabant and Haarlemmermeer regions. In combining its business with that of Endinet, Alliander has strengthened its position, not least in view of the proposed optimisation of the sector. The Endinet gas grid in the Haarlemmermeer region lies at the heart of the region currently served by Liander, enabling more efficient operations.
The takeover of Endinet is entirely in line with the strategic framework established by the Kist Committee (set up to look into the public ownership of energy companies). In the Kist Committee's view, a redistribution of areas served by grid managers is called for. The Committee recommends reducing the existing number of grid managers to be consolidated into between three and five companies with a logical regional coverage.

On 16 March 2010, Alliander acquired all the shares of Stam. Stam has annual revenues of some € 24 million and about 150 employees. The purchase price was paid out of free funds available.

The purchase price allocations are presented in the following statement.

Acquisition of Endinet and Stam			
€ million	Endinet Fair value as at 1 July 2010	Stam Fair value as at 16 March 2010	Total
Assets			
Property, plant & equipment, networks and connections	615	-	615
Other property, plant & equipment	23	1	24
Intangible assets	7	-	7
Trade receivables	15	4	19
Other receivables	10	2	12
Cash & cash equivalents	89	2	91
Total assets	**759**	**9**	**768**
Liabilities			
Deferred tax liabilities	47	-	47
Other provisions	4	-	4
Long-term interest-bearing debt	625	-	625
Long-term derivatives	41	-	41
Current derivatives	16	-	16
Trade payables	8	2	10
Other payables	14	3	17
Total liabilities	**755**	**5**	**760**
Net assets acquired	**4**	**4**	**8**
Purchase price			
Cash	136	11	147
Contingent consideration	-35	-	-35
Total purchase price	**101**	**11**	**112**
Less: net assets acquired	-4	-4	-8
Goodwill	**97**	**7**	**104**

Endinet

The total purchase price on 1 July 2010 was € 101 million, made up of a cash payment of € 136 million out of free funds available less a contingent consideration measured at € 35 million as at 1 July 2010. The allocation of this purchase price is presented in the above statement. It should be mentioned, incidentally, that it is possible for changes to occur in the above analysis for up to one year after the acquisition date (i.e. prior to 1 July 2011) in relation to the actual position as at 1 July 2010. The fair value of the contingent consideration has been calculated using the 'income approach', applying an interest rate of 5%. Regulatory developments have already led to an adjustment in the fair value of the receivable. The finalised amount of the price ultimately settled may differ materially from the calculated amount as at the date of acquisition and as at balance sheet date.

Elucidation

Acquired net assets (€ 4 million)

Of the acquired property, plant and equipment of Endinet, an amount of € 615 million relates to networks and connections, with € 23 million relating to other assets, mainly comprising electricity and gas meters and system hardware. The intangible assets, of € 7 million, relate to the rental of transformers. The deferred tax liabilities relate to the difference between the reported carrying amounts of the electricity and gas grids and the carrying amounts for tax purposes. The long-term interest-bearing debt was repaid by Alliander in July 2010, following the acquisition. The derivatives were intended to mitigate interest rate effects on the borrowings. These contracts were also cancelled in July 2010 (€ 57 million).

Goodwill (€ 97 million)

The goodwill, of € 97 million, relates partially to the expected synergistic effects and partially to the strengthening of Alliander's position in the sector as a whole – see

also note [4]. The goodwill is not expected to be tax-deductible.

Other
The total associated costs connected with the acquisition of Endinet amounted to € 7 million and were expensed in 2009 and 2010.

Over the period 1 July 2010 to 31 December 2010, Endinet generated revenues of € 64 million, with a net profit of € 12 million over the same period. If Endinet had been taken over with effect from 1 January 2010, Alliander's revenue for the whole of 2010 would have amounted to € 1,493 million, with a net profit of € 221 million.

Stam
The total purchase price on 16 March 2010 was € 11 million, made up entirely of a cash payment out of free funds available. The allocation of this purchase price is presented in the above statement.

Elucidation
Acquired net assets (€ 4 million)
The net assets include, among other things, work in progress (€ 1 million) and trade receivables (€ 4 million). The current liabilities mainly concern trade payables.

Goodwill (€ 7 million)
The goodwill of € 7 million, relates to the expected synergistic effects resulting from having ample field engineering capacity. The goodwill is not expected to be tax-deductible.

Other
The total associated costs connected with the acquisition of Stam amounted to € 0.2 million and were expensed in 2009 and 2010.

Stam's revenue over the period 16 March 2010 to 31 December 2010 amounted to € 19 million, with a net loss of € 0.1 million over the same period. If Stam had been taken over with effect from 1 January 2010, Alliander's revenue for the whole of 2010 would have amounted to € 1,433 million, with a net profit of € 222 million.

NOTE 2 SEGMENT INFORMATION

Segments
With effect from the 2010 financial year, Alliander applies IFRS 8 Operating Segments in the preparation of its financial statements. Alliander distinguishes the following reporting segments:
- Grid management Liander;
- Network company Endinet;
- Other.

This segmentation reflects the internal reporting structure, specifically the internal consolidated and segmented monthly reports, the annual plan and the business plan.

Grid manager Liander, accounting for more than 80% of the revenue, forms the largest company within the Alliander group and is responsible for providing gas and electricity connections and for transporting gas and electricity in Gelderland, Friesland, Noord-Holland, parts of Zuid-Holland and Flevoland.

Network company Endinet has essentially similar activities to Liander, in 2010 covering a service area extending to Haarlemmermeer, Eindhoven and Oost-Brabant[1]. Although, on the basis of quantitative criteria, Endinet does not qualify as a separate reporting segment, the Management Board, has decided that Endinet should nevertheless report as a separate segment for the following reasons:
- agreement has been made with the former shareholders of Endinet determining that Endinet B.V. should continue to exist as a separate grid manager within Alliander in any case until mid-2015;
- Endinet B.V. will continue to report separately as an independent grid manager to such authorities as the Office of Energy Regulation;
- a different geographical location.

The Other segment is largely made up of Liandon, Alliander AG, Stam and the corporate staff departments and service units. Liandon provides services relating to the construction and maintenance of complex energy infrastructures, on behalf of Liander as well as third parties. Alliander AG carries on grid management and public lighting activities in Germany. Stam is a medium-sized firm of contractors based in Noord-Holland, engaging in network construction and maintenance work. These activities are undertaken on behalf of third parties as well as on contract to Liander. The corporate staff departments and service units include the Shared Services and IM&ICT, which perform activities on behalf of Liander and Endinet among other units. All these activities can be combined into a single segment inasmuch as they do not satisfy the quantitative criteria in order to qualify separately as reporting segments.

1 With effect from 1 January 2011, Liander has integrated the activities of the Endinet's gas grid manager Haarlemmermeer B.V. into its existing operations. As a consequence, customers in he Municipality of Haarlemmermeer have since been dealing with grid manager Liander for both electricity and gas. The grid manager Endinet Oost-Brabant N.V. and Endinet Regio Eindhoven B.V. have been merged, with effect from 1 January 2011, to form Endinet B.V., with the name of the former parent company simultaneously being changed to Endinet Groep B.V.

Reporting

Alliander produces monthly management reports for the Management Board, with quarterly reports for the Supervisory Board as well. As regards both balance sheet and income statement, these reports use the same accounting policies and classification as the financial information contained in the financial statements. The Management Board assesses the performance of the business on the basis of these reports. The financial reports focus on the consolidated and segment information concerning operating expenses. The operating result is also included on a comparable basis, i.e. excluding incidental items and fair value movements. The operating result is total income less total expenses.

The overview on the primary segmentation is as follows.

Primary Segmentation

€ million	Grid management Liander		Network company Endinet		Other		Eliminations		Total		Reclassification reported and incidental items and fair value movements		Reported	
Income statement	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Revenue														
External revenue	1,305	1,349	64	-	156	223	-	-	1,525	1,572	-	178	1,525	1,750
Internal revenue	11	21	-	-	262	285	-273	-306	-	-	-	-	-	-
Total revenue	**1,316**	**1,370**	**64**	**-**	**418**	**508**	**-273**	**-306**	**1,525**	**1,572**	**-**	**178**	**1,525**	**1,750**
Operating expenses														
Purchase costs and costs of subcontracted work	526	480	9	-	142	171	-54	-48	623	603	-196	-196	427	407
Operating expenses	502	534	20	-	341	457	-219	-258	644	733	7	22	651	755
Depreciation	187	188	17	-	37	26	-	-	241	214	-	-	241	214
Own work capitalised	-241	-220	-1	-	-78	-93	-	-	-320	-313	196	196	-124	-117
Total operating expenses	**974**	**982**	**45**	**-**	**442**	**561**	**-273**	**-306**	**1,188**	**1,237**	**7**	**22**	**1,195**	**1,259**
Operating profit	**342**	**388**	**19**	**-**	**-24**	**-53**	**-**	**-**	**337**	**335**	**-7**	**156**	**330**	**491**
Net finance income and expenses	-48	-100	-5	-	-62	-32	-	-	-115	-132	7	4	-108	-128
Share in results of associates after tax	-	-	-	-	8	7	-	-	8	7	-	13	8	20
Tax	-76	-64	-2	-	22	14	-	-	-56	-50	48	-21	-8	-71
Profit after tax from continuing operations	**218**	**224**	**12**	**-**	**-56**	**-64**	**-**	**-**	**174**	**160**	**48**	**152**	**222**	**312**
Profit after tax from discontinued operations	-	-	-	-	-	226	-	-	-	226	-	-	-	226
Profit after tax	**218**	**224**	**12**	**-**	**-56**	**162**	**-**	**-**	**174**	**386**	**48**	**152**	**222**	**538**
Segment assets and liabilities														
Total assets	5,698	5,665	598	-	3,707	3,402	-2,603	-2,311	7,400	6,756	-	-	7,400	6,756
Non-consolidated investments in associates	-	-	-	-	38	32	-	-	38	32	-	-	38	32
Non-consolidated interests in joint ventures	-	-	-	-	19	18	-	-	19	18	-	-	19	18
Liabilities (non-current and current)	3,106	3,355	288	-	2,636	2,610	-1,536	-1,454	4,494	4,511	-	-	4,494	4,511
Other segment items														
Investments in property, plant and equipment	318	320	10	-	40	77	-	-	368	397	-	-	368	397
Number of permanent staff at year-end	3,103	2,950	301	-	1,912	1,683	-	-	5,316	4,633	-	-	5,316	4,633

The profit after tax for 2010 is attributable in its entirety to the shareholders. Since the result from discontinued operations reflects the unbundling with effect from 30 June 2009, the profit after tax for 2009 attributable to shareholders amounted to € 312 million (€ 538 million less € 226 million).

Elucidation

General

The results of Endinet have been included in the Alliander consolidation with effect from 1 July 2010. The results of Stam have been consolidated with effect from 16 March 2010. See note [1] for more details on these acquisitions. The external revenues of Liander and Endinet mainly comprise income from energy transport and connection services. In the Other segment, external revenues mainly derive from the services provided by Liandon and Stam and the income from grid management activities in Germany. The eliminations result from the internal services provided by corporate staff departments, service units (such as IM&ICT and Shared Services) and Stam to Liander and Endinet. These internal supplies are made at cost. The profits after tax from discontinued operations relate entirely to N.V. Nuon Energy. This company was unbundled from n.v. Nuon (now Alliander N.V.) on 30 June 2009.

Reclassification and incidental items

The reclassification affecting reported and incidental items concerns the reconciliation of the periodical management reports with the published financial reports. For external reporting, the amount of capitalised own production (€ 196 million in both 2010 and 2009) included in purchase costs and costs of raw materials and consumables is eliminated. A note on the incidental items can be found on page 56 of this report.

Segment assets

The amounts in the eliminations column against total assets mainly concern the eliminations of the investments in subsidiaries Liander and Endinet. The eliminations against the liabilities relate to the current-account positions between the subsidiaries and Alliander. Within the Alliander group, there are group financing arrangements, involving central administration of external accounts. All the subsidiaries maintain a current account with Alliander. There are no assets or equity and liabilities that are not allocated.

Geographical segmentation

The category Rest of the world relates entirely to the activities of Alliander AG in Germany (public lighting and grid management).

Geographical segmentation

€ million	External revenue		Property, plant and equipment		Intangible assets		Non-consolidated associates and joint ventures	
	2010	2009	2010	2009	2010	2009	2010	2009
Netherlands	1,484	1,696	5,376	4,613	320	209	57	50
Rest of the world	41	54	26	25	-	-	-	-
Total	**1,525**	**1,750**	**5,402**	**4,638**	**320**	**209**	**57**	**50**

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment							
€ million	Land and buildings	Power stations	Networks	Gas fields and platforms	Other plant and equipment	Assets under construction	Total
As at 1 January 2009							
Historical cost	304	1,245	7,737	342	1,611	943	12,182
Accumulated depreciation and impairment	-142	-521	-3,453	-57	-1,040	-	-5,213
Carrying amount as at 1 January 2009	**162**	**724**	**4,284**	**285**	**571**	**943**	**6,969**
Movements in 2009							
Investments	1	-	5	1	58	572	637
Deconsolidations	-64	-707	-246	-378	-386	-823	-2,604
Divestments	-	-	-22	-	-36	-13	-71
Depreciation	-6	-33	-153	-52	-69	-	-313
Transfers and other movements	21	16	257	144	71	-488	21
Total	**-48**	**-724**	**-159**	**-285**	**-362**	**-752**	**-2,330**
As at 31 December 2009							
Historical cost	212	-	7,557	-	779	191	8,739
Accumulated depreciation and impairment	-98	-	-3,432	-	-571	-	-4,101
Carrying amount as at 31 December 2009	**114**	**-**	**4,125**	**-**	**208**	**191**	**4,638**
Movements in 2010							
Investments	1	-	6	-	25	336	368
New consolidations	-	-	631	-	8	-	639
Divestments	-1	-	-10	-	-5	-1	-17
Depreciation	-6	-	-165	-	-53	-	-224
Transfers and other movements	15	-	280	-	40	-337	-2
Total	**9**	**-**	**742**	**-**	**15**	**-2**	**764**
As at 31 December 2010							
Historical cost	226	-	8,434	-	739	189	9,588
Accumulated depreciation and impairment	-103	-	-3,567	-	-516	-	-4,186
Carrying amount as at 31 December 2010	**123**	**-**	**4,867**	**-**	**223**	**189**	**5,402**

Capital expenditures

Capital expenditure on property, plant and equipment totalled € 368 million (2009: € 637 million). An amount of € 240 million of the capital expenditure in 2009 related to the production and supply company (N.V. Nuon Energy).

New consolidations

On 16 March 2010, Alliander acquired the shares of Stam, Heerhugowaard, and, on 1 July 2010, the shares of Endinet. See note [1].

Divestments

Divestments in 2010 related to decommissioning of network assets and other plant and equipment and sales of buildings and land.

Impairment

There were no impairments in 2010. In order to determine impairments, impairment tests were carried out on the assets concerned at year-end. In almost all cases, the asset's value in use was taken as the basis for determining the recoverable amount. The present value of projected future cash flows relating to the assets, based on the most recent business plans, was calculated and compared with the carrying amount. For calculating the value in use, Alliander uses discount rates that take into account the risk profile of the assets. In 2010, Alliander used a pre-tax discount rate of 7.9% (2009: 7.4%) for network activities and 8.5% (2009: 8.7%) for free domain activities. For more information, see note [4].

Cross-border lease transactions

In the period 1998 to 2000, subsidiaries of Alliander entered into US cross-border leases for networks, including LILO (lease-in lease-out) and SILO (sale-in lease-out) transactions. The seven transactions currently remaining relate to gas networks in the provinces of Friesland, Gelderland, Flevoland, Noord-Holland, Zuid-Holland, Noord-Brabant and Utrecht, district heating networks in Almere and Duiven/ Westervoort and the electricity network in the Randmeren region. The networks have been leased for a long period to US parties (head lease), which, in turn, have subleased the assets to the various Alliander subsidiaries (sublease). At the end of the sublease there is the option of purchasing the rights of the American counterparty under the head lease, thus ending the transaction. The terms agreed for the subleases expire between 2015 and 2028. The fees earned on the cross-border leases were recognised in the year in which the transaction in question was concluded. There are conditional and unconditional contractual rights and obligations relating to the cross-border leases. Security in the form of mortgages and pledges has been granted on parts of the networks within the framework of the obligations entered into. The total net carrying amount of the networks covered by cross-border leases at year-end 2010 was € 1.2 billion (2009: € 1.0 billion). At the end of 2010, a total of $ 3.8 billion (2009: $ 3.6 billion) was held on deposit with several financial institutions or invested in securities in connection with these transactions. Since no powers of disposal exist over the majority of the assets concerned and associated liabilities, they are not regarded as assets and liabilities of Alliander and the respective amounts are not recognised in the consolidated financial statements of Alliander. The assets over which Alliander does have powers of disposal are recognised as financial assets. The associated lease obligations are recognised in finance lease liabilities.

At the end of 2010 the maximum 'strip risk' (the portion of the 'termination value' – the possible compensation payable to the American counterparty in the event of early termination of the transaction – which cannot be settled from the deposits and investments held for this purpose) for all transactions together totalled $ 601 million (2009: $ 691 million). To cover the equity part of the strip risk, amounting to $ 465 million at the end of 2010 (2009: $ 518 million), Alliander has provided the investors involved with security in the form of letters of credit for an amount of $ 222 million (2009: $ 312 million) in various transactions. The number and size of the letters of credit to be issued depends partly on Alliander's credit rating. In the context of some of the letter of credit facilities, a pledge totalling $ 42 million was established in favour of the banks concerned on the cash deposits held at those banks at the end of 2009. The pledges on these cash deposits expired at the end of June 2010.

In connection with the implementation of the Independent Network Operation Act, the heating networks belonging to N.V. Nuon Infra Oost that had been covered by a cross-border lease were subleased in mid-2008 to N.V. Nuon Warmte, part of N.V. Nuon Energy. This operating lease has a term of 12.5 years (term runs to 31 December 2020). The total carrying amount of the subleased heating networks and associated meters as at 31 December 2010 was € 117 million (2009: € 110 million).

NOTE 4 INTANGIBLE ASSETS

Intangible assets

€ million	Goodwill	Exploration & evaluation assets	Other intangible assets	Total
As at 1 January 2009				
Historical cost	421	74	60	555
Accumulated amortisation and impairment	-29	-	-26	-55
Carrying amount as at 1 January 2009	**392**	**74**	**34**	**500**
Movements in 2009				
Investments	-	5	2	7
Divestments	-	-	-1	-1
Deconsolidations	-176	-76	-39	-291
Impairment	-7	-	-	-7
Transfers and other movements	-	-3	4	1
Total	**-183**	**-74**	**-34**	**-291**
As at 31 December 2009				
Historical cost	396	-	-	396
Accumulated amortisation and impairment	-187	-	-	-187
Carrying amount as at 31 December 2009	**209**	**-**	**-**	**209**
Movements in 2010				
Investments	104	-	-	104
New consolidations	-	-	7	7
Total	**104**	**-**	**7**	**111**
As at 31 December 2010				
Historical cost	500	-	7	507
Accumulated amortisation and impairment	-187	-	-	-187
Carrying amount as at 31 December 2010	**313**	**-**	**7**	**320**

The investments in 2010 relate to the acquisitions of Endinet (€ 97 million) and Stam (€ 7 million). For full details, reference is made to note [1]. The € 7 million shown against new consolidations relates to lease contracts for transformers obtained with the acquisition of Endinet. These assets are being amortised on a straight-line basis over 20 years.

The goodwill relates to the following segments:

Goodwill allocation by segment

€ million	2010	2009
Liander	277	209
Endinet	36	-
Total	**313**	**209**

Of the total amount of goodwill allocated to Liander, € 209 million (2009: € 209 million) relates to electricity and gas networks and dates from the contribution of the networks when n.v. Nuon was created in 1999. The remaining € 68 million is made up of € 61 million relating to the acquisition of Endinet and € 7 million relating to Stam. The goodwill allocated to Endinet (€ 36 million) mainly relates to synergy and outperformance effects.

At the end of 2010, the value of the networks, including the value of the associated goodwill, was tested for impairment. The value in use was taken as the basis for this calculation. The value in use was measured on the basis of the most recent business plans, using a pre-tax discount rate of 7.9% (2009: 7.4%). The main assumptions on which these business plans are based are the number of connections, the most recent tariff estimates and estimates of operating expenses and other costs. To a large extent, these assumptions are based on past experience, coupled with the latest information on tariff regulation. The business plans cover a period of four years and the terminal value is calculated using the projected cash flows at the end of that period. A zero growth rate has been applied. There is such a margin between the value in use and the carrying amount of the grids that the sensitivity to changes in the estimates and assumptions used is limited. There were no impairments in 2010. In 2009 impairment of goodwill amounting to € 7 million was recognised in relation to the production and supply company.

NOTE 5 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures

€ million	Associates		Joint ventures		Total	
	2010	2009	2010	2009	2010	2009
Carrying amount as at 1 January	**32**	**37**	**18**	**103**	**50**	**140**
Movements						
Investments	2	-	-	18	2	18
New consolidations	1	-	-	-	1	-
Deconsolidations	-	-20	-	-82	-	-102
Share in results	3	20	5	-	8	20
Dividends received	-1	-9	-4	-17	-5	-26
Currency translation differences and other movements	1	4	-	-4	1	-
Total	**6**	**-5**	**1**	**-85**	**7**	**-90**
Carrying amount as at 31 December	**38**	**32**	**19**	**18**	**57**	**50**

The investment under the heading joint ventures in 2009, amounting to € 18 million, relates to the newly established company Ziut B.V. In view of the actual control exercised, Ziut B.V. is classified as an investment in a joint venture. The deconsolidations in 2009 relate to the unbundling of N.V. Nuon Energy. The share in results for 2010 is based on provisional figures. Dividends of € 5 million were received from associates and joint ventures in 2010 (2009: € 26 million).

Financial information of investments in associates						
€ million	% Interest held	Assets	Liabilities	Revenue	Profit / loss	Carrying amount
2009						
N.V. KEMA, Netherlands	25%	211	86	256	66	32
Carrying amount as at 31 December 2009						**32**
2010						
N.V. KEMA, Netherlands	25%	n/a	n/a	n/a	n/a	34
Other						4
Carrying amount as at 31 December 2010						**38**

Financial information of investments in joint ventures								
€ million	% Interest held	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Expenses	Carrying amount
2009								
Ziut B.V., Netherlands	53%	7	70	6	46	20	19	18
Carrying amount as at 31 December 2009								**18**
2010								
Ziut B.V., Netherlands	53%	n/a	n/a	n/a	n/a	n/a	n/a	19
Carrying amount as at 31 December 2010								**19**

NOTE 6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets	
€ million	
Carrying amount as at 1 January 2009	**243**
Movements in 2009	
Currency translation differences and other movements	-3
Total	**-3**
Carrying amount as at 31 December 2009	**240**
Movements in 2010	
Currency translation differences and other movements	21
Total	**21**
Carrying amount as at 31 December 2010	**261**

Available-for-sale financial assets comprises investments in debt securities issued by financial institutions which partly serve to cover obligations arising from two cross-border lease contracts. Part of the investment portfolio relating to the cross-border lease contracts consists of a written credit default swap (CDS). This instrument is an embedded derivative that is recognised separately in derivatives in the balance sheet and measured at fair value (see note 8). At year-end 2010, the fair value was € 95 million negative (2009: € 105 million negative).

The part of the available-for-sale financial assets related to the cross-border lease contracts had a carrying amount as at year-end 2010 of € 138 million (2009: € 124 million) and serves both to cover related lease obligations as well as the aforementioned CDS. The carrying amount of the related lease obligations was € 128 million at year-end 2010 (2009: € 120 million). The carrying amount of the investments not related to cross-border lease contracts as at year-end 2010 was € 123 million (2009: € 116 million).

NOTE 7 OTHER FINANCIAL ASSETS (INCLUDING CURRENT PORTION)

Other financial assets			
€ million	Loans, receivables and other	Finance lease receivables	Total
Carrying amount as at 1 January 2009	**29**	**4**	**33**
Effective interest rate 2009	1%		
Movements in 2009			
Loans granted	305	-	305
Loans and interest repaid	-13	-	-13
Deconsolidations	-22	-	-22
Currency translation differences and other movements	9	-4	5
Total	**279**	**-4**	**275**
Carrying amount as at 31 December 2009	**308**	**-**	**308**
Effective interest rate 2010	1%		
Movements in 2010			
New receivable	35	-	35
Loans granted	802	-	802
Loans and interest repaid	-976	-	-976
Impairment	-6	-	-6
Other movements	2	-	2
Total	**-143**	**-**	**-143**
Carrying amount as at 31 December 2010	**165**	**-**	**165**
Non-current portion of other financial assets	**40**	**-**	**40**
Current portion of other financial assets	**125**	**-**	**125**

At the end of 2010, the carrying amount of the other financial assets comprised receivables, loans and capitalised costs denominated in euros (2009: ditto). The other movements included capitalised costs connected with credit facilities relating to Alliander. The costs are being amortised over the term of the credit facility (matures in March 2015). The loans granted and repaid in 2009 and 2010 comprised short-term deposits and investments for financing purposes. Deconsolidations in 2009 relates to the unbundling of N.V. Nuon Energy on 30 June 2009.

NOTE 8 DERIVATIVES

Derivatives						
€ million	Current assets		Current liabilities		Non-current liabilities	
	2010	2009	2010	2009	2010	2009
Trading derivatives						
Other derivatives	-	-	-	-	95	105
Total	**-**	**-**	**-**	**-**	**95**	**105**
Cash flow hedges						
Foreign exchange contracts	1	-	-	4	-	-
Interest instruments	-	11	7	-	-	-
Total	**1**	**11**	**7**	**4**	**-**	**-**
Carrying amount as at 31 December	**1**	**11**	**7**	**4**	**95**	**105**

Derivatives are recognised at fair value. Derivatives held for trading include a CDS in non-current liabilities, which is part of the investments in financial assets. The CDS is an embedded derivative recognised separately in the balance sheet and measured at fair value. The carrying amount as at 31 December 2010 was € 95 million (2009: € 105 million). Endinet's balance sheet as at 1 July 2010 contained an interest rate derivative carried at € 57 million. This contract was settled by Alliander in July 2010.

NOTE 9 INVENTORIES

Inventories		
€ million	2010	2009
Raw materials and consumables	27	23
Finished goods	-	1
Carrying amount as at 31 December	**27**	**24**

In 2010, there were no depreciations on inventories (2009:ditto).

NOTE 10 TRADE AND OTHER RECEIVABLES

Trade and other receivables		
€ million	2010	2009
Trade receivables	170	218
Impairment of trade receivables	-23	-25
Trade receivables net	**147**	**193**
Other receivables	39	55
Accrued income and prepayments	93	90
Carrying amount as at 31 December	**279**	**338**

At the end of 2010, impairments of trade receivables totalled € 23 million (2009: € 25 million). The impairment loss on trade receivables recognised in the income statement in 2010 amounted to € 7 million (2009: € 9 million). For further information, see the credit risk section of note [34].

NOTE 11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents		
€ million	2010	2009
Cash held at banks	5	37
Deposits	496	414
Carrying amount as at 31 December	**501**	**451**

The effective interest rate on cash and cash equivalents ranged from 0.54% to 1.49% (2009: 0.02% to 0.17%). Cash and cash equivalents are held almost entirely in euros. In 2010, there were no amounts of cash and deposits which were not at the unrestricted disposal of Alliander (2009: € 29 million). In connection with a letter of credit facility issued for cross-border lease transactions, a pledge has been established in favour of the bank concerned on cash deposits held at that bank totalling € 29 million ($ 42 million) as at 31 December 2009. At the end of June 2010, the pledges on these cash deposits expired.

NOTE 12 EQUITY

Authorised share capital

The authorised share capital of the company is divided into 350 million shares each having a nominal value of € 5. At year-end 2010, 136,794,964 shares had been issued (2008: 136,794,964).

Subordinated perpetual bond loan

On 4 November 2010, Alliander issued a subordinated perpetual bond with a nominal amount of € 500 million and a coupon of 4.875% at an issue price of 99.495%, raising an amount of € 498 million. The directly attributable costs of € 4 million were deducted from this amount, so that € 494 million was added to equity. This subordinated perpetual bond is treated as equity. Alliander does not have any contractual obligation to repay the loan. Any periodical payments on the loan are conditional and depend on payments to shareholders. On passage of a resolution of payment to shareholders in the period up to six months prior to the coupon date of 24 June 2011, the Management Board will pay coupon interest for the period from 11 November 2010 to 23 June 2011, inclusive, to the holders of the subordinated perpetual bond loan, chargeable to other reserves. This represents an amount of € 15 million.

Hedge reserve

Alliander uses cash flow hedging, involving both interest rate swaps and currency hedges. Further information can be found in the notes on risks and financial instruments.

Revaluation reserve

The revaluation reserve is connected with the available-for-sale financial assets. Movements in the fair value of the available-for-sale financial assets are accounted for in equity.

The hedge reserve, the revaluation reserve and the subordinated perpetual bond loan are not freely distributable.

NOTE 13 INTEREST-BEARING DEBT

Interest-bearing debt		
€ million	2010	2009
Carrying amount as at 1 January	**2,218**	**1,207**
Movements		
New loans	24	1,615
New consolidations	625	-
Loans repaid	-689	-435
Deconsolidations	-	-175
Currency translation differences and other movements	6	13
Total	**-34**	**1,018**
Carrying amount as at 31 December	**2,184**	**2,225**

The € 3 billion Euro Medium Term Note (EMTN) programme and the € 1.5 billion Euro Commercial Paper (ECP) programme were renewed in 2010 and the issuing company was simultaneously changed from Alliander Finance B.V. to Alliander N.V. This means that future issues under these programmes will be made in the name of Alliander. As at year-end 2010, Alliander had € 2 billion outstanding under the EMTN programme (2009: € 2 billion). These debt instruments are quoted on the Amsterdam and Luxembourg stock exchanges. There was no ECP outstanding at the end of 2010 (2009: nil).

The new loans in 2009 include the issue of bonds under the EMTN programme. New consolidations in 2010 relates to the acquisition of Endinet. These loans on Endinet's balance sheet as at 1 July 2010 were repaid in July 2010. Deconsolidations in 2009 relates to N.V. Nuon Energy.

The carrying amount of the long-term interest-bearing debt, including the current portion, was as follows:

Short- and long-term interest-bearing debt

€ million	Effective interest rate		Current portion		Non-current portion	
	2010	2009	2010	2009	2010	2009
Subordinated loans	8.6%	7.8%	2	65	102	104
Private and green loans	1.9%	7.8%	27	1	3	6
Euro Medium Term Notes	4.8%	4.7%	-	-	2,037	2,034
Banks	8.2%	8.2%	-	-	2	2
Other			3	7	8	6
Carrying amount as at 31 December			**32**	**73**	**2,152**	**2,152**

Short-term interest-bearing debt of € 32 million as at 31 December 2010 (2009: € 73 million) comprised the current portion of the long-term debts plus liabilities in respect of employee schemes (mainly deposit schemes).

Subordinated loans

These loans carry interest at rates of 8% to 10%. These loans are subordinated to the other liabilities.

Maturities of interest-bearing debt

€ million	2010	2009
Less than 1 year	32	73
Between 1 and 2 years	503	7
Between 2 and 3 years	4	507
Between 3 and 4 years	502	6
Between 4 and 5 years	4	507
Over 5 years	1,139	1,125
Carrying amount as at 31 December	**2,184**	**2,225**

NOTE 14 DEFERRED INCOME

Deferred income

€ million	2010	2009
Carrying amount as at 1 January	**1,436**	**1,524**
Contributions received	87	114
Amortisation recognised as income	-41	-43
Deconsolidations	-	-150
Reclassification and other movements	-8	-9
Carrying amount as at 31 December	**1,474**	**1,436**

Deferred income relates to construction contributions, investment grants and subsidies received. The amortisation periods of the construction contributions, investment grants and subsidies are equal to the depreciation periods of the underlying assets (ranging from 10 to 50 years).

NOTE 15 PROVISIONS FOR EMPLOYEE BENEFITS

Provisions for employee benefits

€ million	Current portion		Non-current portion		Total	
	2010	2009	2010	2009	2010	2009
Long-term employee benefits						
Post-employment benefits	2	2	7	9	9	11
Other long-term employee benefits	9	11	43	43	52	54
Termination benefits	1	2	13	8	14	10
	12	15	63	60	75	75
Short-term employee benefits						
Short-term employee benefits	44	37	-	-	44	37
Carrying amount as at 31 December	**56**	**52**	**63**	**60**	**119**	**112**

Alliander has various pension and similar plans for its current and former employees. The majority of the pension obligations have been transferred to the pension funds Pensioenfonds ABP and Pensioenfonds Metaal en Techniek. In addition to these two main pension plans, Alliander has other defined benefit and defined contribution plans that are not significant in size. The ABP and Metaal en Techniek plans can be characterised as multi-employer plans. The pension benefits offered by these funds are in fact defined benefit plans. A proportionate part of the gross obligation, plan assets and costs associated with the plans should be recognised in Alliander's financial statements. However, as Alliander does not have access to the required information, both pension plans are treated as defined contribution plans. Where there is a contractual agreement for a multi-employer plan that specifies how a surplus is distributed to the participants or a deficit is to be financed and where the plan is accounted for as a defined contribution plan, an asset or a liability arising from the agreement is recognised in the balance sheet. The resulting gains or losses are recognised in the income statement. The pension plans managed by the ABP and Metaal en Techniek pension funds do not contain such contractual agreements. As a result, no asset or liability has been recognised in the balance sheet.

Post-employment benefits

The post-employment benefits mainly consist of the medical benefits scheme for retired employees. This scheme has not been transferred to an external insurance company or pension fund. The provision post-employment benefits totalled € 9 million at the end of 2010 (2009: € 11 million). The provision for post-employment benefits was as follows:

Post-employment benefits

€ million	Current portion		Non-current portion		Total	
	2010	2009	2010	2009	2010	2009
Actuarial value of post-employment healthcare insurance	2	2	7	9	9	11
Actuarial value of obligations as at 31 December	**2**	**2**	**7**	**9**	**9**	**11**

Other long-term employee benefits

Alliander has a number of other long-term employee benefits. The provision covers the following types of benefit:

- long-service benefits; this provision covers the jubilee benefits paid to employees after 10, 20, 30 and 40 years of service and the payment on reaching retirement age;
- long-term sickness benefits; this benefit covers the obligation to continue paying all or part of an employee's salary during the first two years of sick leave;
- incapacity benefits; Alliander is the risk-bearer within the meaning of the Work, Income and Ability to work Act (WIA); this provision covers the obligation to Alliander employees who have become entirely or partially disabled;
- unemployment benefits; Alliander is the risk-bearer within the meaning of the Unemployment Act (WW); if an Alliander employee becomes unemployed, the

unemployment benefit received is borne by Alliander for a period of between six months and five years, depending on the employee's employment history;
- reduction of working hours of older employees; in the light of legislation on early retirement, a transitional scheme was agreed in the 2005 Collective Labour Agreement under which older employees could reduce their working hours in the future.

The table below shows the composition of other long-term employee benefits.

Other long-term employee benefits

€ million	Current portion		Non-current portion		Total	
	2010	2009	2010	2009	2010	2009
Long-service benefits	2	2	23	21	25	23
Long-term sickness leave and incapacity benefits	2	3	2	2	4	5
Unemployment benefits	-	1	1	-	1	1
Reduction of older employees' working hours	5	5	16	19	21	24
Other	-	-	1	1	1	1
Carrying amount as at 31 December	**9**	**11**	**43**	**43**	**52**	**54**

In the 2009 figures, under the non-current heading, an amount of € 8 million was reclassified from other to long-service benefits. The decrease in the provision for reduction of older employees' working hours follows the implementation of the Personal Budget Terms of Employment provided for in the CLA.

Termination benefits/restructuring provision

This provision covers payments and/or supplements to benefits paid to employees whose employment contract has been or will be terminated. These benefits and supplements are based on the Social Plan operated by Alliander and individual arrangements. The Social Plan is periodically renegotiated and ratified as part of the Collective Labour Agreement negotiations. In 2010, an amount of € 8 million was added to the restructuring provision (2009: € 9 million). The provision for termination benefits totalled € 14 million at the end of 2010 (2009: € 10 million).

Movements in provisions for long-term employee benefits

The table below shows the movements in the provisions for post-employment benefits, other long-term employee benefits and the termination benefits/restructuring provision.

Movements in provisions for employee benefits

€ million	Post-employment benefits	Other long-term employee benefits	Termination/ reorganisation benefits	Total
Carrying amount as at 1 January 2009	**13**	**99**	**23**	**135**
Movements in 2009				
Released	-	-10	-	-10
Added	-	25	9	34
Interest expense	2	2	1	5
Benefits paid	-4	-15	-17	-36
Actuarial gains and losses recognised immediately	-	-1	-	-1
Deconsolidations	-	-46	-6	-52
Total	**-2**	**-45**	**-13**	**-60**
Carrying amount as at 31 December 2009	**11**	**54**	**10**	**75**
Movements in 2010				
Released	-1	-5	-	-6
Added	-	8	8	16
Interest expense	-	1	-	1
Benefits paid	-1	-12	-4	-17
Actuarial gains and losses recognised immediately	-	3	-	3
Deconsolidations	-	3	-	3
Total	**-2**	**-2**	**4**	**-**
Carrying amount as at 31 December 2010	**9**	**52**	**14**	**75**

The main assumptions used in determining the provisions are given below:

Assumptions	2010	2009
Mortality tables	GBM/GBV 00-05	GBM/GBV 00-05
Discount rates	1.42%-4.19%	2.28%-5.21%
Expected future salary increases	2.5%	2.5%
Expected increase in incapacity benefits	2.5%	2.5%

Short-term employee benefits

Short-term employee benefits were € 44 million at the end of 2010 (2009: € 37 million) and relate to all obligations to employees, other than termination benefits, that are expected to be settled within 12 months after the balance sheet date. Short-term employee benefits include salaries still to be paid, accrued holiday entitlement, bonuses and other staff costs still to be paid.

NOTE 16 OTHER PROVISIONS

Other provisions € million	Environmental restoration	Dismantling	Onerous contracts	Other provisions	Total
Carrying amount as at 1 January 2009	**27**	**60**	**28**	**60**	**175**
Movements in 2009					
Added	-	-	10	41	51
Deconsolidations	-9	-61	-26	-55	-151
Utilised	-3	-1	-	-26	-30
Released	-	-	-	-1	-1
Interest accretion	-	2	-	-	2
Other movements	-	-	-4	2	-2
Total	**-12**	**-60**	**-20**	**-39**	**-131**
Carrying amount as at 31 December 2009	**15**	**-**	**8**	**21**	**44**
Movements in 2010					
Added	-	-	1	22	23
Utilised	-	-	-1	-3	-4
Reclassified to current liabilities	-4	-	-	-	-4
Released	-	-	-7	-	-7
Total	**-4**	**-**	**-7**	**19**	**8**
Carrying amount as at 31 December 2010	**11**	**-**	**1**	**40**	**52**

The provision for environmental restoration costs relates to expected obligations with regard to soil pollution. Other provisions also include the provision in respect of the credit default swap and the provision for the Step-to-Work programme as well as specific provisions for various claims and litigation.

NOTE 17 DEFERRED TAX

Deferred tax assets were as follows:

Deferred tax assets		
€ million	2010	2009
Differences in valuation of property, plant and equipment	323	455
Tax losses carried forward	32	-
Hedge reserves	1	3
Other differences	12	29
Carrying amount as at 31 December	**368**	**487**

Other includes, among other things, differences in the reported amounts of derivatives and provisions and the accounting treatment for tax purposes.

Gross movement in deferred tax assets					
€ million	Property, plant and equipment	Tax losses carried forward	Hedges	Other	Total
Carrying amount as at 1 January 2009	**578**	**18**	**3**	**44**	**643**
Movements in 2009					
Realised temporary differences	-19	-	-	-	-19
Deconsolidations	-104	-18	-	-18	-140
Additions	-	-	-	3	3
Total	**-123**	**-18**	**-**	**-15**	**-156**
Carrying amount as at 31 December 2009	**455**	**-**	**3**	**29**	**487**
Movements in 2010					
Direct equity movements in hedge reserve	-	-	-1	-	-1
Realised temporary differences	-121	-	-1	-31	-153
Effect of adjustment in forecast results	55	-	-	-	55
Change in corporate income tax rate	-7	-	-	-	-7
Subtotal	**-73**	**-**	**-2**	**-31**	**-106**
New consolidations	-59	-	-	14	-45
Tax losses carried forward	-	32	-	-	32
Total	**-132**	**32**	**-2**	**-17**	**-119**
Carrying amount as at 31 December 2010	**323**	**32**	**1**	**12**	**368**

The deferred tax assets of € 323 million in respect of property, plant and equipment (2009: € 455 million) are the result of differences between the carrying amounts in the financial statements and the tax base agreed with the tax authorities as at 1 January 1998, the year in which Alliander became liable to corporate income tax. The carrying amounts of the property, plant and equipment agreed with the tax authorities as at 1 January 1998 have depreciation periods extending up to 2030 ultimately. New consolidations relates to Endinet. Endinet became part of the Alliander tax group on the date of acquisition, 1 July 2010, and Endinet's net deferred tax liability was netted off with the existing deferred tax assets with effect from that date. The increased amount of the realised temporary differences in 2010 compared with 2009 mainly resulted from the application of the special fiscal allowance rules in 2010, applied retroactively to 2009, coupled with the fiscal valuation of balance sheet items for the years up to and including 2008 as agreed with the tax authorities in 2010. Deferred tax assets were also realised by Endinet in the second half of 2010. The tax loss carryforward in 2010 stems partly from the special fiscal allowance rules, which permit investments to be written off in two years for tax purposes. In 2011, no sufficient taxable profits are expected to be able to utilise the tax loss and it has therefore been recognised as a deferred tax asset. The change in the corporate income tax rate relates to the reduction in the tax rate for 2011 from

25.5% to 25%. This results in a decrease of € 7 million in the amount of the deferred tax assets.

The deferred tax liabilities as at year-end 2010, amounting to € 1 million (2009: € 2 million), relate to differences between the carrying amounts of property, plant and equipment for reporting purposes and for tax purposes at Alliander AG. The gross change in the provision for deferred tax liabilities is as follows:

Gross movement in the deferred tax liabilities

€ million	Exploration and production	Derivatives	VAMIL	Other	Total
Carrying amount as at 1 January 2009	**288**	**204**	**2**	**8**	**502**
Movements in 2009					
Realised temporary differences	-49	-	-	-	-49
Deconsolidations	-239	-204	-2	-6	-451
Total	**-288**	**-204**	**-2**	**-6**	**-500**
Carrying amount as at 31 December 2009	**-**	**-**	**-**	**2**	**2**
Movements in 2010					
Realised temporary differences	-	-	-	-1	-1
Total	**-**	**-**	**-**	**-1**	**-1**
Carrying amount as at 31 December 2010	**-**	**-**	**-**	**1**	**1**

Unrecognised deferred tax assets

Unrecognised deferred tax assets as at year-end 2010, amounting to € 71 million (2009: € 128 million), relate to temporary differences in the amounts of balance sheet items, mainly concerning property, plant and equipment resulting from the agreement with the Dutch tax authorities of the carrying amounts of the property, plant and equipment as at 1 January 1998, which have depreciation periods extending up to 2030 in the maximum case. The decrease in the unrecognised deferred tax assets compared with 2009 results from an adjustment in the projected results in the long term, allowing the deferred tax assets to increase by € 55 million recognised through profit and loss. In addition, the reduction in the rate of corporate income tax to 25% as from 2011 has the effect of reducing the amount of the unrecognised deferred tax assets as at year-end 2010.

NOTE 18 TRADE AND OTHER PAYABLES

Trade and other payables

€ million	2010	2009
Trade payables	22	36
Amounts owed to construction contract customers	18	33
Other payables	59	64
Carrying amount as at 31 December	**99**	**133**

NOTE 19 LEASES

Finance lease receivables

At year-end 2010 and 2009, Alliander had no receivables from finance leases.

Operating lease receivables

The total future minimum lease receivings from non-cancellable operating leases not shown on the face of the balance sheet is as follows:

Operating lease receivables

€ million	2010	2009
Less than 1 year	28	28
Between 1 and 5 years	107	107
Over 5 years	100	106
Total	**235**	**241**

At 31 December 2010, the operating leases related mainly to rental of transformers and the subleasing of two district heating grids to N.V. Nuon Warmte, part of N.V. Nuon Energy.

Lease payables

Finance lease payables

€ million	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2009				
Future minimum lease obligations	10	32	229	271
Future finance expense on finance leases	-9	-35	-107	-151
Present value of finance lease obligations	**1**	**-3**	**122**	**120**
As at 31 December 2010				
Future minimum lease obligations	9	35	237	281
Future finance expense on finance leases	-9	-38	-106	-153
Present value of finance lease obligations	**-**	**-3**	**131**	**128**

Finance lease payables at year-end 2010 and year-end 2009 mainly related to an obligation in respect of two cross-border lease transactions.

The total future minimum lease obligations from operating leases were as follows:

Operating lease payables

€ million	2010	2009
Less than 1 year	19	19
Between 1 and 5 years	39	44
Over 5 years	1	1
Total	**59**	**64**

Alliander has operating lease payables in respect of buildings, company cars and IT equipment.

NOTE 20 CONTINGENT ASSETS AND LIABILITIES

Rights and obligations arising from operating leases

Please refer to Note [19] to the consolidated financial statements for details of rights and obligations arising from operating leases.

Capital expenditure commitments

The outstanding capital expenditure commitments and other purchasing commitments at the end of the year were as follows:

Capital expenditure and other purchasing commitments		
€ million	2010	2009
Capital expenditure commitments regarding property, plant and equipment	56	35
Other purchasing commitments	261	259
Total	**317**	**294**

Contingent liabilities

Alliander was involved in a number of lawsuits on the balance sheet date, connected with normal business operations. Provisions have been recognised as necessary. Bank guarantees amounting to € 10 million had been issued on Alliander's behalf as at year-end 2010 (2009: € 10 million). As at year-end 2010, Alliander had also given guarantees totalling € 19 million relating to employees' mortgages (2009: € 20 million).

There were outstanding letters of credit totalling $ 222 million at the balance sheet date (2009: $ 312 million) in respect of cross-border lease obligations. For further information on cross-border leases, see note [3].

Alliander has taken out liability insurance in the form of a Directors and Officers policy covering the members of the Supervisory Board, the members of the Management Board, the operating company managers and other directors within the Alliander group. In addition to the cover provided by this liability insurance, the members of the Supervisory Board are also legally indemnified. As far as possible, the members of the Supervisory Board are also indemnified by Alliander subject to specific conditions and with strict limitations in respect of costs connected with legal proceedings brought under civil, penal or administrative law in which they become involved by virtue of their membership of the Supervisory Board.

Alliander, together with its Dutch subsidiaries, forms a tax group for both corporate income tax and value added tax (VAT). Consequently, every legal entity forming part of the tax group bears joint and several liability for the tax liabilities of the legal entities included in the tax group. Alliander has also given a declaration of indemnity to its grid managers under which their liability in this respect is restricted to the amount for which they themselves would be liable if a tax group did not exist.

Convertible subordinated loans were contracted with the shareholders of Alliander in the past and relate to guarantees given on the sale of non-strategic interests. On expiry of these guarantees, the loans were released to income and shares in Alliander were issued in 2006. A number of guarantees are, however, for an indefinite period; in the event that there are any subsequent claims on guarantees in the future, the shareholders concerned have a duty to surrender all or part of their shares.

In 2006, following the declaration of the nullity of a claim, a guarantee provision for the sale of associates was released to income and additional shares in Alliander were issued in 2007. The guarantees which have been given are for an indefinite period. It is therefore still possible for claims to be made on these guarantees in the future. Alliander can again also require the shareholders to surrender some or all of their shares.

The costs associated with the unbundling and relating to, among other things, the separation of central service units, the separation of existing and implementation of new ICT systems, dissynergies and external advisory fees may not be passed on in the tariffs which are subject to official regulation.

NOTE 21 REVENUE

Revenue		
€ million	2010	2009
Electricity transport and connection services	791	807
Gas transport and connection services	315	284
Metering services	152	140
Operating contribtions and proceeds from transformer rental	174	210
Other	-	5
Total	**1,432**	**1,446**

Revenue was down by € 14 million (1%) in 2010, at € 1,432 million, mainly due to the effect of lower tariffs (€ 28 million), the deconsolidation of Liandyn (€ 63 million) and mitigated by the consolidation of revenue from Endinet and Stam (€ 83 million).

NOTE 22 OTHER INCOME

Other income		
€ million	2010	2009
Amortisation of construction contributions	41	39
Sale of high-voltage grids and Liandyn shares	-	178
Other income	52	87
Total	**93**	**304**

Other income was € 211 million lower than in 2009, at € 93 million. Much of this decrease was the effect of the book profit of € $ 168 million before tax on the sale of high-voltage grids to TenneT and the € 10 million book profit on the sale of Liandyn in 2009, coupled with lower other operating income for services to N.V. Nuon Energy.

NOTE 23 PURCHASE COSTS AND COSTS OF SUBCONTRACTED WORK

Purchase costs and costs of subcontracted work		
€ million	2010	2009
Grid losses	103	121
Transport capacity and restrictions	135	98
Billing and payment collection	39	44
Contractors, materials and other	150	144
Total	**427**	**407**

The increase of € 20 million was mainly due to higher purchase costs for transport capacity and the effect of transport restrictions following the sale of the high-voltage-grids to TenneT, compounded with scheduled increases in the costs for transporting energy. Offsetting this was a decrease in the cost of grid losses.

NOTE 24 EMPLOYEE BENEFIT EXPENSES

Employee benefits				
€ million	2010		2009	
Salaries		273		273
Social security contributions		26		24
Pension costs:				
- contributions paid to multi-employer plans that are accounted for as defined-contribution plans	33		30	
- other post-employment benefit expenses	-1		2	
		32		32
Termination benefit expenses	8		5	
Other long-term employee benefit expenses	7		6	
		15		11
Other staff costs		9		21
Total		**355**		**361**

The staff costs relating to pensions, reorganisations and other long-term employee benefits were as follows:

Employee benefit expenses for pensions, reorganisation and other long-term employee benefits					
€ million	**Multi-employer plans**	**Post-employment benefits**	**Termination/ reorganisation benefits**	**Other long-term employee benefits**	**Total**
2009					
Contributions paid to multi-employer plans	-30	-	-	-	-30
Added to provision	-	-	-6	-20	-26
Released from provision	-	-	1	10	11
Interest expense	-	-2	-1	-2	-5
Actuarial gains and losses	-	-	-	6	6
Total 2009	**-30**	**-2**	**-6**	**-6**	**-44**
2010					
Contributions paid to multi-employer plans	-33	-	-	-	-33
Added to provision	-	-	-8	-8	-16
Released from provision	-	1	-	5	6
Interest expense	-	-	-	-1	-1
Actuarial gains and losses	-	-	-	-3	-3
Total 2010	**-33**	**1**	**-8**	**-7**	**-47**

An elucidation on the reorganisation costs is included in note [15] on provisions for employee benefits.

In 2006, as a result of changes in the law governing early retirement and pre-pension schemes, which formed part of the Collective Labour Agreement in December 2006, a transitional arrangement was created enabling older employees to reduce their working hours in the future.

The post-employment benefits mainly concern the medical benefit scheme for retired employees.

External staff costs amounted to € 102 million (2009: € 156 million) and relate to hiring contract staff for specific projects and to fill vacancies. The lower figure compared with 2009 is the result of using permanent staff instead of contract staff.

The number of staff employed by Alliander, based on a 38-hour working week (FTEs), is shown in the table below:

Number of permanent staff (FTEs)	2010	2009
Employed in continuing operations		
- average during the year	4,975	4,561
- as at 31 December	5,316	4,633
- number of permanent staff outside the Netherlands	103	105

Remuneration of the Management Board and the Supervisory Board

The Remuneration Report sets out the remuneration policy, its implementation and the remuneration of the Management Board and the Supervisory Board. These three sections can be found on pages 84 to 87 of the 2010 Annual Report.

The remuneration of the members of the Management Board is disclosed in the following table.

Total gross annual remuneration chargeable to the financial year

€ thousand	Fixed salary			Short-term variable remuneration			Long-term variable remuneration			Total		
	2010	2009 from 30 June	2009 to 30 June	2010	2009 from 30 June	2009 to 30 June	2010	2009 from 30 June	2009 to 30 June	2010	2009 from 30 June	2009 to 30 June
P.C. Molengraaf	220	109	-	66	30	-	46	33	-	332	172	-
M.R. van Lieshout	207	-	-	62	-	-	43	-	-	312	-	-
Ø. Løseth	-	-	220	-	-	77	-	-	84	-	-	381
D.G. Vierstra	-	-	200	-	-	60	-	-	53	-	-	313
Total	**427**	**109**	**420**	**128**	**30**	**137**	**89**	**33**	**137**	**644**	**172**	**694**

The fixed salary concerns the actual payment per annum, without amounts accrued for other remuneration elements. The short-term variable remuneration concerns the amount earned in relation to the relevant financial year. The long-term remuneration component is earned over a period of three years. The long-term variable remuneration for the period 2008–2010 was finalised at the end of 2010. The figure presented for 2009 relates to the period 2007–2009.

Mr Molengraaf was appointed chairman of the Management Board with effect from 30 June 2009. Mr Van Lieshout was appointed member of the Management Board as Chief Financial Officer with effect from 1 January 2010.

Pension contributions

€ thousand	2010	2009 from 30 June	2009 to 30 June
P.C. Molengraaf	35	16	-
M.R. van Lieshout	31	-	-
Ø. Løseth	-	-	46
D.G. Vierstra	-	-	32
Total	**66**	**16**	**78**

Social security contributions and other emoluments			
€ thousand	2010	2009 from 30 June	2009 to 30 June
P.C. Molengraaf	17	7	-
M.R. van Lieshout	12	-	-
Ø. Løseth	-	-	29
D.G. Vierstra	-	-	11
Total	**29**	**7**	**40**

In addition to the social security contributions normally paid by the company, this item includes the health insurance contribution payable by the employer and expense allowances.

Remuneration of the Supervisory Board			
€ thousand	2010	2009 from 30 June	2009 to 30 June
G. Ybema	28.0	12.9	21.5[1]
E.M. d'Hondt (chairman)	35.0	14.6	-
F.C.W. Briët	28.0	12.9	-
Ms J.G. van der Linde	23.5	3.9	-
Ms A.P.M. van der Veer-Vergeer	28.0	12.9	-
J.C. van Winkelen	28.0	12.9	-
Ms J.B. Irik	28.0	12.9	21.5[1]
W. Meijer	-	-	25.0[1]
P. Bouw	-	-	21.5[1]
D.J. Haank	-	-	21.5[1]
A.M.C.A. Hooijmaijers (until 23-04-09)	-	-	7.8
L. Koopmans (until 23-04-09)	-	-	16.8[1]
J. Schraven	-	-	19.2[1]
H. Zwarts (until 31-10-08)	-	-	7.5[2]
Total	**198.5**	**83.0**	**162.3**

1 Including additional remuneration for the 2008 financial year granted by the General Meeting of Shareholders of 23 April 2009.
2 Additional remuneration for the 2008 financial year granted by the General Meeting of Shareholders of 17 June 2009.

NOTE 25 OTHER OPERATING EXPENSES

Other operating expenses		
€ million	2010	2009
Additions to provisions	17	27
Premises and transport	19	15
Rent and leases	47	73
Corporate staff and ICT	49	57
Sufferance tax	26	23
Other	36	43
Total	**194**	**238**

The fees paid for services rendered by PwC can be broken down into:

- auditing of the financial statements: these include the fees for the audit of the company and consolidated financial statements;
- other audit services: these include fees for work performed in connection with prospectuses, fees for special audits and advice unrelated to the statutory audits and also interim financial statements and other reports;
- other assurance services: these include fees charged for acquisition support and advice; and
- other non-audit services.

The fees were as follows:

Auditors' fees

€ million	2010	2009
Description of services:		
- audit of the financial statements		
- current year	1.3	0.8
- prior year	0.3	-
- other audit services	0.7	0.7
- other assurance services	0.7	-
- other non-audit services	0.5	0.9
Total	**3.5**	**2.4**

NOTE 26 DEPRECIATION AND IMPAIRMENT OF NON-CURRENT ASSETS

Depreciation and impairment of non-current assets

€ million	Land and buildings	Networks	Other plant and equipment	Total
2009				
Depreciation	6	147	40	193
Divestments	-	21	-	21
Total 2009	**6**	**168**	**40**	**214**
2010				
Depreciation	6	165	53	224
Divestments	1	10	6	17
Total 2010	**7**	**175**	**59**	**241**

There was no impairment of assets in the continuing operations in 2009 and 2010. Depreciation includes accelerated depreciation on decommissioned assets. The increase in the depreciation charges in 2010 relative to 2009 is accounted for by the acquisition of Endinet and Stam.

NOTE 27 FINANCE INCOME

Finance income

€ million	2010	2009
Interest income on loans and deposits	4	13
Settlement of interest rate derivative relating to Endinet	20	-
Other finance income	3	10
Currency translation differences	5	-
Total	**32**	**23**

The settlement of the Endinet interest rate derivative is made up of € 18 million profit on the sale of the contract and € 2 million for the fair value movement. There were no assets qualifying for capitalisation of interest during the construction period in either 2010 or 2009.

NOTE 28 FINANCE EXPENSE

Finance expense		
€ million	2010	2009
Loans from third parties	-114	-101
Result on prehedge	-10	-
Nuon Energy current account	-	-21
Interest accretion provisions	-	-1
Currency translation differences	-4	-4
Other finance expense	-12	-24
Total	**-140**	**-151**

The pre-hedge result relates to the subordinated perpetual bond issued in November 2010. The transaction was entered into to hedge the interest rate risk in the period up to the date of issue of the bond. The other finance expenses include interest on tax payments and costs for letters of credit and arranging credit lines.

NOTE 29 TAX

Tax		
€ million	2010	2009
Current tax income/expense	98	-27
Movement in deferred taxes	-106	-44
Total	**-8**	**-71**

The table below provides a reconciliation between the corporate income tax rate in the Netherlands and the effective tax rate:

Reconciliation of effective corporate income tax rate		
%	2010	2009
Enacted corporate income tax rate in the Netherlands	**25.5**	**25.5**
Impact of:		
- release of liabilities for previous years	-	-3.8
- adjustment in carrying amount of deferred tax assets	-24.8	-
- use of previously unrecognised temporary differences and tax losses	-	-1.5
- change in corporate income tax rate from 2011	2.6	-
- substantial-holding privilege	-	-0.7
- permanent differences	0.3	0.1
Effective corporate income tax rate	**3.6**	**19.6**

The lower effective tax burden in 2010 relative to tax at the standard rate is largely due to an adjustment in the recognised deferred tax assets following an adjustment in the projected long-term results. See also note [17]. Use of previously unrecognised temporary differences or tax losses relates to the use of unrecognised temporary differences in connection with the sale of the high-voltage grids. Change in corporate income tax rate is connected with the adjustment in the deferred tax assets based on the tax rate applicable from 2011 onwards (25.5% up to year-end 2010 and 25% as from 2011). The substantial-holding privilege relates to the book profit of € 10 million on the sale of the shares in Liandyn B.V. to Ziut B.V.

NOTE 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement

€ million	2010	Alliander pro forma 2009	N.V. Nuon Energy 2009	Eliminations 2009	Alliander N.V. 2009
Cash flow from operating activities					
Profit after tax	**222**	**312**	**226**	**-**	**538**
Adjustments for:					
- finance income and expense	108	128	-12	-	116
- tax	8	71	86	-	157
- profit after tax from associates and joint ventures	-8	-20	-6	-	-26
- depreciation and impairment less amortisation	200	175	133	-	308
Changes in working capital:					
- inventories	-3	-2	18	-	16
- trade and other receivables	58	-69	-110	-	-179
- current account with associates	-	-	1,467	-1,467	-
- trade and other payables and accruals	-44	114	-323	-	-209
Total changes in working capital	11	43	1,052	-1,467	-372
Changes in deferred tax, provisions, derivatives and other	52	-205	-30	-73	-308
Cash flow from operations	**593**	**504**	**1,449**	**-1,540**	**413**
Interest paid	-132	-151	-22	-	-173
Interest received	26	23	34	-	57
Dividends received from associates and joint ventures	5	-	26	-	26
Corporate income tax paid and received	16	72	-23	-	49
Total	**-85**	**-56**	**15**	**-**	**-41**
Cash flow from operating activities	**508**	**448**	**1,464**	**-1,540**	**372**
Cash flow from investing activities					
Acquisitions, excluding acquired cash and cash equivalents	-56	-	-	-	-
Investments in property, plant and equipment	-368	-397	-241	1	-637
Construction contributions received	87	101	13	-	114
Investments in intangible assets	-	-	-7	-	-7
Investments in financial assets (associates and joint ventures)	-3	-	-	-	-
Proceeds from sales of subsidiaries	-	368	-	-	368
Disposals of financial assets (associates and joint ventures)	-	-	9	-	9
Cash flow from investing activities	**-340**	**72**	**-226**	**1**	**-153**
Cash flow from financing activities					
Movement in intercompany account N.V. Nuon Energy	-	-1,499	-	1,499	-
New current interest-bearing debt and current portion of long-term debt	-74	-17	2	-	-15
Long-term debt issued	24	1,250	48	-	1,298
Long-term debt repaid	-684	-	-7	-	-7
Change in current deposits	176	-301	-	-	-301
Subordinated perpetual bond issued	494	-	-	-	-
Equity contributions	-	400	-405	5	-
Unbundled cash and cash equivalents	-	-	-	-1,388	-1,388
Dividend paid	-54	-139	-211	-	-350
Cash flow from financing activities	**-118**	**-306**	**-573**	**116**	**-763**
Net cash flow	**50**	**214**	**665**	**-1,423**	**-544**
Cash and cash equivalents as at 1 January	451	237	758	-	995
Net cash flow	50	214	665	-1,423	-544
Cash and cash equivalents as at 31 December	**501**	**451**	**1,423**	**-1,423**	**451**

Cash flow from operating activities

The cash flow from operating activities was € 508 million in 2010 (2009: € 372 million). The comparative figures for 2009 include the activities of N.V. Nuon Energy during the first half of the year. It was not until 30 June 2009 that N.V. Nuon Energy was actually unbundled from the parent company n.v. Nuon, whose name was changed to Alliander N.V. on the same date.

Cash flow from investing activities

The cash outflow associated with investing activities in 2010 increased from € 153 million to € 340 million. The increase of € 187 million is mainly explained by the proceeds from the sale of high-voltage grids to TenneT recognised in 2009, amounting to € 368 million, and the expenditure on the acquisitions of Endinet and Stam in 2010, totalling € 56 million. The increase was partly mitigated by lower expenditure on property, plant and equipment and contributions to such investments received from third parties in connection with the deconsolidation of N.V. Nuon Energy on 30 June 2009. The figure of € 56 million for Endinet and Stam takes account of the net amount of cash and cash equivalents acquired with these companies. Out of the total of € 56 million, € 47 million relates to Endinet (purchase price: € 136 million; acquired cash and cash equivalents: € 89 million) and € 9 million relates to Stam (purchase price: € 11 million; acquired cash and cash equivalents: € 2 million).

Cash flow from financing activities

The cash outflow associated with financing activities was € 118 million in 2010 compared to € 763 million in 2009. The difference of € 645 million is mainly due to the proceeds from the subordinated perpetual bond issued in 2010, amounting to € 494 million, and a decrease of € 296 million in the dividend distribution. There was also an outflow of € 682 million in 2010 connected with the settlements of Endinet's credit lines. The latter figure concerns the repayment by Alliander of a total amount of € 625 million in external loans contracted by Endinet and the settlement of an interest rate derivative, to an amount of € 57 million, in July 2010. The remaining change in this cash flow is mainly explained by the net cash allocated to N.V. Nuon Energy at the time of unbundling in 2009, which was largely cancelled out by proceeds from the issue of two bond loans under the EMTN programme in that year.

NOTE 31 LICENCES

N.V. Nuon Infra West and N.V. Nuon Infra Oost, both wholly-owned subsidiaries of Liander, own networks for the transportation of electricity and gas in the Netherlands. In accordance with the Electricity Act 1998 (E-Act) and the Gas Act (G-Act), these subsidiaries have appointed Liander as grid manager for their gas and electricity networks for a ten-year period (expiry date: 9 June 2014). The use of the networks is defined in the agreements between Liander and the aforementioned subsidiaries. Liander N.V. executes the tasks incumbent on it under the E-Act and the G-Act.

The network owners ObN Title Co B.V., NetH Title Co B.V. and NRE Gasnetwerk B.V., all wholly-owned subsidiaries of Endinet Groep, appointed Endinet Oost Brabant N.V., Endinet Haarlemmermeer B.V. and Endinet Regio Eindhoven B.V., respectively, (again all three wholly-owned subsidiaries of Endinet Groep) as grid manager. With effect from 1 January 2011, there has been a change in this situation. The shares of NetH Title Co B.V. and Endinet Haarlemmermeer B.V. were transferred to N.V. Nuon Infra West, following which a merger of these companies took place, with N.V. Nuon Infra West as the acquiring company. Liander N.V. was subsequently appointed grid manager for the Haarlemmermeer region. The grid manager Endinet Oost Brabant N.V. and the grid manager ObN Title Co B.V. were legally merged with effect from 1 January 2011 to form Endinet Regio Eindhoven B.V., the name of the latter company simultaneously being changed to Endinet B.V. NRE Gasnetwerk B.V. is a wholly-owned subsidiary of Endinet B.V.

NOTE 32 RELATED PARTIES

As holder of 45% of the shares in Alliander, the province of Gelderland has significant influence over the company, qualifying the province as a related party. At year-end 2010, the remaining shares were held by 58 shareholders, none of which is a related party. The Alliander Group has interests in various associates and joint ventures in which it exercises significant influence, but not control, or over which it has joint control of operating and financial policy. Transactions with these parties, some of which are significant, are conducted on market terms and conditions and at prices that are no more favourable than the conditions and prices offered to independent third parties.

The following transactions with regard to sales and purchases of goods and services have taken place with related parties:

Related party transactions		
€ million	2010	2009
Sales of goods and services		
- shareholders	2	1
- associates	1	1
- joint ventures	8	17
Total	**11**	**19**
Purchase of goods and services		
- associates	2	2
- joint ventures	9	-
Total	**11**	**2**

The reduction in the sales of goods and services in 2010 compared with 2009 is mainly a result of the unbundling of N.V. Nuon Energy on 30 June 2009. There were no significant transactions with individuals who qualify as related parties. As at year-end 2010, there was a loan of € 3 million granted to joint ventures (2009: none).

NOTE 33 ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

As at year-end 2010, as was also the case at the end of 2009, there were no assets carried on the face of the balance sheet that were held for sale. On 30 June 2009, N.V. Nuon Energy was unbundled from n.v. Nuon, now Alliander N.V.. Since this was simply a demerger and not a sale of the shares of N.V. Nuon Energy, the related assets, equity and liabilities were not classified as 'held for sale' in the balance sheet and accordingly included in the Alliander consolidation in the first half of 2009. In 2010, there were no discontinued operations.

The consolidated income statement for the discontinued operations is shown below.

Consolidated income statement of discontinued operations

€ million	Discontinued operations	
	2010	2009
Income		
Revenue from sales of goods and delivery of services	-	2,985
Other income	-	57
Total income	**-**	**3,042**
Operating expenses		
Purchase costs and costs of subcontracted work	-	-2,090
Employee benefits	-	-237
Contract staff costs	-	-66
Other operating expenses	-	-242
Total purchasing costs, costs of subcontracted work and operating expenses	**-**	**-2,635**
Depreciation and impairment of property, plant and equipment	-	-125
Amortisation and impairment intangible assets	-	-8
Less: own work capitalised	-	20
Total operating expenses	**-**	**-2,748**
Operating profit	**-**	**294**
Finance income	-	33
Finance expense	-	-22
Share in results of associates and joint ventures after tax	-	6
Profit before tax	**-**	**311**
Tax	-	-85
Profit after tax	**-**	**226**

The consolidated income statement for discontinued operations in 2009 consists entirely of N.V. Nuon Energy. 2009 relates to the period to 30 June 2009, the date of unbundling.

NOTE 34 INFORMATION ON RISKS AND FINANCIAL INSTRUMENTS

General

The following financial risks can be identified: market risk, credit risk and liquidity risk. Market risk is defined as the risk of loss due to an adverse change in market prices. Alliander's main exposure is to commodity price risk, currency risk and interest rate risk. Credit risk is the risk resulting from a default by a counterparty, including suppliers, investments and trading counterparties. Liquidity risk is the risk of Alliander not being able to meet its obligations associated with financial liabilities. This note provides information on these financial risks to which Alliander is exposed, the objectives and policy for managing risks arising from financial instruments as well as the management of capital. Further quantitative information is provided in the various notes in the consolidated financial statements.

Market risk

Alliander is exposed to the following potential market risks:

- commodity price risk: the risk that the value of a financial instrument will fluctuate because of changes in commodity prices; mainly affecting the cost of grid losses;
- currency risk: the risk that the value of a financial instrument will fluctuate because of changes in exchange rates;
- interest rate risk: the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Alliander hedges market risks through the purchase and sale of derivatives and attempts to minimise income statement volatility as far as possible through the application of hedge accounting. All transactions are carried out within the guidelines approved by the Management Board.

Commodity price risk

As regards the cost of grid losses, Alliander is sensitive to the effect of market fluctuations in the price of various energy commodities, including but not limited to electricity, coal, natural gas, oil and CO_2.

Currency risk

General

Alliander is exposed to currency risk on purchases, cash and cash equivalents, borrowings and other balance sheet positions denominated in a currency other than the euro. Currency risks as at 31 December 2010 mainly relate to balance sheet positions in USD.

Currency risks are transaction risks in respect of future cash flows and balance sheet positions in foreign currency. These risks are hedged as far as possible.

Subsidiaries report currency positions and risks to Alliander's Treasury Department. These positions and risks are principally hedged back-to-back with external counterparties through spot and forward exchange contracts.

The collateral security furnished by Alliander in the form of foreign currency deposits serving to cover the letters of credit issued in connection with cross-border lease transactions was repaid in 2010. As at year-end 2009, these deposits amounted to $ 42 million (€ 29 million). The deposits were hedged by means of cross-currency interest rate swap contracts, which were also settled in 2010. As at year-end 2009, $ 42 million was covered by a hedge relationship.

Exposure to currency risk and sensitivity analysis

Alliander's exposure to currency risk based on nominal value is presented in the table below. This table shows the pre-tax effect that a possible increase or decrease in the value of foreign currencies relative to the euro would have, assuming all other circumstances remained unchanged, on Alliander's finance income and expense and equity, taking into account derivatives concluded to hedge the currency risk. The effects on equity and income are calculated using the closing rate at the balance sheet date. Alliander operates mainly in the Netherlands and to a small extent in Germany and so has no currency risk on its normal operations. The only, non-operating, risk as at 31 December 2010 was on the investments and liabilities disclosed in the financial statements relating to two cross-border leases in 2010. The amounts in the table below relate to the DePfa notes bought in 2008 as part of the restructuring of the investment portfolio relating to two cross-border leases. The currency risk on the purchase of these USD notes is hedged by means of a currency hedge contract. Hedge accounting is not applied in the case of these currency derivatives. Liander also recognises USD investments and liabilities for two CBL contracts in the balance sheet. The table shows that currency risks do not directly affect the equity position. All currency translation gains and losses are recognised through the income statement.

Currency risk sensitivity analysis					
€ million	Position	Income		Equity	
		Decrease by 10% relative to the euro	Increase by 10% relative to the euro	Decrease by 10% relative to the euro	Increase by 10% relative to the euro
As at 31 December 2010					
Exposure in USD	143	-14	14	-	-
Hedged position in USD	-143	14	-14	-	-
Sensitivity of cash flow in USD (net)	**-**	**-**	**-**	**-**	**-**
Total exposure in foreign currencies	**143**	**-14**	**14**	**-**	**-**
Total hedged position in foreign currencies	**-143**	**14**	**-14**	**-**	**-**
Sensitivity of cash flow in foreign currencies (net)	**-**	**-**	**-**	**-**	**-**
As at 31 December 2009					
Exposure in USD	194	-20	20	-	-
Hedged position in USD	-189	19	-19	-	-
Sensitivity of cash flow in USD (net)	**5**	**-1**	**1**	**-**	**-**
Total exposure in foreign currencies	**194**	**-20**	**20**	**-**	**-**
Total hedged position in foreign currencies	**-189**	**19**	**-19**	**-**	**-**
Sensitivity of cash flow in foreign currencies (net)	**5**	**-1**	**1**	**-**	**-**

The following important exchange rate was applicable as at the balance sheet date:

Exchange rates		
€ 1	**2010**	**2009**
USD	1,34	1,43

Interest rate risk

General

The table below provides information on the extent to which Alliander is exposed to changes in interest rates on financial instruments and shows the effective interest rate at the balance sheet date and the maturity date or, if earlier, the contractual interest repricing date. This means that a long-term loan whose interest will be repriced in the coming year is classified as 'Less than 1 year'.

Alliander has interest rate swap contracts outstanding with a carrying amount of € 7 million (2009: nil). The amount of the underlying principal, on which the interest rate risk is hedged, was € 500 million. The cross-currency interest rate swaps were cancelled in 2010 (2009: € 57 million).

Maturity date or earlier contractual interest repricing date

€ million	Effective interest rate	Variable/ Fixed	Carrying amounts			
			Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at 31 December 2010						
Assets						
Available-for-sale financial assets and other financial assets	2.05%	Variable	125	123	138	**386**
Loans and receivables			34	5	1	**40**
Cash and cash equivalents		Variable	501	-	-	**501**
Total assets			**660**	**128**	**139**	**927**
Loans received						
Subordinated loans	8.6%	Fixed	-2	-15	-87	**-104**
Private and green loans	1.9%	Fixed	-27	-3	-	**-30**
Euro Medium Term Notes	4.8%	Fixed	-	-994	-1,043	**-2,037**
Banks	8.2%	Fixed	-	-2	-	**-2**
Other		Variable	-3	-8	-	**-11**
Finance lease obligations	7.8%	Fixed	1	4	-133	**-128**
Total current and non-current financial liabilities			**-31**	**-1,018**	**-1,263**	**-2,312**
Derivatives						
Interest rate swaps		Variable	-	-	-7	**-7**
Total liabilities			**-31**	**-1,018**	**-1,270**	**-2,319**
As at 31 December 2009						
Assets						
Available-for-sale financial assets and other financial assets	0.6%	Variable	301	-	240	**541**
Cash and cash equivalents		Variable	451	-	-	**451**
Total assets			**752**	**-**	**240**	**992**
Loans received						
Subordinated loans	7.8%	Fixed	-65	-18	-87	**-170**
Private and green loans	7.8%	Fixed	-1	-5	-	**-6**
Euro Medium Term Notes	4.7%	Fixed	2	-989	-1,048	**-2,035**
Banks	8.2%	Fixed	-	-2	-	**-2**
Other		Variable	-1	-11	-	**-12**
Finance lease obligations	7.8%	Fixed	-1	4	-123	**-120**
Total current and non-current financial liabilities			**-66**	**-1,021**	**-1,258**	**-2,345**
Derivatives						
Interest rate swaps		Variable	57	-57	-	**-**
Total liabilities			**-9**	**-1,078**	**-1,258**	**-2,345**

Sensitivity analysis

Sensitivity analysis in relation to fair value for fixed-rate assets and liabilities

Alliander has no fixed-rate financial assets and liabilities that are recognised at fair value through profit or loss.

Sensitivity analysis in relation to cash flows for floating-rate assets and liabilities

A change of 100 basis points in interest rates as at 31 December 2010 would, assuming all other circumstances remained unchanged, have a pre-tax effect on Alliander's equity and income on an annual basis (finance income and expense) as shown in the table below.

Interest rate risk sensitivity analysis

€ million	Position	Income		Equity	
		Decrease by 100 basis points	Increase by 100 basis points	Decrease by 100 basis points	Increase by 100 basis points
As at 31 December 2010					
Variable-rate instruments	916	-9	9	-	-
Interest rate swaps	-7	-	-	-23	23
Sensitivity of cash flow (net)	**909**	**-9**	**9**	**-23**	**23**
As at 31 December 2009					
Variable-rate instruments	980	-10	10	-	-
Interest rate swaps	57	1	-1	-	-
Sensitivity of cash flow (net)	**1,037**	**-9**	**9**	**-**	**-**

In previous years, part of the interest rate swaps and cross-currency interest rate swaps was placed in a fair value hedge. If interest rates change, the gains and losses on the interest rate swaps and cross-currency interest rate swaps do not affect Alliander's income or equity, as all changes in the fair value of these swaps lead to an identical change in the value of the underlying balance sheet items.

Hedging transactions

Fair value hedging

In previous years, Alliander made use of derivatives for full or partial hedging of risks from fluctuations in the fair value of financial assets and/or liabilities and firm commitments.

Fixed-rate loans were converted into floating-rate loans using interest rate swaps and the interest component of the cross-currency interest rate swaps. Changes in the market value of these loans as well as of the swaps designated as hedges were recognised in finance income and expense. If a fair value hedge ceases to apply, previously recognised adjustments in the carrying amount of the loans resulting from the fair value hedge are amortised over the remaining term to maturity of the loan concerned, unless the loans have been repaid.

Cash flow hedging

Alliander has issued in the past Euro Medium Term Notes, for example to finance USD cash collateral requirements. In order to hedge the difference in both interest rates and currencies, the fixed interest rate in euros on the Euro Medium Term Notes was converted into a floating interest rate in USD by means of cross-currency interest rate swaps. The currency components of these hedges were designated as cash flow hedges. In 2010, the cash collateral was no longer required, allowing the cross-currency swaps to be cancelled. The results have been recognised in the income statement. In the period leading up to the issue of the Medium Term Notes in 2004, Alliander hedged the risks connected with the expected future interest payments by means of interest rate swaps. These swaps were designated as cash flow hedges. When the loans were issued, the interest rate swaps were settled in cash and the loss up to that date, contained in the cash flow hedge reserve, is being amortised over the remaining life of the loans so that, on balance, the originally hedged interest rate level is recognised in the income statement. Since these interest rate swaps were settled when the loans were entered into, no future cash flows are expected from these interest rate swaps. The accumulated losses of € 9 million as at 31 December 2010 (2009: € 10 million) will be recognised in the income statement until 2014. In 2010, interest rate swaps with a combined amount of € 500 million were contracted in connection with the issue of new loans in 2012. These swaps have been designated as cash flow hedges.

The table below presents the pre-tax movements in the cash flow hedge reserve in the financial year. As at 31 December 2010, the cash flow hedge reserve was € 12 million net of deferred tax (2009: € 8 million).

Cash flow hedges

€ million	Hedge ineffectiveness	Hedge reserve as at 1 January	Changes in fair value	Transfer to Income	Deconsolidation	Hedge reserve as at 31 December
2010						
Interest rate risks						
Interest rate swaps	-	-10	-7	2	-	-15
Total 2010	**-**	**-10**	**-7**	**2**	**-**	**-15**
2009						
Fuel purchases						
Coal swaps	-1	-58	-17	17	58	-
Gas swaps	-	311	-194	45	-162	-
Oil swaps	17	193	-3	11	-201	-
Currency contracts (USD)	-4	-59	7	4	48	-
Total hedges on fuels purchased	12	387	-207	77	-257	-
Currency risks						
Cross-currency interest rate swaps	-	-	-	-	-	-
Forward contracts	-	53	-29	-	-24	-
Interest rate risks						
Interest rate swaps	-	-12	-	2	-	-10
Total 2009	**12**	**428**	**-236**	**79**	**-281**	**-10**

Credit risk

General

Credit risk is the risk of a loss being incurred because a counterparty is unable or unwilling to meet its obligations. A consistent approach to credit analysis and management is applied throughout the organisation, with the degree of review undertaken varying depending on the magnitude of the credit risk in a transaction.

Cash and cash equivalents surpluses are placed in the money and capital markets on market terms and conditions with institutions satisfying the list of criteria, and hence approved counterparties, drawn up by the Management Board, up to the maximum limit set for the party in question. In addition, minimum requirements have been set for the credit ratings of such investments set by credit rating agencies. Investments made by Alliander relating to the cross-border lease contracts required the individual approval of the Management Board. These investments were made for long terms, with the intention of generating sufficient returns to meet future lease obligations. The portfolio of investments on which Alliander is exposed to credit risks consists mainly of deposits, securities and sold credit default swaps. Credit risk is managed through an established credit policy, regular monitoring of credit exposures and application of risk mitigation tools.

Credit quality

Treasury

The creditworthiness of financial institutions from which Alliander has a receivable is monitored using specific credit analyses, CDS data and credit ratings. The greater part of the cash and cash equivalents, as well as cross-border lease investments and deposits, interest rate and currency derivatives, is placed or invested with parties with a credit rating of A or higher. 87% of the cash and cash equivalents (2009: 75%) is placed with parties with an AA rating or higher.

Sales

Alliander is exposed to credit risk; this is the risk of non-payment by customers for services provided. The company has procedures to limit credit exposure to counterparties and to ensure that outstanding positions are covered by collateral, for example, in the form of bank guarantees.

Maximum credit risk

The maximum credit risk is the carrying amount of each financial asset, including derivative financial instruments. The maximum credit risk that Alliander is exposed to in respect of the cross-border lease transactions is $ 3.8 billion (2009: $ 3.6 billion). This includes the risk on an investment in a credit default swap transaction with an underlying reference portfolio of $ 26.8 billion

(2009: $ 26,8 billion), where the credit risk for Alliander has been capped at $ 171 million (€ 128 million; 2009: € 119 million). Of this amount, € 138 million relates to available-for-sale financial assets that Alliander has recognised in its balance sheet (2009: € 123 million). The CDS had a fair value of € 95 million negative as at 31 December 2010 (2009: € 105 million negative) and a term to 2015. In 2008, the investment was restructured to enhance the creditworthiness by replacing collateral assets in the structure, leading to an increase of the number of allowable credit events on the reference portfolio before the collateral assets are affected. A provision has been recognised for the difference between the maximum exposure on the CDSs and their fair value.

Overdue instalments

Receivables which are past due, but for which no provision has been recognised, are without exception trade receivables from normal sales. The provision for bad debts also exclusively concerns trade receivables from normal sales. The ageing analysis of trade receivables was as follows on the balance sheet date (gross amounts):

Ageing analysis of trade receivables

€ million	2010	2009
Not overdue	93	108
0-30 days	34	59
31-90 days	12	15
91-360 days	12	14
> 360 days	19	22
Carrying amount as at 31 December	**170**	**218**

The movements in the provision for bad debts relating to trade receivables were as follows:

Movements in the provision for bad debt

€ million	2010	2009
Carrying amount as at 1 January	25	82
Utilised (trade receivables written off)	-9	-20
Added to allowance account charged to income	7	33
Deconsolidation	-	-70
Carrying amount as at 31 December	**23**	**25**

The major part of the provision for bad debts is calculated using a graduated scale based on historical figures. The remainder is based on an assessment of individual accounts. The fair value of collateral obtained relating to overdue accounts and bad debts written off was nil (2009: nil).

Liquidity risk

Liquidity risk is the risk that Alliander is unable to obtain the financial resources required to meet its financial obligations on time. In this connection, Alliander regularly assesses the expected cash flows over a period of several years. These cash flows include operating cash flows, dividends, interest payments and debt repayments, replacement capital expenditure and the effects of a change in Alliander's creditworthiness. The aim is to have sufficient funds available at all times to provide the required liquidity. Liquidity and capital requirement planning is performed with a four-year horizon as a minimum. Early in 2010, Alliander replaced the existing committed credit facility of € 875 million (due to expire in November 2011) with a new committed credit line totalling € 600 million running until March 2015. Alliander can make use of its facility at any time provided that certain covenants are met. The facility can be used for general operating purposes, working capital financing or debt refinancing. In addition to the credit facility, which had not been drawn on as at 31 December 2010, Alliander has an ECP programme of € 1.5 billion and an EMTN programme of € 3 billion under which € 2.05 billion was outstanding as at 31 December. To provide information on liquidity risk, the following table shows the contractual terms of the financial obligations (translated at the balance sheet rate), including interest payments.

Liquidity risk 2010 and 2009

€ million	Carrying amount	Contractual cash flows			
		Less than 1 year	1 - 5 years	Over 5 years	Total
As at 31 December 2010					
Loans received					
Principal amounts	-2,173	-29	-1,020	-1,137	-2,186
Interest		-101	-338	-153	-592
Finance lease obligations	-128	-9	-34	-237	-280
Accounts payable	-99	-99	-	-	-99
Other payables	-375	-375	-	-	-375
Off-balance-sheet commitments					
Operating lease liabilities		-19	-39	-1	-59
Derivatives					
Interest rate swaps	-7				
Payment of interest and principal		-	-64	-23	-87
Receipts of interest and principal		-	23	8	31
Total		-	-41	-15	-56
Currency instruments					
Forward obligations	1				
Buy		145	-	-	145
Sell		-143	-	-	-143
Total		2	-	-	2
Other derivatives	-95	-	-95	-	-95
Total	**-2,876**	**-630**	**-1,567**	**-1,543**	**-3,740**
As at 31 December 2009					
Loans received					
Principal amounts	-2,213	-67	-1,025	-1,137	-2,229
Interest		-109	-361	-192	-662
Finance lease obligations	-120	-10	-32	-229	-271
Accounts payable	-133	-133	-	-	-133
Other payables	-459	-459	-	-	-459
Off-balance-sheet commitments					
Operating lease liabilities		-19	-44	-1	-64
Derivatives					
Cross-currency interest rate swaps	6				
Payment of interest and principal		-	-57	-	-57
Receipts of interest and principal		-	61	-	61
Total		-	4	-	4
Currency instruments					
Forward obligations	3				
Buy		130	-	-	130
Sell		-134	-	-	-134
Total		-4	-	-	-4
Other derivatives	-105	-	-	-105	-105
Total	**-3,021**	**-801**	**-1,458**	**-1,664**	**-3,923**

Fair values

The fair value of all current financial assets and liabilities equals the carrying amount. The fair values of all derivatives and certain non-current financial assets and liabilities also equal their carrying amounts. The table below presents the fair values of financial assets and liabilities as at 31 December 2010 that differ from their carrying amount.

Fair value of financial assets and liabilities 2010 and 2009

€ million	Carrying amounts of IAS 39 categories			Fair value	Note
	Other payables	Off-balance-sheet commitments	Total		
As at 31 December 2010					
Loans received	-2,173	-	**-2,173**	**-2,457**	[13]
Finance lease obligations	-128	-	**-128**	**-122**	[19]
Off-balance-sheet commitments:					
Operating lease liabilities	-	-59	**-59**	**-56**	[19]
As at 31 December 2009					
Loans received	-2,225	-	**-2,225**	**-2,531**	[13]
Finance lease obligations	-120	-	**-120**	**-101**	[19]
Off-balance-sheet commitments:					
Operating lease liabilities	-	-64	**-64**	**-58**	[19]

Measurement of fair value

The fair value of financial instruments is measured as follows:

- available-for-sale financial assets consist of investments in securities and whose fair value is equal to the carrying amount. Part of these investments relates to cross-border lease contracts;
- finance lease and other receivables are discounted using the appropriate market interest rate;
- currency derivatives and interest rate derivatives are recognised on the basis of the present value of the future cash flows, using the interbank rate (such as Euribor or Eurswap for cash flows longer than one year) applicable on the reporting date for the remaining term of the contracts. Present values in foreign currency are translated at the spot rate applicable on the reporting date;
- the value of purchased and sold credit default swaps is determined using market prices obtained from third parties;
- the fair value of financial liabilities is measured using market quotes. As no market quotes are available for the majority of the loans, the fair value of the short-term and long-term loans is measured by calculating their present value using the appropriate interbank rate on the reporting date (Euribor for terms of less than one year; Eurswap rate for terms longer than one year);
- finance lease obligations: fair value is estimated as the present value of the future cash flows, discounted on the basis of a yield curve applicable to Alliander as at 31 December 2010. This yield curve is derived from the zero-coupon rate plus the credit spreads applicable to Alliander. The following yield curves were applied at year-end 2010:
  1-year 1.31% (2009: 1.69%)
  5-year 2.91% (2009: 3.34%)
  10-year 3.73% (2009: 4.52%)
  20-year 4.67% (2009: 4.96%);
- in view of their short-term nature, the fair value of trade receivables, trade payables and current tax liabilities is identical to the carrying amount;
- cash and cash equivalents are recognised at face value which, in view of their short-term and risk-free nature, corresponds with the fair value.

Fair value hierarchy disclosures

The following table lists the financial instruments measured at fair value in descending order of the fair value hierarchy, with the levels of the input data used to measure the fair value defined as follows:

- level 1, quoted prices (unadjusted) on active markets for comparable assets or liabilities;
- level 2, inputs other than level 1 quoted prices observable for a particular asset or liability, either directly (i.e. in the form of actual prices) or indirectly (i.e. derived from prices);
- level 3, inputs not based on observable market data.

Fair value hierarchy								
€ million	As at 31 December 2010				As at 31 December 2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Available-for-sale financial assets	-	261	-	261	-	240	-	240
Current derivatives		1	-	1	-	11	-	11
Total Assets	**-**	**262**	**-**	**262**	**-**	**251**	**-**	**251**
Liabilites								
Non-current derivatives	-	95	-	95	-	105	-	105
Current derivatives	-	7	-	7	-	4	-	4
Total liabilities	**-**	**102**	**-**	**102**	**-**	**109**	**-**	**109**

Financial policy

Alliander's financial policy, which is part of its general policy and strategy, is to obtain an adequate return for shareholders and to protect the interests of bondholders and other providers of capital, while maintaining the flexibility to grow and invest in the business. The financial framework within which Alliander operates is:

- to ensure a ratio of net profit, adjusted for changes in the deferred tax assets and liabilities, the incidental items and fair value movements, plus depreciation and amortisation, to net debt of at least 20%. At 31 December 2010, the ratio was 37.4% (2009: 25.4%);
- to ensure a ratio of net profit, adjusted for changes in the deferred tax assets and liabilities, the incidental items and fair value movements, plus depreciation and amortisation, plus net financial income and expense, to net financial income and expense (interest cover ratio) of at least 3.5. At 31 December 2010, the ratio was 5.5 (2009: 3.7);
- to ensure a ratio of net debt divided by net debt plus equity of no more than 60%. At 31 December 2010, the ratio is 33.5% (2009: 38.7%);
- to ensure a balanced repayment schedule;
- to ensure the availability of sufficient cash and cash equivalents and committed credit facilities; and
- to maintain a solid A rating profile.

Finance income and expense

The table below shows the income and expenses recognised in respect of financial instruments in the income statement:

Effect of financial instruments on income statement		
€ million	2010	2009
Net result on derivatives held for trading:		
Fair value changes in currency instruments	-13	2
Fair value changes in interest rate instruments	10	4
Net result on available-for-sale financial assets	10	-
Net result on financial liabilities at amortised cost:		
Interest charges on financial liabilities at amortised cost	-112	-138
Interest gains on cash equivalents, loans granted, trade receivables, other receivables and deposits	7	14
Currency translation differences on restricted cash	4	-
Fees paid and received other than for the calculation of the effective interest rate	-12	-8
Net changes in fair value of cash flow hedges transferred from equity	-2	-2
Net finance income and expense	**-108**	**-128**
Impairment of trade receivables	-7	-33
Net result on derivatives held for trading:		
Fair value changes on other financial instruments	12	18
Other operating expenses	**5**	**-15**

The table below shows the income and expenses recognised in respect of financial instruments recognised directly in shareholders' equity:

Effect of financial instruments on equity		
€ million	2010	2009
Effective part of changes in fair value of cash flow hedges	-7	-
Net changes in fair value of cash flow hedges transferred to the income statement	2	2
Total recognised in cash flow hedge reserve	**-5**	**2**

NOTE 35 ASSUMPTIONS AND ESTIMATES USED IN THE FINANCIAL STATEMENTS (CRITICAL ACCOUNTING POLICIES)

Alliander's financial statements are prepared in accordance with International Financial Reporting Standards endorsed by the European Commission for use in the European Union. The preparation of financial statements and the measurement of items in the financial statements require the use of estimates and assumptions. These are mainly based on past experience and Alliander's management's best estimate of the specific circumstances that are, in the opinion of management, applicable in the given situation. The assumptions and estimates used in the financial statements often relate to future developments. Actual developments may differ from the estimates and assumptions used. As a result, the actual outcome may differ significantly from the current measurement of a number of items in the financial statements. Consequently, the estimates and assumptions used may have a significant impact on equity and the results. The estimates and assumptions used are tested regularly and adjusted if necessary. This section sets out an analysis of the main areas where the measurement of assets, liabilities and the results are affected by the estimates and assumptions used.

Determination of the provision for employee benefits

The provision for post-employment benefits and other long-term employee benefits is determined on an actuarial basis, using assumptions on future salary levels, disability benefits (WAO/WIA), health insurance premiums, statistical assumptions on mortality rates, employee turnover and probability of disability. These assumptions, together with the discount rate used, influence the carrying amount of the provision for employee benefits and, consequently, the results.

Useful lives, residual values and impairments of property, plant and equipment

The measurement of the carrying amount of property, plant and equipment uses estimates regarding depreciation rates derived from the expected technical and economic lives of the assets concerned, and estimates of their residual value. Technological developments, altered market circumstances and changes in the actual usage of the items of property, plant and equipment involved may lead to changes in the expected technical and economic lives and the estimated residual value of the assets. These factors may also trigger recognition of impairment. In measuring the extent of the impairment, estimates are made of the fair value less cost to sell and the value in use. The fair value less cost to sell is derived from assumptions on the possible selling price of a particular item of property, plant and equipment. The actual sales proceeds in the case of a disposal may differ from the estimates used. The value in use is based on the present value of the expected future cash flows, which are derived from the business plans for the coming years relating to the assets concerned. Adverse developments affecting customers which could lead to the recognition of an impairment, such as court protection from creditors or bankruptcy/insolvency, are also taken into account. It is possible that Alliander may be forced to recognise additional impairments in the future as a result of changes in market or other circumstances.

Impairment of goodwill and other assets

Goodwill is not amortised but impairment tests must be performed annually in order to ascertain whether the value of the goodwill has been impaired. Previously recognised impairments of goodwill are not reversed in future years if it is found that the impairment ceases to apply. Other assets are tested if events or changes have occurred that trigger an impairment test. The impairment tests use estimates and assumptions of the fair value less cost to sell and the value in use. The estimate of the fair value less cost to sell is derived from information on quoted prices on regulated markets and other market prices, recent transactions in comparable companies, and bids and offers received. Actual proceeds and estimated costs to sell may differ from the estimates. Value in use is estimated using the present value of the expected future cash flows of the subsidiaries and associates involved.

Actual cash flows may deviate from the cash flows in the business plans. The discount rates used also affect the ultimate value in use. It is possible that Alliander may be forced to recognise additional impairments in the future as a result of changes in market or other circumstances.

Measurement of trade receivables

Alliander regularly assesses the recoverability of trade receivables, based on past experience and specific developments affecting its customers. Impairments of trade receivables are recognised as a result of these assessments. The actual outcome may differ from the assumptions that were used to determine the impairments.

Provisions

A characteristic of provisions is that the obligations are spread over several years and management has to make estimates and assumptions at the balance sheet date on the probability that an obligation will arise and the magnitude of the amount that will have to be paid. Future developments, such as changes in market circumstances, changes in legislation and judicial decisions, may cause the actual obligation to differ from the provision. In addition, Alliander is involved in a number of legal proceedings. Management assesses each individual case and decides whether a provision is necessary, based on the facts. This assessment includes the probability that a claim will be successful and the amount that is likely to be paid.

Revenue recognition

The allocation process serves to determine estimates of the quantities of electricity and gas supplied daily, particularly where standard annual consumption patterns are used for the consumer and business market. These estimates are reviewed regularly, and quantities allocated to customers are adjusted for actual quantities ascertained through meter readings as part of this process (reconciliation). The legal requirements on reconciliation prescribe settlement within 17 months for electricity and 21 months for gas after the end of the month of supply. The expected results of reconciliation have been estimated and recognised in the financial statements as accurately as possible, but the final settlement may affect future results.

Tax

When preparing the financial statements, Alliander devotes considerable attention to assessing all significant tax risks and the current tax position is reflected in the financial statements to the best of its knowledge. Changing insights, for example as a result of final tax assessments for previous years, may lead to additional tax expense or income. New tax risks may also arise. In the measurement of deferred tax assets, particularly those relating to the differences between the carrying amount in the financial statements and the valuation for tax purposes of property, plant and equipment, assumptions are made on the extent to which such tax assets can be realised, and at what point in time. This is based in part on business plans. In addition, assumptions on the temporary and permanent differences between measurement for financial reporting purposes and for tax purposes are used in preparing the financial statements. The actual situation may differ from the assumptions used in determining deferred tax positions, due to differences of opinion, changes in tax rules and so on.

Other

The assumptions relating to acquisitions and IFRS 7 have been covered in notes [1] and [34].

NOTE 36 EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred since balance sheet date which materially affect the 2010 financial statements.

COMPANY FINANCIAL STATEMENTS

Company balance sheet as at 31 December, before appropriation of profit

€ million	Note	2010	2009
Non-current assets			
Property, plant and equipment	[37]	182	180
Intangible assets	[38]	104	-
Investments in subsidiaries and associates	[39]	3,066	2,450
Other financial assets	[40]	76	12
Total non-current assets		**3,428**	**2,642**
Current assets			
Other receivables		17	18
Other financial assets		125	301
Cash and cash equivalents	[41]	487	408
Total current assets		**629**	**727**
Total assets		**4,057**	**3,369**
Equity	[42]		
Share capital		684	684
Share premium		671	671
Subordinated perpetual bond[1]		494	-
Hedge reserve[1]		-12	-8
Revaluation reserve[1]		-7	-10
Other reserves		854	596
Profit after tax		222	312
Total equity		**2,906**	**2,245**
Provisions	[43]	**72**	**78**
Non-current liabilities	[44]		
Subordinated loans		102	104
Other long-term loans		4	8
Total non-current liabilities		**106**	**112**
Current liabilities			
Liabilities to subsidiaries		667	670
Current and accrued liabilities		306	264
Total current liabilities		**973**	**934**
Total equity and liabilities		**4,057**	**3,369**

1 The hedge reserve, the revaluation reserve and the subordinated perpetual bond are not distributable.

Company income statement

€ million	Note	2010	2009
Other income less expenses after tax	[46]	-49	-68
Share in results of subsidiaries and associates after tax		271	380
Net profit after tax		**222**	**312**

Accounting policies for the company financial statements

Specific accounting policies for the company financial statements used in supplement to those for the consolidated financial statements, are set out below.

Investments in subsidiaries

Investments in subsidiaries are recognised at net asset value, measured on the basis of IFRS accounting policies as used in the consolidated financial statements. The difference between purchase price and net asset value on the date of acquisition is recognised separately as goodwill.

NOTE 37 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

€ million	Land and buildings	Other plant and equipment	Assets under construction	Total
Carrying amount as at 1 January 2009	**-**	**-**	**-**	**-**
Movements in 2009				
Investments	-	7	68	75
New consolidations	69	73	10	152
Divestments	-	-29	-	-29
Depreciation	-2	-16	-	-18
Transfers and other movements	6	33	-39	-
Total	**73**	**68**	**39**	**180**
Carrying amount as at 31 December 2009				
Historical cost	138	209	39	386
Accumulated depreciation and impairment	-65	-141	-	-206
Carrying amount as at 31 December 2009	**73**	**68**	**39**	**180**
Movements in 2010				
Investments	-	-	37	37
Divestments	-	-4	-1	-5
Depreciation	-4	-27	-	-31
Transfers and other movements	16	44	-59	1
Total	**12**	**13**	**-23**	**2**
Carrying amount as at 31 December 2010				
Historical cost	154	169	16	339
Accumulated depreciation and impairment	-69	-88	-	-157
Carrying amount as at 31 December 2010	**85**	**81**	**16**	**182**

NOTE 38 INTANGIBLE ASSETS

Intangible assets is made up of goodwill relating to the acquisitions of Endinet (€ 97 million) and Stam (€ 7 million). See note [1].

NOTE 39 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates			
€ million	Investments in subsidiaries	Investments in associates	Total
Carrying amount as at 1 January 2009	**7,475**	**12**	**7,487**
Movements in 2009			
Investments	65	18	83
Issue of share capital	1	-	1
Dividends received	-358	-	-358
Result for the year	360	20	380
Deconsolidations	-5,064	-	-5,064
Movement in hedge reserve	-84	-	-84
Movement in revaluation reserve	4	-	4
Currency translation differences and other movements	1	-	1
Total	**-5,075**	**38**	**-5,037**
Carrying amount as at 31 December 2009	**2,400**	**50**	**2,450**
Movements in 2010			
Investments	8	1	9
Issue of share capital	307	-	307
Dividends received	-	-5	-5
Result for the year	263	8	271
Internal transfers	29	-	29
Movement in hedge reserve	2	-	2
Movement in revaluation reserve	2	-	2
Currency translation differences and other movements	-	1	1
Total	**611**	**5**	**616**
Carrying amount as at 31 December 2010	**3,011**	**55**	**3,066**

The investments in 2010 relate to Endinet (€ 4 million) and Stam (€ 4 million). Including the goodwill, the total purchase price was € 112 million. For full details, see note [1]. The issue of share capital in 2010 mainly related to Endinet and Alliander AG to strengthen their equity positions. The deconsolidations in 2009 relate to the discontinued operations of N.V. Nuon Netwerkservices, N.V. Nuon Energy and Liandyn B.V. Internal transfers relates to the transfer of Alliander Telecom N.V. to Alliander N.V. from Liandon B.V.

NOTE 40 OTHER FINANCIAL ASSETS

Other financial assets			
€ million	Deferred tax assets	Other receivables	Total
Carrying amount as at 1 January 2009	**-**	**16**	**16**
Movements in 2009			
Additions	8	-	8
Repayments	-	-12	-12
Total	**8**	**-12**	**-4**
Carrying amount as at 31 December 2009	**8**	**4**	**12**
Movements in 2010			
New receivable	-	35	35
Realised temporary differences	1	-	1
Internal transfers	-2	-	-2
Tax losses carried forward	32	-	32
Loans granted	-	5	5
Loans paid	-	-1	-1
Impairment	-	-6	-6
Total	**31**	**33**	**64**
Carrying amount as at 31 December 2010	**39**	**37**	**76**

NOTE 41 CASH AND CASH EQUIVALENTS

The cash and cash equivalents balance at the end of 2010 did not include any restricted cash (2009: ditto).

NOTE 42 EQUITY

The statement of changes in equity is included in the consolidated financial statements.

NOTE 43 PROVISIONS

Provisions						
€ million	Post-employment medical benefits	Termination benefits	Other employee provisions	Environmental restoration provision	Other provisions	Total
Carrying amount as at 1 January 2009	**9**	**5**	**41**	**17**	**-**	**72**
Movements in 2009						
New consolidations	-	-	-	-	3	3
Deconsolidations	-	-	-3	-	-	-3
Released	-	-	-8	-	-	-8
Added	-	8	20	-	4	32
Utilised	-2	-11	-8	-3	-2	-26
Interest	2	1	1	-	-	4
Actuarial gains and losses recognised immediately	-	-	-3	-	-	-3
Major curtailments and settlements	-	5	2	-	-	7
Total	**-**	**3**	**1**	**-3**	**5**	**6**
Carrying amount as at 31 December 2009	**9**	**8**	**42**	**14**	**5**	**78**
Movements in 2010						
Released	-1	-	-5	-	-	-6
Added	-	8	8	-	1	17
Utilised	-1	-4	-12	-	-2	-19
Interest	-	-	1	-	-	1
Actuarial gains and losses recognised immediately	-1	-	3	-	-	2
Major curtailments and settlements	-	1	1	-3	-	-1
Total	**-3**	**5**	**-4**	**-3**	**-1**	**-6**
Carrying amount as at 31 December 2010	**6**	**13**	**38**	**11**	**4**	**72**

The post-employment medical benefits mainly consists of a post-employment medical scheme for retired employees. This scheme has not been transferred to an external insurance company or pension fund. The restructuring provision (termination benefits) was € 13 million at the end of 2010 (2009: € 8 million). Other employee provisions mainly consists of the provision for long-service benefits (paid to employees who have completed 10, 20, 30 and 40 years of service) and for payments on reaching retirement age and the provision for shorter working hours for older employees, a transitional scheme which was created by the Collective Labour Agreement of December 2005 to allow older staff members to reduce their working hours in the future. The environmental restoration provision relates to expected obligations with regard to soil pollution.

NOTE 44 NON-CURRENT LIABILITIES

Interest-bearing debt		
€ million	2010	2009
Carrying amount as at 1 January	**178**	**166**
Movements		
New loans	24	-
Repayments	-67	-12
Transfer to subsidiaries	-	-47
Currency translation differences and other movements	-	71
Total	**-43**	**12**
Carrying amount as at 31 December	**135**	**178**

Interest rates and repayments on long-term liabilities were as follows:

Non-current interest-bearing debt including current portion						
€ million	Effective interest rate		Current portion		Non-current portion	
	2010	2009	2010	2009	2010	2009
Subordinated loans	8.6%	7.8%	2	65	102	104
Private and green loans	1.9%	7.8%	27	1	3	6
Banks	8.2%	8.2%	-	-	1	2
Carrying amount as at 31 December			**29**	**66**	**106**	**112**

Subordinated loans

These loans were provided by shareholders and are subordinated to other liabilities.

NOTE 45 CONTINGENT ASSETS AND LIABILITIES

Pursuant to Section 403, Book 2 of the Netherlands Civil Code, Alliander has assumed liability for the obligations arising from the legal acts of several of the subsidiaries listed under other information. Alliander, together with its Dutch subsidiaries, forms a tax group for both corporate income tax and value added tax (VAT). Consequently, every legal entity forming part of the tax group bears joint and several liability for the tax liabilities of the legal entities included in the tax group. Alliander has also given a declaration of indemnity to its grid managers under which their liability in this respect is restricted to the amount for which they themselves would be liable if a tax group did not exist.

As at year-end 2010, Alliander had issued parent company guarantees amounting to € 33 million (2009: € 30 million). Bank guarantees amounting to € 10 million had been issued on Alliander's behalf as at year-end 2010 (2009: € 10 million). As at year-end 2010, Alliander had also given guarantees totalling € 19 million relating to employees' mortgages (2009: € 20 million).

NOTE 46 OTHER INCOME LESS EXPENSES AFTER TAX

Net other income and expenses after tax was an expense of € 49 million (2009: € 68 million expense), mainly relating to company-wide activities at holding company level.

Remuneration of the Management Board and the Supervisory Board

Information on the remuneration of the Management Board and the Supervisory Board is presented on pages 127 to 128 of the 2010 consolidated financial statements.

Arnhem, 24 March 2011

Management Board
P.C. Molengraaf, chairman
M.R. van Lieshout

Supervisory Board
E. M. d'Hondt (chairman)
G. Ybema (deputy-chairman)
F.C.W. Briët
Ms J.B. Irik
Ms J.G. van der Linde
Ms A.P.M. van der Veer-Vergeer
J.C. van Winkelen

other

Profit appropriation

The profit appropriation is governed by Article 33 of the Articles of Association. The text of this article is as follows: Article 33 Profit: Payment chargeable to the reserves.

1. Subject to approval of the Supervisory Board, the Management Board determines which part of the profit available for distribution – the positive balance of the income statement – is added to the reserves.
2. The profit remaining after the addition to the reserves, as referred to in the preceding clause, is at the disposal of the General Meeting of Shareholders.
3. Profit distributions are limited to the distributable part of the shareholders' equity.
4. Distribution of profit will take place after the adoption of the income statement which demonstrates that it is permissible.
5. The Management Board may decide to distribute an interim dividend, under approval of the Supervisory Board, and with due observance of clause 3 above and any other provision laid down by law.
6. The General Meeting of Shareholders may, on the proposal of the Management Board which has been approved by the Supervisory Board, resolve to make distributions to shareholders chargeable to the distributable part of the shareholders' equity.

Dividend proposal 2010

The Management Board has determined, with the approval of the Supervisory Board, to add an amount of € 141.3 million to the other reserves. The remaining portion of the profit, amounting to € 80.4 million, is at the disposal of the General Meeting of Shareholders. This corresponds to 45% of the profit after tax, excluding net incidental items not resulting in cash flows in 2010 unless related to hedge accounting.

INDEPENDENT AUDITOR'S REPORT

To the General Meeting of Shareholders of Alliander N.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of Alliander N.V., Arnhem as set out on pages 89 to 151. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, the consolidated income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Management board's responsibility

The management board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the management board is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management board, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Alliander N.V. as at 31 December 2010, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Alliander N.V. as at 31 December 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Rotterdam, 24 March 2011
PricewaterhouseCoopers Accountants N.V.

Originally signed by
J.A.M. Stael RA

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred since balance sheet date which materially affect the 2010 financial statements.

SIGNIFICANT SUBSIDIARIES AND OTHER PARTICIPATIONS

Significant subsidiaries and other participations
as at 31 December 2010

Name	Registered office	%
Significant consolidated subsidiaries		
Liander N.V. *	Arnhem	100%
n.v. Nuon Infra Oost *	Arnhem	100%
n.v. Nuon Infra West *	Amsterdam	100%
Liandon B.V. *	Duiven	100%
Stam Heerhugowaard Holding B.V. *	Heerhugowaard	100%
Endinet B.V. *	Eindhoven	100%
Alliander Telecom N.V. *	Amsterdam	100%
Alliander Finance B.V. *	Arnhem	100%
Alliander Participaties B.V. *	Arnhem	100%
Alliander AG	Berlin	100%
Alliander Netz Heinsberg AG	Heinsberg	100%
Alliander Stadtlicht GMBH	Berlin	100%
Other participations		
N.V. KEMA		25%
Ziut B.V.		53%

* Alliander N.V. has issued a Section 403 statement of liability for these subsidiaries.

A complete list of investments in subsidiaries, associates and joint ventures, as required by Sections 379 and 414 of Book 2, Part 9, of the Netherlands Civil Code, is filed with the Chamber of Commerce in Arnhem.

corporate social responsibility

In this section, we discuss Alliander's performance in respect of corporate social responsibility. We explain the reasons for the choices made in compiling this annual report and, where necessary, provide additional information to supplement information provided elsewhere in the report.

CHOICES MADE IN RESPECT OF THE ANNUAL REPORT

Global Reporting Initiative

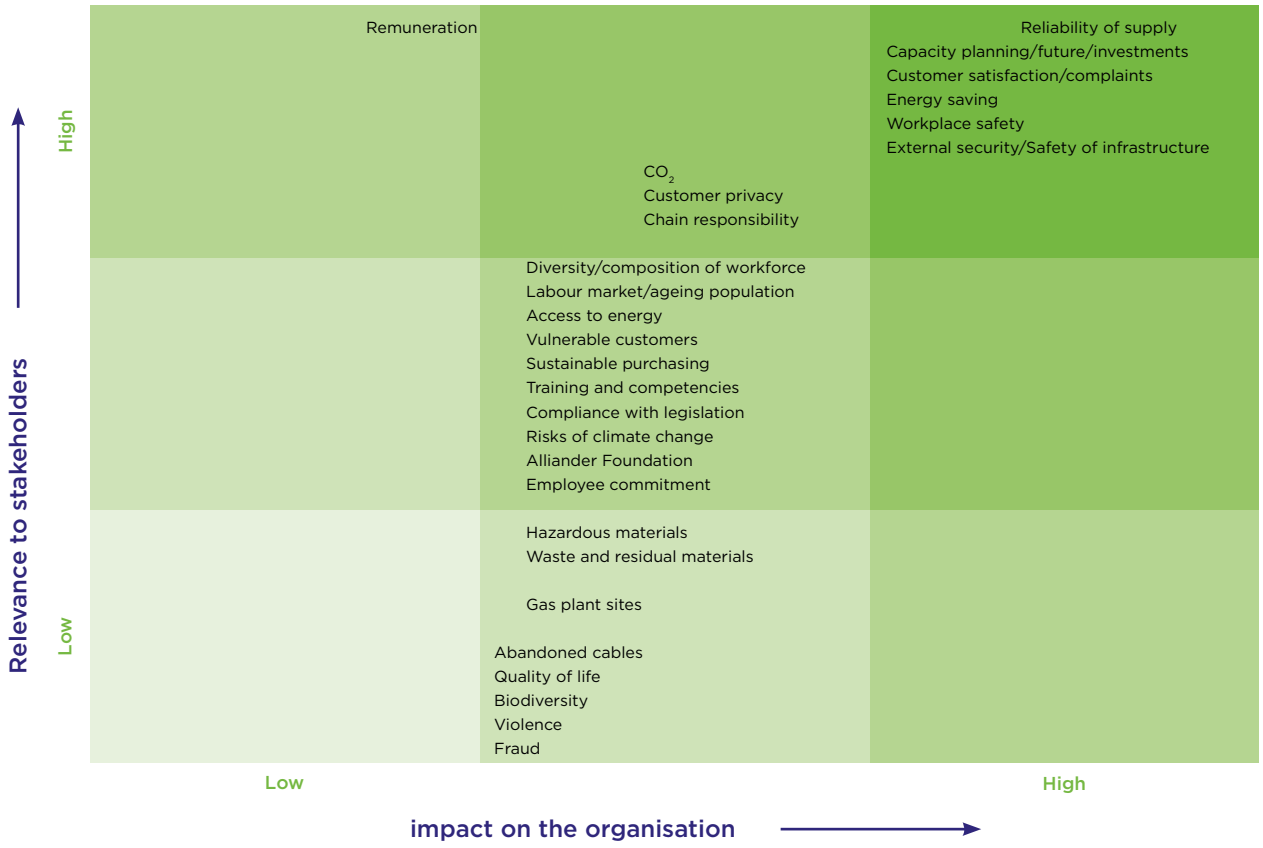
Alliander has based this Corporate Social Responsibility Report on the Global Reporting Initiative (GRI) guidelines, which are designed to ensure transparent reporting for stakeholders. This report applies the GRI G3 guidelines in combination with the Electric Utilities Sector Supplement of April 2009. A detailed account of the way in which the GRI standard has been applied is provided in the GRI index on page 166.

Defining content and materiality

In determining the scope of this report, Alliander used the boundaries protocol drawn up by the GRI for this purpose. The extent to which issues are considered material from a corporate social responsibility perspective is determined by analysing the effect that the organisation has on stakeholders' interests and estimating the impact of the issue on the organisation. The materiality of subjects from the organisation's perspective is determined on the basis of the core and sector-specific indicators in the GRI framework.

In order to ensure transparency in the annual report, we then determined the materiality of the various subjects. In other words, we examine whether these subjects are of

Materiality of social issues



such importance that they need to be discussed, either in detail or more briefly, in the report. The applicability of the GRI Index (page 166) is discussed for as many issues of relevance to Alliander as possible.

Various subjects and topics were discussed during the year with employee, customer and shareholder representatives, as well as with parties representing various interest groups in society.

Data collection

A distinction is made, for data collection purposes, between qualitative and quantitative information. Qualitative information on subjects of material importance was gathered by means of a written questionnaire, while quantitative information was gathered using a standardised list. Wherever possible, information was obtained from Alliander's existing management information systems. The quality of routine information is ensured through a system of internal controls, while the quality of non-routine information used in the report is assessed within the organisation.

Social issues of relevance to Alliander

Our main focus in 2010 was on responding to the needs of our stakeholders. To this end, we held both regular consultations and ad hoc dialogues with our stakeholders during the year.

Alliander in direct interaction with stakeholders in society

Stakeholder	Organisation	Interaction	Objective
Government	Provinces and municipalities	Consultation, collaboration and projects	To align climate and environmental plans and projects
	Central government organisations	Consultation, discussions and exchanges of views	To promote expression of interest and pro-active dialogue
Societal organisations	Nature and environmental organisations, including Fryske Gea	Consultation and dialogue on project structures and sustainability topics	To facilitate supply of renewable energy
	Relationships with housing associations, developers and businesses	Agreements, participation in associations and foundations	Participation/ Dialogue/Relationship Management
	Alliander Foundation relationship network/ Consultation on social issues	Dialogue session/ Future Panorama Day	Dialogue/Relationship Management
Suppliers	Contractors and industry, suppliers of goods and services, societal organisations	Contractors' Day Suppliers' Days Themed consultations	Collaboration, Relationship Management, Dialogue
Regulators	Netherlands Competition Authority, Energy Chamber	Periodic meetings to discuss topical subjects and issues. Standard and ad hoc requests for information	To inform, exchange and explain
	State Supervision of Mines	Periodic meetings to discuss topical subjects and issues. Standard and ad hoc requests for information	To inform, exchange and explain
Knowledge institutions	Education institutes and knowledge organisations	Collaboration with Radboud University and HAN University of Applied Science, and sponsoring of the Vakcollege technical college	Knowledge exchange and partnerships
Multi-stakeholder and network organisations	Kenniskring Amsterdam, CEN Standards Committee (ISO 26000) MVO Nederland (Dutch national CSR knowledge and network organisation)	Participation in management meetings	Collaboration with knowledge institutions, businesses and government organisations
Energy sector	Netbeheer Nederland	Working groups Participation in e-laad.nl	Knowledge exchange and partnerships. Representing of interests
Shareholders and lenders	Interested provinces and municipalities	General Meeting of Shareholders Major Shareholder Consultations Consultative Group, Internships	Formal and informal consultations
	Lenders, investors and credit rating agencies	Periodic consultations and reports on financial performance	Accounting and explaining

Materiality analysis: what our stakeholders consider important

In our activities, we come across a diverse range of societal issues, both in our dialogue with stakeholders and in our day-to-day work. We perform a test of materiality to decide on the topics and issues to include in this report. This test involves setting priorities by theme. The ten most important themes are set out in the following table, with each theme being reported on elsewhere in the annual report.

Materiality analysis – priorities and notes

Subject	Description	Stakeholder(s)	Approach	Section in annual report
1. Reliability of supply	Uninterrupted availability of energy is of great importance to society. Any disruptions to supply have an immediate impact on many stakeholders' interests.	Customers, Regulators, Shareholders	To meet the Energy Chamber standard; aim to reduce number of interruption minutes	Customers
2. Future energy supply	A sustainable and reliable energy supply in the future requires continuing consultations with stakeholders. The challenges include capacity planning and investments in networks, new technology and innovation.	Customers, Regulators, Shareholders, Providers of capital	Superconductor cables, Alde Feanen project, Quality and Capacity Document (KCD), All Store study	Future Grid Society
3. Customer satisfaction	Customers can count on receiving excellent service and on any issues being dealt with properly.	Customers, Shareholders	Benchmark score	Customers
4. Energy savings	Reducing waste is the first step towards sustainability. Alliander provides information and data to help stakeholders save energy.	Customers, Central and local government	Stakeholder dialogue in 2010, Information and data, Plugwise, Bonnie and Blitz	Customers, Future
5. Safety of operations	Working on the gas and electricity infrastructure involves inherent risks. Safe working practices, without incidents, are very important for all stakeholders.	Employees, Safety regulators	Health and safety legislation, Specific energy-sector regulations	Employees
6. Safety of infrastructure	Following incidents in the grey cast iron gas pipes, stakeholders understand the importance of Liander's approach	Safety regulators, Customers, General public	Consultations with regulators (State Supervision of Mines)	Grid
7. CO_2 footprint	Each year more than 3% of energy transported is lost through grid losses. Greater efficiency reduces these losses and limits CO_2 emissions.	Non-governmental organisations, Shareholders	CO_2 annual plan instruction, grid optimisation, CO_2-neutral grid losses, sustainable energy investment route,	Society
8. Privacy	Consumer Association has objected to possible privacy aspects of information exchanged by the smart meter.	Customers	Legislation on smart meters, EU initiative by Alliander, Policy on privacy	Future Transparency
9. Supplier chain responsibility	Safety, the environment and human rights are also a responsibility in respect of suppliers and outsourced work.	Suppliers, Non-governmental organisations, Employees, Contractors	Contractors' strategy, work contracted out and put to tender, CRP Index	Society
10. Composition and diversity of workforce	Alliander's workforce is not representative of society. As a large employer, Alliander can make a difference by targeting specific groups.	Employees, Societal organisations	Step2work (providing opportunities for people at a disadvantage in the labour market), Mariëndaal, Women in Management	Employees, Society

ALLIANDER'S CSR AMBITIONS

The following table summarises our ambitions in respect of corporate social responsibility and the specific efforts that have been made over the past year.

CSR ambitions in 2010		
Ambition	**Objective**	**Activities and results in 2010**
Alliander facilitates energy transition		
Maximising use of sustainable energy generation and new applications in grids	Energy feed-in from renewable sources	Three new green gas projects in start-up phase: Middenmeer, Schoteroog and De Marke
	Adapt energy network to changing demands	Increasing voltage of medium voltage grid, Start of I-pilot in Amsterdam, Investments in SAS sensor technology
	Help install 10,000 recharging points for electric cars in the Netherlands by year-end 2012	Liander and e-laad.nl installed 42 recharging points in 2010
Helping reduce customers' energy consumption	Contribute to government's energy saving targets	'Energie in Beeld' joint venture; provision of energy information to customers by Alliander and grid manager Enexis
Encouraging and applying innovation	New initiatives focusing on knowledge and participation	Participation in Plugwise, energy saving techniques, Participation in Smart Energy Collective
	Collaboration in sector initiatives with Netbeheer Nederland	Participation in sector initiatives for green gas, smart grids and electric vehicles, as well as green gas roadmap and smart grid roadmap
Alliander operates responsibly		
Environment		
Seeking to achieve climate-neutral operations by 2015 and reducing emissions and impact on natural resources	To reduce ecological footprint	Total waste volumes: 12k tonnes, 77% of which is recycled for re-use
	Climate-neutral operations in 2015	CO_2 footprint: 780 k tonnes. Investments in CO_2 reductions established and incorporated into planning and budget cycle; start of programme to reduce grid losses
	'Greener' vehicle fleet: strict policy on leasing; electric vehicles	Purchase of 20 Think electric cars. Agreements on further electrification of vehicle fleet
Environmental management based on recognised guidelines	Managing internal processes	ISO 26000 workshops; ISO 14001 for relevant business activities
Customers		
Optimal accessibility of products and services	Customer satisfaction rises compared to Dutch grid managers' benchmark	Customer satisfaction: 2% increase; 91% of consumers and small business customers are satisfied Customer satisfaction: 2% increase; 88% of large business customers are satisfied
	Support for vulnerable customers	Alliander applies social criteria when deciding whether to disconnect a consumer's energy supply. It has a covenant in 93% of GGD (Municipal Health Department) regions
	Safe energy supply	Public education campaigns via www.energieveilig.nl
Grid manager's supply reliability is above average	Electricity disruptions and outage durations below Dutch sector average	Average number of disruption minutes per electricity customer connected by Liander rose to 31.2 minutes; Dutch average is 33.7 minutes.
Employees		
Safest working environment of grid managers in the Netherlands	Reinforce safety management based on recognised norms; LTIF = 2.9	LTIF = 3.1
Support for socially disadvantaged people	Policy on participation and diversity	Share of women in Alliander's workforce: 19% (2009: 19%) Share of women in management: 17% (2009: 16%)
Prominent position as attractive Employer	Learning and growing/ leadership	Percentage of wage sum spent on training: 3.1% (2009: 4.4%)
	Recognition as good employer	Employee satisfaction score: 8.1 out of 10 (2009: 8.2)
Supplier chain responsibility		
Sustainable purchasing	Operating in accordance with applicable standards	Stakeholder dialogues with suppliers and compliance with CSR criteria when contracts are put to tender (CRP statement). In 2010, 28% of contracts signed were in compliance with the CSR criteria.
	Development of CSR requirements and sustainability	Life cycle analysis

Alliander is a socially responsible network company		
Active dialogue with stakeholders	Structural stakeholder dialogue	Dialogue day, suppliers' days, stakeholder dialogue on various themes
Support for socially disadvantaged people	Placement of 70 disadvantaged employees	Step2Work: 71 placements arranged; Mariëndaal introduction programme started
Support for social initiatives	Sponsorship policy demonstrates commitment to society	Sponsorship relationships with Introdans, Vakcollege technical college, Valid People initiative
Support of community involvement among employees	Participation in Alliander Foundation	974 employees active as Alliander Foundation volunteers in 2010
Projects on social themes	Themes: sustainability, chain responsibility, aggression, climate, labour market participation, quality of life, privacy, ageing population	Master classes with external speakers; community dialogues on people with disabilities; supply chain responsibility
Compliance with CSR reporting guidelines	Integrated financial and CSR report, based on recognised guidelines	GRI G3 B-plus level as at 2010[1] 42nd place on the Dutch Transparency Benchmark 2010

1 See list of definitions

ENVIRONMENT

Organisation

Alliander's Safety, Environment and Quality department advises the organisation on these issues and helps us to continually improve our performance in these areas. Our environmental policy is agreed on in liaison with the relevant departments.

Alliander environmental helpdesk

Alliander has set up a centralised environmental helpdesk that can be contacted by anyone within the organisation. In this way, we are seeking to meet our business units' needs for proper, easily accessible operational support on environmental issues, legislation and regulations. The helpdesk can advise on issues such as environmental policy and legislation, compliance scans, procedures for licences and permits, environmental questions relating to operating activities, soil surveys and clean-up programmes, noise and emission measurements, environmental incidents, emergencies and so on. The support is provided as and when requested and in liaison with the Safety, Environment and Quality department. The environmental helpdesk was contacted on over 250 occasions in 2010 and took action during the year to:

- Ensure compliance with the new Environmental Management Act and other relevant legislation and regulations;
- Establish proper operating methods and procedures for managing licences, permits, reporting, rules and related documents for the network company's assets, including its office premises and operational support points;
- Ensure the proper monitoring and management of licences, permits, reporting and rules in the fields of spatial planning and the environment.

Energy and climate: our CO_2 footprint

Climate change is a worldwide problem. Grid losses in our infrastructure mean our CO_2 footprint is relatively high. We are committed to accepting our responsibility for reducing our CO_2 emissions and have set ourselves the target of being climate-neutral by 2015. We consequently monitor our CO_2 emissions monthly and are taking action to reduce them.

CO_2 strategy

Alliander's primary focus is on achieving savings in energy consumption. We have started developing a sustainable energy investment route, which we will begin implementing in 2011. We have also created extra scope for investments designed to reduce CO_2 emissions. This is based on the forecast CO_2 costs of the EU Emissions Trading System (EU ETS) and will create added investment scope of € 15 per tonne of CO_2.

Performance

Despite all the action and measures taken, we failed to achieve our CO_2 objectives in 2010, primarily due to higher technical and administrative grid losses relating to:

- Higher energy consumption by our customers, partly because of the lower temperatures during the year that resulted in higher 'technical' grid losses;
- Faster contract cancellation by energy suppliers, resulting in responsibility for supplying energy shifting to the grid manager;
- New homes more often being completed including the energy supply, without any contractual obligations;
- Longer start-up times for Alliander's energy-saving measures.

Reducing grid losses: a challenge for Alliander

Transporting electricity always involves some loss of energy. This is due to the 'natural' resistance of cables, distribution transformers and other grid components.

Around 3.4% of the total electricity transported was lost in this way in 2010.

We also have to deal with administrative grid losses. These can have many different causes, with the main ones being fraud and vacancies. These losses, which are also included in grid losses, are estimated to account for 0.95% of total electricity transported in 2010. In 2011, we are starting a project to prevent administrative grid losses attributable to vacancies. We have identified the causes of administrative grid losses and their contribution to the total. Grid losses also occur as a result of natural gas leaks, and these contribute to the greenhouse effect. We go to great lengths not only to track down and repair leaks, but also to prevent them from occurring.

Energy use in our buildings

Electricity consumption in Alliander buildings over the past year amounted to 15,574,670 kWh, compared with 16,300,980 kWh in 2009. This represents a reduction of 5%, while the number of workplaces has remained stable. The decrease is largely attributable to investments in building-specific installations and in measurement and control technology. Following an overhaul, the installations using combined heat and power in Zutphen and Leeuwarden also became operational again in late 2009, and this led to a lower demand for electricity from the grid. The Plugwise pilot project in Harderwijk also resulted in lower electricity consumption at these premises.

Gas consumption at our offices amounted to 1,660,369 m^3 in 2010, which was around 9% higher than in 2009. The reason for the increase is that 2010 was colder than 2009, with many days of snow and low temperatures. The investment in new central heating boilers at the Arnhem Bellevue offices resulted in gas consumption being lower than previously.

We will obviously continue monitoring the settings of our systems and looking to improve their performance. At the Bellevue offices, for example, we are investing in a system to capture heat and cold that can then be used in the air conditioning system.

The Plugwise pilot project in Harderwijk has generated useful information that we will be able to build on in 2011. By combining switches via Plugwise and grouping equipment together, we believe we will be able to achieve savings of a similar magnitude. The components released as a result of this project will be used in other buildings and thus generate additional savings.

SF_6 in our operating equipment

SF_6 is a strong greenhouse gas, but, as a good electrical insulator, is often used in switching installations in the electricity grid. As the systems in which SF_6 is used are almost totally closed, no SF_6 emissions occur in normal operations. Higher emissions of SF_6 are, however, possible in the event of disruptions and during maintenance of switching installations. By observing the principles of 'good housekeeping' Alliander can prevent unnecessary leaks of SF_6 gas into the environment while carrying our repairs and maintenance of installations containing SF_6. In most cases, the SF_6 gas can be captured and re-used. Alliander has also undertaken:

- Not to use SF_6 if good SF_6-free alternatives are available;
- To maintain a registration system for all SF_6 used;
- To detect and repair any SF_6 gas leaks as soon as possible.

Alliander complies with the EU Directive on 'F-Gas regulation'.

Waste materials

Alliander ensures that all residual and waste materials are dealt with and removed in a safe, environmentally responsible manner and in accordance with applicable legislation and regulations. Wherever possible, we seek to avoid creating residual and waste materials, while also encouraging useful applications and the re-use of materials. In this way, we can minimise the environmental impact of waste. Alliander's Residual and Waste Materials Centre (RAC) is responsible for collecting and registering separated flows of residual and waste materials in a professional manner, as well as for dealing with the various waste collection organisations and permit-holders. The RAC aims, in liaison with suppliers, to identify as many opportunities as possible for recycling and re-using materials.

The RAC and the waste management organisation SITA also conduct service scans within Alliander's organisation. These scans are discussed with the relevant business units and resulted in many suggestions for improvements in 2009. These have since been implemented, with a resulting increase in the percentage of waste materials recycled. These original scans were followed in the first quarter of 2010 by a series of SecondScans, with SITA also checking the results actually achieved against the potentially achievable recycling percentages. Our aim is to achieve a recycling percentage of 80%. The main area in which we can achieve substantial gains is in separating the waste generated by our offices. By the end of 2010, Alliander's volume of recyclable industrial waste totalled 77%, compared with 71% in 2009.

The above percentages do not include the asbestos-containing material that is released each year as part of various clean-up projects. Asbestos-containing material is waste that has to be disposed of professionally. Although the volumes being disposed of have increased, this is largely because of clean-up projects and maintenance being carried out earlier than previously anticipated.
Volumes of other waste flows, including cast iron waste,

are also higher than in the past. We have subjected our metal waste to critical examination. Wherever possible, we aim to have all metal waste recycled as a raw material in the Netherlands. Besides the Netherlands, Sweden and Germany are the only countries where metal fractionations are exported to. The high prices of copper and aluminium are a particular area of concern as this means that these valuable waste materials are regularly stolen. In addition to the financial losses involved, there is also, therefore, a risk of improper processing. Alliander reports all cases of theft and disappearance of such materials to the police.

Alliander, Enexis and the producers/suppliers are jointly responsible for collecting and recycling copper and silver fuses (fuse cartridges), and have set up the IFRB (International Fuse Recycling Benelux) association for this purpose.

Removal of PCB

At the request of the Inspectorate of VROM (Ministry of Housing, Spatial Planning and the Environment) and the industry organisation Netbeheer Nederland, Liander along with the other grid managers in the Netherlands took part in a national survey into the proper removal of PCB-contaminated grid components (such as oil-containing transformers and switches) and PCB-contaminated oil. Over the past 15 years, the grid managers have carried out a radical PCB removal operation under the Ministry's supervision. The final PCB-contaminated appliances are now reaching the end of their useful lives and will have to be removed from the electricity grid in the coming period. The grid managers want to collectively guarantee that no PCBs can enter the environment during the removal of any appliances that may be contaminated with PCB.

All oil from transformers and switches is checked for the presence of PCB when taken out of operation. If any equipment is found to contain PCB in excess of 50mg/kg, the whole appliance, including the oil and the PCB analysis report, is sent to a processing company specifically certified for this purpose. Alliander consequently complies with European Regulation EC/850/2004.

Waste flows

in tonnes of waste	Category	2010	2009
Office waste	Paper and board	586	324
	Small hazardous	9	7
	Other	745	1,047
subtotal		**1,340**	**1,378**
Industrial waste	Paper and board	282	296
	Metals	4,541	4,027
	Timber	233	174
	Plastics	239	227
	Soil	462	433
	Other	4,287	4,415
subtotal		**10,044**	**9,572**
Hazardous waste	Miscellaneous hazardous	620	539
Total		**12,004**	**11,489**

Soil

Working in contaminated soil

The overwhelming majority of our operating assets are located underground, and so our work involves digging on a daily basis. Liander has to dig into the soil around 25,000 times a year to work on the grid in both large and small projects. The environmental quality of the soil is an increasingly important consideration in this respect and Alliander always has to take account of the possibility of soil contamination when planning and performing its work. Policy has been devised to deal with this risk and protective equipment is also available. Our primary focus is on ensuring the safety of activities and the health of our employees. Soil contamination, in some cases possibly serious, has been identified at around 425,000 locations in the Netherlands. Of these locations, some 250,000 still have to be assessed in more detail. There is also light to moderate contamination across many urban locations and industrial sites. In practice, many grid managers, contractors and (smaller) municipalities are uncertain as to the best approach and on the details of applicable legislation and regulations. The subjects of cables, pipelines and soil contamination have been discussed in depth during consultations between the Grid Managers Platform (energy, water and telecom sector) and the Municipal Platform for Cables and Pipelines, and it has been agreed to seek to establish uniform practices and procedures for grid managers, soil excavators and the government. A working group is expected to publish a series of recommendations on this issue in 2011.

Research into new techniques

Alliander is currently researching new techniques and methods for reducing environmental pollution. Field research is being used to determine whether biological techniques, such as using bacteria to break down or convert oil pollution, can be used to clean up grid components (such as cables and transformers) on site.

Wherever possible, oil pollution relating to oil pressure cables is dug up and removed immediately. In some cases, however, this may not be possible – if, for example, there are lots of cables or pipelines that could be damaged, if dykes are polluted or if the pollution is under a building, a busy road or valuable green spaces. In other words, not all pollution is equally easily accessible. We are therefore currently seeking to identify alternative clean-up methods in conjunction with Wageningen University. Research has been conducted into opportunities, for example, for biologically breaking down and chemically oxidising cable oil. In this way, we can establish whether it is possible to clean up pollution on site. Following the positive results of the laboratory tests, an initial pilot clean-up project has been conducted.

Removal of abandoned cables and pipelines

In conformity with the Act on Information Exchange on Underground Networks (WION), Liander accurately documents the location of cables and pipelines and also registers when these are taken out of service and left in the ground. As abandoned cables and pipelines pose a potential environmental risk for the future, Liander seeks to remove them while carrying out planned activities. Our aim, when digging up abandoned cables and pipelines, is to create as little disturbance as possible to the direct surroundings. The cables and pipelines are then removed in an environmentally responsible manner and registered in the geographical information system.

Soil clean-up programme at former municipal gas plants

The implementation of the soil clean-up programme at the former municipal gas plants is well under way. As the legal successor of a large number of municipal gas companies, Alliander is involved in cleaning up a total of 28 sites in the provinces of Gelderland, Noord-Holland and Zuid-Holland, which were severely polluted in the past as a result of the production of coal gas. Many of the former sites are now still (partly) used by Alliander as office locations or by grid manager Liander as gas distribution station sites for connection to the national gas transport grid.

Coal gas was formerly produced by municipal gas authority from coal. The gas produced was then purified in several steps and stored in large gas holders. This process created many by-products and residual materials such as tar, ammonia, cinders, naphthalene and cyanide compounds. As a result, the soil and groundwater at the gas plant sites became seriously polluted. The programmes for cleaning up this soil have consciously focused on a solution-oriented approach.

Concrete agreements have been reached in this respect, based on financial contributions from Alliander, the central government, provinces and municipalities. The soil clean-up operations will remove this environmental legacy and restore the sites.

Large numbers of soil clean-up operations have now been completed. All gas plant sites in the provinces of Gelderland, Noord-Holland and Zuid-Holland will be dealt with in the years to 2015. The total clean-up costs have been estimated at € 41.1 million, of which a total of € 27.1 million had been spent at the 2010 year-end. The provision for environmental clean-up costs at the end of 2010 amounted to € 14 million.

Biodiversity

In order to preserve European nature areas, the European Union has taken the initiative to set up a cohesive network of nature protection sites under the name of Natura 2000. A total of 162 areas in the Netherlands have been designated part of Natura 2000, including some 60

areas within Alliander's service area. This has consequences for Alliander's operations and operating assets in these areas. In 2010, we analysed the effects of Natura 2000, and in 2011, we will draw up a code of conduct for our operations in nature reserves.

Electromagnetic fields

Electromagnetic fields are created wherever electricity is generated, transported or used. The grid manager Liander is responsible for managing high-voltage power lines with voltages of up to 50 kV. It has not yet been scientifically proven whether magnetic fields around high-voltage power lines can damage people's health. With regard to exposure to electromagnetic fields, Liander complies with the standards set by the International Commission on Non-Ionizing Radiation Protection (ICNIRP), which have also been adopted by the World Health Organization (WHO) and the Health Council of the Netherlands.

Analysis of scientific research has shown a slight statistical link between childhood leukaemia and exposure to magnetic fields in the vicinity of high-voltage power lines. The government has consequently decided, for precautionary reasons, that new urban plans involving new high-voltage power lines should create as few new situations as possible in which children will be exposed to electromagnetic fields of more than 0.4 microtesla for any significant period. More information on this decision can be found in Coping rationally with risks, a memo published by the National Institute for Public Health and the Environment and setting out the Dutch government's thinking on public protection issues. Liander ensures that all its installations comply with the national and international guidelines on magnetic fields, which means that existing situations must not exceed 100 microtesla, while the upper limit for new situations at above-ground power lines is 0.4 microtesla.

Global Reporting Initiative™

Statement

GRI Application Level Check

GRI hereby states that **Alliander** has presented its report "Jaarrekening 2010" to GRI's Report Services which have concluded that the report fulfills the requirements of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

23 March 2011, Amsterdam

B+ GRI REPORT GRI CHECKED

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

The "+" has been added to this Application Level because Alliander has submitted (part of) this report for external assurance. GRI accepts the reporter's own judgment for choosing its assurance Provider and for deciding the scope of the assurance.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

***Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 18 March 2011. GRI explicitly excludes the statement being applied to any later changes to such material.*

assurance report

To the Management Board of Alliander N.V.

Report on Corporate Social Responsibility information

Engagement and responsibilities

We have reviewed the policy, activities, events and performance of the organisation relating to corporate social responsibility in the 2010 reporting year, as presented in the 'Alliander' and 'Connected' sections, as well as in the 'Corporate Social Responsibility' section in 'Facts and Figures', and the GRI index included in 'Other' (hereafter: the 'Corporate Social Responsibility Report') of Alliander N.V. In this Corporate Social Responsibility Report Alliander N.V. accounts for its performance in respect of corporate social responsibility in 2010.

A review is focused on obtaining limited assurance which does not require exhaustive gathering of evidence as in audit engagements. Consequently a review engagement provides less assurance than would be obtained from an audit engagement.

We do not provide any assurance on the assumptions and feasibility of prospective information, such as targets, expectations and ambitions, included in the Corporate Social Responsibility Report.

The Management Board of Alliander N.V. is responsible for the preparation of the corporate social responsibility Report. We are responsible for providing an assurance report on the Corporate Social Responsibility Report.

Reporting criteria

Alliander N.V. developed its reporting criteria on the basis of the G3 Guidelines of the Global Reporting Initiative ('GRI') published in October 2006, as mentioned in the 'Corporate Social Responsibility' section in 'Facts and Figures'. We consider the reporting criteria to be relevant and sufficient for our examination.

Scope and work performed

We planned and performed our work in accordance with Dutch law, including Standard 3410N 'Assurance engagements relating to sustainability reports'.

Our most important review procedures were:

- Performing an external environment analysis and obtaining insight into the industry, relevant social issues, relevant laws and regulations and the characteristics of the organisation;
- Assessing the acceptability of the reporting policies and consistent application of this, such as assessment of the outcomes of the stakeholder dialogue and the reasonableness of estimates made by management, as well as evaluating the overall presentation of the Corporate Social Responsibility Report;
- Reviewing the systems and processes for data gathering, internal controls and processing of other information, such as the aggregation process of data to the information as presented in the Corporate Social Responsibility Report;
- Reviewing internal and external documentation to determine whether the information in the Corporate Social Responsibility Report is substantiated adequately;
- Assessing the overall presentation of the Corporate Social Responsibility Report in conformity with the reporting criteria of Alliander N.V.;
- Assessing the consistency of the 'CSR Disclosures' in the annual report with the Corporate Social Responsibility Report as defined in the first paragraph of this assurance report;
- Assessing the application level according to the G3 Guidelines of GRI.

We believe that the evidence obtained from our examination is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our review procedures performed, nothing has come to our attention that would cause us to conclude that the Corporate Social Responsibility Report, in all material respects, does not provide a reliable and adequate presentation of the policy of Alliander N.V. for corporate social responsibility, or of the activities, events and performance of the organisation relating to corporate social responsibility during the reporting year, in accordance with the Alliander N.V. reporting criteria.

Rotterdam, 24 March 2011
PricewaterhouseCoopers Accountants N.V.

Originally signed by
J.A.M. Stael RA


other

gri index

Index GRI G3, including Sector Supplement Electric Utilities. Publication April 2009

Core indicators are marked with a grey colour bar. Sector indicators are marked by the Sector Supplement EU number

GRI	Element	Pag.	Comment/reference
Profile			
Strategy and analysis			
1.1	Statement from the CEO	5	Introduction
1.2	Description of key impacts, risks and opportunities in relation to sustainable development for stakeholders and organisation	156	Materiality and Stakeholder Table
Organisation profile			
2.1	Name of the reporting organisation	7	Profile
2.2	Primary brands, products and/or services	7	Profile
2.3	Operational structure and description of divisions, business units, subsidiaries and partnerships	7	The organisation chart can be found on our internet site (www.alliander.com/nl/over-alliander/het-bedrijf)
2.4	Location of headquarters	177	Publication Details
2.5	Countries of residence and operations	7	Profile
2.6	Ownership structure and legal form	8	Profile
2.7	Markets served (geographical distribution, sectors, customers)	8	Profile, Customers
2.8	Size of the organisation	4, 8	Key data
2.9	Significant changes during reporting period in relation to size, structure or ownership	8	Takeover of Endinet and Stam
2.10	Awards received during reporting period	35	One award was received for being a good employer in the reporting period
EU 1	Installed capacity	-	Alliander has no installed energy generation capacity
EU 2	Net energy production by primary source and regulatory regime	-	Alliander has no installed energy generation capacity
EU 3	Customer accounts	8	The numbers of grid connections are reported
EU 4	Transmission and distribution lines	8	Reported as a '3-phase (circuit) length'
EU 5	Allocation of CO_2 emission allowances	-	European Trading System, ETS, is not applicable to Alliander
Report parameters			
3.1	Reporting period	-	This report covers the period 1 January to 31 December 2010
3.2	Date of most recent previous report	-	Alliander Financial and Corporate Social Responsibility Report 2009
3.3	Reporting cycle	-	Annually per calendar year
3.4	Contact point for questions	177	Publication Details
Scope and boundaries			
3.5	Process for defining report content	3, 155	
3.6	Boundary of the report and scope	3	Changes compared to 2009 are discussed.
3.7	Specific limitations on the scope of the report	3	Partial inclusion and consolidation of data of Endinet and Stam
3.8	Organisational changes in relation to previous reporting year with impact on comparability of data	-	Effects are explained in charts and graphs
3.9	Data measurement techniques, principles and assumptions	-	In a number of cases, use was made of verified assumptions. These are explained in the text or in a footnote to a table or graph
3.1	Re-statements of information	-	Re-statements are disclosed in the text or in a footnote to a table or graph
3.11	Significant changes that may limit the comparability since previous reports	-	Changes are disclosed in the text or in a footnote to a table or graph

GRI Content			
3.12	GRI Content	166	GRI G3 guidelines were applied, as well as the Electric Utilities Sector Supplement of April 2009
Assurance			
3.13	Independent assurance for the report	164	Assurance Report Appendix
Governance structure			
4.1	Governance structure	71	
4.2	Leadership role of the chairman of the Management Board	13, 71	
4.3	Number of independent members and/or non-executive members of the highest governance body	77	
4.4	Mechanisms for shareholders and employees to provide recommendations to and participate in the decision-making of the highest governance body	80	The relationship with the Works Council has been clarified
4.5	Linkage between remuneration for members of the Management Board and the organisation's financial and non-financial performance	85	Corporate social responsibility results are part of the agreed remuneration package. These are accounted for in the Remuneration Report
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	78	
4.7	Process for determining the qualifications and expertise of the Management Board for managing the organisation's sustainable development	79	Sustainable development is a responsibility of the Alliander Management Board. The Supervisory Board defines the relevant criteria in its appointment and selection policy for Management Board members
4.8	Mission statement/codes of conduct and principles and extent of implementation of sustainable development policy	11, 65, 71	Sustainable development is part of Alliander's mission. The Management Board annually specifies the priorities prior to the business planning
4.9	Assessment of sustainability performance by Management Board/Supervisory Board	79, 84	Sustainability indicators are part of the internal monthly and quarterly reports. In addition, results from internal audits and benchmark data are reported to the Management Board
4.10	Evaluation of own sustainability performance by the highest governance body	79	The results are part of the annual performance objectives agreed with the Management Board and part of the management and the remuneration policy
Commitments and external initiatives			
4.11	Precautionary approach	65	Internal risk management is part of corporate governance and is also incorporated into the operational processes
4.12	Voluntary agreements/covenants	20, 35, 37	Municipal Health Covenant, regional security coordination authorities, sector arrangements on employment, training institutes
4.13	Most important memberships of industry organisations and special interest groups	-	Netbeheer Nederland, Global Gas Network Initiative, Global Intelligent Utility Network Coalition, GRI, NEN, MVO Nederland
Stakeholder engagement			
4.14	Overview of stakeholder groups and relationship with Alliander	156	
4.15	Stakeholder identification and selection process	156	Alliander is committed to the stakeholder approach as a basic business principle. Stakeholders are represented in consultation or dialogue situations or are involved in incidental consultation
4.16	Approach, frequency and type of stakeholder engagement	156	
4.17	Outcomes of stakeholder engagement and their implementation	157	
Performance Indicators and Management Approach			
Economic Performance Indicators			
EC	Disclosures of management approach	56	
EU 6	Capacity planning to ensure short- and long-term availability and reliability of electricity	27, 28	Capacity planning is explained in relation to replacement policy and expansion investments
EU 7	Demand-side management programmes for households, services and industry	28	This is primarily a task for energy providers. Alliander facilitates research into and manages smart energy grids
EU 8	Research and development	52	
EU 9	Provisions for decommissioning nuclear installations	-	Alliander does not own or manage any generation capacity or nuclear installations
EC 1	Economic value generated and distributed	125, 130, 172	Information is included in Key Figures and Five-Year Summary overviews
EC 2	Financial implications, risks and opportunities due to climate change	50	Opportunities and possibilities of energy transition in this area are discussed
EC 3	Coverage of staff benefit plan for departing staff (dismissal, early retirement, retirement)	103	Employees of Alliander have compulsory pension and unemployment insurance under Dutch law. In the event of reorganisations, a social plan agreed upon with employee representatives is applicable

EC 4	Subsidies/financial assistance received from government	-	A final amount of € 1.4 million was granted for 2010
EC 5	Standard entry-level wage compared to local minimum wage	-	Not reported on
EC 6	Policy, practices and proportion of spending on locally-based suppliers	-	Not reported on
EC 7	Local staff hiring and proportion of senior management hired from the local community	34	Disclosure of the provinces in which employees reside. These largely coincide with Alliander's service area. Virtually all of Alliander's employees live and work in the Netherlands. For this reason there is no specific policy
EC 8	Contribution to development and scale of investments for the benefit of the community	46, 63	Disclosures of investments in grid infrastructure. Sponsorship
EC 9	Significant indirect economic impacts	-	Not reported on
EU 10	Planned capacity against projected electricity demand	-	Alliander has no generation capacity in ownership or under management
EU 11	Average generation efficiency	-	Alliander has no generation capacity in ownership or under management
EU 12	Transmission and distribution efficiency	44, 159	Alliander reports leakage and grid losses from the electricity and gas grids
Environmental Performance Indicators			
EN	Disclosures of management approach	159	Disclosures concern: Environment, PCBs, waste, soil, compliance and biodiversity
EN 1	Materials used	161	Disclosures concern PCBs in operating assets
EN 2	Use of recycled material and waste from third parties	-	Indicator is not applicable to Alliander's processes
EN 3	Direct energy consumption	44	
EN 4	Indirect energy consumption	44	
EN5	Energy savings and efficiency improvements	26	The replacement of cast iron pipes is reported on
EN 6	Initiatives for energy-efficient products and services or products and services based on renewable energy	21	Energie in Beeld for municipalities aimed at providing information on energy usage
EN 7	Initiatives to reduce indirect energy consumption and reduction already achieved	159	Alliander is working on a programme for reducing energy consumption in buildings and vehicle fleet
EN 8	Total water withdrawal by source	-	Alliander withdraws no (cooling) water
EN 9	Water sources significantly affected by water withdrawal	-	Alliander withdraws no water for cooling purposes
EN 10	Percentage and total volume of water recycled and re-used	-	Alliander uses no recycled water
EN 11	Land use in/near protected areas with high biodiversity	-	Not reported on
EN 12	Impacts of activities on protected areas of high biodiversity	162	
EN 13	Habitats protected or restored	162	Soil clean-up of former gas plant sites is reported on
EU13	Biodiversity of pollution offset areas	-	Not reported on
EN 14	Strategies, actions or plans for managing impacts on biodiversity	162	
EN 15	Number of IUCN Red List species with habitats in areas within the sphere of influence of company activities	-	Not reported on
EN 16	Total direct and indirect greenhouse gas emissions	44	Alliander publishes CO_2 footprint. Alliander has no energy generation facilities of its own
EN 17	Other relevant indirect greenhouse gas emissions	44	Section on CO_2 footprint
EN 18	Initiatives to reduce greenhouse gas emissions and realised reductions	51	Innovative projects and operational and energy transition measures are reported on
EN 19	Emissions of ozone-depleting substances	-	Not reported on
EN 20	NOx, SOx and other significant air emissions	-	Not reported on
EN 21	Total water discharge	-	Not reported on
EN 22	Total weight of waste	161	
EN 23	Significant spills	45	The recorded environmental incidents and the policy for replacing oil pressure pipes are reported on
EN 24	Weight of hazardous waste transported, imported/exported or processed	-	Not applicable
EN 25	Water sources and related habitats significantly affected by water discharge	-	Not applicable
EN 26	Initiatives to mitigate the environmental impacts of products and services	-	Not reported on
EN 27	Percentage of products sold and their packaging materials that are reclaimed	-	Indicator is not applicable to -primary- processes of Alliander
EN 28	Monetary value of significant penalties and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	45	
EN 29	Significant environmental impacts of transportation	44	CO_2 footprint

EN 30	Total expenditures on and investments in environmental protection	162	Contribution to soil clean-up of former gas plant sites
Social Performance Indicators			
Labour practices and decent work			
LA	Disclosures of management approach	32	
EU 14	Knowledge and competence management	33	Disclosures concern training programmes, Alliander College and safe working practices
EU 15	Percentage of employees eligible for pension scheme in 5 and 10 years' time by job group and region	-	5 years: 25% of Alliander employees in the Netherlands; 10 years: 41% of Alliander employees in the Netherlands
EU 16	Health and safety policy and conditions of employees and contractors/subcontractors	-	Not reported on
LA 1	Workforce profile	34	
LA 2	Employment and employee turnover	35	Employment is reported by FTE, province and staff turnover. Age groups and percentages are not reported on
EU 17	Total volume of work carried out by contractors/subcontractors	-	Not reported on
EU 18	Contractor and subcontractor employees with relevant health and safety training	-	Not reported on
LA 3	Difference in employment conditions between full-time and part-time contracts	-	Not reported on
LA 4	Share of employees covered by collective labour agreements	35	
LA 5	Minimum notice period in the event of reorganisation	103	Alliander has drawn up a social plan and temporary contracts are subject to the legal standard
LA 6	Workforce represented in formal joint H&S committees of employer and employees that help monitor and advise on H&S programmes	38, 74	The Works Council has a legal status in the Netherlands and, as an employee representative body, has the right to consultation and the right of consent. Company schemes concerning working conditions, conditions of employment and reorganisations etc. are put to the Works Council for information purposes and/or consent
LA 7	Absenteeism, accidents, occupational diseases and work-related fatalities	36, 37	
LA 8	Education, training, counselling, prevention and risk control programmes to assist workforce members, their families or community members	33	Alliander College, Technical Training and electricity and gas safety instructions are reported on
LA 9	Health and safety arrangements covered in formal agreements with trade unions	35	Arrangements with trade unions are made at grid manager sector level in the framework of the CAO negotiations. The resources to be made available for various themes, such as education, employment, vulnerable groups and working conditions, are determined as part of this process
LA 10	Average number of hours per year that an employee spends on training	-	Hours are not reported on; 3.1% of wage sum spent on training is reported
LA 11	Competence management and lifelong learning programmes	33	
LA 12	Employee information on performance and career development	32, 33	Employees can annually give their views and ratings by taking part in the employee survey. Manager and employee annually discuss individual performance and development
LA 13	Diversity	36	The age and gender dimensions are reported on. Disclosures concern vulnerable groups in the labour market, Step2work programme
LA 14	Male/female basic remuneration.	-	Shown according to average ratio: 0.87
Human Rights			
HR	Disclosures of management approach	45	Disclosures concern Socially Responsible Procurement policy
HR 1	Investment agreements containing clauses on human rights or clauses where compliance with human rights has been verified	-	Not reported on
HR 2	Major suppliers and contractors who have been assessed for compliance with human rights and implementation of measures	45	
HR 3	Assurance of universal human rights in operations	69	Recorded in Alliander Code of Conduct
HR 4	Cases of discrimination and actions taken	-	Not reported on
HR 5	Operations posing a risk to the right to universal freedom of association and collective labour agreement and actions taken to support these rights	-	Not reported on
HR 6	Activities posing child labour risks as well as measures to eradicate such risks	45	Alliander excludes child labour from its activities via the Code of Conduct
HR 7	Activities posing forced labour risks as well as measures to eradicate these risks	-	Not material
HR 8	Training of security personnel in relevant human rights aspects	-	Not reported on: no full records are available
HR 9	Rights of indigenous population, compliance and actions taken	-	Indicator is not material: Alliander is active in the Netherlands and at several locations in Germany

Society			
SO	Disclosures of management approach	42	
EU 19	Participatory decision-making processes and engagement of stakeholders and outcomes	79	
EU 20	Arrangements for involuntary displacement, company relocation, dispossession	-	Not reported on: no full records are available
EU 21	Emergency plans and repair of damage	20, 162	Disclosures concern the policy on external safety and the clean-up of former gas plant sites
SO 1	Management programmes to limit adverse effects on communities	27	Disclosures concern the Alliander crisis plan, external safety
EU 22	Number of people involved in dispossession/forced displacement	-	On incidental occasions cables or gas pipelines must be constructed across land owned by third parties. No expropriation or compulsory displacements were reported in 2010
SO 2	Percentage of business units with corruption risk analysis	-	Not reported on: no full records are available
SO 3	Training of employees in anti-corruption policies and procedures	-	Not reported on: no full records are available
SO 4	Actions taken in response to instances of corruption	-	13 situations were reported where measures were taken in relation to employees. These all concerned internal fraud issues
SO 5	Position on public policy, participation in development of public policy and lobbying	-	Not reported on: no full records are available
SO 6	Total value of financial and in-kind contributions to political parties, politicians and related institutions	-	Not reported on
SO 7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	-	Not applicable: Alliander's position is regulated by law
SO 8	Fines and sanctions for non-compliance with laws and regulations	27	Reported value is € 40,000 relating to two cases of failure to report excavation work
Product responsibility			
PR	Disclosures of management approach	17, 26	
EU 23	Measures to support access to and promote safe energy use	20	Reported: Energie Veilig, De Bliksems (Bonny and Blitz)
EU 24	Programmes to improve and maintain access to electricity services for vulnerable groups	20	Alliander works with local organisations such as the GGD (Municipal Health Department) to support access to energy for vulnerable groups through specific programmes
PR 1	Assessment of health & safety consequences of products and services	163	Disclosures concern policy on electromagnetic fields, corporate social responsibility
PR 2	Cases of non-compliance with regulations and codes concerning the health and safety consequences of products and services	-	Not reported on: no records are available
EU 25	Number of accidents and health complaints from citizens involving company installations	-	Not reported on
PR 3	Type of product and service information required by procedures and percentage of products and services subject to such information requirements	-	Not reported on
PR 4	Non-compliance with arrangements concerning information and labelling of products and services	-	Not reported on: no full records are available
PR 5	Customer satisfaction policy and results	17	Policy and customer satisfaction figures are reported
PR 6	Programmes for adherence to laws, standards and codes in relation to marketing communication	-	Not reported on: no records available
PR 7	Non-compliance with marketing communication regulations and codes	-	Not reported on
PR 8	Justified complaints regarding breaches of customer privacy and confidentiality of customer details	66	Number of complaints not reported. Privacy theme dealt with in Risk
PR 9	Fines for non-compliance with laws and regulations concerning the provision and use of products and services	27	Reported value is a binding direction from the Energy Chamber
EU 26	Percentage of population unserved in licensed distribution areas	-	There is a statutory obligation to connect customers to the electricity grid
EU 27	Number and duration of residential disconnections for non-payment	21	Total number of disconnections is reported. No reasons for disconnections are mentioned in communications between the supplier and grid manager. No disconnections take place in winter weather
EU 28	Power interruption frequency	18	International power interruption frequency is reported: 0.40 (Liander)
EU 29	Average power interruption duration	18	International power interruption duration index and annual outage duration is reported; Liander 31.2 minutes/year
EU 30	Average plant availability factor	-	Alliander has no generation capacity in ownership or under management

activities of the committee of shareholders in 2010

Pursuant to Sections 158(10), 159(3) and 161(2) of Book 2 of the Dutch Civil Code, the General Meeting of Shareholders has powers concerning the recommendation, appointment and dismissal of members of the Supervisory Board.

Powers of the Committee of Shareholders

The General Meeting of Shareholders is permitted to transfer these powers to the Committee of Shareholders for a maximum of two years and may withdraw any delegation of these powers at any time. In addition, the Committee of Shareholders has a number of other powers under the Articles of Association and the Management Board Charter. These powers relate to the appointment and dismissal of members of the Management Board.

Composition of and appointments to the Committee

On 10 May 2010, the General Meeting of Shareholders resolved to continue the Committee of Shareholders established in 2008. A decision was also taken to delegate the same powers to this Committee for the maximum period of two years permitted by law; in other words, until after the end of the annual General Meeting of Shareholders in 2012.

At the end of 2010, the Committee comprised:

- S.H. Galema, on behalf of B.V. Houdstermaatschappij Falcon;
- Ms C. Gehrels, on behalf of the municipality of Amsterdam;
- B. Heller, on behalf of the province of Noord-Holland;
- H.W.G.C. Keereweer, on behalf of the province of Gelderland;
- J.H.G. van de Langenberg, on behalf of N.V. Houdstermaatschappij GKNH and N.V. Houdstermaatschappij EZW;
- C.J.G. Luesink, on behalf of all former 'Gamog' municipalities;
- R. Strijk, on behalf of all former 'EWR' municipalities.

Activities of the Committee

On 1 April 2010, the Committee of Shareholders held consultations with the Selection, Appointment and Remuneration Committee of the Supervisory Board in preparation for the General Meeting of Shareholders on 10 May 2010. The subjects discussed included the extent to which the short- and long-term objectives established in respect of the variable remuneration of the member of the Management Board were achieved in 2009. The short-term objectives for 2010 and the long-term objectives for 2010 - 2012 were also discussed, as were the draft Remuneration Report for 2009 and the agenda for the General Meeting of Shareholders to be held on 10 May 2010.

Arnhem, 24 March 2011
Committee of Shareholders

five-year summary

Five-year summary

€ million	2010	2009[4]	2008	2007	2006
Result					
Revenue	1,432	1,446	1,497[2]	5,650	5,598
Total income	1,525	1,750	1,710[2]	5,753	5,727
Total operating expenses	-1,195	-1,259	-1,320[2]	-4,639	-4,878
Operating profit	330	491	390[2]	1,114	849
Profit before tax from continuing operations	230	383	350[2]	1,102	796
Profit after tax attributable to shareholders	222	312	765	875	763
Balance sheet					
Net working capital	-61	-25	335	-194	-201
Propery, plant and equipment	5,402	4,638	6,969	6,072	5,936
Total assets	7,400	6,756	14,501	11,601	10,875
Shareholders' equity	2,906	2,245	6,268	5,657	5,167
Total interest-bearing debt	2,184	2,225	1,221	1,312	1,371
Total financing	5,090	4,470	7,491	6,970	6,540
Capital expenditure on non-current assets	371	397	943	536	646
Cash flows					
Cash flow from operating activities	508	372	1,028	1,159	1,008
Cash flow from investing activities	-340	-153	-1,215	-401	-190
Cash flow from financing activities	-118	-763	-523	-409	-634
Free cash flow	168	152	202	736	488
Ratios					
ROIC (%)	6.9%	7.8%	10.2%	16.4%	11.9%
FFO/Net debt (%)	37.4%	25.4%	22.5%	n.a.[1]	1.111%
Interest cover	5.5	3.7	n.a.[3]	45.0	15.1
Shareholders' equity as a percentage of total assets less deferred income (solvency)	48.5%	41.6%	48.3%	56.0%	54.6%
Shares (as at 31 December)					
Number of shares issued (thousand)	136,795	136,795	136,795	136,795	133,487
Total number of shares, including unissued shares (thousand)	136,795	136,795	136,795	136,795	136,795
Other					
Electricity					
Contracts as at 31 december (x 1,000)	3,020	2,884	2,832	2,807	2,777
New connections (x 1,000)	40	41	44	45	39
Cables laid (km)	883	1,104	1,336	1,170	822
Gas					
Contracts as at 31 december (x 1,000)	2,607	2,137	2,127	2,114	2,100
New connections (x 1,000)	26	23	24	26	24
Cables laid (km)	205	194	358	333	253
Volumes transported					
Electricity (GWh)	30,940	29,408	32,950	32,325	31,691
Gas (million m^3)	8,746	6,138	6,232	5,791	6,257
Other[2]					
Number of disconnections (consumer and business market)	9,551	8,223	7,226	5,965	8,043
Facilitated supplier switches (x 1,000)	608	538	448	386	280
Annual electricity outage (minutes)	31.2	27.4	24.0	23.5[5]	29.7
Average number of own employees for the year (FTEs)	4,975	4,561	4.327[2]	9,874	9,717

1 Not reported for 2007 as there was a net cash position.
2 Key figures for continuing operations from 2009 as n.v. Nuon Energy was unbundled on 30 June 2009.
3 As the net of finance income and expenses for the year 2008 resulted in a net gain, the interest cover ratio is not reported for 2008.
4 The figures for 2009 have been adjusted for comparison purposes.
5 Concerns the outage duration, excluding the Bommelerwaard interruption.

personal details, ratios, definitions and abbreviations

PERSONAL DETAILS

Supervisory Board
E.M. d'Hondt, chairman
G. Ybema, deputy chairman
F.C.W. Briët
Ms J.B. Irik
Ms J.G. van der Linde
Mrs A.P.M. van der Veer-Vergeer
J.C. van Winkelen

Management Board
P.C. Molengraaf MBA, chairman/CEO
M.R. van Lieshout, member/CFO

Central Works Council
Ms A. Brinkman, chairman
P. van der Ploeg, secretary
Ms M.C. Bouwhuis
M.J.H.J. Guichelaar
T. Hendriks
H.J.M. Huisman
B. Koop
W. Koks
N. van der Meij
D. Robijn
H.J. Schoep
G. Sixma
M. van der Teems
J.W. Thomasson
A.J. Vermeer
C.H.W. Warmerdam
R.P.J. van Zutphen

Committee of Shareholders
S.H. Galema, on behalf of B.V. Houdstermaatschappij Falcon
Ms C. Gehrels, on behalf of the municipality of Amsterdam
B. Heller, on behalf of the province of Noord-Holland
H.W.G.C. Keereweer, on behalf of the province of Gelderland
J.H.G. van de Langenberg, on behalf of N.V. Houdstermaatschappij GKNH and N.V. Houdstermaatschappij EZW
C.J.G. Luesink, on behalf of all former 'Gamog' municipalities
R. Strijk, on behalf of all former EWR municipalities

RATIOS, DEFINITIONS AND ABBREVIATIONS

Free cash flow
Cash flow from operating activities less net investments in property, plant and equipment.

Net interest-bearing debt
The sum of long- and short-term interest-bearing liabilities less cash and cash equivalents and investments.

Net investments
Capital expenditures less contributions received from third parties.

Solvency
Shareholders' equity as a percentage of total assets less deferred income.

Working capital
Inventories plus trade receivables and other receivables, less short-term non-interest-bearing debt and other liabilities.

General definitions
This list provides a simplified definition of each term. If you require more information about any of these terms, please consult the relevant passages in the annual report or contact Alliander via our website.

CBL (cross-border lease)
A cross-border lease is a structured finance transaction by virtue of which a business sells the user rights of certain non-current assets to a foreign company, only to lease these assets back.

Committee of Shareholders
The Committee of Shareholders as referred to in section 158 (10) Book 2 of the Netherlands Civil Code, if this has been appointed by the General Meeting of Shareholders.

Corporate governance
Corporate governance concerns the relationships between the Management Board, the Supervisory Board and the General Meeting of Shareholders. The basic principles of corporate governance are good entrepreneurship (integrity and transparency of management) and effective supervision over this (including accountability).

Free domain
The activities that are carried out in competition and/or arise from the statutory tasks and are offered at the customer's request. This includes:
- the construction, maintenance, renewal and management of connections for gas;
- the provision of metering installations;
- the construction, maintenance, renewal and management of connections to the electricity network with a load value from 10 MVA and for specific customer groups, including public transport and public lighting.

FTE (Full Time Equivalent)
Equivalent of the number of employees with a full working week.

Grid losses
Energy losses on the grid caused by physical grid losses relating to the electricity activities, fraud and administrative losses resulting from the allocation and reconciliation process and administrative process.

LTIF (Lost Time Injury Frequency)
Number of accidents leading to absenteeism times a million divided by the number of worked hours.

NMa (Netherlands Competition Authority)
The implementation of the Competition Act has been entrusted to the NMa. The NMa enforces the prohibition of cartels and abuse of economic power, assesses mergers and acquisitions and regulates the energy and transportation sector.

Office of Energy Regulation
The Office of Energy Regulation is a department that belongs to the Ministry of Economic Affairs and is placed within the Netherlands Competition Authority (NMa). The implementation of the Electricity Act 1998 and the Gas Act and the supervision of compliance with these laws has been entrusted to the Office of Energy Regulation.

Regulated domain
The activities of the grid manager which arise from the tasks that are the exclusive preserve of the grid manager and for which maximum tariffs are set by the NMa. This includes:
- the construction, maintenance, renewal and management of connections to the electricity grid with a load value up to 10 MVA;
- the construction, maintenance, renewal and management of electricity and gas networks;
- the transportation of gas and electricity;
- the effective assurance of the safety and reliability of the networks;
- the promotion of the safe use of equipment and installations that consume electricity and gas;
- the facilitation of the free market to enable, among other things, customers to switch to another energy supplier.

Remuneration Report
The Remuneration Report of the Supervisory Board concerning the remuneration policy of Alliander, as drawn up by the Selection, Appointment and Remuneration Committee of the Supervisory Board.

Smart meter
The smart meter enables remote reading of electricity and gas meters to obtain information on consumption and status. In addition, the smart meter can send remote instructions for e.g. the connection and disconnection of customers. The communication with the meter takes place via the cable network (Power Line Communication) or via GPRS.

Unbundling
The legal split-off on 30 June 2009 of N.V. Nuon Energy from parent company n.v. Nuon (currently Alliander N.V.), as referred to in sections 2:334a (1) and (3) of the Netherlands Civil Code. This legal split-off marked the finalisation of the unbundling prescribed by the Dutch Independent Network Operation Act between, on the one hand, the production and supply company and, on the other hand, the network company of the Nuon group, as was already organisationally implemented on 1 July 2008.

Stakeholders
Stakeholders are individuals and groups who have any form of interest in Alliander such as employees, shareholders, customers, financiers, suppliers, public authorities and media.

General abbreviations
ABP Pension fund for employers and employees of the Dutch government and educational service
CAO Collective Labour Agreement
CCC Costumer Care Centre
CDS Credit Default Swap
CEO Chief Executive Officer
CFO Chief Financial Officer
CHP Combined Heat Power
CPI Consumer Price Index
CSR Corporate Social Responsibility
CSS Customer Satisfaction Survey
CWC Central Works Council

E-atlas Energy Atlas
EDSN Energy Data Services Netherlands
EU European Union
FIFO First in, first out
FFO Funds From Operations
FTE Full Time Equivalent
GAAP Generally Accepted Accounting Principles
GGD Municipal Health Department
GPRS General Packet Radio Service
HE High Efficiency
HV High-Voltage
IAS International Accounting Standards
IASB International Accounting Standards Board
ICT Information Communication Technology
IFRIC International Financial Reporting Interpretations Committee
IFRS International Financial Reporting Standards
ISO International Standards Organisation
KCD Quality and Capacity Document
KPI Key Performance Indicator
LILO Lease in, lease out
LV Low-Voltage
MV Medium-Voltage
OVV Dutch Safety Board
PAS 55 International norm for asset management
SIC Standing Interpretations Committee
SILO Sale in, lease out
SSM State Supervision of Mines
US United States
USD United States Dollar
VIAG Natural Gas Safety Instructions
WIA Work and Income according to Labour Capacity Act
WION Information Exchange (Underground networks) Act
WON Dutch Independent Network Operation Act

Energy-related abbreviations

Bar Unit of gas pressure
GJ Gigajoule; 1,000MJ. 1 GJ corresponds with about 29 m^3 gas or 278 kWh
GW Gigawatt; 1,000MW
GWh Gigawatt hour; 1,000 MWh
J Joule, energy unit
MJ Megajoule; 1,000 kJ
MVA Megavolt ampère
MW Megawatt; 1,000 kW
MWh Megawatt hour; 1,000 kWh
kJ Kilojoule; 1,000 J
kV Kilovolt; 1,000 volts
kVA Kilovolt ampère
kW Kilowatt; 1,000 watts
kWh Kilowatt hour
TJ Tera Joule; 1,000 GJ
TWh Terawatt hour; 1,000 GWh
W Watt; unit of power

Energy-related terms

CAIDI
Customer Average Interruption Duration Index (average electricity outage duration per connection).

CDM (Clean Development Mechanism)
Projects aimed at reducing greenhouse gases registered by the CDM Executive Board in countries that are not signatories of the Kyoto Protocol.

CH_4
Methane; type of gas, chief component of natural gas.

CO_2
Carbon dioxide; mainly released during the burning of fossil fuels such as natural gas and coal; contributes to the greenhouse effect.

CO_2 equivalent
The effect of greenhouse gases other than CO_2 converted into CO_2 values.

Sustainable electricity equivalent
Unit of account for sustainably generated heating. The heating that is generated from sustainable sources (solar boilers, heat pumps and landfill gas projects) is converted into kWh sustainable electricity equivalents to enable aggregation of sustainably generated electricity. This is done by first calculating the CO_2 emissions that are avoided with the sustainable heating and then calculating the amount of kWh sustainably generated electricity with which the same emission reduction would have been achieved assuming 0.53 kg of avoided CO_2 emissions per kWh.

Energy transition
The transition from energy generation from fossil fuels to sustainable energy generation (e.g. from sun, wind or water).

GRI (Global Reporting Initiative)
Global organisation that issues guidelines for CSR reporting.

HE (Housing Equivalent)
A household or 10 kWh connection capacity of a large user.

Household equivalent
The average electricity consumption per household. This is about 3,500 kWh in the Netherlands.

m^3 natural gas
A cubic metre (1,000 litres) of natural gas, the average natural gas consumption per household is about 1,800 m^3 per year.

MEP
Environmental Quality of Electricity Production.

NOx
Nitrogen oxides, gases produced during the burning of fuels. These gases cause acid rain and smog.

NTA8120
The NTA (Netherlands Technical Agreement) 8120 comprises standards for the assurance of the safety of employees and the public, the protection of industrial and built-up areas and nature, the security of transport and distribution, and the efficient and optimal management of grids.

PCB (Polychlorinated Biphenal)
Chemical name for chloride compound with strong heat-resistant properties.

SAIDI
System Average Interruption Duration Index.

SAIFI
System Average Interruption Frequency Index.

SASensor
This concerns a sensor-based control system for the faster localisation and resolution of interruptions in the grid.

SDE
Incentive Scheme for Sustainable Energy Production.

SF_6
An inert gas that is 5.1 times heavier than air and has a CO_2 equivalent of 23,900. SF_6 has good (electrical) insulating properties and is therefore frequently applied in electrical engineering, such as in medium-voltage and high-voltage units. In the case of combustion (e.g. due to an arc), toxic waste products such as S2F10 occur. Also, in the case of major leakages, there is the risk of SF_6 displacing oxygen which can lead to suffocation.

SO_2
Sulphur dioxide, a gas that is produced by burning sulphur or substances containing sulphur (for instance coal). SO2 is the most important cause of acid rain.

VCA (Contractor Safety Checklist)
Dutch guideline for safe working procedures.

publication details

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Alliander N.V.
Visiting address: Utrechtseweg 68
6812 AH Arnhem
Postal address: P.O. Box 50
6920 AB DUIVEN
info@alliander.com
www.alliander.com

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or by calling the CSR department on +31 26 844 24 13.

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